# Fund Accounting for Church Leadership

ICON CMO systems

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# 1 Preface

Churches have a lot to manage. As they strive to keep a good grasp on bookkeeping, future plans and the needs of their members, accounting can become an afterthought. Often churches pay little or no attention to their financial records except during a time of crisis or when there is an upcoming audit.

**Once you have read this e-book, you will better understand**

- why a church using correct accounting principles, in combination with a good fund accounting solution, will be able to foresee if not entirely avoid financial crisis.
- which guidelines a church needs to follow in order to pass a financial audit.
- which financial standards apply to every nonprofit, including churches of all sizes.
- various financial statements, such as the Statement of Financial Position and the Statement of Activities.
- the need to track funds with proper methods instead of tracking them with revenues and liabilities.

# 2 Why Do Churches Need Good Accounting Software?

All organizations, for-profit or not, need accurate bookkeeping and accounting software to avoid negative consequences like fines, a damaged reputation, and even closing. These repercussions tend to be magnified for nonprofit organizations; they face losing their **tax-exempt** status and credibility, which can prove devastating since the general public tends to hold churches and nonprofits to higher standards.

To protect an organization, both bookkeeping and accounting are crucial, but they are not the same thing. And it's important to know the difference. Most church software applications accurately handle the bookkeeping part: tracking member donations and spending, even the printing or emailing of contribution statements to members and generating giving total reports. Bookkeeping is the task of entering the amounts and dates of revenue and expense transactions (i.e. contributions and purchases).

Accounting is the bigger picture. An accounting system uses the bookkeeping information to create reports that can be used by decision-makers and for tax purposes. Please see the definition for bookkeeping and accounting and know the difference. From the definitions of **bookkeeping and accounting**, it is obvious that accounting is more complex than bookkeeping. Unfortunately, many software applications fall short when it comes to the most important aspects of having accurate accounting records and providing the reports required by the Financial Accounting Standards Board (FASB).

# 3 What are FASB Standards and What do They Have to Do with Churches?

The real idea behind accounting is to get a clear picture of what's happening financially in an organization, to shine light on the fiscal state of the organization. A church needs to accurately communicate its financial situation in an open and honest way that others can understand.

To have a conversation, people need a common language with understood word meanings and grammatical structures. Likewise, for an organization to clearly communicate its financial position and activity, it needs a common, generally accepted code for how to track its fiscal activity.

So where do we get this commonly understood, generally accepted code for explaining a church's financial position and activity? That's where the Financial Accounting Standards Board (FASB) comes in.

The Financial Accounting Standards Board (FASB) is a private, not-for-profit organization that was founded in 1973 to develop generally accepted accounting principles (GAAP) within the United States. In order to establish accounting principles, the FASB issues pronouncements (rules) addressing general or specific accounting issues. These pronouncements usually come in the form of Statements of Financial Accounting Standards (SFAS). These standards are recognized as authoritative by the Securities and Exchange Commission (SEC) and by the American Institute of Certified Public Accountants (AICPA). Standards issued by the FASB govern the preparation of financial reports for all nongovernmental entities, including churches.

**The primary FASB standards that are relevant to churches include**

- **SFAS No. 95** Statement of Cash Flows
- **SFAS No. 116** Accounting for Contributions Received and Contributions Made

- **SFAS No. 117** Financial Statements of Not-for-Profit Organizations
- **SFAS No. 124** Accounting for Certain Investments Held by Not-for-Profit Organizations

### What does my CPA mean by the NEW FASB Accounting Standards Codification (FASB ASC Topic 958)?

First, to codify standards means to organize them into a clear system (or code). The FASB undertook a major five-year project to do exactly that — to organize all of the accounting standards for nongovernmental entities, including churches and nonprofits. None of the standards that apply to churches changed; they were just grouped together under one title: FASB ASC Topic 958, Not-For-Profit Entities. The updated codification is in effect for all financial statements ending after September 15, 2009.

For the purpose of this e-book, we will refer to the standards as they were originally named (SFAS 95, 116, 117, and 124). Many church leaders are more familiar with these names. But please realize that technically these standards are actually called FASB ASC Topic 958.

# 4 FASB Standards

## SFAS No. 95

*Statement of Cash Flows* established standards for cash flow reporting. The cash flow statement is a separate report included in the financial statements. It details the sources and uses of cash for a reporting period. In the past, SFAS No. 95 didn't apply to nonprofits; however, the SFAS No. 117 *Financial Statements of Not-for-Profit Organizations*, included the SFAS No. 95 for nonprofits starting December 15, 1995. Please refer to **SFAS 95** for detailed information regarding requirements for cash flow statements.

## SFAS No. 116

*Accounting for Contributions Received and Contributions Made* established standards for reporting contributions. The standard, starting December 15, 1995, requires that contributions received and made be reported as unrestricted, temporarily restricted, or permanently restricted. Restrictions are made by the donor. Please refer to **SFAS 116** for detailed information regarding the reporting of contributions.

## SFAS No. 117

*Financial Statements for Not-for-Profit Organizations* renamed nonprofit financial statements and required that a complete set of financial statements must include the following:

- Statement of Financial Position (formerly the Balance Sheet)
- Statement of Activities (formerly the Income Statement)
- Statement of Cash Flows

This standard, starting December 15, 1995, gave a new name to the equity portion of the Statement of Financial Position - Net Assets. The Net Assets section consists of fund balances. Net Assets should be classified and reported as unrestricted, temporarily restricted, or permanently restricted, depending on any donor-imposed restrictions. **This rule establishes an important distinction that separates nonprofits from for-profits: nonprofits need to keep track of restricted funds in order to honor their donors' wishes. That's what makes fund accounting so important.** Please refer to **SFAS 117** for detailed information on financial statement presentation.

# SFAS No. 124

*Accounting for Certain Investments Held by Not-for-Profit Organizations* established reporting standards for investments held by nonprofit organizations as of December 15, 1995. The standard requires that investments in equity and debt securities, if their fair market value can be determined, must be reported at fair market value on the Statement of Financial Position. Gains and losses on the security must be included in the Statement of Activities. The standard also applies to the reporting of donor-restricted endowment funds. Please refer to **SFAS 124** for detailed information on the reporting of investments.

# 5 Why Should Your Church's Financials be Auditable and Follow FASB Guidelines?

To sum it up in two words, good stewardship.

*Stewardship is an ethic that embodies responsible planning and management of resources. (**Wikipedia**)*

Showing good stewardship to the congregation as a whole is important because it builds trust within the church community. When a relationship between a church and its contributors is built on a foundation of trust, contributors probably won't question the organization's integrity. And, people tend to give more when they feel the resources they donate are being used appropriately.

The church should keep open, auditable books to protect itself. Corruption isn't limited to Wall Street and Corporate America. Churches are just as susceptible to fraud and embezzlement. And again, the general public tends to hold nonprofits to higher standards than they do for-profit organizations, making churches especially vulnerable to loss of trust. So it's especially important for churches to have more sets of eyes on the books than other industry sectors. Financial transparency conveys the message that the church has nothing to hide and won't tolerate any unethical behavior.

Having a software that follows FASB standards can greatly help a church be prepared for any number of financial situations. For instance, if the church has a loan with a bank, financial statements in compliance with GAAP are typically required. If the accounting software the church is using can't properly prepare these statements, the church may incur additional expenses to get the reports in the correct format. The church may need to engage outside accountants or CPAs in order to prepare the statements in accordance with GAAP.

The worst-case scenario: if the Internal Revenue Service does an examination of the records of the church and doesn't find the records to be in compliance, the church may lose its tax-exempt status. The IRS defines church records as "All corporate and financial records regularly kept by a church, including corporate minute books and lists of members and contributors." Please refer to **IRS 26 USC 7611** for detailed information on this topic.

In summary, a church needs to follow FASB regulations to create an atmosphere of trust and transparency, and to protect itself from fraud, loss of trust and legal penalties.

# 6 Bringing Accounting and Contributions Together

There are very few solutions that, like IconCMO, are FASB compliant and follow fund accounting guidelines. In fact you could probably count a handful in the entire industry that do it right.

But what is fund accounting? Merriam-Webster defines fund as "a sum of money or other resources whose principal or interest is set apart for a specific objective." So a fund sets aside and tracks money for a specific purpose. Fund accounting is the accounting method that organizes these funds and links them to accounts from the Chart of Accounts.

A simple example will best show how this works. Let's say a member in your church contributes $150 for the buying of a new church organ. As with other accounting methods, $150 will be debited to one of the church's bank accounts (an asset in the Chart of Accounts) and $150 will also be credited to some contribution revenue account (under revenue in the Chart of Accounts). But, that money will also be attributed to an accounting fund (maybe called "Worship" or "Building Expenses" or "Organ"). This accounting fund keeps track of all the money contributed or spent for the organ. So when the organ is purchased, you'll credit the cost to a bank account, debit the cost to another asset account (perhaps called "Organ"), and subtract the cost from the "Organ" fund. The accounting fund allows the church to keep track of what it receives, expends, transfers and so on for a specific purpose — buying a new organ.

Funds are no longer defined inside the chart of accounts but separately. Each fund can be defined as Unrestricted, Restricted or Temporarily Restricted, and that's key because **the FASB expects nonprofits to honor donors' wishes and keep track of rsetricted verses unrestricted contributions.** Each fund can use the entire chart of accounts , being linked as needed to asset accounts, revenue accounts and so on. The only requirement is that every transaction must have a fund designation. Because of this designation, a person can review the checkbook and see the exact balance that belongs to each fund and also the revenues and expenses that affect the fund. Churches no longer need multiple checking accounts, spread sheets, 'classes' or other creative accounting methods to know how much money belongs to each fund.

That's where church software comes in. Church software now has the ability to extract data specific to a fund. It can easily create a usable Statement of Activities and Statement of Financial Position specific to one fund, or it can print a Change in Net Assets report that displays the monetary change for all funds over a given date range.

It's simply a better way to do church accounting and manage your finances. Additionally, it is a requirement within the US for any non-profit organization to do accounting the proper way, in accordance with FASB.

IconCMO, the online church management solution from Icon Systems, also has the user create contribution funds. These funds are linked to accounting funds like the "Organ" fund just described, and may even have the same name. They're also linked to asset accounts and revenue accounts. So, when a contribution to a contribution fund (maybe "Organ") is posted, the amount is automatically attributed to an accounting fund (like the "Organ" accounting fund), debited to a bank account (probably checking or savings), and credited to a contribution revenue account. Thus, you can complete the fund accounting process for that contribution in one simple step.

The next section outlines a typical church accounting scenario and different methods that can be used to record the transactions. A list of pros and cons is also provided for each method so you can evaluate and compare the different techniques and see the value of the fund accounting method.

# 7 Methods of Church Accounting

Note: the methods and scenarios used in this ebook assume double entry accounting. To learn more about double entry accounting and why it's important, visit our page on **church accounting** for more information and instructional videos.

**Accounting Scenario**

During the month of March, the church received total cash donations of $6,000. Of this total, there were no donor restrictions on $3,000 of the money received. A long-time church member gave $1,000 to be spent on a stained glass window for the church. The remaining $2,000 was given by a number of members and designated to update the video, sound, and technology systems used during worship.

The church has not previously received donations for either a stained glass window or for a technology systems upgrade, but they agreed to accept these donations. Currently, the church has one checking account that consists entirely of unrestricted general funds and one savings account that consists entirely of restricted building funds.

## Fund Accounting: the Best Method

Using IconCMO, the church could set up separate contribution funds called "General Offerings", "Stained Glass Window", and "Technology Systems Upgrade" in the contribution module. (The IconCMO system is separated into modules, each for a different purpose.)

They could also set up three accounting funds called "General Fund", "Stained Glass Window Fund", and "Technology Upgrade Fund" in the accounting module. The "General Fund" would be designated as Unrestricted and the "Stained Glass Window" and "Technology Update" would be designated as Temporarily

Restricted. They would also set up a general ledger revenue account called “Contribution Revenue” in the chart of accounts.

The accounting link feature in the contributions module could link all of these contribution funds to the “Contribution Revenue” general ledger account. All of the money would be deposited into the existing checking account.

**The linking mechanism creates the following accounting entries for this transaction:**

| | Debit | Credit | Fund Assignment |
|---|---|---|---|
| Cash — Checking | $3,000 | | General Fund |
| Contributions Revenue | | $3,000 | General Fund |
| | | | |
| Cash — Checking | $1,000 | | Stained Glass Window Fund |
| Contributions Revenue | | $1,000 | Stained Glass Window Fund |
| | | | |
| Cash — Checking | $2,000 | | Technology Upgrade Fund |
| Contributions Revenue | | $2,000 | Technology Upgrade Fund |

**Pros**

- Contributions are only entered once because of the linking between the contribution and the accounting modules.
- Any donations made to the different contribution funds listed will be detailed on the contribution statement given to the donor at the end of year.
- The $6,000 is correctly reported on the financial statement as revenue.
- The cash and revenue are properly allocated between the unrestricted fund (General Fund) and temporarily restricted funds (Stained Glass Window and Technology Upgrade funds).
- The church can keep track of what money came in and how the money was spent for each fund by running a Statement of Financial Position (Balance Sheet) and a Statement of Activities (Income Statement) per accounting fund.

- Linking different contribution and accounting funds to one general ledger account streamlines the chart of accounts and does not make financial statements unnecessarily cumbersome.
- The church can create different accounting funds while still maintaining just one checkbook.

**Cons**

- None!

# Tracking Funds Using Revenues and Expenses

The church could set up the separate Contribution funds as outlined above and then open two additional checking accounts — one for the Stained Glass Window money and one for the Technology Upgrade money. They could then set up separate general ledger revenue accounts called "Contributions Revenue" for the general offerings, "Stained Glass Window Revenue" for the stained glass window donations, and "Technology Upgrades Revenue" for the technology upgrades donations.

They could also set up an Accounting fund called "General Fund" in the accounting module. This "General Fund" would be designated as an Unrestricted Net Asset. They would assign all of the revenue accounts to the General Fund. When money is spent for the stained glass window, it is paid out of the separate checkbook and a separate expense account is added to the chart of accounts called "Stained Glass Window Repairs" expense. Depending on the contribution linking mechanism it may be more difficult because of multiple checkbooks, but a good solution can do it.

**The church would need to make the following manual accounting entries for these transactions:**

| | Debit | Credit | Fund Assignment |
|---|---|---|---|
| Cash — Checking #1 | $3,000 | | General Fund |
| Contributions Revenue | | $3,000 | General Fund |
| | | | |
| Cash — Checking #2 | $1,000 | | General Fund |
| Stained Glass Window Revenue | | $1,000 | General Fund |
| | | | |
| Cash — Checking #3 | $2,000 | | General Fund |
| Technology Upgrade Revenue | | $2,000 | General Fund |

**Pros**

- Any donations made to the different contribution funds listed will be detailed on the contribution statement given to the donor at the end of year.
- The $6,000 is correctly reported on the financial statement as revenue.

**Cons**

- The church has used up valuable time and resources by adding two additional checking accounts. These checking accounts need to be maintained, check stock ordered, and the bank statements reconciled.
- The church is not able to produce financial statements by fund.
- The church isn't properly reporting their Net Assets (equity) section of their Statement of Financial Position (Balance Sheet).
- Accounting guidelines require that Net Assets be presented as unrestricted, temporarily restricted, or permanently restricted. With this solution, the net assets are showing everything as unrestricted.

# Tracking Funds Using Liabilities

Same Solution as #2 above, except that the church sets up two new general ledger liability accounts for the stained glass window donations and for the technology upgrade donations. These general ledger accounts are "Stained Glass Window Payable" and "Technology Upgrade Payable". When money is spent for the stained glass window, it is paid out of the separate checkbook and it is recorded as a debit to the liability account.

**The church would need to make the following manual accounting entries for these transactions:**

| | Debit | Credit | Fund Assignment |
|---|---|---|---|
| Cash — Checking #1 | $3,000 | | General Fund |
| Contributions Revenue | | $3,000 | General Fund |
| | | | |
| Cash — Checking #2 | $1,000 | | General Fund |
| Stained Glass Window Liability | | $1,000 | General Fund |
| | | | |
| Cash — Checking #3 | $2,000 | | General Fund |
| Technology Upgrade Liability | | $2,000 | General Fund |

**Pros**

- Any donations made to the different contribution funds listed will be detailed on the contribution statement given to the donor at the end of year.

**Cons**

- The church has used valuable time and resources by adding two additional checking accounts. These checking accounts need to be maintained, check stock ordered, and the bank statements reconciled.
- The church is not able to produce financial statements by fund.
- Accounting guidelines require that Net Assets be presented as unrestricted, temporarily restricted, or permanently restricted. With this solution, they are showing everything as unrestricted.
- The church is not properly reporting the stained glass window or the technology upgrade donations. These amounts should be recorded as revenue and not as liabilities.

# Conclusion

As our examples in this series illustrate, there are often many ways to get to the seemingly same end result.

At first glance, it appeared the solutions would all yield the same results, but not all of them do. The Pros and Cons of your method can be hard to foresee. You should spend time looking at how your accounting system is structured and asking yourself the following questions:

- Am I in compliance with accounting standards?
- Am I making the most efficient use of our time, talent, and resources or can software help me streamline some of our current processes?
- Am I producing financial statements and reports that are meaningful to users (e.g. pastor, board of directors, finance committee, church members)?

If you are using a good church accounting software package and organizing it correctly, you can answer "yes" to all of the above questions.

# 8 Balance Sheet Explained: Statement of Financial Position

## One Checkbook and Multiple Funds

In the past churches would open up separate checkbooks to keep the money for the various funds separated because software was not yet developed that could handle fund accounting. Modern software has opened the door to fund accounting. Fund accounting simplifies the process. You separate one checkbook into multiple funds with individual balances.

We'll use a pizza pie to illustrate fund accounting. Each fund's balance, or net amount, is a slice of the pizza pie. To keep our example simple and just get across the main idea, we will not have any liabilities. If we apply numbers, the entire pizza pie is worth $1,000.00. (Yes, we realize that is an outrageous price for a pizza pie.)

| Fund Name | Amount of Slice |
|---|---|
| The Youth Fund's Slice is: | $400.00 |
| The General Fund's Slice is: | $500.00 |
| The Mission Fund's Slice is: | $100.00 |
| **The Total of all Funds is:** | **$1,000.00** |

**The total still equals $1,000.00, but each fund has its respective slice of the pizza pie representing its net worth.** The General Fund owns the largest slice and the Mission Fund the smallest.

This does not mean either fund is more important than the other, only that one fund owns more than the other. In fact, a common church process that's not in compliance is taking in all money through the General Fund and then distributing it to other funds. This suggests a hierarchical structure where the General Fund oversees the other funds, including restricted funds, and co-mingles the funds.

On the other hand, our pizza-pie, fund-accounting approach keeps the restricted and unrestricted slices of the checking account separated.

# Difference of For-Profit and Nonprofit Accounting Examples

## The organization receives a Telephone Utility invoice for $150.00

**For-Profit Method —** According to for-profit accounting procedures, the double entry accounting would state the following:

| Account Name | Debit | Credit |
|---|---|---|
| Checking | | $150.00 |
| Telephone Expense | $150.00 | |

This would not work or be in compliance with FASB for nonprofits because we do not know which fund — remember funds are the slices of pizza pie — should be reduced to pay this bill, therefore adjusting the overall balance of the checkbook and the net amount of the fund. Fund accounting solves all these issues because you choose which fund should pay for this expense. In the example below, the General Fund pays for this monthly bill; therefore, it is annotated with the General Fund on both sides of the transaction.

**Nonprofit Method —** According to the nonprofit organization accounting procedures, the double entry accounting would state the following:

| Account Name | Debit | Credit | Fund |
|---|---|---|---|
| Checking | | $150.00 | General Fund ($150.00) |
| Telephone Expense | $150.00 | | General Fund ($150.00) |

The left side of the transaction mirrors the for-profit method; however, the addition of the Fund category is the key. Now the new balances for each slice of pie should be the following:

| Fund Name | Amount |
|---|---|
| The Youth Fund still owns: | $400.00 |
| The General Fund is reduced: | $350.00 ($500.00 - $150.00 = $350.00) |
| The Mission Fund still owns: | $100.00 |
| **Total** | **$850.00** |

## Advantages of Fund Accounting

Fund accounting empowers the church by giving it the ability to see financial reports for the whole pizza pie as well as for each slice. A fund accounting system can produce a statement of financial position just for the General Fund that would show $350.00 in the checkbook, which is the net amount (worth) of the General Fund. Additionally, a statement of financial position for the Youth Fund would only show $400.00. A statement of financial position for all funds would show the entire $850.00 in the checkbook. Additionally, the statement of financial position could show the Net Assets as a lump sum or break it down for each fund in the restricted, unrestricted, or temporarily restricted categories. This type of report is typically called a consolidated statement of financial position.

# Advanced Techniques

Fund accounting allows you to use fewer, more generic account names, like having a Telephone Expense account instead of a Pastor Telephone Expense and a

Youth-Pastor Telephone Expense. These generic names minimize the Chart of Accounts and simplify reporting.

The following example will show a telephone bill that is split between the General and Youth Funds. Notice the same generic accounts—Checking and Telephone Expense—are used for **both pastors but are applied to different funds.**

| Account Name | Debit | Credit | Fund |
|---|---|---|---|
| Checking | | $100.00 | $100.00 General Fund |
| Telephone Expense | $150.00 | | $100.00 General Fund |
| Checking | | $50.00 | $50.00 Youth Fund |
| Telephone Expense | $50.00 | | $50.00 Youth Fund |

| Fund Name | Amount |
|---|---|
| The Youth Fund is reduced: | $350.00 ($400.00 – $50.00 = $350.00) |
| The General Fund is reduced: | $400.00 ($500.00 – $100.00 = $400.00) |
| The Mission Fund still owns: | $100.00 |
| **Total** | **$850.00** |

The Statement of Financial Position for the General Fund would show $400.00 in the checkbook as the net amount (worth). The user should be able to create a report for the Youth Fund and only see $350.00 on the balance sheet as the net amount (worth). If the user ran a Statement of Financial Position for all funds, it would still show the entire $850.00.

# 9 Profit and Loss Explained: Statement of Financial Activities

The Statement of Activities is the non-profit equivalent to an Income Statement and was developed so organizations could track their revenues and expenses by fund. It is a required financial statement for any size nonprofit organization, just like the Statement of Financial Position. (See the chapter on the statement of financial position for more information.)

To help clarify how a Statement of Activities works, we will compare it to "The Big Game". Just like football, teams are penalized when they don't follow the rules. Nonprofits can have expenditures paid from the wrong ministry, revenue mis-management, and other problems which can invoke penalties.

Just like in football, where all of the players are assigned a jersey number to identify them and their team, fund accounting uses the chart of accounts and specific funds to identify transactions.

Every team has its own sources of revenue and its own expenses. Let's use the teams from New York (NY Fund) and New England (NE Fund) to represent the funds in the church. The following revenue and expense transactions happened between the date February 1st and February 29th of 2012. In preparation for the Big Game, each team has their revenues and expenses.

**New York Team**

| Revenue Accounts | Amount |
|---|---|
| T-Shirt | $1,000.00 |
| Ticket Sales | $1,200.00 |

| Expense Accounts | Amount |
|---|---|
| Bus Travel | $1,500.00 |
| Airplane Travel | $0 |

**New England Team**

| Revenue Accounts | Amount |
|---|---|
| T-Shirt | $2,500.00 |
| Ticket Sales | $1,000.00 |

| Expense Accounts | Amount |
|---|---|
| Bus Travel | $0 |
| Airplane Travel | $3,000.00 |

The Statement of Financial Activities is created based on a date range and not an end date like the Statement of Financial Position (church balance sheet).

Both teams can incur expenses for airplane travel, bus travel, or both; however, in the month of February, one team traveled by bus while the other traveled by airplane. Both teams made revenue in T-shirt and ticket sales.

**How would the Statement of Activities look for each team?**

**New York Team**

**Statement of Activities**

**Month Ended February 29, 2012**

**New England Team**

**Statement of Activities**

**Month Ended February 29, 2012**

Looking at the above examples would answer questions like which team may need some financial support from the league. Commissioner Roger Goodell can review these individual statements and see which teams are hurting financially

| | | | |
|---|---|---|---|
| **Revenue** | | | |
| T-shirt | $1,000.00 | | |
| Ticket Sales | $1,200.00 | | |
| **Revenue Total** | | **$2,200.00** | |
| | | | |
| **Expenditures** | | | |
| Bus Travel | $1,500.00 | | |
| Airplane Travel | $0.00 | | |
| **Expenditure Total** | | **$1,500.00** | |
| **Total Net Revenue** | | | **$700.00** |

| | | | |
|---|---|---|---|
| **Revenue** | | | |
| T-shirt | $2,500.00 | | |
| Ticket Sales | $1,000.00 | | |
| **Revenue Total** | | **$3,500.00** | |
| | | | |
| **Expenditures** | | | |
| Bus Travel | $0.00 | | |
| Airplane Travel | $3,000.00 | | |
| **Expenditure Total** | | **$3,000.00** | |
| **Total Net Revenue** | | | **$500.00** |

or which teams are able to cover their expenses. In this case, the New England team would need some help financially to keep pace with the New York team.

What would a consolidated Statement of Activities look like? By answering this question, Roger Goodell can review how the NFL is doing overall and report to the various stakeholders.

| | | | |
|---|---|---|---|
| **Football Organization** | | | |
| **Consolidated Statement of Activities** | | | |
| **Month Ended February 29, 2012** | | | |
| **Revenue** | | | |
| T-shirt | $3,500.00 | | |
| Ticket Sales | $2,200.00 | | |
| **Revenue Total** | | **$5,700.00** | |
| | | | |
| **Expenditures** | | | |
| Bus Travel | $1,500.00 | | |
| Airplane Travel | $3,000.00 | | |
| **Expenditure Total** | | **$4,500.00** | |
| **Total Net Revenue** | | | **$1,200.00** |

On the consolidated statement, every expense and revenue would be listed on one line combining the individual items from the prior two statements. So for example, T-shirt sales were $1,000.00 (for the New York team) and $2,500.00 (for the New England team). The consolidated statement would show $1,000.00 + $2,500.00 = $3,500.00. The same method is used for each line item on the Statement of Activities.

Imagine if you had this type of reporting for your various individual ministries and your organization overall? The ministry leaders would know instantly what is coming in for revenues and what is going out for expenses in each ministry. The church board would have a consolidated statement showing how the organization is doing over all.

# Advanced Techniques

Generic accounts minimize the Chart of Accounts and simplify reporting (e.g. having one Travel Expense instead of a NY Travel Expense and a NE Travel

Expense). The following example will show a travel expense that is split between the NE team and the NY team funds. Notice the same generic accounts — T-shirt sales, ticket sales, bus travel and airplane expenses — are used for both funds.

**Income Transactions for the T-shirt Revenue Account**

| | Debit | Credit | Fund |
|---|---|---|---|
| Checking | $1,000.00 | | $1,000.00 NY Team |
| T-shirt Revenue | | $1,000.00 | $1,000.00 NY Team |
| Checking | $2,500.00 | | $2,500.00 NE Team |
| T-shirt Revenue | | $2,500.00 | $2,500.00 NE Team |

The checking account would increase a total of $3,500.00 ($1,000.00 + $2,500.00), yet within the checkbook, the NY Fund would own $1,000.00 and the NE Fund would own $2,500.00.

**Income Transactions for the Ticket Revenue Account**

| | Debit | Credit | Fund |
|---|---|---|---|
| Checking | $1,200.00 | | $1,200.00 NY Team |
| Ticket Revenue | | $1,200.00 | $1,200.00 NY Team |
| Checking | $1,000.00 | | $1,000.00 NE Team |
| Ticket Revenue | | $1,000.00 | $1,000.00 NE Team |

The checking account would increase a total of $2,200.00 ($1,200.00 + $1,000.00), yet within the checkbook, the NY Fund would own $1,200.00 and the NE Fund would own $1,000.00.

The grand total in the checkbook would increase $5,700.00, the same as the grand revenue from the consolidated statement.

**Expenditure Transactions for the Travel Expenses**

| | Debit | Credit | Fund |
|---|---|---|---|
| Checking | | $1,500.00 | $1,500.00 NY Team |
| Bus Travel Expense | $1,500.00 | | $1,500.00 NY Team |

Notice that because the New England Team did not travel by bus, there is no entry for them.

| | Debit | Credit | Fund |
|---|---|---|---|
| Checking | | $3,000.00 | $3,000.00 NE Team |
| Airplane Expense | $3,000.00 | | $3,000.00 NE Team |

Notice that because the New York Team did not travel by airplane, there is no entry for them.

If a user ran the Statement of Activities by team (fund), the New York Team would show Bus Travel at $1,500.00 and New England Team at $3,000.00 for Airplane Travel. The consolidated amount is $4,500.00, $1,500.00 from the NY Fund and $3,000.00 from the NE Fund.

# 10 Definitions

## Accounting

**Accounting** is a systematic process of identifying, recording, measuring, classifying, verifying, summarizing, interpreting and communicating financial information. It reveals profit or loss for a given period, and the value and nature of a firm's assets, liabilities and owners' equity.

It is the practice and body of knowledge concerned primarily with

1. methods for recording transactions.
2. keeping financial records.
3. performing internal audits.
4. reporting and analyzing financial information to management.
5. advising on taxation matters.

Accounting provides information on

1. the resources available to a firm.
2. the means employed to finance those resources.
3. the results achieved through their use.

## Accounting Fund

An **accounting fund** is a means by which the church can track the sources and uses of cash by whether they are unrestricted, temporarily restricted, or permanently restricted. It's a financial reserve that traces a church's use of money for a specific purpose. This is in accordance with generally accepted accounting principles (GAAP).

# Bookkeeping

**Bookkeeping** is the systematic recording of financial aspects of business transactions in appropriate books of account.

# Chart of Accounts

General ledger accounts are used to keep track of the financial transactions of the church by five main categories: assets, liabilities, net assets, revenue, and expenses. Within these categories, there can be many accounts. All of the general ledger accounts together make up the financial statements and together form the **chart of accounts**. An example of a general ledger account is "Insurance Expense" which keeps track of how much insurance the church pays over the course of a year. A good church software system will allow the user to set up a general ledger account and assign different accounting funds to it.

# Contribution Fund

A **contribution fund** is a fund that is set up within the contribution module of the software package. It is used to keep track of donations and report back to the donors how much and into which areas they donated (e.g. general operations, a particular memorial, the youth fund).

At the end of the year, the contribution funds will be listed on the individual member contribution statements and will provide a total per fund along with an overall yearly total of contributions made. Notice there has been no mention made of what accounting fund or what general ledger account the contribution fund should be posted to. That will come later in the series. For now, the contribution funds stand alone — except to say that when contributions are entered into a software system it would be nice if they didn't have to be entered twice (i.e. once in a contribution module and again in the accounting module).

# Fund Accounting Software

**Fund accounting software** allows the contributions entered in the contribution module to flow directly into the accounting module, eliminating the need to enter the contributions twice.

# Net Asset

**Net Assets** is the term given to the equity section of the balance sheet (renamed the Statement of Financial Position).

## Types of Net Assets

**Unrestricted Net Assets** are net assets that are neither temporarily restricted nor permanently restricted. Therefore, they include all net assets with uses not restricted by donors or by law (e.g. a donor gave money to the church and did not stipulate how the money was to be spent). The general fund is an example of an unrestricted net asset.

**Temporarily Restricted Net Assets** are assets whose use is limited by either donor-imposed time or purpose restrictions. Time restrictions require resources to be used within a certain period of time or after a specified date. Purpose restrictions require resources to be used for a specified purpose (e.g. a donor gave money to the church to purchase a new organ; once the organ is purchased, the restriction is released).

**Permanently Restricted Net Assets** are those that the donor stipulates must be maintained by the organization in perpetuity. Permanently restricted net assets increase when organizations receive contributions for which donor-imposed restrictions limiting the organization's use of an asset or its economic benefits neither expire with the passage of time nor can be removed by the organization's meeting of certain requirements (e.g. a donor gave money to the church for the purpose of the building or organ or other donor-specified stipulation).

## Non-Cash Contributions

Non-cash contributions are also known as gifts in kind. They can be anything from office supplies, computer equipment, books, and stocks to real estate and automobiles.

# 11 Bonus: Check Your Learning

Now that you have learned the basics, use the following questions to test your knowledge of fund accounting. You can give this quiz to your peers and compare your scores. You can even use this quiz as an assessment when hiring staff or selecting volunteers that will be handling the church's finances.

## The Quiz

1. Which of the following is a type of Net Asset:
   a. Restricted
   b. Temporarily Restricted
   c. Unrestricted
   d. All of the above
2. In fund accounting, the Statement of Financial Position is equivalent to the
   a. Balance Sheet
   b. Income Statement
   c. Statement of Owner's Equity
   d. Statement of Cash Flows
3. In fund accounting, the Statement of Financial Activities is equivalent to the
   a. Balance Sheet
   b. Income Statement
   c. Statement of Owner's Equity
   d. Statement of Cash Flows
4. What are the disadvantages of using revenue accounts to track funds?
   a. The church has added valuable time and money to limited resources by adding two additional checking accounts. These checking accounts need to be maintained, check stock ordered, and the bank statements reconciled.
   b. The church is not able to produce financial statements by fund.

   c. The church is not properly reporting the Net Asset section of the Statement of Financial Position. Accounting guidelines require that Net Assets be presented as unrestricted, temporarily restricted, or permanently restricted. With this solution, everything would be classified as unrestricted.
   d. All of the above
5. True or False: The church can lose its tax exempt status if it doesn't follow proper fund accounting guidelines.
6. Fund Accounting is an accounting system used by nonprofit organizations and governments. It places an emphasis on ——————— rather than profitability.
7. The organization that establishes financial accounting and reporting standards is ——————–.
8. Explain the difference between accounting and contribution funds.

# Answer Key

1. D
2. A
3. B
4. D
5. True
6. Accountability
7. Financial Accounting Standards Board (FASB)
8. An accounting fund is a means by which the church can track the sources and uses of cash according to if they are unrestricted, temporarily restricted, or permanently restricted. This is in accordance with generally accepted accounting principles (GAAP). A contribution fund is a fund that is set up within the contribution module of the software package. It is used to keep track of donations and report back to the donors how much and into which areas they donated money (e.g. general operations, a particular memorial, the youth fund).

# 12 About Icon Systems, Inc.

## The Company

**Icon Systems, Inc.** has been a leader in church management software for 20 years. We develop high quality software for religious organizations, from church plants to denominational offices. Always improving, we're committed to continually enhancing our cloud-based church management solutions so we can meet churches' ongoing needs for efficient administration, effective communication and accurate accounting.

Icon Systems has three main offerings:

1. **IconCMO** is a truly web-based church management solution for individual churches.
2. **IconCMO+** is a web-based multisite church management solution for multisite churches and churches with denominational offices on the local, national, and international level.
3. **Rubix** is our newest program designed with realtime collaboration, and unprecedented flexibility.

Icon Systems' deep heritage of software engineering has given us an edge in making products with unprecedented performance, reliability and customer satisfaction.

We serve organizations of all different denominations and sizes — from small churches consisting of less than 50 families to large multi-site organizations consisting of 20,000 or more families. Many of the church staff and volunteers are on a first name basis with our team members, and we couldn't ask to work with a better group of people!

# 13 Thank You!

Icon Systems, Inc. would like to thank you for reading this e-book about accounting for churches. We hope it has enriched your ministry. We welcome any questions you may have about this e-book or fund accounting software. Please contact us by calling (218) 236-1899 or by sending an email to **support@iconcmo.com**.

Are you ready to try fund accounting?

Check out our **church accounting software**.

Register for a free 10-day trial of our all-in-one **church management software**.

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