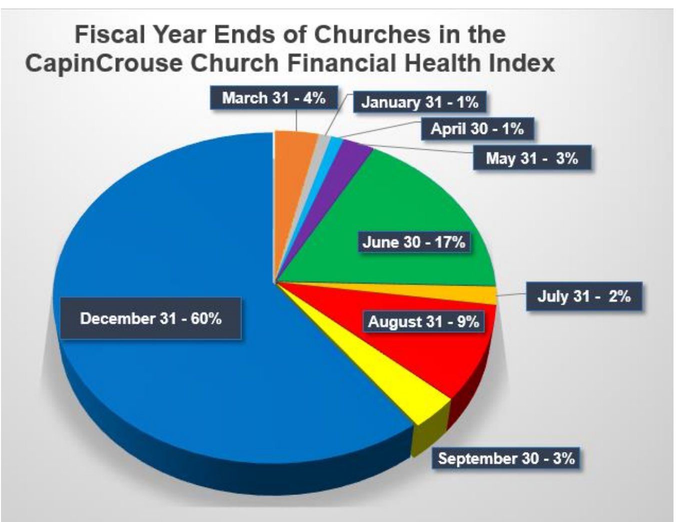
Should Your Church Change Its Fiscal Year-End?

By Richard Lindley, Senior Manager

If your church uses a calendar year-end of December 31 as its fiscal year-end, you may want to consider changing it. A fiscal year-end such as May 31, June 30, July 31, August 31, or September 30 means your church's year-end reporting settles on a date other than the calendar year-end. But why do this? What are the advantages or disadvantages? Do other churches practice this?

We were curious about this, too, so we looked at the year-ends used by churches in the CapinCrouse Church Financial Health Index™ (CFHI) database. A majority have December year-ends:



A fiscal year change would not result in tax consequences for either your church or donors. Setting your church fiscal year-end at a month-end other than December 31 could provide several advantages, but it also could pose several disadvantages. Start by considering both.

Advantages

First, a summer fiscal year-end would better reflect the church's natural business year, since it conforms to the church's natural annual cycle. It moves the year-end to a period when operations and giving are typically at their slowest, thereby simplifying year-end procedures and facilitating a better measurement of income and financial position. It would also give the accounting department the hours needed to adequately perform fiscal year-end closings of the general ledger.

Second, the budget process could be completed during the slower months instead of during one of the busiest times of the year for a church — the holidays. One of the biggest advantages of this change is that it gives departments adequate time to revise their budget when necessary, especially on expense line items. We see many cases in which churches operate behind budget with the expectation that they will catch up in November and December with a strong year-end appeal to meet the budget with year-end receipts. However, a December 31 fiscal year-end does not allow for adequate revisions on expense lines, as they have already been used whether a strong year-end contribution response is received or not.

A December 31 fiscal year-end can also make it appear that your church has a stronger cash position than may actually be true, since churches are often "cash-rich" at a December 31 fiscal year-end as donors make contributions ahead of the tax reporting deadline. Finally, a June 30 or other summer fiscal year-end would allow your church to make not only an annual tax appeal in November and December, but also a May or June appeal that would tie into the end of the fiscal year budget. However, with the changes in the tax law and increase to the standard deduction, there may be less motivation for supporters to make year-end gifts.

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Disadvantages

One potential disadvantage is that you may need to determine how to use both your accounting system and donor system to create the calendar-year reports necessary for any tax reporting for your donors. This will mean you have to produce reports on both calendar and fiscal year-ends, increasing the work for your accounting team.

With a non-December fiscal year-end, you will also need to determine whether you will keep annual salaries and benefit changes on the calendar year or revise them to reflect the new fiscal year-end. This would include performance evaluations, benefits renewals, and salary adjustments, which could affect both your HR and accounting staff.

To change your church's year-end, you will have to do stub period reporting. A stub period is a reporting period that is either shorter or longer than the typical 12-month reporting period. The stub period starts on the first day of the old fiscal year-end and ends at last day of the new fiscal year-end. So if a church that started the year on January 1 wanted to change to June 30, it could have either a six-month reporting period (January 1 to June 30) or an 18-month period (January 1, 201X to June 30, 201Y).

Stub periods are more difficult to budget, and they produce financial information that is not comparable to both the previous and subsequent reporting periods. For example, the 18-month stub period of January 1, 201X to June 30, 201Y would show higher revenues and expenses compared to previous or subsequent fiscal years, primarily because a longer reporting period is being compared to a shorter one. Some churches run a 12-month statement for comparative purposes, but that leaves six months of revenues and expenses out. And which six months do you eliminate? So until the church is one year beyond the new fiscal year-end, it won't have good comparative information. It takes staff a long time to repeatedly explain this, which can be frustrating. Further, if the church has an audit or review, additional procedures (and reporting) will be necessary, which will result in additional fees.

Another disadvantage is that sometimes one key individual (i.e., the senior pastor) is unable to understand how to do the calendar year-end giving appeal when it isn't the church's fiscal year-end.

Other Considerations

If your church has debt covenants, be sure to talk to your lender about how the fiscal year-end change will impact these measures. Covenants that depend on cash reserves may be easier to achieve at December 31 than at another point during the year.

If your church operates a school, a summer fiscal year-end would make more sense so you don't end up with one fiscal year-end for the church and another for the school.

Finally, consider a fiscal year-end that corresponds with the end of a quarter to align with quarterly statements for investments or quarterly reconciliations for items such as 941s.

Before you make a decision to move your fiscal year-end from December 31, it's important to think about the factors above and develop a plan to address them. This would include getting the advice of outside consultants such as accountants and attorneys. And as with any major change, be sure to educate all the stakeholders and address any concerns they may have before moving forward.

With careful planning and implementation, this may be a beneficial decision for your church. Please contact us with any questions or if you would like help evaluating a year-end change for your church.

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