



## Advisory MEMORANDUM

CALVIN EDWARDS  
& COMPANY

Maximizing the Good of Giving

**To:** The Board of Directors, Teen Mania Ministries  
**From:** Calvin W. Edwards  
[REDACTED]  
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**Date:** January 5, 2012  
**Re:** Recommendations for Teen Mania Ministries

Calvin Edwards Company (CEC) recently completed a *Strategic & Operational Audit (Audit)* and a *Nonprofit Examination (NPE)* on Teen Mania Ministries (TMM). The board of directors requested that, as part of this process, we provide concrete recommendations based on our study of the ministry. This *Advisory Memorandum* provides those recommendations.

Because the scope of the *Audit* was to review the entire operations of TMM in a brief amount of time, we could not analyze any single area in depth. The recommendations provided herein are based on observations and nominal research, not in-depth business analysis. We have focused on identifying prudent measures that may help attract major donors and recommending cogent actions that can strengthen TMM and assist it to achieve its mission. We encourage you to share these recommendations with TMM executives and senior program directors.

Some of the points below have been discussed in our conversations with TMM board members and management; nevertheless, we provide them as a convenient means to review and share them.

### STRATEGY, BRANDING & BUSINESS MODEL

1. **Strategic focus.** A trend of declining participation in TMM's main programs has resulted in cash flow concerns, deterioration in net assets, and an overall position of financial weakness for the ministry. Despite this, Ron Luce has identified several short-term and long-term goals that could direct its focus away from its core programs. Examples are Surge, stadium Acquire the Fire (ATF) events, production of a full-length feature film, and the domestic and international expansion of the Honor Academy (HA). **We recommend** that TMM remain focused on its core competencies, including improving participation at ATF events and HA, until it is on a stronger financial footing. The recent management change in the ATF call center, led by David Hasz, is an example of how focus and skill can generate better impact. Once TMM is operating from a position of financial strength, it could consider a few carefully selected pilots/experiments in new areas. We would propose that "financial strength" be defined as:

- ✓ Each of the three primary programs is generating equivalent or greater income than it did in previous years
- ✓ Fundraising income is growing by at least 15% per year
- ✓ The ministry overall has positive net income

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- ✓ Debt is being paid down on a board-approved schedule so it is eliminated in less than 10 years.
- 2. **Business model.** TMM's business model has historically relied very little on traditional fundraising efforts. In 2011, contributions from fundraising were 3.2 percent of TMM's total income. Even at its highest level in the past four years, 10.2 percent, TMM only recognized a small profit. Direct program revenues do not appear to be adequate to cover program expenses, operating overhead, and necessary capital improvements. In addition, TMM has a negative net asset balance approaching \$3 million that needs to be restored. In order to diversify its sources of funding and thus position TMM for the future, the management and the board need to take action to bring the ministry onto a more sound financial footing (for a definition of this, see point 1 above). **We recommend** that TMM re-assess its business model and consider placing a stronger emphasis on donor development and fundraising to supplement program income. Management should establish a higher annual fundraising goal, increasing it incrementally each year, and provide the human and support resources to enable its achievement.
- 3. **Written strategic plan.** TMM's executive staff did not communicate a clear vision for the future direction of the ministry during CEC's on-site visit. The ministry does not currently have a written strategic plan. **We recommend** that the board, president, and executive staff, after considering its short- and long-term strategic focus (see point 1 above), articulate the vision for TMM's future in the form of a written strategic plan. **We further recommend** that this plan be communicated to all staff in leadership roles and to potential donors. It may be wise to use an outside facilitator to develop and write the plan.
- 4. **Branding & Marketing.** Acquire the Fire (ATF) is TMM's largest program based on the number of youth served and is typically the first contact an individual has with the ministry. ATF is itself well branded, but it does not appear to be co-branded with TMM. For example, there is virtually no mention of TMM on the "Normal's Not Enough" 2011-2012 tour collateral. The lack of a ministry-wide marketing director to guide TMM's overall marketing, and to coordinate the marketing and branding efforts of its individual programs, has contributed to this situation. Also, there is very little co-branding occurring with GE and HA. **We recommend** that TMM consider the potential benefits of aggressively co-branding each program with the ministry. At a minimum, this would tie TMM to ATF in participants' minds; this should assist with recruitment for other TMM programs. It may also help with fundraising. **We further recommend** that TMM develop an integrated marketing strategy under the umbrella brand.

#### HUMAN RESOURCES

- 5. **Presidential succession.** As the founder and leader of TMM, Ron Luce is vital to the ministry. In the event that he is no longer able to continue as president of the ministry, at this time there is no plan in place to deal with his succession. Due to the significance of an organization's key leader, **we recommend** that the board formally create a succession plan for Mr. Luce.

Doing so will alleviate turmoil in the event that this position is vacated unexpectedly.

6. **Ministry leader performance review.** The board has not formally reviewed Mr. Luce's job performance as TMM's president. In accordance with established best practices for nonprofits, **we recommend** that the board review Mr. Luce's performance on an annual basis by preparing a written performance evaluation that is approved by the board and then discussed with Mr. Luce. This review should include an analysis of TMM's mission achievement and Mr. Luce's ability to effectively lead the business operations of the ministry. **We further recommend** that the board's annual review of Mr. Luce's compensation be tied to the results of his annual performance evaluation.
7. **Human resources functions.** TMM's human resources functions are decentralized; some are conducted through operations under David Hasz while others take place through the finance department under Jon Hasz. There is no director of human resources. This is not a best practice for an organization with nearly 100 paid staff and an additional 500+ interns. In addition, TMM has reportedly struggled with turnover in key staff positions. **We recommend** that TMM consider establishing a human resources department with an experienced human resources professional who would mostly likely report to the CFO, Jon Hasz. This would enable better coordination of services for employees, promote efficient use of human capital, facilitate shared resources, and could improve staff retention.
8. **Department directors.** Changes were recently made to TMM's organizational structure, resulting in a ministry-wide marketing director position reporting directly to Ron Luce and a development director position reporting to the chairperson of the board's development committee. These changes demonstrate the priority TMM is placing on raising capital through contributions and improving the communication of TMM's overarching brand. However, the development director position has been vacant since January 2011 and the marketing director position is new and not yet filled. Jennifer Saunier, the development officer, is currently filling the role of the development director, though this is a temporary assignment. **We recommend** that TMM make it a priority to fill the vacant director positions. Ideally, these individuals should be highly qualified, executive-level professionals possessing successful track records in similar positions in the Christian nonprofit sector.
9. **Katie Luce's duties & compensation.** Katie Luce is the director of women for the Honor Academy (HA), a role she has filled from early in HA's history. The written job descriptions for the HA director of women position and the HA director of men position are identical, however, in practice, each has different responsibilities. For her role as director of women, Mrs. Luce works one day per week in the office plus additional hours outside the office. The board has approved Mrs. Luce's compensation at \$15,000 annually for this position; she also receives \$35,000 for other duties related to her role as TMM's co-founder. These duties are not clearly specified and

no written job description for them exists. **We recommend** that the board independently review the compensation received by Mrs. Luce and if necessary, adjust it to be commensurate with the duties she performs. A written job description for each role should be created, including modifying the HA director of women and director of men job descriptions to accurately reflect the different duties of each position. **We further recommend** that Mrs. Luce's job performance and compensation be reviewed annually by the board. To avoid nepotism, or the appearance thereof, Mr. Luce should recuse himself from these analyses.

10. **Travel benefit.** Ron Luce receives a travel benefit from TMM that allows one family member to accompany him on all TMM business trips. **We recommend** that the board assess the cost to TMM of providing Mr. Luce with this benefit and review the appropriateness of this travel policy. A less generous benefit may be sufficient.
11. **Workflow optimization for creative output.** TMM produces videos, multimedia and lighting displays, dramas, and other creative content for ATF productions through the work of staff and interns at CCM and SOW. A series of deadlines ensures that production elements are kept on schedule over a year-long production process. TMM's president is highly involved in providing creative input for ATF (and other) productions and views this role as a crucial contribution to the ministry. However, he has often given input late in the process, sometimes past deadline, when changes take more resources to implement. Last-minute efforts to make these changes have resulted in a decrease in production quality, a stressful working environment, the interruption of HA interns' schedules, and in some cases, contributed to low employee morale and key staff turnover. As part of its annual review of the president's performance, **we recommend** that the board strongly encourage the president to honor deadlines set by the production departments and to become involved earlier in the creative process. Doing so should have a positive impact on both financial and human resources, two areas on which the president would be evaluated (see point 6 above).
12. **Human capital review.** TMM has experienced turnover in key staff positions in recent years. In addition, it incurred a Fair Labor Standards Act violation in 2011 regarding overtime pay to non-exempt employees. In light of these issues, and the other human resources concerns mentioned above (see point 7), **we recommend** that TMM's board consider commissioning a human capital review of the ministry. Such a review could be tailored to address TMM's specific human capital issues, such as the high turnover rate, adequacy of the current organizational structure, the reasonableness of salaries, the necessity for a human resources department, and other issues determined critical by management and the board. Given her professional background in leadership coaching, it would be beneficial for board member Christin McClave to direct this process on behalf of the board and be consulted regarding its design.

**FUND DEVELOPMENT**

13. **Focus on major donors.** As discussed in point 2, with the current level of income from programs, TMM needs to put a greater emphasis on donor development and fundraising. Major gifts provide the highest ROI for the development dollar. **We recommend** that the development department, in conjunction with Mr. Luce and the board, prioritize relationships with potential major donors and polish tactics for making “the ask.” The board could create policies for naming opportunities for large capital projects such as a new cafeteria (see point 17 below). Estate and planned gifts should be considered as a subset of the major gifts program that will develop more slowly. **We further recommend** that TMM secure contractual access to appropriate professional counsel to assist donors who present estate and planned gift opportunities.
14. **Cost-benefit giving.** While TMM has a clear value proposition, it is not always clearly articulated in forms easily understood by donors. An example is the “donate” section of its website, which offers five giving levels (\$25, \$50, \$100, \$300, or a custom donation amount) but no description of what such contributions would accomplish. **We recommend** that TMM review each of its ministry programs to determine the cost-benefit of specific gifts made to underwrite them in terms of a particular product, service, consequence, or result. (To our knowledge, only GE is utilizing this strategy.) An example is: “A \$300 donation to TMM covers the cost of training one youth pastor at a TMM leadership conference.” Care should be taken with wording to avoid making such donations designated gifts so TMM is free to apply web donations to its general fund.
15. **Regular donor program.** Regular donors create a base annuity that over time gives great strength to a ministry. According to TMM, only 40 donors give on a regular basis. After setting aside donors for specific cultivation for major gifts, **we recommend** that TMM take advantage of tactics to engage the balance of the 14,000 constituents from program databases and its 4,000-person donor list to consider becoming recurring monthly or regular donors. Tactics can include social media-driven communications as well as traditional direct mail. These efforts should drive towards hundreds of monthly direct debit-type transactions.
16. **Alumni-focused fundraising.** Thousands of alumni have been positively impacted by TMM programs over the past 25 years. Parents of alumni have also witnessed changes in their children’s lives. TMM has not historically sought out alumni (or parents) for ministry contributions, potentially missing a viable fundraising source. **We recommend** that going forward, TMM give specific attention to alumni as a development opportunity, and develop, test, and refine a sophisticated strategy to cost-effectively raise funds from them. **We further recommend** that if TMM decides to use affinity programs such as regional alumni groups and outreach tactics such as special events to attract and enhance alumni relationships, it design such events to focus on fundraising. In addition, affinity programs should also not over-utilize development department resources.

17. **Mini campaigns & naming rights.** By breaking ministry needs into small, mini campaigns or larger opportunities for major capital projects, donors can more readily see how their funds would be used. **We recommend** that TMM consider using small campaigns, possibly for alumni or another specific donor demographic, to stimulate more giving. Examples of such campaigns include requests to fund new carpet for the HA dormitories, installation of a monitoring system for the campus gates, IT equipment upgrades, or any other number of capital improvements. For larger projects, such as the cafeteria expansion, TMM could use naming rights strategies to attract larger donations.
18. **Use of CEC Reports.** **We recommend** that TMM consider using the *Audit* and the *NPE* prepared by our firm as promotional tools. They can be positioned as objective reports performed by a third-party and commissioned by the board. TMM should obtain “originals” from CEC (for a modest fee) so that color, font, paper, etc. all meet our professional standards. Any “negatives” in the reports could be positioned as opportunities for donor funding or as “positives” if they have been, or are currently being, addressed by TMM. A cover letter could identify which “negatives” have been addressed, how, and with what results, to indicate TMM’s responsiveness to counsel and resourcefulness in making important adjustments in its operations.

#### GOVERNANCE

19. **Board independence.** TMM has eight board members, six of whom are independent—not related to employees or each other by blood or marriage. The two non-independent board members are Ron Luce and his wife, Katie Luce. In order to establish an independent board with no more than one non-independent board member, **we recommend** that the board conduct a search for a qualified, independent board member to replace Mrs. Luce. As a founder of TMM with her husband, Mrs. Luce’s position on the board in the ministry’s earlier years was significant; however, as a mature organization reaching its 25<sup>th</sup> year in operation, TMM should follow nonprofit best practices by having an independent board with not more than one independent member. It could develop an advisory or honorary board where those who are connected to TMM but who are non-independent, such as Katie Luce and former board members, can provide input and insight. Mrs. Luce could still routinely attend board meetings at the pleasure of the board, and her opinion may be sought on various topics.
20. **Board size.** TMM’s bylaws require at least five board members but do not limit the board’s size to a maximum number. **We recommend** that TMM amend its bylaws to reflect a range of 7-15 board members. This range is common practice for nonprofits of TMM’s age and size. With the resignation of Katie Luce from the board (see previous recommendation), the board will have seven members, which is the minimum suggested. Given this, **we further recommend** that the board consider increasing its size by an additional 1-3 new independent members. When conducting a search for board members, we advise that at least 50% of a nonprofit board be comprised of individuals with business or corporate experience. TMM may consider professions such as accounting/banking, communications/public

relations, sales/marketing, law, and nonprofit business executives. TMM may also consider gender, ethnic, and geographic diversity in its board member recruitment, if these are important to TMM's sound governance.

21. **Board term limits.** TMM's board members can serve an unlimited number of 3-year terms. Ron Luce is not subject to any term limitations (he serves as a continuing board member). Ron and Katie Luce have been on the board since inception. Two other board members have served since 1995 and the remainder has served five years or less. Board fatigue is an issue many nonprofits fail to address effectively. A board functions best when it has opportunities to be refreshed by new members and when long-term leadership has time away from board responsibilities to gain perspective. **We recommend** that the board consider amending TMM's bylaws to limit the number of terms members may serve. A board member could serve two terms of three years consecutively and then be required to take at least one year off. The board could then re-elect any former members it deems valuable. **We further recommend** that while Ron Luce may serve an unlimited number of board terms, he should be subject to re-election every three years.
22. **Presidential powers.** Section 5(a) of TMM's bylaws indicates that no person shall be invited to speak, teach, or minister at a meeting held by the corporation without the president's approval. Additionally, the president shall be designated attorney-in-fact by virtue of his office and shall have the authority to appoint and approve any assistants that would be necessary to properly carry on the work of the Lord. These safeguards, which concentrate power in one person and eliminate checks and balances, are not necessary in the bylaws of a seasoned, well-established ministry and may appear to diminish the oversight responsibilities held by the board. **We recommend** that TMM consider removing or revising these presidential powers. If the powers are deemed too important by management and the board to eliminate entirely, TMM could create an internal operating policy on how such powers worked, to replace the reference in the bylaws.
23. **Committee charters.** Each of TMM's board committees is governed by a written charter that details its function and objectives. Though the charters are comprehensive, they do not indicate a publication date. **We recommend** that each charter be initially dated and re-dated when modified so revisions can be tracked easily.

#### FINANCE

24. **Dual check signing.** Currently both Ron and Katie Luce are signatories on TMM bank accounts. The same is true for David and Jon Hasz. When checks of \$1,000 and over are issued, two signatures are required. In practice, this typically occurs with the president's electronic signature plus a second signature by either the chief financial officer (Jon Hasz) or the director of finance. Though not occurring regularly in practice, **we recommend** that due to their family relationship, neither Ron and Katie Luce nor David and Jon Hasz be allowed to jointly sign TMM checks. TMM should establish a policy that outlines this restriction.

25. **Note receivable from His Work Ministries.** The sale of TMM's 50% interest in Creation Festivals in 2010 resulted in the ministry taking back an interest-free note receivable in the amount of \$467,157 from the purchaser, His Work Ministries (HWM), for a portion of the sales price. The balance of the sales price was paid by HWM assuming TMM's note due to Tim Landis, the original seller of the 50% interest. Ron Luce founded and is president of HWM; he and Katie Luce are board members. The payment terms on the note are contingent upon HWM's profitability and are second behind the larger note HWM has with Tim Landis. In 2010 HWM made a \$100,000 payment on the note to TMM; so far in 2011 no payment has been made, however, TMM was told that it would receive \$20,000 by December 31. **We recommend** that as long as there is a balance on the note receivable, TMM require HWM to provide annually, in a timely manner, a copy of HWM's financial statements and Form 990. This will enable TMM to make its own assessment of HWM's ability to make payment on the note and to take action based on its assessment. Because the note is a part of a related-party transaction, it is prudent for the TMM board to pay close attention to the well-being of the receivable.
26. **Access to Form 990 on the website.** TMM's website has a "Finance" section that includes a listing of its financial integrity guidelines, ways that it maintains financial accountability (e.g., membership in ECFA), and a link to the *Annual Report*. To further promote transparency, **we recommend** that TMM add its Form 990s to this section of the website. Form 990 is a public document and though it is accessible by interested parties through Guidestar, it is prudent for nonprofits to make it directly available. Since Form 990 is difficult for most people to understand (especially since the changes in the 2008 form), TMM may consider also providing its audited financial statements.

#### TECHNOLOGY

27. **Data protection.** Currently TMM houses the backup of its digital data in the same room as the primary servers. This includes the databases which are a vital source of information for all of TMM's marketing operations. If disaster should strike, the original data and the backup could potentially both be lost. **We recommend** that TMM immediately move the data backups to a secure location offsite and away from the primary servers. The estimated cost of this change as outlined by the IT department is \$3,500, which is minimal compared to the cost to the ministry if this data were lost.
28. **Customer Relationship Management (CRM) technology.** TMM has four call centers, each recruiting for a different ministry program. The IT department has written a new custom CRM system that is being used by HA, GE, and Extreme Camps, and though planned, is not yet being used by ATF. Thousands of calls are made from these centers on a daily basis. Information is not shared between the ATF and the other call centers, which can result in a youth pastor being called by two TMM call centers in the same day or week. **We recommend** that management prioritize the final integration of the new CRM system in ATF's call center. Not only will this

help eliminate redundancies in program recruitment, it will provide the development department with a comprehensive program database from which to solicit contributions.

#### PROGRAM IMPACT & EVALUATION

29. **Aggregation of program data.** TMM has a strong culture of collecting data from program participants. However, to a large extent this data is not aggregated; rather, it is used by program management to assess individual events or management performance. For example, GE mission trip participant survey responses are tabulated by trip but not aggregated across all trips, ATF pastor survey responses are tabulated by ATF event but not aggregated across all events, etc. **We recommend** that TMM management begin aggregating the program data it collects, using it to study long-term performance trends. Strong historical performance data can be used to measure the impact and effectiveness of TMM's programs toward achievement of the ministry's mission. This data could also be useful in TMM's fundraising communications, marketing materials, annual report, and other collateral.
  
30. **Outcome-based evaluation.** TMM collects certain program-related metrics, such as attendance at ATF events, the number of mission trip participants, numerous statistics on HA interns, salvations at ATF events and GE trips, and other items; however, it does not track program outcomes other than salvations. Concrete evidence of a nonprofit's impact on the participants it serves is vital to the justification of its existence. It is not enough to tell a potential donor what an organization does and how it does it. What TMM has accomplished in the lives of participants bears the greatest weight. Though some of this is accomplished through the surveys TMM conducts (see the previous point), the ministry has not formally defined and collected data on outcomes for its major programs. **We recommend** that over time, TMM assess each of its programs, starting with the three primary programs, to identify measurable outcomes (or indicators of outcomes), and develop a plan to move toward a simple version of outcome-based evaluation. This can be a gradual process, starting with a few outcomes that could be expanded in future years. Outcome-based evaluation results should be used to promote the ministry with existing and potential donors and program participants, parents, and youth pastors.

#### OTHER

31. **Formal response to TMM's financial position.** The economy, staff turnover in key program positions, and weak ATF call center results have all contributed to the poor financial position TMM is in today. The financial situation was also greatly impacted by what turned out to be a poor management decision, the purchase of a 50% interest in Creation Festivals in 2005. This \$4.5 million investment resulted in a \$2.5 write-down in 2008; it also resulted in a \$6 million write-off in 2008 of a pledge receivable from a donor who no longer intended to fulfill the pledge due to his dissatisfaction with the investment decision. At a time when TMM is planning to focus more heavily on fundraising, its financial position may hinder its ability to gain donor support. A discerning donor will quickly see

that TMM is technically bankrupt (its net assets are negative); this is a matter that demands explanation. **We recommend** that the board engage CEC to write a formal and official statement on TMM's current financial situation that directly addresses key issues including the failed investment in Creation Festivals. This would be a "truth telling" document that lays out the facts surrounding TMM's decision to make this investment and other matters affecting profitability. It would portray a comprehensive picture of "where TMM is at, how it got there, and what is being done about it." The document would be explanatory and apologetic. It would promote full transparency to existing and potential donors. CEC would consult with board members and management who were involved in the investment decision to assist with the statement's composition. Though TMM's board could construct such a statement on its own, donors would likely find such a statement more credible coming from an independent third party. We see this document as comprehensive and definitive.

32. **Response to negative ESOAL publicity.** Negative publicity regarding the formerly-named ESOAL event has affected attendance at TMM programs, taken time from important mission-oriented responsibilities, and distracted management's attention. The ministry has taken several measures to respond to this publicity, including: commissioning an ESOAL Oversight Committee, sending a preemptive email prior to a recent MSNBC documentary, creating YouTube and press responses, developing a website response, etc. We commend TMM for addressing the publicity head-on with professionalism and integrity. However, to bring an independent, analytical, third-party perspective to the ESOAL reactions, **we recommend** that the board consider engaging CEC to prepare a document that concisely analyzes the ESOAL complaints and articulates very exacting responses. We envision this document being 6-10 pages in length and in a factual and analytical style. In no way would the tone be emotional, nor defensive. It would clinically state, "Here are the facts . . ." It would aggregate the data within the various responses prepared by TMM into one document, plus add other material. Insofar as possible, it would analyze, and dissect the accusations down to the bare truth and provide critical context for them. This document could be used by management and the board with those who inquire on this topic, such as major donors, parents, youth pastors, and the media. It would be available on the TMM website page devoted to the issue. The benefit of this document is that it would be written by a party independent of TMM, therefore it would provide additional credibility to, and support of, the responses already created by TMM itself.

We have greatly enjoyed our association with TMM and trust that God will continue to bless your work. We believe TMM serves an important and effective role in God's kingdom to evangelize and disciple youth. The dedication and creativity of Ron Luce and the leadership team is impressive.

We hope these recommendations are beneficial to TMM's board and leadership. If you have any questions or need elaboration, please let us know.