DNB INSIGHTS

RESTRICTED FUNDS & MULTI-YEAR GRANTS: WHAT YOUR BUDGET NEEDS TO SHOW

Put the right dollars in the right year.

THE SHORT VERSION

The total value of a grant or restricted contribution is not automatically the amount that belongs in this year's operating budget — and neither amount necessarily represents cash available to spend today.

Start with the restriction — not the bank balance

Restricted resources are available only for the purposes or periods permitted by the donor, grantor or funding agreement. When funding crosses fiscal years, the annual budget needs to distinguish the full award from the portion that supports the activities planned for the current budget year.

Six things to separate

TERM	WHAT IT TELLS YOU
Total Award	The full amount committed by the funder.
Award / Restriction Period	The dates or period during which the award supports permitted activity.
Current Fiscal-Year Portion	The portion expected to support activity included in this year's budget.
Permitted Purpose	The programs, expenses, activities or periods for which the funds may be used.
Cash Timing	When the organization expects to actually receive the cash.
Future-Year Portion	The portion associated with activity beyond the current budget year.

Example: one grant, two fiscal years

Assume a nonprofit uses a January–December fiscal year and receives a $120,000 grant covering July 1, 2027 through June 30, 2028. The full $120,000 should not automatically be placed in either annual operating budget.

QUESTION	ILLUSTRATIVE ANSWER
Total award	$120,000
Grant period	July 1, 2027 – June 30, 2028
2027 activity supported	$60,000
2028 activity supported	$60,000
2027 budget planning amount	$60,000, based on activity planned for the 2027 portion
Future-period support	$60,000

The organization budgets the activity and resources that belong to the current year while separately tracking the remaining award and its restrictions for the future period.

Funded does not always mean cash is available

A grant can fully support an expense in the annual budget and still create a cash-flow problem. Reimbursement grants are a common example: the organization may have to incur and pay eligible costs before requesting reimbursement.

DNB PRINCIPLE

Funded does not always mean cash is available when the bills are due.

Restricted cash is not general operating cash

A healthy-looking bank balance can include money that cannot be used for general operations. For example, if a nonprofit has $150,000 in cash but $110,000 is restricted to particular programs or future periods, only the remaining $40,000 may be potentially available for general operating needs.

MONEY IN THE BANK IS NOT AUTOMATICALLY MONEY AVAILABLE TO SPEND.

Budget planning and accounting recognition are related — but not identical

For budgeting, identify the portion of restricted resources expected to support the activities and costs included in the budget year. For financial reporting, the timing of revenue recognition may depend on the organization's accounting basis and the specific terms and conditions of the grant or contribution. The budget should be structured so it can be meaningfully compared with actual financial reports. When the accounting treatment of a significant award is unclear, confirm it with the organization's accountant or CPA.

A practical restricted-funding review

- Identify the total award and award period.
- Identify the permitted purpose and any significant conditions.
- Determine what portion relates to activity in the current fiscal year.
- Identify the expenses the funding is intended to support.
- Determine whether the funding covers the full cost of the activity.
- Identify what portion, if any, must be supported by unrestricted resources.
- Determine when cash will actually be received.
- Identify future-year amounts so the same dollar is not budgeted twice.

THE DNB LENS

A program can be “funded” and still create an unrestricted financial burden or a temporary cash requirement. Good budgeting connects the restriction, the activity, the fiscal year and the actual cash timing.

Put the insight into action

Budget Know-How: Nonprofit Budget Building System provides a practical process for connecting restricted and multi-year funding to the annual operating budget, cash planning and the organization’s broader financial position.

MISSION → RESOURCES → CAPACITY → IMPACT

DNB Insights are educational and organizational-planning resources. They do not provide audit, attest, tax, legal or individualized accounting services.