



How to Change a United Methodist Church Fiscal Accounting Year Resource Guide

Created by Dr. Norma Quinn, Vice President, Horizons Stewardship
and Joe Park, CEO, Horizons Stewardship



About Dr. Norma Quinn

After a number of years in private enterprises, Dr. Quinn entered the ministry in answer to God's call to bring wholeness to people wherever she could. She has combined her business background with a heart for people to live out their Kingdom potential. She has served in large and medium-sized churches, and has successfully led congregations through financial campaigns and multi-million dollar capital campaigns that were only possible through the leading and empowerment of the Holy Spirit. As a Senior Pastor, her vision was to help individuals and congregations see what joy there is in generosity and allowing God to direct the process. Her heart is in helping bring about health in congregations as they live out their call.

Norma earned her Master of Divinity from Brite Divinity School at Texas Christian University and Doctorate of Ministry from the Graduate Theological Foundation.

She and her husband Bryant have three grown children, and three adorable grandsons. They reside in Granbury, Texas.



About Joe Park

Joe joined Horizons in 2002 and became a partner in 2009, following a successful career in banking. Prior to joining Horizons, he served as CEO of Community Financial Group with banking, insurance, and investment presences in seven different cities. He was named one of Arkansas' Outstanding Business leaders by Arkansas Business Magazine, was a recipient of the Sam Walton Business Leader Award and was selected by the Secretary of the Air Force as a Civilian Leader representative to the Air War College. The Community Financial Group received the prestigious Arkansas Governor's award for Most Outstanding Mid-Sized Company for Community Service. He has also held numerous volunteer leadership and board positions in the areas of higher education, community mental health, developmentally disabled, military, business, and community service.

In addition to helping hundreds of churches and numerous foundations and judicatories in the development of generosity, Joe has consulted extensively in vision discernment, strategic planning, change management, process development, church planting, multi-site expansion, and implementation of best practices. He is an avid student of Biblical stewardship and enjoys speaking on matters connecting the business world with Christian commitment. He is passionate about local and foreign missions, especially as they relate to children. The sincerity of his work comes through in every consultation.

Joe earned a degree in Finance and Banking from the University of Arkansas and a master's degree in Business Administration from Boston University.



Table of Contents

- 5 • Introduction
- 6 • What is a fiscal year?
- 6 • Does a fiscal year have to begin on a new calendar year?
- 6 • What is a calendar-based fiscal year?
- 6 • Why have most churches historically used a calendar-based fiscal year?
- 6 • Why are churches moving from a non-calendar fiscal accounting year?
- 8 • Should we change our annual donor reporting to match our new non-calendar fiscal accounting year?
- 8 • What are the steps in converting to a non-calendar fiscal accounting year?



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Introduction

I have been helping churches of many denominations develop cultures of generosity for over 20 years. In that time, I have noticed churches unnecessarily struggle to align ministry planning, funding, and spending by holding on to a calendar year fiscal accounting period that no longer best suites the church.

In the past, the difficulties of reporting annual statistics to denominational headquarters may have been a reason to justify a problematic fiscal accounting year, but no more. Today, all modern accounting systems and Church Management Software Systems will allow the operator to display data in a variety of accounting periods in a matter of moments with just a few keystrokes. Churches can easily send calendar year reports to denominational headquarters while reporting non-calendar year information to their church leaders and congregations.

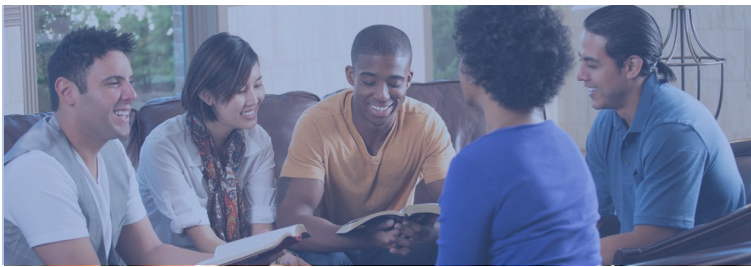
With the exception of the Episcopal Church in America, I am not aware of any other denominational requirements that restrict a local church from internally using a non-calendar fiscal accounting year. There are Episcopal Churches that use non-calendar fiscal accounting years, but to do so requires the approval on the presiding bishop.

There are over 60 denominations in the United States alone, so there may be others who preclude the use of a non-calendar fiscal accounting year. If you belong to one of those denominations, I would appreciate you forwarding to me the language in the denominational operating agreement that would preclude the use of non-calendar fiscal accounting years. I will add them to this document.

You can reach me at jpark@horizons.net.



Joe Park
CEO and Managing Partner
Horizons Stewardship



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1. What is a fiscal year?

A fiscal year is the 12-month period recognized by an organization as their accounting/reporting year.

2. Does a fiscal year have to begin on a new calendar year?

No. According to the US Tax Code and Generally Accepted Accounting Procedures (GAAP), a fiscal year can begin on any day of the year for most organizations.

3. What is a calendar-based fiscal year?

A fiscal year that begins on January 1 and ends on December 31 of the same year.

4. Why have most churches historically used a calendar-based fiscal year?

Most churches have historically used a calendar reporting/accounting year. It is easy to understand why. Most individuals operate on a calendar basis as a result of Internal Revenue Service requirements. Many companies, but certainly not all, use calendar reporting periods. Most denominations require year-end reports of activities of the local church. Before modern accounting and church management software were created, the church would have had to keep two sets of books. This is not the case today, as all modern software systems can generate year-end and non-calendar fiscal year reports simply by changing the date range. While fairly rare, some denominations, including the Episcopal Church, require calendar fiscal reporting years unless an exception is granted. The most common reason churches still use a calendar-based fiscal year is that they don't know they could choose otherwise.

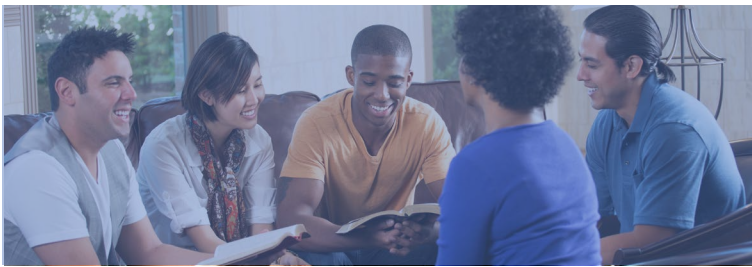
5. Why are churches moving from a non-calendar fiscal accounting year?

The most common reasons churches are increasingly moving from calendar fiscal years to non-calendar fiscal years are:

- Better alignment between ministry planning and ministry budgets
- Improved spending control
- More accurate budgeting
- Better timing for the annual giving campaign

Better Alignment between Ministry Planning and Ministry Budgets

Most churches begin their new ministry years around local school calendars. In the late summer or early fall, new ministries years are launched, children and students are promoted to new age groups, new adult discipleship groups are started, all as households return to a more regular attendance pattern for worship. The challenge of launching a new ministry year in August in a church with a calendar-based fiscal year is that



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ministries are launching plans with only 3-5 months funding remaining in their budgets. For most American churches, a fiscal year that begins in July, August, or September would be needed to align their 12-month ministry plan with 12 months of approved budget to support that ministry plan.

Improved Spending Control

Most churches receive 12-35% of their annual giving in December making it difficult to project what resources are going to be available as churches try to balance giving and spending in the last few days of their reporting year. The unpredictability of year-end discretionary giving further compounds the problem. It is common for churches to be unsure if they will finish the year in the red or the black until the last couple of days of December. In churches who adopt non-calendar based fiscal years, December arrives mid-year, giving the church ample time to adjust spending upward or downward as indicated by giving.

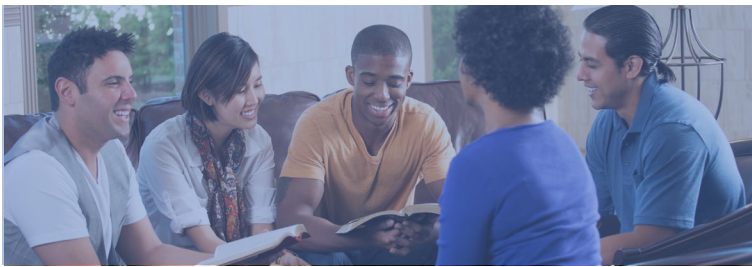
More Accurate Budgeting

Most mainline churches ask for pledges in the fall of each year and attempt to quickly use this data to project actual giving for the coming year. Pledges or estimates of giving are not as reliable for projecting future giving as current giving is. Churches with July to June fiscal accounting years are able to use actual giving from January to June to project income. Increases received from a successful annual campaign become bonus giving in the current year. Another benefit to a non-calendar fiscal accounting year is that the budgeting process takes place in the less busy April to June time frame.

Better Timing for the Annual Giving Campaign

Most churches that conduct annual giving campaigns ask for pledges or estimates of giving in October to November. When the budgeting process is uncoupled from the annual giving appeal, churches are able to move their annual campaigns to January to February, when households are better able to estimate their own annual income.

Horizons views separating budgeting and the annual giving campaign as a best practice because the most effective focus for an annual campaign is the donor's need to give, rather than the church's need to receive. Invariably when the two are intertwined a message gets sent, "We just need this much more to fund our ministry needs." That message speaks to the head of the giver instead of their heart and makes the question "How much more do I need to give so the church can fund its budget?" instead of the better spiritually based question "God, in view of your goodness in my life, how should I respond through my giving?" Abundant research demonstrates the latter results in far more personal generosity and thus greater ministry funding.



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6. Should we change our annual donor reporting to match our new non-calendar fiscal accounting year?

NO! Leave your asking for and reporting of your annual giving on a calendar basis. Households will be confused if you ask them to estimate their giving in a different period than a calendar year. They will be confused if your IRS reporting of their giving does not match the pledge or estimate of giving they shared with the church. Even when using a non-calendar fiscal accounting year, such as July 1 to June 30, the church should continue to report donor giving January 1 to December 31. Modern church accounting and management software makes this easy to do.

7. What are the steps in converting to a non-calendar fiscal accounting year?

- A. The church approves a change in their fiscal year.
- B. The church approves a new budget matching the non-calendar fiscal accounting year, such as July 1, 2020 to June 30, 2021. Depending on when you adopt the change, it may be necessary to adopt a short budget. For example, a church might adopt a January 1, 2021 to June 30, 2021 budget followed by a July 1, 2021 to June 30, 2022 budget.
- C. Most churches do not have to file an IRS notification when changing their fiscal year. In special cases, the church CPA may request the church complete an IRS Form 990. The exception is if your church has already changed its accounting period in the last ten years. In these rare cases, the church would simply file an IRS Form 1128, *Application to Adopt, Change or Retain a Tax Year* to change its accounting period. Please refer to the official IRS publication for specific instructions.
- D. Share the new non-calendar fiscal accounting year and the reasoning for the change with your congregation. This has little impact on the average person in your church, so it is typically shared at the same time you are asking for approval or announcing your new budget. When you share the change, be sure to stress that individual donor gift reporting and pledges/estimates of giving will remain on the calendar year.
- E. If you are part of a denomination that requires year-end reporting of activities, be sure your financial and administrative staff understand how to get data from your accounting software on a calendar basis.

Conclusion

There is always a need to be transparent and fiscally responsible. If changing the accounting period makes sense for your church, it is a fairly straight-forward process. Plan accordingly, and implement strategically. It is always recommended, however, to seek professional legal and accounting advice from a reputable, credentialed professional.