

Key Considerations For Your Not-for-Profit Organization's Internally & Externally Restricted Funds

Fund Review & Audit Preparation Considerations
For Not-for-Profit Management Teams



Introduction

Not-for-profit organizations often use restricted funds to manage contributions and expenses associated with an internal or external restriction. The management team is responsible for the day-to-day management of these funds.

Over the course of the year, management will be required to prepare financial information to:

1. Support the board in fulfilling their governance duties.
2. Strengthen the organization's strategies and goals.
3. Ensure compliance and audit-preparedness for the organization.

Your board and auditors may have questions regarding the use of the funds to ensure appropriate use in accordance with the purpose of the fund.

Before you meet with your board or your auditors, you will want to do an evaluation of your internally and externally restricted funds in anticipation of the questions they may have. We have created a list of considerations that you can use to evaluate your funds and prepare you for the questions that might get asked.

Internally Restricted Funds

- Is the intent of the restriction on the Funds clearly documented through a board resolution?
- Is the Management Team reporting on the use and planned use of the Funds on a regular basis?
- Is the balance of the Fund adequate or excessive for the intended purpose?
 - Should the organization consider transferring funds in or out by the end of the year?
- Are the balances audit-ready?**
 - Have the funds been used in accordance with the restrictions?
 - Has the organization prepared a detailed list of all transactions that impact the fund balance, and are supporting documents available?

Externally Restricted Funds

- Is the purpose of the restriction clearly understood and documented in the funding agreement?
- Are the external reporting requirements clearly understood?
 - Does your team understand the restrictions as stated in the funding agreements?
- Are you able to track and report the data appropriately for external reporting requirements?
- Have any factors arisen that may mean that the organization is unlikely to spend the balance of the funds?
 - Is the balance of the Fund adequate for the intended purpose?
- Are the balances audit-ready?
 - Have the funds been used in accordance with the restrictions?
 - Has the organization prepared a detailed list of all transactions that impact the fund balance, and are supporting documents available?

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