

**ACCOUNTING AND REPORTING  
REGULATIONS  
FOR ENGLISH ANGLICAN CATHEDRALS**  
prepared by the  
**CATHEDRALS ADMINISTRATION AND FINANCE ASSOCIATION**  
in conjunction with the  
**ASSOCIATION OF ENGLISH CATHEDRALS**  
and specified by the  
**CHURCH COMMISSIONERS**  
under Section 27 of the  
**Cathedrals Measure 1999**

February 2015

Copies of these regulations may be downloaded from  
**The Association of English Cathedrals website:**

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# 1 INTRODUCTION

## 1.1 Statement by the Church Commissioners

With the support of the Cathedrals Administration and Finance Association and the Association of English Cathedrals, the Church Commissioners have specified under section 27 of the Cathedrals Measure 1999 what constitutes best professional practice and standards relating to the report and accounts of any cathedral to which the Measure applies. The Chapter of any such cathedral shall:

- prepare accounts (incorporating an annual report) which give a true and fair view of the state of affairs of the cathedral and its connected entities at the end of its financial year and of their financial activities for that year. The accounts are to comply in all material respects with the December 2014 Accounting and Reporting Regulations for English Anglican Cathedrals and
- state, in the notes to the accounts, that the accounts so comply or describe which requirements have not been complied with and give reasons for the non-compliance.

These requirements apply to all financial years commencing on or after 1 January 2015

## 1.2 Preface

- 1.2.1 In August 1996 the Association of English Cathedrals (AEC) published Guidelines on English Anglican Cathedral Accounts. At the request of the AEC the Church Commissioners prescribed, under section 38 of the Cathedrals Measure 1963, the form in which the accounts of a cathedral were to be prepared. They were to give a true and fair view of the state of affairs of the cathedral and its connected entities at the end of its financial year and of their financial activities for that year. To achieve this they were to comply in all material respects with the guidelines.
- 1.2.2 In March 2002, revised guidelines were specified. The guidelines were updated in the light of experience of their use and of further developments in accountancy practice, notably new and revised Financial Reporting Standards, the pronouncements of the Urgent Issues Task Force and the revised Statement of Recommended Practice “Accounting and Reporting by Charities” issued by the Charity Commission in October 2000. The November 2006 Regulations took into account the requirements of the Charities SORP 2005. These December 2014 Regulations have been specified to take into account the Charities SORP (FRS 102).
- 1.2.3 In respect of the accounts of their corporate property held for ecclesiastical purposes, Chapters are, by virtue of Part 1 Chapter 2 section 10(2) of the Charities Act 2011, subject not to the Charities (Accounts and Reports) Regulations 2008 (which enforce the Charities SORP (FRS 102) but to any specification as to what constitutes best professional practice and standards relating to the report and accounts made by the Church Commissioners under section 27 of the Cathedrals Measure 1999. In specifying these regulations, the Church Commissioners have recognised that cathedrals, although not within the Charity Commission’s regulatory framework, are charities and that therefore the regulations should accord with the Charities SORP wherever relevant. The relationship with the Charities SORP is described on page eight. Any additional requirements created by the regulations either reflect specific legislation applicable to cathedrals or are, in the opinion of the Church Commissioners, necessary in the context of cathedral accounting.
- 1.2.4 In respect of any corporate property held for non-ecclesiastical purposes (for example, schools), Chapters may be within the Charity Commission’s regulatory framework. In respect of registered charities of which they are trustees, Chapters are within the Charity Commission’s regulatory framework.

### **1.3 The Regulations, a true and fair view and the relationship with other pronouncements**

- 1.3.1 The Cathedrals Measure 1999 requires the Chapter of each cathedral to which the Measure applies to prepare an annual report and audited accounts which show a true and fair view of the transactions throughout the year and of the position at the end of the year in accordance with best professional practice and standards. Those standards are currently embodied in the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council in 2013 referred to as FRS 102. The Cathedrals Measure 1999 empowers the Church Commissioners to specify what constitutes best professional practice and standards relating to the report and accounts. With the support of CAFA and the AEC, the Church Commissioners have specified the form of accounts to be used.
- 1.3.2 These regulations are applicable to a Chapter's corporate property held for ecclesiastical purposes. To the extent that a Chapter controls any other property which is for the benefit of the cathedral and which falls within the ambit of the Charities Acts, or any other legislation, then the accounts relating to any such property must be prepared in accordance with the appropriate legislation and SORPs in addition to the relevant information being included in the consolidated accounts prepared in accordance with these regulations. The regulations specify that a cathedral's accounts must also contain information about related trusts and other entities which are for the benefit of the cathedral's ministry.
- 1.3.3 A cathedral's accounts are intended to give a true and fair view. They must be prepared on the going concern assumption and the accruals concept and they must be prepared in accordance with Financial Reporting Standard FRS 102.

Some cathedrals may meet the eligibility criteria for using the Financial Reporting Standard for Smaller Entities (the FRSSSE). However, in drawing up these Regulations, the desirability of all cathedrals adhering to the same framework and taking cognisance that the FRSSSE is due to be replaced in the near future, it was decided that all cathedrals should comply with FRS 102.

- 1.3.4 The regulations detail the application of the Charities SORP (FRS 102) to cathedral accounts and also provide for certain additional disclosures relevant in the context of cathedral accounting. The Charity Commission recognises that the recommendations of the SORP should be adapted to meet legislative requirements and, as such, are subordinate to any specific guidance provided under section 27(2) of the Cathedrals Measure 1999.
- 1.3.5 For most cathedrals these regulations provide all the guidance required in order that the accounts should give a true and fair view, but reference to the Charities SORP (FRS 102) may be required, particularly where cathedrals have activities or property for which the accounting treatment will be more fully described in the SORP. It may be necessary, in some circumstances, to provide information additional to that specified in the regulations, in order to give a true and fair view. Should it be necessary to depart from the regulations in order to give a true and fair view, the reasons for it, and its estimated financial effect on the accounts, must be disclosed in a prominent note to the accounts.

- 1.3.6 Throughout these regulations, the words ‘must’, ‘should’ and ‘may’ distinguish, as they do in the SORP (FRS102), those requirements which must be followed and those recommendations that should be followed as best practice.

The term ‘must’ is used to indicate elements that are important to the reader of the annual report that must be included within the report or to identify particular accounting treatments, disclosures or presentational requirements that are likely to affect the ability of the accounts to give a true and fair view if not applied to material transactions or items. Failure to follow a ‘must’ recommendation is a departure from these regulations.

The term ‘should’ is used for an item in the annual report or the accounts for those recommendations aimed at advancing standards of financial reporting as a matter of good practice. A failure to follow a ‘should’ recommendation with respect to the report or accounts is not regarded as a departure from these regulations.

The term ‘may’ is used for an item in the annual report or an approach to a particular disclosure that a cathedral may choose to adopt or identifies that an alternative accounting treatment or disclosure of a transaction or event is allowed by the regulations. Cathedrals may choose whether such examples of alternative treatments are adopted at their discretion.

The regulations describe the minimum amount of information to be included in a cathedral’s report and accounts. They should not be construed as preventing the provision of additional information if this is thought desirable or where it is required under a cathedral’s own statutes.

#### 1.4 Key to Abbreviations used

AEC	Association of English Cathedrals
CAFA	Cathedrals Administration and Finance Association
FRC	Financial Reporting Council
FRS	Financial Reporting Standard issued by the FRC
FRSSE	Financial Reporting Standard for Smaller Entities
SOFA	Statement of Financial Activities
SORP	Statement of Recommended Practice

## 2 GENERAL

### 2.1 Materiality [SORP 3.15-3.19]

The SORP (FRS 102) and these regulations set certain accounting treatments and disclosures in the context of their materiality. Cathedrals in preparing their accounts should give particular consideration to material items or transactions as their omission or misstatement could influence economic decision-making by the user of the accounts and any assessment of the stewardship of cathedral funds. An omission or misstatement of a material item may result in the accounts failing to give a true and fair view.

Materiality needs to be considered in the context of the accounts and depends on:

- the size of the item;
- the nature of the item or error;
- the impact of its omission or misstatement on the reported gross income or total expenditure and net assets; and
- the impact of its omission or misstatement on particular analysis headings within the statement of financial activities, balance sheet and, where applicable, statement of cash flows and on the disclosures made in the notes to the accounts.

Cathedrals should only disclose accounting policies that apply to material items or transactions. Cathedrals should avoid providing unnecessary information for non-material items or transactions.

Although the SORP (FRS 102) and these regulations need only be applied to material items or transactions, it is inappropriate to make, or leave uncorrected, immaterial departures from these guidelines to achieve a particular presentation of a cathedral's financial position, financial performance or cash flows.

These regulations specify when a cathedral must always consider a particular item or transaction material, for example the disclosure of related party transactions.

Chapter is responsible for deciding whether an item is or is not material. In cases of doubt an item should be treated as material.

## **2.2 Content and purposes of the report and accounts prepared under these regulations**

2.2.1 The report and accounts must give a true and fair view of the Chapter's stewardship of the resources which are under its control and are for the benefit of the cathedral's ministry. They must also contain information about those trusts and other connected entities, which are for the benefit of the cathedral but not under the control of the Chapter, e.g. Friends.

2.2.2 The cathedral's annual report and accounts must contain the following statements:

- Annual report
- Report of the auditors
- Consolidated statement of financial activities (SOFA)
- Consolidated balance sheet
- Entity only balance sheet
- Cash flow statement
- Accounting policies
- Notes to the accounts.

2.2.3 Consistency of treatment and presentation between cathedrals and from year to year will be helpful to users of a cathedral's annual report and accounts who want to make comparisons between cathedrals or to inform decisions on the allocation of grants between them (e.g. Heritage Lottery Fund, English Heritage, the Church Commissioners).

## **2.3 Users of the report and accounts**

In preparing its annual report and accounts the Chapter should consider the needs of those who will use them. Such users will include:

- the Council, the Chapter and the College of Canons
- the cathedral community and congregation
- the Church Commissioners
- the Association of English Cathedrals
- diocesan bodies
- funding providers
- other cathedrals
- grant providers and lenders of funds
- the general public

## **2.4 Summary Accounts**

Some users may prefer summary accounts to the cathedral's full annual report and accounts. This subject is considered in section 10.

## **2.5 Comparative figures**

For every item shown in the cathedral's SOFA, balance sheet and cash flow statement, either on the face of the relevant statement or in the notes thereto, the corresponding amount for the preceding financial year must be shown.

Comparative information provided for the separate classes of funds, if any, held by a cathedral may be presented either on the face of the SOFA or prominently in the notes to the accounts. Where that corresponding amount is not comparable with the amount for the current year, the amount previously disclosed must be adjusted and particulars of the adjustment and the reasons for it should be disclosed in a note to the accounts.

## **2.6 Funds**

2.6.1 Funds must be analysed in the SOFA and on the balance sheet between

- unrestricted,
- designated (if disclosed separately: see paragraph 6.2),
- restricted (also known as special trusts in England & Wales) and
- endowment (capital) - expendable or permanent.

Separate sets of statements may be produced for each major fund and linked to a total summary. The Chapter should decide on the most suitable form of presentation.

2.6.2 Appendix 1 explains the legal position relating to these funds.

## **2.7 Audit**

2.7.1 The accounts must be independently audited by an auditor who is a firm or individual who may, under section 144(2) of the Charities Act 2011, audit the accounts of a charity. A partner or employee of the auditor should not be a member of any of the bodies comprising the corporate body.

2.7.2 The auditor's terms of engagement should be agreed in writing with the Chapter of the cathedral, at least every three years.

2.7.3 The audit should be conducted in accordance with Practice Note 11 (Revised): The Audit of Charities, issued by the Auditing Practices Board. The report of the auditor should be addressed to the members of the Chapter of the cathedral.

2.7.4 The auditor will produce a management letter addressed to the Chapter at the conclusion of each year's audit or the confirmation that none is required. This should be presented to a meeting of Chapter.

## **2.8 Approval**

2.8.1 The cathedral's accounts must be approved by the Chapter of the cathedral and the balance sheet signed and dated on its behalf by the Dean (or acting Dean) and another authorised member of Chapter.

2.8.2 The annual report must be dated and signed by the Dean (or acting Dean) on behalf of the Chapter.

## 2.9 Publication

The annual report and accounts must be audited, approved and published within seven months of the end of the financial year end. The Cathedrals Measure 1999 requires that:

- the availability of the accounts must be publicised by such means as prominent notices in the cathedral; and
- the accounts must be sent to the Church Commissioners and anyone who requests a copy.

### **3 ENTITIES TO BE INCLUDED IN A CATHEDRAL'S CONSOLIDATED ACCOUNTS**

#### **3.1 General**

In order to give a comprehensive and realistic picture of all the resources available to the Chapter in its running of the cathedral, it is necessary to prepare accounts which deal not only with the cathedral entity, but also other entities that are analogous to the subsidiaries and associates of a commercial company. These are called connected entities and are all those trusts, companies or other entities which are either:

- controlled by the Chapter; or,
- if not controlled by the Chapter, for the benefit of the cathedral (in whole or in part, or where the benefit is discretionary).

Associates and joint ventures which are for the benefit of a cathedral are also connected entities.

#### **3.2 Aggregation into a cathedral's entity only accounts**

Section 12 of the Charities Act 2011 is clear that special trusts administered by a charity for any special purposes of the charity do not constitute a separate charity for the purposes of the charity accounting regulations. These regulations require the same approach to be taken towards trusts administered by the Chapter which exist for a purpose which is also a purpose or objective of the cathedral. An example is an appeal fund for, say, cathedral restoration, which is administered by the Chapter or their appointees, whether or not it is registered with the Charity Commission. Such trusts must be regarded as part of the cathedral entity and included in restricted funds in the entity only, as well as the consolidated, accounts.

#### **3.3 Consolidation**

Where appropriate (see sections 3.4 to 3.6) shops, restaurants and other non-charitable trading entities, and charitable entities, which benefit the cathedral's ministry and are controlled by the Chapter should be consolidated on a line-by-line basis as set out in FRS 102, i.e.

- in the statement of financial activities, in place of any amount received or receivable from the entity, should be shown the entity's income and expenditure consolidated on a line by line basis; and
- in the balance sheet, in place of the cathedral's investment in the entity, should be shown the entity's assets and liabilities consolidated on a line-by-line basis.

#### **3.4 Tests for aggregation and consolidation**

- 3.4.1 It would be incorrect to aggregate or consolidate entities which, although for the benefit of the cathedral, are not controlled by the Chapter. However, information about such entities is necessary in order to give a rounded view of the resources

potentially available and so supplementary information about such entities should be included in the notes to the cathedral's consolidated accounts, as set out in paragraphs 3.10.2 and 3.10.3.

3.4.2 In deciding which entities to include in a cathedral's entity only and consolidated accounts, and what information to provide about them, two factors require consideration each year:

- Does the Chapter control the entity?
- To what extent is the entity for the benefit of the cathedral's ministry?

### 3.5 Control

Control, in the context of the relationship between the Chapter and a connected entity, means the ability to govern the financial and operating policies of the other entity with a view to benefiting from its activities. Control is made up of two elements: power and benefit. The underlying principle is that the parent charity exercises control to obtain benefit from its interest in the subsidiary. The cathedral is deemed to exercise control over a subsidiary if it has both the power to govern and the ability to benefit. The power element is presumed to exist when the parent charity owns, directly or indirectly through its subsidiaries, more than half of the voting power of an entity. However, control can also exist when the parent charity directly or indirectly controls half or less than half of the voting power of an entity, if it has:

- Power over more than half of the voting rights by virtue of agreement with other investors
- The power to govern the financial and operating policies of the entity under a statute or an agreement
- The power to appoint or remove the majority of the members of the board of directors or equivalent governing body, and control of the entity is by that board or body; or
- The power to cast the majority of votes at the meetings of the board of directors or equivalent governing body, and control of the entity is by that board or body.

The nature of the control a parent charity exercises differs in its character between non-charitable subsidiaries and controlled charities. Where a charity exercises control as an owner or investor in a non-charitable subsidiary, it does so to benefit from the cash flows and the financial return from that investment.

The parent charity can exercise control through trusteeship, which gives a parent charity the ability to govern the financial and operating policies of the subsidiary charity. The consolidated accounts show the total funds under the trusteeship of the parent charity.

The power element of control of one charity by another can be identified through:

- sole trusteeship;
- powers to appoint and/or remove a majority of the trustees;
- the terms of a formal agreement or arrangement; or
- the provisions of a clause in the governing document or a legislative provision.

Having trustees in common does not in itself demonstrate that the power element is present. Also, simply being the sole or main funder of another charity or entity is insufficient to demonstrate that the power element is present. While the funding of one charity by another indicates a degree of concurrence of purposes, for control to exist the power element must be present.

### **3.6 Methods of accounting for entities controlled by the Chapter**

#### **3.6.1 Wholly for the benefit of the cathedral's ministry**

"For the benefit of the cathedral's ministry" means for the direct or indirect benefit of the physical fabric of the cathedral or its community or any of the activities normally and usually carried out by a cathedral (e.g., the conduct of services, including the provision of music, charitable giving, social welfare, providing for visitors and tourists, education, fund raising for the cathedral, providing services to the diocese). If such an entity is a special trust as defined in paragraph 3.2, its results must be included in restricted funds in the cathedral's entity only and consolidated accounts. Other entities should be consolidated.

#### **3.6.2 Partially for the benefit of the cathedral's ministry**

"Partially for the benefit of the cathedral's ministry" means partly for the benefit of the cathedral and partly for the benefit of other parties. The extent of the cathedral's financial benefit is predetermined (by a fixed proportion or amount) and not discretionary. This situation is likely to arise in two circumstances:

- where the Chapter is trustee of a trust set up to benefit the cathedral and a non-cathedral purpose (for example, an appeal where it is stated that, say, 75% of the money will go to the cathedral restoration and 25% to some other purpose not benefiting the cathedral's ministry). This situation would require specific terms in the governing document or appeal specifying the allocation of income (and of assets in the event of winding up) and is therefore unlikely to be frequently encountered. Such a trust would be registered with the Charity Commission and separate accounts would be prepared for it in accordance with the Charities SORP. In the cathedral accounts the gross equity method (as defined in FRS 102) should be used to include, in the consolidated statement of financial activities, the cathedral's share of the gross income, of net income and of any gains or losses on sales and revaluations of assets and, in the consolidated balance sheet, the cathedral's share of gross assets and gross liabilities. Where the income or net assets are restricted to particular purposes then the presentation will be as restricted funds. This method is described in Module 24 of the Charities SORP (FRS 102).
- where the chapter holds a majority of the voting rights (but less than 100% of the shares) in a trading subsidiary. In this case consolidation (showing a minority interest) under the normal rules of FRS 102 is required.

### 3.6.3 Benefit discretionary

"Benefit discretionary" means that the extent to which the trust or fund benefits the cathedral is entirely within the Chapter's discretion. In such situations the objectives of the trust, while allowing support of the cathedral's ministry, would also allow other purposes to benefit. The allocation of income to the cathedral or the other purposes would be at the discretion of the Chapter. Because of the potential conflicts of interests this will be an unusual eventuality. For such an entity full consolidation is required. ("Benefit discretionary" is not the correct classification where an entity is wholly or partially for the benefit of the cathedral and its trustees or directors have discretion only as to what aspects of the cathedral should benefit and/or the timing of the benefits. Such an entity remains wholly or partially for the benefit of the cathedral.)

### 3.6.4 No benefit

Some entities can be controlled by the Chapter but are not for the benefit of the cathedral (e.g. almshouses, or a school, but see section 3.10). For such entities, separate accounts should be prepared under the relevant requirements and they should also be listed in a note to the cathedral's accounts together with a statement that their activities have not been included in the accounts.

### 3.6.5 Summary of the accounting treatment of connected entities

In summary, the accounting treatment of, and the information provided on, connected entities should be as follows:

Level of benefit to the cathedral's ministry	Controlled by the Chapter?	
	Yes	No
Whole	A or C + L	I + S + L
Partial	GE + L	I + S + L
Discretionary	U (C + L)	I + L
None	L	

- A = Aggregate (applicable to special trusts)
- C = Consolidate
- GE = Gross equity account (applicable to trusts with specific distribution provisions)
- I = Include only income receivable
- L = List in the notes to the cathedral's accounts
- S = Provide supplementary information
- U = Unlikely to occur because of potential conflicts of interest. If it does occur, then consolidate and list.

### **3.6.6 Joint Ventures**

These are entities formed to carry out a (usually trading) venture jointly with another party or parties and in which control is shared. The cathedral should use the gross equity method (as defined in FRS 102) to disclose, in the consolidated SOFA, its share of turnover, net income and any gains or losses on sales and revaluations of assets and, in the consolidated balance sheet, its share of gross assets and gross liabilities. This method is described in Module 29 of the Charities SORP (FRS 102).

### **3.6.7 Associates**

These are entities in which the Chapter holds a participating interest (i.e. more than just a shareholding) and uses it to exercise significant management influence. The cathedral should use the net equity method (as defined in FRS 102) to disclose, in the consolidated SOFA, its share of the associate's net operating profit or loss and of any other gains or losses as a separate line in the consolidated SOFA under either 'income', if a gain or 'expenditure', if a loss and, in the consolidated balance sheet, its share of the associate's net assets. This method is described in Module 28 of the Charities SORP (FRS 102).

## **3.7 Non-coterminous year ends of entities included in a cathedral's consolidated accounts**

The Chapter should ensure that all material entities to be included in the cathedral's accounts prepare their audited accounts for the same period and to the same date and using the same accounting policies. If that is not possible then the audited accounts of the entity concerned for the year that ended in the three months prior to the date of the cathedral's accounts should be used and the period covered by them should be disclosed. These financial statements should be adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

If there are no such accounts, then the cathedral should use special interim accounts prepared by the entity concerned for the same year as the cathedral. If that is not possible, then the most recently available accounts for the entity should be used and the period covered by them should be disclosed.

## **3.8 Entities not controlled by the cathedral**

Only income receivable should be included in the cathedral's accounts from entities not controlled by the Chapter: e.g. the Friends of the Cathedral, or an appeal or other trust with independent trustees. This does not include appeals managed by fundraisers or agents on behalf of the Chapter.

## **3.9 Accounting for funds held as agent or as a custodian trustee**

**3.9.1** If a Cathedral acts as an agent during the reporting period, it must disclose in the notes to the accounts:

- An analysis of funds received and paid by the charity as agent

- Details of any balances held as agent at the reporting date
- Details of any balances outstanding between any participating consortium members for which it is administratively responsible; and
- Where funds held as agent for related parties the charity must make the required disclosures for related parties.

3.9.2 A cathedral may also act as custodian trustee holding the title to property belonging to another charity on its behalf. Property held as custodian does not belong to the custodian trustee and so is not a component of the custodian trustee's assets, income or expenditure in the reporting period.

These regulations require that a cathedral that has acted as custodian trustee during the reporting period must disclose in the Chapter's annual report or as a note to the accounts:

- a description of the assets, classes of assets or categories of assets which it holds in this capacity;
- the name and objects of the charity (or charities) on whose behalf the assets are held and how this activity falls within the custodian charity's objects; and
- details of the arrangements for safe custody and segregation of such assets from the charity's own assets.

### 3.10 Supplementary information

3.10.1 Connected entities must be listed in the notes to the cathedral's consolidated accounts. Similar entities may be grouped; only material entities should be disclosed separately. For each material connected entity the list should state its name, its relationship with the cathedral and the degree of control exercised, an indication of its economic importance to the cathedral (e.g. its capital, turnover and results) and particulars of any audit qualification. The list should indicate how each entity has been dealt with in the cathedral's accounts (e.g. aggregated, consolidated, gross equity accounted, equity accounted, only income receivable credited, or excluded). To the extent that any entity has a material impact on a cathedral's finances, it should be covered in the annual report and commentary on the accounts.

3.10.2 In the case of non-controlled entities, only income receivable for the year is to be included in the cathedral's accounts. As this figure has the potential to fluctuate considerably from one year to another, it may by itself give a misleading picture of the longer-term benefit to the cathedral from such entities. For entities not controlled by the cathedral but wholly or principally for its financial benefit (e.g. Friends), cathedrals must disclose summarised accounts for each material entity, giving:

- gross income
- net income
- amount paid or payable to the cathedral (i.e. the amount included in the cathedral's consolidated accounts)
- gross assets and
- net assets.

There should also be an indication as to whether the relevant accounts have been audited. If the audit report was qualified or contained an explanatory paragraph, the nature of the qualification or explanation should be disclosed.

3.10.3 In order to put the year's income from other non-controlled entities into a broader context, the income receivable from the entity in the current year and the previous two years and any income promised for the next year must be provided.

### 3.11 Choir school

3.11.1 Each cathedral with a choir or other related school must decide into which of the categories summarised in paragraph 3.6.5 the school best fits and should disclose the treatment adopted. It is not possible to say categorically whether schools should or should not be consolidated; the following points may help in determining this:

- the primary determinants are control and purpose
- the corporate structure (i.e. trust, limited company etc.) of the school is not a determining factor
- ownership without control (unlikely but possible) does not permit consolidation.
- if the Chapter controls the school (either by having the right to appoint a majority of the directors or governors or because the school's governing document gives the Chapter significant powers), consolidation is required if:
  - the Chapter regards the running of the school as part of the ministry of the cathedral; or
  - any financial surplus can be passed to the cathedral
- if any ultimate deficit must be borne by the cathedral, this means that the school must be included in the cathedral's entity accounts (see paragraph 3.2).

3.11.2 Where a school, even though controlled by the Chapter, is not considered to be part of the cathedral's ministry and the cathedral has no right to any financial surplus nor obligation in relation to any financial deficit, then the school's results should not be consolidated and any contribution and/or fees paid to the school will be shown in the statement of financial activities under music or education as appropriate.

3.11.3 If the school buildings are owned by the Chapter and the school is classified as being "not for the benefit of the cathedral" then those buildings must be treated as a separately disclosed investment property and the rent receivable shown as a separately disclosed part of property income (see paragraph 7.3.6).

## 4 THE ANNUAL REPORT

### 4.1 General

The cathedral's annual report should be produced in a format appropriate to the cathedral concerned. It must contain a review of activities and commentary on the accounts that provides an objective discussion that analyses and explains the main features underlying the financial results and position. Many of the users of cathedrals' accounts are not versed in understanding accounts. For them, the report should make the accounts intelligible. For the Chapter, it provides an opportunity to explain in clear and simple terms what has happened over the past year, its future plans and the resources needed.

### 4.2 Objectives and activities

4.2.1 The report provides information intended to help the user understand how the cathedral's aims fulfill its legal purpose, the activities it undertakes and what it has achieved. The report must set out the cathedral's mission statement and summarise the ways in which the Chapter implements it. The main priorities for the year should be outlined in the report; this information could come from the management plan. There should be reference to the plans for the next year as reported in the previous year (see paragraph 4.5) and comments given for any substantial changes.

4.2.2 Although cathedrals are not regulated by the Charity Commission these regulations require that a cathedral must explain the main activities undertaken to further the cathedral's purposes for the public benefit and to include in its report a statement confirming that the Chapter has had regard to the Charity Commission's guidance on public benefit.

4.2.3 Good reporting provides a coherent explanation of the cathedral's strategies for achieving its aims and objectives and explains how the activities it undertook contributed to their achievement. The report must provide an explanation of:

- Its aims, including the issues it seeks to tackle and the changes or differences it seeks to make through its activities;
- How the achievement of its aims will further its legal purposes;
- Its strategies for achieving its stated aims and objectives;
- The criteria or measures it uses to assess success in the reporting period; and
- The significant activities undertaken, explaining how they contribute to the achievement of its stated aims and objectives.

The review of the activities of the cathedral must include all material entities included in the consolidated accounts. The activities included in the report should, as a minimum, include those listed on the face of the SOFA under 'Expenditure' as well as any particularly significant items in the supporting notes. Accordingly, the following headings would normally be included in this section under significant activities undertaken:

- Ministry
- Cathedrals and precincts upkeep
- Education and outreach

- Community, parish and congregation
- Additions to cathedral buildings
- Additions to statutory inventory, and disposals from it (paragraphs 7.2.4 to 7.2.5).

Within these headings it may be appropriate to comment on:

- Cathedral events
- Diocesan events in the cathedral
- The number attending services, and the number and type of services and other events held
- The numbers of visitors
- The extent of diocesan and other extra-cathedral activities undertaken by cathedral clergy and staff. There should be no notional charge in the accounts for the time spent on extra-cathedral activities. If actual income is received, then it should be shown under an appropriate heading.
- The use of volunteers by the Cathedral should be explained. Whilst it is not practicable for an economic value to be attached to the work of volunteers, it is nevertheless important for readers to be supplied with sufficient information to understand the role and contribution of volunteers.

### **4.3 Achievements and performance**

4.3.1 Progress on achieving the main priorities must be reported, include a description of how success is assessed, and quantified if appropriate.

4.3.2 This section should also include reports on the following, if applicable:

- The nature of any important events affecting the cathedral
- A statement covering the progress of raising and spending money on major appeals
- Major works to the fabric of the cathedral
- If relevant, an explanation of the cathedral's social investment policy and how it contributed to achieving aims and objectives
- Investment policy and performance against that policy and against appropriate benchmarks

### **4.4 Financial review**

4.4.1 The report must contain a review of the financial position of the cathedral and the other entities consolidated with it. Statements to be included are:

- A statement of the cathedral's policies in relation to its reserves held in its unrestricted funds and their purposes (i.e. how they came into existence and what they are now for)
- A comparison of the level of reserves compared to the policy and an explanation of the steps being taken to bring the reserves into line
- Where funds are in deficit an explanation why they are in deficit and the steps being taken to eliminate the deficit
- If relevant, an explanation of the financial effects of significant events

- Explain any material designated funds and when it is expected they will be spent
- In respect of stock exchange investments, a commentary should be given on the performance and management of the cathedral's investments in the context of the movements in the relevant stock market indices and inflation
- A description of the principal risks and uncertainties facing the cathedral and its subsidiary undertakings, as identified by the Chapter, together with a summary of its plans and strategies for managing those risks.

#### 4.4.2 Further items on which it may be appropriate to comment include:

- The level of voluntary income, both from the congregation and from other gifts
- Major sources of finance (e.g. legacies, grants)
- The results of trading operations
- Property (see section 7.3)
- The extent of any material donated assets, goods or services, and how they have been dealt with in the accounts (see paragraph 6.1)
- The level of maintenance overhang
- The date of the last quinquennial and when the next is due.

#### 4.4.3 Chapters which adopt the total return approach to investments must refer to Appendix 4 for details of the disclosures required in the Annual Report.

### 4.5 Plans for future periods

The report must provide a summary of the cathedral's plans for the future, including its aims and objectives and details of any activities planned to achieve them.

The report should explain the Chapter's perspective of the future direction of the cathedral. It should explain, where relevant, how experience gained or lessons learned from past or current activities have influenced future plans and decisions about allocating resources to their best effect.

### 4.6 Structure, governance and management

#### 4.6.1 The following information must be included in the Annual Report:

- The nature and date(s) of the cathedral's governing statute(s)
- State that the cathedral is an ecclesiastical corporation
- A description of the role of the cathedral within the diocese
- A description of the organisational structure of the cathedral and how the cathedral is managed. This will need a description of the three institutions (the Council, the Chapter and the College of Canons) comprising the corporate body and of the Finance Committee. The roles of each, and of the Bishop, as set out in paragraphs 3, 4, 5 and 9 of the Cathedrals Measure 1999, should be briefly explained. It is not required to name any individual (except as required by paragraph 4.7), though some might wish to do so.

- A statement regarding the relationships between the cathedral and other organisations with which it co-operates in the pursuit of its objectives
- Details of the method of appointing members of Chapter indicating who is entitled to appoint
- Policies and procedures adopted for the induction and training of new members of Chapter
- A description of how decisions are made, e.g. which type of decisions are taken by Chapter and which are delegated to staff
- Changes in senior clerical and lay appointments
- A disclosure on Chapter's arrangements for setting the pay and remuneration of key senior staff and any benchmarks, parameters or criteria used in setting their pay
- A statement of the responsibilities of the Chapter (see paragraph 4.6.2 for an illustrative statement)
- If relevant, a summary of the cathedral's investment powers given by the Cathedrals Measure 1999 (see paragraph 4.6.3 for the relevant section of the Measure).

#### 4.6.2 Illustrative Statement of the Responsibilities of the Chapter

The Chapter is responsible under requirements laid down by the Church Commissioners under the powers given to them by Section 27 of the Cathedrals Measure 1999 for:

- preparing and publishing an annual report and audited accounts which give a true and fair view of the financial activities for each financial year and of the assets, liabilities and funds at the end of each financial year of the cathedral and its connected entities
- stating that they have complied in all material respects with these regulations or describing which regulations have not been complied with and giving reasons for the non-compliance
- selecting suitable accounting policies and then applying them consistently
- making judgements and estimates that are reasonable and prudent
- keeping proper accounting records from which the financial position of the cathedral can be ascertained with reasonable accuracy at any time, and
- safeguarding the assets of the cathedral and taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### 4.6.3 The Investment Powers given by section 16 of the Cathedrals Measure 1999

Cathedrals with land and investments on their balance sheet must provide a note of their investment powers. These are set out in section 16 of the Cathedrals Measure 1999 and may be summarised as follows:

##### Investment Powers

Under the Cathedrals Measure 1999 the Chapter may invest the cathedral's funds in any of the following:

- Land

- Funds administered for the Central Board of Finance of the Church of England by CCLA Investment Management Ltd.
- Investments in which trustees may invest under the general power of investment in the Trustee Act 2000
- The improvement or development of property belonging to the cathedral, except that endowment funds may not be used to improve or develop the cathedral itself and its ancillary buildings unless a total return approach under the Church of England (Miscellaneous Provisions) Measure 2014 has been adopted.

#### 4.7 Reference and administrative details

The cathedral's annual report must contain the following information:

- The full legal name of the cathedral and any other name commonly used
- The address of the cathedral office
- The names of the members of the Chapter and the executive posts held by them \*
- The name of the administrator
- The names of the surveyor to the fabric (being the architect appointed under the Care of Cathedrals Measure 1990) and the archaeologist
- The names of the members of the finance committee \*
- The names of the members of the fabric advisory committee \*
- The name of the director of music or organist
- The name and address of the cathedral auditors
- The names and addresses of the cathedral's bankers, solicitors, accountants, investment managers, architects; and any other professional advisors used during the year.
- Details of any funds held as a custodian trustee on behalf of others

\* on the date the report was approved and also those who retired or resigned since the start of the relevant financial year

## **5 ACCOUNTS FORMAT**

### **5.1 General**

Sources and applications of funds, assets and liabilities and cash flow must be shown under the headings and in the order in the examples in sections 6.2, 7.18, 7.19 and 8.6. A further analysis of any material item in the statement of financial activities or balance sheet should be provided in the notes. Individual items may be shown either on the face of the relevant statement or in the notes to the accounts with an aggregation of similar items on the face of the relevant statement.

### **5.2 Accounting policies to be disclosed**

Cathedrals must describe, in a note to the accounts, the accounting policies that have been followed in their preparation, and in particular should state whether they have been drawn up in accordance with these regulations, and applicable accounting standards. FRS 102 explains how accounting policies should be determined. Any departures from these regulations, or FRS 102, must be justified and explained and the financial effect quantified. Examples of accounting policies which are especially relevant to cathedrals and which should be described, where the amounts in the current or preceding year are material, include the following:

- Funds
- Third party, and non cash, receipts and payments, and donated assets
- Legacies
- Repairs, restoration and maintenance of the cathedral
- The cathedral and its inventory
- Property
- Investments
- Grants
- Pensions
- The nature of costs allocated to governance costs included within support costs
- The apportionment of support costs, including any estimation techniques.

### **5.3 Total return (investments)**

Chapters which adopt the total return approach must refer to Appendix 4 for details of the accounting treatment which must be used.

## **6 STATEMENT OF FINANCIAL ACTIVITIES (SOFA)**

### **6.1 Principles**

#### **General**

6.1.1 The consolidated SOFA must show all inflows and outflows of resources to and from the entities included in the cathedral's consolidated accounts together with transfers to and from funds. A SOFA is a single accounting statement that includes all income, gains, expenditure and losses recognised for the reporting period. It provides the user with an analysis of the income and endowment funds received and the expenditure by the cathedral on its activities, and presents a reconciliation of the movements in the cathedral's funds for the reporting period. The cathedral's statement of financial activities must adopt the same format in subsequent reporting periods unless there are special reasons for a change that is explained in the notes to the accounts.

#### **6.1.2 General rules for income recognition**

Income is recognised in the statement of financial activities (SOFA) when a transaction or other event results in an increase in the cathedral's assets or a reduction in its liabilities. Income must only be recognised in the accounts of a cathedral when all of the following criteria are met:

- Entitlement - control over the rights or other access to the economic benefit has passed to the cathedral.
- Probable - it is more likely than not that the economic benefits associated with the transaction or gift will flow to the cathedral.
- Measurement - the monetary value or amount of the income can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

#### **6.1.3 Income and receipt of endowment**

- **Grants, donations (of cash or assets) and legacies**

Grants, donations (whether of cash or of assets) and legacies that are subject to conditions or restrictions are described in the following paragraphs under the generic term "restricted amounts".

Restricted amounts should be credited in the SOFA to the restricted or endowment fund as appropriate as soon as they become receivable and irrespective of when the related expenditure will be incurred. If it is possible that a restricted amount will have to be repaid because certain conditions have not been met, then it should be shown as a liability, not credited to the SOFA. It will be transferred to the SOFA in the year in which the conditions are satisfied. If material, details of its receipt should be disclosed in the notes.

Where a donor imposes a condition that a grant may not be expended until a future period, the receipt should be treated as deferred income and recognised as a liability until the accounting period in which the grant may be expended.

When incurred, the related expenditure should be charged to the restricted fund in the SOFA, unless it is capitalised when it should be shown under the appropriate caption in the balance sheet. Appropriate explanations in the notes and the annual report should also be provided. When a restricted amount relates to the purchase of a depreciable fixed asset, the receivable amount should be credited to the restricted fund of the SOFA and an amount should be debited to the restricted fund each year in respect of the depreciation of the asset.

- **Cathedral building and inventory additions**

Income received for additions to the cathedral building or the inventory should be included with donations or grants receivable as appropriate. The proceeds from disposals from the inventory should be included with other income. Details must be included in the note on net inventory transactions (see paragraph 7.19, note 3).

- **Gift Aid and recoverable income tax**

Tax recoverable under Gift Aid or the Small Donations Scheme should be separately identified under income from donations (congregational collections and giving and donations) and trading activities (entrance charges). Income tax recoverable on interest receivable may be identified as a separate item and should be included with the source of income in calculating the figures shown on the face of the SOFA.

- **Investments total return**

Unapplied total return that is allocated to income funds must be separately identified in the SOFA as an allocation between endowment funds and income funds either within the 'transfer' line or within the 'other income' section of the SOFA. See Appendix 4.

- **Third party receipts and payments**

Where funding is provided on behalf of the cathedral by third parties (e.g. (a) the funding by the Church Commissioners, the diocese or other bodies of stipends and associated payroll costs of the Dean, Commissioners' canons or other clerical or lay staff, or (b) payments by the Friends of the cathedral) then these should be shown under both income and expenditure and suitably classified and described.

[It should be noted that to aid recovery of input VAT the cathedral should incur the expenditure itself and seek a grant to cover this expenditure from the Friends.]

- **Donated services and facilities**

A cathedral may receive assistance in the form of donated facilities, beneficial loan arrangements, donated services or services from friends and volunteers. The rules for determining the value of this intangible income to be included in the SOFA are:

- If another party is bearing the financial cost of the resources supplied and the cost to the third party of providing them is quantifiable, then that is the value to be used. (This will not normally apply to commercial discounts except where they are clearly intended as a donation.)

- Where this information is not available or if the cathedral considers the value to be less than the costs borne by the third party, a reasonable estimate of the gross value to the cathedral should be used. An equivalent amount should be included as expenditure under the appropriate heading in the SOFA
- Where there is no financial cost borne by another party for the provision of the assistance (e.g. in the case of Friends and volunteers) the intangible income should not be included in the SOFA.

Whether or not the benefit is quantifiable and included in the accounts, it should be acknowledged and described in the annual report (see paragraph 4.4.2).

- **Gifts in kind**

Where investments, property or other assets are donated to the cathedral, or are sold to it at less than fair value, then the difference between the fair value and the cost to the cathedral, if any, should be shown as income in the SOFA, in the column(s) for the fund(s) to which the gift was made. If it is not practicable to estimate a fair value for a donated asset then it should be described in the annual report together with an indication of the use to which it will be put. The description should take into account any requests for anonymity by the donor and any need for confidentiality.

If an asset cannot be valued at the date of receipt but is later sold, the sale proceeds should be included as income at the date of sale. If the amount arising from the sale of an asset in a period later than the period of receipt of the asset is significant, this fact should be reported and the amount disclosed.

In the balance sheet, material donated assets, unless they are included in the statutory inventory, must be recorded at the value recorded in the SOFA and identified to the appropriate fund.

#### 6.1.4 **Costs of generating funds**

Expenditure incurred in order to earn income must not be netted off that income but must be shown under "expenditure on raising funds". Examples are the costs of running a cathedral shop, maintaining investment property and collecting investment income. Income from appeals managed by the cathedral or its agents should be brought into account gross, and costs should be accounted for as expenditure on raising funds.

#### 6.1.5 **Resources expended**

- **Building repairs, restoration and maintenance**

Only expenditure actually incurred on repairs, restoration and maintenance should be charged to the SOFA. Any amount retained for future expenditure should be carried forward as part of the unrestricted or designated funds as appropriate.

Expenditure on repairs, restoration and maintenance, including direct labour, should be allocated to the appropriate heading in the SOFA:

- Expenditure on raising funds

- Shops, refectory and other activities
- Investment property
- Ministry (clergy, organist, choir members and vergers housing)
- Cathedral and precincts upkeep
- Education (library and school costs).

- **Support costs**

Support costs are those costs which in themselves do not contribute to mission or generate funds but are necessary for those activities to take place. They may include governance costs, office staff costs, office accommodation, office equipment, information technology, training and general office costs. These costs must all be allocated to those activities which they directly support and then to the captions within each of those three main headings. The costs of service departments should be allocated to those departments they support if they cannot be directly allocated to one of the expenditure headings in the SOFA. The method of apportionment should be reasonable and consistent between reporting periods. Greater accuracy should be balanced with the costs of apportionment. For example, information technology and telephone costs could be allocated by the number of computers or telephones in each department; office upkeep, photocopying and stationery could be allocated according to the number of full-time-equivalent staff. Training would be allocated to where it has been given.

An analysis of material categories of support costs by each main expenditure heading in the SOFA and the method of apportionment must be provided in the notes. See Module 8 of the SORP (FRS 102) for further information.

- **VAT**

Any irrecoverable VAT must be included in the expenditure which gives rise to it. The total amount of irrecoverable VAT should be given in a note.

- **Depreciation**

For each class of depreciable fixed asset, the number of years or the percentage annual rate used to write off the asset together with the method of depreciation (e.g. straight line, reducing balance) should be disclosed.

## **6.2 Format of Consolidated Statement of Financial Activities**

### **6.2.1 The SOFA must be analysed in columns between:**

- Unrestricted funds
- Restricted funds
- Endowment funds
- Total funds

Appendix 1 explains how to account for funds. Like the Charities SORP (FRS 102), the regulations do not require designated funds to be separated from unrestricted funds on the face of the SOFA. However, a number of cathedrals designate an appreciable proportion of their free reserves. The regulations recognise that these cathedrals may wish to disclose this by way of an additional column in the SOFA between unrestricted funds and restricted funds.

6.2.2 Comparative figures for each column of the SOFA must be shown on the face of the SOFA or in the notes.

6.2.3 Headings where there is nothing to report in both the current and preceding reporting period should be omitted.

### 6.3 Extraordinary items

Extraordinary items are material events or transactions that:

- Fall outside the cathedral's normal activities;
- Are abnormal in their nature; and
- Are not expected to recur.

In the unlikely event of their occurrence, extraordinary items must be disclosed on the face of the SOFA immediately after the total of net income/(expenditure). The nature of each extraordinary item should be explained in the notes to the accounts.

## 6 Worked example of SOFA

	Notes	Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	Total Funds 2015 £000	Total Funds 2014 £000
<b>INCOME AND ENDOWMENTS FROM:</b>						
	1					
Donations and legacies		86	44	20	150	152
Grants in support of mission		-	96	100	196	86
Charges and fees arising in the course of mission		-	56	-	56	62
Trading and fundraising		1,176	-	-	1,176	886
Investments		919	136	-	1,055	1,223
Other income		-	6	-	6	40
<b>Total Income</b>		<b>2,181</b>	<b>338</b>	<b>120</b>	<b>2,639</b>	<b>2,449</b>
<b>EXPENDITURE ON:</b>						
	2					
Raising funds		1,199	5	0	1,204	1,150
Ministry		430	193	9	632	574
Cathedral and precincts upkeep		606	32	-	638	1,728
Education and outreach		115	48	-	163	161
Community, parish and congregation		5	1	-	6	-
Cathedral building additions		-	-	100	100	-
Statutory inventory additions	3	-	21	-	21	-
Other expenditure		85	-	-	85	40
<b>Total Expenditure</b>		<b>2,440</b>	<b>300</b>	<b>109</b>	<b>2,849</b>	<b>3,713</b>
<b>NET (OUTGOING)/ INCOMING RESOURCES BEFORE INVESTMENT GAINS</b>						
		(259)	38	11	(210)	(1,264)
Net gains/(losses) on investments	6	(45)	(63)	(493)	(601)	457
<b>Net income (expenditure)</b>		<b>(304)</b>	<b>(25)</b>	<b>(482)</b>	<b>(811)</b>	<b>(807)</b>
<b>Gross transfers between funds</b>	7	<b>(53)</b>	<b>13</b>	<b>40</b>	<b>-</b>	<b>-</b>
<b>Other recognised gains/(losses):</b>						
Gains/(losses) on revaluation of fixed assets	4,5	-	-	-	-	-
Actuarial gains/(losses) on defined benefit pension schemes	8	-	-	-	-	-
Other gains/(losses)	9	-	-	-	-	-
<b>Net movement in funds</b>		<b>(357)</b>	<b>(12)</b>	<b>(442)</b>	<b>(811)</b>	<b>(807)</b>
<b>Reconciliation of funds:</b>						
Total funds brought forward		1,468	1,758	13,215	16,441	17,248
<b>Total funds carried forward</b>		<b>1,111</b>	<b>1,746</b>	<b>12,773</b>	<b>15,630</b>	<b>16,441</b>

## 6.4 SOFA: Explanation of what to include under individual items

6.4.1 The SOFA must be a comprehensive account of all resources receivable and payable by the cathedral during the year. No amount may be credited or debited directly to any fund without passing through the SOFA. Only capital expenditure (i.e. expenditure to create a fixed asset recognised in the balance sheet) should not appear in the SOFA.

6.4.2 The items in this section are listed in the order in which they appear in the SOFA. Further analysis within headings may be provided if desired and headings not required should be omitted. Individual items may either be shown on the face of the SOFA or in the notes to the accounts with clearly identifiable totals carried to the SOFA. The notes should normally include all the captions listed in this section.

6.4.3 Comparative figures for the total of each individual item shown either on the face of the SOFA or in the notes must be given.

### 6.4.4 Income and receipt of endowment from:

- **Donations and legacies**

- **Congregational collections and giving**

- Income received from congregational collections and donations (excluding those for specific appeals, from visitors and trusts, and from legacies, all of which, if material, should be shown under specific headings).

- **Donations**

- Donations from visitors and individuals and organisations, which fall outside the concept of congregational giving.

- **Income from appeals**

- **Tax recoverable under Gift Aid on voluntary donations**

- Include tax recovered under the Gift Aid Small Donations Scheme.

- **Income from Friends and local trusts**

- All amounts given by the cathedral's Friends, including the amounts spent by Friends on the cathedral's behalf. This heading, expanded if appropriate, will also include grants from trusts formed to raise funds for the cathedral.

- **Legacies**

- Under the fundamental accounting concept of accruals all income should be accounted for when it becomes due. Legacies are, in principle, no different from any other item of income and should be accrued as a debtor where the criteria applicable to the accrual of any item of income can be fully met. These criteria are:

- **Entitlement:** when the cathedral has sufficient evidence that a gift has been left to them and the executor is satisfied that the property in question will not be required to satisfy claims in the estate.
    - **Probable:** Receipt of a legacy must be recognised when it is probable that it will be received. Receipt is normally probable when there has been a grant of probate; the executors have established that there

are sufficient assets in the estate, after settling any liabilities, to pay the legacy, and conditions attached to the legacy are either within the control of the cathedral or have been met.

- Legacy income must only be recognised when it can be measured or estimated with sufficient reliability.

Where a payment is received from an estate or is notified as receivable by the executors after the reporting date and before the accounts are authorised for issue but it is clear that the payment has been agreed by the executors prior to the end of the reporting period, then it should be treated as an adjusting event and accrued as income if receipt is probable.

If the interest of the cathedral in a pecuniary or residual legacy cannot be measured reliably, details of the legacy should be disclosed as a contingent asset until the criteria for income recognition are met. Where a legacy is subject to the interest of a life tenant, the legacy would not be recognised as income until the death of the life tenant.

The amounts receivable should be allocated to the relevant fund columns in the SOFA according to any restrictions placed on their use.

- **Grants**

- **Church Commissioners' grants**

Stipends and other associated costs paid by the Church Commissioners for the Dean and Commissioners' residentiary canons plus any income received under S23 of the Cathedrals Measure 1999 or any other sort of grant from the Church Commissioners. Stipends and Section 23 grants should be included as restricted funds. The associated expenditure should be allocated pro rata between all relevant staff headings.

- **Diocesan grants**

Any sort of grant from the diocese, including any stipends, salaries and other associated costs paid by the diocese for clergy or lay staff engaged on cathedral duties, pro rata by the time involved. The associated expenditure should be allocated to the relevant headings.

- **Heritage Lottery Fund grants**

- **Other revenue and capital grants**

Grants from trusts and other organisations, which derive from sources not specifically raising funds for the cathedral.

A cathedral in receipt of government grants must disclose the nature and amounts of government grants recognised in the accounts; unfulfilled conditions and other contingencies attaching to grants that have been recognised as income; and an indication of other forms of government assistance from which the cathedral has directly benefited.

- **Charges and fees arising in the course of mission**

- **Facility and other fees**

Parochial fees for marriages, funerals and memorial services.

- **Gross income of the choir school**

This heading will only be used where the school's results are consolidated. The income reported in the cathedral's consolidated accounts will not include fees or any other income received by the school from the cathedral as these will be eliminated on consolidation against the cost of fees paid in the cathedral's books. However, this information should be provided in a note to the accounts, see paragraph 9.12.

- **Trading and fundraising activities**

- **Charges to visitors**

All income received from tourists and visitors to the cathedral as formal entrance charges etc. Donations from visitors have their own heading under "Income from donations".

- **Gift Aid on entrance charges**

Any Gift Aid recoverable should be shown separately.

- **Income from lettings of cathedral or other buildings**

- **Income from fundraising events**

- **Gross income of shop, refectory and other trading activities**

Gross earnings from the provision of shop and other retail outlets, refectory and other catering facilities and any income received from other trading activities, including work performed by the cathedral's staff, e.g. masons, stained glass artists, members of the works staff (such as gardeners), etc, for other bodies. Cathedrals may wish to expand this and add further sub-headings.

[It should be noted that for taxation purposes where the profits of a trade cannot be exempted because part of the trade is not related to a primary purpose and its turnover represents 10 per cent or more of the turnover of the whole trade, or the non-primary purpose turnover is greater than £50,000 per annum the whole of the profits may be liable to tax, including that part which is related to a primary purpose. The use of a trading subsidiary should be considered.]

- **Income from donated goods**

Goods, facilities and services donated to the cathedral must be recognised as income when the criteria for their recognition are met. In accepting donated goods for resale, a cathedral is receiving a gift in kind on trust for conversion into cash to fund cathedral activities. Where practicable, donated goods for resale are measured at fair value on initial recognition, which is the expected proceeds from sale less the expected costs of sale. Cathedral's should refer to the SORP (FRS 102) Module 6.

- **Investments**

- **Income from investment property**

Service charge income should be included where it belongs to the landlord, i.e. where the landlord is responsible for maintenance etc. and recovers his

expenditure from the tenants. Where there is an independent service charge account, service charge income does not belong to the landlord; the landlord may have to contribute to the service charge account in respect of common parts and vacant property.

- **Income from other investments**
- **Interest receivable on short-term deposits**
- **Other income**
  - **Insurance recoveries** - An insurance claim must be recognised when entitlement has been established to the reimbursement of the insured loss, the receipt of that reimbursement is virtually certain and its amount can be measured reliably. The receipt of the insurance reimbursement can be recognised either as an item of other income or by offsetting it against the related expense heading in the SOFA.
  - **Gains on disposals of operating assets**  
These are fixed assets other than property and investments.
  - **Other items**

#### 6.4.5 Expenditure on:

- **Raising funds**
  - **Costs of facilities for visitors**  
Costs of the welcome ministry, including hospitality and staff and administration specifically associated with visitors.
  - **Costs of services directly recoverable**
  - **Gross costs of shop, refectory and other trading activities**  
These costs would be net of any items eliminated on consolidation.
  - **General marketing costs**  
Examples are advertising cathedral facilities and events in leaflets and magazines produced by tourist boards and others as well as the cathedral's own publicity.
  - **Costs of appeals**
  - **Costs of fundraising**
  - **Investment property costs**  
Rental collection costs, rents payable, insurance, repairs and maintenance, landlord's service charge costs and other property expenses relating to investment properties. Similar items of expense relating to property for cathedral use or trading should be included under the relevant expense heading.
  - **Investment management costs**

- **Support costs** (if not allocated across above sub-headings)
- **Ministry**
  - **Clergy stipends and working expenses**  
This figure should include clergy stipends, employer's national insurance and pension contributions, working expenses and associated costs whether paid by the cathedral, the Church Commissioners, the diocese or others.
  - **Clergy housing costs**
  - **Clergy support costs**  
Costs associated with the cathedral clergy such as training, conferences, identifiable payroll costs and other expenses. It should also include the costs of direct support staff, e.g. the Dean's secretary.
  - **Services and music**  
Costs of holding services, e.g. sanctuary supplies, printing service cards etc. Costs of the music staff and choir, fees payable to any choir school not included in the consolidated accounts, visiting choirs, choir tours, vestments, sheet music, commissions, organ repairs and tuning etc. All costs of the vergers, including salaries, employer's national insurance and pension contributions, benefits including housing costs and other expenses should, if appropriate, ideally be divided between this heading and interior upkeep.
  - **Support costs** (if not allocated across above sub-headings)
- **Cathedral and precincts upkeep**
  - **Major repairs and restoration**  
Major repairs and restoration of the fabric are works often involving elements of conservation or replacement and are distinguishable from routine maintenance by the size of the work involved, the irregular nature of their incidence, and the fact that they will not recur in the foreseeable future or for a very long period of time. These costs include all associated expenditure including professional fees.
  - **Maintenance and interior upkeep**  
Costs of routine repairs to and maintenance of the cathedral fabric including professional fees, premises management costs, materials etc. Costs of upkeep of the interior of the cathedral include cleaning, purchases of equipment, fittings and furniture not capitalised as fixed assets and maintaining the heating. Periodic modest refurbishment will come under this heading.
  - **Cathedral insurance**
  - **Precincts, security and gardens upkeep**  
The costs of gardeners, precinct cleaners, security officers and their equipment (excluding those already included under other headings): this

should also include other associated costs such as lighting walkways, signs, notices, trees, etc.

- **Support costs**

Staff and other costs associated with cathedral upkeep, if not directly attributable to any of the above.

- **Education and outreach**

- **Choir school costs**

Sums paid to the Chapter which are eliminated on consolidation will not be included here but should be shown in a note, see paragraph 9.12.

- **Grants and scholarships**

Grants to ordinands are the most obvious items to include. Education costs of choristers should be included with the cost of services and music under ministry. No analysis of grants to individuals is required.

- **Educational activities**

The educational aspect of visitors' and education centres and the costs of courses and seminars, in particular those for schools.

- **Archives and library**

- **Charitable and other giving**

- **Support costs (if not allocated across above sub-headings)**

- **Community, parish and congregation**

Expenditure related to the creation and maintenance of the cathedral community roll and meetings of the community and any cathedral community committees. For those cathedrals that have such costs: parish share, youth work, adult education for congregation, parish or congregational groups and activities, committees etc.

- **Support costs (if shown separately)**

- **Cathedral building additions**

- **Support costs (if shown separately)**

- **Statutory inventory additions**

- **Support costs (if shown separately)**

- **Other expenditure**

- **Interest and similar charges payable**

All interest, commission and fees payable on loans, bank overdrafts and other borrowings and bank charges.

- **Losses on disposal of operating assets**  
These are fixed assets other than property and investments.
- **Other items**
- **Support costs** (if not allocated across above sub-headings)

#### **6.4.6 Net gains / (losses) on investments**

Any realised and unrealised gains or losses on investment assets and investment properties including gains or losses from revaluations in the reporting period.

#### **6.4.7 Gross transfers between funds**

The reasons for any transfers between funds should be explained in the notes to the accounts.

#### **6.4.8 Other recognised gains and losses**

- Realised and unrealised gains and losses on properties for cathedral use.
- Actuarial adjustments on defined benefit pension schemes.
- Other gains or losses

#### **6.4.9 Reconciliation of funds**

Opening and closing balances to each class of funds must be shown with the differences reconciled by the movement in funds. Closing fund balances presented in the SOFA must agree with the equivalent totals in the Balance Sheet.

## **7 BALANCE SHEET**

### **7.1 General**

The balance sheet must show a figure for total net assets. This should equal the total of all the funds included in the consolidation. These should be subdivided between unrestricted, designated (if disclosed separately: see paragraph 6.2), restricted and endowment. In order to be able to attribute income, and gains or losses to the relevant fund, cathedrals must identify individual properties and investments within specific funds.

#### **Fixed assets**

### **7.2 The cathedral, its ancillary buildings and the inventory**

#### **7.2.1 The SORP defines heritage assets as follows:**

A heritage asset is a tangible or intangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

An asset may have the attributes of a heritage asset, for example it may be of historic or artistic importance, but unless it is also held and maintained for its contribution to knowledge and culture then it will not fall within the definition of a heritage asset.

Heritage assets may include abbeys, monasteries, cathedrals and historic churches and monuments where a contribution to knowledge and culture is ancillary to faith or other purposes.

Similarly, the artefacts contained within, or associated with, such assets may also be heritage assets. For example, associated artefacts could include religious artefacts contained within a cathedral or historic church.

The SORP provides that “Charities are not required to recognise heritage assets on the balance sheet if information on their cost or valuation is not available and such information cannot be obtained at a cost commensurate with the benefit to the users of the accounts and to the charity. Where reliable information on cost or value is not available, charities will need to consider if the cost of obtaining a valuation is justified by the usefulness of the information to the users of the accounts and to the charity for its own stewardship purposes”.

These circumstances are likely to exist in relation to the cathedral and its ancillary buildings, such as the chapter house, cloisters and libraries.

These regulations do not consider that a cathedral building is a heritage asset. Accordingly, no value should be attributed in the balance sheet to the cathedral and its ancillary buildings. However, residential properties, investment properties and properties used solely for trading should always be included.

#### **7.2.2 Similarly, these regulations consider that no value should be attributed to items included in the inventory prepared under S24(1) of the Care of Cathedrals Measure 2011 as being of architectural, archaeological, artistic or historic interest.**

7.2.3 This treatment of the cathedral, its ancillary buildings and the inventory should be disclosed and explained in the accounting policies note.

7.2.4 Information on the cathedral buildings and items in the inventory should be given in the notes to the accounts and should be sufficient to enable the reader to appreciate the age and scale of these assets. The information should include details of the assets' insured value and what use is made of them, unless the publication of this information would prejudice the cathedral, e.g. by materially increasing the risk of theft or vandalism of the assets in question.

7.2.5 Any material disposals or additions of items from or to the inventory should be detailed together with their financial implications in the annual report and in the note on net transactions affecting the inventory. Items donated to the inventory should be valued according to the rules for gifts in kind (see paragraph 6.1.2).

### 7.3 Property

7.3.1 On the face of the balance sheet properties must be classified under the following headings:

- Non-investment properties
- Investment properties

7.3.2 Non-investment properties should be further divided between properties used:

- For cathedral use (e.g. for occupation by the cathedral clergy or other members of the cathedral staff, or for worship, educational or administrative purposes)
- For trading activities, including those of connected entities, (e.g. cathedral shops, refectories)
- For school use (see paragraph 7.3.6).

It should be noted that the critical determinant is the use to which the property is put, not the fund by which it is financed. For example, although endowment assets are normally held to generate income, endowment property used to house cathedral staff is not investment property.

7.3.3 The amounts under each of the property headings in paragraph 7.3.1 above should be sub-classified in the notes to the accounts between

- freehold,
- long leasehold (where there is more than 50 years of the lease left to run at the balance sheet date) and
- short leasehold.

7.3.4 The basis of valuation used in the accounts should be as follows:

- Investment properties must be measured initially at cost and subsequently at fair value at the reporting date. These regulations do not permit the use of FRS 102 to subsequently measure investment properties at their cost less accumulated depreciation and any accumulated impairment losses. Depreciation is not provided on investment property.

- Properties used for cathedral purposes (paragraph 7.3.2 above) must be measured initially on the balance sheet at their historical cost. A cathedral may choose to adopt an accounting policy of revaluing one or more classes of the tangible fixed assets it holds. If a policy of revaluation is adopted, then all assets within that particular class must be revalued.

A first-time adopter may elect to use a previous revaluation of a property on transition to these regulations as its deemed cost at the revaluation date (FRS 102 35.10).

Mixed use property should be separated between investment property and property held for operational use as a tangible fixed asset. However, if the fair value of the investment property component cannot be measured reliably without undue cost or effort, the entire property should be accounted for as property within tangible fixed assets.

- If a policy of revaluation is used then cathedrals must:

Carry all assets within the relevant class of tangible fixed assets at their revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent impairment losses. However, if the Chapter believe that a reliable market valuation is not possible, then the value in use to the cathedral or its depreciated replacement cost should be used.

Undertake valuations on a regular basis to ensure that the carrying amount does not differ materially from the fair value of the asset at the end of the reporting period. This appraisal is normally undertaken by professionally qualified valuers although it may be carried out internally provided staff have knowledge of the relevant property market.

Undertake valuations of land and buildings with sufficient regularity, for example cathedrals may undertake a review on a rolling basis over a five-year period.

- 7.3.5 The notes to the accounts must disclose the effective date of the revaluation; whether an independent valuer was involved; the methods and significant assumptions applied in estimating the items' fair value and for each revalued class of property, the carrying amount that would have been recognised had the assets been carried under the historical cost model.

A separate revaluation reserve must be shown within the funds analysis on the balance sheet.

Revaluation gains must be recognised as 'Gains on the revaluation of fixed assets' within the SOFA, unless they reverse a charge for impairment that has previously been recognised as a cost within the expenditure headings of the SOFA. Any gain on disposal over the carrying amount must be recognised in 'Other' income within the SOFA. Revaluation losses must be recognised as an expense in the relevant expenditure heading of the SOFA except to the extent to which they offset any previous revaluation gains, in which case the loss is shown in the 'Gains/(losses) on the revaluation of fixed assets' section of the SOFA.

7.3.6 Some cathedrals may own or lease property used by a choir or other school. If the school does not meet the criteria for consolidation or equity accounting and pays rent to the cathedral, there is a presumption that the buildings are investment properties and should be included under that heading in the balance sheet at fair value. In other cases, the buildings should be classified in the note on non-investment property and a quantified description of the financial arrangements between the cathedral and the school and how these have been reflected in the accounts should be included in the notes to the accounts, see paragraph 9.12.

#### **7.4 Depreciation of properties used for cathedral purposes**

7.4.1 Depreciation should be provided on the balance sheet values of all properties except investment properties. Whether or not school buildings should be depreciated will depend on whether they rank as investment properties, see paragraph 7.3.6. Land is not depreciated.

7.4.2 Depreciation should be calculated by reference to unexpired lives and estimated residual values based on current prices. The economic life should be reviewed each year and, if it is material, the residual value should also be reviewed each year.

7.4.3 The only exception to charging depreciation is for immateriality. This implies a long unexpired life and/or a high residual value (based on current prices). To justify a high residual value the cathedral may be able to demonstrate that it has one or more of the following:

- A policy and practice of regular maintenance
- A property unlikely to suffer obsolescence, e.g. due to changes in fashion
- A policy and practice of disposing of similar properties well before the end of their lives
- A record of the disposal proceeds of similar properties matching balance sheet values.

7.4.4 An annual impairment review, as described in FRS 102, should be carried out

- if depreciation is not charged on grounds of immateriality; or
- for each property whose unexpired life is estimated at more than 50 years.

7.4.5 Where different parts of a property have substantially different useful lives the different parts should be valued and depreciated separately.

#### **7.5 Financial Instruments**

7.5.1 FRS102 s11-12 & SORP Module 11 detail the treatment of financial instruments, distinguishing between “Common Basic Financial Instruments and “Other Financial Instruments”. Initial measurement is by the amount payable or receivable or by fair value. Common Basic Financial instruments are dealt with in FRS102 s11 and more complicated Other Financial Instruments are considered in FRS102 s12.

## **7.6 Investments**

7.6.1 Equity shares and bonds must be carried at market value. If investments are material then, in order to give an indication of the degree and nature of risk to which they are exposed, they should be classified in the notes between type (e.g. equity and fixed interest) and whether listed on a recognised stock exchange in the UK, overseas, or unlisted. Where values of material investments are determined other than by reference to readily available market prices, the method of valuation should be disclosed. Shares in unlisted companies should be valued by reference to latest dealing prices, earnings, dividend record and underlying net assets as appropriate.

7.6.2 Any investments in non-consolidated connected entities should be valued on the equity method (i.e. at the cathedral's share of the underlying net assets) and the cathedral's share of the profits of such entities should be credited to the SOFA under a separate heading. Details of such investments should be provided in the notes.

### **7.6.3 Investment total return**

Unapplied total return fund must be included as a part of the relevant endowment together with the value of the trust for investment on the balance sheet. See Appendix 4.

## **7.7 Plant, machinery, vehicles, office equipment, computers, furniture and fittings**

Unless written off on acquisition, the cost of plant, machinery, vehicles, office equipment, computers and furniture and fittings must be carried at cost less depreciation. The threshold below which the cathedral writes off items on acquisition should be stated in the accounting policies note. The depreciation charged must be recognised as an expense in the SOFA. The expense is charged or apportioned to the relevant SOFA headings reflecting the asset's use.

## **7.8 Movements on fixed assets**

A reconciliation must be provided in the notes between the figures for each of the major subdivisions of fixed assets at the end of the previous and current years, showing purchases, sales, recognised changes in value and amounts written off.

### **Current assets**

## **7.9 Stock**

Stock for sale as part of a non-charitable trade must be measured at the lower of cost and net realisable value. Donated goods for resale are measured at fair value on initial recognition, which is the expected proceeds from sale less the expected costs of sale. If the estimation of fair value of donated goods for resale is impractical because of the low-value items received or the absence of detailed stock control systems or records, then the value to the cathedral is recognised as income when sold.

A description of items included in stock should be provided in the notes to the accounts. It is unlikely that stocks of consumables (e.g. candles, communion

wafers and wine) would be sufficiently material to justify inclusion in the balance sheet.

### **7.10 Debtors**

Debtors should be analysed in the notes by age (within one year and over one year) and by type:

- trade debtors
- amounts owed by connected entities
- prepayments and accrued income
- other debtors.

An amount recoverable more than a year after the end of the reporting date must be measured at its present value at the balance sheet date if the time value of money is material.

### **7.11 Short term investments and cash**

This heading includes cash on deposit and cash equivalents with a maturity of less than one year. However, if the cash or cash equivalents are held as part of a fixed asset portfolio, then they should be presented as fixed assets.

## **Liabilities**

### **7.12 Borrowings**

Disclosures on borrowings must follow the requirements of FRS 102; a description should be provided of each loan giving its rate of interest, repayment method and any security provided by the cathedral, by any other entity included in the consolidation, or by a third party. An analysis of total debt should show amounts falling due:

- in one year or less (under current liabilities)
- between one and two years
- between two and five years and
- in five years or more.

### **7.13 Creditors**

Creditors and provisions must be analysed in the notes between age (within one year and over one year) and by type:

- accruals for grants payable
- bank loans and overdrafts
- trade creditors
- amounts owed to connected entities
- payments received on account for contracts or performance-related grants
- accruals and deferred income
- taxation and social security
- other creditors

#### **7.14 Provisions**

An analysis reconciling the opening and closing carrying amounts of each class of provisions must be included in the notes. A brief description of the nature of the obligation and the expected amount and timing of resulting payments must be given with an indication of the uncertainties about the amount and timing of those outflows. The amount of any expected reimbursement should be stated.

Provisions for liabilities must be measured at the best estimate of their settlement amount. If the settlement date of a provision is likely to be more than 12 months from the reporting date and the time value of money is material to the amount, then the provision should be discounted back to its present value at the reporting date.

#### **7.15 Contingent assets and liabilities**

Contingent assets and liabilities, which are not disclosed in the balance sheet, must be described in the notes and an assessment of its financial effect given, where practicable.

#### **7.16 Defined benefit pension scheme asset or liability**

See Appendix 3.

#### **7.17 Holiday pay accrual**

Where a cathedral's accounting year and holiday year end on different dates it is likely that employees may have taken more or less than their pro-rata holiday entitlement. FRS 102 specifically requires an entity to account for this asset or liability, if it is material to the accounts. No disclosure is required.

## 7.18 Worked example of Consolidated Balance Sheet

	Notes	Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	Total Funds 2015 £000	Total Funds 2014 £000
<b>Fixed assets</b>						
<b>Investment assets:</b>						
Property	5	-	-	11,000	11,000	11,500
Investments	6	556	1,746	34	2,336	2,378
		<u>556</u>	<u>1,746</u>	<u>11,034</u>	<u>13,336</u>	<u>13,878</u>
<b>Tangible fixed assets</b>						
Property	7	430	-	1,740	2,170	2,156
Equipment and plant	11	56	-	-	56	24
		<u>486</u>	<u>-</u>	<u>1,740</u>	<u>2,226</u>	<u>2,180</u>
<b>Total fixed assets</b>		<b><u>1,042</u></b>	<b><u>1,746</u></b>	<b><u>12,774</u></b>	<b><u>15,562</u></b>	<b><u>16,058</u></b>
<b>Current assets</b>						
Stocks		22	-	-	22	26
Debtors	12	327	-	-	327	295
Short term investments		10	-	-	10	25
Cash at bank and in hand		46	-	-	46	209
<b>Total current assets</b>		<b><u>405</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>405</u></b>	<b><u>555</u></b>
<b>Liabilities due within one year</b>						
Loans and bank overdraft		(66)	-	-	(66)	0
Creditors	13	(270)	-	-	(270)	(170)
		<u>(336)</u>	<u>-</u>	<u>-</u>	<u>(336)</u>	<u>(170)</u>
<b>Net current assets</b>		<b><u>69</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>69</u></b>	<b><u>385</u></b>
<b>Total assets less current liabilities</b>		<b><u>1,111</u></b>	<b><u>1,746</u></b>	<b><u>12,774</u></b>	<b><u>15,631</u></b>	<b><u>16,443</u></b>
<b>Liabilities due after one year</b>						
Creditors		-	-	(1)	(1)	(2)
Provisions for liabilities and charges						
<b>Net asset excluding pension asset or liability</b>						
Defined benefit scheme asset or liability						
<b>Total net assets</b>		<b><u>1,111</u></b>	<b><u>1,746</u></b>	<b><u>12,773</u></b>	<b><u>15,630</u></b>	<b><u>16,441</u></b>
<b>The funds of the cathedral:</b>						
General fund		681	-	10,625	11,306	12,523
Designated funds		430	-	-	430	-
Fabric fund		-	654	2,148	2,802	2,818
Music fund		-	504	-	504	508
Other funds		-	588	-	588	592
Revaluation reserve						
Pension reserve						
<b>Total cathedral funds</b>		<b><u>1,111</u></b>	<b><u>1,746</u></b>	<b><u>12,773</u></b>	<b><u>15,630</u></b>	<b><u>16,441</u></b>

**wWhere7.19 Worked example of selected Notes to the Accounts**

	Unrestricted Funds	Restricted Funds	Endowment Funds	Total Funds
	£000	£000	£000	£000
<b>3 Net inventory transactions</b>				
Grants for acquisitions	-	10	-	10
Cash donations for acquisitions	-	5	-	5
Donations of assets	-	4	-	4
Proceeds of disposals	-	2	-	2
Acquisitions	-	(21)	-	(21)
Net transactions	-	-	-	-

**4 Non investment property**

At valuation 1 January	430	-	1,726	2,156
Additions	-	-	15	15
Depreciation	(2)	-	(9)	(11)
Net increase on revaluation	2	-	8	10
At valuation 31 December	430	-	1,740	2,170

Non investment properties are held and used as follows:

	Freehold £000	Leased with more than 50 years to run £000	Leased with less than 50 years to run £000	Total £000
At 1 January				
for cathedral clergy and staff housing		540	91	631
for the education centre	1,095			1,095
for cathedral trading activities	330		100	430
	1,425	540	191	2,156
At 31 December				
for cathedral clergy and staff housing		540	90	630
for the education centre	1,110			1,110
for cathedral trading activities	330		100	430
	1,440	540	190	2,170

**5 Investment property**

At valuation 1 January	-	-	11,500	11,500
Net (decrease) increase on revaluation	-	-	(500)	(500)
At valuation 31 December	-	-	11,000	11,000

All investment properties are freehold.

**6 Investments**

Investments at market value 1 January	768	1,567	5	2,340
Additions	-	-	20	20
Proceeds from disposals	(165)	0	(15)	(180)
Net (decrease) increase on disposals and revaluation	(47)	(63)	(1)	(111)
Investments at market value 31 December	556	1,504	9	2,069

	Unrestricted Funds	Restricted Funds	Endowment Funds	Total Funds
	£000	£000	£000	£000
<b>8 Actuarial gains (losses) on defined benefit pension schemes</b>				
At valuation 1 January	20	-	-	20
Actuarial gains (losses)	-	-	-	-
At valuation 31 December	20	-	-	20
<b>11 Equipment and plant</b>				
Cost at 1 January	54	-	-	54
Additions	40	-	-	40
Disposals	-	-	-	-
Cost at 31 December	94	-	-	94
Depreciation at 1 January	30	-	-	30
Depreciation for year	8	-	-	8
On disposals	-	-	-	-
Depreciation at 31 December	38	-	-	38
Net book value at 31 December 2015	56	-	-	56
Net book value at 31 December 2014	24	-	-	24
<b>12 Debtors due within one year</b>				
Trade debtors	280	-	-	280
Amount due from connected entities	15	-	-	15
Other debtors	5	-	-	5
Prepayments and accrued income	27	-	-	27
	327	-	-	327
<b>13 Creditors due within one year</b>				
Accruals for grants payable				
Bank loans and overdrafts				
Trade creditors	(120)	-	-	(120)
Amounts due to connected entities	(35)	-	-	(35)
Taxation & social security				
Accruals and deferred income	(100)	-	-	(100)
Other creditors	(15)	-	-	(15)
	(270)	-	-	(270)

## **8 STATEMENT OF CASH FLOWS**

### **8.1 General**

8.1.1 The format of the statement of cash flows must follow the requirements of section 7 of FRS 102. The statement of cash flows must analyse cash flows using three standard headings:

- operating activities,
- investing activities and
- financing activities.

8.1.2 The statement of cash flows should distinguish between the movement in cash balances of unrestricted funds and restricted funds including endowment funds.

8.1.3 The statement of cash flows must be prepared on a consolidated basis.

### **8.2 Operating activities**

8.2.1 Operating activities are the principal income producing activities that are recognised as income and expenditure in the SOFA. The cash flow from operating activities indicates the extent to which operating activities have generated or consumed cash.

8.2.2 Examples of cash flows arising from operating activities include:

- cash receipts from donations and grants;
- cash receipts from Gift Aid claims or repayments of tax;
- cash receipts from fees, rents (excluding rent from investment properties) and royalties;
- cash payments of grants made;
- cash payments to suppliers of goods and services;
- cash payments to and on behalf of staff (for example, staff salaries and pension contributions); and
- cash payments of taxes on income (for example, tax paid on profit retained by a wholly owned subsidiary).

### **8.3 Investing activities**

8.3.1 Investing activities include the acquisition or disposal of investments and the cash generated from holding investment assets but excludes those highly liquid investments which are classed as cash equivalents in the accounts. It also includes the acquisition of, or disposal of, tangible fixed assets including property, plant and equipment.

8.3.2 Examples of cash flows arising from investing activities include:

- cash receipts from interest and dividends received;
- cash receipts from rent on investment properties;
- cash receipts from the sale of plant, property and equipment and other long-term assets;

- cash receipts from the sale of investment properties and other long-term investments (including the sale of endowment investments);
- cash payments to acquire investments (including conversion of endowment from cash to another form of investment); and
- cash payments to acquire tangible fixed assets, including property and equipment and other long-term assets (including conversion of endowment from cash to another form of fixed asset).

#### **8.4 Financing activities**

8.4.1 Financing activities relate to borrowing and gifts of permanent endowment or expendable endowment funds. Endowment funds are considered to be ‘capital’ in charity law as they must be invested or retained.

8.4.2 Examples of cash flows arising from financing activities include:

- cash receipts from donations of endowment or the accumulation of cash under a power to create expendable endowment;
- cash receipts from new borrowing by way of loan or mortgage and other long- or short-term borrowings;
- cash receipts from the use of a bank overdraft facility (if not treated as a component of cash equivalents);
- cash repayments of borrowing including mortgages, loans and other borrowing; and
- cash payments by a lessee which reduces the outstanding liability relating to a finance lease.

#### **8.5 Disclosures in the notes to the accounts**

8.5.1 When significant cash or cash equivalents are held which are not available for use to further charitable activities, for example cash and cash equivalents held in endowment funds, the entity must disclose the amount unavailable and explain why it is unavailable for use.

8.5.2 Examples of financing transactions include the conversion of expendable endowment into income funds in advance of the relevant investments being sold, or the removal of the legal restriction on the expenditure of permanent endowment enabling it to be spent in the future.

8.5.3 If the components of cash and cash equivalents presented in the statement of cash flows are different to the equivalent items in the balance sheet, a reconciliation must be provided.

## 8.6 Worked example of Consolidated Cash Flow Statement

Statement of cash flows	Note	Total funds £	Prior year funds £
<b>Cash flows from operating activities:</b>			
Net cash provided by/(used in) operating activities	8.7	(932)	(1,009)
<b>Cash flows from investing activities:</b>			
Rents received net of costs		643	766
Investment income received net of costs		150	191
Proceeds from the sale of property, plant and equipment		(15)	2
Purchase of property, plant and equipment		(40)	(4)
Proceeds from sale of investments		180	156
Purchase of investments		(20)	0
Net cash provided by/(used in) investing activities		898	1,111
<b>Cash flows from financing activities:</b>			
Repayments of borrowing		(1)	(1)
Cash inflows from new borrowing		0	0
Receipt of endowment		20	0
Net cash provided by/(used in) financing activities		19	(1)
Change in cash and cash equivalents in the reporting period		(15)	101
Cash and cash equivalents at the beginning of the reporting period	8.7	272	171
Cash and cash equivalents at the end of the reporting period	8.7	257	272

## 8.7 Worked example of Cash Flow Notes

Reconciliation of net income/(expenditure) to net cash flow from operating activities	Total funds £	Prior year funds £
Net income/(expenditure) for the reporting period (as per the SOFA)	(210)	(215)
Adjustments for:		
Depreciation charges	19	19
Income added to Endowment capital	(20)	0
Income from property and investments	(1,055)	(1,223)
Property management costs, rental collection fees and investment management costs	262	266
Loss/(profit) on the sale of fixed assets	0	40
(Increase)/decrease in stocks	4	0
(Increase)/decrease in debtors	(32)	83
Increase/(decrease) in creditors	100	21
Net cash provided by/(used in) operating activities	<u>(932)</u>	<u>(1,009)</u>
Analysis of cash and cash equivalents	Total funds £	Prior year funds £
Cash in hand	46	209
Cash held as investment assets	32	18
Notice deposits (less than 3 months)	245	45
Overdraft facility repayable on demand	(66)	0
Total cash and cash equivalents	<u>257</u>	<u>272</u>

## **9 NOTE DISCLOSURES**

### **9.1 Funds**

The notes to the accounts must provide information on the structure of the cathedral's funds. In particular:

- the material individual fund balances and the reasons for them, differentiating between unrestricted funds, designated funds, restricted funds and permanent endowment
- disclosure should be made of the purpose of each of these funds and the restrictions or conditions imposed
- any funds in deficit should always be separately disclosed. An explanation should be given in the annual report (see paragraph 4.4.1). Designated funds can never be in deficit
- explanations should be provided for any unusual movements in the funds. In disclosing details of movements on funds, material transfers between different funds and allocations to designated funds should be separately disclosed, without netting off, and should be accompanied by an explanation of the nature of the transfers or allocations and the reasons for them.

### **9.2 Staff numbers**

The notes to the accounts must contain details of the average number of paid staff working for the cathedral during the year. The numbers should be divided between appropriate categories. For this purpose “paid staff” should include all those, including clergy paid by the cathedral, the Church Commissioners or other parties, working full or part time for an entity included in the cathedral’s consolidated accounts. The total number of staff and also the full time equivalent number of staff should be given. Individuals who have only their expenses reimbursed should not be regarded as paid employees.

### **9.3 Staff costs**

The total cost of all paid staff of the cathedral must be disclosed in the notes to the accounts, giving the split between:

- salaries and stipends
- employer’s national insurance costs
- employer’s contributions to defined contribution pension schemes
- operating costs of defined benefit pension schemes and
- other forms of employee benefits.

In addition, for any redundancy or termination payments, the following must be stated:

- the total amount for the reporting period
- the nature of the payment
- the accounting policy and
- the extent of funding at the balance sheet date.

## 9.4 Emoluments of higher paid staff

A note must show, if applicable, the number of employees and cathedral clergy whose emoluments fell within each band of £10,000 from £60,000 upwards. (Emoluments include stipends, fees, wages and salaries (however described and including those paid by the Church Commissioners), holiday and sick pay and the value of taxable benefits in kind but not employers' pension contributions.) If no one has emoluments above £60,000 that fact should be stated. In addition, pension details must be disclosed in total for higher paid staff, as follows:

- employers' contributions in the year to money purchase schemes
- the number of staff to whom retirement benefits are accruing under money purchase and defined benefit schemes respectively.

## 9.5 Pensions

9.5.1 Those cathedrals which operate defined benefit schemes for their staff must comply with FRS102. When contributions are made to a multi-employer defined benefit pension scheme where the cathedral's share of an actuarial deficit cannot be identified, this is treated as a defined contribution scheme. However, where there is an agreement in place to make additional contributions based on current and past service of an employee, a liability must be recognised for the present value of outstanding additional contributions.

9.5.2 Appendix 3 explains how to report on the pension schemes managed by the Church of England Pensions Board.

## 9.6 Related party disclosures

9.6.1 Any material related party transactions must be disclosed. Related party transactions occur when the cathedral, or any other entity included in the cathedral's consolidated accounts, transfers assets or liabilities or receives or provides services to or from a related party, irrespective of whether there is consideration.

9.6.2 Related parties are those where one party either can, or would appear to be in a position to, control or influence the other, or both parties are subject to common control or influence. Related parties, in the context of cathedrals, include:

- Members of the corporate body (Council, Chapter and College of Canons)
- Members of the same family or household of persons in the corporate body or of related persons who may be expected to influence, or be influenced by, that person in their dealings with the cathedral
- The trustees of any trust, not being a charity, the beneficiaries or potential beneficiaries of which include persons in the categories above or persons connected with them
- Any business partner of any person in the categories above
- Any body corporate in which persons in the categories above, taken together, have a participating interest
- Any controlled entity or joint venture or associated undertaking in which the cathedral has a participating interest and any director of such an entity

- Any charity or trust the majority of whose trustees are persons in the corporate body
- Any pension fund for the benefit of any person in the corporate body, or the employees of the cathedral, or any person connected with the cathedral
- Any officer, agent or employee of the cathedral having authority or responsibility for directing or controlling the major activities or resources of the cathedral.

9.6.3 The information to be disclosed is:

- The name(s) of the transacting related party or parties
- A description of the relationship between the parties (including the interest of the related party in the transaction)
- A description of the transaction
- The amounts involved
- Outstanding balances with related parties at the balance sheet date and any provisions for doubtful debts from such persons
- Any amounts written off from such balances during the reporting period
- The terms and conditions, including any security and the nature of the consideration to be provided in settlement
- Details of any guarantees given or received and
- Any other elements of the transactions, which are necessary for the understanding of the accounts.

9.6.4 The disclosure can be given in aggregate for similar transactions and type of related party unless disclosure of an individual transaction or connected transactions is necessary for an understanding of the impact of the transactions on the accounts of the cathedral. Where the related party is a member of the Council, Chapter or College of Canons, or a person related to a member of the Council, Chapter or College of Canons, each related party transaction must be separately disclosed.

9.6.5 Some related party transactions are such that they are unlikely to influence the pursuance of the separate independent interests of the cathedral. These need not be disclosed unless there is evidence to the contrary. Examples are:

- Donations received from a related party so long as the donor has not attached a condition which would or might require the cathedral to alter the nature of its activities
- Minor or routine services provided to the cathedral by people connected with it
- The purchase from the cathedral by a related party of minor articles, which are offered for sale on the same terms as are offered to the general public.

9.6.6 If funds belonging to the cathedral have been used to purchase insurance:

- to protect the cathedral from loss arising from the neglect or default of members of the Council, Chapter or College of Canons or of its employees or agents; or

- to indemnify the persons above against the consequences of any neglect or default on their part

these facts and the cost involved should be disclosed.

## **9.7 Remuneration of members of the Chapter**

Most trustees of charities are volunteers. However, provided the arrangement is legally authorised, a trustee may be remunerated for their role as a trustee or be employed in some other role either directly or by a related entity. The remunerated members of the Chapter include the clerical members and may also include a specified lay employee of the cathedral. Detailed disclosures are therefore required:

- The legal authority under which payments are made e.g. the Cathedrals Measure 1999 and the Cathedral constitution.
- The individual remuneration of, pension provision for and any other benefits of, each member of the Chapter. If the Chapter member is also employed on diocesan duties, then the proportions which reflect their time spent on cathedral affairs should be given (in accordance with the amounts included in the SOFA and the note on total staff costs). For diocesan clergy whose duties do not extend beyond Chapter business, the amounts involved are likely to be immaterial.
- A statement that the remuneration of, and pension provision for, clerical members of the Chapter are paid in accordance with scales laid down annually by the Church Commissioners, the Archbishops' Council and the Church of England Pensions Board, if applicable.
- If any supplement to those scales is paid by the cathedral by way of either additional stipend or expense allowance (as opposed to reimbursement of specific expenses), the supplemental amounts each receives must be included in the figures disclosed. It was recommended by the Archbishops' Commission on Cathedrals that supplemental payments be abolished in respect of future appointments. Under the Cathedrals Measure 1999, such payments require the consent of the Church Commissioners where made to individuals whose basic stipends the Commissioners are responsible under the Measure for funding.
- The note may distinguish between remuneration and benefits received as a member of Chapter, if any, and payments received as an employee.
- The aggregate numbers and aggregate remuneration of these members of the Chapter are to be included in the disclosures required by paragraphs 9.2 and 9.3.

## **9.8 Expenses of members of the Chapter**

The aggregate amount of expenses reimbursed by the cathedral, the nature of those expenses (e.g. travel, entertainment etc.) and the number of persons to whom expenses were paid must be disclosed. Expenses include similar payments made direct to a third party, e.g. travel tickets or accommodation.

## **9.9 Auditors' remuneration**

The total cost to the cathedral of the remuneration (fees and reimbursed expenses) of the auditors of all the entities included in the cathedral's consolidated

accounts must be disclosed in the notes to the accounts, showing separately remuneration for:

- audit services;
- assurance services other than statutory audit;
- tax advisory services; and
- other financial services, such as consultancy, financial advice, accountancy and book keeping.

## **9.10 Guarantees**

Details must be given of any guarantees given by the cathedral or other entities included in the consolidated accounts and of any charges given on any of the assets of the cathedral or entities included in the consolidation.

## **9.11 Commitments**

- Disclosure should be made in the notes of the amount of future major expenditure (both capital and revenue) and any material charitable commitments
- Details of how the expenditure is to be funded, including related grants not yet received, should also be disclosed
- Commitments to pay future pensions and other post-retirement benefits should be dealt with in accordance with FRS 102.

## **9.12 Consolidated entities**

Any material internal transfers between a Chapter and a connected entity, (e.g. a choir school, education centre or other enterprise), which are eliminated on consolidation, such as fees or rents, must be disclosed in a note. Additional information, which assists in the understanding of such transactions, should be included in the narrative, where appropriate.

## **9.13 Events after the end of the reporting period**

9.13.1 Events after the end of the reporting period (i.e. the balance sheet date) fall into two categories: adjusting events and non-adjusting events.

### **9.13.2 Adjusting events**

Adjusting events are those events occurring after the end of the reporting period but before the accounts are authorised for issue which provide evidence of conditions existing at the reporting date which affect items in the balance sheet and items reported in the SOFA. Cathedrals must review and amend the amounts recognised in the accounts and any related disclosures in the notes to the accounts to reflect adjusting events.

Examples of events occurring after the end of the reporting period that require adjustment include:

- Settlement of a court case that confirms the entity had a liability at the end of the reporting period and not a contingent liability;

- Notification that the payment of a legacy from an estate is no longer probable as a result of the will being contested;
- Information allowing a more reliable estimate of an amount designated (however, designation of funds for a new purpose after the reporting date is not an adjusting event);
- Identification of a fraud, mis-statement or error which has a material effect on an item in the accounts;
- New information concerning an impairment of an asset, for example doubts over a property valuation or a bad debt; or
- New information that indicates that the entity may not be a going concern.

If there is uncertainty about the entity being a going concern, this must be disclosed. If the entity is no longer a going concern, the accounts must be restated on an appropriate basis.

### 9.13.3 Non-adjusting events occurring after the end of the reporting period

Non-adjusting events are those events occurring after the end of the reporting period but before the accounts are authorised for issue which relate to conditions that arose **after** the end of the reporting period. The disclosure of non-adjusting events provides useful and relevant information about the entity to users of the accounts. Examples of non-adjusting events that may occur after the reporting date that should be disclosed include:

- The purchase of a new building to expand the entity's capacity to further its purposes;
- The announcement or implementation of a major restructuring;
- The announcement of a new fundraising appeal or the degree of success achieved by a fundraising appeal;
- A material loss of assets or diminution in the value (impairment) of assets subsequent to the reporting date, for example due to flood or fire;
- A material decline in the market value of investments;
- The commencement of a major litigation; or
- The entering into significant commitments or the identification of material contingent liabilities or the giving of material guarantees.

For each category of non-adjusting event, the notes to the accounts must provide details of the nature of the event and an estimate of its financial effect or a statement that such an estimate cannot be made.

### 9.14 Chapters which adopt the total return basis for the investment of endowment funds must refer to Appendix 4 for details of the disclosures required in the notes to the accounts.

## **10 PROVISION OF SUMMARY INFORMATION**

- 10.1** Cathedrals may provide information about their activities and finances in other forms to suit particular audiences, e.g. Annual Reviews, newsletters, presentations and websites. The information provided should be consistent with the statutory Annual Report and Accounts, the existence of which should be made clear and details of how to obtain a copy provided.
- 10.2** Formal summary accounts are not recommended as they will not provide sufficient information to give a full picture of the cathedral's activities and financial position.

## 11 GLOSSARY

### 11.1 Ancillary buildings

The buildings attached to a Cathedral within the red line, i.e. the boundary set out in the relevant plan attached to the Ecclesiastical Exemption (Listed Buildings and Conservation Areas) Order 1994, such as the chapter house, cloisters and libraries. For valuation purposes, investment property, dwelling houses and properties used solely for commercial purposes, e.g. shops and refectories are excluded even if they are situated within the red line.

### 11.2 Fair value

Is an accounting term for the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted between knowledgeable, willing parties in an arm's length transaction (sometimes known as open market value). For traded securities in which there is an established market, the fair value is the value of the security quoted in the London Stock Exchange's *Daily Official List* or equivalent. For other assets where there is no market price on a traded market, it is the Chapter's or valuer's best estimate of fair value. In these circumstances, fair value measurement aims to estimate an exchange price for the asset or liability being measured in the absence of an actual transaction for that asset or liability.

### 11.3 Inalienable assets

An Inalienable asset is an asset held by a cathedral which it must retain indefinitely. Inalienable assets have all of the following characteristics:

- The asset is retained indefinitely for a cathedral's own use and benefit to further its charitable aims.
- The cathedral is effectively prohibited from disposing of the asset without external consent.
- The asset, by its nature, will belong to a cathedral's restricted funds and, depending on the trusts attached to the asset, may be part of the permanent endowment.

Disposal without external consent could be prohibited by the cathedral's governing document, the donor's imposed conditions or in some other way. Normally, the asset will belong to the cathedral's permanent endowment, where it is held on trusts that contemplate its retention and continuing use but not its disposal. However, in the case of a gift in kind of a wasting asset, such as a building, a long lease or a non-durable artefact, the terms of trust may not have provided for its maintenance in perpetuity or its replacement. The asset will be expended to the extent of the aggregate amount of its depreciation or amortisation, properly provided for in the annual accounts (i.e. based on its currently anticipated useful life).

### 11.4 Inventory

The Care of Cathedrals Measure 2011 defines those items to be included in the inventory (see Appendix 2).

## 11.5 Investment property

An investment property is an interest in land and/or buildings:

- in respect of which construction work and development have been completed; and
- which is held for its investment potential, any rental income being negotiated at arm's length.

The following are exceptions from the definition:

- a property which is owned and occupied by a cathedral for its own purposes is not an investment property; and
- a property let to and occupied by a company owned by the cathedral or a trust controlled by the chapter is not an investment property for the purposes of the cathedral's own accounts or the consolidated accounts.

## Appendix 1

### THE FUNDS OF A CATHEDRAL

The purpose of this appendix is to explain the legal position as regards the various funds of a cathedral and the implications this has for the way in which the funds are accounted for.

#### 1 Unrestricted funds

Unrestricted funds are spent or applied at the discretion of the Chapter in furtherance of the ministry of the cathedral. Unrestricted funds can be used to supplement expenditure made from restricted funds. For example, a restricted grant may have provided part of the funding needed for a specific project. In this case unrestricted funds may be used to meet any funding shortfall for that project.

#### 2 Designated Funds

The Chapter may set aside part of the cathedral's unrestricted funds to be used for particular purposes in the future. Such funds are called "designated funds". The designation has an administrative purpose only, and does not legally restrict the Chapter's discretion to reallocate such funds to unrestricted funds. Identifying designated funds may be helpful when explaining the cathedral's reserve policy and the level of reserves it holds.

#### 3 Restricted Funds

Funds held on specific trusts under charity law are classed as restricted funds. The specific trusts may be declared by the donor when making the gift or may result from the terms of an appeal for funds. The specific trusts establish the purpose for which the cathedral can lawfully use the restricted funds. It is possible that a cathedral may have several individual restricted funds, each for a particular purpose.

In certain circumstances the donor may express a form of non-binding preference as to the use of the funds, which falls short of imposing a restriction in trust law. In which case, the cathedral will include the funds as part of its unrestricted funds. To respect these non-binding donor wishes, the chapter may decide to designate those funds to reflect the purposes which the donor has in mind.

Restricted funds fall into one of two sub-classes: restricted income funds or endowment funds. Restricted income funds are to be spent or applied within a reasonable period from their receipt to further a specific purpose of the cathedral. Alternatively, the restricted fund may be an endowment. Trust law requires a cathedral to invest the assets of an endowment, or retain them for the cathedral's use in furtherance of its charitable purposes, rather than apply or spend them as income.

When a tangible fixed asset is funded through an appeal or by way of a grant or donation, the accounting treatment of the asset acquired will depend on the circumstances of each case. In deciding whether the asset is categorised as restricted or unrestricted, Chapter should consider whether the terms of the gift:

- Require the cathedral to hold the tangible fixed asset acquired on an on-going basis for a specific purpose; or

- Are met once the specified asset is acquired, so allowing the cathedral to use the asset acquired on an unrestricted basis for any charitable purpose.

In maintaining the accounting records, cathedrals must separately identify each restricted fund and the income received and expenditure made from each restricted fund.

Costs charged to a restricted fund relate to the activities undertaken to further the specific charitable purposes the fund was established to support. These costs include both direct and support costs associated with the activities undertaken by the restricted fund(s). In addition to a reasonable allocation of support costs, other costs associated with raising, investing and managing the restricted funds should normally be charged to the fund to which the cost relates. Expenditure attributable to a restricted fund may still be charged to it even if there is an insufficient balance on that fund at the time. However, expenditure should only be charged to a restricted fund in deficit when there is a realistic expectation that future income will be received to cover the shortfall, for example when a decision has been made to invite donations to that restricted fund.

#### **4 Endowment Funds**

A capital fund where there is no power to convert the capital into income is known as a permanent endowment fund, which must generally be held indefinitely. This concept of "permanence" does not however mean that the assets held in the endowment fund cannot be exchanged nor does it mean that they are incapable of depreciation or loss. What it does mean is that permanent endowment cannot be used as if it were income. However, certain payments can be made out of the endowment, such as the payment of investment management fees where these relate to investments held within the endowment. Where assets held in a permanent endowment fund are exchanged, their place in the fund must be taken by the assets received in exchange. "Exchange" here may simply mean a change of investment, but it may also mean, for example, the application of the proceeds of sale of freehold land and buildings in the purchase or improvement of freehold property.

- **Income**

Income derived from the investment of capital (endowment) funds may be applied for the general purposes of the cathedral (unrestricted income), unless a specific purpose has been declared for the application of the income from the capital fund in question. Such income will be applicable for that purpose and will be restricted income.

- **Expenditure**

Any expenses incurred in the administration, or protection of endowment investments should be charged to capital. For example, the fees of someone who manages endowment investments, or the cost of improvements to land held as an endowment investment. Only where the trusts of the charity provide to the contrary, or there are insufficient funds in the endowment to meet such costs, can they be charged against the other funds held by the charity.

However, where charities have land held as endowment investments, then rent collection, property repairs and maintenance charges would normally be charged against the relevant income fund as would the cost of rent reviews. Valuation fees and other expenses incurred in connection with the sale of such land would

normally be charged to capital, ie. against the gain (or added to the loss) realised on the disposal.

Valuation fees incurred for accounting purposes would normally, in the case of endowment investments, be charged to capital and recorded in resources expended.

All incoming resources derived from assets held as endowment investments should be included in the Statement of Financial Activities. Normally the income forms part of the unrestricted funds but if the application of the income is restricted to a particular purpose the income and corresponding expenditure should be appropriately identified in the restricted funds. Any income not spent at the year-end should be carried forward in the appropriate unrestricted or restricted fund.

## **5 General points**

### **Asset Gains and Losses**

If a gain is made on the disposal of an asset, the gain will form part of the fund in which the asset was held. An unrealised gain on an asset will also form part of the fund in which the asset is held. Similarly unrealised losses and provisions for depreciation and impairment of an asset will reduce the fund in which the asset is (or, in the case of a realised loss, was) held. In order to ensure that gains, losses and provisions are added to or deducted from the correct fund it is therefore essential to know which assets and liabilities are held in which fund.

### **Restricted Income and Expenditure**

The trustees of a charity will be in breach of trust if they expend restricted income otherwise than in furtherance of that aspect or those aspects of the objects of the charity to which expenditure is restricted. It is therefore essential that due care is taken to spend out of a particular restricted income fund only where the trusts so permit. Expenditure may be charged to a restricted fund which is not at the time in credit, or not in sufficient credit, where there is a genuine anticipation of receipts which can properly be credited to the fund in order to meet the expenditure (e.g. where a decision has been taken to invite donations for that fund). The fund which is actually drawn upon to finance the expenditure should be held upon trusts which are wide enough to permit the expenditure (in case the expected receipts do not materialise). However, if expenditure has been charged to an unrestricted fund, it should not subsequently be recharged to restricted fund receipts simply in order to increase the fund of unrestricted income. Loans from one fund to another are classed as transfers and can only be made where the purpose of the funds are sufficiently similar to allow such payments.

### **Fund Assets and Liabilities**

It is also important for the trustees to ensure that the assets and liabilities held in a fund are consistent with the fund type; if a fund which, because of donor restrictions, must be applied in the short term is represented by assets which cannot reasonably be expected to be realised in the short term, there is a real possibility that the charity will not be able to apply the funds as directed.

## **Income Application**

Where restricted income has been invested prior to application for a suitable charitable purpose, any income/gains derived from the investment will be added to, and form part of, the restricted income fund in question. Income derived from the investment of capital (endowment) funds may be applied for the general purposes of the charity (unrestricted income), unless a specific purpose has been declared by the donor for the application of the income from the capital fund in question. Such income will be applicable for that purpose and will be restricted income. Gains from the realisation of investments in a capital (endowment) fund form part of the fund itself.

## Appendix 2

### CARE OF CATHEDRALS MEASURE 2011

1 The following is a brief summary of the Care of Cathedrals Measure 2011 in so far as it is relevant to the exclusion of the cathedral building and the items included in its inventory from the cathedral's balance sheet.

2 The Care of Cathedrals Measure 2011 is designed to make provision for the care and conservation of cathedral churches. It establishes a Cathedrals Fabric Commission (the Commission) and requires each cathedral to set up a Fabric Advisory Committee. No work may be carried out on the cathedral that would materially affect its architectural, archaeological, artistic or historic character, nor may any object of architectural, archaeological or artistic interest be sold, lent or disposed of without the approval of either the Commission or the Fabric Advisory Committee (FAC).

3 The Measure sets out in detail how this approval is to be obtained.

4 The cathedral architect must report to the Chapter and to the Commission every five years on the work which he considers will need to be carried out as soon as practicable (s26).

5 The cathedral's FAC consists of an equal number of members appointed by the Chapter and the Commission. The Commission's nominees will have special knowledge of the care and maintenance of buildings of outstanding architectural or historic interest and a particular interest in the cathedral concerned (Sch 2(1) of the Measure).

6 The Chapter is required to maintain an inventory of all items considered by the FAC to be of architectural, archaeological, artistic or historic interest in the possession of the cathedral church (s 24). The form of the inventory is specified by the Commission. The sale, loan or other disposal of an object included in the inventory requires approval from the cathedral's Fabric Advisory Committee. If the item is of outstanding interest, then approval is required from the Cathedrals Fabric Commission.

7 "An object of architectural, archaeological, artistic or historic interest" should be taken to be any object of intrinsic merit in these fields, or any object which in some way elucidates or extends the current knowledge or understanding of the architectural, archaeological, artistic or historic heritage of a cathedral church and its foundation, or which is illustrative of its contribution to ecclesiastical or wider history" (Advisory Guidelines, 3iii, Cathedrals Fabric Commission, 1992). Items to be recorded in the inventory include altars, fonts, furnishings, plate of precious metals, other vessels and ornaments, vestments, textiles and embroideries, musical instruments (e.g. organs), bells, clocks and dials, monuments, paintings, windows, tiles and ceramics (see Appendix 1 to Advisory Guidelines for a checklist of possible categories and types of object).

8 Some cathedrals may have prepared asset registers or other lists of all their possessions, including e.g. chairs and audiovisual equipment. Such lists should not be confused with the inventory required by the Measure.

**9** The Measure is supported by detailed rules (Care of Cathedrals Rules 2006) and directions and guidelines issued by the Commission. All these documents should be referred to if it is necessary to obtain a fuller understanding of the subject. Advice can be found on the ChurchCare website, [www.churchcare.co.uk](http://www.churchcare.co.uk)

## Appendix 3

### PENSION SCHEMES (INCLUDING THOSE MANAGED BY THE CHURCH OF ENGLAND PENSIONS BOARD)

1 Module 17 of the SORP (FRS 102) states that a multi-employer defined benefit pension scheme must be accounted for as a defined benefit pension unless sufficient information is not available to use defined benefit accounting. Where sufficient information is not available charities participating in a multi-employer defined benefit scheme must account for contributions to the plan as if they were made to a defined contribution plan. A charity that is accounting for its obligations under a defined benefit multi-employer plan as though it were a defined contribution plan must also recognise any liability to make payments to fund any deficit relating to past service where it has entered into an agreement to make those payments. The cathedral must recognise a liability for the present value of contributions payable that result from the terms of the agreement with the multi-employer plan. This expense should be allocated, where practicable, to the activities in the SOFA to which the past service cost relates and must be disclosed separately if it is material.

2 Defined Contributions plans are post-employment benefit plans where the employer pays fixed contributions into a separate fund. There is no obligation on the employer to make additional payments to the plan. Any liability and expenses should be allocated to the unrestricted funds and restricted funds on the same basis as other employee related costs. If a scheme is not a defined contribution plan then it is a defined benefit plan.

#### Background - Clergy Pensions

Clergy pensions are provided for by two different schemes:

- The Church of England Pensions Scheme, funded by the Church Commissioners, relates to pensions arising from service up until 31 December 1997. No charge for that past service pension obligation is made on cathedrals and cathedrals have no responsibility to account for any aspect of this scheme.
- The Church of England Funded Pensions Scheme (the Funded Scheme) relates to pensions arising from service from 1<sup>st</sup> January 1998. This latter scheme is a contributory defined benefit scheme with contributions broadly being paid by those paying the stipends/salaries of the members. When cathedrals are responsible for paying clergy stipends, they make contributions to this funded scheme and must account for this in their accounts.

Contribution rates to the funded scheme will vary according to actuarial review, normally undertaken every three years.

#### Background - Lay Employee Pensions

The provision of pension arrangements for lay employees can vary between cathedrals, with some participating in a section of the Church Workers Pension Fund and others having separate 3<sup>rd</sup> party provision.

The Church Workers Pension Fund (“CWPF”) now has 3 discrete “Sections” within the Fund that cathedrals can be participating employers of:

- Defined Benefit Section (“DBS”);
- Pension Builder Classic ( has been known as the Defined Contribution Scheme or Pension Builder);
- Pension Builder 2014 - a new cash accumulation scheme within the Pension Builder section of CWPF which has been designed to meet the mandatory requirements of the Government’s Auto Enrolment Regulations

### **Accounting Requirements - the basics**

The largest overhaul in accounting for pensions and other retirement benefits came with the implementation of FRS17 in 2005 which superseded SSAP 24. The next episode in the accounting for pensions and other post-retirement benefits is the introduction of FRS102 into the UK Charity accounting framework. There is one change in its requirements that will have a significant change in how cathedrals account for post-retirement benefits.

FRS102 continues with the assertion that there are two main types of pension scheme (now called “plans”):

- a defined contribution plan;
- and a defined benefits (final salary) plan.

In a defined contribution scheme (“money-purchase”) the employer contracts to pay specific contributions to an employee’s pension fund, usually based on a percentage of salary. The employee will also normally contribute to the scheme. The amount the employee will receive in the future as a pension will depend on the investment performance of the particular fund’s assets. The employer has no other ongoing liability. The cost of providing the pension will be charged to staff costs in the annual accounts as the contributions payable for the year.

In a defined benefit scheme, the employer contracts to finance a pension which will provide a certain amount, for example, one/sixtieth of final salary multiplied by the number of years’ service over a given period of time. In such schemes the employer has an open-ended liability. A defined benefit scheme requires periodic actuarial review to advise the employer/trustees of any adjustments needed to the annual rates of contributions to be made. Final salary schemes are the most common type of defined benefit scheme, and the higher-paid an employee is on retirement and the longer the length of service the greater the employee’s pension entitlement will be and thus the greater the liability to be met out of the pension scheme. Actuarial reviews are complicated, as future salary levels and investment returns can only be estimated, and at the point of any year-end review the fund could appear to be in deficit or surplus depending on the state of investment markets and on the various assumptions made in the method of calculation required under the standard.

The concepts for valuing the year-end assets and liabilities within a defined benefit pension scheme remain unchanged:

- Assets should be measured at their fair value ( in practice -the mid-point market value for quoted securities);
- Liabilities should be measured using the projected unit method and discounted at a rate that reflects the time value of money ( again in practice - an AA corporate bond rate);

A difference is that FRS102 does not require an entity to engage an independent actuary to perform the comprehensive actuarial valuation needed to calculate its defined benefit obligation. However, in practice, it is likely that entities will continue to do so as they will not have the required skill set to undertake such calculations that will meet with approval of their auditors.

The standard provides for the recognition of the year-end funding position of defined benefit schemes, as well as any other (e.g., non-contractual) staff retirement benefit arrangements giving rise to an ‘operationally binding’ commitment, in the accounts of those employers who fund the schemes/arrangements. The following should be recognised in the accounts:

- The calculated pension scheme surplus or deficit as at the year-end is recognised in full in the balance sheet as an additional line below the line for net assets, drawing a new total for the figure of net assets including pension-funding asset or liability;
- The movement in the scheme surplus/deficit is analysed in the SOFA into:
  - i. The change in the net defined benefit liability arising from employee service rendered during the year (within net income/ expenditure, which means within staff costs in the SOFA);
  - ii. The interest cost and expected return on assets (the year’s changes in these two aspects of pension financing, if a net expense, are best shown within “expenditure on raising funds” or else, if a *negative* cost, as “other income” - separately, if material);
  - iii. “Actuarial gains and losses” which arise when the actuarial assumptions made at the last valuation do not coincide with the actual over the given period of time. Actuarial gains and losses on pension-funding have to be recognised immediately, i.e. in the year they occur, on a separate line called “Actuarial gains and losses on defined benefit pension scheme.

The disclosure of the full impact of any multi-employer defined benefit plan in the Cathedral’s balance sheet and SOFA requires the ability to be able to identify each employer’s share of the scheme’s assets and liabilities. Where this is not possible then the pension plan is treated in the accounts as a defined contribution plan - though full notes about the plan are required.

The significant difference within FRS102 is that where a multi-employer defined benefit pension scheme is accounted for as a defined contribution scheme and the participating Employers have an agreement in place to fund a deficit relating to past service, the employers should recognise a liability to make the payments to fund the deficit (FRS2012 28.11 A and SORP17.190).

The standard notes that should the liability not be settled within the next 12 months then it should be measured at the present value of the future deficit reduction contributions payable. These payments are discounted to the present value using the market yield on high quality corporate bonds, if material. They would also recognise a finance cost within their SOFA equal to the unwinding of the discount rate.

By means of illustration, assuming deficit payments of £375,000 per year payable over 15 years, using a discount rate of 4.5% would result in a balance sheet liability of around £4 million. The finance costs would be equivalent to an annual deficit payment of c.£375,000 in this example.

**This means that employers participating in multi-employer defined benefit schemes will now have to fully recognise pension scheme liabilities.**

### **Accounting application to cathedral financial statements**

Defined contribution schemes are operated by a number of cathedrals in relation to lay members of staff, but the Clergy Funded Pension Scheme and the majority of other pension schemes for cathedral lay staff are defined benefit schemes in nature.

Some cathedrals are members of the CWPF for lay employees, in which each cathedral is classed as a separate employer. However, a detailed study of the various aspects of the Pensions Measure 1997 and the CWPF by the Pensions Board's actuaries indicated that both schemes should be treated as defined contribution schemes for the purposes of cathedral financial accounts rather than defined benefit schemes. This is because the schemes assets and liabilities cannot be apportioned between the participating employers and the divisions that exist between employers' sections are notional.

However, each cathedral needs to take care that if they have entered into an agreement that determines how the cathedral will fund a deficit, then the cathedral needs to recognise a present value liability for the contributions payable that arise from the agreement (to the extent that they relate to the Deficit) with a resulting expense in the SOFA allocated it to the activities to which the past service cost relates and disclosed separately (if material).

Practical application questions that may occur from the implementation of this aspect of FRS102 include:

- How do you calculate the present value of the deficit contributions payable?- there are a number of present value calculation models readily available via the internet;
- How do you ascertain the discount rate to use in the present value calculation, especially given that it is for a bond that has a maturity that is appropriate for the scheme's liabilities?
- Is the present value impact on the liability calculation actually material enough to require incorporation into the financial statements? You will only know if you undertake the calculation in the first place.

Cathedrals whose staff are not members of the Church Workers Pension Fund but have a defined benefit scheme with some other provider should clarify with their providers how they should account for the scheme under FRS102.

No provision should be made by cathedrals for past service pensions for clergy service up to 31 December 1997 which are paid from the Church of England Pensions Scheme funded by the Church Commissioners.

With effect from 1 January 1988, cathedral clergy became members of the Church of England Funded Pension Scheme -its accounting treatment is the same as that of the cathedral section of the Church Workers Pension Fund.

The remaining sections of the Church Workers Pension Fund (Pension Builder Classic and Pension Builder 2014) are known as “hybrid schemes” in that their nature combines elements of both defined benefit and defined contribution schemes. These schemes are to be accounted for as defined contribution schemes for the purpose of the cathedral’s financial statements. The amounts recognised within the SOFA are the amount of contributions payable for that fiscal period.

### **Pension Disclosure**

Cathedrals should disclose the pension position by way of a note. The Pensions Board will provide a draft wording for this note each year.

## Appendix 4

### TOTAL RETURN (INVESTMENTS)

- 1 Trust law requires the trustees of a permanently endowed fund to be even-handed in the way that they allocate investment returns between current and future beneficiaries. Under standard trust rules, income generated from endowed investments must be spent on the purposes of the fund for current beneficiaries and any capital gains or losses must be allocated to the capital of the endowment held to produce income for the benefit of future beneficiaries.
- 2 The Miscellaneous Provisions Measure 2014 amends the Cathedrals Measure 1999 to allow cathedrals to adopt a total return approach to permanent endowment funds.
- 3 When a **total return** approach to investment is adopted, the permanently endowed funds are invested to produce an investment return without regard to whether that return is in the form of income (for example, dividends or interest) or capital appreciation.
- 4 The investment return forms a component of the endowment fund known as the ‘unapplied total return’. The trustees then periodically determine how much of the ‘unapplied total return’ is released to income for spending and how much is retained for investment as a component of the endowment. This allocation must be made equitably to balance the need for income to meet current requirements and to hold funds as part of the endowment to produce investment returns for the future.
- 5 Under a total return approach to investment, the endowment has two distinct components:
  - the value of the original and any subsequent gifts made to the capital of the endowment (which cannot normally be spent) which is termed the ‘value of the trust for investment’; and
  - the ‘unapplied total return’ which represents the accumulated investment returns from the investment of the endowment less any amounts which have been allocated to income.
- 6 The Chapter may, if satisfied that it is in the interests of the cathedral to do so, amend or revoke a total return resolution.
- 7 Where the Chapter is proposing to revoke a total return resolution, it must determine whether or not there is a negative total return, where the total return represents a reduction in the value of the cathedral’s endowment, as it was immediately before the total return resolution was passed.
- 8 Where the Chapter determines that there is a negative total return, it must make provision in its annual report and accounts specifying how an amount equivalent to the negative total return is to be paid in to the cathedral’s endowment over such period as the Chapter thinks reasonable, not exceeding 10 years from the date when the total return resolution is revoked.

- 9 Where the Chapter does not determine that there is a negative total return, the Chapter must determine what part of the unapplied total return of the assets of the cathedral should be allocated for accumulation as part of its investments.
- 10 The amount allocated must not result in the value of the cathedral's endowment immediately after the date of the revocation exceeding its value immediately before the date when the total return resolution was passed, increased by the rise in the Retail Price Index between the last mentioned date and the date of revocation.

#### **Disclosures required in the trustees' annual report**

- 11 The Chapter must provide the following additional information in the annual report:
  - the date that the initial value of the trust for investment and the initial value of the unapplied total return was established;
  - the policy used to identify the initial amounts of the trust for investment and any unapplied total return and the date this analysis was performed;
  - an explanation of the policies used by the Chapter and the factors considered in determining the amount of the unapplied total return allocated to income (termed the trust for application) and any amounts allocated to the trust for investment in the reporting period;
  - an explanation of the policies used by the Chapter and the factors considered in determining the amount, if any, of the trust for investment (permanent endowment) allocated to the unapplied total return or any recoupment made from the unapplied total return into the trust for investment in the reporting period; and
  - the name and professional qualifications of any person who has provided advice to the Chapter as to the amount that can be allocated to income and/or the trust for investment from the unapplied total return in the reporting period.

#### **The accounting treatment**

- 12 The SORP (FRS 102) requires that the following accounting treatment must be used where a charity adopts a total return approach to the investment of endowment:
  - income from the endowment's investments must be recognised as 'investment income' in the endowment column of the SOFA;
  - investment gains and losses (realised and unrealised gains and losses) must be recognised as 'investment gains and losses' in the endowment column of the SOFA;
  - any part of the unapplied total return that is allocated to income funds must be separately identified in the SOFA as an allocation between endowment funds and income funds either within the 'transfer' line or within the 'other income' section of the SOFA; and

- the amount of any unapplied total return fund must be included as a part of the relevant endowment together with the value of the trust for investment on the balance sheet.
- 13 Exceptionally, where investment losses exceed the amount of unapplied total return, the loss must be treated as a reduction in the value of the trust for investment component of the permanent endowment until such time as these losses are reversed.

**Disclosures required in the notes to the accounts where permanent endowment is invested on a total return basis**

- 14 The SORP (FRS 102) requires that the notes to the accounts must provide the following information for each endowment fund that is invested on a total return basis:
- the amount of the value of the trust for investment which comprises the gift component of the endowment at the start of the reporting period;
  - the amount of any additional gifts to the endowment fund during the reporting period added to the value of the trust for investment;
  - the amount of any unapplied total return at the start of the reporting period;
  - the amount of the investment return from the investment of the endowment for the reporting period;
  - the amount of any allocations of unapplied total return to income funds;
  - the amount of any recoupment to make good the value of the trust for investment;
  - the amount of any allocation from the trust for investment to the unapplied total return;
  - the amount of any unapplied total return at the end of the reporting period;
  - the total amount of the endowment fund at the end of the reporting period; and
  - details of the power of investment or the order that permits the charity to adopt a total return approach to investment.

Table 1 summarises how the disclosures required in the notes to the accounts may be set out.

**Table 1: Example of the disclosure of a total return approach to investment of permanent endowment**

	Trust for investment	Unapplied Total Return	Total Endowment
	£	£	£
<b>At beginning of the reporting period:</b>			
Gift component of the permanent endowment	X	-	X
Unapplied total return -	X	X	
<b>Total</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>Movements in the reporting period:</b>			
Gift of endowment funds	X	-	X
Recoupment of trust for investment	X	(X)	-
Allocation from trust for investment	(X)	X	-
Investment return: dividends and interest	-	X	X
Investment return: realised and unrealised gains and (losses)	-	X	X
Less: Investment management costs	-	(X)	(X)
<b>Total</b>	<b>X</b>	<b>X</b>	<b>X</b>
Unapplied total return allocated to income in the reporting period	-	(X)	(X)
<b>Net movements in reporting period</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>At end of the reporting period:</b>			
Gift component of the permanent endowment	X	-	X
Unapplied total return	-	X	X
<b>Total</b>	<b>X</b>	<b>X</b>	<b>X</b>

## Appendix 5

### CATHEDRALS ADMINISTRATION AND FINANCE ASSOCIATION ACCOUNTS WORKING GROUP

#### Members of the working group

Jacqui Brown (Chairman)	Head of Finance	Durham Cathedral
Caroline Robinson (Secretary)	Chapter Treasurer	Chelmsford Cathedral
Carol Fletcher	Senior Financial Planner	Church Commissioners
John Atherden	Cathedral Accountant	Manchester Cathedral
Rob Trice	Finance Manager	Rochester Cathedral
Richard Gurd	Finance Director / Cathedral Accountant	Salisbury Cathedral
Fran Joel	Finance Manager	Sheffield Cathedral