Restricted Fund Tracking

Keeping donor-restricted money straight without doubling your chart of accounts

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Restricted funds go wrong in a specific, predictable way. Money comes in with a purpose attached, gets spent on that purpose, and nobody records the release. The restricted balance never comes down. Two years later the balance sheet claims the organization is holding restricted funds it spent long ago, and no one can reconstruct which.

01 Restricted is not the same as conditional

These two words get used interchangeably and they mean completely different things. Getting them backwards changes when you recognize revenue.

Term	What it means
Restricted	The donor said what the money is **for**. It is revenue **now**, sitting in net assets with donor restrictions until you spend it on that purpose.
Conditional	The donor said what you must **do first**. It is **not revenue yet**. Cash received is a refundable advance — a liability — until the condition is met.

> **The test, from FASB ASU 2018-08.** A contribution is conditional only if **both** are present: (1) a barrier you must overcome — a measurable performance requirement, a specific output, a matching requirement, or an outside event; and (2) a right of return of the assets, or a right of release of the donor's obligation. One without the other is not a condition.

02 Track restriction beside the account, not inside it

The instinct is to create a second account: "Contributions" and "Restricted Contributions." Do not. It doubles the chart, and it still cannot tell you how much of a specific grant remains.

Keep one revenue account and track restriction as a separate dimension — classes, funds, projects, or tags depending on your software. The register in this pack is the layer above that: one row per award, so you can answer "how much of the Youth Program grant is left" without querying the general ledger.

03 The release entry is the whole game

When you spend restricted money on its restricted purpose, the restriction is satisfied and the amount moves from *with donor restrictions* to *without donor restrictions*. That is the release entry, and it is the single most skipped step in small-nonprofit bookkeeping.

> **Symptom check.** If your restricted net assets have only ever gone up, you are not recording releases. The register's restricted balance column should agree with net assets with donor restrictions on the balance sheet. When those two disagree, a release is missing — and that difference is the amount.

04 Filling the register

Column	What goes in it
Restriction type	Purpose, time, or perpetual. Perpetual is the old "permanently restricted" — the corpus stays intact.
Conditional?	Run the test on the Conditional Test tab. If yes, what you received is a liability until the barrier is met.
Received to date	Cash actually in hand. Not the award amount, unless they are the same.
Spent to date	What you have spent against the purpose. Drives the unspent-award column.
Released to date	What you have actually posted as released. This is usually where the gap is.
Status	Calculates. Flags OVERSPENT, PERIOD ENDED, or Fully released so problems surface without being hunted.

05 Four failures this catches

Spending past the award	Spent to date exceeds the award amount. Usually means costs were coded to the wrong fund — and if it is a government grant, it may be unallowable.
Expired grant periods	The period ended and money is unspent. Most funders require you to ask before extending, and almost none accept the request after the fact.
Restricted balance that never falls	Releases are not being recorded. The balance sheet is overstating restricted funds and understating what you can actually use.
Conditional money booked as revenue	Revenue recognized before the barrier was met. This overstates the current year and creates a restatement risk if the condition is never satisfied.

06 A rhythm that holds

Update the register monthly, at the same time you reconcile. It takes minutes when it is current and hours when it is not. Once a quarter, compare the restricted balance column against net assets with donor restrictions on the balance sheet — that single comparison catches almost everything on the list above.

At year end, review the period-end column before you close. Grants expiring in the next quarter are conversations to have now, while the funder still has options.

Sources. Net asset classification: FASB Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958)* — two classes, effective for fiscal years beginning after December 15, 2017. Conditional contributions: FASB Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* — a contribution is conditional only if the agreement includes both a barrier and a right of return or right of release; amounts received are accounted for as a refundable advance until conditions are substantially met or explicitly waived. Exchange transactions fall under Topic 606. Verified September 2026.