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# Nonprofit Bookkeeping Best Practices

Building a Strong Bookkeeping Foundation for Your Nonprofit

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From complicated nonprofit regulations to delivering financial information to the board on time, nonprofit leaders face a number of bookkeeping challenges that can distract them from focusing on their organization's mission.

Adhering to nonprofit bookkeeping best practices will help you build a stronger foundation, enabling you to comply with nonprofit regulations, deliver information to your board more easily and concentrate on long-term strategy.

## By following these key best practices, you can:



### **Refocus on your core mission**

by modernizing your bookkeeping systems. A few simple steps will enable you to streamline processes, enhance controls, simplify tax preparation and receive real-time insights into your organization's finances. All of which will free up your staff to devote more time and energy to hitting your fundraising targets and meeting other key goals.



**Gain the confidence** that comes from knowing you're doing things the right way. When it comes to bookkeeping, nonprofits are held to a higher standard than the for-profit sector. Fund accounting, grants management and, of course, the new Financial Accounting Standards Board (FASB) regulations are all potential speed bumps. Making sure you have a bookkeeper with nonprofit experience can help ensure a smooth ride.



**Improve transparency** when providing financial reports to your board, increasing their confidence in your professionalism and ability to safeguard donor funds.



**Think strategically** about your organization's future rather than simply scrambling to meet the financial demands of the present.



## Modernize for Better Focus

With the complexity of nonprofit bookkeeping, manual bookkeeping tends to lead to confusion and a backlog of unclassified (or improperly classified) expenses, even at smaller organizations.

One challenge with many nonprofits is the need to classify all expenses under the proper funds. For example, depending on the requirements of a particular grant, you may need to track all costs associated with it, including portions of salaries, office space and cellphone bills. Fortunately, software programs are available that let you assign all expenses to the proper categories in real time.

Utilizing modern bookkeeping systems and planning ahead for this level of tracking can help you slash administrative time (and costs). It's also an opportunity to establish important checks and balances that will reduce the risk of error.

By taking these steps, you'll also be better prepared at tax time and when presenting financial information to your board. Best of all, your administrative staff will be able to focus more of their time on what drew them to your nonprofit — its mission.

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*Now we can really see where we are financially and compare things year by year. I get a better picture, and the board gets a better picture. I wasn't expecting to be able to streamline our financial operations so concisely and completely.*

– Carol Meagher, Executive Director, Sierra Nevada Children's Museum

## Gain Confidence by Doing It Right

Even executives with deep experience in the for-profit sector can have difficulty making the transition to a nonprofit. The very thing that makes a nonprofit viable — its tax-exempt status — is also the thing that can make it a bookkeeping nightmare. (How familiar are you with IRS Form 990?)

Suffice to say that regulations are complicated and the penalties for noncompliance can be severe, even if that noncompliance is unintentional. Moreover, the regulations frequently change. The 2017 Tax Cuts and Jobs Act (TCJA), for example, eliminated certain deductions. That affected nonprofits in a way that many administrators simply never saw coming.

Anyone handling bookkeeping for a nonprofit must keep up with new legislation like the TCJA. He or

she must also be well-versed in the intricacies of fund accounting (which the FASB requires for all tax-exempt nonprofits) and the latest FASB changes involving revenue recognition, presentation of financial statements and more.

Software can help simplify the process of staying in compliance. For example, you can standardize the assignment of funds and link them to common transactions, thus facilitating the tracking of revenues and expenses associated with each fund. A bookkeeper knowledgeable in nonprofit bookkeeping can make sure you're in compliance with nonprofit regulations and set up processes that will capture the necessary information, making it easy to gather data for Form 990.

## Improve Transparency

The combination of staff turnover, legacy bookkeeping and the complexity of multiple funding streams can make it difficult to track funding appropriately. Nonetheless, speed, accuracy and financial transparency are essential for a nonprofit to stay in compliance with regulations and tax filings and to give board members the timely information they need to provide proper direction to the organization.

Nonprofit board members typically have limited terms and may lack an in-depth knowledge of finances. That places a premium on presenting them with financial information in a manner that's easy to grasp.

For example, in addition to delivering data about how each funding source was spent, you can include details about the type of funding (federal, grant or private) and the funding source's limitations. Information like this can help board members understand each funding source and how it affects the organization. Presenting the financial data visually (e.g. charts and graphics) can also make the information easier to understand.

By establishing a strong bookkeeping foundation with modern systems, you'll enhance your ability to provide timely and useful information to your board. This, in turn, will help board members offer better strategic guidance to your nonprofit.



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*Supporting Strategies has simplified how our financials are presented, making it easier for Board members as well as volunteers to understand the numbers.*

– Len Lanzi, Treasurer and Board member of Meals on Wheels West





## Start Thinking Strategically

Operating a nonprofit shouldn't be an exercise in crisis management. But for many executive directors, that's what the job has become. Days disappear in a stressful blur — trying to track down a misclassified donation, answer a question from a board member or wrap your head around the implications of yet another change in the tax code or accounting standards. All while hustling to keep the funds coming in an increasingly competitive nonprofit environment.

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*Instead of spending meetings going over the granular general ledger and whether something is in the wrong line on a balance sheet, now we're thinking cash flow, budgeting and deeper-level analysis because we have the time and the confidence in our numbers and our reporting that we can move on to bigger issues.*

– Andrew Schneider, Executive Director,  
Arlington Thrive

The goal is not to ignore the flow of funds into and out of your organization entirely. Rather, it's to stop fixating on the details and look at the long-term trends. Which fundraising efforts have been most successful, and why? Could you expand those efforts while eliminating those that have traditionally performed poorly?

And if you are able to boost your performance so that you're not just maintaining your level of funding but actually growing it, what will you do with those extra resources? Is your most pressing need improved infrastructure or more full-time staff? Do you need more professional marketing? Or could you simply do a better job of matching benefactors and beneficiaries?

Imagine being able to both identify such long-term objectives and have the support in place to actually pursue them.



## More Time for What Matters Most

If you've read this far, that's a good indication you're ready to strengthen your nonprofit through better bookkeeping. You're willing to embrace a more streamlined approach using 21st century software that will provide you with a much quicker, clearer

grasp of your organization's financial picture. And you appreciate the value of tapping into someone with nonprofit bookkeeping experience, giving your board better information faster and placing a higher priority on strategizing.



**Following the best practices outlined here will help you and your staff achieve all of the above and find more time for what matters most: tackling your nonprofit's mission-critical objectives.**

### About Supporting Strategies

Supporting Strategies has provided efficient and effective outsourced bookkeeping services and operational support to growing businesses since 2004. Our clients get the support they need, when they need it, at a price they can afford, allowing them to focus on their core business. Supporting Strategies' skilled, experienced professionals use secure, best-of-breed technology and a proven process to deliver a full suite of services, including accounts payable, accounts receivable, bookkeeping, financial analysis and payroll administration. We have offices across the country. For more information, please visit [www.supportingstrategies.com](http://www.supportingstrategies.com).