

# CHURCH GOVERNANCE & BYLAWS

FOUNDATION FOR LEGAL OPERATION & ACCOUNTABILITY

Strategic Framework for Establishing Formal Governance Structure

Church Clergy Tax Management & Compliance



# TODAY'S AGENDA

- Why Bylaws Matter for Churches
- Essential Bylaws Components
- Board Structure & Authority
- Member Rights & Responsibilities
- Amendment Process & Document Control
- Implementation Roadmap



# UNDERSTANDING BYLAWS: YOUR CHURCH'S OPERATING MANUAL

- **Bylaws Definition:** Written rules governing church operations, adopted by board & members
- **Legal Requirement:** REQUIRED by state law for incorporated nonprofits (including churches)
- **Governance Foundation:** Bylaws establish board structure, member rights, amendment process
- **IRS Expectation:** IRS expects churches to have formal bylaws (demonstrates legitimacy)
- **Dispute Resolution:** Bylaws resolve conflicts by establishing clear rules BEFORE problems arise
- **Not Theological:** Bylaws address operations, NOT doctrine or worship practices
- **Living Document:** Bylaws should be reviewed & updated annually as church evolves



# Why Churches MUST Have Bylaws

## Without Bylaws

- No clear authority structure
- Disputes about decision-making
- Vulnerable to legal challenge
- IRS questions legitimacy

## With Bylaws

- Clear governance framework
- Disputes prevented by rules
- Legal defensibility strong
- IRS confident in structure



# ESSENTIAL BYLAWS SECTIONS: REQUIRED CONTENT

- **Church Name & Purpose:** Legal name, 501(c)(3) charitable purpose statement
- **Membership:** Who can be member, voting rights, responsibilities, dues (if any)
- **Board of Directors:** Number of members, qualifications, election process, terms
- **Board Meetings:** Frequency (monthly/quarterly), notice requirements, quorum definition
- **Officers:** Roles (president, treasurer, secretary), responsibilities, selection
- **Finance:** Fiscal year, budget approval process, financial reporting, audit requirements
- **Amendment Process:** How bylaws are changed (usually member vote required)



# BOARD STRUCTURE: ESTABLISHING GOVERNANCE AUTHORITY

- **Board Name:** "Board of Directors" or "Board of Trustees" (use consistently in bylaws)
- **Board Size:** Minimum 3 members, typical 5-7 for mid-size church
- **Member Composition:** Pastor typically chairman, mix of clergy & laity, no all-clergy boards
- **Unrelated Members Requirement:** Multiple unrelated members prevent control by one person/family
- **Term Limits:** Define term length (typically 2-3 years) and limit consecutive terms
- **Election Process:** How members selected/elected, who nominates, voting procedures
- **Removal Process:** How underperforming board members can be removed (with cause)



# Board Authority: What Board Can & Cannot Do

## Board Authority

- Approve budget
- Hire/fire staff
- Approve contracts >\$X
- Set compensation
- Major purchases

## Member Authority (Not Board)

- Elect board members
- Amend bylaws
- Approve major property sale
- Remove board members
- Receive financial reports



# Officer Roles: Clear Responsibilities

- **President/Chairman:** Leads board meetings, represents church externally, signs contracts/documents
- **Vice President:** Assumes chairman duties if president unavailable, leads committees
- **Treasurer:** Oversees finances, prepares reports, manages accounts, reconciles bank statements
- **Secretary:** Documents board minutes, maintains records, handles correspondence, preserves documents
- **Optional Officers:** Larger churches may have Finance Director, Audit Committee Chair, Clerk
- **Term Limits on Officers:** Recommend 2-3 consecutive terms max (prevents entrenched leadership)



# Member Rights & Responsibilities in Bylaws

## Member Rights

- Vote on board elections
- Vote on bylaw amendments
- Attend member meetings
- Receive financial reports
- Question board decisions

## Member Responsibilities

- Support church mission
- Attend member meetings
- Vote responsibly
- Abide by bylaws
- Financial support encouraged



# DEFINING CHURCH MEMBERSHIP IN BYLAWS

- **Who Can Be Member:** Typically baptized Christians or those making profession of faith
- **Membership Process:** Application or simple statement of belief + board approval/acceptance
- **Member Classes:** Some bylaws distinguish: active (voting), associate (non-voting), retired, honorary
- **Voting Rights:** Define who votes in member meetings (usually only active members)
- **Removal of Membership:** Define process for removing members (usually for conduct violations or inactivity)
- **Dues/Commitments:** If charging membership dues, clearly state amount and purpose
- **Annual Confirmation:** Some bylaws require annual member meetings to maintain current member roll



# Board & Member Meetings: Frequency & Notice

## Board Meetings

- Monthly preferred
- Quarterly minimum
- 10 days notice typical
- Quorum requirement (50%+)

## Member Meetings

- Annual minimum (election)
- 2-3 weeks notice required
- Agenda distributed
- Quorum requirement varies



# FINANCIAL GOVERNANCE IN BYLAWS

- **Fiscal Year:** Designate which month-to-month period (often Jan 1-Dec 31, or July 1-June 30)
- **Budget Approval:** Board must approve annual budget before fiscal year begins
- **Financial Reports:** Monthly to board, quarterly/annual to members (define in bylaws)
- **Audit Requirement:** Annual independent audit or review (bylaws should mandate this)
- **Approval Thresholds:** Define what amounts require board approval vs. treasurer approval
- **Fund Restrictions:** Define how restricted gifts handled and tracked separately
- **Banking & Investments:** Define who can withdraw funds, investment authority, reserve policies



# CONFLICT OF INTEREST POLICY IN BYLAWS

- **Mandatory Policy:** Bylaws should require adoption of written conflict of interest policy
- **Annual Certification:** All board members sign conflict disclosure annually
- **Disclosure Requirement:** Members must disclose financial interest in vendor/contractor decisions
- **Recusal Standard:** Conflicted member leaves discussion & vote on decision
- **Documentation:** Minutes must note conflict disclosed and recusal taken
- **Exception Process:** Define how board can approve conflicted transaction (with non-conflicted approval)
- **Enforcement:** Bylaws should specify consequences for violation (removal from board)



# BYLAW AMENDMENT PROCESS: HOW TO CHANGE THE RULES

- **Proposal Authority:** Any member or board can propose amendment
- **Notice Requirement:** Amendment must be noticed to members 2-3 weeks in advance
- **Full Text Distribution:** Members must receive proposed amendment language (not just summary)
- **Discussion Opportunity:** Members must have chance to discuss before voting
- **Vote Requirement:** Typically 2/3 majority vote of members present required
- **Documentation:** Amend bylaws document, date amendment, preserve old version
- **Board Adoption:** Board should formally adopt amended bylaws by resolution



# DISSOLUTION & ASSET DISTRIBUTION IN BYLAWS

- **IRS Requirement:** Bylaws MUST specify what happens to church assets if church dissolves
- **Requirement:** Assets must go to another 501(c)(3) organization (not to individuals)
- **Typical Language:** "Upon dissolution, assets distributed to [denomination] or similar ministry"
- **No Personal Benefit:** Assets cannot go to members, board members, or related parties (IRS violation)
- **Documentation:** Detailed dissolution procedure in bylaws shows IRS compliance
- **Consultation:** Church attorney should review dissolution language for state law compliance



# Case Study: The No-Bylaws Dispute

**Situation:** Church operated 20 years without formal bylaws. Pastor made unilateral decisions on spending, hiring, property issues.

**The Problem:** New pastor arrived, wanted to change policies. No bylaws defined authority. Members disagreed on decision-making process. Litigation threatened.

**Result:** Church hired attorney to draft bylaws. Adopted bylaws resolved authority questions. Prevented costly lawsuit.

✓ **Learning:** Bylaws prevent disputes by establishing clear rules BEFORE conflict arises.



# CHURCH GOVERNANCE & BYLAWS CHECKLIST

- ☐ Bylaws formally adopted by board (documented in minutes)
- ☐ Bylaws specify church name, mission, 501(c)(3) purpose
- ☐ Membership definition clear (who can be member, voting rights)
- ☐ Board structure documented (size, composition, term limits)
- ☐ Board meeting frequency & notice requirements defined
- ☐ Officer roles & responsibilities detailed
- ☐ Member meeting requirements specified (annual minimum)
- ☐ Financial provisions clear (fiscal year, budget approval, audit)



# GOVERNANCE & BYLAWS CHECKLIST - CONTINUED

- ☐ Conflict of interest policy required & referenced in bylaws
- ☐ Amendment process clearly defined (notice, discussion, vote requirement)
- ☐ Dissolution & asset distribution specified (IRS compliant)
- ☐ Quorum requirements defined for all meetings
- ☐ Voting procedures specified (majority, 2/3, or other)
- ☐ Committee structure & authority documented
- ☐ Board authority limitations defined (what requires member approval)
- ☐ Bylaws reviewed by church attorney for state law compliance



# Bylaws Implementation: 90-Day Plan

## Days 1-30

- Review existing bylaws
- Identify gaps
- Consult attorney

## Days 31-60

- Draft updated bylaws
- Board review & discussion
- Member education

## Days 61-90

- Member meeting & vote
- Board adoption
- Distribution to members



# KEY TAKEAWAYS

- Bylaws are REQUIRED by state law and IRS expectations
- Bylaws establish governance structure before conflict arises
- Clear bylaws prevent costly disputes and litigation
- Bylaws should define board authority AND limitations
- Amendment process should be documented but not too rigid
- Annual bylaw review ensures church governance remains current
- Church attorney review protects against state law compliance issues



# Establish Clear Governance Today

Bylaws are the foundation for effective, legal church operations

Next: Board Training & Fiduciary Responsibilities



# Thank You

Strong Governance & Clear Bylaws: Foundation for Ministry Excellence

Questions & Discussion Welcome

