

Measuring Your Church's Financial Performance

By Richard Lindley, Senior Manager

How does your church compare with similar churches? What financial issues should you monitor, and how? In this article we'll explore a few of the measurements and ratios that will help you assess your financial health and identify areas for improvement.

There are two ways to compare your church. The first is from within, comparing data from prior years to the current year, and what was budgeted against what was actually spent. You can also look for historical trends, which can indicate underlying changes.

The second method of comparison is with other churches of a similar size in your region. It's important to note that benchmarking against churches that are similar to yours in asset size only may be very misleading. Churches with older properties tend to have smaller property and equipment values due to depreciated property values and lower land costs. It may be more beneficial to compare against churches with a similar average number of attendees (excluding children) and unrestricted revenue amounts.

You can analyze your church against peers internally or by obtaining outside information. Specialized reports such as compensation studies are readily available. You also may be able to obtain valuable ratio and peer information from your accountant or auditor.

Once you have determined the appropriate peer group, it's time to see how your church stacks up. Most churches already measure typical financial ratios such as current ratio (the ratio of current assets to current liabilities) and expenses as a percentage of different categories. Let's discuss a few other measurements that will help you analyze your financial goals and determine outcomes to track.

Days of Expendable Reserves

"Expendable net assets" represents the total unrestricted resources currently available to spend on operations. Think of it as how long you could live on a savings account. It is calculated by dividing your unrestricted net assets (including board-designated amounts but excluding net assets invested in property and equipment) by total church expenses, excluding depreciation. Multiply

that result by 365 to calculate the number of days of reserves your church has.

This measurement will vary during the year, and is typically at its lowest number of days in summer and at its highest in December. Based on experience, we believe a reasonable benchmark for this ratio is 30 to 60 days.

Net Cash Availability

This may be the most important dollar amount provided to your church leadership on a monthly or even weekly basis. Your senior management (pastoral staff), board and finance committee need and want to know how much operating cash is on hand. The most important question is not "How much do we have?" but rather, "How much can we spend?" The answer to those two questions is seldom the same number.

This measurement starts with operating cash and investments and then subtracts the cash required for the immediate future (less than 10 days) and temporarily restricted amounts to determine what can safely be spent. While temporarily restricted net assets are not a legal liability or obligation of the church, these funds are not to be expended for general operating purposes and are therefore excluded from the operating cash balance. Some churches end up essentially "borrowing" from temporarily restricted net assets because they overspent in operations. This calculation will help management identify if this is happening in your church.

We believe the minimum benchmark for this number is greater than \$0.

Debt to Unrestricted Support

Dividing total debt by annual unrestricted contributions measures how much greater your debt is than your annual unrestricted tithes and offerings. Lenders look at debt as being funded by unrestricted contributions over the long term, because those are the main resources from which the church will be able to pay subsequent mandatory debt service payments.

We believe the strongest benchmark is typically a ratio of less than 1.0. Any ratio greater than 3.0 should be interpreted as a red flag, as the debt is probably placing

excessive burden on the budget and is at a level lenders would typically consider too great for the church to support.

Net Asset Position

This ratio measures your church's ability to take on additional debt and is calculated by dividing total liabilities by unrestricted net assets. A ratio of less than 1.0 is excellent. More than 2.0 may indicate that the church is "stressed" or unable to take on further debt.

Percentage of Median Household Income Given

This interesting calculation looks at the estimated percentage of the local median household income your attendees contribute. Simply divide contributions per household by the local county median household income, which is available from the U.S. Census website.

Trends between years in this data are very important, as they allow management and the board to analyze additional giving capacity and monitor giving habits. We believe the benchmark should be a minimum of 2% – 3%. Less than 2% should be a red flag to your church's leadership.

Additional Considerations

Facilities expense measures can vary, depending on the age of your facility and whether you choose to rent or own. For this reason, it is probably best to compare internally rather than against peers. This will give you valuable information over time.

Additionally, with the need to keep up with ever-changing technological advancements, many churches are now wondering what portion of the budget should be allocated to information technology. Some churches compare their IT cost per square foot with their peers, while others look at the cost per attendee to determine what they are spending to connect with attendees. And other churches prefer to measure this per full-time equivalent employee, as most employees have a computer and outsourced IT functions are typically quoted per computer, per month. Many churches are now spending more on technology and using it as a means of additional outreach and ministry.

Final Thoughts

If your church is not using financial measurements and ratios, now is a great time to start. These are just a sample of the ratios you can use. Select a few that align closely with your mission and financial goals and find peers that you can benchmark against. The key is to begin somewhere and adjust as necessary to help your church fulfill its mission.

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