In the context of charity law, ‘income’ means all resources that become available to a charity. The trustees are legally required to apply this income to further its charitable purposes.

**Restricted Funds**

**Unrestricted Funds**

Restricted Income Funds

Endowment Funds

Undesignated (general) Funds

Designated Funds

Restricted Funds

* Given to a charity for a particular reason.
* Can only be spent in line with the requests of the donor.

Endowment funds are funds received by a charity that represent capital (money and assets). Charity law requires trustees to either invest such funds or to retain and use them for the charity’s purposes.

Unrestricted Funds

* Funds received which are not held for a specific charitable purpose.
* Can be spent as deemed fit by the trustees.

Designated funds are unrestricted funds that the trustees have set aside for a particular purpose.

**Fund accounting** is used to determine and report how much money is in each fund and when and how it has been spent.Fund accountingsplits financial activity into different pots depending on the purpose of the donation.

Review your income and decide what is restricted and unrestricted funds based on the definitions outlined above. Keep track of restricted funds throughout the year to help plan and budget. If most of the income received is in the form of restricted grants and donations, you may want to consider looking at other sources of funding. Overheads (costs or expenses to operate your charity) should be distributed to restricted funds throughout the year. It is often the case that when restricted funds are awarded to a charity, the donor specifies that a report be provided to show how the funds have been spent. You need to make sure that you can easily identify the expenditure connected to each restricted fund.

Reserves is money that is available to be used for a wide range of possibilities including unexpected events and emergencies. Every charity needs to develop its own reserves policy that establishes an appropriate level of reserves for the charity to hold.

Fund accounting can be complex so you might want to consider using an accountant experienced with charities when preparing annual accounts to ensure regulatory compliance.