



MEANINGFUL AND  
STRATEGIC  
BUDGETING  
FOR NONPROFITS

PRESENTED BY  
KELLY MCCAULEY, CPA AND SHARON BLITCH, CFO MANAGER

# Why do I need a budget?



- All organizations need a budget - especially nonprofits!
- Annual budgets are a game plan for achieving your company vision
- Grants may require current year financial statements and budget submissions
- Effective budgeting can engage multiple levels of staff and creates a meaningful tool for gauging performance



# How do I get started?

- Budget committees are team sports – involve board members and key staff
  - An executive director pulling an all-nighter to complete the budget before a big board meeting will produce an inaccurate game plan
  - Staff involvement in planning encourages accountability
  - If the team does not contribute to the plan, it is more difficult to hold them accountable to that plan



# When should I start on the budget?

- Don't procrastinate – get to work!
  - Seven months into the fiscal year, a budget committee should be formed and have regular meetings
  - This provides six months of actual data for trend analysis
  - Regular budget meetings are opportunities to discuss organizational goals, what is working and what needs more focus
  - Set hard deadlines for draft budgets, changes and final approvals. Adapt your new game plan on the first day of your new fiscal year!



# Supporting your Vision

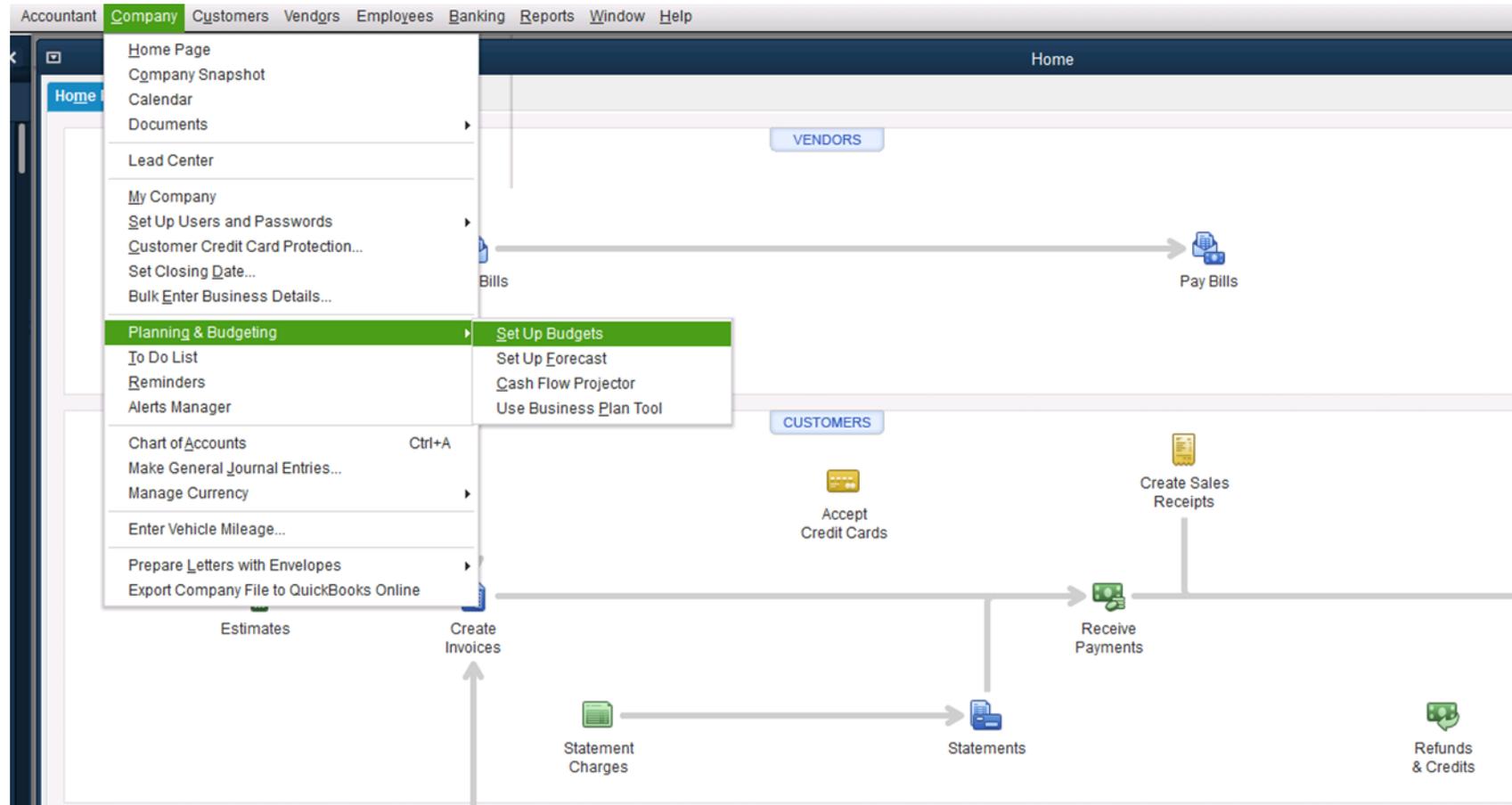


- Understand your baseline – Line up 3 consecutive years of budget vs actual history for context
- Mitigate your risks – Budget realistically for road bumps
- What's new this year - Copy/paste is not your friend!
- Build your budget for your audience – donors want dollar impact, boards want balance
- Create budget divisions based on operating and programs
- Be open to updating your budget mid-year if there is a major change in expectations.

# Let's talk software:

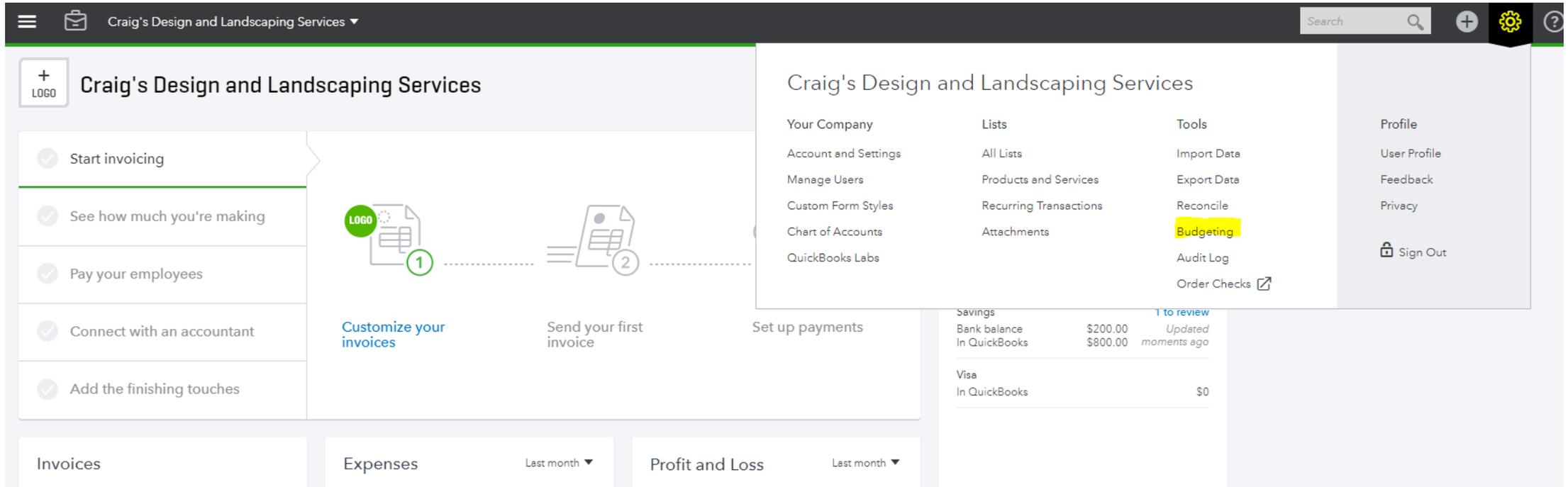


# Setting Up Budgets – QuickBooks Desktop





# Setting Up Budgets – QuickBooks Online



The screenshot shows the QuickBooks Online interface for a company named "Craig's Design and Landscaping Services". The top navigation bar includes a search field and a settings gear icon. A left-hand navigation pane lists various tasks such as "Start invoicing", "See how much you're making", "Pay your employees", "Connect with an accountant", and "Add the finishing touches". A central area contains a workflow diagram with three steps: "Customize your invoices", "Send your first invoice", and "Set up payments". A right-hand navigation menu is open, listing categories like "Your Company", "Lists", "Tools", and "Profile". The "Tools" section includes "Import Data", "Export Data", "Reconcile", "Budgeting" (highlighted in yellow), "Audit Log", and "Order Checks". Below the navigation menu, a summary table shows account balances for "Savings" and "Visa".

Account	Balance	Last Updated
<b>Savings</b>		
Bank balance	\$200.00	Updated moments ago
In QuickBooks	\$800.00	
<b>Visa</b>		
In QuickBooks	\$0	

# Setting Up Budgets – QuickBooks Online

**New Budget** ✕

Name \*  Fiscal Year FY2018 (Jan 2018 - Dec 2018) ▼ Interval Monthly ▼ Pre-fill data? No ▼ Subdivide by Don't subdivide ▼

ACCOUNTS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
▼ INCOME													
Billable Expense Income													
Design income													
Discounts given													
Fees Billed													
▼ Landscaping Services													
▼ Job Materials													
Decks and Patios													
Fountains and Garden Ligh...													
Plants and Soil													
Sprinklers and Drip Systems													
Total Job Materials													
▼ Labor													
Installation													
Maintenance and Repair													
Total Labor													
Total Landscaping Services													
Other Income													
Pest Control Services													

Next

# How Budgets are Used by the Board

- As previously discussed, the budget committee sets the budget each year. This committee often includes the CFO, executive director, and Treasurer of the board, for example.
- The budget serves as a benchmark to gauge the organization's performance throughout the year.
- It is advisable for the Treasurer to report the financial results to the board at each meeting, highlighting any major differences between actual vs. budgeted numbers.



# Example of Budget vs. Actual Comparison

A	B	C	D	E	F	G
	Current Period Actual	Current Period Budget	Current Period Budget Variance	Year-to- Date Actual	Year-to- Date Budget	Year-to- Date Budget Variance
<b>Revenues</b>						
Individuals	5,000	5,500	(500)	30,000	33,000	(3,000)
Businesses	10,000	9,200	800	60,000	55,200	4,800
Grants	20,000	18,600	1,400	120,000	111,600	8,400
Fundraising Events	4,200	4,500	(300)	25,200	27,000	(1,800)
Interest Income	250	250	-	1,500	1,500	-
<b>Total Revenues</b>	<b>39,450</b>	<b>38,050</b>	<b>1,400</b>	<b>236,700</b>	<b>228,300</b>	<b>8,400</b>
<b>Expenses</b>						
Salaries	35,000	34,500	500	210,000	207,000	3,000
Supplies	1,000	1,100	(100)	6,000	6,600	(600)
Utilities	500	450	50	3,000	2,700	300
Insurance	1,000	1,100	(100)	6,000	6,600	(600)
Fundraising Expenses	1,500	1,000	500	9,000	6,000	3,000
<b>Total Expenses</b>	<b>39,000</b>	<b>38,150</b>	<b>850</b>	<b>234,000</b>	<b>228,900</b>	<b>5,100</b>
<b>Net Income/(Loss)</b>	<b>450</b>	<b>(100)</b>	<b>550</b>	<b>2,700</b>	<b>(600)</b>	<b>3,300</b>

# Presenting Budget to Outside Parties

- Your budget will be reviewed by outside parties, often as part of a funding request.
- Make sure that your budget is user-friendly.
- Keep amounts recorded to “Miscellaneous” expense lines to a minimum.
- Anticipate questions regarding large swings in certain line items budgeted from prior year to current year.
- Be able to explain large differences in actual revenues/expenses vs. budgeted.

# BONUS: Tax Tips – Income Tax Filings

- All nonprofits should file with the IRS each year. There are 3 options depending on the organization's gross receipts and assets.
- 1. Form 990-N (a.k.a. 990-N e-Postcard) is an eight-question, electronic return that nonprofit organizations may file if their gross receipts (total revenue from all sources in a fiscal period) are normally equal to or less than **\$50,000**.
  - An organization's gross receipts are considered to be \$50,000 or less if the organization:
    - Has been in existence for 1 year or less and received, or donors have pledged to give, \$75,000 or less during its first taxable year;
    - Has been in existence between 1 and 3 years and averaged \$60,000 or less in gross receipts during each of its first two tax years; and
    - Is at least 3 years old and averaged \$50,000 or less in gross receipts for the immediately preceding 3 tax years (including the year for which calculations are being made).



# BONUS: Tax Tips – Income Tax Filings

- Form 990-EZ is a shortened version of the full Form 990. Nonprofit organizations may file this if their gross receipts are less than **\$200,000** and their total assets are less than **\$500,000**.
- Form 990 must be filed if gross receipts are equal to or greater than **\$200,000** or the total assets are equal to or greater than **\$500,000**.

Form <b>990-EZ</b>	<b>Short Form</b> <b>Return of Organization Exempt From Income Tax</b> Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations)	OMB No. 1545-1150 <b>2018</b> <b>Open to Public Inspection</b>
<p>▶ Do not enter social security numbers on this form as it may be made public. ▶ Go to <a href="http://www.irs.gov/Form990EZ">www.irs.gov/Form990EZ</a> for instructions and the latest information.</p>		
<p><b>A</b> For the 2018 calendar year, or tax year beginning _____, 2018, and ending _____, 20</p>		
<p><b>B</b> Check if applicable:</p> <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Final return/terminated <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending	<p><b>C</b> Name of organization <input type="text"/></p> <p>Number and street (or P.O. box, if mail is not delivered to street address) <input type="text"/> Room/suite <input type="text"/></p> <p>City or town, state or province, country, and ZIP or foreign postal code <input type="text"/></p>	<p><b>D</b> Employer identification number <input type="text"/></p> <p><b>E</b> Telephone number <input type="text"/></p> <p><b>F</b> Group Exemption Number ▶ <input type="text"/></p>
<p><b>G</b> Accounting Method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual Other (specify) ▶ <input type="text"/></p>		
<p><b>H</b> Check <input type="checkbox"/> if the organization is not required to attach Schedule B (Form 990, 990-EZ, or 990-PF).</p>		
<p><b>I</b> Website: ▶ <input type="text"/></p>		
<p><b>J</b> Tax-exempt status (check only one) – <input type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) ( ) ◀ (insert no.) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527</p>		
<p><b>K</b> Form of organization: <input type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other</p>		
<p><b>L</b> Add lines 5b, 6c, and 7b to line 9 to determine gross receipts. If gross receipts are \$200,000 or more, or if total assets (Part II, column (B)) are \$500,000 or more, file Form 990 instead of Form 990-EZ . . . . . ▶ \$ <input type="text"/></p>		

Form <b>990</b>	<b>Return of Organization Exempt From Income Tax</b> Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations)	OMB No. 1545-0047 <b>2018</b> <b>Open to Public Inspection</b>
<p>▶ Do not enter social security numbers on this form as it may be made public. ▶ Go to <a href="http://www.irs.gov/Form990">www.irs.gov/Form990</a> for instructions and the latest information.</p>		
<p><b>A</b> For the 2018 calendar year, or tax year beginning _____, 2018, and ending _____, 20</p>		
<p><b>B</b> Check if applicable:</p> <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Final return/terminated <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending	<p><b>C</b> Name of organization</p> <p>Doing business as</p> <p>Number and street (or P.O. box if mail is not delivered to street address) <input type="text"/> Room/suite <input type="text"/></p> <p>City or town, state or province, country, and ZIP or foreign postal code <input type="text"/></p>	<p><b>D</b> Employer identification number <input type="text"/></p> <p><b>E</b> Telephone number <input type="text"/></p> <p><b>G</b> Gross receipts \$ <input type="text"/></p>
<p><b>F</b> Name and address of principal officer: <input type="text"/></p>		
<p><b>H(a)</b> Is this a group return for subordinates? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><b>H(b)</b> Are all subordinates included? <input type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach a list. (see instructions)</p>		
<p><b>J</b> Website: ▶ <input type="text"/></p>		
<p><b>K</b> Form of organization: <input type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other ▶</p>		
<p><b>L</b> Year of formation: <input type="text"/></p>		<p><b>M</b> State of legal domicile: <input type="text"/></p>

# BONUS: Tax Tips – Common Issues



- Much of Form 990 is made up of informational questions regarding policies and procedures.
- Make sure that you are updating answers to the questions each year if applicable.
- Many outside parties, including organizations such as Charity Navigator, are reviewing your Form 990 to evaluate your organization's performance and to check for changes in answers to informational questions versus prior years.
- In-kind donations (i.e. donated services and facilities) should not be recorded in Part VIII as revenue or in Part IX as expenses. Items such as donated advertising or the use of materials, equipment or facilities are recorded in the organization's financial statements prepared using generally accepted accounting principles but they are excluded from Form 990.

# BONUS: Tax Tips – Compensation Reporting on Form 990



- Compensation reporting is an area of confusion for many. There are steps to undergo to determine which individuals must be reported on Form 990, Part VII, Section A. For individuals listed here, their compensation must be disclosed as well.

Form 990 (2018) Page **7**

**Part VII Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors**

Check if Schedule O contains a response or note to any line in this Part VII

**Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees**

**1a** Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year.

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation. Enter -0- in columns (D), (E), and (F) if no compensation was paid.
- List all of the organization's **current** key employees, if any. See instructions for definition of "key employee."
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee, or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations.
- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations.
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations.

List persons in the following order: individual trustees or directors; institutional trustees; officers; key employees; highest compensated employees; and former such persons.

Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee.

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(1) .....		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
(2) .....		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
(3) .....		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			

# BONUS: Tax Tips – Compensation Reporting on Form 990

- Step 1: Identify those legally in charge of the filer as “trustee” or “director”. “Current” trustees or directors are those who were members of the organization’s governing body (with voting rights in that body) at any time during the tax year being reported on.
  - Director – Unless otherwise provided, a member of the organization’s governing body at any time during the tax year, but only if the member has any voting rights.
  - Governing body – The group of one or more persons authorized under state law to make governance decisions on behalf of the organization and its shareholders or members, if applicable. The governing body is, generally speaking, the board of directors (sometimes referred to as board of trustees) of a corporation or association, or the trustee or trustees of a trust.



# BONUS: Tax Tips – Compensation Reporting on Form 990

- Step 2: Identify those who were legally in-charge of the filer (or considered to be effectively in charge) as an “officer”. Current officers are those individuals who held position in the organization as an officer at any time during the tax year being reported upon.
  - Officer – Unless otherwise provided, a person elected or appointed to manage the organization’s daily operations at any time during the tax year, such as a president, vice-president, secretary, treasurer, and in some cases, board chair. **For purposes of Form 990, treat the organization’s top management official and top financial official as officers.**
  - Top financial official – The person who has ultimate responsibility for managing the organization’s finances, for example, the treasurer or chief financial officer.
  - Top management official – A person who has ultimate responsibility for implementing the decisions of the organization’s governing body or for supervising the management, administration, or operation of the organization (for example, the organization’s president, CEO, or executive director).

# BONUS: Tax Tips – Compensation Reporting on Form 990

- The individual signer of any Form 990 that was signed during the tax year now being reported upon is an officer required now to be included as an officer due to the fact that they undertook an officer's duty (of signing a tax filing).
- The preceding two categories (trustee/director and officer) are not mutually exclusive. Individuals are to be reported with both statuses for the tax year as appropriate.





# BONUS: Tax Tips – Compensation Reporting on Form 990

- Step 3: Identify which employees need to be disclosed on the reporting year's return as having had significant responsibilities equating to status as "key employees".
  - Key employee – An employee of the organization who meets **all three** of the following tests applied in the following order:
    1. \$150K test. Receives reportable compensation from the organization and all related organizations in excess of \$150K for the calendar year ending with or within the organization's tax year.
    2. Responsibility test. The employee:
      - a. Has responsibilities, powers or influence over the organization as a whole similar to those of officers, directors, or trustees;
      - b. Manages a discrete segment or activity of the organization that represents 10% or more of the activities, assets, income, or expenses of the organization, as compared to the organization as a whole; or
      - c. Has or shares authority to control or determine 10% or more of the organization's capital expenditures, operating budget, or compensation for employees.
    3. Top 20 test. Is one of the 20 employees (that satisfy the \$150K Test and Responsibility Test) with the highest reportable compensation from the organization and related organizations for the calendar year ending with or within the organization's tax year



# BONUS: Tax Tips – Compensation Reporting on Form 990

- Step 4: Identify which employees had remuneration of a magnitude that places them onto the reporting year's return as being in the pool of five highest compensated employees.
- “Five highest compensated employees” are one of the five highest compensated employees of the organization (including employees of a disregarded entity of the organization), other than current officers, directors, trustees, or key employees, whose aggregate compensation the organization and related organizations is greater than \$100,000 for the calendar year ending with or within the organization's tax year.

# BONUS: Tax Tips – Compensation Reporting on Form 990

- Step 5: Identify any **former** directors or employees that must be reported on the tax return, if:
  - The organization reported the individual on any of the organization’s prior tax return, for any one or more of the 5 prior years in one of more of the following capacities: officer, director, trustee, or key employee, and
  - The individual received reportable compensation, from the organization and/or related organizations, in the calendar year ending with or within the organization’s current tax year in excess of the threshold amount (\$100,000 for former officers and key employees, \$10,000 paid to former directors and trustees for services rendered in their former capacity as directors or trustees).
  - Also, a former employee who was previously on of the “five highest compensated employees” is still reported if their reportable compensation exceeded \$100,000 in the calendar year ending with or within the organization’s current tax year and if they would have been one of the top five compensated employees if they were an employee in the tax year.

# BONUS: Tax Tips – Compensation Reporting on Form 990

- Many organizations are not reporting all required compensation on Form 990, Part VII, Section A.
- Make sure you are providing updated information to your tax preparer each year regarding new officers and highly compensated employees.





*Thank You*  
**SME CPAS**

SME CPAS