Evangelical Council for Financial Accountability
440 West Jubal Early Drive, Suite 100 • Winchester, VA 22601

Enhancing Trust

September 2, 2015

Dr. K. P. Yohannan, President
Gospel for Asia
1800 Golden Trail Ct
Carrollton, TX 75010-4649

Dear Dr. Yohannan,

We have been in conversation with Gospel for Asia (GFA) representatives since May 6, 2015 regarding various allegations relating to ECFA Standards, including conducting an on-site visit on June 3, meetings with David Carroll and you in our office on July 1 and at Dulles Airport on July 27, and a meeting with David, Danny Yohannan, and Teresa Chupp in Winchester on August 12, 2015, plus numerous communications by phone and email.

The following is a summary of the most significant GFA compliance issues we reviewed:

1. **Use of field-generated funds to satisfy designated foreign contributions**. During our meeting on July 1, ECFA first learned that GFA and its field partners have engaged in a multi-year practice whereby field partners at least partially satisfied the designations on foreign contributions (primarily from U.S. donors, restricted for field use in India) by using locally generated field income (contributions from donors in India, profits from an India-based rubber plantation, hospitals, etc.).

   GFA staff indicated that the purpose of this practice was to retain foreign contributions in Indian Foreign Contribution (FC) accounts to earn a higher interest rate while expending locally generated funds that would not earn the higher interest rate. At this point, it is important to note that GFA disclaims that it exercises any control over field partners (see #10 below).

   GFA staff also indicated that amounts in FC accounts would be used eventually for their original designation, as well, with the ultimate result that the purpose of the foreign contributions would be more than fulfilled.

   To be clear, GFA solicited funds from donors, primarily gifts with donor restrictions, and transferred the funds to field partners in India, depositing them in FC accounts. While certain amounts were expended from the FC accounts in fulfillment of donor designations, significant amounts were retained in FC accounts over a period of years (see #2 below).

   ECFA staff observed to GFA that it is not a normative practice to hold donor-restricted gifts and fulfill donor restrictions using other funds. Especially with respect to funds sent to international partners, it is extremely difficult for GFA to demonstrate that it has exercised appropriate control of the funds. Further, ECFA observed that this practice may not comply with ECFA Standard 7.2 because of the lack of clarity regarding the satisfaction of donor restrictions on gifts solicited by and given to GFA.

Our review of the board minutes did not indicate the GFA board had approved, or even been notified of, the practice of using field generated funds to satisfy restrictions on foreign contributions.

Subsequent to ECFA learning of this practice on July 1, GFA represented to ECFA that GFA's field partners have ceased the practice of satisfying the designation on foreign contributions with field-generated funds.

2. **Excessive cash balances held in partner field accounts.** Allegations were made that GFA had upwards of $150 million in partner field accounts, far more than necessary to provide appropriate operating reserves. During our visit on June 3, ECFA was informed that GFA field partner cash reserves were approximately $7 million. After ECFA requested detailed documentation of cash balances held by foreign field offices, on June 29, we discovered that GFA's field partners had $259,437,098 on hand at March 31, 2014 and approximately $186 million in June 2015.

   ECFA staff questioned the appropriateness of the high levels of cash being held in partner field accounts. We were told that GFA partners felt it was important to maintain the high balances in case the Indian government decided to block funds being transferred into the country.

   The source of the balances was primarily from donor-restricted gifts to GFA, often raised in response to gift solicitations that communicated urgent field needs (see #4 below). ECFA staff expressed concern that the high reserves may not comply with ECFA Standards 4 and 7.1. Subsequent to our conversation on this matter on July 27, GFA provided ECFA with a plan to reduce partner field account reserves to $72 Million, and then amended the plan on August 27 to reduce reserves down to $11 Million. Again, GFA staff disclaimed that GFA exercises any control over field partners (see #10 below).

   In our meeting on July 1, ECFA staff asked you what the GFA board would think if they knew of the high balances in partner field accounts. You indicated that neither the board nor you were aware of the magnitude of the balances. You responded, "They would be as surprised as I am." Subsequently, the GFA board was notified, during their July 13 board meeting, of the balances held by field partners.

3. **Delay in sending funds to the field**. It was not until the meeting on August 12 that we learned that $47,898,342, or approximately 82%, of gifts received by GFA in 2014 designated for India were not sent to the field until the last two days of the calendar year. To be clear, nearly $50 million of gifts were raised from January to December, with only modest amounts sent to the field until the end of the year.

ECFA staff expressed concern over failing to send gifts to the field on a timely basis, raising compliance issues under ECFA Standards 4, 7.1, and 7.2, particularly given the urgent nature of many GFA gift solicitations. Subsequent to this discovery, GFA staff indicated that field partners requested the delay of sending the funds to the field due to challenges in transmitting funds into India. ECFA could not confirm if the delay in transferring the funds was justified.

Based on ECFA's review of GFA's internal financial statements as of June 30, 2015, GFA had a cash balance of $28,338,841 in funds designated for foreign field partners, or more than the total of all funds received for the field in the first half of 2015. In other words, the practice of sending funds to the field on a significantly delayed basis was not only followed for 2014 but also during the first half of 2015.

GFA staff informed ECFA on August 12 that part of the cash balances held by GFA on June 30 were transferred to field partners during the month of July. On August 21, GFA staff indicated there is now a plan to send funds to field partners on the 15th of each month.

When ECFA staff asked if the board was apprised of the delays in transferring funds to the field, GFA staff indicated the board was informed of this fact because the board received periodic financial statements. However, the internal financial statements erroneously reflected field funds as a liability and as an expense immediately upon receiving the funds. Thus, it would have been very difficult for the board to learn of the delays in sending funds to the field because the interim financial statements indicated the funds had been sent to the field when they had not. Therefore, ECFA found no indication that the board had approved, or even been clearly informed, of the questionable practice of delaying sending funds to the field.

4. **The level of urgency communicated in GFA donor appeals contrasted with reserves held by foreign field partners and delays in sending funds to the field.** In light of the significant cash balances held by field partners and the delay in sending funds to the field, ECFA staff raised concerns about the appropriateness of communicating urgency in many donor appeals. This includes appeals indicating "When we share with you about the urgency to reach the untold, lost millions—and the opportunities to win them to Jesus—it is not done to produce feelings of guilt or manipulate." One appeal we reviewed indicated "One blanket, like the one Hetaksh received, will literally make the difference between life and death for them and especially for their small children and elderly relatives."

   The delay between when a donor gives a gift and when the funds are actually made available for designated purposes on the field is inconsistent with the level of urgency in many appeals and the timeliness of using donor-restricted funds as required by ECFA Standards 7.1 and 7.2. On August 12, GFA staff indicated that despite the delay in making foreign contributions available to carry out programmatic work, at least some designated funds were disbursed on a timely basis through the use of field-generated income.

Our review of the board minutes did not indicate the GFA board had approved, or even been notified, of GFA's practice of soliciting funds based on urgency with a corresponding delay in disbursing funds to the field.

5. **Lack of discretion and control over funds granted to foreign entities.** During our review on June 3, ECFA staff raised questions regarding GFA's oversight and control of funds sent to foreign field partners. GFA's staff indicated that the foreign field partners are completely independent organizations and therefore GFA did not exercise any direct control over field partners. GFA staff also indicated that they did not have a foreign grant process in place to oversee the use of funds.

   Given legal requirements on tax-exempt entities to have appropriate discretion and control over the use of funds sent to foreign entities, ECFA staff indicated that GFA's lack of a grant process appears to violate ECFA Standard 4's requirement to follow applicable laws. Subsequent to these conversations, on August 21, GFA staff indicated a new foreign grant process was developed with the assistance of its new audit firm and will be in effect as of September 1, 2015.

   Our review of the board minutes did not indicate the GFA board had approved, or even been notified, of GFA's minimal oversight of funds provided to field partners.

6. **GFA solicits funds for narrower purposes than the eventual expenditure of the funds.** During ECFA's review on August 12, GFA staff provided a document to demonstrate the flow of funds from GFA to field partners. ECFA learned that donor-restricted donations are appropriately tracked by particular revenue classifications. However, we also discovered, and it was confirmed by GFA staff, that the disbursement of the gifts are tracked in much broader categories. For example, donations were received and tracked for 38 different specific items including kerosene lanterns, bio sand filters, chickens, manual sewing machines, blankets, bicycle rickshaws, and others, but related expenses were only tracked as "community development." In other words, donations were raised for 38 specific items, with the donations pooled for expenditure purposes instead of expending them specifically for the purposes raised.

   ECFA did not find any evidence that donors to the 38 different giving categories had awareness that their gifts were grouped and used in a broader category than the specific categories in which the gifts were raised. ECFA's staff raised concerns regarding GFA's compliance with ECFA Standard 4, 7.1, and 7.2 in raising funds for a particular purpose but then failing to document the actual use of those funds by the particular donor-restricted purpose.

   Subsequent to this conversation, on August 16, GFA staff indicated that GFA field partners will begin tracking expenditures by specific item accounts to provide adequate transparency as to the use of designated funds.

Our review of the board minutes did not indicate the GFA board had approved, or even been notified, that gifts solicited for very specific purposes were not being expended with the same specificity as the gifts were raised.

7. **GFA's financial statements do not appropriately report transactions with foreign partners.** During our review on June 3, GFA staff indicated that funds transferred to GFA India were actually transferred to a number of related entities instead of the single entity reflected in the 2013 audited financial statements. Additionally, on August 24 we learned that GFA received a $19,778,613 donation from GFA India, which was classified as a related party elsewhere on the 2013 audited financial statements (also see #8 below).

   On August 27, GFA staff confirmed that this donation was neither disclosed in the footnotes of the 2013 financial statements as a related-party transaction nor to the GFA board of directors. This inconsistency within the financial statements and lack of disclosure to the GFA board of directors about a significant related-party transaction appears to violate ECFA Standards 2, 3, and 6. On July 20, ECFA was informed that GFA engaged a new audit firm and they are in the process of reviewing related-party transactions.

8. **Use of funds restricted for the field for other purposes.** On June 3, ECFA discussed GFA's claim that 100 percent of field funds are sent and used in the field. GFA staff confirmed that this was accurate.

   On August 24, ECFA was informed that GFA India made a gift to GFA of $19,778,613 in 2013 to complete GFA's new office. On August 27, GFA's staff confirmed that the funds relating to this donation were originally received by GFA as gifts restricted for the field and GFA transferred to field partners to fulfill donor restrictions.

   Two important issues are raised:

   A. Reallocating gifts donated for field purposes and using them to pay for headquarters construction appears to be a violation of ECFA's Standards 7.2. GFA staff stated in a recorded GFA staff meeting that you approached the field partner and explained that GFA could borrow the funds in the U.S., at less than desirable terms, for the headquarters construction. However, a gift from the field partner, in lieu of GFA borrowing the funds, would allow GFA to complete the new headquarters and thereby save interest. Therefore, GFA would be able to send more money to the field in future years.

      ECFA believes that the potential savings resulting from the GFA India gift is an inadequate basis to reallocate gifts donated for field purposes.

   B. Reallocating gifts donated for field purposes contradicts GFA's claim that 100 percent of funds are sent to the field. In fact, a significant amount of donations restricted for the field made a circuitous trip back to GFA and were used for the headquarters construction, as though they had never gone to the field. This appears to be a violation of Standard 7.1.

In a GFA staff meeting, GFA indicated the field partner took out a loan to cover the use of the $19,778,613 gift and GFA staff confirmed on August 27 that India-generated income was used to repay the loan.

Our review of the board minutes did not indicate the GFA board had approved, or even been notified, of the $19,778,613 reallocation of donor-restricted gifts.

9. **GFA's financial statements presentation of restricted funds.** On August 12, it was noted that GFA reported accrued field support on its 2013 audited financial statements as a liability instead of classifying those funds as temporarily restricted net assets. This appears to be a departure from Generally Accepted Accounting Principals (GAAP) as required by ECFA Standard 3. GFA staff has confirmed that this matter was also highlighted by GFA's new audit firm as a departure from GAAP and will be corrected on the 2014 audited financial statements.

10. **GFA's control with respect to field partners.** At several points in our review, GFA staff has disclaimed any control over field partners, including Believer's Church in India, which oversees all other field partners. Whether GFA has control or does not have control over its field partners has a significant relationship to a number of issues, including disclosures of related-party transactions in the audited financial statements, oversight of the use of resources of field partners, board approval of related-party transactions, and truthfulness in communications. Additionally, this control issue appears to relate to GFA's compliance with ECFA Standards 3, 4, 6, and 7.1.

    On August 21, GFA's staff stated that your responsibilities and powers as the Metropolitan Bishop of Believer's Church, as included in the Believer's Church Constitution adopted February 6, 2003, include the following:

    > "1. The Metropolitan Bishop is the spiritual head and chief shepherd of the Believer's Church, under the Lordship of Jesus Christ, THE HEAD of the church."
    >
    > "4. He provides directions to the Bishops, pastors and all other church workers on all matters and in regard to the spiritual life and mission of the Church."
    >
    > "5. The Metropolitan is responsible to give general and pastoral oversight of all members, Pastors, Priests and Church works and the Spiritual activities of that Church."
    >
    > "10. He appoints Bishops according the Constitution."
    >
    > "12. He functions as the president of the Synod, the Conference of Bishops, General Assembly, institutions, and every other official body of the Church as may be established or constituted from time to time…."

Therefore, it appears that GFA staff has significant influence on the operations and decisions of GFA field partners. This influence has been evidenced in the announcement of vast revisions in maintaining or spending down cash balances held by field partners, the change in tracking expenditures for consistency with how funds were solicited, and ceasing the use of local funds to partially cover donor restrictions.

Based on this level of oversight and control as well observed during our review, ECFA staff questions whether GFA has a sound basis to disclaim any control over the activities of field partners.

11. **Failure to report funds hand-carried by trip participants.** ECFA received concerns regarding GFA's lack of disclosure with the U.S. Department of Homeland Security regarding a total of $287,500 of cash sent with trip participants that exceeded federal mandatory reporting during the years 2013, 2014, and 2015. On June 3, ECFA reviewed this issue regarding compliance with ECFA Standard 4. When ECFA staff queried GFA concerning the reason that excessive cash was carried out of the U.S., GFA staff said the practice was used to avoid reporting the incoming cash in India.

    ECFA observes that GFA has been transferring approximately $50 million from the U.S. to India per year. Thus, carrying in a few hundreds of thousands of dollars in cash to avoid reporting in India does not seem to be a sound basis for the practice.

    While ECFA cannot conclusively determine if there was a sound basis to carry cash into India, we are clear that there is no justification to disobey U.S. law with respect to reporting cash carried out of the U.S.

    On July 20, GFA staff reported the failure to properly disclose cash carried into India during the years 2013, 2014, and 2015 to the Department of Homeland Security. On July 27 and in subsequent meetings, GFA staff indicated that GFA has not received and does not anticipate any further follow-up from the Department of Homeland Security on this matter.

12. **Failure of the GFA board to exercise adequate governance oversight.** During ECFA's review, there were several significant practices that prompted us to inquire whether the GFA board was aware of such practices. As observed in items #1, 2, 3, 4, 5, 6, and 8 above, GFA board minutes do not indicate board oversight of significant governance matters.

    On July 27, you informed ECFA staff that board meetings usually last two to three hours. It is difficult to reconcile these relatively brief board meetings with the board engagement necessary to provide independent oversight of a ministry with the complexity and magnitude of GFA.

    These matters raise serious questions regarding GFA's compliance with ECFA Standards 2, 3, and 6, requiring the board to provide independent oversight and governance of the ministry, including the approval of any related-party transactions.

13. **Source of funds relating to for-profit field operations.** ECFA received concerns alleging inappropriate investment of foreign contributions in India-based for-profit ventures. ECFA reviewed this in regard to GFA's compliance with ECFA Standards 4, 7.1, and 7.2. On June 3, GFA staff indicated that any funds invested in for-profit ventures have been fully sourced from field-generated income and not from foreign contributions.

14. **Child sponsorship fundraising practices differ between GFA and GFA India**. ECFA received concerns regarding differences in fundraising practices for child sponsorship between GFA and GFA India. On June 3 and July 1, ECFA reviewed these concerns in relation to ECFA Standard 7.1. On July 27, GFA staff indicated that there was confusion caused by the fact that while GFA raises funds in a one-to-one ratio in the U.S., GFA India raises sponsorships by securing three sponsors per child, each sponsor covering a third of the costs.

15. **Alleged missing funds according to Indian FC6 forms.** ECFA received allegations that a significant amount of funds were missing based on attempts to reconcile GFA's audited financial statements and field partner's Indian FC6 forms. ECFA reviewed this matter to determine compliance with ECFA Standard 4. On July 20, GFA staff provided ECFA with a reconciliation of these amounts, which reflected a transfer of $29,300,000 to a GFA India account in Hong Kong. GFA staff reported that this transfer was not required to be reported on Indian FC6 forms and that this amount along with fiscal year timing differences led to the allegations of significant missing funds.

16. **Claims of inappropriate use of funds under an Indian tax assessment.** ECFA received concerns that an Indian Tax Court case indicates that GFA India misused funds for purposes other than what they were intended. ECFA reviewed this matter for compliance with ECFA Standard 4. On July 27, GFA's staff indicated that this matter was a false charge that was later remanded and that GFA India was absolved of any wrongdoing in this matter. GFA's staff was not able to provide any documentation other than reports from field partners on this matter.

17. **GFA's 2015 renewal does not include audited financial statements for the year ended December 31, 2014, as required under Standard 3.** ECFA received a request to extend the due date of the audited financial statements for the year ended December 31, 2014 due to engagement of your new audit firm. Given the nature of the timing and the extenuating circumstances, ECFA staff granted an extension to December 31, 2015 to provide the audit, provided that quarterly financial statements are provided to ECFA within 45 days of each quarter end. To date, GFA's staff has provided all requisite quarterly financial reports.

Finally, we feel compelled to observe our concern, in general, about the following in addition to the above ECFA compliance-related issues:

- Certain information provided to ECFA by GFA that was crucial to our review was, at least initially, inaccurate.

- Our review process has covered nearly four months. Certain pertinent information about the compliance issues was not revealed to ECFA by GFA until late in the review process.
- We have learned significant information from sources unrelated to GFA that we should have learned directly from GFA.

If you desire to provide a formal response, we respectfully request that response by September 15, 2015. All references in this letter to GFA refer to GFA U.S. unless otherwise identified.

On October 2, 2015, we anticipate the ECFA board of directors will receive and discuss a report from the ECFA staff resulting from the ECFA compliance review of GFA. The board will determine whether any action and, if so, what action, is appropriate regarding GFA's membership with ECFA.

As with previous letters sent to GFA, this letter confirms that a review of GFA's compliance with ECFA Standards is ongoing. Enclosed is a copy of the ECFA Publication of Membership Status Policy affirmed by members via the ECFA Bylaws on each renewal cycle. ECFA's compliance review is focused on ECFA Standards 2, 3, 4, 6, 7.1, and 7.2. A copy of applicable ECFA Standards and the related Commentaries is enclosed with this letter.

Should there be any intervening issues or concerns raised, we request that GFA proactively provide responses on these concerns.

Respectfully,

John C. Van Drunen
Executive Vice President

CC: Mr. David Carroll, COO and Mr. Robert Felder, Board Secretary

Enclosures: ECFA Publication of Membership Status Policy
ECFA Standards and Commentaries

Publication of Membership Status Policy

When the membership status of an ECFA member changes, ECFA may publish such change using one of the following descriptors, as applicable, to explain the reason for the change in status:

- "Suspension while under review of compliance with Standard x.x: Title" for an organization suspended according to the ECFA bylaws while under review[1] of compliance with ECFA Standards.
- "Voluntary resignation" for an organization that indicated its decision not to renew or to resign at a time when a review[1] of a potential violation of ECFA Standards had not been initiated.
- "Resignation while under review of compliance with Standard x.x: Title" for an organization that resigned at a time when a review[1] of compliance with ECFA Standards had been initiated by ECFA.
- "Terminated for failure to provide complete renewal information" for an organization that did not provide complete renewal information on the annual renewal date and did not proactively indicate a decision to resign.
- "Terminated for failure to comply with Standard x.x: Title" for an organization terminated according to the ECFA bylaws for failure to comply with ECFA Standards.
- "Terminated for merger with a nonmember" for an organization that has merged into an entity that is not an ECFA member.
- "Terminated for Dissolution" for an organization that did not resign and has either dissolved or substantially ceased operations.
- "Merged with another ECFA member" for an organization where a member has merged into an entity that is an ECFA member.

The above terminology can be made plural in the event that there are multiple standards violations cited or under review.

[1] "Review" refers to when a member has been notified that either ECFA staff have initiated a preliminary review of an organization's compliance with the Standards or the ECFA board has opened a compliance review process.

Standard 2

Governance

Every organization shall be governed by a responsible board of not less than five individuals, a majority of whom shall be independent, who shall meet at least semiannually to establish policy and review its accomplishments.

Commentary

When a ministry encounters failure—or even worse, scandal—its difficulties can almost always be traced to a breakdown in governance. For this reason, ECFA places much emphasis on strong, effective governance. This standard is designed to help organizations obtain and maintain a governing body that enhances an environment of accountability, maximizing excellence in carrying out the Lord's work and minimizing susceptibility to structural breakdown.

Responsible governance. The importance of an active, informed governing body cannot be overemphasized. Left unchecked, even minor board neglect can eventually intrude upon the accountability and effectiveness of the ministry. In contrast, an active, informed board will hold to the mission, protect the integrity of ministry objectives, and ensure consistent adherence to board policies.

It is important to note that governance is not management. Having an enthusiastic, well-informed, and committed board should not, except in certain circumstances (*e.g.*, the temporary lack of a chief executive officer, president, executive director, senior pastor, etc.) translate into the board's involvement in daily management affairs. Rather than manage the organization itself, the board should assure that the organization is managed well. In recognizing its responsibility to protect the long-range future of the organization, the board must avoid "not seeing the forest for the trees."

A competent leader should be selected to carry out the ministry's mission under the direction of the board. The board should be diligent in maintaining a strong relationship with that leader. This relationship is pivotal. The board that maintains a healthy accountability relationship with the organization's top leader will operate with greater confidence and trust, will ensure compliance with performance criteria, and will avoid detailed involvement in the organization's day-to-day operations.

Duties. Though not exhaustive, the following list gives examples of a board's duties:

1. Commit to prayer, corporately and individually.
2. Identify and monitor the organization's mission and purpose.
3. Approve the organization's top leader's compensation (in advance).
4. Comply with all legal requirements placed upon the organization and approve all legally binding resolutions.
5. With the organization's top leader, chart the long-range strategy of the organization.
6. Monitor the organization's financial status and approve the annual budget in advance and maintain oversight of its implementation, or establish policies that enumerate the applicable budgetary constraints.
7. Approve the engagement of the organization's independent certified public accountant to perform the annual audit, review, or compilation.
8. Assure the organization's financial vibrancy.
9. Assure full disclosure of all potential conflicts of interest within the organization and the board.
10. Serve as ambassadors for the organization—interpreting its mission to constituencies and enhancing its public image.

Board records. Proper attention to written records is extremely important. Of particular concern are mission statement and bylaws, policy statements, and minutes.

1. **Mission statement and bylaws**. The mission statement should define the organization's reason for existence. The bylaws are the established rules to guide board procedure.
2. **Policy statements**. Many boards find it helpful to develop a set of written board policies to guide the board's actions.
3. **Minutes.** Minutes provide an indispensable record of the board's deliberations. Minutes can also protect the board from litigation or other administrative proceedings. The minutes should list board members present as well as those absent. The meeting's location, start time, and ending time

are also essential elements of the minutes. The minutes should record actions taken by the board, contain enough discussion to substantiate the actions taken, and reflect the abstention of interested parties when addressing related-party transactions. Approved by the board chairman and signed by the board secretary after adoption by the board, the minutes should be filed and stored together for ready access.

If an executive committee of the board convenes between board meetings, minutes of executive committee meetings should also be maintained and presented at the next regularly scheduled meeting of the full board.

If the organization utilizes an audit committee (or another committee which encompasses responsibilities often assigned to an audit committee), the minutes of that committee's meetings should be recorded as well. Minutes of audit committee meetings should be presented to the board, which should act on any recommendations made by the audit committee. This will inform and assure the board that audit review responsibilities are being met.

Board selection, tenure, and training. Recruiting competent board members with varying and appropriate areas of expertise will enhance the responsible governance of the organization. The board's first responsibility is to recruit members who are spiritually mature and able to make wise decisions as led through prayer by the Holy Spirit. Paul's instructions to Timothy can serve as a helpful guide for the selection of new board members (1 Timothy 3:1–10).

In addition to this overarching requirement, the board may also seek individuals whose gifts and abilities will benefit the organization and who will provide dynamic interaction at board meetings. The ministry's mission and purpose as well as size and complexity may be considered when selecting board members. Every organization's board should include individuals with experience in the organization's particular ministry objective.

Continuity is also an important issue. The needs for stability and for long-range perspective are often cited as reasons for the long tenure of board members. However, lengthy tenure can narrow the breadth of representation on the board. Other potential challenges associated with long tenure are stagnation, partiality, and burnout. Terms of service for board members may be long enough to provide continuity of policy, but short enough to ensure a fresh viewpoint. Determining the length of service may also relate to maintaining accountability between the organization's board and the organization's top leader.

After candidates are approved for board service, the organization should provide orientation and training. Training may include a background or history of the organization, as well as an understanding of the organization's mission. Any long-range or strategic plans should also be shared. Board members should receive the organization's essential corporate documents: the articles of incorporation, bylaws, corporate policies, financial statements, and management reports. To ensure a clear understanding of responsibilities and accountability, position descriptions may be established for officers and charters established for committees and task forces. Since the individual duties of all board members differ in some respects, the organization may provide specific training to individual board members, based on the expectations of each position.

Board size. ECFA has established a minimum board size of five individuals in order to avoid a very small group from controlling the organization. This size also allows the board to reflect certain diversity of experience. If a board is too small, it cannot provide adequate policy guidance or assistance to the organization. Increasing the number of members may provide a greater level of independence.

On the other hand, a board should be small enough to act as a deliberative body. If the board grows too large to meet as a collective entity, then it loses its ability to effectively discuss issues and make effective decisions.

Board independence. The organization should take care to maintain the *reality*, not just the *appearance* of independent board governance. Requiring the predominance of independent board members helps ensure the board will take official action without partiality, undue influence, or conflict of interest.

To assess the *reality* of board independence, ECFA looks beyond the majority of independent board members on the board roster. ECFA is just as concerned about the reality of board independence as with the mathematical determination of a majority of independent board members.

ECFA defines independent board members as:

1. Persons who are not employees or staff members of the organization.

2. Persons who may not individually dictate the operations of the organization similar to an employee or staff member. A person who is an uncompensated CEO, for instance, is not independent.

3. Persons who are not related by blood or marriage to staff members or other board members. Blood or marriage relationships are defined for the purposes of the standard as being his or her spouse, ancestors, brothers and sisters (whether whole- or half-blood), children (whether natural or adopted), grandchildren, great-grandchildren, and spouses of brothers, sisters, children, grandchildren, and great-grandchildren.

4. Persons who do not report to, or are not subordinate to, employees or staff members of the organization.

5. Persons who do not report to, or are not subordinate to, other board members.

6. Persons who do not receive a significant amount for consulting or speaking, or any other remuneration from the organization.

7. Persons who do not have relationships with firms that have significant financial dealings with the organization, officers, directors, or key employees.

8. Persons who are not the paid legal counsel, related by blood or marriage to the paid legal counsel (see definition of blood or marriage in #3 above), or are employed by the firm that is the paid legal counsel of the organization.

9. Persons who are not the auditors, related by blood or marriage to the auditors (see definition of blood or marriage in #3 above), or are employed by the auditing firm of the organization.

Meetings of the board. A quorum must always be present for the transaction of business. The quorum should be defined by the organization's bylaws and should require the presence of 51 percent or more of the voting members. In addition, that quorum must reflect a majority of independent board members in order to maintain the intent of Standard 2. Two board meetings per year at reasonably spaced intervals are the absolute minimum requirement for ECFA accreditation. This minimum requirement is intended to underscore the importance of board involvement and to prevent long interim periods between board meetings.

While face-to-face meetings are always preferable and should remain the norm, an acceptable alternative for one of the two meetings is by means of a remote electronic communications system, including telephone conference calls, video-conferencing technology, or the Internet, but only if: (1) each person entitled to participate in the meeting consents to the meeting being held by means of that system, and (2) the system provides access to the meeting in a manner or using a method by which each person participating in the meeting can communicate concurrently with each other participant (a "meeting" by e-mail does not meet this criteria).

Board members must be serious about attending board meetings. Before accepting an invitation to serve on the board, prospective members should evaluate their ability to attend meetings regularly.

To maximize the effectiveness of the board during board or executive committee meetings, board members should be well prepared for meetings. Appropriate assistance from the organization's staff will facilitate this preparation.

The board has a role in ensuring that the organization is acting in accordance with the ECFA Standards of Responsible Stewardship. Since these standards are required of all accredited organizations, the board should periodically compare the organization's practices to ECFA's standards.

Summary. Effective board governance is critical for the health of the organization! Accountability by definition implies a level of discomfort and vulnerability. Being accountable means being obligated to report, explain, and justify. By holding the organization accountable, the board fulfills its own obligation of accountability to the organization's beneficiaries, donors, and the public.

An excellent verse to describe ECFA's overall desire for its accredited organizations to emulate strong, effective board governance is Proverbs 27:17: "As iron sharpens iron, so one man sharpens another."

Standard 3

Financial Oversight

Every organization 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.

Commentary

The financial statements (and the disclosure of the financial statements) are key components of transparency, both within the ministry and to donors and the public. This flows directly from biblical principles: “This is the verdict: Light has come into the world, but men loved darkness instead of light because their deeds were evil. Everyone who does evil hates the light, and will not come into the light for fear that his deeds will be exposed” (John 3:19–20 NIV).

Transparency serves to deter improper diversion of funds and other misdeeds. It also provides a defense to critics and a witness to both believers and non-believers. When Jesus was arrested, He said to the crowd, “Am I leading a rebellion, that you have come out with swords and clubs to capture me? Every day I sat in the temple courts teaching, and you did not arrest me” (Matthew 26:55 NIV). The openness of His public actions revealed a significant contrast to His middle-of-the-night arrest.

The Apostle Paul, too, did his deeds openly. He cites this fact as one basis for his authority over the Thessalonians. “You are witnesses, and so is God, of how holy, righteous, and blameless we were among you who believed” (1 Thessalonians 2:10 NIV). Being transparent with one another assures credibility and authority.

Financial oversight. As part of its mandate for financial accountability, the board of an ECFA member or its authorized committee shall approve the engagement of an independent certified public accountant to perform the annual audit, review, or compilation.

The board shall review the financial statements prepared by an independent certified public accountant (CPA) and any other reports prepared by the accountant. The board may also receive reports and recommendations from a board committee relative to the financial statements and related reports. The board shall be apprised of any significant deficiencies, material internal control weaknesses, or significant risks. In response, the organization should develop appropriate responses to the deficiencies, weaknesses, or risks.

The board shall maintain appropriate communication with the independent CPA. This communication may relate to planning and carrying out the engagement with respect to the annual audit, review, or compilation of the financial statements, the management letter, or other related matters.

Audits, reviews, and compilations. The annual audit by an independent CPA firm—required for certain ECFA member organizations—helps ensure, and is evidence of, financial accountability to an organization's constituencies. The independent auditor tests the data underlying the financial statements to form an opinion on the fairness of their presentation in accordance with U.S. generally accepted accounting principles (GAAP). The auditor's standard report provides reasonable assurance that the financial statements are free of material misstatements. Knowing they can rely on the accuracy of the organization's financial statements, the board and management can make wise and perceptive policy decisions. *Note:* Obtaining an audit may be required to comply with state law.

An annual review by an independent CPA firm is permitted for certain ECFA member organizations and provides limited assurance of the reasonableness of the financial statements presented. Although not as comprehensive as an audit, a review provides more assurance on the financial statements than a compilation. A review report states that: 1) the accountants do not express an opinion on the financial statements, and 2) based on their review, they are not aware of any material modifications that should be made to the financial statements.

The annual compilation by an independent CPA firm, permitted for certain ECFA member organizations, is simply the gathering of financial information and the development of financial statements for an organization. A compilation involves no assurance on the financial statements, as the accountant merely assembles the financial statements for the organization. The independent CPA's participation with the financial statements will often help stakeholders feel that the statements are prepared with knowledge of applicable standards.

For compilations and reviews, the independent CPA must present the compiled or reviewed financial data according to GAAP or on the modified cash basis of accounting. If the modified cash basis of accounting is used, the financial statements must include the recognition of property and equipment as assets, depreciation as expense, and debt, other than trade payables and ordinary accruals, as liabilities.

See the sections below describing ECFA's specific requirements for financial statements prepared by independent CPAs.

Federal laws governing tax-exempt organizations do not require audits unless federal funds are provided. However, many states, boards, and resource providers (such as donors, foundations, and financial institutions) see the involvement of an independent CPA firm as an essential and truly wise investment.

Obtaining a quality audit, review, or compilation of financial statements. The professional bodies governing the practice of CPAs (including State Boards of Accountancy, State CPA Societies, and the American Institute of Certified Public Accountants) have sought to improve quality and require reviews of CPAs. Even with these rigorous efforts, however, not all audits, reviews, or compilations are created equal. The following factors directly impact the quality of this work:

- the experience level of personnel assigned to the engagement (a higher ratio of qualified partner and manager time will normally increase quality and some of the value-added benefits),

- the experience of assigned personnel with similar nonprofit organizations and the competencies of the personnel, as well as the extent of time devoted to nonprofit audit, review, and compilation and advisory services,

- the emphasis and priority of the CPA firm on nonprofit audits, reviews, or compilations,

- the firm's commitment to competency and continuity of the engagement team from year to year to provide audit, review, or compilation efficiency and a high level of knowledge about the organization resulting in cost-effective services,

- reasonable engagement fees that allow adequate time and attention to perform quality service and value-added benefits—unreasonably low fees may lower the services to the minimum requirements of professional standards.

Selection of a CPA firm. Some organizations routinely request proposals from different CPA firms to evaluate the cost of their audit, review, or compilation. While it is important to be certain that the cost is reasonable in light of the quality and value of an audit, focusing too much on cost can be detrimental to the health of the audit and ultimately to the organization.

If an organization truly values the audit, review, or compilation and desires the benefits that can come from an independent firm in helping it assess its performance, maintain best practices, and anticipate and avoid problems, then cost should be secondary to quality. Value is a correlation of both quality and cost.

Initial screening of potential CPA firms may be based solely on their industry experience; professional qualifications; expertise of the engagement team; and ability to provide the highest quality and best value of audit, review, or compilation services. Following that screening, the cost of the services can be better assessed as to true “value,” leading to a selection that is prudent based on both quality and cost.

Rotation of CPAs. The rotation of CPAs may not be the key to effectiveness of services and in some cases may actually be counterproductive. Expertise in the respective industry coupled with objectivity may be the most important aspect.

The board, or a committee consisting of a majority of independent members, should annually assess the performance and effectiveness of the independent CPA firm and its engagement team. This should include, but not be limited to: considering the CPA team’s objectivity; assessing key risk areas; evaluating the strategy for the services—including its scope and the nature of testing, if appropriate; innovative thinking rather than reliance on prior results and assumptions; maintaining professional skepticism; and understanding relationships that could impair objectivity.

CPA independence. The board should be certain that the CPA firm is independent and objective in performing its duties. The board should identify any threats to such objectivity and analyze the significance of such threats. Objectivity does not require that the CPA firm is completely free of all factors that might affect the ability to make unbiased audit decisions but rather that the CPA firm is free from those factors that rise to the level of compromising that ability.

Factors that may pose threats to independence and objectivity include self-interest (CPA acts in his or her own emotional, financial, or other personal interest), self-review (CPA audits, reviews, or compiles his or her own work or the work of a colleague), and familiarity (CPA is influenced by a close relationship with a client). The following may constitute a conflict of interest for the CPA: 1) performance of management functions, 2) close family relationships, or 3) financial involvement in other service providers or investments. If a CPA serves on the board or is an employee of an organization for which the CPA is providing services, the CPA is not considered by ECFA as independent with respect to the organization.

ECFA permits CPAs who perform outsourced accounting for an organization to also prepare its compiled financial statements. In these situations, the compilation must include an explanatory note regarding the reason the CPA lacks independence. For all other audits, reviews, and compilations, CPAs must be entirely independent with respect to the organization to comply with this standard.

Auditing standards. Auditing standards generally accepted in the United States of America (GAAS) are policies, guidelines, and procedures that an auditor is required to follow in performing an audit in order to render an opinion on an organization's financial statements. This series of pronouncements is set forth by the American Institute of Certified Public Accountants (AICPA). Among many factors to be considered is the "scope" of the audit, which neither the organization nor the particular circumstances of its operations should limit.

Accounting principles. Accounting principles generally accepted in the United States of America (GAAP) are those written principles established by the Financial Accounting Standards Board (FASB), the AICPA, and other published literature. These principles set forth the way specific transactions should be reported; *e.g.*, investments should be reported at fair value, while property and equipment should be reported at depreciated cost. In contrast to other forms of accounting, such as the modified cash basis, GAAP financial statements are prepared on the accrual basis. Certain standards and disclosures are required additionally.

Review and compilation standards. Statements on standards for accounting and review services (SSARS) are policies, guidelines, and procedures that a CPA is required to follow in performing a compilation or review. This series of standards is set forth by the AICPA. These standards establish the relationship, level of care, and procedures to be established by the CPA firm conducting the compilation or review services for an organization.

Presentation of financial statements to satisfy ECFA requirements. For ECFA purposes, a complete set of financial statements of a nonprofit organization shall include:

- a statement of financial position as of the end of the reporting period (also referred to as a balance sheet),
- a statement of activities for the reporting period (also referred to as a statement of revenues and expenses),
- expenses reported by their functional classification in the statement of activities, a statement of functional expenses, or the notes to the financial statements,
- a statement of cash flows for the reporting period, and
- accompanying notes to the financial statements.

Summary. Financial statements prepared by an independent CPA, with the CPA approved by the board, are a key element in informing donors and other constituencies about the organization's financial affairs and its worthiness to receive support.

Standard 4

Use of Resources and Compliance with Laws

Every organization shall exercise the appropriate management and controls necessary to provide reasonable assurance that all of the organization'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.

Commentary

Accredited organizations are the recipients of public trust and must fulfill fiduciary responsibilities. Therefore, reasonable procedures must be established to ensure that all funds are used in conformity with applicable laws and regulations and to fulfill the exempt purposes of the organization.

Fiduciary responsibility. Fiduciary responsibility extends to all tax-exempt resources:

- Assets – including their use and disposition
- Support (contributions) – including cash and noncash gifts, donated goods and materials, the use of facilities, and legacies and bequests (whether from individuals, corporations, partnerships, trusts and estates, foundations, or other nonprofit organizations)
- Revenue (earned income) – including sales, fees, rentals, tuition, investment income, government grants, and royalties

Charitable contributions. Charitable contributions are only deductible under U.S. tax law if given "to and for the use of" a "qualified" tax-exempt organization to be used under its control to accomplish its exempt purposes. "Qualified" organizations are domestic 501(c)(3) organizations.

To be deductible, charitable contributions must be unconditional and without personal benefit to the donor.

Charitable contributions are commonly provided as either:

- Unrestricted gifts – gifts received with no restriction on use or purpose.
- Donor-restricted gifts – gifts that are donor-restricted for a stated period of time or for a specified purpose. The restriction must be more specific than the broad limits imposed by the charity's purpose or nature.

The terms "unrestricted" and "donor restricted" are used by nonprofit organizations to conform with generally accepted accounting principles. The IRS indicates concern about excessive donor control if that control is directed toward a particular individual.

Gifts that are given in support of an organization's exempt purposes and programs are generally tax-deductible within the limits prescribed by law. To be tax-deductible, the organization must exercise full administrative control over the funds given to ensure that they fulfill its exempt purposes and programs. While exercising full control over the funds, the organization must also fulfill its responsibility to honor donor stipulations for particular exempt purposes, if the stipulation does not represent earmarking for a specific individual. With few exceptions, gifts that are earmarked for a specific individual are not deductible as charitable contributions.

Gifts in support of the ministry activities of a specific worker, such as missionary support, may be tax-deductible contributions to an organization if they are not earmarked for personal use. The funds must be under the control of the organization, to be expended for reasonable compensation and business expenses of the worker or related ministry costs.

Use of resources. Exempt resources must be used exclusively for exempt purposes. This is a fundamental provision of tax law, as well as state law, that should be set forth in an exempt organization's articles of incorporation and bylaws. Any part of an organization's resources inuring to the benefit of private individuals is absolutely prohibited.

Private benefit ordinarily pertains to activities or resources that benefit individuals outside of an organization but which do not further the organization's charitable purposes. On the other hand, private inurement occurs when an insider receives a benefit that does not further or is incidental to the organization's 501(c)(3) purposes. Private inurement may also result from compensation that is not properly reported for tax purposes or result from unreasonable compensation.

The use of resources in a responsible manner includes managing assets, liabilities, and net assets in a God-honoring way. An organization that has expended assets and/or inured liabilities in a way that results in the inability to pay liabilities in a timely manner, or net assets that are inadequate to provide for ongoing operations and/or honor donor restrictions, may diminish its own Christian witness. It would be wise for organizations to remember Jesus' words of admonition, "Suppose one of you wants to build a tower. Won't you first sit down and estimate the cost to see if you have enough money to complete it? For if you lay the foundation and are not able to finish it, everyone who sees it will ridicule you, saying, 'This person began to build and wasn't able to finish'" (Luke 14:28–30).

Some key issues relating to use of resources include the following:

1. **Compensation of workers.** Compensation of workers, whether employees or independent contractors, must be reasonable for the services rendered and must be properly reported for tax purposes.

   Documentation should be maintained to verify reasonable control over all domestic and international workers. This includes personnel files, job descriptions, employment agreements, supervision information, progress reports, and performance evaluations.

2. **Business expense.** Payment of ministry expenses should be supported by adequate accounting records. Such substantiation demonstrates how these expenses fulfill the organization's exempt purposes.

3. **Benevolence.** Any payments made directly to, and in support of, the poor and needy qualify only if benevolence is a program and purpose of the organization.

   An organization should maintain policies under which the benevolence program is administered. These include adequate criteria to determine individual need; documentation of need, including external verification; assignment of personnel or a committee to approve requests; reasonable limits of support per person during a specified time period; and coordination with other organizations providing aid.

4. **Grants.** As contrasted with programs conducted directly by an organization and its personnel, grants may be made to other recipients to further the organization's exempt purposes. Grant recipients may be related or unrelated charities and may be domestic or foreign organizations.

   Grant administration and control procedures will vary based upon grant materiality (amount and significance), the nature of the grant recipient's operations, and the nature of the relationship between the granting organization and the grant recipient.

   Grant administration and control procedures may include:

- **Pre-grant due diligence** – including documentation of 501(c)(3) status for U.S. charities, information about the recipient's operations and personnel, information about the project or work and proposed use of funds, and information about how the proposed grant will further the grantor's exempt purposes

- **Determination of grant recipients** – including regulating eligibility of recipients if funds are granted to an organization which, in turn, makes disbursements to other individuals or entities

- **Written grant agreements** – including specific terms, expected results, timing of funds' remittances, consequences of noncompliance with grant terms (including cessation of future funding and/or the return of grant funds), and specified accountability (including appropriate provisions such as written progress reports, required accounting or financial statements, provision for internal or independent audit, and inspection of records, and on-site inspection of programs by grantor personnel)

- **Approval of grants and grant budgets** – by the governing board or through board policy, including the subsequent comparison of actual financial results with the budget

- **Authorization of funds expenditure** – including board-delegated control over the receipt and disbursement of funds for activities having prior approval and budgetary authorization

- **Determination of compliance** – with administration policies and grant agreement specifications (supervision and evaluation)

International grant-making. U.S. tax law does not prohibit the making of grants by a U.S. tax-exempt organization to recipients in other countries if they further the U.S. organization's tax-exempt purposes. However, the IRS has articulated some parameters as to when contributions may or may not be deductible for tax purposes, if they are made to a U.S. charity and subsequently distributed in the form of a grant to a foreign recipient.

The reason for IRS scrutiny of such grants is because only donations to a U.S. tax-exempt organization are deductible as charitable contributions. Contributions by a U.S. taxpayer to a foreign organization are not tax-deductible.

A U.S. charity may not act merely as a conduit of funds for a foreign recipient. This would result in treating these indirect contributions to a foreign organization as tax-deductible contributions, something that would not be allowed if the funds were made directly to the foreign entity.

However, if a grant is made by a U.S. charity to further its exempt purposes, and if the grant funds are clearly under the control and discretion of the U.S. charity rather than the donor, it is unlikely that the IRS will challenge the deductibility of the gift.

Organizations may seek professional counsel concerning operations that result in grants to foreign recipients. Various rulings and tax cases stipulate certain characteristics in evaluating whether grants to foreign recipients are proper, exempt-purpose expenditures of the U.S. charity and, therefore, if any supporting gifts actually are deductible by donors of those funds.

Impact of international operations on the financial statements. It is important for organizations to properly control, adequately account for, responsibly audit, and fully disclose in their financial statements the nature and scope of their operations, both within the U.S. and internationally. Organizations and their auditors should consider the impact of worldwide operations on the scope of the audit, and the financial statements should report on all organizational assets, liabilities, revenue, and expenses.

To be “unqualified” or “clean,” an independent auditor’s report must reflect no restriction on the scope of the audit.

The reach of an organization extends to activities conducted under its control (internationally) when expenditures are made to further its exempt purposes to compensate workers, pay business expenses, provide benevolence to the poor and needy, or to make exempt-purpose grants.

In order for financial statements to be in conformity with generally accepted accounting principles (GAAP), they must accurately portray the full range of the organization’s operations internationally. The FASB Accounting Standards Codification 958-205 (Topic 205, “Presentation of Financial Statements”) sets forth that such statements must focus on the organization as a whole, including its total assets, liabilities, net assets, revenue, expenses, and changes in net assets. In addition, ASC-810 (Topic 810, “Consolidation”) helps guide a reporting organization as to when it must consolidate another not-for-profit organization in which it has a controlling financial interest.

Significant granting activities should be properly disclosed in an organization’s financial statements, including a description of the nature and purpose of the grants and the grant administration policies.

Grant administration policies should be well-developed and approved by the governing board, while adaptable to a wide range of circumstances. The following are possible controls and accountability measures:

1. Written progress reports

2. Required accounting or financial statements

3. Required internal or independent audits and inspections

4. On-site program inspections by grantor personnel

5. Retaining discretion as to when funds will be remitted based on administration policies and grant agreements, including the policy and practice of refusing conditional or earmarked gifts that create an obligation to remit the funds immediately

6. Adequate oversight (supervision) and review (program evaluation) or compliance with administration policies by the governing board and/or the organization's independent auditors

Conformity with applicable laws and regulations. Standard 4 establishes the guideline that ECFA-accredited organizations shall use resources in conformity with applicable laws and regulations. The standard provides a caveat that biblical mandates may be taken into account when considering conformity with laws and regulations. In select situations, an accredited organization may feel compelled to take actions that are in conflict with certain laws, i.e., with respect to religious freedoms and carrying out the Great Commission.

Summary. An organization should control and require the same degree of accountability over all operations, whether domestic or international, and whether conducted by its personnel or through grant-making activities. All activities and expenditures must be under the control of the organization and not the donor (except for donor stipulations) and clearly in furtherance of an organization's exempt purposes.

Standard 6

Compensation-Setting and Related-Party Transactions

Every organization shall set compensation of its top leader and address related-party transactions in a manner that demonstrates integrity and propriety in conformity with ECFA's Policy for Excellence in Compensation-Setting and Related-Party Transactions.

Commentary

While certain ECFA standards require external evidence of financial accountability, such as distributing financial statements, Standard 6 deals primarily with internal behavior and decision-making, which are related to intent and integrity.

This standard provides additional assurance to donors and other supporters that the accredited organization sets compensation and handles financial transactions in the best interest of the organization and its ministry. As with other standards, compliance with this standard does not guarantee that all activities are in the best interest of the organization. It does provide for a more impartial and accountable environment. Another goal of this standard is to provide to accredited organizations some good financial management principles, helping them to achieve the best long-term results while bringing honor to the Lord.

Anyone who has been involved in the leadership of a church or nonprofit organization has most likely experienced a situation in which a donor, board member, or other influential person has tried to conduct business with the organization in such a way as to gain some personal benefit. This may include offering products or services to a nonprofit organization which could be secured at a lower price from other sources or promising future gifts only if the organization conducts business with a particular individual or company. Compliance with this standard assists leaders in withstanding such efforts by helping them make the right decision for the organization and themselves.

Similarly, one aspect of governance practices that requires special attention is the area of compensation-setting. This is a reality that all organizations must firmly handle with utmost accountability and integrity. Ultimately, this responsibility lies with the board, which, in accordance with Standard 2, is comprised of a majority of independent members.

1 Samuel 12 provides guidance as we seek to work within the spirit of this standard. In this chapter, Samuel is near the end of his service as high priest of Israel. He is about to admonish Israel for their disobedience, but before he does he reminds them of his integrity in all his dealings with them.

> Samuel said to all Israel, “I have listened to everything you said to me and have set a king over you. Now you have a king as your leader. As for me, I am old and gray, and my sons are here with you. I have been your leader from my youth until this day. Here I stand. Testify against me in the presence of the LORD and his anointed. Whose ox have I taken? Whose donkey have I taken? Whom have I cheated? Whom have I oppressed? From whose hand have I accepted a bribe to make me shut my eyes? If I have done any of these things, I will make it right.” “You have not cheated or oppressed us,” they replied. “You have not taken anything from anyone’s hand.” 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 (1 Samuel 12:1–5).

It is on this solid record of faithful, honest service that Samuel has the place of integrity to speak into the lives of his people. To demonstrate this level of integrity, organizations should avoid inappropriate compensation setting practices and conflicts of interest.

Compensation-setting practices. Compensation-setting practices should be consistent with generally accepted biblical truths and practices, should not cause a diminished Christian witness, and should comply with ECFA’s Policy for Excellence in Compensation-Setting and Related-Party Transactions, as reflected at the end of this commentary.

Every organization should exercise care and diligence in setting compensation and benefits to ensure that total compensation is reasonable, taking into consideration the skills, talents, education, experience, performance, and knowledge of the person whose compensation is being set.

For purposes of Standard 6, total compensation includes salary, wages, other payments for services, and benefits of all types, whether taxable or non-taxable, and whether paid directly or indirectly by the organization or one or more of its subsidiaries or affiliates.

Related-party transactions. Related-party transactions are those occurring between two or more parties when one party has a responsibility for promoting one interest (a fiduciary interest) but has a competing interest at the same time. This standard requires that these transactions be conducted in a manner that demonstrates integrity and propriety, while meeting ECFA's Policy for Excellence in Compensation-Setting and Related-Party Transactions.

Certain related-party transactions may clearly be advantageous to, and in the economic benefit of, the charity. However, even if a transaction is economically beneficial to an organization, it may raise a public perception of questionable integrity or create a perception of self-dealing, and thus, should be avoided.

For purposes of Standard 6, payments for the use of property, whether tangible or intangible, including purchases, rentals, licenses, and royalty arrangements are considered payments for property, and to the extent such payments are made to a "disqualified person" (generally those who may exercise substantial influence over an organization, such as leaders or board members), such arrangements constitute related-party transactions.

Seeking professional guidance. Organizations should consult with their tax counsel in establishing compensation for their leaders and in entering into related-party transactions to ensure compliance with federal tax and other applicable law, and consider steps that may be taken by the organizations and their leaders to avail themselves of protections that may be available under the law in connection with compensation-setting and related-party transactions.

Summary. Properly addressing compensation-setting practices and related-party transactions demonstrates integrity in handling some of the most sensitive dealings in the life of an organization. Ensuring that these dealings are always in the best interest of the organization is a fundamental principle.

Exhibit

ECFA Policy for Excellence in Compensation-Setting and Related-Party Transactions

Compensation-Setting

The board of every organization shall annually approve the top leader's total compensation package, and shall 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. Such approval and notification shall be documented in the minutes of the organization's board meetings.

The following compensation-setting process is required for organizations with top leaders at annual compensation levels of $150,000 or more and is recommended for the compensated leaders of all organizations:

1. The board or an authorized committee of the board shall make the decision regarding total compensation, and those participating in the decision-making process may not have any conflict of interest in the decision, whether direct or indirect. That is, no person in the decision-making process may:

    a. be related to the person whose compensation is being addressed,

    b. be subordinate to the person whose compensation is being set,

    c. be a person whose compensation is determined in a manner that involves input or decision-making by the person whose compensation is being set, or

    d. otherwise have a conflict of interest.

2. The board or committee shall obtain reliable comparability data with respect to the position for which compensation is being set. Such comparability data shall be for functionally comparable positions, and shall be for organizations as similar as possible to the organization and shall be updated at least every five years.

3. The board or committee shall determine appropriate total compensation, taking into consideration the comparability data referred to above, as well as the skills, talents, education, experience, performance, and knowledge of the person whose compensation is being set.

4. The board or committee shall document its compliance with the factors described above.

5. The board or committee shall contemporaneously document its decision regarding total compensation and, if applicable, its rationale for establishing compensation at a level that exceeds that which is supported by the comparability data.

6. If the process described in steps 1–5 above is conducted by a committee, the board shall affirm, ratify, or otherwise approve the total compensation package. Board members who have a conflict of interest in determining total compensation (such as employees of the organization) may be recused from this process of approving the top leader's compensation package.

Related-Party Transactions

The board of every organization shall properly address related-party transactions pursuant to a sound conflicts-of-interest policy. An organization may not enter into a business transaction with a person or entity that meets the definition of a "disqualified person" under federal tax law applicable to public charities unless the organization takes affirmative steps in advance to ensure that the following is true with respect to the transaction:

1. All parties with a conflict of interest (direct or indirect) are excluded from the discussion and vote related to approval of the transaction;

2. The organization obtains reliable comparability information regarding the terms of the transaction from appropriate independent sources such as competitive bids, independent appraisals, or independent expert opinions;

3. The organization's board has affirmatively determined that entering into the transaction is in the best interests of the organization; and

4. The organization contemporaneously documents the elements described above, as well as the board's approval of the transaction.

Tax Counsel

Organizations are encouraged to consult with tax counsel in establishing compensation for their top leaders, including any person who meets the definition of a disqualified person, and in entering into related-party transactions to ensure compliance with federal tax law and other applicable law. Tax counsel may assist an organization and its leaders in taking steps to avail themselves of protections that may be available under the law in connection with compensation-setting and related-party transactions.

Standard 7.1

Truthfulness in Communications

In securing charitable gifts, all representations of fact, descriptions of the financial condition of the organization, 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.

Commentary

The underlying principle of this standard is that all things done in the name of our Lord should reflect the truthfulness that is in keeping with His character. Placed first among the stewardship of charitable gifts standards, this concept is fundamental to all other stewardship standards.

In deciding whether to support a particular ministry or program, those who donate to Christ-centered organizations may significantly rely on the information the organization provides. Therefore, organizations have the responsibility to represent facts truthfully when communicating with givers.

The relationship between the giver and the organization is one built on trust. That trust is developed and maintained through truthful, honest, reliable, and trustworthy communications. Anything short of that represents a violation of this standard.

The intent of this standard is to insure that all components of a stewardship resource appeal—taken in part and as a whole—communicate the appeal accurately, completely, and truthfully to the prospective giver. After reading or hearing the appeal, the prospective giver's perception of the appeal should be as close to the actual facts as possible.

In order to accomplish this, the organization preparing the appeal must anticipate how the typical reader will interpret them. The organization should avoid any words, pictures, graphs, or other information that might cause a typical prospective giver to reach an inaccurate conclusion.

The foundation for this standard comes from the biblical teaching that God alone is the source and motivation for joyful, obedient Christian giving. In 1 Corinthians, Paul states, "I planted the seed, Apollos watered it, but God has been making it grow. So neither the one who plants nor the one who waters is anything, but only God, who makes things grow. The one who plants and the one who waters have one purpose, and they will each be rewarded according to their own labor" (1 Corinthians 3:6–8).

If organizations truly trust God for the increase in funding to support their organizations, there will be no room or tolerance for deceptive fundraising practices.

Three key words characterize the expectations of this standard: current, complete, and accurate. Each of these should be understood from the reader's perspective.

- **Current.** An appeal for charitable gifts should only contain information that is specifically relevant to the purpose of the appeal. Using pictures, videos, descriptions, narratives, or other information from prior projects or events—which suggests a misleading relationship with the current appeal—is a violation of this standard. The prospective giver will assume that all of the information presented relates to the specific appeal. It is inappropriate to use "old" information in a current appeal simply because it might bring a "better" response from a giver.

  When addressing financial information, the appeal should provide information that is as current and timely as possible. The prospective giver should have access to the most current financial information available. The key criteria is whether or not the information provided gives the prospective giver a true understanding of the relevant financial information as of the date of the appeal.

  In some situations it may be appropriate to provide information, pictures, or videos on past projects or events because they help to provide context for the current appeal. However, in such cases, the appeal should clearly indicate that such information is not current, that it relates to prior events, and that it is only intended to illustrate the anticipated results of the current appeal. In the absence of such explanatory comments, the appeal should avoid noncurrent material. This requirement includes that explanatory notations be juxtaposed to the item(s) they explain.

- **Complete.** The appeal should include all of the information necessary for the prospective giver to gain a full and total understanding of the facts related to the appeal. Since the giver will be making judgments from the information included in the appeal, it is the organization's responsibility to insure that all relevant information is available.

Because space is often limited in an appeal, it may be important to be selective in the information presented. When selecting such information, the organization should ask, "If certain information is omitted from the appeal, will givers be deprived of any essential information?"

When deciding whether the information in the appeal is "complete," the organization should consider the following:

1) The purpose(s) for which the funds will be used

2) The means by which the program goals will be accomplished

3) The financial need and condition of the organization

- **Accurate.** All information included in an appeal should be accurate; that is, factual, correct, exact, and precise. The key concern here is that nothing within the appeal (words, pictures, videos, financial data, or other information) misleads the prospective donor into believing something other than the facts as they actually exist. This relates not only to the purpose of the appeal but also to the way in which the funds will actually be used.

  Inaccuracies may appear in a number of forms: 1) photographs that do not directly relate to the issue at hand; 2) exaggerations for the sake of persuasion; 3) incomplete information which does not provide a full understanding of the facts; 4) implications which would lead the prospective donor to draw an erroneous conclusion; 5) selective information which presents only the positive while ignoring relevant, negative information, and 6) opinion which is presented as fact. The appeal must avoid any of these inaccuracies.

Summary. Questions about truthfulness in communication can best be answered by asking these questions:

- "Will all of the text, photographs, videos, or other information included in this appeal lead the prospective donor to a current, complete, and accurate understanding of the facts surrounding the appeal?"

- "Does this appeal communicate all of the information I would want to know if I were a prospective donor deciding whether or not to respond to the appeal?"

- "Does this communication bear witness that we are trusting God to move in the hearts of our supporters, and we are not trying to manipulate their feelings by the way we portray our work or report its outcomes?"

Standard 7.2

Giver Expectations and Intent

Statements made about the use of gifts by an organization 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 organization. Appeals for charitable gifts must not create unrealistic expectations of what a gift will actually accomplish.

Commentary

The cycle of requesting and/or receiving a charitable gift is not complete until the intent and expectations of givers have been met.

Giver expectations. The goal of every appeal should be to generate in the giver's mind an expectation as close to reality as possible. Givers' expectations are closely associated with truthful communication. After reading, seeing, or hearing the "truthful communication," the prospective giver should have developed an accurate expectation of what a gift will accomplish in response to the appeal.

Although the standard is worded in the negative ("must not create unrealistic . . . expectations"), it is more instructively approached from the positive ("must create realistic expectations").

The appeal often generates certain expectations as to what a gift will accomplish. The key question to ask in preparing the appeal is, "Will the expectation generated in the mind of the giver match the reality of what will occur?"

In 2 Kings, King Joash desires to repair the temple. He orders that money be collected for that purpose, but over the years the money that was collected did not go to the temple repairs as ordered. So Joash takes matters into his own hands and provides us with an example of connecting giver intent with the work that was promised to be completed.

> Jehoiada the priest took a chest and bored a hole in its lid. He placed it beside the altar, on the right side as one enters the temple of the LORD. The priests who guarded the entrance put into the chest all the money that was brought to the temple of the LORD. Whenever they saw that there was a large amount of money in the chest, the royal secretary and the high priest came, counted the money that had been brought into the temple of the LORD and put it into bags. When the amount had been determined, they gave the money to the men appointed to supervise the work on the temple. With it they paid those who worked on the temple of the LORD—the carpenters and builders, the masons and stonecutters. They purchased timber and blocks of dressed stone for the repair of the temple of the LORD, and met all the other expenses of restoring the temple. The money brought into the temple was not spent for making silver basins, wick trimmers, sprinkling bowls, trumpets or any other articles of gold or silver for the temple of the LORD; it was paid to the workers, who used it to repair the temple. They did not require an accounting from those to whom they gave the money to pay the workers, because they acted with complete honesty (2 Kings 12: 9–15).

In the same way, appeals should address giver expectations in two ways. First, does the appeal create a realistic expectation of the nature of the ministry's potential achievement if it receives all the necessary funding? This requires a careful presentation of the giving opportunity.

An organization may not use a broad, "saleable" appeal to raise funds for a narrower purpose. For example, it would be false and misleading to direct an appeal "to feed the hungry," when the real intent is to build an administration building for a relief and development ministry. Likewise, it would be inappropriate to raise funds "to put Bibles in the hands of the Third World" when, in fact, the funds will support long-term missionaries working in the area—even if these missionaries have a part in distributing the Bibles.

In both of these examples, the typical expectation created by the appeal would not be in line with the organization's intent.

The appeal's goal should be to present a precise and accurate description of the *nature of the program* that the gift will help accomplish. This will ensure that the expectations created by the appeal and what the organization accomplishes with the gift are in alignment.

The second area of donor expectation deals with the *impact of the gift* in achieving the stated program opportunity.

Most givers are aware that ministries have a certain amount of overhead. When appeals are stated generally, a typical giver assumes that a small portion of the gift will be used to cover such administrative costs. However, as the language describing the program opportunity becomes more specific and pointed, the typical giver is more likely to expect the entire amount of the gift to be used directly for the stated ministry, rather than to cover related overhead or administrative costs.

No clearly observable line of demarcation separates a general appeal from a specific appeal. However, the organization should remember the following principles in relating the language of the appeal to donor expectation:

- The more specific the language describing how the gifts will be used, the greater is the giver's expectation that the entire gift will be used completely for that purpose.
- The more general the language of the appeal, the greater is the giver's expectation that the organization will determine how the funds will be used, within the overall context of the organization's purpose.

The goal is to develop an expectation in the giver's mind that will accurately match the reality of how the organization will use the donor's gift.

Giver intent. The organization is obligated to use a gift as directed by the giver or, alternatively, to choose not to accept the donation. Once the giver has indicated the intent for which the gift was given and the organization has accepted the gift, it is the organization's responsibility to fulfill that intent, whether or not the gift fulfillment is required by law.

Giver intent is normally determined in one of two ways. In most cases, the giver responds to a specific appeal with a gift. The appeal itself generally identifies the purpose for which gifts are sought. If the giver simply responds to the appeal with a gift, the organization should assume that the giver's intent is for the funds to be used as described in the appeal. Again, the need for precise communication in the appeal establishes a clear understanding between the organization and the giver on the use of the gift.

Second, giver intent can be determined from the giver's own written, verbal, or digital communication. Whether these take the form of a letter from the giver accompanying a gift, notes on a gift response card, indications accompanying a digital gift, or personal conversations with the giver, any communication accompanying the gift should be considered an expression of giver intent.

Timeliness of expending gifts to fulfill a giver's intentions. An organization should expend gift funds in fulfillment of a giver's intentions within a reasonable length of time. What is "reasonable" will depend on the facts and circumstances.

Transferring gift funds to another charity. If an organization receives gifts that are not part of its present or prospective programs, the funds should generally be gifted or granted within a reasonable length of time to one or more other charities which will be able to fulfill the giver's intent through their present or prospective programs or refunded to the giver. Before a gift or grant is made to another organization, the organization should determine an appropriate process through which the organization can be assured that the other organization will fulfill the giver's intent.

Over- and under-funding of gift requests. At times, charitable gifts exceed the needs for a particular project or gifts fall so short of project needs that the project cannot be fulfilled. Charitable gifts which relate to over- or under-funding scenarios may be proactively covered by a disclaimer communicated by the organization to givers before the gifts were made. For example, a giving appeal might include the disclaimer that gifts that cannot be used for the particular project will be used for a similar project. With this type of a disclaimer, the gifts could be applied to the secondary project.

Refunding gifts to donors. Occasionally, givers request a refund of a charitable gift they made previously. Since contributions must be irrevocable to qualify for a charitable deduction, there generally is no basis to return a charitable gift to a donor. When it appears a refund involving a significant amount is justified, it is wise to obtain legal counsel.

Summary. Organizations must create realistic expectations of what will be accomplished with a charitable gift. The timely fulfillment of the giver's expectations completes the cycle with respect to the gift.