



FAQs for Tier 3 and 4 Not-for-Profit Entities

Changing your reporting tier

Staff Guidance



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Contents

Introduction	3
PART ONE: What are the reporting tiers?	3
PART TWO: When do we change reporting tiers?	5
PART THREE: How do we change from Tier 4 to Tier 3 reporting?	8
PART FOUR: Where can we find more information?	11





Who is this guidance for and what can you expect from it?

Introduction

We have put together this set of Frequently Asked Questions to help the governing bodies of Tier 3 and Tier 4 not-for-profit entities understand:

- when they are required to change reporting tiers;
- when they can choose to change between reporting tiers; and
- how they change between different tier reporting requirements.

The focus of this guide is on moving between Tier 3 and Tier 4 rather than moving to Tier 1 or Tier 2.

1. What are the reporting tiers?

What is a reporting tier?

The annual reporting requirements for Public Benefit Entities (which includes not-for-profit entities, such as charities) are split into four tiers of different reporting requirements. The tiers are set up so that larger entities, or entities which have public accountability are required to report more than smaller entities.

It is expected that entities will move between the reporting tiers over time either by choice or because their circumstances change and they no longer meet the tier criteria under which they currently report.

The criteria and the standard(s) for each tier have been summarised in the table on the next page.





What does public accountability mean?

Most not-for-profit entities will not have public accountability as defined by the standards.

Public accountability has a specific meaning for financial reporting purposes. An entity has public accountability if it:

- is listed on a public market (such as the New Zealand Stock Exchange);
- provides financial services to a wide group of people (for example banks and insurance providers); or
- is considered to have public accountability under the Financial Markets Conduct Act 2013.

If an entity has public accountability it is required to report using the Tier 1 reporting requirements.



See paragraphs 7-13 and 31-42 of [XRB A1](#)
See paragraphs 60-65 of [EG A1](#)

Table 1: Public Benefit Entities (PBEs) Accounting Standards Framework

Tier	Criteria	XRB Accounting Standards
Tier 1	Has public accountability; or Total expenses (including losses and grant expenses) greater than \$30 million	PBE Standards
Tier 2	No public accountability; and Total expenses (including losses and grant expenses) of \$30 million or less	PBE Standards and reduced disclosures (PBE Standards RDR)
Tier 3	No public accountability; and Total operating expenses (including losses and grant expenses) of \$2 million or less	PBE Simple Format Reporting – Accrual
Tier 4	No public accountability; and Total operating payments (including grant payments) of less than \$125,000; and Is permitted by legislation to apply Tier 4 (for example, <i>Charities Act 2005</i> and <i>Maori Purposes Fund Act 1934-35</i>).	PBE Simple Format Reporting – Cash



2. When do we change reporting tiers?

When is our entity required to change to a different reporting tier?

An entity is required to change its reporting tier if:

- it has become too large for its current reporting tier; or
- it becomes 'publicly accountable'.

The requirements for the exact year you have to change tiers are explained on the next page.

Can we choose to report under a higher reporting tier?

Yes. Your entity can change to a higher tier at any time, even if you do not expect to meet the criteria to report under the higher tier.

For example, an entity which qualifies for Tier 4, may choose to prepare their year-end performance reports using the Tier 3, Tier 2, or Tier 1 reporting requirements. As the reporting requirements become more complex at higher tiers it is uncommon for a Tier 4 entity to choose to report using the Tier 1 or Tier 2 reporting requirements. However, an entity which qualifies for Tier 4 may prefer to apply Tier 3 as it is accrual-based (i.e. allows for a simple-format balance sheet).



See paragraphs 37-42A of [XRB A1](#)





When can we choose to change to a lower reporting tier?

If your entity meets the criteria to report under a lower tier you can change to the lower tier immediately. Just a note of caution, if your entity expects to be over the threshold again in the future, you may not wish to drop down a tier only to have to go back up later.

If you do change to Tier 4, you do not have to change back to Tier 3 until you exceed the size criteria for three consecutive years as discussed on the next page.



See paragraphs 56, 57, 63-56, and 69-71 of [XRB A1](#)

Our entity has become too large for Tier 4. When do we have to start applying Tier 3?

If your entity has become too large for Tier 4 (total operating payments over \$125,000), the good news is you do not have to change to Tier 3 reporting immediately. When you first exceed the size threshold for Tier 4, you are allowed two annual reporting periods before you have to apply the Tier 3 reporting requirements — you are allowed to keep reporting under Tier 4 in the year when you first became too large and the following year.

In effect, this means you are not required to change to Tier 3 until the third year in which you exceed the Tier 4 size threshold. The simplest way to illustrate this is to look at the example charities below.





Table 2: Example Charity A – Tier 4 size threshold is exceeded for three consecutive years

Year ending	Total operating payments	Comments	Tier applied
31 March 2018	\$100,000	Charity A meets the Tier 4 criteria	Tier 4
31 March 2019	\$105,000	Charity A meets the Tier 4 criteria	Tier 4
31 March 2020	\$110,000	Charity A meets the Tier 4 criteria	Tier 4
31 March 2021	\$127,000	Charity A no longer meets the Tier 4 criteria but may continue to use Tier 4	Tier 4
31 March 2022	\$140,000	Charity A no longer meets the Tier 4 criteria but may continue to use Tier 4	Tier 4
31 March 2023	\$165,000	Required to move to Tier 3 this year	Tier 3
31 March 2024	\$180,000	Charity A continues to meet Tier 3 criteria and continues to report in accordance with Tier 3	Tier 3

Table 3: Example Charity B – Tier 4 size threshold is exceeded for fewer than three consecutive years

Year ending	Total operating payments	Comments	Tier applied
31 March 2018	\$150,000	Charity B no longer meets the Tier 4 criteria but may continue to use Tier 4	Tier 4
31 March 2019	\$128,000	Charity B no longer meets the Tier 4 criteria but may continue to use Tier 4	Tier 4
31 March 2020	\$115,000	Charity B meets the Tier 4 criteria	Tier 4
31 March 2021	\$120,000	Charity B meets the Tier 4 criteria	Tier 4
31 March 2022	\$126,000	Charity B no longer meets the Tier 4 criteria but may continue to use Tier 4	Tier 4
31 March 2023	\$117,000	Charity B meets the Tier 4 criteria	Tier 4
31 March 2024	\$124,000	Charity B continues to meet the Tier 4 criteria	Tier 4



See paragraphs 42, 67 and 68 of [XRB A1](#), paragraphs 14-16 of [XRB A2](#) and paragraph 85 of [EG A1](#)



3. How do we change from Tier 4 to Tier 3 reporting?

Changing from Tier 4 to Tier 3 means changing from cash accounting to accrual accounting. One of the most important parts of this will be preparing a statement of financial position (balance sheet) for the first time. To do that you will need to gather more information about your assets (things you own) and liabilities (amounts you owe).

You will also need to decide the date from which you want to change. The Tier 3 Standard gives you two options for this. You can either:

- a) apply Tier 3 from the start of the year being reported; or
- b) apply Tier 3 from the start of the previous year (and also prepare comparative numbers under Tier 3).

Option a) is the easier approach because you do not have to prepare comparative (last year) information in your first year using Tier 3. Instead you can attach your Tier 4 performance report from the previous year.

The Tier 3 Standard sets out the requirements for recording your assets and liabilities in the statement of financial position for the first time.

The table on the next page provides some more guidance on recording your assets and liabilities for the first time. After this is an illustrative example to showing how the information collected could be put into a Tier 3 statement of financial position.



See paragraph B5 of the Tier 3 Standard





Table 4

Type of asset/liability	Description	How to record value	Sources of information
Bank accounts	Cash in bank accounts owned by your entity	Total amount of cash in the bank. If overdrawn, record overdrawn amount as an <i>other liability</i>	<ul style="list-style-type: none"> Bank statements
Receivables	Amounts owed to your entity by others	Based on the total amount of money you expect your entity to receive	<ul style="list-style-type: none"> Invoices Contracts Other agreements
Payables	Amounts your entity owes to others	Based on the total amount of money you expect your entity to pay.	<ul style="list-style-type: none"> Invoices Contracts Other agreements
Property, plant and equipment	Assets which can be used over a longer time. For example: <ul style="list-style-type: none"> Buildings Vehicles Computers Office Equipment 	<p>Readily obtainable current amount (for example, the rateable value of a building, or price of a similar vehicle).</p> <p>If current amount of not obtainable, no requirement to record but state in the notes you have the asset.</p> <p>If insignificant (for example, tables and chairs) do not record.</p>	<p><u>Cost value sources:</u></p> <ul style="list-style-type: none"> Original purchase agreement/invoice Amount paid per bank statement <p><u>Other value sources:</u></p> <ul style="list-style-type: none"> Current cost of a similar asset (replacement cost) Rateable value Government value
Other assets	Other resources expected to provide benefit to your entity in the future. For example: <ul style="list-style-type: none"> Inventory for sale or use. Investments (such as shares) 	Your best estimate of the value.	<p><u>Cost value sources:</u></p> <ul style="list-style-type: none"> Invoice for purchase Original investment agreement <p><u>Estimated value sources:</u></p> <ul style="list-style-type: none"> Market value in investment reports Current cost of a similar asset (replacement cost)
Other liabilities	Other amounts owed by your entity. For example: <ul style="list-style-type: none"> Unpaid employee or volunteer costs Bank overdrafts Loans 	Your best estimate of the value.	<ul style="list-style-type: none"> Holiday leave records Bank statements (if overdrawn) Original loan agreements



Illustrative example

Charity A has previously prepared its annual performance report using the Tier 4 requirements. For its year ended 30 June 2021 it has decided to change from Tier 4 to Tier 3. It has also decided not to prepare comparative (last year) numbers.

To be able to record its transactions for the year using Tier 3 accrual accounting, Charity A needs to have a statement of financial position as at 1 July 2020— being the start of the year in which the Tier 3 requirements are first applied.

Charity A has assessed that it had the following significant assets and liabilities as at 1 July 2020:

- Cash held in bank accounts: \$5,000
- Amounts owed to the charity (e.g. member subscriptions receivable): \$2,000
- Amounts owed by the charity (e.g. property rates due): \$800
- Computer equipment (measured based on its purchase cost, less depreciation): \$900
- Land and buildings (measured based on rateable values): \$250,000

Using this list, Charity A has prepared the below Statement of Financial Position for the start of the year.

Statement of Financial Position 1 July 2020	
ASSETS	\$
Current Assets	
Bank accounts	5,000
Amounts owed to the charity	2,000
Total current assets	7,000
Non-Current Assets	
Property, plant and equipment	250,900
Total non-current assets	250,900
TOTAL ASSETS	257,900
LIABILITIES	
Current liabilities	
Amounts owed by the charity	800
Total current liabilities	800
TOTAL LIABILITIES	800
NET ASSETS (assets less liabilities)	257,100
ACCUMULATED FUNDS	
Accumulated surpluses (deficits)	257,100
TOTAL ACCUMULATED FUNDS	257,100



4. Where can we find more information

Where can I go for more information on the reporting tiers?

More information on the reporting Tiers and changing your Tier can be found on the [XRB Website](#).

The documents you may wish to refer to are:

[New Zealand Accounting Standards Framework](#) — this is where you will find the tiers, tier criteria and accounting standards.

[XRB A1 Application of the Accounting Standards Framework](#) — this is where you will find the timing and other criteria for moving between tiers.

[EG A1 Guide to the Application of the Accounting Standards Framework](#) — this is an explanatory document which includes some useful flowcharts and diagrams.

[XRB A2 Meaning of Specified Statutory Thresholds](#) — this is where you will find meanings of specified items such as total operating payments.

[PBE SFR-A \(NFP\) Public Benefit Entity Simple Format Reporting-Accrual \(Not-For Profit\)](#) — In Appendix B you will find the requirements to move into Tier 3.

[PBE SFR-C \(NFP\) Public Benefit Entity Simple Format Reporting-Cash \(Not-For-Profit\)](#) — In Appendix B you will find the requirements to move into Tier 4.





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