

# 10 Reasons Why Nonprofits Need True Fund Accounting™



## What is True Fund Accounting™?

A true fund accounting™ system is a comprehensive and purpose-built technology designed to meet the unique needs of a nonprofit organization's financial infrastructure. True fund accounting™ meets the complex fund tracking and flexible reporting requirements vital to a nonprofit's continued ability to grow and serve its community.

## Do I Need a True Fund Accounting™ Solution?

Many nonprofits use commercial accounting products initially, but as they grow and gain multiple funding sources, they find off-the-shelf accounting software doesn't meet their unique tracking and reporting needs. Customizing or overlaying features onto commercial software to achieve nonprofit accounting functionality is inefficient, incomplete, and expensive. At worst, it can open the door to costly errors and complex or erroneous audits.

To determine whether your organization requires a true fund accounting™ system, ask yourself the following 10 questions:

### 1 Do I have specific restrictions that I must apply to funds?

Failure to demonstrate that donor-restricted funds have been used correctly can have serious organizational consequences, including loss of funding, and worst case — the loss of tax-exempt status. Solutions built specifically for fund accounting can help nonprofits handle the special tracking and reporting requirements that may come with each new funding source.

### 2 Can I easily measure the performance of a program or activity?

Nonprofits typically need to measure a program or activity outcome, and track beyond basic financial information—something most commercial accounting software is not designed to do. True fund accounting™ systems are robust enough to track and report performance or outcome measures on financial statements, as well as budgeting outcome measures for accurate forecasting.

### 3 Am I able to create reports for varying fiscal years?

While commercial accounting often assumes that fiscal years end in the same months each year, nonprofits often have to report to several different audiences, with different information requirements and reporting timelines. Thus, the ability to track and report across different time periods (cross-fiscal year reporting) is critical for nonprofits and is a key attribute of true fund accounting™.

### 4 Do I have funds that need to be recorded as encumbered?

Being able to report on encumbered funds provides nonprofits tighter controls on spending while fully utilizing a grant budget. Commercial accounting systems are not designed to properly address these reporting and tracking requirements, while a true fund accounting™ system is specifically created to accommodate this unique need.

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## 5 Can I perform allocations of indirect costs by grantors?

The accuracy of allocations is critical in providing auditors and grantors a complete audit trail, but these allocations typically are not handled well by a commercial accounting system. In a true fund accounting™ system, allocations can be performed on virtually any account balance at the program level, department level, or grant level, and across multiple segments at one time with advanced calculation options, including fixed or dynamic percentages, unit measures, and more. This type of system also enables detailed allocation reporting (e.g. allocations made, methods, amounts, etc.).

## 6 Can I easily tailor reports for each funding source?

An organization that can provide detailed levels of reporting has a better chance of seeing its funding and the scope of its mission increase. A true fund accounting™ system can provide access to sophisticated, audit-level reports for good accounting, as well as simple, high-level reports that can be understood by less accounting-savvy audiences. With the ever-changing reports required by funding sources, being able to easily generate necessary reports without custom report writing is vital.

## 7 Does my current solution incorporate nonprofit-specific accounting rules?

Audited financial statements must present information in accordance with the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 116 and 117, or Governmental Accounting Standards Board (GASB) guidelines. True fund accounting™ software includes reports that make compliance easy, whereas other accounting software does not usually provide these reports without costly customization.

## 8 Can I easily manage and report on multiple budgets?

Nonprofits rely on the budget as a compliance and monitoring tool, and it is a formal part of the organization's financial records. The ability to produce unlimited budget versions, create "What if" scenarios, report on multiple budgets simultaneously, have capabilities to prevent overspending, and fully utilize budget functionalities are characteristics of a true fund accounting™ solution.

## 9 Can I easily show how money is tracked or budgeted?

Funds must be treated as distinct entities with their own general ledger and individual revenue, expense, income, and balance sheet reports. True fund accounting™ software will automatically handle the offset postings to cash or payable accounts by fund, as well as the encumbrance processing, grant tracking, and budget controls.

## 10 Does my current solution integrate with other software?

Providing auditors, stakeholders, and key decision-makers with a clear view of the lifecycle of every dollar—from receipt to expenditure—will continue to be the focus for the future. Because true fund accounting™ software is created with a nonprofit's needs in mind, it has integration capabilities to allow nonfinancial, yet mission-critical data to be recorded, tracked, and reported on within the system.

If you answered "no" to any of these questions, you should consider true fund accounting™ software designed to handle the accounting requirements specific to the nonprofit sector.

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## About Abila

Abila is the leading provider of software and services to associations and nonprofit organizations that help them improve decision making, execute with greater precision, increase engagement, and generate more revenue. Abila combines decades of industry insight with technology know-how to serve nearly 8,000 customers across North America. For more information, please visit [www.abila.com](http://www.abila.com).

## About Community Brands

Community Brands is a technology-driven company that delivers purpose-built solutions to more than 17,000 of the world's leading associations, nonprofits, and government entities to thrive and succeed in today's fast-paced, evolving world. Our focus on accelerating innovation and bringing to market modern technology solutions helps power social impact and create opportunity. With Community Brands software and services, organizations better engage their members, donors, and volunteers; raise more money; effectively manage revenue; and provide professional development and insights to power their mission. For more information, please visit [www.communitybrands.com](http://www.communitybrands.com).

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