

Compliance Guidelines for Maine Nonprofits

Record Keeping

You must be able to document receipts and expenses reported on tax return (990), and have them organized for possible examination by the IRS.

- Documents that should be kept to back up revenue include: grant applications and award letters, contracts for services provided BY you, receipt books, paid invoices, copies of checks, bank deposit slips, Form 1099 Misc Income. The receipt should include the check number. If you do not provide receipts for checks received as donations, you should keep a copy of the check.
- Documents that should be kept to back up expenses include: cancelled checks, sales receipts, credit card receipts, invoices, contracts for services provided TO you, etc.

If you have employees, you need to keep all employment tax records on file.

Keep the following information on file about assets the organization owns. (An asset would be something with a life span of more than one year, and of sufficient value to inventory)

- Date of purchase/donation
- Whether debt was used to purchase the asset
- The amount of the purchase
- Cost of any improvements
- Deductions taken for depreciation or casualty losses
- How the asset is used
- When and how it was disposed of
- The selling price
- The expenses of the sale

The length of time records should be kept varies.

- **Organizational documents**, such as by-laws, articles of incorporation with any amendments, 1023 and IRS determination letter, etc. should be kept **permanently**.
- **Employment tax records** should be kept at least **four years** after the tax is paid or due, whichever is later.

- **Records** needed for 990 purposes should be kept **seven years**, unless a grantor requires they be kept longer.

Public Inspection

Nonprofits must make their 1023 (application for exemption), their IRS determination letter, and annual 990 returns (at least the three most recent) open for public inspection if requested, in a manner that is reasonable and convenient for the nonprofit. (You can charge for copying them.)

Keep copies of these documents in a notebook in case someone comes in to save time in locating them.

Handling Charitable Contributions

A donor who contributes over \$250 **MUST** receive a written acknowledgement if they are to claim it on their taxes as a deduction.

If a payment over \$75 is received from a contributor which is partly a donation and partly a purchase of goods or services, a disclosure must be provided to that donor that distinguishes that amount. *This can be included in the acknowledgement letter.*

Accountability

Nonprofits must file some form of tax return with the IRS, typically a form 990. This will be due on the 15th day of the fifth month after the close of your *fiscal* year. All Board members should be provided with a copy.

An Annual Report must be filed with the Secretary of State

Minutes of board meetings should reflect all votes taken, and board votes should be required for any decision involving finance, legal, employee, policy and other matters specified in the by-laws. These should be kept on file by date for reference if needed. *Keeping these in chronological order in a notebook divided by year makes reference easier.*

Internal policies for handling funds, contracts, employment, record retention, and procurement should be developed, specifying who has the right to do what. These must be based on the by-laws, but should be more detailed, and need to be approved by the Board. Records should be kept indicating that policies are being followed.

Procedures for major program areas and internal functions should also be developed, and would not require a board vote.

A nonprofit should at a minimum have a compilation or review of their financial statements performed by a CPA annually, and nonprofits that receive, or plan to receive, funding from government sources or foundations should have an annual audit performed by a CPA. Even nonprofits who are not required to have an audit, and are having compilations or reviews done annually, should have an audit done every three years.

Generally, a nonprofit should re-bid contracts for products or services after five years.

Complete IRS rules for nonprofits can be found at
<http://www.irs.gov/pub/irs-pdf/p557.pdf>

Maine Laws Governing Nonprofits (MRSA 13-B) can be found at
<http://janus.state.me.us/legis/statutes/13-B/title13-Bch0sec0.html>

**These guidelines are provided for the convenience of the client, and are based on state and federal laws for nonprofits. They are not intended as legal advice.*