

Making Meaning through Your Chart of Accounts: A Guide to Strategic Simplicity

June 17, 2024

Webinar Sponsor:



NONPROFIT
FINANCIAL
COMMONS

Enter your burning questions in the Chat, monitored by NFC moderator, to have them answered during our interactive Q&A sessions.

Wade Rogers
NFC Moderator



Mark Hager
NFC Moderator



Today's Presenters



Shétu Rose

Co-Founder and CEO
Diverge Finance Cooperative



Curtis Klotz

Co-Founder and Chief Learning Officer
Diverge Finance Cooperative

Topic Overview

- Tips and tools for creating a chart of accounts.
- Tips and tools for revising a COA that has become chaotic or confusing.
- Configuring your COA to tell an elegant story of your nonprofit.
- Structuring your accounting system to match your business model(s).
- Creating order out of multiple funds, funding sources, and programs.



Design your chart of accounts
to avoid being a victim of
your chart of accounts

Seek Balance and Effectiveness

Design your Chart of Accounts to be:

- As **simple** as possible, while complete
- As **informative** as possible, but not too dense
- As **sophisticated** as possible, without complication



Two Key Elements: Rows and Columns

- ▶ Rows = Line Items (by nature)
 - Your chart of accounts
- ▶ Columns = Dimensions (by function)
 - Your programs, cost centers, functional categories, funds

Statement of Activities - Fiscal Year 202X (Without Restriction Only)					
	Program & Operations	Board Designated Funds	Endowment	Comprehensive Campaign	TOTAL
SUPPORT AND REVENUE					
Support					
Contributions					
Individual Donations	\$ 1,251,789				\$ 1,251,789
Business Donations	130,908				130,908
Sponsorships	49,911				49,911
Legacy/Request Donations	53,133				53,133
Foundation Grants	414,430				414,430
Federated Giving Campaigns	70,624				70,624
Total Contributions	1,970,795				1,970,795
Released from Restriction	1,109,650			877,433	1,987,083
In-Kind Contributions	1,281,065				1,281,065
Endowment Distribution	347,802	(265,920)	(81,882)		-
Total Support	\$ 4,709,312	\$ (265,920)	\$ (81,882)	\$ 877,433	\$ 5,238,943
Earned Revenue					
Government Grants and Contracts	2,519,679				2,519,679
Leasing & Rental Income	656,448				656,448
Program Service Fees	549,739				549,739
Miscellaneous Income	43,542			214	43,756
Total Earned Revenue	\$ 3,769,408	\$ -	\$ -	\$ 214	\$ 3,769,622
TOTAL SUPPORT AND REVENUE	\$ 8,478,720	\$ (265,920)	\$ (81,882)	\$ 877,647	\$ 9,008,565
EXPENSES					
Personnel Expenses	4,467,503			170,533	4,638,036
Contracted Services	659,122			441,387	1,100,509
In-Kind Expenses	1,281,064				1,281,064
Direct Participant Assistance	935,833				935,833
Program Supplies	312,125			1,111	313,236
Grant & Scholarship Expense	9,000				9,000
Occupancy Expenses	660,340				660,340
Equipment & Technology Expense	145,445				145,445
Transportation & Travel	19,038			989	20,027
Conferences, Events & Travel	59				59
Other Operating Expenses	298,032			1,910	299,942
TOTAL EXPENSES	\$ 8,787,561	\$ -	\$ -	\$ 615,930	\$ 9,403,491
CHANGE IN NET ASSETS (Operating)	\$ (308,841)	\$ (265,920)	\$ (81,882)	\$ 261,717	\$ (394,926)
INVESTMENT ACTIVITY		237,132			237,132
CHANGE IN NET ASSETS (TOTAL)	\$ (308,841)	\$ (28,788)	\$ (81,882)	\$ 261,717	\$ (157,794)

Rows and Line Items

Your key to effective communication

Communicating Strategically: The Three Line-Item Test

You can learn a lot about your business model (and the state of your accounting system) by...

- Totaling the *three largest income line items*.
- Totaling the *three largest expense line items*.

The Three Line-Item Test - Income

	Program & Operations	Pass-through	Loan Fund	Properties	Total
SUPPORT AND REVENUE					
Earned Revenue					
Government Contracts	\$ 1,004,583				\$ 1,004,583
Loan Program Revenue	145,000				145,000
TA & Program Revenue	10,000				10,000
Training Revenue	5,000				5,000
Rental Income				126,300	126,300
Contributed Revenue					
Grants / Foundations	793,000	153,000			946,000
Donations - Individuals	15,000				15,000
LSF Donations	-				-
Membership Dues	-				-
Revenue Released from Restriction	934,250	300,000	612,000		1,846,250
Other Revenue					
Special Events	57,000				57,000
Miscellaneous Revenue	85,500			16,500	102,000
TOTAL SUPPORT AND REVENUE	\$ 3,049,333	\$ 453,000	\$ 612,000	\$ 142,800	\$ 4,257,133

Government Contracts	\$ 1,004,583
Grants/Foundations	946,000
Revenue Released from Restriction	1,846,250
Subtotal	\$ 3,796,833
Percent of Total Support and Revenue	89%

The Three Line-Item Test - Expenses

	Program & Operations	Pass-through	Loan Fund	Properties	Total
EXPENSES					
Personnel	1,818,820				1,818,820
Contracted Services	641,700			12,000	653,700
Direct Support to Community	-	453,000			453,000
Travel Expenses	30,000				30,000
Meeting & Training Expenses	19,500				19,500
Operating Expenses	141,967			23,500	165,467
Equipment Expenses	2,700				2,700
Insurance Expenses	33,900			4,800	38,700
Occupancy Expenses	130,620			105,200	235,820
Financing Expenses	93,000			14,200	107,200
Other Expenses	33,870				33,870
TOTAL EXPENSES	\$ 2,946,077	\$ 453,000	\$ -	\$ 159,700	\$ 3,558,777
Change in Net Assets	\$ 103,257	\$ -	\$ 612,000	\$ (16,900)	\$ 698,357

Personnel	\$ 1,818,820
Contracted Services	653,700
Direct Support to Community	45,300
Subtotal	\$ 2,517,820
Percent of Total Support and Revenue	71%

Elegance Principles

Ask yourself these questions about your Chart of Accounts:

Is this line item...

- 1) ...necessary to manage our organization?
- 2) ...crucial for making important strategic decisions?
- 3) ...(absolutely) required by outside users
such as donors, foundations, government agencies,
regulatory agencies, nonprofit watchdogs, or
community members?

Starting with Support and Revenue

Support (contributed)

- Foundation grants
- Individual donations
- In-kind contributions
- Bequests
- Releases from restriction

Revenue (earned)

- Contract fees
- Membership dues
- Client service fees
- Other revenue paid for services
- Investment income

Each income stream requires infrastructure, capacity, and strategies to guide it.

Support and Revenue

	Program 1	Program 2	Program 3	General Program	Total
--	-----------	-----------	-----------	-----------------	-------

SUPPORT AND REVENUE

Support (Contributions)

Grants	\$ -	\$ -	\$ -		
Individuals					
Events					
Released from restriction	408,350	375,200			
TOTAL Support	408,350	375,200			

Revenue (Earned)

Client services fees	241,310	301,637			
Investment earnings	-	-	-	120,655	120,655
TOTAL Revenue	241,310	301,637	235,998	120,655	899,600

TOTAL SUPPORT AND REVENUE	\$ 649,660	\$ 676,837	\$ 1,484,898	\$ 324,830	\$ 3,136,225
----------------------------------	-------------------	-------------------	---------------------	-------------------	---------------------

Who strategies?
 Who manages?
 Who transacts?
 What infrastructure needed?
 What systems used?
 What benchmarks evaluated?

On to Expenses - Elegance through Roll Ups

Emphasize **more influential items**

Roll up your accounts into meaningful groupings.

De-emphasize **less influential items**

Declutter your chart of accounts and your reports

Remember the Three Line-Item Test

Mapping Your Chart of Accounts - Expenses

Expense Item	Expense Item
Executive Director Salary and Benefits	Executive Director Salary and Benefits
Development Director Salary and Benefits	Development Director Salary and Benefits
Program Director Salary and Benefits	Program Director Salary and Benefits
Other Staff:	Other Staff:
Other Staff:	Benefits, Taxes, Workers Comp Insurance
Other Staff:	Consultants and Contractors
Other Staff:	Professional Fees - Audit
Benefits, Taxes, Workers Comp Insurance	Professional Fees - Legal
Consultants and Contractors	Occupancy (rent, mortgage interest, etc.)
Professional Fees - Audit	Program Materials
Professional Fees - Legal	Office Supplies
Occupancy (rent, mortgage interest, etc.)	Board Meeting Expenses
Program Materials	Depreciation Expense - Technology & Equipment
Office Supplies	Depreciation Expense - Buildings & Leaseholds
Board Meeting Expenses	
Depreciation Expense - Technology & Equipment	
Depreciation Expense - Buildings & Leaseholds	
Other Expense:	
Other Expense:	
Other Expense:	
Other Expense:	

Is this line item...

- 1) ...necessary to manage our organization?
- 2) ...crucial for making important strategic decisions?
- 3) ...(absolutely) required by outside users
such as donors, foundations, government agencies,
regulatory agencies, nonprofit watchdogs, or
community members?

Mapping Your Chart of Accounts - Expenses

Expense Item	Roll Up Account
Executive Director Salary and Benefits	Payroll, Taxes, Benefits
Development Director Salary and Benefits	Payroll, Taxes, Benefits
Program Director Salary and Benefits	Payroll, Taxes, Benefits
Other Staff:	Payroll, Taxes, Benefits
Other Staff:	Payroll, Taxes, Benefits
Benefits, Taxes, Workers Comp Insurance	Payroll, Taxes, Benefits
Consultants and Contractors	Contracted Services
Professional Fees - Audit	Contracted Services
Professional Fees - Legal	Contracted Services
Program Materials	Program Materials and Supplies
Office Supplies	Program Materials and Supplies
Rent	Occupancy
Maintenance	Occupancy
Mortgage interest	Occupancy
Janitorial	Occupancy

Arrange in meaningful groupings

- 1) Meaningful by amount
- 2) Meaningful for decision making
- 3) Required by others (donors, agencies, etc.)

Mapping Your Chart of Accounts - Expenses

Expense Item	Roll Up Account
Executive Director Salary and Benefits	Payroll, Taxes, Benefits
Development Director Salary and Benefits	Payroll, Taxes, Benefits

Expense Item	Roll Up Account
Program Director Salary and Benefits	Payroll, Taxes, Benefits
Other Staff:	
Other Staff:	
Benefits, Taxes, Workers Comp Insurance	Contracted Services
Consultants and Contractors	
Professional Fees - Audit	Program Materials and Supplies
Professional Fees - Legal	
Program Materials	Occupancy
Office Supplies	
Rent	Equipment and Technology
Maintenance	
Mortgage interest	Travel & Meetings
Janitorial	
Telecommunications	Marketing and Communications
Technology and Equipment	
Website	Other Operating Expenses
Staff Travel	
Meeting & Hosting Expense	Depreciation Expense
Marketing and Communications	
Board Meeting Expenses	Other Operating Expenses
Professional Development	
Other Expense:	
Other Expense:	Depreciation Expense
Depreciation - Equipment & Technology	
Depreciation - Buildings & Leaseholds	Depreciation Expense

Roll Ups Aid Communication

- 1) Ease of reading
- 2) Emphasize what is important
- 3) Beg the right questions

Statement of Activities - Fiscal Year 202X (Without Restriction Only)

	Program & Operations	Board Designated Funds	Endowment	Comprehensive Campaign	TOTAL
SUPPORT AND REVENUE					
Support					
Contributions					
Individual Donations	\$ 1,251,789				\$ 1,251,789
Business Donations	130,908				130,908
Sponsorships	49,911				49,911
Legacy/Bequest Donations	53,133				53,133
Foundation Grants	414,430				414,430
Federated Giving Campaigns	70,624				70,624
Total Contributions	1,970,795	-		-	1,970,795
Released from Restriction	1,109,650			877,433	1,987,083
In-Kind Contributions	1,281,065				1,281,065
Endowment Distribution	347,802	(265,920)	(81,882)		-
Total Support	\$ 4,709,312	\$ (265,920)	\$ (81,882)	\$ 877,433	\$ 5,238,943
Earned Revenue					
Government Grants and Contracts	2,519,679				2,519,679
Leasing & Rental Income	656,448				656,448
Program Service Fees	549,739				549,739
Miscellaneous Income	43,542			214	43,756
Total Earned Revenue	\$ 3,769,408	\$ -	\$ -	\$ 214	\$ 3,769,622
TOTAL SUPPORT AND REVENUE	\$ 8,478,720	\$ (265,920)	\$ (81,882)	\$ 877,647	\$ 9,008,565
EXPENSES					
Personnel Expenses	4,467,503	-	-	170,533	4,638,036
Contracted Services	659,122	-	-	441,387	1,100,509
In-Kind Expenses	1,281,064	-	-	-	1,281,064
Direct Participant Assistance	935,833	-	-	-	935,833
Program Supplies	312,125	-	-	1,111	313,236
Grant & Scholarship Expense	9,000	-	-	-	9,000
Occupancy Expenses	660,340	-	-	-	660,340
Equipment & Technology Expense	145,445	-	-	-	145,445
Transportation & Travel	19,038	-	-	989	20,027
Conferences, Events & Travel	59	-	-	-	59
Other Operating Expenses	298,032	-	-	1,910	299,942
TOTAL EXPENSES	\$ 8,787,561	\$ -	\$ -	\$ 615,930	\$ 9,403,491
CHANGE IN NET ASSETS (Operating)	\$ (308,841)	\$ (265,920)	\$ (81,882)	\$ 261,717	\$ (394,926)
INVESTMENT ACTIVITY	-	237,132	-		237,132
CHANGE IN NET ASSETS (TOTAL)	\$ (308,841)	\$ (28,788)	\$ (81,882)	\$ 261,717	\$ (157,794)

Example - Revenue

	Program & Operations
SUPPORT AND REVENUE	
Support	
Contributions	
Individual Donations	\$ 1,251,789
Business Donations	130,908
Sponsorships	49,911
Legacy/Bequest Donations	53,133
Foundation Grants	414,430
Federated Giving Campaigns	70,624
Total Contributions	1,970,795
Released from Restriction	1,109,650
In-Kind Contributions	1,281,065
Endowment Distribution	347,802
Total Support	\$ 4,709,312
Earned Revenue	
Government Grants and Contracts	2,519,679
Leasing & Rental Income	656,448
Program Service Fees	549,739
Miscellaneous Income	43,542
Total Earned Revenue	\$ 3,769,408
TOTAL SUPPORT AND REVENUE	\$ 8,478,720

Statement of Activities - Fiscal Year 202X (Without Restriction Only)

	Program & Operations	Board Designated Funds	Endowment	Comprehensive Campaign	TOTAL
SUPPORT AND REVENUE					
Support					
Contributions					
Individual Donations	\$ 1,251,789				\$ 1,251,789
Business Donations	130,908				130,908
Sponsorships	49,911				49,911
Legacy/Bequest Donations	53,133				53,133
Foundation Grants	414,430				414,430
Federated Giving Campaigns	70,624				70,624
Total Contributions	1,970,795	-		-	1,970,795
Released from Restriction	1,109,650			877,433	1,987,083
In-Kind Contributions	1,281,065				1,281,065
Endowment Distribution	347,802	(265,920)	(81,882)		-
Total Support	\$ 4,709,312	\$ (265,920)	\$ (81,882)	\$ 877,433	\$ 5,238,943
Earned Revenue					
Government Grants and Contracts	2,519,679				2,519,679
Leasing & Rental Income	656,448				656,448
Program Service Fees	549,739				549,739
Miscellaneous Income	43,542			214	43,756
Total Earned Revenue	\$ 3,769,408	\$ -	\$ -	\$ 214	\$ 3,769,622
TOTAL SUPPORT AND REVENUE	\$ 8,478,720	\$ (265,920)	\$ (81,882)	\$ 877,647	\$ 9,008,565
EXPENSES					
Personnel Expenses	4,467,503	-	-	170,533	4,638,036
Contracted Services	659,122	-	-	441,387	1,100,509
In-Kind Expenses	1,281,064	-	-	-	1,281,064
Direct Participant Assistance	935,833	-	-	-	935,833
Program Supplies	312,125	-	-	1,111	313,236
Grant & Scholarship Expense	9,000	-	-	-	9,000
Occupancy Expenses	660,340	-	-	-	660,340
Equipment & Technology Expense	145,445	-	-	-	145,445
Transportation & Travel	19,038	-	-	989	20,027
Conferences, Events & Travel	59	-	-	-	59
Other Operating Expenses	298,032	-	-	1,910	299,942
TOTAL EXPENSES	\$ 8,787,561	\$ -	\$ -	\$ 615,930	\$ 9,403,491
CHANGE IN NET ASSETS (Operating)	\$ (308,841)	\$ (265,920)	\$ (81,882)	\$ 261,717	\$ (394,926)
INVESTMENT ACTIVITY	-	237,132	-		237,132
CHANGE IN NET ASSETS (TOTAL)	\$ (308,841)	\$ (28,788)	\$ (81,882)	\$ 261,717	\$ (157,794)

Example - Expenses

	Program & Operations
EXPENSES	
Personnel Expenses	4,467,503
Contracted Services	659,122
In-Kind Expenses	1,281,064
Direct Participant Assistance	935,833
Program Supplies	312,125
Grant & Scholarship Expense	9,000
Occupancy Expenses	660,340
Equipment & Technology Expense	145,445
Transportation & Travel	19,038
Conferences, Events & Travel	59
Other Operating Expenses	298,032
TOTAL EXPENSES	\$ 8,787,561
CHANGE IN NET ASSETS (Operating)	\$ (308,841)
INVESTMENT ACTIVITY	-
CHANGE IN NET ASSETS (TOTAL)	\$ (308,841)

Example – Statement of Financial Position

Statement of Financial Position - As of December 31, 202X (Without Restriction Only)

	Program and Operations	Grantmaking Fund	Fiscal Sponsorship Fund	TOTAL
Assets				
Cash and Equivalents	\$ 1,526,893	\$ 45,198,763	\$ 176,797	\$ 46,902,453
Accounts Receivable	121,016	-	-	121,016
Other Current Assets	78,696	-	-	78,696
Fixed Assets	537,637	-	-	537,637
Other Assets	103,368	-	-	103,368
Total Assets	\$ 2,367,610	\$ 45,198,763	\$ 176,797	\$ 47,743,170
Liabilities and Net Assets				
Liabilities				
Accounts Payable	184,266	100,000	-	284,266
Credit Cards	214	-	-	214
Accrued Expenses	24,949	-	-	178,118
Fiscal Agency Liabilities	-	-	176,797	176,797
Other Long-Term Liabilities	363,427	-	-	210,259
Total Liabilities	572,856	100,000	176,797	849,653
Net Assets				
Net Assets	1,294,754	45,098,763	-	46,393,517
Net Assets (Board Designated)	500,000	-	-	500,000
Total Net Assets	1,794,754	45,098,763	-	46,893,517
Total Liabilities and Net Assets	\$ 2,367,610	\$ 45,198,763	\$ 176,797	\$ 47,743,170

Q&A

NONPROFIT
FINANCIAL
COMMONS

Columns and Dimensions

Your pathway to effective fund accounting

About fund accounting and how to use it

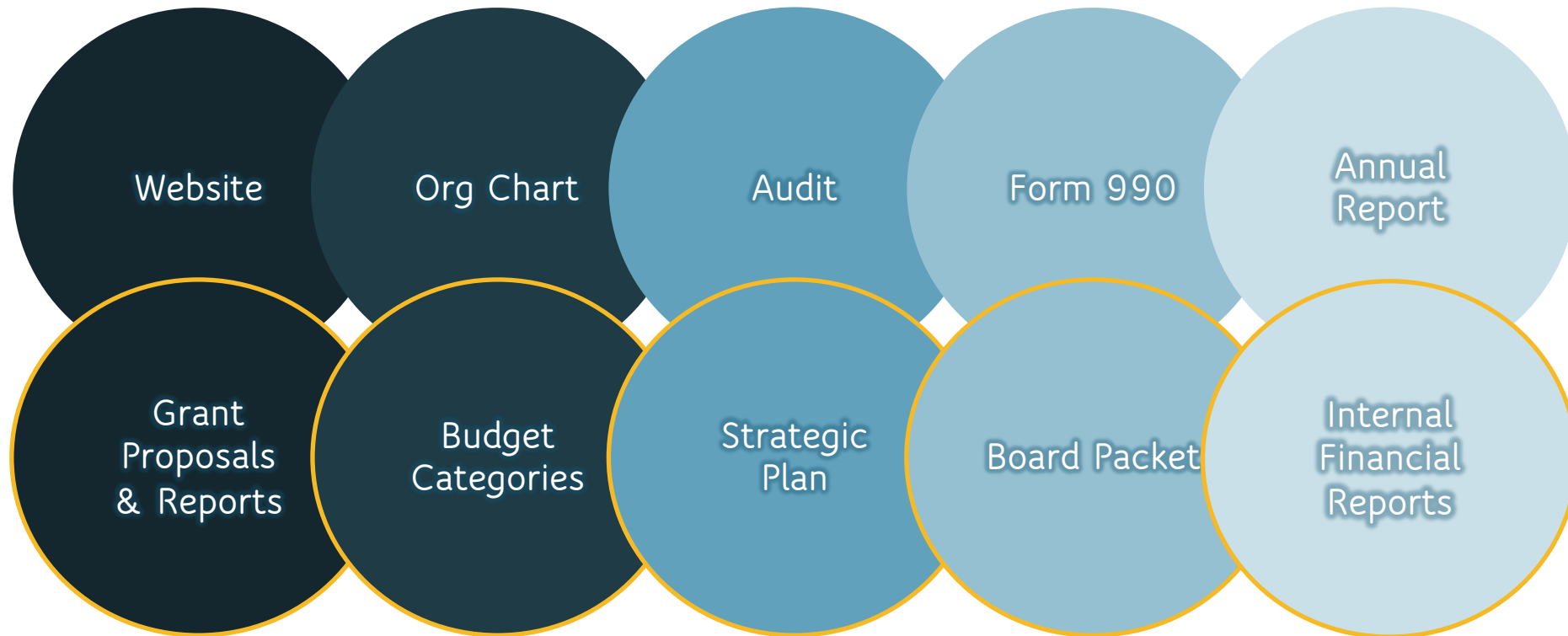
Fund accounting helps us track the type and purpose of resources (funds) to help us make better decisions.

- Separate funds based on purpose or restriction.
- Display discreet funds in separate columns.
- See what resources are immediately available.
- Discover how each type of fund behaves.



When defining your Columns and Dimensions

Start by considering how you describe your work?



Columns as buckets of resources (**funds**)



Examples:

- Restrictions
- Program & Operations
- Pass-through Grants
- Loan Funds
- Property
- Fiscal Sponsorship
- Endowments
- Custodial Funds

Columns as Cost Centers within Funds

All programs are cost centers,
but all cost centers are not necessarily programs.

Within your Program and Operations Fund,
you might create columns for:

- Programs 1, 2, 3, ...
- General Mission
- Communications/Marketing
- Administration
- Fundraising
- To Be Allocated (shared costs)
- Fund Groups (groups of cost centers)

Apply the Elegance Principles

Ask yourself these questions about your Columns:

Is this column (dimension)...

- 1) ...necessary to manage our organization?
- 2) ...crucial for making important strategic decisions?
- 3) ...(absolutely) required by outside users
such as donors, foundations, government agencies,
regulatory agencies, nonprofit watchdogs, or
community members?



First-Level Fund Accounting

Tracking Restrictions

Tracking Restrictions is basic to Nonprofit Accounting

Nonprofits live in the
“Without Restriction”
column

Our budgets live there.
We pay our staff there.
We spend resources there.

	Without Restriction	With Restriction	TOTAL
SUPPORT AND REVENUE			
4000 SUPPORT			
4100 Grants	60,000	150,000	210,000
4200 Contributions	177,112	60,000	237,112
4299 Released from Restriction	1,640,511	(1,640,511)	0
4400 INVESTMENT INCOME			
4430 Int/Div - Savings/MMF	2	0	2
4440 Div/Int on investments	82,821	18,455	101,276
4450 Distributions from bequests and trusts	9,589	0	9,589
4460 Realized gain (loss)	(131)	562	431
4470 Unrealized gain (loss)	(50)	35,177	35,128
4600 MISC INCOME			
	106,111	0	106,111
Total SUPPORT AND REVENUE	2,075,965	(1,376,318)	699,647
EXPENSE			
5030 PERSONNEL			
5031 Salaries and wages	689,098	0	689,098
5050 Benefits and taxes	0	0	0
5060 Retirement plan contributions	30,170	0	30,170
5070 Employee benefits - not retirement	81,723	0	81,723
5080 Payroll taxes	54,881	0	54,881
5090 Workers Comp / Unemployment	1,706	0	1,706
5120 CONTRACTED SERVICES			
5123 Accounting fees	144,918	0	144,918
5124 Legal fees	59,024	0	59,024
5125 Prof. services - other	610,630	0	610,630
5130 TRAVEL EXPENSES			
	41,996	0	41,996
5140 OCCUPANCY			
	76,799	0	76,799
5150 TECHNOLOGY			
	9,556	0	9,556
5158 GRANTS MADE			
	15,400	0	15,400
5160 MEETINGS			
	1,415	0	1,415
5170 OPERATING EXPENSES			
	47,766	0	47,766
5190 ONLINE RESEARCH			
	11,932	0	11,932
5195 MISC EXPENSES			
	7,611	0	7,611
Total EXPENSE	1,884,627	0	1,884,627
CHANGE IN NET ASSETS	\$191,338	(\$1,376,318)	(\$1,184,980)

Statement of Financial Position by Restrictions

Clear picture of
resources available
“Without Restriction”

Best view of our liquidity.

	Without Restriction	With Restriction	TOTAL
ASSETS			
Current Assets			
Bank Accounts			
1010 Cash - Operating	\$1,123,692	\$1,927,906	\$3,051,598
1020 Cash - Endowments			
1025 Fellowship	0	1,180	1,180
1026 Reserve	0	7,654	7,654
Total Bank Accounts	1,123,692	1,936,740	3,060,432
Accounts Receivable (net)	65,000	15,010,828	15,075,828
Other Current Assets			
1290 Prepaid expenses	12,743	0	12,743
Total Current Assets	1,201,435	16,947,568	18,149,003
Fixed Assets (net)	19,361	0	19,361
Other Assets			
1600 Long-term Investments			
1640 Investments (Fellowship)	0	68,844	68,844
1645 Gain / (Loss) - Fellowship	0	33,756	33,756
Total 1640 Investments (Fellowship)	0	102,600	102,600
1660 Investments (Reserve)	0	502,000	502,000
1665 Gain / (Loss) - Reserve	0	177,058	177,058
Total 1660 Investments (Reserve)	0	679,058	679,058
1775 Right-of-Use Asset	85,998	0	85,998
1810 Deposits	1,325	0	1,325
Total Other Assets	87,323	781,658	868,980
TOTAL ASSETS	1,308,119	17,729,226	19,037,344
LIABILITIES AND NET ASSETS			
Liabilities			
Current Liabilities			
Accounts Payable	26,274	0	26,274
Credit Card	0	0	0
Other Current Liabilities			
2100 Payroll Liabilities	41,558	0	41,558
2570 Accrued expense - other	549	0	549
Total Current Liabilities	68,381	0	68,381
Long-Term Liabilities			
2575 Lease Liability	85,998	0	85,998
Total Long-Term Liabilities	85,998	0	85,998
Total Liabilities	154,379	0	154,379
Net Assets	1,153,740	17,729,226	18,882,966
TOTAL LIABILITIES AND NET ASSETS	\$1,308,119	\$17,729,226	\$19,037,344

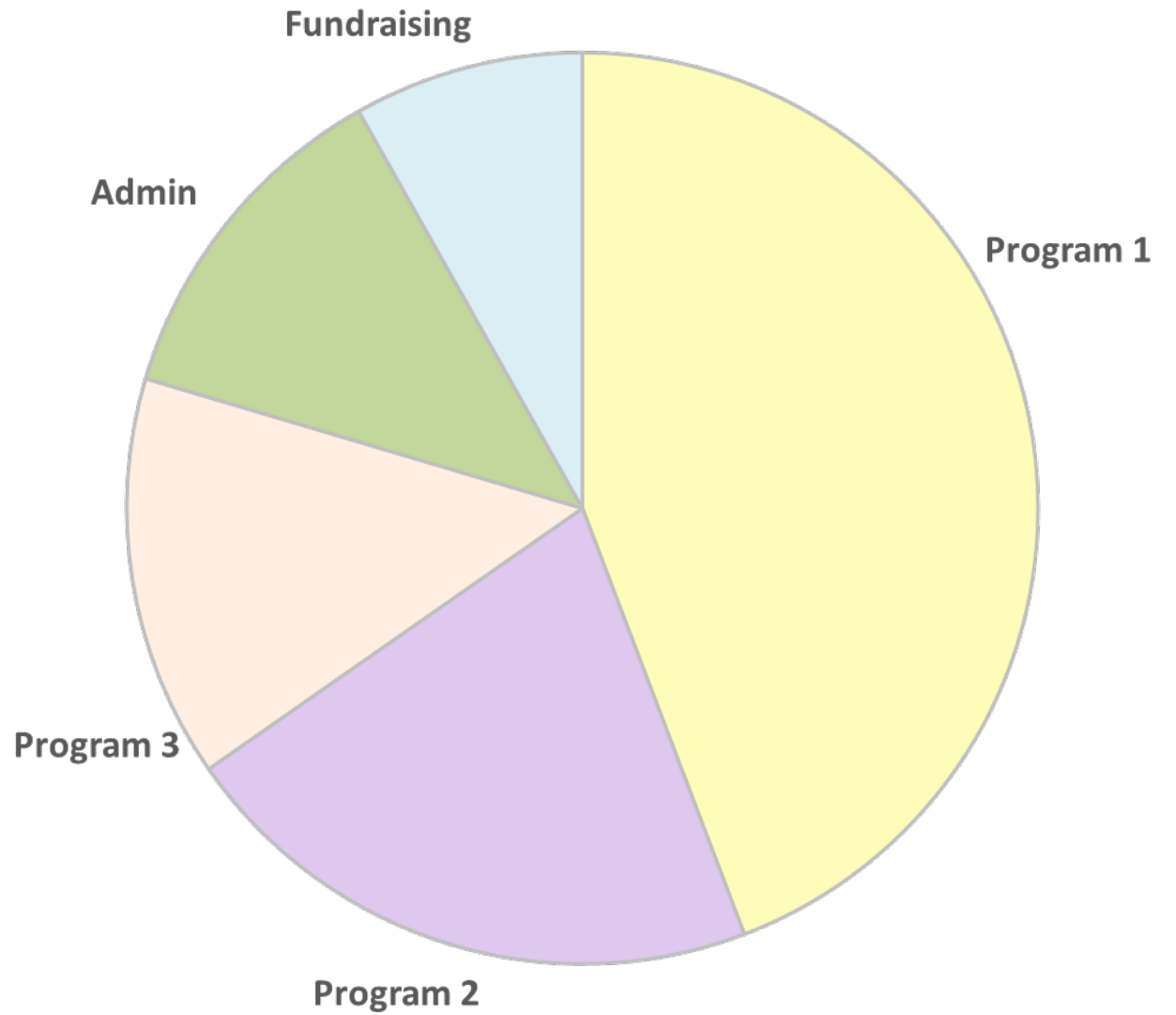
**NONPROFIT
FINANCIAL
COMMONS**

Second-Level Fund Accounting

Functional Categories

- aka -

Program & Operations



Typical Statement of Functional Expenses

Nonprofit Organization

Statement of Functional Expense

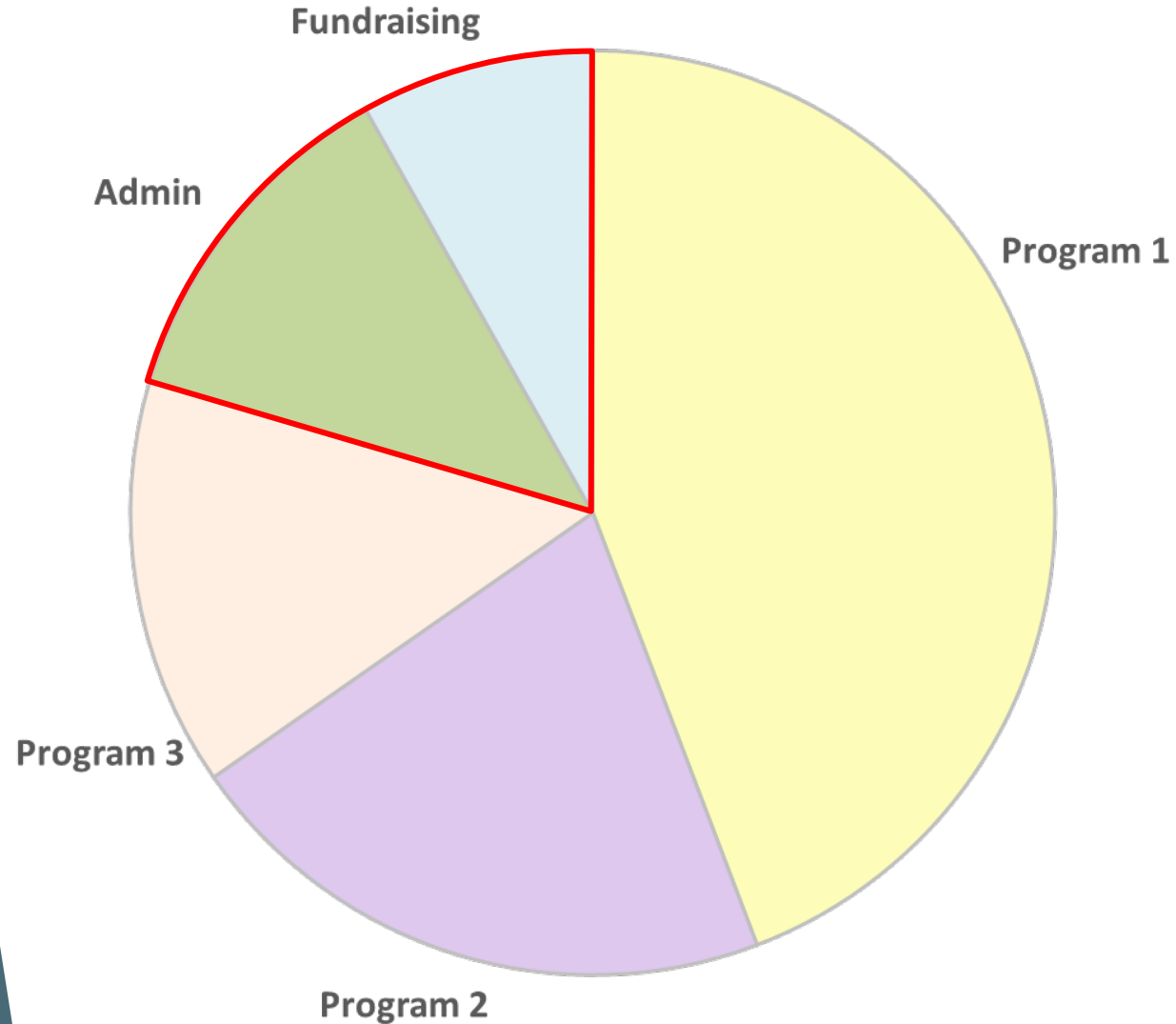
Year Ended December 31, 20XX

	Program Services					Supporting Services			TOTAL
	Program 1	Program 2	Program 3	General Program	Total	Management & General	Fundraising	Total	
EXPENSES									
Payroll, Taxes, Benefits	\$ 264,195	\$ 330,243	\$ 594,438	\$ 132,097	\$ 1,320,973	\$ 232,290	\$ 65,845	\$ 298,135	\$ 1,619,108
Contracted Services	15,468	19,335	34,803	7,734	77,339	40,000	23,000	63,000	140,339
Program materials and supplies	78,234	97,793	176,027	39,117	391,172	-	-	-	391,172
Occupancy	46,724	58,405	105,129	23,362	233,620	41,081	11,645	52,726	286,346
Equipment and Technology	14,867	18,199	32,758	6,984	72,808	12,281	6,681	18,962	91,770
Travel & Meetings	14,294	17,868	32,162	7,147	71,471	4,800	200	5,000	76,471
Marketing and Communications	4,962	6,203	11,165	2,481	24,812	-	1,088	1,088	25,900
Other Operating Expenses	26,198	33,471	62,859	13,043	135,570	26,609	6,103	32,712	168,283
Depreciation Expense	3,655	4,569	8,224	1,828	18,275	3,214	911	4,125	22,400
TOTAL EXPENSES	\$ 468,598	\$ 586,085	\$ 1,057,565	\$ 233,793	\$ 2,346,041	\$ 360,275	\$ 115,473	\$ 475,748	\$ 2,821,789

Too much *emphasis* on the ratio of these *two numbers*

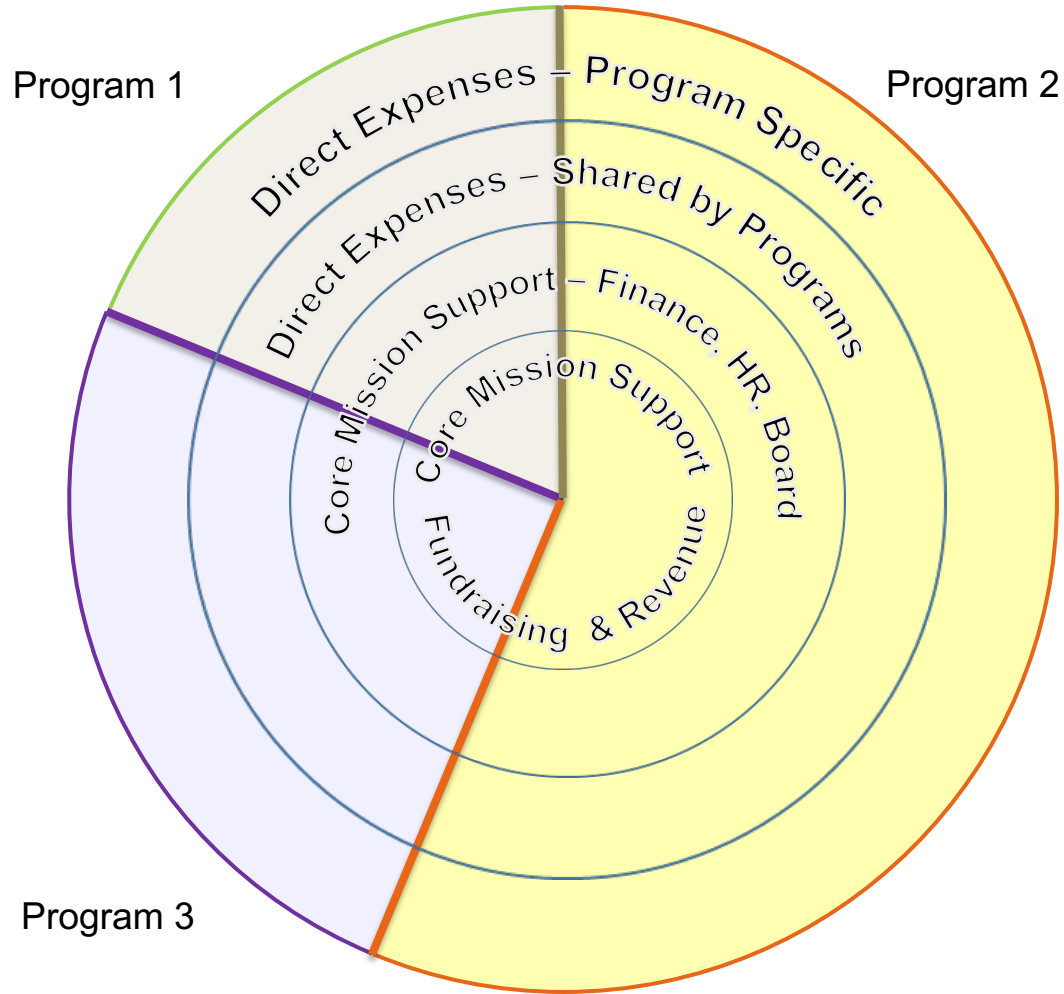
NONPROFIT
FINANCIAL
COMMONS

No More Thinking About Programs Like This



When viewed this way, we wrongly imagine important infrastructure as taking a slice out of the pie – as diminishing our “real” work.

Your Chart of Accounts and True Program Costs



True Program Cost Accounting includes four types of expenses.

All four categories of expenses can be captured, tracked, and reported in your accounting system.

- Direct Expenses: Program-Specific
- Direct Expenses: Shared by Programs
- Core Mission Support: Finance, HR, and Board
- Core Mission Support: Fundraising & Revenue

Step 1 - Before allocating To Be Allocated

Nonprofit Organization

Statement of Functional Expense
Year Ended December 31, 20XX

	Program Services					Supporting Services			To Be Allocated	TOTAL
	Program 1	Program 2	Program 3	General Program	Total	Management & General	Fundraising	Total	Total	
EXPENSES										
Payroll, Taxes, Benefits	\$ 264,195	\$ 330,243	\$ 594,438	\$ 132,097	\$ 1,320,973	\$ 232,290	\$ 65,845	\$ 298,135	\$ -	\$ 1,619,108
Contracted Services	13,020	16,275	29,295	6,510	65,101	37,848	22,390	60,238	15,000	140,339
Program materials and supplies	78,234	97,793	176,027	39,117	391,172	-	-	-	-	391,172
Occupancy	-	-	-	-	-	-	-	-	286,346	286,346
Equipment and Technology	900	740	1,331	-	2,971	-	3,200	3,200	85,599	91,770
Travel & Meetings	14,294	17,868	32,162	7,147	71,471	4,800	200	5,000	-	76,471
Marketing and Communications	4,962	6,203	11,165	2,481	24,812	-	1,088	1,088	-	25,900
Other Operating Expenses	6,211	8,487	17,888	3,050	35,636	9,036	1,122	10,158	122,489	168,283
Depreciation Expense	-	-	-	-	-	-	-	-	22,400	22,400
ADMIN ALLOCATION	-	-	-	-	-	-	-	-	-	-
FUNDRAISING ALLOCATION	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	\$ 381,817	\$ 477,609	\$ 862,308	\$ 190,403	\$ 1,912,136	\$ 283,974	\$ 93,845	\$ 377,819	\$ 531,834	\$ 2,821,789

Step 1 - After allocating To Be Allocated

Nonprofit Organization

Statement of Functional Expense

Year Ended December 31, 20XX

	Program Services					Supporting Services			To Be Allocated	TOTAL
	Program 1	Program 2	Program 3	General Program	Total	Management & General	Fundraising	Total		
EXPENSES										
Payroll, Taxes, Benefits	\$ 264,195	\$ 330,243	\$ 594,438	\$ 132,097	\$ 1,320,973	\$ 232,290	\$ 65,845	\$ 298,135		\$ 1,619,108
Contracted Services	15,468	19,335	34,803	7,734	77,339	40,000	23,000	63,000	-	140,339
Program materials and supplies	78,234	97,793	176,027	39,117	391,172	-	-	-		391,172
Occupancy	46,724	58,405	105,129	23,362	233,620	41,081	11,645	52,726	-	286,346
Equipment and Technology	14,867	18,199	32,758	6,984	72,808	12,281	6,681	18,962	-	91,770
Travel & Meetings	14,294	17,868	32,162	7,147	71,471	4,800	200	5,000		76,471
Marketing and Communications	4,962	6,203	11,165	2,481	24,812	-	1,088	1,088		25,900
Other Operating Expenses	26,198	33,471	62,859	13,043	135,570	26,609	6,103	32,712	-	168,283
Depreciation Expense	3,655	4,569	8,224	1,828	18,275	3,214	911	4,125	-	22,400
ADMIN ALLOCATION	-	-	-	-	-	-	-	-		-
FUNDRAISING ALLOCATION	-	-	-	-	-	-	-	-		-
TOTAL EXPENSES	\$ 468,598	\$ 586,085	\$ 1,057,565	\$ 233,793	\$ 2,346,041	\$ 360,275	\$ 115,473	\$ 475,748	\$ -	\$ 2,821,789

Step 2 - Before allocating Supporting Services

Nonprofit Organization

Statement of Functional Expense

Year Ended December 31, 20XX

EXPENSES

	Program Services					Supporting Services			To Be Allocated	TOTAL
	Program 1	Program 2	Program 3	General Program	Total	Management & General	Fundraising	Total		
Payroll, Taxes, Benefits	\$ 264,195	\$ 330,243	\$ 594,438	\$ 132,097	\$ 1,320,973	\$ 232,290	\$ 65,845	\$ 298,135		\$ 1,619,108
Contracted Services	15,468	19,335	34,803	7,734	77,339	40,000	23,000	63,000	-	140,339
Program materials and supplies	78,234	97,793	176,027	39,117	391,172	-	-	-		391,172
Occupancy	46,724	58,405	105,129	23,362	233,620	41,081	11,645	52,726	-	286,346
Equipment and Technology	14,867	18,199	32,758	6,984	72,808	12,281	6,681	18,962	-	91,770
Travel & Meetings	14,294	17,868	32,162	7,147	71,471	4,800	200	5,000		76,471
Marketing and Communications	4,962	6,203	11,165	2,481	24,812	-	1,088	1,088		25,900
Other Operating Expenses	26,198	33,471	62,859	13,043	135,570	26,609	6,103	32,712	-	168,283
Depreciation Expense	3,655	4,569	8,224	1,828	18,275	3,214	911	4,125	-	22,400
ADMIN ALLOCATION	-	-	-	-						-
FUNDRAISING ALLOCATION	-	-	-	-						-
TOTAL EXPENSES	\$ 468,598	\$ 586,085	\$ 1,057,565	\$ 233,793	\$ 2,346,041	\$ 360,275	\$ 115,473	\$ 475,748	\$ -	\$ 2,821,789

ADMIN ALLOCATION
FUNDRAISING ALLOCATION

Step 2 - After allocating Supporting Services

Nonprofit Organization

Statement of Functional Expense

Year Ended December 31, 20XX

	Program Services					Supporting Services			To Be Allocated	TOTAL
	Program 1	Program 2	Program 3	General Program	Total	Management & General	Fundraising	Total		
EXPENSES										
Payroll, Taxes, Benefits	\$ 264,195	\$ 330,243	\$ 594,438	\$ 132,097	\$ 1,320,973	\$ 232,290	\$ 65,845	\$ 298,135		\$ 1,619,108
Contracted Services	15,468	19,335	34,803	7,734	77,339	40,000	23,000	63,000	-	140,339
Program materials and supplies	78,234	97,793	176,027	39,117	391,172	-	-	-		391,172
Occupancy	46,724	58,405	105,129	23,362	233,620	41,081	11,645	52,726	-	286,346
Equipment and Technology	14,867	18,199	32,758	6,984	72,808	12,281	6,681	18,962	-	91,770
Travel & Meetings	14,294	17,868	32,162	7,147	71,471	4,800	200	5,000		76,471
Marketing and Communications	4,962	6,203	11,165	2,481	24,812	-	1,088	1,088		25,900
Other Operating Expenses	26,198	33,471	62,859	13,043	135,570	26,609	6,103	32,712	-	168,282
Depreciation Expense	3,655	4,569	8,224	1,828	18,275	3,214	911	4,125	-	22,400
ADMIN ALLOCATION	68,452	86,466	154,918	32,425	342,261	(360,275)	18,014	(342,261)		-
FUNDRAISING ALLOCATION	24,371	22,393	74,537	12,186	133,487	-	(133,487)	(133,487)		-
TOTAL EXPENSES	\$ 561,421	\$ 694,944	\$ 1,287,020	\$ 278,404	\$ 2,821,789	\$ -	\$ -	\$ -	\$ -	\$ 2,821,789

What to do with multiple buckets



**Third-Level
Fund
Accounting**

Business Model



Organizing and tracking your business model

Requires appropriate...

- **Accounting system**
- **Financial reporting**

Results in effective...

- **Business planning**
- **Program strategy**

Example 1: Accounting System & Reporting Setup

1

Program & Operations
to clearly show core nonprofit activities

2

Pass-through
segregated to avoid overestimating revenue available for operations

3

Loan Fund
to separate capital-intensive funds from program funds

4

Properties
to display activity related to property subsidiaries apart from programs

Refined accounting and reporting spurs better questions and more sophisticated planning and strategies.

Example 1 - Revenue

Statement of Activities - Fiscal Year 202X

	Program & Operations	Pass-through	Loan Fund	Properties	Total
SUPPORT AND REVENUE					
Earned Revenue					
Government Contracts	\$ 1,004,583				
Loan Program Revenue	145,000				
TA & Program Revenue	10,000				
Training Revenue	5,000				
Rental Income					
Contributed Revenue					
Grants / Foundations	793,000	153,000			
Donations - Individuals	15,000				
LSF Donations	-				
Membership Dues	-				
Revenue Released from Restriction	934,250	300,000			
Other Revenue					
Special Events	57,000				
Miscellaneous Revenue	85,500				
TOTAL SUPPORT AND REVENUE	\$ 3,049,333	\$ 453,000	\$ -	\$ 159,700	\$ 3,558,777
EXPENSES					
Personnel	1,818,820				
Contracted Services	641,700				
Direct Support to Community	-	453,000			
Travel Expenses	30,000				
Meeting & Training Expenses	19,500				
Operating Expenses	141,967				
Equipment Expenses	2,700				
Insurance Expenses	33,900				
Occupancy Expenses	130,620				
Financing Expenses	93,000			14,200	107,200
Other Expenses	33,870				33,870
TOTAL EXPENSES	\$ 2,946,077	\$ 453,000	\$ -	\$ 159,700	\$ 3,558,777
Change in Net Assets	\$ 103,257	\$ -	\$ 612,000	\$ (16,900)	\$ 698,357

	Program & Operations	Pass-through	Loan Fund	Properties	Total
SUPPORT AND REVENUE					
Earned Revenue					
Government Contracts	\$ 1,004,583				\$ 1,004,583
Loan Program Revenue	145,000				145,000
TA & Program Revenue	10,000				10,000
Training Revenue	5,000				5,000
Rental Income				126,300	126,300
Contributed Revenue					
Grants / Foundations	793,000	153,000			946,000
Donations - Individuals	15,000				15,000
LSF Donations	-				-
Membership Dues	-				-
Revenue Released from Restriction	934,250	300,000	612,000		1,846,250
Other Revenue					
Special Events	57,000				57,000
Miscellaneous Revenue	85,500			16,500	102,000
TOTAL SUPPORT AND REVENUE	\$ 3,049,333	\$ 453,000	\$ 612,000	\$ 142,800	\$ 4,257,133

Example 1 - Expenses

Statement of Activities - Fiscal Year 202X

	Program & Operations	Pass-through	Loan Fund	Properties	Total
SUPPORT AND REVENUE					
Earned Revenue					
Government Contracts	\$ 1,004,583				\$ 1,004,583
Loan Program Revenue	145,000				145,000
TA & Program Revenue	10,000				
Training Revenue	5,000				
Rental Income					
Contributed Revenue					
Grants / Foundations	793,000	153,000			
Donations - Individuals	15,000				
LSF Donations	-				
Membership Dues	-				
Revenue Released from Restriction	934,250	300,000			
Other Revenue					
Special Events	57,000				
Miscellaneous Revenue	85,500				
TOTAL SUPPORT AND REVENUE	\$ 3,049,333	\$ 453,000	\$ -	\$ -	\$ 3,502,333
EXPENSES					
Personnel	1,818,820				
Contracted Services	641,700				
Direct Support to Community	-	453,000			
Travel Expenses	30,000				
Meeting & Training Expenses	19,500				
Operating Expenses	141,967				
Equipment Expenses	2,700				
Insurance Expenses	33,900				
Occupancy Expenses	130,620				
Financing Expenses	93,000			14,200	107,200
Other Expenses	33,870				33,870
TOTAL EXPENSES	\$ 2,946,077	\$ 453,000	\$ -	\$ 159,700	\$ 3,558,777
Change in Net Assets	\$ 103,257	\$ -	\$ 612,000	\$ (16,900)	\$ 698,357

	Program & Operations	Pass-through	Loan Fund	Properties	Total
EXPENSES					
Personnel	1,818,820				1,818,820
Contracted Services	641,700			12,000	653,700
Direct Support to Community	-	453,000			453,000
Travel Expenses	30,000				30,000
Meeting & Training Expenses	19,500				19,500
Operating Expenses	141,967			23,500	165,467
Equipment Expenses	2,700				2,700
Insurance Expenses	33,900			4,800	38,700
Occupancy Expenses	130,620			105,200	235,820
Financing Expenses	93,000			14,200	107,200
Other Expenses	33,870				33,870
TOTAL EXPENSES	\$ 2,946,077	\$ 453,000	\$ -	\$ 159,700	\$ 3,558,777
Change in Net Assets	\$ 103,257	\$ -	\$ 612,000	\$ (16,900)	\$ 698,357

Example 2: Accounting System & Reporting Setup

1

Program & Operations
to clearly show
core nonprofit
activities

2

Board-Designated
to show which funds
are limited by board
activity

3

Endowment
to keep permanently
restricted funds from
co-mingling with
operations

4

Campaign Funds
to avoid confusing
revenue restricted for
specific purposes
with other funds

Segregating Program & Operations from other funds clarifies which resources are available for general use.

Statement of Activities - Fiscal Year 202X (Without Restriction Only)

Example 2 - Revenue

	Program & Operations	Board Designated Funds	Endowment	Comprehensive Campaign	TOTAL
SUPPORT AND REVENUE					
Support					
Contributions					
Individual Donations	\$ 1,251,789				
Business Donations	130,908				
Sponsorships	49,911				
Legacy/Bequest Donations	53,133				
Foundation Grants	414,430				
Federated Giving Campaigns	70,624				
Total Contributions	1,970,795	-			
Released from Restriction	1,109,650				
In-Kind Contributions	1,281,065				
Endowment Distribution	347,802	(265,920)			
Total Support	\$ 4,709,312	\$ (265,920)			
Earned Revenue					
Government Grants and Contracts	2,519,679				
Leasing & Rental Income	656,448				
Program Service Fees	549,739				
Miscellaneous Income	43,542				
Total Earned Revenue	\$ 3,769,408	\$ -			
TOTAL SUPPORT AND REVENUE	\$ 8,478,720	\$ (265,920)			
EXPENSES					
Personnel Expenses	4,467,503	-			
Contracted Services	659,122	-			
In-Kind Expenses	1,281,064	-			
Direct Participant Assistance	935,833	-			
Program Supplies	312,125	-			
Grant & Scholarship Expense	9,000	-			
Occupancy Expenses	660,340	-			
Equipment & Technology Expense	145,445	-			
Transportation & Travel	19,038	-			
Conferences, Events & Travel	59	-			
Other Operating Expenses	298,032	-			
TOTAL EXPENSES	\$ 8,787,561	\$ -			
CHANGE IN NET ASSETS (Operating)	\$ (308,841)	\$ (265,920)			
INVESTMENT ACTIVITY		237,132			237,132
CHANGE IN NET ASSETS (TOTAL)	\$ (308,841)	\$ (28,788)	\$ (81,882)	\$ 261,717	\$ (157,794)

	Program & Operations	Board Designated Funds	Endowment	Comprehensive Campaign	TOTAL
SUPPORT AND REVENUE					
Support					
Contributions					
Individual Donations	\$ 1,251,789				\$ 1,251,789
Business Donations	130,908				130,908
Sponsorships	49,911				49,911
Legacy/Bequest Donations	53,133				53,133
Foundation Grants	414,430				414,430
Federated Giving Campaigns	70,624				70,624
Total Contributions	1,970,795	-			1,970,795
Released from Restriction	1,109,650			877,433	1,987,083
In-Kind Contributions	1,281,065				1,281,065
Endowment Distribution	347,802	(265,920)	(81,882)		-
Total Support	\$ 4,709,312	\$ (265,920)	\$ (81,882)	\$ 877,433	\$ 5,238,943
Earned Revenue					
Government Grants and Contracts	2,519,679				2,519,679
Leasing & Rental Income	656,448				656,448
Program Service Fees	549,739				549,739
Miscellaneous Income	43,542			214	43,756
Total Earned Revenue	\$ 3,769,408	\$ -	\$ -	\$ 214	\$ 3,769,622
TOTAL SUPPORT AND REVENUE	\$ 8,478,720	\$ (265,920)	\$ (81,882)	\$ 877,647	\$ 9,008,565

Statement of Activities - Fiscal Year 202X (Without Restriction Only)

Example 2 - Expenses

	Program & Operations	Board Designated Funds	Endowment	Comprehensive Campaign	TOTAL
SUPPORT AND REVENUE					
Support					
Contributions					
Individual Donations	\$ 1,251,789				
Business Donations	130,908				
Sponsorships	49,911				
Legacy/Bequest Donations	53,133				
Foundation Grants	414,430				
Federated Giving Campaigns	70,624				
Total Contributions	1,970,795	-			
Released from Restriction	1,109,650				
In-Kind Contributions	1,281,065				
Endowment Distribution	347,802	(265,920)			
Total Support	\$ 4,709,312	\$ (265,920)			
Earned Revenue					
Government Grants and Contracts	2,519,679				
Leasing & Rental Income	656,448				
Program Service Fees	549,739				
Miscellaneous Income	43,542				
Total Earned Revenue	\$ 3,769,408	\$ -			
TOTAL SUPPORT AND REVENUE	\$ 8,478,720	\$ (265,920)			
EXPENSES					
Personnel Expenses	4,467,503	-			
Contracted Services	659,122	-			
In-Kind Expenses	1,281,064	-			
Direct Participant Assistance	935,833	-			
Program Supplies	312,125	-			
Grant & Scholarship Expense	9,000	-			
Occupancy Expenses	660,340	-			
Equipment & Technology Expense	145,445	-			
Transportation & Travel	19,038	-			
Conferences, Events & Travel	59	-			
Other Operating Expenses	298,032	-			
TOTAL EXPENSES	\$ 8,787,561	\$ -			
CHANGE IN NET ASSETS (Operating)	\$ (308,841)	\$ (265,920)	\$ (81,882)	\$ 261,717	\$ (394,926)
INVESTMENT ACTIVITY					
		237,132			237,132
CHANGE IN NET ASSETS (TOTAL)	\$ (308,841)	\$ (28,788)	\$ (81,882)	\$ 261,717	\$ (157,794)

	Program & Operations	Board Designated Funds	Endowment	Comprehensive Campaign	TOTAL
EXPENSES					
Personnel Expenses	4,467,503	-	-	170,533	4,638,036
Contracted Services	659,122	-	-	441,387	1,100,509
In-Kind Expenses	1,281,064	-	-	-	1,281,064
Direct Participant Assistance	935,833	-	-	-	935,833
Program Supplies	312,125	-	-	1,111	313,236
Grant & Scholarship Expense	9,000	-	-	-	9,000
Occupancy Expenses	660,340	-	-	-	660,340
Equipment & Technology Expense	145,445	-	-	-	145,445
Transportation & Travel	19,038	-	-	989	20,027
Conferences, Events & Travel	59	-	-	-	59
Other Operating Expenses	298,032	-	-	1,910	299,942
TOTAL EXPENSES	\$ 8,787,561	\$ -	\$ -	\$ 615,930	\$ 9,403,491
CHANGE IN NET ASSETS (Operating)	\$ (308,841)	\$ (265,920)	\$ (81,882)	\$ 261,717	\$ (394,926)
INVESTMENT ACTIVITY					
		237,132			237,132
CHANGE IN NET ASSETS (TOTAL)	\$ (308,841)	\$ (28,788)	\$ (81,882)	\$ 261,717	\$ (157,794)

Example 3: Accounting System & Reporting Setup

1

Program & Operations
to clearly show your
core nonprofit
activities

2

Grantmaking Fund
to avoid co-mingling
funds intended to be
granted to others

3

Fiscal Sponsorship
to segregate funds
held on behalf of other
organizations

Separating funds that are due to other entities or individuals helps distinguish them from operating funds.

Example 3 – Statement of Financial Position

Statement of Financial Position - As of December 31, 202X (Without Restriction Only)

	Program and Operations	Grantmaking Fund	Fiscal Sponsorship Fund	TOTAL
Assets				
Cash and Equivalents	\$ 1,526,893	\$ 45,198,763	\$ 176,797	\$ 46,902,453
Accounts Receivable	121,016	-	-	121,016
Other Current Assets	78,696	-	-	78,696
Fixed Assets	537,637	-	-	537,637
Other Assets	103,368	-	-	103,368
Total Assets	\$ 2,367,610	\$ 45,198,763	\$ 176,797	\$ 47,743,170
Liabilities and Net Assets				
Liabilities				
Accounts Payable	184,266	100,000	-	284,266
Credit Cards	214	-	-	214
Accrued Expenses	24,949	-	-	178,118
Fiscal Agency Liabilities	-	-	176,797	176,797
Other Long-Term Liabilities	363,427	-	-	210,259
Total Liabilities	572,856	100,000	176,797	849,653
Net Assets				
Net Assets	1,294,754	45,098,763	-	46,393,517
Net Assets (Board Designated)	500,000	-	-	500,000
Total Net Assets	1,794,754	45,098,763	-	46,893,517
Total Liabilities and Net Assets	\$ 2,367,610	\$ 45,198,763	\$ 176,797	\$ 47,743,170

Q&A

NONPROFIT
FINANCIAL
COMMONS

Takeaways

- Design your chart of accounts and accounting system (Rows and Columns) to match how your organization most naturally defines and structures its work.
- Be efficient when creating Rows.
 - Apply the Three Line-Item Test.
- Create Columns that mirror your business model.
 - Programs, Cost Centers, Funds.
- Consider the Elegance Principles when creating your Rows and Columns.
- A well-crafted accounting system aids in true program cost accounting.
- Design your accounting system with your non-accountant audiences in mind.

Resources & Wrap Up

Stay Connected on the Forum

YOUR FORUM AWAITS...

Most commons have a forum where community members can meet to surface mutual concerns and exchange resources. At the Nonprofit Financial Commons, THIS is that space. Any question you have about nonprofit finances, whether it has to do with high strategy or granular practice, can be brought here. Here you can glean the rich wisdom of your peers and share your own hard-won insights and knowledge. Be and spread the change you wish to see.

[Register](#)

[Log In](#)



NONPROFIT
FINANCIAL
COMMONS

Your Next Important Step:
Support **OUR** knowledge sharing
community with a donation that
reflects the value of this session.



To donate click the link in the webinar chat box or scan the QR code below.



NONPROFIT
FINANCIAL
COMMONS