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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 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 member organizations 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 member organization fails even one of the Standards, it is disqualified from ECFA membership.

Best Practices

While the ECFA Standards 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 member organizations to strive for the highest levels of excellence.

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

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ECFA Seven Standards of Responsible Stewardship

Standard 1 – Doctrinal Statement – Every member organization 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 Audit Committee – Every member organization 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 audit and maintain direct communication between the board and the independent certified public accountants.

Standard 3 – Audited Financial Statements – Every member organization shall obtain an annual audit performed by an independent certified public accounting firm in accordance with auditing standards generally accepted in the United States of America (GAAS) with its financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Standard 4 – Use of Resources – Every member organization 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 organization shall provide a copy of its current audited financial statements upon written request and provide other disclosures as the law may require. An organization must provide a report, on written request, including financial information, on the specific project for which it is soliciting gifts.

Standard 6 – Conflicts of Interest – Every member organization 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 organization; 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 organization's board has acted upon and demonstrated that the transaction is in the best interest of the member organization.

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Standard 7 – Fund-Raising – Every member organization 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 organization, 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 organization's ministry.

7.3 **Communication and Donor Intent:** All statements made by the organization in its fund-raising appeals about the use of the gift must be honored by the organization. The donor's intent is related both to what was communicated in the appeal and to any donor instructions accompanying the gift. The organization 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:** An organization 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:** Organizations 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 organization, 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.

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

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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 organization must not receive royalties for any product that the organization uses for fund-raising or promotional purposes.

7.10 **Acknowledgment of Gifts-in-Kind:** Property or gifts-in-kind received by an organization 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 organization may be required to provide additional information for gifts of motor vehicles, boats, and airplanes.

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

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ECFA Standards and Best Practices

Doctrinal Issues

ECFA Standards require:

- 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).

Best Practices

- Periodically review the ministry's statement of faith and reaffirm the organization's commitment to this statement.
- Devise methods to confirm that the financial and other operations of the ministry are conducted in a manner which reflects generally accepted biblical truths and practices.

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ECFA Standards and Best Practices

Governance

ECFA Standards[1] 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 auditors (Standard 2).
- Board must engage an independent CPA to annually perform a GAAS/GAAP audit (Standard 3).
- Board must determine reasonableness of CEO compensation (Standard 4).
- Board must assure that the organization is avoiding conflicts of interest (Standard 6).

[1] *All of ECFA's governance Standards exceed the requirements of federal law*

Best Practices

Audit and finances:

- Board should understand its nonprofit's financial health.
- Ensure, by collaborating with the CEO, that the organization has a clear financial plan that is aligned with strategic, operating, and development plans.
- In linking budgeting to strategic planning, the board should approve the annual budget and key financial transactions that can be realistically financed with existing or attainable resources.
- Utilize an audit committee (the audit review function may be assigned to another board committee such as a finance committee), whose members have financial expertise, totally comprised of independent members (Standard 2 only requires a majority of independent members).
- Conduct at least a portion of each audit committee meeting in the absence of staff. If the board handles the audit review function, staff should be recused from a portion of the meeting with the representative(s) from the audit firm.
- Request the periodic rotation of the lead or audit review partners, if this is feasible for the audit firm.
- Obtain competitive audit fee quotes every few years. If the auditors are independent, providing quality service at competitive fees, it is generally wise to continue with the current audit firm.
- If Form 990 is filed, the audit committee should annually review the form. If the full board handles the audit review responsibilities, Form 990 should be reviewed by the full board or an appropriate board committee.

Board Members:

- Develop an effective process to plan ahead for recruiting new board members.

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Best Practices

- Properly orient new board members for their board service and provide ongoing board education to ensure that the board carries out its oversight functions and that individual members are aware of their legal and ethical responsibilities.
- Provide adequate communication to board members between board meetings.
- Have board members annually pledge to carry out in a trustworthy and diligent manner their duties and obligations as a board member.
- Board members should generally serve without compensation other than reimbursement for expenses incurred to fulfill their board duties. If compensation is paid to board members, information on the compensation should be provided by the charity, upon request, to allow an evaluation of the reasonableness of the compensation.
- Annually monitor individual board performance against the board members' service commitments.
- 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.
- Distribute leadership across the board rather than concentrating in a few board officers or an executive committee.
- Board members should understand clearly if 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.

CEO compensation:

- Reasonableness of CEO compensation should be based on appropriate data regarding comparable compensation under IRS regulations.
- Approve and document annually and in advance the compensation and fringe benefits of the CEO unless there is a multi-year contract in force and there is no change in the compensation and fringe benefits except for an inflation or cost-of-living adjustment.

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Best Practices

Charters:

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

Composition and independence:

- Determine and adjust the optimal board size by assessing organizational needs.
- Structure board membership and the board's voting 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.
- More important than tangible qualifiers are independent-minded board members — those with the ability to place the organization's interests first, apart from the interests of the CEO, staff, and other board members.

Corporate bylaws:

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

Evaluations:

- Formally evaluate the CEO annually.
- Use routine and periodic board self-evaluations to improve meetings, restructure committees, and address individual board member performance.

Governance:

- Board time should be spent on governance, not on management issues.
- Board committees are formed to improve the quality of governance.
- If an organization has paid staff, the positions of CEO and board chair should be held by separate individuals.

Minutes:

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

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Best Practices

Mission statement:

- Develop a mission statement, putting into words why the organization exists and what it hopes to accomplish.
- Regularly reference the organization's mission statement to assure that it is being faithfully followed.
- Have the courage to 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 Fund-raising issued by ECFA and Christian Stewardship Association (CSA).

Policies:

- Adopt appropriate policies including conflict of interest (and approve all significant related-party transactions annually), whistleblower, accountable expense reimbursements, restricted gift acceptance, record retention, board confidentiality, donor confidentiality, and ownership of intellectual properties (including policies to avoid the payment to insiders of either royalties or profits related to the distribution of products for fund-raising or promotional purposes).
- Regularly review board policies to determine if 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.

Strategic thinking:

- Strategic thinking is not a periodic exercise but part of ongoing board work.
- 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 organization.

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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 (Standard 5).
- Members provide a copy of the most recent annual audit to any requester (Standard 5).[1]
- Members provide a report, including financial information, on specific projects 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 progress the charity is making in utilizing their gifts to fulfill the restricted gift purpose(s).
- Post the most recent audit and Form 990—if this form is filed with the IRS—on the organization's website.
- 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.

ECFA Standards and Best Practices

Conflicts of Interest

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 audited financial statements of the organization;
  (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 organization's board has acted upon and demonstrated that the transaction is in the best interest of the member organization (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 potential related-party transactions.
- All significant related-party transactions should be initially approved and, if continuing, reapproved annually by the governing board.

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ECFA Standards and Best Practices

Financial

ECFA Standards require:

- Members 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).
- Members must obtain an annual audit performed by an independent certified public accounting firm in accordance with auditing standards generally accepted in the United States of America (GAAS) with its financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) (Standard 3).[1]

[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 organization, 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 is done, at a minimum, the board should be informed and perhaps approve the incident.

Transparency:

- Determine that the organization's audit—Form 990, Form 990-T, and Form 1023, if these forms are applicable—are accessible to those who desire a copy.
- Assure that all material related-party transactions are disclosed in the audit.

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Best Practices

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 fund-raising activities.
- 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 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. For example, have bank and investment statements sent 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 national, international, or regional headquarters.
- 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

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Fund-raising

ECFA Standards require:

- **Truthfulness in communication:** In fund-raising, all representations of fact, description of the financial condition of the organization, 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:** Fund-raising appeals must not create unrealistic donor expectations of what a donor's gift will actually accomplish within the limits of the organization's ministry.
- **Communication and donor intent:** All statements made by the organization in its fund-raising appeals about the use of the gift must be honored by the organization. The donor's intent is related both to what was communicated in the appeal and to any donor instructions accompanying the gift. The organization should be aware that communications made in fund-raising appeals may create a legally binding restriction.
- **Projects unrelated to a ministry's primary purpose**: An organization 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:** Organizations making fund-raising appeals, which in exchange for a contribution, offer premiums or incentives, must advise the

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Best Practices

Donor communication:

- Regularly compare all fund-raising solicitations with the organization's stewardship philosophy.
- Advise donors of the charitable contribution consequences of quid pro quo transactions even when such advice is not required by law.
- Advise potential donors to consult with their legal counsel before the ministry accepts a large gift from the donor.
- If a donor's capacity or intent is unclear with respect to a gift, take appropriate steps 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 organization'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.
- Deputized fund-raising (*e.g.*, workers are charged or deputized to raise gifts for the organization to fund the worker's ministry within the organization):

Continued on Page 12

ECFA Standards require:

donor of the fair market value of the premium or incentive and that the value is not deductible for tax purposes.

- **Financial advice:** The representative of the organization, 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 fund-raisers:** Compensation of outside fund-raising consultants or an organization'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 organization must not receive royalties for any product that the organization uses for fund-raising or promotional purposes.
- **Acknowledgment of gifts-in-kind:** Acknowledgment of property or gifts-in-kind received by an organization 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 organization may be required to provide additional information for gifts of motor vehicles, boats, and airplanes.
- **Acting in the interest of the donor:** An organization 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.

ECFA Best Practices

✔ Adopt policies evidencing the organization's intent to exercise discretion and control over all gifts received.

✔ Clearly communicate to donors that all gifts raised under this concept belong to the charity.

✔ Clearly communicate to workers who are deputized to raise funds (both before authorizing the workers to raise funds and at or near the date the worker separates service with the charity) that all gifts raised under this concept belong to the charity.

✔ In communicating with donors, avoid terminology such as "give to" or "give for" a particular individual.

Development appeals:

- Development appeals and the related response vehicles 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 to avoid 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.