

# **SORP 2005 charity accounts: a detailed guide**

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# 1 Introduction

The content and format of church and charity accounts is governed by law and the Charities' Statement of Recommended Practice: Charity Accounting and Reporting (SORP). Despite the title, SORP has the force of law for all but smaller charities that prepare accounts on the receipts and payments basis. Charities preparing accounts on the accruals basis must follow SORP although there are considerable relaxations for charities that are not subject to statutory audit.

A new and revised SORP was published in 2005 and applies to accounting periods beginning on or after 1<sup>st</sup> April 2005. For many charities, the first period that the revised SORP will apply to will therefore be the year ended 31 December 2006

SORP has long since ceased to function purely as an accounting standard. But SORP 2005 is even more of a manual of charity accounting than earlier versions. As a result, it has become a very detailed and lengthy document.

It is assumed that readers are familiar with SORP 2000. Therefore, this paper focuses, in some detail, on particular areas of difficulty and the material changes in SORP 2005 that are likely to impact on the Christian charity sector.

## 1.1 Overview of the briefing paper

- What is SORP?
- When does it apply?
- Who does it apply to?
- Smaller charities.
- What authority does it have?
- What is its objective?
- What exemptions are there?
- A review of the key detailed requirements.

## 1.2 Definitions

The following abbreviations are used:

SORP 2005 (or SORP)	The Charity Commission Statement of Recommended Practice 'Accounting and Reporting by Charities' Published in March 2005
SORP 2000	The Charity Commission Statement of Recommended Practice 'Accounting and Reporting by Charities' Published in October 2000
2005 Regulations	Charities (Accounts and Reports) Regulations 2005 (SI 2005/572)
2000 Regulations	Charities (Accounts and Reports) Regulations 2000 (SI 2000/2868)

1995 Regulations	Charities (Accounts and Reports) Regulations 1995 (SI 1995/2724)
Charities Act	The Charities Act 2006
The Companies Acts	Principally the Companies Acts of 1985 and 2006 but including associated primary and secondary legislation
SOFA	Statement of Financial Activities (one of the primary statements in the financial accounts of a charity)

### 1.3 What is it and when does it apply?

Although published by the Charity Commission, the Charity SORP is developed by accountancy and charity professionals and is endorsed by the UK Accounting Standards Board. Accordingly, it is an authoritative statement binding on members of the UK professional accountancy bodies. Force of law is given to it by the 2005 Regulations in certain circumstances (see below).

SORP is subject to annual reviews to reflect the development of accounting practice over time both in general and in the charity sector in particular.

It therefore represents a comprehensive summary of how accounting standards, charity law and best practice impacts on the preparation of charity accounts and reports.

SORP 2005 applies to all accounting periods starting on or after 1 April 2005.

The 2005 Regulations replace both the 1995 and 2000 Regulations in respect of financial years which begin on or after 1 April 2005 (and where trustees decide to apply the revised SORP / Regulations early)

### 1.4 Who does it apply to?

#### Accruals accounts

The **accounting recommendations** of SORP apply to all charities in the United Kingdom that prepare accounts on the **accruals basis to give a true and fair view** of a charity's financial activities and financial position.

This is regardless of the size, constitution or complexity of the charity.

#### Receipts and payments accounts

In the absence of any more specific regulation or requirements, the law provides that unincorporated charities with gross income below £100,000 (England and Wales) may prepare simpler 'receipts and payments' accounts. Company charities must prepare their accounts under the Companies Acts and therefore must always prepare accruals accounts which comply with SORP.

**Scottish charities** have new regulations applying for accounting periods starting on or after 1 April 2006. For these accounting periods the threshold is now also £100,000 but for previous accounting periods 'receipts and payments' accounts could only be prepared if the gross income was under £25,000.

**Northern Irish charities:** The current proposals put forward for Northern Irish charities are that 'receipts and payments' accounts will only be optional for charities with gross income of under £25,000. This proposal is still provisional.

**The accounting recommendations of this SORP do not apply to charities preparing cash-based receipts and payments accounts, though they are encouraged to adopt the activity approach to the analysis of their receipts and payments.**

This is a change from SORP 2000 which purported to provide a recommended basis for the preparation of R&P accounts. Considerable clarity has been gained by removing these smaller charities from the scope of SORP.

The Charity Commission have detailed guidance on the preparation of cash based accounts of charities (Publication CC16). Copies are available free of charge on their website [www.charity-commission.gov.uk](http://www.charity-commission.gov.uk).

### **Republic of Ireland**

With effect from SORP 2005, charities based in the Republic of Ireland are no longer within the scope of SORP although they have the option to follow its recommendations. If they do, they are encouraged to disclose this fact.

## **1.5 Smaller charities**

There are a number of concessions for 'smaller charities'. These concessions are summarised in Appendix 5 of SORP. A 'smaller charity' is one that is not subject to a **statutory** audit.

SORP 2005 does not apply to very small charities that may prepare receipts and payments accounts. Company charities must always prepare accruals accounts and are therefore subject to SORP.

### **Charities not subject to statutory audit**

Prior to the Charities Act 2006 coming into force, charities with a gross income or total expenditure of over £250,000 (England and Wales) in the current or either of the previous two years, are subject to a **statutory** audit.

An audit should not be confused with (a) An 'Independent Examination' which applies to non-company charities with a gross income or total expenditure above £10,000, or (b) An Independent Accountants' Report for a company charity with a gross income of between £90,000 and £250,000.

Once the provisions within the Charities Act enter into law,<sup>1</sup> the audit threshold will rise to £500,000 gross income with a new test of £100,000 gross income if gross assets exceed £2.8 million. Exceeding either threshold will trigger a statutory audit.

For Scotland the regulations have already changed for non-company charities:

- For accounting periods starting before 1 April 2006 income or total expenditure exceeding £100,000.
- For accounting periods starting on or after 1 April 2006:
  - income of over £500,000 or
  - gross assets of over £2.8million if they prepare accruals accounts.

For Northern Irish charities the audit threshold is proposed to be different again; provisionally set at £100,000 gross income, or £25,000 gross income where gross assets exceed £500,000. This may well be altered before finally being enacted.

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<sup>1</sup> implementation dates are expected to be announced in the next month or so

## The Concessions

Charities that are below the audit threshold benefit from a number of concessions from SORP as set out in Appendix 5 at Paragraph 5.3. Broadly, these are:

- An abbreviated trustees' report (see below). The minimum permitted content of the report of a 'smaller' charity is set out in Table 11 in Appendix 5.
- No need to analyse resources expended or incoming resources by activity categories within the Statement of Financial Activities. Instead resource classifications to suit the charities circumstances may be used.
- If the above relaxation is adopted, certain disclosure notes will no longer be necessary. For example, where the disclosure relates to the constituent costs of an activity or where the relevant information is provided on the face of the SOFA.
- There is no need to analyse or apportion:
  - support costs
  - fundraising trading costs
  - 'governance costs'
- Smaller charities do not need to give detail of staff emoluments in bands (SORP Paragraph 236).
- Further cross referenced detail on these relaxations can be found in Appendix 5, Paragraph 5.3.1
- Although these concessions are provided, all charities are encouraged to follow the full recommendations.

### 1.6 FRSSE

Charities (both incorporated and unincorporated) that come within the qualifying thresholds as 'small companies' (s247(3) Companies Act 1985) can follow the Financial Reporting Standard for Smaller Entities (FRSSE) except where this conflicts with SORP, - rather than the full range of extant accounting and reporting standards etc.

FRSSE is a standalone accounting standard for small entities. Its objective is to pick up the provisions of all other accounting standards that are relevant to small entities and, where appropriate, provide exemptions from the provisions of some of those standards.

Broadly a charity is 'small' for Companies Acts purposes if it satisfies at least two of the three following conditions: A gross income of less than £5.6million; A Balance Sheet total of less than £2.8million; An average number of employees of less than 50.

Appendix 2 of SORP summarises extant Standards at the date of its publication. Appendix 5 gives more detail on the application of FRSSE to charities.

### 1.7 What authority does SORP have?

SORP is designed to be compatible with the requirements of the law.

#### Accounting Provisions of SORP

In England and Wales, SORP's provisions in relation to the required accounting statements and the notes to the accounts have the force of law by virtue of the 2005 Regulations and the Companies Acts.

In Scotland, accounts which are required by law to show a 'true and fair' view (i.e. 'accruals' accounts) are similarly required to comply with the accounting provisions of SORP.

### **Trustees report:**

In England and Wales, SORP's recommendations on the format and content of the Trustees' Report have the force of law – again by virtue of the 2005 Regulations and the Companies Acts.

In Scotland and Northern Ireland, the recommendations are considered to be consistent with the law but they should be regarded as best practice recommendations supplementing the legal requirements.

SORP no longer has an authority over the preparation on 'Receipts & Payments' accounts (see section 1.4 above) BUT the 2005 Regulations do specify the content for the Trustees' Report accompanying these accounts (Regulation 11) and they are encouraged to follow the recommendations of SORP.

## **1.8 What is its objective?**

The stated objectives of SORP 2005 are:

- To improve the quality of financial reporting by charities
- To enhance the relevance, comparability and understanding of information presented in accounts
- To provide clarification, explanation and interpretation of accounting standards and of their application in the charities sector and to sector specific transactions; and thereby
- assist those who are responsible for the preparation of the Trustees' Annual Report and Accounts

To achieve this, SORP 2005's main step change is to focus more on the charity's 'activities' and to require it to report on:

- What it has done ('outputs')
- What it achieved ('outcomes')
- What difference it has made ('impact')

Other significant changes from SORP 2000 include:

- Clarifying when income is recognised.
- Clarifying when grant commitments are recognised.
- Accounting for historic properties.

## **2 Trustees' Report**

### **2.1 The Trustees Report: Smaller Charities**

Besides the legal and administrative details required by SORP 2000 and the 2000 Regulations (which are retained), the 2005 Regulations require the Trustees of a charity under the audit threshold to provide a brief summary of the main activities and achievements during the year, relating these to the objects.

SORP expands on this (Table 11) to require (in the case of 'smaller charity' accruals accounts):

- The methods adopted for the recruitment and appointment of new trustees.
- A review of the financial position of the charity (and its subsidiaries, if relevant) and a statement of the principal financial management policies adopted in the year. This will include the **reserves policy** (see following paragraph) and details of any fund materially in deficit including the steps being taken to eliminate the deficit.
- In SORP the term **reserves** means that part of the charity's income funds that is freely available (i.e. not otherwise committed as, for example, endowment or restricted funds, unrestricted funds tied up in fixed assets or funds specifically earmarked for essential future spending).

SORP additionally requires (Para. 55) details of the level of reserves held to be stated as well as why they are held. Where material funds have been designated, the reserves policy statement should quantify and explain the purpose of the designations and, where set aside for future expenditure, the likely timing of that expenditure.

In contrast the 2005 Regulations describe the requirements thus "... a description of the policies (if any) which have been adopted by the charity trustees for the purpose of determining the level of reserves which it is appropriate for the charity to maintain in order to meet effectively the needs designated by its trusts, together with details of the amount and purpose of any material commitments and planned expenditure not provided for in the balance sheet which have been deducted from the assets in the unrestricted fund of the charity in calculating the amount of reserves, and where no such policies have been adopted, a statement to this effect".

- Details of assets held by the charity as custodian trustee including arrangements for safe custody and segregation. The names and objects of the charity(ies) on whose behalf the assets are held should also be disclosed as well as describing how this falls within the custodian's own charitable objects.

Although the remaining requirements for trustees' reports (for which see 2.2 below) are only *mandatory* for larger charities, SORP encourages smaller charities to make those further disclosures as a matter of good practice.

## 2.2 The Trustees Report: Larger Charities

The requirements above for smaller charities apply equally to larger charities.

However, since the trustee report requirements have been entirely recast in SORP 2005, this represents one of the major changes over SORP2000. **New** disclosure requirements include:

### Reference and Administrative details section

- Disclosure of the name of the Chief Executive or other senior staff members to whom day to day management is delegated by the trustees.

### Structure, Governance and Management section

This **new** section will deal with disclosures on:

- Methods adopted for recruitment and appointment of trustees;
- Policies and procedures for induction and training of trustees
- Organisational structure, clearly showing which decisions are taken by trustees and those delegated to staff
- Wider networks the charity is part of, where this impacts on operating policies adopted by the charity
- Risk management, which now refers to management rather than mitigation of risk

### **Objectives and Activities**

The disclosure requirements under this heading are re-worded to emphasise the setting of short term objectives, strategies etc. together with an explanation of the difference that the charity seeks to make through its activities. New disclosures include:

- Aims including the changes or differences that the charity seeks to make through its activities.
- An explanation of its main objectives for the year
- An explanation of its strategies to achieve the stated objectives
- Details of significant activities (projects, programmes or services provided etc) that contribute to the achievement of the stated objectives. These activities should link with the activities analysing charitable activities in the Statement of Financial Activities.
- Where material activities are carried out through grant making, the grant making policies.
- Where material activity is through programme related investment, the policies in *making* those investments.
- Where there is significant use of volunteers in undertaking charitable or income generating activity, details such as the activities undertaken, the contribution in terms of hours or staff equivalents and this may include an indicative value for their contribution.

### **Achievements and Performance**

This section should now give:

- A fair review of activities and performance against set objectives (qualitative and quantitative information). Identification of the indicators, milestones and benchmarks used to assess achievement against objectives should be included.
- The review will include achievement against fundraising and investment objectives, where these activities are significant. Details of material expenditure for future income generation should be commented on including the impact on the current year's fundraising return.
- Comment on factors affecting achievement of objectives

### **Financial Review**

This is largely as before and includes the financial position and financial management policies detailed in Section 2.1 above, but will also include:

- Details of principal funding sources including borrowings;
- How expenditure in the year under review has supported key objectives of the charity;
- Where material investments are held, the investment policy and objectives including the extent to which social, environmental or ethical considerations are taken into account.

### **Future Plans**

Disclosure of plans for the future will now include key objectives set and constraints that may affect future performance

The Charity Commission intends there to be a clear link between achievements in the Trustees' Report and the related income and expenditure streams in the Statement of Financial Activities (SoFA).

The changes to the trustees' report are broadly welcome. The discipline of preparing these reports will focus trustees' minds on what matters – such as setting objectives, achieving outcomes, managing risk etc. Where the accounts do have a sufficiently wide circulation, the trustees' report is a key 'shop window' providing the opportunity to 'sell' the charity to those that provide funds now or in the future.

## **3 General Principles**

### **3.1 International Accounting Standards**

SORP is clear that International Accounting Standards (IAS) are not considered appropriate for charities. Charitable companies cannot use IASs. This clarification is welcome relief. Charity accounting is already complex enough!

### **3.2 UK accounting standards**

These are subject to a rolling review for compliance with IASs. As the new and revised domestic standards are introduced, guidance will be given as to any changes necessary in charity accounting either in the form of Charity Commission update bulletins or in a future review of SORP.

## **4 Statement of Financial Activities**

### **4.1 Objectives of the SOFA**

The structure and headings on the face of the SoFA have been changed with the following objectives:

- To provide a clear distinction between incoming resources derived from activities to generate funds on the one hand, and income received from the charitable activities themselves on the other;
- To facilitate disclosure of costs based on activity undertaken;
- To link incoming resources to costs; and
- To link activities / outcomes to expenditure.

A Pro Forma Layout for the SOFA is included at Appendix 1 and Appendix 2 gives an example of how these principles may look in practice.

Unless your charity's accounts are distributed beyond trustees, management, bankers, auditors/ examiners and the like, there seems little point in committing huge effort and resources to clever analysis of income and expenditure to functional (rather than natural) classifications. The important matter is to have a justifiable and consistent basis year on year. Simplicity is probably the byword here.

It is however useful to focus on the benefits or otherwise of fundraising expenditure and the public are rightly concerned to see that this is kept in proportion.

The attempt to correlate income to expenditure is clearly of interest to service delivery charities but may be difficult to apply in churches, and other charities that rely on funding from various sources 'to make things happen'

## 4.2 New headings on the face of the SoFA

To achieve the above objectives the following structure is proposed:

### Incoming resources:

- Incoming resources from generated funds:
  - *Voluntary income*
  - *Activities for generating funds* (including for example, trading(\*) and fundraising events)
  - *Investment income*
- Incoming resources from charitable activities (including fees & other contractual income)
- Other incoming resources (unusual)

(\*) Note: Income from trading activities in pursuance of charitable objects is included under income from charitable activities.

In each case, incoming resources should be analysed according to the **activity that produced the resource**.

### Resources expended:

- Costs of generating funds:
  - Costs of generating voluntary income
  - Fundraising trading: costs of goods sold and other costs
  - Investment management costs
- Charitable activities
- Governance costs (See further comment below)
- Other recognised gains and losses:
  - Gains on revaluation of fixed assets for the charity's own use
  - Gains / (losses) on investment assets
  - Actuarial gains / (losses) on defined benefit pension schemes

The resources expended section has been reorganised to facilitate disclosure of costs **based on activity undertaken**.

## 4.3 Reporting by activity

### Smaller charities

For *smaller charities* (below the statutory audit threshold), there is no need to analyse either resources expended or incoming resources by activity categories within the Statement of Financial Activities. They may instead choose resource classifications to suit their circumstances.

Where a small charity adopts an alternative approach to analysis within the Statement of Financial Activities certain note disclosures may no longer be necessary, for example, where these disclosures relate to the constituent costs of an activity category.

### Larger charities

For larger charities activity reporting represents a major change of emphasis. The SOFA layout does not reveal this major shift, nor does the text of SORP make this as clear as it might.

The first point to note is that, under both incoming resources and resources expended, further sub-division by activity will often be required. This will be particularly so in relation to the 'charitable activities' section. The precise selection of activities to be highlighted under each SOFA heading is largely a matter for the charity itself to decide upon. However, the headings should link directly to the narrative in the trustees' report and will be further analysed in the notes to the accounts.

In selecting the activities to be highlighted in the SOFA, trustees will need to consider the impact. Since the activities selected may well be perceived by users of the accounts to be the charity's key priorities, they should link to the strategic aims and programmes.

Further, highlighting the value of a particular project in the trustees' report and then showing the financial position in the SOFA could aid fundraising. At the same time, preparers of accounts need to guard for clarity and avoid a proliferation of activities that would make the accounts unwieldy, over complex and obscure some of the key messages.

In order to present a link between **incoming** and **outgoing** resources, the related activity headings in the different parts of the SOFA should be similar or identical. For example, a care home charity may disclose:

<u>Incoming resources from charitable activities:</u>	£
<i>Residential care fees</i>	<i>x,xxx</i>
<u>Resources expended on charitable activities:</u>	
<i>Residential care costs</i>	<i>( x,xxx)</i>

A charity raising funds through a shop may show:

<u>Activities for generating funds:</u>	£
<i>Turnover from shop</i>	<i>y,yyy</i>
<u>Cost of generating funds:</u>	
Fundraising trading costs:	
<i>Costs of goods sold</i>	<i>( y,yyy)</i>

## Grants, Support Costs and Management and Administration

Neither grants made nor support costs will feature on the face of the SOFA as they have done in the past. Grant making activity is now subsumed into the costs of those activities that they enable or form part of and will be disclosed in the notes to the accounts. Support costs do not represent an activity in themselves and are dealt with further in Section 4.4 below.

A note to the accounts will disclose the cost breakdown by activity showing

- (a) the cost of activities undertaken directly by the charity,
- (b) funding of third parties undertaking that activity, and
- (c) the charity's own support costs.

An example layout is given in Table 5 of SORP.

The heading "management and administration" disappears altogether and is replaced by the much more narrowly defined "governance costs". Further comment is made on this in Paragraph 5.3 below.

## 4.4 Cost Allocation and Apportionment

In attributing costs between activity categories, expenditure should be *allocated* directly to an activity cost category so far as is appropriate.

Items of expenditure which contribute directly to the output of more than one activity cost category, for example, the cost of a staff member whose time is divided between a fundraising activity and working on a charitable project, should be *apportioned* on a **reasonable, justifiable and consistent** basis.

Book adjustments (such as depreciation, amortisation, impairment or losses on disposal of fixed assets) should be attributed in accordance with the same principles.

### Support Costs

Support costs do not in themselves constitute an activity but rather provide the organisational infrastructure that enables output producing activities to take place. Examples are: central office functions such as management, payroll administration, budgeting and accounting, IT, human resources and financing. Consequently SORP 2005 removes these costs from the face of the SOFA. They will now be apportioned on a reasonable, justifiable and consistent basis to the activity cost categories (including the activities of governance and generating funds) being supported.

The notes to the accounts will show a breakdown of support costs over the different activities that they support. An example disclosure note is given in Table 4 of SORP. This note will also disclose the basis of allocation of these costs over the various activities.

Equally, SORP requires an analysis of activities that shows a cost breakdown between

- (a) activities undertaken directly,
- (b) those funding third parties undertaking that activity, and
- (c) the charity's own support costs. An example layout is given in Table 5 of SORP.

## **Apportionment Bases**

SORP outlines a number of acceptable bases for apportionment:

- usage - eg on the same basis as expenditure incurred directly in undertaking an activity;
- per capita - ie on the number of people employed within an activity;
- on the basis of floor area occupied by an activity.
- on the basis of time (eg where staff duties are multi-activity).

The bases for apportionment adopted should be appropriate to the cost concerned and to the charity's particular circumstances and always on the basis of the accounts giving a true and fair view.

The bases adopted for apportionment will normally be consistent between accounting periods. The accounting policy note to the accounts should disclose both the policy adopted for apportionment of costs between activities and any estimation techniques used to calculate their apportionment.

## **5 SoFA – Resources Expended: Other specialised points of interest**

### **5.1 Expenditure recognition**

This concerns the timing of the recognition of certain liabilities. The relevant section of SORP has been entirely rewritten in much clearer form. Constructive obligations are described as well as scenarios in multi-year grant funding and the accounting treatment arising for each.

Commercially, in accruals accounts, liabilities are recognised as resources expended as soon as there is a 'legal or constructive obligation' committing the entity to the expenditure.

SORP seeks to provide guidance on the application of this basic rule to the activities of charities. A liability will arise when a charity is under a legal or constructive obligation to make payment to a third party as a result of past transactions or events. This may be contractual or relate to the payment of grants or donations.

#### **Contractual commitments**

Where a charity enters into a contract for the supply of goods or services, expenditure is recognised once the supplier of the goods or services has performed their part of the contract, for example, the delivery of goods or the provision of a service.

Some grants provided by charities will be contractual in nature in as far as the terms of the grant may specify conditions for payment linked to the performance of a particular level of service etc. SORP refers to these as 'Performance Related Grants'. Here the grant is recognised in the accounts only to the extent that the recipient has provided the specified service or goods.

Note: a grant that is merely restricted as to purpose does not create a performance related grant unless there are performance conditions also attached. Simple restricted purpose grants should be recognised at the point that the charity has a constructive obligation (see below).

## Grants payable and constructive obligations

Grants (other than performance-related grants) and certain other expenditure relating directly to charitable activities do not involve an exchange for consideration and therefore, although incurred to further the charity's objects, does not create a contractual or quasi-contractual relationship. Nevertheless, the charity may still have a liability that needs to be recognised.

A **constructive obligation** arises where events have created a valid expectation in other parties that the charity will discharge certain obligations. Evidence that a valid expectation has been created might be provided by the charity's current and past practice in discharging such obligations and the specific communication of a commitment to the recipient.

A constructive obligation always involves a commitment to another party *that has been communicated to those affected in a sufficiently specific manner to raise a valid expectation* on the part of the recipient that the charity will discharge its obligations.

It follows that a funding decision by a charity's trustees does not give rise to a constructive obligation at the balance sheet date unless the decision has been communicated before the balance sheet date to those affected in a sufficiently specific manner to raise a valid expectation in them that the charity will discharge its responsibilities.

Statements made in such a way that discretion is retained by the charity as to their implementation do not create a constructive obligation.

However, a term in a grant agreement or offer that relieves a donor charity from a future obligation in the event of lack of funds at a future settlement date would not normally prevent the recognition of a liability by the donor charity. The liability would however be derecognised when an event requires the funding offer to be rescinded.

## Constructive obligations and grant conditions

A charity may enter into grant commitments which are dependent upon explicit conditions being met either by itself or by the recipient before payment is made or upon future reviews. The grant should be recognised once such conditions *fall outside the control of the giving charity*. If the conditions set remain within the control of giving charity, then the charity retains the discretion to avoid the expenditure and therefore a liability should not be recognised.

Example: A charity makes a specific commitment to grant fund a project over a three year period.

The following situations may arise:

(a) If the multi-year grant obligation:

(i) is conditional on an annual review of progress that determines whether future funding is provided; and

(ii) discretion is retained by the giving charity to terminate the grant;

then provided evidence exists (eg from past review practice) *that the discretion retained by the charity has substance*, this amounts to a condition and an immediate liability arises only for the first year of the funding commitment.

If the annual review process, although set out in the conditions of the grant, is not in practice used to determine whether funding is provided in the subsequent years of the

commitment, then the review stipulation should not be interpreted as a condition and a liability for the full three years of the grant should be recognised.

(b) If there is no condition attaching to the grant that enables the charity to realistically avoid the commitment, the liability for the full three years of the funding should be recognised.

Commitments may contain conditions that are outside the control of the giving charity. For example, a charity may promise a grant payment on the condition that the recipient finds matching funding or a condition that it is subject to permission being granted for an activity by the relevant authority. As these conditions falls outside the control of the giving charity, a liability arises and expenditure should be recognised.

Where subsequent events make the recognition of a liability no longer appropriate, the liability should be cancelled by credit against the relevant expenditure heading in the SOFA by mirroring the treatment originally used to recognise the expenditure for the liability. The consequences of this are that there would be 'negative expenditure' offsetting the expenditure of the current year. Separate disclosure should be made of this. For example, a grant has been committed but not paid subject to the granting of planning permission for a church building project. Since this condition is outside of the control of the donor their accounts would reflect the full grant in the year in which advised to the recipient. If the planning permission was not granted and the grant commitment withdrawn the grant cancellation would be shown as a negative grant made in the year.

Where a liability is not accrued because conditions have not yet been met although a grant commitment is in place, a contingent liability arises. Paragraphs 340 to 348 of SORP describe the treatment to be adopted. It may be appropriate to designate funds to cover the contingent liability.

### **Grant recognition in Christian charities**

These rules can pose difficult questions for Christian charities and, in particular, churches. Our Briefing Paper "Long-term Support of Missionaries" provides some further specific guidance in this area.

## **5.2 Grants – disclosure**

SORP 2005 continues the previous theme of expecting an analysis of grants made between those made to individuals and those made to institutions. However, SORP 2005 defines a grant to an 'individual' as one made for the direct benefit of the individual receiving it, for example to relieve financial hardship. All other grants are institutional. Therefore if a church provides financial support to a member on mission, if the support is used for ministry purposes rather than living costs or is provided to their mission agency on a common purse basis, the grant is likely to be an institutional rather than individual grant for disclosure purposes.

The specific requirement to disclose the largest 50 institutional grants exceeding £1,000 has been dropped. In its place, SORP expects the analysis and explanation of grants made to help the reader of the accounts understand how the grants made relate to the objects of the charity and the policy adopted in pursuing these objects. It also requires the amount of support costs relating to grant activity to be disclosed.

More detailed guidance than previously is given on the expected analysis, by charitable purpose, of the total number and total value of grants as between institutions and individuals. Table 6 of SORP gives a suggested layout for a grant disclosure note.

Flexibility is introduced for disclosure of grants to individual institutions, where material in the context of overall grant making. Rather than specifying the largest 50, a sufficient number should be disclosed (name and total value of grants made in the accounting year to each) to provide a reasonable understanding of the range of institutions supported. Where grants are made to the same institution to support different activities, the value of the grants for each activity should be specified.

### 5.3 'Governance Costs' versus 'Management & Administration' costs

A widely misunderstood area of SORP has been the distinction between 'support costs' and 'management and administration' costs. SORP 2005 makes two fundamental changes to address this: First, 'support costs' which are more clearly defined, will no longer appear as a separate category on the face of the SoFA (for which see Section 4, under Support Costs, above).

Second, 'management and administration' costs are replaced by '**Governance costs**' to make their original intention clearer. The new term is much more narrowly defined. Governance costs are defined as costs relating to the general running of the charity as opposed to the direct management functions inherent in generating funds, service delivery and programme or project related work. These are costs that allow the charity to operate and to generate the information required for public accountability. They therefore will include audit / examination costs, legal advice to trustees, costs associated with constitutional and statutory obligations, trustees' meeting costs and preparation of statutory accounts. Governance costs, like other activities, will also include a share of overheads / support costs.

A clear analysis of all the main items of governance costs should be included in the notes to the accounts.

The re-titling of management and administration costs as 'governance costs' is a very welcome clarification which should promote a greater degree of consistency between charities in this particular aspect of cost allocation.

### 5.4 Educational information: Charitable activity or promotional?

Advice is given on the means of apportioning costs that contribute to more than one activity. One area that has caused difficulty and controversy concerns the distinction between expenditure incurred on publicity or information that raises the profile of the charity (which is essentially fundraising) and publicity or information provided in an educational manner in furtherance of the charity's objects. Tests are set out which will enable trustees to determine this question. Where the tests are satisfied, part of the cost can legitimately be allocated to 'Charitable Activities' rather than Costs of Generating Funds.

### 5.5 Charitable activities

Besides a clearer definition of what constitutes charitable activities, SORP 2005 expects the costs of a specific service delivery to be linked in the notes to the accounts to any related contract income or restricted fund income for that activity. The notes to the accounts should analyse the amount of expenditure on direct charitable activity, grant funding of third parties and support costs across each activity or programme undertaken by the charity.

## 6 SoFA – Incoming resources: Other specialised points of interest

### 6.1 Timing of income recognition

The rules governing the timing of recognition of income within the SoFA has been entirely re-written. These rules govern, for example, whether grant income is included as income in the current year or deferred to a later year because of, for example, grant conditions.

Commercially, income should be recognised when three conditions are met:

- Entitlement - normally arises when there is *control* over the rights or *other access* to the resource, enabling the charity to *determine its future application*;
- Certainty - when it is virtually certain that the incoming resource will be received;
- Measurement - when the monetary value of the incoming resource can be measured with sufficient reliability.

Incoming resources received by a charity may range from the contractual to the receipt of unrestricted grants or donations. SORP seeks to provide guidance on how commercial accounting principles can be applied in the charity context.

In determining whether or not income should be recognised, charities will need to ask:

- What legal arrangements (eg contract or trust law) govern the terms of the arrangement and how any disputes arising are to be settled.
- Whether entitlement to the funding requires a specific performance to be achieved (a contract or performance related grant).
- Whether funds can be used for any of the purposes of the charity, or whether they can only be used for a specific purpose.

#### Grants and donations in general

Charities are normally entitled to incoming resources when they are receivable. If there are no pre-conditions, recognition of a grant or donation should not be deferred even if the resources are received in advance of the expenditure on the activity funded by the grant or donation. The charity has entitlement to the resource with the timing of the expenditure being within the discretion of the charity. Such incoming resources cannot be deferred simply because the related expenditure has not been incurred.

This may represent a surprising outcome. For example, an up front grant received to cover expenditure over a number of years, in the absence of entitlement conditions, will not necessarily mean that the grant should not all be recognised in the SOFA in year one notwithstanding that the performance of the activity funded may stretch over a number of years. Accountants may feel that this offends the 'matching' concept.

Similarly, a condition that allows for the recovery by the donor of any unexpended part of a grant does not prevent recognition. A liability for any repayment is recognised only when repayment becomes probable.

#### Restricted fund income

Just because income has been given for a restricted purpose, even if that purpose will be carried out by the charity for a period of years, is no reason to defer recognition in whole or part. Unless the donation has performance related conditions as well, it should be recognised in the same way as ordinary grants and donations. For example; if a

grant is received to enable a charity to write and perform a course, without other conditions, then it would be recognised in full (as income into a restricted fund) when received or earlier if the other criteria of entitlement, certainty and measurement were fulfilled.

### **Grants and Donations –with conditions**

For a promised grant or donation to be recognised there needs to be evidence of *entitlement*. Evidence will normally exist when the grant is formally expressed in writing. Where entitlement is demonstrable, and no conditions are attached, such promises should be recognised as incoming resources once the criteria of *certainty* and *measurability* are met.

Charities often receive grants or donations with conditions attached that must be fulfilled before there is unconditional *entitlement* (control) of the resources. Meeting these conditions may be either within the recipient charity's control or reliant on external factors outside its control. Where meeting the conditions is within the charity's control and there is sufficient evidence that the conditions will be met, then the incoming resource should be recognised. Where uncertainty exists as to whether the recipient charity can meet conditions within its control, the incoming resource should be deferred until certainty exists that the conditions imposed can be met.

Example A grant may be conditional on a charity obtaining matched funding, or subject to a successful planning consent. Meeting the conditions attaching to such grants would not be either *certain* or *wholly within the control* of the recipient charity. The charity would not therefore have *unconditional entitlement* (control) of the incoming resource until these conditions were met. Recognition of the income should be deferred until the conditions set have been met.

Note: Conditions such as the submission of accounts or certification of expenditure can be seen as simply an administrative requirement as opposed to a condition that might prevent the recognition of incoming resources.

Incoming resources may also be subject to donor imposed conditions that specify the time period in which the expenditure of resources can take place. Such a pre-condition for use limits the charity's ability to expend the resource until the time condition is met. For example, the receipt in advance of a grant for expenditure that **must** take place in a future accounting period should be accounted for as deferred income and recognised as a liability until the accounting period in which the recipient charity is allowed by the condition to expend the resource. An example would be a grant for a project, where the grant was to cover the expenditure in the period January to June 2007. If this was received in December 2006 at the 31 December 2006 it should not be recognised as income.

Where the existence of a condition prevents the recognition of an incoming resource already received, a contingent asset should be disclosed where it is probable (but not virtually certain) that the condition will be met in the future.

### **Contractual income**

Where a charity provides goods or services as part of their charitable objects, in return for fees, income should be recognised in the SOFA to the extent that the charity has provided the goods or services. So, for example, income from participants for a course received in advance should be deferred if the course has not been run by the year end.

## Performance related grants

Receipt of a performance related grant (ie subject to performance conditions before entitlement arises) is similar in nature to contractual income and should be treated in the same way. If instead of having participants pay for a course the charity received a grant from another body to run a course and the grant is based on the condition of paying £20 per person per section of the course, income would only be recognised to the extent of the number of people attending completed sections of the course.

## Membership Subscriptions

Treatment depends essentially on whether the subscription substantially purchases a right to services or benefits. If so, then the subscription is recognised as the service or benefit is performed. If there are no significant rights derived from the subscription, it should be recognised in the same way as ordinary donations.

## 6.2 Funds received as agent

There is a good deal of confusion for the Christian charity sector caused by this concept. For example, a church's Christmas offering is to go to the local orphanage. Is this restricted income of the church or does the church simply act as agent in passing these funds from the donor to the orphanage? In one case, income is included in the SOFA; in the other it is not.

The answer is not simple and depends on a number of factors. SORP 2005 will not change anything significantly although reference to the test of whether the charity *controls* the use of the resources in question rather than owning the resources brings a modest degree of clarity.

This remains a difficult area for charities to interpret. The key issue is whether or not the trustees are exercising their discretion in handling the funds in question. This is a matter that is not free from doubt as to legal application. Our view is that if the trustees initiate a fund (for example by deciding to donate the Christmas offering to the local orphanage) then they have exercised their discretion. If that decision has been communicated to the donors in advance of their gifts, the funds belong to the church but as a restricted fund. This can be contrasted with:

- a situation where a donor approaches the charity and instructs them to pass funds on to a third party organisation specified by the donor. Here, the trustees have no discretion to exercise and this could lead to the position where the funds belong to the ultimate recipient albeit the charity handles them *on behalf* of that organisation.
- A situation where a donor gives funds to the charity for a specific purpose rather than for a specific organisation, allowing discretion to the trustees on the use of those funds. Here, the trustees accept the funds *on trust* to be applied by the trustees for that purpose in whichever way they feel is appropriate. So, discretion / control of the charity trustees is present and the funds represent *restricted fund* income of the charity.

Agency funding questions not only have accounting but tax (gift aid) implications.

SORP requires disclosure in the Notes to the Accounts of all movements on agency funds even if there is no year end balance.

Aside from the difficult interpretational issues, this is a very important disclosure since agency funding can be an easy target for money launderers. Charities not yet cognisant

of the Proceeds of Crime Act and money laundering in the context of charities should update themselves quickly.

A fuller analysis of this issue, with examples, can be found in our free briefing paper "When is a charity's income not its income!".

## 7 Historic Assets – what has changed?

### 7.1 Overview

- Financial reporting standard 15 "Tangible fixed assets" requires that all tangible fixed assets should be capitalised in the balance sheet.
- SORP 2000 exempted charities from capitalising assets which met the classification of "Inalienable or historic assets" (see 7.2 below).
- SORP 2005 only exempts charities from capitalising assets which meet the classification of "heritage assets" (see 7.2 below). Church buildings will *not* normally fulfil this criterion.
- SORP 2005 acknowledges that certain types of buildings (such as cathedrals, monasteries and historic churches) whilst not meeting the definition of 'heritage assets' may be excluded from capitalisation. If they are not capitalised certain disclosures are required. It is *not* thought that this exemption is intended to cover a normal church building *but* only those that have particularly unique importance.
- The definition of 'heritage assets' is much narrower than that for 'inalienable or historic assets' with the result that in some instances charities will need to capitalise assets which has not been capitalised before or make different disclosures.

### 7.2 Definitions

In these notes, the following words and abbreviations are used:

Capitalising	The treating of an asset as one of enduring value by including it in the organisations balance sheet.
Depreciation	The amount by which the usefulness or value of a fixed asset has diminished during the period.
Fixed asset	Those assets of the organisation which are acquired, whether by purchase, by gift or by construction which have a continued or enduring use. Typically they include items such as land, property, equipment and vehicles.
Heritage asset	Those assets of historical, artistic or scientific importance that are held to advance preservation, conservation and educational objectives of charities and through public access contribute to the nation's culture and education at a national or local level.
Historic asset	Defined in SORP 2000 as an asset of acknowledged historic scientific (including environmental) or artistic importance, whether of former or present times, the continuing retention and use of which is in direct furtherance of the charity's objects as the primary reason for retaining it.

Inalienable asset	Those assets that a charity is required by law to retain indefinitely for its own use/benefit and therefore cannot be disposed of without external consent, whether prohibited by its governing document, the donor's wishes or in some other way.
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### 7.3 Exemption for 'Heritage assets'

There is an exemption in SORP 2005 such that charities will not necessarily need to capitalise 'heritage assets' that were acquired in past accounting periods and omitted from previous balance sheets in certain circumstances. These are outlined in SORP 2005 paragraph 283. Since very few Christian charities will hold properties which meet the definition of "assets of historical, artistic or scientific importance that are held to advance preservation, conservation and educational objectives" this is not detailed further in these notes.

### 7.4 Exemption for certain other historic buildings

SORP 2005 states

"Abbeys, monasteries, cathedrals, historic churches and ancient centres of learning may not meet the heritage asset definition as the preservation of the buildings they occupy is unlikely to be the primary objective of the charity. Such assets might nevertheless be considered integral to the activities of the charity and this may give rise to difficulties in ascertaining an estimate of current cost of construction of an asset that has the same service potential as the existing one.

For example, a new structure could recreate the floor area and seating capacity of a medieval cathedral but such a structure would not recreate the uniqueness of the original in terms of the religious and historical significance.

In such cases a valuation of previously non-capitalised assets may be impractical and the notes should contain a statement to that effect explaining why conventional valuation techniques cannot be applied.

Similar issues may arise in the context of artefacts contained within and associated with such structures e.g. religious artefacts contained within a cathedral or historic church."

This exemption is therefore designed for circumstances where the uniqueness of the building is such that monetary terms cannot appropriately measure its value or significance.

### 7.5 The SORP 2000 principles

In SORP 2000 the definitions of 'historic' and 'inalienable' were phrased in terms of sale and replacement. Where there were considered to be met, and it was 'difficult or costly to attribute a cost or value', they did not need to be capitalised.

Disclosure was required of the following:

- Why the assets were considered historic or inalienable.
- Be sufficient for the reader to appreciate the age and scale of the assets and the use made of them.
- The amount spent on acquiring them during the year.

## 7.6 The SORP 2005 principles – for churches and religious buildings

The SORP 2005 definition of Heritage assets requires a property to be held to advance the preservation and conservation objectives of the charity. Where it is held for other purposes; such as advancement of religion, or as a store of wealth (e.g. art treasures) it does not fall within the definition of 'heritage assets'. As a consequence church and other ancient buildings held by Christian charities are unlikely to meet the definition of a 'heritage asset'.

The exemption from capitalisation for "unique" religious buildings or learning centres is again different from that of 'historic and inalienable' in SORP 2000. It is the 'uniqueness' that needs to be focused on in the context of their significance not being possible to measure in monetary terms rather than the practical difficulty of obtaining cost or valuation details.

If buildings are not capitalised on these grounds then disclosure is required with the notes containing a statement explaining :-

- Why the building's value cannot be measured in monetary terms
- And that conventional valuation techniques cannot be applied

There will therefore be some buildings that are historic and where costs and valuations were difficult but they do not have unique significance to the users that cannot be replaced by a new equivalent. These should now be capitalised.

## 7.7 What is the effect if change is required?

### What value is a property to be capitalised at?

- a) Newly acquired property should be initially measured and recognised at its cost unless it has been donated. This cost will include:
  - Cost of purchase, including legal and professional fees and other direct costs (such as stamp duty) that may have applied.
  - Cost of construction, development or improvement.
  - Cost of interest where loans have been taken to construct the property for the period up until it is brought into use **but only** where the charity has adopted this policy for all assets.
  - Without netting off the impact of any grant received for its acquisition or development.
- b) Newly acquired property that has been donated should be included at their current value at the date of the gift.
- c) Historically acquired property being capitalised for the first time should be included at :
  - If purchased or developed – at original cost, less depreciation from the date of acquisition under normal depreciation principles.
  - If donated – at the value at the time the gift was made, less depreciation from the date of acquisition under normal depreciation principles.
  - If these amounts are not ascertainable -- a reasonable estimate of the assets cost or current value should be made.

## What bases of valuations can be used?

Properties can be valued on a whole range of bases. The most common ones are:

- Current open market value – (e.g. how much would be its sales price between willing buyer and willing seller). This is difficult to ascertain in circumstances where there is a very specialised use for a property (such as a traditional church building)
- Depreciated replacement cost – ( e.g. how much would it cost to buy the land and construct it at present day values then depreciated for the period of actual ownership)
- Insurance valuation – This is normally the cost of ‘re-instating’ the property should it be damaged or destroyed. This is easily obtained but very often does not reflect a ‘fair’ value of the property as it will exclude land values and may overstate the cost of reconstruction to its present condition.

If the property comprises a significant asset of the charity it is recommended that professional advice is taken before undertaking a valuation for accounts purposes.

### 7.8 What if the property was ‘inalienable’?

It is highly likely, if a property was inalienable, that it was held as ‘endowment’. Capitalisation as a result of SORP 2005 will probably involve the setting up or amendment of an endowment fund in the charities accounts.

## 8 Further help

Further help and assistance can be obtained from:

Stewardship, PO Box 99, Loughton IG10 3QJ

tel: 08452 26 26 27

e-mail: [enquiries@stewardship.org.uk](mailto:enquiries@stewardship.org.uk)

web: [www.stewardship.org.uk](http://www.stewardship.org.uk)

contacts: Stephen Mathews or Kevin Russell

Stewardship offers a Consultancy Helpline service which provides a package of support to ensure year-round assistance. For further information, visit [www.stewardship.org.uk/consultancy\\_helpline.htm](http://www.stewardship.org.uk/consultancy_helpline.htm) or telephone for an information sheet.

# Appendix 1 - Outline Statement of Financial Activities

	Unrestricted Funds	Restricted Funds	Endowment Funds	Total Funds	Prior year total funds
<b>Incoming resources</b>					
Incoming resources from generated funds:					
• Voluntary income					
• Activities for generating funds					
• Investment income					
• Incoming resources from charitable activities					
• Other incoming resources					
• Total incoming resources					
Resources expended					
Cost of generating funds:					
• Costs of generating voluntary income					
• Fundraising trading: costs of goods sold and other costs					
• Investment management costs					
Charitable activities					
Governance costs					
Other resources expended					
<b>Total resources expended</b>					
Net incoming (outgoing) resources before transfers					
Gross transfers between funds					
<b>Net incoming (outgoing) resources before other recognised gains and losses</b>					
Other recognised gains and losses:					
• Gains on revaluation of fixed assets for the charity's own use					
• Gains (losses) on investment assets					
• Actuarial gains (losses) on defined pension schemes					
<b>Net movement in funds</b>					
<b>Funds brought forward</b>					
<b>Funds carried forward</b>					

## Appendix 2 – Example Annual Report and Accounts

### THE ANYWHERE CHURCH TRUST

#### Example Trustees report

#### INDEX TO ACCOUNTS

##### PAGES:

1.	Trust Information
2 - 4.	Trustees Report
5.	Independent Examiners Report
6.	Statement of Financial Activities
7.	Balance Sheet as at 31 March 2007
8. - 13.	Notes to the Accounts

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**THE ANYWHERE CHURCH TRUST**  
**TRUSTEES REPORT FOR THE YEAR ENDED 31 MARCH 2007**

**OBJECTS**

The primary aims of the Trust are to fulfil the role of a Christian Church in the Anywhere area and to provide help to others in promoting the Christian faith in the United Kingdom and overseas.

**THE CHURCH: ITS AIMS AND OBJECTIVES**

The Church is not a building, but a gathering of ordinary people of different ages and backgrounds, whose lives have been changed by Jesus Christ, the Son of God. The New Testament reveals the Church as a community of people, properly taught and cared for, who by loving and serving Jesus Christ, were also committed to love and care for each other and to bring a blessing to the area in which they lived. The Anywhere Church; its trustees, elders and members are committed to the restoration of those New Testament principles. It is not alone in this, it is one of many Churches in the area, country and all over the world that is re-discovering the excitement of knowing Jesus Christ. The vision is to see the people of Anywhere come into this experience of knowing Jesus as their Lord, Saviour and friend.

The Anywhere Church is a member of the Evangelical Alliance and has a long standing relationship with "....."; a Christian organisation that pursues similar objectives in the UK and overseas. The church works with ..... in assisting other churches and receives voluntary help itself where needed. During the year, grants have been made (see note 8) to help the objectives which can best be done on a larger scale than the Anywhere Church could do independently.

Directions relating to the charitable trust are made by the Trustees in consultation with the Elders, who are responsible for governing the life and teaching of the church. Day to day decisions on expenditure and activities are decided by the staff and volunteers in charge of different areas of the church, with budgets set and monitored by the Trustees. The powers of appointment or removal of Trustees rests with the Trustees. New Trustees are primarily selected from the members of the church or from the leaders of other local churches sharing the same vision, since this means the Trustee body is whole heartedly involved in seeing the mission of the church worked out in practice. On being appointed new Trustees spend time with the existing Trustees to ensure they understand their responsibilities and the legal and financial framework in which the church operates.

Whilst the church does employ 5 staff it is the work of every member of the church, whether employed or not, that will make the difference in the church achieving its great commission. This is done in 'being salt and light' amongst the people they interact with every day; by praying, by visiting the sick and others in need, in being involved in training others, in public teaching and worship, and also in administration. The financial resources of the church, to a very large extent, are given by the members and their private assets and equipment are regularly used in the work of the church. Much of this work is done privately, without recognition, and the hours and value of that time cannot be quantified.

**THE ANYWHERE CHURCH TRUST**  
**TRUSTEES REPORT FOR THE YEAR ENDED 31 MARCH 2007 (cont)**

**THE YEAR: ITS OBJECTIVES AND ACHIEVEMENTS**

During the year ended 31 March 2007 the main ways the church sought to achieve the calling of Christ upon it have been as follows:

- Fulfilling the objects in teaching, preaching and showing practical care in the community. This was both in the normal teaching in the church on Sunday and midweek and also by running specific courses to address particular aspects of Christian living.
- Bringing the love of Christ to the community in running courses for those who wanted to find out about Christianity. Three Alpha courses were run during the year with 30 people undertaking the course, with the normal impact in changed lives and attitudes for those that were involved.
- Impacting the next generation. The financial position of the church having been increased last year it enabled the church to increase its investment in staff; particularly in employing a full time youth worker and part time schools worker. Alongside volunteer members of the church they have taught in 3 schools, run assemblies in 15 others, been involved in 2 youth groups and a children's holiday club to teach health and social skills, have fun and bring the love of God to the community. The objective was to bring some aspect of the love and wisdom of God to 1,000 children during the year. We estimate that approximately 800 were reached.
- Practical help to the community. The 'Mothers in Need' project was started involving providing practical help to 25 single mothers in parenting, special needs assistance, domestic practical help and, above all, time to be there. This was supported by a grant from the ..... Trust of £8,000 linked to the number of homes helped and services provided plus £826 from the sale of goods created by the families concerned.
- Planting new churches. The objective has been for a number of years to plant a new church in ..... The initial steps were taken by some members of the church moving to the town to join those already living there, meeting during the week and setting expectations for meeting on Sundays which are planned to start in September 2007.
- Bringing support to churches working elsewhere both in the United Kingdom and overseas. This support has primarily been through building personal relationship with a number of overseas churches in Mexico, Zimbabwe, the USA, Albania, Romania, New Zealand and France and then providing practical and financial assistance. No specific objectives were set in this regard but as a result of response to immediate needs £17,000 has been contributed directly to these ends. There has also been indirect support by helping the funding of ..... by granting £10,250 for their work which extends across all continents.
- The members of the church have consistently been applying the principles of church life outlined in the New Testament outlined earlier to be 'salt and light' in the community, in the places they live and work and in having an impact on social attitudes in wider national society. This is a very major part of the purpose of the church and much of it is done without publicity and the enormous amount of time spent in this way cannot be quantified.

**PLANS FOR THE NEW YEAR**

The key strategies for the church are to remain the same. The elders and trustees have not set specific objectives for the coming year in quantitative terms, although the level of schools work will reduce with one part time member of staff leaving employment for maternity reasons. Volunteers will undertake some of that role but it is not practical for them to fulfil it all.

## THE ANYWHERE CHURCH TRUST

### TRUSTEES REPORT FOR THE YEAR ENDED 31 MARCH 2007 (cont)

The church plant in ..... will result in approximately 20 people meeting separately and additional time being spent in that community. The church will also start to investigate other ways to assist the poorer sections of the community, both in the financial sense of the word but also in others. It is not clear yet how that may be outworked.

#### **FINANCIAL REVIEW**

The financial reserves of the Church have been strengthened during the year as members have continued to give very generously enabling a sizeable 'surplus' of income over that budgeted, .....

The Trustees have set a policy of retaining reserves sufficient for the foreseeable needs of the Church. Where there is specific capital expenditure foreseen amounts are set aside into designated funds so the free reserves (general reserves excluding amounts invested in assets for the churches use) are available to meet the costs of normal running and expansion of the Church and to ensure the Church can meet the commitments that have been entered into. The level of free reserves are not set as a specific formula, but are anticipated to be between three and twelve months of the level of fixed expenditure (approximately £190,000 pa) over committed income (approximately £100,000 pa). At the year end the level was approximately £77,000 which is at top end of that range. During 2007/08 this will be reviewed to determine if surplus funds have been generated and what action will be undertaken to use these to the greatest effect. Note 9 outlines the details of the funds.

#### **GRANT MAKING POLICY**

Gifts to external organisations and individuals are considered by the Trustees on the basis of need and fulfilment of the charitable objectives. There are no upper or lower limits of support.

#### **RISK MANAGEMENT**

All major insurable risks are subject to normal Churches and employers' insurance. Contractual risks are reviewed before being entered into to assess that they could not significantly impact upon the Churches ability to fulfil its objectives. An annual review of all areas of risk is undertaken by the Trustees in conjunction with staff and volunteers responsible for the area of activity.

#### **STATEMENT OF TRUSTEES RESPONSIBILITIES**

Charity law requires the trustees to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Charity and of the profit and loss of the Charity for that period. In preparing these accounts, the trustees are required to:-

- Select suitable accounting policies and then apply them consistently.
- Make adjustments and estimates that are reasonable and prudent.
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Charity will continue in operation.

The trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Charity and to enable them to ensure that the accounts comply with the Charities Acts. They are also responsible for safeguarding the assets of the Charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The trustees confirm that the accounts comply with current statutory requirements and those of the Charity's trust deed.

**Approved by the Board of Trustees on:**

**and signed on its behalf by**

**ANYWHERE CHURCH TRUST**  
**INDEPENDENT EXAMINER'S REPORT TO THE TRUSTEES**

I report on the accounts of the Trust for the year ended 31 March 2007, which are set out on pages 6 to 13.

**RESPECTIVE RESPONSIBILITIES OF TRUSTEES AND EXAMINER**

As the charity's trustees you are responsible for the preparation of the accounts; you consider that the audit requirement of Section 43(2) of the Charities Act 1993 (the Act) does not apply. It is my responsibility to state, on the basis of procedures specified in the General Directions given by the Charity Commissioners under Section 43(7)(b) of the Act, whether particular matters have come to my attention.

**BASIS OF INDEPENDENT EXAMINER'S REPORT**

My examination was carried out in accordance with the General Directions given by the Charity Commissioners. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeking explanations from you as trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit, and consequently I do not express an audit opinion on the view given by the accounts.

**INDEPENDENT EXAMINER'S STATEMENT**

In connection with my examination, no matter has come to my attention:

1. which gives me reasonable cause to believe that in any material respect the requirements
  - to keep accounting records in accordance with Section 41 of the Act; and
  - to prepare accounts which accord with the accounting records and to comply with the accounting requirements of the Act.have not been met; or
2. to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

**S H MATHEWS FCA**

**2007**

Stewardship,  
PO Box 99  
Loughton, Essex.

**THE ANYWHERE CHURCH TRUST**  
**STATEMENT OF FINANCIAL ACTIVITIES**  
**FOR THE YEAR ENDED 31 MARCH 2007**

	Notes	<u>Unrestricted</u> <u>Funds</u> £	<u>Restricted</u> <u>Funds</u> £	<u>Total</u> <u>2007</u> £	<u>Total</u> <u>2006</u> £
<b><u>INCOMING RESOURCES</u></b>					
Incoming resources from generated funds					
Voluntary income	2a	236,246	18,781	255,027	241,661
Activities for generating funds	2b	-	3,824	3,824	-
Investment income		734	-	734	650
Incoming resources from charitable activities	2c	8,826	-	8,826	11,360
Total incoming resources		245,806	22,605	268,411	253,671
<b><u>RESOURCES EXPENDED</u></b>					
Costs of generating funds					
Costs of generating voluntary income	3a	126	-	126	-
Fundraising costs	3b	575	-	575	-
Charitable activities	3c	212,249	21,249	233,498	178,952
Governance costs	3d	550	-	550	450
Total resources used		213,500	21,249	234,749	179,402
<b><u>NET INCOMING RESOURCES</u></b>		32,306	1,356	33,662	74,269
Funds at 1 April 2006		144,277	2,100	146,377	72,108
<b><u>FUNDS 31 MARCH 2007</u></b>		176,583	3,456	180,039	146,377

There have been no recognised gains or losses, other than the results for the financial year and all profits or losses have been accounted for on an historical cost basis.

*The notes on pages 8 to 13 form part of these accounts*

**THE ANYWHERE CHURCH TRUST**

**BALANCE SHEET AS AT 31 MARCH 2007**

	NOTES	<u>2007</u> £	<u>2006</u> £
<b><u>FIXED ASSETS</u></b>			
Tangible fixed assets	1 & 6	3,145	5,086
<b><u>CURRENT ASSETS</u></b>			
Sundry debtors	7	16,000	36,250
Bank and cash balances		167,695	110,142
		<u>183,695</u>	<u>123,926</u>
<b><u>CURRENT LIABILITIES</u></b>			
Sundry creditors	8	<u>(6,801)</u>	<u>(5,101)</u>
<b><u>NET ASSETS</u></b>			
		<u>£180,039</u>	<u>£146,377</u>
<b><u>FINANCED BY:</u></b>			
Capital fund	9	99,515	49,515
General fund	9	77,068	94,762
Restricted funds	9	3,456	2,100
<b><u>TRUST FUNDS</u></b>			
		<u>£180,039</u>	<u>£146,377</u>

Approved by the Board of Trustees on:-

and signed on its behalf by:-

*The notes on pages 8 to 13 form part of these accounts*

**THE ANYWHERE CHURCH TRUST**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 MARCH 2007**

**1. ACCOUNTING POLICIES**

The accounts have been prepared under the historical cost convention and in accordance with the SORP 2005 on "Accounting and reporting by Charities" and the following are the accounting policies which have been applied in dealing with material items:-

**(a) Donations and Charitable Grant income**

Donated income without conditions attached, including that gifted under gift aid, is taken into account when received by the Charity. Charitable grants which have conditions which have not been fulfilled (as distinct from restrictions on the purpose for which they can be used) are treated as liabilities and only recognised as income when the conditions are achieved. Grants which have service level agreements attached are recognised as income as the relevant services are performed.

Income received in circumstances where a claim for repayment of tax has been or will be made to the HM Revenue & Customs is grossed up for the tax recoverable. Any amount of tax not yet reclaimed from HM Revenue & Customs is shown within the Charity's debtors.

**(b) Donations and charitable grants expenditure**

Donations and charitable grants payable are recognised as expenditure at the earlier of when they are paid and when they are committed to the recipient in a manner which is intended to be acted upon.

**(c) Restricted and unrestricted funds**

Restricted funds are those received for use on specified purposes. Expenditure which meets those criteria is allocated to that fund. Unrestricted funds are those received or generated that can be used for the general purposes of the charity.

**(d) Income and other expenditure**

Interest income is taken into account when receivable and expenditure when incurred by the Charity, regardless of when payment is made.

**(e) Depreciation**

Depreciation is calculated to write off the cost, less estimated residual values of tangible fixed assets over their estimated useful lives to the Charity. The annual depreciation rates and methods are as follows:-

Equipment                      -     Between 3 - 7 years

**(f) Pension commitments**

The charity operates defined contribution arrangements for certain of the staff. Pension contributions are charged as expenditure when paid and are invested separately from the charity's assets.

**THE ANYWHERE CHURCH TRUST**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 MARCH 2007**

**2. INCOMING RESOURCES**

**(a) Voluntary income**

	<b>Unrestricted</b>	<b>Restricted</b>	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
These comprise:-				
Offerings and other gifts	186,115	12,086	198,201	194,440
Grants from other churches	-	3,000	3,000	-
Rent free office space	5,000	-	5,000	-
Tax recoveries	45,131	3,695	48,826	47,221
	<u>236,246</u>	<u>18,781</u>	<u>255,027</u>	<u>241,661</u>

**(b) Activities for generating funds**

	<b>Unrestricted</b>	<b>Restricted</b>	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Sale of donated goods (Romania)	-	3,824	3,824	-
	<u>-</u>	<u>3,824</u>	<u>3,824</u>	<u>-</u>

**(c) Incoming resources from charitable activities**

	<b>Unrestricted</b>	<b>Restricted</b>	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
These comprise: re 'Mothers in Need'				
Grants for services	8,000	-	8,000	10,500
Sale of goods	826	-	826	860
	<u>8,826</u>	<u>-</u>	<u>8,826</u>	<u>11,360</u>

**THE ANYWHERE CHURCH TRUST**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 MARCH 2007**

**3. RESOURCES EXPENDED**

**(a) Costs of generating voluntary income**

One mailing was done to supporters and church members as part of the fundraising for the aid project in Zimbabwe which generated £11,500 of gift income. The direct cost of this exercise was £126.

**(b) Fundraising costs: cost of goods sold and other costs**

The costs relating to the sale of donated goods for the Romanian orphanage project were:

	2007	2006
	£	£
Costs of goods sold – donated goods	-	-
Costs of bought in goods	75	-
Support costs (see note 3e)	500	-
	575	-

**(c) Charitable activities**

An analysis of the charitable activities and their expenditure is as follows:-

	Activities undertaken directly	Grant funding of activities	Support costs (note 3e)	2007 total	2006 total
	£	£	£	£	£
Church teaching and pastoral work	4,231	-	48,162	52,393	48,231
Evangelism (including Alpha)	12,832	-	19,207	32,039	35,028
Youth and schools work	6,561	-	47,163	53,724	33,714
Community support (Mothers in Need)	7,353	800	6,222	14,375	-
Church planting	8,329	1,250	29,670	39,249	7,050
International support	5,328	27,320	9,070	41,718	54,929
	£44,634	£29,370	£159,494	£233,498	£178,952

**(d) Governance costs**

The governance costs represent independent examination charges £550 (2006 - £450).

**THE ANYWHERE CHURCH TRUST**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 MARCH 2007**

**(e) Support costs**

The allocation of support costs has been based on estimated proportion of time costs of the individual members of staff and the expenditure related to their activity. The exception is the property rental which has been allocated to the two activities requiring the space. The method of allocation, although not the underlying proportions used, are consistent with that used for the previous year. The overall allocation is as follows:

	Teaching	Evangelism	Youth	Communty	Church Planting	International support	Fundraising	Total
Ministry and support staff	28,545	12,300	29,000	4,000	19,000	5,800	500	99,145
Property rent & repairs	10,006	4,355	10,271	1,416	6,727	2,045	-	34,820
Hall rent and expenses	3,744	-	1,872	-	-	-	-	5,616
Other administration	3,154	1,378	3,250	448	2,129	661	-	11,020
Sundry costs	972	424	1,000	138	655	204	-	3,393
Depreciation	1,741	750	1,770	220	1,159	360	-	6,000
	<u>£48,162</u>	<u>£19,207</u>	<u>£47,163</u>	<u>£6,222</u>	<u>£29,670</u>	<u>£9,070</u>	<u>£500</u>	<u>£159,994</u>

**(f) Staff and employees**

The average number of full-time equivalent employees during the year was 4 and their total remuneration and benefits in kind for the year amounted to £87,575 (2006 £71,000) and social security contribution to £10,810 (2006 £7,500). No staff received salaries at a rate of more than £60,000 per annum.

4.		Institutions	Individuals	2007	2006
				£	£
	<b>GRANTS PAYABLE</b>				
	International support	27,320	-	27,320	26,504
	Church planting	1,250	-	1,250	3,606
	Community support	-	800	800	-
		<u>£28,570</u>	<u>£800</u>	<u>£29,370</u>	<u>£30,110</u>

The major grants payable in the year were:-

..... £....., (for their general work overseas in supporting church work, especially in special projects among the poor £9,000, and in the UK for church planting £1,250)

.....Church Harare, Zimbabwe £..... (for support of their farming and feeding programs) ,

..... Church Romania (for their orphanage), ..... Church Guadalajara, Mexico £..... (for general funds), ..... Trust Mexico £.... (for their street children's work),

..... Church, Portsmouth, USA £..... (for their leadership development).

**THE ANYWHERE CHURCH TRUST**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 MARCH 2007**

**5. TRUSTEES' EXPENSES**

The trustees receive no remuneration or expenses for acting as trustees. During the year the total of expenses reimbursed to the trustees, incurred in the course of acting as members of the Church, amounted to under £100.

**6. FIXED ASSETS**

Tangible fixed assets comprise:-	Equipment
	£
<b><u>Cost</u></b>	
At 1 April 2006	26,403
Additions	1,505
Disposals	-
At 31 March 2007	27,908
<b><u>Accumulated Depreciation</u></b>	
At 1 April 2006	21,317
Charged in the period	3,446
Disposals	-
At 31 March 2007	24,763
<b><u>Net Book Value 31 March 2007</u></b>	<b>£3,145</b>
<b><u>Net Book Value 1 April 2006</u></b>	<b>£5,086</b>

**7. SUNDRY DEBTORS**

Debtors comprise the following amounts receivable:-

	2007	2006
	£	£
Charitable loans	-	11,250
Tax recoverable	16,000	25,000
	£16,000	£36,250

During 2002, a loan was made to another UK registered charitable trust (The..... Church) for assistance in a building project. The loan is unsecured and interest free and was repaid in full during June 2006.

**THE ANYWHERE CHURCH TRUST**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 MARCH 2007**

**8. SHORT TERM CREDITORS**

Short term creditors comprise the following amounts payable:-

	2007	2006
	£	£
Deferred income	3,000	-
Ordinary suppliers	835	1,351
PAYE and NIC	1,766	1,250
Accruals	1,200	2,500
	£6,801	£5,101

**9. CAPITAL FUND AND RESTRICTED FUNDS**

The capital fund is an unrestricted fund designated by the Trustees to allow for the purchase of capital assets, such as equipment and property, in the future. There is the probability that new premises will be needed within the foreseeable future and a fund of approximately £100,000 is thought to be required to either act as deposit for a freehold or for conversion of leasehold premises.

The restricted funds represent amounts received specifically for work overseas and for the church plant in .....

	1 April 2006	Income	Expenditure	Transfers	31 March 2007
	£	£	£	£	£
Capital fund	49,515	-	-	50,000	99,515
General fund	94,762	245,806	213,500	(50,000)	77,068
	<b>144,277</b>	<b>245,806</b>	<b>213,500</b>	-	<b>176,583</b>
Overseas support fund	2,100	9,404	10,504	-	1,000
Church planting fund	-	13,201	10,745	-	2,456
	<b>2,100</b>	<b>22,605</b>	<b>21,249</b>	-	<b>3,456</b>
Combined	<b>£146,377</b>	<b>£268,411</b>	<b>£234,749</b>	-	<b>£180,039</b>

The assets and liabilities representing each fund are as follows:

	Fixed assets	Bank balances	Other net current assets	Combined
	£	£	£	£
Capital fund	-	99,515	-	99,515
General fund	3,145	64,724	9,199	77,068
Restricted funds	-	3,456	-	3,456
	£3,145	£167,695	£9,199	£180,039