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Faithful Finances Non-Profit Fund Accounting

Parish & School Financial Consulting

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What is Fund Accounting?

16.02 Fund accounting is a system of recording resources whose use may be limited by donors, granting agencies, governing boards, other individuals or entities, or by law. To keep records of these limitations for internal purposes, NFPs that use fund accounting maintain separate funds for specific purposes. Each fund consists of a self-balancing set of asset, liability, and fund balance accounts. Prior to 1996, most NFPs prepared accounting-based external financial statements by combining funds with similar characteristics into fund groups.

Source: Audit and Accounting Guide for Non-Profit Entities. 2018. Published by AICPA.

Also see [FASB ASC 958 for Not-for-Profit Entities](#).

How does Fund Accounting work?

Fund accounting is a bookkeeping system that tracks and manages resources that have specific restrictions on how they can be used.

Group resources by purpose

Fund accounting groups resources into funds based on their intended purpose.

Record transactions

Fund accounting uses accrual accounting to record financial transactions as they happen.

Report funds

Funds are reported as unrestricted, designated, or restricted.

Monitor funds

Fund accounting helps ensure that funds are used as intended.



How does Fund Accounting work?

Fund accounting is like keeping separate piggy banks for different purposes, where each "piggy bank" represents a specific fund with its own money that can only be used for a designated goal, ensuring that it is clear how much is available for each specific project or activity, rather than just having one big pot of money for everything; this is especially important for non-profits to track donations and grants meant for particular causes.

Why is Fund Accounting Important?

- **Accountability:** Fund accounting helps demonstrate accountability and stewardship.
- **Transparency:** Fund accounting helps ensure that money is being used honestly and transparently.
- **Compliance:** Fund accounting helps demonstrate compliance with restrictions.
- **Reputation:** Fund accounting helps maintain an organization's reputation with donors and the public.

Types of Funds

Nonprofits generally have four major types of funds, and those funds are generally organized by donor restriction:

- 1) **General Fund:** This fund covers an organization's day-to-day operations, including staff payroll, rent, and utilities. Donations received without donor restriction can be posted to the operating fund to either fund necessities or for program expansion. It is the nonprofit's choice but still should be tracked to provide transparency to donors.
- 2) **Designated Fund:** This type of fund is created when the finance council of the parish sets aside funds from the General Fund for a specific purpose. Examples include: any affiliated organization or surplus funds set aside for a future capital expenditure of the parish.
- 3) **Restricted Fund:** A restricted fund carries some sort of donor or external requirements, such as whether the funds are used within a certain time period or for a specific initiative or program. Examples might be capital campaign gifts for facility expansion or gifts to expand a program or service over the next year.
- 4) **Endowed Fund:** These gifts generally carry the restriction that the principal must be preserved in perpetuity, but the income generated by the investment of those dollars can be used to fund current programs, projects, or initiatives. Endowments are generally pooled and invested to produce an annual return that can be spent. There are state laws that govern whether endowment earnings can be spent. The overall goal is that the principal should never be below the original gift.

Differences between Fund Accounting and Traditional Accounting

While both fund accounting and traditional accounting share the goal of providing accurate financial information, they differ in certain aspects due to their specific applications.

Below are some key differences:

#	Traditional Accounting	Fund Accounting
1	Within a commercial organization, money can be redirected at any time if the business wants to capitalize on an opportunity.	Nonprofits do not have that flexibility with any of their restricted dollars.
2	Traditional accounting aims to track and measure a business's or business unit's overall financial performance.	Fund accounting focuses on tracking and managing financial resources based on their designated purposes
3	Traditional accounting typically combines all resources into a single financial statement for the company overall.	Fund accounting separates financial resources into distinct funds, allowing for both individual financial statements for each restricted fund and financial statements for the organization overall.
4	Businesses utilizing traditional accounting prioritize profit maximization and shareholder value	In Fund accounting, organizations emphasize accountability and transparency to stakeholders

St. Adelina Fund Accounting

- St. Adelina has 6 different equity funds: a general fund, a designated fund, a fixed asset fund and three different restricted funds.
- The following examples will show how St. Adelina's fund balances change over the 2024-25 fiscal year:

#	Fund Name	Account #	Type	Balance 6/30/2024	Balance 6/30/2025
1	General Fund	2910	Unrestricted	\$396,250	\$775,000
2	Christian Women Fund	2920	Designated	\$10,000	\$8,000
3	Capital Improvement Fund	2890	Restricted	\$100,000	\$0
4	Scholarship Fund	2810	Restricted	\$50,000	\$25,000
5	School Endowment Fund	2820	Restricted	\$750,000	\$580,000
6	Fixed Asset Fund Balance	2930	Unrestricted	\$1,500,000	\$1,643,750

St. Adelina General Fund - Part 1

- When money comes into/out of the parish and/or school, the general fund will either increase or decrease as a result. By default, the income and expense will impact the general fund in almost all parish accounting software. (Some accounting software packages do fund adjustments automatically).
- When revenue come in, the general fund will increase to ensure $\text{Assets} = \text{Liabilities} + \text{Net Assets}$.
- For example: St Adelina had a \$376,750 surplus in FY 2024-25. Throughout the year the following entries were made:

#	Account Number + Name	Debit	Credit
1	1010 General Checking	\$1,751,500	
	3000 Various income accounts		\$1,751,500
2	4000 Various expense accounts	\$1,374,750	
	1010 General Checking		\$1,374,750

- The entries here show that there was more income over the 2024-25 fiscal year than there were expenses.
- At the end of the fiscal year the income and expense accounts are closed to the general fund.

St. Adelina General Fund - Part 2

- On June 30, the 2024-25 fiscal year will close. When it does, the accounting software will zero out all the parish's income and expense accounts so there is a fresh restart for the 2025-26 fiscal year.
- To zero out the income and expense accounts, there will be two entries to Retained Earnings (RE), which is a part of the General Fund.

(Note: In QuickBooks, Retained Earnings (RE) will be its own account.)

- Below are the closing entries to the general fund for St. Adelina:

#	Account Number + Name	Debit	Credit
1	3000 Various income accounts	\$1,751,500	
	2910 General Fund / RE		\$1,751,500
2	2910 General Fund / RE	\$1,374,750	
	4000 Various expense accounts		\$1,374,750

- These entries will make all the income and expense accounts zero, as well as increase the general fund by \$376,750 (\$1,751,500 - \$1,374,750).
- No adjustments need to be made since the general fund is where all activity occurs.

St. Adelina Christian Women Designated Fund

- During FY 2024-25, St. Adelina Christian Women had a fund raiser and raised \$1,500. They also had a weekend retreat that cost \$3,500.
- Any time income or expense comes in for a designated fund, there needs to be an accompanying fund transfer between the general fund and designated fund.

#	Account Number + Name	Debit	Credit
1	1010 General Checking	\$1,500	
	3060 Donation - unrestricted		\$1,500
2	2910 General Fund	\$1,500	
	2920 Christian Women Fund		\$1,500
3	4000 Various Expense Accounts	\$3,500	
	1010 General Checking		\$3,500
4	2920 Christian Women Fund	\$3,500	
	2910 General Fund		\$3,500

- The first two entries record income and the fund adjustment for Christian Women.
- The third and fourth entries record the expense and adjustment to the fund balance.
- At year end, the fund balance for Christian women was reduced by \$2,000 (\$1,500-\$3,500).

St. Adelina Capital Improvement Restricted Fund - Part 1

- During FY 2024-25, St. Adelina needed to replace the roof, so the parish raised \$50,000 for the \$150,000 capital expenditure.
- Any time there is income or expense for a capital improvement restricted fund, there needs to be an accompanying fund transfer between the general fund and the capital improvement fund.

#	Account Number + Name	Debit	Credit
1	1010 General Checking	\$50,000	
	3060 Donation – restricted		\$50,000
2	2910 General Fund	\$50,000	
	2890 Capital Improvement Fund		\$50,000
3	1730 Buildings	\$150,000	
	1010 General Checking		\$150,000
4	2890 Capital Improvement Fund	\$150,000	
	2910 General Fund		\$150,000

- The first two entries record income and the fund adjustment for the capital improvement fund.
- The third and fourth entries record the fixed asset (increase) and record the adjustment to the fund balance.
- At year end, the fund balance for the capital improvement fund was depleted.

St. Adelina Capital Improvement Restricted Fund - Part 2

- St. Adelina records the first year of depreciation expense for the roof replacement at the end of FY 2024-25, when the roof is placed into service.
- The expected lifespan of the roof is 20 years, or 240 months.
- The roof has a 20-year depreciation schedule, and the parish is using straight line depreciation. The depreciation expense each month will be \$625 ($\$150,000 / 240$ months).
- The roof will have \$0 set as the residual value (value of the asset at the end of its life).
- Below is the entry that would occur every month for 20 years (240 months):

#	Account Number + Name	Debit	Credit
1	4760 Depreciation Expense	\$625	
	1795 Accumulated Depreciation		\$625

- St. Adelina completed the roof replacement at the end of August of 2024 so at the end of the fiscal year they will have 10 months of depreciation for the year.
 $10 \text{ months} \times \$625 = \$6,250$ for the year.

St. Adelina Scholarship Fund - Income

- A donor gave St. Adelina \$5,000 to St. Adelina Scholarship Fund.
- The entries below record the \$5,000 donation and the fund transfer from the general fund to the scholarship fund:

#	Account Number + Name	Debit	Credit
1	1010 General Checking	\$5,000	
	3410 Scholarship Income		\$5,000
2	2910 General Fund	\$5,000	
	2810 Scholarship Fund		\$5,000

St. Adelina Scholarship Fund - Expense

- During FY 2024-25, St. Adelina awarded \$30,000 in Scholarships.
- The entries below show the \$30,000 distribution to various students for education at outside institutions. Any tuition aid for the parish's school would be considered financial aid and recorded differently (not covered in this presentation).

#	Account Number + Name	Debit	Credit
1	4660 Scholarship Expense	\$30,000	
	1010 General Checking		\$30,000
2	2810 Scholarship Fund	\$30,000	
	2910 General Fund		\$30,000

St. Adelina Endowment Fund - Income

- During the year, the endowment received \$30,000 in interest income.
- The first entry below records the income for the endowment.
- The second entry is the fund adjustment to increase the endowment fund due to the investment income.

#	Account Number + Name	Debit	Credit
1	1830 Endowment Investment	\$30,000	
	3470 Investment Income - Restricted		\$30,000
2	2910 General Fund	\$30,000	
	2820 School Endowment Fund		\$30,000

St. Adelina Endowment Fund - Distribution

During FY 2024-25, St. Adelina School wants to disburse \$200,000 to pay for operations. The Endowment Committee voted to grant the disbursement from earnings of the endowment.

#	Account Number + Name	Debit	Credit
1	4785 Restricted Fund Expense	\$200,000	
	3490 Restricted Fund Distribution		\$200,000
2	2820 School Endowment Fund	\$200,000	
	2910 General Fund		\$200,000
3	1010 General Checking	\$200,000	
	1830 Endowment Investment		\$200,000
4	4000 various expense accounts - unrestricted	\$200,000	
	1010 General Checking		\$200,000

When St. Adelina records the distribution there needs to be three entries, plus the expenses:

- 1) Records both the restricted expense and the unrestricted income to operations.
- 2) Fund balance adjustment to reduce the endowment fund and increase the general fund.
- 3) Transfer the amount from the endowment investment account to the general checking account.
- 4) Record various school operating expenses.

St. Adelina Fixed Asset Fund Balance

#	Account Number + Name	Debit	Credit
1	1730 Buildings	\$150,000	
	1010 General Checking		\$150,000
2	2910 General Fund	\$150,000	
	2930 Fixed Asset Fund Balance		\$150,000
3	4760 Depreciation Expense	\$6,250	
	1795 Accumulated Depreciation		\$6,250
4	2930 Fixed Asset Fund Balance	\$6,250	
	2910 General Fund		\$6,250

- When St. Adelina paid for the roof replacement the parish would not record an expense but rather increase fixed assets for the parish.
- When an entry is made to fixed assets the fixed asset fund balance should be adjusted for the same amount.
- At the end of the year when depreciation is recorded, the fixed asset fund balance should be adjusted for the same amount.

Internal Balance Sheet Report – Net Assets

Below is what the net asset section of the Balance Sheet looks like for St. Adelina

Account Name	6/30/2024	6/30/2025
2800 Restricted Net Assets		
2810 Scholarship Fund	\$50,000	\$25,000
2820 School Endowment Fund	\$750,000	\$580,000
2890 Capital Improvement Fund	\$100,000	\$0
Total 2800 Restricted Net Assets	\$900,000	\$605,000
2900 Unrestricted Net Assets		
2910 General Fund	\$396,250	\$775,000
2920 Christian Women Fund	\$10,000	\$8,000
2930 Fixed Asset Fund Balance	\$1,500,000	\$1,643,750
Total 2900 Unrestricted Net Assets	\$1,906,250	\$2,426,750
Total Net Assets	\$2,806,250	\$3,031,750

Confidential Financial Statement – Balance Sheet

NET ASSETS		
Cemetery	0	
Endowment Fund	580,000	
Faith in Our Future	0	
Love One Another	0	
Other Restricted	25,000	
2800 TOTAL RESTRICTED NET ASSETS	605,000	
General Fund	775,000	
Parish Designated	8,000	
Fixed Assets Fund Bal	1,643,750	
2900 TOTAL UNRESTRICTED NET ASSETS	2,426,750	
2800-2900 TOTAL NET ASSETS	3,031,750	
2000- 2900 TOTAL LIABILITIES & NET ASSETS	3,031,750	

- On the CFS Balance Sheet, the Net Asset section shows the detail between the restricted and unrestricted fund balances.
- The restricted fund balances total \$605,000 and unrestricted total \$2,426,750. These amounts should tie to internal financials.
- The CFS has 4 categories for restricted funds, Cemetery, Endowment Fund, Faith in Our Future and Love One Another. The rest go in Other Restricted since every parish has different fund names. On the Restricted & Debt Recon Tab, show the detail for each fund.

Data Entry Tab - CFS

- On the CFS data entry tab, there is a section for Fund Balances at the parish. It is split between restricted net assets and unrestricted net assets.
- If the parish has a restricted scholarship or endowment fund, add the net asset balance in this section, otherwise it will just show up as other on the Balance Sheet.
- Love One Another and Faith in Our Future fund balances will automatically calculate since they have their own departments on the CFS.

MAP PARISH ACCOUNTING CODES TO THE ARCHDIOCESAN STANDARD ACCOUNTS BELOW		Sac Life & Wrshp	Christian Frmtn	Elemtry School	Social Ministry	Administrative	Bldgs & Grnds	Other	High School	Restricted Funds					Total
Acct #	Description	(Depts 10-19)	(Depts 20-32)	(Depts 34-39)	(Depts 40-59)	(Depts 60-75)	(Dept 80)	(Depts 90, 96)	Support	Cemeteries (Dept 92)	Parish Restr Funds	Faith in Our Future	Love One Another (Dept 98)	COVID-19 Relief	Parish
	2800 Net Asset Balance - Restricted														
XX-2810	Net Assets - Scholarship										25,000				25,000
XX-2820	Net Assets - Endowment										580,000				580,000
XX-2850	Faith in Our Future Net Assets											0			0
XX-2850	Love One Another Net Assets												0		0
XX-2860	Net Assets - Cemetery									0					0
XX-2890	Net Assets - Other Restricted										0				0
	TOTAL RESTRICTED NET ASSETS	0	0	0	0	0	0	0	0	0	605,000	0	0	0	605,000
	2900 Unrestricted Net Assets														
XX-2910	General Fund	0	0	425,000	0	350,000	0	0	0	0	0	0	0	0	775,000
XX-2920	Parish--Designated Funds					8,000									8,000
XX-2930	Fixed Asset Fund Balance	0	0	0	0	1,643,750	0	0	0						1,643,750
	TOTAL UNRESTRICTED NET ASSETS	0	0	425,000	0	2,001,750	0	0	0						2,426,750
	TOTAL LIABILITIES & NET ASSETS	0	0	425,000	0	2,001,750	0	0	0	0	605,000	0	0	0	3,031,750

Restricted & Debt Recon Tab - CFS

Account Name	6/30/2024	6/30/2025
2800 Restricted Net Assets		
2810 Scholarship Fund	\$50,000	\$25,000
2820 School Endowment Fund	\$750,000	\$580,000
2890 Capital Improvement Fund	\$100,000	\$0
Total Restricted Net Assets	\$900,000	\$605,000

- On the Restricted & Debt Recon tab, each restricted fund is shown.
- The beginning and ending balances tie to the balance sheet as well as to the internal financials shown here. This ensures the restricted net assets are reported correctly on the CFS.

	2024-2025 CFS Restricted Activity				
	Endowment & All Other Restricted	Total Endowment & All Other Restricted	Scholarship	School Endowment Fund	Capital Improvement Fund
2024 Ending Balance	900,000.00	900,000.00	50,000.00	750,000.00	100,000.00
Plus: 2025 Income (P&L line 15 to 17 & 21)	85,000.00	85,000.00	5,000.00	30,000.00	50,000.00
Less: 2025 Expenses (P&L line 29 to 34)	230,000.00	230,000.00	30,000.00	200,000.00	-
Less: 2025 Capital Expenditures (P&L line 49)	-	-	-	-	-
Less: 2025 Capital Purchases (Equity ADJ)	150,000.00	150,000.00	-	-	150,000.00
Balance from Operations	605,000.00	605,000.00	25,000.00	580,000.00	-
Plus/Less Unrealized Gains/Losses	-	-	-	-	-
2025 Ending Balance (Calculated)	605,000.00	605,000.00	25,000.00	580,000.00	-
Amount reported on 2025 CFS B/S	605,000.00	605,000.00	25,000.00	580,000.00	-
Difference	0.00	0.00	0.00	0.00	0.00

Retained Earnings Roll Forward

Retained Earnings Roll Forward		
2024 Ending Total Net Assets Balance	\$	2,806,250
2025 Net Surplus (Deficit) - Unrestricted	\$	370,500
2025 Net Surplus (Deficit) - Restricted	\$	(145,000)
2025 Net Surplus (Deficit) - FIOF	\$	-
2025 Net Surplus (Deficit) - LOA	\$	-
2025 Net Surplus (Deficit) - Covid-19 Relief	\$	-
Unrealized Gains	\$	-
Unrealized Losses	\$	-
2025 Ending Total Net Assets Balance, Calculated	\$	3,031,750
Amount reported on CFS B/S	\$	3,031,750
Difference - \$	\$	-
Difference - %		0.0%
2024 Ending Fixed Asset Fund Balance	\$	1,500,000
2025 Ending Fixed Asset Fund Balance	\$	1,643,750
Increase (Decrease) in Fixed Asset Balance	\$	143,750

- Since the net assets are being reported correctly, the retained earnings roll forward on the CFS will have a \$0 difference.
- The retained earnings roll forward ensures all the income and expense for the parish was reported for the last fiscal year.

Calculation:

2024 Net Asset Balance
 +/- Unrestricted net income
 +/- Restricted net income
 +/- Unrealized Gains / Losses
 = 2025 Net Asset Balance

T- Accounts Parish Unrestricted Funds

T- Accounts are another way to show the total change in funds over the course of time. The below accounts are the unrestricted account activity over the 2024-25 fiscal year for St. Adelina.

	DR	General Fund	CR	
		\$	396,250	Beginning Balance
Expense	\$	1,374,750	\$	1,751,500 Income
		\$	775,000	Ending Balance

The General Fund shows a beginning balance of \$396,250 plus \$1,751,500 minus \$1,374,750 equaling the ending balance of \$775,000.

	DR	Christian Women	CR	
		\$	10,000	Beginning Balance
Expense	\$	3,500	\$	1,500 Income
		\$	8,000	Ending Balance

The Christian Women Fund shows a beginning balance of \$10,000 plus \$1,500 minus \$3,500 equaling the ending balance of \$8,000.

	DR	Fixed Asset Fund Balance	CR	
		\$	1,500,000	Beginning Balance
Depreciation	\$	6,250	\$	150,000 Roof Improvement
		\$	1,643,750	Ending Balance

The Fixed Asset Fund Balance shows a beginning balance of \$1,500,000 plus \$150,000 minus \$6,250 equaling the ending balance of \$1,643,750.

T- Accounts Parish Restricted Funds

T- Accounts are another way to show the total change in funds over the course of time. The below accounts are the restricted account activity over the 2024-25 fiscal year for St. Adelina.

	DR	Capital Improvement Fund	CR	
		\$	100,000	Beginning Balance
Cap. Asset Purch	\$	150,000	\$ 50,000	Income
		\$	-	Ending Balance

The Capital Improvement Fund shows a beginning balance of \$100,000 plus \$50,000 minus \$150,000 equaling the ending balance of \$0.

	DR	Scholarship Fund	CR	
		\$	50,000	Beginning Balance
Expense	\$	30,000	\$ 5,000	Income
		\$	25,000	Ending Balance

The Scholarship Fund shows a beginning balance of \$50,000 plus \$5,000 minus \$30,000 equaling the ending balance of \$25,000.

	DR	School Endowment Fund	CR	
		\$	750,000	Beginning Balance
Endowm. Distr.	\$	200,000	\$ 30,000	Interest income
		\$	580,000	Ending Balance

The School Endowment Fund shows a beginning balance of \$750,000 plus \$30,000 minus \$200,000 equaling the ending balance of \$580,000.

Multiple Fund Transactions

#	Account Number + Name	Debit	Credit
1	1010 General Checking	\$50,000	
	3060 Donation – restricted		\$50,000
2	2910 General Fund	\$50,000	
	2890 Capital Improvement Fund		\$50,000
3	1730 Buildings	\$250,000	
	1010 General Checking		\$250,000
4	2890 Capital Improvement Fund	\$150,000	
	2910 General Fund		\$150,000

- There may be times when a restricted fund does not have sufficient funds to pay for an entire expense.
- In these scenarios, the parish may use the fund up to the amount it is depleted.
- In this example, the capital improvement fund only had \$150,000 but the total cost was \$250,000. In entry number 4 the fund transfer will only be the amount of the fund. The remainder will be an unrestricted expense for the parish.

Excess Funds – Transactions Part 1

#	Account Number + Name	Debit	Credit
1	1010 General Checking	\$200,000	
	3060 Donation – restricted		\$200,000
2	2910 General Fund	\$200,000	
	2890 Bell Tower Fund		\$200,000
3	1730 Buildings	\$180,000	
	1010 General Checking		\$180,000
4	2890 Bell Tower Fund	\$180,000	
	2910 General Fund		\$180,000

- In the scenario where the parish collects more funds for a project than what it costs the parish has a couple options.
 1. If the Parish had a clause when receiving restricted funds saying “any excess funds will be used for future capital improvements of the parish” then the remaining funds would be rolled into a general capital improvement fund.
 2. If the parish did not have a clause for excess funds collected, then the remaining funds would have to be returned to donors.

Excess Funds – Transactions Part 2

#	Account Number + Name	Debit	Credit
1	2890 Bell Tower Fund	\$20,000	
	2840 Capital Improvement Fund		\$20,000

#	Account Number + Name	Debit	Credit
1	3060 Donation – restricted	\$20,000	
	1010 General Checking		\$20,000
2	2890 Bell Tower Fund	\$20,000	
	2910 General Fund		\$20,000

- If funds are rolled over there would just be a fund transfer from the fund that needs to be depleted to the general capital improvement fund.
- If the funds need to be returned to donors, then the amount should be booked against the income and a fund transferred should be made to the general fund.

If you have any questions,
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