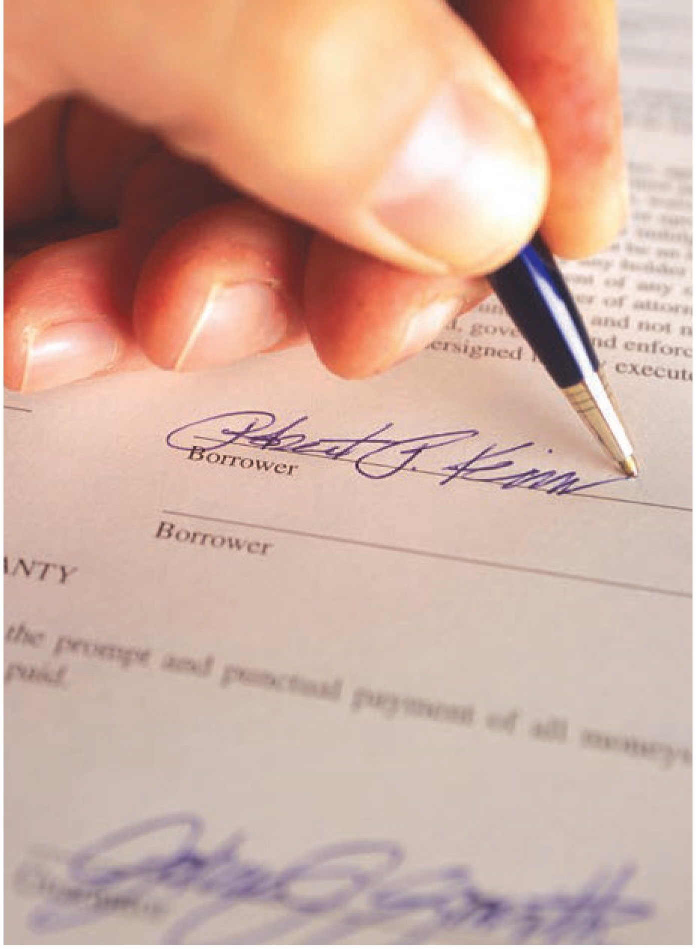
BASIC MINISTRY FINANCE

PRESENTED BY AMERICA'S CHRISTIAN CREDIT UNION

Behind the loan application

What is the bank or credit union *really* looking for?



Developing a strong and trusted relationship with your lender can provide your organization with competitive financing options, access to capital, and a reliable source of advice on financial matters. As your organization looks to begin a relationship with a lender — or maybe improve an existing one — ***having insight into the mind of a lender*** will help you develop this vital partnership.

Here are five strategies your potential lender is sure to appreciate.

#1: Prepare an annual budget. Your budget should be a realistic and conservative roadmap for the year ahead. Although your organization might have plans for growth, we recommend establishing a budget that reflects previous years' financial performance. Rather than being based solely on last year's numbers — or on projected growth for the year ahead — your budget should demonstrate a clear understanding of the financial trends of the organization based on a three-year history. The budget process allows the organization to make strategic decisions about goals, objectives and issues affecting various ministries that might need financial support. Knowing that you have a plan for the good days *and* the rainy days provides your lender an understanding of the financial abilities of the organization and those who manage the finances.

#2: Operate at break-even or better. Creating a budget with a 10- to 15-percent margin allows the organization to operate at break-even (or better) and keep expenses lower than income. When your organization produces positive cash flow, you create a sustainable operation that can handle the fluctuations that nonprofits typically experience.

#3: Build liquidity. Cash is easy to spend, but tough to accumulate. When you create a budget and stick to it, the organization will generate cash by keeping expenses below revenues. Building cash reserves is not just a sound financial management principle; it also provides the organization with a safety net. Cash reserves allow the organization to continue regular operations, even when unexpected events happen or as monthly cash flows fluctuate beyond the normal ranges.

#4: Understand fixed expenses. Knowing your fixed expenses is important because it helps facilitate the conversation around what is discretionary. Mortgage payments, insurance and staff are a few examples of fixed expenses that the organization must meet every month. However, it's important to understand which expenses are able to be quickly eliminated or reduced should the organization encounter lean times. During the Great Recession, ministries were scrambling to reduce expenses as income dropped. Developing a plan demonstrates sound financial management to your lender, the Board, your leaders and your community members.

#5: Exhibit leadership and oversight. Although most churches or schools are started (and sustained) on the vision and guidance of a senior leader, a lack of expertise or oversight in the financial office can be very costly. It's important for these organizations to establish a structure that supports transparency and shared leadership when it comes to money matters. Church and school boards should include non-related members with the skills and experience needed to provide guidance and oversight to the staff. This could also include additional checks and balances provided by independent committees who help develop operational budgets and periodically review the organization's financial statements. A proper leadership and oversight structure will provide protection for the pastor, adequate oversight, shared authority, and a commitment to transparency.

Ultimately, lenders want to feel comfortable that your organization has the planning, the processes and the protocols in place to manage the church's or school's financial operations. Presenting a budget, operating at a surplus, building cash reserves, and having a detailed understanding of how the cash flow of your organization works will go a long way to getting you the best rates and terms.

And if you find the right lender, you will have a trusted partner who is aligned with your values and can be relied upon as you reach for your organization's goals.

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