



Form 990: Tips for Recordkeeping

Getting Started

1. DO use an accounting package. They are affordable and easy to use. Small nonprofits commonly rely on:

- a. Peachtree Complete (off the shelf—\$300)
- b. Quickbooks Pro (off the shelf—\$300)
- c. Quickbooks for Nonprofits
(off the shelf, slightly more expensive)

2. DO create a chart of accounts that flows into the IRS Form 990. A chart of accounts should include five basic areas:

- a. Assets—things you own
- b. Liabilities—bills you need to pay
- c. Net Assets—equity, a summary of your organization’s financial position
- d. Income—funds received or promised
- e. Expenses—funds spent by the organization

Check out page three of the Form 990 and you will see how the government would like your balance sheet to look. You can use these balance sheet account names to begin forming your own chart of accounts. Remember that you might not have each account listed, or, you may have more accounts than those identified on page three, such as multiple cash accounts in various banks. Just leave blank the spaces that do not apply to your organization or combine accounts into one category and report the total amount.

In forming the income and expense area of your chart of accounts (your income statement), you can refer to pages one and two of the Form 990. Your income accounts need to be broken down at least to the level of detail that you see on pages one and two. If you have categories of expenses that don’t currently exist on pages one and two, you can combine them and report them under miscellaneous. Just be aware that miscellaneous expenses must be defined on a supplemental statement when you complete and file your Form 990. Many nonprofits choose to be more spe-

cific on their internal financial statements to assist the Board of Directors with its understanding of the organization’s funding streams.

Expenses can be tricky. **DO NOT** create expense titles such as “Children’s Expenses” that don’t indicate the type of expenses actually incurred. If you created coloring books for your Children’s Program and took them to Kinko’s to be copied, report that expense as a “Printing Expense.”

Allocation of Functional Expenses

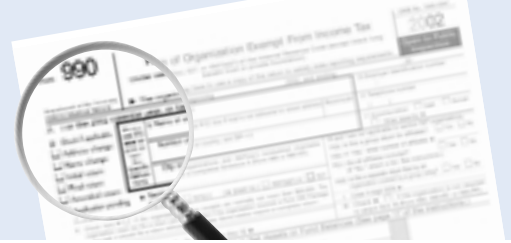
3. DO allocate costs among the three basic required areas: Administration (also called Management & General), Fundraising, and Program Services.

Administrators often have a terrible time deciding which expenses are administrative and which expenses are for program services. Fundraising expenses should be the easiest to identify. When looking at an expense, ask yourself the following questions:

- a. “Does the expense reach the users of our services?”
- b. “Does the expense have a direct effect on program service delivery?”

If the answer to these questions is yes, you are dealing with a program expense.

Administrative expenses are usually expenses that cover the operation of the charitable organization and its governing body. Typical examples are all Board of Directors’ expenses, officer liability insurance, legal expenses, and accounting or bookkeeping expenses. Keep track of the allocation of administrative, program service, and fundraising expenses throughout the year. If you do, you will be in a better position to complete your functional expense statement on page two of the Form 990. For more information see the Minnesota Nonprofit Accountability Collaborative publication “Form 990: Tips for Telling the Truth” at www.crcmn.org/npresources/truthtips.pdf.



4. DO determine a method or strategy to **allocate shared expenses**.

You need to come up with a method or strategy to allocate your shared expenses among the administrative, fundraising, and program service areas.

There are several allocation strategies to choose from. Here are two examples:

a. *Space allocation theory*—If the people performing the administrative functions for your organization take up 20% of the total office space, you would allocate 20% of the shared expenses, such as rent, utilities, telecommunications charges, etc., to the administrative area.

b. *Time study*—All employees must identify how much of their time is spent doing work in each of the three expense areas (administrative, fundraising, program). This process could take place over the course of two weeks or two months each year, depending on the cyclical variety of your organization's work. After each employee completes his or her individual evaluation, calculate the total time spent in each area by the organization as a whole. Using these totals, calculate the percentage of the organization's time spent in each of the three areas. You can then allocate the shared costs using those percentages.

Option A is a lot less work than Option B, but Option B is usually much more accurate. Each organization should determine which method is best for its particular situation.

5. DO tell the truth about your expense allocations. A lot of nonprofits will try to squeeze administrative expenses into the program services area throughout the year. Although the Charities Review Council has recommended that the combined total of administrative and fundraising expenses be less than 30% of your total expenses, this doesn't mean that you are expected to report zero or nearly zero for these

expenses. Many organizations have been scrutinized recently by the media because the public cannot understand how an organization can report raising a million dollars while also reporting zero fundraising expenses on its Form 990.

Remember, your full financial statements are available to the public through the Minnesota Attorney General's Office and a summary of the organization's Form 990 expense allocations are available on the Attorney General's website at www.ag.state.mn.us. Forms 990 are also available at www.guidestar.org.

Begin at the Beginning

6. DO make sure you start your balance sheet records with the **correct beginning balances**.

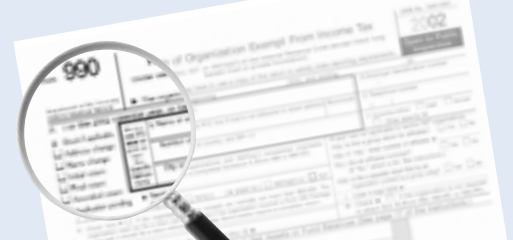
These should be the ending balances reported on page three of your previous year's Form 990.

Maintain Your Records

7. DO reconcile your bank accounts monthly. Reconciling bank accounts on a monthly basis ensures that cash balances are correct. If an error occurs, it is much easier to identify and correct when the error is current. Monthly reconciliation of all balance sheet accounts is also a prudent internal control for all organizations.

8. DO prepare monthly financial statements for presentation to your Board of Directors and **DO** have your Form 990 approved by your Board.

The Board of Directors has a fiduciary duty to see that the Form 990 is filed properly. Therefore, it is necessary that the Board reviews and approves monthly financial statements. Monthly financial reports and frequent board presentations will reduce the number of unpleasant surprises when it comes time to make this information available to the general public through your Form 990. For advice about how to present your Form 990 to your Board of Directors, see www.mncn.org/.



9. DO make sure you keep track of in-kind donations.

You must assign a value to in-kind donations for internal bookkeeping purposes. When acknowledging and thanking donors for their contributions, however, you are not required, and probably are not qualified, to assign a dollar value to those donations. Instead, you are required to describe the item in detail.

10. DO ensure that you are properly accounting for restricted contributions and grants.

If you receive and utilize donor restricted contributions, those funds must be accounted for separately. In most cases, you would not need to open a separate bank account, but internal accounting should separately reflect the income and expenses for each particular gift. Keeping track of this information throughout the year will facilitate the completion of your return.

11. DO make sure you are recording the names and addresses of all funders who donate \$ 250 or more to your organization. This information will be used to prepare Schedule B to Form 990, which now must be filed by all organizations.

Schedule B asks for the names and addresses of your supporters. You will probably facilitate the completion of the Form 990 by adding this information to a database when the checks arrive. Remember, this information is not available to the public.

Take responsibility for your form 990

12. DO review your completed Form 990 to verify its accuracy. The Form 990 is the responsibility of the organization, not of a paid preparer or an outside consultant. Regardless of who completes the 990, you should review the completed form to ensure its accuracy.

See the NAC's "IRS Form 990 Checklist" at www.crcmn.org/npresources/990checklist.pdf for a list of areas to double check.

13. DO ask for help when you need it.

Check out the following resources for assistance:

www.allianceonline.org—Alliance for Nonprofit Management

www.crcmn.org—Charities Review Council

www.mapfornonprofits.org—Management Assistance Program for Nonprofits

www.ag.state.mn.us.gov—Minnesota Attorney General's Office

www.mncn.org—Minnesota Council of Nonprofits