

## **NZASB ED 2022-6 - Tier 4 (NFP) Standard Exposure Draft**

### **REPORTING REQUIREMENTS FOR TIER 4 NOT-FOR-PROFIT ENTITIES**

#### **TIER 4 (NFP) STANDARD**

This Standard sets out the annual reporting requirements for not-for-profit (NFP) entities (which includes registered charities and other NFP entities) who are permitted to prepare annual performance reports (also known as financial statements) in accordance with Tier 4 reporting requirements as issued by the External Reporting Board (XRB).

The Standard provides for simple format cash-based reporting requirements. Under the Tier 4 (NFP) Standard, an entity is required to report the cash received and cash paid during the financial year (i.e., the transactions recorded in an entity's bank account(s) and any cash on hand).

The Standard also requires an entity to report information about its broader aims and objectives and the significant activities the entity has undertaken during the financial year in working towards these broader aims and objectives.

#### **Additional guidance material**

Additional resources on applying this Standard when preparing Tier 4 Performance Reports are available on the XRB [website](#), including an optional Tier 4 Reporting Template and accompanying Explanatory Guide.

#### **Opting up to a higher tier of reporting**

If an entity wants to report all the assets it owns and all the liabilities it owes in a traditional balance sheet format, we recommend using the [Tier 3 \(NFP\) Standard](#), which provides simple format accruals-based reporting requirements.

#### **Effective Date**

The Tier 4 (NFP) Standard was first issued in December 2013 and this version incorporates all amendments up until xx.

This Standard is [effective](#) for [financial years](#) beginning on or after 1 April 20XX. Earlier application is permitted, therefore Tier 4 NFP entities may apply this Standard from xx.

This Standard was issued by the New Zealand Accounting Standards Board (NZASB), a sub-Board of the XRB pursuant to section 12(a) of the Financial Reporting Act 2013. It is a non-GAAP Standard for the purposes of section 12 and section 18 of that Act.

This Standard applies for the purposes of the following enactments:

- Section 42A of the Charities Act 2005;
- Section 63 of the Friendly Societies and Credit Unions Act 1982; and
- Section 12 of the Agricultural and Pastoral Societies Act 1908.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2019.

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## TIER 4 (NFP) STANDARD

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<sup>1</sup> The links have not been provided with this ED and will be provided when a revised Standard is issued.

## Introduction

1. This Standard sets out the information that is required to be included in the annual Performance Report (sometimes referred to as financial statements) of not-for-profit (NFP) entities that are eligible, and elect, to apply the Tier 4 (NFP) Standard to meet their statutory reporting requirements.
2. The Standard is typically used by NFP entities with annual operating payments under \$140,000.
3. This Standard requires entities to provide cash-based financial information (in the “Statement of Cash Received and Cash Paid”) and information about what the entity has done during the financial year (in the “Statement of Service Performance”). These statements, and the accompanying notes, are collectively known as the “Performance Report”.
4. The Performance Report aims to provide its readers (such as members, funders, donors, and the general public) with useful and relevant information about an entity’s performance in financial and non-financial terms for the financial year.
5. Optional reporting templates and guidance material have also been developed to help Tier 4 (NFP) reporting entities meet the requirements of this Standard. In addition, terms used throughout the Standard have been included in the [Glossary](#).

### Who should use this Standard?

6. This Standard applies to NFP entities that are eligible, and elect, to apply this Standard.
7. NFP entities should first consider whether they are subject to any statutory requirements (through legislation or other regulations) to report in accordance with accounting standards issued by the XRB and whether the statutory requirement permits the use of this Standard (referred to in legislation as a non-GAAP Standard due to being cash-based).<sup>2</sup>
8. For example, the Charities Act 2005 requires registered charities to prepare annual financial statements in accordance with generally accepted accounting practice (GAAP), or in accordance with a non-GAAP Standard when additional criteria are met (refer to paragraph 9).
9. Registered charities can choose to report using this Standard if:
  - (a) They do not have [public accountability](#) as defined for financial reporting purposes; and
  - (b) They have [annual operating payments](#) under \$140,000.<sup>3</sup>

Please refer to the [Glossary](#) for further information on how “annual operating payments” and “public accountability” are defined for financial reporting purposes.
10. The annual reporting requirements set out in this Standard also apply to other NFP entities (which are not registered charities), which are required under applicable legislation to prepare annual financial statements in accordance with XRB Standards and are eligible to apply this Standard.

<sup>2</sup> EG A1 – [Explanatory Guide: Guide to Application of the Accounting Standards Framework](#), provides further guidance of the reporting requirements for entities that have a regulatory obligation (or that elect under an enactment) to prepare general purpose financial reports in accordance with XRB standards.

<sup>3</sup> A NFP entity that controls other entities (see paragraphs 20-22) must also take into account the operating payments of the entities it controls when determining its annual operating payments.

11. In addition to consideration of regulatory reporting requirements, an NFP entity is only permitted to use this Standard if it considered to be a public benefit entity (PBE) for financial reporting purposes.

**PBEs** are defined as “*reporting entities 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 holder*”

12. Generally, most (but not all) NFP entities are PBEs for financial reporting purposes. [XRB A1 Application of the Accounting Standards Framework](#) provides further information on how to work out if a reporting entity is a PBE and eligible to apply this Standard.

### The parts of the Tier 4 Performance Report

13. The Performance Report is required to include the following parts:
- (a) **Entity Information**, which explains who the entity is and why it exists;
  - (b) A **Statement of Service Performance**, which explains what the entity is seeking to achieve over the medium to long term (i.e., its objectives), and the significant activities the entity has undertaken during the financial year to achieve these objectives;
  - (c) A **Statement of Cash Received and Cash Paid**, which reports in a summary format the transactions recorded in an entity’s bank account(s) for the financial year; and
  - (d) **Notes** to provide other useful information support the readers understanding of the statements above.

### Reduced reporting requirements for ‘small’ Tier 4 entities

14. In developing the Tier 4 (NFP) Standard, the XRB recognised that smaller Tier 4 NFP entities often have access to fewer resources and less accounting expertise to help them satisfy their annual reporting obligations. To reduce the reporting burden for smaller entities, this Standard includes reduced reporting requirements, which a small Tier 4 NFP entity may elect to use.
15. A small Tier 4 NFP entity is defined as an entity:
- (a) That is eligible to report using this Standard; and
  - (b) Has total annual payments of less than \$10,000 for the current and previous financial year.
16. “Total annual payments” means the total of all cash outflows for the year, including both those related to operating and other activities (i.e. asset purchases and repayment of borrowings). It includes any amounts paid directly from an entity’s bank account(s) or from cash on hand to an external party.
17. A small Tier 4 NFP entity that elects to apply the reduced reporting requirements is not required to comply with the reporting requirements in this Standard in **red font** which are also marked with the following symbol  .

## Summary of Required Information

The table below provided a summary of minimum information required to comply with this Standard.

Tier 4 Performance Report		Small Tier 4 concession	Paragraph
<b>General requirements</b>			
1.	At the top of each page the name of the reporting entity and financial year		24
2.	The date the Performance Report was approved, who gave that authorisation		37
<b>Entity information</b>			
3.	The entity's name		38
4.	The type of entity or its legal form		38
5.	The entity structure	△x	38
6.	The names of any entities controlled by the entity	△x	38
<b>Service performance information</b>			
7.	What the entity is aiming to achieve over the medium to long term		41
8.	Describe significant activities undertaken during the year		41
9.	Quantify to the extent practicable the significant activities undertaken during the financial year	△x	41
<b>Statement of cash received and cash paid</b>			
10.	The statement should be presented using the format and applicable line items as shown in Table 1 (paragraph 49)		49
<b>General notes</b>			
11.	The basis for preparing the Performance Report based on the standard wording as provided in the Standard		61
12.	Information about the entity's GST status and how it has accounted for GST		63
<b>Significant assets</b>			
13.	Information that describes the significant assets held by the entity at the end of the financial year		69
14.	The amount paid to purchase significant assets or an estimate of its current value	△x	70
15.	Where the current value as been estimated, the source of that estimate	△x	71
<b>Significant liabilities</b>			
16.	Information that describes any significant liabilities held at the end of the financial year.		79
17.	For each significant amount owed to an external party, the amount expected to be paid to fully settle the liability		80
<b>Grants or donations received with expectations over use</b>			
18.	The amount of significant grants or donations received which are expected to be used in future financial years	△x	84
19.	The nature of the expectations and conditions over future use of significant grants	△x	84
<b>Related party transactions</b>			
20.	Describe the nature and amount of any significant transactions and balances with related parties		89
<b>Events after the financial year</b>			
21.	Information about the impact of significant events occurring after the financial year-end but before the financial statements are authorised	△x	93
<b>Additional information</b>			
22.	The notes should include any additional information considered necessary for readers to understand the overall performance of the entity	△x	95
<b>Correcting errors</b>			
23.	Information about any significant errors relating to past financial years that have been corrected in the current Performance Report		96

## General Requirements

### Period of reporting

18. The Performance Report is usually prepared for a twelve-month period that ends on the entity's "balance date" (sometimes referred to as an entity's "year-end").<sup>4</sup> This period is known as an entity's "financial year".

### Reporting entity

19. The Performance Report should include information on all the entity's activities, including the activities of any branches or other operating units. This is done by collating information from all the entity's branches and operating units and excluding any internal transactions between these branches/units, so that the Performance Report treats the organisation as one "reporting entity".

### Accounting for controlled entities

20. Where a reporting entity controls<sup>5</sup> one or more entities and the total combined operating payments<sup>6</sup> of the reporting entity and all its controlled entities are less than the legislative size threshold which permits the use of this Standard (i.e., for charities annual operating payments of \$140,000), a reporting entity that elects to use this Standard is required to prepare a consolidated Performance Report.
21. Where the combined total operating payments exceed the legislative size threshold which permits the use of this Standard, the reporting entity cannot apply this Standard and is required to apply the tier criteria in [XRB A1](#) to determine the appropriate tier for reporting.
22. A consolidated Performance Report involves presenting the information required by this Standard for all the entities that are controlled (including the controlling entity) as if the group of entities were one reporting entity.

### The Performance Report

#### Required Information

23. The following information should be included at the top of each page of the Performance Report:
- (a) The name of the reporting entity; and
  - (b) The financial year the Performance Report covers.
24. This Standard sets out the minimum information to be included in the Performance Report when reporting in accordance with Tier 4 (NFP) reporting requirements. Additional information should be included when this would be useful to provide the reader with a full understanding of the entity's performance for the financial year.
25. All amounts shall be reported in New Zealand dollars unless the entity's main bank account is denominated in a foreign currency. Monetary amounts reported in the Performance Report should be rounded to the nearest dollar (i.e., the rounding of any cents).

<sup>4</sup> The Performance Report may be prepared for a part year, but this is unusual and occurs only when an entity is first established or ceases to exist during a year or changes its balance date.

<sup>5</sup> [Explanatory Guide A9 Financial Reporting by Not-for-profit Entities: Identifying Relationships for Financial Reporting Purposes](#) provides guidance for not-for-profit entities in determining whether they have control over another entity.

<sup>6</sup> The combined operating payments of the entity and all its controlled entities excludes any payments between the entity and the controlled entities and/or between the controlled entities.

**Significant**

26. In general, the information required by this Standard is only needed to be reported in the annual Performance Report, if it relates to a [significant](#) transaction, activity, or event.

**Comparatives**

27. Comparative information for the previous financial year should be included for each balance, transaction, and service performance measure included in the Performance Report.
28. Budgets, or other forecast information, are not required to be included in the Performance Report.

**Consistency of presentation**

29. The way an entity chooses to present information in the Performance Report should be consistent from one financial year to the next unless the entity's operations or activities have significantly changed, or a different format is more useful to the readers.
30. Any changes to the way information is presented should also be made to the presentation of comparative amounts, unless it is impracticable to do so.

**No offsetting amounts**

31. Cash received and cash paid should not be netted off against each other, even if they relate to a similar activity. For example, the net proceeds from a school fair should not be reported as one balance. Instead, the Statement of Cash Received and Cash Paid should report separate amounts for the total cash received and the total cash paid for running the school fair.

**Accounting for GST**

32. Generally, the Performance Report should be prepared by reporting transactions on a GST inclusive basis (i.e. the total amount received or paid including any GST) because this will match the cash transaction recorded in the entity's bank account(s). The total balance of GST paid or refunded by the IRD for the financial year should be reported separately in the Statement of Cash Received and Cash Paid (refer to Table 1 on page 10).
33. A reporting entity may choose to report on a GST exclusive basis so long as a consistent approach is taken.

**Prior period errors**

34. Significant errors identified that relate to prior financial years should be disclosed in the notes in the financial year in which the errors were identified. There is no requirement to restate prior year amounts when reporting comparatives. An example of a significant error would include the reporting of an incorrect bank balance (refer to paragraph 96).

**Signing the Performance Report**

35. It is important that users can determine who authorised the Performance Report and when it was authorised, as the Performance Report does not reflect any events after this date. The Performance Report is authorised when it is signed and dated by the body or individuals with the authority to do so (generally those charged with governance).

**Required Information**

36. The Performance Report should include the date the Performance Report was approved, who gave that authorisation, and the relevant signature(s).

## The Tier 4 Performance Report

### Section 1: Entity Information

#### Purpose

37. The purpose of the Entity Information section is to provide general information about the entity.

#### Required Information

38. The following information should be included:

- (a) the entity's name (including any trading names),
- (b) the type of entity or its legal form;
-  (c) **the entity structure (i.e. whether it includes separate operating units, divisions or branches); and**
-  (d) **the names of any entities controlled by the entity for financial reporting purposes.**

39. The information required by paragraph 38(c) can be incorporated by cross-referencing from the Performance Report to other statements or reports that is prepared at the same time as the Performance Report and is made publicly available.

### Section 2: Statement of Service Performance

#### Purpose

40. The purpose of the Statement of Service Performance is to provide information to help users understand what the entity did during the financial year to achieve its broader aims and objectives.

#### Required Information

41. The Statement of Service Performance should provide information about:

- (a) What the entity is aiming to achieve over the medium to long term (i.e., its objectives, which should be aligned with the entity's purpose, mission, or vision);
- (b) The significant activities the entity has undertaken during the financial year to advance its objectives. To meet this requirement, the entity shall:
  - (i) describe significant activities undertaken during the financial year; and
  -  (ii) **quantify to the extent practicable the significant activities undertaken during the financial year.**

42. The information required by paragraph 41(a) can be provided by cross-referencing from the Performance Report to other publicly available reports that provide an overview of the entity's broader aims and objectives.

43. In meeting the requirements of paragraph 41(b), a small Tier 4 NFP entity is not required to quantify the activities undertaken during the financial year. Instead, the entity is only required to provide a general description of the significant activities undertaken during the financial year.

44. In selecting the information to report in the Statement of Service Performance, the entity should consider the information needed to give the reader an overall understanding about what the entity is seeking to achieve over the medium to long term and the significant activities undertaken by the entity during the past financial year to advance these objectives.
45. The Statement of Service Performance is required to provide information about the activities undertaken that are [significant](#) to the performance of the entity. It is not expected to include a detailed account of everything the entity has done in the financial year.
46. An entity may choose how to report the information provided in the Statement of Service Performance in whichever format is most helpful to the reader's understanding of the reporting entity's activities. For example, an entity may choose to present information using:
- (a) a numerical format
  - (b) graphs;
  - (c) tables;
  - (d) narrative descriptions; or
  - (e) images or infographics showing the entity's activities and achievements during the financial year.

The Tier 4 (NFP) Reporting Template provides a simple format that an entity may choose to use.

### Section 3: Statement of Cash Received and Cash Paid

#### Purpose

47. The purpose of the Statement of Cash Received and Cash Paid is to report in a summary format, using required categories, all the cash received and paid by the entity during the financial year. This Statement will include the transactions as processed through the entity's bank account(s) and/or any direct cash transactions in the financial year.
48. The Statement of Cash Received and Cash Paid should present transactions under two main headings – operating activities and other activities – and group transactions using the applicable line items as shown in Table 1 on the next page.

#### Required Information

49. The Statement of Cash Received and Cash Paid should be presented using the format and **applicable** line items as shown in [Table 1](#) below.
50. Further breakdowns of the line items can be provided in the notes, although this is not required. For example, an entity may include a summary list of contributions from major donors and grant providers in the notes, if the entity considers this would be useful to the readers of the Performance Report.
51. Individual line items and headings, as provided for in Table 1, do not need to be included if the entity does not have any related transactions in the current or previous financial year.
52. An entity may choose to use different wording to describe the line items in Table 1, if these are more appropriate to explain their activities and will assist the users understanding.

<b>Table 1: Statement of Cash Received and Cash Paid</b>	<b>Current year \$</b>	<b>Previous year \$</b>
<b>Opening balance in bank account(s) and any cash on hand</b>		
<b>Plus: Cash received from operating activities</b>		
Donations, koha, bequests, and other fundraising		
Grants received		
Funding from <a href="#">service delivery grants/contracts</a>		
Membership fees or subscriptions		
<a href="#">Sale of goods and services</a> (commercial activities)		
Interest or dividends received		
Other cash received		
Total cash received from operating activities		
<b>Less: Cash paid for operating activities</b>		
Fundraising costs		
Employee remuneration		
Volunteer and other employee costs		
Costs related to sale of goods or services (commercial activities)		
Other costs related to delivery of entity objectives		
Grants and donations paid		
Other cash paid		
Total cash paid for operating activities		
Total GST paid or refunded in the financial year <sup>7</sup>		
<b>Cash surplus or (deficit) from operating activities</b>		
<b>Plus: Cash received from other activities</b>		
Sale of <a href="#">investments</a>		
Sale of <a href="#">other assets</a>		
Advance of <a href="#">loans and borrowings</a>		
Total cash received from other activities		
<b>Less: Cash paid for other activities</b>		
Purchase of investments		
Purchase of other assets		
Repayment of loans and borrowings		
Total cash paid for other activities		
<b>Cash surplus or (deficit) from other activities</b>		

<sup>7</sup> If the Performance Report is prepared on a GST inclusive basis.

Income tax paid or refunded (if applicable)		
<b>Increase or (decrease) in cash for the financial year</b>		
<b>Closing balance in bank account(s) and any cash on hand</b>		
<b>Represented by:</b>		
Closing balance of bank account(s)		
Balance invested in term deposit(s)		
Cash on hand		
<b>Total cash balances held</b>		

### Application guidance

53. The opening and closing balance in **bank account(s)** should include all bank account balances (cheque or savings accounts), any term deposit balances held, and any undeposited cash held on hand. The balance would also include any bank account balances in overdraft.
54. **Cash received** should include all transactions that increase the reporting entity's bank account(s) balance during the financial year, including any undeposited cash held at the end of the financial year.
55. **Cash paid** should include all transactions that resulted in a decrease in the entity's bank account(s) balance during the financial year, including any payments made directly from cash held on hand.
56. Transfers between bank accounts and/or term deposits held by the entity should not be recorded in the Statement of Cash Received and Cash Paid because this does not change the total balance of cash held by the entity.
57. **Operating activities** are the day-to-day activities of the entity and include all transactions that are not classified as other activities.
58. **Other activities** include:
- (a) cash paid to purchase investments or cash received from the sale of investments (investments may include such things as shares or government bonds);
  - (b) cash paid to purchase other assets or cash received from the sale of other assets. Other assets include any item of property, plant, or equipment with an expected life greater than twelve months; and
  - (c) cash received from advances of loans or borrowings and cash paid to repay loans or borrowings.
59. If there is difficulty determining whether a transaction relates to operating activities or other activities, the entity shall include the transaction in 'other cash received/paid' under operating activities. If the balance in 'other cash received/paid' is significant, additional note disclosure is encouraged to describe the transaction(s) being allocated to this line item.

## Section 4: Notes

### Purpose

60. The purpose of the notes to the Performance Report is to provide additional information that is relevant to the reader's understanding of the entity's performance for the financial year.

### Accounting policies

#### Required Information

##### Basis of Preparation

61. The notes should include the following information about the basis for preparing the Performance Report:
- (a) The entity has prepared the Performance Report in accordance with the Tier 4 (NFP) Standard issued by the External Reporting Board (XRB);
  - (b) The entity is permitted by its governing legislation to apply the Tier 4 (NFP) Standard in meeting its statutory reporting requirements, and has elected to do so; and
  - (c) All transactions included in the Statement of Cash Received and Cash Paid and related notes to the Performance Report have been reported on a cash basis.

62. Example note disclosure:

##### Basis of preparation — Tier 4 NFP Entity

ABC Charity is permitted by law to apply the Tier 4 (NFP) Standard issued by the External Reporting Board (XRB) and the Charity has elected to use the Standard. All transactions included in the Statement of Cash Received and Cash Paid and related notes to the Performance Report have been reported on a cash basis.

##### Basis of preparation — Small Tier 4 NFP Entity

ABC Charity is permitted by law to apply the Tier 4 (NFP) Standard issued by the External Reporting Board (XRB) and the Board has elected to apply the reduced Tier 4 reporting requirements available for small Tier 4 NFP entities. All transactions included in the Statement of Cash Received and Cash Paid and related notes to the Performance Report have been reported on a cash basis.

## GST

#### Required Information

##### Goods and Services Tax (GST)

63. The notes should include information about whether:
- (a) the entity is registered for GST; and
  - (b) the Performance Report is prepared on a GST inclusive or GST exclusive basis.

64. Example note disclosure:

##### GST

All amounts recorded in the Performance Report are inclusive of GST (if any). The entity is GST registered and any GST payable or refunded by the IRD is recognised when paid or when a refund is received.

Or

All amounts recorded in the Performance Report are exclusive of GST (if any). The entity is GST registered and any GST payable or refunded by the IRD is recognised when paid or when a refund is received.

Or

The entity is not registered for GST and all amounts are recorded inclusive of GST (if any).

## Significant assets

65. The purpose of this note is to provide information about any **significant** assets owned by the entity. These assets may have been purchased or donated. The note is not expected to list all assets owned by the entity, just those assets that would be considered significant to the readers of the Performance Report.
66. The assessment of significance will at times require judgement and should be based on the consideration of the information that readers of the Performance Report will find useful when assessing the assets the entity has available to advance its NFP objectives in future years.<sup>8</sup>
67. The total balance of bank accounts held at the end of the financial year is one type of asset. As bank accounts are already reported in the Statement of Cash Paid Received and Cash Paid, this note is focused on providing information about any other significant assets an entity owns.
68. Significant assets held by the entity may include:
- (a) Physical assets owned by the entity that are available for use over future financial years, for example land and buildings, vehicles, or computers.
  - (b) Investments, for example shares, bonds, or units in managed funds.
  - (c) Amounts owed to the entity from external parties.

### Required information

69. The notes should include information that describes the significant assets held by the entity at the end of the financial year.



70. For each significant type of asset owned, the entity should include, if easily available, either:

- (a) the amount paid to purchase the asset; or
- (b) the asset's current value (i.e., an estimate of the asset's replacement cost, rateable value, or market value), particularly if the asset was donated and the cost of the asset is unknown.



71. Where an estimate of the assets value to meet paragraph 70(b) requirements is provided, the source of this estimate should be disclosed.

72. **Table 2** below provides an example disclosure. An entity is not required to provide information about all assets owned, just those that are considered significant.

<sup>8</sup> The assessment of significance requires judgement and will be based on several factors including the monetary value of the asset, the entity's ability to replace the asset, and whether the entity could continue operating without the asset. For example, the entity may hold items such as furniture or office equipment, but in many cases due to their low value and short useful lives these will not be considered significant.

73. The note is not intended to list all assets owned by the entity, as this would not be practical when

<b>Table 2: Example Note — Significant assets</b>	<b>Current year</b> \$	<b>Previous year</b> \$
Amounts owed to the entity by external parties (when significant)		
Land and buildings		
Investments (shares, bonds, units in managed funds)		
Other significant assets		

recording transactions on a cash basis. For example, the entity is not expected to disclose the balance of accounts receivable (trade debtor), unless significant. An entity that wishes to fully account for and report all assets owned should instead use the Tier 3 (NFP) Standard.

74. A small Tier 4 NFP entity is only required to provide a description of significant assets owned and is not required to provide any information about the monetary value of these assets.

### Significant liabilities

75. The purpose of this note is to provide information about any [significant](#) liabilities, being amounts which the entity owes to external parties (where the settlement of the liability cannot be avoided – i.e., the external party can enforce repayment).
76. Liabilities are obligations to transfer cash to individuals or other organisations at a future date, as well as any significant funds the entity is holding on behalf of others (i.e., cash received by the entity that belongs to another party).
77. The note is not expected to list all amounts owed by the entity, just those liabilities that would be considered significant to readers of the Performance Report.
78. The assessment of significance will at times require judgement and should be based on consideration of the information that readers of the Performance Report will find useful when assessing the entity's ability to continue operating in future years.

#### Required information

79. The notes should include information that describes any significant liabilities held at the end of the financial year.
80. For each significant amount owed to an external party, the entity should include the amount expected to be paid in the future period to fully settle the liability.
81. **Table 3** below provides an example note disclosure. An entity is not required to provide information about all liabilities owed, just those that are considered significant.

<b>Table 3: Example Note — Significant liabilities</b>	<b>Current year</b> \$	<b>Previous year</b> \$
Loans and other borrowings		
Other significant amounts owed to external parties		
Money held on behalf of others		

82. The information in Table 3 is not intended to list all the entity's liabilities, as this would not be practical when recording transactions on a cash basis. For example, the entity is not expected to disclose the balance of accounts payable (trade creditors), unless significant. An entity that wishes to fully account and report all amounts owing to external parties, should instead use the Tier 3 (NFP) Standard.

### Grants or donations received with expectations over use

83. The purpose of this note is to provide readers with information about any [significant](#) grants or donations received for which expectations over their use have not been met at the end of the financial year.



#### Required Information

84. If the entity has received any significant grants or donations with an expectation that the funds received will be used for a specific purpose or in a particular way, and those expectations have not been fully met at the end of the financial year, it should report information about:
- (a) The amount of significant grants or donations received which are expected to be used in future financial years (i.e., the balance of grants or donations which have not yet been spent at the reporting date); and
  - (b) The nature of the expectations and conditions over future use of the funds received, including whether the grant/donation provider can require the unspent funding to be returned.

### Related Party Transactions

85. The purpose of this note is to provide readers with information about any [significant](#) related party transactions that have occurred in the financial year.
86. The reporting of related party transactions provides important information to readers of the Performance Report because:
- (a) Related party relationships can influence how an entity operates; and
  - (b) Related party relationships might expose an entity to risks, or provide opportunities, that would not have otherwise existed because related parties may enter into transactions on different terms and conditions than would normally be available to unrelated parties.
87. A related party transaction is a transfer of money, goods, or services between an entity and a related party.
88. Related parties include:
- (a) Other entities that control, or are controlled by, the entity;
  - (b) Associates (i.e., other entities over which the entity has significant influence);<sup>9</sup>
  - (c) Individuals that have significant influence over the decisions of the entity (such as officeholders, committee members, or others that are involved in the strategic management of the entity – this could include individuals who are employees or volunteers);
  - (d) Other individuals or entities that have significant influence over the entity's operations; and

<sup>9</sup> [Explanatory Guide A9 Financial Reporting by Not-for-profit Entities: Identifying Relationships for Financial Reporting Purposes](#) provides guidance for not-for-profit entities in determining whether they have significant influence over another entity.

- (e) Close family members of those individuals described in (c) and (d) above (such as a partner, child, partner’s child, dependents, or a partner’s dependents).

#### Required information

89. The notes should include information about any significant transactions with related parties that have occurred during the financial year.
90. The notes shall include for each significant related party transaction:
- A description of the related party relationship;
  - A description of the transaction (e.g., the services provided by the related party);
  - The total amount paid to (or received from) the related party during the financial year; and
  - The balance of any significant amounts owed to (or owing from) a related party at the end of the financial year (including any amounts loaned).
91. Examples of related party transactions that would be disclosed are:
- the sale of a significant asset (such as a building or vehicle) to the spouse of a board member;
  - the provision of free services to the child of the board chair;
  - loaning cash at below market rates to a board member; and
  - a member of the board/trust providing professional services (e.g., accounting or legal services) to the entity at no cost (noting these only require disclosure, if significant).

#### Events after the financial year

92. Events after the financial year are those [significant](#) events, both favourable and unfavourable, that occur between the end of the financial year and the date when the Performance Report is signed as approved by the governing body.



#### Required information

93. **An entity should report the following for each significant event after the financial year:**
- The nature of the event;**
  - An estimate of any associated cash expected to be received, or cash paid; and**
  - How, if at all, the event is likely to affect the entity’s ability to continue operating over the subsequent 12 months.**

94. An example of an event requiring disclosure is a fire that destroys the premises of an NFP entity a week after the end of the financial year. The notes to the Performance Report would report the fact that the fire occurred, the extent of the damage, the extent to which the damage is covered by insurance, and the likely impact on the charity’s ability to continue operating over the short and long term.

#### Additional Information



#### Required information

95. **The notes should include any additional information considered necessary for readers to understand the overall performance of the entity.**

## Correcting Errors

### Required information

96. The notes should include information about any significant errors relating to past financial years that have been corrected in the current Performance Report. The note shall state what the error was, how the error arose, and how the error has been corrected in the current financial year.

## Glossary

This Glossary contains terms used in this Standard.

<b>Annual operating payments</b>	Means the total amount of any payments (including grant payments, other than a capital payment), made by the entity during the financial year. A capital payment is a payment during the financial year for the purchase of a resource (commonly referred to as an asset) with an expected life greater than twelve months.
<b>Assets</b>	Assets are resources owned by the entity at the balance date that will be used in future financial years to help satisfy the entity's objectives.
<b>Balance date</b>	The date to which the Performance Report is prepared. It is usually an end of month date, for example, 31 March 202X.
<b>Cash paid</b>	Payments comprise all money paid during the financial year by cash, cheque, bank transfer, or other method. Payments can be either operating payments (relating to day-to-day activities) or related to the purchase of assets or the repayment of borrowings.
<b>Cash received</b>	Cash received comprise all money received during the financial year. This includes all funds deposited into the entity's bank accounts, as well as cash received during the financial year but not yet deposited in the entity's bank accounts. Most cash received will relate to the normal operating activities of the entity (for example, cash received from a fundraising event). However, some cash received might result from other transactions, such as receipts from the sale of assets or proceeds from borrowings).
<b>Effective date</b>	The date by which this Standard must be applied by a Tier 4 NFP entity that has chosen (and is permitted) to use this Standard to satisfy its statutory annual reporting requirements.
<b>Entity</b>	An organisation may take any of a number of forms, including but not limited to, registered charity, company, incorporated association, unincorporated association, or trust. Depending on organisational structure, this may be a legal entity, a unit within a wider organisation, or it may comprise one or more units.
<b>Financial information</b>	The information provided in the Statement of Cash Received and Cash Paid, and related information provided in the notes.
<b>Financial year</b>	A twelve-month period ending on the reporting entity's balance date.
<b>Investments</b>	Any other financial asset held by the entity in addition to money held in bank accounts or term deposits. This would include investments in fixed interest bonds or shares.
<b>Loans and borrowings</b>	Funds owing to an external party as a result of a financing arrangement (such as funds owing to a bank or finance company).
<b>Non-financial information</b>	References to non-financial information refers to the information provided in an entity's Statement of Service Performance
<b>Not-for-profit (NFP) Entity</b>	NFP entities are PBEs (defined above) that are not public sector PBEs.
<b>Other assets</b>	Other assets include any item of property, plant, or equipment with an expected life greater than twelve months (such as computer equipment) which is owned by the entity and used to support the delivery of its objectives.

<b>Performance Report</b>	Information that collectively tells the story of the reporting entity over the financial year. This includes the Entity Information, Statement of Service Performance, Statement of Cash Received and Cash Paid, and notes to the Performance Report.
<b>Public accountability</b>	<p>While NFP entities are generally considered to be publicly accountable, “public accountability” has a specific meaning in the accounting standards issued by the XRB.</p> <p>Entities are considered to have public accountability for financial reporting purposes when they have issued debt or equity instruments through a public offering or their main activity is holding cash or other assets on behalf of others (e.g., a superannuation scheme).</p> <p>The full definition of “Public Accountability” is included in <a href="#">XRB A1</a>.</p>
<b>Public benefit entity (PBE)</b>	A reporting entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided to support that primary objective rather than for a financial return to equity holders.
<b>Public Sector PBE</b>	Public sector PBEs are PBEs that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament.
<b>Related party</b>	People or entities that have significant influence over the entity, such as officeholders, committee members, or others that are involved in the strategic management of the entity (whether employed or volunteer) and close members of their families.
<b>Reporting entity</b>	An entity preparing a Performance Report in accordance with this Standard. In the New Zealand reporting environment, it is an organisation that is required by law, or elects to apply, accounting standards issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB. To apply this Standard, the entity is required to be a not-for-profit entity.
<b>Sale of goods or services</b>	Cash received (or paid) from the sale of goods or services relate to transactions arising from trading activities, where goods or services are sold on commercial terms for the primary purpose of generating a profit. The profits earned are then used to fund the entity’s NFP purpose.
<b>Service delivery grants/contracts</b>	<p>Service delivery grants/contracts relate to funding received, that is in substance, a contract for the delivery of specified goods or services to either the party providing the funding or third-party beneficiaries (as agreed with the funding provider).</p> <p>For example, a grant received for the delivery of a specified number of counselling service hours.</p>
<b>Significant</b>	An item is significant if disclosure of the particular item, whether financial or non-financial, could influence a reader’s understanding of the entity’s overall performance.
<b>Statement of cash received and cash paid</b>	A summary of all the cash received, and all the cash paid out, by the entity during the financial year.
<b>Statement of Service Performance</b>	A statement that provides information to help users understand what the entity did during the financial year to achieve its broader aims and objectives. These are particularly useful in the not-for-profit sector when the focus is on achieving objectives relating to community or social benefit, rather than making a profit.