Guidance for not-for-profit reporting in New Zealand

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What is a not-for-profit entity?

Not-for-profit entities (NFP) are constituted in many different forms such as incorporated societies, charitable trusts, and companies. Some are also registered as charities with the Department of Internal Affairs (DIA) Charities Services. The legal form of an entity, and whether it is a registered charity, does not in itself determine whether an entity is a NFP for the purpose of financial reporting.

The following definitions are used for financial reporting purposes:

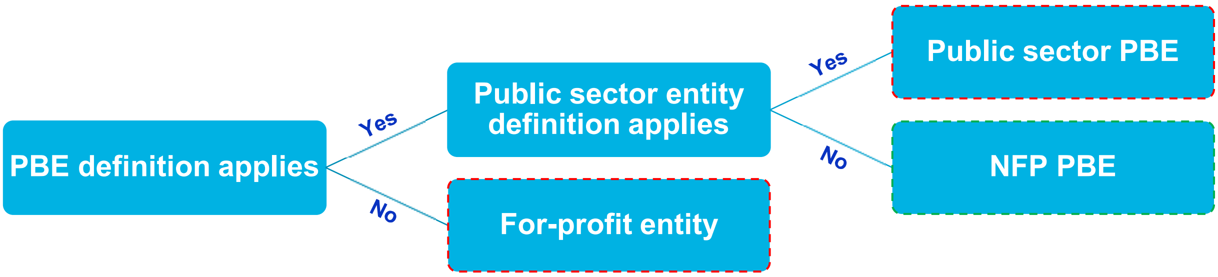
Not-for-profit public benefit entity (NFP PBE) – an entity that is a “public benefit entity” that is not a “public sector entity”.

Public benefit entity (PBE) – an entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

Public sector entity – a PBE that is a “public entity” as defined in the *Public Audit Act 2001*, and all Offices of Parliament.

The decision tree below is designed to assist with determining the type of entity for financial reporting purposes. Appendix A of Standard XRB A1 *Application of the Accounting Standards Framework* provides further guidance on how an entity determines if it is a PBE for the purpose of financial reporting

Figure 1: NFP decision tree



This guidance only applies to PBEs that are NFPs. If an entity does not meet the definition of a PBE then it is a for-profit entity, and this guidance does not apply.

Financial reports

Requirements for a NFP to prepare a financial report can be found in several places, including but not limited to:

- The legislation that the entity is subject to (otherwise known as 'statutory' requirements)
- The entity's founding documents (i.e., rules, constitution, or trust deed)
- A funding application or funding agreement.

> An entity can change the requirements in its founding documents to align them with its statutory requirements.

Appendix 1 provides an overview of the statutory financial reporting requirements for some common types of NFPs.

> An entity can be subject to more than one piece of legislation (i.e., an incorporated society can also be a registered charity) as well as its own founding documents. If this is the case, then the highest requirements apply.

When it comes to financial reporting, there are some terms used in legislation that need to be explained.

Specified not-for-profit entity – an entity that has total operating payments of $140,000 or more in each of the two preceding accounting periods[1].

Generally accepted accounting practice (GAAP) and **non-GAAP** – refers to the accounting standards issued by the External Reporting Board (XRB).

General purpose financial report (GPFR) – the resulting report when the XRB accounting standards are applied in the preparation of financial statements. GPFR are financial reports that are intended to meet the needs of users who are not able to require an entity to prepare reports tailored to their information needs.

Special purpose financial reports (SPFR) – often described as financial reports that are prepared to respond to the requirements of users that have the ability or authority to require the preparation of financial reports that disclose the information they need for their purposes.

> SPFR are prepared in accordance with the accounting policies agreed between the entity and specific users. They may or may not be prepared in accordance with the accounting standards issued by the XRB. Ethically, Chartered Accountants should not knowingly prepare SPFR if they believe the financial report will be used for general purposes.

[1] Section 46 of the Financial Reporting Act 2013

Accounting standards

The XRB has developed an accounting standards framework for NFPs that have a statutory requirement, or that choose, to prepare financial reports in accordance with standards issued by the XRB. Standard XRB A1 *Application of the Accounting Standards Framework* outlines how to apply this framework.

There are four tiers of reporting for NFPs in the accounting standards framework. In general, the accounting standards become progressively simpler as the entity moves down the tiers. As there is a significant variation in the size of NFPs, the tier structure allows NFPs to apply accounting standards that are appropriate to their size and complexity.

Tier 1 is the default tier for all NFPs. However, an entity may elect to apply the accounting standards of a lower tier if it meets the criteria for that tier. Likewise, an entity can also remain in a higher tier than it is eligible to report under if it so chooses.

The criteria for each of the tiers is based on annual operating expenditure or payments (including grants made), and whether the entity has "public accountability". Public accountability has a particular technical meaning here which is narrower than everyday usage. This is when an entity holds cash or assets on behalf of others as one of their main activities. This is typically the case for banks, credit unions and insurance providers.

The accounting standards framework for NFPs is shown in the table below.

Table 1: NFP accounting standards framework

Tier	Criteria	NFP Accounting Requirements
1	"Public accountability[2]"; or Expenses >$30m	PBE Standards
2	No public accountability; and Expenses ≤$30m	PBE Standards – Reduced Disclosure Regime (RDR)
3	No public accountability; and Expenses ≤$2m	Tier 3 (NFP) Standard: Reporting Requirements for Tier 3 Not-for-Profit Entities
4	No public accountability; and Payments <$140k for the 2 preceding accounting periods	Tier 4 (NFP) Standard: Reporting Requirements for Tier 4 Not-for-Profit Entities

[2] Public accountability is defined in paragraphs 7—13 of Standard XRB A1 *Application of the Accounting Standards Framework*

The Tier 1 and 2 standards consist of 38 separate standards derived largely from International Public Sector Accounting Standards (IPSAS). Tier 2 entities are generally subject to the same recognition and measurement requirements as Tier 1 entities but have less disclosure requirements.

The Tier 3 standard uses accrual accounting. This reflects the smaller size and reduced level of complexity within many entities in this tier, as well as the needs of the users of these entities.

The Tier 4 standard uses cash accounting and is even simpler than the Tier 3 standard as Tier 4 entities are very small.

Both the Tier 3 and 4 standards are accompanied by an explanatory guide containing optional templates and guidance notes to assist with application.[3]

The Tier 1, 2 and 3 standards are GAAP standards and **fair presentation frameworks** because they are based on accrual accounting. Entities in Tiers 1, 2 and 3 are also “specified not-for-profit entities”.

The Tier 4 standard is a “non-GAAP” standard and is a **compliance framework** because it is based on cash accounting. Entities in Tier 4 are not “specified not-for-profit entities”. This is particularly relevant if an entity’s founding documents refer to GAAP, as this will preclude it from using the Tier 4 standard even if it meets the Tier 4 criteria.

Entities that are allowed by law to use the Tier 4 standard are:

- Registered charities
- Friendly societies

Many people find the terms “accrual accounting” and “cash accounting” confusing when they first start dealing with finances.

In accrual accounting, revenue is recognised when it is earned rather than when it is received, and expenses are recognised when they are incurred, rather than when they are paid.

With cash accounting, transactions are recorded on the date the money was paid or received. At its simplest, cash accounting uses the receipt book and bank deposit details to track income and the cheque book or electronic banking payment details to track expenditure.

Accounting concepts such as depreciation are not used with cash accounting.

Appendix 2 provides some illustrative examples of the application of the accounting standards framework.

[3] EG A5 (for Tier 3) and EG A6 (for Tier 4)

Appendix 1 – Legislative requirements

Entity type	Legislative reference	Reporting requirements
Body corporate	s32 of the Unit Titles Regulations 2011	The financial statements must contain: • a statement of assets and liabilities; • a statement of income and expenditure; • any other matters that the body corporate decides by ordinary resolution should be included in the financial statement; and • any explanatory material that the body corporate considers necessary for the purpose of understanding the financial statement (i.e., SPFR).
Charitable trust	Charitable Trusts Act 1957	None
Class 4 gambling licence holder	s108 of the Gambling Act 1993	An annual report must include financial statements prepared in accordance with generally accepted accounting practice (i.e., GPFR T1-3).
Credit union	s122 of the Friendly Societies and Credit Unions Act 1982	Every entity must ensure that financial statements that comply with generally accepted accounting practice are completed (i.e., GPFR T1-3).
Friendly society	s63—64 of the Friendly Societies and Credit Unions Act 1982	The financial statements must be prepared in accordance with: • in the case of a specified not-for-profit entity, generally accepted accounting practice (i.e., T1-3); or • in any other case, either generally accepted accounting practice or a non-GAAP standard (i.e., GPFR T1-4). A society that is not **large** can opt-out by a resolution passed by a ≥50% vote of the members. A society is **large** in respect of a financial year if, in each of the 2 preceding financial years, total operating expenses >$33m.
Incorporated society (see **Notes**)	s23 of the Incorporated Societies Act 1908	Every society shall deliver to the Registrar a statement containing the following: • the income and expenditure of the society during the society's last financial year; • the assets and liabilities of the society at the close of the said year; and • all mortgages, charges, and securities of any description affecting any of the property of the society at the close of the said year (i.e., SPFR).
Industrial and provident society	s8D of the Industrial and Provident Societies Act 1908	Every society must ensure that financial statements that comply with generally accepted accounting practice are completed (i.e., GPFR T1-3). A society that is not **large** can opt-out by a resolution passed by a ≥95% vote of the members. A society is **large** in respect of a financial year if at least 1 of the following paragraphs applies: • As at the balance date of each of the 2 preceding accounting periods, total assets of the entity and its subsidiaries (if any) >$66m, • In each of the 2 preceding accounting periods, total revenue of the entity and its subsidiaries (if any) >$33m.

Entity type	Legislative reference	Reporting requirements
Māori incorporation	s276A of the Te Ture Whenua Māori Act 1993	The financial statements must be prepared in accordance with: • in the case of a **large** Māori incorporation, generally accepted accounting practice (i.e., GPFR T1-3); or • in any other case, the Inland Revenue minimum financial reporting requirements in the Tax Administration (Financial Statements) Order 2014 (i.e., SPFR). A Māori incorporation is **large** in respect of a financial year if, in each of the 2 preceding financial years, total revenue of the Māori incorporation and its subsidiaries (if any) >$10m.
Political party (For reporting periods commencing on or after 1 January 2023)	s210G Electoral Act 1993	The financial statements must be prepared in accordance with: • in the case of an incorporated society, see relevant entry in this table above; or • in any other case: ○ if the party's constitution requires the preparation of financial statements, the constitution (i.e., GPFR or SPFR); or ○ if the party's constitution does not require the preparation of financial statements, generally accepted accounting practice (i.e., GPFR T1-3).
Registered charity	s42A of the Charities Act 2005	The financial statements must be prepared in accordance with: • in the case a specified not-for-profit entity, generally accepted accounting practice (i.e., GPFR T1-3); or • in any other case, either generally accepted accounting practice or a non-GAAP standard (i.e., GPFR T1-4).
Trust (For income years that end on or after 31 March 2022)	Trusts Act 2019	Trusts that are required to file annual returns that comply with section 59BA(2) of the *Tax Administration Act 1994* are required to prepare financial reports in accordance with the Inland Revenue minimum financial reporting requirements in the Tax Administration (Financial Statements—Domestic Trusts) Order 2022 (i.e., SPFR).

Notes

Once an incorporated society re-registers under the new *Incorporated Societies Act 2022*, if it is not **small**, it will be required to prepare financial statements in accordance with:

- in the case of a specified not-for-profit entity, generally accepted accounting practice; or
- in any other case, either generally accepted accounting practice or a non-GAAP standard (i.e., GPFR).

A society is **small** in respect of a financial year if all the 3 following paragraphs apply:

- in the accounting period, total operating payments <$50k;
- as at the balance date of the accounting period, total current assets <$50k; and
- as at the balance date of the accounting period, the society is not an entity described in section LD 3(2) of the *Income Tax Act 2007* (a donee organisation).

For **small** societies, the financial statements must contain:

- the income and expenditure, or receipts and payments, of the society during the accounting period;
- the assets and liabilities of the society at the close of the accounting period; and
- all mortgages, charges, and other security interests of any description affecting any of the property of the society at the close of the accounting period (i.e., SPFR).

Appendix 2 – Illustrative examples

Example 1 – Charitable trust that is not a registered charity

It has annual operating payments of less than $140k for the years ending 31 March 2014 and 31 March 2015. It has no public accountability. It meets the definition of a NFP. It is not required to file annual returns that comply with section 59BA(2) of the *Tax Administration Act 1994*.

The following is an extract from its trust deed: *"The charitable trust must prepare annual accounts that comply with GAAP".*

Although the *Trusts Act 2019* does not require the preparation of financial statements, it is required to prepare GPFR by its founding documents, so this prevails.

Although the trust meets the criteria to be in Tier 4, the Tier 4 standard is non-GAAP. So, the trust can only elect to move down to Tier 3 at a minimum, and it would apply the Tier 3 Standard for the year ended 31 March 2016.

Example 2 – Charitable trust that is a registered charity

It has annual operating payments of less than $140k for the years ending 31 March 2014 and 31 March 2015. It has no public accountability. It meets the definition of a NFP.

Although the *Charitable Trusts Act 1957* does not require the preparation of financial statements, the *Charities Act 2005* requires the preparation of GPFR, so this prevails.

The charitable trust meets the criteria to report under Tier 4 and is allowed under the *Charities Act 2005* to use a non-GAAP standard, so it would apply the Tier 4 Standard for the year ended 31 March 2016.

Example 3 – Incorporated society with class 4 gambling licence

It has annual operating expenses of $5m for the year ended 30 June 2016. It has no public accountability. It meets the definition of a NFP. It has not yet reregistered under the *Incorporated Societies Act 2022.*

Although the *Incorporated Societies Act 1908* does not require the preparation of GPFR, the *Gambling Act 1993* does require the preparation of GPFR, so this prevails.

The incorporated society meets the criteria to report under Tier 2 so it would apply PBE Standards (RDR) for the year ended 30 June 2016.

Example 4 – Political party that is not an incorporated society

It has annual operating payments of $250k for the year ended 31 December 2023. It has no public accountability. It meets the definition of a NFP.

The following is an extract from its constitution: "*The Party Treasurer shall prepare an annual income statement and balance sheet at the end of each financial year and present it at the annual meeting of the members.*"

Since it is not an incorporated society, and its constitution requires financial statements to be prepared, then it follows the requirements in its constitution. Its constitution does not refer to GAAP (or non-GAAP), so it can prepare SPFR.