

**FINANCIAL MANAGEMENT
FOR NONPROFIT HUMAN
SERVICE ORGANIZATIONS**

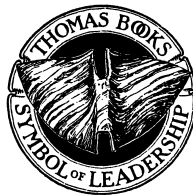
Second Edition

FINANCIAL MANAGEMENT FOR NONPROFIT HUMAN SERVICE ORGANIZATIONS

By

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**For Fontaine,
Jordan and Sara Caitlin,
and my parents, Esther and Arthur Bovero**

PREFACE TO SECOND EDITION

This book is an update of the previous edition, formerly titled *Financial Management for Nonprofit Human Service Agencies*. We are grateful for the continued warm reception to the first edition. But many events have transpired since then. At the time of the writing of that first edition, nonprofit human service agencies were not regulated to the degree they are now. During the last few years many pressures have been brought to bear on nonprofits, not the least of which is the drive to make them more “businesslike”, more “accountable”, and more understandable to those outside of the nonprofit field.

This book attempts to provide nonfinancial managers in the nonprofit field with the critical knowledge needed to communicate with the “experts” they depend upon for financial decision making. It is not intended to be an entry-level text in accounting for nonprofit organizations. Rather, it is to familiarize the reader with the financial terms, concepts, required forms and procedures to be used in the nonprofit human service agency.

The central organizing theme of this book is the acquisition, distribution, and reporting of agency resources within a systems framework. Human service organizations take in resources that they convert to goods and services. To be accountable, they must record and report on the distribution and use of the resources they receive. This book attempts to present key concepts and skills in each of the major areas of the financial management process. The book is divided into sections relating to those parts of the process.

Section I is an overview that covers the historical and sociopolitical context of nonprofit organizations and financing as well as the systems concept and unique characteristics of nonprofits. Section II covers the planning and acquisition of resources by human service organizations. This involves planning and budgeting as well as marketing and grantwriting skills. Section III covers distribution of the acquired resources through internal control, budgeting, and investments. Section IV covers the recording and reporting of organizational financial activities. Included here are basic accounting techniques, fund

accounting, financial reporting guidelines, and financial statement analysis.

Admittedly, there are some arbitrary distinctions made in the division of the topics. Real life is not so neat and tidy. Certainly those who work in nonprofit finance know that the activities of budgeting, recording, and fundraising go on simultaneously. The division of topics and the order in which they are presented are due to didactic attempts to show a logical flow from inputs (acquiring resources) to outputs (reporting of what happened to the resources), and to show the cyclical nature of the processes involved.

This book is still intended for students and practitioners in the human services, and new topics have been added to update the continual changes in nonprofit management. In addition to new topics, all of the sections have been revised and new features have been added:

Added Topics

New topics added in this edition include:

- Fees for services
- Purchase of service contracting
- Breakeven analysis for costing services and activities
- Third-party payments
- Internet resources
- A glossary

Revised Sections

There are updated sections to reflect changes in practice as well as in law. Major revisions are in the areas of:

- Financial Statements: The new Statement of Cash Flows, Statement of Financial Accounting Standards Nos. 116 and 117
- Audits and Financial Statement Analysis: Ratio analysis for Cash Flow Statements, audits for nonprofits receiving federal awards
- Fundraising: New guidelines for joint activities, unrelated business income tax
- Internal Control: COSO standards for internal control
- Investments: Socially responsible investing, Statement of Financial Accounting Standard No. 124.
- Grants: grants management and OMB Circulars A-110 and A-122

New Features

In order to serve the needs of both practitioners and students, the cases and exercises have been removed. Cases and exercises are now in a student workbook available from the publisher. This was done so the text could more readily serve as a reference tool for practitioners. The separate workbook allows students to complete exercises that facilitate a working knowledge of financial management principles. In addition, an instructor's manual is available from the author at the address listed below. Since this is a beginning text for the nonfinancial manager and others interested in aspects of financial management, those familiar with the more technical aspects of financial management such as accountants, Certified Public Accountants (CPA's), attorneys, and financial planners should always be consulted for technical expertise and the particular legal requirements of an organization's home state.

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I wish to thank all those who gave feedback and comments regarding the material in this book. Most of all, I wish to thank the many students in my fiscal procedures, financial management, grantwriting and fundraising classes who gave their views on each chapter. They helped make the topics covered here understandable to nonfinancial managers. I especially owe deep gratitude to Fontaine Fulghum who read and edited every chapter and gave important feedback and insights as an experienced human service administrator. Some of the illustrations were done by Darlene Mendez, others by the author. S.C. “Cat” Sanchez Mayers, Erin O’Brien, and Cathy Duzenski served as able research assistants. My heartfelt thanks also to those who reviewed certain sections of the book:

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Lastly, there are those who inspire us to professional excellence. I thank Dean Mary Davidson and Professor Paul Glasser of Rutgers University School of Social Work for their guidance, loyal support, and friendship.

I would appreciate any comments, suggestions, or other feedback from readers. Please e-mail me at: mayers@rci.rutgers.edu or visit my website at: <http://crab.rutgers.edu/~mayers>.

Faculty who would like an instructor’s manual may send a letter on college/university letterhead to me at:

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To all those who gave their time, support, and ideas, I thank you, knowing that any errors or omissions are my own responsibility.

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I. OVERVIEW

Chapter One

THE SOCIAL CONTEXT OF HUMAN SERVICES FINANCING

After reading this chapter you should be able to:

1. Understand the social context within which nonprofits operate;
2. Describe the human service organization in systems terms;
3. Have an understanding of the place of financial management within the nonprofit organization.

INTRODUCTION

This book is about the management of resources in nonprofit human service organizations. Using a systems approach, we will examine various aspects of financial management in the nonprofit organization, including budgeting, fundraising, financial statements, and agency accountability. However, before we begin a discussion of these topics, it is necessary to place the financing of human services in a larger context.

This chapter begins with a brief historical overview of nonprofits. Then a presentation of systems concepts as applied to the nonprofit will be presented, including the suprasystem, the sociopolitical environment in which such organizations operate, the nonprofit organization as a system, and its various subsystems.

HUMAN SERVICES: AN OLD ENDEAVOR

Care of the poor and others in unfortunate circumstances is a fundamental human impulse that goes back to the dawn of history as reflected in the Bible and other early writings. This concern flows through time and is embodied in the Elizabethan Poor Law of 1601, the Social Security Act of 1935, and the social welfare legislation of most world countries. Before the Middle Ages, organized religion had been the main source of support for the needy in the Western world. Religious