



WORKING WITH NONPROFITS

Their complexity is your opportunity

Working with nonprofits

Challenges in the space equal opportunities for accountants

By Antoinette Alexander

Being a not-for-profit organization isn't easy — and as many accounting professionals have learned, providing them with audit, tax and advisory services can be even tougher.

For nonprofits today, a rise in regulations, demand for greater financial transparency, and an increase in community needs is par for the course. Now, throw into the mix the new administration, which has many nonprofits holding their breath as they wade into a pool of funding uncertainty.

For many accounting professionals serving the nonprofit sector, such hurdles are translating into rewarding — albeit challenging — opportunities.

“This is an attractive area of focus for our firm because we truly enjoy working with not-for-profit organizations

that provide a positive impact on our community,” said S. Scott Seamands, a partner at San Francisco-based Lindquist, von Husen & Joyce LLP. “We are challenged by the complexities inherent in this practice area and we grow, along with our clients, because of those challenges.”

Added Peter Stam, president of AccuFund, a provider of financial reporting and accounting software for nonprofit, municipal and government organizations, “If an accountant wants to service not-for-profits, they need to really want to do it. It isn't a trivial group to get involved with, because the accounting is so different.”

MONEY MATTERS

When discussing key issues facing not-for-profits today, many industry sources are quick to point to one area — money.

Whether it is managing expenses, diversifying revenue streams, or concern over the future of grant funding, it is money that keeps many nonprofit organizations awake at night.

Underscoring the point, a recent study by software and services provider Abila found that 31 percent of nonprofit finance professionals identified managing the complexity of multiple revenue sources as the biggest financial challenge facing their organization. Managing the budget took the No. 2 spot, with 24 percent of respondents citing that as their biggest financial challenge.

The online survey, conducted between June and July 2016, asked questions of more than 400 nonprofit finance professionals, representing nearly every vertical, such as education, social services and health care.

“Whether you are a large, endowed organization or a small social service organization, there are a lot of tough conversations being had, and hopefully they are being had, because sustainability has come into question for a number of institutions and organizations,” said Staci Brogan, an audit and assurance shareholder at Top 100 Firm Schneider Downs in Pittsburgh. “The ability to manage cash flow and liquidity has become a struggle, [as has] the ability to grow revenue sources.”

Said David Abel, director of product solutions for Serenic Software, “Raising funds continues to be a challenge and it always will be. In order to meet that challenge, a lot of these organizations really need to be concerned with outcome measurement.”

“The community service demand that is being placed on not-for-profits, especially from government agencies, is another trend,” he continued. “There's a resource shortage in terms of both funding and people to support the initiatives that they need to try to accomplish. So, a lot of governments are putting more demand on not-for-profits to solve these issues and needs, while at the same time, they are

also shifting budget burdens over to the [nonprofits].”

This “shifting of budget burdens” largely refers to payment in lieu of taxes or PILOTs. These “voluntary” PILOTs imposed by some local governments are designed to help offset revenue losses from the nonprofit's property tax exemption.

Also sparking concern is the new administration and what the Trump presidency may mean for future funding.

“The recent election results have created more uncertainty about the continuation of federal and local funding for various programs that may be out of favor within the incoming political leadership,” said Seamands of Lindquist, von Husen & Joyce. “Not-for-profit organizations are increasing their public awareness campaigns to encourage supporters to voice concerns with elected representatives to ensure continuity of funding, because many of the programs support people's daily lives and their well-being today and in the future.”

“From a tax perspective, I think a lot of our clients are kind of in a wait-and-see mode with the recent changes down in D.C. Certainly, one of the hot topics is tax reform. While there may not be a direct impact in the taxation of nonprofits, we are very cognizant that there could be large impacts into the funding of nonprofits with any kind of tax reform,” said Eugene Logan, a tax shareholder at Schneider Downs, referring to such tax proposals as reduced rates, a reduction of itemized deductors and the revamping or elimination of the estate tax.

RISE IN REGULATIONS

Nonprofits are highly regulated and, while the rules and regulations may provide guidance and parameters, there's often a great deal of concern regarding the implementation and impact on the organization.

In fact, Abila's 2016 Nonprofit Finance Study found that nearly 80 percent of respondents worry that new rules and

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Nonprofits

FROM PAGE 24

regulations might increase costs for the organization. Another 65 percent worry that changes in rules and regulations might be unrealistic to implement.

Looking ahead, the rise in rules and regulations shows little sign of slowing.

Two specific areas that are top of mind for many within the nonprofit sector are changes that affect how nonprofits recognize revenue, and the fate of the overtime pay rule changes.

The Financial Accounting Standards Board recently issued an accounting standards update designed to simplify and improve how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows.

The accounting standards update requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors and other users.

“That’s a whole major, new change that has to be put [in place] and burden on the accounting staff, which, quite frankly, at a lot of not-for-profits is already strained,” said Michelle Spriggs, managing director at Top 100 Firm CBIZ Tofias in Boston, of the new standards.

Then there’s the overtime rule, which was announced by the Department of Labor in May 2016 and blocked by a federal judge in November 2016. Originally slated to go into effect Dec. 1, 2016, the rule meant that many employees earning less than \$913 per week (\$47,500 annually) would be entitled to overtime compensation, regardless of whether they are currently classified as executive, administrative or professional (white-collar) workers.

Options to comply with the change in overtime rules ranged from increasing exempt employees’ salaries to the new

level, converting them to hourly employees and paying overtime, or making other changes to benefits or operations.

While the rule’s fate remained unclear as of press time, many industry sources believe it will go into effect — it’s just a matter of when. The uncertainty around the overtime rule changes could drive nonprofits to make structural changes to their workforce, if they haven’t already done so.

OPEN THE TOOLBOX

Given the complexities facing nonprofits, it is becoming increasingly important that they have greater transparency, easier access to data, and robust and customizable financial reporting.

“It is critical that today’s nonprofit organizations not only properly track how money is being spent, but also report their data accurately and in a timely manner. Providing transparency to the various donors that support a nonprofit’s mission is key to their success,” said Jeremy Fass, senior vice president of sales and marketing for The Jitasa Group, a Boise, Idaho-based company that specializes in accounting services for nonprofits.

For accounting professionals, helping to ensure that nonprofits have proper performance indicators in place; technology that enhances communication, eases access to data and automates tasks; robust reporting tools; and budgeting and forecasting solutions can all prove to be essential.

“These organizations need to find a way to effectively tell their story. What that means is that they need to understand the data the organization has, and they need to be able to look at it in a way that they can then translate that into telling a story for their donors, for the stakeholders and the communities they serve,” said Dan Murphy, senior manager of fund accounting strategy for Abila. “Whether that means solving a metric that you can use to effectively apply for grant funds, whether that means telling

a story that can bridge different social gaps so you can extend your donor network, or whether that means engaging with a technology partner that can help you get that data in a new way.”

Added Cheryl Olson, director of NFP consulting for Seattle-area CPA firm Clark Nuber PS, “I think the biggest thing that firms can do right now is listen to their clients and really understand the issues that they are facing and provide guidance on how to set up their infrastructure; really, their internal systems.”

Joe Scarano, CEO of Araize, which provides cloud-based software solutions and services to nonprofit organizations, said that he is receiving calls from accountants who are trying to get their nonprofit clients onto high-quality nonprofit-specific accounting systems. “Too many nonprofits are relying on off-the-shelf applications that don’t do true nonprofit accounting, so they end up having to export data and trying to generate financial statements in Excel. And so the accountant comes in and they have a difficult time with audit trails, they have a difficult time auditing their data.”

While understanding the intricacies of nonprofit accounting is no doubt critical, enabling greater access to data is becoming increasingly essential for nonprofits. Enter the cloud. “One [ongoing trend] that is obviously all over the publications is this gradual migration away from on-premises technology to cloud technology. And this is in every phase of their business, whether you are talking about how they raise money with their donor systems, or with their back-office accounting software, or with their operations in terms of whatever they are doing to manage their programs and services and client information. All of that is accelerating toward the cloud right now,” said Tom Thornton, chief operating officer for Patterson, N.Y.-based JMT Consulting.

“Cloud-based storage is paramount,” said Donald

Cassady, president and CEO of Grants Management Systems, a provider of nonprofit accounting and financial management software. “That can save the organization a whole lot of money. ... It makes it much easier on the auditor, which could possibly in turn cut the cost of the audit down. They send you an e-mail, you upload the stuff and boom, you’re done. That is the way to communicate.”

Not only is George Marcolini, vice president of sales for Fund E-Z fund accounting software, seeing a growing interest in cloud-based solutions — with at least 40 percent of new clients going to its SaaS model — but he’s also seeing an uptick in the demand for custom programming. “We do a lot of custom programming now. ... If we find there’s something real vertical that one client needs that most clients don’t need, they can actually pay us [custom programming fees],” Marcolini said. In fact, that’s how the vendor’s Foster Care module, which tracks foster children living

in foster homes and integrates with the Medicaid billing and accounting system, came to fruition.

Steve Lipton, partner-in-charge of the nonprofit and government practice at Milwaukee-based Top 20 Firm Wipfli, noted a rise in the use of social media outreach. “I’ve seen a lot of nonprofits using Facebook Live right now to get messaging out immediately or to broadcast an immediate need,” he said.

Meanwhile, Amy Justice, president of Winston-Salem, N.C.-based Outfitters4, a management services firm for nonprofits, stressed the importance of nonprofits outsourcing payroll. “Particularly with changing regulations ... we see it is becoming more and more important for people to outsource their payroll. We used to kind of work with folks on it, but we’ve now made it a requirement that if we are doing your books, you have to use a third-party administrator for payroll,” she said. AT



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