

3rd Edition

Financial Management

for Nonprofit
Organizations

Policies and Practices

John Zietlow
Jo Ann Hankin
Alan Seidner
Tim O'Brien

WILEY

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PREFACE

Financial Management for Nonprofits is a book written for use by those presently responsible for or in training for financial management in a nonprofit organization. There are many titles used to identify persons assigned these responsibilities including, but not limited to, the director of finance, chief financial officer, treasurer, controller, chief accountant, director of operations, vice-president of business affairs, business administrator, and financial secretary. Actually, the title of the position is not important; the responsibility is extremely important. Board members are also in view here, especially those serving on the executive committee, finance committee, investment committee, risk management committee, or audit committee.

Our book is written from a managerial decision-making perspective for those in leadership and day-to-day management positions who have oversight responsibility for financial functions or are members of the Board. These leaders and managers may, or may not, be experienced financial managers. Most of the subjects and issues that confront those responsible for financial management and related functions in the small- to medium-sized nonprofit organization are not determined by size, but rather by the mix of assets and strategies employed to accomplish the organization's mission.

Another important focus of this book is to demonstrate that financial management functions are expanding – and when done well, these strategies will make a real difference in the organization's ability to achieve its mission. Effective and responsible financial management contributes toward accomplishing the mission in a number of significant ways, including:

- Financial stewardship and policy setting
- Governance
- Financial reporting and accountability
- Establishing liquidity policy and guiding decisions to maintain that liquidity or rebuild it when depleted
- Strategic planning
- Evaluation of existing and proposed business model
- Evaluation of existing and new programs
- Fundraising evaluation
- Cash planning
- Budgeting and long-range financial planning
- Debt and other liability management
- Operational expertise and strategic internal business consulting
- Empowerment through the sharing of information and harnessing of technology
- Catalyst for cultural change in the organization
- Preservation of investment assets and increase in investment income
- Fraud prevention, detection, and control

Depending on your nonprofit organization's size and scope of activities, the nature and complexity of its financial functions will range from simple to highly sophisticated

and complex. In any case, the financial systems used must be designed to provide the information necessary to meet management, fiduciary, and legal requirements. This book is unique among the books available on nonprofit accounting and finance in developing a basis for liquidity targeting as the primary financial objective of the nonprofit – especially noncommercial nonprofit organizations. It then ties other financial decision areas to this liquidity target throughout the book. We include coverage of five major topical categories in order to emphasize the positive contributions of the financial and business functions to the organization and its mission:

- Managing your organization’s financial resources
- Establishing and revising financial policies
- Accounting, budgets, and financial reports
- Investing for the short and long term
- Controlling and managing risk, including liquidity risk, cyber risk, interest rate risk, and exchange-rate risk

In this updated and revised third edition, we have added new material on policies, practices, governance, business models, financing vehicles, setting reserve levels, risk management topics, and the revised financial statement format embedded in ASU 2016-14. We have particularly focused on information that is not limited to primarily academic interest, but is state-of-the-art and represents “best practices.” We have tapped many new resources to ensure we are including the “best of the best,” and we are most grateful for the many researchers, consultants, accounting and auditing firms, risk experts, and other authors whose material has deeply enriched this book. We are also gratified to see that the primary financial objective that was discovered in our grounded field studies, funded by the Lilly Endowment, is now becoming mainstream in the practitioner world. In fact, Mark Jones, an executive at a nonprofit financial institution, renamed our primary financial objective to be an “appropriate liquidity target,” a convention we have adopted in this new edition.

Working for a nonprofit organization is an exciting and meaningful opportunity. There are many similarities and differences between nonprofit and for-profit organizations, and it is important to recognize and understand how they are similar as well as dissimilar. By virtue of their mission, nonprofit organizations benefit society by improving the public good.

Close to two million nonprofit organizations of all sizes exist in the United States today, employing many people. Many more nongovernmental organizations exist internationally. Each nonprofit organization has a responsibility to its mission, its constituents, its donors and other funders, its employees, and its volunteers. The proficient financial management of the organization’s resources is absolutely critical to enable it to succeed in fulfilling its mission and goals.

As you can see from the material covered in this book, those involved in managing the finances of the organization have a great deal of responsibility. In the process of carrying out these responsibilities, some members of the organization may feel disliked or undervalued by those they serve on a regular basis. Under these circumstances, it is critical for the responsible financial manager to be fair, to understand the interplay between facts and people, and to understand that accountability is not always popular with those being held accountable.

This book is intended to provide current and soon-to-be nonprofit managers, particularly those involved with financial management, with a clear sense of the technical expertise and skills needed to manage this function well for their organization. It will also reinforce the fact that anyone with a financial role is part of a larger group in the nonprofit community

who fulfill the same set of major responsibilities and uphold the same ethics and values. The authors hope that the information contained in this book will enable readers to better manage the financial resources of the nonprofit organizations they serve and enhance their overall financial health and viability.

Finally, this book serves as a textbook for certificate programs, undergraduate courses, and graduate courses in nonprofit financial management (particularly in MPA, MBA, MNPM, and MNO programs). Two of us have taught and trained managers and students in nonprofit financial management for roughly 20 years. We believe that the private nonprofit sector is sufficiently dissimilar to business and public sector organizations to merit special focus for students in this fascinating arena. This book has been used at the undergraduate, masters', and doctoral levels. It has also been used as a course manual for nonprofit executive training, in both in-person and online venues. It has helped students gain an appreciation and understanding of educational, healthcare, faith-based, arts, human services, youth services, community development, environmental, and other charitable organizations' financial decision-making. There is a dedicated course support website for students and faculty members at www.wiley.com/go/zietlow. Adopting faculty members are invited to contact John (jzietlow@indiana.edu) or Tim (tobrien@northpark.edu) for guidance on how best to use the book in academic courses or executive training.

