

# Why Fund Accounting is Different

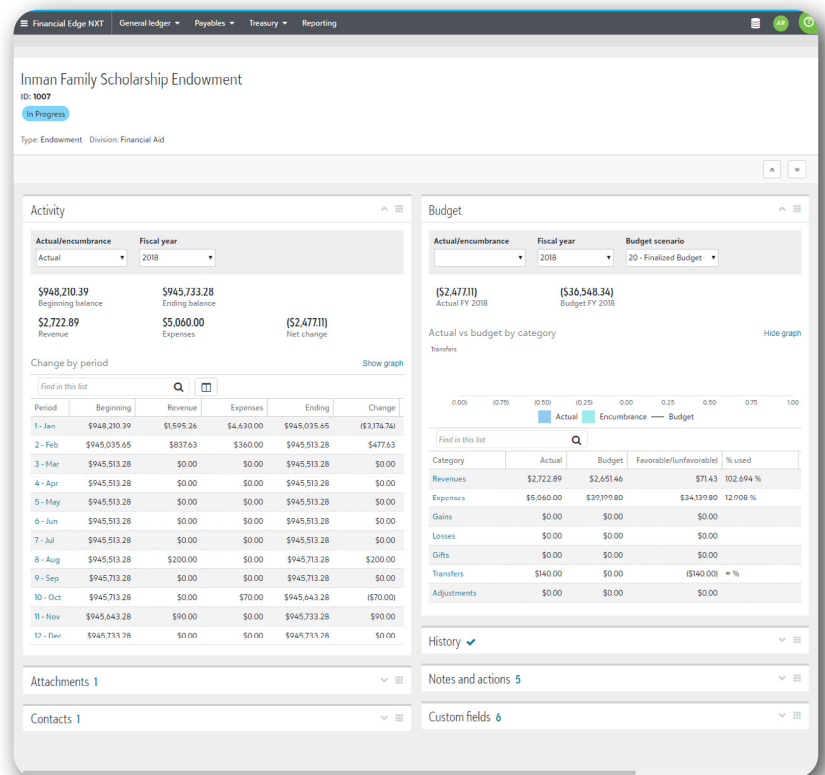
## Common Limitations of Commercial Accounting Software

To manage projects, grants, and endowments, 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. Nonprofit organizations must then report in total across the entire organization. Commercial accounting systems designed for for-profit companies may be able to maintain separate revenue and expense accounts, but they commingle balance sheet accounts. This is not ideal when an organization has a variety of funds with individual donor restrictions.

## 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 status, and a tarnished reputation.

Restrictions require the ability to track and report 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 while reports for for-profit accounting only emphasize income versus expenses.

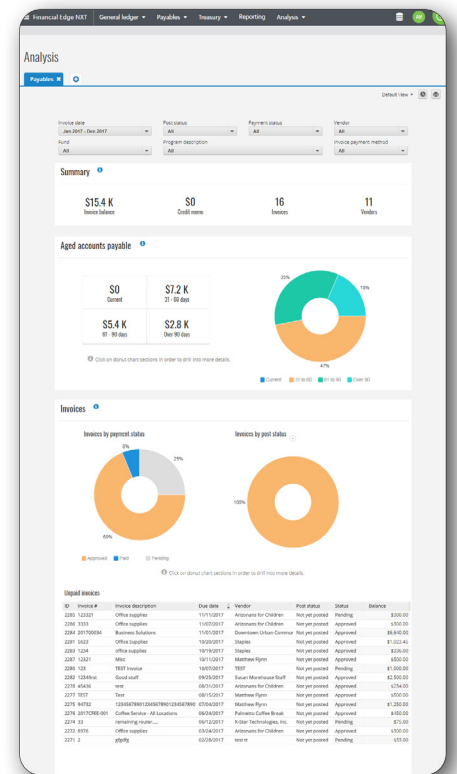
Grant reporting requires current and to-date financial performance from the date each grant was awarded. Grant administration also requires the allocation of overhead expenses to grants based on an established formula. These needs go well beyond the scope of most commercial accounting systems. And with the ability to easily customize reports to meet the needs of your various stakeholders, you can increase reporting efficiency while improving stewardship of restricted funds.

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

## Internal Controls

All organizations are susceptible to fraudulent activity. You may have multiple individuals at your organization who need access to certain financial information, however they don't all need—and many shouldn't have—the same level of access to your accounting software.

While most commercial accounting solutions offer some internal control options, good fund accounting software gives you the ability to set detailed access restrictions per user. This way, board members who aren't directly involved in financial management can view the reports they need without editing data, and employees' duties can be properly segregated within the system. This takes the guesswork out of security and demonstrates your organization's dedication to ethical accounting practices.



“If we didn’t have Blackbaud Financial Edge NXT®, we would be doing spreadsheets for days and days. And the information we would be pushing out would be old information, which isn’t useful for the staff who are working on the front line and delivering on the mission.”

—Julia Kennard, Chief Financial Officer, EdVenture Children’s Museum®

## 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 can leave your data open for risk of fraud and can cost more to operate in the long run than fund accounting software with all of the 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 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.

To learn more, visit  
[blackbaud.com/FENXT](https://blackbaud.com/FENXT)  
or contact your account  
representative.

[Learn more](#)

“We wanted something that was tailored to a nonprofit organization...With our size, Blackbaud Financial Edge NXT® gives us the functionality we need and allows us to operate at our full potential.”

—Greg Seay, Controller, Fellowship Bible Church of Northwest Arkansas



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

More than three decades of research and development went into designing Blackbaud Financial Edge NXT—the most comprehensive, purpose-built fund accounting software for nonprofits. Financial Edge NXT delivers unparalleled reporting, budgeting, and expense management in a modern, intuitive experience that will enable your finance office to improve efficiency and maximize its mission impact.

|                                                                                                               | Financial Edge NXT                                                       | For-Profit Software                                             |
|---------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|-----------------------------------------------------------------|
| <b>CONSIDERATIONS</b>                                                                                         |                                                                          |                                                                 |
| Encumbrance Accounting                                                                                        | A complete fund accounting solution designed specifically for nonprofits | General commercial accounting software with a nonprofit edition |
| Internal Controls                                                                                             | Yes                                                                      | No                                                              |
| Complete Audit Trail                                                                                          | Extensive                                                                | Limited                                                         |
| Strong Budgetary Controls                                                                                     | Yes                                                                      | No                                                              |
| Driver-Based Budgeting                                                                                        | Yes                                                                      | No                                                              |
| Budget Checking                                                                                               | Yes                                                                      | No                                                              |
| Automatic Allocation Capabilities                                                                             | Yes                                                                      | No                                                              |
| Detailed Grant and Project Records                                                                            | Yes                                                                      | No                                                              |
| Number of Accounts                                                                                            | Virtually Unlimited                                                      | 10,000                                                          |
| Statement of Financial Position: Net Assets with Donor Restrictions and Net Assets without Donor Restrictions | Yes                                                                      | No                                                              |
| Overall Reporting                                                                                             | Robust                                                                   | Basic                                                           |
| Multiple Segments Supported in Account Number for Departments, Divisions, Profit Centers, and Cost Centers    | Supports up to 10 segments                                               | Supports one segment                                            |
| Custom Fields to Manage Reporting Mechanisms Outside of Account Number                                        | Extensive                                                                | Limited                                                         |
| Automatic Reporting of Transfers Among Different Funds                                                        | Yes                                                                      | No                                                              |

### About Blackbaud

Blackbaud (NASDAQ: BLKB) is the world's leading cloud software company powering social good. Serving the entire social good community—nonprofits, higher education institutions, K–12 schools, healthcare organizations, faith communities, arts and cultural organizations, foundations, companies, and individual change agents—Blackbaud connects and empowers organizations to increase their impact through cloud software, services, data intelligence, and expertise. Learn more at [www.blackbaud.com](http://www.blackbaud.com).

