Association for Career and Technical Education

**Leadership Development**

December 1, 2012

**Judith A. Akin, EA**

**Tax and Financial Services**

**Voice: 405.254-5066**

**E-mail: judy@akineataxandfinancialservices.com**

**Nonprofits: Record Keeping & Retention policy**

Accountability is the buzzword with the nonprofit watchdogs. At the helm of accountability is the record keeping and retention policy of an organization.

A well written record keeping and retention policy is recommended by IRS for proper governance.

The record keeping & retention policy must be formally approved and adopted by the board of the organization.

Following is a sample record keeping and retention policy for a nonprofit organization which can be used as a reference for drafting the organization’s record keeping and retention policy.

The documents that are generally maintained are mentioned below. The records to be kept are categorized based on their retention period.

**Documents to be retained permanently**

|  |
| --- |
| Articles of Incorporation & By Laws |
| Certificate of Incorporation/Other Incorporation documents |
| Board & Committee meetings – minutes |
| Form 1024 – Application for tax exemption |
| E.I.N allotment letter |
| IRS Determination letter and related papers |
| Construction related documents |
| Contracts and Leases agreements and related documents |
| Important legal correspondence |
| Staff personnel records |
| Staff retirement & Pension records |
| Employment applications of existing staff |
| Financial statements |
| General ledgers |
| Subsidiary ledgers |
| Cash book |
| Fixed Asset records |
| Tax returns |
| Canceled checks – related to important payments |
| Current Insurance policy |
| Expired Insurance policy |
| Accident reports and Claims (Current & settled claims) |
| Copyright, patents & related documents |
| Property appraisals documents |
| Real asset documents – Property deeds, mortgages, etc. |
| Investment records – stock /bond certificates and others |

**Document to be retained for 11 years –** Employee Workman’s Compensation Documents

**Documents to be retained for 5 years**

|  |
| --- |
| Bank statements & reconciliations |
| All canceled checks |
| Cash receipts and payments |
| Expired contracts and leases |
| Assignments and Garnishments |
| Employee Benefit Plan Documents |
| Payroll Records |
| Payroll Reports (Federal, State or Local) |
| Personnel Records of terminated employees |
| Time sheets & Attendance records |
| Bills Payable Ledgers and Schedules |
| Bills Receivable Ledgers and Schedules |
| Tax Return Worksheets |
| Organization write-offs |
| Form 990, W-2 / W-4 / etc. |
| Grant Inquiries |
| Inventories register |
| Vendor invoices |
| Customers invoices |
| Paid Bills & Vouchers |
| Canceled stock and bond certificates |
| Vendor Payment register |
| E mail records |

**Records to be maintained for 3 years**

|  |
| --- |
| Correspondences of general nature |
| Bank deposit slips |
| Application for employment |

**Cash flow worksheet for nonprofit organizations**

Revenues and Expenses incurred by an organization are measured on ‘accrual basis’ concept.

According to accrual concept, revenues is recorded when it is earned, and expenses are recorded when they are incurred and is not necessarily the same as the amount of cash received or paid out.

Thus there might be an expense which necessarily does not result in immediate cash outflow. (Say goods purchased on credit). Similarly there might be instances of income, which does not result in immediate cash inflow. (Say goods sold on credit)

Because of this, nonprofit organizations prepare a third statement—the cash flow statement (also called the statement of activity) to record and analyze changes in cash/liquidity position of the organization. The cash flow statement reviews and records all inflows and outflows and helps to assess the cash balance available with the organization to meet its day to day liquid cash requirements.

While the operating statement records all income and expenses incurred, whether received or not, the cash flow statement records all transactions which result in immediate cash inflows or outflows.

Being short term in nature, the cash flow is prepared for a month wise period as opposed to budgets or operating statement which are prepared for an annual tenure. An annual budget is not concerned with the specific time of the expenses but rather the expenses over the entire year whereas cash flow helps assess adequacy of cash for immediate usage.

What follows is a sample cash flow worksheet of a typical nonprofit organization for 4 months.

**Cash flow worksheet for XYZ nonprofit organization from January to April, 20XX.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **January** | **February** | **March** | **April** |
| Opening Cash |  |  |  |  |
| **Expected Receipts** |  |  |  |  |
| Client Fees |  |  |  |  |
| Meyer Grant |  |  |  |  |
| Government Grant |  |  |  |  |
| Sales |  |  |  |  |
| Donations |  |  |  |  |
| Other Grants |  |  |  |  |
| **Receipts Total** |  |  |  |  |
| Loans Received |  |  |  |  |
| **Total Cash Available (A)** |  |  |  |  |
|  |  |  |  |  |
| **Expected Disbursements** |  |  |  |  |
| Net Payroll |  |  |  |  |
| Federal Withholding &FICA |  |  |  |  |
| Sate Withholding |  |  |  |  |
| Workers Compensation |  |  |  |  |
| Unemployment |  |  |  |  |
| Health Plan |  |  |  |  |
| Rent |  |  |  |  |
| Utilities |  |  |  |  |
| Office Supplies |  |  |  |  |
| Insurance |  |  |  |  |
| Postage |  |  |  |  |
| Program Supplies |  |  |  |  |
| Printing |  |  |  |  |
| Other |  |  |  |  |
| Loan Repayments |  |  |  |  |
| **Total Disbursements (B)** |  |  |  |  |
|  |  |  |  |  |
| **\*Ending Cash (A – B)** |  |  |  |  |

\*The ending cash (A-B) could be a positive number (surplus cash) or negative number (cash deficit) for a given month.

By projecting cash inflows and outflows in the fashion mentioned above the Board can decide how to deal with surplus cash or how to make up for the deficit in a given month. The organization can identify and control areas that are causing the cash deficit or plan out for meeting those deficits by generating cash outflows.

**Statement of activity of nonprofit organizations**

The Income statement (also called the Statement of Activity or the operating statement) describes how the organization has dealt with its income and expenses in a given time period. This is primarily established by understanding how the organization’s net assets have been utilized over time.

This change in net assets is expressed through the general equation:

Revenues – Expenses = Change in Net Assets.

The change in net assets could either reflect a surplus or a deficit.

The income statement of nonprofit organizations is often divided into three categories – unrestricted, temporarily restricted, and permanently restricted funds and all donations are place into any of these three categories depending upon the intent of the donor.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Operating Statement/Statement of Activities for** | | | | |
| **XYZ Nonprofit organization for Year Ending 20xx** | | | | |
| Changes in Unrestricted Net Assets: | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| **Revenues and Gains:** |  |  |  |  |
| Public Contributions |  |  |  |  |
| Program Service Revenue: |  |  |  |  |
| Investment Income: |  |  |  |  |
| Net Assets Released from Restrictions: |  |  |  |  |
| **Total Revenues, Gains, Other Support: (A)** |  |  |  | XXX |
|  |  |  |  |  |
| **Expenses:** |  |  |  |  |
| Program Services: |  |  |  |  |
| General Administration: |  |  |  |  |
| Fund raising: |  |  |  |  |
| **Total Expenses and Losses: (B)** |  |  |  | YYY |
|  |  |  |  |  |
| **Increase in Net Assets: (C = A-B)** |  |  |  | ZZZ |
| Net Assets as Beginning of Year: (D) |  |  |  |  |
| Net Assets as End of Year: (C+D) |  |  |  |  |

Once donated, the donor cannot ask the recipient to return back the funds. However a donor can impose certain terms and conditions of usage for the monies donated at the time of making the donation.

If the donor placed restrictions have not been met, the organization cannot record the donation as revenue but should mention it as a liability. The money can be recorded as revenue only after the donor stipulations are adhered to or the time for such condition expires.

**Meaning of terms used in the Income statement**

**I. Revenues**

**Contributions** – Revenues generated from transfer of assets, which are not bound by any conditions or stipulations are recorded under the head ‘contributions’ of the Income statement. It can also include future unconditional promises to transfer cash or other assets to the organization.

Contributions are recorded at fair- market value (FMV) when it is received.

If contributions are to be received in installments, the nonprofit organization can only record the present value of the contribution after discounting the amount received and not the total amount of the contribution that is to be received in installments.

Contributions received in-kind or as service rendered are not generally recorded on the Income Statement.

**Program service revenue –** While contribution records unconditional revenues, this line item records revenue generated when the nonprofit organization provides some service in exchange for cash or another asset.

**Membership dues -** These are fees or revenue generated from membership or subscription fee.

**Special events revenue –** Income generated from special events are recorded separately under this head. A nonprofit organization should record the gross revenue generated from an event and should side wise deduct the related expenses to finally record the net revenue from such special events.

**Investment income -** This line item records income from the investment portfolio of the organization. Typical income made by a nonprofit organization could include income from dividends on stock or income earned as interest on bonds. As per U.S GAAP (Generally accepted accounting principles) Income from investments should also reflect changes in the market value of the investment.

**II. Expenses**

**Program expenses –** All expenses incurred and associated with the main mission of the organization.

**Fund raising expenses** – Expenses incurred on conducting fund raising activities.

**Administrative expenses –** General, administrative and managerial expenses like – expenses incurred on record keeping, budgeting, compliance and other administrative functions.

# Exemption Requirements - Section 501(c) (3) Organizations

To be tax-exempt under section 501(c)(3) of the Internal Revenue Code, an organization must be [organized](http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Organizational-Test---Internal-Revenue-Code-Section-501(c)(3)) and [operated](http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Operational-Test---Internal-Revenue-Code-Section-501(c)(3)) exclusively for [exempt purposes](http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Exempt-Purposes---Internal-Revenue-Code-Section-501(c)(3)) set forth in section 501(c)(3). In addition, it may not be an [action organization](http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Political-and-Lobbying-Activities), i.e., it may not attempt to influence legislation as a substantial part of its activities and it may not participate in any campaign activity for or against political candidates.

***Good governance is important to increase the likelihood that organizations will comply with the tax law, protect their charitable assets and, thereby, best serve their charitable beneficiaries.***

**Requirements for Exemption - Section 501 (c) (6)**

To be exempt, a section 501(c) (6) organization must receive meaningful [membership support](http://www.irs.gov/Charities-&-Non-Profits/Other-Non-Profits/Composition-of-Membership---Business-League-Trade-Association).

Trade associations and professional associations are business leagues. The requirements for exemption of these organizations are substantially the same as for business leagues.

**Exempt Organizations - Required Filings**

Although they are exempt from income taxation, exempt organizations are generally required to file [annual returns](http://www.irs.gov/Charities-&-Non-Profits/Annual-Exempt-Organization-Information-Returns) of their income and expenses with the Internal Revenue Service. If an organization has unrelated business income, it must file an [unrelated business income tax return](http://www.irs.gov/Charities-&-Non-Profits/Unrelated-Business-Income-Tax-Returns). In addition to filing an annual exempt organization return, exempt organizations may be required to file other returns and pay [employment taxes](http://www.irs.gov/Charities-&-Non-Profits/Employment-Taxes-for-Exempt-Organizations). Some organizations may be required to file certain returns [electronically](http://www.irs.gov/uac/e-file-for-Charities-and-Non-Profits).

Due Date: For most exempt organizations the Form 990 is due annually by the 15th day of the 5th month after the end of its tax year. If the organization has unrelated business income, they must also file Form 990-T.

In addition to required filings, a charity may have other [ongoing compliance](http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Life-Cycle-of-a-Public-Charity---Ongoing-Compliance) obligations, such as, employment taxes, and substantiation for charitable donations received.

**Employment Taxes**  
  
Every employer, including an organization exempt from federal income tax, who pays wages to employees is responsible for withholding, depositing, paying, and reporting [federal employment taxes](http://www.irs.gov/Charities-&-Non-Profits/Employment-Taxes-for-Exempt-Organizations) (including federal income tax, social security and Medicare (FICA) taxes, and federal unemployment tax (FUTA)), unless that employer is specifically [exempted](http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Employment-Tax-Exceptions-and-Exclusions-for-Exempt-Organizations) by law from those requirements or if the taxes clearly do not apply.

**Substantiation of Contributions**   
A donor can deduct a charitable contribution of $250 or more only if the donor has a [written acknowledgment](http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Charitable-Contributions---Written-Acknowledgments) from the charitable organization.

**Annual Electronic Filing Requirement for Small Exempt Organizations — Form 990-N (e-Postcard)**

Most small tax-exempt organizations whose annual [**gross receipts**](http://www.irs.gov/Charities-&-Non-Profits/Gross-Receipts-Defined) are [**normally $50,000 or less**](http://www.irs.gov/Charities-&-Non-Profits/Gross-Receipts-Normally-$25,000-$50,000-or-Less) are required to electronically submit Form 990-N, also known as the *e-Postcard*, unless they choose to file a complete Form 990 or Form 990-EZ instead.

***Gross Receipts Defined***

***Gross receipts are the total amounts the organization received from all sources during its annual accounting period, without subtracting any costs or expenses****.*

If you do not file your e-Postcard on time, the IRS will send you a reminder notice. There is no penalty assessment for late filing the e-Postcard, but an **organization that fails to file required e-Postcards (or information returns – Forms 990 or 990-EZ) for three consecutive years will** [**automatically lose its tax-exempt status**](http://www.irs.gov/Charities-&-Non-Profits/Automatic-Revocation-of-Exemption). The revocation of the organization’s tax-exempt status will not take place until the filing due date of the third year.

Tax-exempt organizations with annual gross receipts that are normally greater than $50,000\* must file [Form 990](http://www.irs.gov/file_source/pub/irs-pdf/f990.pdf) or [Form 990-EZ](http://www.irs.gov/file_source/pub/irs-pdf/f990ez.pdf);

**Annual Filing Requirements for Form 990 or 990EZ**

If an organization has gross receipts less than $200,000 and total assets at the end of the year less than $500,000, it can file Form 990-EZ, instead of Form 990.

Form 990 (not 990-EZ or 990-N) must be filed by an organization exempt from income tax under section 501(a) (including an organization that has not yet applied for recognition of exemption or whose application for recognition of exemption is pending) if it has either gross receipts greater than or equal to $200,000 or total assets greater than or equal to $500,000 at the end of the tax year. This includes the following:

* Organizations described in section 501(c)(3) (other than private foundations) and
* Organizations described in other section 501(c) subsections (other than black lung benefit trusts).

***Gross Receipts Defined***

***Gross receipts are the total amounts the organization received from all sources during its annual accounting period, without subtracting any costs or expenses***

***Returns when exempt status not established.*** *An organization is required to file Form 990 or 990-EZ in accordance with these instructions if the organization claims exempt status under section 501(a) but has not yet established such exempt status by filing Form 1023 or Form 1024 and receiving an IRS determination letter recognizing exempt status. In such cases, the organization must check the “application pending” checkbox in Item B of the Form 990 or Form 990-EZ header (whether or not a Form 1023 or Form 1024 has yet been filed) to indicate that the Form 990 or Form 990-EZ is being filed in the belief that the organization is exempt under section 501(a).*

**When to File**

File Form 990 or 990-EZ by the 15th day of the 5th month after the organization's accounting period ends (May 15 for a calendar-year filer).

**Electronic filing**

The organization can file Form 990-EZ or Form 990 and related forms, schedules, and attachments electronically. However, if an organization files at least 250 returns of any type during the calendar year ending with or within the organization's tax year and has total assets of $10 million or more at the end of the tax year, it must file Form 990 electronically (and not Form 990-EZ). “Returns” for this purpose include information returns (for example, Forms W-2, Forms 1099), income tax returns, employment tax returns (including quarterly Form 941, Employer's QUARTERLY Federal Tax Return), and excise tax returns.

**If an organization is required to file a return electronically but does not, the organization is considered not to have filed its return, even if a paper return is submitted**

**Failure-to-File Penalties**

**Against the organization.:** Under section 6652(c)(1)(A), a penalty of $20 a day, not to exceed the smaller of $10,000 or 5% of the gross receipts of the organization for the year, can be charged when a return is filed late, unless the organization can show that the late filing was due to reasonable cause. Organizations with annual gross receipts exceeding $1 million are subject to a penalty of $100 for each day failure continues (with a maximum penalty for any one return of $50,000). The penalty applies on each day after the due date that the return is not filed.

Tax-exempt organizations which are required to file electronically but do not are deemed to have failed to file the return. This is true even if a paper return is submitted, unless the organization files by paper to report a name change.

The penalty can also be charged if the organization files an incomplete return, such as by failing to complete a required line item or a required part of a schedule. To avoid penalties and having to supply missing information later:

Complete all applicable line items;

Unless instructed to skip a line, answer each question on the return;

Make an entry (including a zero when appropriate) on all lines requiring an amount or other information to be reported; and provide required explanations as instructed.

Also, this penalty can be imposed if the organization's return contains incorrect information. For example, an organization that reports contributions net of related fundraising expenses may be subject to this penalty.

Use of a paid preparer does not relieve the organization of its responsibility to file a complete return.

**Against responsible person(s):** If the organization does not file a complete return or does not furnish correct information, the IRS will send the organization a letter that includes a fixed time to fulfill these requirements. After that period expires, the person failing to comply will be charged a penalty of $10 a day. The maximum penalty on all persons for failures for any one return shall not exceed $5,000.

There are also penalties (fines and imprisonment) for willfully not filing returns and for filing fraudulent returns and statements with the IRS (sections 7203, 7206, and 7207). States can impose additional penalties for failure to meet their separate filing requirements.

***Automatic revocation for non-filing for three consecutive years.*** *The law requires most tax-exempt organizations, to file an annual Form 990, 990-EZ, with the IRS, or to submit a Form 990-N e-Postcard to the IRS.* ***If an organization fails to file an annual return or submit an annual notice as required for 3 consecutive years, it will automatically lose its tax-exempt status.*** *Organizations that lose their exemption may need to file income tax returns and pay income tax, but may apply for reinstatement of exemption. For details, go to* [*www.irs.gov/eo*](http://www.irs.gov/eo)*.*

**List of Officers, Directors, Trustees, and Key Employees**

List each person who was an officer, director, trustee, or key employee of the organization at any time during the organization's tax year, even if they did not receive any compensation from the organization.

***A failure to fully complete officer/director section can subject both the organization and the individuals responsible for such failure to penalties for filing an incomplete return***

http://www.irs.gov/instructions/images/taxtip.gif

Corporate officers are considered employees for purposes of Form W-2 reporting, unless they perform no services as officers, or perform only minor services and neither receive nor are entitled to receive, directly or indirectly, any compensation. Corporate directors are considered independent contractors, not employees, and director compensation, if any, generally is required to be reported on Form 1099-MISC

**Recordkeeping**

The organization’s records should be kept for as long as they may be needed for the administration of any provision of the Internal Revenue Code. Usually, records that support an item of income, deduction, or credit must be kept for a minimum of 3 years from the date the return is due or filed, whichever is later. Keep records that verify the organization’s basis in property for as long as they are needed to figure the basis of the original or replacement property. Applicable law and an organization’s policies can require that the organization retain records longer than 3 years. ***Form 990 now asks whether the organization has a document retention and destruction policy.***

***A copy of the tax return should be circulated to ALL Board members, prior to filing the return. Each Board member should acknowledge that they have reviewed the return. All Board members have a fiduciary responsibility in the accuracy of the return and can be held responsible for any inaccuracies.***