

## X Ways to Perfect Your Nonprofit's Chart of Accounts

Nonprofits have it hard. Sure, they don't have to pay taxes, but that tax-exempt status comes with a price: increased levels of responsibility to the general public. The focus, then, of their financial accounting is on accountability rather than profitability. Hence the birth of fund accounting.

1. Find the balance between useful levels of granularity and cumbersome detail.
  - a. Overarching goal is to keep things organized and to be able to provide useful reports to management.
2. Use a logical numbering system. Example account numbering structure: AA-BBB-CC-DD-EEEE
  - a. AA = Fund
    - i. Unrestricted funds e.g. general fund
    - ii. Restricted funds e.g. building/maintenance fund, endowment fund, program funds
      1. typically restricted in nature either by donors or by the board of directors. This is important to track as a fiduciary of restricted gifts to ensure you're using the gift as the donor intended. You can also run a report at any given time to know where the fund is sitting financially, as each fund will have its own self-balancing set of accounts.
  - b. BBB = Program
    - i. Program Services (many NFPs have multiple programs)
    - ii. Management and General
    - iii. Fundraising
  - c. CC = Funding Source
    - i. Government grants
    - ii. Private grants
    - iii. Private donations
  - d. DD = Location
    - i. Location A
    - ii. Location B
  - e. EEEE = Account
    - i. Assets (what you own e.g. cash, land, buildings) typically are numbered 1000-1999
    - ii. Liabilities (what you owe e.g. payables to vendors, debt to banks, payroll taxes) typically are numbered 2000-2999
    - iii. Net Assets or Fund Balances (what you're worth) typically are numbered 3000-3999
    - iv. Revenues (money coming in e.g. donations, grants, pledges) typically are numbered 4000-4999
    - v. Expenses (money going out) typically are numbered 5000-9999
3. Understand that you will make modifications to your chart of accounts.
  - a. Build in room for flexibility. Leave space between numbers for new accounts that you might want to add later
  - b. Don't waste your time creating accounts that you don't use or need. In the account numbering structure previously mentioned, you may not use some.