



Rooted in Trust. Grounded in Accuracy.

# COMMON QUICKBOOK ISSUES FOR NONPROFITS



**Solutions to the most common QuickBooks problems nonprofit organizations encounter.**

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## COMMON QUICKBOOKS ISSUES FOR NONPROFITS

Nonprofits depend on accurate, well-organized QuickBooks records to meet grant requirements, satisfy audit standards, and maintain donor trust. But even organizations with dedicated staff can develop QuickBooks habits that quietly undermine financial accuracy over time.

This resource identifies the six most common QuickBooks issues nonprofits face — including fund tracking errors, misallocated expenses, reconciliation gaps, and compliance blind spots — and provides practical steps to correct them before they become larger problems.

*This free resource includes a self-assessment, six detailed issue guides with severity ratings and QuickBooks navigation tips, compliance deadlines, a full checklist, and questions to ask your bookkeeper or CPA.*

## QUICK SELF-ASSESSMENT: HOW IS YOUR NONPROFIT'S QUICKBOOKS HEALTH?

Before reading the full guide, answer these six questions honestly. For each one where you answer “No” or “Not Sure,” note it — that issue is covered in detail below.

Assessment Question	YES	NO
1. Can you quickly show a funder the remaining balance on any specific grant?	<input type="checkbox"/>	<input type="checkbox"/>
2. Are all expenses allocated to Program, Management & General, or Fundraising?	<input type="checkbox"/>	<input type="checkbox"/>
3. Are all bank accounts and donation platforms reconciled through last month?	<input type="checkbox"/>	<input type="checkbox"/>
4. Are all donations recorded with the correct restriction status?	<input type="checkbox"/>	<input type="checkbox"/>
5. Are all grant expenses coded to the correct grant in QuickBooks?	<input type="checkbox"/>	<input type="checkbox"/>
6. Is payroll posted after every pay run and allocated to the correct programs?	<input type="checkbox"/>	<input type="checkbox"/>

Your Score \_\_\_\_\_ /YES Answers

Score	What It Means
6 of 6	Strong foundation. Use this guide to maintain accuracy.
4–5 of 6	Good progress. Review the flagged issues and strengthen your systems.
2–3 of 6	Needs attention. Multiple systems may need cleanup or restructuring.
0–1 of 6	Time to get support. Professional bookkeeping help can get you back on track.



## What Your Score Means

Based on your score, use the guide below to understand your current risk level.

Level	Meaning
▲ <b>HIGH RISK</b>	Affects compliance, audit readiness, or tax-exempt status. Address immediately.
◆ <b>MEDIUM RISK</b>	May cause reporting inaccuracies. Schedule time to review and correct.
● <b>LOW RISK</b>	Best practice improvement. Incorporate into your regular monthly review.

## ISSUE 1: FUND TRACKING ERRORS — MIXING RESTRICTED AND UNRESTRICTED FUNDS

▲ **HIGH RISK** — Affects compliance, audit readiness, or tax-exempt status. Address immediately.

Nonprofits receive both **restricted funds** (designated for specific programs or purposes) and **unrestricted funds** (available for general operations). When these are not tracked separately in QuickBooks, financial reports become unreliable and it becomes difficult to demonstrate proper grant compliance.

### What goes wrong:

- Restricted grant dollars become mixed with general operating funds
- Fund balances cannot be quickly or accurately reported to funders or board members
- Restrictions are released without proper documentation or supporting journal entries
- QuickBooks **Classes** or **Locations** not used to separate fund activity.

### How to fix it:

- Set up QuickBooks Classes or Locations to track each grant and restricted fund separately
- Create a consistent naming convention for restricted funds (e.g., Grant-FunderName-Year)
- Record restriction releases with proper journal entries when conditions are met
- Run fund balance reports monthly to confirm accuracy before board meetings and grant reports
- Ensure fund balances in QuickBooks align with internal tracking and grant documentation

### In QuickBooks Online

Go to *Settings* (gear icon) → *Account and Settings* → *Advanced* → *Categories* → check 'Track Classes.' Once enabled, assign a class to every income and expense transaction. Run a *Profit and Loss by Class* report to see fund balances by grant or program. QBO Plus includes up to 40 classes and 40 locations.



## ISSUE 2: INCORRECT FUNCTIONAL EXPENSE ALLOCATION

**⚠ HIGH RISK — Affects compliance, audit readiness, or tax-exempt status. Address immediately.**

Nonprofits are required to allocate expenses across three functional categories: **Program Services, Management & General, and Fundraising**. This allocation directly impacts Form 990 reporting and is closely reviewed by funders and auditors. When expenses are not allocated correctly in QuickBooks, financial reports become misleading and Form 990 preparation becomes significantly more difficult.

### What goes wrong:

- All expenses are coded to a single category (often Program), regardless of actual purpose
- Shared costs such as rent, utilities, and salaries are not allocated across multiple functions
- Allocation methodology is not documented or consistently applied
- The Statement of Functional Expenses cannot be accurately generated from QuickBooks

### How to fix it:

- Use QuickBooks Classes to assign each expense to Program, Management & General, or Fundraising
- Create a written allocation methodology for shared costs and apply it consistently each month
- Review the Statement of Functional Expenses monthly to identify and correct misallocations early
- Review your allocation methodology with your CPA before preparing Form 990

### In QuickBooks Online

Go to Reports → search 'Statement of Functional Expenses.' This report is available once Class tracking is enabled and expenses are assigned to functional categories. If this report is blank or incomplete, your class tracking setup may need to be reviewed.

## ISSUE 3: SKIPPED OR INCOMPLETE RECONCILIATIONS

**⚠ HIGH RISK — Affects compliance, audit readiness, or tax-exempt status. Address immediately.**

Monthly reconciliation is the foundation of accurate nonprofit bookkeeping. When bank accounts, credit cards, and payment platforms are not reconciled consistently, errors can accumulate silently—often surfacing at the worst possible time during an audit or grant review.

### What goes wrong:

- Months pass without reconciling bank or credit card accounts
- Donation platforms (such as PayPal, Stripe, or donor management systems) are not reconciled to QuickBooks
- Old reconciling items accumulate without investigation
- Balance sheet accounts are not reconciled, resulting in unreliable financial reports



**How to fix it:**

- Reconcile all bank accounts, credit cards, and payment platforms every month—without exception
- Investigate and resolve all reconciling differences; never force a balance
- Include investment or brokerage account reconciliations, if applicable
- If reconciliations are behind, work through them in order—one month at a time

 **In QuickBooks Online**

Go to Accounting (left menu) → Reconcile. Select the account and statement date, enter the ending balance from your bank statement, and match transactions one by one. A complete reconciliation should show a \$0.00 difference. The Reconciliation Reports section lets you view and print past reconciliation reports.

**ISSUE 4: DONATION AND CONTRIBUTION RECORDING ERRORS**

◆ **MEDIUM RISK — Creates reporting inaccuracies. Schedule time to review and correct.**

Accurate donation recording is essential for donor acknowledgment, tax compliance, and reliable financial reporting. Errors in how contributions are recorded in QuickBooks can impact donor relationships, create IRS compliance issues, and reduce the accuracy of your Statement of Activities.

**What goes wrong:**

- Donations recorded as income in the wrong period
- Restricted and unrestricted donations not distinguished at the point of entry
- In-kind donations not recorded, or recorded without documented fair market values
- Donor platform deposits recorded as lump sums without individual donor detail
- Missing acknowledgment letters for contributions of \$250 or more

**How to fix it:**

- Record each donation with the correct date, donor name, amount, and restriction status
- Use QuickBooks Customer/Donor records to track individual giving history
- Document all in-kind donations with a clear description and fair market value
- Record donor platform deposits with individual donor detail rather than lump sums
- Send acknowledgment letters promptly for all contributions of \$250 or more

 **In QuickBooks Online**

Go to Sales → Customers (or Donors if your company type is set to Nonprofit). Each donor should be set up as a customer. Record donations as Sales Receipts or Pledges and assign them to the correct income account and class. Run a Sales by Customer Summary report to see giving by donor.



## ISSUE 5: GRANT EXPENSE CODING ERRORS

**⚠ HIGH RISK — Affects compliance, audit readiness, or tax-exempt status. Address immediately.**

Grant funds come with specific requirements about how dollars must be spent and reported. When expenses are not coded correctly to the appropriate grant in QuickBooks, it becomes difficult to demonstrate compliance — and may create problems during grant reporting or audits.

### What goes wrong:

- Expenses charged to a grant without verifying they are allowable under the grant agreement
- Grant expenses not tracked separately, making it impossible to produce grant-specific reports
- Expenses coded to the wrong grant due to similar naming or lack of a clear system
- Grant balance overspent or significantly underspent without awareness until reporting is due

### How to fix it:

- Assign every grant-related expense to the correct Class or Location in QuickBooks at the time of entry
- Review grant balances monthly by comparing grant-specific reports to approved budgets
- Keep a copy of each grant agreement in your document management system for easy reference
- Run a Profit and Loss by Class report each month to confirm grant expense accuracy

### In QuickBooks Online

Go to Reports → Profit and Loss by Class. Filter or select a specific grant class to see all income and expenses for that grant in one view. Compare this to your grant budget to confirm you are within approved spending limits. If you use Projects for grant tracking, go to Business Overview → Projects.

## ISSUE 6: PAYROLL AND COMPLIANCE RECORDING GAPS

**⚠ HIGH RISK — Affects compliance, audit readiness, or tax-exempt status. Address immediately.**

Payroll is one of the most complex areas of nonprofit bookkeeping. Errors in how payroll is recorded in QuickBooks — or failure to keep compliance filings current — can create tax liability and reporting problems that are costly to correct.

### What goes wrong:

- Payroll not posted to QuickBooks after each pay run, leaving the books incomplete
- Payroll taxes not allocated correctly to the right programs or grants
- Contractor payments not tracked for 1099-NEC reporting
- Employee vs. contractor classification not documented, creating IRS risk
- Quarterly payroll tax filings (Form 941, state filings) not reconciled to QuickBooks payroll totals



**How to fix it:**

- Post every payroll run to QuickBooks immediately and reconcile to the payroll provider report
- Allocate payroll and payroll taxes to the appropriate program or grant using Classes
- Collect W-9 forms from all contractors before their first payment
- Track all contractor payments throughout the year against the \$600 reporting threshold (for tax year 2025 payments)
- Reconcile quarterly payroll filings to QuickBooks and resolve discrepancies promptly

**In QuickBooks Online**

Go to Payroll (left menu) → Overview to review pay run history. After each payroll run, verify that journal entries have posted to QuickBooks and that payroll expenses are assigned to the correct classes. Go to Expenses → Vendors to track contractor payments. Use the Contractor Payments section to prepare 1099s at year-end.

**FEDERAL NONPROFIT COMPLIANCE DEADLINES**

Deadline	Requirement
January 31	W-2 forms must be provided to employees and filed with the SSA. Form 1099-NEC must be issued to contractors and filed with the IRS. Filing threshold: \$600 for current filings. Beginning with payments made in 2026 (filed in 2027), the threshold increases to \$2,000.
May 15	Form 990 is due for calendar-year nonprofits. File Form 8868 by May 15 for an automatic 6-month extension. Three consecutive missed filings result in automatic loss of tax-exempt status.
Quarterly	Form 941 (Employer's Quarterly Federal Tax Return) due April 30, July 31, October 31, January 31.
990-T	Required if your nonprofit has more than \$1,000 in gross unrelated business income during the year
State Filings	Charitable registration renewals and state reporting deadlines vary by state — check your state requirements annually.

**COMMON NONPROFIT QUICKBOOKS RED FLAGS TO AVOID**

These issues can trigger funder concerns, audit complications, or IRS scrutiny:

- Restricted and unrestricted funds mixed without proper class or location tracking
- Functional expense allocation missing or inconsistently applied
- Donation platform deposits recorded as lump sums without individual donor detail
- Grant expenses not coded to the correct grant — or not tracked separately at all
- Reconciliations skipped for one or more months, especially near grant reporting deadlines
- Contractor payments not tracked for 1099-NEC — especially payments over \$600 (2025) or \$2,000 (2026+)
- Acknowledgment letters missing for contributions of \$250 or more
- Form 990 filed late for three consecutive years — results in automatic loss of tax-exempt status



## MONTHLY YEAR-ROUND HABITS — STAY COMPLIANT ALL YEAR

Nonprofit compliance is ongoing. These monthly habits help prevent issues before they become problems:

- Reconcile all bank accounts, credit cards, and donation platforms
- Review fund balances by class to confirm restricted funds remain properly tracked
- Run grant-specific reports and compare to approved budgets
- Review the Statement of Functional Expenses to confirm proper allocation
- Send donation acknowledgment letters promptly
- Save receipts and supporting documentation for all expenses immediately
- Post and reconcile payroll to QuickBooks after every pay run

## QUESTIONS TO ASK YOUR BOOKKEEPER OR CPA

Use these questions to strengthen your nonprofit's financial health and clarify your QuickBooks setup.

### About Fund and Grant Tracking:

- “Are our Classes set up correctly to separate restricted and unrestricted funds — and to track each grant separately?”
- “Can we quickly pull a grant balance report for any funder at any time?”
- “Are we recording restriction releases properly in QuickBooks with journal entries?”

### About Functional Expenses:

- “Is our functional expense allocation methodology accurate and defensible for Form 990?”
- “Are shared costs like rent, utilities, and salaries being split correctly across Program, Management & General, and Fundraising?”
- “Can we produce a Statement of Functional Expenses directly from QuickBooks?”

### About Compliance:

- “Do we have any unrelated business income that would require filing Form 990-T?”
- “Are our contractor payments being tracked throughout the year so 1099-NEC filing is straightforward?”
- “Are there any compliance risks in our current QuickBooks setup we should address?”

## YOU DON'T HAVE TO DO THIS ALONE

QuickBooks issues are common — and most of them are fixable. But catching them early, correcting them completely, and preventing them from recurring takes consistent attention and expertise. Many nonprofit leaders find that working with a professional bookkeeper is the most efficient path to clean, compliant books.

- Catch and correct QuickBooks errors before they affect reports or audits
- Set up fund tracking, class structures, and grant coding correctly from the start
- Reconcile all accounts monthly so nothing accumulates or goes undetected
- Prepare grant expense reports quickly and accurately when funders request them
- Keep payroll and contractor records current and compliant
- Give your board reliable financial reports every month — without the scramble



*When your books are clean and current, your organization can focus fully on its mission — with confidence, compliance, and the financial clarity that attracts funders and builds lasting donor trust.*

### YOUR FREE NONPROFIT BOOKKEEPING REVIEW

OakPath offers a free 30-minute Financial Review to help you assess your current bookkeeping system. During this session, we will:

- Review your current QuickBooks setup
- Identify any risk or compliance concerns
- Highlight opportunities for improvement
- Answer your questions — no preparation required

#### Schedule Your Free Bookkeeping Review

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### SECURITY & CONFIDENTIALITY

Professional bookkeepers use secure, encrypted systems to protect financial information. Your records remain private, controlled, and accessible only to authorized users.

*Trust begins with security.*

### ABOUT OAKPATH BOOKKEEPING SERVICES

OakPath Bookkeeping Services provides trusted, reliable bookkeeping support for nonprofits and small businesses in Jefferson County, Washington and beyond. We believe bookkeeping is more than entering numbers — it is about creating clarity, supporting compliance, and building confidence in every financial decision your organization makes.

Founded by Marie Osborne, a Certified QuickBooks Online ProAdvisor with 40+ years of leadership experience — including 17 years overseeing multimillion-dollar nonprofit and county administration budgets — OakPath brings deep nonprofit expertise and genuine care to every client relationship.

Value	What It Means for You
Trust	Your financial records are handled with care, discretion, and complete integrity
Accuracy	Precise, up-to-date records support confident decisions and clean audits
Partnership	Supportive bookkeeping so you are never facing your finances alone

*With clean QuickBooks records and consistent monthly habits, your nonprofit gains clarity, compliance, and confidence.*

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