

# Charity Funds

Summer 2025

## What are funds?

To put it simply, funds are the 'reserves' that make up the bottom part of a Charity's balance sheet and are made up of accumulated surpluses/deficits. There are different types of funds however, and the main categories are as follows:

- **Restricted funds** – These represent monies received in the form of items such as grants or specific donations, that must be spent on items specified by the donor. Under Charity law, these funds cannot be spent on general day to day expenditure and must be used for their intended purposes.
- **Designated funds** – These are monies that the Charity has set aside for, ordinarily, large projects in the future. They do not arise from a restricted donation however and are assigned out of general unrestricted reserves.
- **Endowment funds** – These are ordinarily capital funds that are donated to the Charity (typically income generating assets such as investments or investment properties), with the income arising from them being available for the general use of the charity. They are either Expendable Endowment, or Permanent Endowment.

**Expendable endowments** are funds that must be invested to produce income. Trustees may have a legal power to convert some or all of it into an income fund to be spent. It should be spent for the purposes of the charity within a reasonable time of receipt.

**Permanent endowments** are property of the Charity, which must be held permanently to further the Charity's purposes or to produce an income for the charity. The terms of the endowment may permit some assets to be sold or reinvested, or may specify assets must be kept indefinitely.

- **Unrestricted funds** – These are the balance of funds leftover, after deducting restricted, designated and endowed funds. These funds are able to be spent or applied at the discretion of the Trustees to further any of the Charity's purposes.

## How to record funds

Within both the accounting records and financial statements, funds should be maintained in sufficient detail to enable users to distinguish between the differing types. It should be easy to identify the funds brought forward from the prior year, as well as movement in the year, and balance at the year end.

Most accounting packages used now, such as Xero or Sage, enable tracking categories/departments to easily keep on top of different types of funds. It is recommended that a separate Excel schedule is maintained each year also, to ensure that restricted funds are not overspent for example.

## Common issues

There are several issues that auditors face when looking at funds:

- Reconciliations not being maintained. Without these, it is hard to prove exactly what transactions should be allocated against different types of funds.
- Transactions being posted to a balance sheet area, incorrectly. While some transactions should net off of the funds, for example when a grant was received in a prior year, and some has been spent in the current year, this transaction should still be recorded within the Statement of Financial Activities.
- Sufficient documentation not being maintained for different categories of funds. It is important that necessary documentation is maintained for all aspects of your accounting records, but it is imperative that it is maintained for any items that are not unrestricted.

## Trustees' responsibility

Trustees are ultimately responsible for signing off on the set of accounts, and they should be comfortable with the funds included within them. Trustees should also be monitoring this during regular board meetings – if an item is discussed at a Board meeting, and it sounds like it could be restricted, endowed or designated for example, it the Trustees' responsibility to note this and ensure that it is actioned within the accounts.

Funds can be fairly complex, and it's important to get the right advice. So please get in touch if you need assistance.



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