



5 Ways Your Accounting Software is Costing Your Nonprofit

How a fund accounting solution can help overcome hidden costs

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Executive Summary

Nonprofit organizations have specific accounting needs, yet many nonprofits select low-cost, for-profit accounting software packages.

Alternately, some nonprofits purchase fund accounting packages once, but then decide against purchasing upgrades, thinking that what they have is good enough. While both options present short-term savings, the hidden costs can add up quickly over time.



Without the right tools, your accountants spend additional time and energy, creating and repeating error-prone manual processes that a purpose-built, modern fund accounting package would do for them. The effort invested immediately negates the initial cost savings of a low-cost or outdated accounting package, and ongoing administrative costs continually impact your organization's ability to devote funds to your programs.

If your nonprofit is currently using a for-profit or outdated fund accounting solution, there are five ways that system is costing you money. Read on to discover how your nonprofit can decrease administrative costs, streamline accounting practices, and reduce risk by switching to a modern fund accounting solution.



The maximum amount a nonprofit can spend on administrative costs, including fundraising, management, accounting, and general expenses, to achieve a top rating:

15% Charity Navigator¹

20% Charity Watch²

35% BBB Wise Giving Alliance^{3*}

*BBB figure includes all expenses outside of money explicitly used for the charity's program



Hidden Cost #1: Daily nonprofit accounting complexities

Nonprofits require a flexible multi-level, multi-type set of funds, accounts, budgets, and cost centers to reflect their activities and achieve their accounting goals.

Board members, grantors, the government, and CPAs used for audit all require different reporting structures across funders, donors, programs,

projects, and departments. Typical accounting packages created for commercial use lack the flexibility needed to creatively pivot reports across different complex charts of accounts segments and budgeting requirements.

Dedicated fund accounting software allows nonprofits to segment, track, and balance

accounts by automatically segmenting them by purpose. The ability to create segments for grants, departments, programs, restrictions, or even by client can lend new levels of transparency, accountability, and accuracy to both accounting and reporting practices.

Can your accounting software:



Accurately represent all your cost centers by funder, donor, program, project, and department and report across different fiscal years?



Secure data by restricting users to a specific chart of account segments and values?



Meet the audit requirements of FASB Accounting Standards Update Number 2016-14?



Allow for creativity and experimentation in budgeting while still providing accurate, real-time reporting for actual budgets across multiple companies and charts of accounts?

If not, your accounting team is spending effort, time, and money every single day to complete tasks that could be simplified—and even automated—with the right software.

Fund accounting software puts your reporting back on track.

Fund accounting software provides built-in features to support, audit, and inquire, no matter who is asking. Whether you're producing statements and reports for your CPA, the board, or donors, a fund accounting solution lets you:

1

Easily perform "satisfaction of program restriction transfer" entries before an audit.

2

Produce reports that precisely match the requirements requested by the report's recipients.

3

Track programs, departments, and locations in a way that is properly accountable.

4

Automate the breakdown of cash accounts by department so you can maintain fewer of them.

5

Apply changes, reallocate, and produce financial statements and FASB reports within minutes.



Hidden Cost #2: Complex Reporting Requirements

Nonprofit organizations answer to a lot of people.

Everyone from the board and internal management to funding sources and donors to audit teams and officials at the local, state, and national levels all seem to want reports in entirely different formats.

If you don't have the right software to produce reports to suit all interested parties, your most knowledgeable accounting staff will spend hours working in Microsoft® Excel® to close that gap. And while Excel seems like a form of automation, it's not built for complex accounting. The wrong entry can result in the perpetuation of inaccuracies that are hard to find. Moreover, your CPA might not be able to use your spreadsheets for audit due to discrepancies between

Excel and your accounting software, which, in turn, causes even more manual work for your accounting team.

Your nonprofit accounting software should let you produce a financial statement that looks nothing like your chart of accounts. Dedicated fund accounting software typically provides a workspace where you can drop in labels and drag your accounts into place. Then the resulting report will display the data and labels precisely as requested by the stakeholder. More importantly, an auditor can take report blueprints and tie it to your general ledger during the audit. And once you have everything set up, repeating the process becomes as simple as changing the dates and running the reports.



Hidden Cost #3

Hidden Cost #3: Allocations and reallocations (and more reallocations)

Nonprofits must artfully allocate expenses to meet the requirements of multiple stakeholders.

Indirect costs, overhead, and administration are typically allocated across departments to get an accurate total breakdown between direct and indirect expenses. These costs come from income that spans multiple sources, including gifts, pledges, and campaigns. And, allocations can span multiple fiscal years, which further complicates how and where they are applied. Often, indirect allocations are performed at the end of the accounting period after all initial, direct allocations have been made, and can be performed experimentally until they accurately reflect spending.

There are no for-profit accounting solutions on the

market that can handle the complexities of nonprofit allocations and reallocations. As such, nonprofits using these tools spend days—if not weeks—every month, meticulously allocating and reallocating costs. Every manual allocation increases the risk of error, which in turn, increases the chance of triggering audit citations. And what happens if your team creates manual reports and then must go back and reallocate? The costs add up...fast.

The right fund accounting software allows multiple income sources, programs, and projects to operate independently when necessary, or to be linked when it's imperative for correct data entry. These built-in allocation features minimize the need for manual work and reduce the risk of costly errors that result

from those manual processes. With a few clicks, costs can be allocated, reallocated, and reallocated again until you achieve optimum results.



Income Sources:

Donors, grants, gifts, pledges, campaigns



Indirect Expenses:

Indirect costs, overhead, administrative costs



Stakeholders: Board of directors, CPAs, funding sources, government entities, donors



Hidden Cost #4: Incompatible billing structures

For some nonprofits, revenue is based on reimbursement.

This necessitates granular control over city, county, and state billings for foster care, Medicaid, Medicare, managed care, and third-party billing. Your accounting team must be able to track accounts receivable in multiple ways, including by category, client, client groups, or any way that makes sense to determine accurate billing.

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Most for-profit accounting solutions assume a flat billing structure. They typically charge by customer, and they tie each charge to a single product or SKU.

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Most nonprofit accounting packages have modules or features dedicated to complex billing that give customizable, granular control. A modern fund accounting solution should also provide time-saving templates that can help you quickly set up future billing groups to save time, improve accuracy, and reduce rework. The best packages also provide client-group preferences and the ability to bill for a group of clients to a third party payer, which can automate data entry to further increase your time savings and reduce risk.

Fitting complex billing into for-profit software can be close to impossible and introduces time-consuming and error-prone complexity during both the billing and reporting processes.





Hidden Cost #5: Tracking multiple companies in parallel

It's not uncommon for many nonprofit organizations to track multiple, independent companies, create subsidiaries, and consolidate companies.

This organizational structure leads to significant levels of complexity for your accountants. While each company may operate independently, they often need to allocate funds, enter elimination entries, and generate various levels of reporting and consolidated financial statements across all their operating entities.

Flat-structured, for-profit accounting software isn't designed with multiple companies in mind. Nonprofits using commercial products typically resort to spreadsheets, secondary tools, and even manual, paper-based accounting

to produce reports and balance sheets monthly. The time spent adds up quickly and presents a significant risk of human error. No matter how good your accounting team is at their jobs, manual processes are prone to costly human errors – especially in a dynamic environment where information changes daily.

Fund accounting software has built-in support for tracking multiple companies, and it provides rich reporting across both the breadth and depth of your complex organizational structure.

How much are your accounting practices costing you?

Typical, low-cost enterprise accounting software costs \$1,100 annually⁴. If you pay an accountant to manually create a report or balance sheet that takes 10 hours, it will cost \$3,480 per year, on average.

• $10 \text{ hours} \times 12 \text{ months} = 120 \text{ hours per year}$

• $120 \text{ hours} \times \$29/\text{hour}^5 = \$3,480 \text{ per year}$

Modern fund accounting packages do the hard work for you; once you enter in the data, your balance sheets and reports are created with a click of a button, without the risk of human error. So, are you really saving money with a “low cost” commercial solution?



Cut the complexity and cost for your nonprofit

Fund EZ is accounting software that is made with nonprofits in mind, and that goes for both features and price. We know you have limited budget and time devoted to your accounting software purchase and use, so we make sure you get what you need at a price you can afford all in one convenient tool. Including specialized features, built-in reporting, affordable modules for fundraising, Medicaid, foster care and more, and exceptional support that goes above and beyond to answer your questions, Fund EZ is made to save you time, money and risk so you can focus on what you do best—helping others.

Contact Fund EZ to schedule your free demo. We'll show you exactly how easy and affordable a modern fund accounting software package can be.

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¹ <https://www.charitynavigator.org/index.cfm?bay=content.view&cpid=48#PerformanceMetricTwo>

² <https://www.charitywatch.org/our-charity-rating-process>

³ <http://www.give.org/for-charities/How-We-Accredit-Charities/>

⁴ <https://quickbooks.intuit.com/desktop/pro/>

⁵ <https://www.ziprecruiter.com/Salaries/How-Much-Does-a-Non-Profit-Accountant-Make-an-Hour>