



Abila

Has Your Nonprofit Organization Outgrown its Small Business Accounting Solution?

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

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.

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 economic conditions, In 2012 Americans gave more than \$316.23 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 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 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.

Many software providers that offer true nonprofit 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 for each of these areas 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 spreadsheet programs like Microsoft® Excel®.

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 for a nonprofit that must demonstrate controls against internal fraud to their 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 30 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 Abila MIP Fund Accounting, provide organizations with accurate and comprehensive tracking and reporting on the restrictions for money used to support programs. This ensures nonprofits can meet their unique reporting requirements and maintain audit trails.

Five signs your organization has outgrown a small business accounting solution

Sign #1: Difficult to audit

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 solutions such as QuickBooks have audit trails that can be turned on and off, true nonprofit accounting solutions offer history logs, plus transactions, like specific dates and times of actions, that cannot be deleted. These solutions have processes in place to catch internal fraud, thus reducing vulnerability and enhancing donor trust.

Nonprofits need to remain in compliance with all 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 or maintain the financial data needed to prepare reports or conduct ad-hoc external audits or reviews.

With an industry-specific accounting solution, nonprofit organizations can produce audit-ready financials to prove compliance.

Sign #2: Frustrated by product limitations

Your small business accounting software was designed for small business and the system functionality is limiting when you need to account for multiple data elements. However, accounting for multiple data elements is exactly what nonprofits do!

If you find yourself constantly performing complex calculations and data manipulation outside of the software, you have 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 Excel, to get your job done, plus there are many capabilities built into true nonprofit accounting software that can grow with your organization.

Sign #3: Insufficient reporting

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

to match a 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. Nonprofit 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.

Sign #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.

Sign #5: Lack of technical support

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

It's time to increase financial accountability

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 exclusively 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 for 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.

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 more informed decisions. These discussion points can assist conversations with your board of directors and ensure 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 establish separate, independent audit committees if financial statements are audited or reviewed externally.³ As mentioned earlier, without a true nonprofit accounting solution, your organization is ill-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 creditable 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
- To evaluate effectiveness
- For forward planning
- 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 a checkbook register.

References

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⁴ Ibid

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

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Abila serves strategic leaders and managers in dynamic nonprofit organizations, associations and government agencies through high-value grant management, fund accounting and large scale fundraising solutions. Organizations trust Abila to simplify and streamline processes in order to perform their best work and focus on delivering their unique mission. For Abila, it's personal and backed by a team with more than 30 years of experience dedicated to helping organizations achieve their vision.



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