



Nonprofit Organization Financial **RED FLAGS** Checklist

THE BASICS – If the answer to any *one* of these questions is no, a **RED FLAG** exists.

1. Does the executive director understand the financial statements of the organization, and review them monthly?
2. Can the executive director explain succinctly the current financial situation of the organization?
3. Does the organization's board of directors meet regularly, holding at least five meetings annually?
4. Does the board treasurer have prior experience with nonprofit organizations, and nonprofit accounting?
5. Can the organization's executive director provide a current statement of financial position (balance sheet) and statement of activities (income statement, or profit/loss statement)?
6. Does the organization prepare and monitor an annual budget?
7. Has the IRS issued the organization a 501(c)(3) determination letter confirming tax exempt status, and if not, does the organization have a fiscal sponsor that is a 501(c)(3) organization?
8. Is the organization current with local, state, and federal tax filings?
9. Does the organization carry a directors and officers liability policy?

BEST PRACTICES – If the answer to any *two* of these questions is no, a **RED FLAG** exists.

1. Is the organization periodically audited or reviewed by an independent accounting firm?
2. Does the organization maintain financial records using an electronic accounting system (such as Aplos, MIP, QuickBooks, etc)?
3. Are bank and merchant account reconciliations performed monthly? If so, are they prepared by somebody other than the person who maintains the accounting records?
4. Can the executive director provide the most recently filed IRS Form 990, 990EZ, or 990N?
5. Is the organization up to date on state business filings such as Charity Registration, Charity Renewal forms, or Nonprofit Corporation Annual Report.
6. Statement of position (balance sheet):
 - a. Does the organization have cash in the bank equal to at least two months (1/6) of total annual expenses?
 - b. Does the organization have a high percentage of accounts receivable older than 90 days?
 - c. Is the organization's debt to asset ratio 0.5 or lower?
 - d. Are the organization's assets greater than their debt?
7. Does the organization use accrual, modified accrual, or cash based accounting? Does the bookkeeping system reflect the method used, and is the 990 filed indicating the same accounting method?
8. Statement of Activities (income statement):
 - a. Does the organization regularly have a positive net income, or the means to cover expenses during months with negative net income?
 - b. Can the organization easily track the source of funds, to differentiate between federal, state, local, fee-for-service, etc.?
 - c. Does the organization track and report expenses by functional category (administrative, program, fundraising).
9. Does the organization maintain adequate commercial general liability insurance coverage?

EMPLOYEES AND INDEPENDENT CONTRACTORS - These are high risk areas. If an organization is not in compliance in either of these areas, a **RED FLAG** exists.

1. If the organization has employees, are the appropriate payroll taxes being withheld and submitted on a timely basis?
2. Is the organization paying people appropriately (as employees, versus independent contractors)? Here is the IRS's guidance on this issue: <https://www.irs.gov/businesses/small-businesses-self-employed/independent-contractor-self-employed-or-employee>