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Center for Community Development

Gail Nordheim Consulting LLC

Financial Management

Good financial management is crucial to your NPO's success. Only with good financial management can you ensure that your NPO's resources are spent appropriately, and that your NPO is able to meet its financial obligations on an ongoing basis. In addition, your donors expect and deserve their funds to be accounted for and spent properly.

The following table shows common myths about financial and risk management, along with "truths" in each area.

Financial and Risk Management--Myths vs. Truths

Myths	Truths
Our NPO is too small to have to worry about financial management.	All NPOs raise and spend money, and they must assure that their funds are handled properly. Therefore they must be involved with financial management.
Our NPO wants to focus on its programs, and not get distracted by financial paperwork.	The success of your programs depends on having adequate, well-managed finances.
Financial management is too complicated.	Financial management does not have to be complicated. You can set up systems for recording and managing your NPO's finances that are straightforward to use. Financial management software can also simplify financial tasks.
Our accountants take care of our finances, so NPO managers do not need to be involved.	For NPOs that can afford to use them, accountants can be helpful in preparing and interpreting financial reports. However, NPO leadership is responsible for developing the budget, tracking income and expenditures, and making sure that income and expenditures are consistent with the budget. Ultimately, your NPO's financial success is your responsibility.
Our donors do not care about our budget or financial reports.	Increasingly, donors want to review NPO budgets and financial reports as a condition for contributing funds. Even if a donor does not request a financial report, proactively providing financial reports may make prospective donors more likely to donate, or may provide them with confidence to increase the size of their donations.
Our employees are trustworthy, so we do not need to worry about financial controls.	There are many instances where seemingly trustworthy employees have embezzled money from not-for-profit organizations. In addition to guarding against financial fraud by employees, good financial controls help prevent theft from outside parties and reduce the chance of unintended financial errors.

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This tool provides basic information on four key areas of financial management:

- **Budget development**. Budgets describe the sources and amount of your NPO's income along with how it will spend that income. The budget is an indispensable tool for guiding your NPO's activities throughout the year.
- **Financial bookkeeping**. Bookkeeping involves complete and accurate recording of all income and expenditures made by your NPO.
- **Financial reports**. Financial reports take the bookkeeping information on income and expenditures, and use it to develop reports that provide useful information on your NPO's financial status.
- **Financial controls**. Financial controls guard against theft of money and financial information. They also help prevent unintentional financial errors.

This tool:

- Outlines step-by-step approaches for financial management
- Provides a set of questions for self-assessing your NPO's financial management efforts
- Identifies references for further information
- Contains attachments to assist your NPO in its financial management activities

PART I: MAJOR COMPONENTS OF NPO FINANCIAL MANAGEMENT

COMPONENT	WHAT IT INCLUDES	SUGGESTIONS FOR DEVELOPING YOUR FINANCIAL MANAGEMENT PROGRAM	WHY THIS IS IMPORTANT
A. BUDGET DEVELOPMENT			
1. Understand why a budget is important.	Your NPO's budget presents the anticipated income and expenditures for the coming year. It is the key document for illustrating how your NPO is going to finance its operations and how it is going to spend its money.	Familiarize your board and staff with the concept of a budget. Review the examples in **Attachment 1--Simple Budget Example** and **Attachment2—Program Budget Example.** Discuss why having a budget is important for your NPO and the risks of not having a budget.	The process of preparing a budget forces you to realistically consider how much income you can generate. It helps you prioritize your expenditures and ensure that your expenses do not exceed your income.

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2. Develop your NPO's budget, following these steps:			
Step 1: Review your NPO's strategic plan or mission statement.	Have everyone who will be involved with developing or approving the budget review the NPO's strategic plan (or mission statement if there is no strategic plan). Discuss the implications of the strategic plan (or mission statement) for the budget.	**New or developing NPOs:** If your NPO does not yet have a strategic plan, have everyone who will be developing or approving the budget review your NPO's mission statement. Discuss the types of expenditures that will be needed to carry out your mission as well as your potential sources and amounts of revenue. **Established NPOs:** If your NPO has a strategic plan, review it in advance of budget preparation. What activities does the plan call for in the coming year? Are the income generation strategies and targets in the strategic plan still valid? Update the plan as needed. Clarify your NPO's priorities for the coming year.	The budget must be consistent with the priorities in your mission statement and strategic plan. If it is not, your NPO is not directing its resources to its most important goals.
Step 2: Assign responsibility for budget development and approval.	Assign lead responsibility for preparing the budget. Make sure that the person preparing the budget has the time and knowledge to do so. Determine who will officially approve the budget.	**New or developing NPOs:** In a very small NPO, the same people may need to develop and approve the budget. Make sure that sufficient time is set aside for developing the budget. If possible, have someone else (a volunteer, donor, or staff member) review the budget to make sure that it is clear and error-free and that it addresses your NPO's priorities. **Established NPOs:** In NPOs with Boards, staff prepares the budget and the Executive Director presents the budget to the Board for approval. In established NPOs without Boards, the Finance Director or other qualified staff prepares the budget and the Executive Director gives final approval.	The budget guides your NPO's activities and decision-making throughout the year. Therefore it should be prepared by people with the time and knowledge to do the job well. Having official approval of the budget makes it "official" and communicates that it must be followed.

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Step 3: Develop a list of anticipated expenses.	List the expenses that your NPO is likely to have during the coming year. Indicate what purposes the expenses will be used for.	Think through all the activities that your NPO will undertake to carry out its mission. Determine your costs for carrying out these activities. Estimate how much will you need to spend for: • Staff salaries and benefits • Equipment and supplies • Rent • Volunteer costs (such as expense reimbursement to volunteers) • Vehicles and transportation • Professional fees (attorneys, accountants, consultants, etc.) • Fundraising costs (event venues, food, etc.) If in doubt about how much something will cost, it is better to estimate too high than too low. This will help prevent situations where you have not budgeted enough money to cover an expense. **Established NPOs:** Established NPOs may wish to develop a multi-year budget covering a 2-3 year period. This is particularly important if the NPO has or is applying for multi-year grants. In this case, an expense list should be developed for the coming year, with separate lists for the years that follow. The list for the coming year would generally include more detail than the lists for subsequent years. **New and developing NPOs:** Some NPOs include a small contingency fund in their expenditures. The contingency fund can be used for unexpected expenses or to supplement other expenditure lines if costs exceed the	It is important that all potential activities be considered, so that expenditures associated with these activities can be included in the budget. If expenditures for an activity are left out of the budget, there likely will not be to support that activity when it is time to carry it out.

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		budgeted amount. However, it is recommended that you check with major donors prior to including a contingency fund, to make sure that they approve of that practice. A best practice would be to budget conservatively for all expenditures (in other words, put in your highest estimate of possible costs) and avoid depending on a contingency fund. **Established NPOs:** Established NPOs may consider establishing a reserve fund in their budget to guard against unexpected expenses or reduction in income. Unused monies in the reserve fund carry over from year to year, and a specified amount may be added to the reserve fund each year. This type of reserve fund differs from the contingency fund described above in that it is not intended to be used for minor cost overages or ongoing expenses. Rather, it is expected to provide a substantial reserve for major unexpected changes in circumstances.	

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Step 4: Predict income that your NPO is likely to receive.	Identify likely income from all sources in the coming year. Note if the income is "restricted" by the donor to be used for a particular program or expenditure category.	List the types of income you expect to receive, along with the estimated amount for each income type. Types of income include the following: • Individual donations—unrestricted. These are individual donations that can be used for any purpose. • Individual donations—restricted. These are individual donations that the donor has directed to be used for a particular purpose, such as a particular program, or for the purchase of a designated capital item such as a vehicle. • Corporate donations (list restricted and unrestricted corporate donations separately) • Grants (list restricted and unrestricted grants separately). • In-kind donations. List expected in-kind donations of goods or services, along with their estimated value. • NPO-generated income. If your NPO sells products or otherwise generates its own revenue, list the projected amount and whether it is restricted. Base your income estimates on past experience, modified as needed based on new fundraising campaigns, new grants, etc. If you are uncertain about how much revenue to predict, it is best to estimate low. This will help prevent a situation where your actual income falls short of budget. **Established NPOs:** If you are developing a multi-year budget, project income for the time period included in the budget.	Your NPO must have enough income to pay for its activities. By projecting how much income you will receive (and noting any restrictions on that income), you will be able to determine what activities your NPO can afford to carry out. In developing income projections, you are predicting how much specific donors or categories of donors will contribute. You can plan your fundraising to target those donors to help ensure that their donations meet budgeted amounts.

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Step 5: Compare projected expenditures and projected income. Make needed adjustments so that income equals expenditures.	Compare the expenditures list from Step 3 with the income list from Step 4. and determine whether there is a gap between total income and total expenditures. Make needed adjustments so that income equals expenditures.	At this point of the process, projected expenditures will frequently exceed projected income. To complete the budget process, you will need to adjust your projected income or expenditures to make sure that the budget balances. This is a very important step in the budget development process. • If projected expenditures exceed projected income, you will need to prioritize and reduce your expenditures. You may need to eliminate activities that would be "nice" but not essential. Or, if projected expenses exceed projected revenues by a very large amount, you may need to review your basic assumptions about the size of your programs (for example, how many clients you can afford to serve), the number of staff hours you need (could you reduce staff hours and still achieve your goals?) or overhead costs (are there ways you can save on rent, office supplies or other costs?) • Never balance the budget by just increasing projected income. Projected income should only be increased if you have a very clear plan for generating the extra income, along with a very high level of certainty that the revenue generation plan will actually work. • Similarly, do not reduce the projected cost of an item unless you know for sure that you can get the item for less money. Do not reduce staff costs unless you are certain that you can complete your work with less staff time. • Be conservative—if in doubt, overstate projected expenses and understate projected income. • Fundamentally question all programs and	Your final budget must represent your best, most accurate prediction of the future—both in terms of how much income you will receive and how you will spend your money. Your NPO can get into serious financial trouble during the year if your budget: • Does not include enough money to adequately carry out your key programs • Fails to include important expenditure items • Underestimates the cost of expenditure items • Predicts grants or other major donations that are not actually received • Is overly optimistic about the amount of income that fundraising campaigns will raise • Uses restricted donations for purposes other than what was intended, without permission from the donor Therefore it is very important to put considerable thought and effort into preparing the budget.

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		expenditures. How important are they for carrying out your mission? • Be creative. Are there ways that you can reduce costs while still carrying out an important program? For example, could you reduce rent by moving your office or operating out of a home office? Could you reduce travel expenses by limiting employee travel? Could you reduce expenditures for office supplies, food or venues by getting in-kind donations from donors? • Never use restricted income for a purpose other than the one for which it was donated unless you have written permission from the donor.	
Step 6: Approve the budget	When the budget is finalized, it is approved by the Board (or the Executive Director if the NPO does not have a board).	• You may wish to annotate the budget with brief notes about what is included in each budget line. This will help people who are reviewing and approving the budget to understand what is included. It will also help in budget implementation, since people who are doing fundraising or making expenditure decisions will know what is included in each budget line, reducing the potential for misinterpretation. • It is important that those approving the budget have ample opportunity to understand the budget and ask questions before voting to approve it.	The approved budget is an official document for which the Board and/or executive management will be held accountable. Potential donors will review your NPO's approved budget in deciding whether to donate to your NPO.

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Step 7: Monitor the budget and formally amend it if necessary.	Regularly compare actual and budgeted income and expenditures. If actual experience differs significantly from what is projected in the budget, it may be necessary to formally amend the budget.	Record all of your income and expenditures, matching them to the corresponding line in the budget. Periodically compare actual and projected income. • If actual income is falling short of projections, you may need to reduce your planned expenditures accordingly. • If your income significantly exceeds projections, you may be able to increase your expenditures or put additional money into reserve fund to guard against future shortfalls. • Be aware that promised donations are not always paid, so avoid increasing expenditures based on anticipated donations only. Compare your actual and budgeted expenditures. If there are significant differences, you may need to adjust your budget. For example, if a needed professional service (accounting, legal, information technology) ended up being far more expensive than projected in the budget, you may need to compensate with reduced expenditures elsewhere. The income statement is a useful report for regularly comparing budgeted and actual income and expenditures. (See "Financial Reports", below).	No matter how carefully you plan your budget, unexpected events could significantly change your NPO's income or expenditures. By tracking actual experience and comparing it with the budget, you can make needed adjustments to ensure that you end the year with a balanced budget.

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B. FINANCIAL BOOKKEEPING			
1. Understand what bookkeeping is and why it is important	Administrative, fundraising and program staff should understand what financial bookkeeping is and why it is important.	Financial bookkeeping involves detailed, timely and accurate recording of all financial transactions, including income received and expenditures. Bookkeeping is different from accounting: • Bookkeeping involves recording financial information on income and expenditures. • Accounting involves using that information to develop financial reports. Most NPOs can do bookkeeping internally, even if they use an accountant to develop financial reports. However, it may be useful to have an accountant set up your NPO's bookkeeping system to make sure that information is recorded in the proper format and level of detail. Develop a written policy on bookkeeping, describing why good bookkeeping is important and outlining required bookkeeping procedures. Share this policy with employees. **New and developing NPOs:** This policy can be issued by the executive director. **Established NPOs:** The Board can issue this policy.	Good bookkeeping helps your NPO to: • Know how much money your NPO has received, and how much money it has spent, so you stay within budget. • Know when bills are due, so they are paid on time. • Know how your fundraising efforts are progressing • Avoid running out of money • Maintain a reputation as a well-managed organization • Develop accurate financial statements and reports • Provide information requested by funders Good bookkeeping requires participation by everyone who handles donations or spends money. For example, every donation must be recorded, and receipts must be obtained for all purchases. It is important that everyone who carries out these functions understand their importance and the need to perform them consistently.

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2. Decide whether to use financial management software	Determine if your NPO will keep its financial records using Excel spreadsheets or if it will use financial management software.	**New and developing NPOs:** Small NPOs often can develop acceptable financial bookkeeping systems using Excel spreadsheets. However, as the number of financial transactions grow, managing finances with Excel may become cumbersome and time-consuming. At that time, the NPO may wish to consider financial management software. Financial management software becomes advantageous: • If your NPO has multiple programs and/or • Your NPO has multiple funding sources and/or • Your NPO has multiple sources of expenditures **Established NPOs:** Established NPOs with multiple sources of income, multiple programs and many expense items may wish to consider financial management software. These systems can automatically generate financial reports and can significantly reduce the time required to manage the NPO's finances. In evaluating financial management software, make sure that it is designed for not-for-profit organizations and that it meets reporting requirements for Vietnamese tax laws.	Regardless of the bookkeeping system that your NPO uses, it is essential that bookkeeping be done consistently and accurately. Even the most sophisticated software will not provide good results if it is not used consistently or if incorrect or incomplete information is put into it.

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3. Designate someone to do financial bookkeeping	Designate a person to record financial transactions as part of their job duties.	**New and developing NPOs:** This responsibility could be a small part of a staff member's or volunteer's job. However, the person should be trained on expectations for recording financial transactions and this should be part of their formal job description. **Established NPOs:** Large established NPOs with multiple income sources and expenditures may require a designated staff person to handle financial matters.	Having the same person record all financial transactions will help assure that transactions are recorded properly.

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4. Record all income.	Record all funds that come into the NPO according to category (individual, corporate, etc.) and purpose.	Record each income item individually. Group income items into major categories, corresponding to income lines in your budget. Examples include: • Individual donations • Membership fees • Grants • Corporate sponsorships • Program revenues (if your NPO has income-producing activities) • Publication and subscription sales • Other income—sale of goods or advertising income (for example, from selling advertisements in a newsletter) • Loans Always note if a donation, grant or other income item is restricted by the donor to be used for a specific purpose. Also record the following: • The source and amount of promised donations that have not yet been received. • The source and estimated value of in-kind donations of goods and services. Ask the volunteer or donor what their normal price would be, or price the goods or services based on prices typically charged in the community.	Having up-to-date records of your NPO's income will help you determine whether your NPO is on track with its budget. By seeing your income summarized in categories, you will be able to understand where your NPO is getting its support. This will help you plan future fundraising initiatives. Recording all income is also essential for developing accurate financial reports.

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5. Record all expenses.	Record all expenses by category and program. Obtain and keep appropriate receipts for all expenses.	Obtain a receipt for every expense. Every expense should be recorded and categorized. **Note:** Vietnamese law requires an official Value Added Tax (VAT) invoice for any purchase over 200,000 VND. Regular expenses should be recorded separately from capital expenses. (Capital expenses are expenses for items that have a useful life of more than one year.) Examples of regular expense categories include: Salaries, rent, utilities, office supplies, postage, consultant fees, travel, membership fees, and food and beverages. Examples of capital expense categories include: Computers, furniture, and vehicles. You will need original copies of receipts for audits. Certain donors may request original receipts as proof of expenditures.	Having up-to-date records of your NPO's expenses will help you determine whether your NPO is on track with its budget, and enable you to take action if expenses are exceeding expectations. By seeing your expenses summarized in categories, you will be able to understand your spending patterns and adjust them if necessary. Recording all expenses is also essential for developing accurate financial reports.
6. Back-up all financial records	Make sure that your financial records are backed up, so that they will not be lost if the original copy is destroyed.	Maintain hard copies and electronic copies of financial records. Make sure that electronic copies are backed up on a regular basis, using either cloud backup or backing up to an external hard drive that is stored offsite.	Loss of financial records due to computer malfunction, fire, flood, or other unforeseen problems can cause serious problems for a NPO, since it will be unable to track its financial status and it will not have important financial information required by donors and others. Recreating lost financial records is time-consuming and difficult.

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C. FINANCIAL REPORTS			
1. Determine whether your NPO will use cash or accrual accounting.	Understand the difference between cash and accrual accounting and determine which method your NPO will use.	Your financial reports will differ depending on whether you select cash or accrual accounting. • With cash accounting, you do not record a transaction until payment is actually received and you do not record expenses until they are actually paid. • With accrual accounting, you record transactions when they occur, even if you have not yet received or paid the money. For example, if you order a new computer, you report the purchase even though you have not yet paid for it. If a foundation approves a grant, you report it even though the grant funding has not yet been received. **New and developing NPOs:** Small NPOs will most commonly use cash accounting. Cash accounting is better than accrual accounting for giving an immediate picture of cash on hand. **Established NPOs:** Accrual accounting provides a more comprehensive view of your NPO's long-term financial situation. Donors may wish to see financial reports using accrual accounting Some financial software allows you to easily generate reports using either the cash or accrual accounting method.	It is important that financial reports be labeled as to whether they were developed using a cash or accrual approach. If you select a particular approach for your reporting, use it consistently so that you can track changes in your NPO's financial status over time.

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2. Develop an income statement	An income statement (sometimes called a profit and loss statement) compares your NPO's income to its expenses. The income statement is typically developed on a monthly basis.	The income statement lets you see, at a glance, whether your expenses equal, exceed, or are less than your income. The income statement also lets you compare actual income and expenses to date with budgeted amounts. **New or developing NPOs:** An income statement can be developed as an Excel spreadsheet, entering income and expenses for each category. **Established NPOs:** Financial management software will automatically generate an income statement. **See Attachment 3—Income Statement Example**	It is important to know if your NPO is breaking even, generating a surplus, or incurring a deficit. This will help you adjust your activities (for example, by reducing expenditures if you are incurring a deficit) so that you stay within budget.

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<tr><th>COMPONENT</th><th>WHAT IT INCLUDES</th><th>SUGGESTIONS FOR DEVELOPING YOUR FINANCIAL MANAGEMENT PROGRAM</th><th>WHY THIS IS IMPORTANT</th></tr>
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<td>3. Develop a cash flow projection worksheet</td>
<td>A cash flow projection worksheet lets you know whether your NPO has enough cash to pay for its cost of operations. It can help you predict a future cash shortage in advance, so you can take action to prevent it.</td>
<td>The formula for cash flow analysis is:
<table>
<tr><td></td><td>Cash in the bank at the beginning of the month</td></tr>
<tr><td>PLUS</td><td>Actual cash received during the month</td></tr>
<tr><td>MINUS</td><td>Actual expenditures during the month</td></tr>
<tr><td>EQUALS</td><td>Cash in the bank at the end of the month</td></tr>
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The cash flow worksheet is similar to the income statement, except that it shows your actual or projected bank balance at the beginning and end of each month.

New and developing NPOs. Review your NPO’s bank account statement on a monthly basis and use cash flow analysis to anticipate shortfalls.

Established NPOs. You can use cash flow analysis to review past cash flow trends. By understanding patterns of past cash flow problems, you can make operational changes to avoid problems from recurring. (For example, if you habitually run low on money in July, you might want to reschedule your fundraiser from August to June so that needed funds come in earlier. You might also be able to shift money between accounts at a particular time of year to avoid shortfalls in a particular account.) See Attachment 4—Cash Flow Analysis example</td>
<td>Your NPO must have enough cash on hand at all times to cover current expenses such as salaries, rent, and other items. Cash flow projections help you predict in advance whether you will have enough cash to cover expenses. If cash flow projections show that you will not have enough cash to cover expenses, you can take steps to solve the problem.</td>
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4. Develop other financial reports as required by donors	Donors may require additional financial reports. For example, a commonly required report is a balance sheet, which shows the assets, liabilities and net worth of your NPO.	**New and developing NPOs:** Make sure that you and your major donors have a common understanding of what financial reports will be required. The earlier in the relationship this can be done, the better. It is a best practice to have this conversation before funding is received. • Check to see if major donors will accept your annual report or if they will require more frequent or detailed reporting. Share your other financial reports with them and see if they meet their requirements. • If the donor has reporting requirements that go beyond your current reporting, see if the donor will work with you to complete reports directly, or if they will pay accountant costs to help you develop needed reports. **Established NPOs:** If donors require a balance sheet or other financial reports, it is recommended that you seek assistance from an accountant. These reports would typically be audited by a CPA before they are submitted to donors. The accountant can help you interpret these reports so that you can use the information they provide to improve your NPO's financial performance.	Providing donors with requested financial information is a prerequisite for receiving funding. Properly interpreted, these financial reports can provide important insight on your NPO's financial health.

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D. AUDITS			
1. Determine the need for an audit	There are several reasons why an audit may be needed or desirable: • Donors and potential donors sometimes require financial audits. • Some NPOs seek audits to ensure that their financial records are correct and to identify and address weaknesses in their financial management. • Some NPOs seek audits in anticipation of future growth, to make sure that they have a sound financial platform for expansion.	During an audit, a Certified Public Accountant conducts an independent investigation to confirm that your NPO's financial records are accurate. The CPA thoroughly reviews all financial records and conducts investigations as needed to verify their accuracy (for example, checking for receipts for every purchase, and verifying that restricted contributions have been used as stipulated by the donor). The auditor provides a management letter noting problems identified in financial management practices and providing suggestions for resolving them.	An audit gives prospective donors confidence that your NPO's financial records are accurate, increasing their willingness to donate. An audit also provides your NPO board and management with confidence that the NPO's financial reporting is being done properly. For new and developing NPOs, investing in an audit can open the door to donations from foundations and corporations that require audits and offer larger grants. Management letters provided by auditors can provide suggestions that help you improve your financial management.

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2. Prepare for the audit	Make sure that all of your financial records and receipts are complete and up-to-date so that the audit can proceed efficiently. Get bids from CPA firms and individual CPAs for conducting the audit, and make sure that you have needed funding available.	The CPA should provide you with a list of information that they will require to do the audit. In addition to financial records and receipts, auditors will probably want to review items such as your written financial policies and handbooks, leases, IT system back-ups, and board of directors information and board meeting minutes, if applicable. If your NPO cannot afford the services of an accounting firm, you may be able to retain an individual CPA who can do the audit pro bono or at a reduced cost. Or a major donor may be willing to provide funding for audit expenses.	To successfully conduct an audit, the CPA must have access to all of necessary information. The audit will be quicker and less expensive if all needed information is readily available for the auditor. Getting bids from potential auditors helps you find a CPA that your NPO can afford.
3. Select a CPA to conduct the audit.	Contract with a qualified CPA to conduct the audit.	Whenever possible, select a CPA who is experienced with not-for-profit accounting, since not-for-profit accounting is quite different from accounting for for-profit businesses. If the CPA is not familiar with not-for-profits, be prepared to spend time with them explaining the difference and review all reports carefully.	The quality and usefulness of the audit depends on having an auditor who understands and is experienced with not-for-profit accounting.

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E. FINANCIAL CONTROLS			
1. Understand the importance of financial controls	Financial controls protect your NPO from either intentional or unintentional misuse or misappropriation of funds. They are written policies outlining procedures that must be followed in financial transactions. Make sure that your board and staff understand the importance of financial controls.	**New and developing NPOs:** Document your NPO's financial controls in writing, and make sure that everyone who receives money, spends money, records financial transactions, or prepares financial reports is aware of them. **Established NPOs:** The Board adopts financial control policies for the NPO.	Having appropriate financial controls in place reduces the chance that your NPO's funds will be misused, embezzled, or stolen. Financial controls also reduce the risk of unintentional mistakes. They help assure that financial operations are carried out correctly and consistently.

COMPONENT	WHAT IT INCLUDES	SUGGESTIONS FOR DEVELOPING YOUR FINANCIAL MANAGEMENT PROGRAM	WHY THIS IS IMPORTANT
2. Have separation of duties for financial transactions.	Have more than one person involved in most financial transactions.	Separation of duties for financial transactions will vary depending on the size of your NPO and the nature of its financial transactions. Some examples of separation of duties include the following: • Requiring board approval (or approval by the director) of expenditures over a certain amount. • Having one person authorize all expenditures, and another person actually write the checks or initiate the electronic bank transfer. • Assigning someone who does not make bank deposits and withdrawals to review and reconcile the monthly bank statement. • Having at least two names on the NPO's bank account. • If the executive director or finance director prepares financial statements, having a financial committee review them before they are approved by the Board. • Requiring persons requesting use of petty cash to document their requests in writing. Appointing a "petty cash custodian" to authorize the requests. Having someone other than the petty cash custodian reconcile the petty cash account. • Banks require two signatures for withdrawals of XXX VND or more. **See Attachment 5: Sample Cash Account Agreement** **See Attachment 6: Instructions for Cash Management**	Having more than one person involved in financial transactions reduces the chance that mistakes will be made. It also reduces the chance that an individual can embezzle money.

COMPONENT	WHAT IT INCLUDES	SUGGESTIONS FOR DEVELOPING YOUR FINANCIAL MANAGEMENT PROGRAM	WHY THIS IS IMPORTANT
3. Assure custody of assets	Make sure that all of your NPO's cash—and the means for transferring cash—are secure, with access limited to authorized individuals only.	Measures to assure the custody of assets include: • Keep your NPO's money in a bank account. • Set a limit for the amount "petty cash" in the office, and make sure that the limit is not exceeded. Make sure the petty cash is locked up, and restrict access to the key or lock combination. • Keep the following items securely locked with only authorized people granted access: ○ Checks ○ Bank account numbers ○ Passwords • Restrict access to computers containing financial software and have secure passwords that keep unauthorized people from accessing financial software programs. • Backup financial data regularly and store it off site (using cloud storage or an external hard drive that is stored at a different location other than the office). • Set financial software programs to close automatically if staff are away from their desks for more than a certain amount of time.	If your NPO's financial assets are properly secured, it will be difficult or impossible for unauthorized persons to access them. This will reduce the risk of theft or embezzlement.

COMPONENT	WHAT IT INCLUDES	SUGGESTIONS FOR DEVELOPING YOUR FINANCIAL MANAGEMENT PROGRAM	WHY THIS IS IMPORTANT
4. Establish transparency in your financial transactions.	Clarify who does what, so that everyone on your staff and board understands your NPO’s financial system.	Clarify key roles in financial matters. For example: • Who receives donations and logs them into the donor database? • Who enters donations into financial records? • Who prepares donations for deposit into the bank? • Who actually makes the bank deposit? • Who reconciles the bank statement? Another example: • Who authorizes withdrawal of petty cash from the bank? • Who prepares the check? • Who signs the check? • Who goes to the bank to withdraw the cash? • Who is responsible for storing the cash in a locked cash drawer? • Who has access to the petty cash drawer? • Who authorizes distribution of petty cash to staff members? • Who distributes petty cash to staff members when it has been approved? • Who monitors the petty cash balance? • Who reconciles the petty cash account?	Embezzlement or misuse of funds is less likely to happen if procedures are clearly spelled out, with clear accountability at each step.

PART II: LIST OF ATTACHMENTS

TOPIC	ATTACHMENT
Budgeting	Attachment 1—Simple budget example
Budgeting	Attachment 2—Program budget example
Financial reports	Attachment 3—Income Statement example
Financial reports	Attachment 4—Cash flow analysis example
Financial controls	Attachment 5—Sample cash account agreement
Financial controls	Attachment 6—Instructions for cash management

PART III: HELPFUL REFERENCES FOR FINANCIAL MANAGEMENT FOR NPOs

AUTHOR AND TITLE	WHERE IT CAN BE FOUND	WHAT THIS REFERENCE COVERS
Thomas Wolf, *Managing a Nonprofit Organization* Copyright 2012, Simon & Schuster		Good general guide to not-for-profit management, including financial management topics
Peri H. Pakroo, J.D. *Starting & Building a Nonprofit. A Practical Guide* Copyright 2007 by Nolo		Includes chapters on financial management for not-for-profit organizations. Includes CD with sample forms.
Wallace Foundation Resources for Financial Management	http://www.wallacefoundation.org/knowledge-center/Resources-for-Financial-Management/Pages/default.aspx	Provides good information and tools for not-for-profit financial management
Free Management Library—All about financial management in non-profits	http://managementhelp.org/nonprofitfinances/index.htm?PHPSESSID=900e2200ce5dd66bf5c5a7252da24633#anchor50325	Comprehensive information on financial management for not-for-profit organizations. This site can be translated into Vietnamese.

PART IV: NPO SELF-ASSESSMENT: FINANCIAL MANAGEMENT

FINANCIAL MANAGEMENT COMPONENT	ACHIEVED	PARTIALLY ACHIEVED	NOT PRESENT	COMMENTS
Budget development				
Our NPO has a budget.				
There is a process for formally approving the budget.				
If our NPO receives restricted income, this is shown in the budget.				
Our NPO regularly monitors our income and expenditures in comparison to the budget.				
Financial bookkeeping				
New and developing NPOs: We have an Excel-based system for recording income and expenditures.				
Established NPOs: We have evaluated financial management software and we use it if appropriate.				
Someone is designated to record all financial transactions.				
All income received by the NPO is recorded.				
All expenditures are recorded and receipts are kept for all expenditures.				
Financial reports				
We develop a monthly income statement.				
We develop cash flow projections.				
We check with major donors to make sure we comply with their financial reporting requirements.				

Irish Aid
Government of Ireland
Rialtas na hÉireann
LIN
Center for Community Development
Gail Nordheim Consulting LLC

FINANCIAL MANAGEMENT COMPONENT	ACHIEVED	PARTIALLY ACHIEVED	NOT PRESENT	COMMENTS
Audits				
Established NPOs: Our NPO is audited on an annual basis.				
Financial controls				
All NPOs: Our financial controls are described in writing.				
Established NPOs: Our Board has adopted policies outlining financial controls for the NPO.				
Our NPO has more than one person involved in most financial transactions.				
Our financial assets are secured under lock and key, with only authorized persons able to access them.				
Access to electronic financial data is password protected, with only authorized persons able to access it.				
Electronic financial data is backed up and stored in a secure location.				
Responsibilities for financial transactions are clearly described in writing, so it is clear who is responsible for each type of financial transaction.				

PART V: SUMMARY OF ASSESSMENT RESULTS AND NEXT STEPS

Choose at least 2 financial management components from the Self-Assessment Table in Part 3 and complete the following table.

PRIORITIZED FINANCIAL MANAGEMENT COMPONENT	WHAT WILL BE DONE?	WHO WILL BE RESPONSIBLE?	PROJECTED START AND COMPLETION DATES