NONPROFIT *Fiscal Fitness*

your newsletter about issues in the nonprofit business world

Blackbaud.

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Editor's Note

This month's issue of *Nonprofit Fiscal Fitness* explores the topic of fund accounting, which is a method for recording resources that are limited by donors, granting agencies, governing boards, or other individuals or entities or by law. Each fund consists of a self-balancing set of asset, liability, net asset, revenue, and expense accounts.

Using a fund accounting system allows an organization to segregate financial resources between those dollars immediately available for ongoing operations and those dollars intended for a donor-specified use. In addition, a fund accounting system provides an audit trail as the dollars are spent for their intended purposes and thereby released from the restriction.

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Blackbaud's Conference for Nonprofits in Ottawa — Early Registration Deadline Extended!

We have extended our early bird registration rate *permanently*! **Take advantage** and register today for Blackbaud's 2009 Conference for Nonprofits in **Ottawa**.

With sessions covering topics essential to nonprofit professionals, experts on hand to discuss your unique challenges, and an inspiring keynote address, this year's Conference is the place to learn and network with your peers (and a great excuse to escape from the office and visit Ottawa, of course).

REGISTER NOW

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The Use of Fund Accounting

Operating Fund

Also known as the unrestricted current fund, this fund is used to record organizational activity that is supported by resources over which governing boards have discretionary control. The principal sources of unrestricted current funds are unrestricted contributions from donors; exchange transactions with members, clients, students, customers, and others; and unrestricted investment income. Resources are used to help meet the costs of providing the organization's programs and supporting services.

Restricted Current (Restricted Operating or Specific Purpose) Funds

These fund types are used to record organizational activities that are supported by resources whose use is limited by external parties to specific operating purposes. Principal sources of restricted current funds are contributions from donors, contracts, grants, and appropriations; endowment income; and other sources whose resource providers have stipulated the specific operating purpose for which the resources are to be used. Fund balances of current restricted current funds represent net assets held for specified operating activities that have not yet been used. A portion of the fund balance that represents amounts contributed with donor-imposed restrictions should be classified as temporarily restricted net assets. Fund balances representing amounts received with limitations other than donor imposed restrictions, such as contractual limitations, should be classified as unrestricted net assets. Any portion of the fund balance that represents unearned revenue resulting from an exchange transaction should be reported as a liability.

Plant (Land, Building, and Equipment) Funds
Some nonprofit organizations record plant and equipment (and resources held to acquire them) in a plant fund or funds. A plant fund may be a single group of accounts or may be subdivided into some or all of the following sub-fund account groups: unexpended plant funds, funds for renewal and replacement, funds for retirement of indebtedness, and investment (or Net Investment) in plant funds. Unexpended plant fund balances and renewals and replacement fund balances represent net assets that have not yet been used to acquire, renew, or replace plant and equipment. Retirement of indebtedness fund balances represent net assets held to service debt related to the acquisition or construction of plant and equipment. Any portion of those fund balances that represents amounts received with donor imposed restrictions should be classified in the Statement of Financial Position as temporarily or permanently restricted net assets depending on the nature of the restriction.

Investment-in-plant fund balances represent assets invested in plant and equipment less any liabilities related to those assets. These fund balances should be classified as permanently restricted net assets to the extent that donors have imposed restrictions that neither expire by the passage of time nor can be fulfilled nor removed by actions of the organization, or the proceeds from the ultimate sale or disposal of contributed assets must be reinvested in perpetuity. Amounts representing property and equipment acquired with unrestricted resources or with resources whose use is limited by parties other than donors should be classified as unrestricted net assets.

Loan Funds
Some nonprofit organizations use loan funds to account for loans made to students, employees, and other constituents and those resources available for loan purposes. The assets initially made available for the loans may be provided by donors or various governmental and other granting agencies or designated by governing boards. Fund balances of loan funds represent net assets available for lending. They should be classified as temporarily or permanently restricted if they carry donor-imposed restrictions. They are classified as unrestricted if they are board designated. Any portion that represents a refundable advance, such as under a governmental loan program, should be classified as a liability.

Annuity and Life-Income (Split Interest) Funds
Annuity and life income funds may be used to account for resources provided by donors under various kinds of agreements in which the organization has a beneficial interest in the resources but is not the sole beneficiary. Examples include charitable remainder and lead trusts, charitable gift annuities, and pooled life income funds. Fund balances of these funds represent a nonprofit's beneficial interest in the resources contributed by donors under split interest agreements. If any of these resources will become part of the permanent endowment when the agreement terminates, they should be classified as permanently restricted net assets.

Endowment Funds
There are generally three kinds of endowments. A permanent endowment refers to amounts that have been contributed with donor-specified restrictions that the principal be invested in perpetuity; donors may also restrict the income from these investments. A term endowment is similar to permanent endowment, except that at some future time or upon the occurrence of some specified future event, the resources originally contributed become available for unrestricted or purpose-restricted use by the entity. Quasi-endowment is a term for resources designated by an entity's governing board to be retained and invested for specified purposes for a long but unspecified period.

Fund balances of endowment funds represent net assets for which various limitations exist on the resources invested and, in some cases, on the income generated by those resources. Fund balances that represent term endowments for which the principal must be maintained for a specific period or must be used at the end of the term for a specified purpose should be classified as temporarily restricted net assets. Fund balances that represent quasi-endowments or other amounts designated by the organization's governing board should be classified as unrestricted net assets unless donor imposed restrictions are imposed on their use.

Endowment Management
Nonprofit managers and board members face numerous questions when making endowment management

decisions. How many years must the endowment remain restricted? Can the funds be used for another purpose in a time of crisis? Are realized gains treated as current income? Is the endowment principal defined as its original sum or is it the original sum plus all appreciations less declines in underlying values? Do the original endowment creators wish the original asset to be retained? Can it be sold? If sold for cash, is there any restraint on the way the cash may be reinvested? Must it be offered to a particular person first before the nonprofit can sell the original asset?

The total return concept is a relatively new concept in endowment management. Any appreciation in asset value used to be treated as an addition to principal; it is now thought of as income. The Ford Foundation's study of 1969 — "The Law and Lore of Endowment Funds" stated:

"Prudence would call for the retention of sufficient gains to maintain purchasing power in the face of inflation and to guard against potential losses, but, subject to the standard that prudence dictates, the expenditure of gains should lie within the discretion of an institution's directors."

In addition, many states have adopted the Uniform Management of Institutional Funds Act (UMIFA). The act sanctions the inclusion of gains (realized and unrealized) in currently expendable income alongside dividends and interest. Therefore, total return is now reported on the Statement of Activities. The National Association of College and University Business Officers (NACUBO) advocates this policy. The AICPA Auditing Guide for Not-for-Profit Organizations provides that the governing board may make a portion of realized, and in some cases unrealized, net gains available for current use. The unexpended increase or decrease in value (appreciation) of the securities remaining in the investment portfolio is reported as temporarily restricted funds under Financial Accounting Standard 117.

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Latest and Greatest

web seminars

The Financial Edge™
Join us to learn about The Financial Edge — our mission-critical, accounting information system that provides the reports and analyses you need to support effective decision making.

May 21, 2:00 p.m. ET

June 18, 2:00 p.m. ET

Advanced Budget Management™
For Financial Edge customers only. Reduce the time, hassle, and expense of your next budgeting cycle with Advanced Budget Management.

May 22, 2:00 p.m. ET

in the news

IRS Watches for Potential Abuses as Charities Grapple With a Bad Economy
The Internal Revenue Service is working to help "protect the trust and confidence" in nonprofit organizations during the current economic crisis and will be watchful of possible abuse.

Read the entire article here.

Accounting Is Where the Nonprofit Buck Stops
Accounting gives a nonprofit an essential tool it needs to run its business, plan its future, and show donors and regulators it is spending the tax-exempt funds it receives, the way it should.

resources

What's on Your Wish List?

What if you could magically have your wishes granted overnight? Check out what a scenario like that might look like with this customizable video report from Nonprofit Network News. Just enter your organizations name, your name, and hit "customize."

View the video here.

The Baudcast: Episode 25

This episode's panel discusses website spring cleaning, calls to action, traffic modeling, visitor profiles, micro-sites, SXSW, NTC, and more.

Download episode 25.

June 26, 2:00 p.m. ET	Read the entire article here.	

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