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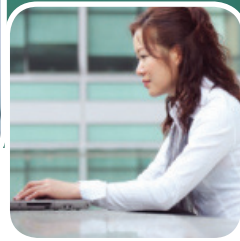


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## A Nonprofit's Guide to Purchasing Accounting Software





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## 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 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. Why are you considering a new system? Perhaps your organization has experienced growth or downsizing, or you have been awarded new grants that require additional complex reports. 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 budgets in the accounting system?
- Do you need to track donor-imposed restrictions for contributions?
- Would increased security or internal access controls help reduce data entry 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 whole days pulling special reports for management because it doesn'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?
- Do you need to process donations in multiple currencies while fully complying with FAS 52 regulations?

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 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 requirements. Some of the key items 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 avoid overbuying—you will 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 the growth and change of tomorrow.
- **Complexity of the Accounting Required** — The intricate functionality required for nonprofit accounting 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? To whom do you report (e.g., board of directors, grant and funding sources, donors, service recipients, national organization, auditors, etc.)? How many are internal reports? 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 saves you time and effort, often featuring easy-to-use report writers to help simplify reporting tasks. If accounting staff must run multiple reports for internal management, look for reports-only viewing options.
- **Key Information and Details** — Decide what type of information as well as the level of detail you want to capture and report. Funding sources, restrictions, grants, and program costs are examples.
- **Future Needs** — While you don't want to overbuy and end up with a system that is too complex for your current needs, you should consider your organization's future accounting needs along with current needs. For example, will you add programs that will require new functionality (inventory, increased security)? Will you want to apply for additional grants or funds? Purchasing an inexpensive, but limited system that you soon outgrow is usually more costly than initially paying more for a feature-rich or modular system that accommodates your growing needs.
- **Interfacing Systems** — Examine related functions that will need to interface with accounting data, such as fundraising, health care billing, human resources, inventory, student tracking, etc.

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## Do You Need Fund Accounting Software?

There are two basic types of accounting packages on the market: fund and commercial accounting. 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 maintain balancing funds within a single organizational database. Reporting is simplified and can be accomplished in a more timely manner with the right accounting solution.

Some of the differences you find in fund accounting:

- 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 be a legal document that requires the ability to report on multiple budgets simultaneously.
- 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 the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 116 & 117 or Governmental Accounting Standards Board (GASB) guidelines.

Ask yourself these 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—in certain ways or for certain purposes?
- Is your organization the recipient of one or more grants?
- Do you need to measure the performance of a specific program, activity, or performance by location?
- Do you need to report to contributors how you spend their funds?
- 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 several of these questions, you should select accounting software that is designed to handle these 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 many choices with many different price tags. There are three general categories of accounting software price ranges, not including hardware, service, and support prices.

- <\$1,000 to \$4,999 — This category includes spreadsheets, inexpensive commercial accounting products, and a few limited-feature or limited transaction nonprofit accounting systems. If your organization is very small, with one accountant and no likelihood of growth, or deals with 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 find these systems serve them through many growth years. Expect to get most, if not all, of your “must have” features with systems in this range, and a number of your “could, but don’t want to live without” features.
- \$10,000 and up— 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 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 you have this need, investigate the availability of discounted “read-only” licenses to avoid buying full seats for executives. If you have considered all these factors, you should have a fairly complete analysis of your organization and its accounting needs, and a prioritized needs list. The next step is to use this analysis to prepare a features checklist. To turn your identified needs into 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 online resources and nonprofit or accounting publications.

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

Up to this point, you have focused on your organization's specific accounting needs with your analysis. 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.

### Services

With <\$1,000 to \$4,999 accounting products, you are probably buying just the software. For those which are \$5,000 and up you are purchasing more than that—you are also buying services that the company offers. More and more software companies are becoming service companies as well. The quality of the software company and the services they provide should be the most important considerations in your purchasing decision.

Virtually all users require support services. These include:

- **Technical Support** — Provides answers to questions and problems, usually over the phone, via e-mail, or over the Web.
- **Maintenance** — Provides upgrades and enhancements for your system to stay current with technology and accounting changes.
- **Training** — Instruction 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, and different services. Include these factors in your scheduling and budgeting plans, and collect information about them as you research software. After all, selection of software is only part of the conversion process—other factors, such as services, also play a critical role. 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? Other factors that you will want to think about include:

- **Training** — Proper instruction allows your staff to get the most out of your investment immediately, to really understand the software's features and how it works. Plan to train the appropriate number of personnel at beginner and advanced levels.

- **Chart of Accounts Setup** — When a conversion fails, it is often due to the core of an accounting system—the chart of accounts structure. Budget time to make sure you capture the right information, at the necessary level of detail, so you can produce the variety of reports you need. These steps often require several rounds of experimentation and tuning—plan to take time for this purpose before you need the new system for day-to-day work.
- **Conversion of Existing Data** — Budget time and funds to convert any existing data needed onto the new system and validate your current data for integrity and correctness. Learn how your data can be converted ahead of time.
- **Interfaces** — Plan to test your new system's interfaces with other applications that you and other departments use.
- **Consulting** — Consider hiring a consultant to perform some of your conversion steps, which include conducting your needs analysis, evaluating, selecting, or installing software or hardware to meet your organization's specific needs, setting up your chart of accounts, training, setting up report templates, and other technology-related services. Ask the vendor about service prices up front to avoid hidden charges.

The software purchase and the installation and conversion processes should be thought of as a whole. Considerations other than software list price influence the total cost of conversion. It's not uncommon for a vendor who expects to make a profit on the conversion to dramatically drop the cost of the software. Get the total costs upfront. By focusing only on buying the lowest-cost software, you may incur additional costs (e.g., to supplement or work around missing or incomplete functionality, for extra consulting, or training, etc.) to achieve the same benefits as a system with a higher list price. Similarly, avoid paying extra for functionality or services that have no value to your organization.

## Technology Considerations

Hardware, operating system, and environment will play an important role in your selection of 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 been investing in this area during the past three years, be prepared for a likely upgrade investment to run new software. As the next step in your needs analysis, you should take an inventory of the existing equipment.

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Understanding your current assets will help you ascertain if you will need additional equipment to successfully implement your new software. A comprehensive list of hardware, operating systems, networking information, and other critical software can help you determine 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 access. Networks 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. Again, if the computers are older they may require an upgrade to accommodate even basic accounting software. Find out the type of servers your organization uses and their capacity level.
- **Software** — Review the critical software that you use every day. Consider each software 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. They are mapped to the usual environments that different sized staffs typically have. You may want to consider these as you review your own staff size and existing environment to gauge 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 available 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 available 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 available 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 your accounting or upgrade the accounting software you already have, what should you expect during the evaluation process? Where should you go for more information? Can anyone help with your evaluation?

### 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 choices 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 and up product you will probably want to 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 tends to lie in two areas: the functionality of the custom application and the technical support and upgrades.

In terms of functionality, be sure that a custom application is not placing you in the same predicament that has prompted your original search. Usually, the solution is built around a specific case of needs (yours or a like organization), and has not benefited from 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 of the system. Nonprofits face increasing pressures to meet the stringent reporting requirements of their auditors and grantors—is this custom application able to measure up?

As your organization's needs change and grow, updated functionality to match your new requirements can come at a substantial financial cost. Moreover, technical support often becomes difficult if not impossible. In a worst-case scenario, the company could go out of business, rendering your expensive system instantly obsolete. Or the volunteer that built the custom application for you is unable to make the updates or provide ongoing support. These considerations can leave you right back where you started prior to choosing a custom solution—evaluating accounting 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. Be sure that customized software is your only available option before you make this time-consuming and usually expensive choice.

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## 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 Web sites for information. Following is a list of resources that you can use in your search to find these vendors.

- **Nonprofit Support Centers at Local, State, 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 same software, so you are not unwittingly absorbing a single reviewer's bias or lack of time to investigate the software in detail.
- **Local CPAs and Consultants** — Since they perform audits and often provide technology services on a variety of client software packages, CPAs and consultants frequently have insight into various accounting software.
- **Web Sites** — Use search engines to look up listings for “fund accounting” 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** — You can often get referrals, view demos, and get answers to detailed questions about how the software will fit your organization's needs. Find a user with needs similar to your own to see how their software, support, and services are working for them after the sales process.
- **Board Members, Funding Sources, and Regulatory Agencies** — They may have experiences that relate to the use of software from the perspective of report recipients.
- **Your Peers in Similar Organizations** — Contact your organization's national headquarters, sister chapters, or like organizations.

With the information you gather you may begin to narrow down the field to those systems that seem to fit your organization's needs. Then contact the vendors for more detailed information or for a demonstration of the system each offers.

## Take a Detailed Look at Software

Looking at demonstrations or demos lets you see the software in action. There are several different types of demos:

- **Self-running Demos** — Most companies provide a free self-running demo. These demos are usually on a CD or on the company's Web site. The demo shows you some menus and takes you through a few functions. These are useful for only the most preliminary evaluation, 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 while you are reviewing the actual product. Live demos include in-person demonstrations of the software at your organization, demonstrations at tradeshow and events, or a live demonstration via the Web, otherwise known as a Webcast. Because these demos are live, be sure to prepare questions in advance that relate to your organization's needs, such as those on your checklist.

## What Evaluation Criteria Should You Use?

You are now at the heart of your search! Following is a sample set of criteria used by many organizations to evaluate nonprofit accounting software. Remember that 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?

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- **Value** — Compare the overall cost of the features and functionality you need to the benefits your organization will get. This prevents 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 just the modules you need now and to add more modules later provides a growth path for tomorrow while preserving budget flexibility today. Look for a manageable growth path through a modular system and product upgrades.
  - **Audit Trail** — Consider the audit trail the software produces. Your audit cost can be greatly affected by the software you select. Ask for references from CPAs who audit companies 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 has 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, for instance fund accounting, fundraising, human resources, student billing, etc.

Remember, the primary intent of your search is to obtain value-added results for your organization, rather than just buying the least expensive accounting software system available. Low-cost software may require supplemental work with manual entries and spreadsheets to obtain the same benefits. Likewise, you do not want to overbuy for your needs.

## What Else Should You Consider?

It is important to remember that your relationship with your accounting software vendor begins, not ends, with selection of the software. Because you are likely to want services from a company beyond their software, get to know more about the company and the type of services they offer. Other factors besides the software that you should consider include:

### Responsive Support

- What is the availability of customer support?
- How can you contact support (phone, fax, e-mail, online)?
- How quickly will you get a response to your support issue?

- 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?
- What types of training options are offered? Does the software company offer training at a corporate training facility, regional training, on-site training, self-paced studies, real-time learning, or video training? If it offers more than one option, what are the relative costs? Is the training program qualified to offer CPE credit?
- What methods of training are provided—lecture only, hands-on exercises, or a combination of both? 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 subjects?

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, it must be attuned to the user's needs. You should evaluate each software vendor equally. 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. Make sure the company will be around for a while.
- What is the reputation of the company? Is it committed to the nonprofit sector?

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- Does the company have any stated philosophy about customers or nonprofits?
  - How long has its fund accounting products been on the market? And 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 for 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 or releases?
  - Is the company customer-oriented? This factor is crucial since it tends to influence everything the company does. One way to investigate this is to look at its software manuals or online help. While anybody new to computers has to learn some new terms, documentation should be clearly understandable to users who have a basic knowledge of accounting software.

There are other services many software companies provide 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 Web site where you can find software updates, user tips, and general information about the company and its products.

## **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, integrate to other software in their product portfolio and even integrate 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 in both nonprofits and the commercial business world.

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.

In either case, be sure the accounting software has an open architecture that allows it to communicate easily with other software packages. This means that you are free to choose packages of the highest quality for each function both internal and external to any particular company.

## References

During your evaluation, you may want to talk to users of the system you are considering. Be sure you speak with a person 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 and its support, training, and maintenance programs, as well as its software. Prepare a list of questions in advance and keep them as specific and brief as possible. Be considerate—if it is not a good time to talk, set up a time when your call is convenient.

## Request for Proposal

A Request For Proposal (RFP) is a document that lists questions (usually in a yes / no or checklist format) about the software's capabilities. The questions pertain to the organization's accounting and technology needs. Narrow the field of vendors with your RFP by getting more details from the companies you are considering.

## Do You Need a Consultant?

Consultants provide services before, during, and after you purchase software. The range of services they offer can vary. Consultants may only demonstrate and recommend software, or they may assist you with the evaluation, implementation, and training, and provide additional services like customizing or optimizing the system for your organization's specific needs. Consultants with previous experience with the chosen accounting software can accelerate a complex implementation considerably.

Do you require a consultant's services? Consider the following:

- **Personal preference** — Some people prefer a local contact they can call if they need help with some aspect of the system. Others prefer to troubleshoot problems themselves or rely on vendor support to help solve specific problems.
- **Organizational considerations** — What is the level of accounting or computing expertise within your organization? Do you have a dedicated person to devote to the needs-analysis, purchase, and implementation process? What processes are already in place? Answering these questions can quickly make it clear whether you need a consultant's services.
- **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?

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- **Consult with your CPA** — Getting your CPA's approval on the software you install is not necessary, but consider the CPA's input if you are going to be audited. Make sure the system you choose produces a viable audit trail, so the CPA's job is easier and the audit cost is lower. When your CPA approves of your software choice, you will be more confident about your decision. However, be sure your CPA or accounting firm has the proper expertise if you are going to rely solely on their judgment. You may want to 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 operating system improves not just accounting functions, but also the efficiency of the operations of the organization itself. Armed with timely, complete, and accurate information, organizations can make better decisions and respond more quickly to change. 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.

