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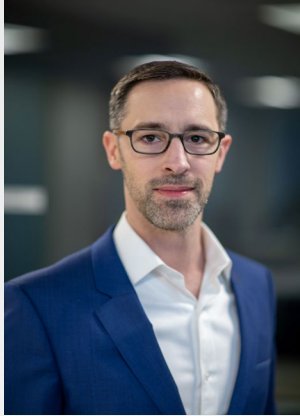
Chart of Accounts: Considerations for Nonprofits

FORsights, August 2023

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Meet the Presenters



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Agenda

- What is a Chart of Accounts?
- How should I organize my transaction data?
- Practical considerations
- Can I change the status quo?

What Is a Chart of Accounts?

Per Investopedia

an **organizational tool** that provides a digestible breakdown of all the financial transactions that a company conducted during a specific accounting period, broken down into subcategories

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Common Terminology

- **DIMENSIONS** – data elements that make up an account string
- **MEMBERS** – the listed elements of dimensions that make up the chart of accounts
- **ACCOUNT STRING** – a unique set of dimensions necessary to properly categorize a transaction
- **HIERARCHY** – the grouping of dimensions at certain levels useful for reporting
- **GROUPING** – A group of accounts or other dimension members that may or may not be in a hierarchy

Common Dimensions

- Fund/Restriction
- Department/Budget Unit
- Account
- Project/Activity
- Grant/Funding Source
- Location

Members

- With Donor Restrictions/Without Donor Restrictions
- Program1, Program2, Admin, Fundraising
- Natural Account Classifications
- Field Trips, Orientation, Recruitment
- Grant A 2022, Grant A 2023, Grant B 2022
- Texas, Alabama, Oregon

Other Items You Can Track ...

- Customer
- Vendor
- 1099 eligibility
- Billable transactions

Hierarchy

6500 Personnel Expenses

6510 Wages

6515 Full Time

6516 Part Time

6517 Overtime

6518 Stipends

6520 Payroll Taxes

vs.

Groupings

Controllable vs. Non-Controllable Expenses

Form 990 Groupings

Board Reporting

So Why Is My Chart of Accounts So Important?

The way you arrange your data should both reflect & serve

- Financial Accountability
- Strategic Priorities
- Decision-Making Processes
- Compliance & Risk Management

How Should I Organize My Transaction Data?

That depends ...

what questions do you need to answer?

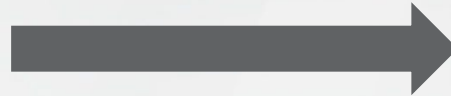
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Reporting Needs

- GAAP Financials
- Management/Board Financials
- Accreditors/Program Regulators
- Form 990/Tax
- Functional Expenses
- Grant Compliance
- Debt Issuance/Covenants
- Strategic Planning & Monitoring
- Segment Performance
- Project Costing
- Grant Applications

Basic Questions

- Who?
- What?
- Why?
- How?
- Where?
- Net Asset Category



- Department/Budget Unit
- Account
- Project/Activity
- Grant
- Location
- Fund/Restriction

Department/Budget Unit

- Who authorized this transaction?
- Creates accountability
- Not necessarily a hierarchy or group of projects
- Mirrors Organizational Chart Hierarchy

Sometimes It Gets Complicated ...

Is a Location its own Department?

How do you define a program?

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Account

- What did you buy? What did you earn?
- Natural Classification
 - Rent
 - Supplies
 - Professional Fees
 - Transportation
 - Personnel
 - Promotional Items

NOT NATURAL CLASSIFICATIONS

Technically speaking ...

- Special Events/Galas/Fundraisers
- Participant Recruitment
- Orientation
- Graduation
- Student Activities
- Field Trips
- Professional Development

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Activity/Project

- Why did this transaction happen? What goal does it accomplish?
- Tracks initiative spending across the organization
- Multiple departments can contribute to a single project
- Examples
 - Field Trips
 - Special Events
 - Student Orientation

Grant or Fund

- How was this funded? Which specific grant from this funder?
- Useful when you have
 - Multiple grants from the same grantors
 - Multiple departments or projects paid by a single grant
 - Multiple grants paying for various pieces of a department or project

Location

- Segment operations by location
- Analyze various programs or departments that exist at multiple locations
- Segment by modalities

Net Asset Category

- Produce GAAP Compliant financial statements
- Categorize Revenue
- Capture Release of Restrictions

(all expenses are unrestricted)

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What If I Don't Have All These Dimensions in My Software?

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- Choose which are most important
 - Define the ones that you DO have
 - Use them consistently
 - **KEEP IT SIMPLE**
-
- Or change software if you don't have the dimensions you need to properly track your financials

What Are Some of the Most Common Mistakes?

Let me tell you some stories ...

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Dual Purpose Dimensions

Using a single dimension for more than one type of classification

Accounts vs. Projects

Departments vs. Locations

Grants/Funds vs. Projects

Underuse of Subledgers

Leads to a proliferation of accounts

- Accounts Receivable & Revenue
- Accounts Payable
- Payroll Liabilities & Expenses

Instead, think about using detail codes, item codes, allocation codes, or other dimensions to segregate the information in a single GL Code

Too Much Detail

Transportation

Taxis

Tolls

Mileage

Airfare

Buses

Ride Share

Postage

Stamps

Postage Machine

Freight

Bulk Postage

Employee Insurance

Health

Dental

Vision

LTD

STD

Life

AD&D

Unclear Account Names

- How would you calculate Professional Development investment per employee?
 - Professional Development
 - Conference Fees
 - Travel
 - Hosted Events
 - Dues/Subscriptions
 - Licenses/Fees

Data Governance Tips

- Set defaults
- Use “Required Dimensions”
- Be aware of NULL values in reporting
- Restrict access to changes
- Leave room in numbering for growth
- Create separate groupings for each significantly different reporting need (& label them)
- Regularly maintain hierarchies & groupings

Release of Restrictions

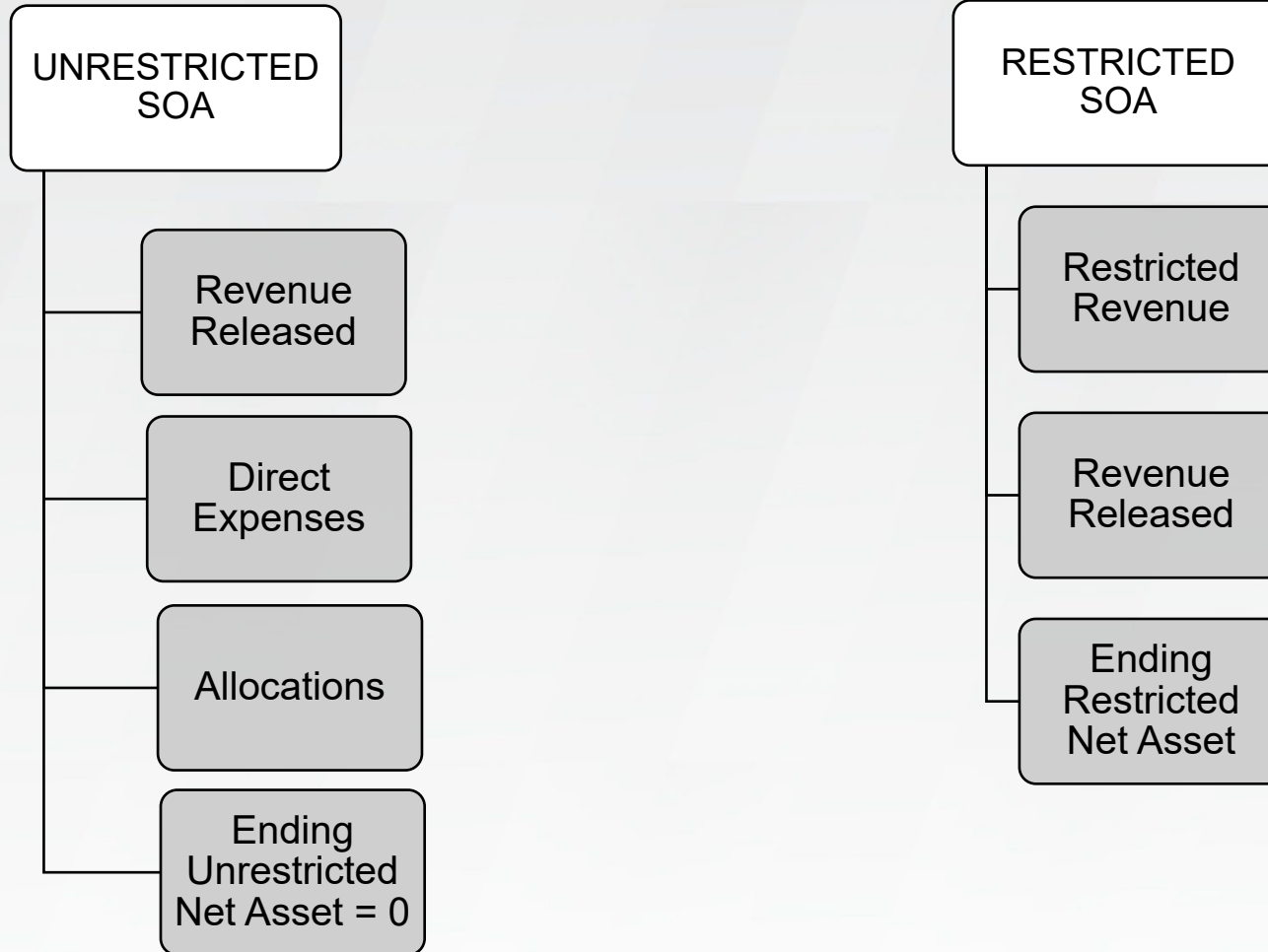
Use ONE account

DR. Release Account, Restricted Member

CR. Release Account, Unrestricted Member

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Release of Restrictions (cont.)



Using Allocation Accounts

- Useful for
 - Nongovernmental grant-funded payroll
 - Shared Services
 - Overhead/Indirect Costs

Nongovernmental Payroll Allocation

DR. Payroll Grant Allocation Account, Grant A

CR. Payroll Grant Allocation Account, No Grantor

<u>Account</u>	<u>Grant A</u>	<u>Grant B</u>	<u>Grant C</u>	<u>No Funder</u>	<u>Total</u>
Wages				100,000.00	100,000.00
Fringe				20,000.00	20,000.00
Grant Allocation	20,000.00	32,000.00	80,000.00	(132,000.00)	-
Total	20,000.00	32,000.00	80,000.00	(12,000.00)	120,000.00

Shared Service/Overhead Allocation

- DR. Allocation Account, Dept Utilizing Services
 - CR. Allocation Account, Dept Originating Services

SOA by Department

	<u>Operations</u>	<u>Fundraising</u>	<u>Shared Service</u>	<u>Program A</u>	<u>Program B</u>	<u>Program C</u>	<u>Total</u>
Total Controllable Expenses	100,000	30,000	24,000	800,000	500,000	300,000	1,754,000
Allocations							
Operations Allocation	(75,000)			40,000	30,000	5,000	-
Shared Service Allocation	4,000	1,000	(24,000)	10,000	6,000	3,000	-
Total Department Expenses	<u>29,000</u>	<u>31,000</u>	<u>-</u>	<u>850,000</u>	<u>536,000</u>	<u>308,000</u>	<u>1,754,000</u>

What Are Signs We Need a Change?

General Frustration

- Use of Excel for reporting
- Frequent miscoding or reclassifications
- Inability to meet reporting needs

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Opportunities for Change

- New Accounting Software
- New Organizational Hierarchy
- New Location or Program
- New Restricted Funding Source

Planning Considerations

- Start with budgeting (six to nine months early)
 - Train budgeters on new dimensions & structure
 - Demonstrate value through budget iteration reporting
 - Work out the kinks before you go live
- Start with a new fiscal year
 - Budget alignment paves the road
 - Be careful with cutoff issues
 - Update third-party integrations ASAP

QUESTIONS?

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