Fund Accounting 101 with IconCMO

Purpose of this Guide

This guide is designed to do two things:

1. Offer a very basic understanding of the differences between for profit accounting and non-profit, fund-based accounting.
2. To offer a very basic understanding of how to set up your funds, assets, and liabilities in IconCMO.
3. Something to notice, we will spend very little time setting up the Chart of Accounts. This is something that can be done gradually as needed.

Debits and Credits

Against popular belief, debit does not mean minus and credit does not mean plus. Debits and credits change depending on the type of account being used.

1. A debit increases an asset or expense account, or decreases a liability or revenue account.

2. A credit increases a liability or revenue account, or decreases an asset or expense account.

If you're wondering…..then why does my bank give me a debit card that lowers the money in my bank account. The answer is…...your bank account is an asset to you, but it's a liability to the bank. It's money they owe you and a debit lowers a liability account.

Asset Accounts	Debit(+)	Credit(-)
Liability Accounts	Debit(-)	Credit(+)
Revenue Accounts	Debit(-)	Credit(+)
Expense Accounts	Debit(+)	Credit(-)

Net Assets: Assets minus liabilities equals net assets.
Net assets are your fund balances.
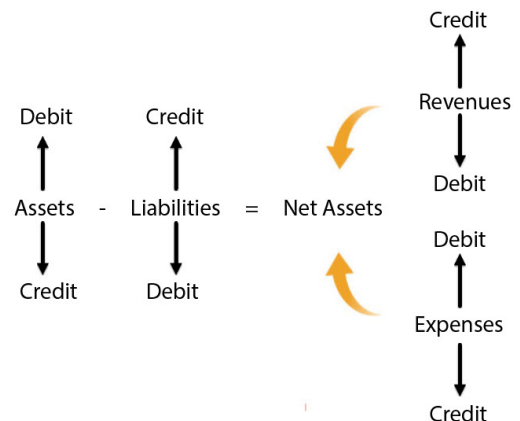
Nonprofit Fund Based Accounting vs For-profit

1. **Transaction Requirements: Every transaction in accounting requires a Debit and a Credit and both must equal each other. NonProfit Fund Based accounting requires a Debit, a Credit and a Fund for each transaction. To emphasize the importance of how this works let's review a few transactions.**

Forprofit Accounting Transaction: A company buys a computer for $1,000. The transaction looks like:

Account	Debit	Credit
Main Checking		$1,000
Office Equipment Expense	$1,000	

Nonprofit Fund Based Transaction: A church buys a computer for $1,000. The board approves the purchase using the General Fund. The transaction looks like:

Account	Fund	Debit	Credit
Main Checking	General Fund		$1,000
Office Equipment Expense	General Fund	$1,000	

The two transactions are the same with the exception that the second one includes a fund assignment. However, this can become more complicated. For example, a church buys $3,000 worth of goods from Walmart. $1,000 for landscaping, $1,000 for office equipment and $1,000 for the music department. The Church Board approves to use the Building Fund, General Fund and Music Fund respectively. If this transaction was done with a for-profit accounting system it would look like:

Account	Debit	Credit
Main Checking		$3,000
Landscaping Expense	$1,000	
Office Equipment Expense	$1,000	
Hymnal Expense	$1,000	

Fund Based transaction would look like:

Account	Fund	Debit	Credit
Main Checking	Building Fund		$1,000
Landscaping Expense	Building Fund	$1,000	
Main Checking	General Fund		$1,000
Office Equipment Expense	General Fund	$1,000	
Main Checking	Music Fund		$1,000
Hymnal Expense	Music Fund	$1,000	

By reviewing the transaction we can see that $3,000 came out of the Main Checking account but three different funds were used during the transaction. The transaction looks very different from the for-profit accounting system. The Main Checking account required 3 separate line items to account for the different funds.

Prior to the Walmart transaction our main checking account had a balance of $25,000. The $25,000 was dispersed among 4 funds. General Fund ($15,000), Building Fund ($6,000), Music Fund ($2,000) and Memorial Fund ($2,000). It would look like:

Account	Fund	Balance
Main Checking	General Fund	$15,000
Main Checking	Building Fund	$6,000
Main Checking	Music Fund	$2,000
Main Checking	Memorial Fund	$2,000
		=========
Total Main Checking		$25,000

After the Walmart transaction occurred above, the Main Checking would be adjusted to look like:

Account	Fund	Balance
Main Checking	General Fund	$14,000
Main Checking	Building Fund	$5,000
Main Checking	Music Fund	$1,000
Main Checking	Memorial Fund	$2,000
		=========
Total Main Checking		$22,000

Prior to fund accounting, some churches would go to the bank and create multiple checking and savings accounts to track funds. Other churches would place the balances in a spreadsheet and require the treasurer to update the spreadsheet after every transaction. Changing over to a true fund-based accounting system like IconCMO that is capable of displaying the fund balances of your assets will make it dramatically easier to account for the dollars in the church.

2. **Equity versus Funds:**
   (a) For-Profit Standard Accounting: **Assets – Liabilities = Equity**.
   (b) Nonprofit Fund Accounting: **Assets – Liabilities = Net Assets** or
        Assets – Liabilities = Funds

(c) The Term Net Asset is often referred to as a Fund but a Fund is not always a Net asset. This will be explained in greater detail under the **Defining Funds** section below.

(d) In a for-profit standard accounting system a company will have equity accounts. Equity accounts reflect the ownership of the company and the current year profit/loss. The current year profit/loss is typically reflected in a reserved account called Retained Earnings. At the end of the year Retained Earnings is transferred to the respective owners equity accounts based on an owners percentage of ownership. This zeroes the Retained Earnings account and allows the new year to start at zero.

(e) In a nonprofit Fund Based accounting system, Funds will hold their balance at the end of the year.

Basic Rules to consider for your Accounting System

Your chart of accounts should NOT have the name of a fund anywhere. IE: You should NOT have a General Revenue, Building Revenue or a Building Expense account. If you have a Choir fund you should NOT have a Choir Expense.
Understand that Accounting is a valuable tool to aid in managing your church. How items will be reported is critical to properly setting up your accounting. This document will offer examples on how to build your accounts and funds and what you need to do to properly manage them. If properly managed, reporting tools will help remind you of incomplete tasks.

An Income Statement or Profit and Loss is called a **Statement of Activities** in non-profit accounting.
◦   The Income Statement is made up of Revenue and Expense accounts.
◦   The purpose of this report is to provide a financial snapshot over a given period of time.
◦   Revenue and Expense accounts do not hold a balance. If you print a report and zero transactions have occurred for an account in the date range specified the account will not appear on the report.

A Balance Sheet is called a **Statement of Financial Position** in non-profit accounting.
◦   The Balance Sheet is made up of Assets and Liabilities.
◦   The purpose of this report is to provide a point in time visual of your financial status.
◦   Assets and Liabilities hold balances. Consider your savings account. Just because no transactions were processed against the savings account for a period of time does not mean the balance goes to zero. The balance of the savings account will exist until a transaction is processed against it.
When creating accounts it can make things easier if you suffix each account with the type of account it is. Example: 'Offerings' by itself doesn't tell you much. But Offering Rev tells you that the Offering account belongs to Revenue. When entering Pass Through Liability accounts use World Hunger Liab.

Defining Funds

Please keep in mind that it's impossible to detail all the ways in which a user may define and use funds in the accounting system. The term fund is often overly vague. Users must break that definition down and define each one separately. What we describe here is simply a suggestion on how to manage funds and in no way should be construed as the only way to accomplish a task. IconCMO has two clear methods of defining funds and **one not so obvious way of defining funds**.

1) **Donations Funds:** Easily defined by going to Donations → Funds and Donations. These are funds that the congregation may donate to. These are the funds that will show up on your members' donation statements at the end of the year.
2) **Accounting Funds**: Easily defined by going to General Ledger → Fund Maintenance. These are funds that the church uses to track how money is being received, spent, held and owed.
3) **Pass Through Money:** We define this as money that comes into the church for another organization or charity. Note: For Clarity purposes we will NOT use the term Fund here. It is not money that belongs to the church. **For the purposes of this document we will refer to it as Pass Through Money and never use the term Fund when referencing pass through dollars**. Refer to Pass Through Money below for more information.

Donation Funds are often abbreviated as **D- Funds** and **Accounting Funds** as **A- Funds**. D-Funds do not necessarily have a one to one comparison with A-Funds. For example: You may have 2 deceased individuals in a year (John Doe and Mary Smith). You will most likely create 2 memorial D-Funds and label them Memorial John Doe and Memorial Mary Smith. But on the accounting side you will have a single A-Fund called Memorial. You may also not have a corresponding A-Fund. For Example: You may have a D-Fund called World Hunger that is not defined as an A-Fund but is rather defined as Pass Through Money on the accounting side. Refer to Pass Through Money below for more information.

Pass Through Money

Most churches will collect donations on behalf of missions. Usually all the donations will be sent directly to those missions. Most churches do not want this type of money affecting their accounting, so we have designed a unique way to manage this process.

Create a Pass Through called World Hunger:

Create a New Account

Account Type	Liabilities ▼
Liabilities	Other Current Liabilities ▼
Type Detail	Other Misc Current Liabilit... ▼
Sub-account of	Pass Through Liab ▼
Account Name	World Hunger Liab
Description	

Save   Clear   Close

Go to General Ledger → Chart of Accounts → Add New Account.

Select Liabilities, Other Current Liabilities, Other Misc Current Liabilities and set your 'Sub-Account of' to Pass Through Liab. If Pass Through Liab does not yet exist, create it first and then add the World Hunger Liab.

How does World Hunger dollars pass through IconCMO to the World Hunger mission?
Donations given to the D-Fund World Hunger in the donations module will link to the accounting side. IconCMO requires 3 fields to be defined to link D-Funds and the Accounting system. Go to Donations: Funds & Donations: and select the D-Fund called World Hunger. Once it populates to the right, click on the "Accounting Link" button at the bottom.

1. **A-Fund:** We must define what A-Fund the D-Fund will affect.
2. **Bank Account:** (Debit) We must define what bank account will the money be deposited in.
3. **Revenue or Liability:** (Credit) We must define what account will reflect the offset of the deposit.

Year	Name ⇕	Donated ⇕	Accounting Fund ⇕	Checking (Debit) ⇕	Revenue/Liability (Credit) ⇕
world hunger					
2022	World Hunger	$137.00	General Fund ▼	Assets : WF Checking ▼	Liabilities : ....World Hunger ... ▼

For our example, we will deposit to the Checking account and the World Hunger Liab and the entire transaction will be applied to the General Fund. Yes, you read that correctly. We applied the World Hunger dollars to the General Fund. So it will look like:

1. A-Fund: General Fund
2. Bank Account: Checking
3. Revenue or Liability: World Hunger Liab

Using it in this capacity the pass through money will never hit a Revenue or Expense account. The money comes into the Liability and exits through the liability. Because Liabilities hold balances the treasurer can print a Statement of Financial Position at the end of each month for the General Fund and look at the Liabilities section of the report. If any balances exist in the Pass Through section the treasurer can write a check to that mission using the General Fund and apply the check to the corresponding liability. Here is an example of what that check may look like:

	Enter Check				Vendor History		
					Date	Amount	Check
Bank Account	BB Checking ▼	Current Balance	Check #	43			
Pay to the Order of	World Hunger ▼	Add Vendor	Date	05/01/2021		There are no records to show.	
Check Memo			Dollar Amount	2,000.00			

+/-	Fund	Account Type	Account	Debit	Memo	...
-	General Fund ▼	Liabilities ▼	World Hunger Liab ▼	2,000.00	World Hunger Liab	
+						

Stage 1: Prepare and Enter Liquid Assets

Before entering data into IconCMO you must have some information organized so that the transition is done correctly and efficiently. Some of these things you must have and some of these items are optional. Time to break it down.

1. **Fiscal Year:**

Most churches run their fiscal year the same as the calendar year, but not always. If your Fiscal Year is perhaps from July to June then the first month of your fiscal year is July. Go to Organization → Setup → Information in IconCMO and set your first month of the fiscal year. For our examples, we will be using January as the first month of our fiscal year.

2. **Point in Time:**

When do you plan to start using the system? This is important as every dollar you enter needs to be recorded once you start using IconCMO. If you plan to start using Icon on April 1st then March will be your beginning Balance month. Go to Organization → Setup → Information and set the Beginning Balance Date to March 15th of whatever year you're in. For our example we will enter beginning balances as of December 15th of 2020.

3. **Define Accounting Funds and Pass Through Money:**

For our example we are going to use the following:

Accounting Funds	Pass Through Money
General Fund	World Hunger Liab
Property Fund	Mississippi Flood Liab
Youth Fund	Oklahoma Dorothy Liab
Senior Fund	Homeless Assoc Liab

To create the A-Funds: Go to General Ledger → Funds → Fund Maintenance. General Fund should already exist so all you need to do is add Property Fund, Youth Fund and Senior Fund.

To create Pass Through Money accounts: Go to General Ledger → GL → Chart of Accounts, click on 'Add New Account'. Select Liabilities, Other Current Liabilities, Other Misc Current Liabilities and set your 'Sub-Account of' to Pass Through Liab. If Pass Through Liab does not yet exist, create it first and then add your liability accounts.

4. Liquid Assets:

Defined as cash on hand or items that can quickly be converted to cash. Most churches have a checking and a savings account. IconCMO does not allow users to reconcile savings accounts that are set up as "Type Detail" Savings. If you have a large number of transactions that hit your savings account or you want to be able to reconcile it, it's best to use the "Type Detail" of "Checking" when creating your savings account within the Chart of Accounts.

Locate the bank statements for all bank accounts. In our example, we will have two bank accounts; Checking and Savings. The Checking will have $25,000 and the Savings will have $55,000. In this example, we will have one outstanding check from the General fund for $200. Below is the breakdown of each account.

Account	Fund	Amount	Liability
Checking	General Fund	$14,800	World Hunger Liab ($300) Mississippi Flood Liab ($600) Oklahoma Dorothy ($200) Homeless Assoc Liab ($100)
Checking	Youth Fund	$6,000	
Checking	Senior Fund	$4,000	
Savings	Property Fund	$45,000	
Savings	General Fund	$10,000	

Based on the table we can see that the General Fund currently has $15K but $1,200 is earmarked as Pass Through Money. The savings account is primarily money that will be used for property improvements with $10K of it belonging to General.

Before we can enter the beginning balance we must create the accounts. Go to General Ledger → GL → Chart of Accounts. If you have any Predefined Checking, Savings, Money Market, Petty Cash or Certificates of Deposits that do not belong, go ahead and delete them right now. Once cleaned up add the new accounts by clicking the **Add New Account** Button. In our Sample we only have one Checking account and one Savings. A well defined Account name will help if you have multiple checking accounts. Example: Bell Bank Checking

Create a New Account

Account Type	Assets	▼
Assets	Bank	▼
Type Detail	Checking	▼
Sub-account of	Not a sub-account	▼
Account Name	Checking	
Description		

Save   Clear   Close

5. **Defining Primary Account:**
Once you have finished entering all your Checking, Savings, Money Market etc accounts you should define which account is your primary. To do so go to Organization → Banking Preferences. Set the Default Checkbook to use.

6. **Beginning Balance:**
Now you are ready to enter the beginning balances. To enter Beginning Balance information go to General Ledger → Beginning Balances. Do the same for other Checking and Savings accounts.

? help   **Organization : Banking Preferences**

Account Name

Checking	▼	Default Checkbook to Use
Oth - AP Discounts Taken	▼	Default account for recording interest from the bank
Oth - Bank Service Charges	▼	Default account for recording service charges from the bank
☑ Track Credit Card Fees in Donations Enter Window		
Oth - Credit Card Charges	▼	Default account for Credit Card fees in Donations Entry window

Default Check Format   **Check Book Preferences**

Save Defaults   ICO-2113 ▼   ◉ Checks are pre-numbered
                                                ○ Print check number on each check

? help

If the account you want does not exist please proceed to the Chart of Accounts to add it.

Select a Bank Account   **BB Checking** ▼

Beginning Balance
Month
December 2019

Balance on the Bank Statement	$7,865.93	✎
Unreconciled Deposits	$868.00	✎
Unreconciled Checks	$213.90	✎
Unreconciled Bank Balance	$8,520.03	

Bank Accounts

Accounts Receivable

Fixed Assets

Other Assets

Accounts Payable

Credit Cards

Liabilities

Notes Payable

6020.03	General Fund
2000.00	Building Fund
0.00	Capital Campaign
0.00	Fundraising
0.00	Memorial Fund
0.00	Negative Fund

Complete Beginning Balances

0.00	Amount Left to Distribute

Post or Clear

Once done click on Liabilities on the left side of the window and select one of the Pass Through Liability accounts. Enter the values and save.

Pay attention to the funds for Liabilities. Notice the negative values. This is correct. Positive Liabilities create negative fund balances.

Congratulations, if you made it here you have all of your liquid assets, funds and Pass Through information entered. Let's post your information and print a Statement of Financial Position to see exactly what you have.

Balance on Liability   300   ✎

-300.00	General Fund
0.00	Property Fund
0.00	Senior Fund
0.00	Youth Fund

End Of List

0.00	Amount Left to Distribute

On the Beginning Balance window click the **Post or Clear** button on the left. Click the **Post Beginning Balances** button. You can post these as often as you wish. Each time beginning balances are posted, beginning balances will remove previous information and post the updated information from the window. Once you reconcile information on the checkbook it will lock down the beginning balance window. Once posted, go to General Ledger → GL → GL-

Reports and select the Statement of Financial Position report. Since we used December 15th 2019 as our beginning balance date the report date should be 01/01/2020. Here is our current Statement of Financial Position (Balance Sheet).

Things to notice:

1. The Checking account reflects the unreconciled balance.
2. We can see that we own money by viewing the 4 pass through liability accounts.
3. The Funds at the bottom reflect the values of Assets minus the Liabilities.
4. Notice that the Property Fund is $40,000. This will show dramatically higher once we finish entering the Fixed Assets.

Sample Church

Statement of Financial Position For All Funds as of 01/01/2020

Assets		
Bank		
Checking		24,800.00
Savings		50,000.00
Total Bank		**74,800.00**
Total Assets		**74,800.00**
Liabilities		
Other Current Liabilities		
Pass Through Liab		
Homeless Assoc Liab	100.00	
Mississippi Flood Liab	600.00	
Oklahoma Dorothy Liab	200.00	
World Hunger Liab	300.00	
Total Pass Through Liab		**1,200.00**
Total Other Current Liabilities		**1,200.00**
Total Liabilities		**1,200.00**
Net Assets		
Unrestricted		
General Fund		23,600.00
Property Fund		40,000.00
Senior Fund		6,000.00
Youth Fund		4,000.00
Total Unrestricted		**73,600.00**
Total Net Assets		**73,600.00**
Total Liabilities + Net Assets		**74,800.00**

Stage 2: Enter your Fixed Assets

What are Fixed Assets? Fixed Assets are items that have value yet are not easily turned into cash. Examples might be Church Building, Parking Lot, Van etc… For our example we will keep it relatively simple. Our sample church will have a Church Land (400K), Church Building ($1.2M), Parking Lot ($100K) and a 2018 Ford Transit Van ($20K) as our fixed assets. These are items that should be placed in our Chart of Accounts.

   1. **Create the Fixed Assets:**

So let's start. Go to General Ledger → GL → Chart of Accounts. There may be some default accounts already in the chart of accounts for Fixed Assets. Remove them first. Then enter the accounts through the "**Add New Account**" button.

Notice the Ford Transit Van 2020 is a slightly different Category – Detail. Since it is not a Building Other Fixed Assets would be more appropriate.

Enter beginning Balances for Fixed Assets:

Unlike the Checking accounts, Fixed Assets can only be applied to a single fund. That is a restriction of the Beginning Balance window. If you would like the Fixed Assets split between funds, which is extremely rare, you will have to do this manually.

We will use the Property Fund. A large percentage of churches will use the General Fund rather than a property fund which will also work fine. The advantage of using a Property Fund over the General Fund is it won't over inflate the Statement of Financial Position when strictly viewing the General Fund. It provides a more basic liquid style report. Whereas the Statement of Financial Position for the Property Fund will provide a clear view of hard assets.

Once complete go ahead and post the beginning balances again and reprint the Statement of Financial Position. Below is our example:

View the Results of entering Fixed Assets:

Notice the Property Fund at the bottom. It is a sum of the Fixed Assets and the $40K in the Savings account. You can't actually see the breakdown of the Checking and Savings accounts when we print this report for all funds.

Sample Church
Statement of Financial Position For All Funds as of 01/01/2020

Assets	
Bank	
Checking	24,800.00
Savings	50,000.00
Total Bank	**74,800.00**
Fixed Assets	
Church Building	1,200,000.00
Church Land	400,000.00
Parking Lot	100,000.00
Ford Transit Van 2018	20,000.00
Total Fixed Assets	**1,720,000.00**
Total Assets	**1,794,800.00**
Liabilities	
Other Current Liabilities	
Pass Through Liab	
Homeless Assoc Liab	100.00
Mississippi Flood Liab	600.00
Oklahoma Dorothy Liab	200.00
World Hunger Liab	300.00
Total Pass Through Liab	**1,200.00**
Total Other Current Liabilities	**1,200.00**
Total Liabilities	**1,200.00**
Net Assets	
Unrestricted	
General Fund	23,600.00
Property Fund	1,760,000.00
Senior Fund	6,000.00
Youth Fund	4,000.00
Total Unrestricted	**1,793,600.00**
Total Net Assets	**1,793,600.00**
Total Liabilities + Net Assets	**1,794,800.00**

Let's look at the report for just the Property Fund.

Statement of Financial Position For Property Fund as of 01/01/2020

Assets	
Bank	
Savings	40,000.00
Total Bank	**40,000.00**
Fixed Assets	
Church Building	1,200,000.00
Church Land	400,000.00
Parking Lot	100,000.00
Ford Transit Van 2018	20,000.00
Total Fixed Assets	**1,720,000.00**
Total Assets	**1,760,000.00**
Net Assets	
Unrestricted	
Property Fund	1,760,000.00
Total Unrestricted	**1,760,000.00**
Total Net Assets	**1,760,000.00**
Total + Net Assets	**1,760,000.00**

Here is the Statement of Financial Position for just the General Fund.

Statement of Financial Position For General Fund as of 01/01/2020

Assets		
Bank		
Checking		14,800.00
Savings		10,000.00
Total Bank		**24,800.00**
Total Assets		**24,800.00**
Liabilities		
Other Current Liabilities		
Pass Through Liab		
Homeless Assoc Liab	100.00	
Mississippi Flood Liab	600.00	
Oklahoma Dorothy Liab	200.00	
World Hunger Liab	300.00	
Total Pass Through Liab		**1,200.00**
Total Other Current Liabilities		**1,200.00**
Total Liabilities		**1,200.00**
Net Assets		
Unrestricted		
General Fund		23,600.00
Total Unrestricted		**23,600.00**
Total Net Assets		**23,600.00**
Total Liabilities + Net Assets		**24,800.00**

Stage 3: Mortgages

Overview:
Most churches will have a mortgage. We've already added the church to the fixed assets. But we need to create a Liability account to track the balance of what is owed for the loan. We also need an expense account to record the interest from the loan. Bank loans are considered "**Notes**" so we will create this loan under the Notes Payable section of the Chart of Accounts. Interest is not considered an "operating" expense but rather an "Other" expense.

1. **Enter the Mortgage Balance:** Go to General Ledger → GL → Chart of Accounts, click on 'Add New Account'. Here are the two screenshots to create the accounts needed:

Create a New Account

Account Type	Liabilities ▼
Liabilities	Long Term Liabilities ▼
Type Detail	Notes Payable ▼
Sub-account of	Not a sub-account ▼
Account Name	Mortgage by Fargo Bank Liab
Description	

Create a New Account

Account Type	Other Expenditures ▼
Other Expenditures	Interest Expense ▼
Sub-account of	Not a sub-account ▼
Account Name	Fargo Bank Interest Exp
Description	

Once the two accounts are set up you can enter the current mortgage balance in the beginning balance window and record it to the General Fund. Why the General Fund and not the Property Fund? Most mortgages are paid out using the General Fund so changing it to the Property Fund would only increase the number of steps needed to accomplish your task. Keeping it all in the General Fund makes it simple and less prone to human errors.

In our sample we still owe $215,433.89. Once again, notice the negative 215433.89 in the General Fund. This is correct since liabilities reduce the value of a fund.

Select a Note Liability	Mortgage by Fargo Bank Liab ▼

Balance on Loan	215433.89

-215433.89	General Fund
0.00	Property Fund
0.00	Senior Fund
0.00	Youth Fund
	End Of List

0.00	Amount Left to Distribute

Now if we Post beginning balances this is our new Statement of Financial Position. We are very close to having a nice clean Statement of Financial Activities that accurately represents the church's current financial status.

Sample Church

Statement of Financial Position For All Funds as of 01/01/2020

Assets		
Bank		
Checking		24,800.00
Savings		50,000.00

Total Bank		**74,800.00**
Fixed Assets		
Church Building		1,200,000.00
Church Land		400,000.00
Parking Lot		100,000.00
Ford Transit Van 2018		20,000.00

Total Fixed Assets		**1,720,000.00**
Total Assets		**1,794,800.00**
		=============
Liabilities		
Other Current Liabilities		
Pass Through Liab		
Homeless Assoc Liab	100.00	
Mississippi Flood Liab	600.00	
Oklahoma Dorothy Liab	200.00	
World Hunger Liab	300.00	

Total Pass Through Liab		**1,200.00**

Total Other Current Liabilities		**1,200.00**
Long Term Liabilities		
Mortgage by Fargo Bank Liab		215,433.89

Total Long Term Liabilities		**215,433.89**
Total Liabilities		**216,633.89**
		=============
Net Assets		
Unrestricted		
General Fund		-191,833.89
Property Fund		1,760,000.00
Senior Fund		6,000.00
Youth Fund		4,000.00

Total Unrestricted		**1,578,166.11**
Total Net Assets		**1,578,166.11**
		=============
Total Liabilities + Net Assets		**1,794,800.00**

You may have additional information that needs to be entered into the beginning balance window but we have covered in good detail how to enter the majority of what most churches will need. The last step we need to do is our first bank reconciliation.

Stage 4: The First Bank Reconciliation

The first reconciliation is a bit different than most. Why? Because you don't have any transactions that will be matching what the bank statement reflects.

1. Let's go to Banking→ Reconcile Checkbook. At the very beginning of this document we requested the bank statements and if you remember the bank statement example had an ending balance for 12/31 of $25,000. It also had a $200 outstanding check. That outstanding check will be needed for our January 31st statement. Be sure to set the Year at the top to the proper year (2020 for the example). Enter a Statement date of 01/01/2020. The starting Beginning Balance will be 0.00 and the Deposits and Other Credits will be the ending balance of your Bank Statement. This is what our example looks like:

This window has some verbiage on it that can be confusing yet is correct and we would like to call attention to it right away. The terminology appears to be wrong. (Deposits & Other Credits … and … Checks & Other Debits). We know based on the beginning of this document that a Deposit to a Checkbook is a Debit and a withdrawal is a Credit. So why does the window appear incorrect? This window is designed to appear like the bank statements. Bank statements often list them the other way around. Why? Your checking account is an asset to you, but it's considered a liability to the bank. On their Balance Sheet it's money they owe you. So depositing money into your bank account is actually crediting the liability account that they have reserved for you. While writing a check you are reducing the amount the bank owes hence reducing (debiting) the Bank's Liability.

2. Once you have the window filled out click **Save** and then click **Reconcile**. Check the Beginning balance entries that should total to $25K. Do not click the unreconciled checks or deposits. Our sample looks like this:

Notice the "X" next to the 25000.00 amount. We clicked the 25000.00 dollar value to place the "X" here. The Deposits & Other Credits at the top now match and so does our Ending Balance. Note that there is NOT an X on the Checks side for the -$200.00 on the right. It will be checked on the January 31st 2021 reconcile. We can click the Save Work button at the bottom and our first reconciliation is complete.

Now lets validate the system to ensure that the balance in Icon matches our bank statement. Go to Banking → Enter Transaction, at the bottom under Checkbook Activity. Press the **Print** button in the middle of the window and enter a large date range such as 01/01/2020 to 12/31/2021. Sort it by **Reconcile-Date** and press **Print**. The report should look like:

IconCMO

CheckBook Register for Checking - 01/01/2020 to 12/31/2021
Ordered by: Reconciled Date

Date	Check #	Payee	Reconciled	Payment	Deposit	Balance
12/15/2020			01/01/2021		25,000.00	25,000.00
12/16/2020	1			200.00		24,800.00
				----------	----------	
		Reconciled total		0.00	25,000.00	
		Unreconciled total		200.00	0.00	
		Column total		200.00	25,000.00	

Things to notice:

1. The 4th column is the Reconcile column. The very last entry for 12/15/2020 has a balance on the right of $25,000.00 which is identical to what our Checkbook reconciliation window displays and is identical to the ending balance of the Bank Statement. This is exactly what we want.

2. The report also displays all unreconciled entries so that the last entry on the window will display our unreconciled balance.
3. This is a great report to ensure you are balanced to the penny with the Bank.

<u>Stage 5: Payroll</u>

Payroll Definitions

Employee versus Employer: Employee means it is the responsibility of the employee to pay while Employer means it is a benefit the Church is providing.

Employee versus Pastor: People that work at the church are employees. Pastors are not typically employees. They are considered self employed and are taxed differently. Pastors are responsible for paying their own tax payments.

Gross Pay: This is the total amount being paid to the Employee <u>before</u> taxes are removed.

Net Pay: This is the actual amount being paid to the Employee <u>after</u> taxes are removed.

Federal Taxes: This is the Amount owed to the Federal Government

State Taxes: This is the Amount owed to the State an employee resides.

Employee FICA: This is the social security that Employees pay and is deducted from the Gross Pay. This is a flat rate of 6.2%. Also referred to as **FICA SS**.

Employee Medicare: This is the Medicare that Employees pay and is deducted from the Gross Pay. It is a flat rate of 1.45%. Also referred to as **FICA Med**.

Employer FICA: This is the social security that the Employer(Church) pays. It is a flat rate of 6.2%. Also referred to as **FICA SS Employer**

Employer Medicare: This is the medicare that the Employer(Church) pays. It is a flat rate of 1.45%. Also referred to as **FICA Med Employer**.

SECA: Self Employment Contributions Act. Because Pastors are self employed they do not pay FICA and Medicare. They pay SECA instead. SECA is a flat rate of 15.3%. If you add the two FICAs and Medicares together the total also equals 15.3%. The difference is that with SECA the pastor must pay the entire percentage rather than just half. Because of this it is common for churches to reimburse the pastor the 7.65% in FICA and Medicare that is typically paid by the church.

Exemptions: The more exemptions you have the less you will pay in taxes based on the table calculations.

Payroll Expenses: These are the expense accounts related to paying employees and pastors. Some churches will break this up by position for budget purposes.

Payroll Liabilities: The dollars withheld from the Gross Pay of an employee or the benefits owed by the employer.

Payroll Accounts

For our purposes we are going to define the following accounts:

Payroll Liability Accounts	Payroll Expense Accounts
Federal Withholding Tax Payable FICA Tax Payable Employee FICA Tax Payable Employer Medicare Tax Payable Employee Medicare Tax Payable Employer State Withholding Tax Payable	Staff Salaries Expense Pastor Salaries Expense

It is good to group these accounts together under a parent account. We will create all the payroll liability accounts under a primary account called Payroll Withholding & Taxes and all the payroll expense accounts under Staff Salaries. If these do not exist you will need to make them first and then create the remaining accounts. They must be defined correctly for them to appear in Payroll. Below is an example of how to define them.

Create a New Account

Account Type: Expenditures
Expenditures: Operating Expenses
Sub-account of: Staff Salaries
Account Name: Pastor Salaries Expense
Description:

Save   Clear   Close

Create a New Account

Account Type: Liabilities
Liabilities: Other Current Liabilities
Type Detail: Payroll Withholding & Tax...
Sub-account of: Payroll Withholding & Taxes
Account Name: Federal Withholding Tax Payable
Description:

Save   Clear   Close

When you are finished your Chart of Accounts will look like this:

Payroll Withholding & Taxes	Liabilities	Other Current Liabilities : Payroll Withholding & Taxes Payable	Credit	Active	N
....Federal Withholding Tax Payable	Liabilities	Other Current Liabilities : Payroll Withholding & Taxes Payable	Credit	Active	N
....FICA Tax Payable-Employer	Liabilities	Other Current Liabilities : Payroll Withholding & Taxes Payable	Credit	Active	N
....FICA Tax Withholding-Employee	Liabilities	Other Current Liabilities : Payroll Withholding & Taxes Payable	Credit	Active	N
....Medicare Tax Payable-Employer	Liabilities	Other Current Liabilities : Payroll Withholding & Taxes Payable	Credit	Active	N
....Medicare Tax Withholding-Employee	Liabilities	Other Current Liabilities : Payroll Withholding & Taxes Payable	Credit	Active	N
....State Withholding Tax Payable	Liabilities	Other Current Liabilities : Payroll Withholding & Taxes Payable	Credit	Active	N
Staff Salaries	Expenditures	Operating Expenses	Debit	Active	N
....Pastors Salaries Expense	Expenditures	Operating Expenses	Debit	Active	N
....Staff Salaries Expense	Expenditures	Operating Expenses	Debit	Active	N

Adding Accounts to Payroll:

Before we can use these accounts in Payroll we must tell Payroll to recognize them. This avoids clutter and accidentally using incorrect accounts in Payroll. To activate the accounts we specified go to Payroll → PR Setup → Preferences. Locate the accounts in the expense section and check the two accounts. Then check the liabilities that you have defined as well. The result should look like:

Things to notice:

1. The fourth column is liability. Both FICA Tax Payable Employer and Medicare Tax Payable Employer both had to be changed to a liability of Employer. Once we changed that we had to assign it to the Staff Salaries Exp account.
2. Notice that both Employer Liabilities used Staff Salaries Exp. Pastors do not have FICA and Medicare removed from their paychecks.
3. All the accounts were listed as Tax. An HSA, FSA or 401k would require a different designation.

Common Withholding Accounts

Before we enter employee names we can do a little bit of work to make their withholding window a little easier to use. Since all employees, other than pastors, have FICA and Medicare withhold we can set those up once under Maintain Common Accounts. Go to Payroll → PR Setup → Employees, click on 'Maintain Common Accounts' at the very bottom right corner of the employees window.

You will want four accounts set up here.

Things to notice:

1. We used the Calculation method in step 2 for all four definitions.
2. FICA is listed in all four areas of the calculation section. This is correct. Notice the FICA SS versus FICA Med. SS stands for the Social Security portion of FICA and Med is for Medicare.

Create Employees

All employees should fill out a W-4. Once you have them go to Payroll → PR Setup → Employees. Enter the information for Employees here. We will enter Mary Anderson and John Smith as Employees and Ronald Larson as the Pastor.

Things to notice:

1. Default Expense. This should be the Expense line created in the Chart of Accounts. For the Pastor you would select Pastor Salary.
2. Default Fund. Most churches will pay employees out of the General Fund.
3. Filing Status and Federal Exemptions. These fields are used to help calculate taxes.

Withholdings

Go to Payroll → PR Setup → Employees, select one of the employees on the left and click the 'Withholding View/ Setup' on the right. Execute A, B & C below for each employee, not pastors.

A. Click the 'Copy Common Accounts to This Employee' button at the very bottom of the window. This will add the two FICA lines and the two Medicare lines to this employee.

B. Go back to Step 1 and select Federal Withholding Tax & Payable. Step 2, choose Calculate with tax tables and click the drop down and select Federal Income Tax. You may need to adjust some of the numbers here based on the submitted W-4 from the employee. Click the Add to Withholding button in Step 3.

C. Go back to Step 1 and select State Withholding Tax Payable. Step 2 Choose Calculate with tax tables and select the State you are withholding for this employee. Click the Add to Withholding button in Step 3.

Rate Cards

Go to Payroll → PR Setup → Employees, click on an Employee record and click 'Rate Card Maintenance'.

In the Rate Card Name box enter a name for the rate card and fill out the form. When you click the save button it will add all available withholdings you have entered on the right hand side Rate Card Withholdings window. Example Below:

Rate Card for Mant, Kaarin

Available Rate Cards	Salary ▼
Rate Card Name	Salary

☑ Include in gross wages

Rate Card Type ○ Hourly ● Salaried

	Annual Salary	Pay Frequency	Salary Per Pay Period
Salary Pay	$50,000.00	SemiMonthly ▼	$2,083.33
Salary Expense	Pastors Salaries ▼		
Accounting Fund	General Fund ▼		

[Save] [Clear] [Delete] [Close Rate Card]

Click on available withholdings (left) to add them to the rate card (right)

Available Withholdings			Rate Card Withholdings	
Federal Withholding Tax Payabl	Employee		Federal Withholding Tax Payabl	Employee
FICA Tax Payable-Employer	Employer		FICA Tax Payable-Employer	Employer
FICA Tax Withholding-Employee	Employee		FICA Tax Withholding-Employee	Employee
Health Insurance Payable	Employee		Medicare Tax Payable-Employer	Employer
Medicare Tax Payable-Employer	Employer		Medicare Tax Withholding-Emplo	Employee
Medicare Tax Withholding-Emplo	Employee		State Withholding Tax Payable	Employee

Things to notice:

1. Each rate card can be applied to a different expense account.
2. Each rate card can be applied to a different Accounting Fund.

3. To remove a tax from a rate card, click on a withholding under Rate Card Withholdings at the bottom right.
4. Note the Include on Gross Wages Checkbox.

Executing your first Payroll through Icon

While it is possible to enter payroll checks one at a time most churches will batch checks together and process payroll all at once. Batching Payroll checks is the method we will display in our example. Proceed to Payroll → PR Activities → PR Batches. A really good batch name is the date spelled out. Example: 02/15/2021 would have a batch name of Feb 15th 2021. Pay period for semi-monthly would be 02/01/2021 to 02/12/2021. The window would appear as:

Select a batch from the scroll window or add a new batch

Created By Maranda

Name Feb 15th 2021

Pay Period From 02/01/2021

Pay Period To 02/12/2021

Batch Status Open

Approval Status No

Batch Processing Sequence

Create Batch   Batch Entry

Clear Fields   Print Edit Report

Delete Batch   Approve Edit

Once you have the information for the batch entered click the "Create Batch" button.This will also open the batch.Select each employee and the appropriate rate cards that you will be using. For each rate card click the Add to Batch button. The result would appear as:

? help   **Payroll : PR Activities : PR Batches**

Distribution Accounts	Fixed Amnt	+ / -	Percent	Over	Max Amnt	Allowance	YTD	Amount
Federal Withholding Tax Payabl	Calculation: FIT, YTD Supplemental Wages = No (0), Nonresident Alien = No (0), Federal exemptions = 0						0.00	44.66
FICA Tax Payable-Employer	Calculation: FICA SS employer						0.00	29.76
FICA Tax Withholding-Employee	Calculation: FICA SS						0.00	29.76
Health Insurance Payable	100.00	Plus	0.00000	0	No Limit	0.00	0.00	100.00
Medicare Tax Payable-Employer	Calculation: FICA Med employer						0.00	6.96
Medicare Tax Withholding-Emplo	Calculation: FICA Med, Without Medicare Additional = 0						0.00	6.96
State Withholding Tax Payable	Calculation: MN, State exemptions = 0						0.00	21.74

Status Active

Employee William Audette

Rate Card William:Weekly

Regular Hours 40.00   Hourly rate of 12.00

Overtime Hours 0.00   Overtime rate of 20.00

Gross pay is 480.00

YTD Gross Pay 0.00

Employer expenses 36.72   Employee deductions 203.12

↓ Add to Batch ↓

Employee List in Batch	Rate Card Used	Net Pay
Jonathan Allenson	J.Allenson - Two Weeks	1040.08
Gregory Custodial	Custodial - Office Building & Grounds	343.28
Kaarin Mant	K.Mant - 2nd Half	1801.53
William Audette	William:Weekly	276.88

End Of List

Things to notice:

1. We made William Audette an hourly employee for his rate card. Because of this you can see on the left side of the window that we were required to designate the number of hours they worked for the pay period (Both Regular and Overtime).
2. The top right of the window displays each withholding and the amount that will be withheld.
3. To add them to the batch click 'Add to Bach'. You will then see their name in the bottom window under 'Employee List in Batch'. This window will display each employee that will be paid via this batch and the Net Pay.
4. If you click an employee's name that is currently in the "Employee List in Batch" they will be removed from the batch.

Once you are done adding Employees to the batch and everything looks correct click the Close Batch button. This will return you to the Batch creation window. Before a batch can be used to generate checks the Edit report must be printed and the Batch must be approved.

1. Select the Batch on the left and press the Print Edit List button.
2. If the Edit List appears correct press the Approve Edit button.

The result will be:

Batch Name	Created By	In Use By	From	To	Approval
Feb 15th 2021	Maranda		02/01/2021	02/12/2021	EDT

Notice the "YES" under Approval. This tells us which batch is set to process next through the Print Checks window.

Print Checks

Proceed to Payroll → PR Activities → PR Checks.

The information we approved appears in the top section. Because the church does not write checks, the First check no field is set to EFT. This tells the system that Electronic Fund Transfer will be used to transfer the dollars to the employees bank account.

When ready press the Post & Print. If you are set to EFT you will still receive a printed copy of checks but no check numbers will be used.

Thank you for using Icon Systems.
I hope this guide was helpful.

Payroll : PR Activities : PR Checks

Batch name Feb 15th 2021
Created by Maranda
Approved by Maranda
Status Open

From date To date
Pay period 02/01/2021 02/12/2021

Checking account Checking
First check no. EFT
Check date 02/15/2021
Check form ICO-2113
Payroll memo Feb 15th 2021 Payroll

Post & Print   Reprint A Check