

CONTENTS

About the Authors	xxi	
Acknowledgments	xxiii	
Preface	xxv	
1	Understanding Nonprofit Organization Finances	1
1.1	Definition of Nonprofit Organizations	2
	(a) 501 (c)(3) Corporations	3
	(b) Bylaws and Articles of Incorporation	4
1.2	Characteristics of Nonprofit Organizations	6
	(a) Organizational Mission	6
	(b) Organizational Structure	7
1.3	Understanding the Language of the Nonprofit Organization	7
1.4	Financial Policies	8
1.5	Financial Practices	9
1.6	Primary Financial Objective	10
	(a) Differences between Businesses and Donative Nonprofits	11
	(i) Businesses Have a Numerical, Specific Objective: Maximize Stock Price	11
	(ii) Businesses Can Price Their Services and Then Use Revenues to Gauge Their Marketing Success	11
	(iii) Businesses Typically Know Who Their Customers and Owners Are	11
	(iv) The Typical Pattern of Cash Flows Often Differs, Particularly for the Donative Nonprofit	12
	(b) Survey Evidence on the Primary Financial Objective	12
	(c) Financial Objective for Purely Financial Decisions	13
	(d) Recommended Primary Financial Objective: Approximate Liquidity Target	13
1.7	Conclusion	14
	Appendix 1A The Lilly Study Findings	16
2	Liquidity Management	22
2.1	Introduction	22
	(a) Importance of Liquidity	23
	(b) Are Nonprofits Overly Risk-Averse?	24
2.2	Donative Nonprofit Organizations	25
	(a) Guidance from Finance Theory	26
	(b) Evaluation of Finance Theory	26

2.3	Evidence on Liquidity Management in the Nonprofit Sector	26
	(a) Liquidity Management in the Healthcare Sector	27
	(b) Liquidity Management in Colleges and Universities	27
	(c) Liquidity Management in Faith-Based Donative Organizations	28
	(i) Study Findings	28
	(ii) Short-Term Policies and Planning	28
	(iii) Executing Liquidity Management	29
	(iv) Controlling	29
	(v) Primary Financial Objective: Lessons from the Field Studies	30
2.4	Facets of Liquidity Management	30
	(a) Layers of Liquidity	30
	(b) Solvency	30
	(c) Liquidity	30
	(d) Financial Flexibility	31
2.5	Importance of Liquidity Management	31
	(a) Institutional Factors	31
	(i) Primary Financial Objective	31
	(ii) Limited and Volatile Revenue Stream	32
	(iii) Inability to Issue Stock to Raise Equity Capital	33
	(iv) Time-Restricted and Use-Restricted Donations	33
	(v) Operating Characteristics of Donative Nonprofits	33
	(b) Managerial Philosophy Factors	34
	(i) Major Reluctance to Earn Surpluses	34
	(ii) Resistance to Engage in Short-Term Borrowing	35
	(iii) Insufficient Liquidity Monitoring, Management, or Projection	35
	(c) Liquidity Implications of Institutional and Managerial Philosophy Factors	35
	(d) Watchdog Agency Standards on Solvency and Liquidity	36
	(i) BBB Wise Giving Alliance Standard	36
	(ii) American Institute on Philanthropy Standard	37
	(iii) Charity Navigator Standard	37
	(iv) Philanthropic Research, Inc. Standard	38
	(e) Assessment of Watchdog Standards	39
2.6	What Is the Appropriate Level of Liquidity?	40
	(a) Establishing the Liquidity Position Based on Financial Vulnerability	41
	(b) Diagnostic Tools to Assist in Setting the Approximate Liquidity Target	41
2.7	Conclusion	43

3	Managing Mission and Strategy	46
3.1	Value of Strategic Planning	47
3.2	What Is Strategic Planning?	47
3.3	What Are the Organization's Mission, Vision, and Goals/Objectives?	48
	(a) Strategy and the "Bottom Line"	50
	(b) What Are Strategic Decisions?	51
3.4	Strategic Management Process	52
	(a) SWOT Analysis	53
	(b) What Are Internal Strengths and Weaknesses?	54
	(c) Using Environmental Scanning to Detect External Opportunities and Threats	54
	(d) Strategic Management Is an Ongoing Process	55
3.5	Implementing the Strategic Plan	55
	(a) Three Steps in Implementation	55
	(b) Cutback Strategies	55
3.6	Performance Management Systems	60
	(a) Balanced Scorecard	60
	(i) Balanced Scorecard	61
	(ii) Financial Objectives and Measures/Metrics Useful for a Balanced Scorecard	61
	(b) Portfolio Approaches	64
	(i) Generic Portfolio Modeling	65
	(ii) Diagnosing the Services Portfolio	65
	(iii) Financial Return and Financial Coverage Matrix	65
	(iv) Three-Dimensional Portfolio Model	66
	(v) Organized Abandonment Grid® (Boschee)	67
3.7	Strategic Planning Practices: What Does the Evidence Show?	67
3.8	Conclusion	69
4	Managing Structure, Accountability, and Ethics	72
4.1	Financial Tools and Support Structure	72
	(a) Elements of the Financial Structure	73
	(i) Importance of Financial Structure	73
	(ii) Development of Financial Structure	73
	(iii) Financial Structure Soundness	74
	(b) Internal Controls	74
	(c) Financial Policy	74
	(d) Financial Procedures	74
4.2	Organizational Structure and Governance	75
	(a) Board of Trustees/Directors	75
	(i) Choosing Trustees/Directors	77
	(ii) Board Financial Responsibility and Liability	77

viii Contents

(b)	Officers of the Nonprofit Organization	80
(i)	President/Chair of the Board	80
(ii)	Treasurer/Chief Financial Officer	81
(iii)	Secretary	81
(c)	Board Committees	81
(i)	Finance Committee	82
(ii)	Audit Committee	82
(iii)	Investment Committee	83
(d)	Executive Director/Chief Executive Officer	84
(e)	Staff	85
(i)	Program Managers	86
(ii)	Marketing Director	86
(iii)	Strategic Management/Long-Range Planning	86
(f)	Volunteers	87
(g)	Independent Contractors	87
(h)	Constituents	87
(i)	Finance Function	87
(i)	Chief Financial Officer	87
(ii)	Treasurers Office and Controllers Office	91
(iii)	Financial Function: Service Center or Profit Center?	95
(iv)	How Can Finance and Accounting Activities Be Evaluated?	97
(j)	Interface of CFO with CEO	97
(k)	Interface of CFO with the Board	97
4.3	Accountability Structure	97
(a)	Accountability Structure	97
(i)	Definition	97
(ii)	Purpose	97
(b)	Establishing an Accountability Policy	98
(i)	General Policy Statement	98
(ii)	Core Principles	98
(iii)	Interpretation of Policy	98
(c)	Checklist for Assigning Responsibility	100
(d)	Designing an Accountability Structure	101
(e)	Monitoring an Accountability Structure	103
(i)	Types of Reviews	104
(ii)	Schedule of Reviews	104
4.4	Ethics	104
(a)	Ethics Check	105
(b)	Making Ethical Decisions	106
(c)	Ethical Challenges Faced by Nonprofits	106
(d)	An Effective Ethics and Compliance Program Goes Beyond a Code of Ethics/Conduct	108

4.5	Structure, Accountability, and Ethics in Practice	110
4.6	Conclusion	111
Appendix 4A	By-Laws of the ABC Educational Foundation	116
Appendix 4B	Summary of Responsibilities and Qualifications	130
5	Developing Financial Policies	136
5.1	Introduction	136
	(a) What Is Policy?	136
	(b) Why Are Policies Required?	137
	(c) Complying with and Establishing Policy and Procedure	137
	(d) Who Sets Policy?	139
	(e) Where to Start?	140
5.2	Financial Policies	140
	(a) Roles of Board, Board Treasurer, and CEO/ED	142
	(b) Financial Policies: Prescriptive or Restrictive?	144
	(c) Categories of Financial Policies	146
	(d) Accountability and Regulatory Compliance Policies	147
	(i) Accountability Policies	147
	(ii) Regulatory Compliance Policies	147
	(e) Financial and Financial Management Policies	151
	(f) Data Integrity Policies	153
5.3	Putting Policies into Place	154
5.4	Establishing Procedures	155
5.5	Financial Policies and Procedures in Practice	156
5.6	Additional Resources	158
Appendix 5A	Nonprofit Financial Policy Examples on the Internet	160
6	Understanding Accounting Basics and Financial Statements	162
6.1	Introduction	162
	(a) Financial Statement Users and Uses	163
	(b) What Do Donors' Representatives Say?	165
	(i) BBB Wise Giving Alliance Standards	165
	(ii) ECFA Standards	165
	(c) External and Internal Financial Statements	168
	(d) Who Does the Accounting?	168
	(i) In-House versus Outsourced	168
	(ii) Accounting Software	169
	(e) Roles of the Controller and Treasurer	169
6.2	Accounting Basics	170
	(a) Financial Standards and Standards Setters	170
	(i) Financial Accounting Standards Board	170
	(ii) Generally Accepted Accounting Principles	170

(b)	Fund Accounting versus Consolidation	171
(c)	Cash Basis versus Accrual Basis Accounting	171
(d)	Audit, Review, or Compilation?	171
6.3	Three Financial Statements	172
(a)	Statement of Financial Position or Balance Sheet	172
(i)	Assets	173
(ii)	Liabilities	174
(iii)	Net Assets	175
(iv)	Financial Strength and Target Liquidity	176
(b)	Statement of Activities or Statement of Net Revenues	176
(c)	Statement of Cash Flows	180
(d)	Financial Accounting Standards 116 and 117	182
(i)	SFAS 116	182
(ii)	SFAS 117	182
(e)	What about the IRS Form 990 Tax Return?	183
(i)	Who Files a 990 or 990-EZ?	183
(ii)	Do 990s Have the Same Financial Statements as GAAP?	183
(iii)	Problems with 990s	183
(iv)	Continued Reliance on 990s by Users	185
(f)	Healthcare and Human Service Agency Financial Statements	185
(g)	Educational Institution Financial Statements	185
(h)	Cautions for Financial Statement Interpretation	185
(i)	Accounting Standards Issues	185
(ii)	Cost Allocation Choice Issues	187
(iii)	Comparison Data and Issues	188
6.4	The Audit and the Audit Committee	188
6.5	Financial Statement Users and Uses in Practice	189
6.6	Social Accounting	189
6.7	Additional Resources	189
(a)	Sources for Nonprofit Accounting and Accounting Standards	189
(b)	Source for Nonprofit Accounting Software Reviews	190
(c)	Source for Nonprofit Accounting Firm Contacts	190
(d)	Sources for Nonprofit Audit Committee Toolkit	190
(e)	Sources for Social Accounting Information and Techniques	190
7	Developing Financial Reports and Ratios	193
7.1	Introduction	193
7.2	Major Differences from For-Profit Business Reports	194
(a)	Financial Results Are No Longer the Primary Focus in Management Reports	194
(b)	Primary Financial Objective Is Target Liquidity, Not Profit or Shareholder Wealth	195

(c)	Fewer External Users, with a Different Accountability Focus	196
(d)	Different Funds and the (Temporarily or Permanently) Restricted versus Unrestricted Net Asset Distinction	196
7.3	Objectives of Financial Reports	198
(a)	Accurate and Timely Representation of Financial Situation	198
(b)	Mission Attainment Supportive Role	198
(c)	Evidence of Accountability	199
(d)	Tool for Turnaround Management	201
(i)	Church of the Brethren	201
(ii)	Church of God Missionary Board	201
7.4	Reporting System Design	202
7.5	Major Reports	202
7.6	Internal Reports	203
(a)	Annual	203
(b)	Level 1: Budget Variance Analysis	204
(i)	Operating Budget	204
(ii)	Capital Budget	204
(iii)	Cash Budget	204
(iv)	Supplemental Report: Deferred Giving	204
(c)	Level 2: Annual Financial Statements and Ratios	205
(i)	Statements of Activity, Financial Position, and Cash Flows	205
(ii)	Financial Ratio Analysis	213
(d)	Level 3: Fundraising Management and Evaluation	223
(i)	Setting the Philosophy and Major Objective of Fundraising	225
(ii)	Plan and Then Schedule the Campaign Expenditures	225
(iii)	Assist in the Midcampaign Evaluation and Redirection	226
(iv)	Oversee Postcampaign Effectiveness and Efficiency Ratio Analysis	226
(e)	Level 4: Cash and Liquidity Analysis and Projection	227
(i)	Monthly or Quarterly Reports	228
(ii)	Daily or Flash Reports	228
7.7	External Reports	229
(a)	Statements of Activity, Financial Position, and Cash Flows	229
(b)	Form 990 and Other Public Reports	229
(i)	Forms 990, 990-EZ, and 990-T	229
(ii)	Donor Mailings and “Publicly Available” Reports	229
(iii)	State Requirements	230
(iv)	Granting Agency Reports	230
7.8	Conclusion	230
Appendix 7A	Sample Ratio Calculations	236

Appendix 7B	Additional Financial Ratios	238
Appendix 7C	Credit Ratings Agencies and DOE Ratios	249
8	Developing Operating and Cash Budgets	252
8.1	Introduction	252
8.2	Overview of the Budgeting Process	253
8.3	Are Nonprofit Organizations Doing Their Budgeting Properly?	254
	(a) Operating Budgets in Practice	255
	(b) Cash Budgets in Practice	255
8.4	Developing and Improving Your Budgeting Process	255
	(a) Preparation for Budgeting (Operations)	255
	(i) Function of the Budget Director	256
	(ii) Procedural Prerequisites	256
	(b) Step 1: Establish a Budget Policy	257
	(i) Purposes of a Budget	257
	(ii) Uses of the Budget	258
	(c) Budget Preparation Philosophy and Principles	259
	(i) Budget Revisions	262
	(ii) Interim Reports	262
	(d) Step 2: Gather Archival Data	262
	(e) Step 3: Assign or Begin Collection of Other Area Data Input or Projections	263
8.5	Setting the Budgetary Amounts	263
	(a) What Do I Need to Know about Forecasting?	263
	(b) Revenues	265
	(c) Expenses	265
	(d) Extended Example of Actual Budget Development	266
	(e) Budget Approval	271
	(f) Budget Variance Reports and Responses	271
	(i) Operating Budget	271
	(ii) Capital Budget	273
	(iii) Cash Budget	273
	(g) Cautions	274
	(i) Budget Ploys	274
	(ii) What Hinders an Effective Budget System?	275
	(iii) Is the Finalized Budget Consistent with Financial Targets and Policies?	275
8.6	Budget Technique Refinements	275
	(a) Nonfinancial Targets	275
	(b) Flexible Budgeting	276
	(c) Program Budgeting	278

(d)	Zero-Based Budgeting	278
(e)	Rolling Budgets	279
8.7	Cash Budget	280
(a)	Uses of the Cash Budget	280
(b)	Steps in Cash Budgeting	281
(c)	Forecasting Your Cash Position	281
(i)	Determine Cash Receipts	283
(ii)	Determine Cash Disbursements	283
(iii)	Put It All Together	284
(iv)	Use the Cash Budget to Help Set Target Liquidity Level	284
8.8	Managing Off the Budget	286
(a)	Budget Variance Analysis Revisited	286
(b)	Cash Position	287
(c)	Responses to Financial Difficulties	287
(d)	Internal Measures	288
(e)	External Measures	288
8.9	Conclusion	289
Appendix 8A	Case Study: The Cash Crisis at the Children's Treatment Center	291
Appendix 8B	Case Study: Tricity Academy	298
9	Long-Range Financial Planning and Capital Budgeting	301
9.1	Introduction	301
9.2	Planning for the Future	303
(a)	Importance of Long-Range Financial Planning	303
(b)	CFO's Role in Financial Planning and Capital Budgeting	304
(c)	Long-Range Financial Planning Process	305
(d)	Financial Planning Basics	306
(e)	Develop a Financial Model	311
(f)	Project and Reevaluate Target Liquidity	316
(i)	Scenario Analysis and Sensitivity Analysis	319
(ii)	Other Financial Goals and the Organization's Life Cycle	321
(iii)	Based on Our Financial Policies and Structure, How Fast Can We Grow?	322
9.3	Financial Evaluation of New and Existing Programs	325
(a)	Simple Portfolio Analysis	327
(b)	Advanced Portfolio Analysis	327
(c)	Annual Necessary Investment	328
9.4	Capital Budgeting: Financial Evaluation of Projects that Arise from Existing Programs	329
(a)	Example 1: Net Present Value and Benefit-Cost Ratio Illustrated	329

(i)	Approaching a Capital Expenditure Analysis	329
(ii)	Making the Capital Expenditure Decision	331
(b)	Example 2: Equivalent Annual Cost Illustrated	332
(c)	How to Manage the Total Capital Budget	334
(d)	Capital Budget and Capital Rationing	334
(e)	Rationing the Capital	335
9.5	Financial Evaluation of Mergers, Joint Ventures, and Strategic Alliances	335
(a)	Mergers and Acquisitions	335
(b)	Motives for Mergers and Acquisitions	336
(i)	Programmatic Synergy	336
(ii)	Financial Synergy	336
(c)	Partnerships, Joint Ventures, and Strategic Alliances	340
(d)	Strategic Alliances	341
(i)	Motives for Strategic Alliances	342
(ii)	Financial Aspects of Strategic Alliances	343
(iii)	Financial Projections of Mergers, Acquisitions, or Joint Ventures	343
9.6	Financial Planning and Capital Budgeting in Practice	345
9.7	Conclusion	346
Appendix 9A	Case Study: Kiawah Island Community Association	350
Appendix 9B	Evaluating Social Enterprises	353
10	Managing Your Organization's Liabilities	356
10.1	Managing the Balance Sheet	357
(a)	Balance Sheet Management: Benefits and Steps	358
(b)	Determining Your Organization's Debt Capacity	361
10.2	Payables	362
10.3	Short-Term Borrowing	363
10.4	Strategic Financing Plan	365
(a)	Borrower's Strategic Financial Objectives	365
(b)	Borrowing Requirements	366
10.5	Steps to Successful Borrowing	366
(a)	Understanding Debt	367
(i)	Risk-Reward Trade-Offs	367
(ii)	Leverage	367
(b)	Loan Approval Process	368
(i)	Basic Preparation for a Loan Presentation	368
(ii)	Reasons for Borrowing	368
(iii)	Immediate Concerns of Lenders	369
(iv)	Evaluating the Application	369
(v)	How Lenders Are Repaid	369

(vi) Refinancing	370
(c) Alternative Sources of Short-Term Funds	370
10.6 Matching Financial Sources to Strategic Objectives	371
10.7 Preparing the Financing Proposal	372
(a) Term Sheet	372
(b) Plan Overview	372
(c) Presentation Contents	372
10.8 Making the Presentation	373
(a) Importance of Questions	373
(b) Answering Objections	373
(c) Personalizing the Presentation	374
10.9 Other Factors in Borrowing/Lending Decisions	374
(a) Borrowing from the Bank	374
(i) Domestic Short-Term Bank Loans	375
(ii) International Short-Term Bank Loans	376
(b) Trends in Short-Term Lending	377
10.10 Municipal and Taxable Bonds	378
(a) Municipal Bonds	378
(i) Selection of an Underwriting Firm	379
(ii) Preparation of Bond Documents	379
(iii) Municipal Bond Issuers and Purposes	381
(b) Taxable Bonds	382
(i) How Can My Organization Use Taxable Bonds?	382
(ii) Can I Also Get Short-Term Financing through Taxable Bonds?	383
(c) What Qualifies My Organization to Issue Bonds?	383
(d) What If My Organization Is Not Perceived as Creditworthy?	384
10.11 Leasing and Nontraditional Financing Sources	384
(a) The Leasing Process	384
(b) Leasing versus Borrowing	385
10.12 Developing a Debt and Hedging Policy	385
10.13 Liability Management in Practice	387
10.14 Conclusion	389
11 Cash Management and Banking Relations	392
11.1 Introduction	392
11.2 What Is Cash Management?	394
(a) Banking Environment	396
(b) Purchasing Bank Services	396
(c) Managing Bank Service Charges	402
11.3 Collection Systems: Managing and Accelerating Receipt of Funds	403

(a)	Lockbox Processing	406
(b)	Checklist of Collections-Related Services and Activities	407
11.4	Disbursements	409
(a)	Designing the Disbursement System	409
(b)	Fraud and Internal Control in Disbursements	409
11.5	Structuring a Funds Management System	410
11.6	Monitoring Bank Balances and Transactions	410
(a)	Balance Reporting and Transaction Initiation	411
(b)	Account Reconciliation	411
11.7	Cash Forecasting	412
(a)	Cash Scheduling	413
(b)	Data Elements for Cash Flow Estimates	413
11.8	Short-Term Borrowing	413
11.9	Short-Term Investing	414
(a)	Bank Sweep Accounts/Investment Services	415
(b)	Institutional Money Market Funds	417
11.10	Benchmarking Treasury Functions	418
(a)	Larger Organizations	418
(b)	Smaller Organizations	419
11.11	Upgrading the Caliber of Treasury Professionals	419
11.12	Security and Risk Management Issues	421
(a)	Types of Financial Risk	421
(b)	Fraud	422
11.13	Trends in Treasury Management	422
(a)	Reengineering	422
(b)	Automation and Technology	423
(c)	Tapping Service Provider Expertise	424
(d)	Cash Management in Practice	424
Appendix 11A	Nonprofit Organization Guide to Direct Payment	426
Appendix 11B	Direct Payment Case Study	429

12 Investment Policy and Guidelines 430

12.1	Investment Policy	430
(a)	Short-Term Investment Policy	431
(b)	Long-Term Investment Policy	432
12.2	Investment Guidelines	433
(a)	Who Is Responsible for the Investing Program?	433
(b)	Who Does the Investing?	434
(c)	How Are Assets to Be Allocated?	434
(i)	Investment Instruments	435
(ii)	Fixed Income Instruments	436

(iii) Equity Instruments	436
(iv) Alternative Investments	436
(v) Socially Responsible Investing	437
(d) How Is Performance Measured and Reported?	438
(i) Measurement	438
(ii) Reporting	439
(e) What Level of Risk Is to Be Assumed?	439
(i) Limitations on Maturity	439
(ii) Currency Denomination	440
(f) Review and Modification of the Investment Guidelines: Who Is Responsible for What?	441
12.3 Checklist of Elements for Long-Term Endowment Investment Policy and Guidelines	441
12.4 Investment Policy Summary	441
Appendix 12A Sample of Short-Term Investment Policy and Guidelines	444
Appendix 12B ABC Foundation Unendowed Short-Term Investment Pool Policy	447
Appendix 12C Short-Term Investment Policy for HIJ Foundation	450
Appendix 12D Sample of Investment Policy Statement for the ABC Foundation's Long-Term Endowment Pool	452
Appendix 12E Definitions of Fixed Income Instruments	456
Appendix 12F Definitions of Equity Instruments	462
Appendix 12G Glossary	463
13 Information Technology and Knowledge Management	465
13.1 Introduction	465
13.2 How Much Technology and Which to Choose?	468
(a) What Types of Technology Tools Should I Consider?	468
(b) Are They Required?	470
(c) Do I Need Them?	470
(d) What Will They Do for Me?	470
(e) What Will They Not Do for Me?	471
(f) Can I Afford Them?	471
(g) What Changes Will They Introduce to My Organization?	472
(i) Example 1: Slow Integration	472
(ii) Example 2: Flawed Integration	473
13.3 Knowledge Management and Information Technology	473
(a) How Critical Is Data?	473
(b) Knowledge Management	474
(i) Is Yours a Learning Organization?	474
(ii) Steps Toward Building a Learning Culture	474
(iii) Managing Intellectual Capital	475

13.4	Information Technology in Today's Nonprofits	475
(a)	Electronic Commerce	475
(i)	Doing Business Electronically	475
(ii)	Your Organization's Web Site	475
(b)	Spreadsheets and Beyond for Data and Decisions	475
(i)	Spreadsheets	475
(ii)	Data Warehouse	475
(iii)	Bank/Financial Service Provider Online Services	475
(iv)	Application Service Provider	476
(v)	Treasury Workstation	477
(vi)	Enterprise Resource Planning System	477
(c)	Dedicated Software	477
(i)	Dashboards	477
(ii)	Fundraising Software	477
(iii)	Purchasing, E-Billing, and E-Payment Software	478
(iv)	Budgeting and Planning Software	478
(v)	Human Resource Management Software	478
13.5	What Should I Know/Do before Investing in Technology Tools?	478
(a)	Planning for Growth	479
(b)	Outsourcing?	480
13.6	Software: Design Internally or Purchase?	480
13.7	Disclosure, the Law, and Security	480
(a)	A Company Data Policy	480
(b)	Security Issues and Trends	481
13.8	Needs Assessment and Analysis	482
(a)	Assess	482
(b)	Analyze	482
(i)	Weighting Table Analysis	482
(ii)	Return on Investment or Benefit-Cost Analysis	484
(c)	Critique	485
(d)	Decide	485
(e)	Implement: Getting People to Use The New Tool	485
13.9	Policies and Practices in Knowledge Management and Information Technology	485
Appendix 13A	Glossary of Basic Technical Terms	490
Appendix 13B	Framework for an Implementation Strategy	493
Appendix 13C	Case Study: Using Technology to Improve Cash and Treasury Management	495
14	Managing Risk, Legal Issues, and Human Resources	498
14.1	What Is Risk Management?	498

(a)	Who Is Responsible for Managing Risk in the Nonprofit Organization?	501
(i)	Board Duties	501
(ii)	Leadership Sets the Tone	502
(b)	Communicate Risk Management Policy	502
14.2	Identifying Risk	502
14.3	Primary Financial Risk: Illiquidity	502
14.4	Legal Environment	504
(a)	Sarbanes-Oxley in the Nonprofit Sector	504
(b)	Ethical Considerations	504
(c)	Relevant Agency and Regulatory Rules	504
14.5	Safeguarding People	504
(a)	Tools for Effective Human Resource Management	505
(i)	Job Descriptions	505
(ii)	Background Checks	506
(iii)	Bonding	506
(b)	Physical and Emotional Safety	506
(c)	Protecting the Organization from Lawsuits and Grievances	507
(d)	Dealing with Difficult or Problem Employees	507
(e)	Grounds for Immediate Termination	508
(f)	Compensation	509
(g)	Personal Use of Organizational Resources	509
(h)	Conflict of Interest	510
(i)	Getting the Most “Bang for Your Buck”	510
(j)	Staff and Volunteers—What Motivates Them?	510
(k)	What Qualities Should Leadership Possess?	513
(i)	Concern	513
(ii)	Connectivity	513
14.6	Directors’ and Officers’ Liability	513
(a)	Methods by Which Boards Can Protect Themselves	514
(b)	Conflicts of Interest	514
(c)	Executive Pay	515
(d)	Duties of Care, Loyalty, and Obedience	515
14.7	Safeguarding Your Financial and Physical Assets	515
(a)	Insurance	515
(b)	Risk Retention versus Risk Transfer	516
(c)	Internal Controls	517
(d)	Fundraising	518
(i)	Charitable Solicitations	518
(ii)	Philosophy and Practice	518
(e)	How to Begin the Financial Assessment Process	518

(i)	Due Diligence—Compliance with Policies, Procedures, and Guidelines	519
(ii)	Solutions: To Reduce Risk and Stay Out of Court	519
(iii)	Disaster Preparedness and Business Continuity Planning	520
14.8	Risk Management and Human Resource Management Practices	521
Appendix 14A	Derivatives Checklist	524
Appendix 14B	Case Study of Association’s Foreign Exchange Risk Management	529
15	Evaluating Your Policies and Progress	531
15.1	Introduction	531
15.2	Evaluation	533
15.3	Evaluating Your Decisions and Ethics	533
15.4	Evaluating Your Communications	538
15.5	Evaluating Your Mentoring and Supervisory Skills	538
15.6	Testing Your Supervisory and Managerial Skills	543
15.7	Evaluating the Strategic Nature of Your Role	543
15.8	Evaluating the Financial Health of Your Organization	547
(a)	Importance and Definition of Financial Health	547
(b)	Criteria for Measuring Your Financial Health	548
15.9	Evaluating Your Financial Policies in Five Key Areas	548
(a)	Governance and Accountability	548
(b)	Investments	550
(c)	Fundraising	551
(d)	Risk Management	552
(e)	Human Resources	552
15.10	Evaluating Quality and Outcomes	553
15.11	Using External Consultants and Data Sources	554
15.12	Conclusion	555
Appendix 15A	Moral Competency Inventory (MCI)	557
	Index	569