



White Paper

The not-for-profit CFO survival guide

A mini 'field manual' of best practices from not-for-profit finance experts.

Sage

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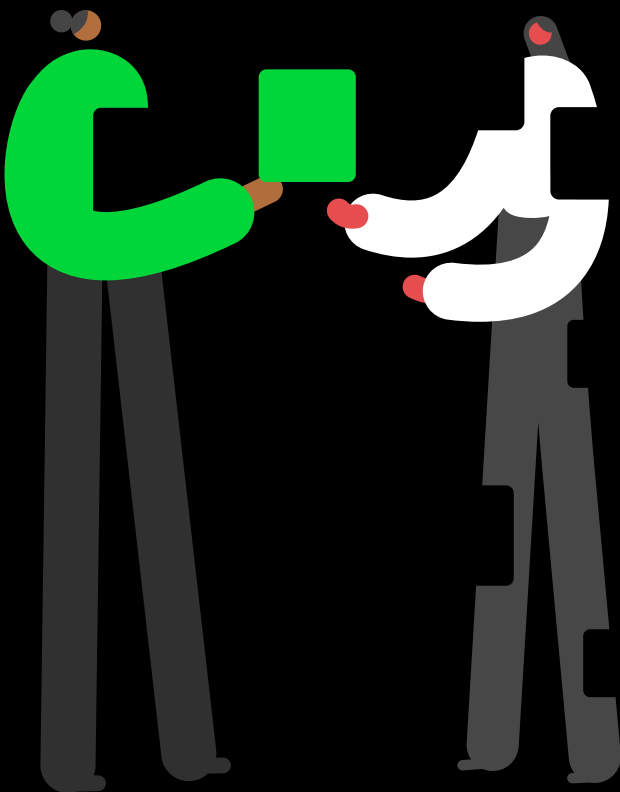
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Your mission: Support the mission



Increasing revenue. Consolidating across multiple entities. Budgeting. Implementing internal controls. Facilitating audits and compliance reporting.

Sometimes, it's easy to overlook the fact that CFOs of not-for-profit and for-profit organisations alike do, indeed, share many of the same challenges in pursuit of the same overarching goal: optimising the returns of the organisation's activities by carefully managing all aspects of its finances.

But, of course, in the not-for-profit world, it's not about maximising profitability it's about maximising impact. Not-for-profits typically pursue a "mission-first" philosophy, aiming to achieve greater social or philanthropic goals and balance the competing interests of social mission and a sound financial foundation. The result is a host of additional challenges that can burden the not-for-profit finance team and its financial software infrastructure.

The fact is, it's never easy to be a CFO. Regardless of the organisation, every CFO faces both common and unique challenges and pressures. However, in many ways, financial leaders at not-for-profits must address even greater difficulties than their for-profit counterparts. It can be a result of thin or part-time staffing (and sometimes merely volunteers). There are always tight budgets, primitive tools (think of dozens of spreadsheets from multiple contributors), and far-flung management teams. Not-for-profit CFOs are under the pump to achieve so much: To automate processes, improve productivity, create greater levels of transparency and visibility, enhance the governance of the organisation, and strengthen the team's decision-making and strategic focus.

How can a CFO survive this challenging environment? The following "Not-for-profit CFO's survival guide" discusses some of the key challenges, special requirements, and unusual constraints of financial management and shares some tips and best practices from numerous not-for-profit finance experts.

Accounting 101: It's still job one

The challenge: Accounting in not-for-profit settings involves significant complexity.

The solution: Implement solutions that provide flexibility for diverse accounting and reporting needs.

For so many not-for-profit organisations, the daily tasks of bread-and-butter accounting and financial management are inextricably driven by a broad array of complexities. Beyond the bread-and-butter basics of accounts payable and receivable that everyone needs, the basics for not-for-profits encompass a distinct set of standard documents, including statements of activities, statements of financial position, and statements of cash flow. If only it stayed that simple.

For example, revenue management makes not-for-profit accounting an especially thorny challenge—particularly with the way revenue is recognised. If the organisation collects annual dues or periodic donations at different times of the year, it may be important to decouple cash receipts and disbursements from revenue recognition. Some not-for-profits operate for-profit subsidiaries and others sell items on a break-even basis. But many depend on donated monies, fundraising, and other sources. They might receive grants and directed donations—perhaps dozens (or, at the high end, even hundreds) of separate income streams. And each of those donors rightfully wants to know how their investment in your mission is faring. The result: You need to isolate the activity for each revenue source, which enables you to create a regular series of specific reports, each with its own unique requirements, for each source of funds. Those demands mean the accounting system that supports the team must offer an extraordinary level of flexibility. “You need to be very careful in how you design your chart of accounts,” explained Nancy Fliss, Partner with LeapThePond, a services consultancy specialising in the needs of not-for-profits. “When you have a financial accounting system that properly reflects the fiscal levels of the organisation, you’ll be in great shape.”



“Fund-based accounting is an essential requirement for most not-for-profits,” said Jacqueline Tiso, CEO and founder of JMT Consulting Group. “Every funder has their own requirements for reports. That means the accounting system must be designed to present information from a variety of dimensions, such as geography, project, timeframe, and funding source. That enables you to do custom reports, support multiple entities, and consolidate more easily.” For some not-for-profits, there can be a complicated hierarchy of entities such as chapters, subsidiaries, and locations. At Healthcare Businesswomen’s Association, a centralised accounting function has helped the organisation step up to a higher level. “Previously, we had numerous chapters, all submitting different spreadsheets for consolidation,” said Nikki Jones, Controller. “We have board volunteers with high turnover and we’re a completely virtual organisation. There’s a level of complexity here that is equivalent to what a major for-profit organisation deals with.”

In not-for-profit accounting, survival depends on flexibility.

- Key best practices for survival:
- Make sure your accounting system can support the separate, balanced sets of books required for fund accounting.
- Carefully design your data structure and chart of accounts to support maximum flexibility.
- Be ready to accommodate multiple locations and entities.



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Internal controls and cash management: The importance of vigilance

The challenge: Not-for-profits must be vigilant stewards of donated monies and carefully monitor what they spend on every initiative and program.

The solution: Centralised controls only go so far—spreadsheets and single-user “quick accounting” programs aren’t up to that task. Not-for-profits need centralised control and distributed responsibility by event, program, donor, and other dimensions—in one system.

Most for-profit corporations create their internal controls, reporting, and financial monitoring by products, divisions, geographies, and entities. Not-for-profits have remarkably similar needs, seeking to manage their monies by grants/donors, programs, geographies, and other dimensions. For Healthcare Businesswomen's Association, a bottom-up planning process leads to greater accuracy and ownership by various departments and chapters. "We previously had just one tax ID, but we operate in a very decentralised manner," Jones explained. "We have multiple entities with various independent chapters who want their own autonomy. When local managers have that autonomy, you get higher levels of engagement and ownership because they are involved in the planning process and feel more accountable. In a multi-entity model, we can plan right down to each chapter's monthly events—and determine if an event was successful or whether it cost us money. You simply can't do that on multiple spreadsheets."

"Without question, internal controls and cash management are important challenges," said Michael Mohr, Director of Finance from Women's World Banking, a multinational not-for-profit. "We find it's best to mimic our chart of accounts and create three-year rolling budgets and forecasts that we adjust four times a year. You need the frequent refreshes to stay on-course."

By decentralising the planning and control process, not-for-profits can achieve a granular level of accuracy. Setting budgets for each event, campaign, program, and funder—and then tracking the actuals—creates tighter controls and helps prevent unexpected outcomes.

Do capital budgets matter to not-for-profits? Quite often, they do. Although many not-for-profits don't require extensive capital investments in property, plant, or equipment, capital budgeting still plays a role for some organisations. Great Books Foundation, a fee-for-service not-for-profit, promotes literacy from kindergarten through college. James Linday, Vice President and CFO, notes that part of that mission is built around developing books and curricula which involves capital budgets. "Absolutely—capital budgeting is essential for us when we kick off a new book project," he said. "That can range from \$30,000 to \$2.5 million. Our accounting infrastructure has to carefully capture the milestones as we convert from a project to a product."

In not-for-profit financial control, survival depends on careful monitoring.

Key best practices for survival:

Distribute responsibilities to contributors and managers throughout the organisation.

Regularly refresh rolling plans and forecasts to stay on-course.

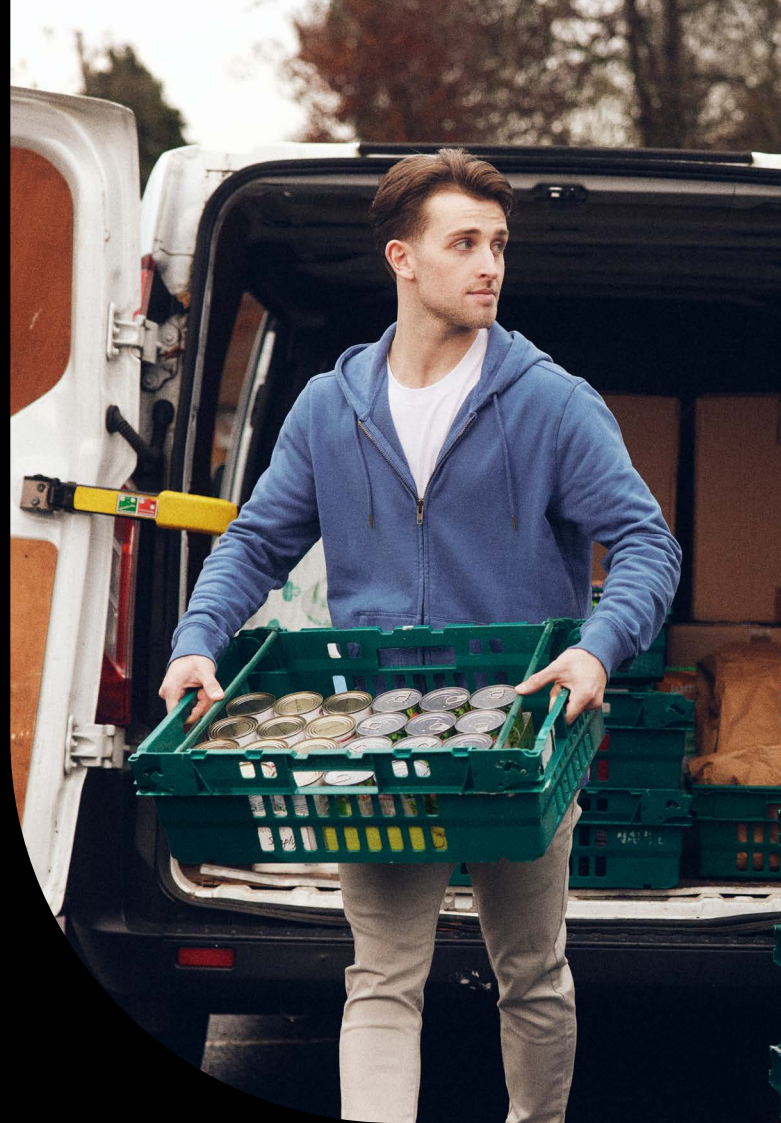
Create tight controls to prevent unexpected outcomes.

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Director of Finance, Women's World Banking

Funds and grants: **The lifeblood of a not-for-profit**



The challenge: No two funds or grants are alike, creating extraordinary complexity in not-for-profit accounting.

The solution: From revenue recognition to reporting, the not-for-profit's accounting system must quickly respond to unique needs.

Whether it's a major foundation, an anonymous philanthropist, or major sponsor, not-for-profits rely on the generosity of like-minded people who provide the bulk of the organisation's funding and resources. But, just as CFOs at for-profit companies must respond to owners' and shareholders' (and regulators') demands for transparent information, the not-for-profit CFO must likewise deliver customised slices of results and reports tailored to each funder's unique requirements.

“Perhaps the most important dimension for many not-for-profits is simply ‘by funder,’” explained Tiso. “Every funder wants to see his/her own information in a unique way to see how his investment in your initiative is performing. If you have dozens of funders, you could be doing dozens of monthly closes and hundreds of monthly, quarterly, and annual reports. If you don’t have an automated way to do that, you’re looking at a massive amount of low-value work that doesn’t advance the organisation’s mission.”

Not-for-profits must also carefully track general vs. restricted dollars donated for a specific purpose or cause. That can mean viewing actual dollars, percentages, and actuals-to-budget across multiple financial periods. “Balancing by grant is a best practice for not-for-profits,” said Mohr. “You need a real-time view of all your assets in order to make effective strategic decisions about your activities. One thing we’ve also learned is how important it is to manage cash by grant. Each month, we close by fund and I can quickly see how much unrestricted cash we have on hand—which is a key metric for our organisation.” In not-for-profit finance, survival depends on the ability to maintain separate balances by grant, fund, or donor.

In not-for-profit finance, survival depends on the ability to maintain separate balances by grant, fund, or donor.

Key best practices for survival:

- Balance and close each fund independently.
- Put processes in place to track general vs. restricted dollars.
- Create an infrastructure that supports rapid customised reporting by fund or donor.

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Reporting and visibility: “Know and show” where you stand

The challenge: Not-for-profits face stringent requirements for reporting and transparent operations—and those hurdles are multiplying.

The solution: The right financial infrastructure can help not-for-profits “know and show” what’s happening in every aspect of their operations with superior speed and clarity.

In a challenging economy, agencies, social-service organisations, charities, and other not-for-profits are under tremendous pressure to acquire, secure, and maintain funding sources to ensure their continued operation. Transparency is an essential strategy for securing and keeping those donors and sponsors on board.

“Transparency is a non-negotiable best practice for “Funders have become much savvier,” Fliss agreed. “They can tell quickly whether you have financial command—which is so important to demonstrate today.” said Tiso. “When you can quickly and accurately ‘know and show’ what funders want to see, you instill a sense of confidence that their discretionary investments are well-managed, you have an edge over other agencies competing for those same dollars.”

“Funders have become much savvier,” Fliss agreed. “They can tell quickly whether you have financial command—which is so important to demonstrate today.”



At Healthcare Businesswomen's Association, Nikki Jones explained, audits to provide transparency were previously an expensive distraction. "We have an outside accounting firm that specializes in not-for-profits audit our books every year," she said. "Before we were consolidating spreadsheets and meeting onsite for up to a week.

Now, we have a shared online accounting system that enables us to provide login to the auditors so they can perform their audit offsite. That saves enormous time and expense."

Funders want to see audited financial statements. And our partners want to understand where we spend money and what our margins are."

Even internal reporting requires new levels of efficiency. When not-for-profit board members—who are often successful executives from different business disciplines—convene to review the organisation's status, they're increasingly expecting the same caliber of reporting and analysis they see in the for-profit world.

In not-for-profit financial reporting, survival depends on unprecedented levels of transparency, auditability, accountability, and trust.

Key best practices for survival:

- Transparency of financial reporting is emerging as a basic requirement for all not-for-profits.
- Streamline auditing with online financial software that can support remote audits.
- Elevate financial reporting and analyses to differentiate your organisation in crowded market segments seeking dwindling funding sources.

"Funders have become much savvier. They can tell quickly whether you have financial command—which is so important to demonstrate today."

Nancy Fliss

Partner, LeapThePond

Cloud-based financial management: Simplifying life for the not-for-profit CFO



The challenge: IT budgets and expertise are scarce and financial management software can sometimes seem like a distracting and risky headache.

The solution: Real-time, cloud-based financial management is enabling not-for-profits to take advantage of the same functionality, performance, security, and infrastructure that major corporations use.

In the mission-driven not-for-profit world, accounting and financial management can sometimes slip down the priority list. It's not always easy to allocate budget dollars to back-office infrastructure that doesn't directly support the not-for-profit agenda, and it's even harder to find the time and expertise to make it all work. Consider some of the obstacles:

- Capital investment for software and hardware.
- Facilities and expert personnel to implement and maintain the system.
- Lengthy deployment cycles.
- Capacity/scalability.
- Reliability/availability.

These issues aren't part of most not-for-profit organisation's core competencies. That's why many not-for-profits are increasingly turning to new-generation cloud-based solutions to automate financial management. Cloud-based financials enable the application vendor to deliver shared, scalable services that the not-for-profit agency can access over the Internet using a web browser or mobile device. There's no need to buy, own, license, understand, manage, or control the underlying hardware, software, or data/networking infrastructure that supports the financial infrastructure. Cloud services are typically delivered on a term-based subscription basis, eliminating the need for upfront software licensing fees or major purchases of hardware. The result is cost-effective, anytime, anywhere managed access.

"Let's face it—not-for-profits want to deliver programs, not buy technology," said Tiso. "They typically lag private enterprises in their technology adoption and usage, and hold onto technology longer because they don't want the expense and the distraction that comes from complex technology implementations. Cloud technology lets them sidestep those hurdles."

"All of our chapters can access our cloud-based financials," said Jones. "We have volunteers working all over the world at all hours of the day and night. With our system, they access the same world-class financial foundation that many companies use. Our board and our chapter leaders have real-time access to reports, registrations, metrics, and analyses. That means we're constantly on top of our operation and can make strategic decisions faster. For us, the cloud is critical. It's the only way to go."

"Cloud financials are absolutely key to running a not-for-profit today," said Lindsay. "Now we can eliminate lots of manual work, be more productive, and eliminate all of those capital investments. This is a predictable, flat operating expense, and we save at least \$30,000 a year this way."

In not-for-profit financial management, survival depends on predictable costs, a reliable infrastructure, and world-class functionality.

Key best practices for survival:

- Move financial management to the cloud for optimal accessibility and lower cost.
- Enable global real-time access to financials, reports, and analyses.
- Use cloud architectures to eliminate manual work and improve productivity while providing world-class functionality that far exceeds primitive single-user tools.

"Cloud financials are absolutely key to running a not-for-profit today."

James Lindsay

Vice President and CFO, Great Books Foundation

Conclusion



CFOs can no longer afford to simply operate the finance and accounting functions. They are becoming strategic advisors to the company—especially in project and service-based organisations.

By collaborating closely with the operations team, CFOs can have an outsized big impact on the key metric for success: Project profitability. To adopt these best practices and reach that next level of sustainable, profitable growth, CFOs must modernise the accounting software foundation by adopting a best-in-class solution that's built for the needs of professional services organisations. What's more, a cloud-based solution with open APIs easily integrates with other systems critical to your unique business processes. A flexible, customisable solution that is available to your cross functional teams in real-time, any time. And a scalable solution that can easily support your growth now and in the future.

About Sage Intacct

Sage Intacct is the innovation and customer satisfaction leader in cloud financial management.

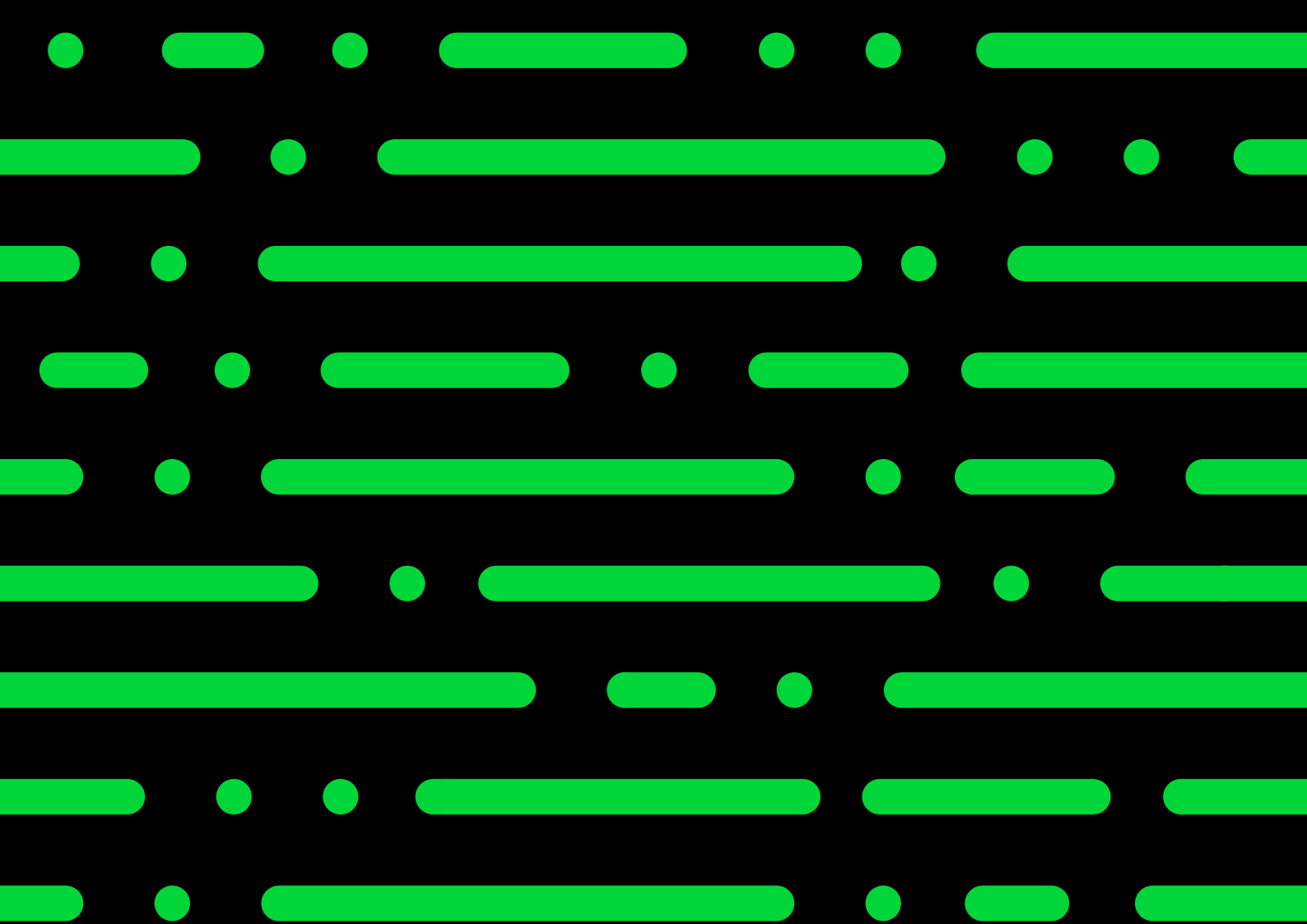
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At PBT, we work with our clients to understand our clients' organisation and the challenges they face with their existing ERP solution. We look at how Sage Intacct can be implemented to deliver business processes and efficiencies.



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