Accounting for a non-profit can be inherently difficult, especially if this process is handled within the context of standard commercial accounting procedures.  Not only can this become a difficult situation but, if the right steps are not taken, these operations can become both ineffective and unreliable.  Non-profit organizations not only operate within a vastly different financial framework than do their for-profit counterparts, they also carry with them a unique lexicon of financial phenomena: grants, restricted and unrestricted funds, donations, etc.  In addition, non-profit organizations also have social and legal implications that extend far beyond the balance sheet.  These factors can make accounting a drain both on time and resources if they are not being handled appropriately.

We frequently see non-profit clients that are forced to invent cumbersome methods of handling many of these phenomena due largely to the accounting systems and procedures that they have adopted.  The tracking of restricted and unrestricted funds, for example, appears to be a constant struggle for many such organizations.  Clients will often resort to complicated systems of journaling to handle this, which results in a system that is not only unreliable and inefficient, but also costly to maintain.  Even more costly are the penalties for improperly documenting that such restricted funds have been allocated in their prescribed manner.

Following suit, reporting is often a complicated undertaking for non-profit organizations to begin with: not only are the nature, format, and frequency of these reports often dissimilar and erratic, due to the specifications of grants and the varying financial timelines of contributing donors and organizations, they often represent entirely different fiscal years.  One foundation may require annual reports that span the period of July 1 to June 30, while another requests them from October 1 to September 30.  All of this will be compounded, of course, by the fact that the receiving organization’s fiscal year may run from January 1 to December 31.  To attempt to handle this activity by modifying these reports manually can not only become tiring and burdensome to track, it can also be a losing proposition given the stricture to which many non-profits must adhere when providing such documentation.  If these prescribed formats are not rigorously adhered to, whether consciously or otherwise, the organization in question could lose funding, executive staff, or (especially in the case of restricted funding) its tax-exempt status.

The struggle of multi-year tracking for non-profits doesn’t end with reporting, however, and many of these organizations must also account for funds that will be disbursed over a number of years.  Multi-year grant-tracking often becomes a point of concern for non-profits who have a distinct need to not only show that funding has been pledged, but also that these funds will only be available after a certain threshold of time.  This can become a massive headache for bookkeepers and staff charged with the efforts of tracking and reporting these income sources.   All of this, of course, becomes all the more taxing when (as is usually the case) these funds carry special restrictions on reporting and usage.

We believe that these and many other difficulties (including but not limited to multi-year grant-tracking, non-profit-specific accounting rules, and program performance measurement) often stem from an incongruence between the needs of these non-profit organizations and the capabilities of the commercial accounting software that they tend to employ.  While this can be frustrating, we also believe that there are not only effective methodologies for mitigating this issue, but that there are also accounting tools available designed specifically for non-profit organizations seeking to more effectively manage their funding sources.  Systems such as Abila, Quickbooks Non-profit, and Serenic Navigator have as their aim to automate and simplify many of the previously mentioned issues and prevent rework and penalty for the non-profit in which they are employed.  Whether the answer is re-thinking accounting processes or moving to an entirely new system, however, the transfer of financial data can be both trying and perilous.