

INCOME STATEMENT *kit*

FINANCE UNLOCKED
FOR NONPROFITS

Nonprofits plan for the future and then regularly check reality against this plan. An income statement is a financial report showing operating results over a specific time period. *It is also known as a Statement of Activities or Profit & Loss Statement (P&L).*

KNOW

Above all, a nonprofit board member should understand these five INCOME STATEMENT concepts:

- ✓ **Period of Time:** A set, recurring time increment over which an income statement reports. Can be over a month, quarter or year. It is often "YTD," or Year to Date.
- ✓ **Budget:** Your financial plan, usually for the coming year. It includes an estimate of income and expenses, considering both fiscal accountability and mission priorities. The budget should be reviewed and approved by the Board of Directors.
- ✓ **Actuals:** True financial results; numbers that show what has actually happened. Actual income and expenses may differ from those budgeted or projected.
- ✓ **Reporting:** Presentation of meaningful financial information to internal decision makers (management, Board) or external users (funders, donors, banks, etc.). Internal reporting needs to be done on a consistent, timely basis, and reports should facilitate informed decision-making. External reports should meet any specific requirements and be reviewed with an eye to how they portray your organization.
- ✓ **Revenue Diversification:** Using multiple funding sources to hedge against financial instability. Multiple funding streams protect organizations against significant program interruption that may come from the sudden change or loss of one funding source.

KNOW MORE

- ✓ **An Income Statement (Statement of Activities) may look different if being shared with an external audience.** You may choose to highlight what is restricted.

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- ✓ **Nonprofits have two main types of income.** **Revenue** includes resources that resulted from an exchange transaction, such as program or service fees, ticket sales/event income, and investment income. **Support** comes from resources for which no services or goods were exchanged, such as grants, contributions, and in-kind donations.
- ✓ **Nonprofits have many of the same expense categories as other organizations** (wages, operating expenses, and marketing). Unlike other organizations, they are also required to track expenses by functional classification: program services, administration, or fundraising. This classification is required on the Form 990.
- ✓ **Nonprofits should track in-kind donations on their books** because these donations have value and nonprofits need to plan for a scenario in which those items are not donated but need to be purchased.

PRACTICE

Test your knowledge on how to read the Income Statement using the sample on the next page:

1. What is the period of time that is being compared?
2. How is the year doing relative to budget?
3. Are there are large variances?
4. Is the income statement formatted and at the right level of detail to give us the information that we need? What else would you want to know?
5. Would this income statement be shared with funders? Would it provide the right level of information for their needs?
6. How diversified are the funding streams? Is the budget overly dependent on a single revenue stream?

Answers

1. January 1 – September 30, 2017 against the 2017 budget (January-December 2017).
2. They are \$17,135 below budget through the end of September 2017.
3. Yes. There is a large variance in support. They budgeted to get \$50,000 from the FUN Foundation and only received \$15,000. Other support, revenues and expenses are generally on track as compared to budget.
4. (Open to interpretation.)
5. Yes, it has the right level of detail for most funders.
6. The funding streams are pretty well diversified. They seem somewhat dependent on grants, especially those from the FUN Foundation, which are about 23% of total support and revenue.

**A REALLY GREAT NONPROFIT ORGANIZATION
(SAMPLE) STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2017**

	YTD Actual	YTD Budget	Budget Variance \$	Annual 2017 Budget
Support				
Contributions	\$ 75,626	\$ 66,370	\$ 9,256	\$ 88,494
Foundation grants-FUN Foundation	15,000	50,000	(35,000)	50,000
Foundation grants - other	25,850	33,750	(7,900)	45,000
Government grants	31,956	24,643	7,313	32,857
Special events	5,055	4,583	472	27,500
Total Support	153,487	179,346	(25,859)	243,851
Revenue				
Admissions	29,759	28,320	1,439	37,759
Membership fees	9,480	9,375	105	12,500
Interest income	1,675	1,725	(50)	2,300
Gain (loss) on investments	1,659	1,275	384	1,700
Other revenue	674	413	261	550
Total Revenue	43,247	41,108	2,139	54,809
Total Support and Revenue	196,734	220,454	(23,720)	298,660
Expenses				
Salaries, benefits, & taxes	144,764	143,073	1,691	190,764
Occupancy (rent, utilities)	24,686	24,911	(225)	33,214
Program expenses	11,081	18,061	(6,980)	24,081
Professional fees	10,659	11,250	(591)	15,000
Supplies	5,749	6,205	(456)	8,273
Printing	6,832	7,373	(541)	9,830
Insurance	1,386	1,264	122	1,684
Fundraising	2,237	1,811	426	5,433
Interest	1,865	1,867	(2)	2,490
Miscellaneous	684	713	(29)	950
Depreciation	2,138	2,138	0	2,850
Total Expenses	212,081	218,666	(6,585)	294,569
Excess (Deficit)	(15,347)	\$ 1,788	\$ (17,135)	\$ 4,091
Beginning Net Assets	316,834			
Ending Net Assets	\$ 301,487			

ASK

Now look at your own organization's Income Statement. Ask the same questions and use the **Income Statement Pulse** on page 5 to document your answers. Keep track of your answers over your next few board meetings to see how your answers change over time.

- What is the period of time that is being compared?
- How is the year doing relative to budget?
- Are there are large variances?
- Is the income statement formatted and at the right level of detail to give us the information that we need? What else would you want to know?
- Will this income statement be shared with funders? Does it provide the right level of information for their needs?
- How diversified are our funding streams? Is our budget overly dependent on a single revenue stream?

ACT

These are the Income Statement-related actions that you can take to instill a strong nonprofit finance culture within your organization.

- Review the income statement each month for significant variances, anything unusual or any unexpected trends. Don't be afraid to ask questions! Understanding variances is important, but the real Board work is any action that may need to be taken.
- Compare the story you are hearing about your organization (Executive Director reports, committee reports, development, newsletters, etc.) to the income statement and ask questions when the two seem inconsistent.
- Scrutinize your current reports: Are we getting enough detail? Too much detail? Are variances calculated for us? What could make them more meaningful? Once you have made any improvements, consistent monthly reporting is crucial.
- Now that you understand what income you have, develop strategies for diversifying funding sources. Research what other organizations are doing to diversify income.
- If funds are diverse but the amounts coming in are not consistent, what can you do to increase the reliability of these funds?
- If your funds are diverse and consistent, is it time to start thinking about new program investments or investing in reserves?

INCOME STATEMENT PULSE

	Key Questions	Date	Date	Date	Date
Period of time	What period of time are we reviewing? Is this frequent enough?				
Budget vs. Actuals	How are we doing relative to our budget?				
Variances	If there are large variances, why? Are we taking action related to variances?				
Reporting	Is our income statement formatted and at the right level of detail to give us the information that we need?				
Reporting	Does the income statement that we share with funders provide the right level of information for their needs?				
Diversification	How diversified are our funding streams? Are we overly dependent on a single revenue stream?				
Trends	Are there any trends or changing relationships that we should consider in reviewing this income statement?				
Action steps	Make a note of any actions that you are going to take before your next meeting.				

FURTHER RESOURCES

An Executive Director's Guide to Financial Leadership

<https://nonprofitsassistancefund.org/resources/item/executive-directors-guide-to-financial-leadership>

Jacobson Jarvis: "What Board Members Need to Know About Not-for-Profit Finance and Accounting"

<https://jjco.com/resources/jjco-booklets-useful-links/>

Financial Statements Review Checklist

<https://jjco.com/wp-content/uploads/2017/06/Financial-Statements-Review-Checklist.pdf>

Budgeting

Budgeting: A Guide for Small Nonprofit Organizations.

<http://www.vscpa.com/Content/Files/vscpa/Documents/2011/Budgeting.pdf>

Budget Checklist

<https://nonprofitsassistancefund.org/resources/item/10-step-budgeting-checklist>

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