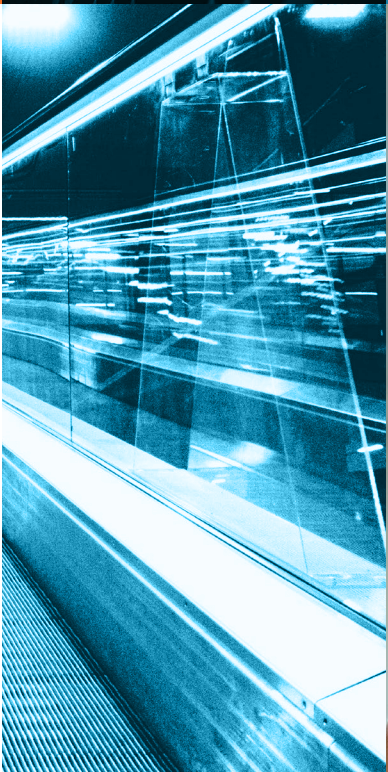




Vault

Anticipating the Future

*What You Need to Know About the
Future of Nonprofit Accounting*



Anticipating the Future: What You Need to Know About the Future of Nonprofit Accounting

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Introduction

Nonprofit organizations rely on their accountants to monitor their financial health. These professionals deliver the data analysis leaders need to make informed decisions around growth and programming. While this value remains unchanged, the accounting industry is undergoing a tremendous shift that could impact the way nonprofits manage and report on their financial transactions.

By understanding these industry shifts, nonprofits can adapt their hiring, management, and outsourcing decisions to an accounting approach that meets their specific organizational needs.

In this guide, we will explain:

- » The accounting industry challenges impacting nonprofits including accountant shortages, new and revised pronouncements, and heightened reporting expectations ([Chapter 1](#)).
- » How new technology solutions are boosting efficiency, strengthening financial reporting, and impacting today's accounting workforce ([Chapter 2](#)).
- » Emerging risks and the strategies nonprofits can adopt to remain proactively ahead of these threats to their financial systems and data ([Chapter 3](#)).
- » The two essential strategies nonprofits need to weather economic challenges that could threaten to hamper access to funding ([Chapter 4](#)).
- » How nonprofits are adapting hiring and management practices to attract skilled accountants and help employees adapt to meet evolving needs ([Chapter 5](#)).



The Accounting Challenges Shaking Up Nonprofits

CHAPTER 1

Accurate, timely, transparent accounting is essential for helping nonprofits secure stakeholder trust and the financial contributions that allow them to drive their mission forward. With strong financial processes and reporting in place, nonprofits are better equipped to reduce risk and plan for the future. Yet many nonprofits today are facing challenges in finding and maintaining the accounting staff needed to keep up with the pace of rapid regulatory change and evolving reporting demands.

These hardships are not unique to nonprofits. However, nonprofit organizations may find that these added challenges can prevent them from meeting stakeholder expectations and compliance requirements. By understanding these challenges, nonprofits can begin to identify solutions, including lessons learned by other organizations.

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Worsening Accountant Shortages

Nonprofit leaders are often experts when it comes to stretching the extent of their impact with limited resources. However, when it comes to accounting, many nonprofits are increasingly facing a different type of shortage: labor.

As of 2024, [data from Bloomberg](#)¹ puts the national accountant shortage at more than 340,000 positions. Retiring Baby Boomers account for some of those open positions. However, [the Society of Human Resources Management reports](#)² that accountants in the 25- to 34-year-old range and mid-career professionals are also leaving the field. The number of new graduates with accounting degrees has decreased for nearly a decade. As *Bloomberg* puts it, this accelerating shortage is reaching crisis levels.

Experts attribute this shortage to several factors, including the field's image. The perception of a profession in which graduates can expect to work long hours behind their desks isn't attracting Gen Z graduates who prioritize flexibility at work. Moreover, many students seem to find the fifth year of higher education required to earn Certified Public Accountant licensure as an unworthwhile investment for a profession that has seen compensation levels stagnate. For nonprofits, where tight budgets can make it challenging to offer competitive pay, this may pose a particular challenge.

These staffing shortages have the potential to compound nonprofits' existing accounting challenges by adding to the strain on the remaining staff. It's also contributing to a knowledge gap that may be increasingly difficult for nonprofits to bridge.

To maintain timely, accurate reporting, nonprofits may have to think outside the box about how they manage their accounting function. Solutions may consider a remote workforce, outsourced accounting, and technology solutions that enable new levels of efficiency, as we'll discuss over the next several chapters.



1. <https://www.bloomberg.com/news/articles/2024-03-01/severe-cpa-shortage-risks-creating-expensive-corporate-errors?embedded-checkout=true>

2. <https://www.shrm.org/topics-tools/news/all-things-work/cpa-shortage>

More Frequent Regulatory Changes

As [Bloomberg reports](#)³, financial errors are a challenge even large public firms face today as a result of the worsening accountant shortage. Nonprofits with limited resources may find the risk of errors becomes even higher when their accounting professionals are tasked with keeping up with increasing regulatory changes.

Over the last decade, the Financial Accounting Standards Board has issued a multitude of new accounting pronouncements. Nonprofits must be able to stay abreast of these changes so that they can interpret and apply relevant pronouncements to their organizations. If your staff isn't up to speed on the latest updates, nonprofits run the risk of non-compliance with Generally Accepted Accounting Principles.

Greater Demands for Reporting Transparency

While all industries are struggling to keep pace with evolving GAAP requirements, nonprofits have added reporting expectations that are also evolving. Nonprofits have always had a responsibility to donors, members, and other stakeholders to ensure that their finances align with their mission. However, reporting transparency has gained more weight as a metric by which to measure nonprofit success.

The public is increasingly holding nonprofits accountable for improper use of funds. As a result, nonprofit organizations of all types may find themselves under closer scrutiny. For example, [the Federal Trade Commission now recommends](#)⁴ checking an organization's reviews on an online rating website before donating to any non-governmental organization. In addition, [research indicates](#)⁵ that donors are 53% more likely to contribute to a nonprofit that is transparent with its information.

Fortunately, financial transparency can be as simple as ensuring that your board, management, and other key decision-makers can glean essential information about your organization's financial health through your reporting. Clear, accurate reporting, supported by strong internal controls, enables nonprofits to deliver the transparency their stakeholders expect and deserve.

3. <https://fortune.com/2024/03/01/accounting-shortage-earnings-report-mistakes/>

4. <https://www.consumer.ftc.gov/articles/0074-giving-charity>

5. <https://journals.sagepub.com/doi/full/10.1177/0148558X18814134>

New Solutions Address these Accounting Challenges

While these challenges may seem daunting, nonprofit organizations do have solutions at hand. Some organizations are finding that they can fill their knowledge gaps with support from third-party accountants. Others are turning to new technology solutions to boost their efficiency in meeting these growing demands.

To deliver timely, accurate reporting that serves their stakeholders and their mission, nonprofits will find they must think outside the box about how they manage their finances.



Technology Boosts Nonprofits' Accounting Efficiency

CHAPTER 2

Between accountant shortages, evolving standards, and greater public scrutiny than ever, nonprofit professionals can be forgiven for feeling overwhelmed by today's accounting needs. Yet, alongside the accounting challenges described in Chapter 1, nonprofits also have at their disposal new technology tools that are helping improve workflows, boost efficiency, and strengthen financial reporting.

Accounting professionals have good reason to be cautious when it comes to implementing new tools. However, many nonprofits may find themselves at a tipping point in which the shift to technology-supported workflows may be necessary to address their accounting challenges.

Below, we describe some of the solutions enhancing modern accounting, as well as the impact these tools are having on today's accounting workforce.



Cloud-based Accounting Systems

Cloud-based systems have become ubiquitous in modern workplaces. Yet many nonprofits continue to use dated server-based systems that are reaching, or past, their end of life and are no longer supported by the software manufacturer. There are numerous reasons for this. The cost, knowledge, and time investment required to move to new cloud-based solutions may prevent some organizations from moving forward. Others may be reluctant to give up the sense of control and security that comes with securing access to financial data on a single server.

However, the advantages of moving nonprofit accounting systems to the cloud far outweigh the drawbacks. Chief among these advantages is the security that a cloud-based system can provide. As software manufacturers push their customers to cloud solutions, many are abandoning security updates to server-based software. This will leave organizations clinging to servers at greater risk of cyberattack. By shifting to the cloud, nonprofits can trust their data and their security protocols are always up to date.

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Moreover, moving accounting to the cloud allows financial stakeholders real-time access to data when and where they need it. Because many modern cloud systems can be easily and securely integrated across other systems, it becomes easier to track funding data in real-time. This also enables stronger collaboration across teams. Finally, the cloud offers the additional benefit of widening the hiring pool for financial professionals—allowing your team to bring on remote or hybrid accountants with the skill sets you need.

Automation and Artificial Intelligence Solutions

Artificial intelligence (AI) and machine learning solutions are impacting virtually every industry today, and accounting is no different. These tools can automate routine tasks such as expense management and invoice processing, reducing the risk of human error and delivering new levels of efficiency. AI-supported accounting tools can flag anomalies or identify misuse of funds. By adopting AI technology solutions, nonprofit leaders can gain valuable insight that can improve forecasting and drive strategic decision-making.

While potential use cases for AI are still being explored, all of these uses are meant to help accountants in their jobs, not replace them. These modern tools make it easier to process and track data and perform routine tasks. This gives financial professionals the support they need to focus on more time-intensive tasks, such as data analysis, that add greater value to the organization.

New Technology Demands New Skill Sets

These new technologies are driving changes in the types of skill sets needed by today's accountants. For example, many organizations are now looking for a hybrid blend of IT and accounting skills. Due to the rise of automated workflows, organizations are increasingly looking for individuals who can think beyond debits and credits. There's a need for people who can communicate financial information across departments and to public stakeholders, and who can analyze financial data to develop stronger strategies and better navigate revenue trends.

Some of these hybrid skill sets may be more difficult for smaller nonprofits to recruit. As a result, consultative outsourcing is expected to see even greater demand in the future. An outsourced accountant typically offers broader experience, greater bandwidth, and more up-to-date knowledge of best practices than an in-house accountant. In addition, these professionals tend to be more strongly invested in staying up-to-date on systems, regulations, and tools. Outsourced accounting partners have the added benefit of being able to apply best practices gleaned from one organization to other nonprofit clients.



Adapting to Manage Emerging Accounting Risks

CHAPTER 3

As nonprofits grow, many tend to find that their financial responsibilities gain added layers of complexity. For example, when a nonprofit is awarded grant funding, it sets in motion a need to secure more staff and deliver more frequent financial reporting. As nonprofits venture into diversifying their funding sources, they may face new taxation responsibilities or the threat of putting their not-for-profit status at risk.

As noted in the previous chapters, having fewer accounting professionals to manage these mounting requirements is already a formula for potential problems. Adding new technology solutions can open nonprofits up to a host of new risks.

All nonprofits, no matter where they are in their growth trajectory, can benefit from proactive risk management. By adopting strong internal controls, prioritizing cybersecurity, and establishing a culture of accountability, nonprofits can reduce the risk to their financial systems.



Adopt Strong Internal Controls

Risk is an inherent part of growth, but proactive risk management strategies can help nonprofits weather these hurdles. Strong internal controls are the foundation of a proactive management approach.

Internal controls are the processes put in place to ensure your nonprofit's financial integrity and to promote accountability. Robust internal controls can help protect nonprofits from fraud, as well as unintentional errors, external data breaches, and loss of data.

A knowledgeable accountant or outsourced accounting partner can help put controls in place that address potential vulnerabilities in financial systems, particularly as nonprofits prepare for growth. Auditors can also be an invaluable resource for strengthening internal controls. As a result of reviewing your internal controls year after year, your auditors already have insight into the effectiveness of your existing controls. They also have insight based on the best practices being applied across your industry.

Your auditors may also be able to point you toward emerging areas of focus. For example, many auditors today are prioritizing the implementation of disaster recovery plans and information security plans that address the integration between organizations' IT department and their external vendors.

Address Risks Around Technology

As discussed in Chapter 2, the shift to modern technology solutions offers nonprofits significant advantages. However, this shift also carries greater security risks. As accounting solutions shift to the cloud or integrate with other internal systems and external vendors, nonprofits must prioritize cybersecurity strategies that keep their financial data secure.

Strong internal controls are the foundation of a proactive management approach.



There's been an upsurge in cyberattacks in recent years, and small and midsize organizations make up a significant portion of the victims of these crimes. Phishing attempts—scams in which individuals are tricked into revealing personal information, such as passwords, to bad actors posing as reputable companies—continue to rise because they work. [The Anti-Phishing Working Group](#)⁶ observed nearly five million phishing attacks in 2023, making it the worst year for phishing on record to date. As ACH transfers have become the predominant method of sending and receiving money, bank accounts are at greater risk of fraud. With more points of access to cash accounts come more opportunities for hacking.

These schemes can lead to bigger problems for nonprofits. If a server or network is hacked, nonprofits' sensitive financial or personal data—and credibility among stakeholders—is at risk.

As a result, nonprofit accounting professionals and partners must prioritize cybersecurity measures. This means making security investments and pursuing ongoing training. Everyone across your team should be knowledgeable about how to safeguard your assets. This training is essential for all new hires but should also be reviewed annually to remind your entire team of the risks to your financial data. Connecting with other nonprofits about lessons learned can further strengthen your cybersecurity approach.

Establish a Culture of Accountability

When nonprofits set clear expectations and implement internal controls that guide the handling of financial data, they're taking the first steps toward creating a culture of accountability. This culture is important both for preventing misuse of funds and for securing the trust of all stakeholders, members, and donors.

A culture of accountability sets the stage for nonprofits to serve as good financial stewards. Accountable organizations clearly identify the individuals who need access to financial data and their responsibilities in working with and securing this data. They set procurement and spending parameters and link spending to the organizational mission and the value delivered to members and stakeholders. These organizations also embrace training and the ongoing adoption of accounting best practices.

This culture of accountability is further strengthened through nonprofits' commitment to delivering accurate, transparent reporting, as we'll discuss in Chapter 4.

6. https://docs.apwg.org/reports/apwg_trends_report_q4_2023.pdf?_gl=1*1831xbz*_ga*MTUzNjM5ODY0NS4xNzExMTM5MTU5*_ga_55RF0RHXR*MTcxMTEzOTE1OS4xLjEuMTcxMTEzOTE5OS4wLjAuMA..



How Accounting Transparency Supports Nonprofit Growth

CHAPTER 4

As is the case for any type of organization, growth can bring new challenges to a nonprofit's financial management. As nonprofits secure more diverse types of revenue, from grants, donations, and new offerings, they may find they face growing donor expectations—and an even greater need to stay abreast of the trends that may impact their future funding.

Growth is not always a constant on which nonprofits can rely. Nonprofits may discover that economic headwinds suddenly hamper their access to funding. There will be routine hurdles to overcome. The ability to weather these ups and downs often comes down to a combination of good governance and knowledgeable forecasting. A well-informed accountant can prepare nonprofits for success in both of these areas.

As is the case for any type of organization, growth can bring new challenges to a nonprofit's financial management.

Financial Literacy Leads to Good Governance

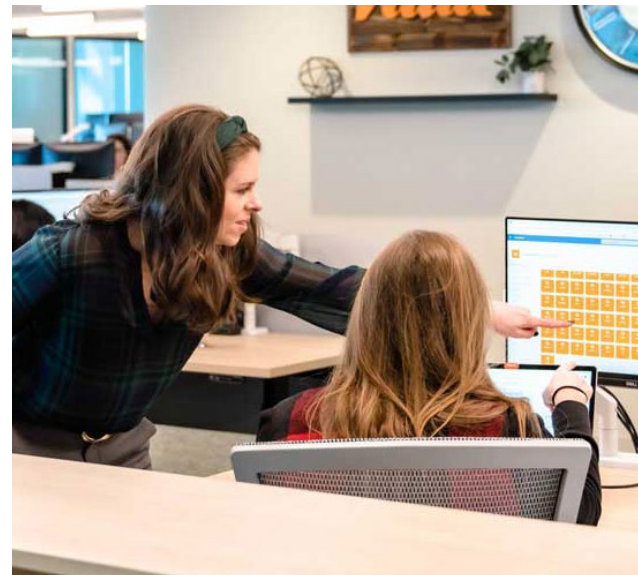
When helmed by financially literate leaders and directors, nonprofits tend to be better positioned to navigate funding ebbs and flows. Your accounting staff can play a key role in ensuring that board members, organizational leaders, and department heads have access to data that keeps them informed and focused on advancing the mission.

Not every board member or department head comes into their position able to read a financial statement. However, this financial literacy can benefit these and other organizational leaders. Board members charged with fiduciary responsibility over an organization should be able to look at a financial statement and tell at a glance if the nonprofit is in cash trouble or if they are on track to meet budget. Department heads should be able to tell from financial statements how their department is performing and use this information to make course corrections as needed.

This financial literacy is important, but it shouldn't be assumed that all nonprofit stakeholders have the same level of knowledge here. Attracted to your cause by their passion for the mission, your board members may not be fluent in the language of balance sheets. As a result, nonprofits should consider asking their accountant, accounting service provider, or auditors to provide some guidance on how to read financial statements and how to look at variances against the budget.

With strong financial governance, nonprofits may also find they can more readily step back and evaluate programs that are not moving in the right direction. Rather than simply pulling back on programs that don't drive revenue, boards and leaders who trust their financial positions may be more likely to adopt programs that show signs of value, even if they are not financially self-sustaining.

Strong internal controls are the foundation of a proactive management approach.



Prepare to Meet Evolving Donor Expectations

Nonprofits' financial leaders aren't the only ones who have greater access to more data than ever. Your donors are also accustomed to being able to instantly retrieve the data they want. This easy access has led many financial contributors to have higher expectations for detailed, on-demand financial reporting.

Organizations may find their donors are no longer satisfied with financial reporting that provides data in a vacuum. Two-line income statements will prompt questions or lead to mistrust. The same goes for a highly detailed financial statement that can hide information among the minutiae. Your donors, members, and other stakeholders want transparency in reporting. To meet this expectation, nonprofit leaders will want to have tools and processes in place to promptly account for funding use.

Whether you're tracking grant funds or donations, nonprofits are expected to be able to quickly explain the impact of funds on specific programs. Having proper accounting systems in place will help nonprofits deliver the timely, transparent reporting contributors expect.

Watch the Financial Headwinds

Well-informed accountants aren't just watching their own financials—they're also watching economic signals around them.

When your industry is suffering, your nonprofit may have to spend from reserves. This can be easy for some organizations and tough for others. To prepare to weather these challenges, nonprofits should be able to leverage data and trends to predict what's coming and prepare to strategically adjust their programming, offerings, or budget. By keeping an eye on the economy, and tuning in to what their board, members, and financial contributors are facing in other roles, your accountant can deliver stronger forecasting.



Preparing the Next Generation of Nonprofit Accountants

CHAPTER 5

Today's technology is freeing accountants to take a greater role in forecasting and strategy over conventional number crunching. However, it's also opening organizations up to new risks. This shift in responsibilities and risk means that many organizations, nonprofits included, have to adapt their hiring practices to recruit for new skill sets. In many cases, organizations are adopting remote and hybrid work approaches to find the right candidate.

To weather these many changes, nonprofits may find they can position accounting professionals for success by prioritizing training and professional development. With the right approach, nonprofits can attract skilled accountants and help employees adapt to meet evolving needs.

Professional Development Attracts Top Talent

When budgets get tight, professional education is often one of the first items nonprofits cut. Before making these cuts, nonprofits must consider whether pulling back on education could have a more costly long-term impact on recruitment, retention, or the ability to keep up with accounting demands.

Opportunities for structured professional development have become a priority for employees in all roles. In fact, a [2022 McKinsey study](#)⁷ found that the lack of career development and opportunities for advancement were the most common reasons employees quit. Research indicates that the newest generation of workers in particular value training. [Adobe's Future Workforce](#)⁸ study found Gen Z's top priorities are the ability to perform meaningful work from an employer that provides training in job-related hard skills. Nonprofits are particularly well suited to delivering this balance of purposeful employment and on-the-job training.

This training isn't just limited to those roles working in the field. Your accountant is also looking for opportunities to expand their skills and expertise. This desire for training can give nonprofits an opportunity to retain these essential employees and strengthen the skills they need in-house.

Training is Taking a Tech Focus

Many nonprofits offer paid coursework or certificates as part of their non-wage compensation package. However, organizations should also consider thinking bigger about the types of training they offer. For example, accountants may benefit from technology training that allows them to support organizations that increasingly rely on digital solutions. With the right training, accountants can better leverage software to enhance their efficiency or sharpen their ability to analyze the data available to them. This training not only makes these employees feel vested but can provide them with skill sets that add tremendous value to your organization.

While technology-based training will be increasingly important, it's not the only area from which your accounting staff may benefit from training. Key players among your accounting staff may benefit from leadership development that prepares them to grow in their careers while advancing your organization. This training can include the development of the soft skills needed for effective communication and collaboration.



7. <https://www.mckinsey.com/capabilities/people-and-organizational-performance/our-insights/the-great-attrition-is-making-hiring-harder-are-you-searching-the-right-talent-pools>

8. <https://blog.adobe.com/en/publish/2023/09/27/adobe-future-workforce-study-what-us-employers-need-know-about-gen-z-workplace>

Training to Support a Changing Workforce

As a result of the accountant shortage, many organizations are making changes in their hiring practices. Nonprofits may find that their leaders need training on how to manage a changing workforce.

Organizations that adopt remote and hybrid work approaches in order to pull from a broader pool of accountant candidates will need new skill sets to remotely manage these professionals. To keep these remote and hybrid workers engaged, nonprofit managers may find they need to become more intentional in how they check in and communicate with these employees. That can mean scheduling regular meetings, reviews, and even social interactions with employees to help them feel like a part of the team.

Nonprofits recruiting entry-level applicants may find their teams benefit from training on how to support members of Gen Z. Small changes, such as providing more frequent performance reviews or more personalized training, can help engage the youngest members of the modern workforce. Managers may also benefit from training on how to help multiple generations work effectively together. This training can help nonprofits adopt communication strategies that foster engagement across their entire workforce and prepare their accounting staff to excel.

As a result of the accountant shortage, many organizations are making changes in their hiring practices.



Conclusion

Accurate accounting and financial reporting is essential to a nonprofit organization's success and growth. Fortunately, nonprofits today have options for how to secure the accounting support they need.

For some organizations, outsourcing accounting to a qualified firm may be a more practical alternative than handling accounting in-house. This is particularly the case for small- and mid-size organizations. By outsourcing accounting, a nonprofit organization can budget for the support they need, while gaining the full strength of an accounting firm that is up-to-date on the latest standards and best practices.

Other organizations may find that they can leverage emerging automated accounting solutions and new workforce management strategies to gain the efficiency needed to strengthen financial reporting and forecasting.

No matter your approach, it's essential to remain abreast of the latest accounting industry trends and standard practices. As industry best practices continue to evolve, nonprofits will benefit from staying on top of the challenges and solutions taking hold across the industry.



About Vault

At Vault, the nation's leading accounting, human resources, and research firm for nonprofits and associations, we help organizations thrive and grow.

We establish the sound financial foundation you need to address today's most urgent challenges, the HR oversight to drive successful and compliant people practices, and the research-based insights to understand the changing needs of your members and engage them more deeply. To deliver these insights, we've broken the mold—nowhere else will you find more energy and personality! In fact, we've accumulated some of the highest client value and satisfaction ratings in the industry. If you are ready to take your organization to brave new heights, Vault offers more than expertise; we deliver a powerful new perspective and a clearer path forward. Vault serves clients nationwide with offices in DC and Charlotte.

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To learn more about Vault, please visit our website at vaultconsulting.com.