Financial appraisal report

[Business](), [Company]()

Financial appraisal

Query 1

Risk refers to the likelihood of incurring losses. Financial risk results from several events such markets prices fluctuations, foreign exchange fluctuations, interest rate fluctuation among others. There are several ways in which RTE can reduce or extinguish financial risk on the investment of 100, 000 pounds in fitting and furniture for the new building. This section discusses some of the ways of mitigating the financial risk they are exposed to.

RTE should first conduct an internal as well as an external analysis to identify the risks facing it. RTE trustees should then understand its relevance and prioritize them in order of significance. Once the financial risks facing RTE in this transaction are determined then appropriate strategies can be determined and implemented depending on the objectives of RTE and the relationship with the supplier. Of the various forms of financial risk RTE may be faced with five types of risk in this transaction; commodity price risk, liquidity risk, funding risk, interest rate risk and foreign exchange risk.

Commodity price risk refers to the likelihood of incurring losses due price fluctuations. Commodity prices are determined by forces of demand and supply. In the case of RTE, commodity price risk may arise since the price of furniture and fitting may rise before enter into the purchase agreement. RTE can manage this risk by engaging in a forward purchase contract with the supplier. A purchase forward contract is a binding agreement between two parties where one party commits to sell and the other party to buy a given asset at some future date at a price determined today. RTE trustees can also engage in a future contract. This is an agreement to purchase or sell a commodity whose price is determined at the contract date at a futures exchange.

Liquidity risk refers to the inability to settle short term obligations as and when they fall due. RTE may face liquidity risk because they intend to pay half of the purchase price as down payment and the other half later when they receive the goods. RTE can mitigate financial risk by carefully forecasting their cash flows and maintaining any unused funds that are committed to the construction of the complex in anticipation of future expenditure requirements or contingencies. RTE trustees can also spread out future re-financing requirements. RTE should also maintain close relationship with their bankers and constantly making them fully aware of the state of affairs and potential financing needs. This will come in handy when RTE may require a loan in case they are short of funds yet they need to pay the supplier. Lastly, RTE trustees can main a contingency or emergency fund to cater for unforeseen deficits that may arise in paying Vital Office Furniture Limited.

Funding risk refers to the inability to fully finance a transaction. RTE may face funding risk in case the cost of furniture and fitting cannot be made by the regeneration grant. RTE may reduce funding risk by ensuring that the regeneration grant can adequately cover the 100, 000 pounds they intent to spend on furniture and fitting while putting into consideration other construction requirements. In other words, the trustees of RTE should budget within their means RTE can also mitigate funding risk by creating and maintaining a good profile with stakeholders. This can be done by making stakeholders aware of their strategies, aims, activities and aspirations. This will be necessary in case they need other grants to finance the purchase from stake holders.

Foreign exchange risk refers to the price fluctuations as a consequence of foreign exchange rate fluctuations. In case the supplier, Vital Office Furniture Limited, is in another country, RTE will face foreign exchange risk because it will be required to convert the pounds to a foreign currency. RTE can extinguish this risk by entering into an agreement with Vital Office Furniture Limited to purchase the furniture and fittings on pounds. RTE can manage currency risk by entering into foreign exchange forwards. This are contracts between two parties, with one party committing to buy and another to sell a foreign currency at some future date at a predetermined price. RTE can also engage in a currency swap. This is a contract that transfer currency risk to another party usually speculators who intend to make risky profits. In this way, RTE is able to plan for the payment using a stable exchange rate irrespective of any fluctuations of the market exchange rate.

Query 2

Trustees of RTE, like any other charitable organization, are responsible for controlling and management of charitable funds. Consequently, it is a statutory obligation for trustees to produce reports at the end of each year on the trust activities, achievements, and the application of charitable funds as dictated by SORP. This section discusses the rationale behind the filing requirements, the role and the contents of the Trustees' Annual Report.

A charity's trustees have to communicate to the various stakeholders about the charity's affairs. The law obligates charity trustees to produce a Trustees

Annual Report and other accounts annually if the annual income exceeds 10, 000 pounds. This requirement is set out in section 45 of the Charities Act. Trustees Annual Report must contain the name under which the charity was registered. It must contain the registration number of the charity and its company registration number if any. The report should include the Charity's address of its principal office and its registered office address if it is a charitable company. It must contain the names of all charity trustees according to the date they were approved. In case they are more than 50, then the report must contain the names of at least 50 of them. It must also contain all the names of person who acted as trustees of the charity or custodian trustees during the year.. Lastly, this section must include names of all senior employees of the charity and their qualifications. This information is important to stakeholders who may need to communicate with the charity and knowing the persons mandated with steering the charity. The name and registration number will enable stakeholders know whether a charity is genuine and legal.

The Trustees Annual Report must contain objectives and activities of the trust. The trustees must objects stated in the governing document, main aims of the charity, strategies for achieving them and details of important activities. Significant activities should be well detailed including the main project, services provided and programs. As a minimum, the Trustees Annual report must describe all objectives, services provided, programs and projects stated in the analysis note that normally accompanies the Statement of Financial Activities. This is paramount to stakeholders to evaluate whether the activities justify the financing needs.

The Trustees Annual Report must outline its structure, management and governance. The contents in this section include the nature of the documents for example memorandum and articles of association or the trust deed. It should also include methods of recruitment and appointment of new trustees and how elections are conducted if applicable. This is intended to provide current and potential stakeholders an understanding of the charity's organizational structure, appointment of trustees and decision making processes. This will guide them in evaluating transparency and efficacy of the charity's mode of operation.

The Trustees Annual Report should provide a financial overview. It should state the main sources of funding and expenses of the year under review. It should elaborate the reserves policy of the charity stating the current level of reserves and why they opted to hold them. In case material funds were designated, the policy should not only quantify but also explain the purpose for those designations. If the stated designations were set aside for future expenditure, the most likely timing for those expenditures should be stated. In case any funds are materially deficit, the trustees must state the circumstances that gave rise to those deficits and the step undertaken to eliminate the deficits. This is intended to assist stakeholders in ascertaining whether their funds are being properly managed or they are being drained. For charities that act as custodian trustees, the assets which are being held in this capacity must be stated. The trustees must also state the details of safe custody of such assets and segregation of these assets from the trustee assets. Charities that are significantly funded by grants should state their grants policy in the annual report. Charities that have program-related investments should state and explain their investment policy.

The report should also provide additional information concerning governance, structure, and management. The trustees must state the procedures and used in training and inducting trustees or a statement to the effect that no policy is in place in case there is none. For charities that are part of a larger network, for example, charities that are affiliated within an umbrella group, must state the effect of this on their operating policies. It must also state the relationship between the charity and other parties such as subsidiaries and other organization the charity works with in pursuit of its objectives. A charity trustees must also state the major risks facing the charity that they have identified and reviewed. They must also state the procedures and system put in place to reduce these risks.

Query 3

Unlike companies, charities are not for profit organizations. Therefore, there are significant differences between charity reporting requirements and company reporting requirements. This section discusses these differences.

The charity reporting requirements are laid out in the Charities Act. Trustees must prepare the Trustees Annual Report under the Charities Act and SORP requirements and regulations. On the other hand, the company reporting requirements are set out in the Companies Act. Directors must prepare the annual returns under the Companies Act and file them with Companies house.

A Company’s annual returns must contain the articles of association, memorandum of association, financial statements, registered office address, register of members indicating former and new members and a declaration by directors. Some of these details are not applicable to most charities; therefore, they are not included in the Trustees Annual Returns. For example; charities may not have a registered office address, register of members and directors declaration.

Charities with an annual income of less than ten thousand pounds total assets less than 2. 8 million or both are exempted from filling annual returns; however, the law requires all companies to file annual returns. Similarly only charities that have a yearly income in the excess off 10, 000 pounds, total assets exceeding 2. 8 million or both are required to have their accounts independently audited. However, all companies must subject their financial statements to an independent audit. All Charities apart from charitable companies have the option of preparing their account on receipt and payment basis or accrual basis. However companies must prepare its accounts on accrual basis only.

Charities are not owned by any individual or group of individuals. Therefore the law does not require charities to maintain a capital account; instead they are required to maintain an accumulated fund. Charities are required to prepare income and expenditure account while companies are required to prepare profit and loss account. The excess of gross incomes over total expenditures in charities is referred to as a surplus, which is the equivalent of profits in profit and loss accounts. In case total expenditures exceed gross income it results in a deficit, the equivalent of losses in companies. However, in cases where a charity carries out some trading activities to finance some of its activities, it will be required to prepare comprehensive profit and loss accounts for those activities.

It is a statutory obligation for trustees to include a reserves policy in the Trustee Annual Returns stating the current level of reserves and why they opted to hold them. In case material funds were designated, the policy should not only quantify but also explain the purpose for those designations. Companies Act does not have such a provision for companies reporting.

In the case of charities that act as custodian trustees, the assets which are being held in this capacity must be stated. The trustees must also state the details of safe custody of such assets and segregation of these assets from the trustee assets. This is impossible for the case of a company since a company cannot act as a custodian.

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