

# Stronger Financial Management Means Stronger Stewardship for Nonprofit Organizations



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“It’s not that hard.”

“It’s not so different from any other kind of accounting.”

“I’ve never worked in a nonprofit, but I have 20 years of accounting experience, so how hard can it be?”

Having dedicated much of my professional life and passion to specializing in the nonprofit space, these attitudes were prevalent in more than a few cases. Each time is as frustrating as the next. Accounting and Finance leaders in nonprofit organizations face these comments and attitudes every day from all different stakeholders. I’m here to remind you of something important: you are not crazy.

**The new complexities for nonprofits have just begun**



The financial requirements of a nonprofit organization have arguably never been more complex than they are today, and the future of the industry is only headed toward increasingly rigorous and granular reporting requirements. Already, FASB issued Accounting Standards Update 2016-14, 2018-08, and ASC 606. Surprise – all these standards can and probably DO impact your nonprofit organization!

It's feasible that many of you in the nonprofit world have just wrapped up or are about to wrap up your first fiscal year in which these new standards apply. These are the first major changes to nonprofit accounting standards in decades and they have transformed the way we have to report our financials.

Transactions that occur within a nonprofit entity cover such a wide range that these new standards could apply to different transactions all during the same period. Where else but in a nonprofit environment will you constantly have to ask yourself "is this a contribution transaction or an exchange transaction?" Where else but in a nonprofit will you find yourself having to break up and track the restrictions on funds that have been given to you on the face of your statement of activities?

## **There are new nonprofit accounting standards– What?!**

Many people think of nonprofits strictly in the "traditional" sense – organizations that receive contributions and grants. These types of organizations do represent a good chunk of the nonprofit community and their challenges have certainly increased with the new accounting standards. You know those grants you've been reporting on your Balance Sheet as deferred revenue for the past umpteen years?

Under the new standards, it's possible that those same grants are now treated as if they are essentially contributions and you have to account for them on the statement of activities with the release of restriction as appropriate. How about the tickets you've been selling to your annual gala? Have you been appropriately bifurcating your revenue to separately report the contribution portion from the portion which represents an exchange transaction?

However, nonprofit financial activities don't stop in contribution and grant land. What about Chambers of Commerce and Membership Associations? These are nonprofits, too! They may or may not receive contributions, but they charge dues. Many of these organizations also sell their members a "package" for the entire year, made up of various event sponsorships and other benefits. Under ASC 606, that's what we call a "Multi-Element Arrangement." There are complex rules about how we have to account for the revenue (*and* the expenses associated with that revenue) in those packages.

You've read this right – it means that as a Nonprofit Finance and Accounting professional, you need to know multiple sets of accounting standards, determine which set applies to your transaction, and then apply it correctly! Does it still sound "not so hard" or "not so different from any other kind of accounting?"

## **So what's next?**



You need a solution that brings a greater level of automation to handling a diverse portfolio of transaction types under the same roof. It's not good enough anymore to slam all your transactions into an accounting system and then export them out to manipulate and calculate. Think about the package from the Chamber of Commerce/Membership Association example. What if you had hundreds or thousands of members? What if your business development people did what business development people so often do and custom negotiated/discounted every package they sold? What if your business development people are also really good and up-sell their members throughout the year on additional sponsorship or benefit opportunities?

I worked as a CFO in a large regional Chamber of Commerce. This really happens all the time. You scramble to find a sponsor for an unfilled slot and your business development people are willing to beg, steal, borrow and discount to fill that slot. In comes a sale for a discounted event sponsorship, added onto a member's already existing package. Now you need to recalculate your revenue allocation for the member's entire package and record entries to reflect those changes in your financials.

Don't forget, by the way, that all of your direct expenses associated with that sale must be capitalized and amortized so that expenses are reflected concurrent with their related revenues. The amount of work you would have to do to handle this manually and get it right is astounding; it could easily get into hundreds upon hundreds of hours.

### **A better way to lead your mission- say goodbye to the spreadsheets!**

How do you, as a Nonprofit Accounting and Finance professional, break down and accomplish all the implicit reporting requirements triggered by these complexities? I bet the answer to that question has "Excel spreadsheet" written all over it. I understand that approach, but the fact of the matter is that with the increasingly complex reporting requirements, a flat and/or declining funding environment, and the constant push by people everywhere to be able to obtain and consume data faster, that answer no longer works to meet your needs without leading to team member burnout and/or increased risk of errors.

What if there was an accounting solution that handled all different kinds of nonprofit accounting transactions seamlessly? What if it automated the exact pain points I've described (from lived experience, by the way) and could significantly reduce or entirely eliminate your reliance on Excel spreadsheets to produce accurate, audit-ready financials?

### **More and more nonprofits are taking their finances to the cloud**



That solution does exist, and it's called Sage Intacct. This solution is a

market leader in nonprofit, and for good reason. The Sage Intacct community is full of experts in the nonprofit community – people with real-world industry experience who understand the developments in the accounting standards. We've taken that expertise and used it to tailor our software to produce the reporting requirements that nonprofit organizations need. Having worked in several financial leadership roles in the nonprofit community, I wish I had this kind of power in some of my previous roles.

I think about all the time – no exaggeration, probably 20-30 hours per month – that I spent building Excel calculations and priding myself on how much work I did to get month-end done and produce what I could have done in an hour or less with Intacct. Then I spent another 5-10 hours per month doing all kinds of expense allocations needed for different grants. How much more timely insight I could have provided if I'd had a solution that did all these calculations for me and automatically posted all the necessary entries to my financials. To take it a step further, all the logic and details behind each and every calculation in Sage Intacct are supported by drill-down and a fully transparent audit trail. That could have been another 15-20 hours of my time saved during the annual audit!

Without diving into even further layers of what I could have automated, I've already identified up to 500 hours of top-level accounting/finance team that could have been freed up for higher value, more strategic initiatives. Meanwhile, these higher value, more strategic initiatives were the very things that suffered – financial and cash flow forecasting took the back seat because getting the financial statements out by the board meeting had a hot deadline.

**What would you do with an extra 500 hours in your year?** Maybe find a way to implement cost efficiencies that let you provide more services to your constituents with the grant funding you have. I was once able to help my Meals on Wheels program grow its service offering and contribution by in excess of 10% in a year, taking over service for and feeding homebound seniors in a whole new geographic area. Maybe work on implementing that tiered dues package structure that's so hot and bringing massive benefits to everyone onboard in the Chamber/Association world right now. Organizations that can pull this off are seeing double-digit percentage revenue growth over the old, tired structure where everything is sold a la carte. This happened at the Chamber where I was CFO and our average new member sale jumped almost instantly.

**What are the general takeaways from all this? There are a few:**

1. Nonprofit finance and accounting are NOT easy, nor is it straightforward, nor can proficiency in it be translated seamlessly from any other industry.
2. Nonprofit finance and accounting professionals need to be intimately familiar with an ever increasing number of accounting standards.
3. Your job as a nonprofit finance and accounting leader extends beyond closing the books; you also need to find time to deliver high value, strategic initiatives. How do you do that when all your time is caught up with other necessary but less strategic work (i.e. closing the books)? The answer is – you automate.
4. Sage Intacct has automation for all the critical areas that a nonprofit needs to automate – from tracking and releasing restrictions on revenue, to handling and recognizing deferred revenue, to full compliance with ASC 606, to handling dynamic expense allocations, and a host of other features that we haven't even scratched the

surface on – the solution is built and ready to shine in the nonprofit space. With the level of automation you can achieve here, you may even surprise yourself at the value you can deliver and the force with which you can help propel meaningful, effective financial change and growth to your organization.

<https://deandorton.com/wp-content/uploads/2019/05/Screen-Shot-2020-03-23-at-3.07.56-PM-300x94.png>Join Sage Intacct for a daily 30-minute demo to diver deeper into the financial management efficiencies your nonprofit organization could benefit from!