

NetSuite.org Supported Solution

Solution: Charity Accounting Classifications: Chart of Accounts, Activities (Classes), Funding Sources (Grants) & Items

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1 ABSTRACT

Charities generally define "account segments" in their chart of accounts that define different 'buckets' in which to track income and expenses. NetSuite provides three configurable 'buckets' to classify transactions—classes, locations & departments. This solution configures NetSuite to trace the standard buckets charities are interested in tracking per the model suggested in the Unified Chart of Accounts (UCOA).

- *Chart of Accounts: Tracking financial accounts in chart of accounts.*
- *Activities: Tracking the different things an organization does including cost pools and restricted funds tracking.(Netsuite classes)*
- *Funding Sources: Tracking the things an organization does under a specific funding source. (NetSuite Departments)*
- *Items: Tracking revenue by how it comes into the organization.*

This solution is based on the Unified Chart of Accounts developed by the National Center for Charitable Statistics (NCCS).

<http://nccs.urban.org/projects/ucoa.cfm>

<http://www.canonprofits.org/programs/ucoa.html>

2 BACKGROUND

NetSuite.org is the philanthropic arm of NetSuite, Inc. We offer charities and social enterprises product donations and service grants designed to help them accelerate and expand their social impact by improving operations and applying information technology to their mission.

NetSuite.org offers grantees documented standard solutions to the business challenges that charities and social enterprises face. Our service grants and product donations are designed to help grantees implement these standard solutions. As soon as a grantee seeks to address unique requirements or implement non-standard configurations or customizations, they must allocate sufficient resources to complete the project successfully. This usually requires a qualified, dedicated internal implementation team, paid NetSuite professional services, or a NetSuite.org implementation partner.

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3 AUDIENCE AND ROLES

Classifications are used through the application on virtually every transaction. This solution is a critical part of the configuration of any NetSuite implementation for charities.

3.1 ROLES

This solution assumes you will be implementing the following roles:

- In general we assume that users will be using administrator or full access roles.

4 SOLUTION REQUIREMENTS

4.1 REQUIRED MODULES

To function as described, this solution requires the following modules:

- No additional modules are required.

4.2 REQUIRED BUNDLES

To function as described, this solution requires the following bundles:

- SuiteDonor Bundle is not a formal requirement, but generally relevant to nonprofit implementations.

4.3 ASSUMPTIONS

To function as described, this solution requires the following:

- Solution assumes activities & departments are turned on in NetSuite preferences.
- The charity will track traditional departments (finance, development, office of the CEO, etc.) within their activity structure.

5 SOLUTION OVERVIEW

A charity classifies income and expenses on multiple dimensions:

- ❖ Chart of Account: Standard financial account. (NetSuite Account)
- ❖ Activity: Functional categorization of income and expenses. (NetSuite Class)
- ❖ Funding Source (grant): Categorization by funding source. (NetSuite Department)
- ❖ Items: Items represent the types of things you “sell” including donations, pledges, grants, inventory items and much more (NetSuite Items)

Many charities use chart of accounts segments to track a wide variety of additional information. NetSuite provides the capability to add two additional dimensions which can be used for its native purpose or another purpose unique to your situation.

- ❖ NetSuite Location (or: <your renaming of location>)
- ❖ NetSuite Subsidiary (or: <your renaming of subsidiary>)
[REQUIRES NETSUITE ONEWORLD MODULE]

Often, charities many use chart of accounts segments to track information that is tracked natively elsewhere in NetSuite. A classic example would be employee. Rather than using a chart of accounts segment, transactions are already tied to employees both on the revenue side (sales person) and on the expense side.

Charities will often be more comfortable with the concept of a large number of charts of account segments since they can report on the data in a standardized way. It is imperative to set up reporting and verify it will work for the charity as part of configuring each segment.

6 SOLUTION DESIGN

6.1 CHART OF ACCOUNTS

Upload the NCSS standard chart of accounts

<http://nccs.urban.org/projects/ucoa.cfm>

<http://www.canonprofits.org/programs/ucoa.html>

The SuiteDonor bundle includes a UCOA import file that can be uploaded into NetSuite.

6.2 ACTIVITIES

Design your Activity structure in NetSuite following the example below. Activities are coded as NetSuite classes. Customize to your needs – for example if you do not use cost pools, you do not need the cost pool activities.

100 Program Services
110 Program A
111 Activity 1
112 Activity 2
119 Program A Administration
120 Program B (e.g. conference)
121 Activity 3
122 Activity 4
129 Program B Administration
500 Management & Governance
510 Governance (Board)
520 Management
530 Membership Development
600 Special Events
700 Fundraising
800 Cost Pools
810 Central Services Expenses
820 Facilities Expenses
830 Salary & Related Expenses
900 Special Use
910 Board Designated Funds
920 Quasi-endowment Funds
930 Fixed Assets (board) Funds
950 Use Restricted Funds
960 Time Restricted Funds
990 Permanently Restr. Funds

6.2.1 Tracking Programs & Projects

In your activities structure, you can track program expenditures to whatever level of detail is appropriate. Sometimes, NetSuite's project functionality provides a better level of functionality than using the NetSuite. In that case, you may have a single class—100

Program Services—and multiple projects. If you are not using projects, you may have a structure as in the example.

6.2.2 Tracking Program vs. Management vs. Fundraising

Code expenses at the appropriate level (100, 500, 700) and run an expenditure report by class to find out how much was spent in each category.

6.2.3 Tracking Cost Pools & Allocations

Any shared expenses that are divided up and allocated to specific activities of the charity first hit the cost pool classes and then are a journal created to shift funds to the appropriate activity (100, 500, 700).

6.2.4 Tracking Restricted funds

Restricted revenue is accepted into restricted classes (e.g. 960) and released through a journal entry when the restriction is met.

6.3 FUNDING SOURCES

Funding sources usually refer to a foundation or other entity that gives money to a charity for a specific purpose. That money must be tracked and a report on its expenditure issued to the funder.

Example

ACME charity gets a \$100,000 grant from ABC Foundation. \$75,000 of grant will be spent on a specific water project in Kenya with an overall budget of \$300,000. \$25,000 will be spent on overhead expenses. Operationally, ACME will need to track activities at the project level (revenue and expenses for the \$300,000 Kenya water project). They will also need to report to the funder on the portion of the \$300,000 project funded with the funder's \$75,000. That report to the funder will also need to include what the \$25,000 in overhead was spent on.

Funding sources can be tracked in a variety of ways depending on the level of detail required for both revenue and expenses.

6.3.1 Funding Sources as Customers

This is the easiest method, allowing revenue to be accepted from a funding source (customer) and expenses to be billed to a customer. This can be challenging when there are multiple grants from a single funding source (subcustomers for each grant is a possibility) or when you have expenses that are allocated among a variety of funders through journal entries.

6.3.2 Funding Sources as Projects

This is similar to using customers, but with the added advantage of project management functionality, which closely tracks the requirements for grants management within a charity.

6.3.3 Funding Sources as Departments

This is the most robust method allowing strong tracking of both revenue and expenses. In the most complex scenarios, a single funder might be represented as a customer, each grant represented as a project, and for each grant a corresponding department created for financial classification.

In general, we recommend coding the foundation as a customer record and the grant as a project.

6.4 ITEMS

It is critical to track revenue as items within NetSuite since the native revenue / item reporting mirrors charity needs. Often this information will be coded in the chart of accounts, however, by using the item structure; it more seamlessly fits into NetSuite's standard accounting processes.

6.4.1 Sample Item List

Gift
Donation
Annual Campaign
Matching Gift
Online Donation
Regular Donation
Grant
In Kind
Major Gift
Pledge
Planned Gift
Regular Pledge
Reoccurring Donation

6.5 USING COSTS POOLS

Cost pools are used to divide up shared expenses between activities and funding sources.

Example

ACME charity allocates rent payments based on the hours worked by employees on a grant basis. This month, staff worked 25% on Grant A, 25% on Grant B and 50% on Grant C. Since Grant A & B are both part of activity 110, the split for activities is 50% on 110 and 50% on 120. As shared expenses like rent come in, they are assigned to a cost pool activity. At the end of the month, a journal entry empties the cost pool activity and transfers the appropriate amount into the different classifications. In this case, if I have \$10,000 in the cost pool at the end of the month, I'll create journal entry(s) that put \$5K in activity 110, \$5K in activity 120, \$2.5K in Grant A, \$2.5K in Grant B and \$5K in Grant C.

6.6 TRACKING RESTRICTED FUNDS

IRS regulations require an increasing number of charities to track restricted funds and report end of the year balances on their form 990.

Example

ACME charity gets a 2 year grant from the ABC Foundation for \$10,000. When they deposit their \$10,000 check, they classify the deposit with activity 960 since it is time restricted (a two year grant). Since 50% is immediately available, a journal entry is created to move \$5K from 960 to 100 since the grant is for general program services. A second journal entry can be immediately created which will post on January 1 of the next year, which will move the remaining \$5K to activity 100.

7 SOLUTION IMPLEMENTATION

To set up your NetSuite account, you will

1. Create a chart of accounts for your organization
2. Create an activity structure that describes your organization
3. Create a list of funding sources for your organization
4. Create a list of items that describe the different ways your organization receives revenue