

Financial administration for churches

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In the Netherlands, it is mandatory for legal entities, such as a foundation or an association that are registered at the Chamber of Commerce, to properly organize their finances (think of the requirements of the WBTR). You have to set it up in such a way that fraud is prevented as much as possible and that it is clear how money comes in and how money goes out.

Good financial administration is not only a must for a church or a Christian organization, because it is required by the Dutch government. You're supposed to want that yourself as a church. After all, a healthy church also includes/implies healthy finances.

A. What is the function of a financial administration?

It's about three things.

(1). Transparency afterwards: accountability

Transparency afterwards: after a period (for example a year) you can show others how much money has come in, and how and what it was spent on. Not all of this has to be done down to the last detail, but it does have to be in a number of outlines. The point is that you can show (for example to your donors) how the money that you have received from them or from others has been handled. What everything was spent on and whether this also corresponds with the plans that were there: the budget and interim decisions. And if not, it is possible to justify why things went differently (for example, think of something unforeseen like the emergence of corona in 2020).

Good administration is also important if you apply for a subsidy or a donation from a fund somewhere, and certainly also if you want to have ANBI status. This means that people want to be able to see how your organization is doing financially. This is self-evident, because if people see that good things are being done with the money that has been made available, people will be more positive about a new application in the future. In addition, support funds and institutions in the Netherlands must also be able to demonstrate that their money is being spent well.

(2). Current insight: being able to steer

Up-to-date insight: during a year you want to be able to keep track of how your income and expenditure are doing. This way you can quickly see whether enough money is coming in or not and whether there is enough money to be able to carry out certain plans. So you have to keep track of things every month, and not save everything from one year and then see how it turned out. You can of course do the latter, but then it can just happen that there is suddenly too little in the bank or in the cashier in the meantime. This then leads to payment problems at that time. You then suddenly have to ask for extra donations. Soon people will start asking questions about this. You can often only request money from funds in advance, before an activity or project starts. Then they want to see in advance whether your church's finances are healthy.

(3). Organized Reliability: protecting yourself

The third function of good administration is: organized reliability. You can check on the money flows in your church, and others can 'check' it. You can say: well, we assume the personal reliability of the church members involved. Our people are honest and will not do anything inappropriate. So do you have to build in control measures? Isn't that a sign of mistrust?

Well, practice shows (also in the church) that relying on personal reliability is not enough. You have to want to let yourself be 'checked', that is not a matter of distrust, but rather of trust. If you're not doing anything wrong and have nothing to hide, it's nice to have a good overview. We as Christians should know how deceitful the human heart can be. The Lord's prayer - lead us not into temptation - is not to be prayed by unconverted people, but to be prayed by believing Christians. So yes, Christians can also go wrong financially, if there is a chance, and if, for example, private life matters are at risk. That's how it often starts: I borrow something from the church, pay it back later. But in the meantime you have to mask it, because you have not honestly shared your private financial problem with someone from the church, to see together how it can be solved. Before you know it, you're in a web that you can't get out of.

Another factor to consider is talking among people in church. If the finances are unclear, you make yourself as leadership vulnerable. Failure to provide adequate coverage of income and expenditure can lead to suggestive talk among church members, even if there is no evidence of financial abuse at all. Such talk is of course undesirable behavior, but it does happen. By keeping good financial administration, which is also regularly checked by several people, you protect yourself. It is not good for a church, nor for the reputation of its leadership, if there are doubts about it.

The handling of cash and the transfer of cash to a bank account are especially vulnerable. If the account of the church and of individuals get mixed up or if everything is paid privately for the church and it is not administered, then you might have the tendency to pay an amount to yourself or an employee without clarifying for what exactly. And yes, you will be tempted to just stretch that.

You have to prevent such things by arranging that it is simply never possible on your own. So with cash transactions: always a four-eyes principle and sign off. This means that it is always done by two people, and that you both put your signature on paper to confirm which amount has been handled by whom. When making (larger) payments: preferably two people who have to approve or sign. It is also important that the person who keeps the administration can never make payments on his own, because such a person would be dealing with great temptation. After all, you can then make payments, but also cheat at the same time with the administration, so that later it is hardly possible to reveal what it really was.

In short: it is a Biblical assignment to discipline yourself to make everything transparent, to be checked and to keep everything carefully when you handle the money of the church. We are stewards in the Kingdom of God. You do not manage your own money, but, as it were, the Lord's coffers.

B. Matching expenses and income

In order to be able to align expenses and income, you also need three things.

(1). Make a budget

For fixed expenses it is wise to work with a budget for a certain period. As a board, you determine (on the basis of commitments, expectations and plans) what you will need in a certain area in a year. Later on we will talk about the main issues involved in organizing a church. In a budget you have to set the financial coverage against the expenses: what are the average proceeds of the collections, voluntary contributions (tithes for example) for the church, etc.

That way you can see if the income is sufficient. If this is not the case, then when drawing up the budget it must be considered which expenditure can only be made if enough money has been received.

In any case, you will need to have an idea of how you plan to pay the fixed obligations (housing costs, people employed, taxes and insurances) for a year. You may also want to keep the necessary amount each year to be able to save for your own building, for example.

What you can also think about is whether you want to make a distinction between money for diaconate, money for missions/evangelization (you also pay together, for example via a home front committee, for a pastor or evangelist elsewhere) and money for your own church (insofar as this distinction is possible and applicable). Such a distinction is, for example, used in the congregations of the Protestant Church, although you also see that missionary work, pastoral care and diaconate are increasingly intertwined. But you can imagine that you still want to keep a separate pot in reserve for being able to do emergency help for church members or visitors.

(2). Regulate authorizations

The second thing you need are agreements that define who is authorized to make payments and make commitments (within the budget). There is nothing more annoying than that all kinds of people from the church (sometimes with good intentions) think that they can buy or arrange this or that for the church, while as treasurer or administrator you receive receipts or bills afterwards that you know nothing about. It must be clear who is authorized to do so and up to what amount. Expenses should always relate to the objective of the church and the part of the work. So if someone comes with receipts from a lunchroom in the city, the question is what exactly that means in relation to the work of the church. If someone comes with a receipt for copying the coloring pictures that were used in the children's church last Sunday, which is also budgeted, then that is of course a lot easier. If someone just buys a new sound system on behalf of the church, while he or she is not authorized to do so at all, you should prevent such things by writing things down properly.

You do this by making an instruction or by-laws, or "internal regulation" based on your statute or church order (which usually states who can legally represent the church in business matters). You record the decision on this in the minutes of the board. In such

an instruction or internal regulation or by-laws you write down who is allowed to purchase things for what amount themselves, and who must first give permission or sign for other expenses (usually it is the treasurer who 'guards' whether expenses fit in the budget). Anyone who nevertheless makes expenses without prior permission runs the risk that you will not get the amount back from the church. When purchasing on account it can be more complicated. You cannot expect a supplier to first check whether the person with whom he does business is authorized. Yet more and more suppliers are increasingly doing this, especially when it comes to larger amounts. "So you want to buy an expensive sound system for your church, but who are the authorized board members, before there are payment problems and I don't have a signature of an authorized board member". This is also increasingly being asked of local congregations within the Protestant Church. So it's not an immediate sign of distrust towards an international or migrant church when asked.

(3). Arranging ad hoc decisions

The third necessary thing is that you agree on a procedure for ad hoc decisions based on what happens. You cannot see everything for a whole year in advance, on the contrary. Sometimes there are events, opportunities or threats to which you must or want to react immediately. In that case, it is important to agree on who is jointly authorized to test the necessity and also to consider whether an expense can be covered in this way, or whether a separate fundraising campaign should be launched. It is not wise if large expenses are suddenly made when someone has a hunch (and that can be very spiritual), so that the rent cannot be paid the following month.

Sure, we live by faith that the LORD will provide. But the Lord has also said that the children of darkness are sometimes more wise with money than the children of light. We can certainly draw the conclusion from this: be open to what takes place (the situation) and be free to respond to it, but do it wisely. Agree how and with whom you will test such matters for usefulness, necessity, urgency and record how expenditure can be made outside the budget. You also do this in the statute, the church order, or in derived regulations. For example, you record that a board decision is first required in a board meeting, of which minutes are also made. Then it can always be referred to later, and no one can be blamed for anything irresponsible. You have, as it should be, decided together. But of course you can also delegate that authority to a financial committee or something similar. But even then, the board will ultimately have to take responsibility for it, because it is ultimately responsible as stated in the law.

C. What are the principles of sound administration?

Who is actually responsible for all of this?

Until now, we often wrote 'you', or we talked about the 'leadership of the church', but who is actually responsible for good financial administration and sound financial policy? Sometimes it is thought that that is only the treasurer. But that is not the case. It concerns the entire board (in the case of a 'foundation', 'association' and 'church community/denomination').

Of course, the treasurer is primarily responsible that it is well organized and executed. But other board members, and also a pastor if he or she is on the board, should certainly inform themselves whether things are properly arranged. They are administratively

responsible. Of course not if one person misbehaves. But only if it is so poorly organized that fraud or mismanagement are easily possible. In order to be jointly responsible, it is therefore good that all board members (and therefore possibly also a pastor) are aware of the basic rules for good financial management.

Reporting and annual accounts

At the end of the year, the treasurer prepares an annual account. The annual account contains a financial overview of all expenses and income of that year. The principle of such an overview is very simple. At the beginning of the year you determine what amount (bank, cash) is available (or what can be converted into money, such as a building of value). Then every month / quarter / year you keep track of what is being spent, and what money is coming in. You add that up and subtract, and at the end of the year it should correspond to the money that is in the cash register and in the bank.

The income and expenditure and the sum of the whole of a particular year together form the 'statement of income and expenditure' in the annual account.

An overview of assets and any debts at the end of the year is also included in the annual account. That is always the position at the beginning of the new year. This overview is called the 'balance sheet'. There you can see on the one hand what the accumulated equity is, what any debt is (if money has been borrowed) and on the other hand you can see where that money is located (for example in the value of a house or building if it belongs to the church, and usually in bank accounts and a bit of cash somewhere too).

Usually you also have so-called overflow entries. For example, consider a bill from December, which is only paid in January. Then you want to have that expenditure in your addition in the previous year (statement of income and expenses), but the money has not yet been debited from the bank, then that amount must of course be visible somewhere on the balance sheet, otherwise the calculation is not correct. In any case, it must always be correct, otherwise there will be inexplicable money left (which is possible, for example, if you have forgotten to register certain collection proceeds) or money is missing (if expenses have been made from the bank account or from the cash register, that did not end up in the administration). That must then be investigated.

The annual account should also include a short explanation, in which you explain in more detail striking things from the past year in a financial sense.

Categories in expenses and income

In accounting, but also in the budget, work is done with a division into different types of income and expenditure. Now, what are the categories to consider when you want to break down a church's expenses and revenues into categories?

When considering income, consider:

Voluntary contributions and donations by bank/giro (for example tithes)

Collecting proceeds for the general work of the church

Cash donations for the church not included in the collections

Donations/collections for a good cause outside the own church (pass-on collections)

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Third-party grants

Bequests or heirlooms

Sales revenue

Rental income

When considering expenses, consider:

Housing all in

Pastor's fees and expenses

Salaries and expenses employees

Church board and administration expenses

Expenses for activities, materials and volunteers

Taxes and duties

Insurances

Possibly: costs for an umbrella organization or mother church

Evidence for expenses

You must submit a proof in your administration for all expenses. A proof is, for example, a receipt, an invoice, a proof of payment, a bank transfer, or a signed authorization from an authorized person if it concerns a cash donation.

The latter can be the case, for example, when providing emergency cash assistance to people. The question is whether it is wisest to give cash (instead of paying for groceries, for example), but that is another discussion. Sometimes it can be appropriate in a specific situation to provide a person or a family in trouble with some money, while privacy then requires that knowledge about who, what and how remains limited. Nevertheless, it is always good to have such a situation checked by at least one fellow board member with a duty of confidentiality or the like (so also here a kind of four-eyes principle). So only an authorized person gives written approval to make the payment (for example the treasurer, and you keep a copy of that document as proof, just like a receipt or invoice), but only after the statement of approval and signature by two board members, office holders, without the treasurer having to know who the money will eventually go to.

As mentioned before, cash flows are the most vulnerable. This is the case with income, if nothing is counted and recorded (four eyes principle). It is then fairly easy to keep taking some cash for something it was not intended for. But it also applies to expenses. If you don't build in a check, it's too easy to supposedly withdraw money for emergency aid, the destination of which must remain anonymous for privacy reasons, while you can then withdraw part of it yourself for other uses. There shouldn't be an easy route to taking money without accountability and then using it for something other than what it was intended for.

It is important to keep proofs in a central and orderly manner. Attaching receipts to a sheet of paper and making and keeping copies to prevent the ink on receipts from fading.

Access to the administration

You can see who the donors are in the case of donations and contributions per bank. It is also sometimes important in the administration to include the names of donors, especially if commitments are used. Then you can keep track of who has or who has not yet made the monthly transfer. Privacy is also important here. The personal data/information should only be accessible to those who have to work with it. Also record (in the statute, bylaws or internal regulations) who they are (treasurer, administrator and money raiser, and possibly an external accountant or external cash audit, no one else). And put that in your church's privacy statement, if you have one.

You can also ask yourself whether it is wise for a pastor or the elders to gain insight into the giving behavior of members and friends of the congregation. Difficulties can arise if church employees or fellow brothers and sisters know how much or how little each person contributes financially to the church. We can't fathom each other's situation. Judge not lest ye be judged, saith the Lord. In the Gospel we read that prayer and fasting should not be about public display, but about something private. It is always something between that person and God that you can and want to bring to the church in terms of talents. Think of the story of the widow's penny from the Gospel. In the church we have to be careful not to look people in the eye. That is not to say that you should not together encourage each other to give cheerfully for the service of the Lord, or celebrate in gratitude when there has been a blessed collection or fundraiser. But at the same time, you may wonder whether access to personal data should not be restricted. You always also request confidentiality from the administrative employees who (must) have this access (for example via the employment contract or via a volunteer agreement).

How do you set up an administration?

The simplest is of course the basis of everything: in a notebook, a cash book, on paper. But you only do that if it is a matter of small amounts. It is easier to work in Excel. In addition, there are all kinds of computer accounting programs available for both simple and very complicated administrations. If it is too complicated or you don't have people in the church who know enough about this, you can also consider outsourcing the administration to an administrative office, such as the KKA (Office for Church Administrations). That may cost money, but you do have professional support, which can sometimes be very pleasant.

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