

# Why Fund Accounting is Different: Common Limitations of Commercial Accounting Software

To manage projects and programs, nonprofits must carefully track and report on segregated accounts in the form of funds. These funds must be treated as separate entities with independent general ledgers, individual income statements, and balance sheet reports. Nonprofits must then report in total across the entire organization. Commercial accounting systems like QuickBooks® may be able to maintain separate revenue and expense accounts, but they co-mingle balance sheet accounts. This is not permitted in fund accounting.

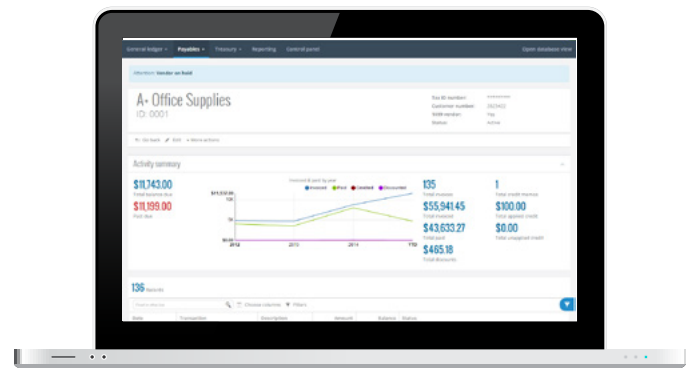
“With its integration into fundraising and executive decision support systems, Financial Edge™ is a first-rate accounting solution that was created for, and has served well, the nonprofit sector.”

—Accounting Today

## Grants, Endowments, and Fundraising

Major donations and grants are commonly given with a set of requirements and responsibilities. These funds are deemed “restricted,” and failure to demonstrate that restricted funds have been used correctly can have serious consequences, including loss of funding, loss of

Continued



Financial Edge NXT Vendor Activity Details

nonprofit status, and a tarnished reputation. Restrictions require tracking and reporting complex allocations across multiple programs, projects, and reporting periods. Most commercial accounting systems are not designed to effectively manage this type of data. Using them can lead to an overwhelming workload for your accounting department and limit the number of funding opportunities your organization can pursue or maintain.

## Budgeting and Reporting

Financial reporting requirements for nonprofit organizations are unique. Reports must be accurate and sophisticated to pass regulatory and audit criteria. At the same time, the system used must be easy to work with. It must have flexible reporting capabilities to meet the needs of a wide variety of groups: the board, staff, constituents, and the general public. Fund accounting reports pay special attention to measuring performance against budgets and net surplus/deficit, while QuickBooks® reports only emphasize income versus expenses.

Grant reporting requires current and to-date financial performance since the date each grant was awarded. Grant administration also requires the allocation of overhead expenses to grants based on an established formula. These needs go well beyond the scope of most commercial accounting systems.

Complex allocations across the organization make budgeting for nonprofit organizations challenging. Revenues and expenses span multiple funds, different reporting periods, and are often determined by non-financial drivers. Frequently, this includes allocating direct and indirect cost using complex formulas. QuickBooks® and even more advanced commercial accounting systems fall short on this functionality, as robust budgeting is not a priority at for-profit companies.

## Internal Controls

All organizations are susceptible to fraudulent activity. There may be multiple individuals who need access to your accounting software, but they don't all need—and many shouldn't have—the same level of access. While most commercial accounting solutions offer some internal controls, good fund accounting software gives you the ability to create logins for individual users and set access restrictions. This way, board members not directly involved in financial management can view reports without editing data, and employees' duties can be properly segregated in the system. This takes the guesswork out of security and demonstrates your organization's accountability.

## Peripheral Systems

Almost by design, commercial accounting systems require staff to use outside applications, such as Excel® and Access®, to perform fund accounting tasks that they can't handle alone. Such fill-in resources are described as peripheral systems and cost more to operate in the long run than fund accounting software with all proper resources built into it. This cost is a result of duplicate entry and diminished data integrity, which lead to miscalculations and inefficiencies. Managing funds outside of your accounting system also evades any internal security controls that your system provides and eliminates true audit trails where the adjustments to transactions are directly linked to the record. Internal controls are critical to policy and procedure adherence. They promote efficiency, safeguard assets, and ensure the integrity of accounting data.

Continued

## Fund accounting is the answer. Financial Edge NXT™ is the solution.

Intuitive. Reliable. Secure. Financial Edge NXT delivers the industry's best cloud fund accounting system, enabling your finance office to maximize its mission impact. Over 30 years of research and development went into designing Financial Edge NXT, the most comprehensive, purpose-built fund accounting application for nonprofits. The solution delivers the same unparalleled grant management, reporting, budgeting, and expense management as its predecessor, Financial Edge, but in a modern, intuitive experience that will improve your financial staff's efficiency.

Considerations	Financial Edge NXT	QuickBooks®
What is it?	A complete fund accounting solution designed specifically for nonprofits	Entry-level commercial accounting software with a nonprofit edition
Encumbrance Accounting	Yes	No
Internal Controls	Extensive	Minimal
Complete Audit Trail	Yes	No
Strong Budgetary Controls	Yes	No
Driver-Based Budgeting	Yes	No
FASB 117 Consolidated Statement of Activities and Changes in Net Assets	Yes	No
Are automatic allocations possible?	Yes	No
Number of Accounts	Virtually Unlimited	10,000
Does the financial position include total assets, total liabilities, and unrestricted, temporarily restricted, and permanently restricted net assets?	Yes	No
Overall Reporting	Robust	Basic
Integration with Fundraising	Yes	No
Does it support multiple segments in account number for departments, divisions, profit centers, and cost centers?	Yes. It supports up to ten segments.	It only supports one segment.
Does it provide custom fields to manage reporting mechanisms outside of the account number?	Yes, extensively.	The NFP edition includes some minimal options.
Will the system automatically record due to/due from transfers among different funds?	Yes	No

Many of Blackbaud's over 6,000 accounting clients made the switch from commercial accounting software and upgraded to a Financial Edge™ solution. See what they had to say about their experience:

“With flexible account setup and tracking in Financial Edge NXT, we've automated manual reporting while keeping a simpler account structure.”

—Adam Pomerantz, Chief Financial Officer, Wings for Kids

“Financial Edge has the functionality we need right out of the box. We did not have to deal with custom modifications necessary to get the other software packages to work for us.”

—Andrew Nolan, Controller, Penn Marr Organization

“The ease of reporting and speed at which things get done has significantly cut down my workload and made moving to Financial Edge the right decision.”

—Johanna O'Hare, Business Office Accountant, Regis High School

“We are a small team with a mighty mission, so not having to double enter things or rely on two different systems to access and enter information is a tremendous help. Plus, Financial Edge tracks by project codes and restricted funds, so all the reporting we have to do for both internal and external stakeholders is much easier.”

—Rene Larsen, Administrative Director, Ronald McDonald House Charities of Kansas City

“We feel that Financial Edge will grow with our organization for years to come and support all of our future initiatives.”

—Rob Pollack, Director of Finance, Chicago Botanic Garden

## About Blackbaud

Serving the worldwide philanthropic community for 35 years, Blackbaud (NASDAQ: [BLKB](#)) combines innovative software, services, and expertise to help organizations achieve their missions. Blackbaud works in over 60 countries to power the passion of approximately 35,000 customers, including nonprofits, K-12 private and higher education institutions, healthcare organizations, corporations, foundations, and other charitable giving entities. The company offers a full spectrum of cloud and on-premise solutions, as well as a resource network that empowers and connects organizations of all sizes. Blackbaud's portfolio of software and services supports nonprofit [fundraising and relationship management](#), [digital marketing](#), [advocacy](#), [accounting](#), [payments](#) and [analytics](#), as well as [grant management](#), [corporate social responsibility](#), and [education](#). Organizations that use Blackbaud technology raise, invest, manage, and award more than \$100 billion each year. [Recognized as a top company](#), Blackbaud is headquartered in Charleston, South Carolina and has operations in the United States, Australia, Canada, Ireland, and the United Kingdom. For more information, visit [www.blackbaud.com](http://www.blackbaud.com).