

RESEARCH SUMMARY

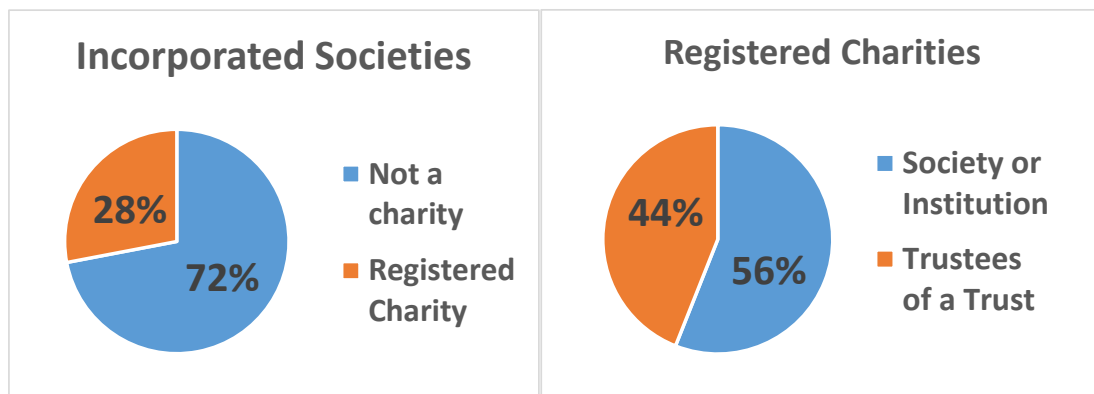
Typical transactions in incorporated societies that are not registered charities

INTRODUCTION

Incorporated societies are a vital part of New Zealand’s not-for-profit sector. The membership structure of incorporated societies is used by a wide variety of entities: including sports and cultural clubs, service organisations (e.g. professional associations, trades union, social service providers), residents’ associations, etc.

The Incorporated Societies Act 1908 is under review, and it is proposed that incorporated societies be required to use generally accepted accounting practice (GAAP)/non-GAAP standards issued by the External Reporting Board (XRB). Little is known about the current financial reporting of incorporated societies that are not registered charities, especially the types of transactions that they enter into. If they are to use XRB standards in the future, then it is important to understand more about these entities.

Figure 1: Comparing the Incorporated Societies and Charities Registers



THE RESEARCH

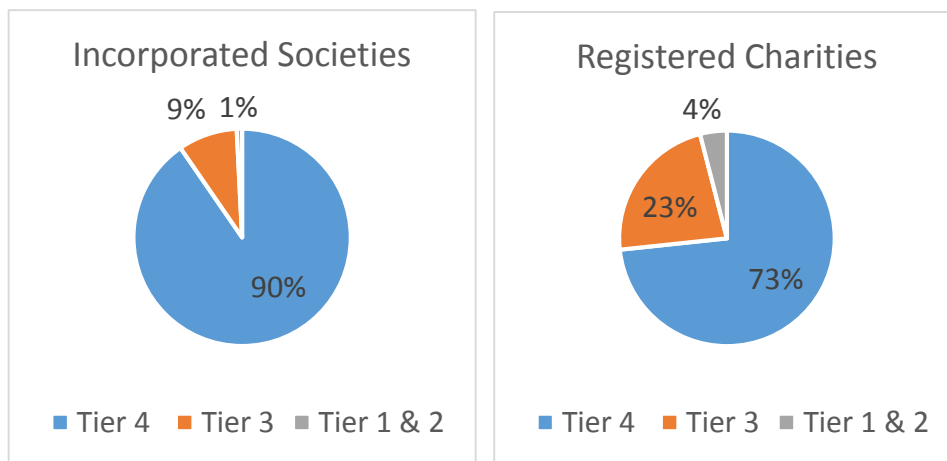
The XRB commissioned Victoria University of Wellington to undertake research into the typical (financial) transactions undertaken by incorporated societies that are not charities. This research is similar to the 2011/12 research undertaken on registered charities, which informed the development of the Simple Format Reporting Standards (GAAP and non-GAAP).

The current research analysed the financial statements of 306 incorporated societies that are not registered charities, providing insights into the frequency of various revenue, expenditure, assets and liabilities items, as well as examining how these items contribute to the total revenue and expenditure of these societies. The sample included incorporated societies that, if they were charities, would have been in the following tiers: 145 in Tier 4 (under \$125,000 in annual expenditure), 145 in Tier 3 (between \$125,000 and \$2 million in annual expenditure) and 16 larger Tier 1 & 2 entities.

What size are these entities?

As shown in Figure 2, the majority of Tier 4 incorporated societies are very small. In fact, just over 50% of the incorporated societies sampled had an annual expenditure of less than \$15,000. Indeed, the population of incorporated societies (as extrapolated from the sample) comprises smaller entities than those found on the charities register. Comparing incorporated societies with registered charities in Tier 4, registered charities had a 24% higher average total (annual) expenditure (\$34,288 compared to \$27,661 in incorporated societies). However, in entities with more than \$125,000 in annual expenditure, the populations are similar in size.

Figure 2: Comparing the Incorporated Societies and Charities Registers



RESULTS OF RESEARCH

What types of financial transactions do these entities undertake?

Analysing the incorporated societies that are not registered as charities, it was found that:

- The three most common revenue items were: fees from members, revenue from goods and services and interest income;
- Yet, the largest proportion of revenue came from goods and services, followed by membership fees and then donations and grants;
- The sampled incorporated societies spent most of their funds on service delivery costs, rent and building costs, staff, administration/overhead, and depreciation;
- The types of revenue items are similar no matter the size of the incorporated society. Tier 4 incorporated societies have fewer types of expenditure items than it Tier 3 and Tier 1 & 2 incorporated societies; and
- There was a great variety in the titles used to describe the revenue and expenditure items.

Comparing the incorporated societies that are not registered as charities to those that are, it was found that:

- Transactions typically entered into by incorporated societies are similar to those entered into by registered charities; and
- However, incorporated societies are more likely to receive funds from membership fees than registered charities. The incorporated societies in the sample also had varied fundraising sources.

RESULTS OF INTERVIEWS

In addition to the analysis of the financial reports, 10 interviews were undertaken to identify any transaction types that may have been missed, and to gauge reaction to the proposed changes. No additional transaction types were highlighted that had not been observed in the quantitative analysis, but the interviews provided necessary background to some of the more unusual types of transactions incorporated societies enter into. The interviewees were supportive of the Simple Format Reporting Standards, highlighting also the benefits of statements of service performance and challenges in branch consolidation.

CONCLUSION

This research provides insights into New Zealand incorporated societies that are not registered charities and will be useful to the XRB to aid decision making in further developing the GAAP and non-GAAP standards currently in place for registered charities, and also developing GAAP and non-GAAP standards applicable in the future to incorporated societies.