



## What's all the fuss about Performance Reports?

Performance Reports are the new reports charities are required to file with their annual return for Charities Services.

### Background

New reporting standards came into effect on 1 April 2015. Registered charities are legally required to prepare financial statements in line with these standards.

Although the reports for Tiers 3 and 4 are called 'Simple Format Reporting' the standards that must be followed are long documents. All the CATAS accountants are trained in the preparation of annual financial statements that comply with the standards. If your charity needs help to comply we can turn the accounting records you've maintained during the year into the required Performance Report.

## Reporting Tiers

The reporting standards are different for charities of different sizes. The tiers that apply are:

Tier 1	Tier 2	Tier 3	Tier 4
Full Standards	Reduced Disclosure Regime	Simple Format Report – ACCRUAL	Simple Format Report – CASH
Over \$30 million annual expenses	Under \$30 million annual expenses	Under \$2 million annual expenses	Under \$125,000 annual operating payments
Or has public accountability	Without public accountability	Without public accountability	Without public accountability

Most churches and related trusts will be in either Tier 3 or Tier 4.

More information about the Tiers can be found here: <https://www.charities.govt.nz/new-reporting-standards/which-tier-will-i-use/>

## Audit and review requirements

Changes to the Charities Act 2005 created statutory audit and review requirements for medium and large Registered Charities from 1 April 2015.

If your total operating expenditure for each of the previous two accounting periods was:

- over \$500,000 (medium) – your financial statements must be either audited or reviewed by a qualified auditor; or
- over \$1 million (large) – your financial statements must be audited by a qualified auditor.

Tier 3 charities that are required by statute to have an audit or review will also have their non-financial information audited or reviewed.

More information about audits and reviews can be found here: <https://www.charities.govt.nz/new-reporting-standards/new-statutory-audit-and-review-requirements/>

## Financial reporting and control relationships

If your charity has a control relationship with another organisation you may need to prepare consolidation financial statements (and a combined Performance Report) for Charities Services.

**Control** for financial reporting purposes is the **power** to govern the financial and operating policies of another organisation in order to **benefit** from its activities. There must generally be both power AND benefit for a control relationship to exist. The benefits can be both financial and non-financial in nature.

More information about control relationships and consolidated financial statements can be found here: <https://www.charities.govt.nz/new-reporting-standards/financial-reporting-and-control-relationships/>

More information about consolidations can be found below.

## Requirements for Tier 3 Performance Reports

The External Reporting Board (XRB) have issued the Standards that Tier 3 charities have to comply with and also a Guidance document. Together these run to almost 120 pages so there is a lot to read to ensure your charity's Performance Report meets the Standards. They have also provided a template you can use to prepare a Performance Report which can be found here: <https://www.charities.govt.nz/new-reporting-standards/tier-3/standard-template-and-guidance-notes/>

Here is a summary of *some* of the main points or changes from the accounting treatment many charities have previously used:

There is a non-financial report required. This is designed to answer the following questions:

- Who are we?
- Why do we exist?
- What did we do?

You can format this any way you want to: words, numbers, pictures, graphs, ...

In the financial part of the Performance Report:

- These are accrual based statements so all debtors (amounts owed to the charity) and creditors (amounts owed by the charity to other parties) must be recorded
- Offsetting is not permitted – income and expenses have to be recorded separately e.g. camp fees received and camp expenses must be recorded as income and expenses respectively not netted off in one account code
- Designated giving (money you are required to forward on to the designated recipient) must not be recorded as income/expenses. Any designated giving received during the year but not paid out at balance date must be recorded as a liability
- Significant donated assets must be recorded in the accounts unless they are unable to be valued in which case they must be disclosed in the Notes
- There is different treatment for donations with conditions depending on whether they have a 'use or return' condition or not
- A Statement of Cashflows has to be prepared
- All fixed assets, other than land, has to be depreciated. This includes buildings
- Employee costs payable must be recorded e.g. wages & salaries earned but not yet paid, holiday pay earned

## Requirements for Tier 4 Performance Reports

As with Tier 3, the External Reporting Board (XRB) have issued the Standards that Tier 4 charities have to comply with and also a Guidance document. Together these run to over 70 pages so there is a lot to read to ensure your charity's Performance Report meets the Standards. They have also provided a template you can use to prepare a Performance Report which can be found here: <https://www.charities.govt.nz/new-reporting-standards/tier-4/standard-template-and-guidance-notes/>

Here is a summary of *some* of the main points or changes from the accounting treatment many charities have previously used:

There is a non-financial report required. This is designed to answer the following questions:

- Who are we?
- Why do we exist?
- What did we do?

You can format this any way you want to: words, numbers, pictures, graphs, ...

In the financial part of the Performance Report:

- These are cash based statements so you don't need to record debtors and creditors *however* you do need to record the resources (assets) and commitments (liabilities) of the charity
- Offsetting is not permitted – income and expenses have to be recorded separately e.g. camp fees received and camp expenses must be recorded as income and expenses respectively not netted off in one account code

- The Statement of Resources and Commitments is like a Balance Sheet and will need to include:
  - Bank and call/term deposit balances
  - Cash held on behalf of others
  - Cash owed to the charity
  - Other resources, including property, plant & equipment
  - Cash payable by the charity
  - Grants with conditions attached
  - Guarantees

## Consolidations

Charities Services write: Consolidated financial statements present information about a charity and the organisations it controls as one single entity (i.e. the reporting entity). The charity combines its assets, liabilities, equity, income, expenses and cash flows with those of any organisations it controls. Where charities also provide non-financial service performance information (such as purpose, outcomes and outputs) this information is also combined in the consolidated statements.

It would seem that you simply have to add together the various figures to prepare a consolidated financial statement. However, it isn't quite that simple as you also have to eliminate any transactions between entities in the group. For example, a Church has a Trust that it controls. The Church gives the Trust a grant or donation. For the Church that will be recorded as an expense and for the Trust it will be income. As part of the consolidation process these two amounts are netted off against each other (removed from the financial report). The same principle applies to all transactions between the entities including any outstanding receivables or payables at year end.

## About CATAS

CATAS was established by the Baptist Union over 11 years ago. Our purpose is to serve the Christian community of New Zealand by providing affordable accounting and payroll assistance for churches and trusts anywhere throughout the country. We currently assist over 160 church-related charities.

If you need help preparing your charity's Performance Report or would like more information about our services, please talk to Delwyn Shaw at the CATAS display stand during the Hui. After the Hui, you can check out our website ([www.catas.co.nz](http://www.catas.co.nz)), e-mail [info@catas.co.nz](mailto:info@catas.co.nz) or phone 04 282 1377.