

At a glance

# Tier 3 Not-For-Profit Reporting Requirements

Proposed improvements to the Tier 3 (NFP) Standard

Consultation Document

A decorative graphic consisting of four slanted bars in shades of green, grey, blue, and orange.

May 2022

Consultation closes 30 September 2022



# What is this consultation about?

## The Tier 3 (NFP) Standard

The Tier 3 (NFP) Standard sets out the reporting requirements for Tier 3 not-for-profit (NFP) entities when preparing their annual Performance Reports as required by legislation and other applicable regulations.

The Tier 3 (NFP) Standard is used by NFPs (such as registered charities) with total expenses under \$2 million but more than \$140,000.

The Standard is accrual-based, which means that an NFP entity is required to provide information about its financial performance and position, together with non-financial information about what the entity has achieved during the financial year.

The objective of the Tier 3 (NFP) Standard is to provide readers of the Performance Report with useful and relevant information about the entity's performance for the previous year, including how it has advanced its NFP purposes.

Annual reporting by NFP entities promotes transparency, accountability and trust across the NFP sector in order to maintain public support for the invaluable contribution these entities make to New Zealand communities.

## Why amend the Tier 3 (NFP) Standard?

Achieving an appropriate balance between the costs and benefits of preparing Tier 3 Performance Reports is an ongoing focus for the XRB.

In 2020 we consulted with the sector to assess where improvements could be made to the Standard, not just in terms of simplification and ease of reporting, but also in terms of the usefulness of the information produced.

The feedback provided two key messages.

- Overall, the Tier 3 (NFP) Standard is working well and is achieving its desired objectives.
- However, there were some key areas where improvements were encouraged.

In response, we are proposing amendments to improve the Tier 3 (NFP) Standard by adding additional guidance and options for certain transactions, which is the focus of this consultation.



# Proposed amendments

## Service performance reporting

### Helping entities tell their service performance story

- Removing references to “outcomes” and “outputs”.
- New guidance on selecting “significant activities and achievements” and “appropriate and meaningful measures” to help entities when determining what service performance information to present.
- New guidance around consistency of service performance reporting from year to year.

## Asset valuation

### Simplified requirements when an entity chooses to revalue certain assets

- Property, plant and equipment – option within the Tier 3 (NFP) Standard to revalue based on an independent valuation (or a rateable value for land and buildings).
- Revaluation gains / losses recognised directly in accumulated funds through an asset revaluation reserve .
- Investment property – same accounting requirements (and options) as for property, plant and equipment apply.
- Financial investments that are publicly traded – option to measure at market value. Changes in market value are recognised in the statement of financial performance.

## Opting up

### Opting up to Tier 2 for certain transactions

- When opting up requires a transaction to be recognised in other comprehensive revenue and expense, the Tier 3 (NFP) Standard allows this transaction to be recognised directly in accumulated funds.
- A new Appendix C has been introduced, which contains guidance on when and how to opt up to Tier 2 PBE Standards for certain transactions – if a Tier 3 NFP entity so chooses.

## Required categories of revenue and expenses

### Introducing additional categories and clarifying the application of existing categories

- Increase in the number of required categories for presenting revenue and expenses.
- Additional categories or detail regarding revenue and expenses for the period may be presented in the notes.
- Refer to **Appendix A** for the proposed categories required to be presented in the statement of financial performance.



# Proposed amendments

## Revenue recognition

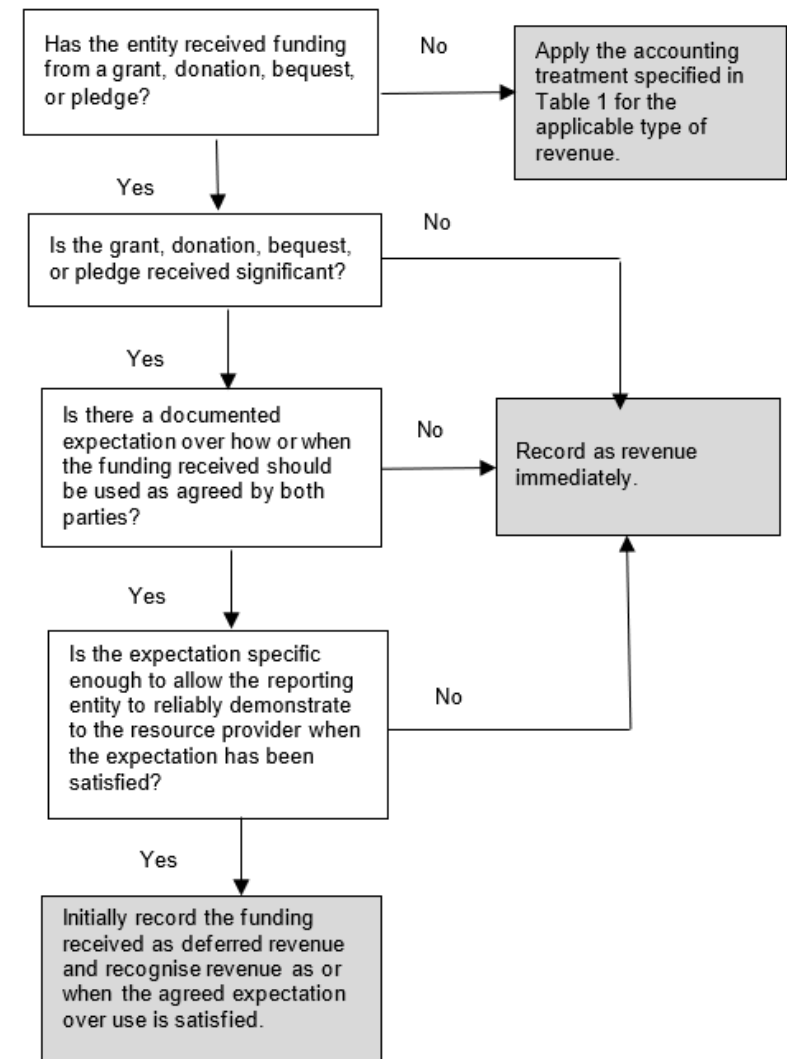
### Increased flexibility over grant, donation, bequest and pledge revenue recognition

- The requirement for the existence of “use or return” conditions for determining when revenue is recognised has been removed.
- Instead, when a significant grant, donation, bequest and pledge has “documented expectations over use”, the funding received may be recognised as revenue over the period in which those expectations are satisfied.
- The documented expectation over use should be specific enough to allow for an entity to reliably measure and track the satisfaction of the expectations – and if requested, demonstrate to the resource provider the satisfaction of the agreed expectations over use.
- Judgement is required when determining when (or over what period) revenue should be recognised where there are documented expectations over use.
- Where there are no expectations over use revenue is recognised immediately when funding is received.

## Accumulated funds

### Increased transparency over reasons for retaining accumulated funds

- New disclosures to allow users to understand how an entity manages its accumulated funds.
- Requirement to provide a brief description of when and how accumulated funds are expected to be used to advance the reporting entity’s NFP objectives.
- Removing the requirements related to the presentation of restricted reserves.
- An entity can continue to choose to establish different types of equity reserves.





# Proposed amendments

Appendix A: Required categories for presenting revenue and expenses

## Proposed Tier 3 (NFP) revenue categories

### Proposed categories

Donations, koha, bequests, and other general fundraising activities

Grants [Excluding service delivery grants/contracts]

Capital grants

Funding from service delivery grants/contracts (Government)

Funding from service delivery grants/contracts (non-Government)

Sale of goods or services (commercial activities)

Membership fees and subscriptions

Interest, dividends, and other investment revenue

Other revenue

## Proposed Tier 3 (NFP) expenses categories

### Proposed categories

Expenses related to public fundraising

Employee remuneration

Volunteer and other employee expenses

Expenses related to sale of goods or services (commercial activities)

Other expenses related to the delivery of entity objectives

Grants and donations made

Other expenses



# Over to you...

**We are keen to hear your feedback and this can be provided formally and informally.**

The full consultation document can be found here: <https://www.xrb.govt.nz/consultations/accounting-standards-open-for-consultation/tier-3-and-4-reporting>

**To provide feedback you can:**



**The consultation closes 30 September 2022**