

*METHODIST CHURCH OF NEW ZEALAND
TE HAAHI WETERIANA O AOTEAROA*

The Church and Me

Charities Services Registration

Financial Reporting within the Church

Assurance

THE CHURCH AND ME

- Accountant, member of NZICA, Bcom, member of IOD.
- Financial Accountant for a bank (which no longer exists!!), management accountant with Fletcher Steel, GM of privately held chain of retirement villages, rest homes and hospitals, Financial Services Manager with the Methodist Church of New Zealand.
- Looking for outcomes to be useful for clients.

THE CHURCH AND ME

- Diverse organisation throughout New Zealand
- The Church is involved in many fields including, residential care, retirement villages, parishes, superannuation funds, low income housing, commercial property investment, schools (secondary), pre school care and education, etc.
- Between 140 and 160 separate entities around the country.
- Different governance structures from unincorporated to charitable companies.

CHARITIES ACT AND REGULATIONS

- The Charities Act 2005 came into force on 20 April 2005.
- The Charities (Fees, Forms, and other Matters) Regulations 2006 were passed in September 2006.
- Other changes to the Charities Act
- Financial Reporting Amendments to Other Enactments Act 2013 was passed in December 2013.
- Changes to the Income Tax Act 2007
- Changes to Assurance requirements to come

CHARITIES REGISTRATION

WHY REGISTER?

- Main reason is maintaining the Church's tax-exempt status.
- Methodist Church is NOT mentioned in the Income Tax Act.
- Maintain our "donee" status with the IRD (but may not be essential under the Income Tax Act).
- Continue, in some cases, to receive grants or other benefits from government agencies who may require registration.
- Registration of Charities started in February 2007.
- Many entities within the Church are registered under the Charitable Trusts Act.

CHARITIES ACT AND REGULATIONS

HOW THE CHURCH 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, Synods and other unincorporated parts of the Church are to be registered as individual entities.

Therefore a Parish and a Synod will become a registered charitable entity.

The basis of this decision was 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

HOW THE CHURCH REGISTERED

- Extracted entity data from CRM
- Registered Charitable Trusts, Companies, Incorporated Societies, etc. were then double checked against our own data
- “Special” entities, such as “Model Deed Trusts” needed to be dealt with
- Were supplied with a Word copy of Form 1 (Application by entity for registration as a charitable entity) and Form 2 (Officer certification form)

CHARITIES ACT AND REGULATIONS

HOW THE CHURCH REGISTERED

- Created a database of entities and officers in Microsoft Access
- Large mail merge undertaken in Word and Access.
- Sent Forms out for signing and return back to us.
- Bulk forms and other required documentation sent to Charities Services
- Once registration confirmed, double checked information and corrected as necessary.

CHARITIES ACT AND REGULATIONS ANNUAL MAINTENANCE

- Each registered entity is responsible for completed their own Annual Return (Form 4) and changes (such as officers)
- Overdue Annual Returns get reported by the Charities Commission back to the Board of Administration.
- This can be challenging given the age group and skill level of our volunteer base.

CHARITIES ACT AND REGULATIONS

FORM 1 – REGISTRATION FORM

- We are using Form 1 when we register and NOT Form 5.
- We will either complete this form online or ask you to complete a paper based Form 1.
- If paper based, we will complete as much of Form 1 as possible and may ask a parish to complete the remainder of the form and return it back to us.
- Non incorporated entities, such as Parishes will need to confirm that they will comply with the Laws and Regulations of the Church.

CHARITIES ACT AND REGULATIONS

DEFINITION OF “OFFICER” A CHALLENGE

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.....

CHARITIES ACT AND REGULATIONS

FORM 4 – ANNUAL RETURN

- As part of the Annual Return, the form sets out what financial information we must return to the Commission.
- Firstly we must attach a copy of the charitable entity's financial accounts. If these have been audited then we need to attach those.
- We need to disclose what accounting methods have we used to build up the accounts (accrual or cash).
- We are also required (in addition to attaching the audited accounts) to complete financial information in a set format rounded to the closest thousand dollars.

THIS CAN BE VERY CHALLENGING.

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

Tier	Tier Criteria	Standards Set
Tier 1	<ul style="list-style-type: none"> • Has public accountability (as defined); or • Has total expenses (including grants) > \$30 million 	PBE Standards
Tier 2	<ul style="list-style-type: none"> • Has no public accountability (as defined); and • Has total expenses (including grants) ≤ \$30 million <i>and elects to be in Tier 2.</i> 	PBE Standards (RDR)
Tier 3	<ul style="list-style-type: none"> • Has no public accountability (as defined); and • Has expenses ≤ \$2 million <i>and elects to be in Tier 3.</i> 	PBE SFR – A (NFP)
Tier 4	<ul style="list-style-type: none"> • Has no public accountability (as defined); and • Has total operating payments of less than \$125,000 in each of the previous two reporting periods (i.e. not a “specified not-for-profit entity”); and • Is permitted by an enactment to apply a “non-GAAP” Standard <i>and elects to be in Tier 4.</i> 	PBE SFR – C (NFP)

- So What?

SIZE OF ENTITIES WITHIN THE METHODIST CHURCH

- Based on reported expenditure to me, **49%** of all Church entities have Operating payments **lower than \$125,000**, **42%** of entities have Operating Expenditure **between \$125,001 and \$2,000,000** and **9%** have **operating expenditure over \$2,000,000**.
- Reported expenditure ranges from \$2,307 to \$15.3 million
- Reported income ranges from \$3,364 to \$33.5 million
- Total assets reported amounted to \$996 million
- Total liabilities reported amounted to \$338 million

- So what about the quality of reporting?

QUALITY OF FINANCIAL REPORTING WITHIN THE METHODIST CHURCH

- I have set put a “quality indicator” for financial reporting to report back to entities within the Church
- Quality Indicator 4 or 5 indicates a really good result, normally accounts that use former NZ Differential Reporting or IFRIS
- Quality Indicator 1, rubbish. Supplied bank statements on a spreadsheet or the financial information on the Annual Return.
- So **42%** were in **QI 4 or 5**, **8.3%** were **QI3**, **20.8%** were **QI 2**, **7.6%** were **QI1** and the balance **21.3%** were **QI 0**.
- Do we have a problem – **YES**.
- How are we going to solve this or improve the outcome?

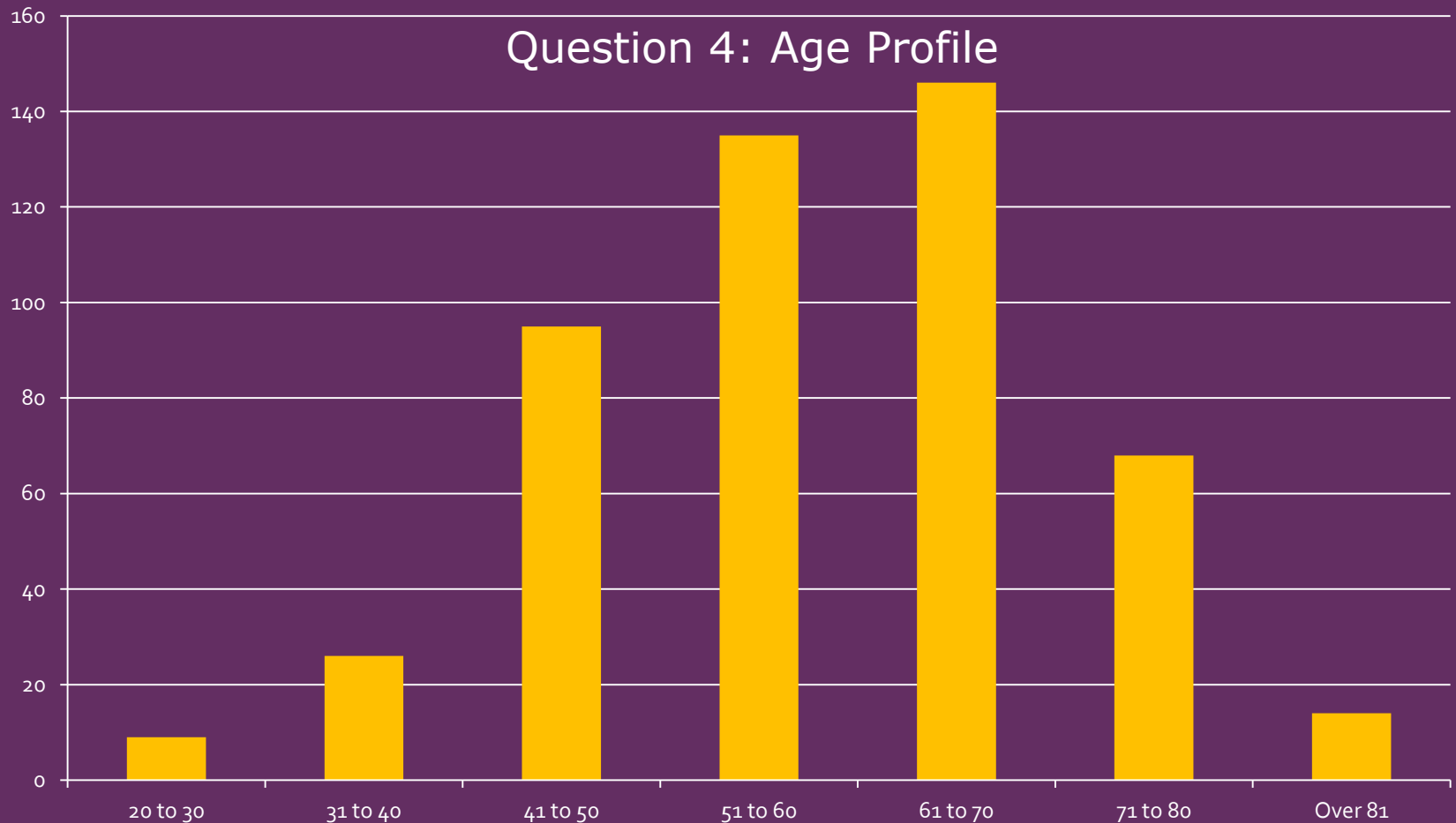
WHO PREPARES ANNUAL ACCOUNTS IN A CHURCH BASED ORGANISATION?

- There were 493 responses over a 1 month period of data collection.
- Most respondents prepare accounts in a Parish setting, with an annual balance date of either 31 December or 30 June (39% for year balance date).
- Most respondents were in the 51 to 70 years of age group.
- There is a higher likelihood that the respondent was a male (53.5%).
- Most respondents had been preparing annual accounts for between 1 and 10 years (67.34%), while just over 12% had been preparing the annual accounts for over 20 years.
- Most respondents were not paid to prepare the annual accounts (70.99%).
- 87.63% of respondents were volunteers to the entity.
- Many of the respondents (43.20%) who worked, worked fulltime (more than 30 hours per week).

WHO PREPARES ANNUAL ACCOUNTS IN A CHURCH BASED ORGANISATION?

- 46.25% had some form of 'accounting' experience (whether formal or informal), but only 4.87% were members of the Institute of Chartered Accountants.
- Most of the annual accounts prepared by the respondents were prepared on a cash receipts and payments basis (51.72%).
- Most respondents produced a profit and loss account (80.32%) and a balanced balance sheet (79.92%).
- The majority of people used a PC based accounting system loaded on a local PC to prepare their accounts (60.45%), while nearly a quarter of people used either a spreadsheet or some paper based accounting system.
- 70.59% of respondents indicated that the income for the entity was \$200,000 or less, while 72.41% of the same respondents stated that their expenses were \$200,000 or less.
- Most had their accounts audited (52.54%), while 38.95% had a review undertaken.

WHO PREPARES ANNUAL ACCOUNTS IN A CHURCH BASED ORGANISATION?



WHO PREPARES ANNUAL ACCOUNTS IN A CHURCH BASED ORGANISATION?

Question 15 asked about the respondent's experience they had in accounting.



THE HELPING HAND

- Moving entities to online accounting solution – Xero is our preferred option.
- We have over 50 entities using Xero, about 35%
- Work with Xero to ensure that Tier 3 and 4 “Report Packs” are available as a standard feature for not-for-profits.
- Education. Workshops, online blog site (accounting.methodist.org.nz)
- Templates for entities to use with instructions on how to use them.
- Telephone and e-mail support.
- Reminders on what they achieved last year and asking them to think about next year and what they intend to do to comply with the new reporting standards
- Produce a detailed Administration Manual for Parish use

INDEPENDENT ASSURANCE WITHIN THE METHODIST CHURCH

- The Laws and Regulations deal with independent assurance (audit or review requirements)
- In 2006 the Conference of the Methodist Church required the Board of Administration to prepare a Church wide audit policy.
- First Audit Policy approved in 2007.
- Last reviewed last year.
- Major update will be released later this year.
 - Will deal with independent audit and review as well as internal reviews of high risk areas such as “cash” controls, GST returns, health and safety in the work place, PAYE and FBT controls, HR controls, etc.

CONTACT INFORMATION

Peter van Hout

Financial Services Manager

Board of Administration

New Zealand Methodist Church

(03) 366 6049 ext 817 - landline

021 977 230 – mobile

peter.v@methodist.org.nz - work

peter@vanhout.co.nz - home

accounting.Methodist.org.nz (blog site)