Guidance for PCC Treasurers on preparing 2011 Financial Statements

The guidance below is offered as an aid in preparing PCC Financial Statements ("Accounts") for 2011. Many Treasurers have adapted what they do to meet the requirements of the 2005 Statement of Recommended Practice (or SORP) for Charities, and the Charities Act 2006, but some are still working on an older model. Changing to the new model both meets the requirements of the law and (more importantly) makes it easier to fill in the Annual Financial Return.
More detailed guidance is available on the Church of England website www.parishresources.org.uk (and then follow links to Treasurers' Resources) or contact me at Diocesan House – I am here to help you! Mike.bishop@cofeguildford.org.uk

1. You will have probably already made the decision as to whether to use the 'Receipts & Payments' or the 'Accruals' model. If your *gross* income (*all* accounts under PCC control, without netting off) is over £250,000, then you *must* use the Accruals model. If gross income is less than £250,000, you can opt for Receipts & Payments (R&P), but you are not advised to change back once you have switched to Accruals. The reason for this is that the annual figures for R&P are dependent on the timing of transactions, which can give an uneven picture from year to year. You may wish to consider if R&P gives a 'true and fair view' when gross income lies in the range £100 – 250k.
   If you need any help in preparing accounts using the Accruals model, please ask – it's not that difficult!

2. For Accruals accounts, you should prepare a <u>Statement of Financial Activity</u> (SOFA) and a <u>Balance Sheet</u>. There should be a single SOFA and a single Balance Sheet, incorporating all funds which the PCC controls or for which it is responsible. Ideally, different classes of fund - Unrestricted, Designated (which are also unrestricted), Restricted and Endowment, should be shown in separate columns. These tables should not be too detailed, but use <u>Notes</u> for further analysis and explanation.

3. Fixed Assets should be included in the Balance Sheet. These may be Tangible (buildings and equipment) or Investment (long-term investments, excluding CBF Deposit accounts). Some PCCs exclude Halls or houses in the mistaken belief that such assets where the DBF is custodian trustee appear on the DBF's Balance Sheet and therefore should not be on the PCC's. The assets belong to the PCC (ie it gets the benefit of any sale, however hypothetical), and should be on the PCC's Balance Sheet. You can consult your Independent Examiner about this, or ask me for advice. Church buildings are usually consecrated and, with Parsonages, belong to the benefice, not the PCC, and should not appear on the PCC's Balance Sheet.

4. If you are using the R&P model, your Financial Statements should comprise a <u>Receipts & Payments Account</u> together with a <u>Statement of Assets & Liabilities</u> (SAL) and *not* a Balance Sheet. Again, the R&P account should not be too detailed, and <u>Notes</u> will also be needed.

   It is permissible to produce separate R&P accounts for each fund, but ideally there should be a single table showing all the funds, separated into classes (Unrestricted, Designated, Restricted, Endowment), with the Notes giving any necessary detail.

5. Note that *income* from Endowment fund capital is either Restricted or Unrestricted (according to the terms of the Endowment). It cannot be added to the Endowment fund itself.

6. If there are any transfers between funds, these should be shown on the SOFA below net Incoming/Outgoing Resources, or in the R&P account below net Receipts/Payments. They must add up to zero!

7. For Accruals, the Notes should include separate notes on:

   - Debtors (amounts owed to the PCC at the year end),
   - Liabilities (amounts owed by the PCC at the year end),
   - Funds (including the purpose of any funds designated by the PCC, and the source and purpose or conditions set by the donor of any restricted or endowment funds,
   - Net assets by class (showing, for example, what value of tangible, investment and current assets are held in unrestricted or restricted funds).

8. For R&P accounts, the SAL is *not* intended to be a Balance Sheet! The only 'balance' expected is that the cash/bank balances should agree with the R&P account itself, which only shows transactions (ie 'cash'). In addition, the SAL should show separately any other assets or liabilities. It will therefore *not* show the actual value of funds, individually or collectively. This is one of the limitations of R&P accounts, but such detail can be shown in the Notes.

9. All PCCs are charities, but only the larger ones (with gross income over £100,000) are required to register with the Charity Commission. If your PCC has registered, you must show that in the Annual Report & Accounts, and the registered number should be shown prominently in any official document (or letterhead). If you are not registered but should be, please ask me for the guidance which is available to do this online (the process is simple but the answers are not all obvious). If you do not need to register, the PCC is still a charity, but it has no registered number. You may *not* use the DBF number under any circumstances – the DBF is a separate charity!

10. The PCC's accounts must be Independently Examined by an Examiner appointed by the Annual Meeting (or audited by a Registered Auditor if the gross income exceeds £500,000). Normally, the PCC will be expected to agree the final draft Annual Report (agreed with the Examiner) and sign it off. Note that the Annual Report includes the Financial Statements. The examiner will then sign a Report, which should be included with the Annual Report presented to the Annual Meeting.

    PCCs which are registered with the Charity Commission must submit a copy of their Annual Report to the Commission as well as to the Diocese (not instead of!). The Charity Commission will also expect completion of a Annual Return. Submissions to the Charity Commission can be done online.

    The diocesan copy of the Annual Report can be submitted in hard copy or as an email attachment, but *must* include scanned copies of the signatures for the PCC (normally at the end of the Report section *and* on the Financial Statements). The Church of England now has a national online system for submitting the Annual Finance Return directly by the parish.

This guidance is not meant to be exhaustive! If you have any other questions, please contact me, preferably by email (mike.bishop@cofeguildford.org.uk) and I will try to help.