

Fund Accounting

The purpose of this article is to help parishes and schools in the Archdiocese of Milwaukee align their accounting practices with Generally Accepted Accounting Principles (GAAP) for non-profit entities. Section 2 of the [Parish Finance Management Manual](#) (PFMM) goes over accounting principles and procedures at parishes. Section 2.5 goes over Fund Accounting at parishes.

What is Fund Accounting?

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 you can clearly see 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?

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

Differences between Fund Accounting and Traditional Accounting

1. For-profit businesses use traditional accounting while nonprofits mostly use fund accounting. 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. Fund accounting focuses on tracking and managing financial resources based on their designated purposes, whereas traditional accounting aims to track and measure a business's or business unit's overall financial performance.
3. 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. Traditional accounting typically combines all resources into a single financial statement for the company overall.
4. In fund accounting, organizations emphasize accountability and transparency to stakeholders, whereas businesses utilizing traditional accounting prioritize profit maximization and shareholder value.

Fund Accounting Example – Journal Entries

St. Adelina had six different funds of which three were unrestricted and three were restricted. The restricted funds include a scholarship fund, school endowment fund and a capital improvement fund. The unrestricted funds include the general fund, Christian Women designated fund and the fixed asset fund balance. Below is the fund balances as of 6/30/2024 and 6/30/2025. The following examples will show the fund balance adjustments through the fiscal year.

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

General Fund

- When money comes into/out of the parish and/or school for any expense 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's do fund adjustments automatically).
- When revenue come in, the general fund will increase to ensure Assets = Liabilities + Net Assets.

St Adelina had a \$376,750 surplus in FY 2024-25. Throughout the year the following entries were made:

#	Account Number + Name	Debit	Credit
The entries here show that there was more income over the 2024-25 fiscal year than there were expenses.			
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
At the end of the fiscal year the income and expense accounts are closed to the General Fund / Retained Earnings (RE). This will result in a net increase of the General Fund of \$376,750.			
3	3000 Various income accounts	\$1,751,500	
	2910 General Fund / Retained Earnings (RE)		\$1,751,500
4	2910 General Fund / Retained Earnings (RE)	\$1,374,750	
	4000 Various expense accounts		\$1,374,750
No adjustments need to be made since the general fund is where all activity occurs.			

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
The first two entries record income and the fund adjustment for Christian Women.			
1	1010 General Checking	\$1,500	
	3060 Donation - unrestricted		\$1,500
2	2910 General Fund	\$1,500	
	2920 Christian Women Fund		\$1,500
The third and fourth entries record the expense and adjustment to the fund balance.			
3	4000 Various Expense Accounts	\$3,500	
	1010 General Checking		\$3,500
4	2920 Christian Women Fund	\$3,500	
	2910 General Fund		\$3,500
At year end, the fund balance for Christian women was reduced by \$2,000 (\$1,500-\$3,500).			

Capital Improvement Fund

- During FY 2024-25, St. Adelina needed to replace the roof, so the parish raised \$50,000 towards 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
The first two entries record income and the fund adjustment for the capital improvement fund.			
1	1010 General Checking	\$50,000	
	3060 Donation - restricted		\$50,000
2	2910 General Fund	\$50,000	
	2890 Capital Improvement Fund		\$50,000
The third and fourth entries record the fixed asset (increase) and record the adjustment to the fund balance.			
3	1730 Buildings	\$150,000	
	1010 General Checking		\$150,000
4	2890 Capital Improvement Fund	\$150,000	
	2910 General Fund		\$150,000
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). St. Adelina completed the roof replacement at the end of August 2024, so at the end of the fiscal year the parish will have 10 months of depreciation for the year. $10 \text{ months} \times \$625 = \$6,250$ depreciation for the year. Below is the entry for depreciation.			
5	4760 Depreciation Expense	\$6,250	
	1795 Accumulated Depreciation		\$6,250
At year end, the fund balance for the capital improvement fund was depleted.			

Scholarship Fund

- During the 2024-25 FY, a donor gave St. Adelina \$5,000 to the parish's scholarship fund, which awarded \$30,000 to various students going to different institutions. Any aid for tuition to the parish's school would be considered financial aid and recorded differently (not shown below).

#	Account Number + Name	Debit	Credit
The first two entries below record the \$5,000 donation and the fund transfer from the general fund to the scholarship fund:			
1	1010 General Checking	\$5,000	
	3410 Scholarship Income		\$5,000
2	2910 General Fund	\$5,000	
	2810 Scholarship Fund		\$5,000
The last two entries record the Scholarship expense as well as the fund transfer from the scholarship fund to the general fund.			
3	4660 Scholarship Fund	\$30,000	
	1010 General Checking		\$30,000
4	2810 Scholarship Fund	\$30,000	
	2910 General Fund		\$30,000

Endowment Fund

- During the 2024-25 fiscal year St. Adelinas School Endowment Fund received \$30,000 in interest income and disbursed \$200,000 of earnings from the endowment to help pay for the school's operations.

#	Account Number + Name	Debit	Credit
The first two entries below records the income for the endowment as well as the fund adjustment.			
1	1830 Endowment Fund	\$30,000	
	3470 Investment Income - Restricted		\$30,000
2	2910 General Fund	\$30,000	
	2820 School Endowment Fund		\$30,000
The third entry records both the restricted expense and the unrestricted income to operations.			
3	4785 Restricted Fund Expense	\$200,000	
	3490 Restricted Fund Distribution		\$200,000
The forth and fifth entry records the fund transfer to the general fund as well as the transfer of cash.			
4	2820 School Endowment Fund	\$200,000	
	2910 General Fund		\$200,000
5	1010 General Checking	\$200,000	
	1830 Endowment Income		\$200,000
The last entry is what will happen once the school has the funds to pay for operational expenses.			
6	4000 various expense accounts - unrestricted	\$200,000	
	1010 General Checking		\$200,000
During the 2024-25 FY the Endowment Fund went from \$750,000 down to \$580,000.			

Fixed Asset Fund Balance

- When St. Adelina paid for the roof replacement, the parish would not record an expense, but an increase to 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.

#	Account Number + Name	Debit	Credit
The first two entries record the increase to fixed assets as well as the increase to the fixed asset fund balance.			
1	1730 Buildings	\$150,000	
	1010 General Checking		\$150,000
2	2910 General Fund	\$150,000	
	2930 Fixed Asset Fund Balance		\$150,000
The last two entries record the depreciation expense as well as a decrease to the fixed asset fund balance.			
3	4760 Depreciation Expense	\$6,250	
	1795 Accumulated Depreciation		\$6,250
4	2930 Fixed Asset Fund Balance	\$6,250	
	2910 General Fund		\$6,250

For additional information regarding Fund Accounting please visit the [Parish & School Financial Consulting Training site](#) for the full Fund Accounting Presentation.