

ANNUAL FINANCIAL STATEMENTS

Moving Forward

GOALS OF THE DAY

Background Information

Know which tier you will be reporting under, and when the new financial reporting standards will start to apply.

Become familiar with the correct standard that you need to apply and how to report under that standard.

View the “standard in action” through a real life Methodist Parish.

Some discussion on collecting key information throughout the financial year.

Start thinking about the questions “ why are we here?”, “ What do we do?”, “What are our outcomes?”, etc.

CHARITIES ACT AND FINANCIAL REPORTING

The Charities Act 2005 came into force on 20 April 2005.

Changes were made to the principal Act in 2014 to change the way we prepare and present our financial statements and the filing of the Annual Return.

Changes to the Income Tax Act 2007

Why register?

- Main reason is maintaining the Church's tax-exempt status.
- Maintain our "donee" status with the IRD.
- Continue, in some cases, to receive grants or other benefits from government agencies who may require registration.

CHARITIES ACT AND REGULATIONS

Main parts of the Act deal with:

- The establishment of the Charities Commission
- The need for voluntary registration as a charity
- Compliance of registered charities
- Enforcement provision to ensure compliance

CHARITIES ACT AND REGULATIONS

HOW THE CHURCH IS REGISTERED?

The Methodist Church of New Zealand decided, based on information available to it, to register itself as follows:

- Entities which are currently registered under separate legislation to register under The Charities Act as a separate charitable entity.
- Boards which are provided for under Sections 5, 6 or 10 of the Methodist Church Laws and Regulations would each be separately registered as a charitable entity.
- Parishes and Synods are to be registered as individual entities. Therefore a Parish and a Synod became a registered charitable entity.

The basis of this is to minimise compliance costs in the long term due to the possible requirement for consolidated audited financial accounts to International Public Sector Financial Reporting Standards.

CHARITIES ACT AND REGULATIONS

FORM 2 — OFFICER CERTIFICATION FORM

The Act defines an “officer” to mean:

- (a) means, in relation to the trustees of a trust, any of those trustees; and
- (b) means, in relation to any other entity,—
 - (i) a member of the board or governing body of the entity if it has a board or governing body; and
 - (ii) a person occupying a position in the entity that allows the person to exercise significant influence over the management or administration of the entity (for example, a treasurer or a chief executive); and**
- (c) includes any class or classes of persons that are declared by regulations to be officers for the purposes of this Act; but
- (d) excludes any class or classes of persons that are declared by regulations not to be officers for the purposes of this Act

CHARITIES ACT FINANCIAL REPORTING

As part of the Financial Reporting Amendments to Other Enactments Act 2013, the Charities Act was changed and the obligations for the preparation and lodging of annual accounts will change from 1 April 2015.

Section 41 of the Charities Act provides for the preparation of the annual return.

The Annual Return must be accompanied by a copy of the financial statements of the charitable entity for the most recently completed accounting period. So far so good.

Section 42A provides for the contents of the financial statements.

The financial statements must be prepared in accordance with:

- in the case of financial statements of a specified not-for-profit entity, generally accepted accounting practice; or (This is Tier 1, 2 and 3)
- in any other case, either generally accepted accounting practice or a non-GAAP standard that applies for the purposes of this section. (This is Tier 4)

What does that all mean?



CHARITIES ACT - FINANCIAL REPORTING

All registered charities need to comply with generally accepted accounting practice as set out in the Financial Reporting Act 2013.

This is the overview only on our obligations

WHICH TIER TO NOW? (YOU SHOULD KNOW THIS)

Tiers	Entities	Standards
Tier 1	Entities with total expenses > \$30 million or with “Public Accountability”	Full PBE Standards
Tier 2	Entities with total expenses ≤ \$30 million	PBE Standards with Disclosure Concessions
Tier 3	Entities with total expenses ≤ \$2million	Simple Format Reporting Standard – Accrual for Not-for-Profit Entities (also known as the Accrual Standard or the Tier 3 Standard)
Tier 4	Entities with total operating payments < \$125,000	Simple Format Reporting Standard – Cash for Not-for-Profit Entities (also known as the Cash Standard or the Tier 4 Standard)

CASH OR ACCRUAL (TIER 4 OR 3)?

Tier 4 – smaller charities – operating payments under \$125,000 per annum over the last two years.

Tier 3 – medium sized charities – operating expenditure over \$125,000 and below \$2,000,000.

Cash Accounting – Transactions are recorded at the time that cash is received or paid, rather than when earned or incurred.

Accrual Accounting – revenue and expenses are recorded when they are earned or incurred, rather than when cash is received or paid.

OPERATING PAYMENTS VS. EXPENSES

Health Warning – Accounting terminology coming

- From External Reporting Board Standard A2 (XRB A2) - Meaning of Specified Statutory Size Thresholds

15. For the purpose of section 46 of the Financial Reporting Act 2013, total operating payments means the total amount of any payment (including grant payments and income tax payments, where applicable), other than a capital payment, made by the entity during the accounting period.

What is a Capital Payment?

16. For the purpose of paragraph 15, a capital payment is a payment during the accounting period for the purchase of a resource with an expected life greater than twelve months, to be owned or partly owned and used by the entity to support the entity's activities or to provide services or products. Capital payments do not include payments for operating purposes or payments for resources to be passed to other entities.

- You are looking at CASH accounts only, that is ALL cash accounts that the entity has control over and the proceeds (the benefit) of those cash accounts go to the organisation (i.e. bank accounts, MTA accounts, etc.).
- Examples of Capital payments are, laptops, land and buildings, computers, tablets, replacement carpet, refurbishment of a kitchen.

LEGAL REQUIREMENTS TO START WITH

Entity Information.

Statement of Service Performance

Either a Statement of Financial Performance (profit and loss account) breaks down into two major parts, Revenue and Expenses OR a Statement of Receipts and Payments.

Either Statement of Financial Position (balance sheet) breaks down into Assets (by category), Less Liabilities (by category) and Accumulated Funds (by category) OR a Statement of Commitments and Resources.

Accounting Policies

Notes to the Accounts

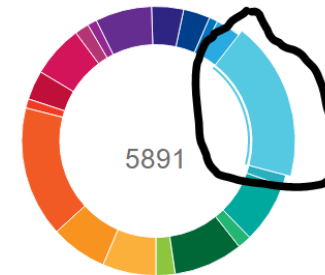
CHARITIES BREAKDOWN

Charities by sector



27,805
— Charities —
are working in all sectors

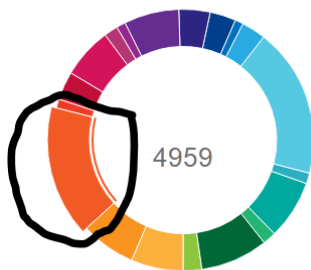
Charities by sector



5,891
— Charities —
are working in the
education / training /
research sector

21.2%
of charities in New
Zealand are in the
education / training /
research sector

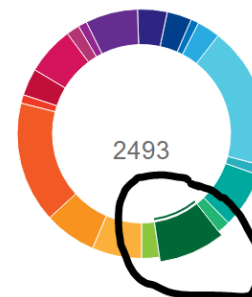
Charities by sector



4,959
— Charities —
are working in the
religious activities sector

17.8%
of charities in New
Zealand are in the
religious activities
sector

Charities by sector



2,493
— Charities —
are working in the arts /
culture / heritage sector

9.0%
of charities in New
Zealand are in the arts /
culture / heritage sector

BACKGROUND

Report prepared by Victoria University in March 2011.

Research on “small” (expenditure of less than \$40,000 pa) and “medium” (expenditure between \$40,000 and \$2,000,000 pa) charities.

49% of the charities returns had omissions and errors.

Types of errors

- Missing equity figures – 43
- Misclassification/no separation – 25
- Missing figures – 28
- Incorrect figures/figures do not match – 72
- Charities noted that they were filing cash based accounts but they filed accrual based accounts instead - 77

Found that less than 5% of charities produced reporting that could be classified as “good” or “very good” despite more than half of the financial statements having independent assurance (an audit or review).

Receipts and Payments to 31 March 2009

Opening balance as at 1 April 2008			20136.11
Income:			
Sages Funding	52786.95		
COGS Grant	1000.00		
ACC Grant	2444.44		
Tindall Foundation	1088.89		
Interest	<u>783.65</u>	58103.93	
GST Receipts	568.42		
GST Component	<u>7040.04</u>	<u>7608.46</u>	
			65712.39
			85848.50
Expenses:			
Wages & PAYE	30833.08		
Kiwi Saver	1288.96		
Employers 1%	351.48		
Employers Tax Credit claimed	-351.48		
Travel	4138.40		
Volunteer allowance	756.00		
Project Costs	3185.16		
Share of telephone costs	968.00		
Printing & Stationery, Postage	1718.77		
Advertising/Promotion	287.91		
Training	315.56		
Share of Power & Rent costs	1508.44		
Insurance	173.12		
Volunteer Expenses	1524.51		
Bank fees	11.85		
Conference	-253.22		
New Photocopier	719.11		
Kitchen Fittings	2306.03		
Admin/General Expenses			
- General	541.14		
- Microsoft Office	<u>295.11</u>	50317.93	
GST Payments	6506.90		
GST Component	<u>1712.58</u>	<u>8219.48</u>	58537.41
Closing Balance as at 31 March 2009			<u>27311.09</u>

64 6 3766730

Donations		-1 DEC 2014	
Tithe & Offerings		01-04-13	31-03-14
1	Audia Titipou		2640
2	Kelepi Tahoto		1115
3	Tevita Leao		4120
4	Teputepu Haiseni		1800
5	Tanfaetan Vatia		2000
6	Tevita Siolas		633
7	Alaisia Opana		270
8	Miracle Titipou		420
9	Emeline Opa		100
10	Feni Titipou		3100
TOTAL			16198

Financial Statement 30/09/2010 - 30/09/2011

DATE: 22/10/2010

DONATIONS:

INCOME: \$4871.30

EXPENDITURE:

Rental - \$960.00
 Levy - \$180.00
 Mission - \$1700.00
 TOTAL: - \$4871.30

Total Balance (duration)

19 NOV 2012

VILLAGE CENTRE SOCIETY INC

INCOME & EXPENDITURE STATEMENT
 for year ended 31 March 2011

2009/10

INCOME

1340	Subscriptions	520	
1645	General Donations	1060	
30	Fundraising	3900	
112	Interest Received	0	
2127			5480

EXPENSES

56	Audit Fees	56	
7594	Donation to Trust	0	
560	Professional Fees	0	
683	Other Expenses	788	
8893			844
-6766	SURPLUS / (DEFICIT)		4636

BALANCE SHEET
 as at 31 March 2011

31/3/10

ASSETS

2638	ASB Cheque A/C	7274	
1	ASB Savings A/C	1	
2639			7275
2639			7275

ACCUMULATED FUNDS

9405	Balance brought forward	2639	
-6766	Net Surplus for year	4636	
			7275
2639			7275

[Handwritten signature]

BACKGROUND-SEE THE PROBLEM?

Variability in the numbers being reported.

Quality of the information was highly variable.

Information may not be useful for users.

Creditability of charities questionable.

Goes back to governance of the registered charities, how good is it?

If you are an accountant, they just look just ugly!!!!

I NEED HELP!!!!!!

DO NOT PANIC!!!!!!

USE THE TEMPLATES TO START WITH

BREAK DOWN THE WHOLE PROCESS INTO SMALL BITES AND WORK UP TO THE BIG PICTURE.

If you do not understand what you are doing-PLEASE seek assistance.

Where do I start looking for help?

- <https://www.charities.govt.nz/resources/> - Charities Services Resources Page
- <https://www.charities.govt.nz/news-and-events/blog/> - Charities Services “blog site”, talks on specific issues relating to topics within the standards.
- <http://www.oct.org.nz/files/dmfile/NFP-reporting-guidance1.pdf> - From Chartered Accountants Australia – New Zealand
- http://www.ey.com/nz/en/issues/ifrs/ey_ifrs_public-benefit-entity-accounting-standards - Ernest and Young Accountants
- <https://www.xrb.govt.nz/accounting-standards/not-for-profit/> - External Reporting Board’s website on reporting standards.

Remember – Google is your friend.

All else failures – email one of the Accountants in the Connexional Office

While Tier 3 and 4 are called SIMPLE, it’s a bit like Einstein’s theory of Relativity – what are you comparing it to? Its SIMPLE relative to the full blown International Accounting Standards.

PROBLEMS WE FOUND

People used the template as given without “customising” for their situation.

People did not know how to use Excel to the extent needed to understand how the templates worked.

Not hiding rows or columns that they did not need (DO NOT DELETE THEM-HIDE THEM)

Some columns of numbers did not add up.

Cash flow.....

Concepts about “related parties” and “commitments” not understood

Somewhere we need to start focusing on the Statement of Service Performance and engaging with the governance questions associated with it.

Spelling and Grammar

WHAT TO INCLUDE.....THE MISSING STEP.....

The Parish Council need to determine what needs to be included within the Performance Report of the registered charity.

Need to look behind the legal jargon.

Does this give a true and fair view of the WHOLE of the parish.

What is “in the family” and “what is not”?

If the activity is NOT “in the family”, what are the consequences?

In – Opshops, preschools, Women's Fellowships, all congregations.

Out – Boys Brigade, maybe some Opshops?

MATERIALITY (EG A7)

Assessing the materiality of items of information for possible presentation and disclosure in the financial report requires professional judgement to be exercised. Part of that judgement is the decision about whether to present items in the primary statements or disclose items in the notes.

An item is required to be presented or disclosed **only when it is material**. Material items which are similar in nature should be presented or disclosed together to enhance understandability.

Exercising judgements about materiality is an important part of the process of preparing financial reports. More disclosures do not always result in better information for users of those reports. Applying materiality judgements should result in more useful and understandable financial reports.

When making judgements about whether items of information are material and should therefore be presented and disclosed, the following should be considered:

- (a) Who the users of financial reports are, and what their information needs are.
- (b) How the qualitative characteristics affect presentation and disclosure.
- (c) How the nature and size of items of information, judged in the surrounding circumstances, affect presentation and disclosure.
- (d) Where financial and non-financial information that is material should be presented and disclosed.

GET READY, STEADY AND GO!!!!!!

Start early

Plan and note activities throughout the year-outcomes

Look at the minimum disclosure requirements and see if your current accounting system can cope with separation of revenue and expenses.

Keep track of any grants paid and received noting their purpose and key conditions.

Keep note of related party transactions.

Use resources to help you – accounting.methodist.org.nz

ASK QUESTIONS!!!