

## Recordkeeping: Bookkeeping, Contributions, Document Retention

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## Summary

- ▶ Bookkeeping
- ▶ Bookkeeping records
- ▶ Contribution records
- ▶ Record Retention Policy
- ▶ Permanent Records
- ▶ Suggested retention time periods

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## Basic Bookkeeping

There are two basic accounting bookkeeping practices:

- ▶ **Single entry bookkeeping** can be used by small churches where a profit and loss statement or balance sheet is not required for financial control or tax purposes.

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▶ **Double entry bookkeeping** is an accounting technique used to record the financial transactions of a church where every transaction is entered twice, equal and opposite transactions. Double entry is required for all organizations that must produce both a profit and loss account and a balance sheet.

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**Bookkeeping Comments**

▶ Single entry is easier because many church bookkeepers do not understand accounting principles.

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**Bookkeeping Comments**

▶ Double entry accounting will give a church much better records and should be used when possible.

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### Bookkeeping Comments

- ▶ Bookkeeping software is set up to handle double entry and should be used in all churches.

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### General Bookkeeping Records

- ▶ Files and records to maintain related to general bookkeeping
  - Paid invoices – Attached check stub to paid invoice and file by vendor name.
  - Receipts submitted for business expense reimbursement.

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### General Bookkeeping Records

- Contribution records – Copies of deposit slips and contributions records filed by month.
- Monthly bank statements and bank reconciliations

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### General Bookkeeping Records

- Correspondence related to vendors and donors
- Monthly financial statements and reports
- All records should be stored by tax year.

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### Contribution Recordkeeping

In order to get the information required for the donor's annual statement, a contribution software should be used to record the data.

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### Contribution Recordkeeping

From each contribution envelope or check, the date, donor and amount should be recorded into the system.

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### Contribution Recordkeeping

All cash gifts should also be recorded if the donor is known. If the donor is unknown, then the cash is put to an undesignated donor.

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### Contribution Recordkeeping

Donor envelopes do not have to be retained, but it is recommended that they be maintained for at least one tax year. Any longer is at the church's discretion.

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### Donor Receipts

Donors will not be allowed a tax deduction for any individual cash (or property) contribution of \$250 or more unless they receive a written acknowledgment from the church.

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## Donor Receipts

▶ Receipt must include:

- Name of the church
- Date of the contribution
- Amount of any cash contribution
- Description of non-cash contributions
- Statement that no goods or services were provided by the church
- Description and good faith estimate of the value of goods and services, if any, that the church or religious organization provided in return

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## Donor Receipts

An annual contribution statement will satisfy this requirement for churches.

You must send your donors a receipt no later than the due date of their tax returns. However, you should get them to the donors at least by January 31<sup>st</sup> if possible.

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## Quid Pro Quo

- ▶ A contribution made by a donor in exchange for goods or services is known as a *quid pro quo* contribution. A donor may only take a contribution deduction to the extent that his or her contribution exceeds the fair market value of the goods and services the donor receives in return.

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### Quid Pro Quo

- ▶ A church must provide a written statement to a donor who makes a payment exceeding \$75 partly as a contribution and partly for goods and services. The disclosure statement must be easily seen by donor.

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### Quid Pro Quo Example

- ▶ Donor gives \$100 contribution and receives a ticket to a play with \$40 value.
- ▶ The donor can take a deduction for \$60.

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### Quid Pro Quo Example

- ▶ Even though the deduction is less than \$75, the total contribution is for more.
- ▶ Therefore, the church should include this information in a contribution statement to the donor.

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### Record Retention Policy

- ▶ Document retention and especially electronic document retention is a hot topic.
- ▶ Churches just like companies must have a record retention policy that is enforced and audited.
- ▶ 99% of all documents are created and stored electronically. These may be stored on computers, data devices and websites.

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### Record Retention Policy

- ▶ The most important point about a record retention policy is that you do what it says.
- ▶ Many court cases have ended in unfavorable decisions because a defendant kept documents longer or shorter than their policy stated.

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### Permanent Records

- ▶ The following documents need to be maintained permanently
  - Articles of incorporation
  - Statement of purpose
  - Tax designation documents

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### Permanent Records

- Board meeting minutes
- Payroll related information and forms
- Policies and procedure manuals
- Minister licenses and ordination documents

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### Record Retention Suggestions

- ▶ Bookkeeping documents - 7 years
- ▶ Donor envelopes - 1 tax year
- ▶ Cancelled checks - 1 year
- ▶ Cancelled checks related to large purchases - Store with the purchase paperwork

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### Record Retention Suggestions

- ▶ IRS related documents - 7 years
- ▶ Payroll related documents - 7 years
- ▶ Contributions statements - 7 years
- ▶ Bank statements - 7 years

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## Record Retention Suggestions

- ▶ Corporate documents, Minutes, Deeds, Insurance documents - Permanently
- ▶ E-mails - 3 years

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## Tax Forms

- ▶ The IRS loves forms. The following forms must be maintained either electronically or on paper for 7 years.

- Form W-2 - Reportable wages
- Form W-3 - Summary of reportable wages
- Form 941 - Report social security and medicare
- Form 1099 - Vendor payments > \$600 per yr
- Form 1096 - Summary of vendor payments
- Form 990 - Non-profit tax return

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## Wrap it Up

A church is not a business, but it needs to maintain its accounting records and other documents just like any corporation.

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