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Nonprofit *Insights*

A Newsletter for Nonprofit Decision-Makers Winter 2026

Accounting Best Practices

Why You Should Close Your Books Every Month

Making smart nonprofit decisions requires accurate financial reporting and "good numbers." The best way to accomplish this is by implementing a formal month-end closing process for your accounting books. While most nonprofits realize the importance of a year-end close for audit purposes, closing your books each month will make it easier to ensure financial record accuracy and relevance.

General ledger closing should be an ongoing activity that encompasses a wide range of procedures. These include account reconciliation, accounts payable and accounts receivable review, payroll posting, and proper allocation and recording of donor-restricted funds.

Performing these procedures consistently every month will make the closing process more manageable while strengthening internal controls and helping ensure financial accuracy. As a result, you can make more confident decisions that support your organization's mission.

Five Benefits of Monthly Closings

Your nonprofit could realize a number of benefits by closing your books monthly instead of at the end of the year, including the following:

1. **Better budget monitoring —** This is a common weak point when monthly closes aren't performed. The annual budget can't serve its purpose if actual financial results aren't updated regularly. By closing your books on a monthly basis, you can compare actual revenue and expenses to your budget projections, identify any variances, and make necessary adjustments. This is especially important for nonprofits that deal with unpredictable revenue streams due to giving seasonality and other factors. Without accurate budget numbers, you could easily overspend or fail to invest in mission-critical opportunities.
2. **Improved cash flow management —** Even nonprofits with strong programs and reliable donors can experience cash flow lags from time to time. Monthly closings provide clarity in terms of how much cash is available at any given time and how cash needs will evolve in the future. In addition, monthly reconciliation of bank accounts, outstanding invoices, and grant receivables will make it easier to anticipate future cash shortages or surpluses.
3. **Enhanced donor accountability —** Many donors give with specific

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Succession Planning

How to Plan for Nonprofit Leadership Succession

Planning for leadership succession is one of the most important, but also most neglected, governance responsibilities of nonprofit boards. According to BoardSource, only 23 percent of nonprofits have a written succession plan in place.

Failing to proactively plan for the departure of key executives such as your executive director, CEO, and CFO can jeopardize the future of your nonprofit organization. The recent growth of the nonprofit sector and retirement of many baby boomer executives make the task especially critical today.

Here are five succession planning tips for nonprofit organizations.

1. **Start the process early.** Almost all leaders leave their organizations eventually, so departures shouldn't come as a surprise. By beginning the succession planning process long before you think you need to, you'll be better prepared for the inevitable executive turnover when it happens.
   Some nonprofits hesitate to address succession planning because they're worried about sending the wrong message to current executives. But just the opposite is true: Proactively planning for succession shows the leadership team that you're serious about ensuring the long-term viability of the organization.
2. **Have your board take the lead.** Since the board is ultimately responsible for oversight of the executive director and CEO, it makes sense for them to spearhead and manage the succession planning process. In fact, the board has a fiduciary responsibility to help ensure the organization's long-term sustainability, which requires well thought-out leadership succession. It's usually smart to create a board committee (e.g., board development or board governance) to oversee the succession planning process. The committee should create a checklist, establish a timeline and benchmarks, monitor progress, and report back to your executive team on a regular basis.
3. **Consider your current and future needs.** Your nonprofit organization will probably look different in five or 10 years than it does today, so you should create your succession plan with this in mind. For example, will your mission change over the next few years? If so, what kind of leadership qualities are needed to navigate the new challenges you'll face in achieving the mission?
   Of course, this will require a degree of anticipation and guesswork on the part of your leadership team. But it's better to anticipate these changes now than to plan leadership succession based on outdated ideas and strategies.
4. **Create a future leadership pipeline.** Identify current staff members who you believe have the potential for future leadership roles. Once identified, invest resources to help train and develop them for greater responsibility. This includes having your current leaders take them under their wing as mentors so they can see firsthand what nonprofit leadership is all about.
5. **Be prepared for emergency succession.** In a perfect world, your executives will provide ample notice that they plan to leave your organization. But executives may depart unexpectedly for a variety of reasons, including a serious accident or illness or simply to pursue another professional opportunity. An emergency succession plan will appoint an acting successor, define the scope of work, designate lines of reporting, and identify support resources. Adopting such a plan will allow your organization to continue delivering on your mission during an executive's emergency absence while buying time to make more permanent decisions.

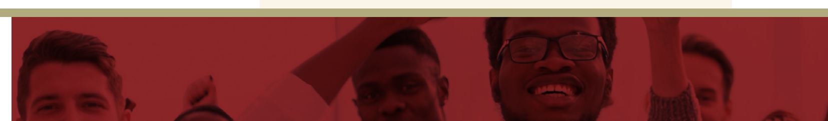
Succession planning goes to the heart of your nonprofit's mission, both now and in the future. The outcome will affect every aspect of your work, from fundraising and event planning to staff retention and donor relations. Meet with your board of directors and executive team to discuss how you can best initiate a succession plan for your organization.

Give us a call if you have questions about succession planning for your nonprofit organization.

Board Succession Planning

It's just as important to have a succession plan for your board of directors as it is to have one for your executives. Otherwise, you may have to manage board member changes on the fly instead of in an organized and orderly fashion.

Put together a list of promising candidates ahead of time and start vetting their qualifications. Clearly describe your organization's history and mission along with board members' duties and legal obligations (e.g., duties of care) and the level of commitment involved. It might make sense to hire an outside consultant to help with the process.



Why You Should Close Your Books Every Month

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intentions, like supporting a unique program or funding a particular scholarship, while grant agreements often come with detailed reporting requirements and timelines. Meeting these requirements requires maintenance of precise and timely revenue and expense records. Monthly closings make it easier to prepare accurate grant reports, track donor-restricted funds, and ensure compliance with donor intent. This level of enhanced accountability will boost donors' confidence in your organization's ability to manage resources responsibly and according to donor intent.

4. **Stronger internal controls —** Monthly closings are a cornerstone of strong internal controls for nonprofit organizations. Regular bank account, accounts payable, and accounts receivable reconciliation makes it easier to spot any unusual activity or unauthorized purchases that could indicate fraud or asset misappropriation.
   A monthly close also presents an opportunity to maintain control logs, review access to financial systems, confirm proper coding of transactions, and ensure compliance with your organization's financial policies.
5. **A more streamlined annual audit —** Waiting until year-end to close the books can put pressure on the finance staff as they prepare for the annual audit. Meanwhile, auditors may find inconsistencies or missing documentation that require additional research, which could delay the audit and issuance of the financial statements and Form 990.

By closing your books each month, you can transform the year-end audit from a stressful scramble to a more manageable review. Auditors can rely more confidently on your internal controls and monthly reconciliations, which will reduce the number of adjustments required, shorten the audit timeline, and lower audit costs.

Best Practices for Closing the Books

Here are a few best practices to consider when preparing a month-end closing schedule:

- **Be sure to record all transactions in the general ledger.** These include all receipts, disbursements, accruals, and pledges (if applicable). Also make sure that various accounting modules have been posted to the general ledger, if applicable.
- **Reconcile all cash accounts.** These should be reconciled before other general ledger accounts; otherwise, you could end up re-reconciling some of the other accounts.
- **Ensure that each general ledger account is accurate.** Make sure the asset and liability accounts are complete and accurate and the beginning net asset balances line up with the prior period ending balances. Be sure to check various revenue and expense accounts as you're reconciling the related asset and liability accounts.
- **Distribute the monthly and year-to-date financial statements to your management team.** Have them analyze whether the statements appear reasonable and if there are any surprises. If so, look closely at these transactions to see if anything was posted in error and make adjusting entries as needed.
- **Determine precision levels for internal reports.** How precise do the accounting records need to be throughout the year? You could decide to perform an abbreviated month-end close for the first two months of each quarter and a thorough month-end close at quarter-end.
- **Use a month-end closing checklist.** This will help ensure that all steps are performed in the correct order and none are left out.

Improve Your Decision Making

By implementing a formal month-end closing process, your nonprofit will benefit from more timely and accurate financial information that improves your overall decision making. Talk to your CFO or controller about how this might look at your organization.

We can provide more detailed best practices regarding your month-end closing process to make it as effective as possible for your organization. Contact us to learn more.

What's Included in a Month-End Close?

A formal month-end close usually includes the following areas:

- Cash and bank accounts
- Accounts receivable and revenue
- Grants and donor restrictions
- Accounts payable and expenses
- Payroll and benefits
- Fixed assets and prepaid expenses
- Investments and endowments
- Net assets and fund balance tracking
- Financial statements and internal reports
- Compliance and internal controls
- Period-end close documentation and sign-offs

Helping Not-for-Profit Organizations Further Their Mission

If you are interested in working with a CPA firm that understands your issues, delivers valuable insight, and can answer the questions to help your organization achieve its goals, contact us.

- Audits, Reviews and Compilations
- Form 990 Tax Return Preparation
- Agreed Upon Procedures
- General Consulting
- Exemption Applications
- Exempt Status Issues
- Restricted Net Asset Accounting
- Fraud Risk Assessment
- Charitable Solicitation License Filing
- Board Development
- UBIT Planning

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we hear you.

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Add Gilliam Bell Moser LLP to your RFP list today!

Is Your Nonprofit Classified Correctly?

Charitable organizations are defined by the IRS as "organizations organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, educational, or other specified purposes and that meet certain other requirements." Such organizations are tax-exempt under Internal Revenue Code Section 501(c)(3).

There are three main categories of 501(c)(3) organizations: private foundations, public charities, and churches and other religious organizations. The latter aren't required to receive formal recognition of their tax-exempt status or submit annual tax returns, but they must meet the same requirements as other charitable organizations.

A private foundation is created and funded by one or more benefactors who make grants to other charitable organizations. The initial donation is invested to generate income that is dispersed to individuals or other charities in accordance with the foundation's charitable purpose.

A public charity solicits donations from the community to support its mission. To qualify, the charity must receive at least one-third of its contributions from the general public or meet the 10% "facts and circumstances" test. A board of directors ensures that the charity is not operated for the benefit of private interests.

In addition, other types of organizations meeting specific requirements may also qualify for tax-exempt status. These include social welfare organizations, civic leagues (501(c)(4)), social clubs (501(c)(7)), labor organizations (501(c)(5)), and business leagues (501(c)(6)).

It's critical to make sure that your nonprofit is correctly classified by the IRS. Otherwise, you could be at risk of losing your tax-exempt status or not be eligible to receive contributions from private foundations. You can go to the IRS Tax Exempt Organization Search Tool (https://www.irs.gov/charities-non-profits/search-for-tax-exempt-organizations) to check your classification and make sure the IRS has your most recent Form 990 or 990-PF on file.

Let us know if you have questions about confirming your nonprofit's classification.