

## The webcast will start at 1 p.m. Eastern

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Please note:

- **Handout** – You can print or download the webcast handout at <http://www.capincrouse.com/webcast-metrics>
- **CPE** – CPE certificates will be emailed to you within the next few weeks. To receive CPE credit you must respond to the polling questions, which are not available on mobile devices. Therefore, in order to receive CPE credit you must log in via a computer.
- **Recording**– A recording of today's webcast will be available at [capincrouse.com](http://www.capincrouse.com). Click **Nonprofit Resources**, and then select **Webcast: Recorded** from the list on the right.



## Aligning Your Mission and Money Metrics for Better Stewardship

Stan Reiff, Partner  
11.16.17



## Agenda

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- Biblical Support for Measuring Ministry Impact
- Budgeting to Align with Your Ministry Goals
- Measuring Your Financial Health
- Innovative Ministry Metric Concepts



## Biblical Support for Measuring Ministry Impact

## God's Numbers Precision in the Old Testament

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- Noah and the Ark
- Joseph and the Egyptian famine
- Solomon building the temple
- Nehemiah rebuilding the walls

## God's Numbers Precision in the New Testament

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- Feeding of 5,000
- The catching of fish after resurrection
- Pearl of great price
- Zacchaeus the tax collector
- Who builds a tower without first counting the cost
- Who goes to war without first counting the cost



## Budgeting to Align with Your Ministry Goals

What are you called to accomplish, and how much will it cost?



## Strategic Budgeting

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Strategic budgeting is **aligning the mission of the organization with the finances**. It is important for all managers and the board to be in agreement on where the ministry is headed. The dollars should then follow these goals.

Each department or project should prepare a budget based on what they plan to accomplish. **This type of budgeting facilitates better communication and less overlap between departments.**

## Budget Approaches

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**Top-down:** In this method, the budget is prepared by senior management and communicated down to other managers and staff.

- **Pros** – efficiency
- **Cons** – lack of ownership by those outside of senior management

## Budget Approaches

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**Bottom-up:** This method encourages significant participation by those who are most involved in the day-to-day activities. Budgets are prepared by frontline personnel and passed up to senior leadership for review and difficult decisions.

- **Pros** – buy-in by staff and more realistic of operations
- **Cons** – time-consuming and difficult to administer

## Budget Approaches

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### Types of financial budgets:

- **Zero-based** – Each year begins a new process. You will look at what the expected income and expenses will realistically be and budget accordingly. All things are questioned and new projects are considered at this time.
- **Incremental** – Simply take the prior-year budget and add a predetermined amount (e.g. 2%). This is an expeditious way to budget, but doesn't allow you to really consider what worked and what didn't. You don't evaluate what you are trying to accomplish and tie that to the budget in this method.

## Budget Approaches

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### Incremental Budgeting

- Last year + expected changes
- Example: 100 participants \* \$30 = \$3,000  
125 participants \* \$40 = \$5,000
- **Pros** – easy
- **Cons** – doesn't challenge what's been done because it focuses on costs rather than objectives

## Budget Approaches

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### Program Budgeting

- Budgets by program, not natural expenses
- Requires the ministry to identify each program/activity and the needs it serves
- **Pros** – better understanding of programs, lends to cost/benefit analysis, provides clarity for staff and volunteers
- **Cons** – time-consuming

## Budget Approaches

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### Consider Using Multiple Budgets and Approaches

A multiple budget process prepares a baseline budget and additional budgets above and below that. While it seems like this could be a cumbersome process, once the initial budget is prepared it takes relatively little time to prepare variations of it.

The benefit is that if more or less income is received, you have already determined what cuts or additional projects will be impacted. We all understand that managers don't like to give up their funds and stand ready to receive extra money if there is surplus. The practice of multiple budgets eliminates some of the emotion from unexpected income fluctuations.

## Budgeting Basics

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### Budgeting By Month

- It is really important to allocate the budget on a monthly basis. This allows for an accurate picture of budget to actual comparisons of income and expenses.
- It can be done two ways –
  1. Fixed (annual budget amount divided by 12)
  2. Flex (using expected monthly amounts to equal total annual budget)
- Flex budgets are a useful management tool because they consider the ministry cycle of when income is received and expenses are incurred.

## Budgeting Basics

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### Budget Timeline

This is a year-round process. It seems that as soon as a new fiscal year starts you are monitoring the current year budget and beginning to plan for the next year.

Sample timeline:

- 2<sup>nd</sup> quarter – begin process of budgeting for the next fiscal year, including management meetings and initial planning by managers
- 3<sup>rd</sup> quarter – prepare internal budget
- 4<sup>th</sup> quarter – obtain board feedback and ultimately their approval

## Other Types of Budgets

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- **Monthly cashflow budget** – what will be the net cash inflow or outflow by month as a result of the financial operations budget?
- **Capital spending budget** – what major purchases will be made, and when and how?
- **Debt retirement budget** – a plan to pay down or pay off existing debt

## Summary

The Who, What, When, Where, Why, and How

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- **Who** – management and the board
- **What** – budget preparation
- **When** – throughout the year
- **Where** – throughout the organization
- **Why** – to help accomplish the vision that God has laid on the leaders' hearts, both past and present
- **How** – through diligent work, effective communication, and an ongoing commitment to financial health



## Measuring Your Ministry's Financial Health



## Measuring Financial Health

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Here are some questions with which you may struggle:

- How do our financial resources compare with other ministries?
- What are the most appropriate key performance indicators?
- Does my organization have adequate financial resources to accomplish its mission?
- Is my organization accomplishing its strategic goals?

## Measuring Financial Health

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### Other questions include:

- Are resources being used effectively?
- Does the organization have adequate cash reserves?
- Is the debt level appropriate?
- Are contributions reasonable?
- Are the expense ratios reasonable?
- What is our unrestricted net income?

## Benchmarking

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One way to help you begin to answer these questions is through benchmarking.

Benchmarking may include a comparison of results:

- Internally and with prior periods (trends)
- To budgeted amounts
- Externally with similar organizations
- With industry standards such as lender expectations

*Good indicators will help the board and management make beneficial decisions for your organization.*

## Monitoring Cashflow – Days Operating Cash and Investments on Hand to Fund Annual Expenditures (Excluding Depreciation)



### Operating Cash and Investments

Total Expenses + Capitalized Interest – Depreciation

(In days: ratio \*365)

- Calculates the days of operating cash and investments on hand to fund annual cash expenditures, **specifically related to very liquid assets**.
- Does not take into account other current assets or liabilities. It also excludes the effect of current income. So it represents what would happen if the organization funded its operations from savings.
- **CapinCrouse Recommended Benchmark:** (40 days – 80 days; **Red Flag:** Less than 20 days)

## Monitoring Cashflow – Net Cash Availability

Total Cash and Investments – Adjusted Current Liabilities (Current Liabilities Excluding Amounts Borrowed on a Construction Line of Credit) – Temporarily Restricted Net Assets



- This measure calculates the amount of cash available for other uses after the organization has satisfied its current liabilities and set aside funds for temporarily restricted projects.
- Answers “**Whose cash is it and how much of it can we spend?**”
- This measure will identify if the organization has “borrowed” from temporarily restricted reserves.
- **CapinCrouse Recommended Benchmark:** At least one month’s worth of cash expenses (expenses excluding depreciation expense); **Red Flag:** Any negative amount.

## Monitoring Debt – Debt to Unrestricted Contributions



$$\frac{\text{Total Debt}}{\text{Unrestricted Contributions}}$$

- This ratio measures how many times debt is greater than annual income used to make mandatory debt service payments. (Excludes restricted giving as these gifts are typically not part of the general operating budget.)
- The lower the ratio is, the less strain debt will be on the organization's budget.
- **CapinCrouse Recommended Benchmark:** (Less than or equal to 2.5; >2.5 to 3.5 is in the warning range; > 3.5 is a **Red Flag**.)

## Monitoring Debt – Debt Coverage Ratio



$$\frac{\text{Change in Unrestricted Net Assets} + \text{Interest Expense} + \text{Depreciation Expense}}{\text{Mandatory Debt Service Payments (Debt Principle and Interest)}}$$

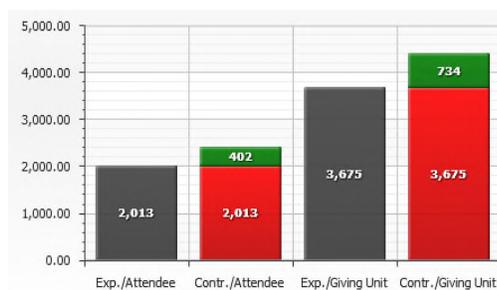
- This ratio is used to determine how many times an organization would be able to cover its current annual debt obligations from current operations. This may factor into the amount of reserves management deems necessary.
- It will indicate if annual debt obligations are too high to be covered by current operations and are placing an excessive burden on the budget.
- The biggest factor impacting this ratio is significant increases or decreases to the change in unrestricted net assets. **CapinCrouse Recommended Benchmark:** (> or = 1.15)

## Monitoring – Giving

Practical ways to monitor giving:

- Giving per donor, which can be segregated multiple ways, such as:
  - Large donations vs. small donations
  - Alumni vs. friends of the university
  - Volunteers vs. friends of the ministry
  - Members vs. non-members
  - Demographically (ZIP code, etc.)
- Number of giving units
- Giving trends
  - Month-to-month
  - Year-to-year
  - Per attendee

## Monitoring Net Position – Contributions per Attendee/ Giving Unit vs. Cash Expenses per Attendee/Giving Unit



Giving Unit = Donors that gave >\$250 in one year

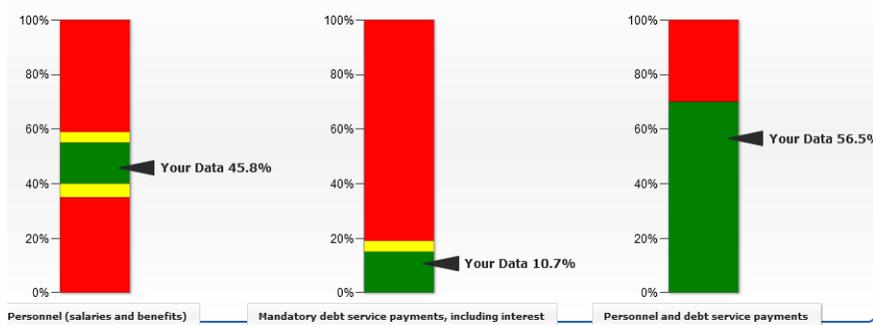
- This comparison looks at the net position between contributions received and cash expense cost per adult attendee and giving unit.
- Answers “Are we taking in enough to cover our cash costs per attendee/giving unit?”
- A negative result indicates the organization is unable to pay its cash costs though current contributions received.
- The key is to determine if this is a one-time situation or a growing, unchecked trend.

## Monitoring – Expenses

### Practical ways to monitor your nonprofit organization:

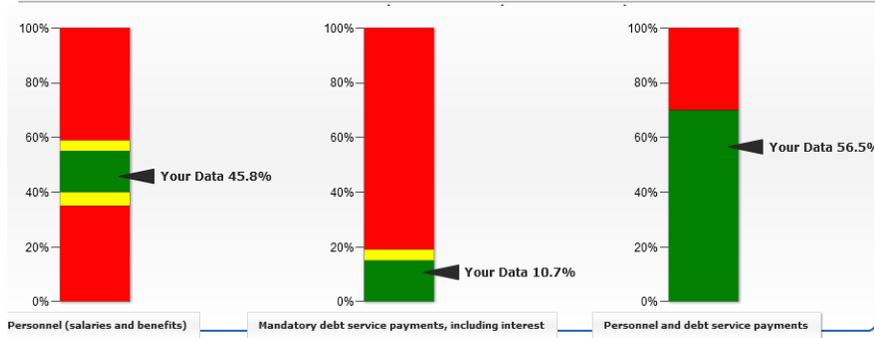
- Are expenses related to the organization's strategy? If not, they may be within budget and still not furthering the ministry.
- Involve the staff — let them know you're watching, but also include them in identifying cost-cutting measures.

## Monitoring – Expenses: Personnel and Mandatory Debt Service Payments to Total Cash Expenses



- Salaries and benefits, interest and debt service payments (*which are not an expense but a reduction of a liability*) represent the majority of the resource outflows. Therefore, it is essential to continually monitor these levels as a percentage of cash expenses (expenses excluding depreciation). These measures allow your organization to see where the operating budget will be utilized.

## Monitoring – Expenses: Personnel and Mandatory Debt Service Payments



### CapinCrouse Recommended Benchmarks:

- Salaries and benefits: 40% – 55%
- Mandatory debt service payments, including interest: 15% or less
- Combined benchmark for both together: 40% – 70%

## Benchmarking Resource for Churches: CapinCrouse Church Financial Health Index™

The screenshot shows the CapinCrouse website interface. At the top, there are social media icons for Twitter, LinkedIn, Facebook, and Google+, along with a 'ShareFile Login' button. The main navigation bar includes 'Who We Serve', 'How We Serve', 'Nonprofit Resources', and 'Join O'. Below the navigation bar is a large banner image with the text 'Empowering' and 'ts™'. A dropdown menu is open, listing various services: 'New Standards', 'Audit and Assurance Services', 'Employee Benefit Plan Audits', 'Nonprofit Tax Services', 'Nonprofit Consulting Services', 'Cybersecurity Services', and 'Church Financial Health Index™'. The 'Church Financial Health Index™' option is highlighted with a red rectangular box.



## Innovative Ministry Metric Concepts



## What should we measure?

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- Just because it can be measured does not mean that it should be
- Recording our activities for improvement
- vs.
- Reporting what God is doing for celebration
- Measure activities that lead to behavior change and results improvement

## Global Missions Ministry Case Study: 5,000 Active Missionaries on the Field

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- Current number of missionaries vs. goal
  - How many missionaries do they need to recruit, at what cost and how much time?
  - How do we improve our process, speed up the time, and lower the cost?
  - By developing baseline database metrics and beginning to measure productivity and effectiveness

## Global Missions Ministry Case Study: XXX Active Missionaries on the Field

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- Current number of missionaries vs. goal
  - Average age and time to retirement
  - Attrition rate and causes
    - Illness – physical, emotional, psychological
    - Temperament – personality and relationships
    - Management – leadership training and oversight
    - Financial – inability to sustain income or steward money
  - Total number of missionaries needed
- How do we plug holes in the missionary bucket?
- How do we add more missionaries to the bucket?
- Where do we find the right missionaries?

## Global Missions Ministry Case Study: XXX Active Missionaries on the Field

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- Recruitment of new missionaries
  - Applications submitted vs. applicant status
  - Applicant status vs. successful candidacy
  - Candidacy status vs. successful fundraising
  - Funded candidate vs. field appointment
  - Field status retention beyond 5 years
- Where did our best missionaries come from?
- Where are we most effective in getting the best qualified candidates?
- How do we reduce the number of ineligible applications or unqualified applicants?

## Global Missions Ministry Case Study: XXX Active Missionaries on the Field

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- Retention of missionaries on the field
  - Implementation of a Missionary Care Program
    - Counsellor – personal, marriage, parenting
      - Mental health priorities –
        - time off, relaxation, fundraising
    - Professional training
      - Fundraising and personal finances
      - Leadership/management
      - Direct ministry training
  - How do we reduce the attrition rate/increase retention?

## Global Missions Ministry Case Study: XXX Active Missionaries on the Field

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- Monitor recruitment and retention costs as a factor of cost to go from X missionaries to 5,000
  - Automating the application process to a web/mobile-enabled process to reduce the number of staff to screen and respond
  - Implement a comprehensive HR/staff application to monitor recruitment to retirement needs/status of missionaries
  - Monitor timeline and cost of application to placement
  - Monitor number of applications per week to meet goal
  - Monitor applicant to placement ratio for improvements

## Church Case Study: Increase Attendance by X, Salvations/Baptisms by Y, and Volunteers by Z

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- What is the financial investment needed to grow your church by 100 regular weekend attendees?
- How many first-time attendees per week?
- How many come back a second time?
- How many come back a third time?
- How many first-time attendees does it take to end up with a regular attendee?
- How much time elapses between a first-time visit and regular attendance?

## Church Case Study: Increase Attendance by X, Salvations/Baptisms by Y, and Volunteers by Z

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- What is the average amount of time that it takes for a new attendee to make a profession of faith?
- What are the factors that play into that decision?
  - Frequency of attendance?
  - Any particular sermon emphasis?
  - Volunteerism?
  - Small group participation?

## Church Case Study: Increase Attendance by X, Salvations/Baptisms by Y, and Volunteers by Z

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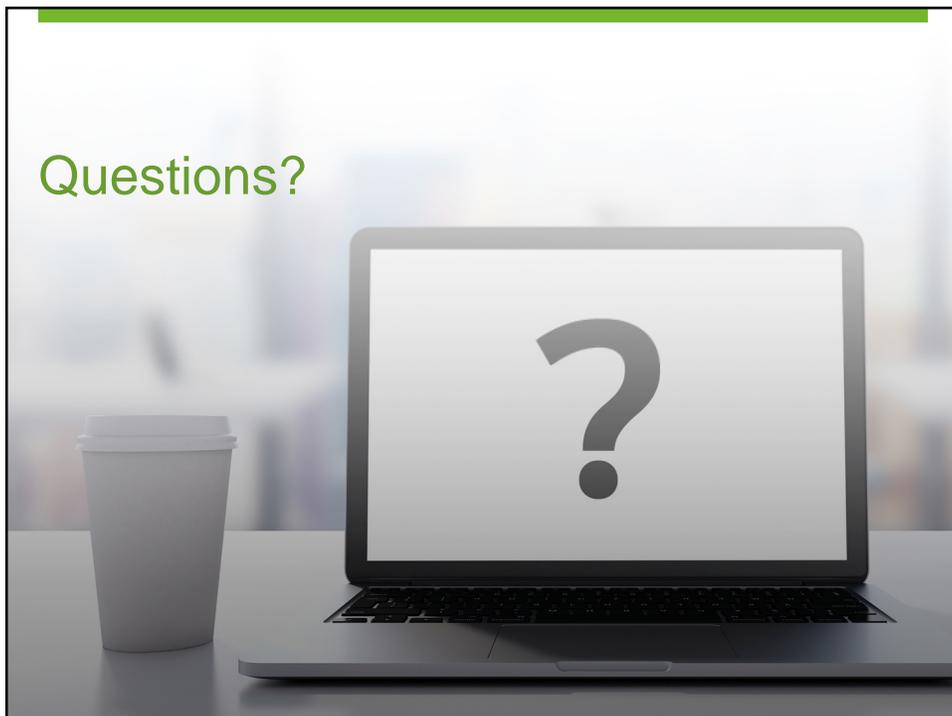
- How long does it take for a new weekend attendee to become a volunteer?
- What are the factors that play into that decision?
  - Frequency of attendance?
  - Any particular sermon emphasis?
  - Volunteerism?
  - Small group participation?

## Church Case Study – Increase Attendance by X, Salvations/Baptisms by Y, and Volunteers by Z

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- How long does it take for a first time adult attendee to become a regular giver that contributes enough to cover the average total cost per attendee?
- First-time gift
- Second-time gift
- Regular giver
- Generous giver

Questions?





Thank you.

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