Booklet 2 of 5

Accounting and Finance Handbooks for Charities

Fund Accounting for Charities

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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.

Table of Contents

List of Figures

List of Tables

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.

Fund Accounting for Charities

Susan Foong
FCA (Singapore), FCCA
Partner, Baker Tilly

Author's Acknowledgement

Fund Accounting for Charities

I am grateful for the opportunity to author this booklet which is part of the Accounting and Finance Handbooks for Charities. This experience has been a first for me and a fruitful one. I hope many charities will find this booklet useful and will be encouraged to apply fund accounting in their financial reporting.

A special thanks to the editors of the Handbook, Dr Isabel Sim, Professor Teo Chee Khiang and Associate Professor Alfred Loh. What a privilege it has been working with them. Their notes and comments in ensuring the booklet is written in a simple and easy to understand manner were extremely helpful. I am grateful to Foong Daw Ching and Joseph Toh for taking the time to help me read through the draft versions of my handbook and for their invaluable inputs. I would also like to express my appreciation to Sim Guan Seng for his encouragement and guidance. To Huixiang, thank you for walking this journey with me.

A big thank you to Geraldine Lee, Bernard Lubbe and Chris Ong who have helped to comment on the readability of this booklet and to the NUS Research Interns for their tireless work.

ABOUT THE AUTHOR

Susan Foong is a partner in Baker Tilly and she heads the Quality Assurance and Learning and Development team in the firm. Susan has more than 20 years of audit experience. She has audited public and private companies across a diversified range of industries as well as charities and not-for-profit organisations. Susan is a Fellow Chartered Accountant of Singapore and a Fellow member of the Association of Chartered Certified Accountants.

CHAPTER 1
Introduction

Charities need to be accountable and provide quality financial reporting information as they depend largely on donations. Quality financial reporting can be achieved if charities adopt fund accounting.

This handbook defines fund accounting, how fund accounting enhances accountability and transparency to stakeholders, and how fund accounting is applied. Fund accounting is an accounting practice which all charities can implement, regardless of the financial reporting framework they adopt or their size. This can be seen through several box stories that will subsequently be discussed. They include an overseas box story on Norris Cotton Cancer Centre, local case studies on Clarity Singapore Limited, Arc Children's Centre Co Limited, and Ren Ci Hospital.

When donors donate to charities, they sometimes specify how the donation should be used. On other occasions, donors may not place any restrictions on how their donations can be used. To keep track of these donations and how they are used, charities will need to set up different funds to account for different donations. Throughout this handbook, a fictional illustration of ABC Charity is used to discuss how fund accounting can be applied.

ABC Charity is a community-based family services centre which provides help and support to individuals and families in need. In 2018, ABC Charity received a government grant of $100,000 to finance its recurrent operating costs incurred for the delivery of its services. Donations were received from the public in support of its charitable work. These donations totalled to $70,000 in 2018. ABC Charity also received a donation of $20,000 from a corporate donor who specified that the donation is meant for the development of a new website and client management system.

ABC Charity records the government grant received in Fund A, which it labels as a "fund for everyday use". Donations received from the public, which are to support the charitable work of ABC Charity, are also recorded into Fund A. All expenditure spent to run the charity and its services will be taken up in Fund A.

The Board members of ABC Charity set a policy where, on an annual basis, a sum of the unused donations received should be transferred from Fund A and placed into Fund B. In 2018, donations of $10,000 were transferred to Fund B. Fund B is labelled as a "fund for future capability and capacity upgrading".

The corporate donation of $20,000 is recorded into Fund C, which is set aside for the development of a website and client management system.

ABC Charity has adopted an accounting practice, referred to as fund accounting. Fund accounting enables the charity to monitor and show its stakeholders an account of how and where funds with different purposes are spent.

CHAPTER 2

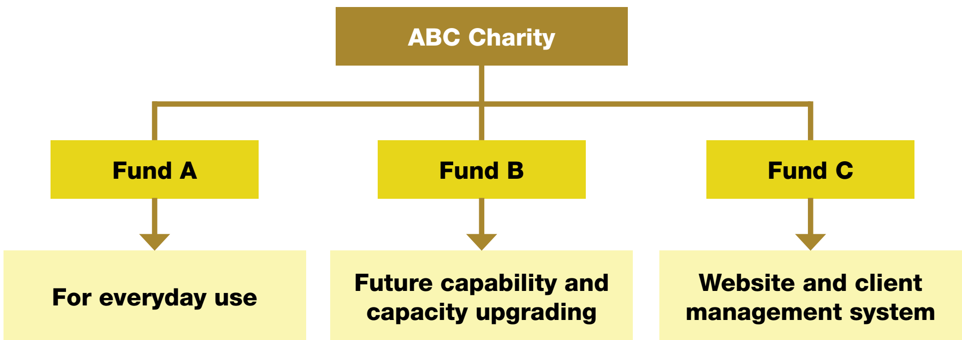
What is Fund Accounting and Why is it Important to the Charity Sector?

2.1 What is Fund Accounting?

Fund accounting is based on establishing a number of separate funds for accounting purposes. Each fund has its own incoming resources or income and expenditure, and each fund balance is represented by its own assets and liabilities ("net asset balance"). Each fund is also independently maintained from other funds.

Beyond its namesake, fund accounting enables a charity to account and track the income, expenditure and balance for each fund separately. This is important for operational purposes. *Figure 1* below illustrates the creation of three separate funds segregated for accounting purposes by ABC Charity.

Figure 1: Funds held by ABC Charity



When separate funds are created, each with a different label and purpose, a charity can identify which specific fund each item of income and expenditure should be recorded into. This enables the charity to track the amount of income received, the utilisation of income and funding received, and monitor unused resources.

When a charity applies fund accounting, there are generally three main types of accounting entries to be taken up in its accounts. The three types of accounting entries in relation to ABC Charity, are as follows.

Accounting Entry 1 - Accounting for Incoming Resources or Income

Incoming resources represent contributions or income received by a charity to support its charitable objects. For ABC Charity, incoming resources would be the government grant received for its operational needs, and the donations from the public and the corporate donor. The corporate donor has specified the use of the donation is to be for the development of the charity's website and client management system.

Government grants and donations received which are intended for "everyday use" will then be recorded into Fund A. The accounting entry of this would be:

Debit: Cash or Receivable
    Credit: Income in Fund A ledger

The accounting entry for the corporate donation of $20,000, which should be recorded into Fund C, would be:

Debit: Cash
    Credit: Income in Fund C ledger

Accounting Entry 2 - Accounting for Expenditure

When an expenditure to run ABC Charity's operations is incurred, such as manpower costs of its staff, the manpower costs are deducted from Fund A since this was spent as an "everyday use" expenditure to run its charitable activities.

The accounting entry for this expenditure would be:

Debit: Expenditure in Fund A ledger
    Credit: Cash or Payable

ABC Charity would not record the manpower costs in Fund B or Fund C since these expenditures relate to operational use and were neither spent for "future capability and capacity upgrading", nor were they spent for "website and client management system development" respectively.

Having separate funds for different purposes enables ABC Charity to record income and expenditure into the relevant fund and track the utilisation separately.

Accounting Entry 3 - Accounting for Inter-Fund Transfers

Suppose that the Board members of ABC Charity have also decided to set aside a sum of $10,000 for future capability and capacity upgrading of the activities of the charity. This sum of $10,000 should be deducted from Fund A and added into the balance of Fund B.

This allocation and setting aside of resources is accounted as an inter-fund transfer. Inter-fund transfers are transfers of resources from one specified fund to another fund within the same charity. The accounting entries for the inter-fund transfer of $10,000 would be as follows:

Debit: Fund A – fund transfer
    Credit: Fund B – fund transfer

Debit: Cash of Fund B
    Credit: Cash of Fund A

Inter-fund transfers do not result in an increase or decrease in financial resources of the charity as a whole and, as such, are not recorded as income or expenditure in the respective fund account. Transfers between funds should be done in line with the policies of the charity and within the restrictions set by the donors of the resources. The restrictions and transfers between funds will be further discussed in Chapter 3 (Section 3.3) of this book.

Figure 2: Illustration of Accounting in each Fund Separately

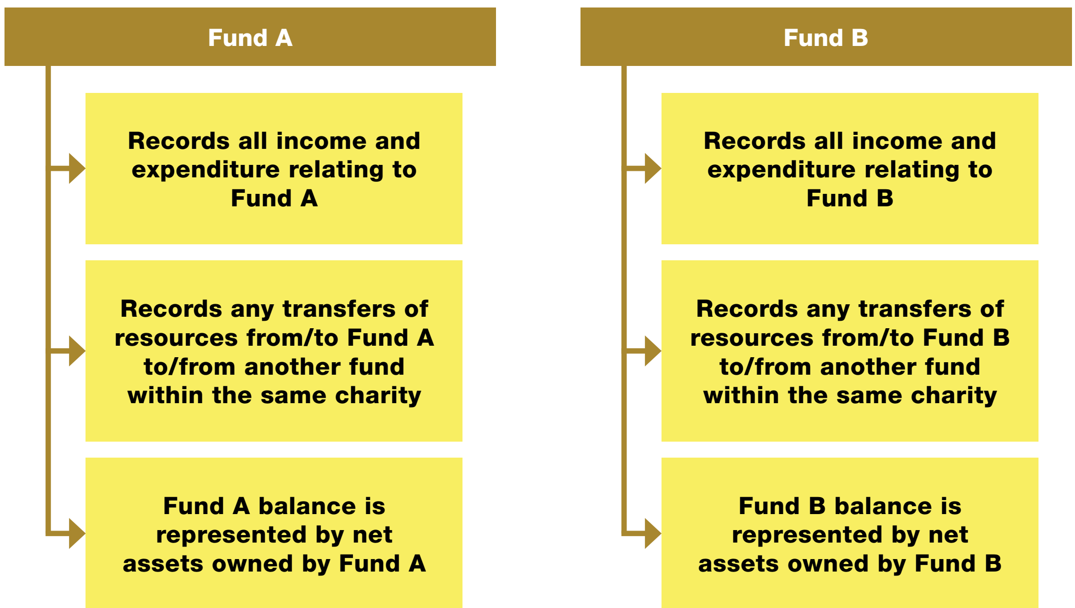


Figure 2 illustrates the accounting entries required in fund accounting discussed in the preceding paragraphs. The diagram demonstrates how fund accounting facilitates the segregation of Fund A from Fund B.

Figure 2 also demonstrates how fund accounting enables a charity to segregate income and expenditure relating to different funds separately, thus facilitating tracking of utilisation.

By adopting fund accounting, ABC Charity would be able to track and monitor the unutilised balance of resources in Fund A. With this information, the charity may better assess and budget for next year's operational needs and the funding required to achieve it.

2.2 Rationale for Adopting Fund Accounting

Monitoring Utilisation of Restricted Funding and Donations

Fund accounting enables a charity to manage and track the receipts and utilisation of funds and donations that come with restrictions. Monitoring ensures that a charity is accountable for its funds and that it is compliant with the relevant laws and regulations in Singapore.

Monitoring of Internally Earmarked Net Assets

Firstly, by keeping separate funds, the charity's Board would be able to oversee the different funds internally earmarked for specific programmes or projects more effectively. Secondly, this will facilitate the monitoring of progress of the charity's projects. Thirdly, fund accounting acts as a control by preventing net assets of a specific project from being used for another project.

Good Stewardship

A charity or charitable organisation is a non-profit organisation whose primary objectives are philanthropy and social well-being (Reiling, 1958). The primary goal of a charity is not to earn a profit, but to provide services to those who need them. The charities' clients are usually unable to pay for the services provided. As such, charities rely mainly on contributions of resources from the donating general public and other stakeholders to finance their operation.

A sense of trust and confidence needs to be instilled among the general public and stakeholders in order for them to support a charity's objectives. Hence, charities need to present high quality financial statements that uphold strong financial and accounting accountability. All charities, including charities that adopt the Singapore Financial Reporting Standards (SFRS), are strongly encouraged to apply fund accounting to enhance the quality of their reports and the accountability of resources that the charity has received as a contribution. Charities are encouraged to follow the recommended format of presentation of their financial statements as set out in Chapter 4 of this handbook.

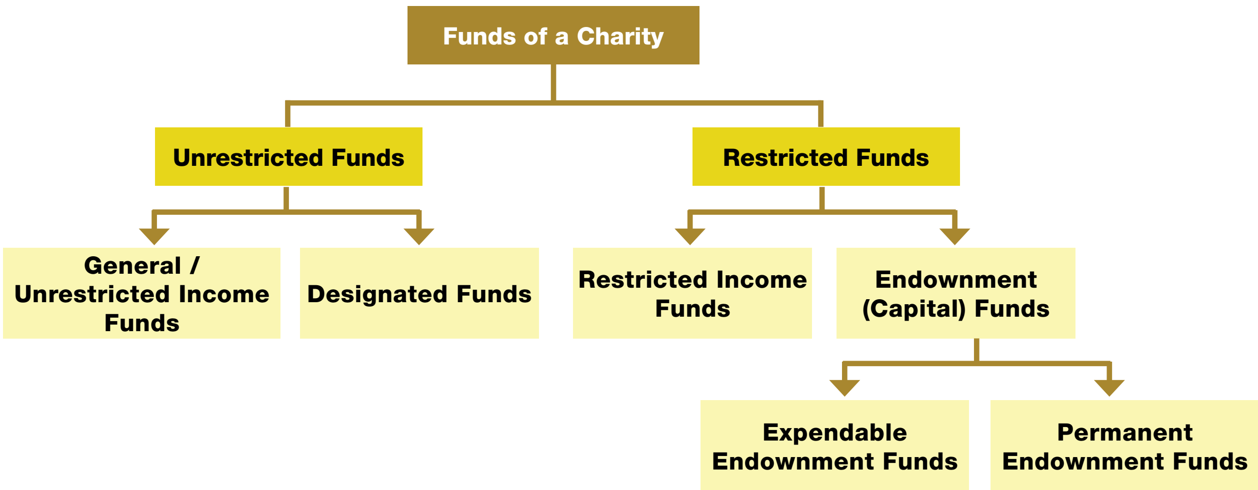
CHAPTER 3

What are the Different Types of Funds of a Charity?

In accounting for the funds created, it is important for a charity to note that certain funds cannot be freely used for any purposes and that there are considerations to be made before resources are transferred from one fund to another. Understanding the different types of funds of a charity would enable a charity to know what is permissible with respect to the utilisation and transfer of funds.

The funds of a charity can be illustrated as follows:

Figure 3: Funds of a Charity



Note: Reproduced from "Charities Accounting Standard," by Accounting Standards Council Singapore, 2011. Retrieved from https://www.asc.gov.sg/CharitiesAccountingStandards. Copyright by the Accounting Standards Council Singapore 2011. Reproduced with permission.

3.1 Unrestricted Funds

General/Unrestricted Income Funds

Unrestricted funds record receipts and utilisation of donations which do not come with any restrictions, and the governing Board members of the charity are thus free to use these donations for any of the charity's charitable purposes. Unrestricted income funds are often referred to as "general fund".

In the example of ABC Charity, Fund A, which is for "everyday use", is an unrestricted fund of the charity.

Designated Funds

If part of an unrestricted fund is earmarked by the charity's governing Board members for a particular project or specified purposes in the future, the earmarked monies may be designated as a separate fund ("Unrestricted – Designated Fund"). Such funds are part of the charity's unrestricted funds.

This internal designation is for administrative purposes only and does not legally restrict the governing Board members' discretion to adjust the amount of the designation or to re-designate the fund for another purpose within the charitable objectives of the charity.

For ABC Charity, the Board members have set up Fund B and designated a sum of $10,000 into Fund B for "future capability and capacity upgrading" of the charity. Fund B is considered as the charity's unrestricted designated fund. ABC Charity's Board members can resolve to re-designate some resources from Fund B back into Fund A in the following year if it determines that the charity requires more resources in Fund A to fund its operational needs.

3.2 Restricted Funds

These are funds which have restrictions placed on the purposes to which these funds may be used. The restriction to a particular or specified purpose of use could arise in the following instances:

- Donations were given by the donor for a specified purpose;
- There was a donation appeal for a specific purpose, and the specified uses of the donations are communicated to donors during a fund-raising appeal; or
- There is a specific trust created through a legal process.

Restricted Funds may be further classified either as Restricted Income Funds or Endowment Funds.

- **Restricted Income Funds**

  Restricted income funds are funds which can be utilised at the discretion of the governing Board members within the purposes specified by the donors in furtherance of the charity's objectives.

- **Endowment Funds**

  Endowment Funds are donations that have been given to a charity to be held and invested so as to maintain the capital value and to earn income on the capital.

Unless the terms of the original restrictions specifically express otherwise, income generated from assets held in the restricted fund, such as interest income, will be subjected to the same restriction as the original fund. If the restricted fund is an endowment fund, the income generated may normally be expendable at the discretion of the governing Board members.

In the example of ABC Charity, Fund C is held as a restricted income fund. The corporate donor had specified that the donation of $20,000 is restricted for the development of the charity's website and client management system. Accordingly, the donation has to be maintained in a restricted income fund and its utilisation tracked separately from the other funds. Only expenditure relating to the development of the website and client management system could be deducted from Fund C. Transfers out of Fund C can only be done if the amount transferred is to be utilised for the development of the website and client management system.

3.3 What are Charities' Obligations with Respect to Restricted Donations?

Charities have an obligation to ensure that donations that are subject to restrictions are only applied or utilised within the specified purpose intended by the donors. This is a legal requirement per Charities (Fund-Raising Appeals for Local and Foreign Charitable Purposes) Regulations 2012 ('the Fund-Raising Regulations').

The Fund-Raising Regulations maintain that "where the donor has specified an intention that the donation should be used for any specific lawful purpose, the donation shall be used for that purpose by the charity or person receiving the donation". Where the donor has not specified such an intention, the donation shall be used by the charity according to the purpose communicated to the donor in the appeal before or at the time the donation is received.

It is important to have internal control procedures at the point of receipt to identify donations which are subject to restrictions on use. This will enable charities to monitor and account for these donations separately. Fund accounting will facilitate charities in tracking the utilisation of these restricted donations.

What if the purpose for which the restricted donations were collected is completed, leaving a surplus? For example, ABC Charity received $20,000 for the development of its website and client management system. What if the website and client management system were completed for $15,000? Can the surplus in Fund C of $5,000 be transferred to Fund B for "future capability and capacity upgrading'?

This is not permissible without the corporate donor's agreement. "Any unutilised restricted donations shall be returned to the donor unless the donor has agreed for the funds to be channeled to another purpose within the charity" (Charity Portal, n.d.).

In situations where (i) the restricted donations were collected many years prior to the completion of the project, or (ii) there is difficulty in identifying the individual donors as the donations were co-mingled into a fund, the charity should seek guidance from the Fund-Raising Regulations. According to the Fund-Raising Regulations, the charity needs to communicate with (i) the Commissioner of Charities, or (ii) the Sector Administrator appointed to supervise the charity, to obtain their approval for use of the amount for another purpose.

To fulfil its obligations with respect to restricted donations, when a charity creates different funds to track income and expenditure, the type and purpose of each fund should also be clearly and appropriately identified. Unrestricted funds including designated funds should not be co-mingled with restricted funds. Separate restricted funds should be set up to monitor the utilisation of funds with different restrictions.

In the following box story, the example of Norris Cotton Cancer Center explains the necessity for a clear understanding and definition of what restricted funds are. If the term is not well understood, allegations of misuse of funds can occur.

Box Story 1: Norris Cotton Cancer Center

Note: This box story is prepared by CSDA.

About the Charity

Dartmouth-Hitchcock Norris Cotton Cancer Center (NCCC) is a cancer treatment and research group in the United States. With more than 31,000 patients served annually, the Center provides a conducive environment for treatment, cure and recovery for patients with all forms of cancer. The Center also conducts cancer research, with about 250 active research projects. (Dartmouth-Hitchcock Norris Cotton Cancer Center, 2014)

When Fund Accounting is Not Done Well

NCCC receives donations from its annual fundraising events, one of which is called "The Prouty". The proceeds from which are held in a fund of the same name. In 2015, the Center released $6.1 million of The Prouty from restriction for expenditure in that year; $2.3 million of which was attributed to salary and benefits of professionals performing research and patient support services.

In October 2016, a complaint was made that the Center had breached the terms of reference for donations. The complaint stated that donors gave to The Prouty under the impression that its funds were only to be used for cancer research and patient support services, and not for payment of salaries of staff involved.

In its judgement, the U.S. Department of Justice concluded that no funds were misused as cancer research and support services are expansive terms that can be interpreted to include the salary and costs associated with those activities.

This example shows how important it is for terms of reference for donations to be clearly communicated, for donor intent to be clearly recorded (i.e. how and when their donations can be used), and for the use of restricted funds to be clearly communicated. The Center also appears to have had deficiencies in tracking its classification and use of its restricted funds. Should there have been more clearly defined objectives regarding how and when these funds would be used, there would have been less cause for contention regarding their appropriate use. (Donovan, 2017)

How can Charities Prevent this from Happening?

Any allegations of the misuse of funds can be prevented by following three broad principles: (1) charities should classify its funds clearly; (2) charities should state the restrictions of its funds clearly; and (3) charities should document the donor's intent clearly. With this clarity, any charity will greatly reduce the risks of incurring any complaints which would affect the trust its stakeholders have in the charity.

CHAPTER 4
Presentation of Charity's Financial Statements

4.1 Financial Reporting Framework in Singapore

Fund accounting is a manner of accounting which emphasises accountability to the donating public and resource-contributing stakeholders. Charities that apply fund accounting are able to present in their financial statements the amount of incoming resources and how they were spent within each segregated fund.

The Charities Accounting Standard (CAS) in Singapore is developed based on the requirements of the Singapore Financial Reporting Standards (SFRS). CAS takes into account the context and circumstances relevant to the charity sector to better meet the needs of the charity sector and its stakeholders (Accounting Standards Council Singapore, 2011). CAS is tailored for the charity sector. It requires charities to apply fund accounting when preparing their accounting records and financial statements.

In Singapore, charities that are required to have their financial statements audited under the Charities (Accounts and Annual Report) Regulations 2011 are required to comply with either the CAS or the SFRS in the preparation of their financial statements (Office of the Commissioner of Charities, 2011). Charities that hold significant investments in any subsidiary, associate or joint venture that is not a charity are required to comply with the SFRS.

Although not specifically required by SFRS, charities adopting SFRS as their financial reporting framework should apply fund accounting in the preparation of their accounts. Charities may refer to this chapter for the recommended presentation format for their financial statements where fund accounting is applied. The presentation format illustrated here aims to guide charities to present financial statements that are more relevant to the charity sector and the needs of its stakeholders.

4.2 Presentation of Funds in Financial Statements

For charities that adopt CAS, three main statements will be presented in their financial statements, namely the:

i. Statement of Financial Activities (SOFA) for the financial period;
ii. Balance Sheet as at the end of the financial period; and
iii. Statement of Cash Flows for the financial period.

For charities that adopt SFRS as their financial reporting framework, there are generally four main statements that will be presented in their financial statements. These are the:

i. Statement of Comprehensive Income for the financial period;
ii. Statement of Financial Position or Balance Sheet as at the end of the financial period;
iii. Statement of Changes in Funds for the financial period; and
iv. Statement of Cash Flows for the financial period.

According to the Second Schedule of the Charities (Accounts and Annual Report) Regulations 2011, a charity that adopts SFRS can elect to follow the presentation format of SOFA as required by CAS, to replace the SFRS Statements of Comprehensive Income and Changes in Funds. This allows the charity to present only three instead of four main statements, with all changes in funds to be presented on the SOFA.

4.3 Statement of Financial Activities (SOFA)

The SOFA is a single statement showing the income and expenditure of a charity in the financial period on all its funds, organised by the main types of funds. It is designed to show how the charity has used its resources in furtherance of its objectives for the provision of benefit to its beneficiaries. Presenting the income and expenditure of a charity in a columnar format per the SOFA format would enable the users of the financial statements to understand the amounts received, spent, and the balances on each type of funds clearly.

Charities presenting the SOFA in their financial statements should follow the format in accordance with CAS, as shown in *Figure 4*.

Figure 4: Template for Statement of Financial Activities

Statement of Financial Activities	Note	Unrestricted Funds S$	Restricted Income Funds S$	Endowment Funds S$	Total Current Year S$	Total Prior Year S$
INCOME						
Income from generated funds						
Voluntary income						
Activities for generating funds						
Investment income						
Income from charitable activities						
Other Income						
Total Income						
EXPENDITURES						
Cost of generating funds						
Cost of generating voluntary income						
Fundraising trading: cost of goods sold and other costs						
Investment management costs						
Charitable activities						
Governance costs						
Other expenditures						
Total expenditures						
Net income/expenditure before tax expense						
Tax expense						
Net income/expenditure						
Gross transfers between funds						
Net movement in funds						
RECONCILIATION OF FUNDS						
Total funds brought forward						
Total funds carried forward						

Note: Adapted from "CAS Accounting Template," by Charity Portal, 2011. Retrieved from https://www.charities.gov.sg/Publications/Pages/Publications.aspx. Copyright by the Charity Portal 2011. Adapted with permission.

For the presentation of SOFA, the many different funds of a charity are combined and grouped together into **three main categories of funds** as illustrated above. A fund category column can be removed if the charity does not hold funds falling within that category (e.g. to remove Endowment Funds column if the charity does not hold any endowment funds at the reporting date).

The sum of the income and expenditure of the three categories of fund would reflect the total incoming resources or income of the charity and total expenditures spent by the charity for the reporting period.

Charities would need to maintain a separate record or ledger for each fund in their accounts. To prepare the SOFA, the amount of income of the charity under each category of income should be aggregated for each of the main category of funds. This aggregated amount is presented on the SOFA in the respective fund column under each income line item in the template.

To illustrate this, we can refer to the example of ABC Charity. ABC Charity's government grant and donations received from the public for the year would be aggregated and the total amount for the year would be recorded as income under the column 'Unrestricted Funds'. The corporate donation of $20,000 would be presented as income under the column 'Restricted Income Funds'.

4.4 Columnar Presentation Format for Statement of Comprehensive Income

Similar columnar format by main categories of funds can also be followed by charities that adopt SFRS and apply fund accounting. These charities can present the Statement of Comprehensive Income (SOCI) and Statement of Changes in Funds (SOCF) in their financial statements in columnar format , grouped by the main categories of funds. An illustration of how the columnar format of presentation can be adopted by charities applying SFRS and fund accounting is shown in *Figure 5* below.

Figure 5: Columnar Format for Statement of Comprehensive Income

	Note	Unrestricted Funds S$	Restricted Income Funds S$	Endownment Funds S$	Total Current Year S$	Total Prior Year S$
INCOME						
Service fee income						
Donations						
Government grants						
Subsidies						
Others						
Total Income						
EXPENDITURES						
Depreciation charge						
Staff costs						
Rental expenses						
Other expenses						
Total expenditures						
Net surplus/(deficit) and total comprehensive income/(loss)						

(Assuming the charity has no other comprehensive income)

4.5 Guidance on Good Presentation Format

Charities presenting the SOFA or adopting the columnar format in their financial statements should follow the illustrations in *Figures 4 and 5*. Charities should group funds into different categories such as restricted, unrestricted, or endowment funds as opposed to presenting individual funds in detail. This will enable readers of the financial statements to have a clear understanding of the total income and expenditure of charities by major category of funds.

Extending the illustration to ABC Charity, the four columns of funds on the SOFA presented would be “Unrestricted Funds”, “Restricted Funds”, “Total for 2018” and “Total for Prior Year”, instead of separate individual columns for Fund A, Fund B and Fund C.

Presenting individual fund details on the SOFA, SOCI or SOCF is not recommended as certain charities may have numerous funds, which would result in the respective statements running into multiple pages. This may affect the readers’ understanding of the information presented.

Information of the charity’s individual funds should be presented in the notes to the financial statements instead.

4.6 Balance Sheet and Statement of Cash Flows

Charities applying fund accounting can follow the formats of the Balance Sheet and Statement of Cash Flows shown in *Figures 6 and 7*. Figures 6 and 7 are based on Charities Accounting Standard, Singapore Accounting Standards Council, 2011.

The Balance Sheet presents the financial position of a charity and the balances of the charity’s each main type of funds at the end of a reporting period. The fund balances for each main type of funds as presented on the balance sheet should agree to the fund balances as presented on the last line item of the SOFA referred to as ‘Total funds carried forward’ for the same reporting period.

If charities in Singapore consistently apply fund accounting and present their funds in the financial statements by reference to the CAS templates (as illustrated in this handbook), this would enhance the comparability of their financial information.

Figure 6: Template for Balance Sheet

Balance Sheet	Note	Total Current Year S$	Total Prior Year S$
NON-CURRENT ASSETS			
Property, Plant & Equipment			
Non-Current Investments:			
Investment assets			
Total non-current assets			
CURRENT ASSETS			
Inventories			
Trade and other receivables			
Current investments			
Cash and cash equivalents			
Total current assets			
CURRENT LIABILITIES			
Trade and other payables			
Net current assets or liabilities			
Total assets less current liabilities			
NON-CURRENT LIABILITIES			
Non-current payables			
Provisions for liabilities and charges			
Net assets			
FUNDS OF CHARITY			
Unrestricted funds			
Unrestricted income funds			
Designated funds			
Total unrestricted funds			
Restricted funds			
Restricted income funds			
Endowment funds			
Total restricted funds			
Total charity funds			

Note: Adapted from "CAS Accounting Template," by Charity Portal, 2011. Retrieved from https://www.charities.gov.sg/Publications/Pages/Publications.aspx. Copyright by the Charity Portal 2011. Adapted with permission.

Figure 7: Template for Statement of Cash Flows

Statement of Cash Flows	Note	Total Current Year S$	Total Prior Year S$
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income/(expenditure) before tax expense			
Adjustments for:			
Interest income			
Interest expense			
Non-cash donations			
Funds, gifts, donations, grants received specifically for endowment funds			
Depreciation of property, plant and equipment /investment properties			
Amortisation of intangible assets			
Impairment loss on intangible assets/investments			
Net (gain)/loss on disposal of property, plant and equipment/ investment assets			
Operating Cash Flows before Changes in Working Capital			
Inventories			
Trade and other receivables			
Trade and other payables			
Provisions for liabilities and charges			
Net Cash Flows from Operations			
Income taxes paid			
Net Cash Flows From (Used in) Operating Activities			
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of property, plant and equipment			
Purchase of property, plant and equipment			
Disposal of investment assets			
Purchase of investment assets			
Interest Received			
Dividends Received			
Net Cash Flows From (Used in) Investing Activities			
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings			
Repayment of borrowings			
Interest paid			
Funds, gifts, donations, grants received specifically for endowment funds			
Net Cash Flows From (Used in) Financing Activities			
Net increase (decrease) in cash and cash equivalents			
Cash and cash equivalents, beginning balance			
Cash and cash equivalents, ending balance			

Note: Adapted from "CAS Accounting Template," by Charity Portal, 2011. Retrieved from https://www.charities.gov.sg/Publications/Pages/Publications.aspx. Copyright by the Charity Portal 2011. Adapted with permission.

CHAPTER 5

Disclosing Information about Funds in the Notes to the Financial Statements

Summarised information of movements in **each major individual fund** should be disclosed in the following format for each category of funds (i.e. Unrestricted Funds, Designated Funds, Restricted Income Funds, and Endowment Funds) in the charity's Notes to the Financial Statements:

Figure 8: Summarised Movement Information

Unrestricted Funds

	Opening balances	Income	Expenditure	Inter-fund transfers	Closing balances
Fund names	**S$**	**S$**	**S$**	**S$**	**S$**
Fund 1					
Fund 2					
Fund 3					
Others					
Total					

Restricted Income Funds

	Opening balances	Income	Expenditure	Inter-fund transfers	Closing balances
Fund names	**S$**	**S$**	**S$**	**S$**	**S$**
Fund 4					
Fund 5					
Fund 6					
Others					
Total					

Note: Adapted from "CAS Accounting Template," by Charity Portal, 2011. Retrieved from https://www.charities.gov.sg/Publications/Pages/Publications.aspx. Copyright by the Charity Portal 2011. Adapted with permission.

For major individual funds, the purpose and restrictions (if any) of each fund should also be disclosed as follows:

Figure 9: Purpose and Restrictions of Funds

[Category of Fund]

Fund names	Purposes and restrictions
Fund 1	
Fund 2	
Fund 3	

Note: Adapted from "CAS Accounting Template," by Charity Portal, 2011. Retrieved from https://www.charities.gov.sg/Publications/Pages/Publications.aspx. Copyright by the Charity Portal 2011. Adapted with permission.

CHAPTER 6

Practical Accounting Issues in Applying Fund Accounting

In this section, certain practical challenges faced by charities when applying fund accounting and how they can deal with these issues will be addressed.

6.1 Accounting Treatment for Government Grants

A charity that adopts SFRS and does not apply fund accounting would account for government grants differently from a charity that applies fund accounting.

Charities that do not apply fund accounting would recognise government grants that the charity is entitled to as liabilities on the balance sheet when received. Portions of the grants would then be recognised as profit or loss on a systematic basis. This will occur over certain periods to match either the corresponding expenditure or depreciation charge on assets.

Fund accounting is the preferred approach for accounting for government grants as it provides better clarity on the resources the charity is entitled to. Based on principles of fund accounting consistent with CAS, a charity recognises a grant as income in the relevant fund when there is evidence that the charity is entitled to the grant. For grants with no conditions attached, the grant should be recognised as income once the criteria of certainty and measurability are met. For grants with conditions attached, there are additional requirements to be met before they can be recognised as income. In addition to the criteria of certainty and measurability, charities must provide sufficient evidence that these requirements are met before they can utilise the grants.

Charities, unlike for-profit entities, rely significantly on contributions to support its charitable activities as well as for funding of its capital expenditure, and these contributions are largely either in the form of donations or grants. Grants are recognised as a source of income once they meet the grant requirements, just like other donations. This is because both grants and donations represent incoming resources that fund a charity's objectives or specific projects and activities within its objectives.

Recognising government grants received as a liability on the balance sheet when the grant is receivable or received by the charity, instead of recording it as income in the fund, may result in incomplete reporting of the total incoming resources the charity is entitled to for the financial period.

The following illustration sets out how grants received for expenditure should be accounted when applying fund accounting:

Assume ABC Charity further receives a government grant of $100,000 to fund expenditure incurred to operate and run the charity and its charitable activities during the financial year which ends on 31 December 20x1. At the reporting date, there is sufficient evidence that the conditions set by the funder can be met. Total expenditure incurred for the year totalled to $50,000.

Assume that the funder did not restrict the use of the grant to a specific purpose or project. The following will be the journal entry for the recording of this grant and the expenditure:

When grant is received/receivable and conditions can be met:

Account Name	Debit	Credit
Cash or Receivable	$100,000	
Grant income in Unrestricted - General Fund		$100,000

Note: To recognise grants received/receivable during the financial year

When expenditure funded by the grant is incurred:

Account Name	Debit	Credit
Expenses in Unrestricted - General Fund	$50,000	
Cash or payable		$50,000

Note: To recognise expenses incurred during the financial year

Movements in General Fund for financial year ended 31 December 20x1 (assume no other transactions during the year and opening balance of General Fund at 1 January 20x1 is $95,000):

Unrestricted – General Fund	$	
Balance at 1 January 20x1		95,000
Income	100,000	
Expenditure	(50,000)	
Net surplus		50,000
Balance at 31 December 20x1		**145,000**

Applying fund accounting, the unutilised grant amount of $50,000 will be included in the surplus for the year and the balance of General Fund as at 31 December 20x1. ABC Charity has entitlement to the unutilised grant amount with the timing of the expenditure being within the discretion of the charity.

It is in the normal course of activities for charities to raise funds and obtain funding in advance of planned expenditure and projects. Once entitlement to the income is established, the income is recorded in the respective funds and fund accounting can be applied to monitor and track the utilisation.

The following illustration further sets out how grants for capital expenditure should be accounted when applying fund accounting:

Assume that ABC Charity received a different grant during the financial period and the funder restricted the use of the grant of $100,000 for financing of renovation works of a new caregiver training centre. Actual renovation costs expended by the charity is $150,000 with a useful life of 5 years. ABC Charity sets up a restricted fund named “Renovation grant fund” to monitor and track the grant received.

When grant is received/receivable and conditions can be met:

Account Name	Debit	Credit
Cash or Receivable	$100,000	
Grant income in Renovation grant fund		$100,000

Note: To recognise grants received/receivable for renovation works at new centre in a restricted fund

When expenditure funded by the grant is incurred:

Account Name	Debit	Credit
Property, plant and equipment – Renovation costs	$150,000	
Cash or payable		$150,000

Note: To recognise renovation costs during the financial year

When expenditure funded by the grant is incurred:

Account Name	Debit	Credit
Depreciation expense in Renovation grant fund	$20,000	
Depreciation expense in General fund	$10,000	
Accumulated depreciation of renovations		$30,000

Note: To recognise depreciation charge on renovations over its useful life of five years

Under the principles of fund accounting, as the charity has entitlement to the renovation grant during the financial period, the grant of $100,000 is reported as the charity’s total incoming resources on SOFA or SOCI.

The following table illustrates the movements in the funds of ABC Charity with respect to the grants for expenses and capital expenditure respectively:

The funds of the charity would be presented as follows in its notes to the financial statements (assuming that the charity only has a general fund with an opening balance of $95,000 and a renovation grant fund with nil opening balance and the above entries relating to the two grants are the only accounting entries during the financial year):

Table 1: Illustrative Movements in Funds of ABC Charity

Types of Fund	Opening fund balance $	Income $	Expenditure $	Closing fund balance $
Unrestricted Fund				
General Fund	95,000	100,000	(60,000)	135,000
Restricted Income Fund				
Renovation Grant Fund	0	100,000	(20,000)	80,000
Total as reported on SOFA	**95,000**	**200,000**	**(80,000)**	**215,000**

This manner of accounting facilitates a complete presentation of the total incoming resources or income of a charity for the financial period on the SOFA or SOCI classified by the different type of funds.

Depreciation of $20,000 will be charged annually as expenditure in the Renovation Grant Fund over the renovation asset's useful life of five years until the asset is fully depreciated to nil carrying value. At the end of five years, the asset would be fully depreciated and the Renovation Grant Fund would also reflect nil balance.

As the Renovation Grant Fund has been fully utilised to purchase the asset at 31 December 20x1, it is recommended that the note to the financial statements should include a disclosure that the fund is represented by the carrying value of the renovation asset at year-end.

For charities that adopt CAS, details of each major class of assets including its amount at the reporting date should also be disclosed for assets held under the restricted funds.

Based on the above same illustrative example, the following shows how ABC Charity's Balance Sheet will be presented as at 31 December 20x1:

(Assuming the charity's only asset at 1 January 20x1 is a bank account balance of $95,000 and no liabilities, and the charity only received the two grants)

Table 2: ABC Charity's Balance Sheet

Accounts	31 December 20x1 $
Assets	
Property, plant and equipment	120,000
Bank balance	95,000
Total	**215,000**
Funds	
Unrestricted Fund	
General Fund	135,000
Restricted Income Fund	
Renovation Grant Fund	80,000
Total	**215,000**

6.2 Transferring Resources from One Fund to Another Within the Charity

Restricted donations could be received by a charity for the funding of a specific purpose. The restricted donation amount would be accounted in a restricted fund. However, at times, the donor may specifically allow the charity to utilise a pre-agreed portion of the donation amount for general administrative expenditure of the charity.

Where the charity uses the pre-agreed portion of the donation to fund its general administrative expenditure, the amount of general administrative expenditure allowable to be funded by the donation should be computed. The computed allowable amount is then charged as expenditure directly into the restricted fund, instead of recording it as expenditure in the unrestricted/general fund.

This is illustrated by the accounting entries in the example below:

> Assume a charity receives a restricted donation of $50,000 for the training of its day care support personnel. There are no pre-conditions to the donation except for the said restriction of use. The donation of $50,000 is recorded in Training Fund, a restricted fund. The donor agreed that $10,000 of the donation can be used for daily operational costs of the charity. The charity decides to utilise $10,000 of the donation to partially finance the salaries of its staff for the year. The charity's total recurring manpower costs for the year is $100,000, assuming that the charity has no other expenditure other than manpower costs.
>
> In this example, the manpower cost of $10,000 should be recorded as expenditure in Training Fund. The remaining manpower cost of $90,000 will continue to be recorded in Unrestricted/General fund.

Table 3: Illustration of Movements in Funds of the Charity

Types of Fund	Opening fund balance $	Income $	Expenditure $	Closing fund balance $
Unrestricted Fund				
General Fund	xx	xx	(90,000)	xx
Restricted Income Fund				
Training Fund	0	50,000	(10,000)	40,000

Using the same scenario, a charity could alternatively record the donation and utilisation of the pre-agreed allowable manpower costs in the following manner in *Table 4* as inter-fund transfer.

Table 4: Illustration of Inter-Fund Transfer

Types of Fund	Opening fund balance $	Income $	Expenditure $	Inter-fund transfers $	Closing fund balance $
Unrestricted Fund					
General Fund	xx	xx	(100,000)	10,000	xx
Restricted Income Fund					
Training Fund	0	50,000	0	(10,000)	40,000

The above illustration demonstrates how an inter-fund transfer can be recorded to transfer cash of $10,000 in Training Fund to the General Fund.

> The inter-fund transfer accounting entry enables the charity to record that it has utilised $10,000 of the restricted fund to fund its manpower costs as allowed by the donor. Transferring the amount of $10,000 internally within the charity from one fund to another fund should be recorded as illustrated in *Table 4*. It should not be recorded as income and expenditure of the respective individual funds.

Charities could determine which approach to apply. Both methods of recording the utilisation of a pre-agreed portion of restricted fund will result in the same outcome in the charity's financial statements.

CHAPTER 7

Frequently Asked Questions on Good Fund Accounting Practices

To help charities apply fund accounting effectively, these are some questions which charities could use to self-assess their proficiency and understanding of good fund accounting practices and whether relevant good practices have been put in place.

Question 1: In managing restricted funds, what should charities take note of?

Unlike 'unrestricted funds' that can be used by the charity for any purpose, a charity is legally required to abide by the conditions of the restricted fund as imposed by the donor. An infringement of these conditions can result in the donor requesting for a refund and/or legal action. In cases where the charity has several restricted funds, their fundraising and donor management personnel must be aware of the restriction for each fund and the legal implication of flouting these restrictions.

Recommendations

Accounting and record keeping can be challenging when there are many types of restricted funds. Keeping track of the different restricted funds is of paramount importance lest the charity loses donors' confidence.

To do this better, charities should look into implementing internal control procedures at the point of receipt to identify donations which are subject to restrictions. Internal controls should be in place to ensure that funds are only utilised in accordance to the restrictions set by the donor, if any. This will help charities to account and monitor for restricted donations separately.

Question 2: Does the charity have a fundraising policy or review process regarding how information should be communicated to donors?

Poor communication between donors and the charity may result in misunderstandings on the intended purposes of the funds raised during the fundraising appeal. Improperly reviewed communication may also result in charities setting unnecessary or unintentional restrictions on the funds raised that donors may not have intended.

Recommendations

It is important that charities have internal policies and a review process to ensure information published or communicated by the charity on the purposes and intended use of funds raised are clear to the donating public. This helps to instil a sense of trust and confidence in the charity and ensure the charity meets legal requirements for fundraising appeals.

Question 3: Does the charity monitor assets representing its restricted funds to ensure restricted funds are not utilised for unauthorised purposes?

A charity may only have a single bank account where it holds its restricted fund balance and its general fund co-mingled together. If there is lack of monitoring, restricted fund's cash held in the bank account may unintentionally or intentionally be "borrowed" to be used for operational purposes. This could potentially happen where the charity's general operations is facing a cash flow issue due to timing of receipt of funding or otherwise.

Recommendations

Where funds are co-mingled in the same bank account, the charity should have internal monitoring procedures in place to ensure restricted fund's cash held in the bank account are only used for authorised purposes and in accordance with the restricted fund's purposes. Although not mandatory, it is good practice for the restricted funds to be maintained in separate bank accounts from the charity's unrestricted funds.

CHAPTER 8
Conclusion

With fund accounting, charities would not only be able to show to the general public and stakeholders a detailed account, but more importantly, how and where money in each fund was spent. From the financial statements, stakeholders would be able to see the nature of funds held by the charity, monies set aside for specific programmes and projects, and the variety of restrictions placed on the net assets of the charity.

Charities could also refer to the CAS for guidance on fund accounting and information to be disclosed in their financial statements. The CAS was developed as an alternative set of simpler accounting standards specifically tailored for the charity sector, with the objective of making it easier for smaller charities to comply with financial reporting. CAS is tailored to ensure that charities provide quality financial reporting information that is fit-for-purpose to the donating public and stakeholders of the charity sector.

Lastly, fund accounting is an accounting practice which all charities can implement, regardless of their size or the financial reporting framework they adopt. In the Appendices, there are three local case studies which demonstrate how different charities, a small-sized, medium-sized, and large-sized charity, have applied fund accounting. These appendices also reflect the importance that charities place on fund accounting in their operations.

Readers are highly recommended to examine the three case studies enclosed in **Appendices A, B and C**, which are respectively: Clarity Singapore Limited, Arc Children's Centre, and Ren Ci Hospital. These local case studies will help readers better understand how charities carry out fund accounting.

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APPENDICES

Appendix A

Box Story 2: Clarity Singapore Limited

Note: This box story is prepared by CSDA, based on an interview conducted with with Mr Fredric Cordeiro and Ms Agnes Siow from Clarity Singapore Limited.

In the following Box Story, Clarity Singapore Limited explains the use of fund accounting to promote accountability of the charity as a trustee of funds and grants. To prevent difficulties in the tracking and recording of the different types of funds, the charity takes steps to ensure proper documentation and that the staff's submission of claims are for the right programmes.

About the Charity

Established in 2010, Clarity Singapore is a charity endorsed by the Catholic Archdiocese of Singapore. It is a member organisation of Caritas Singapore and National Council of Social Service. Clarity helps those with mental health issues to lead meaningful lives through support, therapy, acceptance and recovery. They aim to give hope to those with mental illnesses by providing support and care, and facilitating their reintegration into society. Counselling services and therapeutic interventions are provided to Singaporeans and foreigners aged 16 and above who are in distress. Their counselling services are administered individually or in groups, and workshops are also provided to raise awareness on the importance of mental health. Customised Psych-education Training Talks are also provided to organisations. (Clarity Singapore, n.d.).

Importance of Fund Accounting as shared by Ms Agnes Siow, Finance and Human Resource Manager of Clarity Singapore Limited.

1. **Why does your charity practise fund accounting?**

   Fund accounting provides transparency with regards to how funds are being used for their projects. In addition to this, fund accounting helps us keep track of the different funding sources and also ensures proper allocation of expenses. Fund accounting therefore promotes accountability of the charity as a trustee of funds and grants.

2. **When your charity adopted Fund Accounting, did your charity face any difficulties in identifying whether existing brought forward funds are restricted or unrestricted in nature?**

   We faced minimal difficulties from the start as the charity could identify whether existing brought forward funds were restricted or unrestricted in nature.

3. **How did your charity overcome the difficulties in tracking or recording the different types of funds?**

   To overcome difficulties in the tracking and recording of the different types of funds, we took steps to ensure that there was proper documentation. We also ensured that the staff's submission of claims were for the right programmes.

4. **How does your charity monitor the utilisation of restricted funds to ensure that the funds are only used in accordance with the donors or funders intent?**

   We adopt Charities Accounting Standard (CAS) Fund Accounting format and follow the guidelines set out in CAS on restricted funds. We monitor the fund utilisation through proper record-keeping and tracking of expenses. For example, project names are stated on payment vouchers when claims are raised for approval by the Executive Director.

Appendix B

Box Story 3: Arc Children's Centre Co Limited

Note: This box story is prepared by CSDA, based on an interview conducted with with Ms Geraldine Lee, General Manager of Arc Children's Centre Co Limited.

The Box Story on Arc Children's Centre Co Limited highlights the importance of internal accounting controls to ensure that restricted funds are kept separated from unrestricted funds. This helps to provide assurance and boost donor's confidence as they can be certain that the charity will use their restricted funds in compliance with their wishes.

About the Charity

Arc Children's Centre Co Limited has been serving the emotional, mental and educational needs of children with life threatening illnesses in Singapore since 2011. Its programmes aim to unlock each child's potential and instill in them confidence to lead a fulfilling life. The charity also supports the children's families by providing respite and comfort. Arc activities are designed to recognise, develop and maximise the potential of each child. Children are provided with care and comfort through play and learning. Literacy and educational activities are also provided, especially to those who are preparing for re-integration into school. (ARC Children's Centre, n.d.)

Accounting Practices

The Centre prepares financial statements in accordance with Singapore Financial Reporting Standards and also applies fund accounting. The Centre's funds are separated into Unrestricted and Restricted funds.

Importance of Fund Accounting as shared by Ms Geraldine Lee, General Manager of Arc Children's Centre

1. **Does your charity practice Fund Accounting?**

   ARC practises fund accounting as it is important to know how the different types of restricted funds are properly utilised in accordance with the donors' intents.

2. When your charity adopted Fund Accounting, did it face any difficulties in identifying whether existing brought forward funds are restricted or unrestricted in nature?

We did not face many difficulties as donors usually state or specify their intent for the utilisation of their funds. This is a consistent practice that has been carried out since Arc started their operations in 2011.

3. Did your charity face any difficulties in tracking or recording the different types of funds?

We did not face many difficulties as the different types of funds were clearly identified in our donation records. Our donation records are created based on donors' instructions and these records are given to the accountant to track the funds accordingly. In addition, our management monitors the different funds by conducting reviews and authorisation of the different funds.

4. How does your charity monitor the utilisation of restricted funds to ensure that the funds are only used in accordance with the donors or funders intent?

We have a system of internal control that is devised and maintained to provide a reasonable assurance that the restricted funds are only used in accordance with the donors or funders intent. Some measures include:

- Tagging the right expense to the right fund. This is done by clearly indicating on the receipts and payment vouchers (source document) which designated funds will be utilised for that expense.
- Ensure that transactions are properly authorised and the movements in the different types of designated funds are properly accounted for.

Appendix C

Box Story 4: Ren Ci Hospital

Note: This box story is prepared by CSDA, based on an interview conducted with Ms Jean Quak, Finance Director of Ren Ci Hospital.

The box story on Ren Ci Hospital demonstrates how the charity overcame challenges, such as educating their staff on the different types of funds, to successfully implement fund accounting. This has enhanced their accountability and enabled them to continuously receive donations that keep their services for their beneficiaries sustainable in the long run.

About the Charity

Established in 1994, Ren Ci Hospital provides affordable medical, nursing and rehabilitative care services for the community. These services are available to all regardless of background, race and religion, emphasising the principles of loving kindness and compassion. They cater to the long term healthcare needs of disadvantaged patients as well as provide rehabilitative care to post-acute patients so that they can regain their functional abilities and reintegrate into the community.

Ren Ci currently operates three facilities, a Community Hospital, a Nursing Home and a Chronic Sick Unit, and two day care centres, a Day Rehabilitation Centre and Respite Care. As a charity healthcare organisation, Ren Ci relies on the donations and support of the public as well as the government's subvention (Ren Ci, n.d.).

Accounting Practices

Financial transparency and accountability play important roles in their organisation (Ren Ci, 2017). Their financial statements are drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Charities Act"), the Charities Act, Chapter 37 and other relevant regulations (the "Charities Act and Regulations") and Financial Reporting Standards in Singapore. This is to give a fair and true view of the financial position of the Hospital and the financial activities and cash flows of the Hospital (Ren Ci, 2017).

The Charity Transparency Award 2016 was given to Ren Ci in recognition of their exemplary transparency and disclosure practices. Introduced by the Charity Council, the award is based on a framework of 9 key dimensions highlighted in the Charity Transparency Framework (Ren Ci, 2017) as key areas for disclosure.

The Importance of Fund Accounting as shared by Ms Jean Quak, Finance Director of Ren Ci

1. Why is Fund Accounting important?

Fund accounting is practised by the charity as it establishes accountability and transparency. Ren Ci uses it to track the progress of a grant or donation. Fund accounting is also applied to ensure that expenses spent are in compliance with the grant or donors' intent.

2. When your charity adopted Fund Accounting, did it face any difficulties in identifying whether existing brought forward funds are restricted or unrestricted in nature?

In the initial period, in order to prevent future difficulties, we looked through the agreements with donors and/or sector administrators. We also discussed these agreements with our lawyers and auditors in order to determine if the funds could be classified as restricted or unrestricted.

3. What challenge did your charity face in tracking or recording the different types of funds?

The main challenge involved in tracking and recording the different types of funds is that the work is done manually and can be quite time consuming.

To properly track and keep records on the different types of funds, the staff need to:

- Identify whether the fund is a restricted or unrestricted fund;
- Be aware and have good understanding of the different types of funds;
- Inform the Finance team about the nature of the expenses, so that the Finance team can tag the expenses accordingly; and
- Allocate time to track the expenses and tag them to the appropriate funds.

4. How does your charity monitor the utilisation of restricted funds to ensure that the funds are only used in accordance with the donors or funders intent?

We have taken steps to ensure that funds are used in accordance with the donors or funders intent. The steps include:

- Ensuring that all staff are involved in the process and are also aware of the nature of the grants or donations;
- Ensuring the staff in charge of a designated fund inform the Finance team on the nature of the expenses to allow the team to tag the expenses appropriately;
- Ensuring that the Finance team carries out their checks appropriately. Should there be any doubts, they must clarify with the staff in charge; and
- Seeking advice from both the legal team and auditors when there are doubts.

Appendix D

Glossary of Terms

S/N	Term(s)	Meaning
1.	Internally earmarked net assets	Assets of a charity that are designated or set-aside by the board of a charity to be applied specifically for a particular activity, project or programme.
2.	Funding and donations	Financial contribution and gifts to benefit a cause.
3.	Endowment funds	Endowment Fund is another form of Restricted Fund, held in trust where the capital is required to be invested, or retained for actual use, rather than expended. Generally, only the income from Endowment Fund is used, and not the capital sum. For more information, visit: https://www.charitycouncil.org.sg/
4.	Restricted funds	These are funds held by the Charities/IPCs that can only be applied for specific purposes. Examples: Funds that are subjected to specific trusts which may be declared by the donor(s) or with their authority (e.g. in the public appeal) or created through legal process, but still within the wider objects of the charities/IPCs.
5.	Designated funds	Unrestricted funds that have been set aside for designated purposes based on the governing board members' discretion. Designated funds may also be used where donors have expressed a preference without imposing a trust. Such funds so designated remain unrestricted since the governing board members can remove the designation at any time. For more information, visit: https://www.asc.gov.sg/CharitiesAccountingStandards
6.	Capital	In the context of funds, capital refers to resources which becomes available to a charity and which the governing board members are legally required to invest or retain for use. For more information, visit: https://www.asc.gov.sg/CharitiesAccountingStandards

S/N	Term(s)	Meaning
7.	Charities Accounting Standard (CAS)	A set of accounting standards for charities developed by the Accounting Standards Council (ASC). For more information, visit: https://www.asc.gov.sg/CharitiesAccountingStandards
8.	Singapore Financial Reporting Standards (SFRS)	Accounting standards in Singapore formulated and promulgated by the Accounting Standards Council (ASC). For more information, visit: https://isca.org.sg/tkc/fr/financial-reporting-standards/
9.	Inventories	Inventories are assets that are: a. Held for sale in the ordinary course of business; b. In the process of production for such sale; or c. In the form of materials or supplies to be consumed in the production process or in the rendering of services. For more information, visit: https://www.charitycouncil.org.sg/
10.	Cash equivalents	Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
11.	Amortisation of intangible assets	Systematic allocation of the depreciable amount (cost of an asset less its residual value) of an intangible asset over its useful life.
12.	Opening balances	The account balances at the beginning of the financial year/period.
13.	Depreciation expense	Systematic allocation of the depreciable amount (cost of an asset less its residual value) of an asset over its useful life.
14.	Accumulated depreciation	Cumulative balance of the annual depreciation expense, that is used to derive the net carrying amount of an asset.

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Booklet 2: Fund Accounting for Charities

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