



Pathways for Addressing Social Needs: Budgeting and Finance

Developing A Good Financial Management System to
Ensure Organizational Stability and Fiscal Operations



Overview



- In the development of a new program, it is important to have processes in place to ensure sound fiscal management.
- Establishing good financial management practices for the organization include:
 - Developing a budget to assist with financial projections and good fiscal management.
 - Following accepted accounting principles.
 - Establishing safeguards and preventing conflicts-of-interest in the handling of the organization's finances.
 - Having policies and procedures in place for making purchases, processing payroll, accounts receivable, accounts payable, and handling the organization's assets.
 - Preparing and maintaining all of the financial documents.
 - Working with a reputable financial institution.
 - Conducting a financial audit of the organization.
 - Hiring financial experts to help with the process.



Developing the Budget

- The budget is a key financial document used by an organization to help track income and expenses that will assist in making operational decisions.
- Budgets are a way to forecast the organization's finances with a key focus on projecting income and expenses.
 - Some organizations develop multi-year budgets to be proactive in looking at the financial status of the company.
- Organizations should establish a budget calendar to help ensure the process is completed timely.
 - The completed budget should be presented to the board of directors for review and approval.
- The budget process is a good exercise to project revenues to be generated from the organization's activities and expenses that will be incurred from conducting operations.

Steps to Developing a Budget



<https://www.fiftyandfifty.org/blog/nonprofit-budget-plan>



Steps in Developing the Budget

- Assess the program's volume measurement and set the target for the year.
 - The volume measurement or unit of service could include number of clients, number of visits, units of services distributed (i.e. meals prepared, food baskets distributed, etc.).
 - Be realistic when setting your volume targets for the budget.
- Review the organization's strategic plan to make sure expenses associated with the key goals/objectives are factored into the budget.
- Identify and project your key sources of revenues including funding from grants, donations, investment income, and sales of the organization's products/services, etc.
- Project expenses for the coming year based on your volume targets.
 - Some of the major expenses to consider include labor costs, employee benefits, contract labor fees, supplies, travel, utilities, rental/leasing/mortgage fees, insurance, copying/printing expenses, mileage, maintenance costs, food, computer equipment/supplies, depreciation/amortization expense, minor equipment, consulting fee, and other expenses.



Steps in Developing the Budget

- Identify any major expenses to be incurred with starting a new program/project.
 - Major expenses could include new equipment, space rental or renovation costs, furniture, computers, additional staffing, etc.
- Assess the bottom line after estimating the revenues and expenses.
 - Will the organization be making a profit, breaking even, or facing a financial loss based on the budget developed?
 - Make adjustments to the draft of the budget to meet the overall financial goals of the organization.
- Consider establishing a contingency fund to plan for any unseen events that could impact the budget (i.e. equipment breaks down and needs to be repaired/replaced, facilities are damaged, business gets interrupted, etc.)
- Present the final draft of the budget to the board of directors for review and approval.
- Make sure people in the organization know what part of the budget they have responsibility to manage.
- Establish the mechanism to review the budget on a regular basis (i.e. monthly, quarterly, etc.) and make adjustment as needed to the volume, revenue, and expense projections.
 - Set-up a system to compare actual performance (i.e. volumes, revenues, and expenses) against the budget targets and the variance listed in both dollars and percentages for both the current period and year-to-date.



Establishing Accounting Procedures

- In setting up the organization's accounting processes to provide good fiscal management, it is important to follow established procedures.
- Generally accepted accounting principals (GAAP) provide a standardized system of accounting procedures.
 - GAAP is a set of rules for standardized financial reporting that help ensure accuracy and transparency. GAAP guidelines focus on rules like consistency and honesty to protect investors and ensure accurate reports.¹
 - GAAP helps an organization establish its accounting processes by:
 - Making sure that any financial disclosures provided by the organization are consistent.
 - That the reporting of the organization's financial standing is done through accurate review.
 - Financial statement are prepared so that direct comparisons can be done between comparable organizations.
 - If organizations in the U.S. are publicly disclosing their financial information, then they must follow GAAP.



Establishing Financial Safeguards

- The cash that an organization generates is not only a valuable asset but also vulnerable to actions of theft, mismanagement, and fraud.
 - Effective internal controls over cash are essential to safeguard these assets, ensure the accuracy of financial records, and maintain the integrity of financial reporting.²
- Establishing proper procedures will help to ensure that cash is managed appropriately.
 - Assign separate persons for the responsibilities of the handling, recording, and reconciliation of cash.
 - Establish authorization controls for the receipt, disbursements, and transfers of cash.
 - Implement appropriate security measures to protect cash assets.
 - Conduct ongoing reconciliations of the bank statements and check them against the general ledger.
 - Utilize technology to assist with cash management.



Establishing Financial Safeguards

- Avoid conflicts of interest and improprieties when it comes to the organization's financial matters.
- Decisions pertaining to financial matters should be made without bias or undue influence.
 - Any person involved in making financial decisions for the organization needs to disclose if they have a personal interest in the transaction and should recuse themselves from those business dealings.
 - Some organizations require employees and board members to sign conflict of interest statements and to disclose any potential conflicts.
 - Implementing leadership and staff training and establishing clear policies can help an organization avoid issues of conflict of interest.



Financial Policies and Procedures

- Organizations should have established policies and procedures around key financial matters.
 - Financial policies clarify the roles, authority, and responsibilities for essential financial management activities and decisions.³
 - Key financial policies for an organization to consider include:
 - Cash Management
 - Investments
 - Payroll
 - Accounts Payable and Receivable
 - Travel and Expense Reimbursement
 - Asset Management (including the acquisition, management, and disposal of assets)
 - Gift Acceptance
 - Financial Approvals and Chain of Command
 - Requirement to Conduct an Annual Audit



Key Financial Statements

- The financial statements of an organization provide a formal record that provide information on the company's financial activities.
 - Beyond helping the organization meet legal requirements, they also promote transparency and help the organization evaluate performance.⁴
- Key financial statement to be completed by an organization include:
 - Statement of Financial Position: This statement shows what the organization owns and what it owes. The statement lists the organization's assets, liabilities, and net assets.
 - The company's assets include what it owns, the liabilities are what the organization owes, and net assets are the remaining assets left after subtracting all of the liabilities.
 - Statement of Activities: This statement provides an overview of changes to the company's net assets and shows all of the revenues and expenses over the fiscal year.



Key Financial Statement

- Key financial statement to be completed by an organization include (continued):
 - Statement of Cash Flow: This statement reports on how cash moves through the company. The statement is important to show how much money is available to pay the organization's expenses.
 - Statement of Functional Expenses: This statement provides donors and others with information on how the organization spends its funds.



Selecting Financial Institutions

- Organizations need to consider what financial institutions they will conduct business with to help in managing their finances.
- One consideration when selecting financial institutions are those that have experience working with nonprofit organizations or faith-base institutions.
 - Key financial institutions that the organization may do business with include:
 - Banking institutions to open savings, checking, and investment accounts
 - Investment firms to offer guidance on investing the organization's assets
 - Financial institutions that can assist with securing loans
 - Auditing firms to assist the organization in completing its audit



Financial Audit

- The financial audit for an organization provides an independent, unbiased, and external evaluation of the financial statements and related accounting management processes.
 - Conducted by a certified public accounting firm, the audit confirms whether the financial records accurately reflect the organization's financial position in accordance with generally accepted accounting principles.⁵
- A financial audit could be required if the organization receives federal or state funding.
- Some private foundations may request that an audit be done and some boards have an organizational policy requiring an audit.
- Preparation for an audit includes reviewing the trial balance, general ledger, bank reconciliations, accounts payable/receivable, payroll data, grants/donor restrictions, fixed asset reports, board meeting minutes, and prior year audit findings.
 - All financial processes should be documented in preparation for the audit and clear policies regarding segregation of financial duties and conflicts of interest.



Seeking Assistance of Financial Experts

- For organizations that don't have the expertise on staff, bringing in external experts can be helpful in the financial management and monitoring of the organization's fiscal operations.
- Key outside expertise for an organization to consider include:
 - Financial Accounting: It is important to work with a certified public accountant who has the appropriate training and meets standards established by the accounting field.
 - Tax accounting: Working with someone knowledgeable in preparing and filing all the appropriate tax documents (e.g. Federal Form 990 for nonprofits).
 - Bookkeeping: Ensures that revenues and expenses are properly documented.
 - Payroll: Assists in processing the hours of the employees, paying staff timely and accurately, tracking benefit expenses, and making sure all the appropriate deductions and taxes are calculated and paid correctly.
 - Auditing: Prepares the organization for a financial audit.
 - Financial Investment: Provides guidance and recommendations on how to invest the organization's assets to generate the best financial return.
- If the organization operates as a 501(c)(3), it is important to seek assistance from experts with experience in nonprofit accounting/finances.



Conclusion

- The organization's budget is an important management tool in planning and managing the organization's finances.
- Having good financial management policies and procedures in place are important for the organization to operate efficiently and to maintain financial stability.
- Financial safeguards are important for an organization to establish to protect the cash assets and to avoid any conflicts of interests that may arise.
- The key financial statements that an organization needs to prepare are important for internal controls, external reporting, and to meet government requirements.
- If the organization lacks the expertise among its staff, then hiring outside experts to assist with key financial management functions is advisable.



Online Resources

- **Fifty & Fifty**

- Provides resources, steps, and templates to help complete a budget.

- <https://www.fiftyandfifty.org/blog/nonprofit-budget-plan>

- **Business.org**

- Provides resources on business finance.

- <https://www.business.org/finance/>

- **National Council of Nonprofits**

- Provides financial tools and resources for nonprofits.

- <https://www.councilofnonprofits.org/running-nonprofit/administration-and-financial-management/financial-management>

- **Donorbox**

- Provides information and templates on how to complete the organization's financial statements.

- <https://donorbox.org>



Reference Notes

¹James M. Tobin, “*Generally Accepted Accounting Principles (GAAP): Definition, Principles, Applications,*” Accounting.com, March 19, 2026, <https://www.accounting.com/resources/gaap/> (accessed March 23, 2026).

²Accountancy, “*Cash Internal Control Considerations: Safeguarding Financial Assets and Ensuring Accurate Reporting,*” January 29, 2025, <https://auditingaccounting.com/cash-internal-control-considerations-safeguarding-financial-assets-and-ensuring-accurate-reporting> (accessed March 20, 2026).

³Propel Nonprofits, “*Financial Policy Guidelines,*” National Council of Nonprofits, 2026, <https://www.councilofnonprofits.org/running-nonprofit/administration-and-financial-management/financial-management> (accessed March 20, 2026).

⁴Kristine Ensor, “*Nonprofit Financial Statements: The Complete Guide with Examples,*” Donorbox, May 27, 2025, <https://donorbox.org/nonprofit-blog/nonprofit-financial-statements> (accessed March 22, 2026).

⁵Charity Charge Team, “*Financial Audit for Nonprofits: A Complete Guide,*” Charity Charge, April 11, 2025, <https://www.charitycharge.com/nonprofit-resources/financial-audit-nonprofits/> (accessed March 21, 2026).