

Section 1

Introduction and General Requirements

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Overview

This manual replaces the sections of the *Accounting Manual for Recipients of Grant Funds in Tennessee*, 1987 Edition, applicable to nonprofit organizations under the jurisdiction of the Financial Accounting Standards Board (FASB), and goes beyond the scope of that edition to cover other reports, such as IRS Form 990. Governmental entities (other than the state, counties, cities and their political subdivisions, including utility districts, and public housing authorities) as well as not-for-profit organizations under the jurisdiction of the Governmental Accounting Standards Board (GASB), should continue to follow the *Accounting Manual for Recipients of Grant Funds in Tennessee*.

Only not-for-profit organizations which meet the criteria established in the AICPA Audit and Accounting Guide: *Not-For-Profit Organizations*, paragraph 1.03, are under the jurisdiction of GASB. All other not-for-profit organizations are under the jurisdiction of FASB.

This manual is for the chief executives, business officers, and accountants of not-for-profit organizations (NPOs) that must submit financial reports to any unit or units of the government of Tennessee. NPOs are encouraged to use this manual in consultation with their accountants and independent auditors.

The new manual is aligned with the Tennessee Department of Financial and Administration (F&A) Policy Statement 03, *Uniform Reporting Requirements and Cost Allocation Plans for Subrecipients of Federal and State Grant Monies* (refer to Section 9).

F&A Policy 03 states:

Generally, this Policy Statement 03 establishes uniform reporting requirements for all subrecipients affected as defined below. This policy statement calls for the development of efficient and effective cost allocation plans and methods of cost determination, under the

supervision of the cognizant state agency as determined by the Department of Finance and Administration (F&A Policy 03, No. 1).

General Requirements

This manual contains **requirements** that must be adhered to by recipients of federal and state grant funds and must be included in the scope of audits for such organizations. These requirements are preceded by “**Requirement #x-y:**” with the requirement stated in bold italics. The “#x-y” consists of the section in this manual where the requirement is introduced (x) and the requirement number within the section (y).

The accounting and financial reporting procedures, methods, and other guidance provided in this manual comply with all of the **requirements** herein and are consistent with F&A Policy 03; OMB *Circulars A-122* and *A-133*; IRS Form 990; the annual financial reporting requirements of the Office of Charities Registration, Tennessee Secretary of State; FASB Statement No. 117; and AICPA Audit and Accounting Guide: *Not-For-Profit Organizations*; and AICPA Statement of Position 98-3, *Audits of States, Local Governments, and Not-For-Profit Organizations Receiving Federal Awards*.

Requirement #1-A: *The organization must comply with the uniform reporting requirements and guidelines for cost allocation plans set forth in F&A Policy 03* (refer to Section 9).

Requirement #1-B: *The organization must use the same policies, procedures, and methods for all accounting, including cost allocation, and for all financial reporting, including grant reporting to State funding agencies, annual reporting to the Tennessee Secretary of State, Division of Charitable Solicitations (including IRS Form 990), and general purpose financial reporting.*

OMB *Circular A-122*, Attachment A, Paragraph 2, states that “[t]o be allowable under an award, costs must . . . c. [b]e consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.” *Circular A-122*, Attachment A, Paragraph 4.a. states that “A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and . . .” OMB *Circular A-133* Compliance Supplement, Part 3(L) includes as a suggested audit procedure for financial reports that the auditor “Trace the amounts reported to accounting records that support the audited financial statements and the schedule of expenditures of Federal awards and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records.”

The following are accounting procedures and methods that comply with **Requirements #1-A and #1-B**.

1. The use of a chart of accounts, such as the one illustrated in Section 3 of this manual, that is aligned with, and cross referenced to, F&A Policy 03, OMB *Circular A-122*, OMB *Circular*

A-110 SF-269, IRS Form 990, and generally accepted accounting principles (GAAP) reporting requirements.

2. The use of a universal, allocated, functionalized, adjusted trial balance, such as the one illustrated in Section 3 of this manual, that provides all the financial data required for F&A Policy 03 uniform grant reporting forms and electronic templates (refer to Section 9), GAAP financial statements (refer to Section 8), IRS Form 990 (refer to Section 10), and the reporting requirements of the Tennessee Secretary of State, Division of Charitable Solicitations (refer to Section 11).
3. The use of activity-level (“lowest common denominator”) accounting for multi-level revenue and expense reporting that is described in Section 2. Activity-level accounting uses a single transaction coding structure that accommodates all of your internal and external reporting requirements and eliminates the need for costly and possibly inaccurate worksheets for various reports.
4. The use of the cost allocation procedures and methods that are described in Section 4 including the use of management and general costs for determining administrative expenses and indirect costs, as referenced in OMB *Circular A-122*, Attachment A, Paragraph D.4. and further defined in FASB Statement No. 117 and IRS Form 990 instructions.

Requirement #1-C: *The organization must maintain reliable time records for each employee for each pay period based on actual detailed time reports or other after-the-fact determination of the actual activity of each employee.* (Reference OMB *Circular A-122*, Attachment B, Paragraph 6.)

The use of the time and effort reporting, and payroll accounting procedures and methods, outlined in Section 4 of this manual would comply with **Requirement #1-C**.

Requirement #1-D: *The organization must be in compliance with all applicable federal, state, and local laws and regulations including laws and regulations regarding government funding policies, IRS regulations regarding an organization’s nonprofit tax exempt status, and State of Tennessee regulations regarding registration and annual reporting with the Secretary of State, Division of Charitable Solicitations.*

The availability of (a) a copy of an up-to-date IRS determination letter, (b) a copy of a properly prepared and filed IRS Form 990, and (c) a copy of the registration and current annual report filed with the Secretary of State, Division of Charitable Solicitations would comply in part with **Requirement #1-D**. The Secretary of State, Division of Charitable Solicitations, accepts a copy of IRS Form 990 as the annual financial report.

F&A Policy 03 and Indirect Cost Rates

OMB *Circular A-122* provides extensive guidance on use of indirect cost rates. F&A Policy 03 differs significantly from *Circular A-122* in that Policy 03 does not have any provisions

for the use of indirect cost rates. Policy 03 states that “[t]he periodic allocation of actual expenditures, rather than the use of a fixed or provisional indirect cost rate, is the most appropriate and equitable method of cost allocation” (No. 13). Under Policy 03, reimbursements are made on the basis of actual direct, allocable-direct, and administrative expenses. Administrative costs are not identified as “indirect costs,” and Policy 03 reimbursement procedures do not use indirect cost rates.

F&A Policy 03 and Cost Allocation Methods

OMB *Circular A-122*, Attachment A, Paragraph D, provides four methods for allocating indirect costs: (D.2.) Simplified allocation method, (D.3.) Multiple allocation base method, (D.4.) Direct allocation method, and (D.5.) Special indirect cost rates. Only the direct allocation method (Paragraph D.4., which is quoted in Section 4 of this manual) is compatible with the guidelines set forth in Policy 03 to be used in the allocation of costs for recipients of grants from state departments or agencies. (Exceptions are allowed providing prior approval of the alternative method is granted from the Cognizant State Agency.)

Under this method of cost allocation, *Circular A-122*, Attachment A, Paragraph D.4.’s *indirect costs* and Policy 03’s *administrative costs* are compatible with each other, and they consist exclusively of *management and general expenses (M&G)* as defined in FASB Statement No. 117 and IRS Form 990 instructions--which are also compatible with each other.

Also, under this method of cost allocation, *Circular A-122*, Attachment A, Paragraph D.4.’s *joint costs* and Policy 03’s *allocable-direct costs* are compatible with each other, and they consist of *allocable expenses that relate to more than one functional category* as defined in FASB Statement No. 117 and IRS Form 990 instructions--which are also compatible with each other.

This alignment of cost allocation methods facilitates organization-wide consistency (**Requirement #1-B**) and reduces the cost and burden of overall cost allocation for the organization.

Regarding the other three cost allocation methods in *Circular A-122*, two are only applicable in complex or special circumstances: the multiple allocation base method (D.3.) and the use of special indirect cost rates (D.5.). The third, the simplified allocation method (D.2.), combines joint or allocable-direct costs with administrative (M&G) costs in a single indirect cost pool and allocations are made on a single basis. The single basis for allocation of the pool is usually direct salaries and wages, total direct costs, or modified total direct costs.

Choosing this alternative (on an exception basis, with prior approval of the Cognizant State agency) would comply with the requirements of this manual provided the organization and the auditors have determined, and documented, that the resulting cost allocations do not vary materially from cost allocations based on the preferred Policy 03 method. The potential for burden reduction with a simplified cost allocation method is discussed in Section 4 of this manual. If this alternative is adopted, two cost pools would be employed: one for the administrative cost pool

and another for the allocable-direct cost pool. Both cost pools would be allocated on the same single basis. The allocable-direct cost pool would be allocated first so that the administrative cost pool receives its share of the allocable-direct costs before it is allocated.

Comments and Suggestions

The manual provides guidance in adopting (if you have not already done so) current accounting principles for NPOs promulgated by the Financial Accounting Standards Board (FASB) and followed by the American Institute of Certified Public Accountants as generally accepted accounting principles (GAAP). (Before 1993, voluntary health and welfare organizations, private colleges and universities, not-for-profit hospitals, and other NPOs such as museums and performing arts groups, used different sets of accounting principles. All must now follow the new set of accounting standards set forth by FASB for NPOs.)

In addition, this manual is designed to make it easier, and less costly in time and money, for your NPO to prepare and file IRS Form 990 with the IRS and the Tennessee Secretary of State, Division of Charitable Solicitations. By aligning reporting requirements with IRS Form 990, F&A Policy 03 and this manual facilitate compliance with federal law governing the preparation of IRS Form 990 and its use as a public disclosure instrument. (OMB *Circular A-133*, § 500, states that “In addition to the requirements of GAGAS, the auditor shall determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on each of its major programs.”)

The IRS and state charity registration agencies accepting IRS Form 990 (such as the Tennessee Secretary of State, Division of Charitable Solicitations), require that IRS Form 990 be prepared in strict accordance with its instructions including line-item content and expense allocation.

Although this manual focuses on reports to government and to private resource providers, bear in mind that the basic purpose of your recordkeeping, controls, and accounting system is to provide management with the information needed to make prudent decisions and to comply with all applicable reporting requirements. Your internal information needs, and the special needs of funding sources, may require modifications of the illustrations presented here.

If you develop modifications, be sure that any changed or additional procedures involving grants have the grantor’s approval or assent.

You are encouraged to use this manual in conjunction with general purpose nonprofit accounting guides. For example, you might want to consult the guidebook, *Accounting and Financial Reporting*, published by the United Way of America and generally available through your local United Way or council of social agencies. The current edition describes basic accounting principles and activities but does not contain the most recent FASB pronouncements described in this manual.

Your organization can save time and improve accuracy by using computers and accounting software. Accounting software can save you time and effort by eliminating other steps in your recordkeeping (refer to Section 2).

Remember that financial reporting is the responsibility of management, not of an auditor. Your auditor's responsibility is to express an opinion on the fair presentation of your financial statements and related supplementary information. If your financial statements, notes, and other required disclosures are properly prepared, your auditor should be able to do the job economically and efficiently.

For help in applying any of the guidance in this manual, please write the appropriate grantor agency or the State of Tennessee, Comptroller of the Treasury, Division of Municipal Audit, 1600 James K. Polk State Office Building, Nashville, Tennessee, 37243-0271, telephone number (615) 741-1871.

Section 2

Your Accounting and Reporting System

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Requirement #1-B (from Section 1): *The organization must use the same policies, procedures, and methods for all accounting, including cost allocation, and for all financial reporting, including grant reporting to State funding agencies, annual reporting to the Tennessee Secretary of State, Division of Charitable Solicitations (including IRS Form 990), and general purpose financial reporting.*

The accounting and reporting procedures, methods, and other guidance provided in this section, including activity-level (“lowest common denominator”) accounting for multi-level revenue and expense reporting, are consistent with **Requirement #1-B**.

Purpose and Objectives

The purpose of your accounting and financial reporting system is to provide accurate, complete, timely, understandable, and useful financial information to your staff, board, and volunteers and to a variety of external users of such information. To achieve this purpose, your accounting system should meet five objectives that are essential to collection, maintenance, and fair presentation of financial data.

- Objective 1. Record all financial data in a systematic manner that will facilitate the preparation of **all** your financial reports.
- Objective 2. Classify and record the data on a consistent basis.
- Objective 3. Support the data with adequate documentation.
- Objective 4. Establish controls that provide management with reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, and that

transactions are recorded properly and executed in accordance with management's authorization.

Objective 5. Employ computer software and systems that assure effective and efficient operation of your accounting and financial reporting system.

To satisfy the first and second objectives, use a uniform chart of accounts that enables you to prepare (a) financial statements in accordance with generally accepted accounting principles (GAAP); (b) reports to government and private grantors, the Tennessee Secretary of State, the IRS, and others in accordance with applicable instructions, agreements, laws, and regulations; and (c) financial reports that meet other internal and external reporting requirements. The chart of accounts in Section 3 is consistent with GAAP and is cross referenced to various other reporting requirements.

You can achieve the third objective by establishing a system to ensure that written documentation is maintained to support each entry in your accounting system. You will find various types of documentation presented in Section 5, Your Records.

Satisfy the fourth objective by establishing and regularly using a system of internal accounting controls. The controls needed are discussed in Section 6, Your Internal Controls.

Satisfy the fifth objective by using accounting software to (a) simplify maintenance of your general ledger; (b) improve the accuracy, completeness, timeliness, and usefulness of all of your financial reports; (c) enter accounting data one time to satisfy all your accounting and financial reporting needs; and (d) save time by eliminating most, if not all, of the manual tabulations and calculations you would otherwise make. Accounting software can also save you time and effort by eliminating other steps in your recordkeeping.

About Today's Accounting Software Systems

1. Most of today's accounting software systems allow you to maintain transaction files. From transaction files, the month-end, year-to-date, and year-end journals, general and subsidiary ledgers, trial balances, and other internal financial reports as required for your permanent accounting records can be produced.
2. These accounting software systems require you simply to code transactions according to a chart of accounts rather than post or record transactions in a separate journal or ledger for each account as is required with manual bookkeeping systems. The computer software interprets the chart of accounts to perform posting operations. You can easily and effectively use the activity-level revenue and expense accounting concepts suggested in this manual for coding transactions (refer to Activity-Level Transaction Coding in this section).
3. These systems automatically double-code single transactions to perform double entry bookkeeping. You do not have to enter two separate transactions in the journals, ledgers,

and trial balances as required with manual bookkeeping systems. Transactions are entered into the system one time rather than posted manually to multiple journals and/or ledgers.

4. When journals, ledgers, or trial balances are needed, these systems produce them as standard reports from the coded transaction files. Therefore, there is no need to maintain them separately as is necessary with manual accounting systems.
5. These systems produce internal and external financial reports directly from the coded transaction files rather than from journals, ledgers, or trial balances.
6. The more popular general-purpose business accounting software products, available today in most computer stores, do not have adequate cost allocation or report formatting features to meet nonprofit reporting requirements. Small and mid-size nonprofits that employ such systems can produce reports or export computer files with the financial data needed for tailored nonprofit reports using spreadsheet software (e.g., Lotus 1-2-3 or Excel). This technique requires a high degree of skill--especially with spreadsheet software. This technique has been employed for preparation of the illustrative monthly salary processing report and universal trial balance and other illustrative reports found in this manual.
7. Sophisticated nonprofit accounting software systems with comprehensive, fully-integrated employee time record keeping; payroll; cost allocation; accounts receivable; accounts payable; and other features and sub-systems produce standard and tailored nonprofit reports directly from the coded transaction file. This can eliminate the use of spreadsheet software and the cumbersome tasks associated with getting data from the accounting system to the spreadsheet. Sophistication does not mean complicated from a user standpoint. These systems are designed so that most bookkeepers can learn to use them with limited additional training.
8. Small NPOs may find it cost effective to contract with outside services that have sophisticated accounting software and skilled professional and support staffs. The outside service can provide an NPO with rudimentary accounting software for day-to-day entry of coded transactions for receipts and disbursements. Such services can perform most, if not all of the month-end accounting and reporting, and can help with reports to government funding agencies. These services can also prepare the financial records for the year-end audit. Contracting with a good outside service will eliminate the need to have such expertise on staff full-time when these tasks are only performed a few days each month or, in the case of year-end audit preparation, once a year. However, before contracting for such services, NPOs should determine that the outside service provider has adequate internal controls to provide for accurate and reliable accounting and reporting information.
9. Payroll processing can also be outsourced to payroll services that (a) regularly update their software according to changes in IRS, state, and local tax rules; (b) prepare all the necessary governmental tax reports; (c) do staff time and salary distributions by activities; and (d) have a variety of other useful services.

10. The illustrative chart of accounts in Section 3 of this guide can be used for both computerized accounting software systems and manual accounting systems. In either system, the level of detail must be such that all of the required internal and external reports can be prepared without reference to supporting documentation in the hard copy bookkeeping records. However, the supporting hard copy documentation must always be coded according to the chart of accounts (e.g., invoices for accounts payable and transmittals for accounts receivable payments).

Basis of Accounting

Nonprofit organizations are generally expected to report on an accrual basis; e.g., contributions are recognized when received or pledged, revenues are recognized when earned, and expenses are recognized when incurred. Generally accepted accounting principles (GAAP) allow financial statements, especially those of smaller organizations, to be prepared on a cash basis or modified accrual basis if they do not differ materially from financial statements prepared on an accrual basis. With the modified accrual basis, a few items that might have significant accruals such as fixed assets, accounts receivable, or accounts payable may be accounted for on an accrual basis while other items are accounted for on a cash basis.

Large nonprofit organizations account and report on an accrual basis. However, many small and mid-size nonprofit organizations account on a cash or modified accrual basis during the fiscal year but prepare financial reports on a full accrual basis at the end of the year.

The advantage of cash-based accounting during the year and accrual-based reporting at the end of the year is simplicity which can result in a substantial reduction in the cost and burden of financial management throughout the year. With cash-based accounting, revenue and expense transactions are only recorded in the books when cash is received or disbursed. When financial reports are needed, a cash-based trial balance is prepared from the general ledger. The accruals are then added to create an adjusted, accrual-based trial balance from which accrual-based financial reports are prepared (refer to steps 4 through 12 starting on page 2-13 of this section).

Basis for Reporting Expenses to State of Tennessee Funding Agencies

Requirement #1-A (from Section 1): *The organization must comply with the uniform reporting requirements and guidelines for cost allocation plans set forth in F&A Policy 03.*

As noted in Appendix A of Policy 03, total expenses may be reported to State of Tennessee funding agencies on either the cash or accrual basis. An expense may be accrued only if the goods or services have been received and billed for by the end of the reporting period. Once you have chosen a basis of reporting, you may change it only with the approval of your State Cognizant Agency (i.e., principal State of Tennessee government funding agency).

NOTE: If the organization also receives direct federal assistance, this change should be approved by the appropriate federal agency as well.

If the report at the end of the grant period is on the accrual basis, the **final** report, which is prepared after all accruals have been cleared with cash receipts and disbursements, must include a cash reconciliation to the accruals reported in the end of period grant report.

Grant reports must be submitted in the same format each quarter. The format must be approved by the state funding agency.

Because of the complexity of year-end adjusting entries involved for GAAP reporting, some NPOs may ask outside accountants to assist in the preparation of the year-end accrual-based reports. Outside accountants also frequently prepare year-end reports for the IRS (Form 990) and the Tennessee Secretary of State's Division of Charitable Solicitations.

Activity-Level Accounting for Multi-Level Revenue and Expense Reporting

Activity-based accounting focuses on identifying all costs associated with an activity, such as client follow-up, providing meals for seniors, immunization, training, etc. Each of these activities may encompass other activities, which the organization may or may not account for individually. These costs are then reviewed and used by management to make decisions regarding the effectiveness and efficiency of the entity's activities in relationship to their goals. This activity-based information can help management answer such questions as how can services be provided at lower costs, what cost savings could be realized by contracting out certain activities to other organizations, what services need to be terminated, and what services could be added. Activity-based accounting provides an effective tool not only for management but for the various resource providers involved with an organization. Limited resources coupled with high expectations regarding accomplishments and outputs are driving factors in the need to change the way in which costs are accounted for and used in the operation of all organizations, whether their final goals involves maximized profits or maximized services.

Two dimensions are used to measure revenue and expense: (1) line items which are natural accounting classifications such as grants and contributions, fees, interest income, and other revenues; and salaries, telephone, occupancy, and other expenses; and (2) activities.

An activity is a specific service, purpose, cost objective, or funding source for which a separate measurement of expense and/or revenue is desired. An activity is the lowest common denominator, lowest level of detail, or lowest grouping of revenues and expenses required by your accounting system. The activity level for your accounting system is determined on the basis of how minute separate measurements need to be in order to meet all your multi-level internal and external reporting requirements. An activity is the lowest level for assessing outputs, results, and performance against inputs.

Activity-level accounting means activity-level coding and grouping of all revenue and expense transactions.

Multi-level revenue and expense reporting then consists of selecting and grouping those activities required for each report and aggregating activity-level accounting information accordingly.

A quote from OMB *Circular A-122* further illustrates the use of the term “activity.” *Circular A-122* states that “reports reflecting the distribution of **activity** of each employee must be maintained for all staff members . . .” (Emphasis added.) **Activity** reports showing how employees actually spent their time must be the basis for allocation of their salaries to federally funded grants (Attachment B, Paragraph 6, Section 1 of *Circular A-122*). It is in this context that this manual uses the term “activity” in **activity** level accounting, **activity**-level transaction coding, and **activity**-level employee time and effort reporting.

Activity-level accounting involves **cost-center accounting** but is broader in scope and can include revenue. Activity-level accounting is also a form of **responsibility accounting** which is an internal management accounting system that measures the operating results of the responsibility centers.

Continuous improvement, total quality management (TQM), activity-based costing (ABC), and the more recent **activity-based management (ABM)** systems would employ more detailed and sophisticated activity-level accounting. These systems are internal management tools for improving quality, increasing customer satisfaction, increasing productivity, reducing costs, increasing profitability, etc.

Activity-based management (ABM) incorporates all of these concepts into a single system whereas activity-based costing (ABC) provides decision-useful information in a continuous improvement/TQM program. Activity-level accounting, as used in this manual, focuses on meeting the needs of external reporting requirements. However, an activity-level accounting system could be designed to meet the needs of both an activity-based **internal** management system and the external reporting requirements outlined in this manual.

In an ABM system, activities that are grouped together so the output of the first activity becomes the input for the next activity and so on are called a **business process**. For example, the meals-at-home services of a seniors center would be a business process. With activity-level accounting as illustrated in this manual, meals-at-home services are treated as a single activity. In an ABM system, meals-at-home services would consist of several activities: (a) register clients, (b) purchase food, (c) cook and package food for delivery, (d) deliver food to clients, and (e) evaluate the service. With an ABM system, an organization can create an activity structure that links the costs of activities to various business processes and the costs of business processes to cost objectives such as grants, contracts, programs, departments, etc.

It would be helpful to your organization if you developed a general knowledge about traditional cost-center accounting and responsibility accounting and about the more recent TQM, ABC, and ABM systems. You may want to implement one of these newer management tools to improve the effectiveness and efficiency of your programs.

Activity-Level Transaction Coding

When coding transactions to be recorded in your accounting system, the level of detail must be such that all the required internal and external reports can be prepared from a single universal, monthly or end-of-period trial balance. You should not have to go back to supporting documentation in the hard copy bookkeeping records for more detailed breakdowns required for one or more of the reports. In this manual, that required level of detail is referred to as the **activity level**.

The activity level is the level of detail at which the accounting system records information on (1) specific grants and other sources of revenue, (2) how employees, consultants, and volunteers spend their time, and (3) utilization of other resources such as equipment, space, supplies, etc. The activity level is also the level of detail at which budgets are prepared.

Cost pools are maintained at the activity level, and related cost allocations are made at the activity level. In this way, shared or common costs are allocated among benefiting activities to determine the total direct costs of each activity.

Revenues and expenses are **accounted for** by coding transactions at the activity level.

An organization's hierarchy of accounting can consist of five levels of internal accountability and reporting. The sixth level in the hierarchy encompasses the line-item accounting of the organization.

Level 1	The organization (Board of Directors)
Level 2	Executive Director (senior management)
Level 3	Department/function Directors
Level 4	Program/project Managers (grants, contracts, funding sources)
Level 5	Activities (program services, cost pools)
Level 6	Line items (revenue and expense categories)

The activity level (level 5) is the primary accounting, budgeting, and internal financial control level. The program/project level (level 4) is the primary level for accountability to funding sources. The executive office and department/function levels (levels 2 and 3) are the primary general purpose and IRS Form 990 financial reporting levels.

Note that activities may be jointly funded and expenses shared on some basis, e.g., as a percentage of contributions.

Activity-Level Accounting Provides Flexibility in Reporting

Revenue and expense **reports** can be prepared for any activity or for any combination of activities. Activities can be grouped in any number of combinations to meet the reporting requirements of internal users, resource providers, and generally accepted accounting principles.

The following example of internal management reporting illustrates activity-level accounting and its relationship to multi-level financial reporting:

A nonprofit human service organization has several program departments, each headed by a program director. Each program department is responsible for one or more grant-funded programs, each led by a program manager. Each grant includes funds for several program services. Since no lower level of accountability is needed, the organization has established each separate program service as the activity-level for measuring and tracking revenues and expenses.

Revenue and expense information, measured at the activity level, is used in reports prepared at the activity level (level 5) and **aggregated** for the **internal** management reporting requirements of the board of directors (Level 1), executive director (Level 2), department/ function directors (Level 3), and program/project managers (Level 4).

Program managers (the lowest level managers) require weekly and monthly revenue and expense reports for their overall program (Level 4), for their portion of each grant they participate in (Level 4), and for each service provided or activity conducted (Level 5) under their management. That is, they need reports for each of their respective areas of responsibility. Examples of programs and/or grants are nutrition and rehabilitation. Examples of services (activities) within the nutrition program or grant are congregate meals, meals at home, and nutrition education. Program manager revenue and expense reports are prepared for each activity and for activities grouped by program and by grant.

Department directors (middle level managers) require monthly revenue and expense reports for their overall program area (Level 3), for each of their programs (Level 4), and for each grant (Level 4). They also need access to all the reports received by the program managers that report to them. Department director revenue and expense reports are prepared for activities grouped by program area, by program, and by grant.

The executive director (CEO) requires monthly revenue and expense reports for the overall organization (Level 2), for each program department (Level 3), for each central service center such as data processing and printing and duplicating services (Level 3), and for fundraising and administrative functions (also Level 3). They also need access to all of the Level 4 and 5 reports received by the program/project managers that report to them. Executive director revenue and expense reports are prepared for all the

activities of the organization combined and for activities grouped by program departments, by central service center, and by fundraising and administrative functions.

Boards of directors require monthly and quarterly **summary** revenue and expense reports for the overall organization (Level 1). From time to time, they may also need access to all the Level 2 through 5 reports received by and available to the executive director. Board of directors revenue and expense **summary** reports are prepared for all the activities of the organization combined and for activities grouped by program within department, by service center, and by fundraising and administrative functions.

Budgets are also prepared and used at all five levels. The internal revenue and expense reporting requirements include actual-to-budget comparisons and current year to prior year comparisons (refer to Section 5).

In addition, the activity-level accounting information is aggregated for **external** monthly, quarterly, and annual reports to resource providers. **Resource providers** require reports for each grant they have made and for each service provided or other activity conducted under their grant. When a single grant funds several services, resource provider revenue and expense reports are prepared for each service and for services grouped by grant.

Finally, the activity-level accounting information is aggregated annually for other **external** reporting requirements including the organization's audited financial statements; annual reports; reports to their national headquarters, reports to their state-wide association, reports to the IRS, and reports to the Tennessee Secretary of State's Division of Charitable Solicitations.

The Accounting and Financial Reporting Cycle

The following discussion of the accounting and financial reporting cycle is based on the assumption that your organization uses cash-based accounting throughout the year and accrual-based financial reporting at year end and at the end of any grant periods that do not correspond to your fiscal year.

Further, your organization may have accounting software systems that accomplish one or more of the following steps in a different manner. Fully integrated accounting software capabilities, for example, include (a) all aspects of accrual-based accounting such as accounts payable and accounts receivable; (b) entry and automatic allocation of payroll related data and time-and-effort activity reports for each employee for each pay period; and (c) maintenance of

various payroll-related, line-item, and central service department cost pools, with automatic allocation at the time reports are processed.

If you have such software and/or use full or modified accrual-based accounting, your implementation of the 12-step accounting and financial reporting cycle will need to be adjusted accordingly.

Even if you do not use an integrated computer-based accounting system, the use of a computer spreadsheet such as Lotus 1-2-3 or Excel for all your trial-balance preparation (refer to steps 4 to 9 in this section) can be a significant time saver. Further, computer spreadsheets can also be used to produce many of your financial reports--especially when your other accounting software cannot produce reports in the desired format (refer to steps 10 and 11 in this section). For example, as noted earlier in this section, many of the illustrative financial reports in this manual have been prepared using computer spreadsheets. Further, electronic templates used by many Tennessee state agencies, including the Uniform Grants Report, employ computer spreadsheets (refer to Section 9, Tennessee Uniform Subrecipient Reporting).

To understand how financial data enter the accounting system and eventually are reported in financial statements, you should be familiar with (1) the accounting cycle and (2) the financial reporting cycle, outlined below.

Basic Accounting Cycle (Steps 1 to 3)

(perform steps 1 and 2 during the month and step 3 at the end of each month)

Step 1. Determine economic events occurring on a day-to-day basis (e.g., purchase of supplies, earning of wages).

Step 2. Process economic events (transactions) when they occur.

- a) Cash transactions are coded and recorded in the appropriate journal. For example, record a cash disbursement in the cash disbursements journal; record a petty cash disbursement in the petty cash journal; record a receipt of cash in the cash receipts journal; and record a payroll transaction in the payroll journal.
- b) Noncash transactions are coded and recorded in the general journal.
- c) Documentation for cash, noncash, and accrual transactions are processed according to the records administration procedures established by your organization (refer to Section 5, Your Records). Documentation for noncash and accrual transactions are needed during the financial reporting cycle (steps 5 to 11 below).

Accurate, consistent transaction coding is essential.

Each of your revenue and expense transactions must be coded in two ways: (a) line item and (b) activity.

- a) The line-item code identifies the natural or object classification for revenue transactions such as federal government grants, and expense transactions such as telephone.
- b) The activity code identifies the specific purpose or objective for revenue and expense transactions (refer to Section 3, The Chart of Accounts, for an explanation of the two dimensional account coding structure for line item and activity code).

Coding of accrual transactions can be recorded on the supporting documentation when it is received rather than when the transactions are entered into the adjusted trial balance for report preparation (refer to Step 5 of this section).

Step 3. As of the monthly cutoff date, post the debits and credits of the various cash journals to the general ledger accounts--using double entry bookkeeping

Double Entry Bookkeeping

In double-entry bookkeeping, there are always one or more “debits” with one or more corresponding “credits.” “Debits” equal “credits” for every transaction, and total “debits” and total “credits” are always equal.

The terms “debit” and “credit” can be confusing because “debits” can be decreases or increases and “credits” can be increases or decreases. With liability and revenue accounts, debits are decreases and credits are increases. However, with asset and expense accounts, debits are increases and credits are decreases.

	<u>Debit</u>	<u>Credit</u>
Assets	increase	decrease
Liabilities	decrease	increase
Revenue	decrease	increase
Expenses	increase	decrease

Generally, entries from various journals are not made directly to net asset (equity) accounts. Net assets are affected by the excess (deficiency) of revenues over (under) expenses and end-of-period closing entries are made accordingly. When making closing entries to net assets, debits are decreases and credits are increases. Refer to instructions for making closing entries in Step 8 of this section.

Posting Payroll to General Ledger

For additional discussion of accounting for payroll, refer to Section 4.

Salaries for each employee for each month or pay period are allocated among the activities (and the leave or out-of-service pool, if applicable for your organization) on the basis of manager-approved staff time utilization reports. The detailed payroll information for each pay period is recorded in the payroll journal. The gross payroll disbursements for each pay period are credited to the payroll bank account in the general ledger on a cash basis. Summary amounts are debited to related salary line items and activity codes.

Other payroll related expenses such as employee benefits and employer payroll taxes can be allocated among activities using percentages based on direct hours or direct salaries.

Small to mid-size nonprofit organizations often find it useful to use an outside payroll service. In selecting such a service, you should make sure the service can include, by pay period, reports that break down salaries by activity based on staff time records and that are consistent with the requirements for posting salaries to the general ledger by activity.

Cost Allocation - Overview (refer to Section 4)

Expenses that are related to more than one activity are **allocated** among the activities. Such expenses are referred to as **allocable direct costs**. A common basis for allocation of such expenses is the salary subtotal for each activity as a percentage of total salaries.

The expenses of the **administrative activities** of the organization are maintained in a **cost pool** and allocated to program activities on the basis of salaries as above or on the basis of modified total direct expense (modified total direct expenses are total direct expenses less distorting expenses such as equipment purchases and flow through funds).

Expenses that are directly identifiable with a single activity are posted to that specific activity in the general ledger. Cost allocation is not relevant.

Allocable-direct expenses can be allocated at the end of the month, or they can be retained in cumulative year-to-date cost pools. When year-to-date cost pools are used, allocable-direct expenses are posted to general ledger cost pool accounts. The allocations of these expenses are made when reports are prepared during, and at the end of the fiscal year (refer to Step 7 in this section).

The use of cumulative, year-to-date cost pools can result in fairer and more consistent allocations. For example, vacation salaries and various insurance coverage are more fairly allocated on the basis of a full year rather than on the basis of one month. The use of cumulative cost pools can also reduce the accounting and reporting burden for smaller organizations. Cost pools can be used for expenditures for leave or other out-of-service

salary, employee benefits, employer's payroll taxes, occupancy, some supplies, and other expenses.

For government grant budgeting, reporting, and reimbursement, indirect expenses (e.g., management and general expenses) are treated as a cost pool.

The use of cost pools is described in Section 4, Cost Allocation, of this manual. After you have read Section 4, you may find it useful to review Section 2 again.

Separate General Ledger Accounts For Each Line Item and Activity

Your general ledger must have separate revenue or expense accounts for each **active** line-item and activity. An "active" account is one with current or prior period financial activity.

A manual accounting system requires a separate ledger page for each account. As noted earlier, most accounting software systems maintain transaction files coded by account and the need for cumbersome separate ledger pages is eliminated. Also see the discussion of subsidiary ledgers in Section 5.

You may choose to have only a separate page for each line-item account. In this case, you will post revenue and expense transactions for the various activities related to one line item to the same page in your general ledger. However, this approach requires manual tabulations of revenues and expenses by activity when an activity-level trial balance is needed for preparation of financial reports. If your organization has more than a few activities, computerization is almost mandatory.

Financial Reporting Cycle (steps 4 to 12)

Once the cash-based general ledger has been updated, you can proceed with preparation of monthly, quarterly, and year-end reports as needed. But, before you can begin to prepare the reports themselves, you will need to prepare a series of trial balances (steps 4 to 9).

Step 4. Prepare the monthly year-to-date cash-based trial balance.

The cash-based trial balance lists all general ledger accounts with their debit or credit balance as of that date. The total debits and credits of the trial balance should be equal. If they are not, a mistake has been made. Review the transactions to ensure that total debits equal total credits.

Note: Most accounting software systems assign both a debit and a credit to every entry. If your organization uses such software to maintain its cash-based general ledger, your computer-generated, cash-based trial balances will always be in balance.

Step 5. Make adjusting entries for accrual and other end-of-period transactions.

Once the cash-based trial balance has been completed, adjustments may be needed in accounts receivable, accounts payable, prepaid expenses, accrued payroll, accrued leave, and depreciation, among others. Make the adjusting entries in two (debit and credit) columns adjacent to the general ledger account balances on the trial balance sheet.

Step 6. Prepare the adjusted trial balance columns.

The adjusted trial balance columns list all the accounts used, together with their debit or credit balance as of the cutoff date, plus or minus the adjustments. The total debits and credits of the adjusted trial balance should be equal.

Note: Ignore step seven if you do not use common cost pools.

Step 7 is not applicable if you allocate all expense transactions that are related to more than one function or project/grant among the functions and projects/grants when posting to the general ledger each month (step 3) and when making adjusting entries for accruals (step 5). The use of cumulative, year-to-date common cost pools is described in Section 4, Cost Allocation, of this manual.

Step 7. Prepare accrual-based, allocated trial balance.

If you use cost pools, additional adjusting entries are necessary for allocation of the cost pools for common or shared costs that are related to more than one activity (i.e., more than one combination of function and project/grant). This second set of adjusting entries for activity-level expense allocation is needed to prepare final grant reports, statements of functional expenses, the expense section of statements of activity, and the net asset section of statements of financial position (balance sheets). Make these adjusting entries in the two (debit and credit) columns adjacent to the first adjusted trial balance columns.

Once all the adjusting entries for activity-level expense allocation are made, prepare the second adjusted **and allocated** trial balance in the two columns to the right of the cost allocation, adjusting entries columns by adding the adjusting entries to the first adjusted trial balance. The second adjusted trial balance columns show the debit or credit balances plus or minus the adjustments, for each account as of the cutoff date.

Step 8. Make closing entries.

All revenue and expense accounts should be closed to net assets (equity) by debiting the revenue accounts for the balances in the accounts and crediting the net asset accounts, and debiting the net asset accounts and crediting the expense accounts for the balances in the accounts. Make the closing debits and credits in two columns adjacent to the adjusted trial balance columns. If any revenue account does not have a credit balance or if any expense account does not have a debit balance, as they should have, investigate the matter and

make appropriate changes. If the errors cannot be located and the amounts are immaterial, the closing entry would have to be modified (credit revenue account and debit net asset account or debit expense account and credit net asset account) to remove these unconventional balances.

Step 9. Prepare the post-closing trial balance.

The post-closing trial balance columns list the remaining accounts with their debit or credit balances, after adjusting and closing entries, as of the cutoff date.

Refer to the Universal, Functionalized, Adjusted Trial Balance in Section 3 for the trial balance that has been used to prepare the illustrative reports in Sections 8 through 11. Those reports are illustrations of the reports prepared in steps 10 and 11 below.

Step 10. Prepare your GAAP financial statements for the period covered.

Use the revenue and expense account balances from the adjusted trial balance to prepare the statements reporting results of operations: the statement of activities and the statement of functional expenses. The asset, liability, and net asset account balances on the post-closing trial balance should be used to prepare the statement of financial position. Finally, prepare the statement of cash flows. (Refer to illustrative GAAP financial statements in Section 8.)

Step 11. Prepare other standard reports.

Using your universal trial balance and the cross-referenced chart of accounts, prepare IRS Form 990 (refer to Section 10), uniform Tennessee grant reports (refer to Section 9), the Tennessee Secretary of State's Summary of Financial Activities (refer to Section 11), and other standard reports.

Step 12. Enter year-end adjustments in the general ledger.

For the year-end reporting cycle, after preparing the financial statements, enter all year-ending adjustments in the general ledger, thereby establishing the beginning balances in the general ledger for the next reporting period. Prove that your postings were proper by ensuring net assets on the GAAP financial reports equal net assets in your opening general ledger balances. Many of the year-end adjustments can be entered into the general ledger during Step 4 as an alternative procedure.

You will be repeating steps one and two during the month and steps three and four monthly throughout the reporting period (i.e. your entity's fiscal year). A fiscal year is normally any twelve consecutive months used as an accounting period. Usually the cash disbursements journal is updated when checks are written, and the cash receipts journal is updated every day cash is received. Update the payroll journal with each pay period, and the general journal at the end of each month. Post amounts from the journals to the

general ledger at the end of each month. If you use computer spreadsheets, they become part of your official books and records.

Sophisticated nonprofit accounting software systems enable you to perform Steps 7 through 12 by simply entering year-end journal entry transactions and producing the desired reports automatically from various report menus. These software systems do not produce reports from a trial balance but they can produce a trial balance that you and/or your auditor can use to verify that all of the reports produced can be reconciled with the same trial balance, as is the case with the trial balance illustrated in Section 3 of this manual.

Complete steps 5 through 11 at the period-ending cutoff date. You need not perform these steps at the end of a grant period unless it happens to coincide with the cutoff date. However, accrue receivables and payables pertaining to an individual grant agreement at the end of the grant period so this information can be reported to the grantor.

A computerized system of recording financial data and preparing reports is recommended. Computerization can make it easier to keep complete records for and prepare regular financial statements, reports to state and federal grantors, and if required of your organization, IRS Form 990. In addition, computerization enables you to submit your reports on modem or diskette. An increasing number of report recipients prefer this.

Section 3

The Chart of Accounts

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Requirement #1-A (from Section 1): *The organization must comply with the uniform reporting requirements and guidelines for cost allocation plans set forth in F&A Policy 03 (refer to Section 9 of this manual).*

Requirement #1-B (from Section 1): *The organization must use the same policies, procedures, and methods for all accounting, including cost allocation, and for all financial reporting, including grant reporting to State funding agencies, annual reporting to the Tennessee Secretary of State, Division of Charitable Solicitations (including IRS Form 990), and general purpose financial reporting.*

The accounting and reporting procedures, methods, and other guidance provided in this section, including this section's illustrative chart of accounts and universal, functionalized, adjusted trial balance, are aligned with F&A Policy 03 and are consistent with **Requirements #1-A and #1-B**.

The Objective of Your Chart of Accounts

As noted in Section 2, your accounting system should enable your organization to record financial data systematically and consistently, with adequate supporting documents and internal controls that provide reasonable assurance that assets are safeguarded and that transactions are recorded properly and carried out as authorized.

Your accounting system must also enable your organization to (a) prepare internal budgets, as well as reports, daily, weekly, monthly, and yearly for the board of directors, executive staff, and professional staff; (b) prepare budgets and reports for grantors in accordance with applicable uniform reporting requirements, (c) prepare financial statements in accordance with generally accepted accounting principles, and (d) prepare IRS Form 990 in accordance with

the instructions. Management should adopt a chart of accounts with transaction coding procedures that will provide such information.

The major objective of your chart of accounts is to enable your organization to classify and record transactions one time at a level of detail needed to produce all required reports. In effect, the chart of accounts is defined by reporting requirements.

The accounting you do for internal management reporting and grants reporting will be substantially more detailed than accounting for external financial reporting. Therefore, it is likely that meeting your internal management and grantor accounting needs will provide for most, if not all, of your external reporting requirements.

The Suggested Numbering System

The suggested account numbering system assigns a separate four-digit number to each asset, liability, net asset (fund balance, equity), revenue, and expense account. These accounts are also referred to as line items in this manual. The line-item number assigned to each account identifies (a) the type of account; and (b) the specific account within each account type;

The suggested account numbering system also provides for assigning an additional three-digit activity code number (a) to revenue transactions to identify a specific grant, service fee category, or other revenue/funding source category and (b) to expense transactions to identify a specific activity conducted, service provided, or other cost objective (refer to Section 2 for discussion of activity-level accounting).

Activity codes are the revenue and expense transaction codes that your organization has determined are needed in order for your accounting system to satisfy your various revenue and expense budgeting and reporting requirements. For example, the use of activity codes enables you to produce expense (and revenue when applicable) reports by activity conducted, service provided, program service area (i.e., a group of program services), department, function, grant, project, cost center, net asset classification, including total net assets, and performance measurement categories.

The illustrative chart of accounts provided in this section is based on this system. It is intended to be flexible enough to meet all of the above internal and grantor accounting and reporting needs.

The chart of accounts is also cross referenced to the illustrative GAAP financial statements in Section 8, to the IRS Form 990 financial statements (refer to Section 10), and to Tennessee's uniform grant reporting forms and computer templates (refer to Section 9). Further, the universal trial balance in this section utilizes this account numbering system and the chart of accounts to demonstrate that many internal and most external reporting requirements can be met with a single, year-end, adjusted trial balance.

Line items: The four-digit line-item account numbers, formatted ABBB, are explained below.

A - first digit (Axxx): designates the type of account (i.e., asset, liability, net asset (fund balance, equity), revenue, or expense).

BALANCE SHEET ACCOUNTS

1xxx ASSETS

1000 to 1399 for CURRENT assets

1400 to 1999 for NONCURRENT assets (usually fixed assets)

2xxx LIABILITIES

2000 to 2499 for CURRENT liabilities

2500 to 2999 for NONCURRENT liabilities

3xxx NET ASSETS (fund balances, equity)

3000 to 3199 for CURRENT UNRESTRICTED net assets

3200 to 3299 for NONCURRENT UNRESTRICTED net assets

3300 to 3899 for TEMPORARILY RESTRICTED net assets

3900 to 3999 for PERMANENTLY RESTRICTED net assets

REVENUE & EXPENSE ACCOUNTS

Revenue and expense accounts require the four-digit account number (ABBB) plus the three-digit activity code number (ABBB-CCC).

4xxx-xxx REVENUE (CONTRIBUTED)

5xxx-xxx REVENUE (EARNED)

6xxx-xxx REVENUE (EARNED)

7xxx-xxx EXPENSES

8xxx-xxx EXPENSES

9xxx-xxx EXPENSES

B - Second through fourth digits (xBBB-xxx): designate the specific account category such as the bank checking asset account; the government grants revenue account; and the salary, travel, or occupancy expense accounts.

For example:

1010 Cash in bank - operating (asset)

4512-xxx Government grants - state (revenue)

7210-xxx Other salaries and wages (expense)

8310-xxx Travel (expense)

8010-xxx Occupancy (expense)

Control accounts for contracts, grants, or projects. Separate control accounts can be assigned as needed for maintaining balances for each contract, grant, project, or other activity or group of activities. That is, you can assign a separate unearned or deferred revenue control account number for each contract and assign a separate net asset control account number for each temporarily restricted grant or unrestricted project.

In the illustrative chart of accounts, account 3010 - Available for general activities is the account established for unrestricted transactions.

For example:

- 2311 - Deferred revenue control account for contract #101
- 2312 - Deferred revenue control account for contract #102
- 2313 - Deferred revenue control account for contract #103
- 3010 - Unrestricted control account for general activities
- 3310 - Temporarily restricted control account for grant #204

NOTE: GAAP reporting generally does not require assets and liabilities to be classified by donor-restriction or by their relationship to net assets. However, if for internal management purposes your organization wants to designate whether assets and liabilities are related to (1) unrestricted, (2) temporarily restricted, or (3) permanently restricted net assets, a fifth digit can be added to asset and liability accounts as follows (refer to FASB Statement No. 117, paragraph 156 and Section 8 of this manual for discussion of FASB's requirements in this regard).

- xxxx-1xx Unrestricted (includes land, building and equipment)
- xxxx-2xx Temporarily restricted (e.g., restricted grants and contributions)
- xxxx-3xx Permanently restricted (usually endowment)

Activity codes: The three-digit activity code numbers, formatted xxxx-CCC, are explained below.

C - Fifth through seventh digits (xxxx-CCC): designate the activity code, that is, the specific, unique activity related to a revenue or expense transaction.

- 100-499 Program related activity codes
- 500-699 Management and general (M&G) activity codes
(M&G is an indirect/administrative cost pool option)
- 700-899 Fundraising activity codes
- 900-999 Cost pool codes for costs that benefit more than one activity
 - 910 Central service cost pool
 - 920 Common cost pool by line item expense account
(e.g., 921 Employee leave pool for line item #7210)
 - 930 Common cost pools - other
 - 980 Capital/fixed asset purchases pool

An activity code example would be a direct salary expense transaction related to the meals at home service under a nutrition grant to a senior citizens center. If the unique activity code for this service under this grant is “220,” the direct salary transaction would be coded:

7210-220 Other salaries and wages (the line item) and meals at home (the activity).

Maintain a Revenue and Expense Activity Code Table that cross references the activity codes to your various reporting requirements. This activity-level transaction coding technique provides greater flexibility and eliminates the need for coding each transaction with multiple codes for different reporting requirements (refer to the illustrative Revenue and Expense Activity Code Table in this section).

Revenue and expense budgets and reports are prepared by activity and by grouping activities into functions, departments, projects, grants, or cost centers (other pages in this section further discuss revenue and expense accounting, budgeting, and reporting).

Chart of Accounts
Cross-Referenced to Selected Reporting Requirements

Balance Sheet or Statement of Financial Position Accounts (1000-3999)		Balance Sheet Account Coding					
		XXXX					
		Line item —↑					
Account Number	Asset Accounts (1000-1999)		Illustrative GAAP Exhibit	OMB A-122 Cost Principles	OMB A-110 SF269	Policy 03 Templates	Form 990 Line Item
	Column heading index (refer to page 3-10)	→	(a)	(b)	(c)	(d)	(e)
	Current assets (1000-1399):						
1010	Cash in bank-operating		1	n/a	n/a	n/a	45
1011	Cash in bank-payroll		1	n/a	n/a	n/a	45
1018	Petty cash		1	n/a	n/a	n/a	45
1020	Savings & temporary cash investments		2	n/a	n/a	n/a	46
1030	Accounts receivable		3	n/a	n/a	n/a	47a
1040	Allowance for doubtful accounts		3(contra)	n/a	n/a	n/a	47b
1050	Pledges receivable		4	n/a	n/a	n/a	48a
1060	Allowance for doubtful pledges		4(contra)	n/a	n/a	n/a	48b
1070	Grants receivable		5	n/a	n/a	n/a	49
1080	Receivables due from trustees & employees		3	n/a	n/a	n/a	50
1100	Other short-term notes & loans receivable		3	n/a	n/a	n/a	51a
1110	Allowance for doubtful notes & loans		3(contra)	n/a	n/a	n/a	51b
1120	Inventories for sale		6	n/a	n/a	n/a	52
1121	Inventories for use		6	n/a	n/a	n/a	52
1130	Prepaid expenses & deferred charges		7	n/a	n/a	n/a	53
1210	Investments-marketable securities		8	n/a	n/a	n/a	54
1310	Other current assets		19	n/a	n/a	n/a	58
	Noncurrent assets (1400-1999):						
1510	Assets restricted to investment in LB&E		n/a	n/a	n/a	n/a	55a
1520	Accumulated depreciation for #1510		n/a(contra)	n/a	n/a	n/a	55b
1610	Land-held for use, not investment		11	n/a	n/a	n/a	57a
1620	Buildings-held for use, not investment		12	n/a	n/a	n/a	57a
1630	Accumulated depreciation for #1620		12(contra)	n/a	n/a	n/a	57b
1640	Building & leasehold improvements		13	n/a	n/a	n/a	57a
1650	Accumulated depreciation for #1640		13(contra)	n/a	n/a	n/a	57b
1660	Furniture, fixtures, & equipment		14	n/a	n/a	n/a	57a
1670	Accumulated depreciation for #1660		14(contra)	n/a	n/a	n/a	57b
1710	Long-term investments		n/a	n/a	n/a	n/a	56
1810	Funds held in trust by others		n/a	n/a	n/a	n/a	58
	Total assets		15	n/a	n/a	n/a	59

Chart of Accounts
Cross-Referenced to Selected Reporting Requirements

Balance Sheet Accounting Coding

XXXX

Line item

Account Number	Liability & Net Asset Accounts (2000-3999)	Illustrative GAAP Exhibit	OMB A-122 Cost Principles	OMB A-110 SF269	Policy 03 Templates	Form 990 Line Item
		(a)	(b)	(c)	(d)	(e)
	Current liabilities (2000-2499):					
2010	Accounts payable	21	n/a	n/a	n/a	60
2110	Accrued expenses-payroll	22	n/a	n/a	n/a	60
2120	Accrued expenses-payroll taxes	23	n/a	n/a	n/a	60
2150	Accrued expenses-other	24	n/a	n/a	n/a	60
2210	Grants & allocations payable	n/a	n/a	n/a	n/a	61
2310	Unearned & deferred revenue	25	n/a	n/a	n/a	62
2311	Control account for contract #101	25	n/a	n/a	n/a	62
2312	Control account for contract #102	25	n/a	n/a	n/a	62
2313	Control account for contract #103	25	n/a	n/a	n/a	62
2320	Refundable advances	n/a	n/a	n/a	n/a	65
2410	Loans from trustees & employees	n/a	n/a	n/a	n/a	63
2420	Other short-term notes & loans payable	n/a	n/a	n/a	n/a	64b
2430	Annuity obligations	n/a	n/a	n/a	n/a	65
2460	Other current liabilities	n/a	n/a	n/a	n/a	65
	Noncurrent liabilities (2500-2999):					
2510	Mortgages payable	27	n/a	n/a	n/a	64b
2520	Other long-term notes & loans payable	n/a	n/a	n/a	n/a	64b
2530	Obligations under capital leases	n/a	n/a	n/a	n/a	64b
2540	Bonds payable	n/a	n/a	n/a	n/a	64a
2610	Funds held on behalf of other (custodial)	n/a	n/a	n/a	n/a	65
2710	Other noncurrent liabilities	n/a	n/a	n/a	n/a	65
	Total liabilities	28	n/a	n/a	n/a	66
	Unrestricted net assets (3000-3299):					
3010	Available for general activities	29	n/a	n/a	n/a	21 & 67
3020	Board-designated endowment	30	n/a	n/a	n/a	21 & 67
3030	Board-designated for special purposes	31	n/a	n/a	n/a	21 & 67
3210	Land-held for use, not investment/net	32	n/a	n/a	n/a	21 & 67
3220	Buildings-held for use, not investment/net	32	n/a	n/a	n/a	21 & 67
3230	Building & leasehold improvements/net	32	n/a	n/a	n/a	21 & 67
3240	Furniture & equipment/net	32	n/a	n/a	n/a	21 & 67
	Total unrestricted net assets	33	n/a	n/a	n/a	21 & 67
	Temporarily restricted net assets (3300-3999):					
3300	Control account for restricted grant #104	34	req	n/a	req(58)	21 & 68
3310	Control account for restricted grant #204	34	req	n/a	req(58)	21 & 68
	Permanently restricted net assets (3900-3999):					
3970	Endowment	35	n/a	n/a	n/a	21 & 69
	Total net assets	36	n/a	n/a	n/a	21 & 73
	Total liabilities & net assets	37	n/a	n/a	n/a	74

Chart of Accounts
Cross-Referenced to Selected Reporting Requirements

Revenue & Expense Coding

XXXX-xxx

Line item → ← Activity Code

Account Number	Revenues, Gains, & Other Support (4000-6999)	Illustrative GAAP Exhibit	OMB A-122 Cost Principles	OMB A-110 SF269	Policy 03 Templates	Form 990 Line Item
	Column heading index →	(a)	(b)	(c)	(d)	(e)
	Contributions received directly (grants, public support):					
4010.***	From individuals & small businesses	51	n/a	10h	B-37	1a
4050.***	Special fundraising events (gift portion)	52	n/a	10h	B-37	1a & (9a)
4070.***	Legacies & bequests	53	n/a	10h	B-37	1a
4080.***	Estimated uncollectible pledges (for 4000-4070)	51(contra)	n/a	10h	B-37	contra 1a
4090.***	Donated services/use of facilities-GAAP	54	match/in-kind	10e	B-38 & A-24	Pt. III & 82
4100.***	Donated services/use of facilities-NONGAAP	(not GAAP)	match/in-kind	10e	B-38 & A-24	Pt. III & 82
4110.***	Other gifts in kind	55	match/in-kind	10e	B-38 & A-24	1a
4220.***	Corporate & other business grants	51	match/\$	10h	B-37	1a
4230.***	Foundation & trust grants	51	match/\$	10h	B-37	1a
4250.***	Grants from other nonprofit organizations	51	match/\$	10h	B-37	1a
	Contributions received indirectly (Allocations):					
4410.***	Allocated by federated fundraising organizations	56	match/\$	10h	B-37 & 42	1b
4420.***	From affiliated organizations	n/a	match/\$	10h	B-37 & 42	1b
4430.***	From other fundraising agencies	n/a	match/\$	10h	B-37 & 42	1b
	Government grants (equivalent to contributions):					
4511.***	Government grants-federal	n/a	grant/match	10h & 10f	B-31 & 34	1c
4512.***	Government grants-state	n/a	grant/match	10h & 10f	B-32 & 35	1c
4513.***	Government grants-other	n/a	grant/match	10h & 10f	B-36	1c
	Revenue from fees & dues:					
5010.***	Contracts/fees from government agencies	58	n/a	10h & 10f	B-39	2 & 93(g)
5011.***	Government contracts-federal	58	grant/match	10h & 10f	B-31 & 34	2 & 93(g)
5012.***	Government contracts-state	58	grant/match	10h & 10f	B-32 & 35	2 & 93(g)
5013.***	Government contracts-other	58	grant/match	10h & 10f	B-36	2 & 93(g)
5040.***	Sales to public/program-related inventory	59	n/a	10c or 10g	B-39	2 & 93(a)
5060.***	Other program service fees	59	match/\$	10c or 10g	B-39	2 & 93(b)
5070.***	Estimated uncollectible revenue (for 5040-5060)	59(contra)	match/\$	10c or 10g	B-39	2 & 93(b)
5110.***	Membership and dues-individuals	n/a	n/a	10h	B-40	3 & 94
5120.***	Assessments and dues-member units	n/a	n/a	10h	B-40	3 & 94
	Revenue from investments					
5510.***	Interest on savings & temporary cash investments	60	n/a	10h	B-40	4 & 95
5520.***	Dividends & interest from securities	61	n/a	10h	B-40	5 & 96
5570.***	Gross rents	n/a	n/a	10h	B-40	6a & 98
5580.***	Related rental expense (deduct from #5570)	n/a(contra)	n/a	10h	B-40	6b & 98
5590.***	Other investment income	n/a	n/a	10h	B-40	7
5610.***	Gross amount from sale of securities	62	n/a	10h	B-40	8a-(A) & 100
5620.***	Cost & sales expense (deduct from #5610)	62(contra)	n/a	10h	B-40	8b-(A) & 100
5700.***	Unrealized gain (loss) on value of investments	63	n/a	n/a	n/a	20
	Revenue from other sources:					
5730.***	Gross amount from sale of other assets	n/a	Alo/Appr/35	10h	B-40	8a-(B) & 100
5740.***	Other cost & sales expense (deduct from #5730)	n/a(contra)	Alo/Appr/35	10h	B-40	8b-(B) & 100
5800.***	Unrealized gain (loss) on value of other assets	n/a	n/a	n/a	n/a	20
6010.***	Special events-gross revenue excluding gifts	52	n/a	10h	B-40	9a & 101
6210.***	Gross sales to public/nonprogram related	n/a	n/a	10h	B-40	10a & 102
6220.***	Cost of goods sold (deduct from #6210)	n/a(contra)	n/a	10h	B-40	10b & 102
6810.***	Other revenue	64	n/a	10h	B-40	11 & 103
	Net assets released from restriction(*):					
6910.***	Satisfaction of program restrictions	65	n/a	n/a	n/a	n/a
6920.***	Satisfaction of LB&E acquisition restrictions	n/a	n/a	n/a	n/a	n/a
6930.***	Expirations of time restrictions	n/a	n/a	n/a	n/a	n/a
	Total revenue, gains, & other support	66	sum	sum	sum	12
	(*)Accounts used for year-end adjustments for GAAP reporting (see example in illustrative trial balance in this section.)					

Chart of Accounts
Cross-Referenced to Selected Reporting Requirements

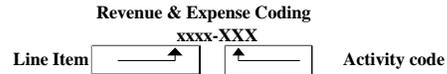
Revenue & Expense Coding
XXXX-xxx
Line item Activity Code

Account Number	Object Expense Categories (7000-9999)	Illustrative GAAP Exhibit	OMB A-122 Cost Principles	OMB A-110 SF269	Policy 03 Templates	Form 990 Line Item
	Column heading index	(a)	(b)	(c)	(d)	(e)
	Note: For definitions of object expense categories, see Section 9, pages 9-5 to 9-12					
	Grants, contracts, & direct assistance:					
7005-***	Program-related contracts to other entities	135	not/8	10a	A-15	22
7010-***	Grants to other organizations	n/a	allowed*	n/a	n/a	22
7020-***	Allocations to affiliated organizations	n/a	not/8	n/a	n/a	22
7030-***	Awards & grants to individuals	135	allowed/30	10a	A-15	22
7040-***	Specific assistance to individuals	136	allowed/30	10a	A-16	23
	Salaries & related expenses:					
7110-***	Salaries of officers, directors, etc.	121	allowed/6,28,45	10a	A-1	25
7120-***	Other salaries & wages	121	allowed/6,28,45	10a	A-1	26
7220-***	Pension plan contributions	122	allowed/6	10a	A-2	27
7230-***	Other employee benefits	122	allowed/6,28,45	10a	A-2	28
7310-***	Payroll taxes, etc.	122	allowed/6	10a	A-2	29
	Other expenses:					
7510-***	Professional fundraising fees	124	not/19	n/a	n/a	30
7520-***	Accounting fees	124	allowed/35	10a	A-4	31
7530-***	Legal fees	124	allowed/appr/35	10a	A/4	32
7540-***	Donated professional services	124	not/match/10	10a	A-24	Part III, 82
7550-***	Donated services-NONGAAP	n/a				
7710-***	Supplies	125	allowed/24	10a	A-5	33
7720-***	Donated materials & supplies	125	not/match/10	10a	A-24	33
7810-***	Telephone	126	allowed/5,22,23	10a	A-6	34
7910-***	Postage & shipping	127	allowed/5,23,49,50	10a	A-7	35
7920-***	Mailing services	127	allowed/5	10a	A-7	35
8010-***	Occupancy	128	allowed/22,42,46	10a	A-8	36
8020-***	Interest on mortgages	128	allowed/19	10a	A-8	36
8030-***	Donated use of facilities & utilities	128	not/match/10	10a	A-24	Part III, 82
8110-***	Equipment rental & maintenance	129	allowed/23, 43	10a	A-9	37
8210-***	Printing & duplicating	130	allowed/23,34,37,38	10a	A-10	38
8220-***	Publications (published by others)	130	allowed/25,38	10a	A-10	38
8230-***	Publications (published by organization)	n/a	allowed/appr/37,20	10a	A-10	38
8310-***	Travel	131	allowed/22,41,50	10a	A-11	39
8510-***	Conferences, conventions, meetings	132	allowed/24,25,49	10a	A-12	40
8610-***	Interest-general	133	not/19	n/a	A-13	41
8650-***	Depreciation	137	allowed/9	10a	A-17	42
8710-***	Insurance-excluding employee related	134	allowed/4,18	10a	A-14	43
8810-***	Membership dues	138	allowed/26	10a	A-18	43
8820-***	Staff development	138	allowed/49	10a	A-18	43
9010-***	List rental	n/a	not/19	10a	A-18	43
9020-***	Outside computer services	n/a	allowed/35	10a	A-18	43
9030-***	Other professional fees	124	allowed/35,40	10a	A-18	43
9040-***	Contract temporary help	124	allowed/34	10a	A-18	43
9100-***	Bad debt expense	n/a	not/2	n/a	n/a	43
9110-***	Taxes-UBIT, avoidable	n/a	not/47	n/a	n/a	43
9120-***	Fines, penalties, judgments-organization	n/a	allowed/appr/14	10a	A-18	43
9130-***	Incorporation & other organizational expenses	n/a	allowed/appr/27	10a	A-18	43
9140-***	Advertising	n/a	allowed/1	10a	A-18	43
9190-***	Contingency provisions	n/a	not/7	n/a	n/a	43
9300-***	Other expenses	138	allowed/appr	10a	A-18	43
	Total functional expenses	146	sum	sum	A-19	44
9810-***	Capital purchases-land	capitalized	allowed/appr/13	10a	A-20	capitalized
9820-***	Capital purchases-building	capitalized	allowed/appr/13	10a	A-20	capitalized
9830-***	Capital purchases-equipment	capitalized	allowed/appr/13	10a	A-20	capitalized
9910-***	Payments to affiliates	n/a	not/00	n/a	n/a	16

Note: A general determination has been made regarding whether expenses are allowed or unallowed under OMB Circular A-122. Each organization should review applicable paragraphs addressing the expenses for any exceptions. Also, individual grant contracts may include additional limitations and exceptions.

*Refer to Transmittal Memorandum No. 4 of OMB Circular A-122, paragraph 3.

Chart of Accounts
Cross-Referenced to Selected Reporting Requirements



Revenue & Expense Coding by Activity
(revenue & expense only)

Account Number	Activity Coding	Column heading index <input type="text"/>	Illustrative GAAP Exhibits		OMB A-122 Cost Principles	OMB A-110 SF269	Policy 03 Templates	Form 990 Line Item
			Exhibit II	Exhibit III				
			(a)	(a)	(b)	(c)	(d)	(e)
****-XXX	Activity Code							
****-100 to 199	Program department A		81A	139A	n/a	n/a	n/a	IIIa
****-200 to 299	Program department B		82A	139B	n/a	n/a	n/a	IIIb
****-300 to 399	Program department C		83A	139C	n/a	n/a	n/a	IIIc
****-400 to 449	Program department D		84A	139D	n/a	n/a	n/a	IIId
****-450 to 499	Other program service activities		84A	139D	n/a	n/a	n/a	IIIe
	Total program services		85A	139E	n/a	n/a	sum	13/IIIB/IIIf
****-500 to 699	M&G department		86A	139F	(varies)	(varies)	(varies)	14/IIIC
****-510	M&G department-general		86A	139F	allowed/indirect	11	A-22	14/IIIC
****-520	M&G department-unallowable (A-122)		86A	139F	not/12,36,41	n/a	n/a	14/IIIC
****-610	M&G special event production		52(contra)	n/a	not/00	n/a	n/a	9b
****-620	M&G special event promotion		86A	n/a	not/00	n/a	n/a	9b
****-700 to 899	Fundraising department		87A	139G	not/19	n/a	n/a	15/IIID
****-900 to 999	Cost pools		internal	allocated	ok/A-122	ok/A-110	optional	intl/alloc
****-910	Central services cost pool		internal	allocated	ok/A-122	ok/A-110	optional	intl/alloc
****-920	Common cost pool by line item		internal	allocated	ok/A-122	ok/A-110	optional	intl/alloc
****-930	Common cost pool-other		internal	allocated	ok/A-122	ok/A-110	optional	intl/alloc
****-980	Capital/fixed asset purchases pool		internal	capitalized	ok/A-122	ok/A-110	optional	capitalized

- Column heading index:
- (a) Reference numbers to GAAP exhibits (Refer to Section 8 of this manual)
 - (b) Cost principle numbers in OMB *Circular A-122*, Attachment B
 - (c) Line item numbers for standard Form 269 in OMB *Circular A-110*
 - (d) Line item numbers for uniform Policy 03 forms & templates (Refer to Appendix A)
 - (e) Line item numbers for uniform federal/state Form 990 (Refer to Section 10)

REVENUE AND EXPENSE ACTIVITY CODE TABLES AND CHARTS

(refer to Section 2 for discussion of activity-level accounting)

As noted earlier, the fifth through seventh digits of the suggested account numbering system (xxxx-CCC) designate the specific activity that earned revenue or incurred expense. Revenue and expenses are accounted for by coding revenue and expense transactions at the activity level. The activity level is the level of detail at which the accounting system records information on (1) specific grants and other sources of revenue, (2) how employees, consultants, and volunteers spend their time, and (3) utilization of other resources such as equipment, space, supplies, telephone, etc.

When designating your chart of accounts, (1) you specify the line-item accounts (ABBB) you need. You also (2) specify the **activity codes** that can be used when coding revenue and expense transactions. You will need to set up a **Revenue and Expense Activity Code Table** with the activity codes that are **valid** for your accounting system. This table cross references your activity codes to various reporting requirements such as (a) net asset control accounts; (b) functions, departments, and programs; (c) performance objectives and program service statistics categories; (d) donor restrictions and net asset classifications; and (e) project, grant, or cost centers.

It will also help with your design and understanding of your valid activity code structure if you prepare and maintain **Activity Code Charts** showing the relationships between your activity codes and your reporting requirements. For example, you may need one **Activity Code Chart** by function or department and other by project or grant. The two illustrative Activity Code Charts in this section also show how cost pools are allocated among the various activities and the sequence in which they occur: (1) the direct costs are tabulated, (2) the line-item common cost pools are allocated, (3) the central service pools are allocated, and, when applicable, (4) the indirect/administrative cost pool is allocated.

You will need procedures for adding and deleting line-item accounts and valid activity codes in your Chart of Accounts, Activity Code Table, and Activity Code Charts.

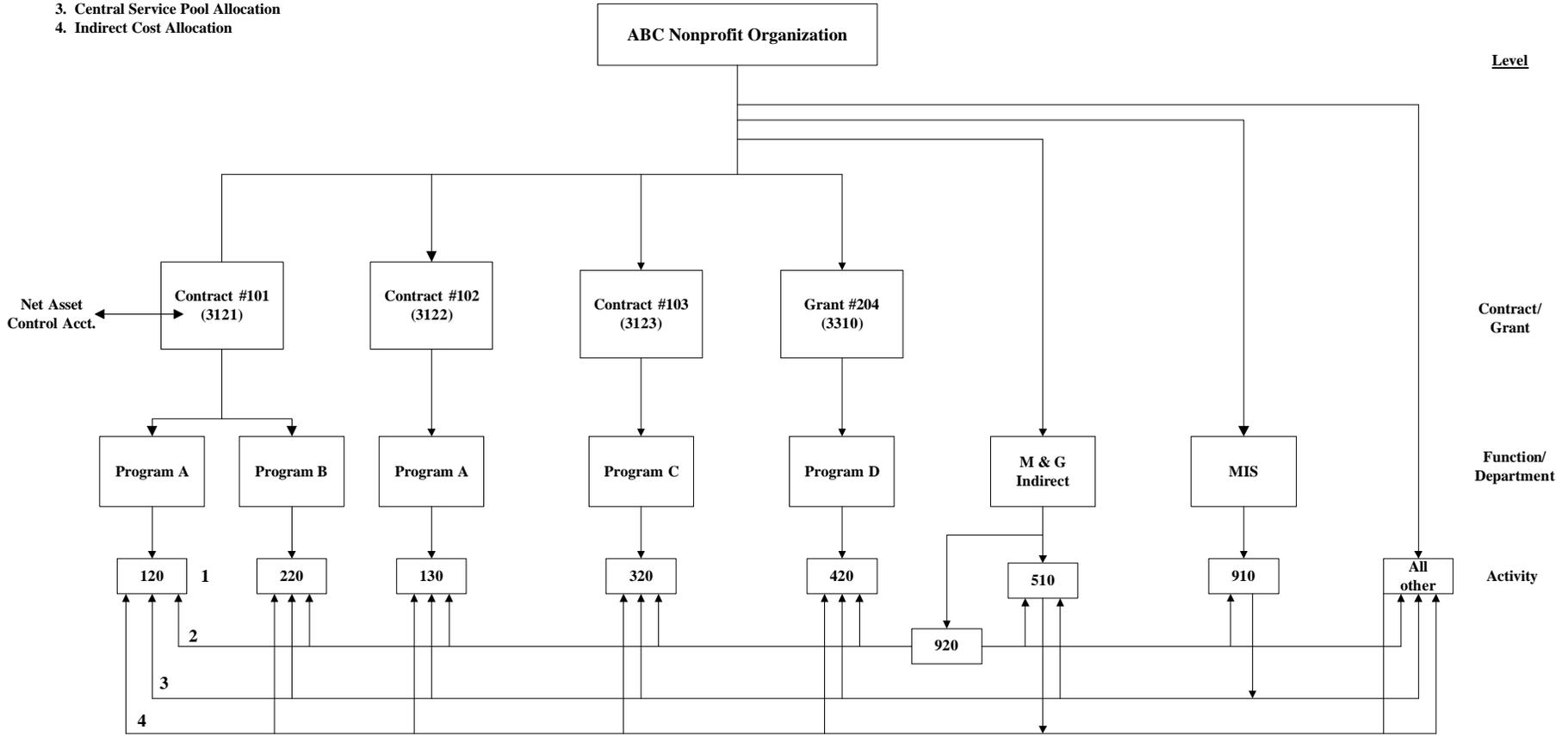
REVENUE AND EXPENSE ACTIVITY CODE TABLE

This table contains the activity codes used for the illustrative universal trial balance and various illustrative financial reports in this guide. This table cross references the activity codes to various illustrative reporting requirements. There is no limit to the number of internal and external reporting requirements that can be included in your Revenue and Expense Activity Code Table.

Activity	Activity Code	Control Account	Function, Department	Funding Source	Restriction	Project, Grant, or Cost Center
	(CCC)	(ABBB)				
Adult Center	100	3010	Program A	Comm/Aging Dept/Health	Unrestricted	General
Congregate meals	120	2311	Program A		Unrestricted	Contract #101
Nutrition education	120	2312	Program A		Unrestricted	Contract #102
Residential services	200	3010	Program B	Comm/Aging	Unrestricted	General
Meals at home	220	2311	Program B		Unrestricted	Contract #101
Rehab center	300	3010	Program C	Dept/Health	Unrestricted	General
Rehab services	320	2313	Program C		Unrestricted	Contract #103
Seniors project	420	3310	Program D	XYZ Fdn	Temporary	Grant #204
Executive office	510	3010	Mgt. & General (M&G)		Unrestricted	General
			(M&G is the recommended indirect/administrative cost pool option)			
Fundraising	710	3020	Fundraising		Unrestricted	General
MIS	910	n/a	Central service pool		n/a	n/a
Common cost pools	910	n/a	Line-item cost pools		n/a	n/a

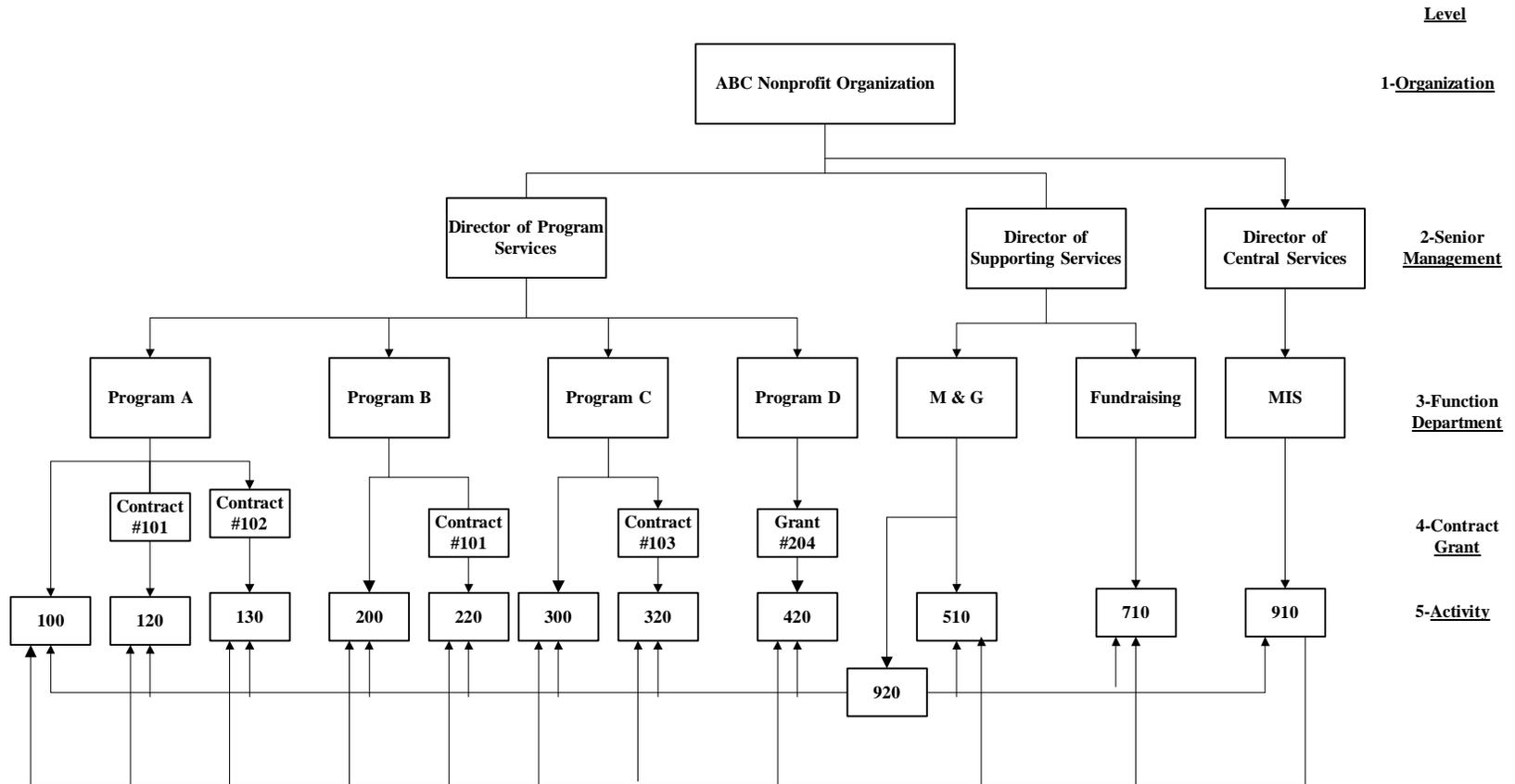
Activity Code Chart by Contract/Grant

- 1. Total Direct
- 2. Line Item Cost Pool Allocation
- 3. Central Service Pool Allocation
- 4. Indirect Cost Allocation



Cost Pool and Indirect Cost Allocations

Activity Code Chart by Function



Cost Pool Allocations

HOW THE CHART OF ACCOUNTS RELATES TO REVENUE & EXPENSE BUDGETING AND REPORTING

It is important to understand how your chart of accounts, with its line-item numbers and activity codes, relates to internal and external revenue and expense budgets and reports.

1. Your **activity codes** enable you to group activities to produce revenue and/or expense reports:
 - a. by net asset control account (for tracking net asset balances related to specific grants and projects);
 - b. by function, department, or program;
 - c. by project, grant, or cost center;
 - d. by a specific activity or service;
 - e. by donor restriction; and
 - f. by performance objective or service statistic category.
2. Revenue and expense reports generally present a list of revenues followed by a list of related expenses and end with the excess or deficit of total revenues over total expenses. In the business world, such reports are referred to as profit and loss reports, (P&L reports or P&Ls). Many business accounting software systems include the capability to produce P&L reports by project, department, customer, product, etc. In this manual, revenue and expense reports are referred to as R&E reports or R&Es rather than profit and loss reports or P&Ls. If you use one of these business software systems, you can use the P&L report option to produce your nonprofit R&E reports.
3. Revenue and expense reports (R&Es) of nonprofit organizations are designed by specifying combinations of revenue and expense line items and activity codes.

Line items or combinations of line items are usually rows with their titles listed down the left side of a report. When useful, the line item number or code is included next to the descriptor.

Activities, or combinations of activities grouped into categories such as departments or grants, are usually columns with descriptors of the activities or groups of activities as column headings across the top. When useful, the activity code or grant number is included under the column descriptor.

If two or more columns for more than one function, department, grant, project, cost center, or activity are involved, the report usually includes a total column down the right side.

Many R&E reports to resource providers and reports used internally include budget-to-actual comparisons. For resource providers, the budget approved for each grant is compared with actual expenses for each grant. For internal management purposes, budget-to-actual reports may be needed for each activity, function and department, project and grant, and for the overall organization. When preparing budgets for resource providers or for internal purposes,

you should always use the revenue and expense line items and activity codes in your chart of accounts. Otherwise, your accounting system will not be able to produce budget-to-actual reports. This is especially true when budgeting for salaries. The process in Section 4 for distributing salaries among activity codes for the illustrative trial balance can be adapted for use in budgeting for salaries.

5. The revenue and expense sections of the universal, adjusted, end-of-period trial balance lists *every active* line item down the left side and *every valid* activity code across the top.

All the illustrative reports in this guide that present revenue and/or expense information extract the data needed from the universal, adjusted trial balance.

DEVELOPMENT OF THE ILLUSTRATIVE TRIAL BALANCE

(Refer to Universal, Functionalized, Adjusted Trial Balance in this section.)

NOTE: Regardless of the method used, the objective is to end up with a single, universal trial balance from which you can prepare all of your period-ending reports.

This section gives you an example of how a trial balance is developed and how spreadsheet software can be used during the report preparation cycle outlined in Section 2, Your Accounting and Reporting System.

To prepare the various illustrative financial reports in this manual uniformly and consistently, an illustrative **universal** trial balance has been developed using (a) the line items in the Chart of Accounts, (b) the 12 activity codes in the Revenue and Expense Activity Code Table, and (c) an assumption that the organization has 10 employees and an annual budget of \$750,000. These illustrations may be too simplified when compared to the accounting, reporting, and software requirements of mid-size and large nonprofits with budgets over \$1 million. Such nonprofits will have significantly more employees for payroll processing and will have more activities for tracking revenues and expenses.

The illustrative **universal** trial balance was developed in several steps:

1. Salaries can represent 50 percent or more of the expenses of nonprofit organizations. In addition, salaries can provide the basis for allocation of many, if not most of the other items of expense. Thus, the first step in developing the illustrative trial balance established amounts for salaries (line item numbers 7110 and 7210 in the chart of accounts and the trial balance) and distributed these amounts by the 12 illustrative activity codes. The salary figures (by activity code) found in the trial balance were established by developing (a) an illustrative list of 10 employees along with their individual salaries and (b) a procedure for determining how each of them distributed their time among the 12 activity codes. The details of this step in the process are provided in Section 4.
2. The second step established both direct and allocable-direct amounts for all of the other expense categories--by the 12 activity codes (refer to Section 4 for definitions of direct costs

and allocable-direct costs). Line-item expense amounts directly identifiable with a single activity were charged to that activity code. Amounts for allocable-direct expenses that benefited more than one activity were accumulated in cost pools for each line item and then allocated to the activity categories on the basis of salaries (refer to Salaries as % of total salaries in Section 4). To simplify the illustration, other bases such as square footage for occupancy and usage for equipment rental and maintenance were not employed. In general, salary percentages can be the basis for most allocations among categories of activity, modified if and when it is determined that such allocations are not reliable.

3. The third step established amounts for various sources (line items) of revenue by activity code. The revenues by activity code are consistent with the corresponding expenses by activity code.
4. The fourth step established amounts for the assets and liabilities sections of the trial balance, again consistent with the revenue and expense sections.
5. The fifth step established amounts for the net assets section, consistent with the rest of the trial balance.
6. During the process of using the single, universal trial balance to develop the various illustrative financial reports found in this manual, some final adjustments were made to the figures in the trial balance. Even so, all the illustrative reports in this manual have been prepared from the single, universal trial balance.

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Universal, Functionalized, Adjusted

TRIAL BALANCE

December 31, 20X2, and 20X1

Cross-referenced to Illustrative GAAP Financial Statements

The illustrative universal, functionalized, adjusted trial balance provides all of the financial data required for this manual's illustrative GAAP financial statements, Tennessee uniform reporting forms and electronic templates, IRS Form 990 financial statements, and Tennessee Secretary of State financial summary.

Every figure in every illustrative financial statement and schedule can be traced to one or more corresponding amounts in this trial balance by using the preceding chart of accounts with its cross-reference to reporting requirements. That is why the following illustrative trial balance is referred to as a "universal" trial balance.

Note: This example assumes that no grant required matching expenses. Normally, state grants do have matching requirements.

Not-For-Profit Organizations

Universal, Functionalized, Adjusted
TRIAL BALANCE-BALANCE SHEET
June 30, 20X2, and 20X1

Cross-referenced to Illustrative GAAP Financial Statements

Account Number	Balance Sheet Accounts (1000-3999)	GAAP FS Exhibit 1	20X2		20X1
		(Line items)	Debit/(Credit)		Debit/(Credit)
ASSETS (1000-1999):					
Current assets:					
1010	Cash in bank - operating	1	\$ 9,480		\$ 5,078
1011	Cash in bank - payroll	1	14,143		9,523
1018	Petty cash	1	100		100
1020	Savings and temporary cash investments	2	55,000		95,000
1030	Accounts receivable	3	13,789		7,893
1040	Allowance for doubtful accounts	3 (contra)	(1,103)		(631)
1050	Pledges receivable	4			5,000
1060	Allowance for doubtful pledges	4 (contra)			(200)
1070	Grants receivable	5	57,996		7,047
1080	Receivables due from trustees & employees	3			
1100	Other short-term notes & loans receivable	3			
1110	Allowance for doubtful notes & loans	3 (contra)			
1120	Inventories for sale	6	3,852		4,687
1130	Prepaid expenses and deferred charges	7	7,398		6,489
1210	Investments - marketable securities	8	40,000		
1310	Other current assets	9			1,143
Noncurrent assets:					
1610	Land - held for use, not investment	11	34,247		34,247
1620	Buildings - held for use, not investment	12	134,000		134,000
1630	Accumulated depreciation for #1620	12 (contra)	(43,945)	\$ 8,362	(35,583)
1640	Building and leasehold improvements	13	54,278		54,278
1650	Accumulated depreciation for #1640	13 (contra)	(22,698)	3,153	(19,545)
1660	Furniture and equipment	14	137,834		137,834
1670	Accumulated depreciation for #1660	14 (contra)	(43,754)	8,225	(35,529)
	Total Depreciation			\$ 19,740	
	Total Assets		\$ 450,617		\$ 410,831

BALANCE SHEET ACCOUNT CODING

XXXX

Line item ^

Account Number	Balance Sheet Accounts (1000-3999)	GAAP FS Exhibit 1	20X2		20X1
		(Line items)	Credit/(Debit)		Credit/(Debit)
LIABILITIES (2000-2999):					
Current liabilities:					
2010	Accounts payable	21	\$ 5,476		\$ 6,024
2110	Accrued expenses - payroll	22	12,541		13,795
2120	Accrued expenses - payroll taxes	23	3,276		3,604
2150	Accrued expenses - other	24	894		1,143
2310	Unearned and deferred revenue	25	17,850		15,870
2311	Control account for contract #101	25	-		-
2312	Control account for contract #102	25	-		-
2313	Control account for contract #103	25	-		-
Noncurrent liabilities:					
2510	Mortgages payable	27	69,834		73,679
	Total liabilities		\$ 109,871		\$ 114,115
NET ASSET ACCOUNTS (3000-3999):					
Unrestricted net assets:					
3010	Available for general activities	29	\$ 134,260		\$ 100,693
3020	Board designated for reserves	30	-		-
3030	Board designated for special purposes	31	-		-
3210	Land - held for use, not investment	32	34,247		34,247
3220	Buildings - held for use, not investment	32	20,221		24,738
3230	Building and leasehold improvements	32	31,580		34,733
3240	Furniture and equipment	32	94,080		102,305
	Total unrestricted net assets		\$ 314,388		\$ 296,716
Temporarily restricted net assets:					
3310	Control account for restricted grant #204	34	\$ 26,357		\$ -
Permanently restricted net assets:					
3970	Endowment	35	-		-
	Total net assets		\$ 340,745	\$ 44,029	\$ 296,716
	Total liabilities and net assets		\$ 450,616		\$ 410,831
	Control assets/liabilities		-		-
	Control change in net assets		\$ 44,029	\$ 44,029	-

