



Restricted funds

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Agenda

- Key concepts
- Recognition
- Managing



Fund accounting

Total funds

Unrestricted

Restricted

General

Designated

Income

Endowment (capital)

Permanent

Expendable

Presentation on the SoFA

Table 2: Statement of financial activities

	Unrestricted funds	Restricted funds	Endowment funds	Total funds	Prior period Total funds
	£	£	£	£	£
Income and endowments from:					
Donations and legacies					
Charitable activities					
Other trading activities					
Investments					
Other					
Total					
Expenditure on:					
Raising funds					
Charitable activities					
Other					
Total					
Net gains/(losses) on investments					
Net income/(expenditure)					
Transfers between funds					
Other recognised gains/(losses):					
Gains/(losses) on revaluation of fixed assets					
Actuarial gains/(losses) on defined benefit pension schemes					
Other gains/(losses)					
Net movement in funds					



What are restricted funds?

- SORP definition:

“Funds held on specific trusts under charity law are classed as restricted funds. The specific trusts may be declared by the donor when making the gift or may result from the terms of an appeal for funds. The specific trusts establish the purpose for which a charity can lawfully use the restricted funds. It is possible that a charity may have several individual restricted funds, each for a particular purpose of the charity.”



Restricted funds

- Restriction imposed by donor
- Restricted funds may be
 - For a specified project
 - For a specific geographical area
 - Funds raised in an appeal
 - Investment income (if generated from invested restricted funds)
- Funds must be spent for purpose
- Can be assets



Endowment funds

- Similar to restricted funds
 - Permanent – no **ability** to spend capital
 - Expendable – no **requirement** to spend capital
- Capital invested to generate a return to spend on charitable activities
- Income generated may be restricted or unrestricted – check terms



Unrestricted funds

- Funds received for charitable objects
 - General donations
 - General legacies
 - Self-generated income from sales of goods or services
 - Investment income
- Designated funds
 - Funds earmarked by trustees for a particular purpose



Incoming resources

- Donations and legacies
- Charitable activities
 - Subscriptions, grants, service level agreements
- Trading activities
- Income from investments
- Other



Restricted vs unrestricted

- Restricted funds are generally donations and grants i.e. funders do not receive anything in return
- Commercial transactions are generally unrestricted e.g. sales of goods and services
- If VAT applies, more likely to be contractual arrangement, therefore unrestricted



Grants v Contracts

Grants	Contracts
Gift, given freely by the donor (Goods /services not received in return)	Agreement between 2 parties: Direct link between consideration and service
Trust Law	Contract Law
Failure to use grant as intended – trustees are personally liable	Failure to deliver services/provide consideration – sue for damages
Restricted if purpose is narrower than the overall objects of the charity	Usually unrestricted. Under the new SORP there is now the possibility for a contract to be restricted.
Unspent grant can be clawed back	Surplus on contract can be kept



Grants v Contracts (continued)

Grants	Contracts
Accounting treatment: May include amount before service delivered (unless performance related)	Accounting treatment: Recognise to extent services have been performed
Donation and legacies or Incoming resources from charitable activities	Income resources from charitable activities
Non-business activity – outside scope of VAT	Business activity for VAT
If an amount is for existing service – could be seen as a subsidy for the service and therefore a grant	Indication of contract is: Service has been commissioned & specification of services to be provided



Other indicators



Sometimes the funding agreements tell you!



Regular reporting on spending to funders



Prior permission from funders if you spend outside of budget



Donor audits are required



TERMS AND CONDITIONS are the keys



Income recognition

- As soon as is prudent & practicable
- Three golden rules
 1. Entitlement
 2. Measurement
 3. Probability (more likely than not to be received)



Income recognition

- Donations – generally on a receipt basis
 - Can pledged be accrued?
- Grants – receivable basis
 - No conditions for grant claims – recognised on date of agreement
 - Otherwise, match conditions



Income recognition – grants

Example 1 –
£12,000 provided
to buy mini-bus

Example 2 – grant
claims based on
amount spent, in
arrears

Example 3 – grants
claims based on
milestones met

Example 4 – whole
grant £300,000,
over three years, for
2022–2024

Management of restricted funds





General principles



Must be spent on purposes the funds are given



Separate project codes/cost centres



Direct expenditure – staff costs, other purchases



Overheads and support costs



Allocation of expenditure



What are the processes to identify restrictions in funding?



What are the processes of allocation of expenditure?

Direct expenditure (staff costs and purchases)

Overheads and support costs



Allocation of activities

Ad hoc
donations and
legacies

- So long as it can be demonstrated costs are related to activities the funds are given for

Specific grants
based on
application

- Full cost recovery vs match funding
- Is there a clear budget?



Elements of restricted expenditure

Staff costs

Invoices

Overheads



Transfers between funds

- If costs $>$ funds given, unrestricted funds would need to cover the difference
- Transfers between restricted funds
 - Permission must be sought
- Transfers from restricted funds to unrestricted funds
 - Permission must be sought



Example

Restricted funds	B/fwd	Income	Expenditure	Transfers	C/fwd
Fund A	10,000	20,000	(25,000)	–	5,000
Fund B	–	45,000	(50,000)	5,000	–
Fund C	26,000		(25,000)	(1,000)	–
Total	36,000	65,000	(100,000)	4,000	5,000

- Questions to ask
 - Fund A – is the project complete?
 - Fund B – any income to accrue?
 - Fund C – permission received?

Resources to help

- Charity SORP 2015
 - <https://www.charitycorp.org/download-a-full-sorp/>
- Sayer Vincent publications – ‘made simple’ guides
 - SORP 2015
 - Grants and contracts
 - Find at sayervincent.co.uk/resources





Q&A



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