

## Tired from Tiers?

Some Facts about the Tier system for Financial Reporting for Registered Charities:

- **All** registered Charities have to report under Tier 1 by default.
- Charities **may opt** to report under a lower Tier, if they qualify.
- A Charity qualifies for a lower Tier if it is not 'publicly accountable' as defined in the Financial Reporting Act 2013 (most Charities aren't) and certain criteria are met.
- An entity that meets two of the following three criteria can use Tier 2: a) less than \$20m in *income*; b) fewer than 50 employees and c) fewer than \$10m in assets.
- An entity that has less than \$2m per year in *operating expenditure* can opt to use Tier 3
- An entity that has less than \$125,000 per year in *operating expenditure* can opt to use Tier 4.
- Tier 1 and 2 Accounting Standards are internationally uniform standards (with some modifications), while Tier 3 and 4 are standards drafted up by the (New Zealand) External Reporting Board and exist nowhere else in the world.
- Although being 'lower', Tiers 3 and 4 have mandatory requirements that do not exist in Tier 1 and 2. Many organisations may find that Tier 2 will create less compliance effort than Tier 3.
- Tier 1 and 2 have 28 individual standards, while Tier 3 and 4 have one (very long one) each. However, the large majority of the Tier 1 and 2 standards deal with complex accounting situations almost never encountered by service-based not-for-profits (such as foreign exchange, hyperinflation, joint ventures, financial instruments etc).
- Tiers 1 and 2 are closer in principle to financial reporting rules for businesses, and accountants are more likely to be familiar with them than with Tier 3 and 4 rules.

The following table lists which reporting components are required for the different Tiers:

Reporting Component	Tier 1/2	Tier 3	Tier 4
Statement of Financial Performance <sup>1)</sup>	Yes	Yes	No
Statement of Cash Flows	Yes	Yes	Yes <sup>2)</sup>
Statement of Financial Position	Yes	Yes	Yes <sup>3)</sup>
Statement of Changes in Equity	Yes	No	No
Statement of Service Performance	No <sup>4)</sup>	Yes	Yes
Detailed Entity Information	No	Yes	Yes

- 1) Known by other names such as Statement of Income and Expenditure; Income Statement; Statement of Funding and others.
- 2) Referred to as 'Statement of Receipts and Payments' in the XRB Tier 4 documentation.
- 3) Very simplified in Tier 4, where it only requires assets and liabilities to be listed, with no balancing equity figure. Referred to as 'Statement of Resources and Commitments' in XRB Tier 4 documentation.
- 4) Recommended only.

## Which Tier Should You Choose?

- Tier 4: If you qualify (under \$125,000 in operating expenditure) this Tier is the simplest to produce and the easiest to audit.
- If you prefer accrual-based information for your own purposes and for accuracy, but qualify for using Tier 4, you can continue to use accrual-based information for your internal reports and submit the more basic Tier 4 Statements for audit (if applicable) and to the Charities Register.
- **You should not use Tier 4 even if you qualify if:**
  - external users of your Financial Statements (such as funders) expect accrual-based statements.
  - reporting only your cash transactions would substantially distort the impression your stakeholders get from reading your financial reports.
- If you have to use accrual-based financial reporting (Tier 3 and above) consider using Tier 2 instead of Tier 3, but check with an accountant first who is familiar with the new requirements.
- The choice of Tier should not affect your financial systems: your internal reporting should be based on your internal needs for financial information. You do not need to 'dumb down' your accounting and internal reports
- Any Tier containing a Statement of Service Performance may add to your audit bill.