Young People's Learning Agency

Academies: Accounts Direction 2010/11

August 2011

For action Responses are required by 31 December 2011.

Championing Young People's Learning

Contents

Chapter 1: Summary of requirements

Background

1. The purpose of this Accounts Direction is to provide guidance to Academy Trusts and their external auditors on the preparation of Academy Trusts' annual reports and financial statements. The Direction supplements the Charity Commission's Statement of Recommended Practice (the SORP) – Accounting and Reporting by Charities 2005 (updated 2008).

2. The Direction applies for the period / year ending 31 August 2011 and supersedes 'Chapter 5 Annual Accounts' of the Academies Financial Handbook. The Direction will be of interest to principals, chief executives, finance directors, external auditors and other key stakeholders in the Academies sector.

Requirement to prepare annual reports and financial statements for 2010/11

3. In preparing their accounts, Academy Trusts should be clear about the:

    - duration of their 'accounting period' and
    - end-date of the period.

    Generally, Academy Trust accounts will be produced for a twelve month accounting period ending on 31 August; unless a different accounting period-end date has been agreed with the Department for Education (DfE).

4. However, Academy Trusts are able to apply section 391(5) of the Companies Act 2006 that permits an initial accounting period (that is to say the period immediately after incorporation) of up to eighteen months. Taking 2011 as an example, the consequences of this provision are as follows:

    - An Academy Trust incorporated on or before 28 February 2011 should prepare its first accounts up to 31 August 2011, because deferral to 31 August 2012 would take it beyond the permitted eighteen month maximum period.
    - An Academy Trust incorporated on or after 1 March 2011 may, if it wishes, defer preparation of its first accounts to 31 August 2012.

5. Note that it is the incorporation date (i.e. the date of company registration at Companies House), not the Academy Trust's operational opening date, that is relevant to these provisions.

Summary of Direction contents

6. Included in the Direction are guidance notes, which set out the requirements for the preparation of the annual report and the financial statements, the timetable for reporting and more detailed advice on form and content. The guidance notes also include advice on specific topics and their related accounting treatment.

7. In addition, a model annual report and financial statements is included and this is based on an example Academy Trust called Coketown. The model annual report and financial statements have been updated to reflect latest Companies Act, Charity Commission and YPLA requirements.

8. For many Academy Trusts there may no longer be the need to include a separate income and expenditure account and a statement of total recognised gains and losses in the financial statements, as this information is included in the statement of financial activities. The circumstances where this may be applicable are set out in the guidance notes, at chapter two of this Direction.

9. The non-statutory detailed income and expenditure account has been removed from the financial statements and an updated version will be required within the abbreviated accounts return (AAR). The purpose of the AAR is to ensure the YPLA receives data in a consistent format to monitor the financial health of academies, as a whole or individually, and to share benchmarking data amongst the sector.

10. The AAR is an excel file which will be populated from key information collected from the financial statements. The format of the AAR and accompanying guidance for its completion will be issued by the YPLA as a supplementary document to this Direction, in the autumn of 2011.

Submission and publication requirements

11. By 31 December 2011, at the very latest, the following should be submitted to the YPLA:

- Hard copies of the audited accounts, comprising the annual report and the financial statements, containing signatures of the governing body and auditor;
- A hard copy of the independent auditor's management letter; and
- A signed electronic copy of the AAR by email. This document is signed only by the governors and is not part of the audited information.

12. The address for submission is as follows:

YPLA - External Assurance and Financial Monitoring Team
The Straddle
Victoria Quays
Wharf Street
Sheffield S2 5SY
academiesfinancialmonitoring@ypla.gov.uk

13. In addition to submitting accounts to the YPLA, under section 442 (2a) of the Companies Act 2006, accounts must be filed with Companies House within 9 months of the end of the accounting period. For the majority of Academy Trusts this will be no later than 31 May 2012. Section two of the guidance notes considers this requirement in more detail and identifies where there may be exceptions to this date.

14. As exempt charities, Academy Trusts are no longer required to submit their annual reports and financial statements to the Charity Commission for publication. However, whilst they can be obtained from Companies House, to maintain transparency and openness Academy Trusts are strongly advised to publish such documents on their own websites as an alternative method of making them publicly available. For some Academy Trusts this requirement is a condition of their funding agreement.

Queries

15. Academy Trusts are expected to share this guidance and discuss any queries regarding its content with their external auditors in the first instance.

Chapter 2: Guidance on the preparation of the annual report and the financial statements

Table of Contents

1. Introduction

1.1. On 1 August 2011 all Academy Trusts became exempt charities by virtue of section 12(4) of the Academies Act 2010. Under a new regulatory framework, the Department for Education (DfE) will regulate them as charities, assisted by the YPLA. As exempt charities, Academy Trusts are not required to register with the Charity Commission and any Academy Trusts that have registered in the past will be automatically deregistered.

1.2. As charitable companies, Academy Trusts must comply with company law as set out in the Companies Act 2006. Academy trusts must also comply with charity law set out in the Charities Act 1993 (as amended by the Charities Act 2006) unless provisions of the Act are specifically excluded due to exempt charity status. Further information on these exclusions can be found in the Charity Commission publication CC23 Exempt Charities, available on the Charities Commission website at:

http://www.charitycommission.gov.uk/Publications/cc23.aspx#which

1.3. The Companies Act sets out the form and content of the financial statements and includes the requirement to prepare a directors' report (which in this guidance is called a governors' report and forms part of the Academy Trust's annual report) to accompany the financial statements. The financial statements must also be independently audited by a statutory auditor.

1.4. The financial statements should be prepared to **31 August** each year (as a requirement of the funding agreement), unless the DfE has specified in writing that another date can be adopted as the Academy Trust's accounting year-end date. They are required to give a true and fair view of the state of the Academy Trust's affairs for the year then ended and should include:

- incoming resources from all sources receivable in the period;
- resources expended on all activities within the period;
- all assets and liabilities of the Academy Trust at the balance sheet date; and
- notes to the accounts.

1.5. In order to give a true and fair view the financial statements must be prepared according to the requirements of the Companies Act 2006 and Regulations made under the Act, and applicable United Kingdom accounting standards. Academy Trust's must also prepare their accounts in accordance with the **Statement of Recommended Practice - Accounting and Reporting by Charities (revised) ('the SORP')**. They must also be prepared in accordance with the accounting policies agreed by the Academy Trust's governing body. A copy of the SORP together with accompanying information sheets, other Charity Commission guidance and legislation are available to view and download from the Charity Commission website at:

http://www.charitycommission.gov.uk/Charity_requirements_guidance/Accounting_and_reporting/Preparing_charity_accounts/sorp05docs.aspx

1.6. These guidance notes aim to:

- Translate the above requirements into a general reference source detailing the financial reporting obligations of Academy Trusts;
- Set out a best practice form of the annual accounts in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP').
- Reduce potential diversity in accounting practice within the sector;
- Provide detailed guidance on the accounting treatment in respect of specific topics.

1.7. However, it is not intended that these notes should be considered as a substitute for referring to the appropriate accounting standards and legislation, and Academy Trusts should refer to the full standards.

1.8. These guidance notes supplement the information contained in the model annual report and financial statements for Coketown Academy Trust and should be read in conjunction with the model provided. Please note the figures included in the model financial statements are for illustrative purposes only.

2. Timetable for financial reporting

Reporting to the YPLA

2.1. By 31 December (at the very latest) Academy Trusts should submit hard copies of the audited accounts, comprising the annual report and the financial statements, containing signatures of the governing body and auditor together with a copy of the independent auditor's management letter.

2.2. The governing body should prepare, and agree with their auditor, a financial statements preparation and audit timetable that enables the 31 December deadline to be achieved. The timetable should incorporate the date of the governors' meeting at which the accounts will be approved. A schedule of best practice is included as an annex to this guidance and this aims to facilitate the approval of the financial statements on a timely basis.

Reporting to Companies House

2.3. In addition to submitting accounts to the YPLA, Academy Trusts must also file them with Companies House. Under section 442 (2a) of the Companies Act 2006 accounts must be filed with Companies House within 9 months of the end of the accounting period. For the majority of Academy Trusts this will be no later than 31 May 2012.

2.4. However, where an Academy Trust is preparing accounts for its first period after incorporation and is preparing them for a period of greater that 12 months, then under section 442 (3) of the Companies Act 2006 the accounts must be filed within 21 months of incorporation, or within 3 months of the end of the accounting period, whichever is the latter.

2.5. The consequences of this may be that some Academy Trusts (notably those incorporated during March 2010) may need to file their accounts with Companies House earlier than the date that they must be submitted to the YPLA.

2.6. A copy of the annual report and audited financial statements must be sent to the companies' registrar on a timely basis and the registrar will levy an automatic penalty of at least £150 if accounts are filed late.

Reporting to the Charity Commission

2.7. As exempt charities, Academy Trusts are not required to submit their annual report and financial statements to the Charity Commission.

3. An overview of the annual report and financial statements

3.1. The annual report and financial statements should include:

3.2. **Report**

- A governors' report;
- A statement on internal control;
- A statement of governors'/trustees responsibilities;
- An independent auditors' report;

3.3. **Financial statements**

- A statement of financial activities;
- A balance sheet;
- A cash flow statement;
- A statement of accounting policies; and
- Other notes to the financial statements.

It may also include (in certain circumstances):

- An income and expenditure account and a statement of total recognised gains and losses.

4. The governors' report

4.1. Purpose of the report

4.1.1. Where the governors are not the same body of people as the trustees of the Academy Trust, then where there is any statutory statement required ‘governors’ should be replaced with ‘trustees’. For the purposes of the Coketown model accounts, the governors are the trustees.

4.1.2. The governors are jointly responsible for the preparation of a governors’ report in addition to the financial statements. Whilst the governors’ report is a legally separate document from the financial statements, they are presented together in the same publication.

4.1.3. The governors’ report should describe what the Academy Trust is trying to do and how it is going about it, demonstrating whether and how the Academy Trust has achieved its objectives during the year and explaining the Academy Trust’s plans for the future.

4.1.4. The elements of the governors’ report are illustrated in the model annual report and financial statements for Coketown Academy Trust, together with a brief explanation of the matters that are expected to be included under each heading. A reference to the appropriate paragraphs in the SORP has also been incorporated, to assist where further explanation is required in the preparation of the report.

4.2. Legal obligations

4.2.1. The governors' report should meet:

- The requirement for a directors' report as described in s415 - 419 of the Companies Act 2006;
- The requirements of a ‘trustees report’ as set out in the SORP.

4.2.2. The Companies Act requires a business review (sometimes referred to as the ‘enhanced business review’). The review should include a fair review of the charitable company’s business incorporating a description of principal risks and uncertainties. Following the requirements of the SORP will ensure that these matters are largely covered. Whilst this guidance highlights the areas that must be included in the governors’ report, the SORP encourages charities to provide additional information where this would give a greater insight into their activities and achievements. Areas that are specific requirements of the Companies Act, but may not be addressed by following the SORP are separately identified in the model accounts.

4.2.3. The governors’ report, the statement of governors’ responsibilities (described later in this guidance) and the financial statements should be approved by the governors as a body and all documents should be signed on behalf of the governors (usually by the chairperson). The date of approval should also be stated, together with the name of the governor who has signed them.

4.3. Elements of the governors’ report

4.3.1. The governors’ report should cover the following matters in relation to the Academy Trust:

- Reference and administrative details
- Structure, governance and management
- Objectives and activities
- Achievements and performance
- Financial review
- Plans for future periods
- Funds held as custodian trustee on behalf of others

4.4. Additional Companies Act requirements

4.4.1. In addition to the above items, the Companies Act requires the report to include disclosure of the following issues:

4.4.2. **Employees and disabled persons** - where the average number of employees exceeds 250 the Academy Trust must for:

- Disabled employees – disclose its policy in respect of applications for employment from disabled persons, the treatment of employees who become disabled and the training, career development and promotion of disabled persons.
- Employee consultation – include a description of the action taken during the year to introduce, maintain or develop arrangements to provide information and consult employees on matters affecting them.

4.4.3. **Fixed assets** – where, in the opinion of the governors, the market value of land and buildings is materially different to the book amount included in the balance sheet a note indicating the difference in value should be included.

4.4.4. **Charitable donations** – disclosure is required if the amount given in the year for charitable purposes by the Academy Trust (and its subsidiaries between them (if applicable)) exceeds £2,000. It is necessary to state, in the case of each of the purposes for which money was given, the amount of money given for that purpose.

4.4.5. **Governors' indemnities** – as the governors are directors, disclosure is required of whether there were any third party indemnity provisions during the year or at the date of approval of the governors' report.

4.5. Reserves policy additional guidance

4.5.1. The reserves policy disclosed in the governors' report should include the following information:

- Why reserves are held;
- What level or range of reserves is considered appropriate for the Academy Trust;
- What the level of reserves is at the year end;
- How the Academy Trust is going to achieve the desired level or range of reserves; and
- How often the reserves policy is reviewed.

4.5.2. It should identify the 'free' reserves of the Academy Trust which are the funds excluding any endowment funds (both permanent and expendable), restricted funds and funds which can only be generated on the sale of a fixed asset used for charitable purposes. These reserves are therefore the resources the Academy Trust has or can make available to spend on the Academy Trust's purposes once it has met its commitments and covered its other planned expenditure.

4.5.3. Where designations are made as part of the Academy Trust's reserves policy, both their purpose and the likely timing of their expenditure should be explained.

4.5.4. Within the reserves policy the Academy Trust should make additional disclosure where, because of accounting for the Local Government Pension Scheme (LGPS), it is recognising a significant pension fund deficit. This deficit should be included within unrestricted funds. This could potentially result in a deficit on the unrestricted funds and where this is the case, this disclosure should explain that it does not mean that an immediate liability for this amount crystallises. Similarly, if there is a pension surplus included in the unrestricted fund this does not create an immediately realisable asset that can be released straight away and expended for the specific purposes of that fund.

4.5.5. The SORP requires disclosure of the circumstances giving rise to the deficit and details of the steps being taken to eliminate the deficit. The reserves policy should explain that a surplus or deficit position of the pension scheme would generally result in a cash flow effect for the Academy Trust in the form of an increase or decrease in employers' pension contributions over a period of years. The Academy Trust should revisit its current business plans and budgets and ascertain how their pension costs might affect their budgets in the future. On the basis that increased pension contributions should generally be met from the Academy Trust's budgeted annual income, whilst the deficit might not be eliminated, there should be no actual cash flow deficit on the fund, or direct impact on the free reserves of the Academy Trust because of recognising the deficit.

4.5.6. For further information see the Charity Commission's publication CC19: Charities and Reserves (http://www.charitycommission.gov.uk/publications/cc19.aspx)

4.6. Public benefit reporting additional guidance

4.6.1. The Charities Act 2006 highlights the requirement for charities to have charitable purposes or 'aims' that are for the public benefit, and to report specifically on the ways in which they have met this requirement. Academy Trusts are required to include in their annual governors' report an explicit statement that the governors have had regard to the Charity Commission guidance on public benefit. For example, 'In setting our objectives and planning our activities the governors have given careful consideration to the Charity Commission's general guidance on public benefit'.

4.6.2. The governors' report should include 'a review of the significant activities undertaken by the Academy Trust during the relevant financial year to further its charitable purposes for the public benefit'. The benefit provided by an Academy Trust may be equated to its achievements in a particular year.

4.6.3. For an Academy Trust it should be quite clear to the reader that its aims and activities performed are for the public benefit. However, a description of the activities is still required. It should include a brief reference to the catchment area for the Academy Trust and the basis on which the pupils are admitted, i.e. explaining who the direct beneficiaries are and how they access the benefits provided by the Academy Trust.

5. Statement on internal control

5.1. A statement on internal control is required to be included in the annual report as the Academy Trust is in receipt of public funds under its funding agreement with the DfE. HM Treasury requires a statement on internal control to be prepared by all public bodies. The statement includes important confirmation that the governors have carried out their responsibility for ensuring that effective management systems, including financial monitoring and control systems, have been put in place. The statement on internal control should be signed on behalf of the governing body by the chairperson and the Academy Trust's accounting officer.

5.2. Only the 'scope of responsibility' section within the statement of internal control is generic in nature and therefore applicable to all Academy Trusts. Accordingly, it can simply be incorporated as worded in the model accounts, with just minor tailoring if the principal is not the accounting officer. However, the remainder of the sections need to reflect the specific circumstances for the reporting period for each individual Academy Trust, and may also require a statement by the governing body describing the extent of the management and control systems in the period where they have not been in place for the whole of the reporting period. These sections are considered below.

Purpose of the system of internal control

5.3. This section requires a description of the purpose of the system of internal control for which there is example wording included in the model accounts. It also requires a statement by the governors confirming that the system of internal control has been in place for the reporting year and up to the date of approval of the governors' report and financial statements.

Capacity to handle risk

5.4. This requires the Academy Trust to describe the way in which leadership is given to the risk management process and that the board of governors have considered and reviewed the risks to which the Academy Trust is exposed, together with the financial and compliance controls that have been implemented to mitigate those risks. The Academy Trust should also make a statement confirming the extent to which it believes that there is a formal ongoing process for identifying, evaluating and managing the Academy Trust's significant risks in place during the reporting period and up to the date of the approval of the governors' report and financial statements.

Risk and control framework

5.5. This section includes a description of the key elements of the risk and control framework. Some example narrative is included in the model accounts, but this should be tailored to the specific circumstances of the individual Academy Trust. This section should also include a description of the delivery of an internal audit/responsible officer function.

Review of effectiveness

5.6. This section should include details of the extent of the review of effectiveness of the system of internal control, and identify the areas that have informed the review. Example wording is included in the model accounts. This section should also include an outline of actions taken or proposed to deal with any significant control issues, if applicable.

New academies in the period

5.7. Where a new Academy Trust has been formed by either converting status or the creation of a new school, it may be in the position where it has not had a full system of internal control including risk management in the period. Even if it did, it may not be in place for the whole of the reporting period including up to the date the governors' report and financial statements were approved. In addition it may not have been fully embedded.

5.8. The governing body will therefore need to give careful consideration to the systems that were in place and how these evolved over the reporting period, and include an appropriate description of the circumstances of the creation of the Academy Trust and the steps that have been taken to develop and implement a system of internal controls. Such description should include the approach to developing and implementing the risk management strategy.

6. Statement of governors' responsibilities

6.1. A separate statement of governors' responsibilities must be included in the annual report, and this normally follows the governors' report and the statement on internal control. This sets out the governors' responsibilities under companies' legislation in respect of preparing the governors' report and financial statements, maintaining adequate accounting records, safeguarding the assets of the charitable company and the requirement for the financial statements to show a true and fair view.

6.2. It should also explain the financial reporting framework that has been applied, which will be UK GAAP, and additionally the Accounts Direction 2010/11 issued by the YPLA. Where this statement is not included in the financial statements, the auditor will need to include it in their report.

6.3. As a result of the nature of the Academy Trust's funding relationship with the YPLA and therefore its receipt of public funds, this confers additional responsibilities on the governors, which are also incorporated in this statement.

7. Independent auditor's report

7.1. The governors' report and financial statements must be accompanied by an independent auditor's report in which they express an opinion on the financial statements. The form of the auditor's report will follow the example included in the 'Compendium of Illustrative Auditor's Reports on UK Private Sector Financial Statements', (revised) issued by the Auditing Practices Board (APB) which is based on International Standards on Auditing (UK and Ireland) 700: The auditor's report on financial statements (revised).

7.2. The report will identify the financial reporting framework that the accounts have been prepared under, which for Academy Trusts is:

- United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice);
- The Annual Accounts Direction 2010/11 issued by the YPLA; and
- Applicable law.

7.3. It will also include a cross reference to the statement of governors' responsibilities and where these are not included in the financial statements they are required to be included by the auditor in the report. There will also be a description of the auditor's responsibilities which states that the auditor will undertake the audit in accordance with the applicable law and International Standards on Auditing (UK and Ireland), and comply with the APB's Ethical Standards for Auditors.

7.4. The report will either include a standard worded paragraph that describes the scope of the audit or a link to the APB website where the wording can be reviewed.

7.5. There will then be separate paragraphs dealing with:

- The opinion on the financial statements (including that the accounts give a true and fair view and have been prepared in accordance with the financial reporting framework including the Accounts Direction 2010/11 issued by the YPLA);
- Opinion on other matters (this must address whether grants from the YPLA/DfE have been applied for the purposes intended);
- Opinion on other Companies Act requirements (the governors' report is consistent with the financial statements); and
- Matters on which the auditor is required to report by exception:
    - If the Academy Trust has not kept proper accounting records;
    - If the financial statements are not in agreement with the accounting records;
    - If certain disclosures of trustees' remuneration specified by law are not made;
    - If adequate information and explanations were not provided for the audit.

7.6. Other than in event of a qualified audit opinion, the audit opinions described above should generally not be modified

8. The financial statements

8.1. The statement of financial activities

8.1.1. The Statement of Financial Activities (‘SOFA’) is a single accounting statement with the objective of showing all incoming resources and resources expended in the year, and how the Academy Trust has used its resources in furtherance of its objects for charitable purposes. It shows whether there has been a net inflow or outflow of resources, including capital gains and losses on assets, and provides a reconciliation of all movements in the Academy Trust’s funds.

8.1.2. The preparation of the SOFA is a requirement of the SORP. The SOFA is set out so, as a minimum, all incoming resources and resources expended in the current period are analysed between unrestricted funds, restricted funds and restricted fixed asset funds of the Academy Trust. This fund analysis is not required for the comparative period. The structure, format and activity categories are considered in the SORP in paragraphs 85-89 and set out in table 3 accompanying those paragraphs.

8.1.3. The three columns in the SOFA provide an aggregate total for unrestricted, restricted and restricted fixed asset funds, which will be explained further in the notes to the accounts.

8.1.4. **Analysis of funds**

8.1.5. The SOFA will generally include three columns for the current period representing the following funds:

- **Unrestricted fund(s)** - resources which can be expended on any purpose of the Academy Trust at the discretion of the governors (within the objects of the Academy Trust as set out in its governing documents);
- **Restricted general fund(s)** - resources which can only be expended on particular purposes, this fund would include the following incoming resources and related expenditure:
    - YPLA General Annual Grant (GAG);
    - Other YPLA grants;
    - Other government grants;
    - Sponsorship of particular projects or activities; and
    - Gifts and donations with restrictions attached (i.e. received for specific purposes).
- **Restricted fixed asset fund(s)** - resources to be spent on particular capital purposes, including the following incoming resources and related expenditure:
    - DfE/YPLA capital grants;
    - Other government capital grants; and
    - Sponsorship monies received for capital projects.
- The SOFA may also include **an endowment fund**, which should be shown in an additional column. An endowment fund is a restricted fund, which is held on trust to be retained for the benefit of the Academy Trust as a capital fund, but the income can be expended either for the specific purposes (restricted income) for which it was received, or at the discretion of the governors (unrestricted income) as appropriate. Income should not be included in the endowment column unless there is new endowment capital received in the period.

8.1.6. **Incoming resources and resources expended activity categories**

8.1.7. The rows in the SOFA should further categorise incoming resources and outgoing resources expended according to the activity that produces or expends the resource. Incoming resources and resources expended should be linked together by using similar or identical headings in different parts of the SOFA. The three activity categories and the relevant sub-headings are:

- **A) Generation of funds**

  Within incoming resources, generated funds should be broken down into:

  - Voluntary income – includes gifts, donations, sponsorship, membership subscriptions, gifts in kind and donated goods and services;
  - Activities for generating funds – includes fundraising events, letting arrangements of property held primarily for functional use by the Academy Trust (not investment properties) and shop income;
  - Investment income – includes interest on investments and rent from investment properties.

- Resources expended on generating funds should be broken down into:

  - Costs of generating voluntary income – includes costs of fundraising, advertising and marketing;
  - Fundraising trading – includes costs of good sold;
  - Investment management costs.

- All incoming resources and resources expended should be shown ‘gross’. In particular the cost of fundraising trading should not be netted off against incoming resources. Categories should be omitted where there is nothing to report in the current or preceding period.

- **B) Charitable activities**

  Charitable activities incoming resources should include YPLA grants. Resources expended should comprise all expenditure directly relating to the objects of the Academy Trust i.e. on the provision of education. As Academy Trusts have essentially only one charitable activity (the operation of the school), the description in the SOFA for charitable activities will be either incoming resources or resources expended on ‘the Academy Trust’s educational operations’.

- In the notes to the accounts, charitable expenditure should be analysed by type of resource expended, between ‘direct provision of education’ and ‘support’ costs.

- Expenditure on the direct provision of education should include teaching costs, teaching support e.g. classroom assistants and laboratory technicians, premises costs and depreciation of equipment used for teaching. Support costs should include the costs of directly administering and supporting the school as an educational establishment e.g. admissions, pupil records etc.

- **C) Governance costs**

  Includes expenditure on the governance of the Academy Trust and will normally include both direct and related support costs. Direct costs will include such items as internal and external audit, legal advice for governors and costs associated with constitutional and statutory requirements e.g. the cost of governor meetings and preparing statutory accounts.

8.1.8. **Other recognised gains and losses**

8.1.9. Where relevant these should be broken down under the headings of ‘Gains and losses on revalued fixed assets’ (being those revaluation gains and losses on assets held for the Academy Trust’s own use, that are not impairment losses), ‘Gains and losses on investment assets’ and ‘Actuarial gains or losses on defined benefit pension schemes’. This should not include impairment losses, or losses on disposal of assets held for the Academy Trust’s own use, as these should be regarded as additional depreciation and included in the resources expended section of the SOFA. Equally gains on disposal on assets held for the Academy Trust’s own use, should not be included here, but should be included under the other incoming resources section of the SOFA.

8.1.10. **Incoming resources and resources expended**

8.1.11. The preparation of the SOFA involves the allocation of resources expended between the following categories; charitable expenditure, fundraising costs and governance costs. The majority of salary costs and other expenditure items will be directly attributable to these categories There may, however, be some items of expenditure that relate to more than one cost category. For example a staff member’s time may be divided between day to day Academy business (charitable activities) and fundraising activities. Where this is the case the cost should be apportioned on a reasonable, justifiable and consistent basis. The degree to which items need to be apportioned will depend on the materiality of the amounts involved.

8.1.12. The Academy Trust’s main funding is GAG which is received under its Funding Agreement with the DfE for the specific purpose of running the school. The GAG is restricted income and therefore the resources expended (which are expected under the Funding Agreement) in undertaking the charitable activity of running the school will be restricted. However, the Academy Trust may receive other funding and will need to consider whether it has any specific conditions attached and ensure it has systems in place to identify the related resources expended.

8.1.13. **Accounting for sponsorship income**

8.1.14. Sponsor contributions were a key part of the Academies programme prior to the Academies Act 2010. An initial feature of the programme was the requirement for sponsors to make a capital contribution (10% but capped to £2m) for the school building. This was then replaced by an endowment model, whereby the sponsor created an endowment fund, the interest from which was intended to provide income for the Academy Trust. There is now no requirement for new academies to obtain financial sponsorship.

8.1.15. The recommended treatment for sponsor income depends on the purpose for which it was given and any restrictions the sponsor may place on the use of the money. If the monies received represent a sponsor's contribution to the acquisition of fixed assets, or can only be used for a purpose specified by the sponsor, the income is classified as ’restricted income’ and is recognised in the SOFA on a receivable basis, and recognised within funds as follows:

- Restricted income received for the acquisition of fixed assets should be shown in the ‘Restricted Fixed Asset Fund’ column of the SOFA and included in the ‘Restricted Fixed Asset Fund’ balance on the balance sheet.
- Restricted incoming resources for specific non-fixed asset purposes should be included in the ‘Restricted General Fund’ column of the SOFA. Any unexpended balance at the year-end should be included in the ‘Restricted General Fund’ on the balance sheet.

8.1.16. Where income is received from sponsors and can be used for general purposes at the discretion of the Academy Trust it should be included in the SOFA as unrestricted income on a receivable basis. Any unexpended balance at the year-end should be included in the ‘Unrestricted Fund’ on the balance sheet.

8.1.17. Where the income from the sponsor is an endowment it should be recognised in the ‘Endowment Fund’ column in the SOFA, and included in the fund of the same name on the balance sheet.

8.1.18. **Purchase of fixed assets from recurrent grant**

8.1.19. GAG is intended to cover Academy Trust running costs but could be used in part for purchases which could be accounted for as fixed assets e.g. computer equipment.

8.1.20. The method of accounting for fixed assets purchased from GAG or other YPLA recurrent grants is to show the purchase as a fixed asset on the balance sheet and transfer an amount equal to the purchase of fixed assets from the restricted general fund to the restricted fixed asset fund. The annual depreciation charge will then be charged against the restricted fixed asset fund column of the SOFA. This would result in all fixed assets being reflected in the restricted fixed asset fund, and the restricted general fund will represent cash resources, after taking account of any outstanding liabilities at the year-end.

8.1.21. Transfers to the restricted fixed asset fund from GAG should only take place once the individual assets represented by the transfer have been purchased by the Academy Trust.

8.2. **Income and expenditure account**

8.2.1. As the SOFA is designed to include all the gains and losses of an Academy Trust which would be found in both the income and expenditure account and the statement of total recognised gains and losses as required by Financial Reporting Standard 3 - Reporting Financial Performance, a separate income and expenditure account may not necessarily be required to comply with the Companies Act.

8.2.2. Circumstances where a separate income and expenditure account will be required arise where activity that would otherwise be included in an income and expenditure account cannot be separately identified in the SOFA. Such items would ordinarily include:

- movement on endowment (capital) funds in the year; and
- unrealised gains and losses in the year.

8.2.3. Whilst unrealised gains and losses are not included in the income and expenditure account, most of these are included in the SOFA below the point at which a conventional income and expenditure account would end. This negates the requirement for a separate income and expenditure account.

8.2.4. Where an Academy Trust's income and expenditure account would not include any of the items listed above, it does not need to produce a separate income and expenditure account, but the headings in the SOFA must be changed (as illustrated in the model financial statements) so that:

- the title clearly indicates that it includes an income and expenditure account and statement of total recognised gains and losses (if required), and
- there is a prominent subtotal entitled 'net income/ (expenditure) for the year', which replaces or is in addition to the heading of 'net incoming/ (outgoing) resources for the year'.

These changes are required to ensure that the income and expenditure account can be separately identified in the SOFA.

8.2.5. To summarise, even though an Academy Trust will have unrealised gains and losses arising from its participation in the LGPS, if these amounts are reported below the sub total 'net income/ (expenditure) for the year' and the title of the SOFA is changed (as noted above), it does not need to present a separate income and expenditure account. However, if it has a movement on an endowment fund in the year it will be required to prepare a separate income and expenditure account and a statement of total recognised gains and losses.

8.2.6. Where a separate income and expenditure account is required it should be derived from, and cross-referenced to, the corresponding figures in the SOFA. It is required to show separately:

- gross income from all sources;
- net gains/losses from disposal of fixed assets belonging to the Academy Trust's income funds;
- transfers from endowment funds of amounts previously received as capital but converted into income funds for expending (conversion of an expendable endowment);
- total income (for all incoming resources – other than revaluation - of all the income funds but not for any endowment funds);
- total expenditure out of the Academy Trust's income funds; and

- net income or expenditure for the year.

8.2.7. The format of an income and expenditure account and statement of total recognised gains and losses is included at Annexe A.

8.3. **Balance sheet**

8.3.1. The statutory balance sheet formats are more prescriptive than those for the SOFA, both as regards order and the items that must be disclosed on the face of the balance sheet. The recommended balance sheet format for Academy Trusts is illustrated in the model set of financial statements. Definitions of the balance sheet elements are given below.

8.3.2. **Tangible fixed assets** - are those assets intended to be held for use on a continuing basis towards the activities of the Academy Trust. All tangible fixed assets held by the Academy Trust should be included in this balance sheet category. It may include fixed assets acquired since the Academy Trust was established and fixed assets inherited from a predecessor school at the time of Academy conversion. On the face of the balance sheet the only figure that should be disclosed is the net book value of fixed assets after deductions for depreciation and impairment. The notes to the accounts should analyse the cost, depreciation, impairment (if any) and net book value of assets in the following categories:

- land and buildings, analysed between freehold and leasehold
- furniture and equipment;
- computer equipment and software;
- motor vehicles;
- assets under construction (if applicable).

8.3.3. Where Academy Trusts have entered into lease arrangements for land and buildings, section nine of this guidance provides more detail of the accounting treatment required.

8.3.4. **Investments** - will be shown as either fixed or current assets. Generally, only investments, which the trustees intend to realise without reinvestment, will be shown in current assets. All investment assets should be included at market value.

8.3.5. **Stocks** – these should be recognised at the lower of cost or net realisable value.

8.3.6. **Debtors** - all amounts owing to the Academy Trust or prepaid by the Academy Trust should be included under this balance sheet heading. If any debts are due after more than one year they should be separately disclosed in a note to the accounts and where material in the context of total net current assets they should also be shown separately on the face of the balance sheet.

8.3.7. **Cash at bank and in hand** - include the balances held in all Academy Trust bank accounts plus any miscellaneous cash holdings e.g. petty cash balances.

8.3.8. **Creditors** - include all amounts owed or accrued by the Academy Trust. The amount owed should be split between amounts falling due within one year and amounts falling due after more than one year.

8.3.9. **Defined benefit pension scheme asset/liability** - any asset or liability derived from a defined benefit pension scheme (calculated in accordance with Financial Reporting Standard 17: Retirement Benefits) should be included within this category and disclosed on the face of the balance sheet.

8.3.10. **Restricted fixed asset fund** -this represents the cumulative amount carried forward in respect of funding received for the specific purpose of fixed assets. It will predominately be government funds received but may include other funds from the sponsor or other donations. This fund can represent unexpended cash received for capital purposes or the carrying value of a funded fixed asset.

8.3.11. **Restricted general fund** - the amount included in this fund represents the cumulative amount carried forward in respect of funding received for the Academy Trust's running costs excluding fixed assets. It would predominantly be government funds but may include other funds from sponsors/other donors.

8.3.12. **Endowment funds** – the total amount of capital funds held in trust from sponsors under a deed of gift that may be permanent or expendable.

8.3.13. **Unrestricted fund** - include in this fund any amounts not included in the above funds and which are available for general use.

8.3.14. **Pension reserve** - this reserve will relate to unrestricted funds. When there is a surplus or a deficit on a defined benefit pension scheme that results in an asset or a liability being recognised, the recognition of the pension asset or liability will result in the creation of a pension reserve. This reserve will be negative in the case of a liability.

8.3.15. The value of the total unrestricted funds should be shown on face of the balance sheet, and reconciled to the total unrestricted funds amount in the SOFA.

8.4. Cash flow statement

8.4.1. *Financial Reporting Standard 1 (revised) - Cash Flow Statements* requires a cash flow statement to be presented in the financial statements. The cash flow statement should list the cash flows for the period classified under the standard headings:

- Operating activities;
- Dividends from joint ventures and associates;
- Returns on investments and servicing of finance;
- Taxation;
- Capital expenditure and financial investment;
- Acquisitions and disposals;
- Management of liquid resources;
- Financing.

Not all the standard headings will be applicable to an Academy Trust.

8.4.2. The following reconciliations are required in the form of additional notes to link the cash flow statement to the other primary statements:

- Net incoming/(outgoing) resources to net cash inflow from operating activities; and
- Net cash inflow to movement in net funds/ (debt).

These are illustrated in the model accounts.

8.4.3. Additional disclosure is required of material transactions not resulting in movements of cash if it is necessary for an understanding of the underlying transaction. This disclosure should be made in the notes to the financial statements.

8.5. Notes to the financial statements

8.5.1. Notes to the financial statements should be prepared to provide the additional disclosure required to comply with United Kingdom Generally Accepted Accounting Practice, which includes the SORP. They are also required to provide information on financially significant issues and to aid the reader's understanding of the accounts.

8.5.2. The notes required in an Academy Trust's financial statements are the same as would be required for any other charitable company, except for the additional requirement for Academy Trusts to include a note identifying any unspent GAG carried forward to the next accounting period. This note is considered in more detail later in this guidance.

8.5.3. The model financial statements illustrate the notes that are required for the circumstances of an example Academy Trust and the balances and transactions it has. Further guidance is included below to assist Academy Trusts when preparing their own notes.

8.5.4. **Note on accounting policies**

8.5.5. Accounting policies are the principles, bases, conventions and rules by which transactions are recognised, measured and presented in the accounts. They are supplemented by estimation techniques where judgement is required in recording the value of incoming and outgoing resources. These should be the most appropriate in the particular circumstances for each Academy Trust for the purpose of giving a true and fair view. Where accounting standards permit a choice this should be made against the objectives of relevance, reliability, comparability and understandability.

8.5.6. The accounting policies adopted should be reviewed regularly and new policies only implemented if required by new accounting standards or where it is judged to provide a fairer presentation of the results and financial position of the Academy Trust. Where a material change in accounting policy occurs a prior period adjustment is required. A prior period adjustment is where the comparative figures in the primary statements (the SOFA, balance sheet, cash flow statement) and notes are restated and the opening balance of reserves is restated for the cumulative effect of the change. Additional disclosure would be required in this instance.

8.5.7. The SORP (paragraphs 362-370) provides a detailed list of policies that would be expected, where applicable, for charities. The accounting policies note for the Academy Trust should cover the following areas, where applicable. However, the policies listed below are not intended to be exhaustive and may need to be amended to reflect the individual circumstances of each Academy Trust.

8.5.8. **Basis of preparation** - This is a statement regarding the cost convention adopted, which for Academy Trusts will be the historical cost convention. Where an Academy Trust has investment assets it would be required to adopt an historical cost convention as modified by the inclusion of investments at market value. It will also include a statement by the governors that the accounts have been prepared in accordance with applicable law and accounting standards and that they have been prepared in accordance with the requirements of this guidance.

8.5.9. **Going concern** - In October 2009 the Financial Reporting Council issued guidance for directors of UK companies on going concern and liquidity risk. This guidance is best practice and recommends including disclosures regarding the assessment of the going concern principle for the Academy Trust. For more information, academies should familiarise themselves with this guidance.

8.5.10. **Recognition of incoming resources** -This should include the policy for including each type of material incoming resource. This will normally be on a receivable basis. In particular for an Academy Trust it would be expected to include policies for:

- Basis of recognition of GAG and other grants including those for fixed assets and how the grants are analysed between the different types of incoming resources.
- Gifts in kind and donated assets/services:
    - Assets donated by third parties are recognised at their fair (open market) value in the period in which they are receivable in incoming resources, where the benefit to the Academy Trust can be reliably measured. An equivalent amount should be recognised in the appropriate fixed asset category and depreciated over its expected useful economic life on a basis consistent with depreciation policy for that category;
    - Also under this category might be services in kind i.e. time provided by the sponsor. These incoming resources should only be included in the SOFA where the benefit to the Academy Trust is quantifiable and measurable. The value of these services should be the estimated value to the Academy Trust of the

service; this will be the price the Academy Trust estimates it would pay in the open market for the service. An equivalent amount would be included in expenditure under the appropriate heading in the SOFA. The notes to the accounts should give an analysis of donated services. The accounting policies should indicate the basis of valuation used.

8.5.11. **Resources expended** - The policy will need to cover the following areas:

- The policy for recognition of liabilities including constructive obligations;
- Categorisation of resources expended – This should include the policy for including items within the relevant activity categories, in particular differentiating between charitable activities (the direct provision of education), costs of generating funds and governance costs.
- Allocation and apportionment of costs – the methods and principles adopted where it has been necessary to allocate or apportion costs between charitable expenditure, fundraising costs and governance costs. It should include the underlying principle i.e. whether based on staff time, salaries or space occupied or other. Where the costs apportioned are material, then further clarification on the method of apportionment used is necessary including the proportions used to undertake the calculations.

8.5.12. **Accounting for fixed assets** - The policy should include:

- the basis for inclusion of tangible fixed assets, which is expected to be cost;
- the value below which items are not capitalised as fixed assets;
- the policy for buildings under construction;
- accounting for assets funded by grants;
- the rates of depreciation; and
- policy with respect to impairment reviews.

8.5.13. Where a fixed asset has been gifted or donated the initial carrying amount should be the fair (open market) value at the date of receipt.

8.5.14. Where circumstances indicate that the carrying value of an individual asset may not be recoverable then Financial Reporting Standard 11 - Impairment of Fixed Assets and Goodwill ('FRS 11') requires an impairment review to be undertaken. Where following an impairment review the asset has a recoverable amount (the higher of value in use and net realisable value) that is significantly below the carrying value, then an impairment loss should be recognised and the asset's carrying value reduced to the recoverable amount. Where an impairment review is required, FRS 11 should be referred to but any assessment of value in use in charities can take account of service potential as well as cash flow generation (see SORP paragraph 268).

8.5.15. Depreciation should be provided for in accordance with Financial Reporting Standard 15 - Tangible Fixed Assets ('FRS 15'), and the basis used disclosed in the financial statements. Individual Academy Trusts should determine appropriate depreciation rates, based on the assessment of the useful economic life and expected residual value when the assets are acquired. Freehold land should not be depreciated. If the estimated remaining useful economic life of the tangible fixed asset exceeds 50 years, or no depreciation is charged on an asset on the grounds it would be immaterial, a review for impairment in accordance with FRS 11 should be made at the end of each reporting period.

8.5.16. It is unlikely that an Academy Trust will follow a policy of revaluation of tangible fixed assets. However, if an individual fixed asset is revalued, all other fixed assets in that class (e.g. all buildings) will need to be revalued at the same time. If a policy of revaluation is adopted then a full valuation, undertaken by a qualified valuer, will be required at least every 5 years. Interim valuations will be required where it is likely that there has been a material change in value.

8.5.17. Where grants (capital grants) are received for the specific purpose of acquiring and retaining a fixed asset for the Academy Trust's charitable purposes, they should be credited to the restricted fixed asset fund in the SOFA. The asset should be depreciated over its expected useful economic life on a basis consistent with the depreciation policy.

8.5.18. **Leasing** - Rentals under an operating lease should be charged on a straight-line basis over the lease term unless another more systematic and rational basis is more appropriate. Finance leases should not be taken out by Academy Trusts without the consent of the Secretary of State as they represent borrowing. The DfE's current policy is that consent for finance leases and other borrowing by Academy Trusts should not be given. Some Academies will occupy land or premises, which are owned by other bodies for which no annual or only a nominal rental payment is made (see later guidance on buildings for the accounting treatment of such matters).

8.5.19. **Investment assets** - Investment assets should be classified as a separate category within fixed assets. Fixed asset investments should be carried at fair (market) value at the balance sheet date. All changes in value in the year, whether or not realised; should be reported in the 'gains and losses on investment assets' section of the SOFA. Current asset investments should be carried at market value. They should only be included in current assets where there is an intention to realise the asset without the reinvestment of the sales proceeds.

8.5.20. **Stock** - If material, stock should be brought into account at the lower of cost or net realisable value.

8.5.21. **Pension benefits** – Academy Trusts will have defined benefit obligations in respect of two schemes:

- Teachers' Pension Scheme England & Wales ('TPS'); and
- The Local Government Pension Scheme (LGPS)

Both schemes are multi-employer schemes. The Academy Trust can identify its share of assets and liabilities within the LGPS on a consistent and reasonable basis and therefore should recognise a surplus or deficit on the scheme within the financial statements. The Teachers' Pension Scheme should be accounted for as a defined contribution scheme as the Academy Trust's share of the underlying assets and liabilities of the scheme cannot be identified on a consistent and reasonable basis. The contributions should be recognised as they are paid each year.

8.5.22. **Provisions** - being liabilities of uncertain timing or amount should only be recognised when the Academy Trust has a present, legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

8.5.23. **Contingent liabilities** - are possible obligations that arise from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly with the Academy Trust's control, or a present obligation that arises from a past event but is not recognised because it is not probable that a transfer of economic benefits will be required to settled the obligation, or the amount of the obligation cannot be measured with sufficient reliability. An example of a matter that may result in a contingent liability is where a staff member has made a claim for wrongful dismissal against the Academy Trust and this may result in an employment tribunal case.

8.5.24. **Contingent asset** - is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Academy Trust's control. An example of a matter that may result in a contingent asset is where the Academy Trust has made an insurance claim.

8.5.25. **Funds** - represent the incoming resources received, that have not been expended in the year. A brief description should be given of the different types of funds held by the Academy Trust, including the policy for any transfers between funds and allocations to or from designated funds.

8.5.26. **Other notes to the accounts -** In addition to the accounting policies note, the other notes required can be summarised as follows (additional notes may be required depending on the Academy Trust's own circumstances):

- GAG carry-forward note;
- Notes relating to income and funding;
- Notes relating to expenditure;
- Staff costs;
- Governors remuneration and expenses;
- Governors and officers insurance;
- Fixed assets;
- Stock;
- Debtors;
- Creditors;
- Funds;
- Capital commitments;
- Financial commitments;
- Reconciliation of cash flow;
- Contingent liabilities
- Members liability;
- Pension;
- Related party transactions
- Events after the balance sheet date (if arising)

8.5.27. **The funds notes** - the notes to the accounts should provide information on the structure of the Academy Trust's funds to disclose the fund balances and the reasons for them, differentiating between unrestricted funds, restricted funds and any endowment funds as well as identifying any material individual funds contained within. Disclosure should be given of how each fund has arisen, the restrictions imposed and the purpose of each fund. An indication should be given as to whether or not sufficient resources are held in an appropriate form in order for the fund to be applied in accordance with any restrictions. Any funds in deficit should be separately disclosed. The circumstances giving rise to the deficit and details of the steps being taken to eliminate the deficit should also be disclosed. Material transfers between different funds, and allocations to separate 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 reason for them. The note should also set out the opening balance of each fund, the movement in year and the closing balance. The assets and liabilities representing each type of fund should be clearly summarised and analysed between those funds.

8.5.28. **Related party transactions including governors' remuneration and expenses** - related party transactions disclosure is required to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties and material transactions with them. Two parties are related where:

- One party has control over the other;
- One party has influence over the policies of the other;
- The parties are subject to control/influence exercised by the same source.

8.5.29. Related parties of the Academy Trust will include:

- Governors and close members of their family;
- Key management of the Academy Trust and their close family members, i.e. the principal if not a governor, and the accounting officer (if not a governor);

- Other entities over which such individuals have control, joint control or significant influence;
- Subsidiaries.

NB - The YPLA is not deemed to be a related party simply by virtue of the funding it provides to the Academy Trust.

8.5.30. Each Academy Trust will need to give careful consideration in identifying their related parties and it may need to consider other parties in addition to the above. Further guidance can be found in the SORP and *Financial Reporting Standard 8 - Related Party Disclosures (‘FRS 8’).*

8.5.31. Ordinarily, under the Companies Act directors’ remuneration would be disclosed as related party transactions. This would not generally impact on Academy Trusts, as the directors (governors) do not receive remuneration for their services as governors. However, academy Principals are usually also governors, and there may be other staff governors. It is under their contracts of employment with the Academy Trust that they are receiving remuneration and not in respect of their services as governors. Disclosure of remuneration received by these individuals is required by the SORP. The disclosure should clearly state that the individuals do not receive the remuneration in respect of their services as governors of the Academy Trust.

8.5.32. The financial statements should disclose material transactions undertaken by the Academy Trust with related parties as required by FRS 8. Disclosure should include the following:

- the names of the related parties;
- a description of the relationship between the parties (including the interest of the related parties in the transaction);
- a description of the transactions;
- the amounts involved;
- any other elements of the transaction necessary for an understanding of the financial statements;
- the amounts due to or from related parties at the balance sheet date and provisions for doubtful debts; and
- amounts written off in the period in respect of debts due to or from related parties.

8.5.33. Disclosure should be made irrespective of whether a charge is made and whether or not the transaction was at arm’s length. Examples of related party transactions include:

- purchases, sales, leases and donations of goods, property, money and other assets to or from the related party;
- the supply of services by the related party to the charity or vice versa;
- any of the allowable payments and other benefits made to trustees.

8.5.34. **Staff costs** - a note is required, which discloses certain information relating to staff costs for the year:

- Average of full time equivalent employees in the financial year, together with an analysis of staffing numbers between teaching, administration/support and management;
- An analysis of the total costs for all employees included in the above numbers between:
    - Wages and salaries payable;
    - Social security costs; and
    - Other pension costs (this should include contributions payable under the TPS, and amounts charged to operating costs in respect of the LGPS, and not any items report elsewhere i.e. interest cost, expected return on assets and actuarial losses);

- The number of employees whose emoluments (including taxable benefits in kind, but not Academy Trust pension costs) fall within each band of £10,000 from £60,000 upwards;
- For the higher paid staff (as defined in the previous point):
    - Contributions for the year for the provision of defined contribution pension schemes; and
    - The number of staff to whom retirement benefits are accruing under defined contribution and defined benefit pension schemes respectively.
- If there are no employees with emoluments above £60,000, this fact should be stated.

8.5.35. **Note on GAG carry forward calculation** - Academy Trusts are allowed to carry forward an amount of GAG equal to 12% of the GAG awarded for the year just ended (unless agreement has been given by the DfE to vary this limit, which will be recorded in the Academy Trust's funding agreement).

8.5.36. This carry forward allowance can be used as follows:

- Equivalent to 2% of the total GAG received in the preceding year, may be used for any purposes for which GAG is paid including any expenditure set out below;
- Equivalent to a further 10% of the total GAG received in that year, may be used for the upkeep and improvement of premises including the costs of equipment and routine repairs and maintenance and on capital expenditure.

The DfE may require any unspent GAG in excess of the 12% threshold to be surrendered.

8.5.37. The carry forward calculation must be disclosed in a note to the financial statements and the format of the note is shown in the model financial statements. Where Academy Trust expenditure exceeds the level of GAG the balance should be funded from other resources.

8.5.38. **Events after the balance sheet date** – a note is required disclosing any events arising after the balance sheet date, as set out in FRS 21. These are events, favourable or unfavourable, that occur between the balance sheet date and the date the financial statements are authorised for issue. There are two types of events:

- Those that provide evidence of conditions that existed at the balance sheet date – these are adjusting events and would require the amounts in the financial statements to be adjusted to reflect them.
- Those that are indicative of conditions that arose after the balance sheet date – these are non-adjusting events. Where non-adjusting events are material and non-disclosure would influence the readers of the financial statements, then disclosure should be given of each material category of non-adjusting event after the balance sheet date.

9. Specific topics and related accounting treatment

9.1. **Subsidiary companies and consolidated accounts**

9.1.1. The conditions under which consolidated financial statements should be prepared by an Academy Trust parent company are determined by the Companies Act 2006 or the Charities Act 1993 (as amended by the Charities Act 2006). An Academy Trust is required to prepare group (consolidated) accounts under the Companies Act 2006 where it exceeds the small company size criteria as set out in the Act; or under the Charities Act where the aggregate gross income of the group (the parent charity and its subsidiaries) exceeds £500,000 after consolidation adjustments.

9.1.2. Where the Academy Trust meets either the requirement under the Companies Act or Charities Act to prepare group accounts then it must prepare those group accounts. However, there is an exception if it meets the exemption criteria in Financial Reporting Standard 2 - Accounting for Subsidiary Undertakings. The most likely criteria that would apply to an Academy Trust is that its subsidiaries are individually and collectively immaterial.

9.1.3. If consolidated financial statements are not prepared:

- the governors' report should comment on the trading performance of each subsidiary and the notes to the accounts (unless the subsidiary is not material) should specify: the name of the subsidiary, particulars of the Academy Trust's shareholding, how the activities of the subsidiary relate to those of the Academy Trust, the aggregate amount of capital and reserves, aggregate assets and liabilities, a summary of turnover, expenditure and profit or loss of the subsidiary; and
- a statement should be included disclosing the fact that the accounts present information about the Academy Trust as an individual undertaking and not about its group. This statement should also include reference to a note giving the grounds on which the Academy Trust is not preparing consolidated financial statements.

9.2. **Endowments**

9.2.1. An Academy Trust may receive contributions from sponsors under terms that require retention of the monies for the benefit of the Trust, and which must therefore be placed into an endowment fund. The endowment fund would be established under a deed of gift and would be held by a separate unincorporated charity as a 'special trust' of which the Academy Trust would be the sole corporate trustee.

9.2.2. In view of the relationship between the endowment fund and the Academy Trust the accounts must be treated as part of the Academy Trust and must be aggregated rather than consolidated within the Academy Trust's financial statements. [SORP 2005 paragraph 383 (d)]

9.2.3. There are a number of areas where disclosure will be required in the financial statements for endowment funds and these are set out below.

9.2.4. **Statement of Financial Activities (SOFA)** - the endowment fund should be shown as a separate column on the face of the SOFA. It is only in the years when new endowment capital is received that there will be income shown within the endowment fund column. However, note that:

- if a part of the endowment fund is held in investments, the gains or losses arising on the value of the investments should be shown in the endowment fund column in the SOFA; whereas
- any income generated from the endowment fund (e.g. bank interest, investment returns) should not be shown in the endowment fund but should instead be shown in either the Academy Trust's restricted or unrestricted funds depending on the terms set out in the deed of trust. The corresponding expenditure should be treated on the same basis. Any income not spent at the year-end should be carried forward in the appropriate restricted

or unrestricted fund. Where the endowment fund is held as investments, any investment management costs should be included in the endowment column.

9.2.5. **Balance Sheet** - the endowment fund should be shown as a separate line in the 'funds' section in the bottom half of the balance sheet.

9.2.6. **Cash Flow Statement** – movements in endowment funds should not be included in the 'operating activities' section of the cash flow statement but should be treated as increases or decreases in the 'financing' section. This is achieved as follows:

- Cash donations to the endowment funds should be treated as additions to the endowment fund in the 'financing' section ,by inclusion of a line 'Additions to endowment funds' which will show a positive balance from the receipt of new endowment capital; and
- Receipts and payments from the acquisition and disposal of investments should be shown gross in the 'capital expenditure and financial investment' section. A single row should then be included in this section showing the net movement in cash flows attributable to endowment assets. A corresponding row should be included in the 'financing' section for the same amount. The row in the 'financing' section should reflect the cash into/(cash out of) the endowment fund.

9.2.7. **Notes to the financial statements**:

- Accounting policies note – within the 'fund accounting' section in the accounting policies note an explanation should be added to set out the nature of the endowment fund, i.e. whether it is a permanent endowment fund (as is generally the case for Academies) or an expendable endowment fund, and how the income generated from the fund is treated, i.e. whether the income generated from the endowment fund is restricted or unrestricted. An explanation should also be included setting out how the endowment fund has been incorporated into the financial statements – i.e. aggregated rather than consolidated.
- Movement on funds note – a similar note to that required for other funds should also be prepared, showing the movement from the opening funds position to the closing position.
- Split of assets note – should also show the proportion of the net assets at the year-end, which are included with the endowment fund.

9.2.8. The SORP states that where there is movement on endowment funds in the year, and this cannot be separately identified within the SOFA, then an income and expenditure account may be required. This is discussed in the income and expenditure account section of this guidance.

9.3. **Federations**

9.3.1. Federations will exist where a number of Academies are operated by a single charitable trust company. In this case a single set of financial statements must be prepared. The notes to the financial statements would largely present the aggregate total for all of the Academies within the federation. However, certain notes should separately present the results of the individual Academies. These are set out below.

- GAG note, including carry forward calculation. - a separate note should be prepared for each Academy disclosing the amounts of GAG received and spent during the year, and whether the amount unspent by each Academy exceeds the carry forward limits set out in their funding agreement. Each note should follow the format illustrated in note 2 of the model financial statements (see chapter 3 of this Accounts Direction).
- Funding for the Academy Trust's educational operations note - a note should be prepared for each academy disclosing all types of income received for educational operations during the year. This should follow the format illustrated in note 6 of the model financial statements.

- The funds note - to the extent that funds received are restricted to use at a particular Academy Trust or for a particular purpose these should be considered to be restricted funds in the financial statements and shown separately in the restricted funds note. At an individual academy level some funds may be considered to be unrestricted. When the financial statements are prepared these funds should be reviewed to determine whether in the context of the aggregated or consolidated financial statements they are still considered to be unrestricted. For example, if the funds cannot be spent at other academies within the federation the funds should be treated as restricted in the aggregated financial statements.
- Defined benefit pension schemes – where an employer has more than one defined benefit pension scheme, *Financial Reporting Standard 17 - Retirement Benefits ('FRS 17')* allows the employer to determine the level of separate disclosure which is considered most useful. The disclosures can be made in total, separately for each scheme or grouped as considered appropriate. Therefore within the financial statements of the federation, narrative should be included to describe each of the different schemes. If the assumptions used vary between the schemes this should be indicated in the notes. The other FRS 17 disclosures required can be grouped together unless it is considered useful by the federation to include the details of each scheme separately.

9.3.2. **Governors' report** - the governors' report for the federation as a whole should give a description of the objectives set, the activities undertaken and the performance against the objectives. There is no requirement for there to be a separate section within the report for each academy within the federation. The governors should determine what they consider to be the most appropriate format to communicate the performance of the federation; however it is expected that this will include some information about each individual academy.

9.4. **Buildings**

9.4.1. **New buildings procured from DfE grant**

9.4.2. When the academies programme was first established the majority of academies were directly funded by the DfE (or its predecessor) for the construction and/or refurbishment of their buildings. Such buildings are capitalised within the financial statements of the Academy Trust and depreciated over their expected useful life. The capital grant received from the DfE is recognised as funding for the Academy Trust's educational operations within restricted fixed asset funds and the fund is reduced over the life of the relevant asset on a basis consistent with the depreciation policy.

9.4.3. During the period that the buildings are still under construction they are accounted for as fixed assets at cost within the Academy Trusts financial statements, but are not depreciated until they are brought into use. During this construction phase the fixed asset cost should comprise only those costs that are directly attributable to bringing the asset into working condition for its intended use.

9.4.4. **New buildings procured through Partnership for Schools (PFS) / Building Schools for the Future**

9.4.5. More recently new academy buildings have been constructed under local authority control within the Partnership for Schools/Building Schools for the Future programmes.

9.4.6. While the building is under construction, the local authority will record the building costs and there will be no transactions recorded in the financial statements of the Academy Trust. When construction is completed, a lease is established between the local authority and the Academy Trust for the use of the school land and buildings. The lease should then be accounted for in the Academy Trust's financial statements with reference to SSAP21 or FRS5. Where a lease transfers substantially all the risks and rewards of ownership of the asset to the lessee (i.e. to the Academy Trust) the asset would be capitalised as a fixed asset in the lessee's accounts. On the basis that the land and buildings would generally be leased to the Academy Trust, at no rent, the cost of the land and buildings would be recognised as a one off credit to voluntary income (donations in kind) within the SOFA.

9.4.7. **Existing buildings leased from predecessor organisations**

9.4.8. A maintained school converting under the Academies Act 2010 may continue to occupy the predecessor school's premises on a long-term basis under a lease, often at nil or peppercorn rental. Similarly, an independent school may also be in the same circumstances.

9.4.9. The accounting treatment needs to be considered with regard to *SSAP 21 and FRS5*. Where it is determined that the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the Academy Trust the asset should be recognised on the balance sheet as a fixed asset, with a corresponding entry to voluntary income as a gift in kind.

9.4.10. It is necessary to determine an appropriate fair value for the asset (a reasonable estimate of the current value the governors would have to pay in an open market for an equivalent item). Whilst there is no requirement for a professional valuation, the governors need to determine a reasonable and reliable estimate of the current value with supporting assumptions. The governors may feel that they can only do this by obtaining an independent valuation. The governors could therefore instruct a chartered surveyor or obtain assistance from the relevant local authority.

9.4.11. The notes to the accounts should disclose the nature of the arrangements and their impact on the financial statements, and the accounting policy note should explain how the asset has been recognised including the basis of valuation.

9.4.12. In subsequent years the value of the school building should be depreciated in accordance with the Academy Trust's depreciation policy.

9.4.13. **Existing buildings leased and occupied temporarily**

9.4.14. Where an Academy Trust is leasing an existing school building on a short-term basis until a new building is ready for use, again the nature of the leasing arrangement should be reviewed to determine the appropriate treatment in accordance with SSAP21. It is likely that the arrangement will be an operating lease, and therefore the asset should not be capitalised. Disclosure should be given in the notes to the financial statements to explain the accounting arrangements for the assets.

9.4.15. If the assets are occupied under an operating lease any rental cost will simply be accounted as expenditure. In the event that no rent is charged, the Academy Trust needs to consider whether a notional market rent should be recognised in the SOFA with a corresponding donation.

9.4.16. **Existing buildings where legal title is transferred from predecessor organisations**

9.4.17. Generally existing buildings will be leased by the Academy Trust. However in the event that the freehold, rather than leasehold, is acquired by the Academy Trust the buildings should be accounted for in accordance with *FRS15: Tangible Fixed Assets*. This will result is the buildings being capitalised within the financial statements of the Academy Trust and depreciated over their expected useful life.

9.5. **Other new/converter academy issues**

9.5.1. **Defined benefit pension schemes**

9.5.2. Upon conversion from a maintained school the Academy Trust will take on the existing defined benefit pension obligations for staff transferring under the Local Government Pension scheme (LGPS).

9.5.3. Currently, many LGPS's have deficits. On creation of the new Academy Trust it takes on the deficit attributable to the service of transferring employees up to the date of transfer and this should be recognised as a liability of the Academy Trust, with an equivalent debit to the SOFA within unrestricted funds. This should be measured at the transfer date, in accordance with Financial Reporting Standard 17 - Retirement Benefits.

9.5.4. **Other assets and liabilities and other balances/transactions**

9.5.5. Other assets and liabilities may be transferred as part of the conversion e.g. fixtures and fittings, and leasing arrangements for transferred assets. On conversion the Academy Trust will need to identify any equipment or fixtures and fittings that are subject to leasing arrangements and determine whether those leasing arrangements are finance or operating leases, as defined in SSAP 21. Where they are determined to be operating lease then neither the lease nor the relevant asset will be recognised on the balance sheet. The operating lease costs will be accounted for as expenditure in the SOFA.

9.5.6. Some schools may have other assets/liabilities outside of the local authority accounts including such things as commercial activities, school holiday funds and donations. The governors need to consider who controls these funds, if it is the Academy Trust following conversion, the funds should be recognised in the Academy Trust accounts and consideration given as to whether they should be treated as restricted funds.

9.5.7. Fixtures and fittings and other categories of tangible fixed assets may be transferred to the Academy Trust on conversion for its continued use. These assets need to be recognised in the balance sheet at a reasonable estimate of the current value to the Academy Trust within the restricted fixed asset fund, with an appropriate credit to voluntary income within that fund. Where any outstanding financing lease obligation is transferred with the relevant assets, it too should be recognised to the extent the Academy Trust has taken on the obligation with a corresponding debit in the SOFA. The finance lease obligation is included in the balance sheet and accounted for as a finance lease in accordance with SSAP 21.

9.5.8. Where an academy opens under the Academies Act 2010 with a surplus or deficit on its predecessor school's budget this balance will also be transferred to the Academy Trust.

- Surplus - where there is a surplus brought forward, this will be shown as a credit to voluntary income. The funds will be unrestricted if there is no specific purpose attached to it and the governors are free to use the fund at their discretion in furtherance of the Academy Trust's charitable objects.
- Deficit – where there is a deficit brought forward, this will be shown as a debit to the SOFA and depending on which funds will be used to repay the deficit to the YPLA it will either be shown under restricted or unrestricted funds.

9.5.9. **Recognition in SOFA of amounts transferred on conversion to Academy Trust status**

9.5.10. Where the Academy Trust is formed from the closure of a maintained school the Academy Trust will usually inherit the predecessor school's assets and liabilities. The assets and liabilities will include the use of the building, the pension deficit, other amounts as described above, and any other amounts identified at the time of the conversion.

9.5.11. The appropriate accounting treatment for these assets and liabilities is based on the requirements of FRS6 and the acquisition method of accounting for a business combination.

9.5.12. This requires the assets and liabilities inherited by the Academy Trust be recognised in the SOFA in aggregate as either net income or net expenditure rather than individually. Where the value determined for the assets exceeds the value determined for the liabilities, net income (a donation) will be recognised in the SOFA in voluntary income. Where there is an excess of liabilities, net expenditure will be recognised in the SOFA under 'other resources expended', reported after 'governance costs'.

9.5.13. The net amount should be included in the relevant category heading (analysed between restricted funds, restricted fixed assets funds and unrestricted funds) but disclosed separately on the face of the SOFA as an exceptional item.

Chapter 2 - Annex A

Format of an income and expenditure account

XXX Academy Trust

Income and expenditure account

For the year ended 31 August 2011

	Notes	2011 £000	2010 £000
Income			
DfE/YPLA General Annual Grant			
DfE/YPLA Start up grants			
DfE/YPLA capital grants			
Other DfE/YPLA grants			
Other government grants			
Total income			
Expenditure			
Staff costs			
Non pay expenditure			
Premises			
Supplies and services			
Other			
Depreciation			
Total expenditure			
Net income for the year			

The income and expenditure account and statement of total recognised gains and losses are derived from the statement of financial activities on page X which, together with the notes to the financial statements on pages X to X provides full information on the movements during the year on all the funds of the Academy Trust.

All of Academy Trust's activities derived from continuing operations during the above two financial periods.

Chapter 2 - Annex B

Example of a statement of total recognised gains and losses

XXX Academy Trust

Statement of total recognised gains and losses for the year ended 31 August 2011

	Notes	2011 £000	2010 £000
Excess of income over expenditure for the year			
Actuarial (losses) gains on defined benefit pension schemes			
Endowment movement in the year			
Total recognised gains and losses for the year			
Net movement to (from) funds			
Endowments			
Restricted funds			
Unrestricted fund			

Chapter 2 - Annex C

Best Practice

There are certain elements of best practice that can facilitate an efficient and effective accounting and audit process:

The model format of accounts, which is included in these notes, should be used in completing their financial statements. The auditors will be expected to check that the accounts submitted to them by an Academy Trust are in the given format. Following the guidance should therefore eliminate a potential cause of overrun in the audit process. There may, however, be situations that require additional narrative disclosures to explain circumstances specific to an individual Academy Trust, e.g. after the disposal of fixed assets. Where an Academy Trust has no disclosures to make, e.g. where stocks are nil, then these sections of the financial statements should be omitted.

Best practice is for the accounts to be prepared by a qualified accountant, or other appropriate person if the Academy does not have a qualified accountant on staff. .

The accounts should be independently reviewed before submission to the governing body and the auditor. This should cover the format of the accounts to ensure that they agree with the model, to check that they add up, that the notes cross-reference correctly and to check that prior year comparative figures agree with the prior year accounts. It should also include a review of the current year's figures to ensure they look reasonable in comparison to the previous year and in relation to the Academy Trust's development plan. The review does not need to be undertaken by an accountant, just by someone with an eye for detail who has been independent of the accounts preparation process.

An audit file containing working papers should be prepared which provides an audit trail that fully cross references to the financial statements;

Any request by the auditor for information prior to their audit visit should be supplied promptly;

All recommendations made by the auditor in their annual management letter should be dealt with by the governing body in a timely manner and should be considered as part of the accounts preparation process for the next year;

Staff involved in the accounts preparation and audit process should have access to, and consider, all relevant guidance supplied by the YPLA;

It is recommended that the year-end budget outturn information recorded in the financial statements is reconciled to the planned cost of the Academy Trust's objectives set out in its development plan. This information should be of use to the governing body and should be prepared as part of the management information cycle in any case.

Chapter 3 - Model Annual Report and Financial Statement for Academies

Note: in this model document

- **text in blue provides guidance**
- **text in black provides examples**
- **text in pink indicates the source of reference material**

Coketown Academy Trust Limited
(A Company Limited by Guarantee)

Annual Report and Financial Statements

Year ended 31 August 2011

Company Registration Number:
18623XX (England and Wales)

Re Charity registration numbers – as Academy Trusts are now exempt charities they must not describe themselves as being registered and may not use the registered charity number (even if they had one previously).

Coketown Academy Trust Limited

Contents

*** Alternatively the income and expenditure account can be presented separately (*see guidance notes)***

Reference and Administrative Details [see the Charity Commission's document 'Accounting and Reporting by Charities: Statement of Recommended Practice 2005' (the 'SORP') paragraphs 41 – 43]

The information on this page must be included if relevant.

Governors (Trustees) *Include governors in office on the date the report and financial statements are approved and any others who served during the year.*	P S Small (Chairman) C J Goodyear K Harris* (Appointed 2 March 20XY) A McGuire (Responsible Officer) L Miller* J Murray (Staff Governor) O Reville (Resigned 1 February 20XY) T Sheraton* C Wilkins G Smith (Principal and Accounting Officer) * members of the Finance and General Purpose Committee
Company Secretary	P H Daniels
Senior Management Team:	
. Deputy Principal	T Harvey
. Deputy Principal	L. Jones
. Deputy Principal	M Patel
. Director of Finance and Administration	M Connor
Principal and Registered Office	10 Kings Street COKETOWN DB3 8QZ
Company Registration Number	18623XX (England and Wales)
Charity Registration Number *(if applicable)*	1995XX
Independent Auditor	Dolittle Mawper LLP 186 Crown Street London EC1
Bankers	Natland PLC 2 Lloyd Mews COKETOWN DB1 4TY
Solicitors	Clifford Smith 13 Chancery Street COKETOWN DB2 4XX

Governors' Report

The governors present their annual report together with the financial statements and auditors' report of the charitable company for the year ended 31 August 2011.

Structure, Governance and Management *[see SORP paragraphs 44 – 46]*

Constitution

The Academy Trust is a company limited by guarantee and *[a registered]/[an exempt]** charity. The Charitable Company's memorandum and articles of association are the primary governing documents of the Academy Trust.

The governors act as the trustees for the charitable activities of Coketown Academy Trust Limited and are also the directors of the Charitable Company for the purposes of company law. The Charitable Company is known as Coketown Academy. *Also include details of any other names by which the Academy Trust makes itself known.*

Details of the governors who served throughout the year except as noted are included in the Reference and Administrative Details on page X.

** See comment on front cover and in Handbook.*

Members' Liability

Each member of the Charitable Company undertakes to contribute to the assets of the Charitable Company in the event of it being wound up while they are a member, or within one year after they cease to be a member, such amount as may be required, not exceeding £[X]*, for the debts and liabilities contracted before they ceased to be a member.

**As required in the Academy Trust's funding agreement.*

Governors' Indemnities [see Companies Act 2006 s236]

The Companies Act 2006 s236 requires disclosure concerning qualifying third party indemnity provisions.

Principal Activities

Include a description of the Academy Trust's principal activities which should refer to its purposes as set out in its articles of association and funding agreement.

Method of Recruitment and Appointment or Election of Governors

Describe these arrangements, as set out in the articles and funding agreement, including the name of any body or person entitled to nominate or appoint one or more governors. This section must include the approach that is taken to recruiting new governors.

Policies and Procedures Adopted for the Induction and Training of Governors

Include details as determined and agreed by the governors.

Governors' Report (continued)

Organisational Structure

Include details of the organisational structure and how decisions are made. For example, explain what decisions are reserved for the board of governors, and those that are delegated to management, and the role of the Principal and senior management team and other relevant individuals. The expectation is that the Principal will be the Accounting Officer.

Risk Management

A statement should be included confirming the major risks to which the Academy Trust is exposed, as identified by the governors, have been reviewed, and systems or procedures have been established to manage those risks. This statement should be considered at the same time that the Statement on Internal Control is considered. It should be noted that whilst a consideration of the wording of this statement is required annually, the internal control systems and the exposure to risks, should be matters that are considered on a regular basis by management and the governors.

Connected Organisations, including Related Party Relationships *[see Chapter 2 'Guidance on the Preparation of the Governors' Report and the Financial Statements' for an explanation of 'related parties'.]*

Include details, including where the Academy Trust is part of a wider network such as a soft federation, explaining the relationship involved where this impacts on the operating policies. Details are also required of relationships with related parties and any other charities/organisations with which it cooperates in the pursuit of charitable activities.

Objectives and Activities [see SORP paragraphs 47 to 52]

This section should help the reader understand the purpose of the Academy Trust.

Objects and Aims

Include a summary of objects of the Academy Trust as set out in the governing document, and an explanation of the Academy Trust's aims.

Objectives, Strategies and Activities

This section should give an explanation of the main objectives for the year, and the strategies for achieving them. Also include details of significant activities linking to the charitable activities.

Public Benefit

This section should address the activities undertaken to further the Academy Trust's purposes for the public benefit. A statement is required confirming that the Academy Trust governors have complied with their duty to have due regard to the guidance on public benefit published by the Charity Commission (on their website via this link Charities and Public Benefit) in exercising their powers or duties. A definition of public benefit entities is included in the glossary to the SORP (item GL 49).

Achievements and Performance *[see SORP paragraphs 53 to 54]*

Include information that enables the reader to understand and assess the achievements of the Academy Trust in the year, measured by reference to the aims and objectives that have been set, including a summary of the measures or indicators used to assess achievements.

Governors' Report (continued)

Going Concern

A statement by the governors on the Academy Trust's ability to continue to operate as a going concern is required as best practice. The relevant guidance was issued by the Financial Reporting Council (FRC) in 2009, accessible via this link: FRC Going Concern and Liquidity Risk; Guidance for Directors of UK Companies 2009. Example statement:

After making appropriate enquiries, the Governing Body has a reasonable expectation that the Academy Trust has adequate resources to continue in operational existence for the foreseeable future. For this reason it continues to adopt the going concern basis in preparing the financial statements. Further details regarding the adoption of the going concern basis can be found in the Statement of Accounting Policies.

Key Financial Performance Indicators

Under Section 417 (6) of the Companies Act 2006 a company must include in their business review an analysis against key financial performance indicators and, where appropriate, an analysis using other key performance indicators including information relating to environmental and employee matters.

This disclosure does not need to be presented separately but can be incorporated where appropriate.

Financial Review [see SORP paragraphs 55 to 56]

This section should include a review of the financial position of the Academy Trust and a statement of the principal financial management policies adopted in the year. It should include the principal sources of funding and how expenditure has supported the key objectives of the Academy Trust. It should also include an explanation of the Academy Trust's reserves and investment policies.

Financial and Risk Management Objectives and Policies

The Companies Act 2006 s417(3b) requires disclosure of the principal risks and uncertainties facing a company. The disclosure should deal with the Academy Trust's exposure to a number of financial risks including credit, cash flow and liquidity risks. However given the nature of Academies and that the 'financial instruments' that they deal with are largely bank balances, cash and trade creditors, with limited trade (and other) debtors, it is likely that only minimal disclosure will be required. It is likely that such information will not be material to the assessment of the Trust's assets, liabilities, financial position and its results and therefore detailed disclosure may not be required. Reference may be required to the defined benefit pension schemes, particularly where there is a deficit as this may be material.

Principal Risks and Uncertainties

This is required as part of the Companies Act 2006 business review requirement. It should include a description of the principal risks and uncertainties facing the Academy Trust. This will link to the risk management process that the Academy Trust has in place.

Reserves Policy

This should state the level of reserves held and why they are held. Where material funds have been designated, the reserves policy statement should quantify and explain the purpose of the designations and, where set aside for future expenditure, the likely timing of that expenditure. Where any fund is materially in deficit, the Academy Trust should provide details of the circumstances giving rise to the *deficit and details of the steps being taken to eliminate the deficit. [see the Charity Commission document Charity Reserves and Defined Benefit Pension Schemes and the YPLA's Guidance on the Preparation of the Governors' Report and the Financial Statements.]*

The Academy Trust should identify the value of its free reserves being the income funds that are freely available for its general purposes (i.e. it will not include restricted funds or any part of unrestricted funds not readily available for spending, specifically income funds which could only be realised by disposing of fixed assets held for charitable use)

Investment Policy

Include a paragraph explaining the powers that the Academy Trust has with regards to investments as the organisation will be holding cash balances and thereby technically making investment decisions. It should include a description of the investment policy and objectives and the extent (if any) to which social, environmental or ethical considerations are taken into account. Where investments are held then this information and details of investment performance against objectives should be included in the performance and achievements part of the report.

Plans for Future Periods [see SORP paragraphs 57 to 58]

This should explain the plans for the future including the aims and key objectives set for future periods, together with details of any activities planned to achieve them.

Funds held as Custodian Trustee on behalf of others *[see SORP paragraph 59]*

Details of assets and arrangements for safe custody and segregation should be given where the Academy Trust or its governors are acting as custodian trustee. It should include the name and objects of the charity on whose behalf they are being held and how this activity falls within their own objective.

Auditor *[required under Companies Act 2006 s418 (2)]*

In so far as the governors are aware:

- there is no relevant audit information of which the charitable company's auditor is unaware; and
- the governors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

A statement may also be included in respect of the reappointment of the auditors.

Approved by order of the members of the Governing Body on……. and signed on its behalf by:

[Signed]

[Name to be typed]

[Chair]

Statement on Internal Control

As central government public sector bodies Academy Trusts are required to provide assurance that they are appropriately managed and are controlling the resources for which they are responsible. This assurance should be communicated in a statement on internal control. The wording of this statement will need to be amended to reflect the circumstances of the individual Academy Trust, particularly where it is a new Academy Trust in the year. [see also chapter 2 Guidance on the Preparation of the Governors' Report and the Financial Statements.]

Scope of Responsibility

As governors, we acknowledge we have overall responsibility for ensuring that Coketown Academy Trust has an effective and appropriate system of control, financial and otherwise. However such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Governing Body has delegated the day-to-day responsibility to the [Principal], as Accounting Officer, for ensuring financial controls conform with the requirements of both propriety and good financial management and in accordance with the requirements and responsibilities assigned to it in the funding agreement between Coketown Academy Trust and the Secretary of State for Education. They are also responsible for reporting to the Governing Body any material weaknesses or breakdowns in internal control.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Academy Trust policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Coketown Academy Trust for the year ended 31 August 20XY and up to the date of approval of the annual report and financial statements. *May require editing to reflect the circumstances of the individual Academy Trust.*

Capacity to Handle Risk

The Governing Body has reviewed the key risks to which the Academy Trust is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Governing Body is of the view that there is a formal ongoing process for identifying, evaluating and managing the Academy Trust's significant risks that has been in place for the year ending 31 August 20XY and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the Governing Body. *May require editing to reflect the circumstances of the individual Academy Trust.*

The Risk and Control Framework

The Academy Trust's system of internal financial control is based on a framework of regular management information and administrative procedures including the segregation of duties and a system of delegation and accountability. In particular, it includes:

- comprehensive budgeting and monitoring systems with an annual budget and periodic financial reports which are reviewed and agreed by the Governing Body;
- regular reviews by the Finance and General Purposes Committee of reports which indicate financial performance against the forecasts and of major purchase plans, capital works and expenditure programmes;
- setting targets to measure financial and other performance;

Statement on Internal Control (continued)

- clearly defined purchasing (asset purchase or capital investment) guidelines.
- delegation of authority and segregation of duties;
- identification and management of risks.

The Governing Body has considered the need for a specific internal audit function and has decided not to appoint an internal auditor. However, the governors have appointed [A McGuire], a governor, as Responsible Officer ('RO'). The RO's role includes giving advice on financial matters and performing a range of checks on the Academy Trust's financial systems. On a quarterly basis,* the RO reports to the Governing Body on the operation of the systems of control and on the discharge of the Governing Body's financial responsibilities. *May require editing to reflect the circumstances of the individual Academy Trust.*

** This should reflect the actual reporting that occurred.*

Academy Trusts should also confirm in this section whether the RO function has been fully delivered in line with the YPLA's requirements. The statement should provide details of any material control issues arising as a result of the RO's work and what remedial action is being taken to rectify it.

Review of Effectiveness

As Accounting Officer, [the Principal] has responsibility for reviewing the effectiveness of the system of internal control. During the year in question the review has been informed by:

- the work of the Responsible Officer;
- the work of the external auditor;
- the financial management and governance self assessment process;
- the work of the executive managers within the Academy Trust who have responsibility for the development and maintenance of the internal control framework.

The Accounting Officer has been advised of the implications of the result of their review of the system of internal control by the Finance and General Purposes Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Approved by order of the members of the Governing Body on …………and signed on its behalf by:

[Signed]	**[Signed]**
[Name to be typed]	**[Name to be typed]**
[Chair]	**[Accounting Officer]**

Statement of [Governors'][Trustees'] Responsibilities

The Auditing Practice Board requires a statement of governor's responsibilities to be made. It is good practice for it to be separate from the auditor's report. However if the statement is not presented separately then the auditor is required to include such a statement in their report.

The governors (who act as trustees for charitable activities of Coketown Academy Trust Limited and are also the directors of the Charitable Company for the purposes of company law) are responsible for preparing the governors' report and the financial statements in accordance with the Annual Accounts Requirements issued by the Young People's Learning Agency, United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and applicable law and regulations.

Company law requires the governors to prepare financial statements for each financial year. Under company law the governors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Charitable Company and of its incoming resources and application of resources, including its income and ,expenditure, for that period. In preparing these financial statements, the governors are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Charitable Company will continue in business.

The governors are responsible for keeping adequate accounting records that are sufficient to show and explain the Charitable Company's transactions and disclose with reasonable accuracy at any time the financial position of the Charitable Company and enable them to ensure that the financial statements comply with the Companies Act 2006.They are also responsible for safeguarding the assets of the Charitable Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The governors are responsible for ensuring that in its conduct and operation the Charitable Company applies financial and other controls, which conform with the requirements both of propriety and of good financial management. They are also responsible for ensuring grants received from the YPLA/DfE have been applied for the purposes intended.

Where financial statements are available on the Academy Trust's website include:

The governors are responsible for the maintenance and integrity of the corporate and financial information included on the Charitable Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by order of the members of the Governing Body on……. and signed on its behalf by:

[Signed]

[Name to be typed]

[Chair]

Independent Auditor's Report to the Members of Coketown Academy Trust Limited

The form of the audit report is governed by International Standards on Auditing (UK and Ireland) ('ISA's). The particular standard is 'ISA 700: The auditor's report on financial statements (revised)' together with supporting guidance Bulletin 2009/02, and 'Practice Note 11: The Audit of Charities in the United Kingdom (revised)' issued by the APB . This is considered in more detail in Chapter 2 Guidance on the Preparation of the Governors' Report and the Financial Statements.

Statement of Financial Activities for the year ended 31 August 2011

(including Income and Expenditure Account and Statement of Total Recognised Gains and Losses)

	Note	Unrestricted Funds £000	Restricted General Funds £000	Restricted Fixed Asset Funds £000	**Total 2011 £000**	**Total 2010 £000**
Incoming resources						
Incoming resources from generated funds:						
. Voluntary income	3	25	-	344	**369**	275
. Activities for generating funds	4	8	-	-	**8**	26
. Investment income	5	5	-	-	**5**	18
Incoming resources from charitable activities:						
. Funding for the Academy's educational operations	6	-	4,349	1,224	**5,573**	5,330
Total incoming resources		38	4,349	1,568	**5,955**	5,649
Resources expended						
Cost of generating funds:						
. Costs of generating voluntary income		14	-	4	**18**	34
. Fundraising trading		-	-	-	-	-
Charitable activities:						
. Academy's educational operations	8	-	4,228	846	**5,074**	4,911
Governance costs	9	-	99	20	**119**	81
Total resources expended	7	14	4,327	870	**5,211**	5,026
Net incoming / (outgoing) resources before transfers		24	22	698	**744**	623
Gross transfers between funds	17	(87)	77	10	**-**	-
Net income/(expenditure) for the year		(63)	99	708	**744**	623
Other recognised gains and losses						
Actuarial (losses) gains on defined benefit pension schemes	17,27	(133)		-	**(133)**	71
Net movement in funds		(196)	99	708	**611**	694
Reconciliation of funds						
Funds brought forward at 1 September 2010	17	(768)	66	9,810	**9,108**	8,414
Funds carried forward at 31 August 2011		(964)	165	10,518	**9,719**	9,108

All of the Academy's activities derive from continuing operations during the above two financial periods.

A Statement of Total Recognised Gains and Losses is not required as all gains and losses are included in the Statement of Financial Activities

Company Number XXXXX

Balance sheet as at 31 August 2011

	Notes	2011 £000	2011 £000	2010 £000	2010 £000
Fixed assets					
Tangible assets	13		**10,518**		9,706
Current assets					
Stock	14	**5**		6	
Debtors	15	**82**		141	
Cash at bank and in hand		**255**		305	
		342		452	
Creditors: Amounts falling due within one year	16	**(87)**		(216)	
Net current assets			**255**		236
Total assets less current liabilities			**10,773**		9,942
Net assets excluding pension liability			**10,773**		9,942
Pension scheme liability	27		**(1,054)**		(834)
Net assets including pension liability			**9,719**		9,108
Funds of the academy:					
Restricted funds					
. Fixed asset fund(s)	17		**10,518**		9,810
. General fund(s)	17		**165**		66
Total restricted funds			**10,683**		9,876
Unrestricted funds					
. General fund(s)	17		**90**		66
. Pension reserve	17		**(1,054)**		(834)
Total unrestricted funds			**(964)**		(768)
Total funds			**9,719**		9,108

The financial statements on pages X to X were approved by the Governors, and authorised for issue on XXXX 2011 and are signed on their behalf by:

[Signed]

[Name to be typed]
[Chair]

Cash Flow Statement for the year ended 31 August 2011

	Notes	**2011 £000**	**2010 £000**
Net cash inflow from operating activities	21	**59**	607
Returns on investments and servicing of finance	22	**5**	16
Capital expenditure	23	**(114)**	(200)
(Decrease)/Increase in cash in the year	24	**(50)**	423

Reconciliation of net cash flow to movement in net funds

Net funds at 1 September 2010		**305**	(118)
Net funds at 31 August 2011		**255**	305

Notes to the Financial Statements for the Year Ended 31 August 2011

1. Statement of Accounting Policies

Academy Trusts should only disclose those accounting policies which are material and relevant to their specific situation. The accounting policies set out below should therefore be modified accordingly and consideration given as to whether any additional policies need including. [see SORP 356 to 370 and Financial Reporting Standard 18: Accounting Policies.]

Basis of Preparation

The financial statements have been prepared under the historical cost convention in accordance with applicable United Kingdom Accounting Standards, the Charity Commission 'Statement of Recommended Practice: Accounting and Reporting by Charities' ('SORP 2005'), the Academies Accounts Direction issued by the YPLA and the Companies Act 2006. A summary of the principal accounting policies, which have been applied consistently, except where noted, is set out below.

Going Concern

This should include balanced, proportionate and clear disclosures about going concern for the financial statements to give a true and fair view, [see Chapter 2 Guidance on the Preparation of the Governors' Report and the Financial Statements.] Example statement:

The governors assess whether the use of going concern is appropriate i.e. whether there are any material uncertainties related to events or conditions that may cast significant doubt on the ability of the company to continue as a going concern. The governors make this assessment in respect of a period of one year from

the date of approval of the financial statements.

Incoming Resources

All incoming resources are recognised when the Academy Trust has entitlement to the funds, certainty of receipt and the amount can be measured with sufficient reliability.

- **Grants receivable**

  Grants are included in the Statement of Financial Activities on a receivable basis. The balance of income received for specific purposes but not expended during the period is shown in the relevant funds on the balance sheet. Where income is received in advance of entitlement of receipt its recognition is deferred and included in creditors as deferred income. Where entitlement occurs before income is received, the income is accrued.

- **Sponsorship income**

  Sponsorship income provided to the Academy Trust which amounts to a donation is recognised in the Statement of Financial Activities in the period in which it is receivable, where there is certainty of receipt

- **Donations**

  Donations are recognised on a receivable basis where there is certainty of receipt and the amount can be reliably measured.

- **Other income**

  Other income, including the hire of facilities, is recognised in the period it is receivable and to the extent the goods have been provided or on completion of the service.

Notes to the Financial Statements for the Year Ended 31 August 2011 (continued)

1. Statement of Accounting Policies (continued)

- **Donated Services and gifts in kind**

  The value of donated services and gifts in kind provided to the Academy Trust are recognised at their open market value in the period in which they are receivable as incoming resources, where the benefit to the Academy Trust can be reliably measured. An equivalent amount is included as expenditure under the relevant heading in the Statement of Financial Activities, except where the gift in kind was a fixed asset in which case the amount is included in the appropriate fixed asset category and depreciated over the useful economic life in accordance with Academy Trust's policies.

  [Where the Charitable Company has, upon becoming an Academy Trust, received a transfer of property or been party to a lease of property for little or no consideration they should include an additional policy, which will need details of the transaction and the basis of measurement as the policy above is not sufficient. [see Chapter 3 Guidance on the Preparation of the Governors' Report and the Financial Statements.]

Resources Expended

All expenditure is recognised in the period in which a liability is incurred and has been classified under headings that aggregate all costs related to that category. Where costs cannot be directly attributed to particular headings they have been allocated on a basis consistent with the use of resources, with central staff costs allocated on the basis of time spent, and depreciation charges allocated on the portion of the asset's use. Other support costs are allocated based on the spread of staff costs.

- **Costs of generating funds**

  These are costs incurred in attracting voluntary income, and those incurred in trading activities that raise funds.

- **Charitable activities**

  These are costs incurred on the Academy Trust's educational operations.

- **Governance Costs**

  These include the costs attributable to the Academy Trust's compliance with constitutional and statutory requirements, including audit, strategic management and Governor's meetings and reimbursed expenses.

All resources expended are inclusive of irrecoverable VAT.

Tangible Fixed Assets

Assets costing £[x] or more are capitalised as tangible fixed assets and are carried at cost, net of depreciation and any provision for impairment.

Where tangible fixed assets have been acquired with the aid of specific grants, either from the government or from the private sector, they are included in the Balance Sheet at cost and depreciated over their expected useful economic life. The related grants are credited to a restricted fixed asset fund in the Statement of Financial Activities and carried forward in the Balance Sheet. Depreciation on such assets is charged to the restricted fixed asset fund in the Statement of Financial Activities so as to reduce the fund over the useful economic life of the related asset on a basis consistent with the Academy Trust's depreciation policy.

Notes to the Financial Statements for the Year Ended 31 August 2011 (continued)

1. Statement of Accounting Policies (continued)

Depreciation is provided on all tangible fixed assets other than freehold land, at rates calculated to write off the cost of each asset on a [straight-line][reducing balance] basis over its expected useful lives, as follows:

Freehold buildings	X
Long leasehold buildings	X
Fixtures, fittings and equipment	X
ICT equipment	X
Motor Vehicles	X

Assets in the course of construction are included at cost. Depreciation on these assets is not charged until they are brought into use.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying value of any fixed asset may not be recoverable. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairments. Impairment losses are recognised in the Statement of Financial Activities.

Leased Assets

Rentals under operating leases are charged on [X] basis over the lease term.

Investments *None are included in this model but if relevant the suggested disclosure could be as follows:*

The Academy's share holding in the wholly owned subsidiary, ABC Limited, is included in the balance sheet at the cost of the share capital owned. There is no readily available market value and the cost of valuation exceeds the benefit derived.

Stock

Unsold uniforms and catering stocks are valued at the lower of cost or net realisable value.

Taxation

The Academy Trust is considered to pass the tests set out in Paragraph 1 Schedule 6 of the Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the Academy Trust is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

Pensions Benefits

Retirement benefits to employees of the Academy Trust are provided by the Teachers' Pension Scheme ('TPS') and the Local Government Pension Scheme ('LGPS'). These are defined benefit schemes, are contracted out of the State Earnings-Related Pension Scheme ('SERPS'), and the assets are held separately from those of the Academy Trust.

The TPS is an unfunded scheme and contributions are calculated so as to spread the cost of pensions over employees' working lives with the Academy Trust in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by the Government Actuary on the basis of quinquennial valuations using a prospective benefit method. As stated in Note 27 , the TPS is a multi employer scheme and the Academy Trust is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution scheme and the contributions recognised as they are paid each year.

Notes to the Financial Statements for the Year Ended 31 August 2011 (continued)

1. Statement of Accounting Policies (continued)

The LGPS is a funded scheme and the assets are held separately from those of the Academy Trust in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the Statement of Financial Activities if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The expected return on assets and the interest cost are shown as a net finance amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in other gains and losses.

Fund Accounting

Unrestricted income funds represent those resources which may be used towards meeting any of the charitable objects of the Academy Trust at the discretion of the governors.

Restricted fixed asset funds are resources which are to be applied to specific capital purposes imposed by [the Young People's Learning Agency][Department for Education][sponsor][other funders] where the asset acquired or created is held for a specific purpose.

Restricted general funds comprise all other restricted funds received and include grants from the [Young People's Learning Agency][Department for Education].

Notes to the Financial Statements for the year ended 31 August 2011 (continued)

2 General Annual Grant (GAG)

a. Results and Carry Forward for the Year	**2011**	**2010**
	£000	**£000**
GAG brought forward from previous year	**90**	5
GAG allocation for current year	**4,257**	4,080
Total GAG available to spend	**4,347**	4,085
Recurrent expenditure from GAG	**(4,148)**	(3,995)
Fixed assets purchased from GAG	**(10)**	-
GAG carried forward to next year	**189**	90
Maximum permitted GAG carry forward at end of current year (12% of allocation for current year)	**(511)**	(490)
GAG to surrender to DfE (12% rule breached if result is positive)	**(322)**	(400)
	no breach	no breach

b. Use of GAG brought forward from previous year for recurrent purposes
(Of the amount carried forward each year, a maximum of 2% of GAG can be used for recurrent purposes. Any balance, up to a maximum of 12%, can only be used for capital purposes)

	2011	**2010**
Recurrent expenditure from GAG in current year	**4,148**	3,995
GAG allocation for current year	**(4,257)**	(4,080)
GAG allocation for previous year x 2%	**(82)**	(74)
GAG b/fwd from previous year in excess of 2%, used on recurrent expenditure in current year	**(191)**	(159)
(2% rule breached if result is positive)	no breach	no breach

3 Voluntary Income

	Unrestricted Funds £000	**Restricted Funds £000**	**Total 2011 £000**	**Total 2010 £000**
Donations - Capital	-	344	**344**	250
Private sponsorship	22	-	**22**	22
Other Donations	3	-	**3**	3
	25	344	**369**	275

4 Activities for Generating Funds

	Unrestricted Funds £000	**Restricted Funds £000**	**Total 2011 £000**	**Total 2,010 £000**
Hire of Facilities	8	-	**8**	26
Catering Income	-	-	**-**	-
	8	-	**8**	26

5 Investment Income

	Unrestricted Funds £000	Restricted Funds £000	Total 2011 £000	Total 2010 £000
Short term deposits	5	-	**5**	18
	5	-	**5**	18

6 Funding for Academy's educational operations

	Unrestricted Funds £000	Restricted Funds £000	Total 2011 £000	Total 2010 £000
DfE/YPLA capital grant				
. Academy main building grants	-	1,224	**1,224**	1,067
	-	1,224	**1,224**	1,067
DfE / YPLA revenue grants				
. General Annual Grant (GAG) (note 2	-	4,257	**4,257**	4,080
. Start Up Grants	-	-	**-**	-
. Other DfE / YPLA grants	-	56	**56**	53
	-	4,313	**4,313**	4,133
Other Government grants				
. School Standards Funds	-	-	**-**	30
. Special educational projects	-	36	**36**	100
	-	36	**36**	130
	-	5,573	**5,573**	5,330

Notes to the Financial Statements for the year ended 31 August 2011 (continued)

7 Resources Expended

	Staff Costs	Non Pay Expenditure		Total	Total
		Premises	Other Costs	2011	2010
	£000	£000	£000	£000	£000
Costs of generating voluntary income	10	4	4	**18**	34
Costs of activities for generating funds	-	-	-	-	-
Academy's educational operations					
. Direct costs	2,843	566	457	**3,866**	3,809
. Allocated support costs	494	514	200	**1,208**	1,102
	3,337	1,080	657	**5,074**	4,911
Governance costs including allocated support costs	87	20	12	**119**	81
	3,434	1,104	673	**5,211**	5,026

Incoming/outgoing resources for the year include:	**2011**	**2010**
	£000	**£000**
Operating leases	-	-
Fees payable to auditor - audit	**11**	12
- other services	**2**	3
Profit/(loss) on disposal of fixed assets	-	-

Notes to the Financial Statements for the year ended 31 August 2011 (continued)

8 Charitable Activities - Academy's educational operations

	Unrestricted Funds £000	Restricted Funds £000	Total 2011 £000	Total 2010 £000
Direct costs				
Teaching and educational support staff costs	-	2,843	**2,843**	2,755
Depreciation	-	566	**566**	525
Educational supplies	-	418	**418**	500
Examination fees	-	3	**3**	3
Staff development	-	19	**19**	11
Educational consultancy	-	2	**2**	2
Other direct costs	-	15	**15**	13
	-	3,866	**3,866**	3,809
Allocated support costs				
Support staff costs	-	494	**494**	396
Depreciation	-	280	**280**	280
Recruitment and support	-	10	**10**	9
Maintenance of premises and equipment	-	58	**58**	56
Cleaning	-	186	**186**	208
Rent & rates	-	72	**72**	68
Insurance	-	60	**60**	38
Security and transport	-	48	**48**	47
Catering	-	-	**-**	-
Bank interest and charges	-	-	**-**	-
Other support costs	-	-	**-**	-
	-	1,208	**1,208**	1,102
	-	5,074	**5,074**	4,911

9 Governance costs

	Unrestricted Funds £000	Restricted Funds £000	Total 2011 £000	Total 2010 £000
Legal and professional fees	-	10	**10**	9
Auditor's remuneration	-	-	**-**	-
. Audit of financial statements	-	11	**11**	12
. Responsible officer audit	-	1	**1**	1
Support costs	-	95	**95**	56
Governors' reimbursed expenses	-	2	**2**	3
	-	119	**119**	81

10 Staff costs

Staff costs during the period were:	2011 £000	2010 £000
Wages and salaries	**2,646**	2,587
Social security costs	**267**	258
Pension costs	**519**	362
	3,432	3,207
Supply teacher costs	**-**	-
Compensation payments	**-**	-
	3,432	3,207

The average number of persons (including senior management team) employed by the Academy during the year expressed as full time equivalents was as follows:

	2011 No.	2010 No.
Charitable Activities		
Teachers	**65**	62
Administration and support	**23**	18
Management	**8**	8
	96	88

The number of employees whose emoluments fell within the following bands was:

	2011 No.	2010 No.
£60,001 - £70,000	**3**	3
£70,001 - £80,000	**1**	1

Three of the above employees participated in the Teachers' Pension Scheme. During the year ended 31 August 2011, pension contributions for these staff amounted to £30,000 (2010: £28,000). The other employee participated in the Local Government Pension Scheme, pension contributions amounted to £8,000 (2010: 6,500).

11 Governors' remuneration and expenses

Principal and staff governors only receive remuneration in respect of services they provide undertaking the roles of Principal and staff and not in respect of their services as governors. Other governors did not receive any payments, other than expenses, from the Academy in respect of their role as governors. The value of the Principal's remuneration was £80,000 in 2011 (2010 £75,000). The value of staff governor's remuneration was £38,000 (2010 - £37,500).

During the year ended 31 August 2011, travel and subsistence expenses totalling £1,800 (2010 - £3,000) were reimbursed to 5 governors (2010 – 5).

Related party transactions involving the trustees are set out in note 28.

Notes to the Financial Statements for the year ended 31 August 2011 (continued)

12 Governors' and Officers' Insurance

In accordance with normal commercial practice the Academy has purchased insurance to protect governors and officers from claims arising from negligent acts, errors or omissions occurring whilst on Academy business. The insurance provides cover up to £1,000,000 on any one claim and the cost for the year ended 31 August 2011 was £1,540 (2010 - £1,496).

The cost of this insurance is included in the total insurance cost.

13 Tangible Fixed Assets

	Freehold Land and Buildings £000	Leasehold Land and Buildings £000	Furniture and Equipment £000	Computer Equipment £000	Motor Vehicles £000	**Total £000**
Cost						
At 1 September 2010	6,424	1,606	2,625	643	-	**11,298**
Additions	-	-	883	784	15	**1,682**
Disposals	-	-	-	-	-	**-**
At 31 August 2011	6,424	1,606	3,508	1,427	15	**12,980**
Depreciation						
At 1 September 2010	385	96	769	342	-	**1,592**
Charged in year	128	32	459	251	-	**870**
Disposals	-	-	-	-	-	**-**
At 31 August 2011	513	128	1,228	593	-	**2,462**
Net book values						
At 31 August 2011	**5,911**	**1,478**	**2,280**	**834**	**15**	**10,518**
At 31 August 2010	6,039	1,510	1,856	301	-	**9,706**

Notes to the Financial Statements for the year ended 31 August 2011 (continued)

14 Stock

	2011 £000	2010 £000
Clothing	**2**	3
Catering	**3**	3
	5	6

15 Debtors

	2011 £000	2010 £000
Trade debtors	**22**	111
Prepayments	**53**	27
Other debtors	**7**	3
	82	141

16 Creditors: amounts falling due within one year

	2011 £000	2010 £000
Trade creditors	**18**	70
Other taxation and social security	**31**	48
Other creditors	**12**	43
Accruals and deferred income	**26**	55
	87	216

Deferred income	2011 £000
Deferred Income at 1 September 2010	**-**
Resources deferred in the year	**-**
Amounts released from previous years	**-**
Deferred Income at 31 August 2011	**-**

[include explanation of deferred income held at 31 August 2011]

Notes to the Financial Statements for the year ended 31 August 2011 (continued)

17 Funds

	Balance at 1 September 2010 £000	Incoming Resources £000	Resources Expended £000	Gains, Losses and Transfers £000	Balance at 31 August 2011 £000
Restricted general funds					
General Annual Grant (GAG)	66	4,257	(4,235)	77	**165**
Start Up Grant	-	-	-	-	**-**
Other DfE/YPLA grants	-	92	(92)	-	**-**
	66	4,349	(4,327)	77	**165**
Restricted fixed asset funds					
DfE/YPLA capital grants	8,591	1,224	(694)	-	**9,121**
Capital expenditure from GAG	30	-	(3)	10	**37**
Private sector capital sponsorship	1,189	344	(173)	-	**1,360**
	9,810	1,568	(870)	10	**10,518**
Total restricted funds	**9,876**	**5,917**	**(5,197)**	**87**	**10,683**
Unrestricted funds					
Unrestricted funds	66	38	(14)	-	**90**
Pension reserve	(834)	-	-	(220)	**(1,054)**
Total unrestricted funds	(768)	38	(14)	(220)	**(964)**
Total funds	**9,108**	**5,955**	**(5,211)**	**(133)**	**9,719**

The specific purposes for which the funds are to be applied are as follows:

[For each fund held during the year, a description of the nature of the restriction should be explained]

18 Analysis of net assets between funds

Fund balances at 31 August 2011 are represented by:

	Unrestricted Funds £000	Restricted General Funds £000	Restricted Fixed Asset Funds £000	Total Funds £000
Tangible fixed assets	-	-	10,518	**10,518**
Current assets	98	244	-	**342**
Current liabilities	(8)	(79)	-	**(87)**
Pension scheme liability	(1,054)	-	-	**(1,054)**
Total net assets	(964)	165	10,518	**9,719**

19 Capital commitments

	2011 £000	2010 £000
Contracted for, but not provided in the financial statements	**43**	15

20 Financial commitments

Operating leases

At 31 August 2011 the Academy had annual commitments under non-cancellable operating leases as follows:

	2011 £000	2010 £000
Land and buildings		
Expiring within one year	**21**	21
Expiring within two and five years inclusive	**42**	63
Expiring in over five years	**-**	-
	63	84
Other		
Expiring within one year	**6**	6
Expiring within two and five years inclusive	**15**	15
Expiring in over five years	**3**	3
	24	24

Notes to the Financial Statements for the year ended 31 August 2011 (continued)

	2011 £000	2010 £000
21 Reconciliation of net income to net cash inflow from operating activities		
Net income	**744**	623
Depreciation (note 13)	**870**	805
Capital grants from DfE and other capital income	**(1,568)**	(964)
Interest receivable (note 5)	**(5)**	(18)
FRS 17 pension cost less contributions payable (note 27)	**65**	42
FRS 17 pension finance income (note 27)	**22**	27
(Increase)/decrease in stocks	**1**	-
(Increase)/decrease in debtors	**59**	(10)
Increase/(decrease) in creditors	**(129)**	102
Net cash inflow from operating activities	**59**	607

22 Returns on investments and servicing of finance		
Interest received	**5**	16
Net cash inflow from returns on investment and servicing of finance	**5**	16

23 Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(1,682)**	(1,324)
Capital grants from DfE/YPLA	**1,224**	975
Capital funding received from sponsors and others	**344**	149
Receipts from sale of tangible fixed assets	**-**	**-**
Net cash outflow from capital expenditure and financial investment	**(114)**	(200)

24 Analysis of changes in net funds	At 1 September 2010 £000	Cash flows £000	**At 31 August 2011 £000**
Cash in hand and at bank	305	(50)	**255**
	305	(50)	**255**

25 Contingent Liabilities

Add text as required - see Chapter 2 Guidance Notes

26 Members' Liability

Each member of the charitable company undertakes to contribute to the assets of the company in the event of it being wound up while he/she is a member, or within one year after he/she ceases to be a member, such amount as may be required, not exceeding £10 for the debts and liabilities contracted before he/she ceases to be a member.

27 Pension and similar obligations

The Academy's employees belong to two principal pension schemes: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; and the Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by [name]. Both are defined-benefit schemes.

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the TPS was 31 March 2004 and of the LGPS 31 March 2010.

[There were no outstanding or prepaid contributions at either the beginning or the end of the financial year/Contributions amounting to £20,000 (2010 £18,000) were payable to the schemes at 31 August and are included within creditors.]

Teachers' Pension Scheme

The TPS is an unfunded defined benefit scheme. Contributions on a "pay-as-you-go" basis are credited to the Exchequer under arrangements governed by the Superannuation Act 1972. A notional asset value is ascribed to the scheme for the purpose of determining contribution rates.

The pensions cost is normally assessed no less than every four years in accordance with the advice of the Government Actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation (under the new provisions)	31 March 2004
Actuarial method	Prospective benefits
Investment returns per annum	6.5 per cent per annum
Salary scale increases per annum	5.0 per cent per annum
Notional value of assets at date of last valuation	£162,650 million
Proportion of members' accrued benefits covered by the notional value of the assets	98.88%

Following the implementation of Teacher's Pension (Employers' Supplementary Contributions) Regulations 2000, the Government Actuary carried out a further review on the level of employer contributions. For the period from 1 September 2010 to 31 August 2011 the employer contribution was 14.1 per cent. The employee rate was 6.4% for the same period.

Under the definitions set out in Financial Reporting Standard (FRS 17) Retirement Benefits, the TPS is a multi-employer pension scheme. The Academy is unable to identify its share of the underlying assets and liabilities of the scheme.

Accordingly, the Academy has taken advantage of the exemption in FRS 17 and has accounted for its contributions to the scheme as if it were a defined-contribution scheme. The Academy has set out above the information available on the scheme and the implications for the Academy in terms of the anticipated contribution rates.

27 Pension and similar obligations (continued)

Local Government Pension Scheme

The figures included in this section are illustrative only.

The LGPS is a funded defined-benefit scheme, with the assets held in separate trustee-administered funds. The total contribution made for the year ended 31 August 2011 was £250,000, of which employer's contributions totalled £201,000 and employees' contributions totalled £49,000. The agreed contribution rates for future years are XX per cent for employers and X per cent for employees.

Additional disclosure should be made where the scheme is in deficit and the entity has entered into an agreement with the trustees to make additional contributions in addition to normal funding levels, including the number of years over which it is anticipated that the additional contributions will be paid.

Principal Actuarial Assumptions	**At 31 August 2011**	**At 31 August 2010**
Rate of increase in salaries	**4.40%**	4.10%
Rate of increase for pensions in payment / inflation	**2.90%**	2.60%
Discount rate for scheme liabilities	**5.80%**	5.50%
Inflation assumption (CPI)	**2.90%**	2.90%
Commutation of pensions to lump sums	**50%**	25%

The ASB Reporting Statement 'Retirement Benefits' recommends that disclosure should include a sensitivity analysis for the principal assumptions used to measure scheme liabilities, showing how the measurement of scheme liabilities would have been affected by changes in the relevant assumption that were reasonably possible at the balance sheet date.

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	At 31 August 2011	**At 31 August 2010**
Retiring today		
Males	**21.2**	18.9
Females	**24**	21.8
Retiring in 20 years		
Males	**22.4**	19.9
Females	**25.1**	22.8

27 Pension and similar obligations (continued)

Local Government Pension Scheme (Continued)

The academy's share of the assets and liabilities in the scheme and the expected rates of return were:

	Expected return at 31 August 2011	Fair value at 31 August 2011 £000	Expected return at 31 August 2010	Fair value at 31 August 2010 £000
Equities	**7.70%**	**1,166**	7.70%	1,232
Bonds	**5.10%**	**954**	5.10%	425
Property	**6.50%**	**159**	6.50%	63
Total market value of assets		**2,279**		1,720
Present value of scheme liabilities				
- Funded		**(3,333)**		(2,554)
Surplus/(deficit) in the scheme		**(1,054)**		(834)

A narrative description is required of the basis used to determine the overall expected rate of return on the major categories of scheme assets.

The actual return on scheme assets was £100,000 (2010: £90,000).

Amounts recognised in the statement of financial activities

	2011 £000	2010 £000
Current service cost (net of employee contributions)	**254**	176
Past service cost	**12**	-
Total operating charge	**266**	176

Analysis of pension finance income / (costs)

Expected return on pension scheme assets	**128**	90
Interest on pension liabilities	**(150)**	(117)
Pension finance income / (costs)	**(22)**	(27)

27 Pension and similar obligations (continued)

Local Government Pension Scheme (Continued)

The actuarial gains and losses for the current year are recognised in the statement of financial activities. The cumulative amount of actuarial gains and losses recognised in the statement of financial activities since the adoption of FRS 17 is a £262,000 loss (2010: £129,000 loss).

Movements in the present value of defined benefit obligations were as follows:

	2011 £000	2010 £000
At 1 September	**2,554**	2,063
Current service cost	**254**	176
Interest cost	**150**	117
Employee contributions	**49**	45
Actuarial (gain)/loss	**314**	153
Benefits paid	**-**	-
Past Service cost	**12**	-
Curtailments and settlements	**-**	-
At 31 August	**3,333**	2,554

Notes to the Financial Statements for the year ended 31 August 2011 (continued)

27 Pension and similar obligations (continued)

Local Government Pension Scheme (Continued)

Movements in the fair value of academy's share of scheme assets:

	2011 £'000	2010 £'000
At 1 September	**1,720**	1,227
Expected return on assets	**128**	90
Actuarial gain/(loss)	**181**	224
Employer contributions	**201**	134
Employee contributions	**49**	45
Benefits paid	**-**	-
At 31 August	**2,279**	1,720

The estimated value of employer contributions for the year ended 31 August 2012 is £205,000.

The five-year history of experience adjustments is as follows:

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Present value of defined benefit obligations	**(3,333)**	(2,554)	(2,063)	(1,753)	(1,551)
Fair value of share of scheme assets	**2,279**	1,720	1,227	1,218	1,157
Deficit in the scheme	**(1,054)**	(834)	(836)	(535)	(394)
Experience adjustments on share of scheme assets					
Amount £'000*	**181**	224	(486)	(89)	(116)
Experience adjustments on scheme liabilities:					
Amount £'000*	**220**	(3)	45	25	(23)

**FRS 17 (revised) allows for EITHER monetary amounts or values expressed in percentage terms to be disclosed here.*

28 Related Party Transactions

Owing to the nature of the Academy's operations and the composition of the board of governors being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the board of governors may have an interest. All transactions involving such organisations are conducted at arm's length and in accordance with the Academy's financial regulations and normal procurement procedures.

DEF Limited – a company in which Mr Brown, a Governor has a majority interest.

Transactions totalling £35,000 (2011 - £nil), relating to the purchase of specialist equipment took place in the year. There were no amounts outstanding (2010 - £nil).

Chapter 4 – Abbreviated Accounts Return

This chapter is to follow and will include an abbreviated accounts return in excel format along with supporting guidance for completion.

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