



# Fund Accounting

## What is Fund Accounting?

Fund accounting allows your organization to separate revenue and expenses into two types of funds, restricted and unrestricted funds:

- **Restricted funds** are those that must be maintained for a specific purpose at the organization.
- **Unrestricted funds** are those that can be used for whatever purpose has the greatest need at the organization.

Buncombe County grant funds are to be treated as restricted funds, only to be used for the public purpose outlined in the funding contract. This means that your nonprofit must have a method for separating restricted funds from other funds received and expended by the organization. Fund accounting gives nonprofits a way to link expenditures to specific grants and provide required grant reporting.

## How to Set up your Accounting System for Fund Accounting

Best practice is to utilize Accounting Software Systems like QuickBooks Online (QBO) to maintain your Fund Accounting via Classes or Customer. Classes and Customer allow you to track all transactions for a specific purpose which is the same definition of Fund Accounting. See below. Additionally, you can maintain your Fund Accounting via Customer Tracking. There are no advanced setting adjustments required, only completing the Customer Field within all transactions.

## Turn your Classes on in your Advanced Settings

### Account and Settings

Company	Accounting	First month of fiscal year	July
Billing & subscription		First month of revenue tax year	Same as fiscal year
Usage		Accounting method ⓘ	Accrual
		Close the books	Off
Sales	Company type	Tax form	Nonprofit organization (Form 990)
Expenditures	Chart of accounts	Enable account numbers	Off
Payments		Tips account	Enter Text
Time			
Advanced	Categories	Track classes	On
		Track locations	Off

## Set up your classes based on the funder name and nature of the restriction.

You may receive multiple grants from one funder so utilize subaccounts so you can split the tracking appropriately.

Classes Run Report New

[← All Lists](#)

Batch actions  All Print ⚙️

Previous 1-5 of 5 Next

<input type="checkbox"/>	NAME ▲	ACTION
<input type="checkbox"/>	Dogwood Health Trust	<a href="#">Run report</a> ▼
<input type="checkbox"/>	Operations Director	<a href="#">Run report</a> ▼
<input type="checkbox"/>	Tzedek	<a href="#">Run report</a> ▼
<input type="checkbox"/>	I Am Because We Are	<a href="#">Run report</a> ▼
<input type="checkbox"/>	United Way of AVL	<a href="#">Run report</a> ▼

### Let's look at an example for more clarity:

*The Vaughan Foundation is a newly established 501(c)3 in Asheville, NC. The foundation's mission is to celebrate and support Asheville's female business owners of Color. The Vaughan Foundation has the following grant revenue and expenses the first month of operations:*

#### Revenue

- Dogwood Health Trust provided \$80,000 in Restricted Funds for a new Operations and HR Director to support the Executive Director
- United Way of Asheville provided \$10,000 of Unrestricted Funds but would still like a report of how the money was disbursed
- Tzedek Social Justice Fund provided \$30,000 in Restricted Funds, to support the new Mentoring Program "I Am Because We Are" the Vaughan Foundation is kicking off in the New Year.

#### Expenses

- The Vaughan Foundation hired a Operations and HR Director and paid one month salary and benefits totally \$7,000. Additionally the Foundation incurred \$1,000 in recruiting cost.
- The Vaughan Foundation incurred Advertising and Marketing Expenses for the creation of their logo and website totally \$9,000.
- The Vaughan Foundation signed a contract for \$24,000 to hire a consultant to facilitate the new Mentoring Program

**Start Classifying your transactions which will allow you to prepare a Profit and Loss Statement by Class or Customer.**

This is a standard report that many funders require for restricted funds. Also note that even though United Way of AVL funds were unrestricted they wanted to know what the funds were used for so its good to track that by class/customer as well.

**The Vaughan Foundation  
Profit and Loss  
October 2023**

	Operations Director	Total Dogwood Health Trust	I Am Because We Are	Total Tzedek	United Way of AVL	TOTAL
<b>Income</b>						
Non-Profit Income - Restricted Funds	80,000.00	80,000.00	30,000.00	30,000.00		110,000.00
Non-Profit Income - Unrestricted Funds					10,000.00	10,000.00
<b>Total Income</b>	<b>\$ 80,000.00</b>	<b>\$ 80,000.00</b>	<b>\$ 30,000.00</b>	<b>\$30,000.00</b>	<b>\$ 10,000.00</b>	<b>\$120,000.00</b>
<b>Expenses</b>						
Advertising & Marketing					9,000.00	9,000.00
Contractors			24,000.00	24,000.00		24,000.00
Recruiting Expense	1,000.00	1,000.00				1,000.00
Salaries and Wages	7,000.00	7,000.00				7,000.00
<b>Total Expenses</b>	<b>\$ 8,000.00</b>	<b>\$ 8,000.00</b>	<b>\$ 24,000.00</b>	<b>\$24,000.00</b>	<b>\$ 9,000.00</b>	<b>\$ 41,000.00</b>
<b>Net Income</b>	<b>\$ 72,000.00</b>	<b>\$ 72,000.00</b>	<b>\$ 6,000.00</b>	<b>\$ 6,000.00</b>	<b>\$ 1,000.00</b>	<b>\$ 79,000.00</b>



\*This tool was created by Veronica Edwards of Balanced Virtually, which offers virtual bookkeeping, accounting, and consulting services to small businesses and nonprofit organizations to help them reach their maximum potential. Learn more about how she can support your organization at [www.balancedvirtually.com](http://www.balancedvirtually.com).