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Cheat sheet: Sport NZ

Definitions

GAAP: Generally accepted accounting principles. This means tier 1-3 reporting for public benefit entities or international financial reporting standards (IFRS) for for-profit entities that have to prepare GAAP compliant financial statements.

GPFR: General purpose financial statements. Another way to say prepare financial statements under GAAP.

SPFR: Special purpose financial reporting framework. This is a special purpose framework that has been put together by various parties (including banks and Inland Revenue). This particular framework is designed for for-profit entities, but the framework is considered to be 'relatively' sector neutral, so it may be appropriate for your organisation. Special purpose reporting is used when entities have no obligation to prepare GAAP financial statements, and they don't opt into preparing GAAP financial statements. There are many special reporting options.

Charities

- Charities have a Statutory compulsion to prepare GAAP compliant financial statements. Being a registered charity doesn't automatically mean you are classed as a public benefit entity that uses the four tier framework (although in most instances this will be the case). You still need to consider the requirements of XRB A1 – Accounting Standards Framework to demonstrate you are not a for-profit organisation
- If your constitution requires you to prepare GAAP (or general purpose) financial statements, organisations must use the Tier 3 framework as a minimum (ie, Tier 4 - Simple Format Cash is not considered to be a GAAP framework
- If your expenditure is over $500k, you are required by statute to have either a review or an audit

Incorporated societies

- Incorporated societies are not required to prepare GAAP compliant financial statements unless they are also a registered charity (or your rules mandate you must prepare GAAP or general purpose financial statements; but that can be changed)
- It's likely that incorporated societies and trusts that are not registered charities will be included in the new reporting regime in the next three to five years
- If you don't need to prepare GAAP financial statements, you can still opt into the new regime, but then your expenditure levels would drive which tier you would report under (unless you end up being a for-profit entity)
- If you don't have to, or don't want to prepare GAAP financial statements, then you could prepare special purpose reports that have recognition and measurement principles which align to the GAAP framework. This allows you significant flexibility around disclosure, but will make your ultimate transition into the GAAP framework significantly more straight-forward (ie, you could mirror Tier 3 reporting at any expenditure level)

Auditors

- Once you've documented your framework and tier assessment, check in with your auditor to make sure they agree with your conclusions
- Auditors have an obligation to make sure that you can demonstrate the type of special purpose reporting you want to adopt is appropriate for your members or stakeholders
- Remember, the financial statements are yours, not the auditors, so back your own views

Alternate assurance

- For smaller charities that are not required to be audited, agreed upon procedures are an alternative option to provide peace of mind for key users. This is for charities with expenditure below $500,000
- This provides a less expensive but highly useful alternative to an audit. The procedures can target specific issues to give peace of mind for

funders etc, and can be tailored to look like an audit without the cost and complexity of an audit

Tier Two

- There is no obligation to compulsory restate comparatives, but you can choose to. We recommend you do for readability and ease of comparison
- Where comparatives are not restated, the prior year financial statements are attached to the first set of financial statements prepared using the new reporting framework
- A note explaining the impact of transition along with reconciliations to previous financial statements net assets (equity) position must be provided
- Date of transition is the beginning of the current period if you are not providing restated comparatives
- Cash flows must be presented. Comparatives are not required in year one (unless you are not applying the comparative disclosure exemption)

Tier three

- The main differences are the requirement for a statement of service performance and cashflows
- A statement of service performance has three compulsory elements – this will often mirror your current annual report:
  - Describing the outcome: what outcomes are you trying to achieve? This will have a direct link with objectives. You don't have to publish the results.
  - Describing and measuring outputs: what activities/services/products have you undertaken or utilised?
  - Commentary: explain variances in outputs and outcomes and why the entity did or did not achieve these. Also comment on reasons within and beyond your control
- This information will be audited and it is important to have processes in place now to prove this information to auditors

What if my entity hovers around but just under the $2m expenditure criteria?

You may want to consider transitioning into Tier 2 immediately. This would save a second transition down the line in the event that expenditure in future periods exceeds $2m.

Foreign exchange contracts

Under IPSAS reporting, organisations are required to recognise forward exchange contracts on the balance sheet. This will be recorded at fair value at the end of the year (banks will be able to provide documentation for this value). The movement will be recorded on the P&L.

Sponsorship

- Sponsorship may be classified as either exchange (partly or in full) or non-exchange income, so consider this carefully
- GST treatment can be different between tax and accounting (reporting). If you receive equipment or services as part of a sponsorship deal, then it is likely it will be captured for GST
- Donated goods are not likely to be subject to GST
- GST is a tricky area; you should seek advice if amounts are material

Kiwisport funds

Regional sports trusts (RST's) receive Kiwisport funding from Sport NZ to distribute onto other organisations. This is in an agency capacity and accordingly, Kiwisport transactions do not typically impact the P&L. That is, they are accounted for via the balance sheet through a liability account:

- DR Bank CR Kiwisport Funds Liability (when received) and
- DR Kiwisports Funds Liability CR Bank when paid

Need more information?

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