Choosing a Fiscal Year End

By Jim Canning

SOME TIME AGO, I was reviewing the financial statements of a Christian ministry shortly before year-end and noticed that the expenditures for the year exceeded income by a significant amount. When I inquired about this situation, the leader quickly assured me it wasn't a problem, as the organization was just about to enter the holiday season and the shortfall would be made up with year-end giving.

While this may have been true, I questioned the wisdom of routinely spending money before it's received, under the assumption that it will somehow be covered in the future. There's a fine line between faith and presumption.

The important thing is not what date you use, but that it be a time period which best meets your needs and contributes to the efficient and effective management of the organization.

Fundamental to every organization is its annual operating cycle, generally a 12-month period called its "fiscal year." At first glance, it would seem that choosing a fiscal year is a matter of little consequence, merely an IRS requirement. However, it can have a significant impact on the management of a ministry.

Most nonprofit organizations, particularly new ones, simply use the calendar year (Jan. 1 – Dec. 31) for their fiscal year. This coincides with the natural year and is very convenient in most situations. For some ministries, however, a fiscal year other than the calendar year can be beneficial.

Almost every organization has a natural operating cycle, during which there are periods of both high and low levels of activity. A good example would be schools. They generally gear up in summer, go strong through the fall, winter and spring, and then slow down in the summer. Churches often follow a similar pattern, with their busiest time being between October and the beginning of summer.

In such situations, a disadvantage of using the calendar year as the fiscal year is that the organization's year-end falls right at its busiest time. Programs begun in the fall may only be half-completed and still in process. In addition, people are busy with the holidays and it's certainly not the most convenient time to be closing the books and preparing next year's budget. This is why most schools, and many churches, use a June 30 fiscal year-end rather than December 31.

In the above situations, a June 30 year-end has the advantage of making the organization's fiscal year-end coincide more closely with its natural operating cycle. It also allows for the preparation of next year's budget, closing of the books, preparation of Form 990 returns, the annual audit, etc., to be done at a "slower" or more convenient time than in the middle of its peak activity period.

Another important reason for choosing a fiscal year-end other than December 31 is the giving pattern of many ministries. In some organizations, primarily churches, December is the largest giving month of the year, and as much as 40 percent of a church's annual income typically comes in the last three months of the year. This can leave the organization very vulnerable if the total expected income is not received and it ends the year with a deficit. By December, most of the budget has been spent and, if income is less than projected, there's no time for any adjustments.

In the case of a July 1 to June 30 fiscal year, the largest giving months are generally near the middle of the year and, if the income at that time is less than anticipated, the organization still has six months left to either reduce expenditures or raise additional income, in order to balance the budget.

Neither a December 31 or a June 30 year-end will be appropriate for all organizations. Some will have operating patterns best suited to other year-ends, such as September 30. The key is choosing a year-end that coincides with the natural operating cycle of the organization. This helps in both the planning and cash management processes, and places most of the year-end work at a time when it's less likely to interfere with other activities.

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