



## Understanding Fund Accounting Software - What do you mean “Fund Accounting”?

Some church treasurers still keep manual accounting books. Others believe that any commercial accounting package will do. Some are even using home checkbook-type programs to do church books. These all seem like logical choices—so, why aren't they?

Why are traditional accounting books, commercial packages and personal finance software programs often not the most cost and time efficient paths to take to record church finances? To understand the ramifications of this question, we need to understand the difference between a commercial or personal accounting system and one specifically designed for churches.

Basically, it is a matter of “funds.” So, what exactly is a fund and how is a fund accounting program different from commercial or personal accounting? An example is this:

- When you receive your \$100 electric bill, write the check, and send it off, you do not tell the electric company what to do with the \$100.
- However, when you give \$100 to the church, you may inform them to put \$50 toward the operating budget, \$25 toward the renovation of the organ, send \$10 to a missionary, and \$15 to the local food pantry.

These four divisions of your gift represent the funds to which you are donating money. A good church accounting program has a method that keeps these monies separate, so tracking and reporting on them is a breeze.

### The word “Fund”

A confusing part of setting up a fund accounting system is to understand the word **fund** itself. A fund is NOT an asset account, a checking account or savings account. The definition of a fund is “an accounting entity which needs to be kept separate, having its own source(s) of income and its own expenses”.

- The Building Fund committee chair wants to know exactly how much money is in the building fund – how they started the year, what money came in, how much they spent and what remains.
- The Missions Fund chairperson needs to know the exact same information but for the missions fund.
- The same is true for the Memorial Fund chair and down the line.

Each wants their fund information kept separate from the others. However, this does **not** mean that the money itself must be stored in different places. All of the money for each “entity” of the church can be stored in one checking account or many different asset accounts.

A church with a multi-million dollar annual budget, set up 30 different funds but only had one Asset account – a checking account. Conversely, another church setup had three funds and 15 different asset accounts, including checking, savings, money markets, CD's and stock accounts. By looking at the **Fund Balance** accounts, the churches would know how much money was available in each fund. A monthly Fund Activity report including the fund's beginning balance, income, expenses, and ending balance shows each fund's activity.

**41st Church of Anytown - Columbus OH**  
**Consolidated Fund Activity Report as of 12/31/20**

Account#	Account Name	Beg Balance	Receipts	Disbursements	Transfers/IEs	Page 1 of 1 End Balance
3.10.100	General Operating Fund Balance	73,274.71	57,900.14	71,151.37	0.00	60,023.48
3.20.100	Building Fund Balance	166,386.01	9,785.00	0.00	0.00	176,171.01
3.25.100	Education Building Fund Balance	19,936.55	0.00	0.00	0.00	19,936.55
3.30.100	Mission Fund Balance	36,605.84	795.00	0.00	0.00	37,400.84
3.40.100	<i>Memorial Fund Balance</i>					
3.40.110	John Joseph Memorial Fund Balance	2,325.00	32,425.00	0.00	0.00	34,750.00
3.40.150	James West Fund Balance	6,155.00	0.00	0.00	0.00	6,155.00
3.40.120	Elliott Achedia Memorial Fund Balance	8,060.00	0.00	0.00	0.00	8,060.00
3.50.100	Tiny Tots Preschool Fund Balance	12,602.00	0.00	0.00	0.00	12,602.00
3.60.100	ASPCA Fund Balance	5,225.00	0.00	0.00	0.00	5,225.00
3.90.100	Net Fixed Asset Fund Balance	1,280,500.00	0.00	0.00	0.00	1,280,500.00
<b>Total</b>		<b><u>\$1,611,070.11</u></b>	<b><u>\$100,905.14</u></b>	<b><u>\$71,151.37</u></b>	<b><u>\$0.00</u></b>	<b><u>\$1,640,823.88</u></b>

Once the concept of a fund is clear, the first task in setting up a chart of accounts is to make a list of the church funds. Typically, churches will have one big fund labeled "operating fund" or "general fund" plus other funds. Some churches have five or six other funds; some have 60-70 other funds. The qualifier is usually how detailed the reporting needs to be and whether or not the money carries over from year to year.

### The Chart of Accounts

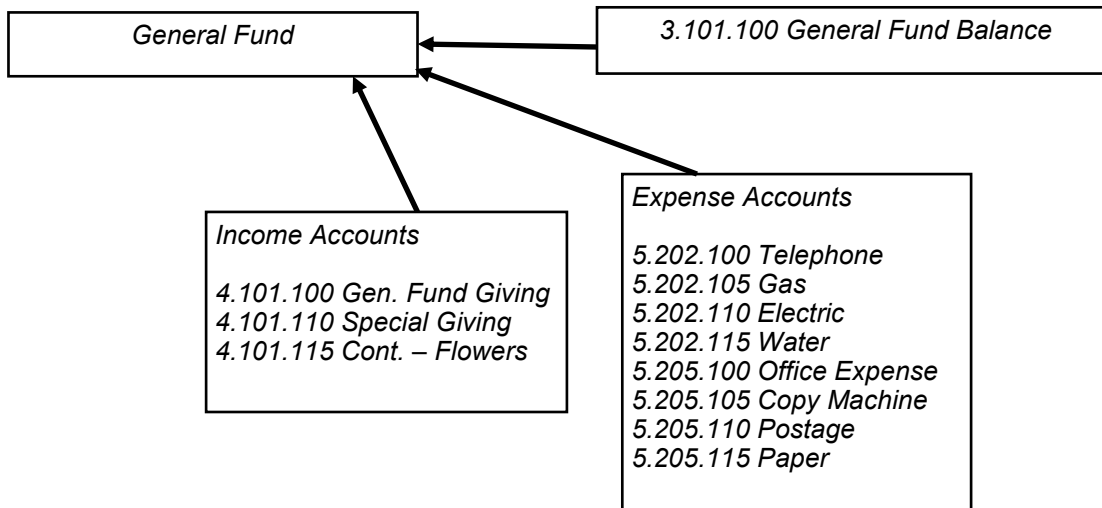
In a chart of accounts within a fund accounting package, standard accounting procedures should be followed. The system should practice a double-entry system and standard accounting numbering should be used. The first number in a chart of accounts designates the broad category for the type of account. Account line items that begin with a "1" are Assets- checking accounts, savings accounts, money markets, CDs, etc. Accounts that begin with a "2" are Liabilities - payroll withholdings, mortgages and loans, accounts payables, and pass throughs. Accounts that begin with a "4" are Income - money coming in either through donations, building rental, interest on savings accounts, etc. Accounts that begin with a "5" are Expenses - salaries, utilities, mission and programming.

The difference here is the accounts that begin with number "3". In a fund accounting program, these are the "Fund Balance" accounts. In a well-designed program, by looking at these line items, users know instantly how much money is in an individual fund since each has only one fund balance account. These number "3" accounts compare to common stock accounts, retained earnings accounts, etc. in a commercial package.

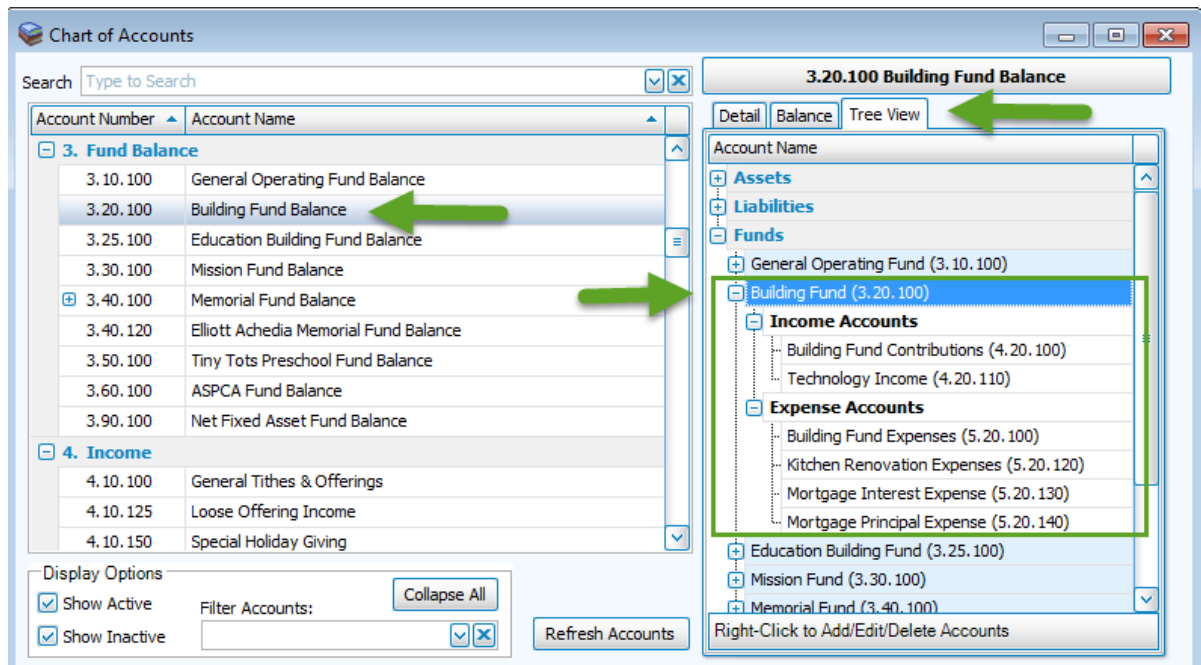
## Linking

A fund balance increases as income is received and decreases as expenses are recorded. Fund accounting software programs accomplish account linkages in different ways. In Church Windows, all income and expense accounts are attached to a specific fund in the chart of accounts setup.

Here is a diagram of the linkages:

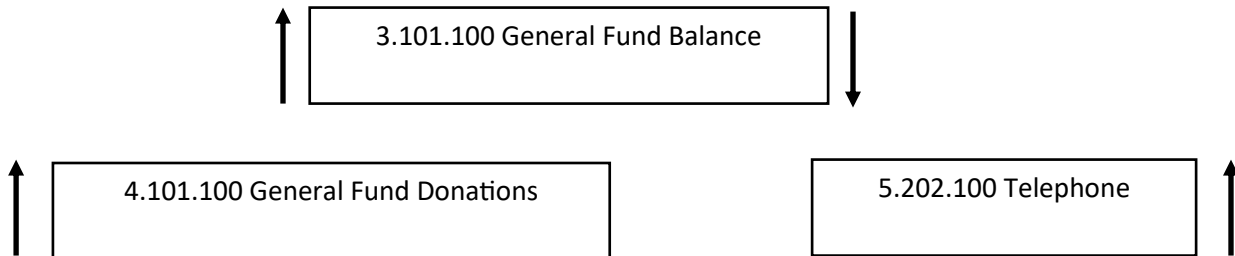


Go to Manage Accounts>View>on the Chart of Accounts highlight the fund and click on Tree View. Expand the Income and Expense Accounts to see the accounts linked to the fund.



### What happens when money flows in and out of the accounting module?

The fund balance account is automatically updated when you post income or expenses to the system. When money comes in, either from a donation or some other income source, the income account increases and the fund balance account goes up.



When an expense is posted -- the telephone bill, for instance --the expense line item goes up, indicating that the church has spent more money for the phone, and the fund balance now has less money available.

### Balancing

Every trade or profession has its rules. In accounting, one of those rules is the equation:  $Assets = Liabilities + Fund\ Balances$ . Another rule is that every entry must affect at least two accounts, with debits equaling credits. When the equation is in balance, you know that all recorded transactions have been entered with equal amounts of debits and credits.



$$Assets = Liabilities + Fund\ Balances$$

To assist in understanding this concept, go back to the initial discussion of the basic set-up of the accounting program. In a perfect world where we had no Liabilities, Assets would equal Fund Balances.

A simple example: your church might have four funds-- General Fund, Building Fund, Missions Fund, and Memorial Fund. You have one Asset account – your checking account.

Checking account balance = \$10,000

General Fund Balance	\$7,000
Building Fund Balance	\$1,000
Missions Fund Balance	\$1,000
Memorial Fund Balance	\$1,000

We are "in balance"!

Diversifying our assets and putting the liabilities in:

Checking	\$8,000
Savings	\$2,000

Payroll tax liability	\$350
General Fund Balance	\$6,650
Building Fund Balance	\$1,000
Missions Fund Balance	\$1,000
Memorial Fund Balance	\$1,000

We are still in balance!

A sample Balance Sheet from Church Windows:

41st Church of Anytown - Columbus OH			
Balance Sheet as			
Account #	Account Name	Beginning Balance	YTD Balance
<b>Assets</b>			
<i>Current Assets</i>			
1.10.100	Huntington Bank Checking	182,170.12	133,339.88
1.10.105	Petty Cash Account	350.00	350.00
1.10.110	Fifth Third Savings	35,156.27	35,156.27
1.20.100	National City CD #3456466	62,995.58	62,995.58
1.30.100	Lynch Schwab Investments	7,093.46	7,093.46
	<b>Total Current Assets &amp; Investments</b>	<b>\$287,765.43</b>	<b>\$238,935.19</b>
<i>Fixed Assets</i>			
1.50.100	Land & Buildings	1,200,000.00	1,200,000.00
1.50.120	Furniture & Equipment	300,000.00	300,000.00
	<b>Total Fixed Assets</b>	<b>\$1,500,000.00</b>	<b>\$1,500,000.00</b>
	<b>Total Assets</b>	<b>\$1,787,765.43</b>	<b>\$1,738,935.19</b>
<b>Liabilities</b>			
<i>Payroll Liabilities</i>			
2.10.100	941 Taxes Payable	6,726.02	4,571.72
2.10.110	State Taxes Payable	624.00	189.00
2.10.120	City/County Taxes Payable	371.92	1,150.86
2.10.130	Pension Payable	2,110.43	3,087.13
2.10.150	Flexible Spending	3,900.00	4,275.00
	<b>Total Payroll Liabilities</b>	<b>\$13,732.37</b>	<b>\$13,273.71</b>
<i>Current Liabilities</i>			
2.20.100	Accounts Payable	5,291.78	5,291.78
2.30.000	Pass Through Accounts		
2.30.020	Crop Walk	455.00	465.00
2.30.050	Disaster Relief Recovery	1,225.00	1,275.00
	<b>Total Pass Through Accounts</b>	<b>\$1,680.00</b>	<b>\$1,740.00</b>
	<b>Total Current Liabilities</b>	<b>\$6,971.78</b>	<b>\$7,031.78</b>
<i>Long Term Liabilities</i>			
2.90.100	Mortgage Payable	225,500.00	225,500.00
	<b>Total Long Term Liabilities</b>	<b>\$225,500.00</b>	<b>\$225,500.00</b>
	<b>Total Liabilities</b>	<b>\$246,204.15</b>	<b>\$245,805.49</b>
<b>Fund Balances</b>			
3.10.100	General Operating Fund Balance	(39,239.12)	(93,316.70)
3.20.100	Building Fund Balance	176,171.01	177,641.01
3.25.100	Education Building Fund Balance	19,936.55	19,936.55
3.30.100	Mission Fund Balance	37,400.84	38,743.84
3.40.100	Memorial Fund Balance		
3.40.110	John Joseph Memorial Fund Balance	34,750.00	37,583.00
3.40.120	Elliott Achedia Memorial Fund Balance	8,060.00	8,060.00
3.40.150	James West Fund Balance	6,155.00	6,155.00
	<b>Total Memorial Fund Balance</b>	<b>\$48,965.00</b>	<b>\$51,798.00</b>
3.50.100	Tiny Tots Preschool Fund Balance	12,602.00	12,602.00
3.60.100	ASPCA Fund Balance	5,225.00	5,225.00
3.90.100	Net Fixed Asset Fund Balance	1,280,500.00	1,280,500.00
	<b>Total Fund Balances</b>	<b>\$1,541,561.28</b>	<b>\$1,493,129.70</b>
	<b>Total Liabilities and Fund Balances</b>	<b>\$1,787,765.43</b>	<b>\$1,738,935.19</b>

## Audit Trail

Many churches today still use either a manual accounting system or a personal accounting program. One of the dangers of these methods is that in many systems you can actually CHANGE a transaction. In order to leave an audit trail to satisfy an auditor and the finance committee of the church, this should not happen! If you make an error, a reversal or a correcting entry should be entered. Many times, people will call for support on their accounting package and ask if they can simply change something they entered so it appears no mistake was made. Know that the committee and/or auditor **want** to see the original entry **and** the correction or reversal **and** the corrected entry. This way, there can be no doubt about the reliability of the books. Too often, even in the church, monies are "loosely" accounted for or innocently "misplaced." And unfortunately, even in the church, dishonest people do try to misuse or embezzle money. A good audit trail is important in evaluating a particular software program.

## Integrated Data

One additional advantage of choosing a church-specific fund accounting program is its ability to integrate data. Information is coordinated among the different modules of the program. The Donations module looks to Membership to get names and addresses of givers. Information then flows from the Donations module into the income portion of the Accounting package. Payroll data is automatically calculated and updates the general ledger. A program with these capabilities provides ease in handling the church finances and functions to ensure accuracy.

## Investigating a Fund Accounting Software Package

The most important consideration of an accountant or accounting software program is producing information/reports understandable by the users so that they may make informed decisions. It should be able to generate fund accounting financial statements, provide a wide range of standard reports for committees and be able to generate custom reports.

Next, look at the capabilities of the program. It should allow for expense and income tracking, budgeting and comparison to budget reporting, and check-writing capabilities. An additional option that could be useful is the program's ability to export the data to spreadsheets.

Many churches purchase their first program based on cost, but second-time buyers are concerned with a program's reports and features, as well as the manufacturer and technical support the company offers. Ask for references and talk with actual users. Make sure the company behind the program has an 800-number, fax and e-mail support. A big plus for many customers is a useful website with online support, product updates, newsletters and training information.

Take your time researching church software programs. It is a big investment and one that should "work" for you!