

What Every Nonprofit Board Member Should Know About Restricted Funds

As a nonprofit board member, you know that you have a fiduciary responsibility for financial stewardship of the organization. You might not be fully aware of how important it is that you keep a close eye on how the organization handles grants and donor-restricted funds. The important concepts you need to remember about restricted funds include:

Restricted funds are promises you must keep.

When a donor or grantor restricts a gift (for a building, a specific program, or certain staff positions), your organization is legally and ethically obligated to use it only for that purpose — or go back and ask permission to change it.

Your fiduciary responsibility includes safeguarding donor intent.

Clearly set the tone that honoring donor intent is non-negotiable and that you expect executive leaders and the finance team to keep a close eye on restricted funds, including ensuring that financial reports accurately show:

- How much is restricted vs. unrestricted.
- What restricted funds are for.
- Whether any restricted balances are negative, outdated, or seem unusual.

You don't need to be an accountant — but you do need to be curious.

You are not expected to manage the books, but you are expected to:

- Read the financial reports you receive.
- Ask follow-up questions when something doesn't make sense.
- Support leadership and finance staff in building strong tracking and reporting systems.
- outdated, or seem unusual.

Make sure you ask the following key question when reviewing financials:.

“Can you walk us through our restricted funds — how much we have, what they're for, and whether we're on track in using them as intended?”

If staff struggle to answer, that's a red flag that fund accounting systems need improvement.

Questions about restricted funds or other nonprofit accounting fundamentals? [Contact your CRI advisor for guidance.](#)

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