



**Healthy Board,  
Healthy Ministry**  
7 Steps to success



# Healthy Board, Healthy Ministry

## 7 Steps to Success

Ministry boards are the often-overlooked teams working behind the scenes to help the ministry run smoothly. From paying bills to scheduling repairs to negotiating complex legal issues, boards and officers provide support and direction to pastoral leadership and staff.

Healthy ministry boards share several important characteristics, such as engaging in positive dialogue, implementing robust checks and balances, sharing burdens, and seeking experienced counsel. Conversely, there are red flags that can spell trouble for a church. Poor direction, ignoring bylaws, and a lack of sound financial controls can dismantle a ministry.

“Healthy ministry boards have checks and balances. Someone to back up and check on the treasurer, for example,” says Ron Troyer, attorney and claims manager for Brotherhood Mutual.

A healthy board understands the mission and implements controls in all aspects of administration to achieve ministry goals. The seven risk areas on the following pages will help you pull it all together to achieve a healthy harmony.

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# 1

## DUST-OFF THE BYLAWS

A ministry board that has clear direction and goals is likely to succeed. Goals are unifying, helping everyone have a clear focus on the mission and vision. Ministry bylaws give direction to the board, providing specific guidelines for how a board should function. It's important for board members to know the bylaws and to follow what's in them.

"Update your bylaws and governing documents to match what's happening in your organization. Look at your bylaws every three to five years, unless you experience a substantial change in your ministry," advises Troyer. "For example, if you go from a church of 300 to 1,000 very quickly, it's time to review and update your bylaws."

Bylaws serve as a framework for defining your ministry's structure and decision-making processes. You could be held legally responsible for failing to follow your bylaws, so define procedures clearly and follow them consistently. Have all foundational documents reviewed and approved by a locally licensed attorney before putting them into effect.

Most ministries adopt a set of bylaws when the ministry is first formed. These bylaws are often deposited in a folder at the back of a little-used file cabinet for years at a time. During that time, the ministry's practices often change, sometimes significantly. When the bylaws are finally recovered from their folder, the ministry is faced with one of two options:

1. conform the ministry's practices to comply with the bylaws.
2. amend the bylaws to reflect the ministry's practices.

Whenever your organization plans to make a major decision or a change in its practices, the bylaws should be consulted to determine if the proposed decision or change is allowed and/or being handled properly. If the bylaws pose a problem for the proposed change,

then the organization should not make the change before amending the bylaws to allow it.

Because organizations tend to change over time, it is a good idea to review your bylaws at least every three to five years. This practice ensures that the organization is still following its own rules and that the bylaws are not in need of amendment to address the current needs of the organization.

### CONSIDER TERM LIMITS

Healthy boards have good onboarding practices and may choose to set term limits. While not right for every ministry, setting term limits can enable continuity so no person has sole knowledge of a procedure or practice. Term limits also offer opportunity to share the burden and help other church members feel their talents are being utilized.

### RESOURCE

Legal Assist, a free service of Brotherhood Mutual, [can review your ministry's bylaws](#) and provide risk management guidance with a focus on loss protection and belief-based decisions of the ministry.

## 2

### AVOID FIDUCIARY LIABILITY

Board members of any Christian ministry have a legal responsibility to place the organization's interests ahead of their own. This duty is called a fiduciary responsibility. If board members use their position in the ministry for personal gain, they can be sued as individuals, thereby placing property and personal assets at risk. But the same laws that protect corporate board members in the secular world can also help protect ministry board members who are acting in good faith.

#### Business Laws Protect Incorporated Ministries

Incorporating your ministry helps reduce the likelihood that board members could be held personally liable for the decisions they make while serving on the board. Every jurisdiction provides protection for board members of incorporated entities, as long as the board member acts with honest intentions. Board members of an unincorporated ministry organization are afforded less legal protection, generally leaving personal assets more at risk.

#### Fiduciary Responsibility: Three Requirements

Board members must follow three primary requirements to obtain corporate protection. These fiduciary duties are known as the *duty of care*, *duty of loyalty*, and *duty of obedience*.

##### 1. The Duty of Care

Board members have a duty to think matters through before making key decisions. A board member meets the duty of care if he or she acts in the same manner that a "reasonably

prudent person" would act under similar circumstances. Each significant decision or action should be weighed against this rule. Document key decisions in your board minutes including what was discussed prior to the final decision.

##### 2. The Duty of Loyalty

Board members have a duty to recognize, disclose, and avoid conflicts of interest. The duty of loyalty requirement states that board members will be protected against personal liability if their actions and decisions aren't intended to provide them with financial, reputational, or social gain over the interests of the ministry. The most common breach of the duty of loyalty occurs when a board member votes in favor of an action that will either provide him or his family a personal financial gain or benefit a business that he owns or controls.

As a safeguard, the ministry should consider adding bylaw provisions that require board members to disclose business

conflicts or prohibit the ministry from doing business with companies that will benefit board members or members of their immediate family.

##### 3. The Duty of Obedience

Board members also should ensure that the organization is fulfilling its stated purpose or mission. In addition, the duty of obedience requires boards to ensure the ministry is complying with applicable laws and the organization's bylaws.

#### Weigh Each Decision Carefully

Members of the governing board are responsible for guiding the organization and helping the ministry fulfill its mission. By placing the interests of the ministry above their own, they will better serve the ministry and protect themselves from legal liability, fines, and other out-of-pocket losses.

#### RESOURCE

Your decisions affect the life of the ministry. Do you have all the answers you need? To help, Brotherhood Mutual developed, [Ten Questions Every Church Board Member Should Ask](#).

## 3

### UNDERSTAND PROBLEM AREAS

Sometimes board members and other ministry leaders ask the question, “Can I be held personally responsible for liabilities of the ministry?” The short answer is yes.

Government agencies scrutinize how all organizations apply laws and regulations for decisions involving payroll, benefits, work eligibility, and more. Make a mistake, and an individual board member, officer, or supervisor can be personally liable to pay penalties, legal fees, and damages.

Since a ministry leader’s savings, retirement, and reputation are at stake, it’s important to know which areas expose personal assets. At the federal level, your board of directors and ministry leaders risk personal liability exposure in these three areas:

#### **Problem Area #1: Payroll Taxes**

Like for-profit businesses, ministries are required to properly collect and pay payroll taxes, including federal income taxes, Social Security and Medicare taxes, and state and local taxes. The ministry collects these funds and remits the amount directly to the U.S. Treasury or appropriate state or local agencies.

#### **The takeaway:**

Payroll taxes cannot be used in any way for the ministry’s operational and business expenses. Any ministry board member, officer, or leader who is responsible to collect, account for, and pay any income tax and willfully fails to do so will be personally liable for unpaid taxes plus other penalties.

**Tip:** Review [these guidelines](#) for completing Forms W-2 and W-4,

housing allowances, and taxable gifts. Brotherhood Mutual’s MinistryWorks offers payroll services exclusively for Christian ministries and priced with ministry budgets in mind. [Read what Christian leaders are saying about MinistryWorks.](#)

#### **Problem Area #2: Overtime and Paid/Unpaid Leave**

The Fair Labor Standards Act (FLSA) and Family and Medical Leave Act (FMLA) standardize minimum employee protections that most employers are required to follow. Generally speaking, the FLSA requires employers to correctly categorize employees as exempt or non-exempt and to follow rules regarding overtime pay; the FMLA requires that employers allow unpaid leave for a medical issue without it jeopardizing the employee’s job.

#### **The takeaway:**

Board members, officers, and individual supervisors within the ministry may be personally liable for FLSA or FMLA violations if it’s determined he or she maintained “sufficient control” over the employee. This includes the worker’s conditions and terms of employment, the ability to affect wages, hiring and firing decisions, or the authority over financial affairs of the organization.

**Tip:** Review [how to tell the difference](#) between an employee and an independent contractor. This [assessment chart](#)

helps ministries correctly classify employees.

#### **Problem Area #3: Employment Eligibility**

The Form I-9 verifies employment eligibility and authorization for any person hired in the United States. All new employees must complete the federal Form I-9; your hiring administrator needs to ensure the form is completed correctly within the employee’s first three days. The I-9 is not filed with any government agency. However, your ministry is required to store all I-9 forms together in a file that’s kept separate from the employees’ files and is available for inspection.

#### **The takeaway:**

Ministry leaders with hiring authority could be personally liable for ignoring Form I-9 requirements or knowingly hiring an undocumented worker. The government could also impose criminal charges, so careful compliance with this law is important.

**Tip:** Brotherhood Mutual’s MinistryWorks offers [additional tips](#) on Form I-9 best practices.

# 4

### STRENGTHEN COMMUNICATION WITH PASTORAL STAFF

Healthy ministry boards regularly communicate with each other, leadership, and the congregation to ensure everyone is aware of important decisions in the life of the organization. Additionally, healthy boards resolve conflict quickly, keeping issues from growing into major stumbling blocks.

Healthy communication and relationship-building between the board and pastoral staff doesn't happen by accident. John Opalewski, founder and owner of Converge Coaching, suggests that you set up parameters for how you're going to speak to each other. "It's all about ground rules," he says. "It's the most important conversation, and it needs to happen up front." He suggests putting the following rules in writing:

- Assume positive intent from each other. Assume the best about each other when a board member challenges the status quo or embraces change.
- Commit to each other's success. Work to resolve conflicts with facts rather than assumptions.

- Put what's best for the ministry first, above personal interests. Behave constructively and objectively.
- Support decisions in public once they've been made in private.

#### **Love Each Other, Pray Together**

There's a lot of work that goes into interpersonal communication between the board and the pastor. Make sure you're working toward healthy interactions. "To foster healthy relationships," Opalewski says, "I would say just love each other."

Boards and their pastors need to work together during the ebb and flow of good and bad times. To build trust, Scott Davis, lead care pastor for Pathway Community

Church, says you need to create opportunities to do life together and to give others the right to speak into your life. It's a strategy, he says, that makes what happens inside the board room more comfortable. "Take time to be in each other's homes, to love each other, to pray together, apart from the business," Davis says. "Be in the word and on your own. Get outside of the board room and in each other's lives."

#### RESOURCE

Keeping your pastoral staff healthy is a risk management issue. Pastors at risk for burnout can suffer job performance issues, jeopardize relationships, and experience a spiritual crisis—any of which can lead to behavior that exposes the ministry to liability. Pastors need tools to stay healthy, and the board can help. Read how Full Strength Network is [accomplishing its vision](#) to make every pastor a thriving pastor.

# 5

## ENSURE CONFIDENTIALITY

From time to time, ministry leaders will need to discuss sensitive topics or disclose confidential information to board members. This may involve pending legal action, ideas about policy changes, or staff issues. Healthy boards should be entrusted with confidential information and should be trusted to make wise decisions based on a solid understanding of biblical principles.

Confidentiality relating to discipline or termination is extremely important. While many states provide some protection for statements made to a limited number of people with a “need to know,” this protection may be overcome if:

- False information is provided.
- Information is given to individuals deemed not to have a “need to know.”
- Private information about an employee is shared without the employee’s prior permission.

Provide factual information on a strict “need to know” basis. Carefully evaluate the information and who should receive it and what will be communicated. Depending on the information, one or two people may need to know. You may decide that staff, volunteers, and members will receive varying degrees of the full amount of information.

### Safeguard Information

#### Physical security

Equally important is the handling and storage of sensitive information. Carefully protecting

data not only makes business sense, but it also can reduce the likelihood of crippling data loss, embarrassing public disclosures, and lawsuits. For better physical security of documents and data:

- Make sure important records and confidential information are stored in locked filing cabinets.
- Limit access by giving the key to either the treasurer or pastor, depending on the information.
- Shred papers containing personally identifiable information before throwing them away.
- Secure your building with locks and alarms.

#### Electronic data security

Data housed on computers is particularly vulnerable to theft. Adding security procedures for staff to follow helps limit the threat. Here’s what you can do:

- Limit access with passwords and train office workers to keep passwords private. Issue new passwords after every staff turnover.
- Keep software up to date. Many of the anti-virus, individual

programs, and apps on your computer can also be set to automatically apply updates. Taking the time to enable the automatic settings now will ensure you don’t forget when you are busy later.

- Install a dependable firewall. Both hardware and software firewalls are designed to prevent unauthorized access to a network.
- Offer guest Wi-Fi. Set up a separate guest network that only has access to the Internet. Wi-Fi networks should always be password-protected.
- Preserve critical data. Back up business records daily, weekly, or monthly using either physical devices such as a flash drive or external drive, or a cloud-based system. How often you perform backups depends on your tolerance for risk of losing data. Store physical backups in a secure, off-site location, such as a safe deposit box. This protects your ministry from losing records to computer breaches and other events, such as tornadoes, floods, or fires.

### RESOURCE

Today’s technology helps Christian ministries extend their reach when proclaiming the Gospel—but it brings about its own challenges. Learn how to [protect your ministry](#) against property damage, financial damage, or emotional injury claims resulting from your ministry’s activities related to computer use and electronic data.

# 6

## IMPLEMENT CONTROLS TO CATCH FINANCIAL IRREGULARITIES

Healthy boards implement solid financial controls to protect the ministry and to protect members from temptation. Mishandled finances can quickly lead to financial ruin for a ministry. The first step to reducing this risk is to put safety measures in place that can help prevent financial crimes from being committed.

The risk for embezzlement increases when financial controls are absent or weak. Developing strong financial control practices can protect your ministry from exposure to theft from within:

### Implement Strong Financial Controls

Written financial controls set clear and consistent expectations for staff and volunteers. Ensure that all workers read, train, and understand all procedures—access to the policy helps remove a plea of ignorance from a dishonest member. In addition:

- Perform annual background checks on those who have access to ministry funds. Don't feel bad about doing this; their positions require them to be above reproach.
- Require all checks written for ministry expenses above a certain amount to be endorsed by two signatures.

### Perform System Checks

Reviews of all financial statements by those unaffiliated with day-to-day operations is key to

a ministry's financial health. Consider implementing these three system checks:

- Review monthly bank statements. Assign someone who is not responsible for handling cash for this task.
- Require annual external audits. Hiring an auditor unaffiliated with your ministry gives an unbiased perspective on your finances.
- Examine financial statements. Ministry leaders should meet often to review finances. An informed leadership helps prevent irregularities from going unnoticed.

### Protect Tithes and Offerings

The greatest threat of loss to any ministry is tithes, offerings, and donations. Consider these financial controls to protect these valuable resources:

- Encourage members to place financial gifts in envelopes marked with their information and the amount given. This makes it more difficult to take cash out of the offering plate.

- Always have two people collect the offering and two (different) people present when the offering is counted. Rotate money-counting teams. No team should count money more than once a month. Make sure the individuals collecting and counting are not related or married.
- Stamp checks "For Deposit Only" with colored ink when endorsing them. This makes it harder to copy or redirect checks anywhere but the ministry account.
- Deposit offerings immediately.
- Reconcile offering counts and bank deposit slips often. This encourages accountability and exposes any discrepancies soon after they occur.

## RESOURCE

Sadly, financial crimes against ministries are common. Strengthen accountability within your ministry with an annual policy review. [This checklist](#) helps you identify what to put into your policy.



# 7

## SAFEGUARD LARGE FINANCIAL DECISIONS

Large financial decisions can have a major impact on a ministry, both positive and negative. Ron Troyer, attorney and claims manager for Brotherhood Mutual explains, “If you’re going to make big financial decisions, talk to an attorney or an accountant. Spend the money to speak with your attorney to make sure your organization is protected.”

Large projects, like a building expansion, are not without potential pitfalls. For example, if members have committed money specifically for the building project, what happens if you decide not to build or if your priorities change? Do donors get their money back? Addressing these issues in advance and speaking with legal counsel to set up appropriate safeguards can prevent a possible lawsuit later.

Some of a board’s top responsibilities include approving budgets, buying and selling property, and borrowing money. It stands to reason that many lawsuits filed against ministry boards question how they manage ministry resources. Claims of

fraud, breach of fiduciary duty, misuse of funds, and waste of an organization’s assets are among the most common complaints boards face.

Let’s say that a church member donated \$5,000 at the start of a stewardship campaign to fund a new building. Years passed, but the church never raised enough money to build it. Eventually, the board decided to use the building fund for other purposes. Imagine board members’ surprise when the church member sued them for misallocation of funds. Since his donation had been intended for the new building, and it was never built, he wanted his \$5,000 back, with interest. While people don’t sue church boards frequently,

this type of claim seems to be happening more often.

“As ministries are being treated more like businesses, both operationally and legally, you’re seeing more business-related claims,” says Joshua Lederman, manager of casualty litigation claims for Brotherhood Mutual. “I think there’s less reluctance to sue a ministry than there used to be.”

Directors and officers claims can hit close to home. “Unless a ministry has been incorporated, its leaders may be sued individually, putting their personal savings and reputations on the line,” he says.

### RESOURCE

For the financial health, reputation, and long-term outlook of your ministry, it’s time for board members to start asking: Are we covered? [Our coverage checkup](#) explores three areas of common liability issues: directors and officers, employment practices, and employment benefits.