

Finance Unlocked for Nonprofits



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

*Washington Nonprofits
Jacobson Jarvis PLLC
In partnership with the Office of the Secretary of State*

JACOBSON JARVIS
CERTIFIED PUBLIC ACCOUNTANTS
& CO PLLC



For a complete set of videos and supporting materials, visit:

www.wanonprofitinstitute.org/finance

(855)299-2922 learning@washingtonnonprofits.org

Finance Unlocked for Nonprofits Pulse Check

| <i>Assess how well you know and can apply the following concepts.</i> | Don't know concept | Know concept but not how to apply it to my organization | Know concept and how to apply it to my organization | Know concept and regularly apply it in my organization |
|--|---------------------------|--|--|---|
| BALANCE SHEET | | | | |
| Balance sheet as a snapshot of an organization's finances | 1 | 2 | 3 | 4 |
| Liquidity | 1 | 2 | 3 | 4 |
| Assets | 1 | 2 | 3 | 4 |
| Liabilities | 1 | 2 | 3 | 4 |
| Reserves | 1 | 2 | 3 | 4 |
| INCOME STATEMENT | | | | |
| Income statement as document showing financial activity over period of time. | 1 | 2 | 3 | 4 |
| Budget | 1 | 2 | 3 | 4 |
| Actuals | 1 | 2 | 3 | 4 |
| Reporting | 1 | 2 | 3 | 4 |
| Revenue diversification | 1 | 2 | 3 | 4 |
| IRS FORM 990 | | | | |
| 990 as a public document open to all to see. | 1 | 2 | 3 | 4 |
| 990 as a marketing tool. | 1 | 2 | 3 | 4 |
| 990 providing governance best practices. | 1 | 2 | 3 | 4 |
| 990 is required. | 1 | 2 | 3 | 4 |
| GIVING | | | | |
| Communication between finance and fundraising roles. | 1 | 2 | 3 | 4 |
| Pledge | 1 | 2 | 3 | 4 |
| Endowment | 1 | 2 | 3 | 4 |
| In-kind | 1 | 2 | 3 | 4 |
| Restrictions | 1 | 2 | 3 | 4 |
| OVERSIGHT | | | | |
| Internal controls | 1 | 2 | 3 | 4 |
| Access/ segregation of duties | 1 | 2 | 3 | 4 |
| Policies & procedures | 1 | 2 | 3 | 4 |
| Review | 1 | 2 | 3 | 4 |
| Avoiding fraud | 1 | 2 | 3 | 4 |

Finance Unlocked for Nonprofits (FUN) was designed to increase nonprofit finance literacy in ways that help board members to grow their mission and protect their assets. It should not be considered as a substitute for professional advice.

BALANCE SHEET



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FOR NONPROFITS

Healthy organizations know where they are financially at any given time. A Balance Sheet is a report showing where you stand financially at a point in time. *It is also known as a Statement of Financial Position.*

KNOW

Above all, a nonprofit board member should understand these five BALANCE SHEET concepts:

- ✓ **Snapshot:** A balance sheet is a snapshot taken at a moment in time. It shows what you own and what you owe on a specific date.
- ✓ **Liquidity:** How quickly you can access your cash or other short-term assets. It represents an organization's ability to meet its obligations as they come due.
- ✓ **Assets:** What your organization owns or has the right to use. *Cash and cash equivalents* are available within three months. *Current assets* are those 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.
- ✓ **Reserves:** Emergency funds; an amount set aside by the organization to be used in case of unexpected expense, planned future events, or unexpected programmatic opportunity.

KNOW MORE

- ✓ **The Balance Sheet is always arranged in the same order**, assets at the top, followed by liabilities and then net assets. This makes comparing Balance Sheets between organizations easier.
- ✓ **Assets are typically listed in order of liquidity**, or how quickly you can turn them into cash.
- ✓ **Focus on the relationship between Current Assets and Current Liabilities.** This helps you determine whether your organization has enough resources available to pay its obligations over the next 12 months. If Current Liabilities are getting close to Current Assets or exceed Current Assets, this is a red flag.
- ✓ **Liquidity can also be measured by calculating the Current Ratio: Current Assets/Current Liabilities.** Acceptable current ratios vary and are generally between 1.5 and 3 for healthy organizations. If the current ratio is below 1, the organization may have problems meeting its short-term obligations.

- ✓ **Net Assets**, known as equity in the for-profit world, is the total amount your organization has saved or retained from prior years. This is the formula that puts “balance” into the balance sheet:

$$\text{Assets} - \text{Liabilities} = \text{Net Assets (Equity)}$$

Put another way: $\text{Assets} = \text{Liabilities} + \text{Net Assets (Equity)}$

The way we show net assets is changing. Starting in 2018, net assets should be classified as “without donor restrictions” and “with donor restrictions.” Please see the Balance Sheet in this kit for an example of what this looks like.

PRACTICE







Test your knowledge on how to read the Balance Sheet using the sample on the next page:

1. On what date was this snapshot taken? On that day, what did “A Really Great Nonprofit” own?
2. What did it owe?
3. Are Current Liabilities close to or greater than Current Assets?
4. Is its current ratio (Current Assets/Current Liabilities) greater than one?
5. How much cash does it have?

Answers

1. September 30, 2017. \$377,420
2. \$75,933
3. No. Current assets exceed current liabilities.
4. Yes, it is 3.
5. \$25,843

**A REALLY GREAT NONPROFIT ORGANIZATION
(SAMPLE) STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND 2016**

| <u>ASSETS</u> | |  <u>2017</u> |  <u>2016</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 | | 72,033 | 69,508 |
| 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 |
| | |  \$ 377,420 |  \$ 378,032 |
| <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 | | 28,202 | 10,709 |
| Long-term Debt, less current portion above | | 47,731 | 50,489 |
| Total Liabilities | |  75,933 |  61,198 |
| Net Assets | | | |
| Without donor restrictions | | 258,115 | 265,710 |
| With donor restrictions | | 43,372 | 51,124 |
| Total Net Assets | | 301,487 | 316,834 |
| | | \$ 377,420 | \$ 378,032 |
| Current Ratio | | 3 | 6 |

ASK

Now look at your own organization's Balance Sheet. Ask the same questions and use the **Balance Sheet Pulse** on page 5 to document your answers. Keep track of your answers over your next few board meetings to see how your answers change over time.

- ☐ What do we own?
- ☐ What do we owe?
- ☐ Are current liabilities less than current assets?
- ☐ Is our current ratio greater than one?
- ☐ How much cash do we have in reserves?
- ☐ What can you say about your organization's financial picture based on your understanding of its Balance Sheet?

ACT

These are Balance Sheet-related actions that you can take to 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. Don't be afraid to ask questions!
- ☐ Implement a Reserve Policy, if you don't have one already. This will generate conversations about what the right amount of reserves is for your specific organization and situation. Consistently monitor whether or not you are meeting your established reserve targets.
- ☐ If the Balance Sheet shows continued decline, consider what that might mean for the stability of the organization. Identify back up plans (reserves, line of credit, debt, etc.) to ensure that you have access to cash/capital. Have frank conversations as to when you would implement these plans.
- ☐ If you are in a very stable place, is it time to try new things? Is stability the goal? Consider the need to implement an Investment Policy to accept more risk and invest excess funds.

BALANCE SHEET PULSE

| | Key Questions | Date | Date | Date | Date |
|---------------|---|------|------|------|------|
| Assets | What do we own? | | | | |
| Liabilities | What do we owe? | | | | |
| Liquidity | Do we have sufficient access to cash to cover emergencies or programmatic opportunities? How much money could we access in 3 months? 12 months? | | | | |
| Current ratio | Is our current ratio greater than one? If not, what are we doing about it? | | | | |
| Restrictions | Are we aware of any restrictions on cash? | | | | |
| Reserves | Are we meeting our financial reserve targets? | | | | |
| Action steps | Make a note of any actions that you are going to take before your next meeting. | | | | |

FURTHER RESOURCES

Financial Statements Review Checklist

<https://jjco.com/wp-content/uploads/2017/06/Financial-Statements-Review-Checklist.pdf>

Jacobson Jarvis: "What Board Members Need to Know About Not-for-Profit Finance and Accounting"

<https://jjco.com/resources/jjco-booklets-useful-links/>

Propel Nonprofits "Balance Sheet Cheat Sheet":

<https://www.propelnonprofits.org/resources/balance-sheet-cheat-sheet/>

Propel Nonprofits "Nonprofit Operating Reserves and Policy Examples":

<https://www.propelnonprofits.org/resources/nonprofit-operating-reserves-policy-examples/>

INCOME STATEMENT



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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. *It is also known as a Statement of Activities or Profit & Loss Statement (P&L).*

KNOW

Above all, a nonprofit board member should understand these five INCOME STATEMENT concepts:

- ✓ **Period of Time:** A set, recurring time increment over which an income statement reports. Can be over a month, quarter or year. It is often "YTD," or Year to Date.
- ✓ **Budget:** Your financial plan, usually for the coming year. It includes an estimate of income and expenses, considering both fiscal accountability and mission priorities. The budget should be reviewed and approved by the Board of Directors.
- ✓ **Actuals:** True financial results; numbers that show what has actually happened. Actual income and expenses may differ from those budgeted or projected.
- ✓ **Reporting:** Presentation of meaningful financial information to internal decision makers (management, Board) or external users (funders, donors, banks, etc.). Internal reporting needs to be done on a consistent, timely basis, and reports should facilitate informed decision-making. External reports should meet any specific requirements and be reviewed with an eye to how they portray your organization.
- ✓ **Revenue Diversification:** Using multiple funding sources to hedge against financial instability. Multiple funding streams protect organizations against significant program interruption that may come from the sudden change or loss of one funding source.

KNOW MORE

- ✓ **An Income Statement (Statement of Activities) may look different if being shared with an external audience.** You may choose to highlight what is restricted.
- ✓ **Nonprofits have two main types of income.** **Revenue** includes resources that resulted from an exchange transaction, such as program or service fees, ticket sales/event income, and investment income. **Support** comes from resources for which no services or goods were exchanged, such as grants, contributions, and in-kind donations.

- ✓ **Nonprofits have many of the same expense categories as other organizations** (wages, operating expenses, and marketing). Unlike other organizations, they are also required to track expenses by functional classification: program services, administration, or fundraising. This classification is required on the Form 990.
- ✓ **Nonprofits should track in-kind donations on their books** because these donations have value and nonprofits need to plan for a scenario in which those items are not donated but need to be purchased.

PRACTICE

Test your knowledge on how to read the Income Statement using the sample on the next page:

1. What is the period of time that is being compared?
2. How is the year doing relative to budget?
3. Are there are large variances?
4. Is the income statement formatted and at the right level of detail to give us the information that we need? What else would you want to know?
5. Would this income statement be shared with funders? Would it provide the right level of information for their needs?
6. How diversified are the funding streams? Is the budget overly dependent on a single revenue stream?

Answers

1. January 1 – September 30, 2017 against the 2017 budget (January-December 2017).
2. They are \$17,135 below budget through the end of September 2017.
3. Yes. There is a large variance in support. They budgeted to get \$50,000 from the FUN Foundation and only received \$15,000. Other support, revenues and expenses are generally on track as compared to budget.
4. (Open to interpretation.)
5. Yes, it has the right level of detail for most funders.
6. The funding streams are pretty well diversified. They seem somewhat dependent on grants, especially those from the FUN Foundation, which are about 23% of total support and revenue.

A REALLY GREAT NONPROFIT ORGANIZATION
(SAMPLE) STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2017

| | YTD Actual | YTD Budget | Budget Variance \$ | Annual 2017 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 |
| Total Support | 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 |
| Interest income | 1,675 | 1,725 | (50) | 2,300 |
| Gain (loss) on investments | 1,659 | 1,275 | 384 | 1,700 |
| Other revenue | 674 | 413 | 261 | 550 |
| Total Revenue | 43,247 | 41,108 | 2,139 | 54,809 |
| Total Support and Revenue | 196,734 | 220,454 | (23,720) | 298,660 |
| Expenses | | | | |
| Salaries, benefits, & taxes | 144,764 | 143,073 | 1,691 | 190,764 |
| Occupancy (rent, utilities) | 24,686 | 24,911 | (225) | 33,214 |
| Program expenses | 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 |
| Fundraising | 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 |
| Total Expenses | 212,081 | 218,666 | (6,585) | 294,569 |
| Excess (Deficit) | (15,347) | \$ 1,788 | \$ (17,135) | \$ 4,091 |
| Beginning Net Assets | 316,834 | | | |
| Ending Net Assets | \$ 301,487 | | | |

ASK

Now look at your own organization's Income Statement. Ask the same questions and use the **Income Statement Pulse** on page 5 to document your answers. Keep track of your answers over your next few board meetings to see how your answers change over time.

- ☐ What is the period of time that is being compared?
- ☐ How is the year doing relative to budget?
- ☐ Are there are large variances?
- ☐ Is the income statement formatted and at the right level of detail to give us the information that we need? What else would you want to know?
- ☐ Will this income statement be shared with funders? Does it provide the right level of information for their needs?
- ☐ How diversified are our funding streams? Is our budget overly dependent on a single revenue stream?

ACT

These are the Income Statement-related actions that you can take to instill a strong nonprofit finance culture within your organization.

- ☐ Review the income statement each month for significant variances, anything unusual or any unexpected trends. Don't be afraid to ask questions! Understanding variances is important, but the real Board work is any action that may need to be taken.
- ☐ Compare the story you are hearing about your organization (Executive Director reports, committee reports, development, newsletters, etc.) to the income statement and ask questions when the two seem inconsistent.
- ☐ Scrutinize your current reports: Are we getting enough detail? Too much detail? Are variances calculated for us? What could make them more meaningful? Once you have made any improvements, consistent monthly reporting is crucial.
- ☐ Now that you understand what income you have, develop strategies for diversifying funding sources. Research what other organizations are doing to diversify income.
- ☐ If funds are diverse but the amounts coming in are not consistent, what can you do to increase the reliability of these funds?
- ☐ If your funds are diverse and consistent, is it time to start thinking about new program investments or investing in reserves?

INCOME STATEMENT PULSE

| | Key Questions | Date | Date | Date | Date |
|--------------------|--|------|------|------|------|
| Period of time | What period of time are we reviewing? Is this frequent enough? | | | | |
| Budget vs. Actuals | How are we doing relative to our budget? | | | | |
| Variances | If there are large variances, why? Are we taking action related to variances? | | | | |
| Reporting | Is our income statement formatted and at the right level of detail to give us the information that we need? | | | | |
| Reporting | Does the income statement that we share with funders provide the right level of information for their needs? | | | | |
| Diversification | How diversified are our funding streams? Are we overly dependent on a single revenue stream? | | | | |
| Trends | Are there any trends or changing relationships that we should consider in reviewing this income statement? | | | | |
| Action steps | Make a note of any actions that you are going to take before your next meeting. | | | | |

FURTHER RESOURCES

Propel Nonprofits “An Executive Director’s Guide to Financial Leadership”

<https://www.propelnonprofits.org/resources/executive-directors-guide-financial-leadership/>

Jacobson Jarvis: "What Board Members Need to Know About Not-for-Profit Finance and Accounting"

<https://jjco.com/resources/jjco-booklets-useful-links/>

Financial Statements Review Checklist

<https://jjco.com/wp-content/uploads/2017/06/Financial-Statements-Review-Checklist.pdf>

Budgeting

Budgeting for Nonprofits: resources from the National Council of Nonprofits

<https://www.councilofnonprofits.org/tools-resources/budgeting-nonprofits>

Budget Checklist

<https://www.propelnonprofits.org/resources/10-step-budgeting-checklist/>

IRS Form 990



The IRS Form 990 – an annual required tax filing – highlights a nonprofit’s mission and compliance with federal regulations. It is your most public document, available online and viewed by potential donors.

KNOW

Above all, a nonprofit board member should understand these four IRS Form 990 concepts:

- ✓ **Public Document:** The Form 990 is your organization's most public financial document and can be viewed by any member of the public. The Form 990 is automatically uploaded to GuideStar.org where the public, including potential donors and funders, review 990s while making funding decisions.
- ✓ **Marketing Tool:** The 990 can be used to market the organization's mission, programs, success and stability. This can include program accomplishments and statistics, volunteer numbers/hours, areas served, etc.
- ✓ **Governance:** The 990 includes a listing of policies and governance best practices. In the context of the Form 990, governance relates to maintaining your exempt purpose, board independence, and certain written policies and procedures.
- ✓ **Compliance & Penalties:** Although a nonprofit does not pay Federal income taxes, annual reporting is mandatory to maintain the nonprofit tax status. There are several legal and financial penalties that can fall on an organization if the Form 990 is not filed on time, is incomplete, or is not filed correctly. If a 990 is not filed for 3 consecutive years, the organization will automatically lose its federal tax-exemption.

KNOW MORE

- ✓ **Speed read your way through a 990 by focusing on 4 pages:**
 - Page 1: Snapshot. Basic information and summary of activities
 - Page 2: Accomplishments. Tell the story of how you are achieving your mission.
 - Pages 3/4: Checklist of required schedules.
 - Page 6: Governance and management. Summary of whether you are following best practices.

- ✓ **There are several 990s available depending on your annual gross receipts and assets:**
 - Gross receipts of \$50,000 or less, e-postcard (990-N)
 - Gross receipts between \$50,000 and \$200,000 and assets less than \$500,000, 990-EZ
 - Larger organizations file the full Form 990.
- ✓ **Your return is due 4 ½ months after your year-end.** Two extensions are possible to 10 ½ months.
- ✓ **If you have revenues unrelated to your organization's exempt purpose, you may also need to file a 990-T.** Consider income from advertising, parking fees, or subleased space.
- ✓ **Nonprofits pay almost all state and local taxes.** See our separate resource on Taxes and Nonprofits.
- ✓ **Nonprofits need to pass an IRS “public support test” to maintain their tax-exempt status as “public charities”** (as opposed to private foundations). One large grant from a foundation could tip an organization away from being at least one-third publicly supported.

PRACTICE

A sample 990 can be found here: <https://www.wanonprofitinstitute.org/finance/>. Use this sample to answer these questions.

1. What was this organization's net income in 2016?
2. How many volunteers did they have?
3. This 990 says that the Howard Foundation made grants of \$150,000 in 2016. On page 2 of this 990, do they do a good job showing the impact of these funds?
4. How many schedules should they complete to answer questions on pages 3-5?
5. Page 6 talks about governance practice. From their answers, what do you think they should have put their to-do list for the next year?
6. What impression do you now have about the Howard Foundation?

Answers

1. -\$139,720. In other words, they went into their assets by this amount.
2. 150
3. No. They provide very little information about the impact these funds had.
4. All or parts of 7 schedules: A, B, D, I, M, N, and O.
5. They might look at their conflict of interest policies and how well they monitor board disclosure of possible conflicts.
6. It seems like a well-run organization, but they did not list their mission on Page 1 and I do not have a strong opinion of what impact they are making based on the limited descriptions on Page 2.

ASK

Now look at your own organization's IRS Form 990. Ask the same questions and use the **990 Pulse** on page 4 to document your answers. Keep track of your answers over your next few board meetings to see how your answers change over time. These questions fall into these four main categories:

- ☐ **Filing:** Which form do you need to file? When? Who is responsible for making sure you meet your deadlines?
- ☐ **Compliance:** Is your organization doing everything it is supposed to be doing to maintain its tax-exempt status?
- ☐ **Governance:** Is your organization following best practices when it comes to governance?
- ☐ **Marketing:** What impressions would a donor have after reading your 990?

ACT

These are the 990-related actions that you can take to instill a strong nonprofit finance culture within your organization.

- ☐ Review the list of governance practices on Page 6 of the 990. Using this as a guide for best practices, what can your organization do to strengthen its governance practices?
- ☐ Review the percentage of public support you are receiving over time. Year-to-year, is your public support percentage of total support declining? Increasing? Make goals around the percentage of public support that would make your organization more sustainable over time.
- ☐ Review your gross revenue from unrelated business sources. Do you have more than \$1,000 in these sources? Are you filing a 990-T? Ask whether these activities are pulling you away from your mission.
- ☐ Ask your marketing or development staff to review the 990 and provide wording that would resonate with potential funders.
- ☐ Review all of the levels of compliance for your organization. Are you required to file an annual report with the Secretary of State Charity Office? Are you required to have a local business license?
- ☐ As you think about how your organization can advocate on behalf of your mission, start by knowing how much of your budget comes from public funds. Federal funds or resources cannot be used to influence state or federal legislation, but discretionary funds can be.

990 PULSE

| | Key Questions | Date | Date | Date | Date |
|------------|---|------|------|------|------|
| Filing | <p>Which form do you need to file? When should you file it? Is your return signed and complete?</p> <p>Who will be responsible for making sure you meet your deadlines?</p> | | | | |
| | <p>Are all appropriate Schedule boxes checked and are the required schedules completed?</p> <p>Did you make a responsible effort to determine board independence? Are governance documents available for public inspection?</p> <p>Is our representation regarding the following written governance policies accurate: conflict of interest, whistleblower, document retention and destruction?</p> <p>Are all employment, B & O, sales and property tax reports filed and paid?</p> <p>Are we providing a written acknowledgement for gifts over \$250? And disclosing the fair value of any goods or service provided in exchange for a \$75 donation? Any large noncash donation?</p> <p>Has our organization correctly classified employees and independent contractors, and have we filed the required W-2 and 1099s to report their compensation?</p> | | | | |
| Compliance | | | | | |

| | | | | | |
|--------------|---|--|--|--|--|
| Governance | Are minutes being kept for all board meetings and other authorized meetings? | | | | |
| | Do board members receive a copy of the 990 prior to its filing? | | | | |
| Marketing | Do pages 1 & 2 present a comprehensive and accurate picture of the organization and its mission? Is it consistent with our website? | | | | |
| | Extra: Did you review your Guidestar.org profile and upload additional information where needed? | | | | |
| Action steps | Make a note of any actions that you are going to take before your next meeting. | | | | |

About reporting in Washington State

We created the graphic below to help nonprofits remember to complete their Annual Report as a corporation, and their Annual Renewal if they are a charity.

Download here: https://www.wanonprofitinstitute.org/wp-content/uploads/2019/08/OSOS_requirement2018.pdf

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.

Examples: Labor union, chamber of commerce, social clubs, business leagues.

Annual Requirements:

- What: Annual Report
- 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.
- Cost: \$10

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, 2018. File online!

More information:
<http://www.sos.wa.gov/corps/NonprofitCorporations.aspx>

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.

Developed by:

2

Washington Nonprofits
OSOS
Office of 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.

Examples: Education, health, social service, religious, cultural, and scientific organizations. **Examples that are NOT necessarily nonprofit corporations:** Individual fundraisers, out-of-state organizations, foreign corporations, some associations. Churches may register but are not required.

Annual Requirements:

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

<http://www.sos.wa.gov/charities/WanttoRenewYourCharitiesRegistration.aspx>

Your accounting year end: _____

Your charities filing date: _____

For example, an accounting year end of February 28, 2017 would have an annual renewal filing date of January 31, 2018.

More information:
<http://www.sos.wa.gov/charities/>

FURTHER RESOURCES

Check out three other tools in the Washington Nonprofits nonprofit learning series, all available for free on the Washington Nonprofit Institute website.

Tax Basics for Nonprofits: <https://www.wanonprofitinstitute.org/tax-basics-for-nonprofits/>

Let's Go Legal: <https://www.wanonprofitinstitute.org/legal/>

Build A Movement!: <https://www.wanonprofitinstitute.org/advocacy/>

Look at wanonprofitinstitute.org for more.

Bolder Advocacy an Initiative of Alliance for Justice. Provides advice on advocacy and the law. <https://bolderadvocacy.org/>

Form 990 Glossary

https://jjco.com/wp-content/uploads/2016/04/Form_990_Glossary.pdf

Form 990 Review Checklist

<https://jjco.com/wp-content/uploads/2016/04/JJCoForm990ChecklistRevised101514.pdf>

GuideStar <http://www.guidestar.org>

Independent Contractor Checklist

<https://jjco.com/wp-content/uploads/2016/04/IndependentContractor20FactorChecklist.pdf>

Independence Questionnaire

https://jjco.com/wp-content/uploads/2016/04/independence_questionnaire.doc

IRS Tax Information for Charities & Other Non-Profits

<https://www.irs.gov/charities-non-profits/charitable-organizations>

Jacobson Jarvis: "What Board Members Need to Know About Not-for-Profit Finance and Accounting" <https://jjco.com/resources/jjco-booklets-useful-links/>

Jacobson Jarvis: "What Not-for-Profits Need to Know About Tax Compliance" <https://jjco.com/resources/jjco-booklets-useful-links/>

LaVerne Woods, Esq., Davis Wright Tremaine. "The Public Support Test: What a Grant Seeker Should Know."

http://www.brainerd.org/downloads/Public_Support_Test_Memo.pdf

State and Local Tax Links <https://dor.wa.gov/find-law-or-rule>

990 Sample – page 1, 2, and 6

Finance Unlocked for Nonprofits (FUN) was designed to increase nonprofit finance literacy in ways that help board members to grow their mission and protect their assets. It should not be considered as a substitute for professional advice.

JACOBSON JARVIS

www.ijco.com

OMB No. 1545-0047

2016

Open to Public Inspection

Form **990** **Return of Organization Exempt From Income Tax**

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations)
Do not enter social security numbers on this form as it may be made public.
Information about Form 990 and its instructions is at www.irs.gov/form990.

Department of the Treasury
Internal Revenue Service

A For the 2016 calendar year, or tax year beginning **JANUARY 1**, 2016, and ending **DECEMBER 31**, 2016

B Check if applicable:
☐ Address change
☐ Name change
☐ Initial return
☐ Final return/terminated
☐ Amended return
☐ Application pending

C Name of organization **HOWARD FOUNDATION**
 Doing business as
 Number and street (or P.O. box if mail is not delivered to street address) Room/suite
PO BOX 1674
 City or town, state or province, country, and ZIP or foreign postal code
BELLEVUE, WA 98009

D Employer identification number
91-0123456

E Telephone number
206-499-0884

G Gross receipts \$ **485,000**

H(a) Is this a group return for subordinates? ☐ Yes ☒ No
H(b) Are all subordinates included? ☐ Yes ☒ No
 If "No," attach a list. (see instructions)

I Tax-exempt status: ☒ 501(c)(3) ☐ 501(c) () ◀ (insert no.) ☐ 4947(a)(1) or ☐ 527

J Website: ▶

K Form of organization: ☒ Corporation ☐ Trust ☐ Association ☐ Other ▶

L Year of formation: **1999**

M State of legal domicile: **WA**

Part I Summary

1 Briefly describe the organization's mission or most significant activities:

2 Check this box ☐ if the organization discontinued its operations or disposed of more than 25% of its net assets.

3 Number of voting members of the governing body (Part VI, line 1a) **3** **10**

4 Number of independent voting members of the governing body (Part VI, line 1b) **4** **9**

5 Total number of individuals employed in calendar year 2016 (Part V, line 2a) **5** **5**

6 Total number of volunteers (estimate if necessary) **6** **150**

7a Total unrelated business revenue from Part VIII, column (C), line 12 **7a** **0**

7b Net unrelated business taxable income from Form 990-T, line 34 **7b** **0**

| | Prior Year | Current Year |
|---|------------|--------------|
| 8 Contributions and grants (Part VIII, line 1h) | 200,000 | 305,000 |
| 9 Program service revenue (Part VIII, line 2g) | 25,000 | 175,000 |
| 10 Investment income (Part VIII, column (A), lines 3, 4, and 7d) | 100 | 0 |
| 11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e) | 0 | 2,500 |
| 12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12) | 225,100 | 482,500 |
| 13 Grants and similar amounts paid (Part IX, column (A), lines 1–3) | 75,000 | 150,000 |
| 14 Benefits paid to or for members (Part IX, column (A), line 4) | 0 | 0 |
| 15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10) | 155,000 | 438,050 |
| 16a Professional fundraising fees (Part IX, column (A), line 11e) | 0 | 0 |
| 16b Total fundraising expenses (Part IX, column (D), line 25) ▶ 13,420 | | |
| 17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e) | 120,000 | 34,170 |
| 18 Total expenses. Add lines 13–17 (must equal Part IX, column (A), line 25) | 350,000 | 622,220 |
| 19 Revenue less expenses. Subtract line 18 from line 12 | -124,900 | -139,720 |

| | Beginning of Current Year | End of Year |
|--|---------------------------|-------------|
| 20 Total assets (Part X, line 16) | 309,850 | 364,000 |
| 21 Total liabilities (Part X, line 26) | 0 | 0 |
| 22 Net assets or fund balances. Subtract line 21 from line 20 | 309,850 | 364,000 |

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

Signature of officer **HOWARD DONKIN - PRESIDENT** Date **09/20/2018**

Type or print name and title

Paid Preparer Use Only

Print/Type preparer's name **HOWARD DONKIN** Preparer's signature **HOWARD DONKIN** Date **09/20/18** Check ☐ if self-employed PTIN

Firm's name ▶ **JACOBSON JARVIS & CO, PLLC** Firm's EIN ▶

Firm's address ▶ **200 FIRST AVE. W. SUITE 200 * SEATTLE, WA 98119-4219** Phone no. **(206) 628-8990**

May the IRS discuss this return with the preparer shown above? (see instructions) ☐ Yes ☒ No

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11282Y Form **990** (2016)

Part III Statement of Program Service AccomplishmentsCheck if Schedule O contains a response or note to any line in this Part III ☐

- 1 Briefly describe the organization's mission:
LEADERSHIP TRAINING FOR DISADVANTAGED YOUTH.
- 2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? ☐ Yes ☒ No
If "Yes," describe these new services on Schedule O.
- 3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? ☐ Yes ☒ No
If "Yes," describe these changes on Schedule O.
- 4 Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses. Section 501(c)(3) and 501(c)(4) organizations are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported.

4a (Code:) (Expenses \$ 398,400 including grants of \$ 150,000) (Revenue \$ 175,000)
LEADERSHIP TRAINING FOR DISADVANTAGED YOUTH.

4b (Code:) (Expenses \$ including grants of \$) (Revenue \$)

4c (Code:) (Expenses \$ including grants of \$) (Revenue \$)

4d Other program services (Describe in Schedule O.)
(Expenses \$ including grants of \$) (Revenue \$)

4e Total program service expenses ► 398,400

Part VI **Governance, Management, and Disclosure** For each "Yes" response to lines 2 through 7b below, and for a "No" response to line 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions. Check if Schedule O contains a response or note to any line in this Part VI ☐

Section A. Governing Body and Management

| | Yes | No |
|---|---|-------------------------------------|
| 1a Enter the number of voting members of the governing body at the end of the tax year 1a 10 | | |
| If there are material differences in voting rights among members of the governing body, or if the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O. | | |
| b Enter the number of voting members included in line 1a, above, who are independent 1b 9 | | |
| 2 Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee? | 2 | <input checked="" type="checkbox"/> |
| 3 Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors, or trustees, or key employees to a management company or other person? | 3 | <input checked="" type="checkbox"/> |
| 4 Did the organization make any significant changes to its governing documents since the prior Form 990 was filed? | 4 <input checked="" type="checkbox"/> | |
| 5 Did the organization become aware during the year of a significant diversion of the organization's assets? | 5 | <input checked="" type="checkbox"/> |
| 6 Did the organization have members or stockholders? | 6 | <input checked="" type="checkbox"/> |
| 7a Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body? | 7a | <input checked="" type="checkbox"/> |
| b Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body? | 7b | <input checked="" type="checkbox"/> |
| 8 Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following: | | |
| a The governing body? | 8a <input checked="" type="checkbox"/> | |
| b Each committee with authority to act on behalf of the governing body? | 8b <input checked="" type="checkbox"/> | |
| 9 Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O | 9 | <input checked="" type="checkbox"/> |

Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code.)

| | Yes | No |
|---|--|-------------------------------------|
| 10a Did the organization have local chapters, branches, or affiliates? | 10a | <input checked="" type="checkbox"/> |
| b If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes? | 10b | <input checked="" type="checkbox"/> |
| 11a Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form? | 11a <input checked="" type="checkbox"/> | |
| b Describe in Schedule O the process, if any, used by the organization to review this Form 990. | | |
| 12a Did the organization have a written conflict of interest policy? If "No," go to line 13 | 12a <input checked="" type="checkbox"/> | |
| b Were officers, directors, or trustees, and key employees required to disclose annually interests that could give rise to conflicts? | 12b | <input checked="" type="checkbox"/> |
| c Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done | 12c | <input checked="" type="checkbox"/> |
| 13 Did the organization have a written whistleblower policy? | 13 <input checked="" type="checkbox"/> | |
| 14 Did the organization have a written document retention and destruction policy? | 14 <input checked="" type="checkbox"/> | |
| 15 Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision? | | |
| a The organization's CEO, Executive Director, or top management official | 15a <input checked="" type="checkbox"/> | |
| b Other officers or key employees of the organization | 15b <input checked="" type="checkbox"/> | |
| If "Yes" to line 15a or 15b, describe the process in Schedule O (see instructions). | | |
| 16a Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year? | 16a | <input checked="" type="checkbox"/> |
| b If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements? | 16b | |

Section C. Disclosure

17 List the states with which a copy of this Form 990 is required to be filed ► WASHINGTON

18 Section 6104 requires an organization to make its Forms 1023 (or 1024 if applicable), 990, and 990-T (Section 501(c)(3)s only) available for public inspection. Indicate how you made these available. Check all that apply.
☐ Own website ☐ Another's website ☒ Upon request ☐ Other (explain in Schedule O)

19 Describe in Schedule O whether (and if so, how) the organization made its governing documents, conflict of interest policy, and financial statements available to the public during the tax year.

20 State the name, address, and telephone number of the person who possesses the organization's books and records: ►
 HOWARD DONKIN

GIVING



Healthy nonprofits make use of a wide range of funding sources and are mindful of the differences in accounting, donor expectations, and restrictions. After all, money fuels nonprofit work, so nonprofits need to think about what fills their engines.

KNOW

Above all, a nonprofit board member should understand these elements of GIVING:

- ✓ **Communication:** Fundraising and financial reporting must be aligned for effective and timely information to reach the individuals or institutions funding a nonprofit's work. Within a larger organization, the development staff and the finance staff must communicate in order for the right reporting to take place. Donors receive a written receipt for all donations of \$250 or more.
- ✓ **Pledge:** A formal commitment to make a contribution of a specific amount. Also called "promises to give." Pledges can come from individual donors or from institutional funders (foundations, corporations, etc.).
- ✓ **Endowment:** Donations given with the intent that the principal (corpus) will be maintained intact in perpetuity and that earnings will be used for general operations or specific purposes, as defined by the donor.
- ✓ **In-kind:** Donations other than cash or pledges, typically goods or services. Note that an organization should be careful about issuing tax letters related to in-kind donations given that some in-kind donations can be tax-deductible (i.e. goods at fair market value) and others (i.e. volunteer time) are not tax deductible.

Donor-Imposed Restrictions: These are contributions restricted by the donor for a specific use. Restricted gifts require additional tracking and accounting to ensure they are stewarded appropriately and used for their intended purpose. Some donors impose restrictions that are temporarily in nature. Other donors impose restrictions that are perpetual in nature.

KNOW MORE

- ✓ **General operating funds:** Funds given to sustain the organization with no restrictions on how funds should be spent.
- ✓ **Board-designated funds:** Funds earmarked by an organization's Board of Directors for a specific purpose, such as operating reserves. For accounting purposes these funds are still considered to be without donor restrictions because the condition was not specified by a donor.

- ✓ **Special event proceeds:** Income generated through the attendance of a specific fundraising event, either through donations given at the event or ticket sales. Receipts reflect the net tax-deductible amount. This means that the value of a meal at an auction, for example, is subtracted from the ticket price in calculating the tax deduction.

PRACTICE

Turn back to the Income Statement on page 11 of this Kit.

1. Where is their funding coming from according to their budget? Review by percentages.
2. What does their accountant or bookkeeper need to track in terms of giving?
3. How diversified do you think their income streams are?

Answers

1. Their 4 largest funding sources are: foundations (38%), individual contributions (30%), admissions (13%), and government grants (11%). The FUN Foundation is a separate line item because it is a major funder.
2. Their bookkeeper needs to know about any non-cash contributions, such as pledges or in-kind. (S)he also needs to be made aware of any contributions with restrictions that earmark gifts for anything other than general operating support. (S)he needs 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 those funds accordingly.
3. The income streams are well diversified at this time.

ASK

Now look at your own organization's Income Statement. Ask the same questions and use the **Giving Pulse** on page 5 to document your answers. Keep track of your answers over your next few board meetings to see how your answers change over time.

- ☐ Where does your funding come from now? Review by percentages.
- ☐ Is there appropriate communication between your fundraising and accounting teams?
- ☐ How are you accounting for pledges?
- ☐ How do we track and account for in-kind donations?
- ☐ What kind of reporting could be included for any restricted gifts we receive?

ACT

These are the Giving-related actions that you can take to instill a strong nonprofit finance culture within your organization.

- ☐ Build systems for consistent communication between the fundraising and the financial sides of your organization.
- ☐ Set goals around diversifying income streams.
- ☐ Consider implementing a Gift Acceptance Policy. This clearly outlines what types of gifts you will and will not accept.
- ☐ Consider what it would mean for your organization if you suddenly had to pay cash for a significant in-kind good or service. Do you have adequate reserves in place to cover this cost?
- ☐ Engage in some scenario planning. Imagine some possible scenarios in terms of funding either going away or new funding becoming available. What would you do? How quickly could you do this?
- ☐ Track trends that impact your funding. Overall, is individual giving up or down in your community? Is there a saturation of fundraising events, leading to "event burnout"? Is something going to cause you to need to serve more people, thus needing a sudden increase in funding?

GIVING PULSE

| | Key Questions | Date | Date | Date | Date |
|-----------------|---|------|------|------|------|
| Diversification | Where does our funding come from now? Review by percentages. | | | | |
| Communication | Are fundraising staff members communicating with finance staff about gifts with restrictions, pledges, and in-kind donations? How? | | | | |
| Restrictions | Are we being intentional when we request/accept restricted gifts? Are we considering any additional tracking that may be involved? | | | | |
| Pledges | Are we accounting for pledges? | | | | |
| In-kind | Are we tracking and accounting for in-kind contributions? | | | | |
| Capacity | Are we being thoughtful in our decisions about what funds we apply for and accept? | | | | |
| Reporting | Have we followed through on required reporting? | | | | |
| Action steps | Make a note of any actions that you are going to take before your next meeting. | | | | |

FURTHER RESOURCES

Let's Go Legal, Chapter 3 (Fundraising)

<https://www.wanonprofitinstitute.org/legal/>

Jacobson Jarvis & Co: "What Board Members Need to Know About Not-for-Profit Finance and Accounting" <https://jjco.com/resources/jjco-booklets-useful-links/>

IRS Gift Substantiation Requirements

https://www.sos.wa.gov/_assets/charities/Donations-of-Clothes-and-Household-Items.pdf

Social Velocity, “Build a Nonprofit Financing Plan.”

<https://www.socialvelocity.net/2013/02/06/new-guide-creating-a-nonprofit-financing-plan/>

Sample Gift Acceptance Policy

<https://jjco.com/wp-content/uploads/2016/04/SampleGiftAcceptancePolicy.pdf>

OVERSIGHT



Nonprofit board members are ultimately responsible for the effective, responsible use of a nonprofit's resources. Oversight includes "controls", the policies and procedures designed to prevent fraud and ensure accurate reporting of the affairs of the organization.

KNOW

A nonprofit board member should consider the following five elements of OVERSIGHT:

- ✓ **Internal Controls:** An organization's monitoring, measuring, and directing against risk and fraud. Includes policies and procedures that ensure:
 - Effectiveness and efficiency of operations
 - Safeguarding assets against loss and unauthorized use or disposition
 - Reliability of financial reporting
 - Compliance with applicable laws and regulations and adherence to policies
- ✓ **Access:** Segregation of duties, specific delegation of authority; clarification of who has access to what and when. Key areas of access can include: bank account access, organizational credit cards, blank check stock, cash/checks received, accounting system, donor database, payroll system, and approval authority.
- ✓ **Policies and Procedures:** Protocols guiding behaviors and outcomes. Together, policies and procedures represent an organization's detailed list of what needs to be done, who is responsible, how roles and duties are segregated, and steps for achieving completion.
- ✓ **Review:** Periodic, internal examination of an organization's finances, policies and procedures to ensure that everything is in order.
- ✓ **Avoiding Fraud:** Critical to the success and integrity of an organization. Includes safeguards that organizations put in place to identify possibilities for fraud and ways to keep the organization and its participants from committing fraud. Avoiding fraud and maintaining a positive reputation is important to the continuing success of an organization.

KNOW MORE

- ✓ **In Washington State, board members have three duties related to their fiduciary responsibilities.** These three duties should be included in an annual board discussion.

Three duties according to Washington law:

Duty of Obedience: You act in good faith, in a manner that you reasonably believe to be in the best interests of the organization.

Duty of Loyalty: You act in a manner that furthers the interest of the organization and you refrain from engaging in personal activities that could be construed to injure or take advantage of the relationship to the organization.

Duty of Care: You exercise diligence in the oversight of corporate officers, seeking and reviewing all necessary information in order to make informed decisions. You make reasonable inquiries and exercise independent judgment using the skill, caution and diligence that a prudent person would use.

- ✓ **Bank statements should be opened or viewed online by someone who understands the organization's work but has no role in financial operations.** This review is meant to identify any transactions, payees, check signers, etc. that appear out of the ordinary and inform the full board.
- ✓ **Clear policies and procedures on expenditures** help to make clear to anyone spending money on behalf of the organization what their limits are. Check that these limits are being followed.
- ✓ **A whistleblower policy** allows individuals a clear way to notify the board if something is suspicious, doesn't look or feel right, or may be detrimental to the organization.
- ✓ **Internal mini-audits are important to spot-check the finances.** Ask questions and review details of a few specific accounts or financial statement line-items on a rotating basis and report back to the board group.
- ✓ **Organizational risks should be reviewed at least annually.** Consider fraud risks, legal risks, financial risks, operational risks, regulatory risks, program risks, and other business risks.

ASK

Look at your organization's current practices. Ask the same questions and use the **Oversight Pulse** on page 4 to document your answers. Keep track of your answers over your next few board meetings to see how your answers change over time.

- ☐ Do we have basic, written accounting procedures that highlight key internal controls?

- ☐ Do we have checks and balances for accountability? Have we limited access as much as possible, given our size?
- ☐ What formal policies are currently in place? What other policies might need implemented? Are our policies and procedures up to date?
- ☐ How do we perform risk assessment that includes our consideration of business, operational, and fraud risks?
- ☐ Are there any red flags or concerns that could hurt our work or our perception in the community?

ACT

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

- ☐ Develop a set of basic, written accounting procedures that highlight your organization's key controls, including who has access to what. This should be made available to the Board and revisited at least annually to keep current and effective.
- ☐ Develop a core set of organizational policies, keep them current and follow them.
- ☐ Consider other organizations' policies and procedures to see if there are any areas you have not yet thought of. (Sample policies and procedures can be found through the links in "Further Resources.") Are there any procedures or policies that you have not put in place because it hasn't seemed necessary? Any best-practice policies that you should consider based on the Form 990, funders or watchdog groups?
- ☐ Develop a routine risk assessment program that is appropriate for your size and complexity. A sample risk assessment form is in "Further Resources."
- ☐ Monitor your finances and internal controls. Consider internal audits or reviews of both the numbers and the controls.
- ☐ Do you have backup procedures and a disaster recovery plan? Now that your policies and procedures are in place and you are reviewing regularly have you thought about crisis planning? Is there any situation that you can think of that could derail your plans?

OVERSIGHT PULSE

| | Key Questions | Date | Date |
|-------------------|--|--------------|--------------|
| Internal Controls | <p>Do we have basic, written accounting procedures that highlight key internal controls?</p> <ul style="list-style-type: none"> <input type="checkbox"/> Regular communication about the importance of ethics and controls, setting a culture where rules apply to everyone. <input type="checkbox"/> Procedures about how money is handled are documented and communicated <input type="checkbox"/> Bank reconciliation done on a regular basis by someone other than the bookkeeper. If not possible, bank statements <u>reviewed</u> by person other than bookkeeper. <input type="checkbox"/> Expenditure limit policy defines expenses and number of signatures needed for checks above a certain amount <input type="checkbox"/> Disbursements made by check (except limited petty cash) <input type="checkbox"/> Incoming checks receive a “restricted” endorsement (“for deposit only” or stamp) <input type="checkbox"/> Outgoing checks supported by invoice, receipt, or voucher <input type="checkbox"/> Whistleblower policy in place <input type="checkbox"/> Conflict of interest policy in place | Note/updates | Note/updates |
| Access | <p>Have we limited access as much as possible, given our size? Have we defined clearly who is doing what in terms of our finances?</p> <ul style="list-style-type: none"> <input type="checkbox"/> Segregation of duties: Divide bookkeeping functions, bank reconciliation/review, and check signing across at least two individuals. Bookkeepers do not sign checks. *See next page* <input type="checkbox"/> Physical access to assets is limited (i.e. to cash, receipts, blank checks or other assets that could be taken) <input type="checkbox"/> Bank account access is reviewed annually and signers limited to as few people as necessary <input type="checkbox"/> Credit card statement reviewed by person other than card holder; statement is cross-checked as with bank reconciliation <input type="checkbox"/> Cash access: at least two people count cash together | | |
| Reports | <p>Are we receiving the right reports? Are we submitting the right reports?</p> <ul style="list-style-type: none"> <input type="checkbox"/> Reports: Board regularly receives balance sheet and income statement <input type="checkbox"/> Donors receive acknowledgements with records kept on file <input type="checkbox"/> IRS Form 990 reviewed by board and submitted annually | | |
| Risk assessment | <p>How do we perform risk assessment that includes our consideration of business, operational, and fraud risks?</p> <ul style="list-style-type: none"> <input type="checkbox"/> See worksheet in “Resources” | | |

SEGREGATION OF DUTIES

(1) Circle your choice, (2) Put name of person after job function, and (3) Add tasks to job description.

| Two-Person Segregation | | | |
|---|--|---|--|
| <i>Business Manager</i> | | <i>CEO</i> | |
| <input type="checkbox"/> Post accounts receivable | | <input type="checkbox"/> Sign checks | |
| <input type="checkbox"/> Mail checks | | <input type="checkbox"/> Sign employee contracts | |
| <input type="checkbox"/> Write checks | | <input type="checkbox"/> Custody of securities | |
| <input type="checkbox"/> Post general ledger | | <input type="checkbox"/> Complete deposit slips | |
| <input type="checkbox"/> Reconcile bank statements | | <input type="checkbox"/> Perform interfund transfers | |
| <input type="checkbox"/> Post credits/debits | | <input type="checkbox"/> Distribute payroll | |
| <input type="checkbox"/> Give credits and discounts | | <input type="checkbox"/> Reconcile petty cash | |
| <input type="checkbox"/> Approve payroll | | <input type="checkbox"/> Record initial charges and pledges | |
| <input type="checkbox"/> Open mail/receive cash | | <input type="checkbox"/> Approve employee timesheets | |
| <input type="checkbox"/> Disburse petty cash | | <input type="checkbox"/> Prepare invoices | |
| <input type="checkbox"/> Authorize purchase orders | | <input type="checkbox"/> Complete check log | |
| <input type="checkbox"/> Authorize check requests | | | |
| <input type="checkbox"/> Approve invoices for payment | | | |

| Three-Person Segregation | | |
|---|---|--|
| <i>Bookkeeper</i> | <i>Business Manager</i> | <i>CEO</i> |
| <input type="checkbox"/> Post accounts receivable | <input type="checkbox"/> Distribute payroll | <input type="checkbox"/> Sign checks |
| <input type="checkbox"/> Reconcile petty cash | <input type="checkbox"/> Record initial charges and pledges | <input type="checkbox"/> Sign employee contracts |
| <input type="checkbox"/> Write checks | <input type="checkbox"/> Approve employee timesheets | <input type="checkbox"/> Custody of securities |
| <input type="checkbox"/> Post general ledger | <input type="checkbox"/> Prepare invoices | <input type="checkbox"/> Complete deposit slips |
| <input type="checkbox"/> Reconcile bank statements | <input type="checkbox"/> Complete check log | <input type="checkbox"/> Perform interfund transfers |
| <input type="checkbox"/> Post credits/debits | <input type="checkbox"/> Mail checks | |
| <input type="checkbox"/> Give credits and discounts | <input type="checkbox"/> Approve payroll | |
| | <input type="checkbox"/> Open mail/receive cash | |
| | <input type="checkbox"/> Disburse petty cash | |
| | <input type="checkbox"/> Authorize purchase orders | |
| | <input type="checkbox"/> Authorize check requests | |
| | <input type="checkbox"/> Approve invoices for payment | |

| Four-Person Segregation | | | |
|--|---|---|---|
| <i>Bookkeeper</i> | <i>Clerk</i> | <i>Business Manager</i> | <i>CEO</i> |
| <input type="checkbox"/> Post accounts receivable | <input type="checkbox"/> Distribute payroll | <input type="checkbox"/> Complete deposit slips | <input type="checkbox"/> Sign checks |
| <input type="checkbox"/> Reconcile petty cash | <input type="checkbox"/> Open mail/receive cash | <input type="checkbox"/> Give credits and discounts | <input type="checkbox"/> Sign employee contracts |
| <input type="checkbox"/> Write checks | <input type="checkbox"/> Record initial charges and pledges | <input type="checkbox"/> Prepare invoices | <input type="checkbox"/> Custody of securities |
| <input type="checkbox"/> Post general ledger | <input type="checkbox"/> Complete check log | <input type="checkbox"/> Approve payroll | <input type="checkbox"/> Approve employee time sheets |
| <input type="checkbox"/> Reconcile bank statements | <input type="checkbox"/> Disburse petty cash | <input type="checkbox"/> Approve invoices for payment | <input type="checkbox"/> Perform interfund transfers |
| <input type="checkbox"/> Post credits/debits | <input type="checkbox"/> Authorize purchase orders | | |
| | <input type="checkbox"/> Authorize check requests | | |
| | <input type="checkbox"/> Mail checks | | |

Financial Basics for Nonprofit Managers (3rd edition), Thomas A. McLaughlin (Wiley & Sons), p. 230-231

INTERNAL CONTROLS SELF-TEST

Directions: Replace the asterisks with the names of the staff persons performing that task.

| | Complete Deposit Slips * | Prepare Invoices * | Sign Checks * | Reconcile Bank Statements * | Distribute Payroll * | Hold Securities * | Record Pledges * | Sign Employee Contracts * | Approve Timesheets * | Complete Check Log * | Perform Interfund Transfers * |
|--------------------------------------|-----------------------------------|--------------------------|---------------------|--------------------------------------|----------------------------|-------------------------|------------------------|------------------------------------|----------------------------|----------------------------|--|
| Post Accounts Receivable * | | | | | | | | | | | |
| Open Mail * | | | | | | | | | | | |
| Receive Cash * | | | | | | | | | | | |
| Give Credits & Discounts * | | | | | | | | | | | |
| Mail Checks * | | | | | | | | | | | |
| Disburse Petty Cash * | | | | | | | | | | | |
| Approve Payroll * | | | | | | | | | | | |
| Post to General Ledger * | | | | | | | | | | | |
| Post Debits/ Credits * | | | | | | | | | | | |
| Reconcile Bank Statements * | | | | | | | | | | | |
| Authorize Purchase Orders * | | | | | | | | | | | |
| Authorize Check Requests * | | | | | | | | | | | |
| Write Checks * | | | | | | | | | | | |
| Approve Invoices * | | | | | | | | | | | |

Financial Basics for Nonprofit Managers (3rd edition), Thomas A. McLaughlin (Wiley & Sons)

FURTHER RESOURCES

Check out two other tools in the Washington Nonprofits nonprofit learning series, all available for free on the Washington Nonprofit Institute website.

Boards in Gear: <https://www.wanonprofitinstitute.org/boards>

Let's Go Legal: <https://www.wanonprofitinstitute.org/legal/>

Look at [wanonprofitinstitute.org](https://www.wanonprofitinstitute.org) for more.

Blue Avocado: Five International Controls for the Very Small Nonprofit
<http://www.blueavocado.org/content/five-internal-controls-very-small-nonprofit>

Charity & Nonprofit Board Service in Washington State
https://www.sos.wa.gov/_assets/charities/2015-Quick-Guide-for-Board-Service.pdf

CompassPoint: Internal Controls Checklist
<https://www.compasspoint.org/tools-and-resources/finance-and-strategy>

“Controls” for Small Organizations: A Guide for Board Members by Putnam Barber & Robert Fleming
https://www.sos.wa.gov/_assets/charities/Controls%20For%20Small%20Nonprofits.pdf

Jacobson Jarvis & Co: "What Board Members Need to Know About Not-for-Profit Finance and Accounting" <https://jjco.com/resources/jjco-booklets-useful-links/>

Sample nonprofit policies and procedures:
<https://www.councilofnonprofits.org/tools-resources>

Ten Minutes Is All It Takes to Review Internal Controls
<https://jjco.com/2017/03/28/ten-minutes-takes/>

REFLECTION



Use this form to gather your thoughts on what you want to **remember** and what **actions** you want to take.

Balance Sheet

Income Statement

IRS Form 990

Giving

Oversight

BINGO, you got this! Don't forget to stay in touch.

For a complete set of videos and supporting materials, visit:

www.wanonprofitinstitute.org/finance

(855)299-2922 learning@washingtonnonprofits.org
