MONEY & MISSION

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EDITORIAL: FINANCIAL VIABILITY

By R. Paul Goodyear, Territorial Financial Secretary

What does it mean to be financially viable? Adequate revenue to fund day-to-day operations, enough savings for expenses that do not occur annually (e.g. roof replacement, furniture and equipment, etc.), and sufficient working capital to maintain a positive cash balance and provide a 'rainy day' fund.

The Salvation Army internationally has adopted a target for working capital to be at least equal to 90 days' operating expenditures. This means that if you have an annual operating budget of $1 million, you should have about $250,000 in your operating fund balance. 40% of ministry units in Canada and Bermuda are operating without adequate working capital. Some have unique circumstances that allow them to be viable without 90 days' working capital, but most do not.

Unfortunately, many are also struggling with recurring operating deficits, which are eroding their working capital even further, most have inadequate savings for routine capital maintenance and repairs, and some are in a worse position than they were five years ago. Our goal, perhaps a lofty one, is that every unit should be financially viable. So, how do we achieve it?

Unit leaders should carefully examine their revenue and expenses. Opportunities to raise revenues should be pursued aggressively, as should efforts to cut expenses to align with the revenues available. While it is perfectly reasonable to plan for a deficit in a particular year, it is completely unreasonable to incur deficits repeatedly over multiple years without a plan to bring spending in line with the resources available.

Some corps officers never address stewardship and their congregations have no idea that their corps is in financial difficulty: if you expect people to help, you must tell them what is going on. Likewise, executive directors should ensure that their key staff members are fully aware of the situation and can help effect solutions that will place the unit on a more solid foundation financially.

Staff compensation and occupancy costs are the two largest elements of cost for most of our units. If either is too high, the unit can be in trouble. Units should carefully consider staffing levels. Sometimes we are guilty of staffing up to compensate for someone who is simply not up to the job. Does this really represent good stewardship? If we carefully examine the outcomes associated with each position, there can be savings to be found in efficient work practices and tasks that we complete with very little missional value.

Like many church congregations, we are finding that buildings are taking up more and more of our resources as our corps congregations get smaller. The plain reality is that some corps can no longer afford to own a building on their own and should be pursuing other alternatives, such as merging with other corps or sharing space with other churches or community programs.

Is your unit financially viable? If not, what are you going to do about it?

CAPITAL PROJECT FUNDING

By Samantha Moss, Assistant Financial Secretary

If your ministry unit has undertaken any property renovations or purchased a new building recently, chances are you have seen the term "capital project funding" show up in the cash and fund balance sections of your balance sheet. For those who are not familiar with the term, it represents funds that have been committed to a renovation, emergency repair or purchase of a new facility, all commonly referred to as "capital projects."

To simplify the process of managing these funds, a deposit account called capital project funding has been established. In very simple terms, this account can be considered as a separate bank account to hold capital project funds until they are required. These funds can come from a variety of sources – internal ministry unit funds, grants or loans from DHQ or THQ, or funds received from a third party such as government grants or capital appeal donations. Regardless of their source, all funds committed to a capital project through a formal property financial scheme will appear in the capital project funding deposit account.

This method of segregating committed funds allows each ministry unit to easily determine the funds they have available for operating purposes through a quick glance at their fund balances on the balance sheet or in the cash section if they are looking to manage cash flow.

If you're wondering what your ministry unit needs to do to set this up, the answer is nothing! Once the finance department receives word that a financial scheme has been approved, we handle everything. The financial accounting team sets up a unique project ID within Agresso, which is used to track every financial transaction related to the project. We transfer funding from all sources identified in the financial scheme into a capital project funding deposit account. Each week the financial accounting team reviews the invoices that have been processed against the project ID and transfers funds from the capital project funding deposit account into the ministry unit's operating bank account, ensuring that all project expenses are appropriately funded.

CAPACITY BUILDING IN NOT-FOR-PROFIT ORGANIZATIONS

"Capacity building" has been defined as "the process of strengthening an organization in order to improve its performance and impact" or as "actions that improve the organization's effectiveness as it works towards its mission." Every not-for-profit organization, regardless of its size or the particular area of the not-for-profit sector in which it operates, should therefore be interested in building capacity.

There may be distinct capacity building projects, such as improving volunteer recruitment, updating technology, and changing the method of measuring outcomes. Alternatively, existing methods may be applied more efficiently, enhancing the achievement of the organization's mission.

An organization that is building capacity must be oriented to the future: how it can grow in effectiveness in the years ahead. No matter how effective the organization is today, can it absorb changes next month, or next year? For example, the management team may be doing an excellent job, but is it equipped to handle the unexpected loss of the CEO (through resignation or incapacity), i.e., has it paid sufficient attention to succession planning?

In considering the organization's effectiveness in fulfilling its mission, what is meant by "effectiveness"? Some hold the view that there is a need to maximize the proportion of the organization's revenue that is spent on program delivery, and to minimize that spent on what is thought of as "overhead" – management salaries, rent, office expenses, etc. Supporters may even specify that their donations are to be used only for direct program delivery, not understanding how much it costs to run a not-for-profit organization, or that without appropriate structure the organization cannot build capacity.

VERSES FROM THE FINANCIAL STEWARDSHIP BIBLE

Romans 13: 6-7 "You must pay your taxes. The authorities are God's servants, and it is their duty to take care of these matters. Pay all that you owe, whether it is in taxes and fees or respect and honour."

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