

Has Your Nonprofit Organization Outgrown QuickBooks®?

“True nonprofit accounting solutions provide organizations with accurate and comprehensive tracking and reporting.”

Five Signs Your Organization has outgrown its small business accounting solution

- ✓ **Difficult to Audit**
- ✓ **Frustrated by Product Limitations**
- ✓ **Insufficient Reporting and Business Intelligence Capabilities**
- ✓ **Unable to Perform Nonprofit Accounting Tasks**
- ✓ **Lack of Technical Support**

Introduction

Over the past decade, nonprofit organizations have dealt with new challenges, including rising donor skepticism, economic decline, and increased scrutiny from the IRS. Yet, despite the economic conditions of 2009, Americans gave more than \$307.75 billion to charities. (Giving USA report compiled by American Association of Fundraising Counsel, http://www.nps.gov/partnerships/fundraising_individuals_statistics.htm) Though total giving was down more than three percent after adjusting for inflation, overall contribution dollars and the desire to maintain charitable giving remain strong.

Congress has passed legislation to better monitor how nonprofits manage and account for donations, assets, and expenditures in such a large and competitive fundraising environment. The IRS significantly revised Form 990, requiring nonprofits with gross receipts of more than \$25,000 annually to provide more information. The new form includes questions designed to gauge accountability. To make matters more stressful, studies show that fraud committed against nonprofits remains high and can be very costly. And fraudulent activities often involve employees. Without adequate processes to catch internal fraud, nonprofits appear vulnerable and donor trust can erode.

Nonprofits need financial accountability and a centralized accounting system designed for their specific needs. Small business accounting software lacks the functionality to track multiple funding sources, does not support donor communications on impact of gifts, and often produces inadequate reporting. On the other hand, nonprofit accounting software (or fund accounting) supports well-planned accounting processes, helping organizations to maintain up-to-date, reliable financial information that can be shared openly with donors, state charity boards, auditors, and the public.

Why you need a true nonprofit 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 fairly easy to implement and use. However, as the organization grows in both the number of records it maintains and in the diversity of funding sources, it begins to experience some difficulty. And often small business software only provides 30 days of support for its customers—and the support staff does not even have nonprofit experience.

Another common issue with small business accounting software is the lack of tight audit trails or ways to track accountability. This can be particularly important in a large nonprofit that must demonstrate controls against internal fraud. Additionally, the software does not specifically address the unique reporting requirements of nonprofits. Due to software limitations, reporting is typically done externally to QuickBooks or other small business solutions, resulting in decreased productivity and the potential for data entry errors. These limitations leave nonprofits open to an unacceptable level of risk and frustration.

With a true nonprofit accounting solution in place, organizations can immediately benefit from a specialized solution that is developed specifically for the needs of nonprofits. Nonprofit accounting solutions, such as Sage 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 for critical financial information.

Many software providers that offer nonprofit accounting solutions also use the term fund accounting to describe their

Top Five Signs You've Outgrown QuickBooks

True Nonprofit Accounting Solutions Meet Your Unique Needs

A specialized solution like Sage Fund Accounting is more appropriate for the unique needs of nonprofits:

- ✓ True nonprofit accounting with configurable chart of accounts
- ✓ Business intelligence designed for needs of nonprofits
- ✓ Standard reports included plus custom report writer
- ✓ Advanced budgeting
- ✓ Year-end donor giving summaries

product. Fund accounting simply refers to the complete separation of revenue and expenses into funds. These funds typically correspond to an individual program or service area. (Mercer, Eric, "Critical Issues in Financial Accounting Regulation for Nonprofit Organizations," Online Compendium of Federal and State Regulations for U.S. Nonprofit Organizations, <http://www.muridae.com/nproregulation/accounting.html>) Small business accounting software does not address the need to assign expenses to program services, fundraising, or operations classification and cannot adequately label expenses. These labels are critical for nonprofits to track, and to remain compliant with, IRS and other public reporting requirements.

Five signs your organization has outgrown its small business accounting solution

Here is a list of the top five signs your organization has outgrown its small business accounting solution:

1. Difficult to Audit

Does your organization have difficulty finding the information it needs for transparency and compliance? If your accounting software does not allow you to maintain tight audit trails, you could be at risk. While solutions such as QuickBooks have audit trails that can be turned on and off, true nonprofit accounting solutions offer history logs, plus transactions that cannot be deleted. These solutions have processes in place to catch internal fraud, thus reducing vulnerability and enhancing donor trust.

Without a true nonprofit accounting solution, your organization is ill-prepared to maintain government compliance. Are you up to date with legislative changes? Do you have all the financial data you need to prepare an accurate report? With an industry-specific accounting solution, nonprofit organizations can produce audit-ready financials to prove compliance. Reports such as the Statement of Activities

and Statement of Financial Position are available right of the box.

2. Frustrated by Product Limitations

Your small business accounting software was designed for the small business and the system functionality is limiting when you need to account for multiple data elements. However, that is exactly what nonprofits need to do! If you find yourself constantly performing complex calculations and data manipulation outside of the software, you have outgrown your solution.

A true nonprofit accounting solution has a user-defined account structure and provides a flexible chart of accounts that meets your unique needs. You won't have to seek external solutions to get your job done, plus there are many capabilities built into the software that can grow with your organization. With a true nonprofit accounting solution, you can tap additional functionality as needed and integrate with other critical software in your organization.

3. Insufficient Reporting and Business Intelligence Capabilities

Nonprofits have different reporting needs that include not only the category of expense, but also other elements such as project, funding, source/grant, location, and activity. Do you find it cumbersome to account for multiple elements in your small business accounting software? In order to manipulate data or report on this information, do you have to go to an external application like Excel®? Can you prepare and track multiple budgets?

A true nonprofit accounting solution offers an internal report writer and access to standard reports that are designed for nonprofits. For example, you can easily produce funding source reports that cross over the fiscal year and report on the grant or contract period. You also have the ability to 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 that account for all data elements. Nonprofit accounting solutions enable nonprofits to track and analyze budgets when entering transactions within the financial database and can automatically produce reports. 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 workable for your requirements? External manipulation of data is time-consuming and can result in errors. Allocation management is a standard feature in a true nonprofit accounting solution and is developed exclusively for nonprofit financial management. These solutions have the ability to 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 do not have nonprofit financial management expertise. True nonprofit accounting solutions, like Sage Fund Accounting, come with a high level of support backed by a staff of domain experts with extensive product experience.

What to discuss with your board of directors

It is important for nonprofit organizations to ensure that accounting processes and systems are accurate, auditable, and capable of meeting today's—and tomorrow's—compliance requirements. Advanced budgeting, reporting, and business intelligence capabilities can help nonprofits become more accountable and make better-informed decisions.

Here are four important points to discuss with your board of directors to ensure that it can successfully fulfill its role in financial oversight and planning:

- ✓ Audit committees. 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. (Strengthening Transparency Governance Accountability of Charitable Organizations, Panel on the Nonprofit Sector, June 2005.)
- ✓ Full review every five years. The board should fully review organizational and governing instruments, key financial transactions, and compensation policies and practices once every five years to ensure tax-exempt status is appropriate and can be maintained. (Ibid)
- ✓ Basic requirements for all financial reports given to the board. In order for the board to make strategic planning decisions and prove creditable oversight, all financial reports should be accurate, timely, in context, and readily available on a monthly or quarterly basis. (Barr, Kate, "Reporting Financial Information to the Board," Nonprofit World, Volume 28, Number 4, July/August 2010.)
- ✓ Report creation that matches 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 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. (Ibid)

Conclusion

Has your organization experienced any or all of the signs that you've outgrown your QuickBooks accounting solution? If so, now is the perfect time to increase financial accountability and transparency with a true nonprofit 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 have the ability to acknowledge donor gifts quickly. 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 nonprofit accounting solutions to achieve financial transparency and public trust.

NonProfit Technologies, Inc. (NPT)

NPT understands the unique needs of the public sector and has dedicated its entire business to addressing those needs since 1996. We are a business and technology solutions provider with over 40 locations and nearly 700 public sector clients nationwide. We help federal, state, and local government agencies and nonprofit organizations, including schools, human and social service agencies, religious organizations, museums, and libraries achieve their missions.

If you are interested in learning more about NPT's solutions please contact Tammy Massey at 800.404.9758 ext. 123, at tammy@cpaz.com, or visit us on the web at www.cpaz.com

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We also offer a number of training and support services designed to maximize your knowledge of your software and empower you throughout the implementation of our solutions. At NPT, we strive to provide business solutions that exceed your expectations on-time, on budget, and with the functionality we've promised.

Tammy Massey
800.404.9758 ext. 123
tammy@cpaz.com
www.cpaz.com

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