BEST PRACTICES IN NONPROFIT ACCOUNTING

Prepared For: Elevate Youth California funded partners

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The *NONPROFIT* accounting specialists™

Disclaimer

- Elevate Youth California (EYC) is a program of the California Department of Health Care Services (DHCS) funded through Proposition 64 California Cannabis Tax Fund, Allocation 3, YEPEITA. Sierra Health Foundation: Center for Health Program Management (The Center) is contracted to support the implementation of EYC. This statewide program provides funding and technical assistance for organizations that are developing or increasing community substance use disorder (SUD) prevention, outreach, and education focused on youth.

DHCS CALIFORNIA DEPARTMENT OF HEALTH CARE SERVICES

elevate YOUTH CALIFORNIA

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WHO WE ARE

EXPERIENCED PROFESSIONALS

We have over three decades of experience building stronger nonprofits.

SPECIALIZED SOLUTIONS

We create flexible financial management plans and accounting solutions based on clients' unique needs.

AWARD-WINNING FIRM

We are recognized as a "Best Place to Work" and a "Top 100 Firm."

A TRUSTED PARTNER

We serve clients nationwide through our regional offices and remote services.

AUDIENCE QUESTION

Who is joining us today?

A. Finance team member
B. Program team member
C. Development team member
D. Management team member
E. I wear multiple hats in my organization!
F. Auditor or consultant
G. Other

PROGRAM SUMMARY

Purpose

- This webinar will provide a general overview of nonprofit accounting principles and accounting management best practices relevant to Elevate Youth California (EYC) partner grantees.
- This fast-paced session features one hour of core content drawn from YPTC's first two webinars, followed by an additional 15 minutes for Q&A.

Learning Objectives

1. Summarize basic nonprofit **accounting rules and key concepts.**
2. Address **frequently asked questions** related to revenue recognition, cost allocation, and cash management best practices.
3. Identify **grants management procedures** applicable to EYC partner organizations.

SESSION TOPICS

Basic Nonprofit Concepts and Terms

And key accounting differences between nonprofits and for-profits

Common Areas of Confusion

Revenue recognition and expense reporting

Internal Controls

Separation of duties and cash management

Best Practices

Grants management and compensation considerations

FAQ #1 — NONPROFIT ACCOUNTING GUIDANCE

Who makes the accounting rules for nonprofits?

Answer:

- **The FASB (Financial Accounting Standards Board)** establishes accountingB and reporting standards forB nongovernmental entities.

NONPROFIT ACCOUNTING RULES

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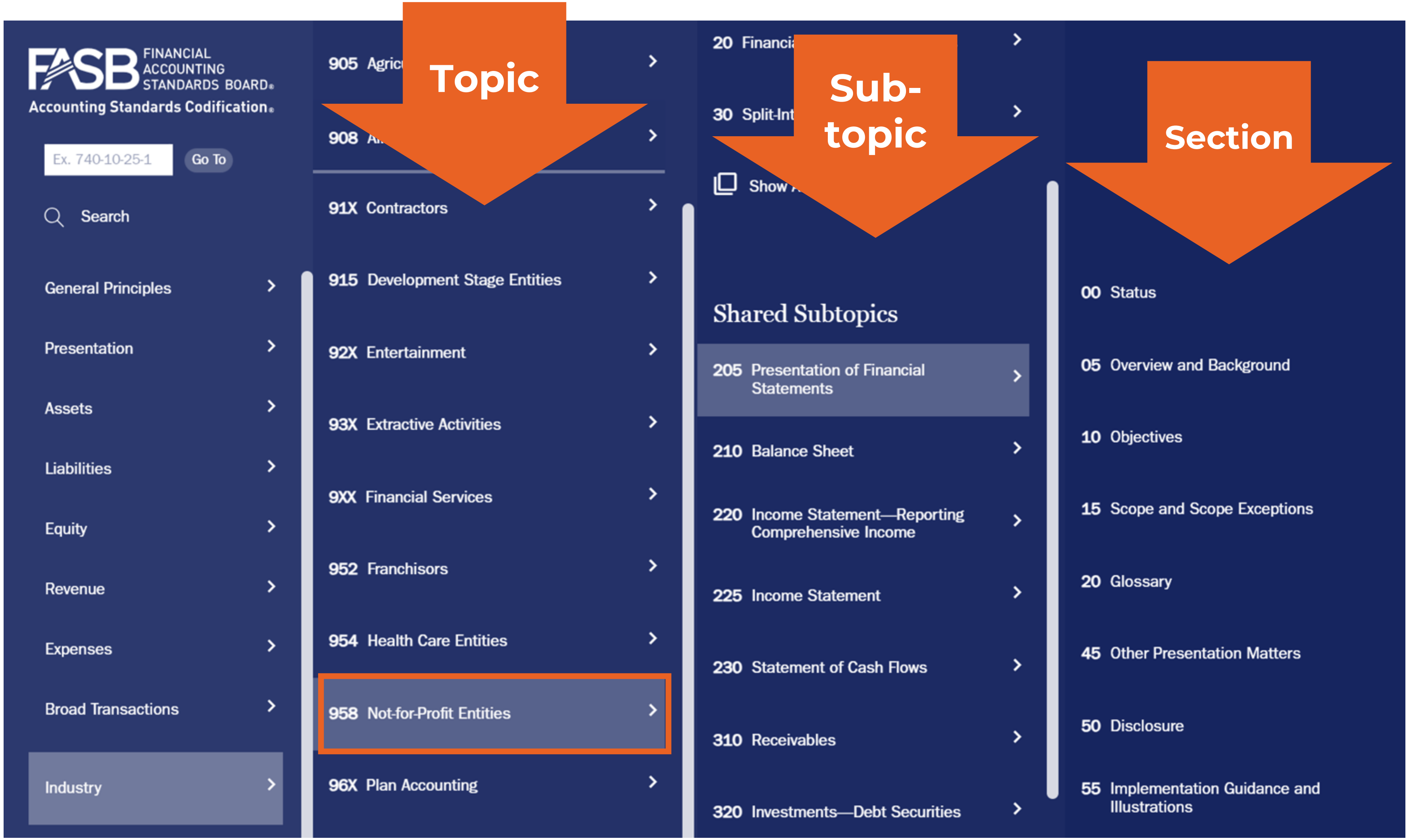
The ASC is the official published version of FASB standards

- **Access is free:** https://asc.fasb.org/Login
- **Sample Citation:** ASC 958-205-45



FAQ #2 — FOR-PROFIT VS. NONPROFIT ACCOUNTING DIFFERENCES

What are the key accounting differences between for-profits and nonprofits?

There are two main differences:

1. **Revenue reporting**
   - Nonprofits track and report contributionsB differently from earned revenue.
2. **Expense reporting**
   - Nonprofits must report expenses byB function (program, fundraising, andB management and general).

REVENUE REPORTING

Nonprofits track and report contributions differently from earned revenue

	EARNED REVENUE	CONTRIBUTED REVENUE
Revenue type	Exchange transaction	Contribution
Transaction type	Reciprocal	Non-reciprocal
Primary recipient	Customer	General public
Examples	Sales of goods or services, ticket revenue, program service fees, tuition, subscriptions	**Financial assets:** cash or marketable securities **Non-financial assets:** fixed assets, use of facilities or services, supplies, works of art
ASC guidance	Contract guidance (ASC Topic 606)	Contribution guidance (ASC Subtopic 958-605)
Recognition	As performance obligations are satisfied Recognition might happen over time or at a point in time	**If unconditional:** in the period when the contribution is made **If conditional:** when the barrier is overcome

DONOR STIPULATIONS

Donors can impose restrictions or conditions on contributions

Donor-imposed Restriction:

- Donor tells you how the donation must be used.
- Restricts the purpose and/or time under whichB a contribution can be used.
- Can be temporary (e.g., future-year pledges) orB permanent (e.g., endowments).
- Restrictions may be explicit or implied.
- **Revenue is recognized right away, even though the funds are restricted.**

Donor-imposed Condition:

- Must meet a barrier before you can keep theB funds.
- Barriers often involve:
  - Doing something specific (like achieving results orB milestones), incurring qualifying expenses, orB hiring required personnel.
- Money received before the barrier is met isB treated as a refundable advance (a liability).
- **Revenue is delayed until the condition is met.**

FAQ #3 — EYC GRANT

How should you record your EYC grant?

Answer:

- Record as a conditional contribution.
  - *Payment only for qualifying expenses.*
  - *Total award is not guaranteed.*
  - *Funding depends on the Center receiving funds from California DHCS.*
  - *Eligibility depends on meeting specific outcomes or performance measures.*
- Recognize revenue as qualifying expenses are incurred.

EYC GRANT - EXAMPLE

Sample entries that might be made to recognize activity associated with an Elevate Youth California grant.

1 Record Advance: initial receipt of conditional EYC grant funds

Dr.	Cash	100,000	
Cr.	Refundable Advance		100,000

2 Record Spending: expenditure of EYC grant funds

Dr.	Salaries	99,000	
Dr.	Stipends	6,000	
Dr.	Travel	4,000	
Cr.	Cash		109,000

3 Recognize Revenue: revenue on EYC grant, report #1

Dr.	Refundable Advance	100,000	
Dr.	Contributions Receivable	9,000	
Cr.	Contributions - Foundations		109,000

CONDITIONAL GRANT – REPORTING

Example - Statement of Financial Position

ASSETS		
Current assets:		
Cash and cash equivalents	$	745,559
Accounts receivable		246,180
Contributions receivable		23,578
Prepaid expenses		20,973
Total current assets		1,036,290
Property and equipment:		
Furniture, fixtures and office equipment		189,852
Less: accumulated depreciation		(160,652)
Net property and equipment		29,200
Operating leases, right of use assets		187,582
Security deposits		15,420
Total assets	$	1,268,492

LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	$	29,490
Refundable advances		20,159
Operating lease liability, current portion		74,229
Total current liabilities		123,878
Operating lease liability, excluding current portion		111,705
Total liabilities		235,583
Net assets		
Without donor restrictions		920,997
With donor restrictions		111,912
Total net assets		1,032,909
Total liabilities and net assets	$	1,268,492

CONDITIONAL GRANT – REPORTING

Example - Statement of Activities

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Federal grants	$ 85,278	$ -	$ 85,278
State grants	1,039,169	-	1,039,169
Foundation grants	260,382	109,000	369,382
Individual contributions	91,838	27,500	119,338
In-kind contributions	15,040	-	15,040
Contracted services	754,254	-	754,254
Program income	208,483	-	208,483
Special events, net of direct benefit to donors	93,811	-	93,811
Interest and other income	3,977	-	3,977
Net assets released from donor restrictions	137,367	(137,367)	-
Total Support and Revenue	2,689,599	(867)	2,688,732
Expenses			
Program services	2,135,814	-	2,135,814
Management and general	422,688	-	422,688
Fundraising	6,656	-	6,656
Total Expenses	2,565,158	-	2,565,158
Changes in net assets	124,441	(867)	123,574
Net assets, beginning of year	796,556	112,779	909,335
Net Assets, end of year	$ 920,997	$ 111,912	$ 1,032,909

AUDIENCE QUESTION

Under GAAP, when should revenue from a *conditional* contribution be recognized?

A. When the cash is received.
B. When the agreement is signed.
C. When the barrier or condition has been met.
D. At the end of the fiscal year.
E. Not sure.

FAQ #4

Questions about In-Kind Contributions

QUESTION	ANSWER
What are in-kind contributions?	Nonfinancial gifts of goods or services
What are some examples?	**Gifts of goods:** materials and supplies, fixed assets and equipment, facilities or use of space, advertising/media **Gifts of services:** donated professional services
Is it required to track in-kind contributions?	Yes - accounting standards require recording all qualifying in-kind contributions
How are in-kind contributions recorded?	Record the revenue and related expense (or asset)
How are in-kind contributions reported?	On a separate line on the Statement of Activities, and the appropriate lines/schedules of the IRS Form 990

IN-KIND – REPORTING

FINANCIAL REPORTING – STATEMENT OF ACTIVITIES

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
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TAX REPORTING – FORM 990

Form 990 (2025)

Part VIII **Statement of Revenue**

Check if Schedule O contains a response or note to any line in this Part VIII . . . .

Contributions, Gifts, Grants, and Other Similar Amounts					(A) Total revenue	(B) Related or exempt function revenue
	1a	Federated campaigns	1a			
	b	Membership dues	1b			
	c	Fundraising events	1c			
	d	Related organizations	1d			
	e	Government grants (contributions)	1e			
	f	All other contributions, gifts, grants, and similar amounts not included above	1f			
	g	Noncash contributions included in lines 1a–1f	1g	$		
	h	**Total.** Add lines 1a–1f				

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Example - Statement of Functional Expenses

- Nonprofits must report expenses by function (program, management and general, and fundraising).

Support Services

	Program Services	Management and General	Fundraising	Total
Salaries	$ 1,425,868	$ 270,663	$ 2,549	$ 1,699,080
Payroll taxes and fringe benefits	259,602	49,279	464	309,345
Consultants/speakers	132,539	-	-	132,539
Occupancy	28,803	8,833	768	38,404
Lease expense	62,379	19,129	1,663	83,171
Office expenses	11,138	9,036	841	21,015
Program supplies	65,644	-	-	65,644
Deprecation	9,376	9,376	-	18,752
Insurance	11,692	3,897	-	15,589
Professional fees	36,577	36,577	-	73,154
Miscellaneous	5,741	5,741	-	11,482
Dues and subscriptions	43,459	4,829	-	48,288
Telephone	14,844	3,340	371	18,555
Travel and training	17,888	1,988	-	19,876
Conferences and meetings	10,264	-	-	10,264
Total expenses	$ 2,135,814	$ 422,688	$ 6,656	$ 2,565,158

FAQ #5 – COST ALLOCATION

What's the best way to develop a cost allocation methodology?

Answer:

- By developing a system that is rational and consistently applied.
- Let's illustrate a step-by-step approach.

COST ALLOCATION APPROACH

1. **Identify the costs to be allocated**
   Start with your chart of accounts.

2. **Categorize expenses (Cost Policy)**
   Break down costs as direct or indirect; see the Resources for an example.

3. **Determine the basis for allocation**
   Common bases include % of time and effort, square footage, or direct labor hours.

4. **Develop the allocation formula**
   Create formulas that will apply the allocation bases to the indirect costs.

5. **Implement the methodology**
   Apply the allocation formulas to financial data regularly.

6. **Review and adjust periodically**
   Regularly review methodology to ensure it remains appropriate and equitable.

COST ALLOCATION - EXAMPLE

ABC Nonprofit uses salary percentages to allocate costs:

Account #	G/L Account	Art	Education	Empowerment	General & Administrative	Fundraising	TOTAL
6100	Salaries & Wages	7,590.58	14,109.89	4,849.48	5,531.97	2,574.13	34,656.05
	% of Total	21.90%	40.71%	13.99%	15.96%	7.43%	100.00%

Those salary percentages are then applied to the costs that need to be allocated:

Journal Entry #	Account #	G/L Account	To Be Allocated	Art	Education	Empowerment	General & Administrative	Fundraising	TOTAL	Check
FY26-0331	6210	Health Insurance Benefits	2,656.92	581.93	1,081.74	371.79	424.11	197.35	2,656.92	-
FY26-0331	7120	Payroll Expenses	306.71	67.18	124.88	42.92	48.96	22.78	306.71	-
FY26-0331	7130	Communications & IT	581.74	127.42	236.85	81.40	92.86	43.21	581.74	-
FY26-0331	7200	Contract & Professional Fees	4,579.57	1,003.05	1,864.53	640.83	731.01	340.15	4,579.57	-
FY26-0331	7400	Insurance - Liability	464.72	101.78	189.20	65.03	74.18	34.52	464.72	-
FY26-0331	7510	Rent	10,104.84	2,213.22	4,114.09	1,413.99	1,612.98	750.55	10,104.84	-
FY26-0331	7520	Utilities	1,698.08	371.92	691.36	237.61	271.06	126.13	1,698.08	-
FY26-0331	7650	Printing & Publications	231.21	50.64	94.13	32.35	36.91	17.17	231.21	-
FY26-0331	7720	Supplies	306.19	67.06	124.66	42.85	48.88	22.74	306.19	-

AUDIENCE QUESTION

How confident do you feel in your organization's current cost-allocation methodology?

A. **Very confident** — we have a documented method that we apply consistently.

B. **Somewhat confident** — we have a method, but it could use improvements.

C. **Not very confident** — we allocate costs, but it's inconsistent or unclear.

D. **Not confident at all** — we don't really have a method.

E. **Not sure** — I don't handle cost allocation.

FAQ #6 — GRANTS MANAGEMENT

How can we set up our accounting system for better grants management?

Answer:

- Start with a good foundation.
- Utilize time-saving features within your accounting software.

When setting up your Chart of Accounts, start with a good foundation

Do this!

Revenue
4000 Contributed income
4100 Donations
4200 Corporate & Foundation Grants
4300 Government Grants & Contracts
4400 In-Kind Donations
Total 4000 Contributed income

Don't do this!

Revenue
4000 Contributed income
4100 Donations
4101 Donations for Art Program
4102 Donations for Education Program
4103 Donations for Empowerment Program
4200 Corporate & Foundation Grants
4201 Corporate & Foundation Grants - Sunnyvale Foundation
4202 Corporate & Foundation Grants - War on Drugs Foundation
4203 Corporate & Foundation Grants - EYC Grant
4300 Government Grants & Contracts
4301 Government Grants & Contracts - CA Health & Human Services
4302 Government Grants & Contracts - Community Revitalization Grant
4303 Government Grants & Contracts - Department of Health Care Services
4400 In-Kind Donations
Total 4000 Contributed income

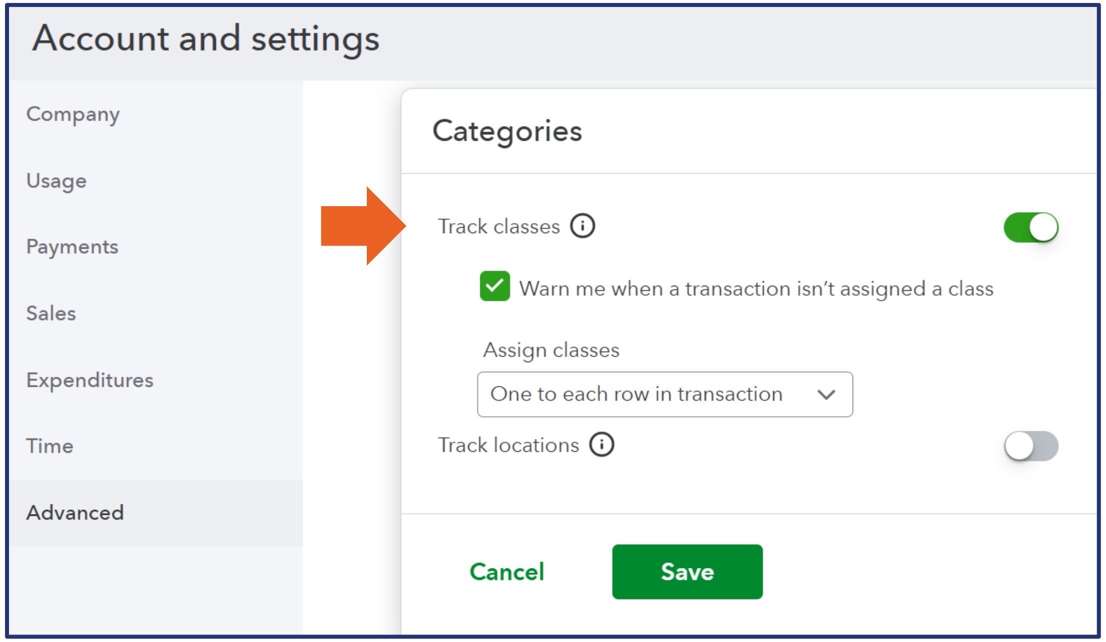
GRANTS MANAGEMENT

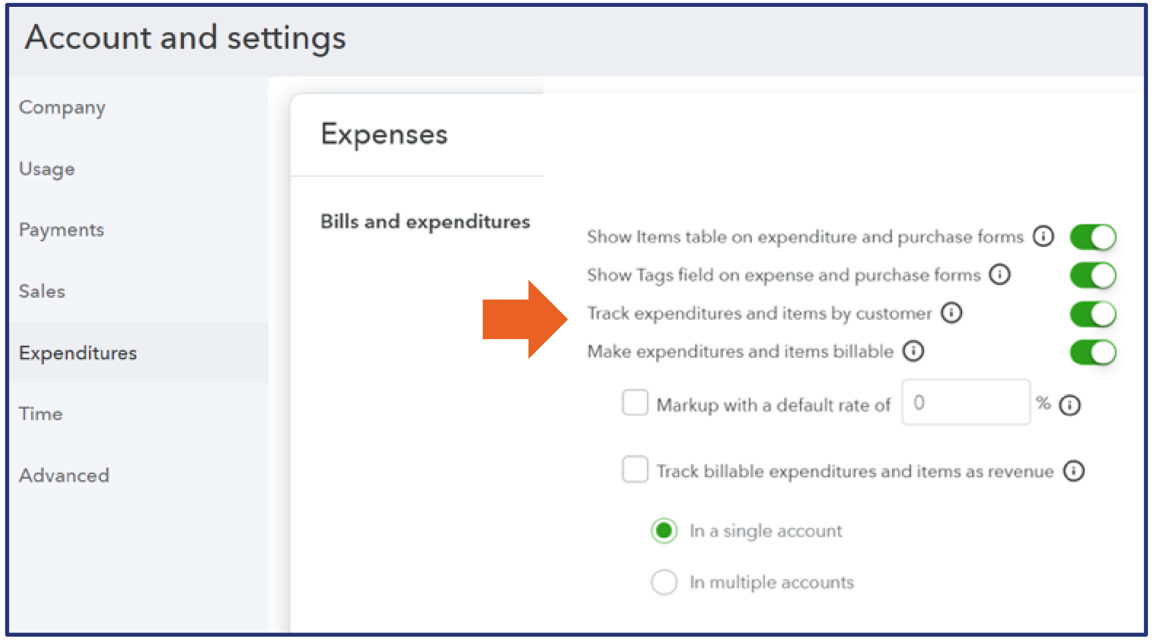
Use **Classes** to track programs and activities

- This provides the basis for functional reporting.

Use **Customers** to track activity by funder

- This provides the basis for reporting by funding source.





FAQ #7 – SEPARATION OF DUTIES

How can we separate duties to maximize our internal controls?

Answer:

- It's not always easy, but there are ways to make it work!
- Let's look at some solutions.

SEPARATION OF DUTIES

Limit individual control over finance functions

- No one person should have control of a transaction from inception to completion.

Accounting

- Input vendor bills
- Record donations and/or apply pledge payments
- Process payroll
- Record journal entries
- Reconcile bank statements
- Prepare basic financial reports

Other Staff

- Prepare checks / ACHs for bill payments
- Mail checks
- Open mail / log cash receipts
- Approve payroll
- Receive bank statements
- Monitor grant expenditures

Management

- Sign checks / approve electronic payments
- Complete deposit slips
- Review payroll / approve salary adjustments
- Review bank reconciliations / monitor bank activity
- Perform variance analysis
- Sign legal documents

Like the Executive Director or Board Treasurer

FAQ #8 — CASH MANAGEMENT

What are some recommended cash management policies?

Answer:

1. **Dual authorization for disbursements**
    - Require two approvals for all disbursements to strengthen oversight.
2. **Regular bank reconciliations**
    - Perform timely reconciliations and independent reviews to catch discrepancies early.
3. **Employee expense reporting**
    - Establish guidelines for the reimbursement of business-related expenses incurred by employees.
4. **Liquidity policy**
    - Maintain sufficient liquidity to meet obligations and manage financial risk.

FAQ #9 – TAXABLE COMPENSATION

When program participants receive stipends, incentives, or awards, does that count as taxable compensation?

Answer:

- In most cases – yes.
- Let's look at some examples.

TAXABLE PAYMENTS

EXAMPLES OF TAXABLE PAYMENTS

Item	1099 Type	Notes *
Stipends / Incentives for program participation	1099-NEC	Considered compensation for participation
Payments for services	1099-NEC	Corporations receiving payments for legal, medical, or healthcare services must receive a 1099
Awards / Prizes / Gift Cards	1099-MISC	Gift cards are treated like cash
Travel stipends	1099-MISC	When receipts are not required
Grants to individuals for personal support	1099-MISC	Exception for disaster relief payments
Recurring cash assistance	1099-MISC	Examples: monthly support, stability grants

** Reportable entities include individuals, partnerships, and LLCs, but not corporations or tax-exempt entities. The 2026 reporting threshold is $2,000.*

NONTAXABLE ITEMS

EXAMPLES OF NON-TAXABLE ITEMS

Item	Notes
Financial assistance	Only if made on the basis of need and in furtherance of an entity's charitable mission
Disaster relief	Must document nature of hardship and charitable class
Reimbursements with receipts	Must provide documentation + business purpose
In-kind goods	Examples: food, clothing, hygiene items
Grants to other nonprofits	Maintain sub-award agreement, monitor federal funds

LIST OF FAQ

QUESTIONS AND TOPICS COVERED:

1. Who makes the accounting rules for nonprofits?
2. What are the key accounting differences between for-profits and nonprofits?
3. How should you record your EYC grant?
4. Questions about in-kind contributions.
5. What's the best way to develop a cost allocation methodology?
6. How can we set up our accounting system for better grants management?
7. How can we separate duties to maximize our internal controls?
8. What are some recommended cash management policies?
9. When program participants receive stipends, incentives, or awards does that count as taxable compensation?

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YPTC RESOURCES

RECORDINGS OF YPTC'S PAST EYC TRAINING WEBINARS

- **Elevate Your Nonprofit Accounting With These YPTC Best Practices – Part 1:**
  - Elevate Your Nonprofit Accounting-Part 1_Recording
- **Elevate Your Nonprofit Accounting With These YPTC Best Practices – Part 2:**
  - Elevate Your Nonprofit Accounting-Part 2_Recording

WEBINARS

- **From Award to Audit: Managing Grants Effectively (Nov 2025):**
  - https://www.yptc.com/from-award-to-audit-managing-grants-effectively/
- **Nonprofit Financial Statements 101 (Sep 2025):**
  - https://www.yptc.com/nonprofit-financial-statements-101/
- **Spring Into Stability: Exploring Cost Allocations and a NICRA Amid Funding Uncertainty (Aug 2025):**
  - https://www.yptc.com/spring-into-stability-exploring-cost-allocations-and-a-nicra-amid-funding-uncertainty/
- **More Than Admin: How Overhead Powers Your Mission (June 2025):**
  - https://www.yptc.com/more-than-admin-how-overhead-powers-your-mission/

Cost Policy Example

ABC Agency's expenses that are allocated include the following:

Expense	Element of Cost	Type	Method of Allocation	Review Frequency
Salary Expense	Salaries and Wages	Both Direct and Indirect	Time and effort	Each pay period
Hourly Wages	Salaries and Wages	Both Direct and Indirect	Time and effort	Each pay period
Professional Services	Program Costs	Direct	Clients served	Quarterly
Production Costs	Program Costs	Direct	Clients served	Quarterly
Training	Program Costs	Direct	Clients served	Quarterly
Brochures & Flyers	Program Costs	Direct	Clients served	Quarterly
Orientation materials	Program Costs	Direct	Clients served	Quarterly
Postage	Program Costs	Direct	Clients served	Quarterly
Utilities Assistance	Client Assistance	Direct	Direct cost by program	Quarterly
Job Training Assistance	Client Assistance	Direct	Direct cost by program	Quarterly
Rent	Facility Costs	Both Direct and Indirect	Actual usage by program, or square footage	Annually
Utilities	Facility Costs	Both Direct and Indirect	Actual usage by program, or square footage	Annually
Repairs & Maintenance	Facility Costs	Both Direct and Indirect	Actual usage by program, or square footage	Annually
Trash Removal	Facility Costs	Both Direct and Indirect	Actual usage by program, or square footage	Annually
Supplies	Office Supplies	Indirect	Administrative cost	Annually
Office Equipment	Office Supplies	Indirect	Administrative cost	Annually
Liability Insurance	Insurance	Both Direct and Indirect	Direct cost by program, or full time equivalent	Annually
Volunteer Insurance	Insurance	Both Direct and Indirect	Direct cost by program, or full time equivalent	Annually

Dual authorization for disbursements

Policy

- All disbursements, including online bill payments, must be **authorized by two individuals** before funds are released.
- This dual authorization process applies to both routine and non-routine payments, regardless of the amount, and is intended to safeguard the organization's assets.

Sample Procedures

- **Step 1:** Assigned staff prepares the online bill payment, including verifying the invoice, ensuring it aligns with the budget, and entering payment details into the **bill payment platform.**
- **Step 2:** A notification of the pending payment is sent to the designated authorizers, along with supporting documentation.
- **Step 3:** The first authorizer reviews the documentation, verifies the legitimacy of the payment, and approves it through the bill payment platform.
- **Step 4:** The second authorizer independently reviews the same documentation and approves the payment.
- **Step 5:** Upon dual authorization, the payment is processed by the system. Confirmation is automatically generated and forwarded to both authorizers and the Finance Department.

Regular bank reconciliations

Policy

- All bank accounts must be reconciled **monthly**, and an independent review of financial records conducted **quarterly.**
- This process ensures that the organization's financial statements accurately reflect its financial position and that any discrepancies are identified and resolved in a timely manner.

Sample Procedures

- **Step 1:** The designated staff member is responsible for reconciling all bank accounts monthly. Bank reconciliations must be completed using the accounting system **within 10 business days of month-end.**
- **Step 2:** Any discrepancies must be investigated and resolved promptly. Adjustments or corrections must be documented, including the reason(s) and any corrective action taken.
- **Step 3:** The reconciliation report must be downloaded and saved in the month-end close files.
- **Step 4:** The reconciliation report must be reviewed and **approved by the Executive Director or a designated member of the Finance Committee.**
- **Step 5:** An independent review and verification of bank reconciliations must be **conducted quarterly** by a member of the Finance Committee.

Employee expense reporting

Policy

- Employees will be reimbursed for legitimate, **work-related expenses** incurred in the course of their duties, using the organization's designated online expense management software.
- Expenses must be properly documented, submitted within the required timeframe, and approved according to company procedures.

Sample Procedures

- **Step 1:** Employees must enter each expense into the software, including the date, amount, purpose of the expense, and any relevant project or department codes.
- **Step 2:** Employees are required to **upload a digital copy** of the itemized receipt for each expense.
- **Step 3:** All reimbursement requests must be submitted within 30 days of the expense being incurred.
- **Step 4:** Once an expense report is submitted, it will be automatically routed to the employee's immediate supervisor or designated approver for review and approval.
- **Step 5:** After managerial approval, the expense report is routed to the Finance Department for a final review to ensure compliance with budgetary constraints and financial policies.
- **Step 6:** Once fully approved, the reimbursement will be processed and paid via direct deposit within 10 business days.

Liquidity policy

Policy

- The organization will maintain sufficient liquid assets to cover at least **3-6 months of operating expenses**, ensuring the ability to meet short-term obligations and unexpected financial challenges.
- The Finance Committee will regularly **monitor liquidity levels** and report to the Board to ensure financial stability and operational continuity.

Sample Procedures

- **Step 1:** The organization will maintain liquid assets equivalent to at least **3-6 months of average operating expenses.**
- **Step 2:** The Finance Department will prepare a monthly liquidity report that will be reviewed by the Finance Committee at each monthly meeting and presented to the Board on a quarterly basis.
- **Step 3:** The Finance Department will maintain a rolling 12-month cash flow forecast to identify any potential shortfalls.
- **Step 4:** To provide for unexpected cash flow needs, an open line of credit with a financial institution will be maintained.
- **Step 5:** Liquid reserves may be accessed only with the approval of the Executive Director and Finance Committee.
- **Step 6:** In the event that liquidity reserves fall below the target level, the Finance Committee will develop and implement a **replenishment plan within 90 days.**