



# Bright ideas Bright people

**Charity seminar 21 April 2009**

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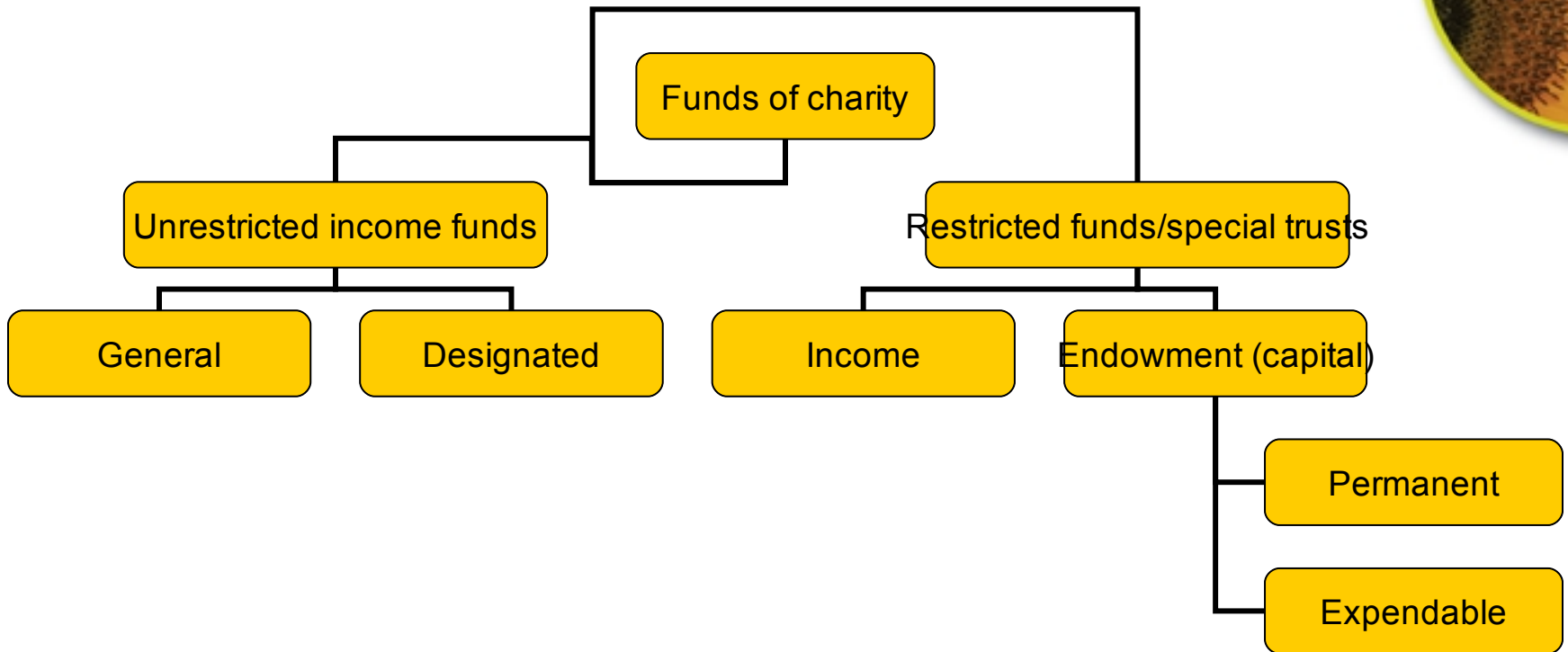


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# Contents

- Funds
- Cash is king, but the right sort of cash
- Understanding your income
- Understanding your expenditure
- Reserves policies
- Management information





## Rich charity?

<b>SOFA</b>		<b>Balance sheet</b>	
	£'000		£'000
Income	6,000	Fixed assets	500
Exp	<u>5,000</u>	Debtors	500
Surplus	1,000	Cash	2,000
Funds b/f	<u>1,500</u>	Creditors	<u>(500)</u>
Funds c/f	2,500	Funds	2,500



## Not so rich?

SOFA	Unrestricted	Restricted	Total
	£'000	£'000	£'000
Income	1,000	5,000	6,000
Exp	1,200	3,800	5,000
Surplus	(200)	1,200	1,000
Funds b/f	250	1,250	1,500
Funds c/f	50	2,450	2,500



# Fund issues

- Funds do not equal cash e.g. fixed assets
- Restricted funds are not available for normal activity
- Free reserves
- Accounting for income before expenditure

# Understand your income



- How robust is it?
  - Investment income
  - Public donations
  - Government funding
  - Service contracts
- Dependence on one source?
- Restricted or unrestricted
- Received in advance or arrears
- Grant conditions



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# Understand your expenditure

- How much is fixed?
  - Salaries
  - Rent
- How much can be funded by restricted funds?
- If you needed to cut back where could it happen and at what cost?



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# Other commitments

- Leases
- Redundancy and notice pay
- Grant repayments
- Contract commitments



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# Reserves policy

- Consider the robustness of your income
- Consider the committed nature of your expenditure
- Consider the free reserves that you hold in relation to these
- 6-12 months expenditure is a norm BUT consider restricted funds expenditure



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# Example 1 - Grant making charity

- Investments (endowment) £50m
- Income £1m
  
- As this charity can rely on future income and adjust its grant making for any changes it does not need to hold free reserves



## Example 2 - Museum

- Income £2m: 20% admissions, 40% public donation, 40% Arts Council
- Expenditure £2m: salaries 60%, property related 30%, other 10%
- Assets £5m, but £4m property and £300k restricted
- This charity has a very high fixed cost base. Income is dependent on government and public donations. Current free reserves £700k. Probably should be nearer 9 months expenditure £1.5m



## Example 3 – Care Charity

- Income £10m: local authority contracts in 3 counties
- Expenditure £9.5m
- Assets £500k
  
- What further questions would you ask?



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# Management Information

- Up to date, timely
- Income and expenditure
- Balance sheet
- Cash flow – forecast (updated)
- Distinguish between restricted and unrestricted funds



# Questions to ask

- What would happen if our income fell (10%)?
- Where could we make cost savings if we needed to?
- Where could we raise extra funds from?
- Do we know our up to date financial position and forecast for the next 12 months?
- Do we have any unprovided for obligations?



# Conclusions

- You need to understand your charity's funds
- Understand your charity's income and expenditure
- Review and assess your reserves policy
- Request up to date management accounts and forecasts



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