



ARCHDIOCESE  
*of* MILWAUKEE

# Faithful Finances

## Accounting 101 for Non-Profits

Parish & School Financial Consulting

# Agenda

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# What Is Accounting?

Accounting is simply telling your organization's financial story.

It helps track and report:

What the organization has (assets)

- Cash
- Buildings
- Equipment

What the organization owes (liabilities)

- Unpaid bills
- Loans

How the organization uses resources

- Income coming in
- Expenses going out

# Five Types of Accounts

## Assets

- Things organization owns: cash, buildings, equipment, accounts receivable

## Liabilities

- Things organization owes: loans, unpaid bills, accounts payable

## Net Assets

- Assets minus liabilities (like owner's equity in a business)

## Revenue

- Money coming in: donations, grants, tuition, program fees

## Expenses

- Money going out: salaries, rent, supplies, utilities
- May include non-cash items, such as depreciation

## The Accounting Equation

Everything in accounting follows this simple rule:

Assets = Liabilities + Net Assets (Equity)

Assets = Things you own (cash, buildings, equipment)

Liabilities = Things you owe (loans, unpaid bills)

Net Assets = Fund balances (like equity in a for-profit business)

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## Debits & Credits: The Simple Version

Think of debits and credits as recording two sides of every transaction:

**Debit** = Where the money or resource **goes** (increases assets, expenses)

**Credit** = Where the money or resource **comes from** (increases liabilities, income)

*Example:* You receive a \$1,000 donation:

- **Debit** Cash \$1,000 (asset increases) → Money goes to parish checking account
- **Credit** Envelope & Offertory \$1,000 (income recorded) → Money came from parishioners

**Remember:** Every transaction must balance → Total Debits = Total Credits

## The Accounting Equation – Debits and Credits

$$\text{Assets} = \text{Liabilities} + \text{Net Assets (Equity)}$$

The accounting equation is separated in two sides for a reason. The left side (Assets) have a natural debit balance while the right side (Liabilities and Net Assets) have a natural credit balance.

Whenever an asset is debited, it will **always** increase while a liability and net asset would **always** decrease.

Whenever a liability or net asset is credited, it will **always** increase while an asset would **always** decrease.

## Debits & Credits: Income Statement

$$\text{Revenue} - \text{Expense} = \text{Net Income}$$

The Income Statement follows the same debit and credit rules as the Balance Sheet.

At the end of the fiscal year your financial system will automatically wipe your revenue and expense back to zero. To do so, the Net Income amount closes to a Net Asset account called Retained Earnings. For non-profits it is your General Fund.

Revenue accounts will **always** increase with a credit and will **always** decrease with a debit.

Expense accounts will **always** increase with a debit and will **always** decrease with a credit.

## Debits & Credits: Income Statement: Continued

$$\text{Assets} = \text{Liabilities} + \text{Net Assets (Equity)}$$

*Example:* You receive a \$1,000 donation

Account - Debit	Account - Credit	Amount - Debit	Amount - Credit
1010 General Checking		\$1,000	
	3010 Envelope Income		\$1,000

1010 General Checking is an asset account, and it is being debited makes it go up  
3010 Envelope Income is an income account, and it being credited makes it go up

This entry makes both assets, and net assets go up by \$1,000 and the accounting equation balances.

## What Is US GAAP?

**US GAAP** (Generally Accepted Accounting Principles) is the official rulebook that tells nonprofits how to record and report financial information.

Think of GAAP as the grammar rules for accounting. Just like grammar helps everyone understand written language, GAAP ensures everyone reads financial statements the same way.

### **GAAP ensures three key things:**

- **Consistency** – Same rules used year after year
- **Transparency** – Clear, honest reporting
- **Comparability** – Compare across organizations

# Required Nonprofit Financial Statements

Under US GAAP, nonprofits must prepare three main financial statements:

## Statement of Financial Position (balance sheet)

- Shows assets, liabilities, and net assets at a specific point in time.

## Statement of Activities (income statement)

- Shows revenue and expenses over a period, revealing whether you had a surplus or deficit.

## Statement of Functional Expenses

- Shows where money went. Breaks expenses by program, management, and fundraising to show efficiency.

## What Is Fund Accounting?

Fund accounting is a way to keep track of different "**buckets**" of money, ensuring you always know which funds must be used for which purpose.

Think of it like having separate buckets for different purposes:



General Fund



Building &  
Grounds Fund



Christian  
Women Fund



Endowment  
Fund

**Key principle:** Each fund operates like its own mini-organization, but all funds combine to create your complete financial picture.

## How Fund Accounting Works

**The Flow:** Money Arrives → Assigned to Fund → Spent Properly → Reported Separately

**Critical Rule:** Never mix restricted and unrestricted money. Each fund must remain separate for tracking purposes, even though they roll up into one set of financial statements.

Individual fund tracking → Combined into full financial statements

## Statement of Financial Position (Example)

Shows your financial position at a specific moment (like a snapshot):

### ASSETS (What You Own)

- Cash: \$50,000
- Accounts Receivable: \$8,000
- Equipment: \$15,000
- **Total Assets: \$73,000**

### LIABILITIES (What You Owe)

- Accounts Payable: \$5,000
- Loan Payable: \$10,000
- **Total Liabilities: \$15,000**

### NET ASSETS (What's Left)

Without Donor Restrictions: \$38,000

With Donor Restrictions: \$20,000

**Total Net Assets: \$58,000**

Note: Assets (\$73,000) = Liabilities (\$15,000) + Net Assets (\$58,000)

## Statement of Activities (Example)

Shows activity over a period of time

Two columns track restricted vs. unrestricted:

### Without Donor Restrictions

**(Unrestricted) Revenue & Support:**

- Donations: \$10,000
  - Released from restrictions: \$3,000
- Expenses:*
- Program expenses: (\$10,000) **Change in Net Assets: +\$3,000**

### With Donor Restrictions (Restricted)

**Revenue & Support:**

- Restricted grant: \$5,000 *Released to unrestricted:*
  - When restriction met: (\$3,000)
- Change in Net Assets: +\$2,000**

**Total Change in Net Assets: +\$5,000**

*When restricted funds are spent properly, they "release" from the restricted column to unrestricted.*

## Statement of Functional Expenses

Nonprofits must show how expenses are allocated across three categories:

- **Program Services (70-85% typical)** Direct mission work – education, services, outreach
- **Management & General (10-20% typical)** Administration, accounting, HR, governance
- **Fundraising (5-15% typical)** Development, donor cultivation, events

**Why it matters:** Donors and grantors want to see that most of your money goes directly to mission work, not overhead. This statement provides that transparency.

## Income Classification



Accounting standards require that nonprofits report income in two categories: with donor restriction and without donor restriction



Parishes have an obligation to the donor to use restricted funds properly



It helps keep the parish financial reporting clean as to what revenue, expenses and funds are restricted vs. operating



It makes completing the CFS (Confidential Financial Statement) easier



The Archdiocesan assessment is based on unrestricted revenue

## Unrestricted Income:

Any Income that a Parish or School receives that is not legally restricted by the donor.

### Examples:

Offertory  
(loose cash)

Envelopes

Holy Day  
Envelopes

Investment  
Income

School  
Tuition

Program  
Fees

Fundraisers

Bequests

Memorials

Rental  
Income

## Restricted Income

Income that a Parish or School receives:

- 1) From a donor,
- 2) In writing, and
- 3) States a specific purpose for the funds.

*Note: If any one of the three requirements is missing, the income is unrestricted.*

### Examples:

Capital Campaign

Cemetery Income

Donation to  
parish/school for  
buildings &  
grounds

Donation to Parish  
or School  
Endowment

## Unrestricted / Designated Income:

Income that a Parish or School receives that is not legally restricted by the donor, which the parish sets aside for a specific purpose.

### Examples:

- a) Funds belonging to affiliated organizations such as Athletics or Christian Women
- b) A savings account for capital improvements that is funded through accumulated profits
- c) Funds set aside from a bequest that the Finance Council wants to use for a parking lot in a future fiscal year.
- d) Funds set aside from the profits of an auction that the school wants to use for Chromebooks in the next fiscal year

# Recording Common Nonprofit Transactions

## PRACTICE #1

Your organization receives a **\$1,000 donation for operations** by check.

1. The income is:
  - a. Unrestricted
  - b. Restricted
  - c. Unrestricted / Designated
  
2. What is the Debit & Credit for this transaction's journal entry?

Account - Debit	Account - Credit	Amount - Debit	Amount - Credit

## Practice #1 – Answer

1. Unrestricted Donation – all donations for operations are unrestricted since it was not for a specific purpose.
2. Below is the Entry

Account - Debit	Account - Credit	Amount - Debit	Amount - Credit
1010 General Checking		\$1,000	
	3060 Donations		\$1,000

**What happened:** Cash increased (asset +) and revenue was recorded as unrestricted (can be used for any mission purpose). Both assets and net assets go up by \$1,000

## Practice #2 - Question

You receive a **\$5,000 donation** that can only be used for your youth program.

Answer the following questions

1. Is the Income:
  - a. Unrestricted
  - b. Restricted
  - c. Unrestricted / Designated
  
2. What is the Debit & Credit for this transaction?

Account - Debit	Account - Credit	Amount - Debit	Amount - Credit

## Practice #2 – Answer

1. Restricted Donation – This donation was from a **donor** in **writing** and **for a specific purpose** so it would be classified as restricted.
2. Below is the Entry

Account - Debit	Account - Credit	Amount - Debit	Amount - Credit
1010 General Checking		\$5,000	
	3060 Donations		\$5,000

**What happened:** Cash increased, but this revenue is recorded as **restricted** because it can only be used for the youth program. It will appear in the "With Donor Restrictions" column of your net assets. Both assets and net assets with donor restriction go up by \$5,000

## Practice #3 - Question

You pay **\$2,000 in staff salaries**

Answer the following questions

1. Is the Expense:
  - a. Unrestricted
  - b. Restricted
  - c. Unrestricted / Designated
  
2. What is the Debit & Credit for this transaction?

Account - Debit	Account - Credit	Amount - Debit	Amount - Credit

## Practice #3 – Answer

1. Unrestricted Expense– This expense was a general operational expense and would be classified as unrestricted.
2. Below is the Entry

Account - Debit	Account - Credit	Amount - Debit	Amount - Credit
4010 Salaries		\$2,000	
	1010 General Checking		\$2,000

**What happened:** Salary expense increased (decrease net assets) and cash decreased (decreased assets). Since this was an operational expense, it is recorded as an unrestricted expense. Both assets and net assets go down by \$2,000

## Practice #4 - Question

The Christian Women Group at the parish raises \$3,000 at a bake sale.

Answer the following questions

1. Is the Expense:
  - a. Unrestricted
  - b. Restricted
  - c. Unrestricted / Designated
  
2. What is the Debit & Credit for this transaction?

Account - Debit	Account - Credit	Amount - Debit	Amount - Credit

## Practice #4 – Answer

1. Unrestricted / Designated Income – The Christian Women group is a permanently designated fund. Any funds they raise or spend will always be designated.
2. Below is the Entry

Account - Debit	Account - Credit	Amount - Debit	Amount - Credit
1010 General Checking		\$3,000	
	3690 Other Fund Raisers		\$3,000

**What happened:** Cash increased, but this revenue is recorded as **designated** because it can only be used for the Christian Women group. It will appear in the "Without Donor Restrictions" column of your net assets but in a separate section for designated funds. Both assets and net assets go up by \$3,000.

## Key Takeaways

### 5 Essential Points:

1. **US GAAP provides the rules** – Ensures consistency, transparency, and comparability across all nonprofits.
2. **Fund accounting tracks buckets** – Each fund is a separate "envelope" for different purposes, but all combine in financial statements.
3. **Three financial statements required** – Statement of Financial Position, Statement of Activities, and Statement of Functional Expenses.
4. **Two net asset classes** – Track money "without donor restrictions" (unrestricted) and "with donor restrictions" (restricted) separately.
5. **Never mix restricted and unrestricted** – Keep them separate in tracking, release restrictions only when conditions are met.

If you have any questions,  
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