

Has Your Nonprofit Organization Outgrown its Small Business Accounting Solution?



Explore 5 signs your organization has outgrown its small business accounting solution and what you need to present a new solution to your board of directors.

Introduction

Over the past decade, nonprofit organizations have dealt with new challenges, including rising donor skepticism, and increased scrutiny from the IRS. Yet, despite these conditions, in 2016 Americans gave more than \$390.05 billion to charities.¹ Contribution dollars and the desire to maintain charitable giving remains strong among the American population.

In recent years, the IRS significantly revised Form 990, which includes questions to gauge accountability, and requires nonprofits to provide more information if they have gross receipts of more than \$25,000 annually. Congress has passed legislation to better monitor how nonprofits manage and account for assets, donations, and expenditures in such a large and competitive fundraising environment.

Why You Need to Consider a True Fund Accounting™ Solution

Many nonprofits attempt to manage accounting operations with small business software, such as QuickBooks®. Often this solution is chosen because it is inexpensive and easy for anyone to implement and use. However, as the organization grows in both the number of records it maintains and in the diversity of funding sources, the lack of reporting capabilities available can severely hinder a growing nonprofit organization.

Many software providers that offer true fund accounting™ solutions use the term fund accounting to describe their product. Fund accounting refers to the complete separation of revenue and expenses into funds. This type of separation is key to reporting the level of detail needed to present to boards and funding sources.²

Small business accounting software does not address the need to assign expenses to program services, fundraising, or operations classification and cannot adequately label expenses. The ability to create reports are critical for nonprofits to remain compliant with the IRS, remain accountable with the board, and communicate with their major funding sources. Due to these software limitations, nonprofits are open to decreased productivity and the potential for data entry errors and frustration from reporting performed in programs like Microsoft® Excel®.

Dedicated Fund Accounting software supports well-planned accounting processes and helps organizations maintain up-to-date, reliable financial information that can be shared openly with donors, state charity boards, auditors, and the general public.

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Small business accounting software can tend to lack the tight audit trails or ways to track accountability of the transactions that are taking place within the system. This can be particularly important in a nonprofit that must demonstrate controls against internal fraud to the board or to other funding sources.

The support that an accounting software company can provide is crucial to the success of a nonprofit organization. Support is important, especially during an audit or following an emergency situation. Often small business software only provides thirty days of online only support for its customers — and the support staff may not even have nonprofit experience.

Organizations can immediately benefit from a specialized solution that is developed specifically for the needs of nonprofits. Nonprofit accounting solutions, such as MIP Fund Accounting™, provide organizations with accurate and comprehensive tracking and reporting on the restrictions for money used to support programs. This ensures nonprofits meet their unique reporting requirements and maintain audit trails.

Five Signs Your Organization's Outgrown a Small Business Accounting Solution

1

Difficult to Audit

Nonprofit fraud is more common than you think. That's why your organization should be able to easily access reports of every action that takes place within the system, who completed that action, and when the action took place.

While you can switch audit trails on and off with solutions such as QuickBooks, true nonprofit accounting solutions offer history logs, plus transactions, like specific dates and times of actions that can't be deleted. True fund accounting™ solutions have processes in place to catch internal fraud, reduce vulnerability, and enhance donor trust.

Nonprofits need to remain in compliance with the government legislative and IRS changes, including compliance with TIPRA and PPA and IRS Form 990. Without a true nonprofit accounting solution, your organization is ill-prepared to maintain government compliance, gather financial data needed to prepare reports, and conduct ad-hoc external audits or reviews.

With an industry-specific accounting solution, nonprofit organizations can produce audit-ready financials to prove compliance. Do you have adequate financial transparency?

2

Frustrated by Product Limitations

Quickbooks designed their solution for small businesses, not nonprofit organizations. That's why the system functionality is limiting when you need to account for multiple data elements, which is exactly what nonprofits need!

If you find yourself constantly performing complex calculations and data manipulation outside of the software, you've outgrown your solution. You need a user-defined account structure that provides a flexible chart of accounts to meet your unique needs. You won't have to seek external solutions, like Microsoft Excel, to get your job done, plus there are many capabilities built into true fund accounting™ software that can grow with your organization.

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3

Non-Compliant Reporting and Insufficient Business Intelligence Capabilities

Do you find it cumbersome to account for multiple elements in your small business accounting software? It's no surprise that nonprofits have different reporting needs than small businesses. Nonprofits must meet reporting requirements regulations such as FASB 116 and 117. Your organization needs a full view of the category of expense, project, funding, source/grant, location, and activity. In order to manipulate data or report on this information, do you have to go to an external application like Microsoft Excel?

A true fund accounting™ solution offers an internal report writer and access to standard nonprofit designed reports that can help your organization meet financial accounting standards. For example, you can easily produce funding source reports that cross over the fiscal year to match a grant or contract period. You can also easily create dashboard reports, to compare critical ratios such as receivables versus payables.

A critical need for successful nonprofits is the ability to produce and maintain multiple budgets. True fund accounting™ solutions enable nonprofits to track and analyze budgets when entering transactions within the financial database and can automatically produce reports. The solution should also alert you if a transaction will take you over budget or if you are getting close to reaching your budget. In addition, strong budget compliance tools are available to ensure full utilization of a budget without overspending.

4

Unable to Perform Nonprofit Accounting Tasks

Are you frustrated by the inability to perform nonprofit accounting within your small business accounting software? Is your chart of accounts practical for your requirements? External manipulation of data is time-consuming and can result in errors. Developed exclusively for nonprofit financial management, allocation management is a standard feature in a true fund accounting™ solution. These solutions can distribute costs based on organization business rules at the time of transaction entry. More advanced tools are available to allocate costs based upon cost pools and account balances.

5

Lack of Technical Support

Do you have any technical support, or did it run out a long time ago? Most small business software offers only 30 days of technical support — and the support staff aren't nonprofit financial management experts. True fund accounting™ solutions come with a high level of support backed by a staff of domain experts with extensive product experience.

Now is the Time to Increase Financial Accountability

Has your organization experienced any or all the signs of outgrowing your accounting solution? If so, now is the perfect time to increase financial accountability and transparency with a true fund accounting™ solution designed for nonprofits.

The environment for nonprofits has become more competitive and you need greater accountability. How can your nonprofit organization remain successful? Nonprofits should ensure that accounting processes and systems are accurate, auditable, and capable of meeting the compliance requirements of today and the future. Additionally, these accounting processes should support new and flexible development strategies that seek to improve communications with donors, increase efforts in getting small annual gifts from members, and can acknowledge donor gifts quickly.

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The product limitations and inability to track multiple funding sources make small business accounting software insufficient in meeting the demands of nonprofit organizations. In order to be successful today and in the future, nonprofits must turn to true fund accounting™ solutions to achieve financial transparency and public trust.

Approach Your Board of Directors

It is important for nonprofit organizations to ensure that accounting processes and systems are accurate, auditable, and capable of meeting compliance requirements. Advanced budgeting, reporting, and business intelligence capabilities can increase a nonprofit's financial accountability and equip you to make better-informed decisions. These discussion points can assist conversations with your board of directors — ensuring that, as a team, you can successfully avoid financial oversights.

Suggest audit committees

If you do not already practice the fine art of audit committees, now is the time. Organizations should ensure that their boards of directors include individuals with financial literacy skills and should establish separate, independent audit committees if financial statements are audited or reviewed externally.³ As mentioned earlier, without a true fund accounting™ solution, your organization is not prepared to maintain government compliance and internal audits.

Recommend a full review every five years

If your organization has revenues between \$250,000 and \$1 million, it should have an independent accountant review financial statements. All 501(c)(3) organizations with greater than \$1 million annual revenues should have financial records audited. You are likely doing this already, if not more frequently, but in order to ensure your tax-exempt status is appropriate and maintained, the board should fully review organizational and governing instruments, key financial transactions and compensation policies and practices once every five years.⁴

Provide basic requirements for all financial reports

In order for the board to make strategic planning decisions and provide credible oversight, all financial reports should be accurate, timely, in context, and readily available on a monthly or quarterly basis.⁵ A true nonprofit accounting solution should provide the flexibility to create business intelligence and configurable charts of account, year-end donor summaries, standard reports with a custom report writer, and advanced budgeting.

Create reports that match the purpose

Before developing reports for the board, ask what type of decisions they need to make with the information. Nonprofit boards typically use financial information for four reasons: to comply with financial standards, evaluate effectiveness, forward planning, and to take action. Reports need to be in a format that is understandable to the board and not simply pages of detailed accounting records such as the checkbook register.

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- ⁵ Barr, Kate "Reporting Financial Information to the Board", Nonprofit World, Volume 28, Number 4, July/August 2010.

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