NONPROFIT FINANCIAL REPORTING AND SYSTEM DESIGN

Prepared For: Elevate Youth California funded partners

YOUR PART-TIME CONTROLLER®

The *NONPROFIT* accounting specialists™

Disclaimer

- Elevate Youth California (EYC) is a program of the California Department of Health Care Services (DHCS) funded through Proposition 64 California Cannabis Tax Fund, Allocation 3, YEPEITA. Sierra Health Foundation: Center for Health Program Management (The Center) is contracted to support the implementation of EYC. This statewide program provides funding and technical assistance for organizations that are developing or increasing community substance use disorder (SUD) prevention, outreach, and education focused on youth.

DHCS CALIFORNIA DEPARTMENT OF HEALTH CARE SERVICES

elevate YOUTH CALIFORNIA

THE CENTER at Sierra Health Foundation

YPTC PRESENTERS

JENNIFER BANKS

Director, Los Angeles Market

ALICIA EASTVOLD

Director, Client Technology Solutions

WHO WE ARE

EXPERIENCED PROFESSIONALS

We have over three decades of experience building stronger nonprofits.

SPECIALIZED SOLUTIONS

We create flexible financial management plans and accounting solutions based on clients' unique needs.

AWARD-WINNING FIRM

We are recognized as a "Best Place to Work" and a "Top 100 Firm."

A TRUSTED PARTNER

We serve clients nationwide through our regional offices and remote services.

LEARNING OBJECTIVES

1. Examine **key elements** of nonprofit financial reporting design.

2. Identify system design **best practices** for efficiency and effectiveness.

3. Recognize common nonprofit system **design mistakes and apply solutions** to improve data management and reporting.

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01

NONPROFIT ACCOUNTING SYSTEM DESIGN OVERVIEW

Setting Up for Success

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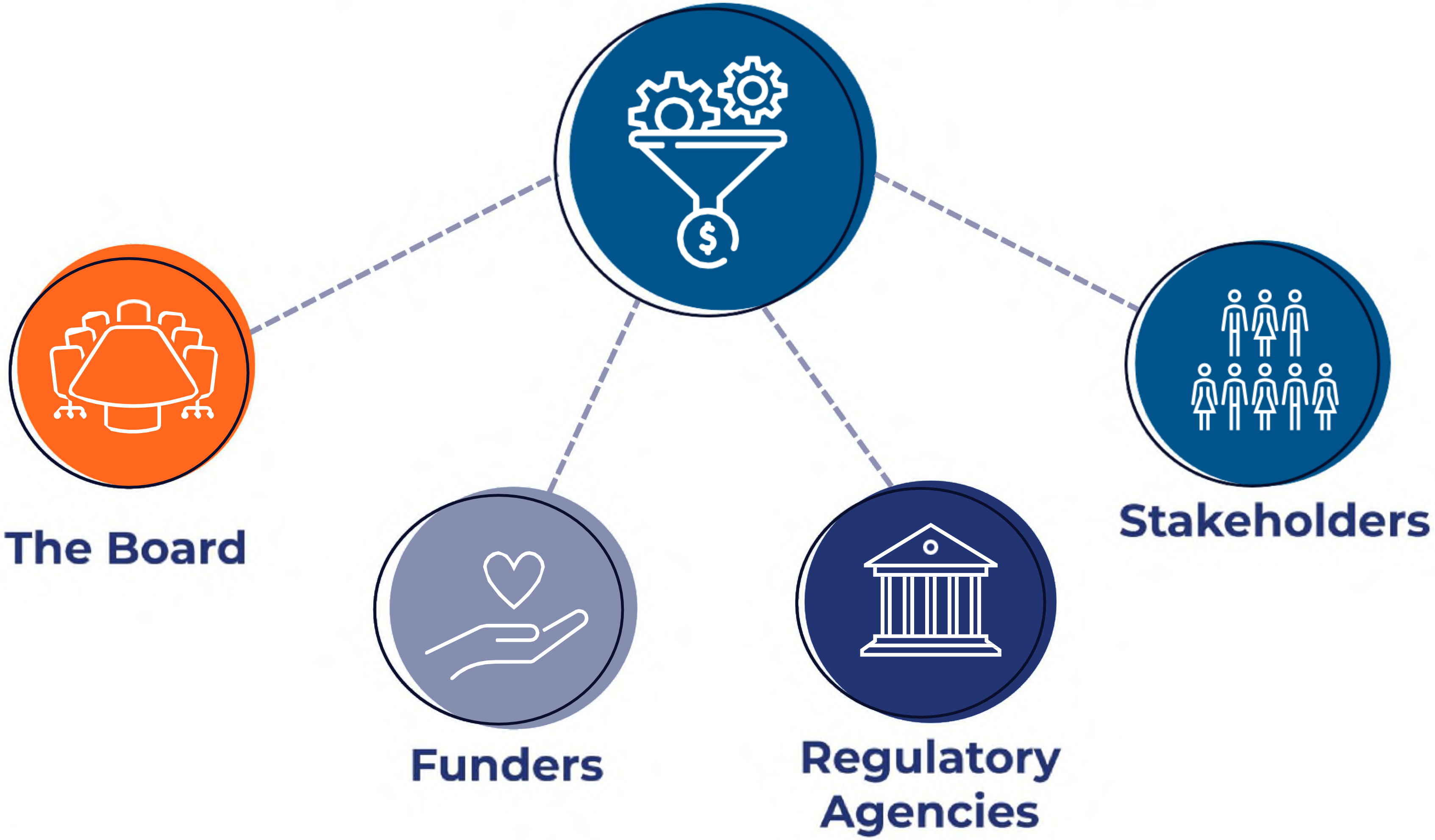
INTRODUCTION

Nonprofit Accounting System

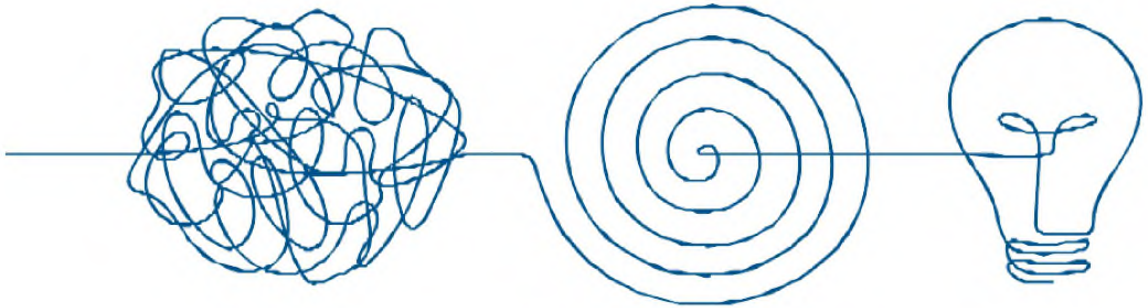


POLL QUESTION #1

In your opinion, it is most difficult to prepare financial reports for which of the following stakeholders?

- a) The Board
- b) Funders
- c) Regulatory Agencies
- d) Auditors
- e) General Public
- f) All of the above

NONPROFIT SYSTEM DESIGN



- Any organization's finances are made up of **three essential parts.**
- Effective use of an accounting system will help you track this information in **three dedicated places.**
- This becomes the foundation for efficient reporting.

NONPROFIT SYSTEM DESIGN

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Think of your organization like a delivery service...

Your Vehicle	Your Map	Your Funding
Dimension 1: Account (Chart of Accounts)	Dimension 2: Class (Functional expense)	Dimension 3: Customer (Funder)

Account

Answers: What is the **TYPE** of activity?

Found on: Your standard financial statements.

Used by: Finance staff, leadership, board members, and auditors to organize and track financial transactions.

Example:

4000 Income
- 4100 Grant Income
- 4200 Contributions Income
- 4300 Membership Income

5000 Expense
- 5100 Personnel Expense
  - 5101 Wage Expense
  - 5102 Benefits Expense
- 5200 Program Supplies
- 5300 Office Expense

NONPROFIT SYSTEM DESIGN

Class

Answers: What is the **PURPOSE** of the activity?

Found on: P&L by Class and Form 990 Statement of Functional Expenses.

Used by: Management and department leaders to understand program activity, and by preparers of the Form 990.

Example:

Programs	Fundraising	General & Admin
County Childcare	Fall Fundraiser	Salaries
Residential Rehab	Winter Gala	Rent
Afterschool Jumpstart	Corporate Campaign	Office Expense

DESIGN WITH THE END IN MIND

Form 990 (2025) Page **10**

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).

Check if Schedule O contains a response or note to any line in this Part IX . . . . ☐

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1 Grants and other assistance to domestic organizations and domestic governments. See Part IV, line 21 .				
2 Grants and other assistance to domestic individuals. See Part IV, line 22				
3 Grants and other assistance to foreign organizations, foreign governments, and foreign individuals. See Part IV, lines 15 and 16				
4 Benefits paid to or for members				
5 Compensation of current officers, directors, trustees, and key employees				
6 Compensation not included above to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B) . .				
7 Other salaries and wages				
8 Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions)				
9 Other employee benefits				
10 Payroll taxes				
11 Fees for services (nonemployees):				

	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
12 Advertising and promotion				
13 Office expenses				
14 Information technology				
15 Royalties				
16 Occupancy				
17 Travel				
18 Payments of travel or entertainment expenses for any federal, state, or local public officials				
19 Conferences, conventions, and meetings .				
20 Interest				
21 Payments to affiliates				
22 Depreciation, depletion, and amortization .				
23 Insurance				
24 Other expenses. Itemize expenses not covered above. (List miscellaneous expenses on line 24e. If line 24e amount exceeds 10% of line 25, column (A), amount, list line 24e expenses on Schedule O.)				

On the IRS Form 990, expenses are reported by **function**.

NONPROFIT SYSTEM DESIGN

Customer (Funder)

Answers: Who **FUNDS** your activity?

Found on: P&L by Customer (Funder).

Used by: Finance staff, management, program leaders, development staff, and funders to report how funds are used for designated purposes.

Example:

Smith Foundation
- Math Grant 2026

Bucks County
- Expansion Contract 2025-26
- Afterschool Contract 2025-26

Individual Donors
- Sally and John Smith

NONPROFIT SYSTEM DESIGN - OVERVIEW

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Your Vehicle

Account

What **TYPE?**

The financial makeup of your organization.

The **accounts** that make up your chart of accounts.

Your Map

Class

What **PURPOSE?**

What your organization accomplishes with its resources.

The **programs and activities** that support your mission.

Your Funding

Customer/Funder

Who **FUNDS** it?

The **customers,** funders, or beneficiaries who keep your organization going.

POLL QUESTION #2

What struggles have you faced with funding your organization?

a) **Map zig zags:** We'll take any funding, even if its requirements spread us thin. It's hard to manage.

b) **Funding for only part of the trip:** We have funding for certain programmatic expenses, but it doesn't cover other costs (admin and fundraising). It's hard to cover all our expenses.

c) **"Who's funding what?":** Our system is so disorganized, it's hard to even know what expenses go with what grant!

d) **Well-oiled machine:** We're doing great. We've figured this out!

FUNDRAISING LESSON

- **The temptation:** Accepting well-funded opportunities that are not mission-aligned.
- **The impact:**
  - Restrictions may push you outside your mission and expertise, stretching your team thin.
  - Funding may not cover the true cost of running your organization.

HOW EFFECTIVE SYSTEM DESIGN CAN HELP

Answer questions and make meaningful decisions.

Add efficiencies to your workflow and spend more time on your mission.

02

DESIGN MISTAKES & SOLUTIONS

What not to do, what to do

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POLL QUESTION #3

How easy is it for you to prepare accurate and meaningful financial reports for your different audiences?

a) It's not easy at all.

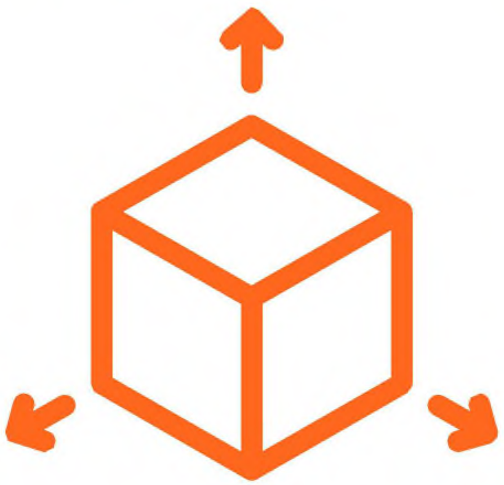
b) It's not bad, but I'd like it to be easier.

c) It's a piece of cake.

d) It's a mixture of all of the above.

Clarity and separation makes all the difference.

Chart of Accounts



Class

Customer (Funder)

SYSTEM DESIGN FATAL FLAW

POOR SYSTEM DESIGN IN ACTION

In this example, accounts were added every time there was a new program.

Statement of Activity

January - December 202X

Revenue	
4100 Grants	
4100-1 Smith Found. Math Grant	100,000
Total 4100 Grants	**100,000**
4200 County Contracts	
4200-1 Expansion Contract	435,498
4200-2 Afterschool Contract	145,379
Total 4200 County Contracts	**580,877**
4300 Individual Donations	**151,000**
Total Revenue	**831,877**
Expenses	
5001 County Childcare Program	
5001-1 County Childcare Wages	135,454
5001-2 County Childcare Fringe	18,545
5001-3 County Childcare Supplies	27,999
5001-4 County Childcare Travel	4,345
Total 5001 County Childcare Program	**186,343**
5005 Residential Rehab Program	
5005-1 Residential Rehab Wages	79,454
5005-2 Residential Rehab Fringe	11,918
5005-3 Residential Rehab Supplies	11,454
5005-4 Residential Rehab Travel	7,865
Total 5005 Residential Rehab Program	**110,691**
5010 Afterschool Program	
5010-1 Afterschool Wages	63,454
5010-2 Afterschool Fringe	9,518
5010-3 Afterschool Supplies	8,754
5010-4 Afterschool Travel	7,865
Total 5010 Afterschool Program	**89,591**
5015 Office and Admin Costs	
5015-1 Admin Wages	135,454
5015-2 Admin Fringe	20,318
5015-3 Insurance & Licenses	87,545
5015-4 Consultants	18,987
5015-5 Fundraising Expense	9,521
Tota 5015 Office Costs	**271,825**
Total Expenses	**658,450**
Net Income (Loss)	**173,427**

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POOR SYSTEM DESIGN IN ACTION

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Statement of Activity
January - December 202X

Revenue	
4100 Grants	
4100-1 Smith Found. Math Grant	100,000
Total 4100 Grants	**100,000**
4200 County Contracts	
4200-1 Expansion Contract	435,498
4200-2 Afterschool Contract	145,379
Total 4200 County Contracts	**580,877**
4300 Individual Donations	**151,000**
Total Revenue	**831,877**

Don't use separate accounts for each grant, as in this example.

!

Who funds your organization are customers and funders, not accounts.

POOR SYSTEM DESIGN IN ACTION

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Expenses	
5001 County Childcare Program	
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Total Expenses	**658,450**
Net Income (Loss)	**173,427**

Don't duplicate an account every time there's a new program, as in this example.

!

You only need one account for each expense type. Use classes, not accounts, to track the purpose of your expenses.

Transformed System

XYZ Foundation
Statement of Activity by Class
January-December 202X

	Programs: County	Programs: Residential	Programs: After School	Admin	Fundraising	Total
Revenue						
4101 Grants	50,000	50,000	-	-	-	100,000
4201 County Contracts	130,649	304,849	145,379	-	-	580,877
4301 Individual Donations	-	-	-	-	151,000	151,000
Total Revenue	**180,649**	**354,849**	**145,379**	**-**	**151,000**	**831,877**
Expense						
Personnel						
5101 Wages	135,454	79,454	63,454	135,454	-	413,816
5102 Fringe	18,545	11,918	9,518	20,318	-	60,299
Total Personnel	153,999	91,372	72,972	155,772	-	474,115
Direct Program Costs						
6101 Supplies	27,999	11,454	8,754	-	-	48,207
6201 Travel	4,345	7,865	7,865	-	-	20,074
Total Direct Program	32,344	19,319	16,619	-	-	68,282
Office Expenses						
7101 Insurance & Licenses	-	-	-	87,545	-	87,545
7201 Consultants	-	-	-	18,987	-	18,987
7301 Fundraising	-	-	-	-	9,521	9,521
Total Office Costs	-	-	-	106,532	9,521	116,053
Indirect Costs	2,000	2,000	2,000	(7,000)	1,000	-
Total Expenses	**188,343**	**112,691**	**91,591**	**255,304**	**10,521**	**658,450**
Net Income (Loss)	**$ (7,694)**	**$ 242,158**	**$ 53,788**	**$ (255,304)**	**$ 140,479**	**$ 173,427**

Use only one account (e.g., 5101 Wages) for each activity **type.**

Use **Classes** to track programs and activities. This forms the basis for functional reporting.

Total remains the same.

Transformed System

Here, a single account—4101 Grants—is used to capture all grant revenue, while activity detail is tracked using the Customer filter.

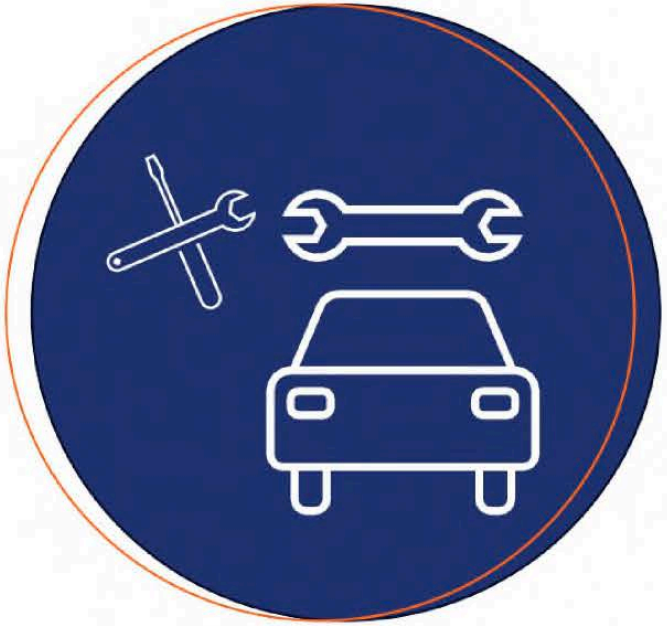
XYZ Foundation
Statement of Activity by Class
Filtered by CUSTOMER: Smith Foundation Math Grant
January-December 202X

	Programs			Admin	Fundraising	Total
	County	Residential	After			
Revenue						
4101 Grants	50,000	50,000	-	-	-	100,00
4201 County Contracts	-	-	-	-	-	
4301 Individual Donations	-	-	-	-	-	
Total Revenue	**50,000**	**50,000**	**-**	**-**	**-**	**100,00**
Expense						
Personnel						
5101 Wages	23,750	14,570	-	-	-	38,320
5102 Fringe	3,563	2,186	-	-	-	5,748
Total Personnel	27,313	16,756	-	-	-	44,068
Direct Program Costs						
6101 Supplies	13,451	8,131	-	-	-	21,582
6201 Travel	4,100	3,200	-	-	-	7,300
Total Direct Program	17,551	11,331	-	-	-	28,882
Office Expenses						
7101 Insurance & Licenses	-	-	-		-	
7201 Consultants	-	-	-	-	-	
7301 Fundraising	-	-	-	-		
Total Office Costs	-	-	-	-	-	
Indirect Costs	4,637	2,913	-	-	-	7,550
Total Expenses	**49,500**	**31,000**	**-**	**-**	**-**	**80,500**
Net Income (Loss)	**$ 500**	**$ 19,000**	**$ -**	**$ -**	**$ -**	**$19,500**

This report is filtered by Customer to show the specific activity funded, by **purpose (activity)** and **account type (revenue and expense).**

The total includes activity for this funder only.

COMMON SIGNS YOUR SYSTEM NEEDS WORK



X **You have specific grant names in your income accounts.**

Instead, have generic income account names, and place your grant information in the [redacted] dimension.

X **You currently have duplicate expense accounts for the same expense across different programs.**

Instead, use one expense account per expense type (e.g., wages or supplies), and track the program purpose (Program A, Program B) using the [redacted] dimension.

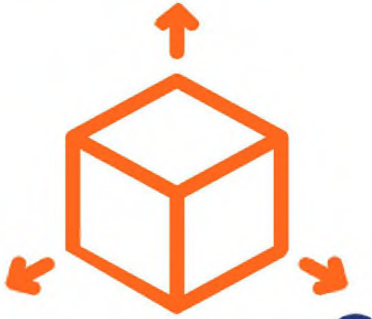
X **You use excel formulas to build your reports.**

Instead, set up your accounting system to deliver the reports you need—using built-in tools like Classes and Customers.

BIG IDEA

Give your dimensions separate jobs.

Chart of Accounts =
TYPE of activity



Class =
PURPOSE of activity

Customer / Funder =
WHO FUNDS the activity

POLL QUESTION #4

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How well-organized is your accounting system?

- **a)** Our system dimensions are blended together like a smoothie.
- **b)** The system needs a little work.
- **c)** Our system is simple, so it's easy to stay organized.
- **d)** Our system is complex, but we're set up correctly.

BENEFITS OF A WELL-DESIGNED SYSTEM

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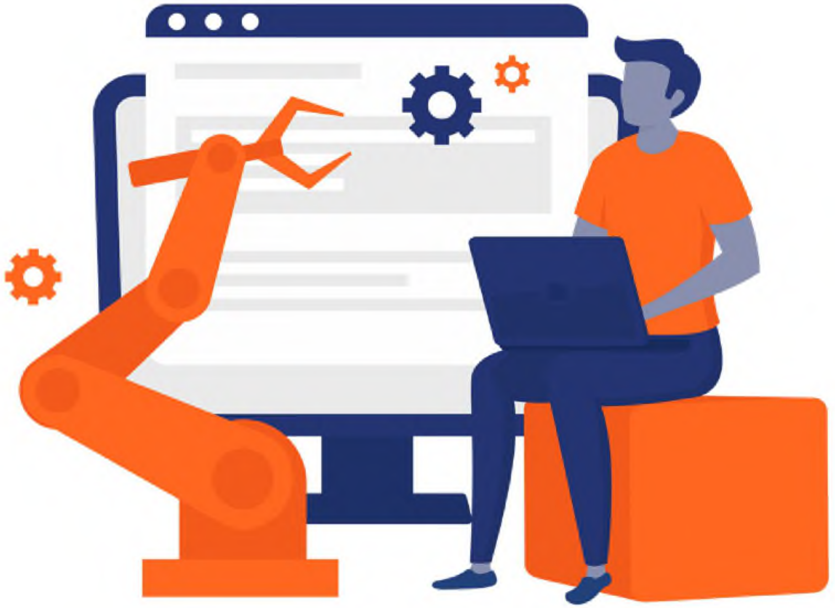
What you can do when your system is set up correctly:



- Run reports easily, without significant manual manipulation.
- Deliver information tailored to your audience.
- Automate workflows, reducing time spent on tracking and cleanup.

AUTOMATED REPORTS

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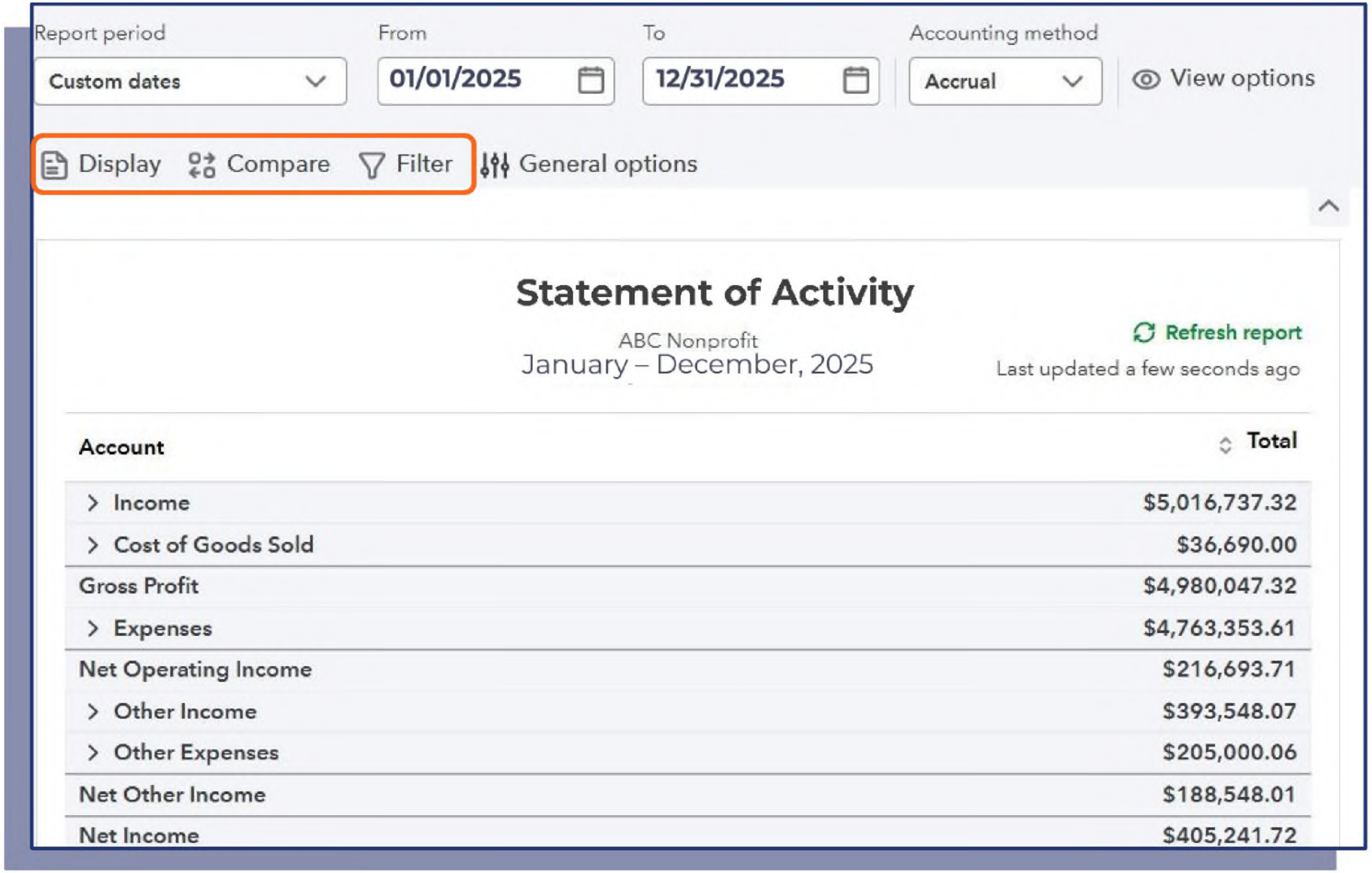
Example report: Here is a standard income statement available in QuickBooks Online.



AUTOMATED REPORTS

Example: Create custom reports in QuickBooks Online by selecting how you want the report displayed.

Display by

Select how you want to display columns. Clear

Display columns by

Class

Statement of Activity By Class

ABC Nonprofit
January – December, 2025

Account	Total for Programs	General & Administrative	Total for Fundraising	Total
> Income	$3,104,097.32	$1,912,640.00	-	$5,016,737.32
> Cost of Goods Sold	-	$36,690.00	-	$36,690.00
Gross Profit	$3,104,097.32	$1,875,950.00	-	$4,980,047.32
> Expenses	$3,083,477.54	$934,427.32	$745,448.75	$4,763,353.61
Net Operating Income	$20,619.78	$941,522.68	-$745,448.75	$216,693.71
> Other Income	-	$393,548.07	-	$393,548.07
> Other Expenses	$119,999.98	$85,000.08	-	$205,000.06
Net Other Income	-$119,999.98	$308,547.99	-	$188,548.01
Net Income	-$99,380.20	$1,250,070.67	-$745,448.75	$405,241.72

AUTOMATED REPORTS

Example: Filter by Customer to view activity for a specific funder.

Filter

Select how you want to filter your data. Clear all

Customer

equals

State Agency

Statement of Activity By Class:
State Agency Filter
ABC Nonprofit
January – December, 2025

Account	Art	Education	Total for Programs	Total
> Income	$413,200.00	$408,960.00	$822,160.00	$822,160.00
Cost of Goods Sold	-	-	-	-
Gross Profit	$413,200.00	$408,960.00	$822,160.00	$822,160.00
> Expenses	$516,500.00	$511,200.00	$1,027,700.00	$1,027,700.00
Net Operating Income	($103,300.00)	($102,240.00)	($205,540.00)	($205,540.00)
Other Income	-	-	-	-
Other Expenses	-	-	-	-
Net Other Income	-	-	-	-
Net Income	($103,300.00)	($102,240.00)	($205,540.00)	($205,540.00)

AUTOMATED REPORTS

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Example: View activity for multiple funders by displaying columns by Customer.

Display by

Select how you want to display columns. Clear

Display columns by

Customer

Statement of Activity By Customer

ABC Nonprofit

January – December, 2025

Account	Federal Agency	State Agency	Corporate Grantor	Individual Donors	Matching Foundation	Members	Not specified	Total
› Income	$1,656,576.24	$822,160.00	$163,000.00	$1,487,420.00	$619,704.08	$262,220.00	$5,657.00	$5,016,737.32
› Cost of Goods Sold	-	-	-	-	-	$35,985.00	$705.00	$36,690.00
Gross Profit	$1,656,576.24	$822,160.00	$163,000.00	$1,487,420.00	$619,704.08	$226,235.00	$4,952.00	$4,980,047.32
› Expenses	$1,951,120.54	1,027,700.00	-	-	-	-	$1,784,533.07	$4,763,353.61
Net Operating Income	-$294,544.30	-$205,540.00	$163,000.00	$1,487,420.00	$619,704.08	$226,235.00	-$1,779,581.07	$216,693.71
› Other Income	-	-	-	-	-	-	$393,548.07	$393,548.07
› Other Expenses	$119,999.98	-	-	-	-	-	$85,000.08	$205,000.06
Net Other Income	-$119,999.98	-	-	-	-	-	$308,547.99	$188,548.01
Net Income	-$414,544.28	-$205,540.00	$163,000.00	$1,487,420.00	$619,704.08	$226,235.00	-$1,471,033.08	$405,241.72

Here is another example of a custom report in QuickBooks Online.

Income by Customer Summary

ABC Nonprofit

January – December, 2025

Refresh report

Last updated a minute ago

Customer	INCOME	EXPENSES	NET INCOME
Federal Agency			
Art			
2024	$64,126.00	($1,970.00)	$62,156.00
2025	$132,084.00	($67,954.00)	$64,131.00
Total for Art	**$196,210.00**	**($69,924.00)**	**$126,286.00**
Education			
2024	$126,108.00	($560.00)	$125,548.00
2025	-	($71,155.00)	($71,155.00)
Total for Education	**$126,108.00**	**($71,715.00)**	**$54,393.00**
Total for Federal Agency	**$322,318.00**	**($141,639.00)**	**$180,679.00**
Individual Donors	$250.00	-	$250.00
Members	$19,927.00	($1,642.00)	$18,284.00
State Agency			
Scholarship			
2024	$118,420.00	-	$118,420.00
2025	-	($84,500.00)	($84,500.00)
Total for Scholarship	**$118,420.00**	**($84,500.00)**	**$33,920.00**
Total for State Agency	**$118,420.00**	**($84,500.00)**	**$33,920.00**
XYZ Foundation	$100,000.00	-	$100,000.00
TOTAL	**$560,915.00**	**($227,781.00)**	**$333,134.00**

DATA VISUALIZATION EXAMPLE

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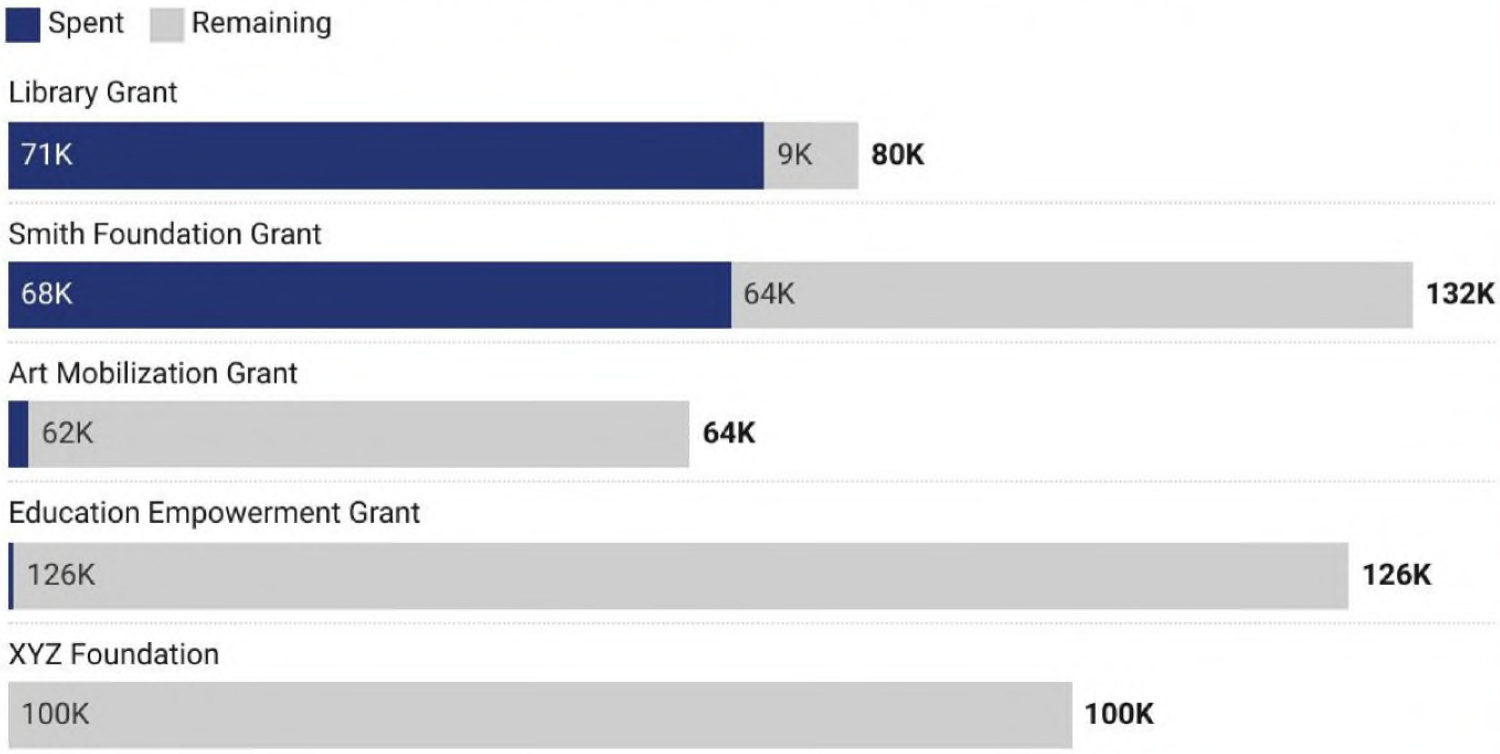
Example: Data from your accounting system can easily be used to create graphics for nonprofit leadership.

Library Grant Spending Almost Complete; XYZ Foundation and Education Empowerment Grants Just Beginning.

At the end of this month, only $9K of allowable spending remains under the Library Grant. Fortunately, spending under the Education Empowerment and XYZ Foundation grants is just beginning, helping bridge the funding so our school programs can continue.



BENEFITS OF A WELL-DESIGNED SYSTEM

Automation helps us work efficiently, but it doesn't mean auto-pilot!

Ways automation supports your work:

- Allocating costs across programs and funders
- Building budgets and forecasts
- Generating funder reports

Automation supports these tasks—but only when systems are designed intentionally.

POLL QUESTION #5

Which of the following best describes your approach to automation in accounting processes?

a) Fully automated
b) Partially automated
c) Mostly manual
d) No automation yet

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