

# FINANCE UNLOCKED *for* NONPROFITS

1 Balance Sheet

2 Income Statement

3 Nine-Ninety

4 Giving

5 Oversight

# FINANCE UNLOCKED *for* NONPROFITS

*Unlocking Financial Literacy  
for Nonprofit Board Members  
to Deliver Mission & Protect Assets*



**Nonprofit Association  
of Washington**

**JACOBSON JARVIS**  
CERTIFIED PUBLIC ACCOUNTANTS & CO PLLC

In partnership with



**WASHINGTON**  
Secretary of State

Corporations & Charities Division



*Finance Unlocked for Nonprofits* is part of a resource series on nonprofit fundamentals that includes *Boards in Gear* and *Let's Go Legal*. Connect to these resources and more at [nonprofitwa.org/learn](http://nonprofitwa.org/learn).



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**Important Note:** This information is provided for educational purposes only and does not constitute legal or technical advice. If you are unsure about anything covered in this guide, we suggest that you contact the appropriate agency or seek professional advice.

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1 Balance Sheet

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# Introduction to Finance Unlocked for Nonprofits

## 1. ABOUT THIS GUIDE

*Finance Unlocked for Nonprofits*, which intentionally abbreviates to FUN, was created to bring fun to finance. Each board member has their own personal experiences with finance that may range from excitement to mixed feelings to uneasiness. The feelings and perceptions you may carry shape how you approach your relationship to nonprofit finance. Approaching nonprofit finance in a welcoming way, *Finance Unlocked for Nonprofits* (FUN) aims to help unlock your financial literacy.

From key words and forms to understanding how everything fits together, the FUN guide and resources will increase your basic nonprofit finance knowledge. Putting knowledge into action to improve your nonprofit's financial practices is important, and you will find activities, worksheets, and reflection questions throughout the guide to help you. The guide breaks down the basics into five chapters: Balance Sheet, Income Statement, Nine-Ninety (IRS Form 990), Giving, and Oversight. With fun in mind, the chapters spell out BINGO. Practice what you learn by playing the *Finance Unlocked for Nonprofits* BINGO game with your board, finance committee, or staff team.

Over time, consider revisiting the activities and questions laid out in the guide to see how your responses may change and evolve. This is a starting point and an invitation to be curious, ask questions, and share your learning with others at your organization.

### Thank you!

Jacobson Jarvis & Co, PLLC



Washington State Office  
of the Secretary of State,  
Corporations & Charities  
Division



All the nonprofits who participate in *Finance Unlocked for Nonprofits* trainings and use the materials, your feedback helps guide efforts to create exceptional resources about nonprofit fundamentals.

## 2. WHY NONPROFIT FINANCE?

Nonprofit leaders are usually focused on serving their communities, not on compliance, regulations, and policies related to operating a small business. Limitation on time, funding, and technical knowledge can make it challenging to navigate and follow financial rules and regulations. A nonprofit's financial practices are critical to the organization's ability to achieve their mission and protect their assets. Here are five questions that highlight why nonprofit finance matters to an organization's success.

- **Impact:** Is the organization able to do what it set out to do?
- **Efficiency:** How well does the organization use its money?
- **Liquidity:** Does the organization have money in the bank (for short-term obligations)?
- **Profitability:** Is the organization generating more money than it spends?
- **Solvency:** Is the organization worth anything (i.e., assets exceed liabilities)?

Also, there are many layers of individuals and agencies involved in unlocking your nonprofit's financials for mission delivery and asset protection. From the board to staff to the IRS each group has a role in building a nonprofit with exceptional financial compliance and effective practices that support the organization throughout its lifecycle.

## 3. HELP FOR NONPROFITS



### *Government*

### INTERNAL REVENUE SERVICE

The IRS is a bureau of the Department of the Treasury with a mission to provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all. Tax information, tools, and resources for charities and other tax-exempt organizations are available on the IRS website.

- General: <https://www.irs.gov/>
- Charities & Nonprofits: <https://www.irs.gov/charities-and-nonprofits>
- Phone – Nonprofit Taxes: 877-829-5500
- TTY/TDD: 800-829-4059

## WASHINGTON STATE OFFICE OF THE SECRETARY OF STATE, CORPORATIONS & CHARITIES DIVISION

The Washington State Office of the Secretary of State, Corporations & Charities Division has information available on nonprofit corporations and charities in Washington, training resources, frequently asked questions, and a live chat option to support your organization.



**WASHINGTON**  
Secretary of State  
Corporations & Charities Division

- Corporations:
  - <https://www.sos.wa.gov/corps/>
  - Email: [corps@sos.wa.gov](mailto:corps@sos.wa.gov)
  - Phone: 360-725-0377
- Charities:
  - <https://www.sos.wa.gov/charities/>
  - Email: [charities@sos.wa.gov](mailto:charities@sos.wa.gov)
  - Phone: 360-725-0378, opt 1; 800-332-4483 (WA only)



### **Nonprofits**

## NONPROFIT ASSOCIATION OF WASHINGTON

Nonprofit Association of Washington (NAWA) convenes a powerful network of nonprofit organizations across Washington State to learn, advocate, and collaborate, so that nonprofits can achieve their missions. NAWA has learning opportunities and resources to help strengthen your nonprofit management practices and build connections with others around the state.

- <https://nonprofitwa.org/>
- Phone: 855-299-2922



**Nonprofit Association  
of Washington**

## 501 COMMONS

501 Commons provides expertise to nonprofits through 30+ services, including a full range of management consulting, technology consulting, outsourced HR, accounting, IT infrastructure, and database management as well as professional development and board training, free information, and referral services.



- <https://www.501commons.org/>
- Phone: 206-682-6704

## COMMUNITIES RISE

Communities Rise offers legal services, trainings, peer learning, and coaching. Communities Rise works with organizations, small businesses, and communities located in Washington State that have been impacted by systemic oppression to increase capacity and build power as well as community leaders in the broader nonprofit, public, and philanthropic sectors to create systemic change.



- <https://communities-rise.org/>
- Phone: 206-324-5850



# Balance Sheet

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## CHAPTER OUTLINE

1. What is a balance sheet?
  - A. How is a balance sheet structured?
  - B. Sample balance sheet
2. What do I need to know about the balance sheet?

Chapter 1 Summary: Balance Sheet

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## INTRODUCTION

At any given time, a nonprofit needs to know where they stand financially. A **balance sheet** is a report that shows an organization's financial standing at a point in time. Having a solid understanding of your nonprofit's finances at any given time supports decision-making and planning.

### 1. WHAT IS A BALANCE SHEET?

A **balance sheet** is a statement or report showing an organization's financial position – assets, liabilities, and net assets – at the close of business on a particular date. This report is also known as a statement of financial position. The balance sheet is a snapshot taken at a moment in time, and simply put, is a report that **shows what you own and what you owe on a specific date**. Since the balance sheet provides financial information at a point in time, this report could change daily.

#### *A. How is a balance sheet structured?*

The balance sheet is always arranged in the same order with **assets** at the top, followed by **liabilities**, and then **net assets**. This consistent format makes comparing financial reports easier.

**ASSETS:** What your organization owns or has the right to use.

- Assets are typically listed in order of liquidity, or how quickly you can turn the asset into cash.
- *Cash and cash equivalents* are available within three months.
- *Current assets* are those assets that can be converted into cash within 12 months.

**LIABILITIES:** What your organization owes to others.

- *Current liabilities* are those that are due within 12 months. This may include liabilities like accounts payable, accrued liabilities, and/or a current portion of long-term debt.

**NET ASSETS:** This is the difference between your total assets and total liabilities, effectively your organization's net worth. Net assets also represent the total resources your organization has saved from prior years.

- Net assets are classified based on the presence of donor restrictions on their use. You may have both “without donor restrictions” and “with donor restrictions.”

As you review the balance sheet, **focus on the relationship between current assets and current liabilities**. Looking at this relationship helps you determine whether your organization has enough resources available to pay its obligations over the next 12 months. If you notice the current liabilities getting close to or exceeding the current assets, this is an indicator that immediate action is needed.

With an understanding of your nonprofit's current assets and current liabilities, you can calculate the **current ratio**, which is a measure of liquidity. Acceptable current ratios vary but generally should be 1.5 or greater for financially stable organizations. If the current ratio is below one, the organization may have problems meeting short-term obligations.

### PUTTING THE “BALANCE” IN BALANCE SHEET

This is a simple formula to help you think about the relationship between assets, liabilities, and net assets. This formula follows the typical balance sheet format.

$$\text{ASSETS} - \text{LIABILITIES} = \text{NET ASSETS}$$

You may prefer to think about the relationship as:

$$\text{TOTAL ASSETS} = \text{LIABILITIES} + \text{NET ASSETS}$$

(Assets that are owed to others)      (Assets that are yours)

Both formulas provide an easy way to remember this relationship!

**B. Sample balance sheet**

In this section, there is a sample balance sheet and short activity to apply the ideas learned thus far.

<b>A REALLY GREAT NONPROFIT ORGANIZATION (SAMPLE) STATEMENT OF FINANCIAL POSITION SEPTEMBER 30, 2024 AND 2023</b>		
<u>ASSETS</u>		
	<u>2024</u>	<u>2023</u>
Current assets		
Cash and cash equivalents	\$25,843	\$29,843
Investments	17,855	17,440
Accounts receivable	4,833	5,750
Grants receivable	3,467	2,588
Promises to give	18,751	12,144
Prepays and deposits	1,284	1,743
Total Current Assets	<b>72,033</b>	<b>69,508</b>
Land	84,839	84,839
Building and Equipment, net	190,745	189,176
Promises to Give, long-term	6,600	12,550
Endowment Investments	23,203	21,959
	<b>\$377,420</b>	<b>\$378,032</b>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts Payable	\$7,320	\$5,530
Accrued Liabilities	3,220	2,421
Line of credit	15,000	0
Current portion of long-term debt	2,662	2,758
Total Current Liabilities	<b>28,202</b>	<b>10,709</b>
Long-term Debt, less current portion above	47,731	50,489
Total Liabilities	<b>75,933</b>	<b>61,198</b>
Net Assets		
Without donor restrictions	258,115	265,710
With donor restrictions	43,372	51,124
Total Net Assets	<b>301,487</b>	<b>316,834</b>
	<b>\$377,420</b>	<b>\$378,032</b>
Current Ratio	3	6

**ACTIVITY**

Review the sample balance sheet and respond to the following questions.

\*Answers are on page 46.

Question	Response
1. On what date was this balance sheet “snapshot” taken? On that day, what did the nonprofit own (total assets)?	
2. What did the nonprofit owe (total liabilities)?	
3. Are current liabilities close to or greater than current assets?	
4. Is the nonprofit’s current ratio greater than one?  <b>Remember: Current Ratio = Current Assets/Current Liabilities</b>	
5. How much cash and cash equivalents does the nonprofit have?	

## 2. WHAT DO I NEED TO KNOW ABOUT THE BALANCE SHEET?

As a nonprofit board member, you should understand the following balance sheet concepts.

- **The balance sheet is a snapshot** taken at a moment in time. This report shows what your nonprofit owns and owes on a specific date.
- **Liquidity is how quickly you can access your cash or other short-term assets.** An organization’s liquidity represents their ability to meet obligations as they come due.
- **Assets are what your nonprofit owns or has the right to use.** There are different categories of assets including *cash and cash equivalents* as well as *current assets*.
- **Liabilities are what your nonprofit owes to others.**
- **Reserves, or emergency funds, should be set aside by the organization** for use in case of unexpected expenses, planned future events, or emergent programmatic opportunities.

There are balance sheet-related actions that you can take to develop and instill a strong nonprofit finance culture within your organization.

- **Review the balance sheet each month for anything unusual or any unexpected balances.** The balance sheet is a key financial statement that all board members should receive and review. If you have questions after reviewing the balance sheet, do not be afraid to ask for more information.
- **Implement a reserve policy if you do not already have one in place.** Developing and implementing a policy will generate conversations about the ideal amount of and procedures for using reserve funds that align with your nonprofit's specific situation. The board should consistently monitor whether or not you are meeting established reserve targets.
- **If the balance sheet shows continued decline, consider what that might mean for the organization's stability.** The board will need to have candid conversations to identify back-up plans (e.g., reserves, line of credit, debt, etc.) and when to implement the plans to ensure the organization has access to cash/resources.
- If your nonprofit is in a very stable financial place, **is it time to try new things? Is financial stability the goal at this point in the organization's development?** Consider the need to implement an *investment policy* to accept more risk and invest excess funds.



**ACTIVITY**

**Your turn:** Review your organization’s most recent balance sheet. Here are some questions to ask yourself. Use the space provided to write down your answers and any action steps. Consider asking these questions across several board meetings to see how your answers change over time.

**Ask yourself...**

**Assets:**

- What does your organization own?
- What are your organization’s current assets?

**Liabilities:**

- What does your organization owe?
- Are current liabilities less than current assets?

**Liquidity & Current Ratio:**

- Is your organization’s current ratio greater than one? If not, what is the organization doing to address potential liquidity issues?
- Does the organization have sufficient access to cash to cover emergencies or programmatic opportunities?
- How much money could the organization access in the next three months and 12 months?

**Reserves:**

- How much cash does the organization have in reserves?
- Does the organization have a reserve policy? If yes, is the organization meeting financial reserve targets? If not, are you talking about developing a reserve policy?

**Restrictions:**

- Does the organization have any restrictions on cash?
- Are the board and staff aware of contributions received with donor-imposed time or purpose restrictions? Have the restrictions been met?

**Notes & Next Steps**




1. The balance sheet is a snapshot of an organization’s financial position at a specific point in time. This report shows what a nonprofit owns and owes on a particular date.
2. Look at the relationship between current assets and current liabilities to help determine whether the organization has enough resources available to pay its obligations over the next 12 months. If the current liabilities get close to or exceed the current assets, this is an indicator action is needed.
3. All board members should receive and review the organization’s balance sheet monthly. Review the balance sheet for anything unusual or any unexpected balances.
4. Develop and implement a reserve policy and monitor whether or not the organization is meeting established targets. Reserve funds are for use in case of unexpected expenses, planned future events, or emergent programmatic opportunities.



**Here are some questions to think about:**

- After reviewing your organization’s most recent balance sheet, what can you say about your organization’s financial picture? What questions do you want to ask at the next board meeting?
- For your nonprofit, what types of unexpected expenses, planned future events, or programmatic opportunities could reserve funds support?

**Reflections**




**Next steps:**

- Take one of the activities or reflection questions in this chapter and discuss with others the concepts of the balance sheet.
- Check out these resources from Propel Nonprofits to learn more about the balance sheet and reserve policies.
  - [Balance Sheet Cheat Sheet](#)
  - [Operating Reserves with Nonprofit Policy Examples](#)



# Income Statement

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## CHAPTER OUTLINE

1. What is an income statement?
  - A. How is an income statement structured?
  - B. Sample income statement
2. What do I need to know about the income statement?

Chapter 2 Summary: Income Statement

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## INTRODUCTION

Nonprofits plan for the future and then regularly check reality against this plan. An income statement is a financial report showing operating results over a specific time period. This financial report provides an opportunity to examine the actual income and expenses in comparison to the planned budget.

### 1. WHAT IS AN INCOME STATEMENT?

An income statement is a financial report that summarizes the income and expenses of an organization during a period of time. This report is also known as a statement of activities or profit and loss statement. The income statement shows financial information over a period of time, which is a set, recurring increment that could be over a month, quarter, or year. The time period is often reflected as “YTD” or year to date.

### A. How is an income statement structured?

Unlike the balance sheet that is always arranged in the same order, the income statement may look different if being prepared for sharing outside the organization with external audiences. For example, you may choose to highlight what is restricted. Although the format may be adjusted, generally the following items are present in some way on the income statement.

**BUDGET:** This is an organization's financial plan, usually for the coming year.

- The budget includes an estimate of income and expenses, considering both fiscal accountability and mission priorities.
- The budget should be reviewed and approved by the board.

**ACTUALS:** True financial results – numbers that show what actually happened.

Actual income and expenses may differ from those budgeted or projected.

**INCOME:** Nonprofits have two main types of income – support and revenue.

- Support comes from resources for which no services or goods were exchanged, such as grants, contributions, and in-kind donations. (See Chapter 4. Giving for more information.)
- Revenue includes resources that resulted from an exchange transaction, such as program and service fees, ticket sales/event income, and investment income.
- In-kind donations represent the gift of nonfinancial goods or professional services. Nonprofits should track in-kind donations on their accounting books. In-kind donations have value and nonprofits need to plan for scenarios in which those items are not donated and need to be purchased.

**EXPENSES:** Nonprofits have many of the same expense categories as other organizations (e.g., wages, operating expenses, and communications). Unlike other types of organizations, nonprofits are also required to track expenses by **functional classification** in addition to their natural classifications.

- Functional classification groups expenses according to their purposes like program services, administration, or fundraising. This classification is required on the IRS Form 990. (See Chapter 3. Nine-Ninety for more information.)

**BUDGET VARIANCE:** This is a measure to quantify the difference between budgeted and actual figures for a particular accounting category.

**YTD Actual — YTD Budget = Budget Variance**

- In general, a financially favorable budget variance is when the actual income is higher than the budget and actual expenses are lower than the budget.

**B. Sample income statement**

In this section, there is a sample income statement and short activity to apply the ideas learned thus far.

<b>A REALLY GREAT NONPROFIT ORGANIZATION (SAMPLE) STATEMENT OF ACTIVITIES SEPTEMBER 30, 2024</b>				
	YTD Actual	YTD Budget	Budget Variance \$	Annual 2024 Budget
Support				
Contributions	\$75,626	\$66,370	\$9,256	\$88,494
Foundation grants-FUN Foundation	15,000	50,000	(35,000)	50,000
Foundation grants - other	25,850	33,750	(7,900)	45,000
Government grants	31,956	24,643	7,313	32,857
Special events	5,055	4,583	472	27,500
<b>Total Support</b>	153,487	179,346	(25,859)	243,851
Revenue				
Admissions	29,759	28,320	1,439	37,759
Membership fees	9,480	9,375	105	12,500
Return on investments	1,659	1,275	384	1,700
Other revenue	674	413	261	550
<b>Total Revenue</b>	41,572	39,383	2,189	52,509
<b>Total Support and Revenue</b>	195,059	218,729	(23,670)	296,360
Expenses				
Salaries, benefits, & taxes	144,764	143,073	1,691	190,764
Occupancy (rent, utilities)	24,686	24,911	(225)	33,214
Grants to others	11,081	18,061	(6,980)	24,081
Professional fees	10,659	11,250	(591)	15,000
Supplies	5,749	6,205	(456)	8,273
Printing	6,832	7,373	(541)	9,830
Insurance	1,386	1,264	122	1,684
Communications	2,237	1,811	426	5,433
Interest	1,865	1,867	(2)	2,490
Miscellaneous	684	713	(29)	950
Depreciation	2,138	2,138	0	2,850
<b>Total Expenses</b>	212,081	218,666	(6,585)	294,569
<b>Excess (Deficit)</b>	(17,022)	\$63	\$(17,085)	\$1,791
<b>Beginning Net Assets</b>	316,834			
<b>Ending Net Assets</b>	\$299,812			

**ACTIVITY**

Review the sample income statement and respond to the following questions.

*\*Answers are on page 46.*

Question	Response
1. Assuming the fiscal year starts on January 1, what is the period of time being compared in the income statement?	
2. For the period of time identified, how is the organization doing relative to the budget?	
3. Are there any large budget variances? If yes, are the variances in the income, expenses, or both?	
4. Could this income statement be shared with funders? Would this statement provide the right level of information for a funder's needs?	
5. How diversified are the nonprofit's funding streams? Is the budget overly dependent on a single revenue stream?	

## 2. WHAT DO I NEED TO KNOW ABOUT THE INCOME STATEMENT?

As a nonprofit board member, you should understand the following income statement concepts.

- **The income statement is a report showing financial results over a period of time.** The period of time can be a month, quarter, or year, and is often reflected as YTD or year to date.
- **An income statement should include details on the budget, actuals, income, expenses, and budget variances.**
- **Internal reporting** to board members, key staff, etc. should be completed on a consistent, timely basis, and reports should facilitate informed decision-making.
- **External reporting** to funders, donors, banks, etc. should meet any specific requirements outlined by the requesting party and should be reviewed with an understanding that your financial reports tell a story about your organization.

- **Think intentionally about your nonprofit's revenue diversification.** Multiple sources of funding help ensure financial stability and protect against substantial program interruption that may come from a sudden change or loss of a significant funding source.

There are income statement-related actions that you can take to develop and instill a strong nonprofit finance culture within your organization.

- **Review the income statement monthly for significant variances, anything unusual, or any unexpected trends.** Understanding budget variances is important, and the real board work is determining any action the organization may need to take. If you have questions after reviewing the income statement, do not be afraid to ask for more information.
- **Compare the story you are receiving about the organization** from things like executive director reports, committee reports, or newsletters **to the income statement.** Ask questions when items seem inconsistent.
- With an understanding of your nonprofit's income, **develop strategies for diversifying sources of funding.** Research what other organizations are doing to diversify income.



**ACTIVITY**

**Your turn:** Review your organization’s most recent income statement. Here are some questions to ask yourself. Use the space provided to write down your answers and any action steps. Consider asking these questions across several board meetings to see how your answers change over time.

**Ask yourself...**

**Period of Time:**

- What period of time is captured?
- Is the period of time frequent enough for the board and organization’s needs?

**Budget vs. Actual:**

- How is your organization financially doing relative to your budget?

**Budget Variances:**

- Does the income statement show any large budget variances? If yes, why?
- Is the board and organization taking action related to the budget variances?

**Reporting:**

- Is the income statement formatted and at the right level of detail to give you and the board the information needed for informed decision-making?
- What format changes or additional information could make the income statement more meaningful?

**Revenue Diversification:**

- How diversified are the organization’s funding sources?
- Is the organization overly dependent on a single revenue source?

**Notes & Next Steps**




1. The income statement is a report that shows the organization’s financial results – actual income and expenses compared to the budget – over a period of time.
2. Nonprofits have two main types of income – support and revenue. Also, nonprofits are required on the IRS Form 990 to track expenses by both functional classification, which groups expenses according to purpose, and natural category.
3. All board members should receive and review the organization’s income statement monthly. Review the income statement for significant budget variances, anything unusual, or any unexpected trends.
4. Multiple sources of funding help ensure financial stability, ultimately protecting the organization from operating issues that may arise from a sudden change or loss of a significant funding source.



**Here are some questions to think about:**

- In reviewing the income statement, are there any trends or changing relationships the board should consider?
- How diversified are your nonprofit’s funding sources? Is your nonprofit’s budget overly dependent on a single revenue source? Are the funding sources consistent and reliable?
- If your nonprofit’s revenue is diverse and consistent, what opportunities exist for new program investments or investing in reserves?

**Reflections**




**Next steps:**

- Use your income statement to tell a story. At your next board meeting, instead of asking “Do you have any questions?” think about a prompt like “What is one observation that you had after reviewing the financial report?” Then invite each board member to share their one observation to build a financial story together.
- Learn more about budgeting for nonprofits with resources from the [National Council of Nonprofits](#) and [Propel Nonprofits Budgeting: A 10-Step Checklist](#).



# Nine-Ninety (IRS Form 990)

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## CHAPTER OUTLINE

1. What is the IRS Form 990?
    - A. Quick Review of Key Parts
  2. What do I need to know about the IRS Form 990?
  3. Reporting in Washington State
- Chapter 3 Summary: Nine-Ninety (IRS Form 990)
- 

## INTRODUCTION

A nonprofit's most public document is their IRS Form 990. The Form 990 is readily available on the internet to any member of the public for review including potential funders. A properly filed form can show how your organization is operated, how it is compliant with applicable tax laws, how it is governed and managed, as well as highlight program accomplishments.

### 1. WHAT IS THE IRS FORM 990?

The Form 990, which is filed annually, is used to ensure exempt organizations abide by tax laws. Unlike other tax returns, the main purpose of the form is not to calculate taxes owed but rather to provide the IRS and public details about a nonprofit's programs, activities, governance, and policies as well as revenues, expenses, and assets. In the context of the Form 990, governance relates to maintaining a nonprofit's exempt purpose, board independence, and certain written policies and procedures. The Form 990 includes a list of policies and governance best practices.

The Form 990 is automatically uploaded to [Candid's GuideStar](https://www.candid.com/guidestar), where the public, including potential donors and funders, may review an organization's Form 990 while making funding decisions. In addition,

the Taxpayer First Act requires the IRS to make e-filed returns available in a “machine-readable” format, creating even greater access to these documents.

Since the Form 990 is such a public document, the form can serve as a marketing tool for nonprofits. An organization can feature their mission, programs, successes, and financial stability all through the Form 990. Information captured in the form may include program accomplishments and statistics, volunteer numbers and hours, areas served, and much more.

### IRS Form 990 Series: Available Formats & Important Reminders

There are several Form 990 formats available depending on your nonprofit’s annual gross receipts and assets.

- **Form 990-N, Electronic Notice (e-postcard):** Gross receipts of \$50,000 or less
- **Form 990-EZ:** Gross receipts between \$50,000 and \$200,000 **and** assets less than \$500,000
- **Form 990:** Larger organizations file the full form

Other forms to be aware of include the Form 990-T and Form 990-PF.

- **Form 990-T:** If you have revenues unrelated to your organization’s exempt purpose, you may also need to file a Form 990-T. Examples of revenues that could be considered unrelated business income include advertising, parking fees, or subleased space.
- **Form 990-PF:** This form is specific to private foundations

#### Important Reminders:

Regardless of the Form 990 format your nonprofit is eligible to submit, **your return is due by the 15<sup>th</sup> day of the 5<sup>th</sup> month after the organization’s accounting period ends** (May 15<sup>th</sup> for a calendar-year filer). Two extensions are possible up to 10 ½ months (after your year-end). **Electronic filing is mandated** under the Taxpayer First Act, signed into law on July 1, 2019. If a Form 990 is not filed for three consecutive years, the organization will automatically lose its federal tax-exemption.

Nonprofits need to pass the IRS “public support test” to maintain their tax-exempt status as a public charity (as opposed to a private foundation). For most nonprofits this means that at least 33% of your support should come for diverse sources.

Also, remember nonprofits pay almost all state and local taxes. See our separate resource [Tax Basics for Nonprofits](#).

## A. Quick Review of Key Parts

To quickly get acquainted with the Form 990, focus on reviewing the following four sections.

- **Part I Summary** (page 1, Form 990): This section provides an organizational snapshot – basic information and a summary of activities.

- **Part III Statement of Program Service Accomplishments** (page 2, Form 990): Through this section, tell the story of how your nonprofit is achieving its mission. Remember this is a public document, which can serve as a tool to share accomplishments, areas served, and more to potential donors and funders.
- **Part IV Checklist of Required Schedules** (page 3-4, Form 990): Here you will find the schedules to be completed, which should be filed in alphabetical order.
- **Part VI Governance, Management, & Disclosure** (page 6, Form 990): This portion is separated into three subsections: governing body and management, policies, and disclosure. Part VI of the Form 990 is a summary of best governance and management practices. Whether you are filing a full Form 990 or not, this is a valuable summary list for any nonprofit to review and ensure their practices are in alignment.

As noted in Chapter 2. Income Statement, nonprofits are required to track expenses by functional classification. 501(c)(3) and 501(c)(4) organizations must complete all columns of **Part IX Statement of Functional Expenses** (page 10, Form 990).

## 2. WHAT DO I NEED TO KNOW ABOUT THE IRS FORM 990?

As a nonprofit board member, you should understand the following Form 990 concepts.

- **The Form 990 is your organization's most public financial document** and can be viewed by any member of the public.
- **The Form 990 can be a useful marketing tool** to share your organization's mission, program accomplishments, successes, and stability.
- **Governance and policy best practices are listed in the Form 990.** For the Form 990, governance relates to maintaining your organization's tax-exempt purpose, board independence, and certain written policies and procedures.
- Although a nonprofit may not pay federal income taxes, annual reporting through the Form 990 is mandatory to maintain tax-exempt status. **If the Form 990 is not filed on time, is incomplete, or is not filed correctly, there are several legal and financial penalties that can fall on the organization.** In addition, if the Form 990 is not filed for three consecutive years, the organization will automatically lose its federal tax exemption.

There are Form 990-related actions you can take to instill a strong nonprofit finance culture within your organization.

- **Identify steps your nonprofit can take to strengthen current governance practices.** Review all levels of compliance for your organization, and remember you can use Part VI Governance, Management, and Disclosure of the Form 990 as a guide for your assessment. Also, determine your organization's state and local filing requirements.

- **Assess your total support to determine year-to-year if your percentage of public support is declining, increasing, or holding steady.** Make goals around the percentage of public support that would make your organization more sustainable over time.
- Review your gross income from unrelated business sources. **If your organization has \$1,000 or more of gross income from these sources, you must file a Form 990-T.** Assess whether these activities pull away from your mission and primary services.
- **Invite your communications, marketing, or development staff to review the Form 990** and provide wording that may resonate with potential donors and funders.
- As you consider how your organization may advocate on behalf of your mission, start by determining how much of your budget comes from public funds. **Organizations cannot use federal funds or resources to influence state or federal legislation, while discretionary funds can be used.**



**ACTIVITY**

**Your turn:** Review your organization’s most recent Form 990. Here are some questions to ask yourself. Use the space provided to write down your answers and any action steps. Consider asking these questions across several board meetings to see how your answers change over time.

**Ask yourself...**

**Filing:**

- Of the formats available (Form 990-N, Form 990-EZ, or Form 990), which does your nonprofit need to file?
- By what date does your organization need to file?
- Who is responsible for ensuring you meet the filing deadline?

**Compliance:**

- Is your organization doing everything required to maintain tax-exempt status?
- Is your organization completing applicable state and local filing requirements?

**Governance:**

- When it comes to governance, policies, and disclosure, is your organization following best practices? Are there any items your organization should take action on within the next year?

**Marketing:**

- After reading your Form 990, what impressions would a potential donor or funder have about your nonprofit? Are these the impressions you want to convey, why or why not?
- Has your nonprofit done a good job of showing the program accomplishments and impact of the funds received?

**Notes & Next Steps**


Maintaining strong governance and compliance practices is essential for your nonprofit. To help you assess a few more key items, the following worksheet outlines steps for your organization to review.

There may be other components around compliance specific to your industry such as certifications or Continuing Education Units that are not covered here.

Governance & Compliance Steps	Have you done this?	Notes & Next Steps
<p><b>Form 990</b></p> <ul style="list-style-type: none"> <li>• All appropriate Schedule boxes are checked on the Form 990, and the required schedules are complete</li> <li>• Governance policies including conflict of interest, whistleblower, and document retention and destruction are accurately represented on the Form 990</li> <li>• All board members receive a complete copy of the Form 990 before filing</li> </ul>	<p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>	
<p><b>Board Practices</b></p> <ul style="list-style-type: none"> <li>• A reasonable effort was made to determine board independence</li> <li>• Governing documents such as articles, bylaws, and IRS application for exempt status are available for public review</li> <li>• Minutes are kept for all board meetings and other authorized meetings</li> </ul>	<p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>	
<p><b>Organizational Operations</b></p> <ul style="list-style-type: none"> <li>• All applicable employment, B&amp;O (business and occupation), sales, and property tax reports are filed and paid</li> <li>• Employees and independent contractors are correctly classified</li> <li>• Required W-2 and 1099 forms are filed to report employee and independent contractor compensation</li> </ul>	<p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>	

### 3. REPORTING IN WASHINGTON STATE

In Washington, nonprofit and charitable organizations need to register and stay up-to-date with the Office of the Secretary of State, Corporations & Charities Division. Nonprofit corporations have an annual report and charitable organizations have an annual renewal to complete. About 60% of charitable organizations are also nonprofit corporations, which involves completion of both annual requirements.

The following resource outlines the requirements for nonprofit corporations and charitable organizations. Be sure to check which type of organization you are and remember you may qualify as both. Noting your organization's key dates – incorporation date and accounting year end date – is another important step. Nonprofit corporation reporting is based on your incorporation date, while charitable organization renewal is based on your accounting year end.

# Stay Up-to-Date with the Secretary of State

Nonprofit and charitable organizations need to register and stay up-to-date with the Office of the Secretary of State.

- 1 Check which type of organization you are.
- 2 Note your key dates.
- 3 Put those dates onto your organizational calendar.

1

## Nonprofit Corporation

**WHAT IS IT?** A private corporation for which no part of the income is distributable to its members, directors, or officers. It is formed to benefit the public, a specific group of people, or the membership of the nonprofit.

### ANNUAL REQUIREMENTS

1. **What:** Annual Report
2. **When:** Last day of organization's incorporation month. A reminder will be sent to the registered agent at least 30 days prior to required filing date.
3. **Fee:** \$20 (revenues <\$500k/year)  
\$60 (revenues >\$500k/year)

2 Your Incorporation Date: \_\_\_\_\_

Your Annual Report Filing Date: \_\_\_\_\_

*For example: an incorporation date of March 3, 2002 would have an annual report filing date of March 31 each year. File online!*

3



### ADD TO CALENDAR

...and don't forget to update address changes if you move or change contact person.

## Nonprofit and Charitable Organization

- ◆ 60% of charitable organizations are also nonprofit corporations.
- ◆ They include many of the organizations we know providing direct service, supporting the arts, or advocating for causes.
- ◆ They follow both sets of requirements to be in compliance with the Secretary of State.

## Charitable Organization

*or individuals soliciting on behalf of organizations*

**WHAT IS IT?** An entity that solicits or collects contributions from the general public in Washington to be used to support a charitable purpose. May or may not be a corporate structure.

In Washington, includes organizations that:

- Raise at least \$50,000 annually in Washington; **OR**
- Pay anyone to carry out the activities of the organization.

### ANNUAL REQUIREMENTS

1. **What:** Annual Renewal
2. **When:** No later than the last business day of the eleventh month after the end of the organization's accounting year. Earlier reporting welcome!
3. **Fee:** \$40

2

Your Accounting Year End: \_\_\_\_\_

Your Charities Filing Date: \_\_\_\_\_

*For example: an accounting year of Dec 31, 2022 would have an annual renewal filing date of Nov 30, 2023.*

Developed by:



Nonprofit Association  
of Washington



WASHINGTON  
Secretary of State

Corporations & Charities Division

For more information, visit the

[Office of the Secretary of State,  
Corporations & Charities Division website.](#)



1. The Form 990 is filed annually, and several Form 990 formats are available depending on your nonprofit's annual gross receipts and assets.
2. Legal and financial penalties can arise when the Form 990 is not filed on time, is incomplete, or is not filed correctly.
3. The Form 990 is your nonprofit's most public financial document, which can make it a useful marketing tool to share your organization's mission, program accomplishments, and financial stability.
4. Nonprofit and charitable organizations in Washington need to register with the Office of the Secretary of State, Corporations and Charities Division and stay current with annual requirements. Also, nonprofits pay almost all state and local taxes.



**Here are some questions to think about:**

- After reviewing your organization's most recent Form 990, does the content in Part I and Part III (pages 1 and 2 respectively) present a comprehensive and accurate picture of your nonprofit? Is the information consistent with your website and/or organizational materials?
- Does your annual board calendar include key dates for preparation, review, and filing of the Form 990?

**Reflections**



**Next steps:**

- Check out your nonprofit's profile on [Candid's GuideStar](#) and upload additional information as needed.
- Learn more about the public support test. LaVerne Woods, Esq. of Davis Wright Tremaine prepared a helpful document titled [The Public Support Test: What a Grant Seeker Should Know](#).
- Explore these valuable resources created by Jacobson Jarvis & Co.
  - [Form 990 Glossary](#)
  - [Form 990 Review Checklist](#)
  - [What Board Members Need to Know About Non-for-Profit Finance and Accounting](#)
  - [Independent Contractor Checklist](#)



# Giving

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## CHAPTER OUTLINE

1. What do I need to know about giving?
2. Fund types & gift acceptance
  - A. Funds with & without donor restrictions
  - B. Special event proceeds
  - C. Gift acceptance policy

Chapter 4 Summary: Giving

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## INTRODUCTION

Financially stable nonprofits make use of a wide range of funding sources and are mindful of the differences in accounting, donor and funder expectations, and restrictions. Nonprofits need to think about the money that fuels their work including stewarding funds in ways that uphold the public's trust.

### 1. WHAT DO I NEED TO KNOW ABOUT GIVING?

As a nonprofit board member, you should understand the following concepts around giving.

- **Alignment of fundraising and financial reporting is essential** for effective and timely information to reach individuals and institutions funding your nonprofit's work. For the right reporting to take place within larger organizations, development and finance staff must have clear communication processes in place.
- **The IRS regulates the donor documentation requirements needed to claim a deduction as a charitable contribution.**
  - Donors must receive a written acknowledgement for gifts over \$250.

- Nonprofits must provide donors with a good faith estimate of the fair market value of the goods or services received in exchange for donations of \$75 or more; in addition, the organization is required to inform the donor the contribution amount that is deductible for federal income tax purposes is limited to the excess of any money over the fair market value of goods or services provided by the nonprofit.
- Any noncash donation greater than \$5,000 requires the organization to complete the Donee Acknowledgement portion of the IRS Form 8283. In addition, if you decide to sell or dispose of these items within 3 years of receipt, you will need to complete IRS Form 8282.
- **A pledge, or promise to give, is a formal commitment to make a contribution of a specific amount.** Individual donors and institutional funders can make pledges.
- **An endowment is a donation given with the intent that the principal (corpus) will be invested in perpetuity.** As defined by the donor, the organization may use the earnings for general operations or specific purposes.
- **Donations other than cash or pledges, typically goods or professional services, are considered in-kind.** An organization should be careful about issuing written donor acknowledgements related to in-kind donations. Some in-kind donations are tax-deductible like goods at fair market value, while others like volunteer time are not.
- **Funds with donor restrictions are contributions restricted by the donor for a specific use.** Restricted gifts require additional tracking and accounting to ensure the contributions are stewarded appropriately and used as intended. Donor-imposed restrictions may be permanent in nature (i.e., endowment) or temporary. Make sure you clarify the timing related to the restriction with your donor.

There are giving-related actions you can take to instill a strong nonprofit finance culture within your organization.

- **Build systems for consistent communication between the fundraising and financial sides** of the organization.
- **Set goals around diversifying income streams, monitor trends that effect funding like community shifts in individual giving, and engage in scenario planning.** Imagine possible scenarios that include funding either going away or new funding becoming available. Think through what the organization would do and how quickly action could happen.
- **Track non-cash contributions like in-kind goods or professional services provided.** Consider the possible affects to the organization, and actions needed, if a significant in-kind good or service was no longer available.



**ACTIVITY**

**Your turn:** Review your organization’s most recent income statement. Here are some questions to ask yourself. Use the space provided to write down your answers and any action steps. Consider asking these questions across several board meetings to see how your answers change over time.

**Ask yourself...**

- Where does the organization’s funding come from now? What percentage of the budget does each funding source make up (e.g., 30% is from foundations)?
- How often do individuals involved with fundraising directly communicate with individuals responsible for accounting and financial management? Does this feel like the right level of communication for your organization? Are team members communicating about funds with restrictions, pledges, and in-kind donations?
- How is the organization accounting for pledges? Does the organization track and account for in-kind donations?
- For funds with donor restrictions, do you know what the reporting and accounting requirements are? Is the organization following through on required reporting?

**Notes & Next Steps**


## 2. FUND TYPES & GIFT ACCEPTANCE

For most nonprofits, donor contributions make up some or all the organization's funding. Since fundraising is a regulated activity, be aware of the types of funds contributed, possible reporting and accounting requirements, and consider putting a gift acceptance policy in place.

### A. Funds with & without donor restrictions

Nonprofit accounting standards require organizations to classify contributed income in one of two ways: with donor restrictions or without donor restrictions. This section provides information on these two income categories.

- Funds **with donor restrictions** are contributions with donor-imposed restrictions that may be met by completing specific activities or after a set time passes. Donor-imposed restrictions may be permanent or temporary. If you plan to accept funds with donor restrictions, clarify the details for use, reporting, and accounting of the funds. Ensure your organization's bookkeeper or accountant is aware of any contributions with donor restrictions as well as any specific grant or donor reporting requirements.
- **Funds without donor restrictions** are contributions in which the donor places no restrictions on use other than the general support of your organization. For example, general operating funds that come with no restrictions can be used to sustain the organization as needed. A nonprofit's board of directors may choose to identify funds for a specific purpose, such as an operating reserve. For accounting purposes, these **board-designated funds** are still considered to be without donor restrictions since the donor did not specify the condition(s).

### B. Special event proceeds

Income generated through the attendance of a specific fundraising event, either through donations given at the event or ticket sales, are considered special event proceeds. If the organization advertised the special event as supporting a specific program, initiative, or campaign, the bookkeeper or accountant needs to restrict the funds accordingly. Written acknowledgements to donors **reflect the net tax-deductible amount**.

For example, a donor gives a nonprofit \$100 for an event and receives a dinner with a fair market value of \$40. This is known as a quid pro quo contribution. Although the deductible part of the payment (\$60) is less than the \$75 threshold mentioned earlier in the chapter, the nonprofit must provide the donor a written acknowledgement or disclosure statement as the donor's payment (\$100) is greater than \$75.

### C. Gift acceptance policy

There are times a nonprofit should not or may not want to accept a gift offered by a donor. Some gifts or proposed restrictions may create more difficulty and unanticipated expense than actual benefit for the

nonprofit. A nonprofit should consider implementing a gift acceptance policy that clearly states what types of gifts the organization will and will not accept. Establishing a gift acceptance policy helps manage donor expectations and provides direction to board members, staff, and volunteers who may support fundraising efforts.



**ACTIVITY**

Review the sample income statement provided on page 14 of this guide and respond to the following questions.

*\*Answers are on page 47.*

Question	Response
1. According to the budget, what are the organization’s four largest funding sources? What percentage of the budget does each source make up?	
2. In terms of giving, what does the organization’s bookkeeper or accountant need to track?	
3. At this time, are the nonprofit’s income streams diversified? Why or why not?	



1. Fundraising is a regulated activity, and the IRS has donor documentation requirements needed to claim a deduction as a charitable contribution.
2. Understand the differences in use, reporting, and accounting of funds with donor restrictions, funds without donor restrictions, and board-designated funds.
3. A formal commitment to make a specific contribution amount is a pledge. A donation given with the intent that the principal will be invested in perpetuity is an endowment, and as defined by the donor, the organization may use the earnings for general operations or specific purposes.
4. Typically goods or professional services, in-kind contributions are donations other than cash or pledges and are important for your organization to track.
5. For effective and timely information to reach individuals and institutions funding your organization’s work, alignment of fundraising and financial reporting is essential.



**Here are some questions to think about:**

- Is the nonprofit being thoughtful as you make decisions about the funds you apply for and accept?
- When the organization requests and accepts funds with donor restrictions, are you considering any additional tracking that may be involved and how you will fulfill the requirements?

**Reflections**



**Next steps:**

- ❑ Review your nonprofit’s current process for gift acknowledgement. Use the following resources to check that your organization’s approach meets IRS regulations.
  - National Council of Nonprofits – [Gift Acknowledgements: Saying ‘Thank You’ to Donors](#)
  - IRS Charitable Contributions – [Substantiating Charitable Contributions](#) and [Quid Pro Quo Contributions](#)
- ❑ Review Propel Nonprofits [Managing Restricted Funds resource](#) to gain a deeper understanding on funds with and without restrictions.
- ❑ Explore the National Council of Nonprofits [Gift Acceptance Policies resource](#) to help you review your current policy for improvement areas or to get you started (samples included).



# Oversight

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## CHAPTER OUTLINE

1. What do I need to know about oversight?
  - A. Board member fiduciary responsibilities
2. Accounting procedure and policies
  - A. Separation of duties
3. Understanding your financial culture
  - A. Artifacts
  - B. Behaviors
  - C. Underlying values
  - D. Assess your culture

Chapter 5 Summary: Oversight

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## INTRODUCTION

The policies and procedures designed to prevent fraud and ensure accurate reporting ground an organization's financial oversight. Nonprofit board members are ultimately responsible for the effective, responsible use of a nonprofit's resources. Strong oversight practices are critical to the integrity and success of an organization.

### 1. WHAT DO I NEED TO KNOW ABOUT OVERSIGHT?

As a nonprofit board member, you should understand the following concepts around oversight.

- **An organization's internal controls monitor, measure, and direct against risk and fraud.**

Internal controls should include policies and procedures that address the following.

  - Compliance with applicable laws and regulations as well as adherence to policies

- Safeguarding assets against loss and unauthorized use or disposition
- Reliability of financial reporting
- Effectiveness and efficiency of operations
- **Clarify who has access to what and when** through clear separation of duties and specific delegation of authority. Key areas of access include bank accounts, organizational credit cards, blank check stock, cash/checks received, accounting system, donor database, payroll system, and approval authority.
- **Establish policies and procedures to guide behaviors and outcomes.** Written policies and procedures represent an organization's detailed list of what needs to be done, who is responsible, how roles and duties are separated, and steps to achieve completion.
- To ensure everything is in order, **complete a periodic review of the nonprofit's financial policies and procedures.**
- **Avoiding fraud and maintaining a positive financial reputation is important for the nonprofit's integrity and continued success.** The organization should have safeguards in place to identify possibilities of fraud and ways to keep the organization and its participants from committing fraud.

There are oversight-related actions you can take to instill a strong nonprofit finance culture within your organization.

- **Monitor the organization's finances and internal controls.** Consider completing internal mini-audits or reviews of both the financial numbers and controls including policies and procedures. Ask questions and examine details of a few specific accounts or financial statement line-items on a rotating basis and report back to the board.
- **Develop a routine risk assessment program** that is appropriate for the organization's size and complexity. Completed at least annually, the assessment should consider the following risk types: fraud, legal, financial, operational, regulatory, program, and other items identified by the organization.
- After the organization's written accounting policies and procedures are in place and a regular review process is setup, **begin thinking about crisis planning.** Consider backup procedures, disaster recovery planning, and situations that could derail the nonprofit's plans.

### ***A. Board member fiduciary responsibilities***

In Washington, board members have three duties related to fiduciary responsibilities. The board should review these duties annually.

- **Duty of Care:** Board members will take reasonable care when making decisions, using diligence and independent judgement. Board members are expected to have a level of competence described as exercising the "care of an ordinarily prudent person in the like position" under similar circumstances.

- **Duty of Loyalty:** Board members should act in the best interest of the organization, putting the organization before self-interest. This is particularly important when the potential for personal gain exists and often arises when there is a conflict of interest.
- **Duty of Obedience:** Board members must make sure the organization is in compliance with local, state, and federal laws. Board members will stay true to the organization's mission and governing documents.

As of January 1, 2022, with the new Nonprofit Corporation Act, there is an additional duty for board members and officers to share information to the board if a board member or officer has information important to the operations or relates to a violation or probable violation of law involving the organization.

## 2. ACCOUNTING PROCEDURES AND POLICIES

Nonprofits should have a set of core organizational policies and procedures that are followed. Your written financial procedures highlight the organization's key internal controls, including who has access to what and when, and these documents should be made available to board members. Policies and procedures should be revisited at least annually to stay current and effective.

Procedurally, bank statements should be opened or viewed online by someone who understands the nonprofit's work and has no role in the financial operations. Reviewing bank statements is meant to identify any transactions, payees, check signers, etc. that appear out of the ordinary. If the reviewer identifies something out of the ordinary, the individual should inform the full board.

When considering expenditures, create clear policies and procedures to help someone spending money on behalf of the nonprofit understand their limits and reporting process. Check that set limits are followed and expenses are documented appropriately for your organization's process.

As you think about oversight, a whistleblower policy is critical. A whistleblower policy provides individuals a clear way to notify the board if something is suspicious, does not look or feel right, or may be detrimental to the organization.

**ACTIVITY**

**Your turn:** Review your organization's financial policies and procedures. Here are some questions to ask yourself. Use the space provided to write down your answers and any action steps. Consider asking these questions across several board meetings to see how your answers change over time.

**Ask yourself...**

- Does your organization have basic, written accounting procedures that highlight key internal controls?
- Given your nonprofit's size, have you limited access as much as possible? Does the organization have checks and balances for financial accountability?
- Thinking about your nonprofit's current policies and procedures, what other policies might you need to implement? Are the policies and procedures up-to-date and effective?
- Reexamine Part VI Governance, Management, & Disclosure of the Form 990. Are there any best practices or policies your nonprofit should consider implementing?

**Notes & Next Steps**


**A. Separation of duties**

Separation of duties is a practice by which no one person has sole control over the lifespan of a financial transaction. This means no one person should be able to initiate, approve, record, and reconcile a transaction. Through clear separation of duties, unintentional or intentional mistakes that may occur should be discovered by another person(s).

What does separation of duties look like, especially in small nonprofits? At minimum, two people are involved in financial functions and tasks are divided for items like bookkeeping, check writing and signing, and bank statement review. A stronger practice is to have at least three people involved. In both cases,

the full board is involved by regularly receiving and reviewing financial reports to make sure actual expenditures align with the board approved budget.

The ability to demonstrate the separation of duties to an outside party is important. Documenting processes and including who has authority is a helpful step in demonstrating an organization's internal controls have adequate separation of duties.



### SEPARATION OF DUTIES WORKSHEET

The following worksheet has sample separation of duties for two- and three-people approaches, which include a few examples of possible tasks. Your organization may have additional financial tasks to complete. On the following page, we've provided blank spaces for you to document your nonprofit's separation of duties. Identify your approach (two- or three-people), assign the people involved by writing down their names, and list out the divided tasks for each person. After you filled everything in, look for any tasks completed by the same person tied to a specific type of transaction. For example, the same person should not write checks, sign checks, and mail checks.

### SAMPLES

TWO-PERSON SEPARATION OF DUTIES		
Person 1	Person 2	
<ul style="list-style-type: none"> <li>Reconciles bank account(s)</li> <li>Performs bookkeeping functions</li> <li>Writes checks</li> </ul>	<ul style="list-style-type: none"> <li>Reviews bank statements for discrepancies</li> <li>Signs and mails checks</li> <li>Opens and posts mail</li> <li>Completes deposit slips</li> </ul>	
THREE-PERSON SEPARATION OF DUTIES		
Person 1	Person 2	Person 3
<ul style="list-style-type: none"> <li>Reconcile bank account(s)</li> <li>Performs bookkeeping functions</li> <li>Writes checks</li> </ul>	<ul style="list-style-type: none"> <li>Opens and posts mail</li> <li>Reviews bank statements for discrepancies</li> <li>Mails checks</li> </ul>	<ul style="list-style-type: none"> <li>Signs checks</li> <li>Completes deposit slips</li> </ul>

**YOUR TURN...**

TWO-PERSON SEPARATION OF DUTIES		
Person 1 Name:	Person 2 Name:	
<ul style="list-style-type: none"> <li>• Task:</li> <li>• Task:</li> <li>• Task:</li> <li>• Task:</li> <li>• Task:</li> </ul>	<ul style="list-style-type: none"> <li>• Task:</li> <li>• Task:</li> <li>• Task:</li> <li>• Task:</li> <li>• Task:</li> </ul>	
THREE-PERSON SEPARATION OF DUTIES		
Person 1 Name:	Person 2 Name:	Person 3 Name:
<ul style="list-style-type: none"> <li>• Task:</li> <li>• Task:</li> <li>• Task:</li> <li>• Task:</li> <li>• Task:</li> </ul>	<ul style="list-style-type: none"> <li>• Task:</li> <li>• Task:</li> <li>• Task:</li> <li>• Task:</li> <li>• Task:</li> </ul>	<ul style="list-style-type: none"> <li>• Task:</li> <li>• Task:</li> <li>• Task:</li> <li>• Task:</li> <li>• Task:</li> </ul>

To help you assess a few more key items of your nonprofit's oversight, the following worksheet outlines steps for your organization to review. There may be other areas around internal controls, access, and reporting your nonprofit wants to assess – this as a starting place.

Oversight Steps	Have you done this?	Notes & Next Steps
<p><b>Internal Controls</b></p> <p>Does the organization have basic, written accounting procedures that highlight key internal controls?</p> <ul style="list-style-type: none"> <li>• <b>Regular communication</b> about the importance of ethics and controls occurs</li> <li>• <b>Procedures</b> about the handling of money are documented and communicated</li> <li>• <b>Bank reconciliation</b> is done regularly by someone other than the bookkeeper, or if not possible, bank statements are reviewed by a person that is not the bookkeeper</li> <li>• <b>Expenditure limit policy</b> defines the spending limits for each position within the organization</li> <li>• <b>Disbursements</b> are made by check, except for limited petty cash</li> <li>• <b>Incoming checks</b> receive a “restricted” endorsement or “for deposit only”</li> <li>• <b>Outgoing checks</b> are supported by invoice, receipt, or voucher</li> <li>• <b>Whistleblower policy</b> is in place</li> <li>• <b>Conflict of interest policy</b> is in place</li> </ul>	<input type="checkbox"/> Yes <input type="checkbox"/> No	
<p><b>Access</b></p> <p>Given the organization's size, is access limited as much as possible? In terms of finances, has the organization clearly defined and documented who is doing what and when?</p> <ul style="list-style-type: none"> <li>• <b>Separation of duties</b> divides bookkeeping functions, bank reconciliation and review, and</li> </ul>	<input type="checkbox"/> Yes <input type="checkbox"/> No	

<p>check writing and signing across at least two people (bookkeepers do not sign checks)</p> <ul style="list-style-type: none"> <li>• <b>Physical access</b> is limited to assets (i.e., to cash, receipts, blank checks, or other assets that could be taken)</li> <li>• <b>Bank account access</b> is reviewed annually, and signers limited to as few people as needed</li> <li>• <b>Credit card statements are reviewed by a person other than the cardholder</b> and receipts are required for all charges</li> <li>• <b>Cash access</b> is controlled by at least two people counting cash together</li> </ul>		
<p><b>Reporting</b></p> <p>Is the board receiving the right financial reports? Is the organization submitting the right reports?</p> <ul style="list-style-type: none"> <li>• <b>Board</b> regularly receives balance sheets and income statements</li> <li>• <b>Donors</b> receive acknowledgement with records kept on file</li> <li>• <b>Form 990</b> is reviewed by board and submitted annually</li> </ul>	<p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>	

### 3. UNDERSTANDING YOUR FINANCIAL CULTURE

Regardless of the size of your budget or the number of financial transactions your nonprofit makes annually, every donor, funder, vendor, and worker that engages with your organization will experience your financial culture in some way. Culture is the way a group of people come together. Your nonprofit’s finance culture stems from your procedures, policies, and practices. Your finance culture really matters in your organization’s overall financial stability and long-term development as well as your relationships with funders.

Aspects of culture are both visible and invisible, and culture is often compared to an iceberg because 90% of an iceberg is unseen below the waterline. Your organization should aspire to create a financial culture that meets, and ideally exceeds, generally accepted accounting principles, supports your mission and values, and provides a stable foundation for the nonprofit. You can explore the visible and invisible parts of your culture to better understand where the organization is now and what changes you want to make. A strong financial culture is vital to every nonprofit.

In an organization, culture includes the systems of knowledge shared by individuals engaged with the finances – the values, beliefs, attitudes, and roles individuals take within the nonprofit. Culture in general shows up in three ways: artifacts, behaviors, and underlying values. We break this down with the following examples related to nonprofit finances.

### **A. Artifacts**

Artifacts are the “stuff” of the organization. This includes things that someone could see by walking around your workplace or interacting with your financial processes. Some artifacts are less visible and may be known by specific workers. Artifacts can be tools, documents, procedures, and more. Together, your artifacts represent visible or accessible indicators of your nonprofit’s financial policies and procedures. Artifacts may include:

- Incorporation documents
- Payroll systems
- Whistleblower policy
- Conflict of interest policy
- Budgets
- Financial reports – balance sheets and income statements
- Donor tracking systems

### **B. Behaviors**

Behaviors are what you can observe or witness when people interact with the nonprofit’s financial systems and implement protocols that are in place. Behaviors may include:

- Conversations and casual comments
- Participation and questions asked in meetings
- How people interact across the organization, like staff and board or bookkeeper and staff
- How individuals and teams respond when faced by a challenge or conflict

### **C. Underlying values**

Underlying values are invisible elements that nevertheless shape a culture. A nonprofit can say strong financial controls are important, a priority, and integral to operations, and underlying convictions must exist so that everyone in the organization matches their words with appropriate actions. The invisible elements may include:

- Values related to what matters within an organization
- Assumptions that common understandings are shared
- Attitudes about recordkeeping
- Attitudes about acceptable financial behaviors

- Unspoken rules
- Beliefs and habits

### ***D. Assess your culture***

The first step in strengthening your nonprofit's financial culture is to assess your current culture. Use the "Know Your Financial Culture" worksheet on the following page to note how you would describe your culture across the three aspects (artifacts, behaviors, and underlying values). Then describe how you want your financial culture to be in the future. Remember, you can change culture.

## KNOW YOUR FINANCIAL CULTURE WORKSHEET

We experience culture in three ways: through the **artifacts** (documents, tools, etc.) that we use/see, through **behaviors** that we do/see, and through **underlying values** that we do not see but experience.

**Current Financial Culture: Where do you see alignment with your written policies, procedures, and reports across the three aspects of culture?**

<b>Artifacts</b> Documents or other “stuff” that you can touch	<b>Behaviors</b> Behaviors and actions you can see and experience	<b>Values</b> Attitudes and assumptions you experience but do not see

**Future Financial Culture: What would you like to add/change to strengthen your nonprofit’s financial culture?**

<b>Artifacts</b>	<b>Behaviors</b>	<b>Values</b>

**Next Steps:** Now that you have thought about your nonprofit’s financial culture and what you would like it to be in the future, write down three actions you can take to move towards that desired culture.

- 1.
- 2.
- 3.



1. An organization’s internal controls monitor, measure, and direct against risk and fraud. Established written policies and procedures guide behaviors and outcomes and should be periodically reviewed to ensure everything is in order.
2. Set clear separation of duties that ensure no one person is able to initiate, approve, record, and reconcile a transaction. At minimum, two people are involved in financial functions and tasks, while a stronger practice is to separate duties across at least three people.
3. Safeguards should be in place to identify possible fraud as well as ways to keep the organization and its participants from committing fraud.
4. Board members are responsible for fulfilling three fiduciary duties: Duty of Care, Duty of Loyalty, and Duty of Obedience.



**Here are some questions to think about:**

- Does your nonprofit have any financial oversight concerns that could negatively affect the organization’s work or reputation in the community?
- Is your nonprofit performing a regular risk assessment that includes considerations for business, operational, and fraud risks? For the nonprofit’s size and complexity, is your risk assessment approach lacking, too much, or just right?

**Reflections**



**Next steps:**

- Assess your organization’s overall accountability and internal controls by completing Jacobson Jarvis & Co.’s two easy tools in their resource [Ten Minutes Is All It Takes to Review Internal Controls](#).
- Explore the following resources on controls for small nonprofits. Identify 2-3 actions your nonprofit can take to strengthen your internal controls.
  - o Blue Avocado – [Five Internal Controls for Very Small Nonprofits](#)
  - o [“Controls” for Small Nonprofit Organizations: A Guide for Board Members](#) by Putnam Barber & Robert Fleming
- Review the [National Council of Nonprofits Financial Management page](#), which includes information on basic financial policies, financial literacy resources, and practice pointers.

# GROW ACTIVITY ANSWERS

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## CHAPTER 1: BALANCE SHEET

Activity Question	Answer
1. On what date was this balance sheet “snapshot” taken? On that day, what did the nonprofit own (total assets)?	September 30, 2024 \$377,420
2. What did the nonprofit owe (total liabilities)?	\$75,933
3. Are current liabilities close to or greater than current assets?	No, current assets exceed current liabilities.
4. Is the nonprofit’s current ratio greater than one? <b>Remember: Current Ratio = Current Assets/Current Liabilities</b>	Yes, the current ratio is about 3.
5. How much cash and cash equivalents does the nonprofit have?	\$25,843

## CHAPTER 2: INCOME STATEMENT

Activity Question	Answer
1. Assuming the fiscal year starts on January 1, what is the period of time being compared in the income statement?	January 1 to September 30, 2024, compared against the 2024 budget (January – December 2024).
2. For the period of time identified, how is the organization doing relative to the budget?	Relative to the budget, the organization is \$17,085 below budget through the end of September 2024.

## GROW ACTIVITY ANSWERS

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3. Are there any large budget variances? If yes, are the variances in the income, expenses, or both?	Yes, there is a large variance in income specifically from the FUN Foundation. The organization budgeted to receive \$50,000 from the FUN Foundation and only received \$15,000 to date. Other support, revenues, and expenses are generally on track as compared to budget.
4. Could this income statement be shared with funders? Would this statement provide the right level of information for a funder's needs?	Yes, this income statement has the right level of detail for most funders.
5. How diversified are the nonprofit's funding streams? Is the budget overly dependent on a single revenue stream?	The funding streams are well diversified. The organization seems somewhat dependent on grants, especially grants from the FUN Foundation that are about 23% of the total support and revenue.

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### CHAPTER 3: NINE-NINETY (IRS FORM 990)

Note: Activity and reflection questions for this chapter are tied to review of your nonprofit's most recent Form 990. If you would like to see examples, the Form 990 is automatically uploaded to [Candid's GuideStar](#) where the public may review an organization's Form 990.

### CHAPTER 4: GIVING

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Activity Question	Answer
1. According to the budget, what are the organization's four largest funding sources? What percentage of the budget does each source make up?	The organization's four largest funding sources are: foundations (32%), individual contributions (30%), admissions (13%), and government grants (11%). The FUN Foundation is a separate line item because it is a major funder.

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## GROW ACTIVITY ANSWERS

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2. In terms of giving, what does the organization's bookkeeper or accountant need to track?

The organization's bookkeeper needs to know about any non-cash contributions such as pledges or in-kind. Also, they need to be aware of contributions with donor restrictions that mark gifts for anything other than general operating support. They need to know about any grant specific reporting requirements. If the organization advertised the special event as supporting a specific program or initiative, the bookkeeper needs to restrict the funds accordingly.

3. At this time, are the nonprofit's income streams diversified? Why or why not?

At this time, the income streams are well diversified. The organization seems somewhat dependent on foundation grants with about 32% of the total support and revenue coming from this source.

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### CHAPTER 5: OVERSIGHT

Note: Activity and reflection questions for this chapter are tied to your nonprofit's financial oversight procedures and policies.

## NEXT STEPS

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# BINGO: Let's Celebrate!

You learned about the **B**alance Sheet, **I**ncome Statement, **N**ine-Ninety (IRS Form 990), **G**iving, and **O**versight! Take a moment to celebrate by capturing items you want to remember and action steps you want to take. For action steps, think about specifics related to the task (who, when, where, and how).

Balance Sheet	
Items to remember	Action steps

Income Statement	
Items to remember	Action steps

Nine-Ninety (IRS Form 990)	
Items to remember	Action steps

Giving	
Items to remember	Action steps

Oversight	
Items to remember	Action steps