



# 3 Key Indicators of Your Church's Financial Health – Even 4

by Michael Martin

**IS YOUR CHURCH FINANCIALLY HEALTHY?  
HOW DO YOU KNOW?  
WHO CARES?**

Recently, I had the privilege of participating in another Metro Network round table sponsored by The Church Network (TCN), a group including some of the sharpest minds in church administration across the country. (If your church is eligible to participate in the Metro Network and you have not attended one of the round tables, you are missing out!).

During the round table discussion focused on finances; one of the leaders posed this question to his peers: “What are the top 3

metrics you look at to determine the overall financial health of the organization?”

Little time passed before several administrators around the room began chiming in with their churches’ metrics. Soon, a pattern began to emerge through the collective wisdom and experience in the room, and one of the basic principles for church financial analysis was illustrated. Every church shared a separate set of top metrics. In other words, there is no magic list!

The top indicators of overall financial health can and should vary by church. While hearing what other churches are tracking may be instructive, it is not prescriptive.

Why is that the case? For starters, the key measures of financial health should be directly tied to the church’s progress in achieving its own underlying mission and goals. Because every church is in some way unique with respect to its mission and goals, so too should its indicators of financial health.

Also during the round table, the group discussed the importance of tailoring the presentation of this information to match the needs of your audience in that setting. Your congregation, staff leadership, and board or committees will all be looking at financial health from somewhat different perspectives. Your presentation approach and the types of details shared should, therefore, be customized in a way that is

most meaningful to that particular group, whether it be for periodic church-wide updates or for leadership meetings of the staff, board, or committees.

### ARE THERE ANY COMMON THREADS?

Now we have established that churches should be tracking specific metrics related to their church, and we know the presentation of this data should be shared with various groups in different ways.

Even still, at ECFA we would suggest that there are some potential common threads or basic metrics that financially responsible churches across the spectrum are likely tracking. The question submitted to the round table originally asked for the top three metrics, but we could not resist sharing at least one additional as a bonus!

Here they are, in no particular order:

#### 1. Are there adequate cash reserves?

Cash is king. Is there cash to cover all of the restricted (temporary or permanent) net assets? During tight financial times, it can be easy for a church, even unintentionally, to be borrowing against giver-restricted net assets for operating purposes. This creates a problem because the church may not be able to satisfy the purpose or time restrictions on the gifts from donors in a timely manner.

At the lowest cash point in the year (typically end of summer), does the church have at least 2-3 months of cash on hand—in addition to the cash for restricted net assets? In a highly-leveraged church, the number of months of operating cash is likely in addition to cash for mortgage reserves.

Having additional operating cash on hand helps the church respond to unexpected opportunities and meet its bills as they come due (avoiding overdue payment fees).

#### 2. Is church debt at a reasonable level?

Reasonable depends on the size of the church, whether the church is growing or in decline, the giving trends, and more. While the appropriate level of debt varies across churches, we all understand the more debt the church has, the less flexibility it has financially and the more at risk it would be in the event of an unexpected decline in revenue.

#### 3. Is the percentage of total compensation to total operating expenses (exclusive of expenses related to restricted gifts) at a reasonable level?

This usually ranges anywhere from 35% to 60%, with the most common percentage being around 50% of total compensation to total operating expenses. Again, there is not one right or wrong here – the percentage just needs to be appropriate for the congregation's overall financial philosophy and goals. The higher the percentage, the more likely the church will be forced to lay off staff in a downturn. On the other hand, the lower the percentage, the more likely the church is inadequately staffed.

#### 4. After excluding net property, plant and equipment (less related debt), is the unrestricted net assets number positive by a healthy amount?

If your church's financial statements meet accounting standards, your property, plant and equipment (less accumulated depreciation), minus related debt,

is included in your unrestricted net assets. Since churches rarely plan to sell their property, plant and equipment, it is important to exclude this amount minus related debt, when determining the church's financial health.

If your year-end financial statements are prepared by an independent CPA firm, you can request they segregate the portion of the unrestricted net assets relating to net property, plant and equipment, minus related debt, for ease in communicating the portion of unrestricted net assets that are actually available for operating purposes.

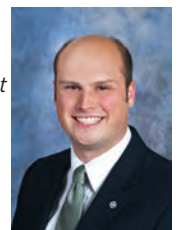
We hope these four general pointers are helpful as you consider the top financial health metrics to be analyzing and reporting in your church.

I mentioned earlier the opportunity to participate in TCN's Metro Network. The group typically meets during the TCN National Conference and two other times throughout the year. Do not miss out on this wonderful opportunity for discussion and relationship-building with peers. To learn more, visit [NACBA.net/pages/metro](http://NACBA.net/pages/metro) or email the facilitator Glenn Wood of Seacoast Church, [glennwood@seacoast.org](mailto:glennwood@seacoast.org).



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