Streetsmart Financial Basics for Nonprofit Managers
To Gail, Paul, and Emily
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Preface

Over the past two decades the nonprofit sector has grown at an astonishing pace. Today there are more than one million nonprofit public charities and hundreds of thousands of other nonprofit entities, and they are found in every community in this country. As important, the sector is beginning to figure prominently in public conversations as an acknowledged source of innovation and solutions to various social issues, especially in areas where government at all levels was formerly more active. This trend seems likely to continue and even accelerate in the years to come.

With greater prominence and more widespread acceptance come greater attention and more scrutiny. Nonprofit management is becoming a recognized specialty, and there is a growing recognition that nonprofit financial management is not just for profit financial management with a different name. The number of individuals and entities specializing in nonprofit financial management is growing as well.

With this growth in numbers comes a comparable growth in the demand for sophisticated management. The problem is that few nonprofit managers have any formal training in financial management. Almost everything they know is from on-the-job training, with a liberal amount of assumptions and conventional wisdom that may or may not be helpful. In some cases, these managers can rely on native instinct and clarity of thought, but most often they simply wing it and hope for the best.

Nonprofit organizations—and the users and funders of their services—deserve better, and they are getting it. It is not much of a stretch to say that the increased emphasis on financial management in nonprofits reflects a laudable striving for greater accountability. No longer is it enough just for one’s financial records to be in order; one must be able to demonstrate good financial systems in order to meet all the other rising demands on today’s nonprofit.
In my work as a nonprofit management consultant, graduate program faculty member, and nonprofit board member, I continue to find a widespread hunger for practical, immediately helpful financial information. That was the initial stimulus for this book, and it remains so today.

In this volume I tend to steer away from technical compliance-related matters, for two reasons. First, others can cover financial compliance subjects better than I. And second, my vision of financial management goes far beyond simple compliance to a stage that I fervently hope will be characterized by thoughtful, creative, and persistent management actions.

To support those who share my vision, I have tried to make this book as practical as possible. For example, most of my financial calculations and many examples are based on the IRS Form 990, the nonprofit “tax return.” By using the only common financial reporting form, I hope to bridge the gaps between different types of nonprofit organizations so that the content will work equally well for a broad audience.

This third edition also contains many new items. I have added material on the proper financial roles of boards of directors (“Assets Are for Boards, Activities Are for Managers”), the Sarbanes-Oxley law, charity watchers, and many other subjects. New to this edition, I have told brief stories of nonprofit financial success (or lack thereof) at solving common problems. I have also double-coded and cross-walked all line items from both the old and the new IRS Form 990s, recognizing that the new version starting in 2009 will mean that for many years into the future analysts and students will have to work simultaneously with both forms.

In recent years I have seen a growing interest in the American nonprofit sector by people from other countries. From conversations with my consulting and academic colleagues, I know I am not alone. Foreign students and managers face the double challenge of learning financial concepts while also familiarizing themselves with cultural matters that are uniquely American. This is why I added an appendix designed to be a kind of cultural primer on practices, institutions, and policies that most Americans take for granted but that would be stumbling blocks to non-Americans’ understanding.

As with the first edition, this book is not intended to be primarily a textbook. There are hundreds of thousands of people involved with nonprofits who need to know about financial management but who don’t need another textbook in their lives. It is to them that I speak through these
pages. At the same time, I have been flattered that many professors and academic programs throughout the country have adopted the book for use in the classroom, and I thank them. I only hope that their students do, too.

As a rookie executive director many years ago, I never dreamed that I might one day write a book that so many would find useful. Mainly, I was consumed with trying to figure out what seemed like a gargantuan task rapidly enough to avoid appearing foolish. In some very real way this book is a record of my personal journey through a sometimes confusing topic. The existence of this third edition is pleasing validation that many people have found my approach to nonprofit financial management helpful. I hope only that that will continue to be the case.

— Tom McLaughlin
December 2008