



## **Trends in Nonprofit Accountability and Its Impact on Reporting Requirements**

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Increased Stewardship and Accountability  
Requirements Raises the Importance of  
Integrated, Accurate, and Easy-to-Use  
Reporting Tools

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## Introduction:

An environment exists where budget and city-level budget crises across the U.S. are bringing closer examination to every dollar spent. And with the public still skeptical about proper stewardship of funds, due in part from recent public accounting scandals in the commercial and corporate sectors, it is not surprising that the renewed focus on accountability and financial transparency would also come to the nonprofit sector. In the past two years, a series of organizations and associations have unveiled accountability standards and best practice guidelines to foster confidence and credibility in the nonprofit sector.

The United Way system adopted tougher, self-imposed operating standards, and made compliance with the new criteria a United Way membership requirement. Several state-based associations are also issuing new accountability guidelines, notably the Maryland Association of Nonprofits, which is making their standards and certification program available to similar groups in other states.

Previously, these guidelines were internally imposed and often voluntary. However, these guidelines are increasingly being augmented by actual legislation, turning careful stewardship and transparency into a legal requirement.

## New Laws Expand Nonprofit Reporting Requirements

Most accountants in the corporate sector are very aware of the Sarbanes-Oxley bill. But many nonprofit organizations may be uncertain how that bill, which primarily impacts publicly traded companies, will impact charitable organizations as a whole — and their own organization in particular.

Passed by congress in 2002, Sarbanes-Oxley (also known as the American Competitiveness and Corporate Accountability Act) is designed to tighten standards and increase operational oversight in corporations. Sarbanes-Oxley includes provisions for audits, disclosure, whistle blower protection, certified financial statements and rules on insider transactions, and proposed a new organization to enforce standards for audits of public companies.

While Sarbanes-Oxley primarily impacts publicly traded companies, it does include requirements for nonprofits to develop written policies related to the handling of employee complaints and the destruction of documents. In addition, several states are beginning to apply other parts of the Sarbanes-Oxley bill to the nonprofit sector. For example, upcoming legislation in New York would require nonprofits to produce verification of financial statements, and it's likely that other states will follow suit.

Already California state officials have unveiled the Nonprofit Integrity Act of 2004 — legislation that would require charities to prepare and certify annual financial statements. The legislation would require nonprofit organizations with gross revenues of \$500,000 or more to prepare and publish annual financial statements that have been audited by an independent certified public accountant. These requirements will impact around 11 percent of approximately 88,000 registered nonprofits in California. In addition, nonprofits would also be required to establish independent audit

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committees and annually review compensation and benefits paid to top officers. And California isn't alone, as other states are following suit in this accountability-focused era, and we haven't seen the last of the proposals.

## Compounding the Issue

The key challenges associated with new and additional government and internal oversight is ensuring audit ability and producing more required reports. Complying with new government or internal oversight becomes increasingly painful when a nonprofit has adopted commercial software to manage its nonprofit accounting needs. Often this is initially a financially motivated decision — purchasing a lower-cost software package to get by. However, fledgling programs expand, adding projects, new grants, etc., until the organization has effectively outgrown its adopted accounting package.

More effort is required to adapt accounting processes and systems to meet these new needs. This commonly leads to organizations managing separate funds in spreadsheets and separate files, which becomes progressively unwieldy. Pulling disparate information together for reporting requirements becomes a daunting task and it requires additional staff attention in an era when staff resources are notoriously scarce. Worst of all, it puts an organization in a position of manually parsing together information from separate systems, creating room for human error at a time when tolerance for accounting errors has never been lower.

## Investing in a Long-Term Solution

While it can be daunting to an organization to change a system as critical as accounting, once the transition is complete it can alleviate many organizational pains. Adopting real fund accounting designed specifically for nonprofit organizations ultimately will help reduce risk of errors, streamline accounting and administrative processes, enable the tracking of multiple independent funds in a single system, yet allow staff to easily pull data from all funds into unified, comprehensive reports. Having the right tools for the job relieves administrative reporting burdens, often shaving days off reporting cycles and dramatically simplifying audit preparations.

## Meet New Challenges with Sage MIP Fund Accounting

Nonprofits concerned about new requirements can meet these challenges with confidence by adopting a real fund accounting solution that helps foster transparent reporting and audit ability. The Sage MIP Fund Accounting product line by Sage Software was built from the ground up to meet the complex reporting needs of nonprofits. More than ever, nonprofits rely on Sage MIP Fund Accounting products to ensure that organizations can meet the following challenges.

### Accuracy

Accurate accounting of the use of funds received from grantors, major donors and small contributors has never been more critical. Campbell Research, an independent

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research firm that specializes in the needs of the nonprofit market, claimed that Sage MIP Fund Accounting provided the best expense-tracking tool available in the market.

Sage MIP Fund Accounting offers a flexible, table-driven chart of accounts structure built specifically to handle the multiple funds tracking required by nonprofits. Record funds, grants, programs, funding sources and more with an unlimited number of segments, user-defined character types and account lengths. Instead of adapting organizational processes and terminology to match commercial software limitations, Sage MIP Fund Accounting lets organizations customize the chart of accounts so that it fits the way each organization works and satisfies their specific needs for fund tracking.

### **Audit Ability**

Sage MIP Fund Accounting provides internal controls to limit access of data entry and inquiry to only the individuals who have a legitimate need for access. The system maintains an extensive audit trail to allow users to audit system access and track each entry, change or deletion of data by staff member. What's more, it provides other controls to prevent deletion of critical audit trail data.

### **Good Stewardship**

Sage MIP Fund Accounting has advanced budget and cost allocation features to help organizations ensure that funds are maximized in the delivery of programs and services that support their mission. Furthermore, Sage Software offers a range of true fund accounting solutions at a range of functions and prices, so nonprofits can find the best solution to fit their specific organization. By measuring immediate needs against a range of functionality, nonprofits can make the best investment choice for their organization, and make each dollar count.

### **Administrative Control**

No matter how pressing the need or new requirements, it can remain challenging for any organization to adopt new software systems. Sage nonprofit solutions are easy to install and use, and offer a variety of training options to smooth the learning curve for staff. The most consistent compliment offered to Sage MIP Fund Accounting is that it cuts days off each reporting cycle, giving staff more time to focus on other matters.

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*No other software vendor offers the safety net we provide to nonprofits, including money-back guarantees, zero percent financing for nonprofits and trade-in credits for upgrades.*

## Conclusion

Moreover, by ensuring your organization has the right software tools to meet new accountability standards and government oversight, you can help your staff meet the new challenges while minimizing added pressure. You'll also be able demonstrate your financial transparency to your board, grantors and major donors with ease, and ultimately keep your organization more focused on its mission.

Sage Software is dedicated to addressing the needs of the nonprofit community. We have a team solely committed to the nonprofit sector and have been serving this community for more than 20 years. No other software vendor offers the safety net we provide to nonprofits, including money-back guarantees, zero-percent financing for nonprofits and trade-in credits for upgrades. Our quality products and services, along with our commitment to ethical selling and integrity, has led thousands of nonprofits to trust our software solutions for managing their financial matters and reporting requirements every day.





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