



Managing Restricted Funds Using QuickBooks

One of the largest areas of confusion in nonprofit organizations is how to account for restricted contributions. The accounting rules require that restricted contributions be recorded in the period in which the contribution is unconditionally promised – even if the funds are to be received and used in a future period.

This is confusing for most organizations – why would you record a contribution before you receive it? The rules state that these sorts of contributions must be separated from your normal contributions in a section called “With Donor Restriction” contributions. Then, when the time has come to use those funds for their purpose, they are “Released” from the restriction and pulled into your ordinary operations.



There are basically two types of donor restricted contributions: those promised (see above) and those that have been received in advance that are intended to be used for a future restricted purpose. The donation income is treated the same way in either case.

Setting up QuickBooks in the manner described in the following article will allow management and the Board to see how prior restricted and designated funds are being utilized in the current operating period. It is important to keep “Ordinary Income/Expenses” as your normal operations and all the “Other Income/Expense (aka: “below the line”)

Recording pledges

Pledges are unconditional promises that a donor gives to your organization, which could include a promise for money over a period of time, a one-time gift or in-kind donations. When a pledge is recorded, contribution income is also recorded at the same time.

In the accounting rules, once an unconditional promise is made, the pledge should be recorded as of the

date the promise is made. For example, if a donor sends you a letter that declares that s/he is going to give you \$5,000 for your next year’s operations, you need to record it as a pledge when the promise is made, NOT when it is received in the next year.

QuickBooks tracks every “Customer” as a “Job”. That means you can code any revenue or expense item to a Customer and later produce a report for just that “Job”. This is useful if you have a particular grant, within a program (which is coded as a specific “Class”), that needs to be accounted for separately.

The restriction can be satisfied by either the passage of time or by expending the funds for their restricted purpose. For example, pledge receivables are, by default, time restricted because you have not received the funds yet. If there are no other program restrictions on the pledge, when you receive the funds, the time restriction is released because the collection has been made.

To record a pledge receivable:

- Home Screen / Customers / Donors
 - ⇒ Create Invoices (make sure it is under the correct Pledge template)
 - ⇒ Enter the Customer name, class, date of the pledge, item, any other description and amount, then “Save & Close”

To record receipt of the pledge:

- Home Screen / Customers / Donors
 - ⇒ Receive Payments (make sure the correct Pledge Receivable account is in the A/R Account section)
 - ⇒ Enter the Customer name, amount, date of receipt, pmt. Method, and any other memo or reference you need, then “Save & Close”

If the payment is less than the total amount owed, a screen will show that asks if the underpayment should be left as is or if you want to write off the extra amount. Usually you will leave it as an underpayment until the full pledge has been paid.

At any point in time, you can run a report for all receivables by:

- Reports / Customers & Receivables / A/R Aging Summary

If a pledge is promised to be received over several future years, a discount may need to be recorded. For more information, click [HERE](#).

Board designated funds

At any time, the Board of Directors of the organization can approve setting aside funds for various reserves. These are considered without donor restriction because the Board could at any time change the purpose or use of the amounts set aside. Example of board designated funds are set asides for operating or capital reserves and endowments.

Endowments

Endowments are contributions that a donor or Board of Directors has stipulated must be held forever. Generally the investment income or other revenue stream from the corpus of the endowment can be used for general operations or a program, according to the donor’s wishes, but the core of the donation must be held and managed forever.

Because the core of the donation must be kept forever, how the organization manages these funds is important. Most states have adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) which requires the organization to preserve the fair value of the original gifts in donor restricted perpetual in nature. The investment income is placed in either purpose or time restricted net assets until the Board of Directors approves using them. For more information on accounting considerations for endowments, click [HERE](#).

Recording restricted activity

You will need to add a few additional accounts in your organization's chart of accounts in order to manage restricted funds properly using QuickBooks. Here are suggested accounts that should be included:

Type	Account #	Description	Subaccount of
Income	5000	Restrictions released (header only)	
Income	5100	Accomplished purpose	Restrictions released
Income	5200	Satisfied time	Restrictions released
Income	5500	Board designated release	Restrictions released
Other income	9800	Board designated activity (header only)	
Other income	9850	Designated income released	Board designated activity
Other income	9900	Donor restricted activity (header only)	
Other income	9905	Donor restricted for a future period	Donor restricted activity
Other income	9910	Perpetual investment gains/losses	Donor restricted activity
Other income	9950	Prior restricted income released	Donor restricted activity
Equity	3800	Without donor restriction (header only)	
Equity	3810	Undesignated	Without donor restriction
Equity	3820	Board designated - operating	Without donor restriction
Equity	3830	Board designated - endowment	Without donor restriction
Equity	3900	With donor restriction (header only)	
Equity	3910	Perpetual in nature	With donor restriction
Equity	3920	Purpose restriction	With donor restriction
Equity	3930	Time restricted for future periods	With donor restriction

Original Transaction	P&L Journal Entry	Balance Sheet Journal Entry
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Example transactions and release entries:

1 To record a new pledge							
When to make entry	Type	Date	Num	Account	Debit	Credit	
When pledge is made	Create Invoice	07/01/2017	1	1250 · Pledge receivable	50,000		
				9905 · Donor restricted for future period		50,000	
Balance sheet: Equity changes	General Journal	07/01/2017	1a	3810 · Undesignated (net assets)	50,000		
				3930 · Time-restricted for future periods (net assets)		50,000	
2 To record receipt on the pledge							
When to make entry	Type	Date	Num	Account	Debit	Credit	
When received	Receive Payments	07/01/2017	2	1050 · Checking account	30,000		
				1250 · Pledges receivable		30,000	
P&L: Other income changes	General Journal	07/01/2017	2a	9950 · Prior restricted income released	30,000		
				5200 · Satisfied time		30,000	
Balance sheet: Equity changes	General Journal	07/01/2017	2a	3930 · Time-restricted for future periods	30,000		
				3810 · Undesignated (net assets)		30,000	
3 To record a donor restricted contribution							
When to make entry	Type	Date	Num	Account	Debit	Credit	
When donation received	Donations	07/01/2017	3	1050 · Checking account	5,000		
				9905 · Donor restricted for future period		5,000	
Balance sheet: Equity changes	General Journal	07/01/2017	3a	3810 · Undesignated (net assets)	5,000		
				3920 · Purpose restriction		5,000	

4 To release restricted funds related to expenses paid for restricted purpose							
When to make entry	Type	Date	Num	Account	Debit	Credit	
When bill is received	Enter Bills	07/01/2017	4	8100 · Supplies	2,000		
				8500 · Equipment and repairs	3,000		
				1050 · Checking account			5,000
P&L: Other income changes	General Journal	07/01/2017	4a	9950 · Prior restricted income released	5,000		
				5100 · Accomplished purpose			5,000
Balance sheet: Equity changes	General Journal	07/01/2017	4a	3920 · Purpose restriction	5,000		
				3810 · Undesignated (net assets)			5,000
5 To record and release Board designated reserve							
When to make entry	Type	Date	Num	Account	Debit	Credit	
When reserve is established	Donations	07/01/2017	5	3810 · Undesignated (net assets)	4,000		
				3820 · Board designated - operations			4,000
When reserve is used	General Journal	07/01/2017	5a	9850 · Designated income released	2,500		
P&L: Other income changes				5500 · Board designations released			2,500
Balance sheet: Equity changes	General Journal	07/01/2017	5a	3820 · Board designated - operations	2,500		
				3810 · Undesignated (net assets)			2,500
6 To record a endowment gift from donor:							
When to make entry	Type	Date	Num	Account	Debit	Credit	
When received	Sales Reciept	07/01/2017	6	1050 · Checking account	100,000		
				9905 · Donor restricted for future period			100,000
Balance sheet: Equity changes	General Journal	07/01/2017	6a	3810 · Undesignated (net assets)	100,000		
				3910 · Perpetual in nature			100,000
7 To record interest income on endowment, where income is to be used for restricted purposes:							
When to make entry	Type	Date	Num	Account	Debit	Credit	
When bank statement received	General Journal	07/01/2017	7	1050 · Checking account	500		
				9910 · Perpetual investment gains/losses			500
Balance sheet: Equity changes	General Journal	07/01/2017	7a	3810 · Undesignated (net assets)	500		
				3920 · Purpose restriction			500
8 To release endowment investment income when Board authorizes:							
When to make entry	Type	Date	Num	Account	Debit	Credit	
When use is authorized by the Board of Directors	General Journal	08/15/2017	8	9950 · Prior restricted income released	500		
				5100 · Accomplished purpose			500
Balance sheet: Equity changes	General Journal	08/15/2017	8a	3920 · Purpose restriction	500		
				3810 · Undesignated (net assets)			500

How it will look in QuickBooks (assuming all the above entries have been recorded):

AFTER EXAMPLES ARE RECORDED		Trans			Trans
P&L Statement		#	Balance Sheet		#
Ordinary Income/Expense			ASSETS		
Income			Current Assets		
	4000 · Contributions		Checking/Savings		
	4100 · Government grants		1050 · Checking account	130,500	(2)(4)(6)(7)
	4200 · Program service fees		1200 · Grants and contracts receivable		
	4300 · In-kind donations		1250 · Pledges receivable	20,000	(1)(2)
	4400 · Special events, net		Other Current Assets		
	4800 · Investment income		1500 · Prepaid expenses		
	5000 · Restrictions released		1710 · Deposits		
	5100 · Accomplished purpose	5,500 (4a)(8)	Total Other Current Assets	-	
	5200 · Satisfied time	30,000 (2a)	Total Current Assets	150,500	
	5500 · Board designations released	2,500 (5a)	Property and Equipment		
	Total 5000 · Restrictions released	38,000	1800 · Office Furniture and Equipment		
	Total Income	38,000	1850 · Accumulated Depreciation		
Expense			Total Property and Equipment	-	
	7000 · Payroll expenses		TOTAL ASSETS	150,500	
	8100 · Supplies	2,000 (4)	LIABILITIES & EQUITY		
	8400 · Occupancy		Liabilities		
	8500 · Equipment and repairs	3,000 (4)	Current Liabilities		
	9500 · Miscellaneous		2010 · Accounts Payable		
	9600 · Depreciation and amortization		Total Current Liabilities	-	
	Total Expense	5,000	Total Liabilities	-	
	Net Ordinary Income	33,000	Equity		
Other Income/Expense			3800 · Without Donor Restriction		(1a)(2a)(3a)(4a)(5)(5a)
Other Income			3810 · Undesignated	(121,500)	(6)(7)(8)
	9800 · Board Designated Activity		3820 · Board designated - operations	1,500	(5)(5a)
	9850 · Designated income released	(2,500) (5a)		(120,000)	
	Total 9800 · Board Designated Activity	(2,500)	3900 · With Donor Restriction		
	9900 · Donor Restricted Activity		3910 · Perpetual in nature	100,000	(6)
	9905 · Donor restricted for future period	155,000 (1)(3)(6)	3920 · Purpose restriction	-	(3a)(4a)(7)(8a)
	9910 · Perpetual investment gains/losses	500 (7)	3930 · Time-restricted for future periods	20,000	(1a)(2a)
	9950 · Prior restricted income released	(35,500) (2a)(4a)(8a)		120,000	
	Total 9900 · Donor Restricted Activity	120,000	Net Income	150,500	
	Total Other Income	117,500	Total Equity	150,500	
	Net Other Income	117,500	TOTAL LIABILITIES & EQUITY	150,500	
	Net Income	150,500			

How the budget vs actual report will look in QuickBooks (assuming all the above entries have been recorded):

Remember: Setting up QuickBooks in this manner will allow management and the Board to see how prior restricted and designated funds are being utilized in the current operating period. It is important to keep “Ordinary Income/Expenses” as your normal operations and all the “Other Income/Expense (aka: “below the line”) activity as a separate bucket of data that fuels normal operations by way of releases.

Budget vs Actual Report					
			Variance		
			\$	%	
			Actual	Budget	
Ordinary Income/Expense					
Income					
4000	· Contributions			-	0%
4100	· Government grants			-	0%
4200	· Program service fees			-	0%
4300	· In-kind donations			-	0%
4400	· Special events, net			-	0%
4800	· Investment income			-	0%
5000	· Restrictions released			-	0%
5100	· Accomplished purpose	5,500	6,000	(500)	-8%
5200	· Satisfied time	30,000	30,000	-	0%
5500	· Board designations released	2,500	3,000	(500)	-17%
Total 5000 · Restrictions released		38,000	39,000	(1,000)	-3%
Total Income		38,000	39,000	(1,000)	-3%
Expense					
7000	· Payroll expenses				
8100	· Supplies	2,000	2,000	-	0%
8400	· Occupancy			-	0%
8500	· Equipment and repairs	3,000	2,000	1,000	50%
9500	· Miscellaneous			-	0%
9600	· Depreciation and amortization			-	0%
Total Expense		5,000	4,000	1,000	25%
Net Ordinary Income		33,000	35,000	(2,000)	-6%
Other Income/Expense					
Other Income					
9800	· Board Designated Activity				
9850	· Designated income released	(2,500)	(3,000)	500	-17%
Total 9800 · Board Designated Activity		(2,500)	(39,000)	36,500	-94%
9900 · Donor Restricted Activity					
9905	· Donor restricted for future period	155,000	90,000	65,000	72%
9910	· Perpetual investment gains/losses	500	500	-	0%
9950	· Prior restricted income released	(35,500)	(36,000)	500	-1%
Total 9900 · Donor Restricted Activity		120,000	54,500	65,500	120%
Total Other Income		117,500	15,500	102,000	658%
Net Other Income		117,500	15,500	102,000	658%
Net Income		150,500	50,500	100,000	198%

