Music for Life

Record Retention Policy

The American Competitiveness and Corporate Accountability Act, popularly known as the Sarbanes-Oxley Act, was passed in 2002 in response to the Enron, WorldCom and other corporate and accounting scandals in the for-profit realm. The Act introduced a variety of measures requiring boards to keep closer tabs on, and take more responsibility for, financial transactions and auditing procedures of their corporations.

Most of the provisions of the Act are expressly limited to publicly-traded corporations. However, whether by design or ambiguous drafting, two provisions dealing with document retention and retaliation against whistle blowers also apply to nonprofit organizations. In addition, the Act and the general sentiment that inspired its passage -- that corporate boards should be both aware of and accountable for the acts of their corporations – are leading state lawmakers around the country to propose and pass legislation extending similar good governance requirements to charitable and nonprofit corporations.

Section 802 of the Sarbanes-Oxley Act makes it a crime to knowingly alter, destroy, conceal or falsify any record or document with intent to impede, obstruct, or influence a federal investigation or the administration of any other federal matter. Unlike most provisions of the Act, the applicability of the document retention provision is not limited to companies that report under the Securities and Exchange Act of 1934, and hence likely applies to nonprofit organizations as well. Violations of this provision are punishable by fines or imprisonment up to 20 years.

Many nonprofit organizations, particularly those with paid employees, would benefit from having a document retention/destruction policy that would enable them to comply with various existing state and federal laws (such as the Fair Labor Standards Act, which requires that payroll records be kept for a certain minimum period of time) and to maintain useful evidence for potential lawsuits. Section 802's likely applicability to nonprofit organizations provides one more reason to adopt a written policy.

For most nonprofit organizations, particularly those with smaller budgets or staff sizes, a succinct and straightforward policy should suffice. Such a policy should set forth the timelines for maintaining various categories of documents (financial, fundraising, personnel, contracts, leases, etc.) in accordance with applicable state and federal requirements, and should cover electronically held materials such as e-mails and voice mails as well as printed documents. Including rules requiring destruction at the end of the retention period is advisable, as it would be useful in defending against an alleged violation of Section 802 and in demonstrating that materials were purged in the ordinary course of business.

The following retention periods are general guidelines based on standard industry practices. Before destroying any business records, it is advisable to seek legal counsel to ensure that you are in compliance with the latest applicable federal and state laws.

Record Description	Retention Period
Accident reports/claims (settled cases)	*7 years*
Accounts payable ledgers and schedules	*7 years*
Accounts receivable ledgers and schedules	*8 years*
Audit reports	*Permanently*
Bank statements	*4 years*
Capital stock and bond records: ledgers, transfer registers, stubs showing issues, record of interest coupons, options, etc.	*Permanently*
Cash books	*Permanently*
Charts of accounts	*Permanently*
Checks (canceled checks for important payments, special contracts, purchase of assets, payment of taxes, etc. Checks should be filed with the papers pertaining to the underlying transaction.)	*Permanently*
Checks (canceled except those noted above)	*7 years*
Computer files, legal and important matters	*Permanently*
Contracts and leases (expired)	*7 years*
Contracts and leases still in effect	*Permanently*
Correspondence, general	*2 years*
Correspondence, legal and important matters	*Permanently*
Correspondence, routine with customers/vendors	*2 years*

Record Description	**Retention Period**
Deeds, mortgages and bills of sale	*Permanently*
Depreciation schedules	*Permanently*
Employee personnel records (after termination)	*4 years*
Employment applications	*3 years*
E-mails, legal and important matters	*Permanently*
Financial statements (year-end, other months optional)	*Permanently*
General ledgers, year-end trial balances	*Permanently*
Insurance records, current accident reports, claims, policies, etc	*Permanently*
Internal audit reports (miscellaneous)	*4 years*
Inventory records	*7 years*
Invoices to customers or from vendors	*7 years*
IRA and Keogh plan contributions, rollovers, transfers and distributions	*Permanently*
Minute books of directors, stockholders, bylaws and charter	*Permanently*
Payroll records	*Permanently*
Petty cash vouchers	*4 years*
Property records, including costs, depreciation reserves, year-end trial balances, depreciation schedules, blueprints, and plans	*Permanently*
Purchase orders	*4 years*

Record Description	**Retention Period**
Receiving sheets	*1 year*
Safety records	*6 years*
Sales records	*7 years*
Stock and bond certificates (canceled)	*Permanently*
Subsidiary ledgers	*7 years*
Tax returns, revenue agents' reports, and other documents relating to determination of income tax liability	*Permanently*
Time cards and daily reports	*7 years*
Trademark registrations, patents and copyrights	*7 years*
Voice mail, legal and important matters	*Permanently*
Voucher register and schedules	*7 years*
Vouchers for payments to vendors, employees, etc (includes allowances and reimbursement of employees, officers, etc, for travel and entertainment expenses)	*7 years*