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Modern Accounting Solutions Bring Efficiency

The demand for nonprofit transparency and accountability has intensified. Funders and donors alike want to see evidence of optimal stewardship. This demand goes beyond simply showing that funds have been spent as intended. Donors and funders want to see the granular impact of the money spent.

By achieving new levels of transparency and accountability, nonprofit organizations hope to strengthen and enhance the trust and engagement of funders and donors. Access to better information that links funding to impact on both a macro and micro level allows nonprofits to: create a more compelling

Accountability serves to satisfy funder inquiries but also drives nonprofit excellence and improvement

How does the finance office partner with the organization in fulfilling the mission? How does the finance office work with the organization to drive new revenue streams? How do we tell the story to our donors that we need to create operating reserves? Part of it is being able to provide information in a timely and easily digestible manner. That may be delivered in an online dashboard along with analytics, so that non-accounting managers can easily access the information they need when they need it. They have budget and actual numbers, but they also have trends over time, which allows them to make better decisions, which in turn, further the mission.

Thomas Walker
Blackbaud

narrative; provide mission fulfillment proof points; answer donor and funder demands and desire to see specific impact of funds; cultivate an optimal environment for additional funding; and bolster the long-term sustainability of the organization.

The State of Nonprofit Accounting Departments

The kind of transformation described above cannot happen when nonprofit accounting departments are tethered by manual or outdated systems that make producing even the most basic, lowest common denominator of reporting the ongoing pre-occupation and the most time-consuming aspect of their jobs.

“The reason for a nonprofit to have an appropriate accounting system is not for the joy of putting data in the system, but rather it’s for getting data out in rational, sensible, and understandable order,” said Peter Stam of AccuFund. Leveraging technology with the right nonprofit accounting system is immensely efficient in automating the routine and repetitive tasks of the accounting department, which then allows Finance Directors to focus on the kind of specialized analysis and reporting that enhances organizational transparency.

However, as Abila’s 2016 Nonprofit Finance Study shows, the majority of Finance Directors identify “managing the complexity of our revenue sources,” “managing the budget,” and “creating processes to ensure finances run smoothly even if people leave,” as the most pressing priorities. The accounting software leaders interviewed for this Special Report agree that these challenges are relatively unchanged over the years, in spite of the enormous changes in technology, software delivery, and availability of nonprofit accounting software solutions.

Adding to the pressures nonprofit ac-

Moving toward a more strategic nonprofit operation

Automating the manual processes that burden accounting, empowers the entire organization. Accounting is no longer trying to manage by spreadsheet; program managers no longer need to create their own spreadsheets to track their particular budgets and program. Now leadership throughout the organization can turn their attention to more strategic concerns, all of those things on the To Do list that didn’t get done due to reporting delays, or lack of specialized reporting. Now higher-level analysis can be done, for example competitive bidding to investigate lower costs, fraud prevention and separation of duties, and a strategic understanding of what their revenue requirements really are.

Peter Stam
AccuFund

counting departments have, new FASB reporting requirements are being rolled out as this report is published – bringing new reporting challenges.

The good news is that an investment in nonprofit accounting software can relieve the burden of routine reporting while providing FASB reporting readiness and allow nonprofit accounting leaders to meet new millennium expectations and begin charting a course to a new level of organizational transparency and accountability.

Desired Impact: Why Transparency Matters

“People are expecting transparency,” said Blackbaud’s Thomas Walker. Donors and

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funders “want to see that their money is being used wisely. The key for nonprofits is being able to tell that story.”

When a funder or donor asks the question, nonprofits need to respond quickly, “They have to know how things are going as it is happening, in real time, not a month later,” explains Intacct’s Joan Benson. The ability of the nonprofit to respond immediately has two benefits: to ensure continued funding, “to get the grant renewal,” points out Benson, “but also because the nonprofit wants to have the reputation of doing what they say they’re going to do and being successful at it.”

Donors want to be involved with an organization that is making an impact. “Donors want to be able to say, ‘my nonprofit is really efficient with the money they’re getting from my donation, they just fed 200 extra people because of my donation,’” notes Eric Nasalroad of Aplos. “The details that paint the clearest picture contribute to the kind of transparency that has allowed nonprofits to enjoy increased donations.”

Sound financials (combined with outcome and performance measures) that can be delivered quickly (and not deferred until the annual report is issued) deepens the trust and commitment of donors. Peter Stam of AccuFund points out that with a

track record of transparency, nonprofits are better equipped to approach donors to aid with meeting the full costs of successful programs and organization management – a growing issue among nonprofits.

“The only way nonprofits can fulfill their mission is to have the necessary financial resources to plan and measure their programs’ revenue and expenses,” said Joseph Scarano of Araize. “They have to make sure they have the proper revenue in place to be sustainable.”

FASB Changes Are Here and More Are Coming

Accompanying this demand for transparency and accountability are recently announced changes in FASB reporting requirements. Combined with the already cumbersome financial reporting duties with which nonprofit finance directors are tasked, it will be extremely difficult, if not impossible, to provide adequate reporting without leveraging technology.

“The last FASB regulations for nonprofit financial reporting happened in the ‘90s. The big change in the recent FASB requirements revises the financial statement presentation for nonprofits,” said Scarano. “Before there were three classes of net assets that needed to be reported; unrestricted, temporarily restricted and permanently

Subscription billing makes investment in nonprofit accounting software easier

With software being delivered in the SaaS model, it’s a lot easier to get board approval for a subscription method because you’re not asking the board for a large, upfront investment. New customers are opting for the cloud because there are so many benefits to enjoy out of the gate with the added benefit of eliminating costs previously associated with on-premise installations and ongoing maintenance of hardware and other server requirements.

Danny Murphy
Abila MIP Fund Accounting

restricted net assets. Now, they’re consolidating temporarily restricted and permanently restricted into one class, “With Donor Restrictions”. The Unrestricted is now “Without Donor Restrictions”.

“The changes to FASB reporting are to help folks understand the financial statements and to make sense of what’s going

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The benefits of leveraging a modern, built for nonprofit accounting solution are compelling

Less time for gathering, compiling and distributing reporting

– The longer it takes accounting to close the book, the less management can do with stale information. Every person interviewed for this special report commented on the need for up-to-date financials, and the ability of software to decrease the time associated with month-end reporting from week, days, and hours to mere minutes.

Accounting leaders no longer number crunchers, but strategic resource for the organization

– Equipped with accounting solutions designed for nonprofits, Finance Directors can provide deeper strategic counsel to other leaders within the organization. They can assist with negotiating contracts that can lower costs. They can assist program and departmental heads in creating custom dashboards and scorecards that display the real-time information impor-

tant to each manager. Better management of programs leads to better fulfillment of the mission. Real-time data helps in answering questions from major donors and protecting the relationship and nurturing loyalty.

Better information internally, improved communication externally

– Where are your greatest success stories? Which successes could you replicate and increase the number of constituents served? Where are you vulnerable? Where might you need donor support in the form of unrestricted funds to help cover full costs? When you are able to combine data with emotional appeal your ability

to influence additional funding improves greatly.

Support Internal Controls

– The more manual your processes, the more susceptible they are to both error and fraud. A modern nonprofit accounting system can help you maintain consistency and help enforce documented processes. The system can be used to limit system access to appropriate personnel. And, nonprofit accounting systems provide an audit trail to improve security and veracity of data.

Facilitate audits – Who would like to spend less time with audits? Equipped with a nonprofit accounting system,

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on in the nonprofit, since there are nuances that are different from those of a commercial business,” said Thomas Walker.

“It’s going to be a big shift in the mindset of how things are classified,” noted Abila’s Dan Murphy, “simply because the current method has been in place so long. But as far as the actual process changes, definitely a fund accounting system can make that easier by allowing a very high level of control over how things are classified, and an easy way to consolidate.”

“The process of changing to meet new FASB requirements is never easy,” notes Peter Stam. “But it is easier if you’ve got an accounting system that’s designed to do FASB reporting and designed to take responsibility for keeping up with those changes versus having to use a commercial product where it’s totally up to you to figure out how to make the software adapt to changing requirements.”

While organizations with manual processes may be struggling to adapt to the changes, all of the nonprofit software publishers interviewed report FASB-readiness.

The Time for Automation is Now

Battling the daunting reporting challenges that come with multiple funding sources, receiving increasing demands from information-

Modern accounting solutions bring efficiency to the audit process

Dashboards and collaboration tools centralize communication about funds, expenses, transactions, etc. - in context and in real time. Instead of digging through paper-based files or weeks of emails to find out what someone is referencing, collaboration tools allow both accounting and non-accounting team members to make notes within the system on a specific record. Not only does this provide a number of benefits internally, customers have reported that they have had huge reductions in their audit costs when using this tool.

**Joan Benson
Intacct**

hungry funders and donors, and facing new FASB directives, nonprofit executive teams are well-advised to take a long, hard look at the state of their accounting departments.

Often the accounting department within a nonprofit is straddled with outdated software or software designed for commercial

business that simply doesn’t address the complex reporting needs of a nonprofit. As a result, needed information requires manual workarounds that open the door for inevitable spreadsheet errors, a lack of proper audit trails, and often delayed distribution of needed information. When information is delayed it removes the ability to be proactive and, depending on the time lag, can even imperil needed reaction.

If your accounting software hasn’t been upgraded in five or more years, your accounting team is likely running on fumes.

The only hope for getting out from under is investment in appropriate software that allows the automation of routine, repetitive processes in order to free up staff to address the more strategic concerns of the organization.

While countless conferences and articles have extolled the need for greater transparency and accountability, many nonprofits have not taken the first major step in equipping their organizations to answer the demand – installing a nonprofit-specific financial data that is the requisite foundation for transparency and accountability.

Is your nonprofit stuck in a time warp?

Thomas Walker of Blackbaud points to

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dashboards, and in-system collaboration tools, audits are faster, less disruptive, and in some cases less costly when a nonprofit has a system that make it easy to get at needed financial information.

FASB-readiness – Any change in reporting requirements, nomenclature, or presentation is painful, unless of course, a trusted publisher, who has made the commitment to keep the software compliant with new regulations and requirements, supports your software.

SaaS makes for affordable investment – New offerings in the nonprofit accounting software market have increased the spectrum of price points.

There are more software choices for nonprofits regardless of size. Also, subscription-based pricing has made it easier for nonprofits to make an investment in accounting software because it’s a budget-friendly monthly subscription fee versus one time, big price tag licensing agreement.

Anytime/Anywhere access – The leaders of tomorrow have grown up with applications on their smart phone and an expectation for anytime/anywhere access. Nonprofit accounting solutions now employ the cloud platform meaning that anywhere you have access to the Internet and a browser, you can access information; work from home; pull up data

while visiting a major donor; or check on projects while out of town at a conference.

Integration with other mission-critical solutions to provide a more meaningful view of the organization – The future belongs to integration. The ability to integrate data from different systems in order to give a fuller picture of program and individual impact will be the next wave of accountability and mission fulfillment. Most cloud solutions are designed to make such integration easy and are available now.

Fulfilling the mission and improving communities and lives – The reasons

for investing in appropriate nonprofit financial accounting software are numerous, but the most important reason is mission fulfillment. Sound financials are the foundation of transparency and accountability, and the necessary prerequisite for the organization to continue to be sustainable. Your organization was created for a reason. Your community and your constituents rely on you. Making the necessary investment in financial accounting tools allow you to take your stewardship to a new level of effectiveness, so that your organization will thrive today and for many years to come.

Nonprofit accounting software allows legal services organization to open new locations, accept additional funding

Constrained by a commercial accounting software that didn't provide the needed reporting on government contracts and location operations, the organization switched to online nonprofit accounting software that reflected their organizational structure in the chart of accounts. They can now break down all of their financial activity by location, funding sources, and grants as well as report on the organization as a whole. When it comes time for monthly reporting, everything they need is automatically generated from the system, and doesn't require extracting data into spreadsheets.

Joseph Scarano
Araize FastFund Online

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organizational inertia as a self-imposed barrier that can plague a nonprofit, "Often times it is organizational inertia and an acceptance of 'the devil I know' – things may not be perfect, but the nonprofit's perspective is 'we have these processes in place and this is what we do'.

Peter Stam of AccuFund agrees that often, regardless of how slow or inefficient current practices might be, they possess a certain comfort level and are buffeted by resistance to change. He adds that there is another limiting belief, the feeling that they can get by without spending the money to get a nonprofit accounting software solution. "Usually it takes a new person coming in to the organization, evaluating the situation, seeing the mess surrounding the reporting and processes and saying 'this is ridiculous' you can't run an organization this way."

Like any professional specialty, accounting needs the proper tools to get the job done right. "A plumber needs proper tools for his trade, a carpenter needs proper tools for her to do her job," reflects Joseph Scarano, "It will make it easier for the accountant, easier for the nonprofit organization, to invest in the proper accounting tools so that they can do their job when it comes to reporting to the general public and their funding sources, as well as planning for the future."

Aplos COO Eric Nasalroad notes that

manual workarounds and limited or delayed data results in a lack of clarity within the organization, "If there's confusion on the inside, there's confusion on the outside. When data is unclear, or the statements or reports that are being reported don't have the necessary information or detail of information, you lose a little bit of trust."

What drives change?

"In order for a nonprofit to accomplish transparency and accountability, the accounting department has to be equipped with the right solution," said AccuFund's Peter Stam. "The Finance Director is preoccupied with managing the reporting of multiple funding sources, period end reporting, answering budget questions, ensuring compliance to funding governance, and preparing for the audit. Without an adequate nonprofit accounting solution, all those things take hours, weeks, months, to prepare and distribute. The time investment in these activities must somehow be decreased in order to free up time to do more analysis, provide strategic consultation, and address the granular nature of reporting transparency demands – and that is best accomplished with an accounting system that is designed for nonprofits."

Abila's Dan Murphy notes that either a carrot or a stick can drive change. "You can entice the board into pursuing implementation by showing that you've reached a cap in the capacity of the organization to take on additional restrictive funding." Murphy notes that there are other ROI measures, such as savings in headcounts, which can make the case for software investment. "The stick that may drive change is the risk to the organization (lost funding) if you don't have a true fund accounting system that you can use to track and report expenses in order to maintain that high level of trust with your granters or stake holders. There are very real penalties attached to not being able to fulfill those obligations."

CPAs and outsourcing firms are also making the change

Many nonprofits rely on CPAs or outsourced bookkeeping services to handle their accounting and reporting. Several software publishers have seen a trend of CPAs and accounting services companies investing in nonprofit accounting solutions in order to better serve their nonprofit clients.

Intacct's Joan Benson points out that CPAs enjoy the same time and cost saving benefits that come from leveraging the cloud and nonprofit-specific functionality. Though the responsibility of accounting

processes and reporting has been outsourced, these firms are able to provide their clients with faster turnaround on reporting, anytime/anywhere access via dashboards, and the metrics and performance indicators their clients need to have. Eric Nasalroad has seen a similar trend in the level of interest from CPAs in Aplos.

These firms, empowered with all the functionality and benefits associated with nonprofit software, now have a competitive differentiator they can offer prospective nonprofit clients: faster turnaround, great insight, and full compliance.

Benefits of change

"A nonprofit's success is built on trust," says Araize's Joseph Scarano. "It's built on accountability, stewardship and transparency." Having the proper tools in place allows the organization to show the impact of their work for the community and constituencies, and "they are able to fulfill and expand their missions," notes Scarano.

Most nonprofit accounting departments could use a break. They've been doing more with less, with inadequate tools, for longer than most. Here's one area where nonprofits should take a page from for profit businesses. A CEO would never try to steer the business without timely financials that depict the true health of the business. Neither should a board or Executive Director. Joan Benson comments that when executive management positions within a nonprofit are filled with individuals who previously worked in the commercial space, they have a tendency to bring with them an insistence on the best in financial management tools. ■

Affordable options available to small nonprofits

Surprisingly enough, price isn't a big obstacle anymore. There are affordable price points for nonprofits in the earliest stages of their operation. We even offer free subscription for six months for start-up nonprofits. They will be more successful if they start with the right financial software than if they start with something else and then have to rework it later. The big obstacle is that it is not fun to change accounting software, so getting it right the first time has a multitude of benefits.

Eric Nasalroad
Aplos