4 Accounting Mistakes Nonprofits Should Avoid

ARTICLE 02.11.19   DEAN DORTON

4 Nonprofit Accounting Mistakes to Avoid

Running a nonprofit is full of opportunities to do good, but it's also challenging—especially if you're in charge of finances. You have limited IT resources, extensive manual processes for accounting tasks, and a myriad of reporting and compliance requirements with various key stakeholders. You probably spend a lot more time on finances than you'd like.

"From talking with nonprofit CFOs and auditors, [we see that] nonprofits have limited resources and understandably seek to expend the vast majority of those resources on mission-related activities rather than on administrative functions like accounting," said Jeffrey Burks, associate professor of accountancy at the University of Notre Dame's Mendoza College of Business.

With such tight budgets and even less time, it's easy to make mistakes. "Nonprofits of all sizes tend to have high error rates," Burks also said. Here are four of the most common mistakes made by nonprofits and how to avoid them:

1. Taking on too much. Nonprofit finance teams are, more often than not, a one-person show. That individual is tasked with doing bookkeeping on QuickBooks or a legacy system while finding that they have too much data to manage on their own. Manually managing grants, fund accounting, and donor tracking leaves lots of room for errors. To improve accuracy and streamline processes, these nonprofits need an automated fund accounting system operated by a trained, skilled financial professional—never a volunteer!

2. Ignoring the GAAP compliance standards. Generally Accepted Accounting Principles (GAAP) provide a framework that makes it easier to compare financial statements across the nonprofit sector. Without GAAP, external users would find it hard to benchmark a nonprofit's performance against other organizations. Lenders, donors, grantors, rating agencies, and regulators commonly understand GAAP financial statements, which are often subject to external audits or reviews. In addition, you may find that a greater number of lenders, donors, and grantors have confidence in your organization's financial reporting, and thus may be more willing to open their purse strings.

3. Disregarding (or not having) established reporting procedure. Because there are so many aspects of managing nonprofit financials, it is critical to have established procedures in place for managing revenue, donor and grant tracking, processing transactions, and understanding the budget—to name a few. You need a financial management system that covers all bases—from revenue recognition to reporting—so you can easily to measure the effectiveness of your organization's programs and demonstrate your financial responsibility to donors, grantors, volunteers, and others. For example, Sage Intacct features robust fund, grant, and donor accounting; flexible budgeting and planning; real-time reporting; and role-based dashboards.

4. Undermining the growth of your nonprofit with software that can't keep up. You may understandably feel that Sage Intacct seems expensive. After all, you're likely a smaller organization with an even smaller budget. If you're on a growth trajectory, however, you don't want to be held back by inefficient processes and inflexible systems. Cloud solutions such as Sage Intacct have a lower TCO and rapid ROI compared to on-premise models. Over time—and more quickly than you might think—the software pays for itself and helps eliminate the need for outsourced accounting . You'll have internal control of all your financial records, once and for all. What's more, Sage Intacct offers nonprofits a generous discount and is an avid supporter for nonprofits through the Sage Foundation.

Sage Intacct can help you sidestep mistakes and accomplish your mission by providing you the visibility, flexibility, efficiency, automation, and integration you need to succeed. And replacing and updating your old accounting system with a modern, best-in-class cloud solution built for nonprofit organizations can cost less than you think—while saving you time and resources.

Still not sure? Contact the experts at Dean Dorton (formerly Massey Consulting) for a free consultation today. We'll show you how Sage Intacct can lead your organization to better stewardship and greater mission impact.