



Rooted in Trust. Grounded in Accuracy.

NONPROFIT BOOKKEEPING STARTER KIT: 7 STEPS



7 essential steps to organized, accurate books — no accounting background required

more info

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WELCOME TO THE NONPROFIT BOOKKEEPING STARTER KIT

At OakPath, we believe strong missions deserve strong financial foundations. If you're leading a nonprofit, you're likely wearing many hats — serving your community, supporting staff or volunteers, nurturing donors, managing programs — and somewhere in the middle of all that sits bookkeeping.

When bookkeeping feels confusing or time-consuming, stress quietly builds. Reports feel uncertain. Grant tracking becomes risky. Board meetings feel tense. Tax and audit season becomes a scramble. This guide is here to change that.

In the next few pages, you will walk through a realistic 7-step system to organize your nonprofit's books, stay compliant, and build confidence — without needing an accounting degree.

Clear systems. Steady routines. Financial peace of mind.

Who This Guide Is For

This guide was created for:

- Executive Directors juggling many responsibilities
- Volunteer treasurers managing the books part-time
- Board members overseeing financial health
- Program managers handling grant funds
- New nonprofits setting up bookkeeping for the first time
- Any nonprofit leader who wants cleaner books without feeling overwhelm

No bookkeeping experience required. No accounting degree needed. Just a commitment to building systems that protect your mission.

WHY NONPROFIT BOOKKEEPING IS DIFFERENT

Nonprofit bookkeeping is not the same as small business bookkeeping. The stakes are higher, the rules are more specific, and the audience for your financial reports is broader. You answer not just to the IRS, but to donors, grantors, your board, and the communities you serve.

Nonprofits must:

- Track restricted and unrestricted funds separately — this is a legal requirement, not optional
- Report to donors and grantors with accurate, timely financial documentation
- File an annual Form 990 with the IRS — this is a public document anyone can read
- Maintain full transparency with boards, auditors, and stakeholders
- Follow specific compliance and reporting requirements tied to each funding source
- Separate program, administrative, and fundraising expenses for accurate reporting

Good bookkeeping does not just prevent problems.

It builds trust with funders, demonstrates accountability to donors, and supports the long-term sustainability of your mission.



Key Differences from Small Business Bookkeeping

Small Business	Nonprofit
Profit & Loss Statement	Statement of Activities
Balance Sheet	Statement of Financial Position
Owner equity	Net Assets (restricted/unrestricted)
Revenue = income	Revenue includes grants, donations, program fees
Tax return (Form 1120/1040)	Form 990 (public document)
No fund restrictions	Restricted vs. unrestricted fund tracking required
Optional audit	Audit often required by funders or state law

AT A GLANCE: THE 7 STEPS TO AUDIT-READY BOOKS

Here is the complete system at-a-glance. Each step builds on the last — simple, steady progress toward financial clarity and audit readiness.

Step	Action
1	Set up a nonprofit-friendly Chart of Accounts
2	Separate restricted and unrestricted funds
3	Create a consistent monthly bookkeeping routine
4	Track grants separately and completely
5	Organize receipts and documentation
6	Review financial reports every month
7	Stay audit-ready all year long

STEP 1 SET UP A NONPROFIT-FRIENDLY CHART OF ACCOUNTS

Your Chart of Accounts is the foundation of your entire bookkeeping system. For nonprofits, this setup is especially critical because you must separate income and expenses by fund type, program, and restriction level. A well-structured Chart of Accounts makes every report accurate and every audit smoother.

Why it matters for nonprofits:

- Enables accurate fund-by-fund reporting required by most grantors
- Make your Form 990 preparation faster and less expensive
- Ensures your Statement of Activities and Statement of Financial Position are reliable
- Prevents commingling of restricted and unrestricted funds



Recommended Nonprofit Chart of Accounts Structure

Category	Examples
Income — Unrestricted	General donations, membership dues, program fees, interest income
Income — Restricted	Grant income (by grant), restricted donations, endowment income
Program Expenses	Direct costs of delivering your mission — one account per program
Administrative Expenses	Staff, rent, utilities, insurance, software, accounting
Fundraising Expenses	Events, mailings, donor outreach, campaign costs
Assets	Bank accounts, savings, accounts receivable, prepaid expenses
Liabilities	Credit cards, deferred revenue, accounts payable, accrued expenses
Net Assets — Unrestricted	Funds available for general operations
Net Assets — Restricted	Temporarily and permanently restricted funds

Quick Win

Set up a separate income account for each active grant. This one step makes grant reporting dramatically faster and protects you during audits.

STEP 2 SEPARATE RESTRICTED AND UNRESTRICTED FUNDS

This is the most important — and most commonly missed — step in nonprofit bookkeeping. Restricted funds must be used only for the specific purpose defined by the donor or grantor. Spending restricted money outside its approved purpose is a compliance violation that can jeopardize future funding and damage donor trust.

Understanding the Three Types of Net Assets

Fund Type	Definition and Use
Unrestricted	No donor restrictions — can be used for any organizational purpose including operations
Temporarily Restricted	Must be used for a specific purpose or within a specific time period defined by the donor
Permanently Restricted	Principal must be maintained permanently (endowments) only income may be spent

Best Practices for Fund Separation:

- Track each restricted fund in its own Class in QuickBooks — never pool restricted funds together
- Never spend restricted money outside its defined purpose without donor permission
- Communicate with donors or grantors immediately if restricted funds cannot be spent as intended
- Keep a copy of every gift agreement, grant award letter, and funding agreement
- Review fund balances monthly — know exactly how much is restricted vs. available, and act immediately if a restricted fund shows overspending
- When a restriction is fulfilled, document the release of funds in your books
- Report restricted fund activity separately on your Statement of Activities
- Train all staff and board members who handle finances on what fund restrictions mean and why they matter



Clear fund separation protects your nonprofit’s compliance, reputation, and future funding relationships.
When a grantor asks “How were our funds spent?” you should be able to answer in minutes, not days.

STEP 3 CREATE A MONTHLY BOOKKEEPING ROUTINE

Consistency is the single most powerful habit in nonprofit bookkeeping. Organizations that set aside dedicated time each month — even just a few hours — maintain clean books year-round, sail through audits, and never face the year-end scramble that derails so many nonprofits.

Your Monthly Nonprofit Bookkeeping Checklist:

<input type="checkbox"/> Record all income received — donations, grants, program fees, other revenue
<input type="checkbox"/> Record all expenses paid — categorized by program, admin, or fundraising
<input type="checkbox"/> Reconcile all bank and savings accounts
<input type="checkbox"/> Reconcile all credit card accounts
<input type="checkbox"/> Upload and attach receipts and documentation for all transactions
<input type="checkbox"/> Review restricted fund balances — confirm no overspending
<input type="checkbox"/> Update grant tracking for all active grants
<input type="checkbox"/> Run your Statement of Activities and review it
<input type="checkbox"/> Run your Statement of Financial Position and review it
<input type="checkbox"/> Prepare Budget vs. Actual report for board reporting
<input type="checkbox"/> Review any upcoming grant reporting deadlines

Recommended Software for Nonprofits:

- QuickBooks Online — most widely used, strong class tracking for fund accounting
- Aplos — built specifically for nonprofits with fund accounting built in
- Sage Intacct — enterprise-level nonprofit accounting for larger organizations
- Wave — free option for very small nonprofits with simple needs

Time reality:

Most nonprofits maintain clean books in 2–4 hours per month once systems are in place. The investment in monthly consistency saves dozens of hours at audit and grant reporting time.



STEP 4 TRACK GRANTS SEPARATELY AND COMPLETELY

Grant tracking is one of the most important — and most stressful — aspects of nonprofit bookkeeping. Grantors expect accountability. They want to know exactly how their funds were spent, and they want that information quickly. Poor grant tracking is one of the top reasons nonprofits lose funding relationships.

Every Active Grant Should Track:

Data Point	Why It Matters
Award amount	Your starting balance for this grant
Grant periods start and end dates	Funds must be spent within the approved period
Approved budget by category	Spending must align with the approved budget
Expenses charged to date	Running total of what has been spent
Remaining balance	How much is left to spend before the deadline
Reporting deadlines	Interim and final reports due to the grantor
Allowable expense categories	What the grant will and will not cover
Indirect cost rate (if applicable)	Approved overhead percentage, if any

How to Set Up Grant Tracking in QuickBooks Online:

- Create a Class for each active grant (Classes & Locations feature)
- Assign the grant class to every income and expense transaction related to that grant
- Run a Profit & Loss by Class report to see grant-specific financials instantly
- Set up a budget for each grant to track Budget vs. Actual spending
- Create a reminder in your calendar for every reporting deadline

Quick Win

Set up each grant as a Class in QuickBooks Online before posting any transactions. When reporting time comes, run a P&L by Class and your grant report is essentially done.

STEP 5 ORGANIZE RECEIPTS AND DOCUMENTATION

Audits do not fail because of bad intentions. They fail because paperwork goes missing. Nonprofits face heightened documentation requirements compared to small businesses — grantors, auditors, and the IRS all expect organized, accessible records. A simple digital system eliminates audit stress entirely.

What to Keep and For How Long:

Document Type	Retention Period
Bank and credit card statements	7 years minimum
Receipts for all expenses	7 years minimum
Grant award letters and agreements	Permanently
Donor gift agreements and restrictions	Permanently



Document Type	Retention Period
Form 990 and supporting documents	Permanently
Payroll records	7 years minimum
Board meeting minutes	Permanently
Corporate formation documents	Permanently
Audit reports	Permanently
Contracts and legal agreements	Permanently

Simple Digital Documentation System:

- Create a folder structure by year, then by month or grant
- Photograph or scan receipts the same day as the purchase
- Store grant documents in a dedicated grant folder with all related correspondence
- Keep board minutes in a permanent Board folder accessible to leadership
- Back up all files to cloud storage AND a local backup
- Match every receipt to its transaction in your accounting software

Auditors and grantors can request documentation going back years.

A well-organized digital system means you can produce any document in minutes — not hours of searching through paper files.

STEP 6 REVIEW FINANCIAL REPORTS MONTHLY

Your board and leadership team should never be surprised by financial results. Monthly report review is how you stay ahead of problems, demonstrate accountability to funders, and make confident decisions about programs, staffing, and growth.

The Four Core Nonprofit Reports:

1. Statement of Activities (equivalent to P&L)

- Shows revenue and expenses by fund type (restricted vs. unrestricted) for the period
- Look for: program expense ratio, whether restricted funds are being spent appropriately
- Ask: Are we spending at least 65–75% of expenses on programs vs. admin and fundraising?

2. Statement of Financial Position (equivalent to Balance Sheet)

- Shows assets, liabilities, and net assets — your organization’s financial health snapshot
- Look for: adequate cash reserves, growing liabilities, deferred revenue from unspent grants
- Ask: Do we have 3–6 months of operating expenses in unrestricted reserves?

3. Budget vs. Actual Report

- Compares planned budget to actual income and spending for the period
- Essential for board reporting and internal management
- Look for: significant variances in either direction — both overspending and underspending matter



4. Grant Expense Reports (by grant)

- Shows spending against each grant’s approved budget
- Run before every grantor report deadline to catch any issues early
- Look for: overspending in any category, funds at risk of lapsing unspent

Quick Win

Send your board a one-page financial summary every month — even before the full board meeting. Board members who see regular reports ask better questions and provide stronger financial oversight.

STEP 7 STAY AUDIT-READY ALL YEAR LONG

Many nonprofits dread audit season. But organizations with strong year-round bookkeeping systems find audits routine — even straightforward. The secret is simple: do the work consistently throughout the year so there is nothing to scramble for when the auditor arrives.

Who Needs a Nonprofit Audit?

Situation	Audit Requirement
Federal expenditures over \$750,000	Single Audit required (federal requirement)
Many state grants	State-specific audit requirements may apply
Most foundation grants over \$300K	Independent audit often required by funder
Strong governance practice	Voluntary audit builds donor and board confidence

Year-Round Audit Readiness Checklist:

<input type="checkbox"/> Reconcile all accounts monthly — never let it fall behind
<input type="checkbox"/> Keep all documentation organized and digitally accessible
<input type="checkbox"/> Track all restricted funds separately with complete documentation
<input type="checkbox"/> Maintain written financial policies (expense policy, approval limits, conflict of interest)
<input type="checkbox"/> Review internal controls annually — who approves what, who can sign checks
<input type="checkbox"/> Keep board minutes current and complete
<input type="checkbox"/> File Form 990 on time — extensions are available but avoid them when possible
<input type="checkbox"/> Communicate with your CPA or auditor mid-year, not just at filing time



Form 990 Key Deadlines:

Fiscal Year End	Form 990 Due Date
December 31	May 15 (with 6-month extension available to November 15)
June 30	November 15 (with extension to May 15 of following year)
Other fiscal year ends	15th day of 5th month after fiscal year end

Preparedness builds trust with donors, funders, and boards.

An organization that breezes through an audit signals financial maturity — and that attracts more funding, not less.

IS YOUR NONPROFIT BOOKKEEPING HEALTHY? A QUICK CHECK

Answer honestly — this quick self-assessment will show you exactly where to focus first:

<input type="checkbox"/> We reconcile bank accounts every month without fail
<input type="checkbox"/> We can produce a grant expense report for any active grant within 24 hours
<input type="checkbox"/> We always know our current unrestricted cash balance
<input type="checkbox"/> All receipts and expense documentation are stored digitally
<input type="checkbox"/> Our board receives monthly financial reports
<input type="checkbox"/> We have written financial policies in place
<input type="checkbox"/> Our Form 990 has been filed on time for the last 3 years
<input type="checkbox"/> Restricted and unrestricted funds are tracked separately
<input type="checkbox"/> We have reviewed our internal controls in the last 12 months
<input type="checkbox"/> We feel confident our books would pass an audit today

If you answered “No” to two or more questions, your bookkeeping system needs attention — and that’s completely okay.

Most nonprofits start here. The good news: small, consistent improvements make a big difference quickly.



YOU DON'T HAVE TO DO THIS ALONE

Many nonprofit leaders reach a point where bookkeeping takes more time than it should, or where the complexity of fund accounting, grant tracking, and compliance reporting exceeds what a volunteer treasurer or part-time staff member can reasonably manage. Working with a professional nonprofit bookkeeper is one of the best investments an organization can make.

A professional nonprofit bookkeeper helps you:

- Keep books accurate and current every month — no backlog, no scramble
- Track restricted and unrestricted funds correctly and completely
- Prepare grant expense reports quickly and accurately
- Support your board with clear, reliable monthly financial reports
- Prepare for audits without stress — everything is already organized
- File Form 990 with confidence — your CPA gets clean, organized records
- Catch errors and discrepancies early before they become expensive compliance issues

When your bookkeeping is clear and current, your organization can focus fully on its mission.

With confidence, compliance, and the financial clarity that attracts funders and builds lasting donor trust.

YOUR FREE BOOKKEEPING REVIEW

OakPath offers a free 30-minute Financial Review to help you assess your current bookkeeping system. During this session, we will:

- Review your current bookkeeping setup
- Identify any risk or compliance concerns
- Highlight opportunities for improvement
- Answer your questions — no preparation required

Schedule Your Free Bookkeeping Review

www.oakpathbookkeeping.com | (360) 215-1099

SECURITY & CONFIDENTIALITY

Professional bookkeepers use secure, encrypted systems to protect financial information. Your records remain private, controlled, and accessible only to authorized users.

All financial data is stored in encrypted, cloud-based systems. Access is limited to authorized staff and your bookkeeper. Systems are regularly backed up to prevent data loss. You always retain ownership and access to your records.

Trust begins with security.



ABOUT OAKPATH BOOKKEEPING SERVICES

OakPath Bookkeeping Services provides trusted, reliable bookkeeping support for nonprofits and small businesses in Jefferson County, Washington and beyond. We believe bookkeeping is more than entering numbers — it is about creating clarity, supporting compliance, and building confidence in every financial decision your organization makes.

Founded by Marie Osborne, a Certified QuickBooks Online ProAdvisor with 40+ years of leadership experience — including 17 years overseeing multimillion-dollar nonprofit and county administration budgets — OakPath brings deep nonprofit expertise and genuine care to every client relationship.

We understand the unique pressures nonprofit leaders face: grant accountability, board transparency, audit readiness, and the constant need to demonstrate that every dollar serves the mission. We are here to make that easier.

Value	What It Means for You
Trust	Your financial records are handled with care, discretion, and complete integrity
Accuracy	Precise, up-to-date records that support confident decisions and clean audits
Partnership	Supportive bookkeeping so you are never facing your finances alone

Strong bookkeeping supports strong missions.

Rooted in Trust. Grounded in Accuracy.