

Nonprofit Financial Oversight: The Concise and Complete Guide for Boards and Finance Committees

Michael E. Batts, CPA

PRA663A – LCMS and the Age of Financialization

Martin Edward Lee, March 27, 2020

Today, most LC—MS churches are incorporated as 501(c)(3) religious nonprofit organizations. According to Investopedia, “The first American corporations were developed in the 1790s.”¹ The implications of churches being classified as nonprofit corporations, along with their governmentally required body of executive officers-trustees,² was not likely in the minds of the Apostles, Luther, or Walther when they discussed church and ministry. The implications of the governmentally required body of executive officers-trustees (governing board or church council) has been adopted by the LC—MS as if there is nothing to discuss.³ This new, secular, layer of governance that provides for legal and fiduciary oversight of the church, necessitates some re-thinking about how a church, as a nonprofit organization, should relate to the office of the pastor. The conversation should involve the doctrine of the two kingdoms, the function and role of the office of the pastor, and a discussion of the separation, or delegation, of boards and powers.

The application (or misapplication) of the two kingdoms (or two governments or two realms) doctrine has caused many clergy and lay people confusion over church leadership roles and responsibilities, especially as they relate to the parish pastor. In most nonprofit organizations, the governing board is responsible for “Strategy, Oversight, and Policy,” with senior management responsible for the operational activities of the organization.⁴ In comparison, many

¹ Investopedia, Aug 3, 2019. <https://www.investopedia.com/ask/answers/041515/what-history-corporations-america.asp>.

² President, Vice President, Secretary, Treasurer, and Financial Secretary.

³ Some pastors are concerned that a church’s trying to maintain their nonprofit tax status causes impermissible government interference; in fact, the nonprofit structure itself could be considered government interference, since it requires a secular board of governance.

⁴ Ibid., 2.

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LC—MS churches are “prioritizing and separating responsibilities” such that the governing board is responsible for all physical-material matters and the board of elders is responsible for spiritual matters.⁵ This usually means the pastor reports to both boards, depending on whether the matter is physical-material or spiritual.⁶ This dynamic creates two parallel boards, not foreseen by either the church fathers or the government in establishing the 501(c)(3) organization, and a senior management leader who is hand’s off in practical affairs.

Author Michael E. Batts begins by stating, “This book is a very concise guide for nonprofit board and finance committee members to aid them in carrying out their legal and fiduciary duty of financial oversight for their nonprofit organization.”⁷ For Batts, organizational stewardship includes legal and fiduciary oversight.

The first key concept is *the distinction between nonprofit board oversight and day-to-day management of operations*. He reminds the board, “In other words, the board of directors of a nonprofit corporation has full and final authority over the affairs of the organization, unless the organization’s articles of incorporation limit the board’s authority in some way.”⁸ But, Batts encourages the board to delegate management of day-to-day operations to staff: or for our purposes, to professional church workers and pastors. Batts warns, “responsibility over...does not mean, of course, that the board must carry out all the work of the organization.”⁹ Batts

⁵ Kober, Ted, “Policy-Based Governance in Lutheran Congregations,” (Ambassadors of Reconciliation, Billings, Montana, 2008.), 7.

⁶ Ibid., 8.

⁷ Batts, Michael E., “Nonprofit Financial Oversight: The Concise and Complete Guide for Boards and Finance Committees,” (Accountability Press, Copyright 2017 Michael E. Batts.), 1.

⁸ Ibid., 3.

⁹ Ibid.

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highly recommends, “In fact, the board should not normally be involved at all in the operational activities of the organization unless it is a very small organization with little or no staff.”¹⁰ This point should not be glossed over lightly: it is pivotal to the structure of the nonprofit organization that the governing board oversees management and that management complies with board oversight.

Most LC–MS churches reserve supreme power for the voting membership, who *delegate* oversight to the governing board. The Parish Planning Council (“Council”), is a governance model used in many LC–MS congregations, but it is designed to co-mingle the oversight functions of the board of governance with day-to-day ministry operations. The executive officers are joined by the chairpersons of each ministry committee. First, the “Council” absorbs each ministry committee and is now involved in both “oversight” and “managerial” level activities. Second, in a Parish Planning Council model the pastor is designated an “ex officio” member of each ministry team. This means the neither the Council or Elders are able to hold him formally responsible for ministry outcomes. Third, for some LC–MS churches, the pastor reports to, under the authority of, the elder board. Without a direct line to the pastor it would be difficult for the Council to expect the pastor (“top management”) to align oversight of day-to-day ministry operations with the Council.

The second key concept is *the fiduciary duty of the board* and *the respect of management for this fiduciary duty*. Batts underscores the importance of internal financial reporting and monitoring. He defines financial oversight as, “the process of monitoring and

¹⁰ Ibid., 2.

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evaluating the financial activities and operations of the organization.”¹¹ His view of organizational stewardship involves both time and quality elements. He recommends, “The board should determine the nature, format, and timing of the information it receives;”¹² that is, monitoring and evaluating how organizational resources are deployed in alignment with the organization’s vision and goals.

For such monitoring and evaluation to occur, Batts advises that the nonprofit management team (particularly the senior leader of the nonprofit management team) be actively supportive of the governing board’s fiduciary responsibilities and goals. According to Batts, then, the pastor of a church should support the board’s organizational stewardship goals. Some boards have wondered, “Is it true that top management is responsible for ensuring that an organization’s financial operations are healthy and appropriate?”¹³ Batts emphatically responds, “Of course it is,” and, “If the tone at the top is not what it should be, the board should act.”¹⁴

Batts observes, “If top management is capable and astute, and has a healthy regard for financial excellence, that will bode very well for an organization’s financial (and other) operations, and it will make the board’s job of financial oversight much, much easier.”¹⁵ From Batts’ statement above, a reader could assume a senior pastor should be actively involved in upholding the financial excellence of the church. Batts warns, “If top management is incompetent in this area or has a low regard for financial administration, exhibited by traits like

¹¹ Ibid.

¹² Ibid., 40.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Ibid.

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considering the accounting and financial operations to be a necessary evil, that organization is on a one-way bullet train to trouble...the board will be engaged in one emergency or challenge after another. This is assuming the board itself is paying attention to these issues.”

The third key concept is the *risk management duty of the board*. Batts recommends a collaborative approach to a nonprofit’s risk management, involving both the board and management. He describes the board’s role is to “maintain an adequate approach to risk management” and management’s role is the “actual conduct of risk management activities.” The risk management plan, Batts advises, needs to be holistic and proactive: holistic meaning “all risks are financial risks.”¹⁶ With this approach, the nonprofit builds healthy checks and balances, meaning a bridge between the board and professional staff.

The concept of risk is far-reaching. Batts notes, “For example, the risk that an organization’s building could be damaged by fire is both a physical risk and a financial risk.”¹⁷ Likewise, many risk events in the life of the church include the risk of jeopardizing the faith of the community. Other risks to be wary of include: public relations, corporate structure, fundraising practicing, tax compliance, human resources, child molestation, data security, insurance coverage, internal financial controls, cash transactions (segregation of duties, dual control, oversight and monitoring), physical safety, leadership succession, and child safety. All these risk areas are opportunities for the governing board and the professional workers to work together in Christian love to build up the community of faith by avoiding unnecessary risk.

¹⁶ Ibid., 90.

¹⁷ Ibid.

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Having a pastor who is hand's off when it comes to all the above practical affairs of the church seems spectacularly difficult.

Luther says, “From this story (Acts 6) we learn in the first place how a Christian congregation should be constituted. In addition, we have a true pattern of spiritual government that the apostles here provide. They care for souls, occupy themselves with preaching and prayer, *and yet also see to it that the body is cared for* [emphasis mine]; for they suggest several men who are to distribute the goods, as you have heard.”¹⁸ Again he says, “They [the Apostles or pastors] are the ones who are placed over every office to see to it that the teachers are not negligent and that the deacons rightly distribute the provisions...”¹⁹ The Biblical model, as well as that of Luther and the church fathers, emphasizes the role of the office of the pastor in both the spiritual and physical realms. The Apostles (today’s pastors) delegate the responsibilities which belonged to the pastoral office, but do not relinquish pastoral oversight. At the same time, while the pastor as a fiduciary of the mysteries of God and has oversight of the right stewardship of the Lord’s physical resources for the benefit of all in body and soul, he operates under the guidance of both the Council in matters of the physical realm and the LC—MS judicatory in matters of doctrine and practice (e.g. spiritual realm).

¹⁸ Walther, *Church and Ministry: Witness of the Evangelical Lutheran Church on the Question of the Church and the Ministry = Kirche Und Amt*, 292–3.

¹⁹ *Ibid.*, 293.