



5 BUILDING BLOCKS FOR **CHURCH FINANCIAL INTEGRITY**



1

Committed Leadership



2

Sound Financial
Management



3

Appropriate
Transparency



4

Diligence in Compensation
and Conflicts of Interest



5

Trustworthy Stewardship



The Bond: Accountability

Introduction

Building a church ministry that will last requires a firm foundation – God and His Holy Word.

We see this very clearly in Matthew 7 when Jesus paints a picture of wise and foolish builders. A house built on sand will eventually fall. However, one established on rock can stand strong even in the face of life's storms.

*Therefore everyone who hears these words of mine and puts them into practice
is like a wise man who built his house on the rock.*

Matthew 7:24

Nourishing financial health is one element of biblical wisdom that church leaders must heed to achieve their missions. In fact, the need for financial integrity is hard to overstate. The trust that flows from having such integrity paves the way for success, while a lack of it will undermine an organization's work and diminish its witness for the Gospel.

Sometimes leaders can feel overwhelmed when it comes to undergirding their church's financial health. They may not know where to start. But God's Word provides us with bedrock principles, and the good news is that building financial integrity is not as complicated as some might think.

All churches, regardless of size, require the same 5 basic building blocks for financial integrity:

1. Committed Leadership
2. Sound Financial Management
3. Appropriate Transparency
4. Diligence in Compensation and Conflicts of Interest
5. Trustworthy Stewardship

And just as physical buildings require cement or some other adhesive to keep their fundamental pieces in place, **accountability** is the bond needed to ensure that the building blocks of financial integrity remain intact over time.

This short booklet will explore these 5 building blocks for church financial integrity and the concept of accountability that holds it all together. Along the way, you'll also find references to practical tools intended to help you as you advance your own organization.

Now let's get started!

1



Committed Leadership

The ministry's governing body and staff must lead the way for financial integrity.

Committed Leadership

Here is a trustworthy saying: Whoever aspires to be an overseer desires a noble task

1 Timothy 3:1

A leadership team actively committed to enhancing trust is the cornerstone for a church's financial integrity.

Many givers, volunteers, and staff want and expect this for the organization in which they invest their time and treasure, but their commitment is not enough for success. The starting point for the 5 building blocks must be a church's governing body (its board and/or appointed committee) and executive staff (or equivalent-level volunteers). These individuals must embrace the vision of financial integrity and aggressively pursue the implementation of best practices on a daily basis. Without such committed leadership, a church will simply never create an environment where financial integrity can thrive in the long term.

While governance models vary based on scriptural interpretation and practice, a church board (or equivalent) must:

- **Select and Nurture Competent Leaders.** One of the governing body's most critical tasks is to find a competent senior leader (lead pastor, senior pastor, etc.). The board leadership should also maintain a strong relationship with that leader and hold the leader accountable for the successful management of day-to-day operations in pursuit of the church's mission. Because healthy organizations require healthy leaders, the board should also be very intentional to come alongside and support the leader's integrity by clarifying biblical character expectations and offering proactive care for the leader as a whole person.
- **Ensure Effective Governing Body Composition.** Governing bodies must also ensure their own integrity. First and foremost, individuals serving on the governing body should meet biblical qualifications as interpreted by the church. Read 1 Timothy 3:1-7 and Titus 1:5-9 and consider how these passages can inform checklists for godly character necessary for successful church leadership.

In addition, to effectively pursue financial integrity, governing bodies should be mindful of their size and composition. If a board grows too large to meet as a deliberative body, the ability to effectively discuss issues and make decisions can be lost. However, control by a very small interdependent group is also risky and inadvisable.

Successful governing bodies should consist of at least 5 individuals, and the majority of those board members should be independent in their judgment with respect to financial decisions. Two of the most common examples leading to “non-independence” for a member of the governing body are (1) employment relationships with the church and (2) family or material business relationships with a staff member or another member of the governing body. Requiring the predominance of independence in the governing body helps ensure that official action will be taken in the best interest of the church and without partiality, undue influence, or conflict of interest. It can also increase the level of experience available to the group when making important decisions.

Again, strong leadership is key. Financial integrity grows in an environment where a trustworthy governing body keeps a church accountable as it utilizes its resources to achieve its mission.

CHECK YOUR FOUNDATION

- ☐ Our church evaluates the character of committed leaders using biblical standards.
- ☐ Our church has a governing body that oversees the organization’s financial resources.
- ☐ Our governing body has at least 5 members, and a majority of them are independent.

2



Sound Financial Management

Integrity requires administering ministry finances with diligence.

Sound Financial Management

Now about the collection for the Lord's people: Do what I told the Galatian churches to do. On the first day of every week, each one of you should set aside a sum of money in keeping with your income, saving it up, so that when I come no collections will have to be made. Then, when I arrive, I will give letters of introduction to the men you approve and send them with your gift to Jerusalem. If it seems advisable for me to go also, they will accompany me.

1 Corinthians 16:1-4

When making arrangements for a charitable fund to support the church in Jerusalem, the Apostle Paul purposefully put sound financial controls in place. This included the use of independently approved couriers to ensure that donations were managed properly. Such care with gifts is a lesson for us. Building financial integrity in a church takes intentionality, hard work, and discipline.

The size and scope of a church will determine the particulars for best practices in areas like budgeting, internal controls, and maintenance of appropriate reserves. Sometimes smaller organizations use volunteer treasurers to administer finances. However, as a church grows it may be able to hire a bookkeeper, finance director, CFO, or another such staff member to assist in keeping the organization's financial house in order. Whoever is serving in this role should have adequate knowledge, experience, and the resources needed to administer finances with excellence.

Certain sound financial management principles are advisable for all organizations desiring to build financial integrity:


- **Legal Compliance.** Every church should adopt reasonable procedures to ensure that all of the organization's funds are used to fulfill its tax-exempt purposes in conformity with applicable laws and regulations (including biblical mandates). Churches fail to demonstrate financial integrity if they use their resources in ways that violate the law or do not further legitimate church purposes.
- **Financial oversight.** A church's governing body should thoroughly and intentionally review the organization's financial reports on a periodic basis. This includes the church's balance sheet, a statement of revenue and expenses, and a statement of cash flows.

- **Internal audits.** Once a church has a modest annual budget (\$250,000 is a helpful benchmark), an annual internal audit of the financial records is beneficial. An internal audit is generally performed by a staff member with independence from financial decision-making roles or perhaps a volunteer or some other person closely associated with the church.
- **External Engagement.** Depending on the size of a church, its governing body should approve the engagement of an external and independent certified public accountant (CPA) to perform an annual audit, review, or compilation of the financial statements. The table on page 9 offers recommendations for CPA engagement based on an organization's budget. In addition, churches should check state laws for potential CPA engagement requirements.

CHECK YOUR FOUNDATION

- Our church has a staff member (or volunteer) with adequate knowledge, experience, and the resources needed to administer the church's finances with excellence.
- Our church has reasonable procedures in place to ensure funds are always used in ways that further our tax-exempt purposes and are consistent with other legal requirements.
- Each year our church conducts an internal audit according to recommended guidelines.
- Each year our church engages an independent CPA for an audit, review, or compilation of our financial statements in a manner appropriate for our size and scope.

RECOMMENDATIONS FOR CPA ENGAGEMENT

TOTAL ANNUAL REVENUE	RECOMMENDATIONS	
 3M	Internal Audit	External audit of financial statements (GAAP/GAAS)
2M to 3M	Internal Audit	External review of financial statements prepared on either the accrual or modified-cash basis of accounting
250K to 2M	Internal Audit	Compiled financial statements prepared on either the accrual or modified-cash basis of accounting

Definitions

An **audit** is a formal examination of financial statements intended to assess the accuracy and thoroughness of financial records. An independent CPA performs this procedure on a set of financial statements in order to render an opinion based on the accounting records provided. An audit is more expensive than a review or compilation because an opinion on the accuracy of financial statements requires significantly more work than that involved in either a review or a compilation.

A **review** is less comprehensive than an audit, but using limited procedures a CPA can offer an intermediary level of assurance on financial statements. A review report will state that (1) the external accountants do not express an opinion on the financial statements and (2) they are not aware of any material modifications that should be made to the financial statements based on their review. A review is less expensive than an audit but more expensive than a compilation.

A **compilation** is the gathering of financial information and the creation of financial statements for an organization. A compilation involves no assurance on the financial statements, as the accountant simply assembles the financial statements for the organization. A compilation is less expensive than a review (or an audit).

3



Appropriate Transparency

*Regular financial reports create an
atmosphere for greater generosity.*

Appropriate Transparency

Now, however, I am on my way to Jerusalem in the service of the Lord's people there. For Macedonia and Achaia were pleased to make a contribution for the poor among the Lord's people in Jerusalem.

Romans 15:25-26

Financial disclosure is an expected and often required form of accountability for nonprofit organizations in society at large. However, it is even more significant for Christ-centered ministries. In fact, the Apostle Paul demonstrated the importance of transparency by reporting in his letters on the charitable offerings he was collecting and transporting to Jerusalem. Such openness promotes responsible Christian stewardship over resources as givers seek to make monetary investments in the work of the Kingdom.

Churches committed to building financial integrity will demonstrate their appropriate transparency by making the following disclosures:

- **Financial statements.** Churches should generally either make their most recent annual financial statements (see Building Block 2) widely available to the public—for example, on the church's website—or promptly available in response to written requests for them.
- **Project Reports.** When organizations seek and accept contributions designated for specific projects narrower than the general operations of the church, they should provide reports upon written request to those giving for these purposes. The project report should include the amount of donated income, the costs related to administering the project, and the amounts that went directly to the project for which the solicitation was made.

CHECK YOUR FOUNDATION

- Our church provides a copy of its most recent annual financial statements upon request.
- Our church provides project reports for specific-purpose gifts to donors upon request.
- Our church makes all disclosures required by law and values appropriate transparency in areas not required by law so that our openness will undergird our integrity “not only in the eyes of the Lord but also in the eyes of man” (2 Corinthians 8:21).

4



Diligence in Compensation and Conflicts of Interest

*Leaders must avoid even the perception
of improper personal benefit.*

Diligence in Compensation and Conflicts of Interest

Samuel said to them, “The Lord is witness against you, and also his anointed is witness this day, that you have not found anything in my hand.”

“He is witness,” they said.

Romans 15:25-26

Matters of compensation and conflicts of interest are two distinct areas. However, what they share in common is the potential for individuals in positions of influence to gain an improper personal benefit at the organization’s expense. The care a church takes in properly handling both of these areas is critical to its level of success in building financial integrity.

In most cases, church leaders are not being compensated unreasonably, nor are staff and members of the governing bodies using their positions of influence for personal gain. Still, organizations that desire to build financial integrity must be proactive to prevent even the appearance of wrongdoing (1 Thessalonians 5:22). This requires a church’s diligence to establish policies and procedures that will promote excellence in setting a senior leader’s compensation and navigating conflicts of interest.

The following policies are recommended:

- **Compensation.** A church’s governing body should approve the total compensation package of the organization’s top leader annually. This includes taxable and nontaxable amounts (base salary, housing allowance, benefits, etc.). In addition, the board should be made aware of compensation paid to anyone on staff related to the top leader. As the top leader’s compensation increases so should the level of due diligence exercised by the governing body.

Churches can increase integrity in the compensation-setting process by:

1. Excluding anyone with a conflict of interest from the discussion and vote related to the leader’s compensation.
2. Obtaining reliable comparison data from compensation surveys or other sources to ensure the amount approved is reasonable.
3. Documenting the decision and the process used to determine compensation in a timely manner in the church’s records (e.g., board meeting minutes).

- **Conflicts of interest.** The church should adopt a conflict-of-interest policy covering key staff and members of the governing body. Any significant business transactions should be considered with this policy in mind, and the church should not enter into such a transaction unless the governing body has affirmatively taken steps in advance to meet the following requirements:
 1. All parties with a conflict of interest (direct or indirect) are excluded from the discussion and vote related to approving the transaction.
 2. The church obtains reliable comparison information regarding the terms of the transaction from appropriate independent sources such as competitive bids, independent appraisals, or independent expert opinions.
 3. The governing body affirmatively determines that entering into the transaction is in the church's best interests.
 4. The church clearly documents the elements above in a timely manner.

CHECK YOUR FOUNDATION

- ☐ Our governing body annually approves the top church leader's total compensation package.
- ☐ The level of due diligence in compensation-setting increases as the top leader's total compensation increases.
- ☐ Our church has adopted a sound conflict-of-interest policy covering key staff and members of the governing body.

5



Trustworthy Stewardship

Givers expect ministries to be faithful to their word in the process of raising and spending resources

Trustworthy Stewardship

*We want to avoid any criticism of the way we administer this liberal gift.
For we are taking pains to do what is right, not only in the eyes of the Lord but
also in the eyes of man.*

2 Corinthians 8:20-21

One of the surest ways for a church to fail in its pursuit of financial integrity is to demonstrate a lack of faithfulness in how it raises and spends resources. Trustworthy stewardship of charitable gifts requires following these key principles:

- **Truthfulness in Communications.** Churches have the responsibility to represent facts truthfully when communicating with givers. All visual and text components of a donation appeal (taken in part and as a whole) should convey current, complete, and accurate information to the prospective giver. After reading or hearing such an appeal, a prospective giver's perception of the request and its purpose should be as close to the actual facts as possible.
- **Honoring Giver Expectations and Intent.** Churches must honor their word about how donations will be utilized. Appeals should not create unrealistic expectations about what a gift will actually accomplish. In addition, if the church chooses to accept a gift, it must adhere to any instructions a giver includes with his or her donation.
- **Correctly Acknowledging Charitable Gifts.** Churches should issue appropriate and timely charitable gift acknowledgments according to tax law guidelines and must refrain from issuing gift acknowledgments for transactions that do not represent charitable gifts.
- **Acting in the Best Interest of Givers.** A church should not knowingly accept a gift or enter into a contract that would place a hardship on a giver or place the giver's future well-being in jeopardy. In the context of major gifts, a church's representatives must seek to guide and advise givers to adequately consider their broad interests.
- **Avoiding Percentage Compensation for Fundraisers.** Churches should follow the widely accepted ethical standard of not compensating staff or outside consultants based directly or indirectly on a percentage of the donations they raise. Percentage-based payments have the potential to place the self-interest of a person raising funds above a giver's interests.

CHECK YOUR FOUNDATION

- Our church is truthful in donation appeals to givers.
- Our church honors giver expectation and intent.
- Our church issues appropriate charitable gift acknowledgments according to tax law guidelines.
- Our church acts in the best interest of givers.
- Our church does not compensate staff or outside consultants based on a percentage of gifts raised.



The Bond: Accountability

Accountability

As iron sharpens iron, so one person sharpens another.

Proverbs 27:17

Maintaining financial integrity requires a support system to be successful in the long run. Accountability is this bonding agent that holds Building Blocks 1–5 of church financial integrity firmly in place. Successful churches need to embrace accountability measures to honor those they serve and their financial supporters.

Accountability may come in several forms:



- Accreditation by a respected and professional organization such as ECFA
- Governance by independent board members
- Independent financial and legal audits
- Internal checks and balances (through special committees, etc.)
- A combination of the measures above (we recommend all of them!)

As noted, one excellent mechanism for accountability is to receive accreditation from ECFA (Evangelical Council for Financial Accountability). The 5 Building Blocks discussed in this resource are at the core of ECFA's *7 Standards of Responsible Stewardship*[™]. Trusted churches that earn ECFA accreditation have the right to display ECFA's seal of accountability—a visible sign to donors and the broader community that they take seriously their commitment to financial integrity.

The result?

Enhanced Trust to More Effectively Reach the World for Christ

By the way, we don't just offer you the seal and walk away until it's time for your annual accreditation renewal. ECFA offers access to resources like this one and more to help your ministry staff perform their jobs at the highest level. We also proactively reach out to our members all year long to make sure we are meeting your needs as an active partner in accountability. Our goal is to provide your church with ongoing support so you can focus on reaching the world for Christ.

Would you like to join our growing community of more than 2,700 churches and ministries already accredited by ECFA? Take the next step by visiting [ECFA.org/Join](https://www.ecfa.org/Join).

Interested in more information regarding this material? Please contact Anna Wishart, ECFA Outreach Lead, by calling 800-323-9473 or emailing Anna@ECFA.org.

Additional Resources



Enhancing Trust



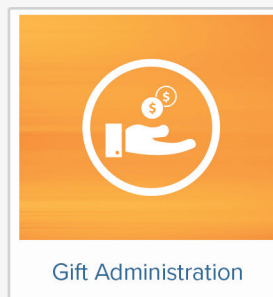
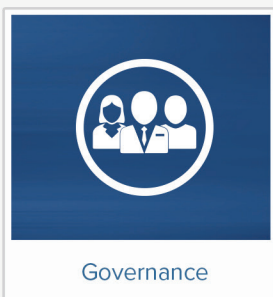
Now in publication for three decades, the *Church and Nonprofit Tax & Financial Guide* and the *Minister's Tax & Financial Guide* are two of the most trusted tax and financial reference guides for leaders of churches and other religious nonprofit organizations. These companion resources are designed to provide up-to-date information in an easy-to-understand format on key issues affecting churches and nonprofits and the leaders serving them.

To order these helpful resources, visit [ECFA.org](https://www.ecfa.org)



KNOWLEDGE CENTER

The **Knowledge Center** contains hundreds of documents on ministry finance, governance, stewardship, and more. In addition, check out the ECFA website for special ministry webinars, podcasts, videos, newsletters, and other practical learning opportunities.





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