

Developing a Chart of Accounts for a Nonprofit Organization

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The goal of any information system---accounting, donor management, or client management---is to provide useful information to those making decisions. This is especially complicated in accounting, since we must provide internal users with the information they need while still conforming to Generally Accepted Accounting Principles (GAAP) for outside reporting purposes. Our task is further complicated because our internal users have a broad range of interests, varying levels of financial knowledge, and different levels of information needs.

The key to fulfilling these requirements is to develop a Chart of Accounts that will permit easy reporting of useful information at a variety of levels in an intuitive manner. In other words, with any information system design you begin at the end and work backwards:

- **What** information
 - Does **who** need
 - At what **level of detail**
 - In what **format**?

You can then implement that Chart of Accounts into an appropriate accounting software program.

The City Mission [www.TheCityMission.org], a member of the Association of Gospel Rescue Missions [www.agrm.org], had been using a Chart of Accounts developed by an outside accountant primarily interested in formal, external financial statements. He ordered our expense accounts in an outwardly logical manner:

- Food and kitchen supplies, cleaning, and repair expenses
- Client-related expenses
- Wages and pension expenses
- Utilities
- Insurance (liability, health, auto, building, workers' compensation)
- Repair and Maintenance expenses
- Cleaning expenses
- Staff Development expenses
- Taxes (FICA)
- Auto-related expenses
- Development expenses
- Office expenses

I was hired by a new Executive Director to bring our accounting in-house. He required an internal monthly income statement that made intuitive sense, grouping expenses operationally:

- Employee expenses
- Client expenses
- Facility expenses
- Vehicle expenses
- Development expenses
- Organizational expenses

Because our Chart of Accounts was not organized that way, each month I had to export the raw information from our accounting system to Excel and manipulate it into the desired format. This resulted in a presentation that made intuitive sense and provided him and the Board with meaningful information. However, because of the time involved, I could not also produce this report for each ministry and division.

Meanwhile our development methods had changed and were no longer adequately reflected in the income portion of our Chart of Accounts.

Faced with these concerns, and with an expensive accounting software program that was not at that time Windows-based or Y2K certified, I decided to completely redesign our Chart of Accounts and move to a less expensive, easier to use accounting software program.

The City Mission at this time has six major ministries and two supporting service divisions, as well as Development and Administration. Each of these areas is a cost-center, responsible only for their expenses. We basically use a two-part account numbering system to track expenses both operationally and by ministry¹:

Operational Expense	Ministry/Division
####	##

This way we can separately report to each ministry/division by running reports based upon the last two numbers of our accounts, *or* we can report operations on the organizational level by using the first four numbers of our accounts.

I based the expense portion of our Chart of Accounts on the operational grouping that made sense to our leadership:²

¹ I added a two-character identifier to each account primarily for development and balance sheet reporting purposes. The explanation follows.

All development expenses have a single, uniform division code [i.e. They end in "20"]; as do all organizational expenses ["99"].

² A detailed Chart of Accounts is found in the Appendix.

Our People:	Employee-Related Expenses	5000-5400
	Client Expenses	5500-5900
Our Places:	Utilities	6000-6400
	Facility Expenses	6500-6900
Our Transportation		7000-7300
Our Donors [Development]		7400-8900
Our Administration:	Office Expenses	9100
	Organizational Expenses	9200-9900

With this new Chart of Accounts, every month our ministry and division directors receive an expense report in plain English. Not every ministry has every operational expense, but a typical ministry report has this format:

The City Mission
XXXXX Division
Cash Expense Budget Statement
For the [Number of months into the Fiscal Year] Ending XXXXXX

Expenses	Current Month Actual	Current Month Budget	Year to Date Actual	Year to Date Budget	% of Budget Year to Date
Employee Expenses	Rolled-Up Subtotal of All Employee Expenses Detailed Below				
Gross Wages					
Taxes-FICA					
Insurance Benefits					
Workers Compensation					
Pension Expenses					
Staff Development					
Client Expenses	Rolled-Up Subtotal of All Client Expenses Detailed Below				
Food					
Client Programs					
Client Use of Camp					
Utility Expenses	Rolled-Up Subtotal of All Utility Expenses Detailed Below				
Gas					
Electric					
Water/Sewer					
Telephone					
Facility Expenses	Rolled-Up Subtotal of all Facility Expenses Detailed Below				
Building Insurance					
Cleaning Supplies					
Paper Products					
Small Equipment					
Repair/Maintenance-Grounds					
Repair/Maintenance-Buildings					
Repair/Maintenance-Equipment					
Vehicle Expenses	Rolled-Up Subtotal of all Vehicle Expenses Detailed Below				
Insurance					
Gas/Oil					
Repair/Maintenance					
Office and Organization Expenses	Rolled-Up Subtotal of all Office/Organization Expenses Detailed Below				
Postage					
Copies					
Computer Supplies/Services					
Liability Insurance					
Total Expenses					

Division reports summarize and detail (by ministry) relevant expense categories. For example:

The City Mission
XXXXX Division
Cash Expense Budget Statement
For the [Number of months into the Fiscal Year] Ending XXXXXX

Expenses	Current Month Actual	Current Month Budget	Year to Date Actual	Year to Date Budget	% of Budget Year to Date
Cleaning Supplies	Rolled-Up Subtotal of All Cleaning Expenses Detailed Below				
Cleaning Supplies-Men's Ministry					
Cleaning Supplies-Women's Ministry					
Cleaning Supplies-Camp Ministry					
Cleaning Supplies-Youth Ministry					
Cleaning Supplies-Gifts in Kind Ministry					
Cleaning Supplies-Administration					
Paper Products	Rolled-Up Subtotal of All Paper Product Expenses Detailed Below				
Paper Products-Men's Ministry					
Paper Products -Women's Ministry					
Paper Products -Camp Ministry					
Paper Products -Youth Ministry					
Paper Products -Gifts in Kind Ministry					
Paper Products -Administration					
Small Equipment Expense	Rolled Up Subtotal of All Small Equipment Expenses Detailed Below				
Small Equipment-Men's Ministry					
Small Equipment -Women's Ministry					
Small Equipment -Camp Ministry					
Small Equipment -Youth Ministry					
Small Equipment -Gifts in Kind Ministry					
Small Equipment -Administration					

Income accounts and development expense accounts report the results of our various development strategies. We have mirrored our development income and expense accounts, identifying them with identical two-character codes, in order to match our income to the expenses incurred in raising those funds, based upon our various development strategies. This permits easy Return on Investment (ROI) analysis.

Income Accounts			Development Expense Accounts	
Cash Donations	Regular Contributions RC	4000-4300	Receipt Supplies & Postage	
			Business Reply Postage	Regular
			Newsletter	Donor
			Radio	Cultivation
			Videos	7400-7900
			Other	
			Donor Acquisition Program DA	4400
Special Appeals SA	4500	Special Appeals SA	8400-8700	
United Way Contributions UW	4590			
Planned Giving PG	4600	Planned Giving PG	8800	
Special Events SE	4700-4770	Special Events SE	8900	
Rental Income	Outside Use of Camp	4780		
	The City Mission Use of Camp	4790		
Other Income	Other Income (i.e. "rag" money)	4800		
	Interest Income	4810		
	Dividend Income	4820		
	Gain/Loss	4830-4840		
Gift in Kind Contributions		4900		

We use a two-part numbering system for our Regular Contribution income accounts that tells us who gave us the gift (what donor group: Churches, Individuals, Businesses or Foundations) and where they designated the money (the same code for each ministry we use for expenses):

Donor Group	Ministry/Division
#####	##

Our donor management database is set up to parallel this two-part identification system for ministry designations. When we implement an organizational-wide client management database, that will also use the same two-part structure to identify ministries. Because of these consistencies, I can currently extract, export, combine and analyze donation and expense information by ministry. In the future I will be able to add client service analysis to produce performance-based reports and accurately determine actual per-client expenses.

Our Balance Sheet accounts are more generic, although I have customized them to meet our unique needs.

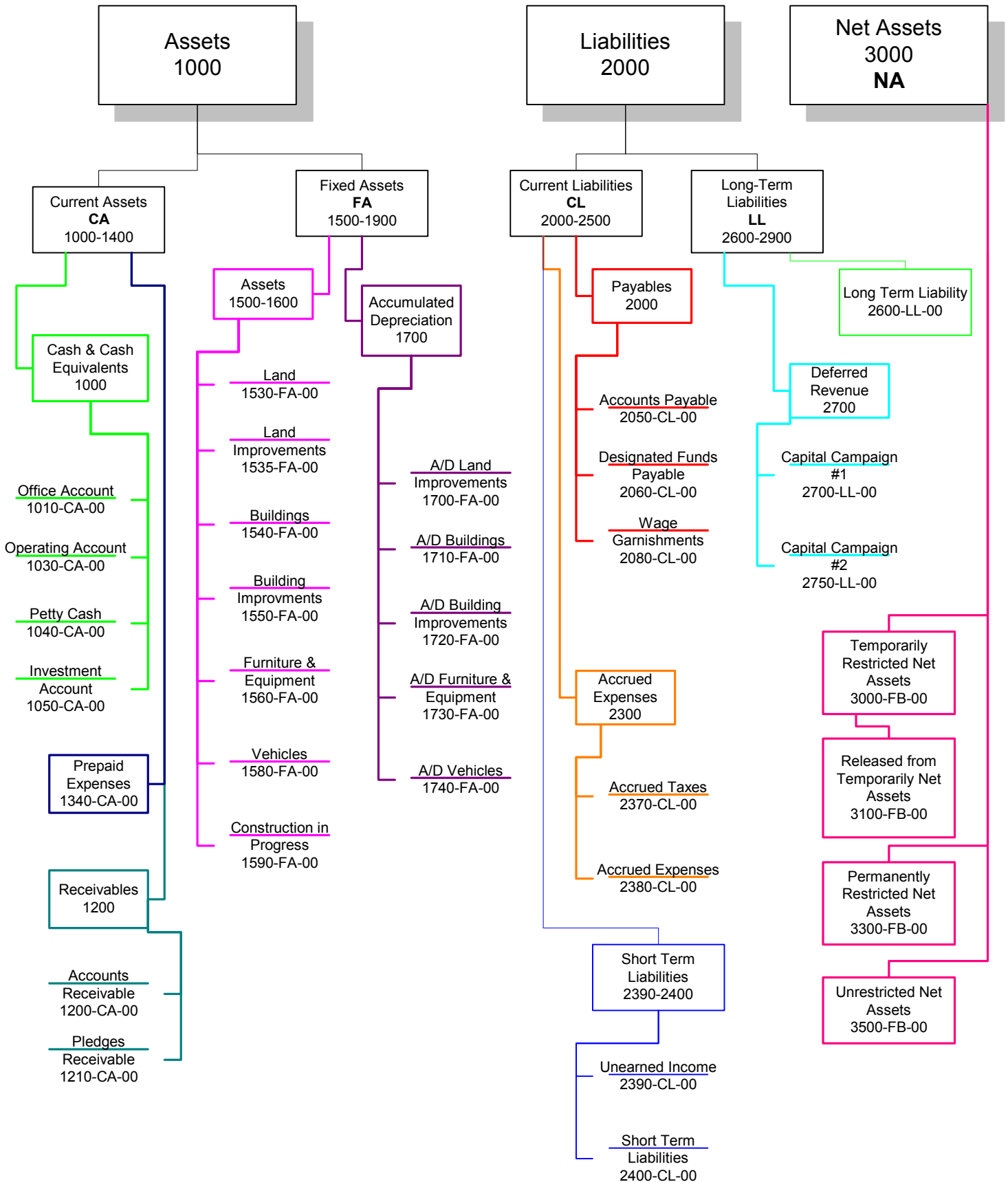
In summary, before you dig a foundation you first assess exactly what you need in that building for it to serve your purpose, and then you find the appropriate technical support to help you put your needs into a blueprint. You have to do the same when designing any information system. In accounting, before you establish your Chart of Accounts, know what reports you need to meet everyone's information needs. Then, if you do not have the technical expertise yourself, find someone who can translate your information needs into a Chart of Accounts that makes organizational sense.

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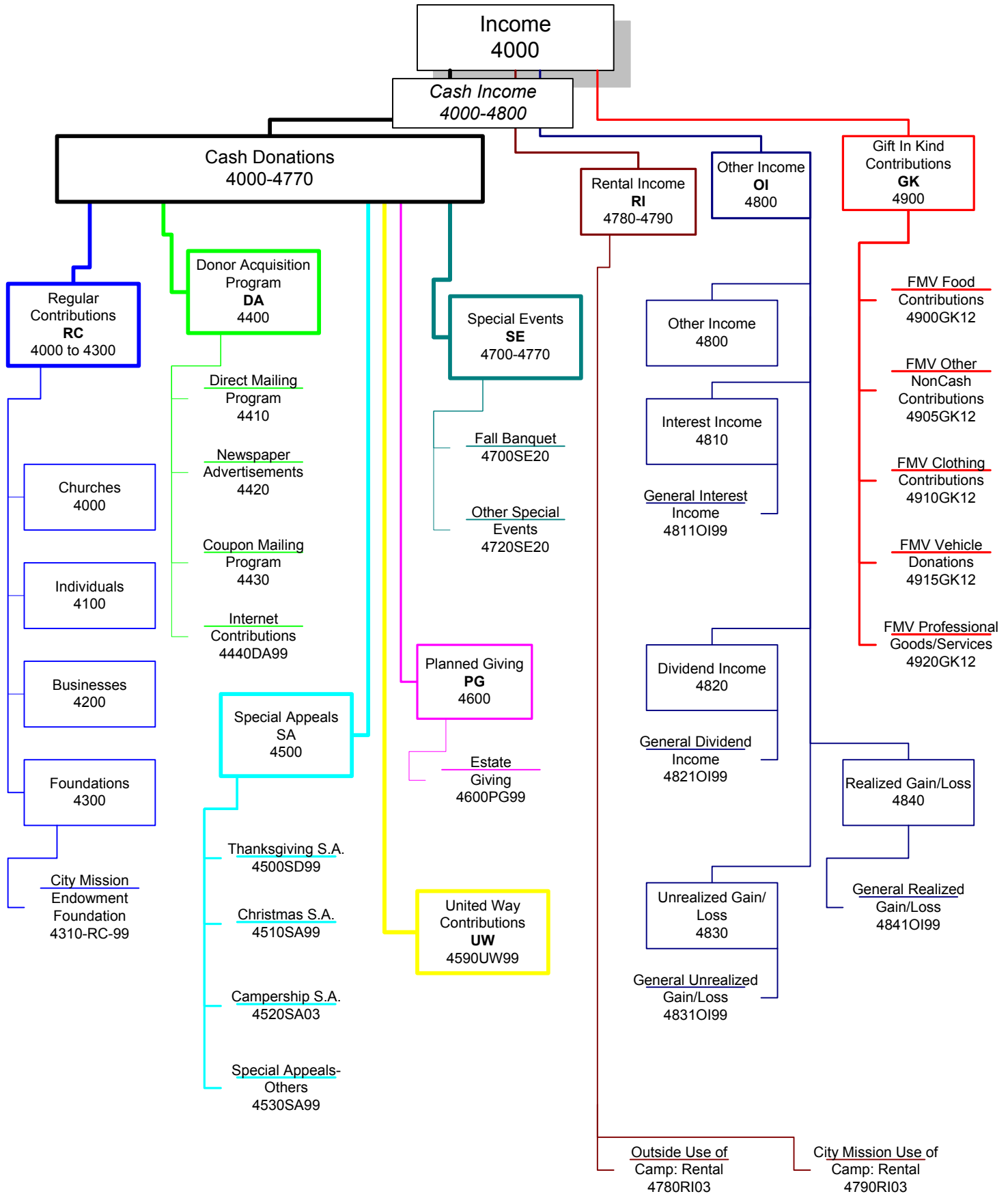
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The City Mission Chart of Accounts: Balance Sheet Accounts



The City Mission Chart of Accounts: Income Statement

Income Accounts



The City Mission Chart of Accounts: Income Statement Expense Accounts

