



Shining light on uncommon financial sense

Effective Church Financial Oversight

Growing a church while treating financial administration and risk management as nuisances is like building a home on a landfill.

(Almost) All Risks Are Financial
Or Have a Financial Component

An MBA in 20 minutes

High-Def Leadership

- Mission and purpose
- Strategies, Programs, Initiatives
- Definition of excellence for each
- Mission-based budgeting
- Reporting and monitoring
- Overall risk management

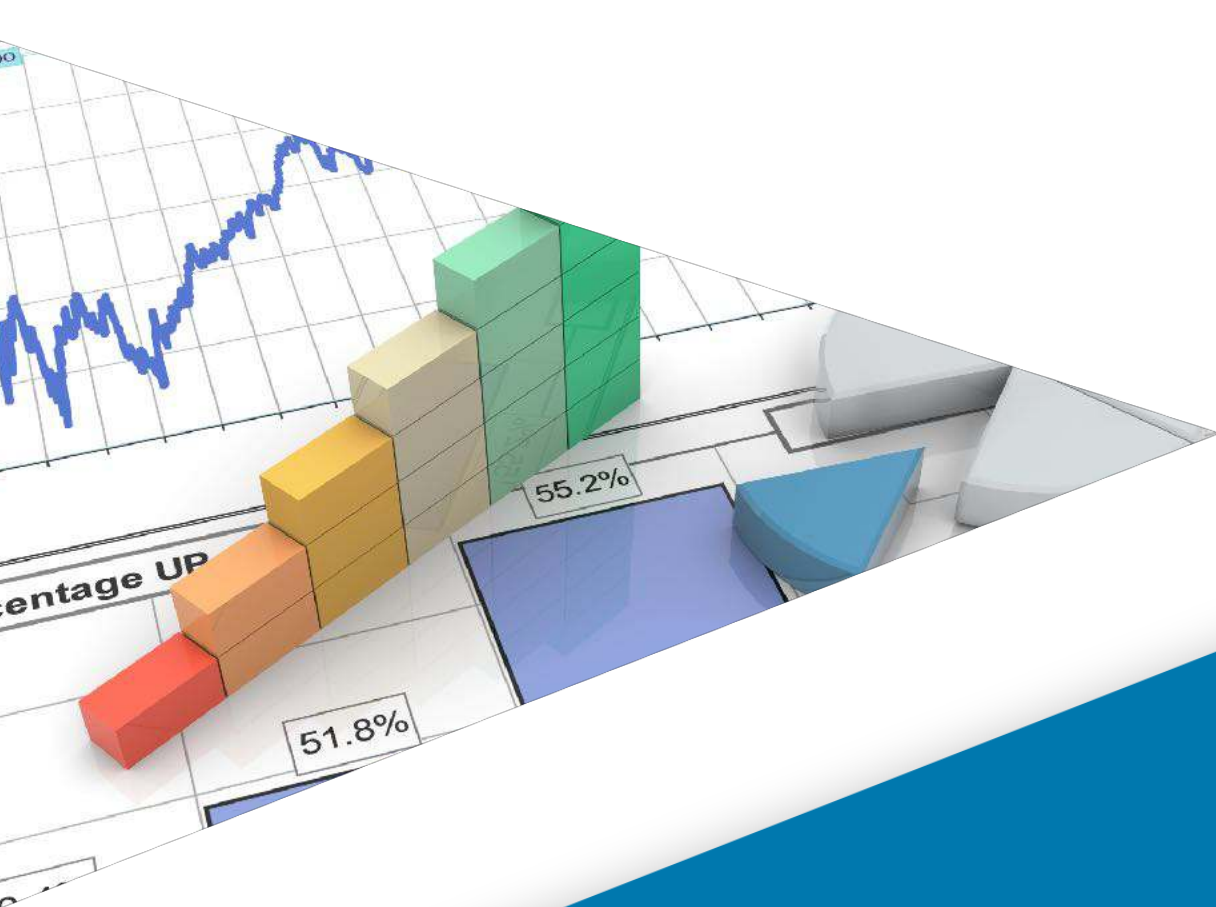
Financial Health

- Is a matter of degree and philosophy
- Is a function of targets and means
- Is best measured with a focus on the balance sheet – assets and liabilities, with a particular emphasis on liquidity

Financial Health

Key point

Have balance-sheet based targets and a plan (means) for achieving/maintaining them. Invariably, that means operating with an appropriate, healthy, cash flow surplus.



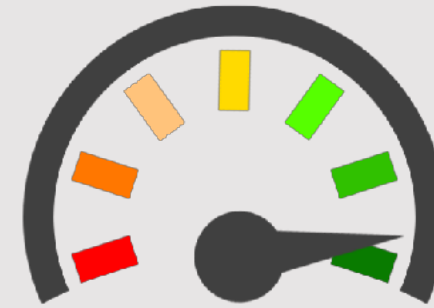
Recommended liquidity and financial position targets

Operating Cash Reserves



SOUND

3 months of operating cash expenses plus current liabilities



STRONG

At least 6 months of operating cash expenses plus current liabilities

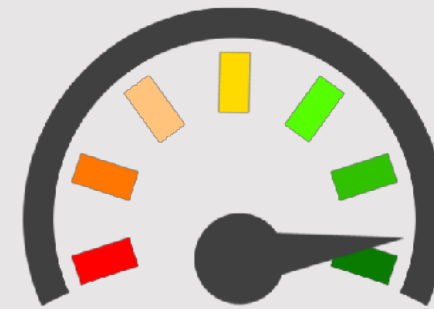
Debt Service Reserves

(for churches with mortgage or other long-term debt)



SOUND

6 months of debt service costs (principal and interest payments)



STRONG

At least one year of debt service costs

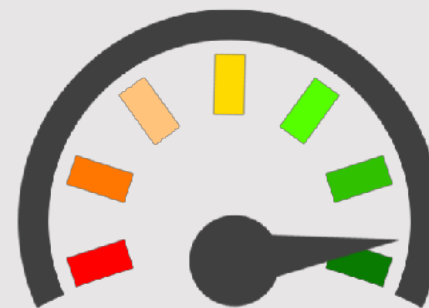
(Special consideration when debt reserves are required as a term of the loan agreement)

Debt Level



SOUND

Total liabilities should not exceed 2.5 times unrestricted net assets



STRONG

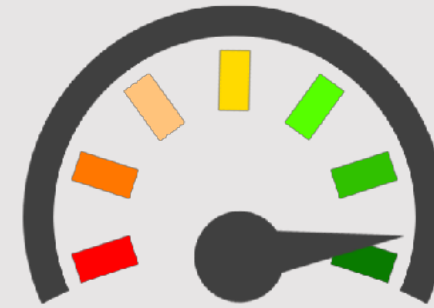
Total liabilities are less than 2 times unrestricted net assets

Loan-To-Value Ratio



SOUND

Debt should not exceed 70% of the current market value of the collateral property

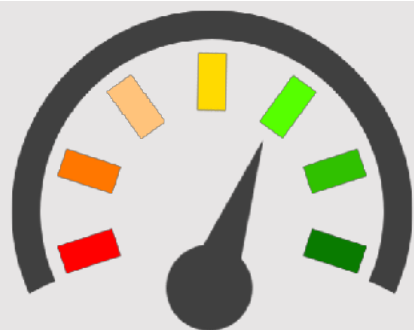


STRONG

Debt is less than 65% of the current market value of the collateral property

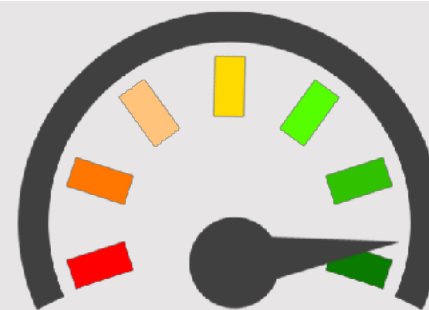
Debt Service

(Note – Debt service payments funded by special gifts or separate funds, such as a building fund or debt service fund, would not be counted in this calculation.)



SOUND

Annual debt service payments (principal and interest) do not exceed 15-20% of the church's annual cash operating expenses



STRONG

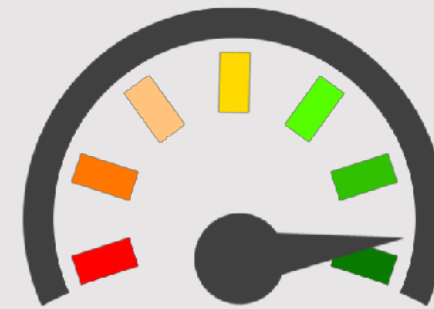
Annual debt service payments do not exceed 10% of the church's annual cash operating expenses

Average Age of Accounts Payable Invoices



SOUND

Average should not normally exceed 25 days



STRONG

Average not more than 15 days

Reporting and Monitoring

Key Point

Use the Q & A model:

- Determine the “key questions” you need answers to on an ongoing basis that will help you carry out your oversight responsibilities.
- Establish a reporting model that addresses those specific questions in a timely manner, utilizing a plain-language format that the overseers can clearly understand.

Reporting and Monitoring

Key Point

Use the Q & A model (continued):

- This principle can be applied to any area of oversight – not just financial. The following 11 questions are part of a 27-question example we created for applying this principle to the area of liquidity and financial position (financial health) for a church.

Questions Those in Financial Oversight Need Answers to on a Regular Basis

1. Is the church's current liquidity sound or strong? How do we know?



Questions Those in Financial Oversight Need Answers to on a Regular Basis

2. Is the trending in the church's liquidity improving or declining? Elaborate.



Questions Those in Financial Oversight Need Answers to on a Regular Basis

3. What is the church's current balance for cash and other liquid assets? What is the balance net of donor-restricted and designated amounts? Provide details.



Questions Those in Financial Oversight Need Answers to on a Regular Basis

4. If current accounts payable and other similar liabilities were paid, how many months of cash operating expenses would the current cash and liquid assets balance (net of donor-restricted and designated amounts) cover?



Questions Those in Financial Oversight Need Answers to on a Regular Basis

4. a) How does the answer to this question compare to the church's objectives for this matter?



Questions Those in Financial Oversight Need Answers to on a Regular Basis

4. b) Is there a plan in place to improve the operating cash reserves balance? What is the plan? How are we doing with respect to implementing the plan?



Questions Those in Financial Oversight Need Answers to on a Regular Basis

5. Is the church paying all of its bills on time? How do we know?



Questions Those in Financial Oversight Need Answers to on a Regular Basis

6. Has the church had any trouble in recent weeks or months meeting its cash flow demands? If yes, elaborate.



Questions Those in Financial Oversight Need Answers to on a Regular Basis

7. Does the church expect to have any trouble in the foreseeable future with respect to meeting its cash flow demands? How do we know? If yes, elaborate.



Questions Those in Financial Oversight Need Answers to on a Regular Basis

8. Has the church borrowed any money to fund regular operations or noncapital outlays? If yes, elaborate.



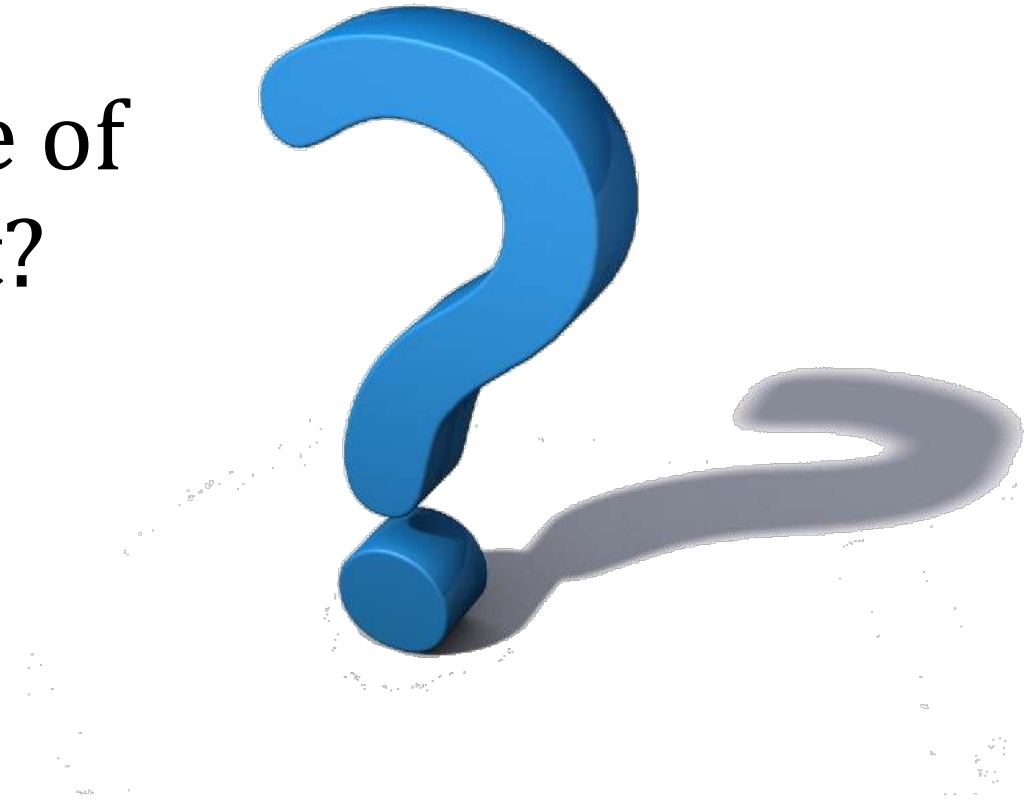
Questions Those in Financial Oversight Need Answers to on a Regular Basis

9. Has the church dipped into donor-restricted or designated cash or investment balances in order to fund operations at any point during the last year? How do we know? If yes, elaborate.



Questions Those in Financial Oversight Need Answers to on a Regular Basis

10. What is the current balance of
the church's mortgage debt?

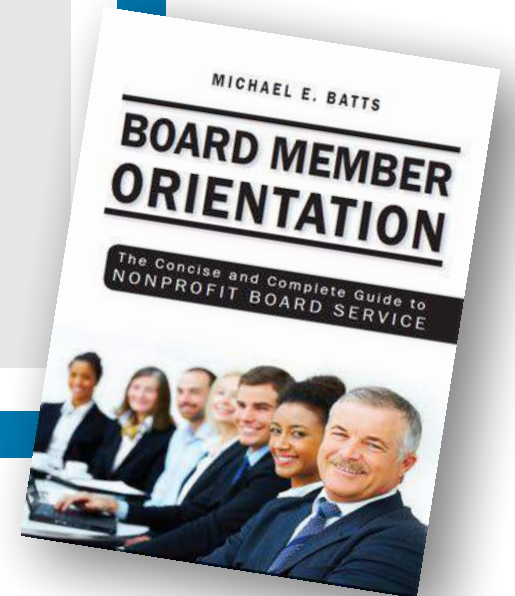
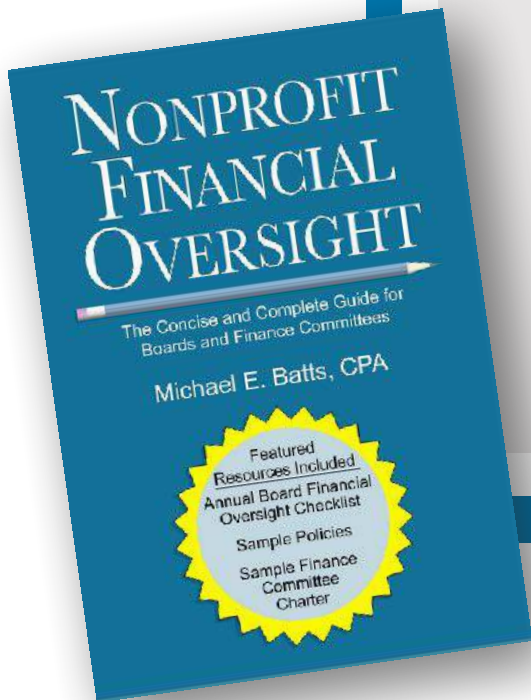


Questions Those in Financial Oversight Need Answers to on a Regular Basis

11. Are debt payments being made in a timely manner, without any difficulty?



All attendees will receive a complimentary copy of *Nonprofit Financial Oversight and Board Member Orientation*.



Please visit BMWL's exhibit booth to pick them up.

You may also request a complimentary subscription to BMWL's Special Alerts, Nonprofit OnPoint articles, and other special updates.

THANK YOU!