A higher standard.
A higher purpose.

ECFA Standards and Best Practices

The Standards

Accountability to God is vital, but people form their impressions of both people and organizations by looking at 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 provide members with a steady baseline for consistency. 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 member fails even one of the standards, it is disqualified from ECFA membership. ECFA members must comply with all of the standards, all of the time.

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ECFA Seven Standards of Responsible Stewardship™

Standard 1 – Doctrinal Issues – Every member shall subscribe to a written statement of faith clearly affirming a commitment to the evangelical Christian faith or shall otherwise demonstrate such commitment and shall operate in accordance with biblical truths and practices.

Standard 2 – Governance – 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.

Standard 3 – Financial Oversight – Each member shall prepare complete and accurate financial statements. The board or a committee consisting of a majority of independent members shall approve the engagement of an independent certified public accountant, review the annual financial statements and maintain appropriate communication with the independent certified public accountant. The board shall be apprised of any material weaknesses in internal control or other significant risks.

Standard 4 – Use of Resources and Compliance with Laws – Every member shall exercise the appropriate management and controls necessary to provide reasonable assurance that all of the member's operations are carried out and resources are used in a responsible manner and in conformity with applicable laws and regulations, such conformity taking into account biblical mandates.

Standard 5 – Transparency – Every member shall provide a copy of its current financial statements upon written request and shall provide other disclosures as the law may require. The financial statements required to comply with Standard 3 must be disclosed under this Standard.

A member must provide a report, upon written request, including financial information on any specific project for which it has sought or is seeking gifts.

Standard 6 – Related-Party Transactions – 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 financial statements of the member; 2) the related party is excluded from the discussion and approval of such transaction; 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.

Continued on page 3

Standard 7 – Stewardship of Charitable Gifts –

7.1 **Truthfulness in Communications.** In securing charitable gifts, all representations of fact, descriptions of the financial condition of the member, or narratives 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, use of misleading photographs or any other communication which would tend to create a false impression or misunderstanding.

7.2 **Giver Expectations and Intent.** Statements made about the use of gifts by the member in its charitable gift appeals must be honored. A giver's intent relates both to what was communicated in the appeal and to any instructions accompanying the gift, if accepted by the member. Appeals for charitable gifts must not create unrealistic expectations of what a gift will actually accomplish.

7.3 **Charitable Gift Communication.** Every member shall provide givers appropriate and timely gift acknowledgments.

7.4 **Acting in the Best Interest of Givers.** When dealing with persons regarding commitments on major gifts, a member's representatives must seek to guide and advise givers to adequately consider their broad interests.

A member must make every effort to avoid knowingly accepting a gift from or entering into a contract with a giver that would place a hardship on the giver or place the giver's future well-being in jeopardy.

7.5 **Percentage Compensation for Securing Charitable Gifts.** A member may not base compensation of outside stewardship resource consultants or its own staff directly or indirectly on a percentage of charitable contributions raised.

ECFA Standards and Best Practices

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Best Practices

While the ECFA standards, further explained in ECFA commentaries, are fundamental to the accountability process, they are only a starting point—an entry level—to operating a ministry with integrity.

In addition to the standards, ECFA has developed a series of best practices which encourages members to strive for the highest levels of excellence.

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

For easy reference, this document combines the ECFA standards and recommended best practices in outline form.

Doctrinal Issues

ECFA Standards require:

- Members subscribe to a written statement of faith affirming commitment to the evangelical Christian faith or otherwise demonstrate such commitment (Standard 1).
- Members operate in accordance with biblical truths and practices (Standard 1).

ECFA Standards and Best Practices

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Governance

ECFA Standards require:

- Minimum board size of five (Standard 2). [(1)]
- An independent board (Standard 2). [(1)]
- Board must meet at least two times annually (Standard 2). [(1)]
- Board must ensure that the member is avoiding conflicts of interest (Standard 6). [(1)]
- Board or a committee consisting of a majority of independent members shall approve the engagement of an independent certified public accountant (Standard 3).[(1)]
- Board shall review the annual financial statements and maintain appropriate communication with the certified public accountant (Standard 3).[(1)]
- Board shall be apprised of any material weaknesses in internal control or other significant risks (Standard 3).[(1)]

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

Best Practices

Board Members:

- Develop an effective process to plan ahead for recruiting new board members.
- Properly orient new board members for their board service and provide ongoing education to ensure that the board carries out its oversight functions and that individual board members are aware of their legal and ethical responsibilities.
- Provide adequate communication to board members between board meetings.
- Ask board members annually to pledge to carry out their duties and obligations as a board member in a trustworthy and diligent manner.
- Annually monitor individual board member performance against the board members' service commitments.
- Board members should generally serve without compensation for board service other than reimbursement for expenses incurred to fulfill their board duties. If compensation is paid to board members, the charity should provide such information, upon request, to allow an evaluation of the reasonableness of the compensation.
- Establish clear policies and procedures on the length of terms and on the removal of board members.
- Evaluate board member participation before extending terms. Use board member evaluation and/or term limits to ensure that the organization is only served by effective members.
- Clarify to board members whether they are expected to participate in stewardship activities and individual giving.
- Find opportunities to keep valuable individuals connected with the organization after their board terms expire.

Continued on page 7

Best Practices

Charters:

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

Compensation:

- Base reasonableness of the compensation of the CEO, executive director, or president (or similar position) on appropriate data regarding comparable compensation under IRS regulations, as applicable.
- Approve and document annually and in advance the compensation and fringe benefits of the CEO, executive director, or president (or similar position).

Composition and independence:

- Determine and adjust the optimal board size by assessing organizational needs.
- Structure the voting membership of the board with more than a mere majority of independent board members.
- Conduct board meetings with more than a mere majority of independent board members in attendance.

Corporate bylaws:

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

Evaluations:

- Annually and formally evaluate the CEO, executive director, or president (or similar position).
- Use routine and periodic board self-evaluations to improve meetings, restructure committees, and address individual board member performance.

Finances:

- The board should understand the organization's financial health.
- Ensure, by collaborating with the board and the CEO, executive director, or president (or similar position), that the organization has a clear financial plan that is aligned with strategic, operating, and development plans.

Continued on page 8

Best Practices

- 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, if helpful, whose members have financial expertise, totally comprised of independent members (Standard 3 only requires a *majority* of independent members) to annually review the financial statements.
- Whether the board or a committee handles the financial review function, staff should not be present for a portion of the meeting with the representative(s) of the accounting firm to enhance the opportunity for open communication between the parties.
- Obtain competitive fee quotes every few years. If the accountants are independent and providing quality service at competitive fees, it is generally wise to continue with the current accounting firm.
- If Form 990 is filed with the IRS, the board or a board committee should annually review the form.

General:

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

Minutes:

- Properly document the proceedings of all board and board committee meetings in order to protect the organization.
- Identify, in board minutes and board committee minutes, 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 that puts into words why the organization exists and what it hopes to accomplish.
- Regularly refer to the mission statement to ensure that it is being faithfully followed.

Continued on page 9

Best Practices

- Refocus the mission statement, if appropriate.

Philosophy statements:

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

Policies:

- Adopt policies, as appropriate, for:
  - ➢ conflicts of interest (and approve all significant related-party transactions annually),
  - ➢ whistleblower,
  - ➢ accountable expense reimbursements,
  - ➢ record retention,
  - ➢ board confidentiality,
  - ➢ gift acceptance,
  - ➢ giver confidentiality,
  - ➢ housing allowances,
  - ➢ executive compensation,
  - ➢ joint ventures,
  - ➢ review of Form 990,
  - ➢ public inspection of certain Federal forms, and
  - ➢ ownership of intellectual properties.
- Regularly review board policies to determine whether revisions are needed.
- Monitor organizational compliance with board policies.
- Include all board policies in a policy manual. Update the policy manual as policies are added, deleted or modified.

Financial

ECFA Standards require:

- Every member shall exercise the appropriate management and controls necessary to provide reasonable assurance that all of the member's operations are carried out and resources are used in a responsible manner and in conformity with applicable laws and regulations, such conformity taking into account biblical mandates (Standard 4).
- Each member shall prepare complete and accurate financial statements (Standard 3).

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 organization and clearly communicate these policies to donors.
- Maintain systems to provide project reports, including financial data and measurable results.
- Overhead charges deducted from restricted gifts should not exceed actual overhead expenses.
- Regularly determine if donor-restricted net assets have been used for operational purposes.
- Avoid borrowing restricted net assets, but if significant short-term borrowing occurs, the board should be informed and provide adequate oversight.

Other:

- Spend a reasonable percentage of the annual budget on programs in pursuance of the organization's mission.
- Provide sufficient resources for effective administration and, if the organization solicits contributions, for appropriate fundraising activities.
- Properly document all fringe benefit plans and institute administrative policies to ensure that all taxable fringe benefits are properly reported for tax purposes.

Continued on page 11

Best Practices

- 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 listing the types of expenses that can be paid for or reimbursed and the documentation required.
- Provide adequate due diligence for funds (cash or noncash) utilized internationally, whether expended by the organization 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.
- Concentrate fraud-prevention efforts wherever supervision and control are at a minimum, such as at events or programs conducted remotely from the organization's primary locations.
- Avoid loans or the equivalent to executives or board members.
- Avoid permitting the use of organizational credit cards for personal purchases.

ECFA Standards and Best Practices

Transparency

ECFA Standards require:

- Members comply with federal public disclosure rules pertaining to the disclosure of the Form 990, 990-T, and Form 1023, if these documents were filed with the IRS (Standard 5).
- Members provide a copy of the most recent annual financial statements to any requester. (Standard 5).[1]
- Members provide a report, including financial information, on any specific project for which a charity 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 charity's progress in utilizing their gifts to fulfill the restricted gift purpose(s).
- Post the most recent annual financial statements and Form 990—if this form is filed with the IRS—on the organization's website.
- Determine that the organization's audit—Forms 990, 990-T, 1023, and 5227 (if these forms are applicable) are accessible to those who desire a copy.
- Ensure that all material related-party transactions are disclosed in the financial statements.
- Provide reports of program accomplishments to givers.
- 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.

Related-Party Transactions

ECFA Standards require:

- Members 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 financial statements of the member;
  - (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 member's board has acted upon and demonstrated that the transaction is in the best interest of the member (Standard 6).[1]

[1] *These provisions exceed the requirements of federal law.*

Best Practices

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

ECFA Standards and Best Practices

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Stewardship of Charitable Gifts

ECFA Standards require:

- **Truthfulness in Communications.** In securing charitable gifts, all representations of fact, descriptions of the financial condition of the member, or narratives 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, use of misleading photographs or any other communication which would tend to create a false impression or misunderstanding.
- **Giver Expectations and Intent:** Statements made about the use of gifts by the member in its charitable gift appeals must be honored. A giver's intent relates both to what was communicated in the appeal and to any instructions accompanying the gift, if accepted by the member. Appeals for charitable gifts must not create unrealistic expectations of what a gift will actually accomplish.
- **Charitable Gift Communication.** Every member shall provide givers appropriate and timely gift acknowledgments.
- **Acting in the Best Interest of Givers:** When dealing with persons regarding commitments on major gifts, a member's representatives must seek to guide and advise givers to adequately consider their broad interests.

  A member must make every effort to avoid knowingly accepting a gift from or entering into a contract with a giver that would place a hardship on the giver or place the giver's future well-being in jeopardy.
- **Percentage Compensation for Securing Charitable Gifts:** A member may not base compensation of outside stewardship resource consultants or its own staff directly or indirectly on a percentage of charitable contributions raised.

Best Practices

Donor communication:

- Regularly compare fundraising solicitations with the organization's stewardship philosophy.
- Advise donors of the charitable contribution consequences of quid pro quo transactions.
- If a donor's capacity or intent is unclear with respect to a gift, appropriate steps should be taken to document and clarify the issues.
- Organizations accepting contributions by Automated Clearing House (ACH) or Electronic Funds Transfer (EFT) should provide donors with an adequate and timely opportunity to cease the automated withdrawals. This is especially important when the gifts are funding a certain project or are preferenced to support the work carried out by a certain individual.

Donor-restricted gifts:

- Establish systems to adequately track donor-restricted gifts.
- Accept donor-restricted gifts only if in compliance with the organization's restricted gift policies.
- Avoid all donor-restricted gifts having the characteristics of conduit or pass-through transactions.

Continued on Page 15

Stewardship of Charitable Gifts (cont'd.)

ECFA Standards require:

ECFA Best Practices

Fundraising appeals:

- Fundraising appeals and the related response opportunities should be closely monitored for consistency.

Other:

- Generate compensation arrangements for development personnel (internal and external) based on merit. Pay-for-performance plans may be structured if they avoid compensation based on a percentage of gift amounts.
- Relief and development organizations are encouraged to follow the Association of Evangelical Relief and Development Organizations (AERDO) gift-in-kind standards.