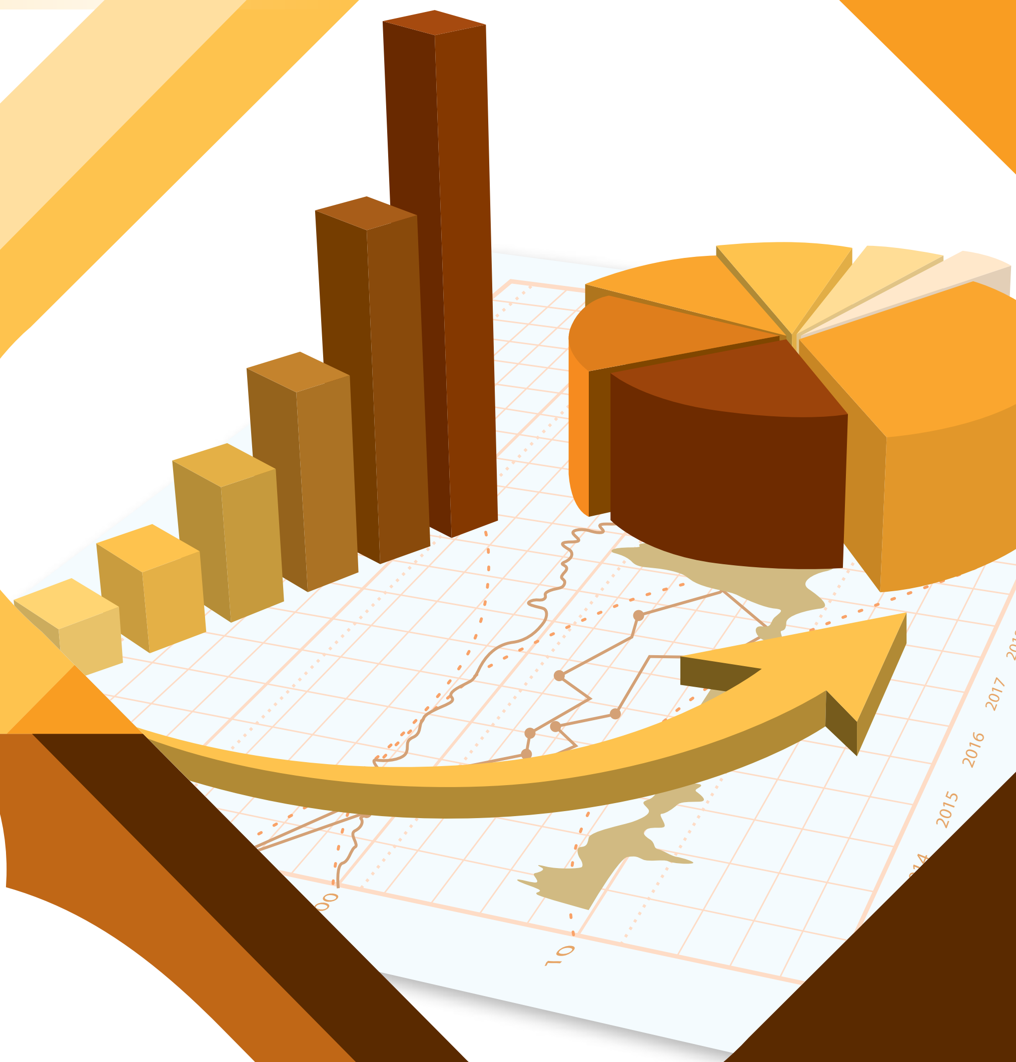
Booklet 1 of 5



Accounting and Finance Handbooks for Charities

Budgeting and Cash Flow Management

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About the Handbook

This handbook consists of a series of five booklets, each covering key accounting practices relevant to the charity sector. It deals, specifically, with the following: budgeting and cash flow management, fund accounting, full cost recovery, reserves and investments, and cost-effective audit for charities.

It is hoped that Board members, management, and staff of charities, especially those without financial training, will find this handbook easy to read and a useful reference to enhance their financial operations. This in turn will lead to greater transparency and accountability of charities to the public.

The content is developed with the charities and for the charities. Each booklet is written by professional accountants who are experts in their fields. To provide practical insights, the content incorporates applied examples as well as interviews with local charities.

The editors have sought to preserve the content contributed by the authors and interviewees as far as possible. The content has been reviewed by practitioners in the industry.

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Foreword

Centre for Social Development Asia (CSDA)

Dr S. Vasoo

Chairman
Centre for Social Development Asia
Department of Social Work
Faculty of Arts and Social Sciences
National University of Singapore

Corporate governance and public accountability of charities are critical as mismanagement can have serious ramifications to their viability. The Centre for Social Development Asia (CSDA) is indeed appreciative of the support by Chartered Institute of Management Accountants (CIMA) for the publication of the 'Accounting and Finance Handbooks for Charities'.

As part of good governance, charities need to adopt sound accounting and finance practices to remain viable in the long term. This handbook serves as a manual that guides the Board and Management of the charities, to widen their knowledge on how to implement and monitor financial practices in their organisations.

Board members can refer to this handbook to better understand the diverse facets of financial management, and use the templates provided within to better implement accounting practices. Charities can also use this handbook as a training manual for their staff. It is envisioned that the Accounting and Finance Handbook for Charities will be helpful to all involved in understanding and implementing accounting and finance practices for charities. It will be encouraging to see further attempts by various Boards and Managements to improve the corporate governance arena of charities.

Lastly, we are grateful to the authors, academic staff, peer-reviewers, charities, and interns who worked tirelessly to make this valuable publication possible.

About CSDA

The Centre for Social Development Asia (CSDA) was launched in July 2007 by then Minister for Finance Mr Tharman Shanmugaratnam. It is under the purview of the Department of Social Work, Faculty of Arts and Social Sciences, National University of Singapore. The Centre was established in collaboration with the Centre for Social Development, George Warren Brown School of Social Work, Washington University in St Louis. The primary mission of CSDA is applied research and knowledge building to inform policies and programmes in social development, with a focus on Asia.

For more information about CSDA, please visit:
http://www.fas.nus.edu.sg/swk/partners_and_donors/research_partner/overview

For more information on the Department of Social Work, please visit:
http://www.fas.nus.edu.sg/swk/

Foreword

Chartered Institute of Management Accountants (CIMA)

Dr Noel Tagoe
FCMA, CGMA
Executive Vice President, Academics
Chartered Institute of Management Accountants

Philanthropic activities are proving to be more challenging as technology becomes the key driver behind the drastic changes on economic and social landscapes. It would be fair to say that furthering the cause to create a sustainable business model for charities has gradually become more pertinent, especially in this time and age.

Good governance is difficult to come by. To deliver service effectively to their beneficiaries, it is crucial to support charities with strong governance, coupled with robust structures, processes and good behaviour. Ensuring that good management accounting practices are in place, coupled with the ability to analyse and formulate the programmes, will help create stakeholder value. Transparency and accountability accompanied with good disclosure practices in financial management will give confidence to donors that the funds that they have contributed are doing good for society.

CIMA Centre of Excellence would like to take this opportunity to commend CSDA for its philanthropic approach to help charities do good better. We applaud CSDA for this timely publication to build a stronger charity sector in Singapore, and we commend their great efforts in the successful release of this book on charity governance.

About CIMA

The Chartered Institute of Management Accountants (CIMA), founded in 1919, is the world's leading and largest professional body of management accountants, with over 232,000 members and students operating in 177 countries, working at the heart of business. CIMA members and students work in industry, commerce, the public sector and not-for-profit organisations. CIMA works closely with employers and sponsors leading-edge research, constantly updating its qualifications, professional experience requirements and continuing professional development to ensure it remains the employers' choice when recruiting financially-trained business leaders.

Together with the American Institute of CPAs (AICPA) CIMA has established the Chartered Global Management Accountant (CGMA) designation. CGMA is the global quality standard that further elevates the profession of management accounting.

The AICPA and CIMA also make up the Association of International Certified Professional Accountants (the Association), which represents public and management accounting globally, advocating on behalf the public interest and advancing the quality, competency and employability of CPAs, CGMAs and other accounting and finance professionals worldwide.

Foreword

Charity Council

Dr Gerard Ee
FCA (Singapore)
Chairman
Charity Council

Charities must be good stewards of the donations they are entrusted with, and ensure that resources are used for the purpose intended. Hence, having sound financial management practices is essential to the sustainability and success of the charity. This handbook is written in an easy to understand manner, to aid charities in their implementation of financial practices.

I encourage charities to fully utilise this handbook, and would like to thank the authors and charities which have contributed their invaluable time and expertise to this book. I look forward to seeing the sector being equipped with more governance knowledge and relevant skill sets.

About Charity Council

The Charity Council aims to promote and encourage the adoption of good governance standards and best practices, to help enhance public confidence and promote self-regulation in the charity sector. It also helps to build governance capabilities of charities to enable them to comply with regulatory requirements and be more accountable.

The Council comprises of 15 members, including the Chairman. 10 members are from the people sector, chosen for their expertise in accountancy, corporate governance, entrepreneurship and law. They are also involved in volunteer and charity work in varied fields such as arts and heritage, community, education, health and social services.

Foreword

The Commissioner of Charities

Adjunct Professor Ang Hak Seng
Commissioner of Charities

Charities perform a multitude of good works and play a vital role in society. Not only do they serve people and communities in need, charities also spur a caring and giving culture in Singapore.

With all the good done, it is important for charities to be accountable to their stakeholders, so as to build and sustain public trust and confidence. It is crucial for charities to embrace and apply good governance practices to ensure that charitable assets and monies are well protected, managed, and accounted for.

I commend the authors and charities who have shown their collective commitment in sharing knowledge and insights to steer and support charity accounting and reporting – it is indeed a collaborative effort towards our vision of a well-governed and thriving charity sector with strong public support.

About The Commissioner of Charities

The Commissioner of Charities oversees the charities and Institutions of a Public Character (IPCs) in the charity sector, with the assistance of 5 Sector Administrators from the Ministry of Social and Family Development, Ministry of Education, Ministry of Health, People's Association and Sport Singapore. Its vision is to develop a well-governed and thriving charity sector with strong public support.

The objectives of the Commissioner as stated in the Charities Act are:

- To maintain public trust and confidence in charities;
- To promote compliance by governing board members and key officers with their legal obligations in exercising control and management of the administration of their charities;
- To promote the effective use of charitable resources; and
- To enhance the accountability of charities to donors, beneficiaries and the general public.

Foreword

CFA Society Singapore

Ms Tan Lay Hoon
President
CFA Society Singapore

In a 2015 survey conducted by the Charity Council, charities have indicated that one of the top priorities where they need help is in financial management. Hence, it gives us immense pleasure to be part of this handbook project.

We hope that this handbook serves as a reference to Board members and staff of charities and while the booklet may serve as a guide, it will not be easy for charities to get started without any professional help.

CFA Society Singapore is a member society of CFA Institute, a global association of investment professionals with a mission to lead the investment profession by promoting the highest standards of ethics, education and professional excellence for the ultimate benefit of society. It is our privilege if our members are able to contribute and give back for the benefit of society.

About CFA Society Singapore

Established in September 1987, CFA Society Singapore (formerly known as the Singapore Society of Financial Analysts-SSFA) is a professional society that brings together practitioners in the investment and fund management industry in Singapore. Its principal objective is to promote and uphold professional standards and ethical practice in financial analysis and investment management in Singapore. CFA Society Singapore is the 7th largest Member Society of CFA Institute, with more than 3,600 members.

The Society runs a whole host of programmes for members, CFA candidates and also the investment community, including Professional Development talks and seminars, Networking sessions, CFA information sessions and examination review classes, and Career Development talks.

Foreword

Baker Tilly

Mr Sim Guan Seng

FCA (Singapore), CIA
Managing Partner
Baker Tilly

Good financial reporting and sound financial management are key pillars of charity governance. As stewards of donors, not only do charities have to ensure that a proper account is given of how donations received are used in order to maintain public trust, they also have to ensure that funds received are utilised in the most effective and efficient manner.

Keeping in mind that accounting and financial management practices in the charity sector may differ from those in the business world, I am greatly heartened by the timely introduction of this Accounting and Finance Handbook for Charities. This handbook, with its many best practices and recommendations, will be a good resource for Board members and management of charities.

I commend CSDA for initiating the publishing of this handbook. I am pleased that my partner, Susan Foong, was able to play a part by contributing to the writing of the fund accounting booklet in the handbook. The fund accounting booklet closes the knowledge gap in accounting practices of charities in Singapore.

About Baker Tilly

Baker Tilly's origins can be traced back to 1985 when Teo, Foong + Wong was founded. Transitional, historical name changes and mergers with various firms have brought Baker Tilly to where it is today. The firm joined the Baker Tilly International network in 2005. This long history gives Baker Tilly a rich heritage and defines the firm's present.

Since 1985, the firm has specialised in serving charities and not-for-profit organisations. Baker Tilly's extensive experience and understanding of the charity sector enables the firm to provide quality service to support its clients in their pursuit to do good works. Partners and teams in the firm have in-depth knowledge of the regulations and developments in the charity sector. More importantly, because of the firm's long history of serving charities, teams in the firm also understand the ethos and values of charity clients.

Baker Tilly services include assurance, tax, deal advisory, governance and risk, restructuring and recovery, outsourcing, and corporate secretarial. Baker Tilly is an independent member of Baker Tilly International, one of the world's 10 largest accounting and business advisory network. With this network, clients have access to global leaders in every area of business expertise.

The firm posts regular articles of interest to charities in The Salient Point, Baker Tilly's newsletter. To read these articles or to learn more about the firm's services, visit **www.bakertilly.sg.**

Foreword

RSM

Mr Kaka Singh
FCA, FCCA, FCIS, FCMA, FCPA, CA
Chairman and Senior Partner
RSM

The Accounting and Finance Handbook for Charities is a commendable initiative by CSDA as it examines and compiles multiple facets of accounting and finance practices. In simple language, it provides examples of good practices and demonstrates where collective action by charities, regulators and auditors is beneficial to all and will prove vital to the continued, successful delivery of services by charities.

This handbook also guides Board members and management in effective financial monitoring of their operations and in receiving timely, relevant and accurate information frequently enough to understand when things are on track or whether emerging concerns need to be addressed.

I am pleased that our Not-for-Profit Organisation (NPO) Practice Head, Woo E-Sah, was given the opportunity to contribute to this handbook. I also encourage all charities to tap into this informative resource to enhance their financial operations.

About RSM

RSM is the sixth largest audit, tax and consulting network globally. In Singapore, the firm is the largest outside the Big 4, serving internationally active businesses.

It focuses on growing businesses, helping them to improve profits, enhance business value and internationalise.

RSM provides audit, tax, corporate and risk advisory, as well as business support services.

Its dedicated NPO Practice Team works with numerous clients—including large societies and companies limited by guarantee—across diverse sectors, offering them the added advantages of:

- Expertise in the Singapore Financial Reporting Standards, the Charities Accounting Standard, and the Code of Governance for Charities and IPCs;
- High partner, director and manager involvement;
- End-to-end services and capabilities; and
- Expertise in compliance with legislation governing charities and IPCs.

Foreword

Shared Services for Charities Limited

Mr Gan Seow Ann
Chairman
Shared Services for Charities Limited

Shared Services for Charities has a mission to provide shared services to charities for better governance and organisational excellence. Ensuring the highest governance standard is of utmost importance in any organisation, particularly in institutions which have far reaching influence and responsibility. Good budgeting and cash flow management are vital to achieve a solid financial foundation. We expect that this publication will help in this area.

The recently enhanced code on governance for charities and institutions of public character stipulated the requirement of risk management where key risks, including financial risk, should be identified, assessed, and mitigated. This affirms the importance of budgeting and cash flow management as a key component of financial risk.

We are grateful for the opportunity to share our knowledge and expertise. The Charity Council and CSDA must be commended for initiating this significant and meaningful project in the wider interests of all stakeholders in the charity sector. Finally, we wish you the very best in your journey to serve the community.

About Shared Services for Charities Limited

Shared Services for Charities Limited (SSC) is a registered charity and an approved Institution of a Public Character (IPC), as well as a full member of the National Council of Social Service.

Set up by the Singapore Exchange Limited (SGX) and BinjaiTree (BJT) in 2008, SSC was established with the aim of bringing professional services to enhance governance and organisational excellence of charities.

Responding to the heightened demands of regulations, donors, volunteers and the general public for high levels of transparency and governance, SSC's core programmes are tailored to assess their existing practices for improvements, thereby providing assurances to Boards and stakeholders.

SSC's in-house team is made up of qualified experienced professionals, augmented by qualified industry partners who volunteer their time and expertise to work alongside our people.

Budgeting and Cash Flow Management

Chris Ong
FCA (England & Wales), CA (Singapore), CIA
Former CEO, Shared Services for Charities Limited

Author’s Acknowledgement

Budgeting and Cash Flow Management

In writing this booklet, I have referenced the ‘Work from Basic Principles’ lecture taught at my alma mater, Leeds University. I am particularly indebted and grateful to FWA Zanker, who as my lecturer, shared the books he had annotated for my deeper understanding. He was most instrumental in helping me grasp the double entry, accounting and financial concepts.

This booklet was inspired by my son Kah Hong’s commitment and passion in his service as a social worker. I joined the social services tribe and have since found deeper meaning in life.

I am also most grateful to my long-time friend Jimmy Tan who has rolled up his sleeves and co-authored with me some of the chapters in this booklet. His experience and foresight were most helpful in conveying some of the key concepts needed for this booklet.

I would like to thank Herman Lim and Yan Kwai Siong for some of the tables used in illustrating the concepts in budgeting and cash flow management.

I would like to thank The Association for Persons with Special Needs (APSN) for letting their talented students Nabilah and Joel embellish this booklet with their apt and lively illustrations.

I am also thankful for the opportunity given to me by Dr Isabel Sim for this meaningful project. I would like to express my sincere thanks to the entire team at the Centre for Social Development Asia (CSDA). I would like to add that this is a very significant project by the CSDA, the Chartered Institute of Management Accountants, and the Charity Council, supported by Baker Tilly and RSM.

Finally, if I have missed out someone important in the production of this booklet, please forgive me.

Thank you all for making this booklet happen!

ABOUT THE AUTHOR

Chris is a Certified Internal Auditor, a Chartered Accountant (Singapore and England & Wales) and a member of the Singapore Institute of Directors. He served as the Chief Executive Officer for Shared Services for Charities Ltd up till 25 October, 2018. He strategised and oversaw the quality and delivery of governance consulting projects which comprise governance evaluation, risk assessment and PDPA. He met regularly with clients and senior executives to continually innovate and enhance the governance standards of the clients.

CHAPTER 1
Introduction

This booklet seeks to equip charities with a better understanding of budgeting and cash flow management. To this end, accounting strategies and practices have been adapted with the charity sector in mind. Armed with this knowledge, it is hoped that charities may better manage their budgets and cash flows, so as to develop a sustainable charity community for the interests of the nation.

An overseas case study of Transition House Toronto, as well as two local case studies of the Singapore Children's Society and AWWA are enclosed in **Appendices A, B, and C** respectively. These case studies present a holistic summary of the booklet's contents, providing readers with insights into the application of the budgeting and cash flow management processes highlighted here.

To facilitate easy reading and understanding, a less formal style of writing has been deliberately adopted. Technical jargon has also been kept to a minimum to cater to a diverse audience that includes non-accountants and those from non-financial backgrounds.

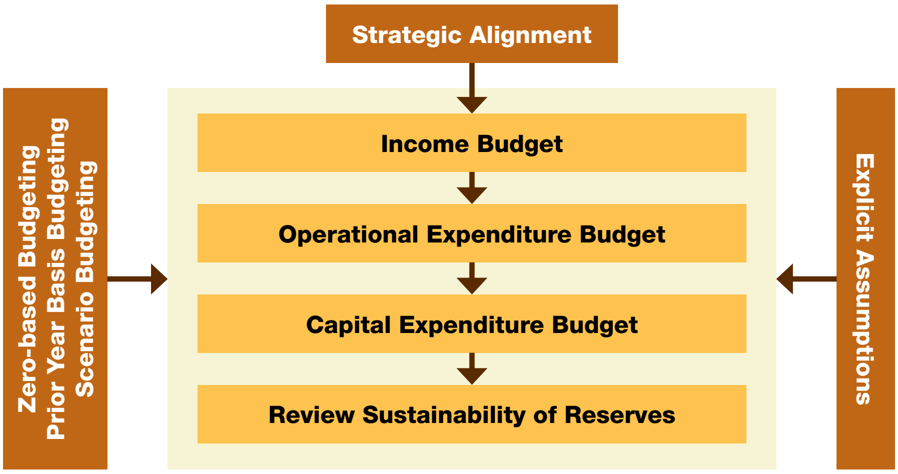
The contents in this booklet are largely drawn from the author's practical experiences. A fictional case, ABC Charity, will also be used throughout the booklet to illustrate how budgeting and cash flow management can be practiced.

Road Map on Contents of Booklet

This booklet begins in Chapter 1 by illustrating the importance of good budgeting practices. Discussions on budget preparation are presented from Chapters 2 to 10, while Chapter 11 focuses on cash flow management for charities.

A roadmap to budgeting is summarised in *Figure 1* below.

Figure 1: Roadmap to Budgeting



An overview of Chapters 2 to 10 is outlined as follows:

On Budget Preparation

Chapter 2 lays out the importance of aligning the charity's budget with its vision, mission, and goals for the coming year even before a budget is prepared.

Chapter 3 highlights issues charities should note when budgeting. It outlines the general budgeting process and the major components of a budget, including income and expenditure. These components are further elaborated in Chapters 4 and 5, respectively. They detail how charities can budget for income and expenditures from a practical viewpoint, using forecasting tips and variance analysis to explain deviations of actual expenses from budgets.

Chapter 6 looks into the need to build up reserves for sustainability and to cover deficit spending in lean years[1]. Building up reserves is crucial, especially for charities that depend more on ad-hoc donations and the generosity of the public. This is because their income would generally be more difficult to ascertain, and could vary significantly under varying economic conditions.

Chapter 7 explains why capital expenditures should be dealt with separately from the main budget in a guided systematic approach.

Chapter 8 notes the underlying assumptions made when budgeting according to the preceding chapters. It is followed by Chapter 10 which introduces different overarching approaches charities may take when budgeting.

On Cash Flow Management

Finally, Chapter 11 shows how cash inflows and outflows are recorded monthly and compared against regularly updated forecasts. Cash deficits or surpluses are closely monitored to ensure sufficient funds for operations.

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[1] Lean years: Years during which there is little cash inflow due to low fee income/revenue/donations and grants.

CHAPTER 2

Why is Good Budgeting Important for Charities?

"If you're in the luckiest one per cent of humanity,
you owe it to the rest of humanity to think about the other 99 per cent."
Warren Buffett

In the day-to-day running of a charitable organisation, financial governance and discipline are essential and must be properly carried out to ensure proper stewardship and full accountability to its various stakeholders. To this end, budgeting provides the financial tools necessary for a charity to plan how it should run its various programmes and operations, as well as manage its sources of funding.

Box Story 1 shows how poor budgeting practices could inadvertently damage the public trust through the example of the Irish Autism Action (IAA), a charity that supports individuals affected by autism.

Box Story 1: Irish Autism Action

Note: This box story is prepared by CSDA. Accordingly to the Irish Times, Irish Autism Action has ceased operations on 28th February 2019. For more information, please refer to: https://www.irishtimes.com/news/social-affairs/autism-charity-collapses-after-years-of-financial-struggles-1.3826365

About the Charity

Established in 2001, Irish Autism Action (IAA) is a charity in Ireland that supports individuals affected by autism, with its main beneficiaries being autistic children (Feagan, 2016). They provide services ranging from counselling, behavioural outreach, to helpline support and advice for families in need (Irish Autism Action, n.d.-a). Through its awareness campaigns and advocacy efforts, IAA strives to create a society that respects and welcomes all autistic individuals (Irish Autism Action, n.d.-b).

Budgeting and Cash Flow Management Practices

In 2016, IAA had to drastically cut back on its essential outreach services, supporting only two families as compared to 17 families (D'Arcy, 2016). The charity explained that these reductions were caused by insufficient funds to sustain its operations.

IAA's cutback in essential services could be attributed to the charity's lack of proper budgeting. It was found that IAA did not plan a budget for its operations for 2016. Had

IAA done so, it would have anticipated a potential shortfall in income that was needed to sustain its operations. This would then have allowed the charity to take action to raise the funds needed to meet this shortfall. Thus, budgeting is critical to a charity's services and operations as it helps the management to plan its operations in a sustainable manner.

The CEO of IAA, Mr Brian Murnane, explained that IAA did not prepare a budget, because budgeting would cause the operations of IAA to become overly dependent on fundraised income (Feagan, 2016). He argued that budgeting was dangerously risky as charities depend on ad hoc donations. In essence, he meant that the unpredictable nature of a charity's donations would make it challenging to estimate the projected income and plan the likely costs of its operations. However, this no-budgeting policy in fact impaired its sustainability.

Mr Murnane's explanations sparked widespread controversy. Parents of autistic children were outraged by IAA's poor cash flow management. The ensuing negative media coverage severely damaged its reputation, and this, in turn, likely precipitated the subsequent fall in donations (Sheehan, 2017).

Key Lessons Learnt

The case demonstrates that a good budget would help a charity to better align its expected expenditure with its likely income. The charity would then have a better idea of how much income it would require to sustain its services for its beneficiaries.

Additionally, it shows that poor budgeting practices could inadvertently damage the public trust in a charity. Conversely, a good budget communicates transparently to its donors and the public how the charity intends to manage its funds, enhancing its accountability. Therefore, good budgeting strengthens public confidence in the charity, and also encourages donors to continue supporting its social causes.

CHAPTER 3

What Should Charities Consider before Budget Preparation?

"Don't tell me what you value, show me your budget,
and I'll tell you what you value."

Joe Biden

Assume that you are the finance manager of a charity. Your boss has requested that you generate a budget.

Do you now run to the various departments to obtain the relevant numbers for preparing the budget? Do you meet the Heads of Departments to understand the operations for the next year? Do you rush to make the assumptions needed to project the required numbers?

Hold it! It would be better if you didn't do any of these. Instead, your first consideration should be the STRATEGY of your charity!

Has the management prepared the strategy? Is the strategy aligned with the vision and mission of the charity? Has the Board reviewed and approved the strategy? Is the strategy reflective of the state of the economy and the demographics of the beneficiaries it is serving? Does the strategy consider the resources needed by the charity in implementing the programmes and/or providing the services?

These are only some factors to consider. What is critical is that the strategy is fully discussed with the Board and approved for implementation.

The budget needs to reflect the agreed strategy to ensure that it is aligned with the vision, mission, and the intended goals of the coming year. It will have to consider the interests of the society, the environment, the beneficiaries, and the stakeholders. The perfect implementation of a misaligned budget will still be off-course for a charity.

Exhibit 1: It is essential for a charity to align its budget and strategy!

Drawing by Nabilah Tsabitah Binte Mohammad Zakir of ASPN

The establishment of a proper budget timeline is strongly advised. Most charities would likely need three months to prepare, review, and approve the budget with the help of the Finance/Budget Committees and the final review/approval by the Boards. Some may need up to six months if they are complex. This is why budget always seems to be around the corner.

There are different ways of preparing a budget. Some commonly used budgeting methods include zero-based budgeting, prior-year based budgeting, and scenario budgeting. Chapter 10 details these in greater depth.

CHAPTER 4

How should Charities Prepare Budgets?

"We must consult our means rather than our wishes."

George Washington

4.1 Practical Issues on Budgeting

In preparing the budgets, it would be good to note the following:

i. There is no accurate budget when forecasting the future due to the many uncertainties impacting the numbers in the budget.

ii. Budgeting will involve the allocation of limited resources such as manpower and supplies. Much judgement is needed to decide on these allocations.

iii. Budgets can be ambitious where the charity wishes to expand its services rapidly, or conservative where minimal change from the prior year is planned. Ultimately, the management and staff must find it realistic and achievable.

iv. Budgets will involve estimated income and expenses. This is very much influenced by the environment and the sector the charity operates in. What are the likely donations and grants? What would be the interest rates? What is the number of beneficiaries?

4.2 Major Captions in a Budget

A survey of current reports by charities highlighted two major captions in a budget: income/revenue and expenses.

Income/Revenue

- Voluntary Income (including gifts, donations, grants and sponsorships)
- Investment Income (like dividends, interests and rentals)
- Other Income (other receipts and miscellaneous income)

Expenses

- Costs of generating funds (fund-raising, start-up costs and costs of goods sold)
- Rentals, outreach and promotion
- Staff costs and communication
- IT systems, research and advocacy
- Governance costs (for example, professional fees)
- Others

It is important to note that once the captions are adopted, consistency in presenting them from year to year should be made. This enables comparison and checking for completeness.

4.3 Process and Approval

Generally, the budgeting process is initiated by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). The budget is approved when it is cleared by the budget committee or the finance committee that has oversight of the organisations' budget.

It may be a long process as it is iterative, going through a few levels of review and changes before being finalised for implementation. The process normally takes three to six months from the commencement of the budget's preparation to its final approval by the Board or Executive Committee. The budget should be approved before the start of the new financial year so that it acts as guidance for the operations for the new financial year.

In preparing the budget, the CEO and CFO would typically speak to the Head of various departments (the budget owners) to understand the expected programmes and services for the new year – growth, stagnation, or decline. Examples of budget owners include the Head of Departments in the following organisations:

- Programmes and services department
- Research department
- Communications department
- Human resources department
- Information technology department
- Procurement department
- Finance and administration department

The preparation of budget templates for the budget owners is a good practice. The budget templates should include clear statements of the assumptions used in the preparation. If standard rates of charges are to be used, these should be clearly stated and applied across all departments.

Once prepared by the budget owners, the budgets need to be reviewed first by the senior management, followed by the CEO. This precedes the budgets' presentation to the executive committee and finally the Board. During these reviews, some of the estimates may be challenged and revised to more realistic or desired levels. The budget approved by the Board shall be the one implemented.

The approved budget controls the charity's operations by periodic comparison of actuals versus budget. Major variances are highlighted by management for investigation and the causes identified. Over the course of the year, budgets may also need to be revised or additional ad-hoc budgets prepared if new programmes and services (not foreseen at the time of budget preparation) are launched. Some flexibility should be exercised to ensure that the budget remains a relevant and effective management tool to control operations.

CHAPTER 5

How should Charities Budget for Income?

"We make a living by what we get,
but we make a life by what we give."
Winston Churchill

The various sources of income are usually known in advance. Examples include donations, grants, government subsidies, and fees charged to recipients. But as with most organisations, revenue collections by charities are relatively uncertain because they depend largely on the generosity and support of individual donors, corporations, and partners. Some charities are more fortunate than others in that they receive government grants, contributions, and sponsorships which are more certain.

How then should a charity go about planning for the budgeting of income?

It should first consider the current state of the economy which will have a direct impact on individual donations. For instance, people tend to donate less when the economy is expected to be bad the following year. These trends have been observed in the donations reports of a number of charities.

Under normal circumstances, when economic fundamentals are more stable with little change in sight, it might be reasonable to grow your budget income by, say, 10% overall. As each charity is different, a look at the specific characteristics and nature of each charity would be warranted to produce a more accurate income estimate.

Many charities depend on fundraising events to raise revenue. This ensures their financial sustainability, thereby allowing for their continual provision of community and humanitarian services. Therefore, deploying an effective fundraising strategy is critical to achieving charities' targeted income.

5.1 Donations and Fundraising

What are some of the more common types of revenue?

Almost all charities depend on contributions mainly donated by individuals, schools, corporations, businesses, grant-makers, foundations, and third-party fundraisers. In today's high-tech world, electronic donations are also available. An analysis of the different types of donors is recommended to establish certainty and stability of the amount of donations.

For instance, 'Generous Foundation' regularly donates a certain amount of its funds to named charities on an annual basis. This type of donation is usually fixed and the amount can be ascertained with a reasonable degree of accuracy. In this case, the charity simply needs to input the promised amount into its budgeted income.

However, other donations from individuals, schools, and corporations are not so certain. In good times, individuals usually donate more; but in bad times, the reverse may be true. Corporations and businesses may donate in a particular year as a form of publicity but may not do so in subsequent years. Some may also donate on an agenda basis.

Some charities have to be creative in their fundraising events. For example, the Red Cross has its signature Flag Day (Singapore Red Cross Society, 2017). Additionally, bigger charities are able to organise charity concerts supported by well-known celebrities. Other examples include the charity golf and charity run sponsored by Standard Chartered Bank.

However, the amount of funds raised by these events cannot be measured reliably as they depend on the generosity of the events' participants. Therefore, it can be quite difficult for charities to budget from these sources of revenue. Comparatively, going by charities' past-year experience provides a better yardstick/benchmark for budgeting.

Government grants and contributions are normally announced in advance. As the amount is already fixed and known, it is just a matter of inputting the fixed sum in the income column.

Another income that can be budgeted with ease is the investment income that normally takes the form of interest in bank deposits. The interest rates and amounts can be calculated in advance for budgeting purposes. Other forms of investment income include rents and dividends, both of which can also be reasonably estimated.

Charitable organisations that charge fees for the services provided and are partially subsidised by the government may find some difficulty in arriving at the total net fee received. These net proceeds need to be inserted into the budgeted income. However, they can be hard to forecast as the number of beneficiaries served may be difficult to predict.

5.2 Government Grants and Restricted Funds

Certain charities (of varying sizes) receive grants, donations, and contributions from government and corporations intended for specific purposes. Strict rules govern the use of such funds. For example, the proceeds of these funds are normally earmarked for certain projects or activities and can only be spent on these projects. When preparing the income budget, the charity has to reflect the restricted nature of such income accordingly.

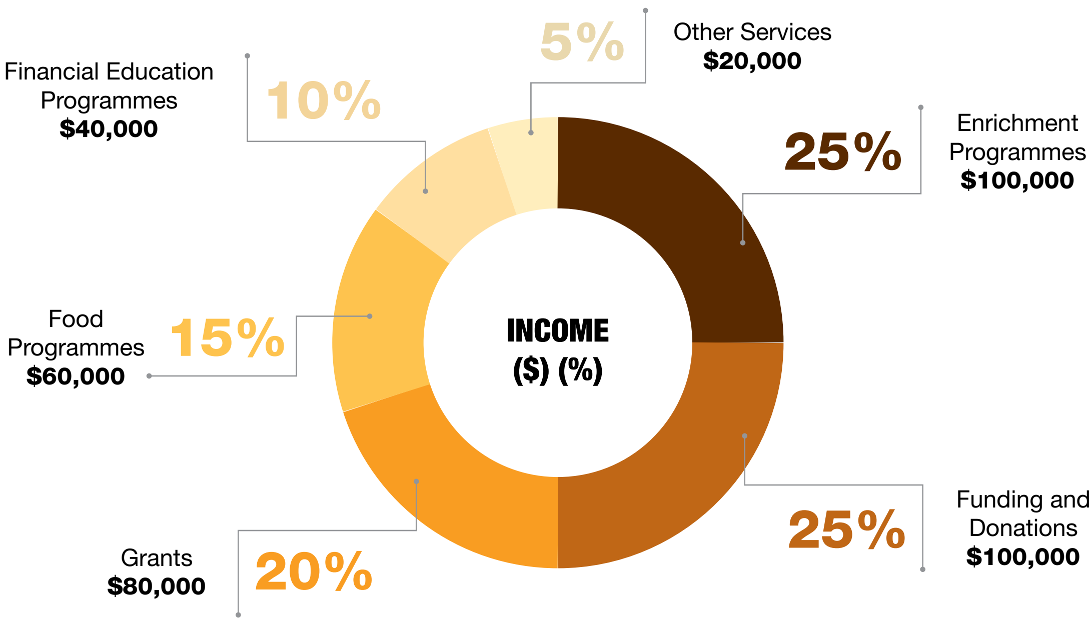
To summarise, budgeting for sources of income is a mixed bag. Some, like government grants, are fixed in advance and can be budgeted accurately. Others, like individual donations and contributions from fundraising events, are harder to gauge because they depend on several factors, including the number of participants and their generosity.

Set out below is an illustration of a simple income budget for ABC Charity:

Table 1: ABC Charity's Income Budget

Income	2018 ($)	%
Enrichment Programmes	100,000	25
Funding and Donations	100,000	25
Grants	80,000	20
Food Programmes	60,000	15
Financial Education Programmes	40,000	10
Other Services	20,000	5
Total	**400,000**	**100**

Figure 2: ABC Charity's Income Budget



ABC Charity offers enrichment programmes, food programmes, financial education programmes, and other ancillary services to its beneficiaries. At the same time, it also receives grants, some funding, and donations. These are recorded accordingly into its income budget, as shown in *Table 1* and *Figure 2*.

To do this budgeting, charities can engage full-time or part-time personnel who are familiar with finance. If their needs are simple, volunteers who are skilled in finance may be helpful. Finally, there is also the option of outsourcing to firms who can assist them.

CHAPTER 6

How Should Charities Estimate Expenditure?

"Beware of little expenses.
A small leak will sink a great ship."
Benjamin Franklin

Generally speaking, budgeting for expenditures is easier than budgeting for income. Expenditure budgeting can also be done more accurately since a large part of the charity's expenses are either fixed (e.g. rents) or are based on last year's expenditure list. Nevertheless, it would benefit charities to better understand the nature and behaviour of different types of expenses so that they can budget for them accordingly.

6.1 Types of Expenditures

Expenditures can be broken down into four categories. First, fixed expenses, e.g. rental, salary, and office expenses. Second, variable expenses, e.g. stationery, water, and electricity. Third, fundraising expenses. Lastly, expenditure on fixed assets, which will be covered in Chapter 8: How to Budget for Capital Expenditure.

Fixed Expenses

Fixed expenses can be budgeted with relative ease by drawing on past-year records as a basis for its budget. Generally, rentals and salaries can also be budgeted quite accurately since they are more or less known. However, complications may arise in situations when the lease is about to be renewed or when there have been major changes in headcounts. Staff promotion is also an area that may affect the computations.

Variable Expenses

Variable expenses, as the name implies, vary with usage. For instance, stationary and public utilities expenses are directly related to usage. Most of these expenses vary with space or the number of people involved.

However, the types of expenses commonly incurred in most charities cannot be neatly categorised as completely fixed or variable. These hybrid expenses include those relating to fundraising, outreach, promotion, social work services, and professional fees. For example, expenses relating to outreach efforts do not only include fixed elements like salary. They also comprise expenses like transport fees, consultant fees, and rental for venues which may increase as more outreach activities are carried out.

Fundraising Expenses

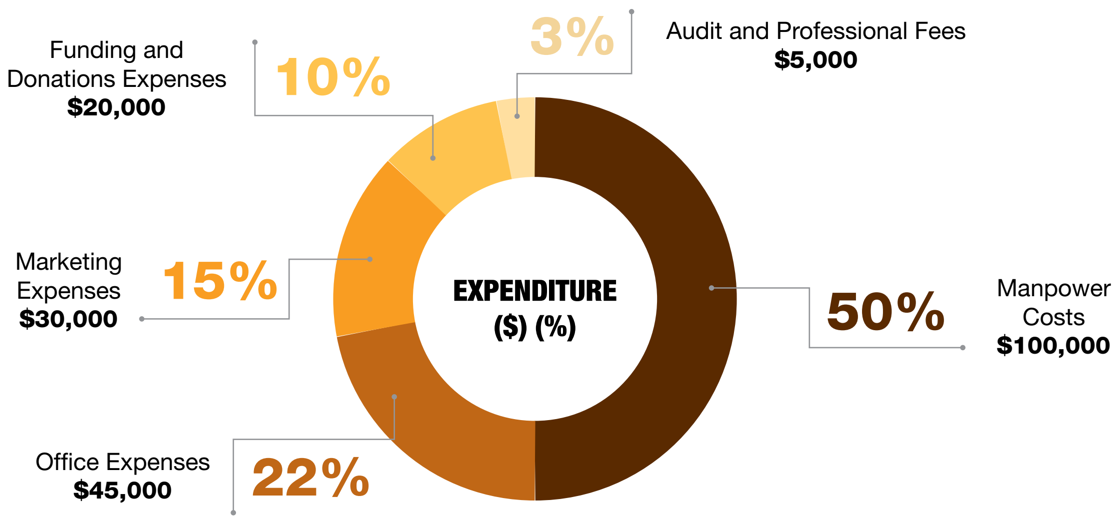
Most charities try to keep money spent on publicity, fundraising, and administration to the minimum. The Charities (Fund-Raising Appeals) Regulations (Charities Act 37) stipulates that the total fundraising expenses of a charity should not exceed 30% of the total gross receipt from fundraising and sponsorships for a particular year. Charities have to be mindful of this requirement and ensure that this 30% rule is not breached when budgeting for the cost of generating funds.

In the example of ABC Charity, its operational expenditures for the year 2018 may be recorded as follows:

Table 2: ABC Charity's Operational Expenditure Budget

Expenditures	2018 ($)	%
Manpower Costs	100,000	50
Office Expenses	45,000	22
Marketing Expenses	30,000	15
Funding and Donations Expenses	20,000	10
Audit and Professional Fees	5,000	3
Total	**200,000**	**100**

Figure 3: ABC Charity's Expenditure Budget



6.2 Departmental Expense Budget

In larger charities, it would be reasonable for each department to forecast its own expense budget and submit it to the Finance Department for further adjustments if necessary. The final version would then be consolidated into an organisation-wide expenditure budget before submission to the top management for approval.

6.3 Variance Analysis

A budget is not complete without variance analysis. This refers to the comparison of the actual income or expense against the corresponding budget.

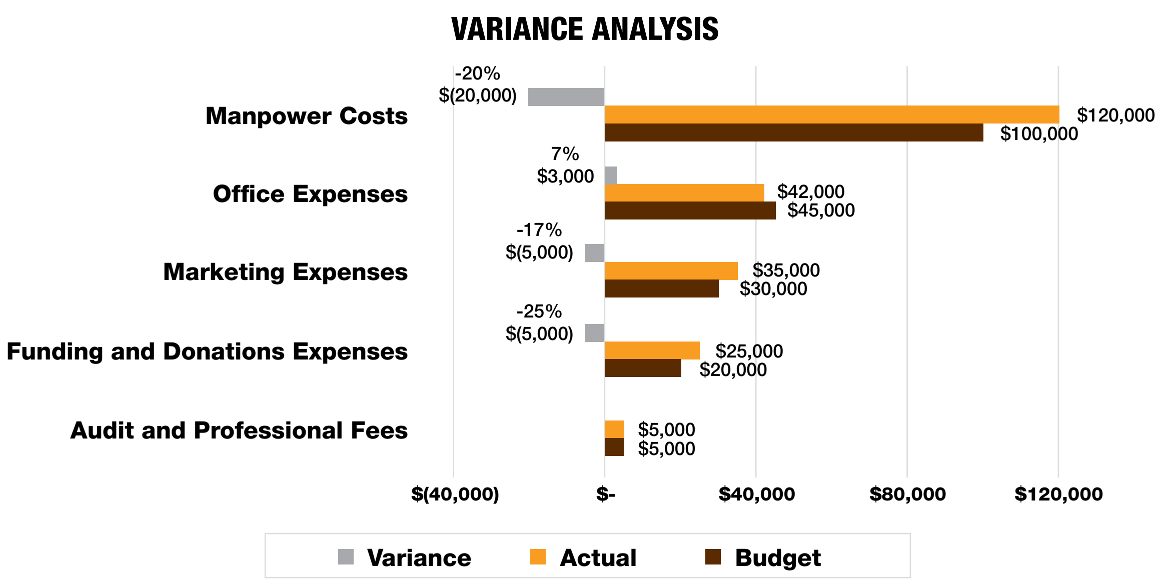
Variance analysis functions as a performance measurement that provides an indication of whether the charity has collected adequate revenue to pay for its expenses. It does so by ensuring that the charity's spending is within the budget amount and/or that sufficient donations, as measured against the budget, have been collected. Where variances are observed, explanations accounting for these differences must be included. This is illustrated in *Table 3* and *Figure 4*. This can be done on a monthly and year-to-date basis. It is important to stress that without variance analysis, budget preparation is meaningless!

The following is a Variance Analysis Table showing the variances and explanations for the differences.

Table 3: Variance Analysis

Expenditures	Budget ($)	Actual ($)	Variance ($)	%	Comments
Manpower Costs	100,000	120,000	(20,000)	(20)	extra part-time staff
Office Expenses	45,000	42,000	3,000	7	lower aircon repair
Marketing Expenses	30,000	35,000	(5,000)	(17)	higher advertising expenses
Funding and Donations Expenses	20,000	25,000	(5,000)	(25)	one extra donation drive
Audit and Professional Fees	5,000	5,000			
Total	**200,000**	**227,000**	**(27,000)**		

Figure 4: Variance Analysis



CHAPTER 7
Why is it Important for Charities to have Reserves?

"While we do our good works let us not forget
that the real solution lies in a world in which charity will have become unnecessary."
Chinua Achebe

7.1 Rationale for Reserves

Sustainability is the universal goal all charities strive towards. Without sustainability, good programmes and services will be disrupted or discontinued. This returns the beneficiaries back to square one, as if there were no charities at all. To avoid this, the Code of Governance for Charities and Institutions of a Public Character (Charity Council, 2017) recommends that charities set up reserves to maintain their financial sustainability in the long run *[Principle 6.4.1a in Code 2017 for Basic, Intermediate, Enhanced, and Advanced Tiers].*

Maintaining some level of operating reserves is especially pertinent for charities as a hedge against the unpredictability of their primary income sources (Sim, Loh & Teo, 2017). This uncertainty derives in part from the susceptibility of charities' cash flows to the prevailing social and economic climate. For instance, when the economy fares badly, the donated sum may decline because there is a tendency for people to save for rainy days. This is especially so for corporate donations, which are also influenced by the amount of tax deductibility available.

7.2 Managing Funds and Reserves for Sustainability

So how do charities operate to first ensure their survival, stability, growth, and eventual sustainability in the long run? Charities need to exercise financial prudence in their cash flow and reserves management. In managing their funds and reserves, charities need to go through four different stages: operational liquidity, surplus cash flow, investment income, and self-sufficient income.

Operational Liquidity

Charities need sufficient cash to pay for their operations. These operations include staff costs, rentals, the costs of running their programmes, and the costs of maintaining their equipment. These costs should be properly managed and negotiated so as to derive good value through tendering and competitive quotations.

Surplus Cash Flow

This is where charities exercise astute cash-flow management and generate surpluses. These surpluses may then be invested in fixed deposits in banks, earning interest, or other investments producing dividends and rentals. Investments should be prudent and subject to the organisations' articles and the Board's approvals. Such surpluses will be turned into reserves for the charities.

Investment Income

Charities can become less dependent on public and stakeholders' donations to fund their programmes by growing their investment income. This will go a step further in paving the path towards sustainability.

Self-Sufficient Income

Self-sufficient income is derived from the charities' operations and investments. This income ensures that charities possess adequate cash flow for their continued operations in the long run, come rain or shine.

Charities often deliberate on the number of years of reserves that should be kept to ensure their sustainability. Unfortunately, there is no magic answer.

While a charity may refer to its peers in the particular sector for some guidance, the appropriate target for its reserves ultimately depends on its unique circumstances. Each charity should look at its revenues and other sources like grants and donations, its operating expenditure for the next few years, as well as its capital expenditure. These vary according to the number of programmes the charities intend to manage. The Board of each charity would also need to critically evaluate and determine the target reserves they need to ensure its sustainability.

CHAPTER 8

How to Budget for Capital Expenditure?

"There is no exercise better for the heart
than reaching down and lifting people up."
John Holmes

This chapter outlines a series of accounting norms that are not charity-specific practices. Nevertheless, they are useful guidelines charities can take reference from when budgeting for their capital expenditure.

Budgeting for capital expenditure is an annual exercise. Approval norms or practices concerning capital expenditure budgeting vary from one charity to another, with flexibility being the key phrase. Three approaches are introduced below.

8.1 Separate Budget for Capital Expenditure

For expenditures that require Board approval, it is more appropriate to do a top-down approach. Whatever the top management approves, a charity should budget for it, especially in the case of big-ticket items. For example, a charity may need to build a new extension to its premises due to expansion or to renovate its present office for better utilisation of the existing limited space.

In these circumstances, it is a good idea to prepare a separate budget for capital expenditure for the following reasons:

i. Big-ticket items would usually require the management's and/or the Board's approval, and therefore would be separately accounted for. Some time is normally needed for its finalisation while awaiting the management's approval.

ii. More often than not, a big sponsor or a philanthropist would make a lump-sum donation designated for the charity's building fund. This would be a restricted fund, classified as special project financing. This account will normally be separated from the other funding.

iii. Capital expenditure, by its very nature, is spent in the current year. However, the benefits are usually spread over a number of years through depreciation. A separate schedule to monitor its usage over the useful life of the asset is thus needed.

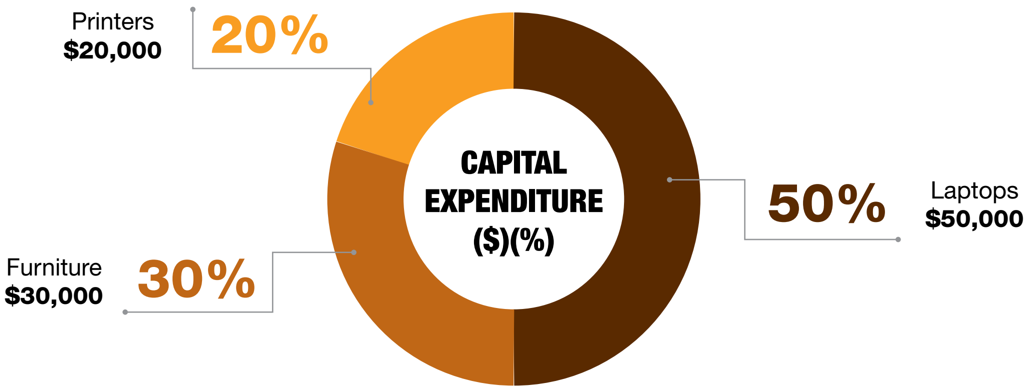
iv. A fixed asset schedule is normally prepared for the purposes of monitoring and tracking the utilisation of these assets.

In the case of ABC Charity, its capital expenditure would be budgeted as follows:

Table 4: ABC Charity's Capital Expenditure Budget

Capital Expenditure Budget ($)	
Laptops	50,000
Furniture	30,000
Printers	20,000
Total	**100,000**

Figure 5: ABC Charity's Capital Expenditure



8.2 Bottom-Up Procedures for Smaller and/or Common Capital Expenditure Items

For smaller and/or more common capital expenditure items, generally only the CEO's or senior management's approval is required. For these items, budgeting can be done from the bottom-up. Examples of smaller capital expenditure items include the purchase of items such as notebooks, new furniture, and office equipment like photocopiers and printers. Examples of common items include the purchase of special-purpose vehicles or mini-buses by bigger charities for use in their daily operational activities.

In the bottom-up approach, it would be good practice to have each department prepare a list of requests for the purchase of capital items. These lists should be submitted for approval approximately three months before the end of the current financial year. The three-month lead time functions as buffer time to permit for further adjustments or refinements on the requested capital spending. Upon approval by management, the estimated cost of the capital expenditure items will be incorporated in the budget.

8.3 'Rule of Thumb' Approach to Capital Expenditure Budgeting

Alternatively, some organisations may find it easier to use the 'rule of thumb' approach in budgeting. In this approach, charities generally budget for a 10% increase in capital expenditure because some capital expenditure items are not known at the time of budget preparation. These situations include, for example, a new employee needing a new laptop, or an old laptop that needs to be replaced.

CHAPTER 9

What Assumptions do Charities Make in Budgeting?

"No one has ever become poor by giving."
Anne Frank

9.1 Considerations when Formulating Assumptions

When preparing budgets, charities must make a number of assumptions. However, before making these assumptions, charities should first consider their rental, salaries, as well as vision and mission.

Rental

If you are enjoying low rentals, look out for the expiration of lease. You may or may not enjoy these low rates when the lease is renewed. For charities that own their buildings, it is important to impute a rental to reflect the actual cost of operations. When charities need to expand their operations and their premises are no longer adequate, the rental costs may require careful consideration as there could be a rental surge in a tight supply market.

Salaries

Charities can refer to the NCSS Salary Guidelines issued by the National Council of Social Service[2] and those issued by external human resource (HR) consultancies to estimate the salary increments. This provides a fair basis for justifying the percentage increase. It would be better to calculate estimates by department and programme so that a more accurate budget can be arrived at.

Charities are also advised to make explicit the basis of using certain rates, ratios, or numbers. These allow the reviewer to verify the reasonableness of the budget.

Alignment with Vision and Mission

It is also important for the charity organisation to ensure that the final budget is aligned with its vision and mission.

[2] Please refer to https://www.ncss.gov.sg/Social-Service-Careers/Sector-Salary-Guidelines/Salary-Guidelines for more information about the NCSS Salary Guidelines.

9.2 Assumptions for Budget Preparation

Having accounted for the aforementioned considerations, charities may proceed to make a number of assumptions regarding income and expenditure. Examples of income and expenditure items are listed below.

Income

- Income from programmes and services will grow by X% over last year
- Subsidies are expected to stay at Y%
- Cost recovery is unchanged from last year
- Government grants will be $XXX,000
- Donations of $YYY,000 will be received

Expenditure

- Rentals, salaries, promotions may increase by Z%
- Advocacy and research costs will increase by Q%
- Interest rate may increase by 500 basis points
- Investment income may increase by $TTT,000
- Taxes may increase W%

It may not be possible to list the assumptions for every component of the budget. However, the clearer the assumptions, the easier it is to review the budget for reasonableness. This responsibility tends to fall within the terms of the Budget Committee or the Finance Committee. The Committee reviews the budget assumptions and the accompanying budget for alignment to the charity's strategy and goals for the next year. They need to approve major additions in terms of both capital and operational expenditure.

CHAPTER 10

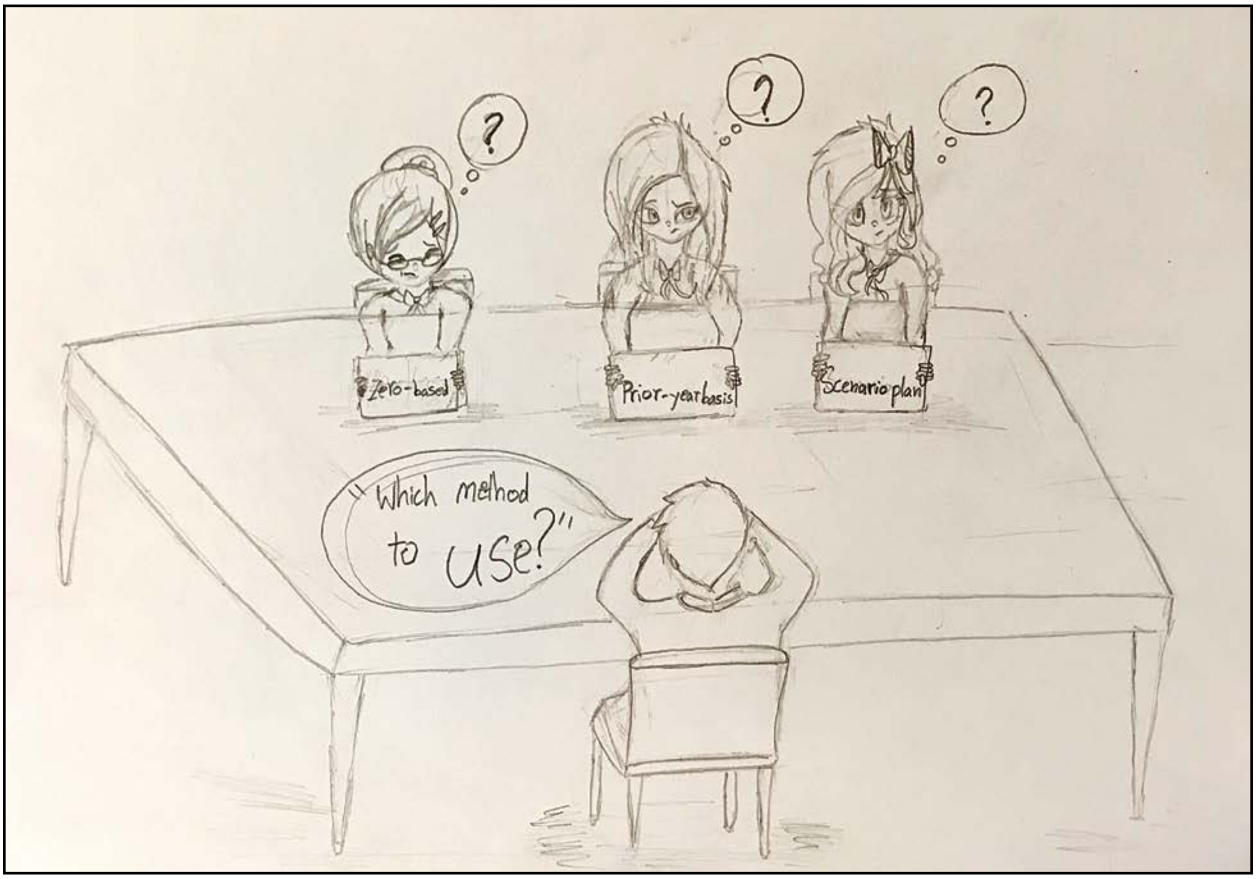
What Are the Different Approaches to Budgeting?

"When we give cheerfully and accept gratefully, everyone is blessed."

Maya Angelou

There are many ways to prepare a budget. Although there are no budgeting practices specific to the charity sector, there are some common budgeting approaches that charities can refer to. The three main budgeting approaches are zero-based budgeting, prior-year-basis budgeting, and scenario budgeting.

Exhibit 2: Charities need to choose the appropriate budgeting approach for their organisation.



Drawing by Nabilah Tsabitah Binte Mohammad Zakir of ASPN

10.1 Zero-Based Budgeting

Zero-based budgeting requires computations based on first principles. Hence, the budget must be prepared from scratch without reference to prior-year comparatives. This is likely suitable for new programmes or services where numbers are not available. Similarly, if it is an entirely new expense, zero-based budgeting may be necessary. This method may also be applied to reassess the old ways of performing services and to determine if there is a better way to reduce the costs.

10.2 Prior-Year-Basis Budgeting

What is more often used in practice is the prior-year basis budgeting which includes current-year adjustments. Prior-year basis budgeting is frequently used since it permits a faster budget preparation, assuming no major changes in the charity's operations. For example, given a year-on-year growth of 10% in previous years, revenue for the current year may be expected to grow at 10% relative to revenue for the previous year. Similarly, expenses can also be estimated via this method by applying an overall inflation rate.

10.3 Scenario Budgeting

Scenario planning is an interesting method of preparing the budget. Different numbers are generated depending on the scenario used. These scenarios include an optimistic scenario (where revenue is growing at a higher rate), a likely scenario (where the expected revenue is more likely to happen) and a pessimistic scenario (where revenue is expected to remain stagnant, grow very little or even decline). Management then reviews these numbers before deciding on the final numbers to be used for the budget.

As the budget can have a motivational effect on the organisation's behaviour, charities should go for a realistic budget which may be stretched. This helps to motivate and incentivise management to set higher goals. Conversely, ending with an unrealistic budget should be avoided as this demoralises management and staff. The budget may even be ignored in such circumstances if the charity's members feel that they have been tasked with the impossible.

Ultimately, it is up to individual charities to choose the method best suited to their needs. The Budget Committee may guide management in this decision. Whichever the budget, it is important to formally approve it at the Board level. This approved budget is then communicated to all involved to ensure that the budget is adhered to.

Budget monitoring is an important control mechanism. Any large variance should alert management to launch an investigation into the discrepancy so that early remedial action can be implemented. It is thus critical that the budget be revised to reflect the charity's latest status to allow for proper budget monitoring. Ideally, the actual numbers should not stray too far from the budget so as to function as a good control tool for the charity's management and Board.

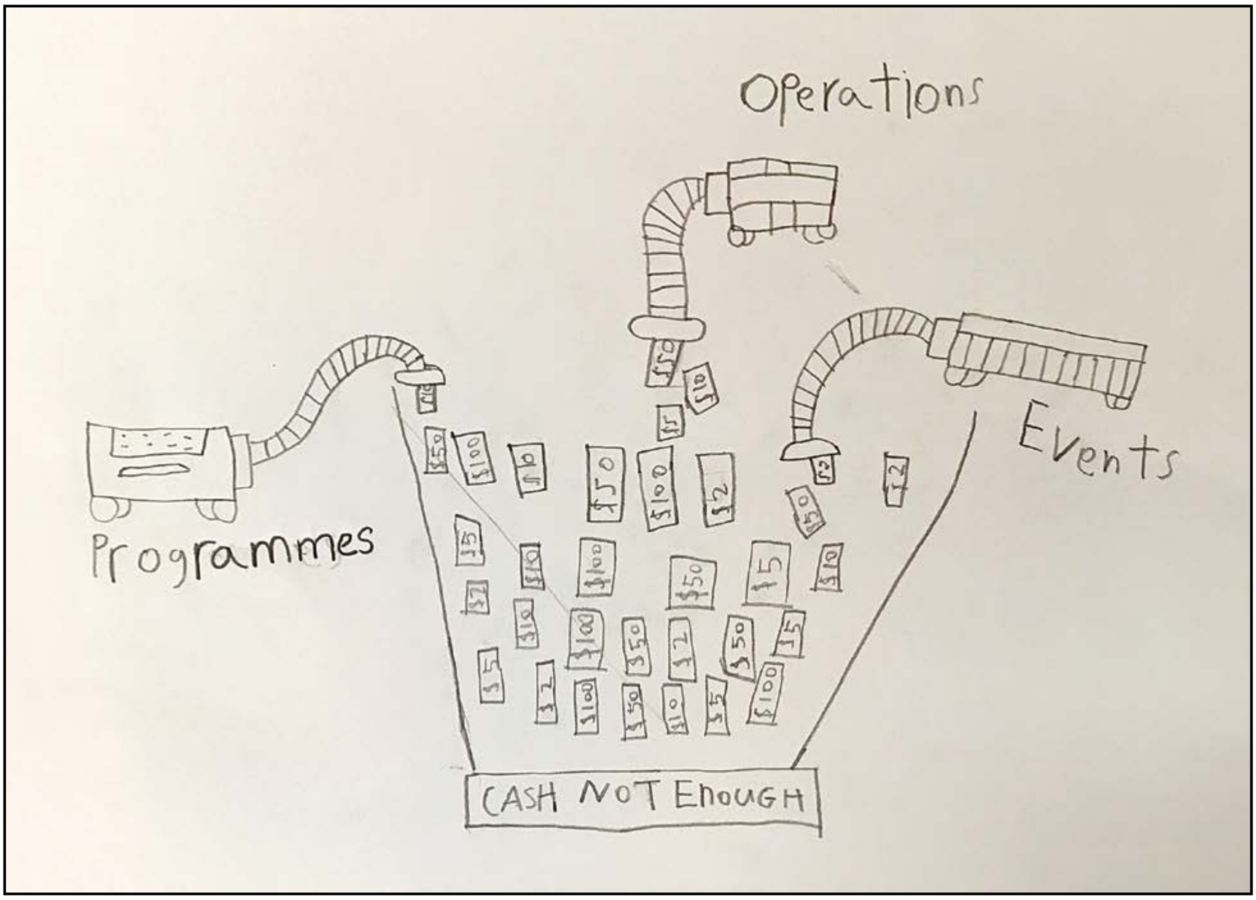
CHAPTER 11
How do Charities Manage Cash Flows?

"You have not lived today until you have done something for someone who can never repay you."

John Bunyan

Cash flow management involves the forecasting of cash inflows, cash outflows, and the resulting cash position. Similar to budgeting, practicing good cash flow management is another essential discipline of financial planning and an important management process.

Exhibit 3: 'Cash not Enough?'
Charities need to manage their cash flows.



Drawing by Joel Tan Teng Hao of ASPN

Good cash flow management is vital because charities function within an operational context of income uncertainty (Sim, Loh, & Teo, 2017). Charities generally rely on resources that are donated. These donated resources are typically channelled towards providing goods and services for beneficiaries.

An unbudgeted surge in demand for a charity's programmes and services may place the organisation at risk of incurring cash flow deficits. Hence, charities need to practice effective management of their cash flows to ensure the continued sustainability of their operations.

As part of good cash flow management, the charity should exercise foresight in forecasting or predicting future cash flows. This allows the charity to budget accordingly, ensuring that the charity has sufficient funds to sustain its operations in the long term. Conversely, without proper cash flow forecasting, charities may run out of money and may have to drastically cut back on their essential outreach services, as in the aforementioned case of Irish Autism Action (Box Story 1).

Some examples of cash inflow include:

- Fees and charges from programmes and services
- Investment income
- Donations
- Funds raised through events and sponsorships

Cash outflows are incurred in purchases for operations and expenses incurred in operations:

- Staff costs and welfare
- Rentals and utilities
- Equipment and maintenance
- Information systems
- Research and development
- Marketing and advocacy
- Fundraising expenses

Please refer to **Appendix D** for a comprehensive template of a cash-flow statement.

Cash flow forecasts are best conducted on a monthly basis to provide a more accurate reflection of the charity's latest cash position. This ensures that the cash flow forecasts can be better acted upon when there are major surpluses or deficits. Surpluses can be invested within the terms of the articles of the organisation or by the Investment Committee. Deficits need to be addressed by the Fundraising Committee so that the charity does not run out of cash and risk disrupting the services provided to its beneficiaries.

There may be restricted funds that can only be used for specific purposes. Management would need to pay attention to these funds to ensure compliance with the terms of fund usage.

With the cash flow forecast, some charities may also wish to set some cost-recovery targets for their services. The fees charged should remain aligned with the charity's raison d'être to serve certain underprivileged groups. This means that the services should be kept affordable and subsidised to benefit these groups.

CHAPTER 12
Conclusion

Most charities would have prepared budgets and cash flow forecasts that are likely to be guided and reviewed by the Budget and Finance Committees, as well as discussed and approved by the Board. This booklet hopes to have provided these charities with a clearer understanding on what constitutes good budgeting and cash flow management so that they may incorporate this knowledge into their existing practices.

To recap, the key steps in formulating a budget are outlined as follows:

i. Ensure that the overall budget to be prepared is aligned with the charity's mission and vision;
ii. Ensure that the assumptions for preparing the budget are reasonable, realistic, and practicable;
iii. Identify the income, key expenditures, and capital expenditures;
iv. Determine the amount of reserves needed to be topped up and how reserves can help to ensure sustainability; and
v. Ensure that the top management at the Board approves the budget.

Readers are highly recommended to read the case studies enclosed in **Appendices A, B, and C**. Transition House Toronto (**Appendix A**) is an overseas case study while Singapore Children's Society (**Appendix B**) and AWWA (**Appendix C**) are the two local case studies. These case studies will help readers better understand how charities carry out budgeting and cash flow management.

There are a few key lessons to take away from Transition House Toronto's case study. Firstly, its utilisation of budgeting and cash flow management provides an accurate reflection of its latest financial position. This facilitates decision-making, particularly on capital budgeting, at the Board level. It also provides the necessary information the organisation requires to satisfy the explicit requirements of its funders. Variance analysis, as an extension of its budgetary system, functions as an effective internal control tool in detecting irregular expenses which would warrant investigation.

Secondly, the Transition House provides an example of a contingency plan charities may adopt in the event of unexpected funding deficits. To tide over potential shortfalls in funding, it built up a capital assets reserve fund as well as a contingency reserve fund. Lastly, the Transition House's box story points to the potential for the merging or consolidation of charities offering similar services to achieve cost savings.

The Singapore Children's Society also provides key lessons on disciplined budgeting practices. It incorporates variance analysis to provide additional data that forms a basis for the preparation of future budgets. Furthermore, its budgeting process involves all Heads of Departments and occurs under the oversight of the Finance Department and CEO.

In addition, Children's Society recognises that funding via donations varies across periods. It prioritizes its provision of various services and focuses on building up reserve funds in good times to finance income shortfalls during bad times. This enables it to achieve sustainability. In addition, good cash flow forecasting is an integral part of the society's financial corporate culture. It enables better anticipation of projected expenses for smoother operations.

Finally, it should be noted that this booklet is intended as a guide to assist charities in basic budgeting and cash flow management. As each charity's circumstances are unique, charities are highly recommended to supplement the fundamentals outlined in this booklet with more comprehensive publications on budgeting and cash flow management. These publications include:

- Virginia Society of Certified Public Accountants. (2012). *Budgeting: A Guide for Small Nonprofit Organizations.* Retrieved from https://alumni.northeastern.edu/wp-content/uploads/2017/02/Budgeting-Basics-PDF-Jenn-Lammers.pdf

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Shared Services for Charities looks forward to a network of finance managers in charities that shares ideas and experiences in these areas and beyond. Professionals keen to volunteer their time to help charities improve their financial control processes are also welcomed.

So put in your best efforts and improve continually for the good of this sector.

Wishing all success and happiness!

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APPENDICES

Appendix A

Box Story 2: Transition House Toronto

Note: This box story is prepared by CSDA, based on an interview conducted with Ms Colleen Franklin from Transition House Toronto.

Transition House Toronto is a model example of a charity that embraces discipline in good budgeting and cash flow management practices.

About the Charity

Established in 1976, Transition House provides support to men who are recovering from addictions, including substances and/or problem gambling, and can accommodate 17 people over the age of 16. Their maximum length of stay is three months, and they identify their recovery goals which might include outpatient treatment, relapse prevention, anger management, and other treatment models.

Each resident must have an outside primary counsellor and must also be supported by a team of experienced in-house counsellors 24 hours a day. They are taught how to apply life skills towards independent living.

Volunteers also form part of the operations of Transition House and they initiate participation in social events and sporting and recreational activities. Residents are referred by a number of agencies including withdrawal management centres. (Transition House Toronto, n.d)

Budgeting and Cash Flow Management in Transition House Toronto as shared by Ms Colleen Franklin, Executive Director

1. **What are your budgeting and cash flow management policies and practices?**

   The budget is prepared on an annual basis in March for the next fiscal year (April to March) by the Executive Director and the Treasurer, with assistance from the bookkeeper. The process involves reviewing historical expenditures and predicting possible impacts to each expense line for the coming year.

   The amounts to be budgeted are recorded monthly with seasonal fluctuations duly recorded on an appropriate spreadsheet. The budget is then sent to the Board for approval at the April board meeting.

   Once approved, it is given to the bookkeeper. On a monthly basis, the bookkeeper will prepare an Income and Expense Statement, as well as an Asset and Liability report for the Executive Director and Treasurer.

   The Income and Expense Statement details, by expense category, the amounts expended in that month along with a report detailing the year-to-date expenditures as well. From that information, the Treasurer enters the actual amounts into the spreadsheet and presents this at the next board meeting. Any expense category that has a variance of plus or minus 10% must be investigated by the Executive Director and reported on.

2. **How important is budgeting and cash flow management to your organisation?**

   Budgeting and cash-flow management is extremely important to our organisation. It allows us to easily understand what our financial position is at any time.

   It allows us to report our financial position to our Board of Directors, who can then make decisions about required expenditures, such as capital acquisitions. As our funders (the Toronto Central Local Health Integration Network and the United Way of Greater Toronto) require us to have a balanced budget at year end, our cash flow management and budgeting is integral to providing us with the information that we need to have a balanced budget.

3. **What do you think would happen to Transition House if you do not practise budgeting and cash flow management?**

   As an organisation, Transition House relies heavily on our budgeting and regular reporting to our Board of Directors as a best practice.

   However, Transition House had a situation several years ago when our Executive Director was on a one-year secondment to one of our funders. It became very clear to us how important these measures were to the health of our organisation.

   Due to the secondment of our Executive Director, Transition House hired a person as an Acting Executive Director on a one-year contract. During this time, the Acting Executive Director was in charge of the agency budget, with access to the credit cards, signing authority, and management of all aspects of the agency finances.

   During the Acting Executive Director's second month on the job, the Board noticed expenditures (on our budget tracking form) that were very different from the usual. These included more money spent on food and other supplies, as well as ordering of merchandise that was not delivered to the agency. The Board questioned the Acting Executive Director about these expenditures, and were given explanations, but after another month or so, the Board began to get suspicious about the validity of these expenditures.

   The Board then requested our bookkeeper to do a thorough analysis of the expenditures, and it was discovered that the Acting Executive Director was utilising agency funds (including petty cash, and the agency credit cards) for personal use. The Acting Executive Director's employment was subsequently terminated, and the Executive Director altered his secondment in order to return to manage the agency.

   It was due to the strong oversight of Transition House's Board, as well as the careful budgeting and cash flow management that this situation was recognized in a timely fashion and dealt with.

   A situation like this illustrates what could possibly happen if strong budget and cash flow management procedures are not in place.

4. **As cash flow is critical to Transition House in running your operations, can you tell us more about your main sources of funding?**

   Transition House is funded by the Toronto Central Local Health Integration Network (TC LHIN) (90%) and the United Way of Greater Toronto (10%). The TC LHIN is the local agency which is charged with funding, and making decisions about funding, for health-related services, and is an arm of the Ontario Ministry of Health and Long Term Care.

   The United Way of Greater Toronto is an organisation which raises funds and provides funding and oversight of social service agencies in the greater Toronto area. We have just received notice that Transition House will be funded under their Community Support Sector funding stream for the next 3 years.

5. **How do you manage when there is a shortfall in funding? Do you have some policy on building up the reserves?**

   Transition House is very fortunate to be fully funded for our operation through the TC LHIN and the United Way of Greater Toronto. Over the past 15 years, we have only had one year when there was a small deficit. Luckily, Transition House has two reserve funds: a capital assets reserve fund, as well as a contingency reserve funds. Details are provided as follows:

   Capital Assets Reserve Fund

   The purpose of the capital assets fund is to accumulate funds for the replacement of furniture, fixtures, and equipment and for major repairs (excluding purchases funded by the Ministry of Health or others) as required from time to time. Historically Transition House has spent C$25,000.00 each year for the above purposes. Given the age of the house and the possibility that these expenditures will increase, funding for the Capital Asset Reserve Fund is to be set at C$50,000.00.

   Contingency Reserve Fund

   The purpose of this fund is to set aside monies to offset any unforeseen and unbudgeted expenses that Transition House may have to incur with respect to the provision of services to the clients. The funding will be as determined by the Board and reviewed on an annual basis taking into consideration any unusual events and issues related to the operations of Transition House. This contingency fund is to be established as a minimum of four months of annual operating expenses. At this time this would equate to C$160,000.00.

6. **To achieve sustainability of your operations, what actions and measures have you taken or are you going to take?**

   Transition House is very lucky to have stable funding from two sources. That being said, circumstances can change due to many things – political shifts, our funders not meeting their fundraising goals, etc.

   Our Contingency Reserve Fund has been set up to address such a situation, and gives the agency the equivalent of four months of operating costs in the event that – hopefully unlikely – our funding situation changes. If such a situation were to occur, the Board would have no choice but to cease operations within the four-month window.

7. **When you receive external funding from donors and agencies, do they require you to provide some reports? What would they expect from your organisation in the running of your operations?**

   Yes, we have many reports that are required, from both the TC LHIN/Ontario Ministry of Health and the United Way of Greater Toronto.

   The TC LHIN/Ontario Ministry of Health requires us to provide them with quarterly financial reports, including forecasting to predict if we will have an operating surplus/deficit or a balanced budget (which they require). In addition, they require us to provide them with an annual 'CAPS' or 'Community Annual Planning Submission' which is a financial and clinical reporting tool.

   This CAPS submission is tied to our contract with the LHIN, and we have to meet a number of financial, capacity and clinical targets. We also do an annual MIS-OHRS (Management Information System – Ontario Health Records System) report which is a financial report to the Ministry of Health.

   The United Way of Greater Toronto also requires us to have a balanced budget at year-end. It requires Transition House to report on financial information on an annual basis. We also provide them with an extensive report on the clinical aspects of our program, including number of clients served and other targets.

   In addition, both funding organisations require Transition House to have an annual audit, conducted by an independent outside auditing firm. Our audited financial statements are submitted to both funders yearly.

8. **If you have insufficient funds to sustain your operations, what would you do and how would your public image be affected?**

   As noted above, in the unlikely event that Transition House were to have insufficient funds to sustain our operations, the Board might make the decision to cease operations, utilizing the Contingency Reserve fund to operate for the final four months.

   Another option, though, and one which our main funder is interested in seeing happen, is for Transition House to amalgamate services with another agency similar to ours. This is the 'integration' piece of their mandate. They are very much hoping that agencies will look at opportunities to integrate/merge, hoping to find savings (mostly in management salaries – where one person could oversee the operation of two like agencies). This funder has flatlined funding for the last several years, in order to encourage agencies to consider integration.

Appendix B

Box Story 3: Singapore Children's Society

Note: This box story is prepared by CSDA, based on an interview conducted with Mr Alfred Tan from Singapore Children's Society.

Featuring Singapore Children's Society, Box Story 3 illustrates the importance of budgeting and the cash flow management processes of a local charity.

About the Charity

The Singapore Children's Society was established in 1952. The mission of the Society is to bring relief and happiness to children in need. Reaching out to 65,536 beneficiaries in 2017, Children's Society provides services in four categories: vulnerable children and youth, children and youth services, family services, as well as research and advocacy (Singapore Children's Society, n.d.-a). The charity also works closely with the Ministry of Social and Family Development to provide a range of services to both children and youths (Singapore Children's Society, n.d.-b). These include the Tinkle Friend helpline, and the rehabilitation of juvenile offenders (Singapore Children's Society, n.d.-c). For more details, visit their website at: www.childrensociety.org.sg.

Budgeting and Cash Flow Management in Singapore Children's Society, as shared by Mr Alfred Tan, Chief Executive Officer

On Budgeting

1. **Does your charity carry out an annual budgeting process?**

   Our financial year is from January to December, and our annual budgeting process starts in July and is completed by December.

2. **How is the budgeting initiated?**

   The budgeting process is initiated by the Finance Department. In July, a template will be provided to the Heads of Departments for them to work out their budget for the next financial year. To help them with the preparation, the actual income and expenses for the past six months will be provided for their reference. After the various Heads have submitted their draft, all will meet for review and discussion.

3. **Who is involved in the budgeting process?**

   The CEO first meets with the Heads of Departments, to discuss the budget for the following year. A first draft of the budget is then prepared by the Heads using the budget template provided by the Finance Department. This draft budget then goes through the respective standing committee Chairpersons for review and, once approved, it would be sent to the Board. The final draft is then sent for Board approval in November.

4. Would you like to share the key success elements of a good budget?

At the budget drafting stage, staff are encouraged to be meticulous and realistic in planning their work plans. This will help in providing a better budget as the expenses can be clearly accounted for.

During the projects implementation stage, the Finance Department and operating centres should periodically review budget variances. This will also be a useful reference for future budgets.

5. How can charities budget given the uncertain cash inflow?

Charities must have a clear conviction on what services they intend to provide. They would then reference past income trends and income projections to determine if there are sufficient funds to support the services. If not, they may need to prioritise what are the more crucial services to keep and what other services can be provided when funds are available.

6. What are some challenges that your charity has faced in carrying out its budgeting and cash flow management?

As donation income is diffcult to project accurately, we need to have a contingency plan if our income falls short halfway through the financial year. As such, it is crucial that we have sufficient reserves to standby in case we face a budget deficit situation due to a shortfall in our income.

It is also important to work out how much liquidity is needed for the regular expenses and how much to be used for investment to gain the extra income.

On Cash Flow Forecasting

1. Does your charity practice cash flow forecasting? Are there any issues you wish to highlight?

Having a good practice of cash flow forecasting allows the charity to anticipate correctly all the projected expenses. This allows us to set aside an adequate amount of cash to ensure we meet all our accounts-payable needs.

2. Why is cash flow forecasting particularly useful for non-profit organisations?

Good cash flow forecasting is crucial in the management of non-profit operations. Cash flow forecasting enables the charity to ensure that the services provided to their beneficiaries are sustainable and reliable. Thus, good cash flow management is an important part of our charity's governance process.

3. Who is involved in the cash flow forecasts?

The cash flow forecast is done by the Finance Department, in consultation with the CEO and the Honourable Treasurer. The Finance Department also reviews the forecast, and consults the Chairman of Children's Society if there are issues arising.

Appendix C

Box Story 4: AWWA

Note: This box story is prepared by CSDA, based on an interview conducted with Mr Kevin Lee from AWWA.

Box Story 4 features a local charity, AWWA. It highlights the importance of having a strong and flexible budget to ensure the continuity of its key programmes and daily operations. It also demonstrates the role of cash flow forecasting in ensuring adequate cash flow for AWWA's operations.

About the Charity

Established by Mrs Shakuntla Bhatia in the 1970s, AWWA has grown from a one-woman operation into a charity that serves over 6,000 beneficiaries. Across the years, AWWA has continually expanded its initiatives to provide services ranging from early intervention for pre-schoolers, education and disability support for children with special needs, assistance to low-income families, caregivers, and health and social assistance for vulnerable seniors. They work with a range of community partners, governmental agencies, volunteers and donors to empower the socially-disadvantaged. (AWWA, n.d.)

Budgeting and Cash Flow Management in AWWA, as shared by Mr Kevin Lee, former Chief Executive Officer

On Budgeting

AWWA's annual budgeting process is initiated by the Board and reviewed by the Senior Management Team. AWWA takes into consideration the cost of manpower development and rising capital expenditures, as well as the need to strengthen their capacity for future growth when designing their budget. Throughout the process, the Finance Director acts as the team leader, to review the budget whenever there are variances to key assumptions. Budgets are revised to accommodate the variances and needs of AWWA's projects.

It is important to have a detailed budget with some room for flexibility. This allows the management to ensure the continuity of key programmes and smooth running of day-to-day operations. To this end, communication is crucial for the budget to be executed smoothly. AWWA uses a variety of platforms like townhall meetings, staff retreats and strategic planning meetings to communicate key goals to their staff effectively.

On Cash Flow Management

Apart from budgeting, AWWA also carries out cash flow forecasts for the next three years. Similarly, the Board, Senior Management Team and the Finance Committee are involved in the cash flow forecast and its reviews. In particular, cash flow forecasting is also crucial in AWWA's fundraising, enabling them to co-ordinate their fundraising efforts based on cash flow forecasts. This ensures adequate cash flow for AWWA's operations.

In the event of a major cash deficit, AWWA would carry out a strategic and operative review of their sustainability plan. When AWWA expects a major surplus, they channel the available funds into strengthening their reserves and ensuring better returns from investments, without compromising the Code of Governance and the trust of their stakeholders.

Appendix D

Template: Cash Flow Statement

The following table presents a template that charities may use in preparing their cash flow statement.

	Note	Total Current year S$	Total Prior year S$
		Y01	Y02
Cash Flows From Operating Activities	C01		
Net Income/(expenditure) before tax expense	C02		
Adjustments for:			
Interest income	C03		
Interest expense	C04		
Non-cash donations	C05		
Funds, gifts, donations, grants received specifically for endowment funds	C06		
Depreciation of property, plant and equipment /investment properties	C07		
Amortisation of intangible assets	C08		
Impairment loss on intangible assets/investments	C09		
Net gain/(loss) on disposal of property, plant and equipment/ investment assets	C10		
Operating Cash Flows before Changes in Working Capital	C11		
Inventories	C12		
Trade and other receivables	C13		
Trade and other payables	C14		
Provisions for liabilities and charges	C15		
Net Cash Flows from Operations	C16		
Income taxes paid	C17		
Net Cash Flows From (Used in) Operating Activities	C18		

	Note	Total Current year S$	Total Prior year S$
		Y01	Y02
Cash Flows From Investing Activities	C19		
Disposal of property, plant and equipment	C20		
Purchase of property, plant and equipment	C21		
Disposal of investment assets	C22		
Purchase of investment assets	C23		
Interest Received	C24		
Dividends Received	C25		
Net Cash Flows From (Used in) Investing Activities	C26		
	Note	Total Current year S$	Total Prior year S$
		Y01	Y02
Cash Flows From Financing Activities	C27		
Proceeds from borrowings	C28		
Repayment of borrowings	C29		
Interest paid	C30		
Funds, gifts, donations, grants received specifically for endowment funds	C31		
Net Cash Flows From (Used in) Financing Activities	C32		
Net increase (decrease) in cash and cash equivalents	C33		
Cash and cash equivalents, beginning balance	C34		
Cash and cash equivalents, ending balance	C35		

Adapted with permission from "CAS Accounting Template", by Charities Accounting Standard and Charity Portal, 2011. Retrieved from Retrieved from https://www.charities.gov.sg/Documents/CAS_Accounting_Template.doc

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LOCAL BOX STORIES
Singapore Children's Society
AWWA

OVERSEAS BOX STORIES
Irish Autism Action
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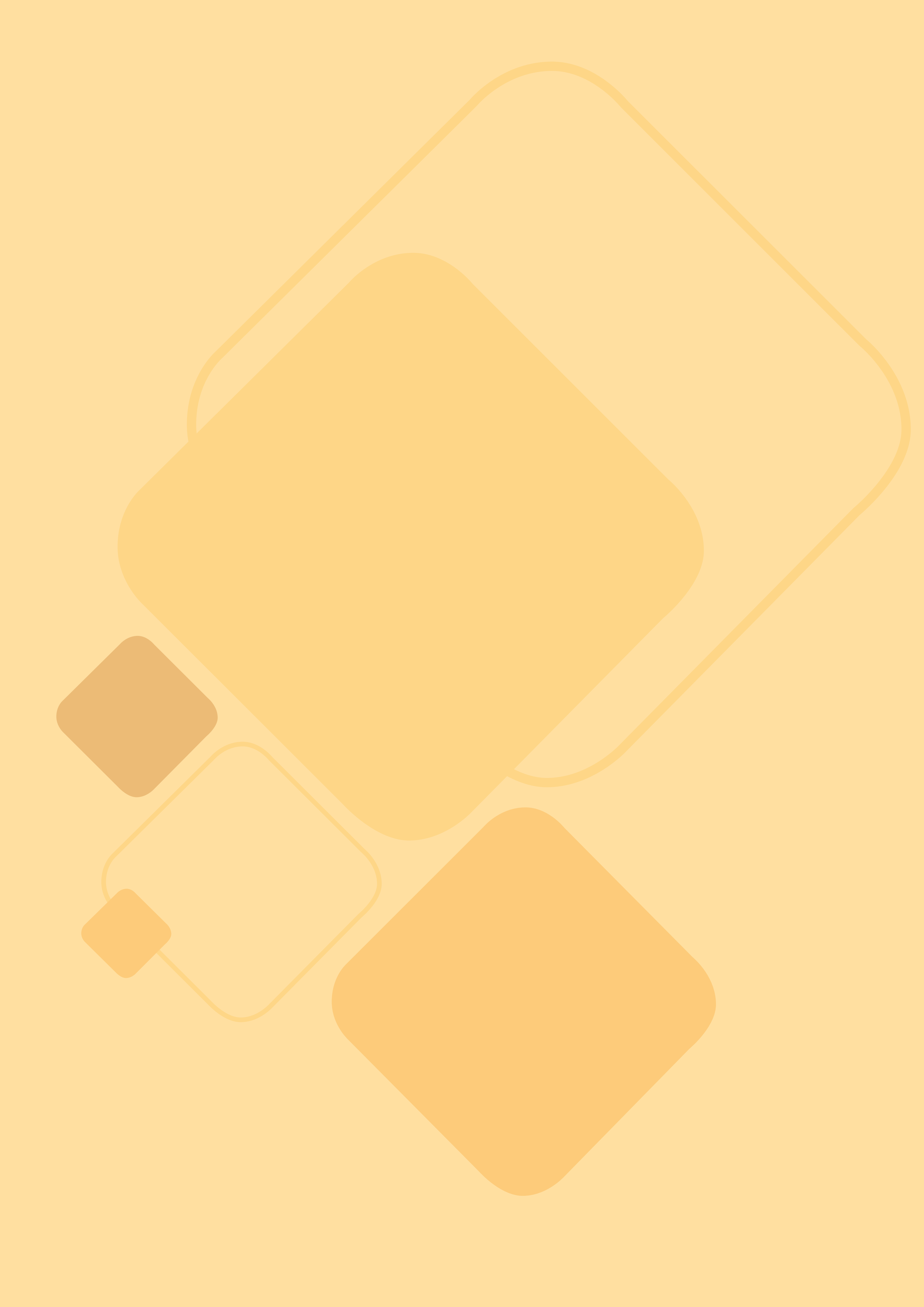

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