

Restricted Funds Management: A Self-Assessment Checklist for Nonprofits

1. Documentation of Donor Intent

- ☐ We collect written documentation (gift agreements, letters, or check memos) for every restricted gift.
- ☐ Restricted gifts are entered into the accounting system, with the proper restrictions at the time the gift is received.
- ☐ Acknowledgment letters confirm the donor's intent and restrictions.

2. Accounting & Tracking Systems

- ☐ We use fund accounting software to track restricted vs. unrestricted funds.
- ☐ All restricted funds have unique codes or designations for easy tracking.
- ☐ Balances are reported monthly so that budget managers are aware of how much restricted funding remains for individual restricted purposes.

3. Spending & Reporting

- ☐ Program staff receive regular reports showing available restricted funds.
- ☐ Expenses charged to restricted funds are reviewed and approved for alignment with donor intent and mission.

4. Oversight & Internal Controls

- ☐ Finance, development, and program staff are trained on how restricted funds should be managed.
- ☐ There is a clear review/approval workflow for expenses tied to restricted funds.
- ☐ The board receives regular updates on restricted fund balances and usage.

Restricted Funds Management Grading System

Step 1: Count how many boxes you checked on the checklist.

Step 2: Use the guide below to assess your organization's current practices:

8-11 checks: Excellent (A)

- Your organization has strong policies, processes, and systems in place.
- You are likely audit-ready and well-positioned to build donor trust.
- Focus on refinement and maintaining consistency.

4-7 checks: Good (B)

- You have many practices in place but may lack consistency.
- Some areas (documentation, reconciliations, or communication with donors) need tightening.
- Prioritize filling gaps before they create risk.

1-3 checks: Needs Improvement (C)

- Gaps in fund management could lead to audit findings, compliance issues, or loss of donor confidence.
- Strengthen documentation and reporting processes as a first step.
- Consider outside support to build a stronger framework.

0 checks: High Risk (D/F)

- Your organization is at serious risk of mismanaging restricted funds.
- Audit adjustments, donor dissatisfaction, or even legal/IRS issues could arise.
- Immediate action is recommended—start with basic documentation, fund coding, and reconciliation practices.