

# Increasing Accountability and Transparency:

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Many nonprofits start out using entry-level accounting products that provide basic bookkeeping capabilities, but they soon see warning signs that their current system can't keep up with their special tracking and reporting requirements. These signs could be missed deadlines, time-consuming or manual processes, and inaccurate reporting. The most serious risks can be loss of funding, loss of nonprofit status, and a tarnished reputation.

Consider the benefits to be derived from a new system that delivers broad improvements. Do you plan to grow? Attract new funders? Offer more programs? Many organizations are choosing modern, automated systems for faster processing of accounting transactions, easier retrieval of accounting information, and better reporting available in a variety of formats. This enables them to increase the number of funding opportunities they can pursue.

Here are six key items, unique to nonprofits, to consider when evaluating a new accounting system.

### **1. Do you have certain funds that you must spend in accordance with specific restrictions?**

Nonprofits must carefully track and report on money used to support their programs. Major donations and grants are commonly given with a set of specific and unique restrictions, requirements, and responsibilities. The associated funds are either "restricted" or "unrestricted." Failure to demonstrate that "restricted" funds have been used correctly can have some serious organizational consequences, including termination of executives, loss of funding, and worst case, loss of tax-exempt status. There are systems that are built specifically for fund accounting or have a special module to accomplish this. The functionality is designed to help nonprofits meet

those tracking responsibilities and handle the particular requirements that may come with each new source of funding.

### **2. Do you have the need for a self-balancing chart of accounts?**

Because of the nature of funds, a separate chart of accounts must be maintained for each fund. In commercial accounting systems, separate revenue and expense accounts are maintained, but are intertwined on balance sheet accounts. For fund accounting, funds must be treated as separate entities with their own general ledger and individual revenue, expense, income, and balance sheet reports. The need to produce multiple balance sheets within the same organization is common. True fund accounting software will automatically record due to and due from transfers for spreads among different funds.

### **3. Do you have multiple audiences that require you to provide reports in a variety of formats?**

The financial reporting requirements for nonprofit organizations are very unique. Many nonprofits require a great number of reports and financial statements that are frequently defined by their funders, with different formats and reporting periods that don't correspond to the organization's fiscal calendar. They must report on the performance of multiple programs, activities, departments, and locations, using both financial and non-financial measures. Reports must be accurate and sophisticated enough to pass regulatory and audit criteria. Yet at the same time, the system must be flexible enough to provide reports to meet the ever-changing needs of a wide variety of groups: the board, staff, constituents, and the public at large. The appropriate accounting software will save you time and effort, often featuring easy-to-use report writers to help simplify creating new reports.

#### **4. Do you need to manage and report on multiple budgets?**

Nonprofits rely on the budget as a compliance and monitoring tool, and as a formal part of the organization's financial records. The ability to produce unlimited budget versions, create "what if" scenarios, report on multiple budgets simultaneously, and have capabilities to prevent overspending are characteristics of a true nonprofit accounting solution.

#### **5. Do you have funds that need to be recorded as encumbered?**

Nonprofits may require an accounting system where expenditures are encumbered prior to receipt of goods and services. In encumbrance accounting, nonprofits can track and report on spending commitments to significantly reduce the risk of fund over-commitment. The ability to report on encumbered funds provides nonprofits tighter controls on spending, while fully using a grant budget.

#### **6. Do you need to perform allocations of indirect costs by funders?**

Does your organization need to perform allocations by account balance at the program level, department or grant level, or across multiple segments at one time with advanced calculation options, including fixed or dynamic percentages, unit measures, and more? Many organizations struggle to keep up with allocations using multiple spreadsheets to perform the calculations. Look for a system that automates the allocation process to ensure accuracy and consistency. When it is time for an auditor review, you'll be able to provide audit-ready reports to support allocated costs.

#### **Why a new accounting system makes sense**

For cost-conscious nonprofit organizations, it can be tempting to postpone a software investment in order to trim the budget. Technology is a long-term investment, however, and can streamline many vital aspects of your mission, such as budget management, reporting, grantor relationships, planned giving, gift processing, and mailing list management.

An investment in software can defray staff costs and streamline processes to help your staff get more done each day. You'll also benefit from increased accuracy, so your organization can maintain complete accountability to its funders and donors.

Mismanaged operations can result in missed opportunities. A lack of financial accountability often makes the difference between getting an important grant renewed, and having to search for new funds. Purchasing software that improves accounting, fund administration, budgeting, and financial reporting will provide an excellent return on your technology investment. The right technology helps ensure that you maximize limited resources, cultivate important relationships, and obtain more money to secure the long-term health of your organization.

# Affinity AFP

## People

Drawing on nearly 20 years of experience, Affinity NFP has implemented hundreds of solutions. In every case, we have focused on providing quality service and software, growing an alliance that provides the best solution and long-term care. In fact, we guarantee you will be 100% satisfied with the work we perform regardless of project size, scope or complexity.

## Passion

We are passionate about helping people and organizations achieve success and reach their goals, by using technology to transform, improve and simplify their fundraising and financial operations. With every client or prospective client, we seek to develop working relationships built on knowledge and understanding; relationships that will be sustained and enhanced over time, and where we can provide value.

## Purpose

Affinity NFP assists non-profit organizations to implement fundraising, constituent relationship management (CRM), and fund accounting software systems. The right technology solution will support your efforts to fulfill your mission. We can help your organization grow your constituent base, increase donations, nurture volunteers, and empower your supporters. In addition, your organization will be better able to fulfill accountability, compliance, and infrastructure requirements.



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