A higher standard.
A higher purpose.

ECFA Standards and Best Practices for Churches

The Standards

Accountability to God is vital, but people form their impressions of both people and churches by looking at the outward appearances (1 Samuel 16:7). The basis for establishing ECFA and developing Standards of Responsible Stewardship is stated clearly by the Apostle Paul in 2 Corinthians 8:21 (NIV): "For we are taking pains to do what is right, not only in the eyes of the Lord but also in the eyes of men." Or, as the New American Standard puts it in verses 20 and 21, "taking precaution that no one should discredit us in our administration of this generous gift, for we have regard for what is honorable, not only in the sight of the Lord, but also in the sight of men." The Standards, drawn from Scripture, are fundamental to operating with integrity.

The ECFA Standards are seldom changed, providing churches a steady baseline for consistent application of the Standards. The brief statements included in the Standards have significant implications; the Standards are simple but not simplistic. These are not Standards that allow for grading on the curve. Rather, they are pass-fail Standards. If a church fails even one of the Standards, it is disqualified from ECFA membership.

Evangelical Council for Financial Accountability
440 West Jubal Early Drive, Suite 130 • Winchester, VA 22601
Telephone: 800-323-9473 • Fax: 540-535-0533 • Website: www.ECFA.org • Email: information@ECFA.org
Copyright © 2008 ECFA

A higher standard.
A higher purpose.

ECFA Seven Standards of Responsible Stewardship

Standard 1 – Doctrinal Statement – Every member shall subscribe to a written statement of faith clearly affirming its commitment to the evangelical Christian faith and shall conduct its financial and other operations in a manner which reflects those generally accepted biblical truths and practices.

Standard 2 – Board of Directors and Financial Oversight – Every member shall be governed by a responsible board of not less than five individuals, a majority of whom shall be independent, which shall meet at least semiannually to establish policy and review its accomplishments. The board or a committee consisting of a majority of independent members shall review the annual financial statements and maintain direct communication between the board and the independent certified public accountants.

Standard 3 – Financial Statements – Each member is required to submit complete and accurate financial statements. Accredited members must submit an annual audit performed by an independent certified public accounting firm in accordance with U.S. generally accepted auditing standards (GAAS) with its financial statement prepared in accordance with U.S. generally accepted accounting principles (GAAP). ECFA policies allow for an alternate category of membership that does not require audited financial statements, in which case the member must submit financial statements (with disclosures) prepared in conformity with either U.S. GAAP or the modified cash basis of accounting in which financial statements are either compiled or reviewed by an independent certified public accounting firm.

Standard 4 – Use of Resources – Every member shall exercise the management and financial controls necessary to provide reasonable assurance that all resources are used (nationally and internationally) in conformity with applicable federal and state laws and regulations to accomplish the exempt purposes for which they are intended.

Standard 5 – Financial Disclosure – Every member shall provide a copy of its current financial statements upon written request and provide other disclosures as the law may require. If audited financial statements are required to comply with Standard 3, they must be disclosed under this Standard. A member must provide a report, on written request, including financial information, on any specific project for which it is soliciting gifts.

Standard 6 – Conflicts of Interest – Every member shall avoid conflicts of interest. Transactions with related parties may be undertaken only if all of the following are observed:
1) a material transaction is fully disclosed in the audited financial statements of the member;
2) the related party is excluded from the discussion and approval of such transaction;

Continued on page 3

Copyright © 2009 ECFA

3) a competitive bid or comparable valuation exists; and 4) the member's board has acted upon and demonstrated that the transaction is in the best interest of the member.

Standard 7 – Fund-Raising – Every member shall comply with each of the ECFA Standards for fund-raising:

7.1 **Truthfulness in Communication:** All representations of fact, description of the financial condition of the member, or narrative about events must be current, complete, and accurate. References to past activities or events must be appropriately dated. There must be no material omissions or exaggerations of fact or use of misleading photographs or any other communication which would tend to create a false impression or misunderstanding.

7.2 **Communication and Donor Expectations:** Fund-raising appeals must not create unrealistic donor expectations of what a donor's gift will actually accomplish within the limits of the member's ministry.

7.3 **Communication and Donor Intent:** All statements made by the member in its fund-raising appeals about the use of the gift must be honored by the member. The donor's intent is related both to what was communicated in the appeal and to any donor instructions accompanying the gift. The member should be aware that communications made in fund-raising appeals may create a legally binding restriction.

7.4 **Projects Unrelated to a Ministry's Primary Purpose:** A member raising or receiving funds for programs that are not part of its present or prospective ministry, but are proper in accordance with its exempt purpose, must either treat them as restricted funds and channel them through an organization that can carry out the donor's intent or return the funds to the donor.

7.5 **Incentives and Premiums:** Members making fund-raising appeals which, in exchange for a contribution, offer premiums or incentives (the value of which is not insubstantial, but is significant in relation to the amount of the donation) must advise the donor of the fair market value of the premium or incentive and that the value is not deductible for tax purposes.

7.6 **Financial Advice:** The representative of the member, when dealing with persons regarding commitments on major estate assets, must seek to guide and advise donors so they have adequately considered the broad interests of the family and the various ministries they are currently supporting before they make final decisions. Donors should be encouraged to use the services of their attorneys, accountants, or other professional advisors.

Continued on page 4

Copyright © 2009 ECFA

7.7 **Percentage Compensation for Fund-raisers:** Compensation of outside fund-raising consultants or a member's own employees based directly or indirectly on a percentage of charitable contributions raised is not allowed.

7.8 **Tax-deductible Gifts for a Named Recipient's Personal Benefit:** Tax-deductible gifts may not be used to pass money or benefits to any named individual for personal use.

7.9 **Conflict of Interest on Royalties:** An officer, director, or other principal of the member must not receive royalties for any product that the member uses for fund-raising or promotional purposes.

7.10 **Acknowledgment of Gifts-in-Kind:** Property or gifts-in-kind received by a member should be acknowledged describing the property or gift accurately *without* a statement of the gift's market value. It is the responsibility of the donor to determine the fair market value of the property for tax purposes. The member may be required to provide additional information for gifts of motor vehicles, boats, and airplanes.

7.11 **Acting in the Interest of the Donor:** A member must make every effort to avoid accepting a gift from or entering into a contract with a prospective donor which would knowingly place a hardship on the donor, or place the donor's future wellbeing in jeopardy.

Copyright © 2009 ECFA

ECFA Standards and Best Practices for Churches

Best Practices

While the ECFA Standards are fundamental to the accountability process, they are only a starting point—an entry level—to operating a church with integrity.

In addition to the Standards, ECFA has developed a series of best practices which encourages member churches to strive for ever higher levels of excellence.

Best practices are always relative. To determine which practices are "best" for your church, you must first identify what results your church is trying to achieve.

This document combines the ECFA Standards and recommended best practices in outline form for easy reference.

Copyright © 2009 ECFA

Doctrinal Issues

ECFA Standards require:	Best Practices
• Members subscribe to a written statement of faith affirming commitment to the evangelical Christian faith (Standard 1). • Members conduct financial and other operations in a manner which reflects those generally accepted biblical truths and practices (Standard 1).	• Periodically review the church's statement of faith and reaffirm a clear commitment to this statement. • Devise methods to confirm that the financial and other operations of the church are conducted in a manner which reflects generally accepted biblical truths and practices.

Copyright © 2009 ECFA

Governance

ECFA Standards require:

- Minimum board size of five (Standard 2).
- An independent board (Standard 2).
- Board must meet at least two times annually (Standard 2).
- Board or an independent board committee shall review the annual audit and meet at least annually with the independent certified public accountants (Standard 2).
- Board must engage an independent certified public accountant to annually perform a GAAS/GAAP audit for accredited membership or a compilation or review for affiliate membership (Standard 3).
- Board must assure that the church is avoiding conflicts of interest (Standard 6).

Best Practices

Charters:

- Develop and maintain a charter for the board, as well as for each board committee.

Corporate bylaws:

- Routinely compare board actions and church bylaws.
- Periodically review organizational and governing documents.

Evaluations:

- Use routine and periodic board self-evaluations to improve meetings, restructure committees, and address individual board member performance.

Finances:

- Board should understand the church's financial health.
- Board should ensure, by collaborating with the Senior Pastor, that the church has a clear financial plan that is aligned with strategic, operating, and stewardship plans.
- In linking budgeting to strategic planning, the board should approve the annual budget and key financial transactions, such as major asset acquisitions, that can be realistically financed with existing or attainable resources.
- Utilize a committee, whose members have financial expertise, totally comprised of independent members (Standard 2 only requires a majority of independent members) to annually review the financial statements.
- Conduct at least a portion of the committee meeting to review the financial statements with the accounting firm in the absence of staff. If the board handles the financial review function, staff should be recused from the portion of the meeting with the representative(s) of the accounting firm.

Continued on page 8

Copyright © 2009 ECFA

Best Practices

- Request the periodic rotation of the lead or review partner, if this is feasible for the accounting firm.
- Obtain competitive fee quotes every few years. If the accountants are independent, providing quality service at competitive fees, it is generally wise to continue with the current accounting firm.

General:

- Board time should be spent on governance, not on management issues.
- Board committees are formed only to improve the quality of governance.

Minutes:

- Properly document the proceedings of all board and board committee meetings in order to protect the church.
- Board and board committee minutes should identify all voting members as present or absent to clearly document a quorum. Non-voting members and non-members in attendance should be recorded separately.

Mission statement:

- Develop a mission statement, putting into words why the church exists and what it hopes to accomplish.
- Regularly reference the mission statement to assure that it is being faithfully followed.
- Refocus the mission statement, if appropriate.

Philosophy statements:

- Adopt a stewardship philosophy statement.
- Adopt an compensation philosophy statement for the Senior Pastor.
- Adopt the Biblical Principles for Stewardship and Fund-raising issued by ECFA and Christian Leadership Alliance (CLA). *Click here to print the Biblical Principle list.*

Policies:

- Adopt appropriate policies related to and including conflicts of interest (and approve all significant related-party transactions annually), whistleblower, accountable expense reimbursements, gift acceptance, record retention, board confidentiality, donor confidentiality, housing allowances, clergy

Continued on page 9

Copyright © 2009 ECFA

Best Practices

compensation, joint ventures, and ownership of intellectual properties.

- Regularly review board policies to determine if revisions are needed.
- Monitor church compliance with board policies.
- Include all board policies in a policy manual. Update the policy manual as policies are added, deleted or modified.

Senior Pastor compensation:

- Reasonableness of the Senior Pastor compensation should be based on appropriate data regarding comparable compensation under IRS regulations.
- Approve and document appropriate Senior Pastor compensation and fringe benefits.

Strategic thinking:

- Regard strategic thinking as part of ongoing board work rather than a periodic exercise.
- Provide time for strategic thinking by moving away from report-driven meetings and following agendas of only a few issues with rich debate.

Vision statement:

- Develop a vision statement, communicating a compelling and inspirational hope for the future of the church.

Copyright © 2009 ECFA

Transparency

ECFA Standards require:

- Church must provide a copy of the most recent annual financial statements to any requester. Accredited members must provide audited financial statements. Affiliate members must provide reviewed or compiled financial statements (Standard 5).[1]
- Church must provide a report, including financial information, on any specific project for which a church is soliciting gifts (Standard 5).[1]

(1) *These provisions exceed the requirements of federal law.*

Best Practices

- Periodically update donors of restricted gifts on the progress the church is making in utilizing their gifts to fulfill the restricted gift purpose(s).
- Assure that all material related-party transactions are disclosed in the financial statements.
- Provide reports of program accomplishments.
- Distinguish between the importance of transparency of financial data and confidentiality of donor information.
- The principle of transparency includes the board receiving significant information and access to relevant materials when making decisions.

Copyright © 2009 ECFA

Conflicts of Interest

ECFA Standards require:

- Churches must avoid conflicts of interest. Related-party transactions may be undertaken only if all of the following are observed:
  (1) a material transaction is fully disclosed in the audited financial statements of the church;
  (2) the related party is excluded from the discussion and approval of such a transaction;
  (3) a competitive bid or comparable valuation exists;
  (4) the church's board has acted upon and demonstrated that the transaction is in the best interest of the church (Standard 6).[1]

[1] *This Standard exceeds the requirements of federal law.*

Best Practices

- A conflict-of-interest policy relating to the governing board and key church staff should be adopted.
- The governing board and key church staff should document annually any potential related-party transactions.
- All significant related-party transactions should be initially approved and, if continuing, re-approved annually by the board.

Copyright © 2009 ECFA

Financial

ECFA Standards require:

- Church must exercise the management and financial controls necessary to provide reasonable assurance that all resources are used (nationally and internationally) in conformity with applicable federal and state laws and regulations to accomplish the exempt purposes for which they are intended (Standard 3).
- Accredited members must obtain an annual audit performed by an independent certified public accounting firm in accordance with auditing standards generally accepted in the U.S. (GAAS) with its financial statements prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) (Standard 3).[1]
- Affiliate members must obtain financial statements (with disclosures) prepared in conformity with either U.S. GAAP or the modified cash basis of accounting in which financial statements are either compiled or reviewed by an independent certified public accounting firm.

[1] *This provision exceeds the requirements of federal law.*

Best Practices

Donor-restricted gifts:

- Establish systems to adequately track donor-restricted gift revenue and related expenses.
- Expend all donor-restricted gifts under the discretion and control of the church, avoiding all earmarked gifts, and clearly communicate these policies to donors.
- Maintain systems to provide project reports, including financial data and measurable results.
- Apply overhead charges to restricted gifts based on cost analyses only. Overhead charges applied should not exceed actual overhead expenses.
- Regularly determine if donor-restricted net assets have been used for operational purposes.
- Although borrowing restricted net assets should be avoided, if significant short-term borrowing occurs, the board should be informed and provide adequate oversight.

Other:

- Properly document all fringe benefit plans and institute administrative policies to assure that all taxable fringe benefits are properly reported for tax purposes.
- Establish and implement policies that provide clear guidance for paying or reimbursing expenses incurred when conducting business or traveling on behalf of the organization, including the types of expenses that can be paid for or reimbursed and the documentation required.

Continued on page 13

Copyright © 2009 ECFA

Financial (cont'd.)

Best Practices

- Provide adequate due diligence for funds (cash or noncash) utilized internationally, whether expended by the church or through other organizations or individuals, with particular care provided for gifts or grants to non-501(c)(3) entities.
- Establish adequate internal controls, including controls designed to prevent or minimize fraud. For example, send bank and investment statements to a person who does not have accounting and investment responsibilities.
- Concentrate fraud-prevention efforts wherever supervision and control are at a minimum—such as at events or programs conducted remotely from a church.
- Avoid loans or the equivalent to staff or board members.
- Avoid permitting the use of church credit cards for personal purchases.

Copyright © 2009 ECFA

ECFA Standards and Best Practices for Churches

Stewardship

ECFA Standards require:

- **Truthfulness in communication**: In stewardship communications, all representations of fact, description of the financial condition of the church, or narrative about events must be current, complete, and accurate. References to past activities or events must be appropriately dated. There must be no material omissions or exaggerations of fact or use of misleading photographs or any other communication which would tend to create a false impression or misunderstanding.
- **Communication and donor expectations**: Stewardship appeals must not create unrealistic donor expectations of what a donor's gift will actually accomplish within the limits of the church's ministry.
- **Communication and donor intent**: All statements made by the church in its stewardship appeals about the use of the gift must be honored by the church. The donor's intent is related both to what was communicated in the appeal and to any donor instructions accompanying the gift. The church should be aware that communications made in stewardship appeals may create a legally binding restriction.
- **Projects unrelated to a ministry's primary purpose**: A church raising or receiving funds for programs that are not part of its present or prospective ministry, but are proper in accordance with its exempt purpose, must either treat them as restricted funds and channel them through an organization that can carry out the donor's intent, or return the funds to the donor.
- **Incentives and premiums**: Churches making stewardship appeals which, in exchange for a contribution, offer premiums or incentives must advise the donor of the fair market value of the premium or incentive and that the value is not deductible for tax purposes.

Continued on Page 15

Best Practices

Donor communication:

- Regularly compare all stewardship solicitations with the church's stewardship philosophy.
- Advise donors of the charitable contribution consequences of quid pro quo transactions even when such advice is not required by law.
- If a donor's capacity or intent is unclear with respect to a gift, appropriate steps should be taken to document the issues.

Donor-restricted gifts:

- Establish systems to adequately track donor-restricted gifts.
- Accept donor-restricted gifts only if in compliance with the church's restricted gift policies.
- Refund restricted gifts to donors if the purpose of the gift cannot be fulfilled and the donor will not change or release the gift restriction.
- Avoid all donor-restricted gifts having the characteristics of conduit or pass-through transactions.

Stewardship appeals:

- Stewardship appeals and the related response vehicles should be closely monitored for consistency.

Other:

- Generate compensation arrangements for stewardship personnel (internal

Continued on page 15

Copyright © 2009 ECFA

Stewardship (cont'd.)

ECFA Requirements

- **Financial advice**: The representative of the church, when dealing with persons regarding commitments on major estate assets, must seek to guide and advise donors so they have adequately considered the broad interests of the family and the various ministries they are currently supporting before they make final decisions. Donors should be encouraged to use the services of their attorneys, accountants, or other professional advisors.
- **Percentage compensation for stewardship personnel**: Compensation of outside stewardship consultants or a church's own employees that is based directly or indirectly on a percentage of charitable contributions raised is not allowed.
- **Tax-deductible gifts for a named recipient's personal benefit**: Tax-deductible gifts may not be used to pass money or benefits to any named individual for personal use.
- **Conflict of interest on royalties**: An officer, director, or other principal of the church must not receive royalties for any product that the church uses for stewardship or promotional purposes.
- **Acknowledgment of gifts-in-kind**: Acknowledgments of property or gifts-in-kind received by a church should describe the property or gift accurately *without* a statement of the gift's market value. It is the responsibility of the donor to determine the fair market value of the property for tax purposes. The church may be required to provide additional information for gifts of motor vehicles, boats, and airplanes.
- **Acting in the interest of the donor**: A church must make every effort to avoid accepting a gift from or entering into a contract with a prospective donor which would knowingly place a hardship on the donor, or place the donor's future well-being in jeopardy.

Best Practices

and external) based on merit. Pay-for-performance plans may be structured if it avoids compensation based on percentage of gift amounts.

- To respect the privacy of individual donors, donor names and contact information should not be sold or otherwise made available without prior permission of the donors, except where disclosure is required by law.

Copyright © 2009 ECFA