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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 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 churches 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. ECFA members must comply with all of the standards, all of the time.

ECFA

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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.

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ECFA's Seven Standards (cont'd.)

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.



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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.

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



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ECFA Standards and Best Practices for Churches

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).



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ECFA Standards and Best Practices for Churches

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 or a committee consisting of a majority of independent members shall approve the engagement of an independent certified public accountant (Standard 3).⁽¹⁾
- Board must ensure that the member is avoiding conflicts of interest (Standard 6).⁽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:

- 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.

Charters:

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

Compensation:

- Reasonableness of the senior pastor's compensation should be based on appropriate data regarding comparable compensation under IRS regulations, as applicable.
- Approve and document annually—and in advance—the compensation and fringe benefits for the senior pastor.

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.

Continued on page 7

Governance (cont'd.)

Best Practices

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.
- If helpful, utilize a committee whose members have financial expertise that is 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.

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.
- 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.

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Governance (cont'd.)

Best Practices

Mission statement:

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

Philosophy statements:

- Adopt a stewardship philosophy statement.
- Adopt a compensation philosophy statement for the senior pastor.
- 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, related to all of these:
 - conflicts of interest (and approve all significant related-party transactions annually),
 - whistleblower,
 - accountable expense reimbursements,
 - record retention,
 - board confidentiality,
 - gift acceptance,
 - giver confidentiality,
 - clergy compensation,
 - housing allowances,
 - 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.



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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 church and clearly communicate these policies to donors.
- Maintain systems to provide project reports, including financial data and measurable results.
- Overhead charges applied to 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:

- Properly document all fringe benefit plans and institute administrative policies to ensure 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.

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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.
- 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.



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Transparency

ECFA Standards require:

- Church must provide a copy of the most recent annual financial statements to any requester (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 church's progress in utilizing their gifts to fulfill the restricted gift purpose(s).
- 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.



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Related-Party Transactions

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 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⁾

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 significant potential related-party transactions.
- All significant related-party transactions should be initially approved and, if continuing, be reapproved annually by the board.

⁽¹⁾ *This Standard exceeds the requirements of federal law.*



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Stewardship of Charitable Gifts

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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 stewardship solicitations with the church'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 clarify and 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.
- 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 and external) based on merit. Pay-for-performance plans may be structured if they avoid compensation based on percentage of gift amounts.