

TOP 10

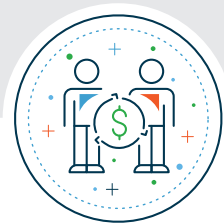
Compliance Reminders to Enhance Member Compliance in **2021**



ECFA utilizes several programs to help ensure member compliance with our Seven Standards of Responsible Stewardship™. These include a robust initial application process, annual accreditation renewal, and the Standards Check-In program.

ECFA STANDARDS CHECK-IN

We've compiled a list of top 10 reminders to help strengthen your organization's compliance with the ECFA Standards in 2021. These are based on some of the most frequently addressed areas that our team of CPAs and other professionals observed in reviewing hundreds of ECFA applications, renewals, and Check-Ins for compliance with ECFA Standards over the past year.

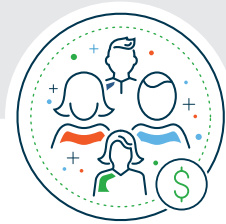


Reminder #1: Approve top leader compensation

ECFA Standard 6 requires the board to annually approve the top leader's total compensation package and to document this approval in the minutes of the governing board meetings. This duty can be performed by an independent committee that is properly authorized by the governing board, and this committee should also document the approval in its meeting minutes. If the top leader's compensation is \$150,000 or more, additional steps should be taken – such as using reliable comparability data in determining total compensation, ensuring that board members participating in the decision-making process are free of any conflict of interest, and contemporaneously documenting the discussion and decision. [Learn more about ECFA Policy for Excellence in Compensation Setting here.](#)



Compensation should be approved and documented each year whether or not there was a change to the top leader's compensation amount.



Reminder #2: Inform board of compensation paid to top leader's family

ECFA Standard 6 also requires the board be notified annually of the total compensation package of any member of the top leader's family who is employed by the organization or any of its subsidiaries or affiliates. This notification should be documented in the board meeting minutes as well.



If the top leader's family member serves as an independent contractor to the ministry, it is important that the board be made aware of this relationship as well.



Reminder #3: Properly designate and approve minister's housing allowance

ECFA Standard 4 addresses a member's requirement to conform with applicable laws and regulations. Included in this requirement is the proper handling of minister's housing allowance. A minister's housing allowance must be officially designated by the church or ministry and must be properly designated in advance of payment. It is highly recommended that the designation be stated in writing, preferably by board resolution, in an employment contract or as part of a board approved budget.



It is helpful for the church or ministry to provide worksheets to the minister to aid in his calculation and documentation of housing allowance, but remember the determination of amount, and proof under audit is the sole responsibility of the minister. [See sample Housing Allowance worksheets here.](#)



Reminder #4: Approve CPA engagement

ECFA Standard 3 requires every organization to have financial statements prepared by an independent CPA. The approval of this engagement of the CPA for an audit, review, or compilation (depending on the organization's total revenue) must be performed by the board, or an authorized committee, and documented in meeting minutes. [Learn more about Financial Oversight here.](#)



This approval and documentation is required for the retention of the CPA as well. Multiple year engagement letters need only be approved and documented in the initial year of the multi-year agreement.



Reminder #5: Ensure appropriate oversight of international activity

ECFA Standard 4 requires members to conform with applicable laws and regulations, which includes ensuring grants made to recipients outside of the U.S. are handled in keeping with U.S. tax law and U.S. Treasury regulations. In order for international grant-making to be deemed appropriate and compliant, the grant must further the exempt purposes of the ministry; the ministry should maintain control and discretion over the funds; the ministry should review and approve the foreign activity, receive reporting on the use of funds and responsibly audit the activity. Finally, the ministry should comply with U.S. Treasury OFAC procedures and disclosures when transmitting funds to recipients outside of the U.S. and when transporting funds exceeding a certain amount out of the U.S. [Access ECFA's 6 Essentials of International Activity e-book here.](#)



FinCEN Form 105 is required when transporting \$10,000 or more, in aggregate, of U.S. currency out of the U.S. For example, if a missions team is transporting more than \$10,000 total among all team members, they must complete FinCEN Form 105 and submit to a Customs agent at the airport even if no single person on the team is carrying more than \$10,000.



Reminder #6: Maintain enough liquidity to cover donor restricted net assets

ECFA Standard 4 requires that resources be used in a responsible manner, which includes managing assets, liabilities, and net assets in a God-honoring way. One financial condition that may violate Standard 4 and that could diminish the church or ministry's Christian example is having liquid asset balances that are insufficient to cover the total of donor restricted net assets and unearned income and sufficient funds to meet ministry obligations. This borrowing of donor restricted assets is a very precarious position to be in and should be avoided. [Read about other financial conditions that may violate Standard 4 here.](#)



It is wise to ensure the governing board is aware if borrowing of restricted funds does occur, and that they approve a resolution to restore sufficient liquid assets as quickly as possible.



Reminder #7: Maintain appropriate board records

ECFA Standard 2 requires that proper attention be given to maintaining board meeting minutes. When captured properly, these minutes should document actions taken by the board and contain enough discussion to support the actions taken. If an executive committee of the board convenes between board meetings, minutes of the executive committee meeting(s) should be maintained and presented to the full board at its next regularly scheduled meeting. [Read more about recording minutes and see sample board minutes here.](#)



If the ministry or church board delegates certain responsibilities to other committees, such as an audit committee, the minutes of those committee meetings should be recorded and presented to the board, which should act on any recommendations made.



Reminder #8: Honor giver expectations and intent

ECFA Standard 7.2 requires members to honor giver expectations and intent. The commentary on ECFA Standard 7.2 explains further that “an organization should expend gift funds in fulfillment of a giver’s intentions within a reasonable length of time.” In situations where an organization is unable to fulfill a gift restriction in a reasonable length of time and the organization has not obtained a release of the restriction or the right to redirect the funds for another use, it may be appropriate to refund the gift to the donor.



A fundraising appeal generates certain expectations as to what a gift will accomplish. The key question to ask is “Will the expectation generated in the mind of the giver match the reality of what will occur?”



Reminder #9: Use correct terminology for matching and challenge gifts

ECFA Standard 7.1 requires ministries to communicate to donors in a way that will not create a false impression or misunderstanding. This can occur when matching gifts are not communicated properly. A matching gift is typically defined as an “at risk” promise by a donor(s) to match other gifts. In this situation, if the matched amount is not reached, the ministry will not receive the original promised amount. If the matched amount is received, the gift will be multiplied through the matching concept. A challenge gift is generally a gift that is not “at risk” and has already been received by the donor(s) or will be received by the donor(s) regardless of how much other donors give. [Learn more about Matching and Challenge Gifts here.](#)



When a gift campaign includes a gift that will be received by the ministry regardless (the gift is not at risk), take care to avoid using matching and multiplier language that may cause the donor to think that their gift is actually being matched/multiplied.



Reminder #10: Obtain independent oversight of top leader expenses

ECFA Standard 6 requires members to handle financial transactions that relate to its top leader in an impartial and accountable manner. Another goal of this standard is to provide members good financial management principles that will help them bring honor to the Lord. This can provide assurance to donors and other supporters that the organization handles financial transactions in the best interest of the organization and its ministry. To that end, it is wise for a ministry or church to ensure that there is independent oversight of the top leader's expenses to ensure appropriateness and valid business purpose. This will serve as an additional safeguard to protect both the church or ministry and the top leader and can also provide assurance to donors and other supporters that the organization handles financial transactions in the best interest of the organization and its ministry.



This oversight need not be burdensome from a time standpoint – it can be performed by an independent board member on a quarterly or semi-annual basis and still be effective.

Check out the following to learn more about the ECFA Standards and our Compliance Review Procedures:



ECFA Seven Standards of Responsible Stewardship™

[ECFA.org/Standards.aspx](https://www.ecfa.org/Standards.aspx)



FAQ's - How Does ECFA Accreditation and Compliance Work?

[ECFA.org/Content/FAQs-How-Does-ECFA-Accreditation-and-Compliance-Work](https://www.ecfa.org/Content/FAQs-How-Does-ECFA-Accreditation-and-Compliance-Work)



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