

Fund Accounting Is Different.

Fund accounting encompasses most aspects of commercial accounting; however, there is a marked difference in the accounting procedures, management objectives, reporting requirements, and accounting standards. This paper explores some of the major differences between fund accounting and commercial accounting, and it highlights the characteristics that make operating a nonprofit organization on a commercial accounting system a poor decision and potentially risky.

Fund Accounting Defined:

Nonprofits must carefully track and report on segregated accounts in the form of “funds” as they navigate their various projects and programs. These funds must be treated as separate entities with their own general ledger and must provide individual income statements and balance sheet reports. They must then report in total for the entire organization. Commercial accounting systems can maintain separate revenue and expense accounts, but they co-mingle balance sheet accounts. This is not permitted in fund accounting.

Grants, Endowments, and Fundraising:

Major donations and grants are commonly given with a set of specific and unique requirements, restrictions, and responsibilities. The funds are deemed “restricted,” and failure to demonstrate that restricted funds have been used correctly can have serious organizational consequences, including loss of funding, loss of nonprofit status, and a tarnished reputation. These restrictions require tracking and reporting of complex allocations across multiple programs, projects, and reporting periods. Most commercial accounting systems are not designed to effectively track this type of data. This can lead to an overwhelming workload for your accounting department while actually limiting the number of funding opportunities an organization may pursue and maintain.

CICA Standards:

In March 1996, the Canadian Institute of Chartered Accountants introduced six new sections to the CICA Handbook (Section 4400) to establish accounting and disclosure standards for nonprofit organizations. Significantly, these new accounting standards allow nonprofit organizations to make certain choices in financial reporting based on factors such as their size and current accounting practices. The most fundamental decision relates to the organization’s use of fund accounting. The organization must determine the accounting method it will use for contributions (deferral method or the restricted fund method).

Budgeting and Reporting:

The financial reporting requirements for nonprofit organizations are very unique. Reports must be accurate and sophisticated enough to pass regulatory and audit criteria. Yet at the same time, the system must be easy to use and flexible enough to provide reports to meet the needs of a wide variety of groups: the board, staff, constituents, and the public at large. Fund accounting reports are designed to measure performance against budgets and income versus expenses, i.e. the net surplus/deficit. Commercial system reports are designed to measure income versus expenses only.

Grant reporting requires both current and to-date financial performance since the date the grant was awarded. This is another function lacking in most commercial systems. Grant administration typically requires the allocation of overhead expenses to grants based on an established formula. This goes well beyond the scope of most commercial accounting systems.

Complex allocations across the organization make budgeting for nonprofit organizations very complicated. Revenues and expenses span multiple funds and are very often determined by non-financial “drivers.” Frequently, this will include allocating direct and indirect cost using complex formulas. Commercial accounting systems are not designed to accommodate these types of allocations.

Peripheral Systems:

Almost by design, commercial accounting systems require staff members to utilize outside applications, such as Microsoft® Excel and Access to perform fund accounting tasks the accounting software cannot handle. Such fill-in resources are described as “peripheral” systems, and in the long run, they cost more to operate than systems built into the accounting software. This is a result of duplicate entry and diminished data integrity, which lead to miscalculations and inefficiencies. Managing funds outside your accounting system also evades the internal controls built into most accounting applications. Internal controls are critical to encourage adherence to policies and procedures, promote efficiency, safeguard assets, and ensure the integrity of accounting data. Peripheral systems also eliminate true audit trails where the adjustments to transactions are directly linked to the record.

“With its integration into fundraising and executive decision support systems, **The Financial Edge** is a first-rate accounting solution that was created for, and has served well, the nonprofit sector.”

— *Accounting Today*



How The Financial Edge Compares to Commercial Accounting Systems, such as Simply Accounting®:

Considerations:	The Financial Edge:	Simply Accounting®:
What is it?	True fund accounting solution designed specifically for nonprofits	Entry level commercial accounting software with multiple editions
Encumbrance accounting	Yes	No
Internal controls	Comprehensive	Minimal
Audit trail	Yes	No
Strong budgetary controls	Yes	No
Driver-based budgeting	Yes	No
CICA compliant reporting	Yes	No
Allows you to attach supporting documents to transactions	Yes	No
Are automatic allocations possible?	Yes	No
Financial Position includes total assets, total liabilities, unrestricted, temporarily restricted, and permanently restricted net assets	Yes	No
Statement of activities includes change in unrestricted, temporarily restricted, and permanently restricted net assets	Yes	No
Overall reporting	Robust	Limited
Supports statistical accounts	Yes	No
Supports true networking with record locking	Yes	No
Integration to fundraising	Yes	No
ODBC-compliant database	Yes	No
Supports multiple segments in account number for departments, divisions, profit centers, and cost centers	Yes — supports up to ten segments	Expandable account numbers but limited segments
Will system automatically record due to/due from transfers for spreads among different funds?	Yes	No



To learn more about **The Financial Edge**, visit www.blackbaud.com, or contact your Blackbaud account representative.

Toll-free: 800.443.9441

Fax: 843.216.6100

Email: solutions@blackbaud.com

Web: canada.blackbaud.com

Blackbaud, Inc.

A12-1250 Eglinton Avenue West, Suite 110

Mississauga, Ontario L5V 1N3

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