A Nonprofit's Guide to Choosing an Accounting System

Affinity NFP

People. Passion. Purpose.

A Nonprofits Guide to Purchasing Accounting Software

Introduction

Because accounting is such a crucial part of your organization, it is wise to contemplate your needs and carefully consider how to meet them when preparing for any change in accounting processes or practices. This can seem particularly daunting when you are planning the purchase of a software system, which is why it is important to understand the benefits that you can derive and the risks to avoid when you evaluate new accounting software. This guide will aid you in the evaluation of your organization's accounting needs and the selection of a software system that will best meets them.

Do You Need to Change Your Accounting System?

Investing time and money in a new accounting software system is an important undertaking. Perhaps your organization has experienced growth or downsizing, or you have been awarded new grants that require additional reporting. It's critical to determine not just the key changes that prompted the initial search, but all the related needs that must be met by your new system. Do any of the following apply to your organization?

- Are you spending large amounts of time trying to generate financial statements in spreadsheets or word processing applications?
- Can you maintain your budget in your current system?
- Do you need to track donor-imposed restrictions for contributions?
- Would increased security or internal access controls help reduce errors and improve the reliability of your accounting data?
- Do you spend time manually reconciling your fund balances or maintaining separate databases to meet reporting requirements?
- Does your staff spend too much time pulling special reports for management because they don't have report-reading access to your accounting system?
- Does your organization have specialized needs such as budgeting for and reporting on outcome measurements or inventory control?

Prioritize your needs using these categories: "must have", "nice to have", and "helpful, but not necessary" to maintain a clear picture of your critical needs throughout the purchasing process. You don't want to end up with a dozen new flash features and functions that fail to address essential processes.

Evaluating Your Organization's Needs

Before you begin the search for accounting software, you should list and prioritize your organization's key requirements. Examples of the items you may want to consider include:

Size of Your Organization

The larger the organization in funding sources, programs, or number of employees, the more likely the need for powerful, sophisticated accounting software. But be sure to avoid overbuying—you may end up paying annual maintenance fees on a system that you don't yet need. The best option is a scalable solution that fits your organization today, and accommodates for the growth of tomorrow.

Complexity of the Accounting Required

The intricate functionality required for nonprofit accounting organizations is a primary reason to change accounting systems. Complex issues that a new accounting system should handle include the need to track and report on multiple funding sources across different or multiple fiscal years, as well as tracking the performance of multiple programs, departments, and functions.

- **Type, Number, and Frequency of Reports**
  How much time do you spend on reporting and to whom? (Board of directors, grant and funding sources, donors, service recipients, national organization, auditors, etc.)? Many nonprofits require a great number of reports or need different reporting formats, many of which are frequently defined by funding sources. The appropriate accounting software will save you time and effort, often featuring easy-to-use report writers to help simplify reporting tasks. If your accounting staff must run multiple reports for internal management, look for report only viewing options.

- **Key Information and Details**
  Decide what type of information and level of detail you want to capture and report. Examples include: funding sources, restrictions, grants, and program costs.

- **Future Needs**
  While you don't want to overbuy and end up with a system that is too complex, you also want to make sure that you consider your organization's current *and* future needs. For example, will you add programs that will require new functionality (inventory, increased security)? Will you want to apply for additional grants? Purchasing an inexpensive, limited system that you outgrow quickly can be more costly than paying more initially for a system that accommodates your growing needs.

- **Interfacing Systems**
  Examine the functions that will need to interface with accounting data such as fundraising, health care, billing, HR, inventory, student tracking, etc.

Do You Need Fund Accounting Software?

There are two basic types of accounting packages on the market: fund and commercial. Since nonprofit and government organizations have distinctly different reporting requirements from commercial companies, their accounting methods must reflect those differences. Fund accounting software helps you easily balance funds within a single organizational database. Reporting is simplified and accomplished more quickly with the right solution.

Some of the differences within fund accounting are:

- Accounting records for a particular funding source, department, grant, program, or function are separately maintained and reported.

- Grantors and donors usually require reports in their own unique formats. These reports often span a period that differs from the fiscal year of the reporting organization.

- Funds may need to be recorded as encumbered.

- The budget is a formal part of the organization's books and may require the ability to report on multiple budgets at the same time.

- Reports and financial statements must be readily available for internal and external audiences. Flexible reporting is a necessity.

- Audited financial statements must present information in accordance with governing regulatory boards and GAAP (Generally Accepted Accounting Principles).

Ask yourself the following questions to determine whether your organization requires a nonprofit or commercial accounting system:

- Do you have certain funds that you must spend in accordance with specific restrictions?

- Does your organization receive one or more grants?

- Do you need to measure the performance of a specific program, activity, or by location?

- Do you need to report how you spend funds to contributors?

- Are you required to create reports for fiscal years that are different than your own?

- Do you have to track and report the ratio of overhead to program usage?

If you answered "yes" to three or more of these questions, you should select accounting software that is designed to handle specialized nonprofit accounting requirements. Customizing or overlaying features onto commercial software to achieve nonprofit accounting functionality can be inefficient, potentially incomplete, and expensive to buy and maintain.

What Level of Software Functionality Do You Need?
When you begin looking at software, you will find a large number of choices with many different price tags. There are three general categories of software price ranges, not including hardware, service, and support costs.

- **$1,000 to $4,999**
  This category includes spreadsheets, inexpensive commercial accounting products, and a few limited feature / transaction accounting systems. If your organization is very small, with one Accountant and no likelihood of growth, or handles a limited number of transactions and complies with few reporting requirements, you should look in this range.

- **$5,000 to $9,999**

  In this price range, you can expect to find systems that have a flexible chart of accounts structure that can capture more of the information that nonprofits need, as well as customizable reporting capabilities. A great number of nonprofits will tell you that these systems serve them well through many years of growth. Expect to get most, if not all, of your "must have" features within systems in this range, as well as a number of your "nice to have" features.

- **$10,000 +**

  A system in this category should meet nearly all of your organization's present and future needs. Be sure that future upgrades and bug fixes, as well as support, are available from the person or company who offers this system to you. Without contracting these, you risk not staying current and in turn not getting answers to your questions, which is likely to be very costly later.

Who Needs Access?

Software is commonly priced by number of users, or seats. Therefore you should know how many staff members will use the software, and at what capacity. Organizations commonly have management staff that may want system access to read reports and results, but may not need transactional access. If this is the case for you, be sure to investigate the availability of discounted "read-only" licenses. If you have considered all these factors, you should have a fairly complete analysis of your organization and its accounting needs, as well as a prioritized needs list.

The next step is to use this analysis to prepare a features wish list, you can use the list of nonprofit accounting functionality featured in this booklet, or you can build on a features list provided by vendors, or use other sources such as the internet, nonprofit or accounting publications.

Understand What You Are Buying — It's More Than Software

Up to this point, you have focused on your organization's specific accounting needs. This will help you identify the software system that best fits your organization. But there are other factors that you need to be aware of that may impact your decision making as well.

Services

For mid-range software systems you should be getting services as well as software. The quality of the company and the services they provide should be the most important considerations in your purchasing decision. These services include:

- **Technical Support**

  Providing answers to questions and problems, usually over the phone, via e-mail, or over the internet.

- **Maintenance**

  Providing upgrades and enhancements will allow your system to stay current with technology.

- **Training**

  Instruction should be available through the software company or other provider to teach the user the features of the software system, usually right after purchase or for a new hire. Comprehensive training programs also include ongoing training for advanced users to make the most of the features and functionality of the system.

Planning a Successful Conversion

Before you begin evaluating actual software packages, spend some time thinking about the factors that facilitate a successful conversion to new software. Software comprises only about one-third of the cost of successful conversion.

Other factors often include new or additional hardware, consulting, additional reports, future support programs, training and implementation. Include these factors in your scheduling and budgeting plans, and collect information about them as you research software. For example, imagine you buy a powerful and comprehensive software package but have no funds left to purchase training so your accounting staff can't actually learn how to use the new system? Be sure you know what the total cost will be, as well as what services are included and which are 'extra'.

- **Training**

  Proper instruction allows your staff to get the most out of your investment immediately, so that they understand the software's features and how it works. Plan to train each of your employees at the appropriate level.

- **Chart of Accounts Setup**
  When a conversion fails, it is often due to the core of an accounting system—the chart of accounts structure. Allocate plenty of time to make sure you capture the right information, at the necessary level of detail, so you can produce the reports that you need. These steps often require several rounds of fine tuning. Don't skip this step! Schedule the time necessary before you need the new system for day to day work.

- **Conversion of Existing Data**
  Budget time and funds, convert any existing data needed onto the new system, and validate your current data for integrity. Learn how your data can be converted ahead of time.

- **Interfaces**
  Plan to test your new system's interfaces with other applications used within different departments within your organization.

- **Consulting**
  Consider hiring a consultant to perform some of your conversion steps, which includes helping you with your needs analysis, evaluating, selecting, or installing software or hardware, setting up your chart of accounts, training, report templates, and other related services. Ask them about prices up front to avoid hidden charges.

The software purchase, installation and conversion processes should be thought of as a whole. Considerations other than software list price influence the total cost of conversion. By focusing only on buying the lowest-cost software, you may incur additional costs later, for example: having to work around missing or incomplete functionality, pay for extra consulting, or training, etc. It is better to pay for a good system that meets your needs the first time around.

Technology Considerations
Hardware, operating systems, and environment all play an important role in the selection of your accounting software. Consider your organization's potential for growth and how often you plan to update your systems. Many nonprofits find it useful to develop a technology plan to determine a long-term strategy. With today's rapidly changing technology, software and hardware become obsolete quickly. If you have not invested in this area in the last three years, be prepared to upgrade your hardware as well as software when considering your budget.

As the next step in the needs analysis, you should take an inventory of your existing equipment. Understanding your current assets will help you ascertain if you will need additional equipment to successfully implement your new software or if what you currently have in place is sufficient. A comprehensive list of hardware, operating systems, networking information, and other critical software can help you determine your technical compatibility when speaking to a software vendor.

Stand-Alone, File Server, or Client Server?
Know your Technology Environment
Be sure to review your technology on several different levels:

- **Network**
  Understand your current computing environment so you can communicate it to vendors—is it made of stand-alone workstations or a network? A network is necessary if more than one person needs to share data, and vary considerably in complexity, type, and capacity.

- **Hardware**
  Know the characteristics of the computers you will use for accounting— list their RAM, processing speed, available storage, and operating system. If your computers are older you may need to upgrade.

- **Software**
  Review the critical software that you use every day. Consider each application and determine if it needs to interface with the new accounting software package.

Here are some typical environments that are ready for new software additions. You may want to consider these as you review your staff size and existing environment in order to gage your expectations.

Common Computing Configurations by Size
- **Small staff:** (1–3 accounting system users): Commonly on individual workstations using Windows 2000, XP, or other current Microsoft operating system, connected by peer-to-peer networking.

- **Medium staff:** (3–10 accounting system users): Typically running PCs using Windows 2000, XP, or other current Microsoft operating system, connected in a Local Area Network (LAN) environment (users are in the same building or city) with one or two file servers.

- **Large staff:** (over 10 accounting system users): Often using 2000, XP, or current Microsoft operating system, connected by LAN or Wide Area Network (WAN) networking (users might be located in different cities, connected over a phone line or a browser) in a client / server environment.

How to Search for Fund Accounting Software

Now that you've decided to automate or upgrade your accounting software, what should you expect during the evaluation process? Where should you go for more information?

Things to Look For

If your organization is small and has relatively simple accounting needs, you will probably be looking at the <$1,000 to $4,999 market. Most likely, you can evaluate the available systems and make the choice yourself. For products $5,000 and up, you should have a support and maintenance contract with a company that you know is stable. When purchasing a $10,000+ product you should seek the advice of a consultant.

A Word of Caution about Custom Solutions

Tailor-made software programs often sound like a good idea initially. Some organizations turn to a volunteer or consultant to build a solution, or look to purchase a less expensive solution that is not readily used in the marketplace but was built for a similar organization. The problem with this tends to lie in two areas: the functionality of the custom application; and the technical support / future upgrades.

In terms of functionality, be sure that a custom application does not place you in the same predicament that prompted your original search. Usually, the solution is built around specific needs (yours or an organization like it), and it has not had the benefit of thousands of users' input. Much of the development time of the custom application is placed on the same basic functionality that other accounting software packages

have mastered. Often organizations that use a custom application find that getting the data into the application is not the issue; it is getting the data back out that gets tricky. Nonprofits face increasing pressures to meet the stringent reporting requirements of their auditors and grantors. A more widely used system that has stood the test of time is a better bet for your organization.

As your company's needs change and grow, updated functionality that matches new requirements can come at a substantial financial cost. Moreover, technical support often becomes difficult. In a worst-case scenario, the company that created it could go out of business, rendering your system obsolete. Or the volunteer that built the custom application is no longer able to make updates or provide ongoing support which leaves you right back where you started – evaluating and paying for new software.

Don't confuse a custom solution with the ability to customize proven, on-the-market fund accounting software. With the increasingly flexible and sophisticated accounting systems available, fewer nonprofit organizations are turning to custom solutions. A customized software solution will end up a more time-consuming and expensive choice in the long run. It is a better option to utilize the advantages of a well designed software solution that can be found in today's technology marketplace.

Evaluation Resources

After you determine the level of software you need, you can begin to evaluate available systems. Once you find software companies that offer what you are looking for, contact them by phone or visit their websites for more information. Resources useful to your search may be:

Nonprofit Support Centres at Local, Provincial, and National Levels

They offer literature and sometimes libraries of software that you can use to aid in your evaluation.

Nonprofit, Accounting, and Computer-Related Magazines

Look specifically for articles and advertisements that deal with fund or nonprofit accounting. Read multiple reviews covering the software, so you are not unwittingly absorbing a single reviewer's bias or lack of time to investigate the software in detail.

Local Accountants and Consultants
Since they perform audits and often provide technology services on a variety of client software packages, Accountants and consultants frequently have insight into various accounting software solutions.

Websites
Use search engines to look up listings for "fund or nonprofit accounting."

Tradeshows
Viewing vendor demonstrations at a tradeshow can give you an overview of the software's capabilities. Try to see the real software as opposed to a canned demo, so you can see the functionality you need—not just the features that the vendor wants to highlight.

User Group Meetings
Current users can often give referrals, demos and answer questions about software. Find similar organizations to yours and ask how their software, support, and services are working for them.

Board Members, Funding Sources, and Regulatory Agencies
They may have experiences that relate to the use of software from the perspective of report recipients.

Peers in Similar Organizations
Contact your organization's national headquarters, sister chapters, or like organizations.

Once you've gathered information and narrowed down the systems that will meet your organization's needs, the next step is to contact vendors for more detailed information or for a demonstration of the system.

Take a Detailed Look at Software
Looking at demonstrations or demos lets you see the software in action. Examples of demos include:

▪ **Self-running Demos**
  Most companies provide a free self running demo. These are usually on a CD or on their website. The demo should show you some menus and take you through a few functions. These are useful in the preliminary evaluations, since they provide just a brief overview of the product and cannot cover all available features.

▪ **Live Demos**
  A live vendor demo lets you see more features, and ask questions that are relevant to your needs. Live demos include in-person demonstrations of the software at your organization, demonstrations at tradeshows and events, or via the web. Because these demos are live, be sure to prepare questions in advance that relate to your organization's needs.

What Evaluation Criteria Should You Use?

You are now at the heart of your search! Following is a sample set of criteria will assist you in evaluating nonprofit accounting software. Remember, software is the primary, but not the only factor you should consider.

Features and Functionality
Start by insuring that the basic nonprofit accounting functions described earlier are present. Then check each feature against your needs checklist. Understand what benefit a feature has for your organization before you give it any weight.

Price vs. Overall Cost
Module prices are not your only expenses. Add the price of maintenance, support, training, consulting, and conversion to the overall cost when you compare software. For example, low-priced software that requires customization may be extremely expensive to install, maintain, and train your staff on, making your total cost much higher. Don't be surprised—insist on a straight answer on the cost of the software and all related services before you buy.

Installation
How easy is it to install or uninstall? Does it require extra consulting dollars to install?

Software Setup
How easy is it to create the chart of accounts? How quickly can you set up the software for daily use? Will you require a consultant to accomplish the setup?

Value
Compare the overall cost of the features and functionality you need to the benefits your organization will get. This will prevent you from paying extra for functionality that doesn't pay you back. It also allows you to compare software systems on the basis of what you will actually use.

Reporting Capability

At a minimum, be sure you can get all the reports your organization needs. Ensure that the reports can be run on a range of dates with overlapping fiscal years, and in the formats that you now use. Also, consider how easy it is to create custom reports.

Scalability

The ability to purchase the modules you need now and add more later provides a growth path while preserving budget flexibility. Look for a manageable growth path though a modular system and product upgrades.

Audit Trail

Consider the audit trail the software produces. Ask for references from Accountants who audit companies that are currently using the software and ask organizations about their audit experiences and expenses.

Interfaces

Can the accounting software communicate with other accounting and non-accounting related software? The best software will have an open architecture that allows it to communicate easily with other software packages. This allows you to choose packages of the highest quality for each function (fund accounting, fundraising, human resources, student billing, etc.), without being tied to a single software provider.

What Else Should You Consider?

It is important to remember that the relationship between you and your accounting software vendor only begins with selection of the software. Because you are likely to need additional services beyond the purchase of the software, get to know more about the company and the type of services they offer. Examples include:

Responsive Support

- What is the availability of customer support?

- How can you contact support (phone, e-mail, etc.)?

- How quickly will you get a response?

- How many support representatives are available, and what is their level of experience and expertise in fund accounting, nonprofit and governmental organization issues and federal government regulations?

- How do current users rate the quality of the company's support?

Maintenance

- Does the company have a formal software maintenance program?

- Does the program include bug fixes only, or are upgrades also included? Does it also include shipping you new versions?

- How does the software company determine what to include in software enhancements?

- How often are enhancements or new versions released? Carefully timed and spaced enhancements help ensure the company is keeping in touch with the needs of its customers as well as with any regulation changes, such as those from GASB or FASB.

Quality Training

- What is the experience and expertise of the trainers?

- Do they offer training at a corporate facility, regionally, on-site or all of the above?

- Does their training include self-paced studies, real time learning, or video training? If it offers more than one option, what are the cost differences?

- Is the training program qualified to offer CPE credit?

- What methods of training are provided—lecture, hands-on exercises, or a combination of the two? A combination of both lecture and hands-on exercises, performed with a computer and printer, provides maximum learning benefits.

- Is adequate time given for the trainee to feel comfortable using the system?

- Is there any time for solving organization-specific problems?

- Are there advanced training classes for more complex issues?

Many services are provided after you purchase the software. The software company you chose must be stable, committed to a long-term future relationship with its customers, and above all, attuned to user needs. Some examples of questions to ask are:

- Is the company stable? With consolidation of technology rampant in the marketplace, private companies are at risk of being acquired and their products put to pasture.

- What is the reputation of the company? Is it committed to the nonprofit sector?

- Does the company have any stated philosophy about customers or nonprofits?

- How long has its fund accounting products been on the market? How long has it been designing solutions for the nonprofit sector? Several years of experience could give the company a better understanding of the needs of nonprofits during the design and implementation phases of creating fund accounting software. You don't want to be a field tester within the first three or four years!

- How many fund accounting customers does it have?

- What is the rate of growth?

- Does it support customers on prior platforms?

- Is the company customer oriented? This factor is crucial because it tends to influence everything the company does. One way to investigate this is to look at its software manuals or online help. Their documentation should be clearly understandable to users with a basic knowledge of accounting software.

There are other services provided by software companies that can be very valuable, such as newsletters, user groups, and annual user conferences. These services offer users valuable information about the company and changes in its products. Annual user conferences are a good indication of a company's commitment to long-term relationships with users. Also, most companies publish a website where you can find software updates, user tips, and general information about the company.

Integration with Related Software

Many nonprofits perform other functions that require software solutions, such as fundraising, donor management, case management and more. Some nonprofit accounting software systems offer add-on modules that execute these functions, or integrate to other software within their product portfolio as well as to software from other companies. The decision to purchase one software package that performs all the functions you need, or to purchase software from different companies that best fit your needs, is a common issue for nonprofits.

Just because you like one company's utility billing package, does not necessarily mean you should select their nonprofit accounting module as well. However, all things being equal, one vendor means only one point of contact. Also, check to see if there is a "family discount" for buying multiple solutions from the same vendor to help you navigate this question.

References

During your evaluation, you may want to talk to users of the system you are considering. Be sure you speak with someone who has hands-on usage of the system, as well as administrators who try to extract information from the system. While you may get valuable information about a system's capabilities, references are equally useful when you use them to discuss the company and its services. Try to learn about the user's experience with the software company, as well as its support, training, and maintenance programs. Prepare a list of questions in advance and keep them as specific and brief as possible.

Do You Need a Consultant?

Consultants provide services before, during, and after you purchase software. The range of services they offer can vary greatly. Consultants may only demonstrate and recommend software, or they may assist you with the evaluation, implementation and training, as well as provide additional services like customizing or optimizing the system for your organization's specific needs. Consultants who are experienced with the software you have chosen can accelerate a complex implementation considerably. To find out if you require a consultant's services consider the following:

- **Personal Preference**
  Do you prefer to have someone available that you can contact when questions arise, or are you more likely to troubleshoot problems yourself?

- **Organizational Considerations**
  What is the level of accounting or computing expertise within your organization? Do you have someone who can devote their time and effort to the needs-analysis, purchase, and implementation process? What processes are already in place?

- **Consultant's Experience**
  Does he or she have the accounting or computer expertise you need? Does your organization need advice in both areas? Is the consultant familiar with your organization's operations?

- **Consult with your Accountant**
  Getting your Accountant's approval on the software you install is not necessary, but can be helpful, especially if you are going to be audited. Make sure the system you choose produces a viable audit trail, so the Accountant's job is easier and the audit cost lower. When your Accountant approves of your software choice, you will be more confident about your decision. Just to be safe, you may want to also ask current users what systems they recommend.

Conclusion

Selecting the best software for your organization takes time and effort, but the rewards are great. A smoothly run operating system improves not just accounting functions, but also the efficiency of the organization itself. Armed with timely, complete, and accurate information, organizations can make better decisions. Throughout the evaluation and purchasing process, you will find many resources to help you in your search. If you treat the purchase of a new accounting system as a long-term investment, you will select a software system that has the capabilities you need and a software company that will be a long-term partner in your success.

Affinity NFP

People

Drawing on nearly 20 years of experience, Affinity NFP has implemented hundreds of solutions. In every case, we have focused on providing quality service and software, growing an alliance that provides the best solution and long-term care. In fact, we guarantee you will be 100% satisfied with the work we perform regardless of project size, scope or complexity.

Passion

We are passionate about helping people and organizations achieve success and reach their goals, by using technology to transform, improve and simplify their fundraising and financial operations. With every client or prospective client, we seek to develop working relationships built on knowledge and understanding; relationships that will be sustained and enhanced over time, and where we can provide value.

Purpose

Affinity NFP assists non-profit organizations to implement fundraising, constituent relationship management (CRM), and fund accounting software systems. The right technology solution will support your efforts to fulfill your mission. We can help your organization grow your constituent base, increase donations, nurture volunteers, and empower your supporters. In addition, your organization will be better able to fulfill accountability, compliance, and infrastructure requirements.

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