

The Church of Scotland General Trustees Annual Report & Financial Statements

for the year ended 31 December 2016

Scottish Charity Number SC014574

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The Church of Scotland
General Trustees

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

ANNUAL REPORT

AND FINANCIAL STATEMENTS

for the year ended 31 December 2016

Contents	Page
Trustees' Report	2-20
Objectives and Activities	2
Achievements and performance	5
Financial Review	7
Future Plans	12
Structure, Governance and Management	13
Reference and Administrative Details	18-19
Statement of Trustees' Responsibilities	20
Independent Auditors' Report to the Trustees	21-22
Consolidated Income and Expenditure Account and Statement of Financial Activities	23
Balance Sheet	24
Consolidated Cashflow Statement	25
Notes to the Financial Statements	26-42

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT for the year ended 31 December 2016

A. OBJECTIVES AND ACTIVITIES

Article III of the Articles Declaratory of the Constitution of the Church of Scotland in Matters Spiritual says: "As a national Church representative of the Christian faith of the Scottish people it acknowledges its distinctive call and duty to bring the ordinances of religion to the people in every Parish of Scotland through a territorial ministry".

Objectives

Interpreting this declaration in modern terms as a duty and a desire for a Christian presence in every community, the General Trustees as a part of the national administration of the Church aim to give practical effect to this by

- supporting parish ministry in its various forms;
- assisting congregations in the provision of suitable buildings for each parish.

Their trust purpose is to administer stipend endowments and any heritable assets such as land, churches, halls and manses and any moveable assets such as investments derived therefrom for such ends, uses and purposes as the General Assembly (or any body to which its powers are delegated) may direct.

This is reflected in the terms of the Trustees' Mission Statement:

The General Trustees, working in collaboration with Presbyteries and other Church of Scotland agencies, use the land, buildings and investments entrusted to them and offer support and encouragement to congregations to assist them in developing flexible, robust and sustainable resources capable of supporting local mission and worship.

Public Benefit

The Church of Scotland General Trustees is a Charity registered in Scotland. It provides public benefit through the achievement of the two objectives and the effective undertaking of the Trustees' activities in support of the Church of Scotland's national network of around 1,300 parishes, over 3,500 churches, halls and manses and about 1,000 ministers and other parish workers. This network offers spiritual, pastoral and practical care for all, whether they are Christian or not, who wish to engage with matters of faith and community care and action in a Christian context.

Principal Activities

The General Trustees undertake a number of activities in the carrying out of their trust purpose and the two charitable objectives.

Supporting Parish Ministry

a. Administering the Consolidated Stipend Fund

This Fund is administered for the benefit of the 1,300 or so congregations with holdings in it. The Fund capital is largely derived from the sale of glebeland since 1925 as well as from transfers of surplus capital from the Consolidated Fabric Fund and from the investment of new

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2016

A. OBJECTIVES AND ACTIVITIES (Continued)

Supporting Parish Ministry (Continued)

monies by individual congregations. Revenue generated on the capital is applied to help the congregations meet their parish ministry costs.

Upon the sale of glebeland for a significant sum by way of development value, a congregation's capital holding may generate more income than required. On the recommendation of the Presbytery and with the concurrence of the Ministries Council, surplus capital may be transferred to the benefit of that congregation in the Consolidated Fabric Fund or to assist other congregations through the National Stipend Fund.

b. Administering Glebeland Funds

Funds arising from the sale of glebeland are transferred to the capital of the Consolidated Stipend Fund once a particular transaction is complete. As with income from the Fund, rental income arising from the letting of glebeland is also applied to help congregations pay for parish ministry costs.

Assisting Congregations in the Provision of Suitable Buildings

a. Administering the Consolidated Fabric Fund

This Fund comprises two distinct elements, the first being capital derived from the sale of redundant properties and from the transfer from time to time of surplus capital from congregations' holdings in the Consolidated Stipend Fund. Subject to various safeguards and approvals, both capital and accrued revenue may be withdrawn to meet a wide range of buildings-related expenditure incurred by congregations on churches, halls and manses and enabling them to pay for repairs and improvements to their buildings.

Assembly Regulations provide for the possibility of monies from the Fund being transferred to the benefit of the congregation in the Consolidated Stipend Fund or to assist other congregations through the Central Fabric Fund. Such transfers are implemented by the General Trustees on the recommendation of the appropriate Presbytery.

The second element of the Fund is the net capitalised value of heritable properties occupied by congregations and which are vested in the Trustees as legal owners. This information is required to be shown as a result of charity accounting requirements.

b. Administering Individual Funds and Temporary Funds

Individual Funds were derived from the sale of redundant properties and where the main purpose of the proceeds was for Christian mission rather than for the repair or improvement of buildings. Release of accrued revenue and capital is subject to various approvals from congregations and Presbyteries.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2016

A. OBJECTIVES AND ACTIVITIES (Continued)

Assisting Congregations in the Provision of Suitable Buildings (Continued)

Temporary Revenue Funds derived from the sales of redundant properties are normally transferred, together with interest thereon, to the Consolidated Fabric Fund once the transactions are complete.

c. Administering the Central Fabric Fund

The Fund is the main resource which enables the Trustees to provide financial assistance to congregations for repairing and improving the buildings which they use as local resources for Christian mission. In recent years the Trustees have made over £5m available in the form of grants and loans each year.

All application forms for financial assistance contain guidelines as to the General Trustees' policy on the provision of loans and grants from the Fund. The following guidelines are applied when assessing the relative merits of applications for financial assistance:

- Priority will be given to applications firstly from congregations in Priority Areas, secondly from those in other areas of identified need and thirdly from congregations embarking on schemes approved by the Ministries Council's *Go For It* Fund which has a buildings aspect.
- Grants will not be awarded to congregations which have holdings in the Consolidated Fabric Fund from which the relevant expenditure could be met.
- Grants will not be awarded to congregations which can finance the repayment of a loan, subject to the proviso that the General Trustees may continue to make grants in this circumstance towards the cost of obtaining professional advice.
- Grants will only be awarded where the congregation has applied the whole or a substantial portion of its fabric reserves or has made significant efforts to raise funds locally or from other external sources.
- Before loans are offered, the Trustees will scrutinise relevant financial information to ensure that a congregation has the financial ability to repay the capital and interest of any loan which might be offered to it.
- From time to time the Trustees will make modest grants to external organisations such as the Scottish Redundant Churches Trust where the achievement of such organisations' aims are deemed by the Trustees to support their own objectives including the disposal of redundant Church buildings.

d. Administering the General Fund

The General Fund, which is unrestricted, is used to meet expenses incurred by the Trustees in the administration of their business, the main item being staff salaries and associated costs. After meeting administration costs, the net incoming resources of this Fund have been applied towards reserves or have been transferred to the Central Fabric Fund to assist in the making of grants and loans to Congregations, and to the Ministries Council of the Church of Scotland, to assist with Parish Staffing costs.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2016

A. OBJECTIVES AND ACTIVITIES (Continued)

Assisting Congregations in the Provision of Suitable Buildings (Continued)

e. **The work of the Church of Scotland Insurance Services Limited**

The Church of Scotland Insurance Services Limited (“the Insurance Company”) is a limited company incorporated and domiciled in Scotland with registered company number SC001777. The registered office is 121 George Street, Edinburgh, EH2 4YN.

The Insurance Company is a wholly-owned subsidiary of the General Trustees and as such its assets, liabilities and results for the year are consolidated with those of the General Trustees.

The Insurance Company provides through its Church Scheme a first-class comprehensive package-type cover at competitive rates for buildings, liabilities and contents for congregations. The Insurance Company used the good claims record under the first three-year contract to negotiate a new five-year deal with Aviva as the main insurer which became effective on 28 February 2016. It has also extended the scope of cover it can arrange for non-Scheme business. The Insurance Company and the General Trustees believe that the services which the Company provides represent a good deal for congregations and the Trustees.

B. ACHIEVEMENTS AND PERFORMANCE

Bearing in mind their trust purpose, the General Trustees have continued throughout 2016 to support parish ministry and to assist congregations in the provision of suitable buildings by the efficient administration of the Funds under their control.

Investment Performance

The General Trustees invest primarily in the Deposit, Growth and Income Funds of the Church of Scotland Investors Trust. Although they obtain the benefits of professional management, continuous portfolio supervision, spread of investment risk and economies of scale, decisions as to the appropriate investment mix as between the three Funds are the responsibility of the General Trustees in relation to the Consolidated Stipend Fund, the Central Fabric Fund and the General Fund while individual Financial Boards of congregations are responsible for determining the mix of their holdings in the Consolidated Fabric Fund.

Performances of the three Investments Funds are;

Growth Fund: In order to allow objective assessment to be made of investment performance, an internal benchmark reflecting ethical constraints has been agreed by the Investors Trust with their Fund Managers. Total return the Investors Trust received in 2016 was 14.2% against the composite benchmark of 19.3%. Income received was 17.20p per unit (2015- 16.35p per unit), exceeding the 16.0p per unit target. The Investors Trust agreed to pay a distribution of 16.75p per unit to The Church of Scotland General Trustees during 2016.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2016

B. ACHIEVEMENTS AND PERFORMANCE (Continued)

Investment Performance (Continued)

Income Fund: An internal benchmark has been agreed by the Investors Trust with their Fund Managers in order to allow objective assessment to be made of investment performance. In 2016 the total return received by the Investors Trust was 9.1%, compared with the benchmark return of 10.4%. Income received was 50.26p per unit (2015-51.85p per unit), marginally exceeding the approved 50.0p per unit distribution that was received by The Church of Scotland General Trustees in 2016.

Deposit Fund: The Fund is invested in short-term deposits with Banks and Building Societies. The average annual rate of interest paid for 2016 was 0.69% (2015- 0.63%).

Review of Asset Allocation

Since 2003, new capital introduced to the Consolidated Fabric Fund has been placed on deposit pending instructions from Financial Boards as to further investment. Over the years, very few Boards gave instructions with the result that very significant sums were being held on deposit, sometimes for many years. Following consultation with the Investors Trust Trustees, an information sheet on the three Funds with guidance as to how to set an appropriate investment strategy is now routinely sent to Congregational Treasurers when additional capital from the sale of redundant buildings is credited to the Consolidated Fabric Fund. The Trustees' Finance Manager has also continued to proactively engage with individual Treasurers whose congregations have large, unused capital deposits. These measures have already resulted in an appreciable increase in the number of instructions being received for investment with a consequent benefit to the congregations concerned by way of increased income. Nevertheless, there remains considerable scope for improvement.

Making congregational buildings safer spaces

Following the appointment of the Safe Buildings Consultant in February 2016, the Trustees have begun to implement their policy of improving the awareness of health and safety matters at a congregational level. The Consultant has worked with a number of congregations on specific issues including fire risk assessment and food safety as well as preparing a programme of education to be delivered to groups of congregational office-bearers with the support and co-operation of Presbyteries. The Trustees' aim is to develop a range of appropriate resources and to champion a change of culture and mind-set so that within a decade attention to making buildings safer spaces for all those whose activities take them in and about churches and halls is as automatic as it is for the safeguarding of children and vulnerable adults.

Improving the resources of the Secretary's Department

Arising out of a concern at the increasing workload of their Secretary and senior staff, the Trustees set up a Support Group in 2015 to work with the Secretary on identifying various measures to improve the situation. The immediate outcome was the decision in late 2015 to appoint a second Assistant Secretary (Ecclesiastical Buildings) to cope with the increasing amount of buildings-related work coming through the Department, to deliver a better service to congregations and Presbyteries and to

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2016

B. ACHIEVEMENTS AND PERFORMANCE (Continued)

Improving the resources of the Secretary's Department (Continued)

enable the Trustees to develop and undertake new initiatives. The new post-holder took up his appointment in April 2016. Much of the fabric work undertaken by the Depute Secretary is being handed over to the new Assistant which in turn will over time enable the Secretary to share his workload and play a more strategic role in the work of the Trustees. In addition, the appointment of a replacement Administration Team Leader in November 2016 and the creation of a new post of Executive Assistant starting in April 2017 will further improve the effectiveness of the Department. The Trustees are also pleased to report that a member of the Stewardship & Finance Department has been seconded as a Trainee Accountant on a three-year placement with effect from 18 January 2016. In addition to developing the Trainee's professional skills and experience, it has enabled the Trustees' Finance Manager to plan and implement a further phase of the new accounting system and to work more pro-actively with congregational treasurers and finance conveners.

C. FINANCIAL REVIEW

Total Reserves

The financial statements as at 31 December 2016 show that the General Trustees have unconsolidated total reserves of £697,153,000 which includes an adjustment to opening funds to account for additional properties identified in the year of £3,625,000 in respect of properties whose title was held by the Church of Scotland General Trustees but were omitted from the Asset Register - see Note 32 for more details. Of this total £508,394,000 is represented by the value of land and property assets as shown in note 12 and £61,627,000 is represented by unrealised gains on investment assets.

Unrestricted Reserves

Of the total reserves of £697,153,000 only £7,301,000 are unrestricted and undesignated, the majority of the reserves being held in restricted funds for the benefit of individual congregations. The Trustees are of the view that the holding of this level of unrestricted reserves is fully justified given that

- there is annual expenditure on the General Fund of over £1,700,000 with annual ordinary recurring income, excluding income from the Insurance Company which is solely dependent on its trading results, of around £340,000.
- major essential maintenance costs or underinsured damage to buildings which cannot be met by the congregation concerned could become a liability of the General Trustees to be met from this reserve and while such instances are not common when they do arise the sums can be very significant, and
- the General Trustees have contingent liabilities as disclosed in note 29 to the financial statements which, if they arose, could eliminate unrestricted reserves.

Designated Reserves

In addition to the General Trustees own reserves, the consolidated financial statements show reserves in Designated Funds of £6,874,000 at the Balance Sheet date. The Insurance Company operates under the Companies Act and is authorised and regulated by the Financial Conduct Authority. The

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2016

C. FINANCIAL REVIEW (Continued)

Designated Reserves (Continued)

Directors of the Company are conscious of the Trustees' desire to aid the work of the Church and continue to examine ways to assist in that process.

Restricted Reserves

There are restricted reserves of £679,932,000 at 31 December 2016, comprising £123,419,000 of Stipend Funds and £556,513,000 of Fabric and other Funds which includes £35,882,000 and £472,511,000 respectively of capitalised land and properties.

As explained on page 2, the Consolidated Stipend Fund is held for the benefit of the 1,300 or so congregations for whom it is earmarked, and the income is applied against the congregation's ministry costs. Capital is not normally withdrawn but upon receipt of additional capital typically from the sale of Glebeland, surplus monies can be transferred to the Consolidated Fabric Fund or to the National Stipend Fund administered by the Ministries Council. As agreed with the then Board of Ministry (now Ministries Council) and adopted and re-affirmed by the General Assembly, the Fund is regarded as a permanent endowment for investment strategy purposes. The Fund is therefore invested for the very long term and aims to produce as high an annual income as is consistent with the need to sustain progressive growth in this income in the future, "progressive growth" being interpreted as at least matching inflation and sustaining that growth resulting in the need to maintain the capital value of the Fund in real terms. Following the approval of the 2001 General Assembly, the Fund has been viewed on a total return basis, and the Trustees are empowered to pay a proportion of any dividend out of capital.

During 2013, the Trustees obtained independent professional advice on whether the investment strategy was still valid. The conclusion was that, in light of market conditions, the aim of achieving both income and capital growth in real terms was unlikely to be fully sustainable in the medium to long term. The Trustees brought this situation to the attention of the 2014 Assembly and sought confirmation that the Fund should continue to be held as a permanent endowment. Following that Assembly's instruction that this issue be considered by the Strategic Finance and Resource Allocation Review Group of the Council of Assembly, the Group heard from representatives of the Trustees. The Group supported the Trustees' view that, as the wider Church expects parish ministry to be paid for into the long term, the Fund should be regarded as an integral element in achieving this aim. The 2016 Assembly re-affirmed that the Fund should continue to be held as a permanent endowment for investment purposes. The Trustees are about to instruct a review of their investment strategy for the Fund.

Fabric Funds are made up of (1) heritable assets capitalised in the accounts which total £472,511,000, (2) monies held for specific congregations totalling £65,684,000 and (3) the Central Fabric Fund of £18,318,000. In the case of (2) the monies are held for the benefit of approximately 810 congregations and, subject to the relevant approvals by Presbyteries and the General Trustees, both capital and revenue balances may be withdrawn to meet local fabric needs. The timing of these withdrawals is out-with the control of the General Trustees. The capital and accumulated revenue of the Central Fabric Fund amounts to £18,318,000 at 31 December 2016. These funds are used to award

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2016

C. FINANCIAL REVIEW (Continued)

Restricted Reserves (Continued)

loans and grants to congregations (see notes 15, 24 and 27 to the Financial Statements). Grants and loans from the Central Fabric Fund may be applied for by all congregations but all such applications fall to be decided by the General Trustees.

It is the policy of the Trustees to credit general donations to the capital of the Central Fabric Fund in order to increase the value of the Fund and thereby produce greater income for making grants and servicing interest-free loans in the future. Levies on property sales are credited to Revenue and ring-fenced for grant assistance to the three priority categories of congregations as approved by the 2003 General Assembly.

Capital in the Consolidated Fabric Fund is invested in the Church of Scotland Investors Trust Growth Fund in order to seek to maintain capital value in the long term and in the Income Fund in order to boost the income on which many congregations are dependant for the maintenance of their buildings. The Growth Fund is primarily an equity-based fund while the Income Fund is primarily fixed-interest based. An element is also invested in the Deposit Fund to cater for withdrawals.

Following General Assembly approval in 2003, all congregations with earmarked funds were informed of the foregoing investment strategy and asked to advise the Trustees if they considered the capital might be better individually invested differently in the Investors Trust.

With effect from July 2003 new capital holdings are initially individually invested in the Deposit Fund of the Investors Trust until the congregation advises the Trustees as to the appropriate investment strategy. The underlying asset allocation of the Fund is re-balanced if necessary to ensure that the Deposit Fund element has a working balance equivalent to twelve months' withdrawals.

The Investors Trust has an ethical investment policy and does not invest in companies substantially involved in alcohol, tobacco, gambling or armaments.

The Growth Fund is a largely equity-based fund, with 86% of the fund invested in UK and overseas equities, and is intended for long-term investment. It seeks to provide growing annual income and a long-term increase in the value of the capital. The Income Fund is 81% invested in UK bonds and gilts and is intended to provide nominal capital protection. The Deposit Fund is intended for short-term investment and seeks to provide a competitive rate of interest whilst preserving nominal capital value.

Review of Financial Activities

The Statement of Financial Activities discloses the incoming and expended resources for the year to 31 December 2016 and the supporting notes analyse these over the General Trustees' main activities of supporting parish ministry, assisting the provision of suitable buildings and the unrestricted activities of general administration and the Insurance Company. The assets, liabilities and results of the Insurance Company are consolidated with those of the General Trustees and the format of the

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2016

C. FINANCIAL REVIEW (Continued)

Review of Financial Activities (Continued)

financial statements comply with the requirements of the Statement of Recommended Practice "Accounting and Reporting by Charities" revised in March 2005.

The underlying net assets of the Insurance Company at the Balance Sheet date were £6,874,000 (2015 - £6,448,000). A summary of the Insurance Company's results for the year is shown in Note 14.

The overall total income is £20,055,000 (including 'donated' assets of £6,903,000 – see notes 1 and 4) which is £885,000 more than in 2015 with total expenditure of £17,564,000, a £217,000 increase on the previous year. Gift Aid payments of £1,422,000 were received during the year to which is added the net gains on investments and tangible assets of £33,993,000 leaving £36,484,000 to be added to the funds brought forward from 2015. Other than in the case of the Stipend Funds, there is no correlation between the movements in income and expenditure. The increased income relates to funds from Trusts amounting to £652,000 distributed to various congregations. The increase in expenditure arises from additional fabric grants awarded in the year – see Note 27 for further details.

The objective of supporting parish ministry was met by expenditure of £3,361,000 with £3,332,000 of that providing the Ministries Council with 8% of its total ministry costs for the year from Stipend Fund income and glebe rents. Including gross capital expenditure, £23,910,000 has been spent on fabric purposes to assist the provision of suitable buildings for congregational purposes. That expenditure represents a significant investment in the Church's property assets. Of this sum £2,014,000 is committed by way of fabric grants to congregations. Awarding grants in excess of £1,000,000 per annum is only possible if the Central Fabric Fund receives support from other income streams of the General Trustees. The General Fund surplus for the year was due in great measure to the Insurance Company's contribution to the work of the General Trustees amounting to £1,422,000 for the year.

Valuation of Assets

As a result of the change of status from that of a Designated Religious Body to a Designated Religious Charity which removed the previous exemption from compliance with charity accounting standards in respect of capitalising heritable properties, the General Trustees carefully considered the significant impact of the Statement of Recommended Practice 2005 on Accounting and Reporting by Charities given that they are the legal owners of around 3,500 buildings – churches, halls, manses, church officers' houses, steadings and the like – as well as around 550 glebelands.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2016

C. FINANCIAL REVIEW (Continued)

Valuation of Assets (Continued)

Glebeland

The 12,520 acres of glebeland (2015 – 12,545 acres) in their ownership have been brought into the Financial Statements at fair value using methodologies approved by the trustees which used information provided by the RICS Rural Land Market Survey for Scotland which suggested an average value of £2,866 per acre for pasture land at 31 December 2016 (2015 - £2,500), glebeland had a capitalised value of £35,882,000 at the balance sheet date.(2015 - £31,362,000).

Churches and Halls

Splitting these into (a) churches with and without integral halls and (b) separate halls, the General Trustees adopted a fair value using methodologies approved by the trustees based on realised sale prices on a rolling five-year average basis which at the end of 2016 indicated an average price for churches (including churches with integral halls) of £144,175 (2015 - £132,055) and an average price of £97,603 for separate halls (2015 -£97,105). These figures disclosed capitalised values at 31 December 2016 of £193,913,000 for churches (2015 - £178,670,000) and £19,228,000 for halls (2015 - £19,324,000)

Manses

The General Trustees adopted a fair value for manses using methodologies approved by the trustees based on a formula involving the midpoint of the relative Council Tax Band as at 1991 to which is applied indexing to each Band based on the Nationwide Building Society House Price Indexes. This brought out a capitalised value for manses vested in the General Trustees of £259,370,000 as at 31 December 2016 (2015 - £253,560,000)

The total capitalised value of tangible assets as at 31 December 2016 was therefore £508,393,000 comprising 12,520 acres of glebeland, 1,345 churches, 197 halls and 833 manses. This capitalised sum accounts for 73% of the Charity's total net assets.

The Trustees wish to emphasise that the year-end total capitalised value (i) represents the estimated value of land and buildings and is not 'cash in hand' nor is it equivalent to "market value" (ii) is held as restricted funds for the future benefit of congregations and is not available for wider purposes and (iii) is subject to volatility depending on future movement of the chosen indices. Nevertheless, the Trustees are satisfied that for the purposes of their annual financial statements this represents a fair and reasonable assessment of the value of properties vested in them on the basis detailed above. The significant increase in the assessment of the value of the buildings is attributable to the revaluation basis adopted by the Trustees.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2016

D. FUTURE PLANS

The Trustees have been encouraged by the growing number of opportunities to work more collaboratively with Presbyteries in the following areas:

- to provide tools and resources to assist Presbyteries in the realistic assessment of the appropriate categories for churches and halls in the buildings section of Presbytery Plans;
- to audit the effectiveness with which Presbyteries operate the Care of Ecclesiastical Properties processes with particular regard to the following up of problems identified as urgent or essential in property inspection reports so that the Trustees can target resources more effectively;
- to continue with the delivery of property seminars to congregational office-bearers on a regional basis;
- to consult Presbyteries when considering policy or legislative changes.

In addition, over the last few years, the Trustees have been looking at a variety of aspects of their work and have begun a number of initiatives all of which have been reported on, or referred to, at recent General Assemblies. These have covered the review of the Care of Ecclesiastical Properties legislation, the disposal of redundant buildings and land including pre-marketing development appraisal, the condition of manses, the issues affecting congregations whose buildings have very significant historic, architectural and civic elements, the improvement of communications with congregations and Presbyteries and various aspects of governance including the operation of the Department.

Recognising the danger of a piecemeal approach, a Way Forward Group was set up to consider how best to co-ordinate matters. Initial proposals were discussed by the Trustees at a conference facilitated by the Principal Clerk, Very Rev Dr John Chalmers following which a number of Working Groups have been set up under agreed terms of reference. The Groups cover governance, disposal of redundant buildings, the role of the Fabric and Glebe Committees, information technology, housing for the ministry, communications, quinquennial review, and historic churches. Recognising the benefits of better collaboration with Presbyteries, the review includes a pilot exercise involving working at a strategic level with a cluster of five Presbyteries to identify what resources are needed by Presbyteries as they deal with the difficult issue of what buildings are required for the future. The process, co-ordinated by the Way Forward Group and involving regular progress reports to the Board, is expected to be completed by the end of June 2018.

In 2015, the Trustees committed themselves to working with Ministries Council for the second phase of the Chance To Thrive Project. This involves financial input of £30,000 per year over three years so that a further four congregations in 2016 and another four in 2017 can be brought into the Project. The role of the Project Co-ordinator, Rev Fred Vincent is to focus on supporting building projects including the working up of strategies to ensure on-going maintenance and funding. It is an integral part of his role to work more directly with the Trustees' executive staff and to attend meetings of the Trustees' Fabric Committee.

While there is much to be positive about, the Trustees also have to deal with situations, usually arising from a lack of financial or personnel resources, where buildings have been neglected and are no longer assets but have become liabilities both for the congregations as well as for the Trustees. In

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2016

D. FUTURE PLANS (Continued)

some cases, there have been unrealistic expectations amongst the office-bearers and congregations as to the future of the buildings compounded by a failure to address the strategic needs of Christian mission at a Presbytery level. In these cases, the Trustees and their senior staff have to devote considerable resources of time, effort and finance to resolve the buildings-related problems. The Trustees therefore encourage congregations and Presbyteries to engage with them before matters become too difficult to address.

E. STRUCTURE, GOVERNANCE & MANAGEMENT

Constitution

The Church of Scotland General Trustees is a statutory corporation incorporated under the Church of Scotland (General Trustees) Order Confirmation Act 1921. After their setting up in 1921 their powers and responsibilities were greatly extended by the Church of Scotland (Property and Endowments) Act 1925 and subsequent legislation which provided, among other things, for the transfer to them of the majority of the properties of the pre-1929 Church of Scotland. The Trustees are the major property-holding corporation of the Church of Scotland and the bulk of the functional buildings of the Church are vested in them as legal owners.

The General Trustees act, subject to directions from the General Assembly, as administrative trustees in respect of the heritable properties and funds which have been transferred to them and they are also charged with the administration of the Central Fabric Fund, the Consolidated Stipend Fund, the Consolidated Fabric Fund and various miscellaneous funds, mainly fabric-oriented. Other than as represented by tangible fixed assets, the two Consolidated Funds and the miscellaneous funds are held principally for the future benefit of individual congregations at the discretion of the General Trustees.

Organisation and Structure

General Trustees are appointed by the General Assembly which passes legislation and approves procedures to aid and enable the Trustees to carry out their functions. Directions and instructions from the General Assembly cannot conflict with the General Trustees' statutory powers or trusteeship responsibilities. Trustees who have, prior to the opening of a General Assembly, attained their seventy-fifth birthday cease to be Trustees from the date of the General Trustees' report to that General Assembly. The Trustees who served during the financial year and since the year end to the date of this Report are listed on Page 19.

In an effort to make meetings of the full Board more effective, the Trustees have reduced the number of scheduled Board meetings from ten to seven and are using the meetings to hear short presentations from individual Trustees, staff and others on different aspects of the work not just of the Trustees but also of other agencies of the national administration as well as external organisations.

The Trustees also operate through Committees which are responsible for particular aspects of the Trustees' work. The Fabric, Glebe and Chairman's Committees normally meet eleven times a year. The Audit Committee normally meets three times each year and the Finance Committee meets four times, one of these meetings being jointly with the Audit Committee. The Law Committee is called

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2016

E. STRUCTURE, GOVERNANCE & MANAGEMENT (Continued)

Organisation and Structure (continued)

as necessary. The Committees are executive bodies which take decisions on behalf of the General Trustees on matters falling within their purview which do not involve a change of policy including:

- repairs and improvements at ecclesiastical buildings under the 1998 Assembly Regulations and the provision of financial assistance;
- visiting congregations usually in tandem with Presbytery representatives to give advice and encouragement in respect of a wide variety of fabric-related issues;
- approving the sale, purchase and lease of churches, halls and manses;
- approving the making of grant applications to Historic Environment Scotland and to Lottery funders;
- administration of glebeland through the carrying out of glebe rent reviews by factor members on the Glebes Committee and consideration of disposal of glebeland especially where development value can be achieved;
- interaction with the Scottish Government and other government agencies such as Historic Environment Scotland in relation to specific issues affecting the Church of Scotland or as part of the Scottish Churches Committee;
- scrutiny of the General Trustees' investments and investment strategy.

The Committees report their decisions to the next meeting of the full Board. The Committee Remits are being considered by the Way Forward Governance Working Group.

The day-to-day running of the General Trustees and the exercise of executive responsibility is delegated to their Secretary and Clerk and, in respect of financial matters, to their Finance Manager who is seconded from the Stewardship & Finance Department.

On their own initiative, the Trustees seek instructions and directions from the General Assembly and they also promote General Assembly legislation to further their objectives when they present their Report to the Assembly each May. The Trustees ensure that such instructions and directions are implemented timeously. Frequently, this will involve close liaison and co-operation with other Councils and Committees and with external bodies such as the Scottish Churches Committee. The Trustees have streamlined the presentation of cases coming before them at Board and Committee and always strive to deliver an effective and efficient service to Congregations and Presbyteries.

Related Parties

The General Trustees and the Unincorporated Councils and Committees of the General Assembly of the Church of Scotland are component elements of the Church of Scotland, reporting annually to the General Assembly and subject to its direction and are thus related parties as stated in Note 31 to the Financial Statements. In carrying through their functions, the Trustees work closely with the Unincorporated Councils and Committees (Mission & Discipleship, Ministries, Church & Society Council, etc.) at both trustee and executive staff levels. The Trustees have appointed one of their number to attend meetings of the Presbytery Planning Task Group of the Ministries Council. The Trustees meet from time to time with the Council of Assembly. The General Trustees have

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED

for the year ended 31 December 2016

E. STRUCTURE, GOVERNANCE & MANAGEMENT (Continued)

Related Parties (Continued)

traditionally invested through the Church of Scotland Investors Trust and a representative attends the twice-yearly meetings organised by the Trust for investors. In addition, the Trustees receive quarterly management reports regarding the three Funds administered by the Trust. The Trustees and their executive staff rely heavily on the high level of skill and professional expertise of the Solicitor of the Church, her Depute and Assistants and support staff in the Law Department.

Given the structure of the Church of Scotland as a whole, the nature of the legislation under which the General Trustees operate and their fiduciary and other trusteeship obligations, the Trustees tend to be reactive in respect of matters which come before them.

The Church of Scotland Insurance Services Limited is wholly owned by the Church of Scotland General Trustees apart from one share which is held by the Church of Scotland Trust out of the 530,000 issued shares. It is a Company trading as an insurance intermediary and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Further information regarding the relationship between the company and the General Trustees is contained later in the report. The accounts of the Insurance Company have been consolidated with those of the General Trustees.

Appointment and Induction of Trustees

General Trustees must either be Elders or Ministers of the Church of Scotland. Potential Trustees are identified in a number of ways: every four years each Presbytery is invited to put forward names of possible candidates; in addition the General Trustees advertise from time to time in Life & Work magazine. Personal recommendation also plays a part. In all cases, however, the Trustees seek Elders or Ministers with relevant skills and expertise. Details of potential Trustees are scrutinised by the Chairman's Committee acting in its capacity as the Nomination Committee and those identified as suitable are personally interviewed by the Chairman and Vice-Chairman and one other Trustee after being given an opportunity of perusing an information pack including extracts from relevant legislation, the last financial report and audited financial statements, committee remits, staff organisation and directory and calendar of meetings.

Following successful interview, new members are co-opted as Advisory Members for at least a year before being put forward for formal appointment by the General Assembly. This enables the members to gain experience of attending Committee and Board meetings and accompanying Trustees on deputation visits before deciding if they wish to be nominated as full Trustees. Members are usually allocated to at least one of the executive Committees according to their skills and expertise. Every effort is made to fulfil training needs as these come to be identified and new members are encouraged to attend external trustee training courses.

Persons who are neither Elders nor Ministers of the Church of Scotland but whose skills and experience have been identified as relevant to the work of the General Trustees are co-opted to serve as Advisory Members. The Trustees are aware that the number of such appointments should not be

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2016

E. STRUCTURE, GOVERNANCE & MANAGEMENT (Continued)

Appointment and Induction of Trustees (Continued)

excessive. Advisory Members have no voting rights but otherwise play a full part in the work of the Trustees by serving on Committees, attending Board meetings and undertaking deputation visits.

All members of the General Trustees are volunteers and many are also involved at Congregational and Presbytery level. Some also serve on other Councils and Committees. Apart from the Chairman and Vice-Chairman who receive a modest honorarium as provided for in the 1925 Act, no members receive remuneration except expenses. The work of the General Trustees would be virtually impossible without the significant contribution of Congregational Boards, Kirk Sessions and of Presbytery officials all but three of whom are part-time and who undertake their duties as part of their Christian service. It is therefore important to note that while this voluntary effort is one of the strengths of the Church of Scotland, it also represents a limitation on the ability of the General Trustees to impose solutions on Congregations and Presbyteries. This is a reflection of the Presbyterian structure of the Church of Scotland which is evidenced in the lack of powers in Assembly legislation to force compliance. The General Trustees' risk register refers to this situation.

The selection, appointment and training of Trustees and Advisory Members is being considered by the Way Forward Governance Working Group.

Risk Management

The Trustees have implemented a formal risk assessment process. This involves identifying the major types of risks which the Charity faces, prioritising them in terms of potential impact and likelihood of occurrence, and identifying means of mitigating them. The Trustees are aware that risk assessment is not a one-off exercise and a review of their Risk Register is carried out on an annual basis.

The main risks have now been identified as:

- The build-up of major property-related problems at congregational level (allied to increasing lack of professional or technical knowledge) through failure to institute maintenance and repair programs and/or to monitor work at buildings and compounded by the lack of enforcement powers by the Trustees.
- Failure at congregational level to comply with basic health and safety requirements and practices.
- The limited control over external organisations whose decisions may impact adversely on the work of the Trustees.

The Trustees seek to mitigate these risks as set out below:-

- Major property-related problems at Congregational level

Despite comprehensive legislation requiring annual and quinquennial inspection of churches, halls and manses and the introduction of simplified registers, there are still too many cases which come before the Trustees where buildings have not been properly looked after by congregations compounded by the failure of Presbyteries to monitor and to take appropriate

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2016

E. STRUCTURE, GOVERNANCE & MANAGEMENT (Continued)

Risk Management (Continued)

enforcement action. To encourage a more pro-active approach, the Trustees have a number of measures in place including the holding of a rolling program of property seminars for congregational office-bearers, promoting the Letting It Happen booklet and the Church Buildings Maintenance website and the giving of advice and encouragement to congregational representatives both as a Help Desk function in the church offices and on deputation visits. In addition, the Trustees are developing a system of audit checks on the follow-up of property inspection reports and are beginning to work with a number of Presbyteries on a more realistic assessment of which churches and halls are genuinely required for the mission of the Church. The appointment of the second Assistant Secretary (Ecclesiastical Buildings) will also help.

- Non-compliance with basic health and safety requirements by congregations

As mentioned earlier, the Trustees have appointed a Safe Buildings Consultant to champion a change in the mind-set of congregational office-bearers towards health and safety matters. The post-holder started in February 2016 and has begun assessing the current state of affairs and developing appropriate resources for congregations and Presbyteries. The Trustees' Health & Safety Working Group has been constituted as a sub-committee of the Fabric Committee and works closely with the Consultant.

- External issues

The Trustees attempt to deal with this matter by keeping their concerns before the General Assembly, the Council of Assembly and individual Councils. The General Trustees are represented on other Councils through their Corresponding Members and they engage with the Council of Assembly from time to time meeting at least once each year with the Council's Finance Group. In addition, the Convener of the Trustees' Audit Committee has been appointed to the Council's Governance Group. At the same time, the Trustees endeavour to engage with Ministers and MSPs by responding to consultation papers issued by the Scottish Government, Historic Environment Scotland and other agencies and to liaise with local authorities particularly in relation to Planning and Development. The Scottish Government's drive to promote community empowerment as part of its program of land reform is being monitored by the Trustees particularly in relation to the first case under the extension of community right-to-buy in urban areas which involves the redundant buildings of an Edinburgh congregation. The Trustees greatly appreciate the concerted voice which they have through the Scottish Churches Committee on which the Secretary serves.

Corporate Governance

Charities in Scotland are facing increasing scrutiny as a result of major changes to the regulatory system and corporate bodies generally are under increasing pressure to demonstrate that the way they run their affairs complies with principles of good governance. The Trustees have addressed the issues which arise from these two factors including the appointment, induction and training of their members, staff development, investment management, audit independence and risk management. The

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2016

E. STRUCTURE, GOVERNANCE & MANAGEMENT (Continued)

Corporate Governance (Continued)

Governance Working Group earlier referred to is looking in detail at these issues. The Internal Auditors, Deloitte, have produced an audit plan which addresses a number of improvements to various aspects of the Trustees' governance including the introduction of a Register of Interests and review of Committee Remits. A follow-up of certain governance recommendations from their audit work is planned for 2017 through the governance working group. As mentioned previously, the Convener of the Trustees' Audit Committee serves on the Council of Assembly's Governance Group and also attends meetings of its Audit Committee when considering the appointment of external auditors to the Unincorporated Councils and Committees.

Appointment of External Auditors

The Council of Assembly's Audit Committee interviewed three firms of external auditors and had unanimously agreed to re-appoint PricewaterhouseCoopers. Although the appointment would be on a year-by-year basis, it was anticipated that unless extraordinary circumstances emerged the appointment would run for an initial three years. A Trustee of The Church of Scotland General Trustees had been on the panel and had recommended the reappointment of PwC.

F. REFERENCE AND ADMINISTRATIVE DETAILS

Offices

121 George Street
Edinburgh
EH2 4YR

Bankers

The Royal Bank of Scotland plc
36 St Andrew Square
Edinburgh
EH2 2YB

Independent Auditors

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow
G2 7EQ

The Church of Scotland Investors Trust

Mrs Nicola Robertson
Administrative Secretary
121 George Street
Edinburgh EH2 4YN

Secretary and Clerk

Mr David D Robertson LLB NP
121 George Street
Edinburgh EH2 4YR

Solicitor

Miss Mary E MacLeod LLB NP
121 George Street
Edinburgh EH2 4YN

Treasurer

Mrs Anne F Macintosh BA CA
121 George Street
Edinburgh EH2 4YN

Finance Manager

Mr Alex Semple FCCA
121 George Street
Edinburgh EH2 4YR

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

List of General Trustees

Mr Iain C Douglas, RD BArch FRIAS
Chairman

Mr Robert W Balfour, DL BSc FRICS

Mr Walter H Barbour, BLE FRICS

Professor Stewart Brymer, OBE LLB (Hons) WS NP

Very Rev Dr John B Cairns, LTh LLB DD LLD

Rev David W Clark, MA BD

Mr Michael J P Cunliffe BSc (Hons) MSc MCIWEM

Rev James S H Cutler, BD CEng MI StructE

Mr William A Hall

Very Rev Dr E Lorna Hood, MA BD DD

Rev Dr James A P Jack, BSc BArch BD DMin RIBA
ARIAS

Mr Alan F K Kennedy, BSc FFA

Mr Douglas Kerr BSc Agriculture (Hons)

Mr Peter F King, LLB MCIBS

Mr William M Lawrie

Dr J Kenneth Macaldowie, LLD CA

Mr Arthur S McDonald FRICS

Mr Roger G G Dodd, DipBldgCons (RICS) FRICS
Vice-Chairman

Rev Neil I M MacGregor BD

Professor William McInnes, MSc PhD CA FRSA

Mr David Menzies (CEng MI StructE)

Mr W Iain Munro BArch FRIAS

Mr Neil A Price BSc CA FMAAT

Mr Ian B Smith, DA(Edin) ARIAS

Mr Robin Stimpson WS

Mr Gordon A Stirling, FRICS (removed 27/5/16)

Mr Donald W Thomas, CIPFA

Mr Ian T Townsend FRICS

Mr D Stewart Toy, BSc BArch RIBA

Mr Roger S Trueman, BArch (Hons) Dip TP ARIAS (resigned
23/2/16)

Dr John M Trushell, BA(Hons) MBA MLitt LLM MSc PhD
FRICS FCIArb FCIOB

Mr Raymond K Young, CBE BArch (Hons) FRIAS

Rev Ronald F Yule

Advisory Members (as defined on page 15)

Mr A Graham Biggerstaff RD MRICS MREHIS

Miss Laura J Dunlop, QC LLB (Hons)

Mr Manliffe P Goodbody MA FSCI (from 7/3/17)

Mr Nigel W Hicks, BSc MSc CA (from 7/3/17)

Prof John R Hume, OBE BSc ARCST Hon FRIAS Hon
FRSGS (retired 27/5/16)

Mr Michael W Hunter, FRICS

Mr Chris Johnstone FRIAS RIBA

Mr J G Grahame Lees MA LLB NP (from 31/1/17)

Rev Sheila M Kirk BA LLB BD

Mr Hamish McBean (from 23/2/16)

Mr John W Maddock BSc, (from 7/3/17)

Rev Janet S Mathieson MA BD

Mr John Milne, CA CPFA (from 7/3/17)

Mr Michael M Norval FRICS

Mr Iain Ogilvie MA (Hons) (from 26/4/16)

Mr Alexander B Pringle CA

Mr John E Rhind, BSc (Hons) FRICS

Mr James H S Stewart, LLB

Rev David Taverner MCIBS ACIS BD

Mrs Rosalind J Taylor, RIBA ARIAS MaPS

Mr Roger S Trueman, BArch (Hons) Dip TP ARIAS (23/2/16)

Rev Jeanette Whitecross BD

Mr Kenneth M Wright MSc (from 22/03/16)

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2016

Statement of Trustees' Responsibilities

The trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The law applicable to charities in Scotland requires the trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charity and the group and of the incoming resources and application of resources of the charity/group for that year.

In preparing these financial statements, the trustees 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 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 charity will continue in business.

The trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Charities Act 2011, the Charity (Accounts and Reports) Regulations 2008 and the provisions of the charity's constitution. They are also responsible for safeguarding the assets of the charity and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The financial statements on pages 23 to 42 were approved by the Board of Trustees on 25 April 2017 and signed on its behalf by

Edinburgh
25 April 2017

Iain C Douglas RD BArch FRIAS, Chairman

David D Robertson, LLB NP, Secretary

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

INDEPENDENT AUDITORS' REPORT TO THE CHURCH OF SCOTLAND GENERAL TRUSTEES for the year ended 31 December 2016

Report on the financial statements

Our opinion

In our opinion, The Church of Scotland General Trustees' group financial statements and parent charity financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent charity's affairs as at 31 December 2016 and of the group's and parent charity's incoming resources and application of resources and of the group's and parent charity's cash flows, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the group and parent charity balance sheets as at 31 December 2016;
- the group statement of financial activities for the year then ended;
- the group cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the trustees have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Other matters on which we are required to report by exception

Sufficiency of accounting records and information and explanations received

Under the Charities Accounts (Scotland) Regulations 2006 (as amended) we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- sufficient accounting records have not been kept by the parent charity; or
- the parent charity financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under the Charities Accounts (Scotland) Regulations 2006 (as amended) we are required to report to you if, in our opinion the information given in the Trustees' Annual Report is inconsistent in any material respect with the financial statements. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the trustees

As explained more fully in the Statement of Trustees' Responsibilities set out on page 20, the trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the charity's trustees as a body in accordance with section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulations made under that Act (regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended)) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent charity's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the trustees; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the trustees' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow

25 April 2017

PricewaterhouseCoopers LLP is eligible to act, and has been appointed, as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005.

- (a) The maintenance and integrity of the Church of Scotland General Trustees website is the responsibility of the trustees; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES
CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES
AND INCOME AND EXPENDITURE ACCOUNT
for the year ended 31st December 2016

Note	Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	Total 2016 £000	Total 2015 £000
Income from:					
3	3	1,811	-	1,814	1,301
4	148	6,946	-	7,094	7,002
5	264	4,998	110	5,372	5,259
6	1,778	3,997	-	5,775	5,608
			-		
	2,193	17,752	110	20,055	19,170
Expenditure on:					
	18	-	-	18	17
7	2,061	15,306	-	17,367	16,625
11	179	-	-	179	705
			-		
	2,258	15,306	-	17,564	17,347
13	Net gains / (losses) on investments				
	55	60	-	115	(6)
	763	10,063	259	11,085	859
	818	10,123	259	11,200	853
	753	12,569	369	13,691	2,676
Transfers between funds					
	-	110	(110)	-	-
12	Gains / (losses) on revaluation of tangible fixed assets				
	-	22,807	-	22,807	(34,838)
15	Other losses				
		(14)		(14)	(12)
	753	35,472	259	36,484	(32,174)
	13,422	640,835	2,787	657,044	689,218
12,32	-	3,625	-	3,625	-
	13,422	644,460	2,787	660,669	689,218
22	Total funds carried forward				
	14,175	679,932	3,046	697,153	657,044

The Charitable Company has no other items of comprehensive income. All the activities of the Charity are classified as continuing.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

BALANCE SHEETS
As at 31st December 2016

Note	Group		Charity	
	2016 £000	2015 £000	2016 £000	2015 £000
Fixed Assets				
12 Tangible Assets	508,394	482,917	508,393	482,916
13 Investments	164,795	151,281	161,235	148,097
14 Investment in Subsidiary Company		-	6,874	6,448
Total fixed assets	<u>673,189</u>	<u>634,198</u>	<u>676,502</u>	<u>637,461</u>
15 Long Term Loans	<u>1,774</u>	<u>2,224</u>	<u>1,774</u>	<u>2,224</u>
Current Assets				
15 Short Term Loans	2,839	1,754	2,839	1,754
16 Debtors	2,505	2,476	843	707
Short Term Deposits	16,055	16,941	16,055	16,941
Cash at Bank and in hand	3,914	2,751	1,000	13
Total current assets	<u>25,313</u>	<u>23,922</u>	<u>20,737</u>	<u>19,415</u>
17 Creditors: Amounts falling due within one year	<u>2,962</u>	<u>3,204</u>	<u>1,860</u>	<u>2,056</u>
Net Current Assets	<u>22,351</u>	<u>20,718</u>	<u>18,877</u>	<u>17,359</u>
Total Assets less Current Liabilities	<u>697,314</u>	<u>657,140</u>	<u>697,153</u>	<u>657,044</u>
18 Provisions for Liabilities and Charges	161	96	-	-
Net Assets	<u><u>697,153</u></u>	<u><u>657,044</u></u>	<u><u>697,153</u></u>	<u><u>657,044</u></u>
The funds of the charity:				
19 Endowment Funds	3,046	2,787	3,046	2,787
20 Restricted income Funds	679,932	640,835	679,932	640,835
21 Unrestricted income Funds	7,301	6,974	7,301	6,974
22 Designated Funds	6,874	6,448	6,874	6,448
Total charity funds	<u><u>697,153</u></u>	<u><u>657,044</u></u>	<u><u>697,153</u></u>	<u><u>657,044</u></u>

The notes on pages 26 to 42 form an integral part of these financial statements.

The financial statements on pages 23 to 42 were authorised for issue by The Church of Scotland General Trustees on 25 April 2017 and were signed on its behalf by:

Iain C Douglas RD BArch FRIAS, Chairman

Anne F Macintosh BA CA, Treasurer

THE CHURCH OF SCOTLAND GENERAL TRUSTEES
STATEMENT OF CONSOLIDATED CASH FLOWS
for the year ended 31st December 2016

Note	2016 £000	2015 £000
Cash flows from operating activities:		
25 Net cash generated from operating activities	<u>(1,568)</u>	<u>2,831</u>
Cash flows from investing activities:		
Purchase of Tangible Assets	(6,305)	(5,300)
Proceeds from sale of Tangible Assets	8,233	5,778
Purchase of Investments	(20,574)	(26,775)
Transfer to Short Term Deposits	-	7,622
Proceeds from sale of Investments	18,260	24,503
Repayment of Loans to Congregations	-	(5,434)
Payment of Loans from Congregations	2,231	1,764
Net cash used in investing activities	<u>1,845</u>	<u>2,158</u>
Cash flow from financing activities:		
Net cash change in financing activities	<u>-</u>	<u>-</u>
Increase in cash and cash equivalents in the reporting year	277	4,989
Cash and cash equivalents at the beginning of the reporting year	<u>19,692</u>	<u>14,703</u>
26 Cash and cash equivalents at the end of the reporting year	<u><u>19,969</u></u>	<u><u>19,692</u></u>

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31st December 2016

1 Accounting Policies

The principal accounting policies adopted, judgement and key sources of estimation uncertainty in the preparation of the financial statements are as follows:

a) Basis of preparation

The financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) ('the SORP') and Financial Reporting Standard 102: the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS 102'), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

The Church of Scotland General Trustees meets the definition of a public benefit entity under FRS 102. Assets and liabilities are initially recognised at historical cost or transaction value unless otherwise stated in the relevant accounting policy notes.

b) Preparation of accounts on a going concern basis

The Trustees have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

c) Group financial statements

The results of the Church of Scotland Insurance Services Limited have been consolidated on a line by line basis in the Statement of Financial Activities and the balance sheet. The accounting policies of the subsidiary company do not materially differ from those of the General Trustees and inter-group transactions and balances have been eliminated from the consolidated financial statements. No separate Statement of Financial Activities or Income and Expenditure Account have been presented for the charity alone as permitted by Charities SORP (FRS 102).

d) Recognition of Income

Generally incoming resources are accounted for in the Statement of Financial Activities when there is legal entitlement to the income and the amount can be quantified with reasonable accuracy.

Dividends from the Church of Scotland Investors Trust Growth and Income Funds are accounted for when approved with interest earned on the Deposit Fund accounted for up to the balance sheet date.

Property sales income is recognised according to the transaction's settlement date (almost always the date of receipt).

Gift Aid Donations are reflected as distributions by our subsidiary trading company and are recognised when approved for payment.

Insurance commission receivable is accounted for in full at the inception of the insurance contract.

Insurance profit commission is accounted for on an annual basis when the calculation is agreed with the insurers.

Donated assets are included as income in the year that expenditure has been incurred.

Rental income is recognised on an accruals basis.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED for the year ended 31st December 2016

1 Accounting Policies (Continued)

e) Expenditure

Expenditure is included in the Statement of Financial Activities on an accruals basis and allocated to the appropriate headings in the financial statements. Grants and loans are recognised as a commitment on the date of approval by the Trustees and recognised as expenditure once the conditions of the grant or loan award has been met.

The costs of raising funds include the costs incurred in generating voluntary income, together with investment management costs.

Charitable activities expenditure enables the Church of Scotland General Trustees to meet their charitable aims and objectives.

Governance costs are the costs associated with the governance arrangements of the Church of Scotland General Trustees, and relate to the general running of the Charity. These costs include internal and external audit, and the costs associated with meeting constitutional and statutory requirements such as the costs of Trustee Meetings and the costs of preparation of the Trustees' financial statements. This category also includes costs associated with the strategic as opposed to the day-to-day management of the Charity.

Support costs are those costs that enable fund generating and charitable activities to be undertaken. These costs include legal, finance and payroll administration, direct staff costs, human resources, central premises and information technology as set out in note 8.

f) Employee benefits

The Church of Scotland Insurance Services Limited provides a range of benefits to employees, including defined contribution pension plans.

g) Taxation

The Church of Scotland General Trustees, as a statutory corporation, have charitable status for UK tax purposes and are exempt from tax on income and gains to the extent that they are applied to its charitable activities. The Church of Scotland Insurance Services Limited presently distributes part of its taxable income by way of Gift Aid but the remainder of its profits are chargeable to Corporation Tax. Provision is also made for deferred taxation, using the liability method, on all material timing differences, including revaluation gains and losses on investments, recognised in the Subsidiary Company's profit and loss account. Deferred taxation is calculated at the rates at which it is expected that the tax will arise.

h) Tangible assets

The Church of Scotland Unincorporated Councils and Committees make use of heritable properties vested in The Church of Scotland General Trustees. These properties are not included in the financial statements of the General Trustees but are included in the financial statements of the Unincorporated Councils and Committees as beneficiary nominees at fair value using methodologies approved by the trustees.

Tangible assets are stated at periodic valuation less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED for the year ended 31st December 2016

1 Accounting Policies (Continued)

h) Tangible assets (Continued)

Glebeland and Heritable Properties

Glebeland and Heritable Properties whose titles are vested in the General Trustees have been capitalised at fair value using the methodology approved by the trustees as out in Note 12 as has capital expenditure incurred by the General Trustees and congregations on major projects costing over £50,000 during the year. In the case of Manses depreciation has been charged on a straight line basis over 50 years based on the year-end valuation. Depreciation is not charged on other property categories as this is deemed not material.

Tangible Fixed Assets excluding Heritable Properties

Tangible Fixed Assets costing more than £5,000 are capitalised. All other tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation and residual values

Land is not depreciated. Depreciation on other assets (excluding heritable properties) is calculated, using the straight-line method, to allocate the cost to their residual values over their estimated useful lives, as follows:

Office Furniture and Equipment	5 years
Computers	3 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Repairs, maintenance and minor inspection costs are expensed as incurred.

Derecognition

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss and included in 'Other operating (losses)/gains'.

i) Investments

Listed investments are valued at their middle market value at the close of business at the year end. This closing valuation is then used to attribute a value to units held by investors. Investments are held at fair value through the Income & Expenditure Account.

Deposits held by the Deposit Fund are stated at cost.

Realised and unrealised gains and losses are included within the Statement of Financial Activities.

The investment in the Subsidiary Company is stated at the underlying value of its net assets.

Gains and losses on disposal and revaluation of investments are recorded in the Consolidated Statement of Financial Activities.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED for the year ended 31st December 2016

1 Accounting Policies (Continued)

i) Investments (Continued)

Investments in subsidiary company

Investments in the subsidiary company are held as cost less accumulated impairment losses

Subsidiary Company

The principal activity of the Church of Scotland Insurance Services Limited is arranging insurance and providing risk management support to the congregations of the Church of Scotland.

j) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with the Investors Trust.

k) Provisions and contingencies

Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

The General Trustees provision relates to deferred tax of the 'Insurance Company' which is expected to be used more than 12 months following the balance sheet date.

l) Provisions and contingencies (Continued)

Contingencies

Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

m) Long Term and Short Term Loans

Fabric loans to congregations meet the definition of social investments and concessionary loans as defined within the Charities SORP as they are loans made primarily to further the charitable aims of the General Trustees and interest rates charged are below the prevailing market rate of interest. Fabric loans represent loans made to congregations from the consolidated fabric fund for the purposes of maintaining and / or enhancing their condition.

The term of the loan is normally a period between 5 to 8 years with interest rates of 0%, 3% and 5%.

Short term loans may be awarded mainly for property purchases with the loan repaid in full or in part from the proceeds of disposal of a property.

Fabric loans are measured initially at their fair value and subsequently at their amortised cost using the effective interest method. Recoverability of loans is considered on an annual basis and are provided for as required.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED for the year ended 31st December 2016

1 Accounting Policies (Continued)

n) Financial instruments

The charity mainly has financial assets and financial liabilities of a kind that qualify as basic financial instruments. Basic financial instruments are initially recognised at transaction price and subsequently measured at their settlement value, unless the arrangement constitutes a financing transaction. Financing transactions are initially measured at the present value of the future receipts discounted at a market rate of interest, and are subsequently carried at amortised cost, using the effective interest rate method. Investments in Growth and Income Fund Units held with the Investors Trust are shown at fair value. A breakdown of financial instruments by measurement basis is detailed in Note 24.

o) Fund Accounting

The General Fund is an unrestricted fund which is available for use at the discretion of the Trustees in furtherance of the general objectives of the General Trustees and which has not been designated for other purposes.

Designated Funds comprise unrestricted funds of the 'Insurance Company' that have been set aside by the Trustees for particular purposes.

Restricted Funds are funds which are to be used in accordance with specific restrictions imposed by donors or Assembly instruction in respect of the Consolidated Stipend and Fabric Funds.

Permanent Endowment Funds are funds which are to be retained as capital in accordance with the wishes of donors.

p) Related party transactions

The charity discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned.

2 Critical accounting judgements and estimation uncertainty

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying the entity's accounting policies

There are no critical judgements in applying the company's accounting policies.

Key accounting estimates and assumptions

Valuation of Assets

Heritable assets fall into three classes which have been valued as follows:

Glebeland

The glebeland in their ownership have been brought into the Financial Statements at revalued estimates, using information provided by the RICS Rural Land Market Survey for Scotland which suggests an average value of pastureland per acre.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED for the year ended 31st December 2016

2 Critical accounting judgements and estimation uncertainty (Continued)

Churches and Halls

These assets have been split into (a) churches with and without integral halls and (b) separate halls; the Trustees adopted a value based on realised sale prices on a rolling five-year average basis which is applied in line with the Tangible Assets revaluation policy.

Manses

The values of manses are based on a formula involving the midpoint of the relative Council Tax Band as at 1991 to which is applied indexing to each Band based on the Nationwide Building Society House Price Index.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
for the year ended 31st December 2016

	2016 £000	2015 £000			
3 Donations and legacies					
Legacies	238	45			
Mission & Renewal Fund	291	291			
Donations	190	153			
Monies from Other Boards/Committees	652	38			
New Capital from Congregations	443	774			
	<u>1,814</u>	<u>1,301</u>			
4 Charitable activities					
Supporting Parish Ministry	28	37			
Providing Suitable Buildings					
Donated Assets	6,903	6,744			
Other income	15	51			
Other - General Fund	148	170			
	<u>7,094</u>	<u>7,002</u>			
5 Investments					
Dividends	5,268	5,097			
Interest	104	162			
	<u>5,372</u>	<u>5,259</u>			
6 Other					
Rental Income	1,780	1,675			
Subsidiary Company Trading Income	1,777	1,820			
Net Proceeds on Disposal of Tangible Assets - Non Vested Assets	1,392	1,713			
Net Gain on Disposal of Vested Tangible Assets	530	-			
Levies on Property Sales	92	392			
Proceeds from miscellaneous land sales	203	-			
Sundry Income	1	8			
	<u>5,775</u>	<u>5,608</u>			
7 Charitable Activities					
	Direct Costs	Grant Funding	Governance Costs (Note 9)	Total 2016	Total 2015
	£000	£000	£000	£000	£000
Supporting Parish Ministry	3,332	-	-	3,332	3,446
Providing Suitable Buildings	9,960	2,014	-	11,974	12,108
Other - General Fund	1,819	-	242	2,061	1,071
	<u>15,111</u>	<u>2,014</u>	<u>242</u>	<u>17,367</u>	<u>16,625</u>

An analysis of fabric grants payable during the year is set out in note 27.

8 Support Costs within: Other - General Fund

	2016 £000	2015 £000
Legal	315	312
Finance and Payroll Administration.	105	90
Direct Staff	607	508
Human Resources	17	17
Central Premises	15	15
Information Technology	10	10
	<u>1,069</u>	<u>952</u>

The Church of Scotland General Trustees do not employ any staff directly - see Note 9. As from 01 January 2016 all General Trustees payroll costs are now recharged as support costs.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
for the year ended 31st December 2016

	2016	2015
	£000	£000
9 Governance Costs		
External Audit - Charity	35	54
External Audit - Subsidiary Company	7	7
Internal Audit	2	11
Trustees' Remuneration and Expenses (See Note 10)	30	28
Expenses of Advisory Members etc.	2	5
Trustees' Indemnity Insurance	6	6
Professional Support for Trustees	50	50
Subsidiary Company's Directors' Remuneration	110	111
	242	272

10 Employees and trustees

Employees

Salaries	558	474
Social Security Costs	52	42
Defined Contribution Pension Costs	70	63
Other Staff Costs	6	1
	686	580

The General Trustees do not employ any staff, except in its Subsidiary Company, but reimburse the Church of Scotland for the services of staff employed by the Church's Central Services Committee, but working primarily for the General Trustees. The average number of such employees, calculated as full time equivalents, was 17 (2015 - 14).

In addition, the undernoted staff costs were incurred by the Subsidiary Company, The Church of Scotland Insurance Services Limited.

Salaries	110	107
Social Security Costs	19	19
Defined Contribution Pension Costs	11	11
	140	137

No. of employees whose earnings plus benefit in kind exceeded £60,000 -
£60,001 - £70,000

	1	1
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Trustees

Other than the Chairman and Vice-Chairman, who each received £1,695 (2015 - £1,660), the individual Trustees received no remuneration. Authority to pay this remuneration is contained in Section 38 of the Church of Scotland (Property and Endowment) Act 1925.

Expenses incurred and amounting in total to £25,869 were reimbursed to 29 Trustees mainly for travel and subsistence (2015 - £24,242 to 32 Trustees).

Key management compensation

Key management includes the Board and members of The Church of Scotland Insurance Services Limited. The compensation paid or payable to key management for employee services is shown below:

	2016	2015
	£	£
Salaries and other short-term benefits	110,098	110,951
Post-employment benefits	22,514	21,963
	132,612	132,914

THE CHURCH OF SCOTLAND GENERAL TRUSTEES
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
for the year ended 31st December 2016

11 Other Expenditure

As more fully explained in Note 14, taxable profits now arise in the Trustees' trading subsidiary, the Church of Scotland Insurance Services Limited. As a result provision is now made for Corporation Tax.

	2016	2015
	£000	£000
Subsidiary Company - Trading expenditure	115	127
Deferred tax	64	8
Loss on disposal of Tangible Assets - See Note 12	-	570
	179	705

12 Tangible Assets

	Land	Heritable Properties	Charity	Subsid. Co Office Equipment	Group
	£000	£000	£000	£000	£000
Cost or valuation					
At beginning of the year	31,362	451,554	482,916	9	482,925
Adjustment to opening balances - see Note 32	-	3,625	3,625	-	3,625
Additions	-	11,935	11,935	1	11,936
Disposals	(62)	(7,641)	(7,703)	-	(7,703)
Revaluations	4,582	13,038	17,620	-	17,620
At end of the year	35,882	472,511	508,393	10	508,403
Accumulated depreciation					
At beginning of the year	-	-	-	8	8
Depreciation	-	5,187	5,187	1	5,188
Disposals	-	-	-	-	-
Revaluations	-	(5,187)	(5,187)	-	(5,187)
At end of the year	-	-	-	9	9
Net book value at beginning of the year	31,362	451,554	482,916	1	482,917
Net book value at end of the year	35,882	472,511	508,393	1	508,394
Net gains on disposal of tangible fixed assets					
Proceeds	115	8,118	8,233	-	8,233
Opening net book value	(62)	(7,641)	(7,703)	-	(7,703)
Net realised Gains in year	53	477	530	-	530

As reported in previous years, following close discussions with the Auditors the General Trustees have capitalised all the heritable assets vested in them on a basis which recognises the estimated value of the assets. It was also agreed with the office of the Scottish Charity regulator that this basis of valuation would be applied by the Trustees in preparing their financial statements. The basis of valuation used is as follows:

<u>Category of Asset</u>	<u>Basis of Valuation</u>
Glebe Land	Current average value of pasture land in Scotland as provided by the RICS Rural Land Market Survey.
Manses	Mid point of the relative Council Tax band in 1991 as adjusted by current Nationwide Building Society House Price Indexes.
Churches with or without Integral Halls	Sale price achieved for such properties on a five year moving average.
Separate Halls	Sale price achieved for such properties on a five year moving average.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
for the year ended 31st December 2016

12 Tangible Assets (Cont'd)

During the year expenditure on property which was deemed to be of a capital nature has been capitalised along with the cost of capital expenditure on properties as incurred by individual congregations on the basis that these are donated assets as the property titles are vested in the General Trustees.

13 Investments

	Group		Charity	
	2016 £000	2015 £000	2016 £000	2015 £000
Fair value at beginning of the year	151,281	155,778	148,097	152,712
Acquisitions at cost	20,574	26,775	20,054	26,464
Disposals at opening fair value / cost	(18,145)	(24,509)	(17,581)	(24,192)
Transfers to Short Term Deposits	-	(7,622)	-	(7,622)
Net gains on revaluation	11,085	859	10,665	735
	-			
Fair value at end of the year	<u>164,795</u>	<u>151,281</u>	<u>161,235</u>	<u>148,097</u>
Historic cost at end of the year	<u>102,198</u>	<u>98,879</u>	<u>99,608</u>	<u>96,302</u>
Net (losses) / gains on disposal of investments				
Proceeds	18,260	24,503	17,641	24,190
Opening fair value	18,145	24,509	17,581	24,192
Net realised (losses) / gains in year	<u>115</u>	<u>(6)</u>	<u>60</u>	<u>(2)</u>
Analysis of Investments at 31st December				
Church of Scotland Investors Trust - Growth Fund	117,916	105,924	117,916	105,924
Church of Scotland Investors Trust - Income Fund	20,277	17,087	20,277	17,087
Church of Scotland Investors Trust - Deposit Fund	23,042	25,086	23,042	25,086
Ordinary Stocks and Shares and Unit Trusts	3,560	3,184	-	-
	<u>164,795</u>	<u>151,281</u>	<u>161,235</u>	<u>148,097</u>

14 Investment in Subsidiary Company

The share capital of the Church of Scotland Insurance Services Limited is wholly owned by the Church of Scotland General Trustees, apart from one share which is held by the Church of Scotland Trust out of 530,000 issued shares and is authorised and regulated by the Financial Conduct Authority. The Company arranges cover for most classes of insurance and continues to insure Church of Scotland congregations as well as the congregations of other denominations. It does not have charitable status for tax purposes. The investment in the Subsidiary Company is stated at the underlying value of its net assets.

A summary of the trading results is shown below. The information is taken from the audited financial statements of the Church of Scotland Insurance Services Limited and includes transactions with the Church of Scotland General Trustees.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
for the year ended 31st December 2016

14 Subsidiary Company (continued)

	2016	2015
	£000	£000
Turnover	1,777	1,820
Investment Income	73	53
Total Income	<u>1,850</u>	<u>1,873</u>
Expenditure	(413)	(430)
Operating Profit	<u>1,437</u>	<u>1,443</u>
Gains on Investment Assets	475	121
Profit on ordinary activities before taxation	<u>1,912</u>	<u>1,564</u>
Taxation Credit / (Charge)	(64)	(8)
Net Operating Profit before Gift Aid payment	<u>1,848</u>	<u>1,556</u>
Gift Aid payment to the General Trustees	(1,422)	(2,386)
Reserves brought forward	<u>5,918</u>	<u>6,748</u>
Reserves carried forward	<u><u>6,344</u></u>	<u><u>5,918</u></u>
Subsidiary Company Funds:		
Assets	8,137	7,692
Liabilities	(1,263)	(1,244)
Total Funds (including 530,000 ordinary shares of £1 each)	<u><u>6,874</u></u>	<u><u>6,448</u></u>

	2016	2015
	£000	£000
The summary results of the Charity are as follows:		
Total Income	18,205	17,297
Total Expenditure	(17,087)	(16,910)
Net Surplus	<u>1,118</u>	<u>387</u>
Gains / (Losses) on Tangible Assets	33,532	(34,105)
Gains / (Losses) on Investment in Subsidiary Company	426	(830)
Other Gains / (Losses)	(14)	(12)
Gift Aid payment from Subsidiary Company	1,422	2,386
Funds brought forward	657,044	689,218
Prior year property adjustment	3,625	-
Funds carried forward	<u><u>697,153</u></u>	<u><u>657,044</u></u>

15 Loans

Loans fall into two categories; Interest Free and Interest Bearing (presently at 3% or 5%).
Loan movements were as follows:

	Interest	Interest	2016	2015
	Free	Bearing	£000	£000
	£000	£000		
Value at beginning of the year	1,618	2,360	3,978	5,937
Other Gains / (Losses)	(7)	(7)	(14)	(12)
Loans commitments drawn down.	1,510	1,236	2,746	2,901
Loans cancelled	-	-	-	(3,623)
Movement in Provisions	-	134	134	539
Loans repaid	(835)	(1,396)	(2,231)	(1,764)
Value at end of the year	<u>2,286</u>	<u>2,327</u>	<u>4,613</u>	<u>3,978</u>
Less : Amounts repayable within one year	1,640	1,199	2,839	1,754
Amounts repayable after one year	<u>646</u>	<u>1,128</u>	<u>1,774</u>	<u>2,224</u>

THE CHURCH OF SCOTLAND GENERAL TRUSTEES
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
for the year ended 31st December 2016

15 Loans (Continued)

Interest free and interest bearing loans are normally advanced for periods of between three and six years, and are repayable by half yearly instalments.

Short Term Loans are normally advanced for a period no more than one year with interest rates ranging between 0% to 5% depending on the circumstances of the loan application.

16 Debtors	Group		Charity	
	2016 £000	2015 £000	2016 £000	2015 £000
Interest Receivable	177	314	177	314
Subsidiary Company Insurance Debtors	1,632	1,734	-	-
Debtors and Prepayments	696	428	666	393
	<u>2,505</u>	<u>2,476</u>	<u>843</u>	<u>707</u>

Subsidiary Company Insurance Debtors are stated after provisions for impairment of £Nil (2015: £Nil).

17 Creditors: Amounts falling due within one year

	Group		Charity	
	2016 £000	2015 £000	2016 £000	2015 £000
Grants voted but not paid	853	743	853	743
Subsidiary Company Insurance creditors & Provisions	1,074	1,114	-	-
Sundry Creditors and Accruals	371	397	343	363
Due to the Church of Scotland Unincorporated Councils and Committees	664	950	664	950
	<u>2,962</u>	<u>3,204</u>	<u>1,860</u>	<u>2,056</u>

18 Provision for Liabilities and Charges

	Group		Charity	
	2016 £000	2015 £000	2016 £000	2015 £000
Deferred Taxation on unrealised investment gains				
At beginning of the year	96	88	-	-
Provision for year	65	8	-	-
At end of the year	<u>161</u>	<u>96</u>	<u>-</u>	<u>-</u>

19 Permanent Endowment Funds

	Balance 1 Jan 2016 £000	Income £000	Expenditure £000	Transfers £000	Other Gains / (Losses) £000	Balance 31 Dec 2016 £000
Providing Suitable Buildings - Fabric Funds	<u>2,787</u>	<u>110</u>	<u>-</u>	<u>(110)</u>	<u>259</u>	<u>3,046</u>

The above funds are represented by a number of endowment funds held, the income from which is required to be used for the benefit of congregational fabric needs.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
for the year ended 31st December 2016

20 Restricted Income Funds	Balance 1 Jan 2016 £000	Income £000	Expenditure £000	Transfers £000	Other Gains / (Losses) £000	Balance 31 Dec 2016 £000
Supporting Parish Ministry						
Glebe Funds	32,439	491	(393)	(32)	4,582	37,087
Consolidated Stipend Fund	77,854	3,670	(2,939)	396	7,351	86,332
	<u>110,293</u>	<u>4,161</u>	<u>(3,332)</u>	<u>364</u>	<u>11,933</u>	<u>123,419</u>

20 Restricted income Funds (continued)	Balance 1 Jan 2016 £000	Prior year property adjustment £000	Income £000	Expenditure £000	Transfers £000	Other Gains / (Losses) £000	Balance 31 Dec 2016 £000
Providing Suitable Buildings							
Consolidated Fabric Fund	504,102	3,625	811	(4,412)	5,269	20,251	529,646
Individual & Temporary Funds	8,146	-	11,437	(5,730)	(5,473)	169	8,549
Central Fabric Fund	18,294	-	1,343	(1,832)	(50)	563	18,318
	<u>530,542</u>	<u>3,625</u>	<u>13,591</u>	<u>(11,974)</u>	<u>(254)</u>	<u>20,983</u>	<u>556,513</u>
Total Restricted Funds	<u>640,835</u>	<u>3,625</u>	<u>17,752</u>	<u>(15,306)</u>	<u>110</u>	<u>32,916</u>	<u>679,932</u>

The stipend funds are restricted for stipend purposes and the Trustees use the income to support the ministry costs of individual congregations. The Consolidated Stipend Fund is regarded as a permanent endowment fund for investment strategy purposes as described in the Trustees' Report on page 2. The restricted fabric funds mainly comprise the net asset value of capitalised heritable properties (£472,511,000) and partly funds which are held for the purpose of supporting fabric needs of congregations.

21 Unrestricted income Fund	Balance 1 Jan 2016 £000	Income £000	Expenditure £000	Transfers £000	Total Gains / (Losses) £000	Gift Aid Distribution £000	Balance 31 Dec 2016 £000
Other - General Fund	6,974	343	(1,781)	-	343	1,422	7,301
	<u>6,974</u>	<u>343</u>	<u>(1,781)</u>	<u>-</u>	<u>343</u>	<u>1,422</u>	<u>7,301</u>
22 Designated Funds							
(a) Group	£000	£000	£000	£000	£000	£000	£000
Other - Subsidiary Company	6,448	1,850	(477)	-	475	(1,422)	6,874
	<u>6,448</u>	<u>1,850</u>	<u>(477)</u>	<u>-</u>	<u>475</u>	<u>(1,422)</u>	<u>6,874</u>
(b) Charity	£000	£000	£000	£000	£000	£000	£000
Other - Subsidiary Company	6,448	-	-	-	426	-	6,874
	<u>6,448</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>426</u>	<u>-</u>	<u>6,874</u>

This value equates to the net assets of the Subsidiary Company and will fluctuate in line with this.

23 Analysis of group net assets among funds	Endowment £000	Restricted £000	Unrestricted £000	Designated £000	2016 Total £000	2015 Total £000
Tangible Assets	-	508,393	-	1	508,394	482,917
Investments	3,046	151,780	6,409	3,560	164,795	151,281
Long Term Loans	-	1,774	-	-	1,774	2,224
Current Assets	-	19,737	1,000	4,576	25,313	23,922
Current Liabilities	-	(1,752)	(108)	(1,102)	(2,962)	(3,204)
Provisions for Liabilities and Charges	-	-	-	(161)	(161)	(96)
	<u>3,046</u>	<u>679,932</u>	<u>7,301</u>	<u>6,874</u>	<u>697,153</u>	<u>657,044</u>

THE CHURCH OF SCOTLAND GENERAL TRUSTEES
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
for the year ended 31st December 2016

24 Financial instruments

The group and charity have the following financial instruments:

	Group		Charity	
	2016 £000	2015 £000	2016 £000	2015 £000
Loans and receivables held at amortised cost				
Loans	4,613	3,978	4,613	3,978
Interest receivable	177	314	177	314
Subsidiary company insurance debtors	1,632	1,734	-	-
Debtors	1,765	428	666	393
Short term deposits	16,055	16,941	16,055	16,941
Other deposits	23,042	25,086	23,042	25,086
Cash at bank and in hand	3,914	2,751	1,000	13
	<u>51,198</u>	<u>51,232</u>	<u>45,553</u>	<u>46,725</u>
Investments at fair value	<u>141,753</u>	<u>126,195</u>	<u>138,193</u>	<u>123,011</u>
	<u>192,951</u>	<u>177,427</u>	<u>183,746</u>	<u>169,736</u>
Financial liabilities measured at amortised cost				
Grants voted but not paid	853	743	853	743
Subsidiary Company Insurance creditors and provisions	1,074	1,114	-	-
Sundry creditors and accruals	373	397	345	363
Due to Church of Scotland Unincorporated Councils and Committees	664	950	664	950
	<u>2,964</u>	<u>3,204</u>	<u>1,862</u>	<u>2,056</u>

25 Reconciliation of net income/(expenditure) to net cash flow from operating activities

	2016 £000	2015 £000
Net income/(expenditure) for the financial year (as per the statement of financial activities)	36,484	(32,174)
Adjustments for:		
Depreciation	5,188	5,073
Donated Assets	(5,631)	(6,744)
Gains on investments	(11,200)	(853)
Gains on property	(23,337)	35,408
Increase in Provision for Loans	-	2,677
Increase in Deferred Tax Provision	65	8
Increase in Debtors	(29)	(275)
Decrease in Loans due from Congregations	(2,866)	195
Decrease in Creditors	(242)	(484)
Net cash provided by (used in) operating activities	<u>(1,568)</u>	<u>2,831</u>

26 Analysis of cash and cash equivalents

	2016 £000	2015 £000
Short term deposits	16,055	16,941
Cash at bank	3,914	2,751
Total cash and cash equivalents	<u>19,969</u>	<u>19,692</u>

THE CHURCH OF SCOTLAND GENERAL TRUSTEES
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
for the year ended 31st December 2016

27 Analysis of Fabric Grants Awarded to Congregations

	2016	2015
	£000	£000
Providing Suitable Buildings		
Standard		
Churches / Halls - 110 (2015 - 111)	817	701
Manses - 11 (2015 - 12)	85	157
	902	858
Less: Grants lapsed or cancelled	(25)	(803)
	877	55
Priority		
Churches - 26 (2015 - 42)	1,006	1,013
Manses - 4 (2015 - 5)	46	64
	1,052	1,077
Less: Grants lapsed or cancelled	(41)	(800)
	1,011	277
Bequests	126	48
Total Net Grants Awarded	2,016	380

28 Capital Commitments

As at 31 December 2016, the General Trustees had approved a number of capital projects which will enable congregations to draw down on balances within the Consolidated Fabric Fund. Due to these projects comprising both capital and revenue expenditure and with some projects having a number of funding partners, the extent of the capital commitment cannot be estimated with any accuracy other than being limited to the amount held in name of the congregation concerned.

29 Contingent Liabilities

A contingent liability exists in relation to grants received from the Community Fund, the Heritage Lottery Fund and Historic Environment Scotland in respect of work at buildings vested in the General Trustees. Some or all of the individual grants could become repayable in certain circumstances, such as the sale of the properties within a specified period from the date of receipt of the grant. In cases where the proceeds of sale and other funds held by the Congregations concerned were less than the amounts of the grants repayable, there could be a liability falling on the General Trustees to repay the balance of grants. At 31 December 2016 the contingent liability, representing the total grants awarded, amounted to approximately £3,760,000 (2015 - £3,963,000). As at 31 December 2016 there is also a contingent liability for grants approved in principle of £776,873 (2015 - £1,079,059).

A further contingent liability exists in that the General Trustees are the titular proprietors of the bulk of the Congregational property of the Church of Scotland. The individual Congregations are charged with the maintenance and adequate insurance of their property but in the event of their not having the resources to meet statutory obligations these would fall on the General Trustees. It is not possible to quantify this potential liability but at 31 December 2016 the Trustees are not aware of any specific liability against which provision need be made.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
for the year ended 31st December 2016

30 Transfers of funds

There have been numerous transfers of balances between funds throughout the year, the net effects of which are shown in notes 19 to 22. These generally represent balances held in respect of individual congregations being transferred from one fund to another.

31 Related party transactions and controlling party

The Church of Scotland General Trustees are a component element of the Church of Scotland which has Designated Religious Charity status. This also includes The Unincorporated Councils and Committees of the General Assembly of the Church of Scotland and The Church of Scotland Investors Trust, neither of which is controlled by the other but both of which are related parties and report individually to the General Assembly.

The General Trustees paid over to the Ministries Council, which is one of the Church of Scotland's Unincorporated Councils and Committees, the sum of £3,332,360 (2015 - £3,359,000) representing net revenue income from its Stipend and Glebe Revenue Funds.

The General Trustees paid £46,164 to the Ministries Council's Go For It Fund representing that Council's one-half share of the Levy on property sales (2015 -£196,000) and gave a grant of £15,000 to the Chance to Thrive project (2015 - £Nil).

The Church of Scotland Unincorporated Councils and Committees receive monies and make payments on behalf of the Church of Scotland General Trustees via a current account. At the end of the financial year, the sum of £664,000 was due to the Church of Scotland Unincorporated Councils and Committees from the Church of Scotland General Trustees (2015 - £950,000). Both bodies are answerable to the General Assembly of the Church of Scotland. The General Trustees paid internal support costs to the Unincorporated Councils and Committees of £1,069,000 in respect of accommodation, information technology, human resources, finance and payroll administration, legal services and direct staff costs (2015 - £952,000).

In addition, some of the congregations of which individual General Trustees are members or Trustees have deposits/investments with the General Trustees and received interest/dividends. These arrangements were all on an arm's length basis in line with agreements with all other congregations.

32 Adjustment to opening funds

During 2016 management has identified errors relating to past periods which due to materiality have been posted through 2016 journals rather than restate prior year accounts. The errors related to properties whose title was held by The Church of Scotland General Trustees but were omitted from the Asset Register.

To allow the property to be recognised as at 31st December 2016, management have increased the Tangible Fixed Assets and Restricted Funds by (£2,705,000) to reflect the inclusion of four churches, one hall and four manses in the Presbytery of England. Note that these properties have been initially included at the 2015 valuation and revalued at the balance sheet date for consistency with the rest of the property balances.

In addition to the nine properties discussed above, three manses were also identified as having title held by The Church of Scotland General Trustees. These properties were sold during 2016 having been previously omitted from the Asset Register. To allow the disposal amounts for these manses to balance with the cost of the asset in Note 12, management have increased Tangible Fixed Assets and Restricted Funds by (£920,000). Again these properties have been initially included at the 2015 valuation for consistency with the rest of the property balances.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
for the year ended 31st December 2016

32 Adjustment to opening funds (Continued)

Management have conducted exercises to ensure that all Presbytery of England properties have been checked for General Trustees title; and will continue to review the remaining Fixed Asset register for omissions during 2017.

Reconciliation to SoFA:

	£
Adjustment to opening funds – held at 31st December 2016	2,705,000
Adjustment to opening funds– sold by 31st December 2016	<u>920,000</u>
Total	<u><u>3,625,000</u></u>
Adjustment to opening funds (per SoFA)	<u><u>3,625,000</u></u>