Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

At a glance

Reporting Requirements for Tier 3 Not-for-Profit Entities

What's changed in the new Tier 3 Standard

July 2023

What is this document about?

The Tier 3 (NFP) Standard

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.

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, together with non-financial information about what it has achieved during the year.

This at a glance document highlights the key changes between the Tier 3 (NFP) Standard and the standard that it replaces (PBE SFR-A(NFP)).

The Tier 3 (NFP) Standard sets out the reporting requirements for Tier 3 NFP entities when preparing their annual Performance Reports as required by legislation and other applicable regulations.

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

The Standard is accrual-based, which means that a NFP entity is required to provide information about all its assets and liabilities through a statement of financial position and a statement of financial performance.

Why issue a new Tier 3 (NFP) Standard?

Achieving an appropriate balance between the costs and benefits of reporting is an ongoing focus for the XRB and in 2020 we consulted with the sector to assess where improvements could be made to previous standard applied by Tier 3 NFP entities.

In response to the feedback we received, we developed proposals to improve the standard. We consulted on these proposals in 2022.

After considering the feedback we received on those proposals we have now issued the Tier 3 (NFP) Standard which:

- Makes it easier for Tier 3 entities to prepare their reports by adding more guidance on applying the standard.
- Changes some requirements to better reflect the circumstances of Tier 3 NFP entities
- Adds some new requirements to increase transparency and help the performance reports of Tier 3 NFP entities better meet user-needs

Key changes

Service performance reporting

Helping entities tell their service performance story

- Removed the terms "outcomes" and "outputs" and replaced them with terms that are more aligned with the Tier 2 Standard.
- Added guidance on selecting "significant activities and achievements" and "appropriate and meaningful measures" to help entities decide what service performance information to present.
- Added guidance around reporting service performance information consistently from year to year.

Asset valuation

Some assets can be revalued without opting up to Tier 2 Standards

- The Tier 3 (NFP) Standard allows the following assets to be revalued:
  - Property, plant and equipment – based on an independent valuation (or a rateable value for land and buildings).
  - Investment property – which can be optionally presented as a separate class of property, plant and equipment
  - Financial investments that are publicly traded – based on a public market price
- Added a requirement to make additional disclosures in the notes to the performance report where an entity chooses to revalue their financial investments.

Accumulated funds

Increased transparency over reserves

- New requirement to disclose information about how an entity is managing its reserves
- Requirement to provide a description of the purpose of each reserve, the entity's plans for applying the reserve, and when the entity expects the reserve will be applied to advance the entity's objectives.
- An entity can continue to choose to establish different types of equity reserves.

Opting up

Opting up to Tier 2 for certain transactions

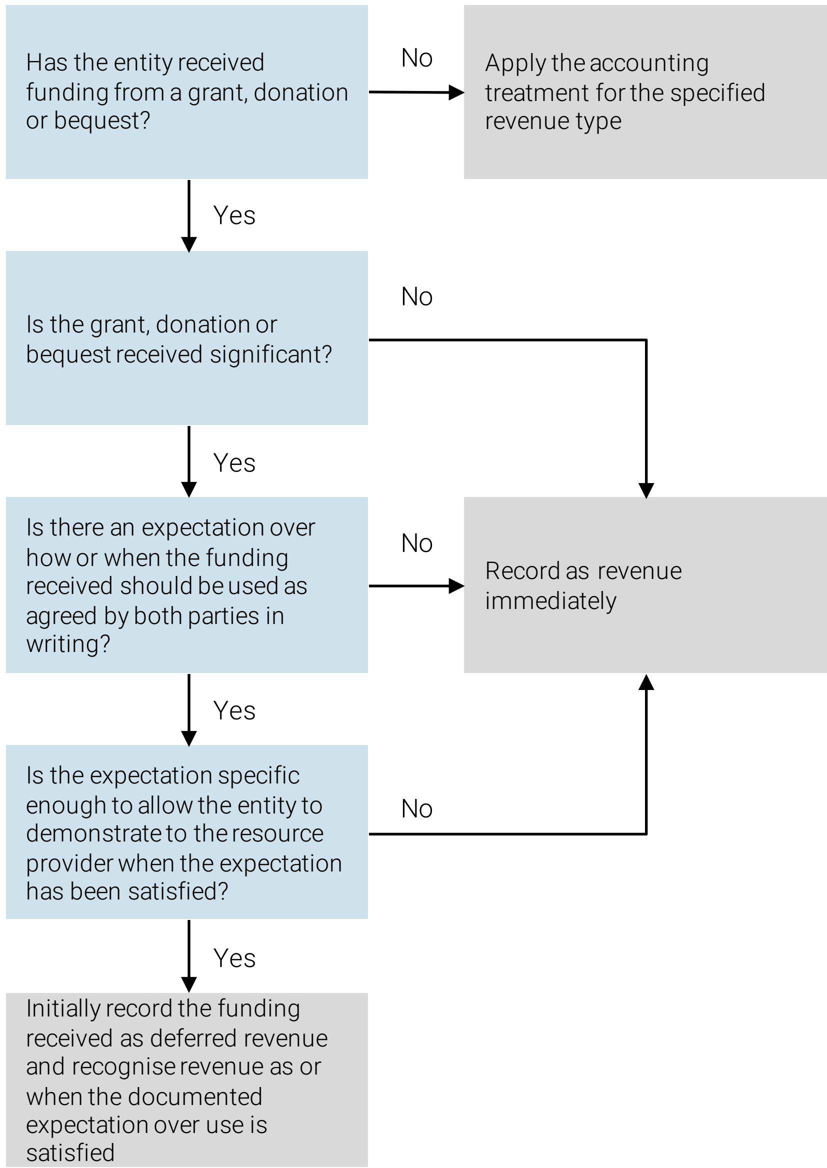
- When opting up requires a transaction to be recognised in other comprehensive revenue and expense, the Tier 3 (NFP) Standard allows this transaction to be recognised directly in accumulated funds.
- A new Appendix D has been introduced, which contains guidance on when and how to opt up to Tier 2 Standards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

Key Changes

Revenue recognition

Introduced a new model for recognising revenue based on “documented expectations”

- The previous revenue recognition model based on “use or return” conditions has been removed.
- Instead, a significant grant, donation, bequest or pledge with a “documented expectation” over its use, the funding may be recognised as revenue over time as the expectation is satisfied.
- A “documented expectation” is:
    - Externally set by a resource provider and evidenced in writing
    - Specific enough to reliably track when the expectation has been satisfied
- Judgement is needed to decide when (or over what period) revenue should be recognised.
- Any revenue that could be deferred under the “use or return” model can still be deferred under the “documented expectation” model.
- The diagram on the right illustrates how the new revenue recognition model is applied in practice.



Key Changes

Required categories of revenue and expenses

Clearer categories for classifying revenue and expenses

- We have made it easier to aggregate revenue and expenses by adding new categories that are more clearly defined.
- The categories can still be relabelled using terminology more appropriate for the entity.
- Further disaggregation can no longer be provided on the statement of financial performance, but more information can still be provided in the notes to the performance report

Tier 3 (NFP) revenue categories

Categories
Donations, koha, bequests, and other general fundraising activities
General grants
Capital grants
Government service delivery grants/contracts
Non-government service delivery grants/contracts
Membership fees and subscriptions
Revenue from commercial activities
Interest, dividends, and other investment revenue
Other revenue

Tier 3 (NFP) expenses categories

Categories
Expenses related to fundraising
Employee remuneration and other related expenses
Volunteer related expenses
Expenses related to commercial activities
Other expenses related to service delivery
Grants and donations made
Other expenses

When can I use the Standard?

Application date

The Tier 3 (NFP) Standard is required to be applied for accounting periods that begin on or after 1 April 2024. Earlier application is permitted for accounting periods that end after 15 June 2023.

You have plenty of time until you are required to use the new Standard.

The first reporting period where the Standard must be applied ends on 31 March 2025. However, if you want to start using the Tier 3 (NFP) Standard sooner you are welcome to do so.

You may apply the Tier 3 (NFP) Standard for any accounting period that ends after 15 June 2023.