Community Land Trust Accounting

California
Community
Land Trust
Network

Perpetual Affordability – Stewardship - Community Control

What makes CLT accounting unique?

1. **Nonprofit Component**
   a. Restricted and Unrestricted Contributions/Release
   b. Functional Expenses tracking
2. **Housing Development/Operation**
   a. Capitalization; developer fees; finance
   b. Operation as rental property
3. **Sale of property to residents**
   a. Resale restrictions; project stages and financing

Other Factors

1. Creative/Complex financing
   a. Capital stacks that look like puzzles
   b. Mixtures of funding sources/timelines
   c. Often atypical sources: private loans/investments; dontions of real property or funds
   d. Government grants/funding considerations
2. Small organizations that act large
   a. Multiple LLCs; multiple project types
   b. Few employees, many roles

Accounting: How Does it Work?

- **Numbers and tags are assigned to data, allowing us to sort by a variety of categories at once.**
- **Need to be able to, for example, track how much money that was restricted from a specific funder for a specific project or program was spent**
- **Requires us to have coding for the type of money coming in and going out, as well as for the project/program, and for the funder**

All CLT Accounting:

Accrual Basis

    a.   Income recognized as earned

    b.   Expenses recognized as incurred

GAAP Compliant

    a.   Generally Accepted Accounting Principles issued by the Financial Accounting Standards Board (FASB)

    b.   Sets parameters/standards for how certain items are treated in accounting

    c.   Change from time-to-time, requiring adaptation

All Accounting: Tracking data related to finance by categorizing as:

Balance Sheet Items

- **Liability – anything that looks like you have it but you really don't**
  - Includes loans, tenant security deposits, recoverable (to the funder) grants, funds held for others, accts payable

- **Asset – anything you have, even if it's not really yours.**
  - Includes cash, land & improvements, accounts receivable

- **Equity – what you actually have**

  E=A-L equity accounts include balance of restricted and unrestricted net assets

P&L Items

- **Income – generally funds you receive, but not all revenue is income!**

- **Expense – funds you spend, though again not all costs are expenses!**

Chart of Accounts

- Numbers assigned to the different categories
- Variability in terms of what numbers can be used
- Subaccounts roll up into main accounts – allows greater or lesser detail in reporting
- Account numbers/categories should map to budget lines

Chart of Accounts

10000-19000	Assets (incl. Bank Accts.)
20000-29000	Liability
30000-39000	Equity
40000-49000	Income
50000-59000	Cost of Goods Sold (if used)
60000-69000	Expenses
70000-79000	Other Income
80000-89000	Other Expense

Functional Expenses

- 990 Reporting Requirement
  - Management/General
  - Fundraising
  - Program
- All expenses need to tracked, at a minimum, in this way
- In Quickbooks, Classes can be used

Classes for tracking financial data

- Separate from Account Number
  - Allows you to easily sort by Functional Expense
  - Subclasses allow for specific tracking to program or project
  - All transactions should be given a class code if possible
  - Class coding can be as simple or complex as you need it to be.

Customer:Job for Tracking Grants and Releases

- **Set up each funder as a customer**
- **Individual grants as jobs**
  - Allows income, expenses, and balance sheet items such as CIP costs, to be assigned to a specific funder
  - A report by Customer:Job (or filtered for "name") will allow you to easily see how much of the grant has been spent down.

Journal Entries

- Allow you to re-class from one account to another
- Can be used to **capitalize expenses, release grants, allocate payroll** and other expenses, etc.
- Using an account code with zero balance as the first entry for all journal entries allows for tracking, as does using class code
- CLT Quickbooks manual favors invoicing as a way of achieving the same result for many items – both approaches are correct.
- To make journal entries, you have to know which accounts you are using, and whether a debit or credit will increase the balance.

Increasing an Account

Asset	Increase with	Debit
Liability	Increase with	Credit
Equity	Increase with	Credit
Income	Increase with	Credit
Expense	Increase with	Debit

Value of Fixed Assets

Value of Building at acquisition – relates to portion of purchase cost or appraised value

Plus a portion of capitalized costs

70%

Land Value at acquisition also a portion of purchase cost or appraised value, some costs can be capitalized to land value as well.

30%

Capitalization

- Certain costs are treated as assets, rather than expenses.
- This is especially important for costs related to housing development
- Predevelopment and development costs are held in Construction in Progress (CIP) asset accounts. They are moved into fixed assets either at the end of the year or when the asset is put into use.
- If a project ends up falling through, these costs must be expensed, and no longer treated as assets.
- CIP costs include %of payroll and benefits for staff directly engaged in development/predevelopment work

Capitalization

- Costs can be entered as CIP accounts and then journaled over to fixed assets
- In some cases, CIP costs are initially recorded as expenses, for example as part of payroll
- This can be intentional: for internal tracking purposes, all development costs can be recorded as expenses, but they need to be adjusted out of expenses and into CIP accounts either by journal entry or by invoicing process (see Quickbooks for CLTs manual)
- To track CIP costs to project, always assign a <u>class</u> for project costs and CIP transfers (or job if that is your method) – you need to be able to sort by project.

Depreciation

- **Most fixed assets lose value over time**
- **Depreciation is recorded as an expense and as a reduction to net assets**
- **It is like amortizing the expense over the useful life of the asset**
- **Buildings depreciate, but land does not.**
- **All real property fixed assets should be divided in value between building & improvements (which depreciate) and land (which doesn't)**

Tracking Payroll/Staff Time

- Necessary to have some method for tracking/allocating staff time
- Timesheets for salaried as well as hourly employees can be beneficial.
- In some cases, salaried employees need to estimate their time, but there should always be a way of backing up the allocation.
- Some grants require timesheets to be submitted for grant funds expended.
- Employee effort tagged to funder and project/program makes releasing purpose-restricted grants easier.
  - Run a report by class or name/customer job for the grant/project, journal a release of the related expenses
  - Also needed for capitalization of payroll.

Resources

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Q & A