



Finance Unlocked for Nonprofits

Income Statement

Speakers: Val Thomas-Matson, Executive Producer of Look, Listen and Learn TV, and Jennifer Chang, Director of Learning at Nonprofit Association of Washington

00:00:00 Video description: *Finance Unlocked for Nonprofits. A video of a padlock that opens when the second number in the combination, 2 Income Statement, is entered. The animation fades to black, and videos of the speakers fade in side by side with Val on the right, Jennifer on the left. Val is an African American woman wearing a light blue cowl neck blouse. She is sitting in her home office. Jennifer is a light-skinned, multiracial woman with long dark brown hair. She is wearing a navy blue shirt, and behind her is a light blue curtain.*

00:00:09 Val: Hi, welcome to the Finance Unlocked for Nonprofits video series. We're here today to talk about the income statement. So Jennifer, what can you tell me about the income statement?

Video description: *The FUN padlock appears at the bottom of the screen with the speaker's name, Val Thomas-Matson, under the video.*

00:00:21 Jennifer: The income statement is another basic financial report that every board member should get regularly. To make things confusing, this report has multiple names. The report is called the income statement, and it's also known as the statement of activities, profit and loss, or P and L. These are many names for the same report.

Video description: *The FUN padlock appears at the bottom of the screen with the speaker's name, Jennifer Chang, under the video.*

While the balance sheet provides a snapshot of a moment in time, the income statement summarizes the income and expenses of an organization during a period of time that could be over a month, quarter, or year. The time period is often reflected as YTD or year to date.

00:01:01 Val: In the previous video, we learned that the balance sheet is always arranged in the same order. So, how is the income statement set up?

00:01:12 Jennifer: The income statement has a lot of flexibility with how it can be organized, which is great. You can use the income statement in a way that is best for your organization.

Although the format may be adjusted, generally the income statement will have information related to the budget, actuals, income, expenses, and budget variances present on the report. Income – support and revenue coming into the organization – is shown at the top of the report. While expenses – resources going out of the organization – are at the bottom of the report.

00:01:46 Val: Okay, you mentioned a few other items there besides income and expenses. Where do those details show up?

00:01:55 Jennifer: You'll have a column called actual. The actuals are the true financial results – the numbers that show what actually happened. There will be another column for budget numbers, which is an organization's financial plan, usually for the coming year. The budget is a plan that should include estimates of income and expenses, and it should consider both financial accountability and mission priorities.

There is another column for the budget variance. This is a measure to quantify the difference between budgeted and actual numbers. This number helps us look at what actually happened against what we budgeted.

00:02:34 Val: Alright, the budget lays out what we say we're going to do, the actuals represent reality, and budget variance is just the difference between the two. Okay, I have a general idea of what to expect on the income statement, but what am I supposed to look for when I review the income statement?

00:02:56 Jennifer: Board members should review the income statement monthly for significant variances, anything unusual, or any unexpected trends. Understanding budget variances is important, and the real board work is determining any action the organization may need to take.

You also want to compare the story you are receiving about the organization from things like executive director reports, committee reports, or fundraising reports to the income statement. Ask questions when items seem inconsistent or don't line up.

00:03:28 Val: Say I get an income statement, and I notice that we budgeted for \$50,000 in foundation grants - and we've actually only received \$15,000, should I be concerned?

00:03:41 Jennifer: That is a significant variance and something you would want to understand. You want to ask questions to understand why the actual is different from what was planned. The budget variance column is something you want to pay attention to. Whether your organization is doing better or worse than planned, you should ask questions to understand why you're off from the plan and figure out if there is any action to take.

00:04:05 Val: I know the income statement will show the nonprofits two main types of income – support and revenue. How important is it for a nonprofit to have diverse revenue sources?

00:04:16 Jennifer: Nonprofits need to think intentionally about revenue diversification. Board members should ask questions to determine if the organization is overly dependent on a single revenue source, which could be an individual donor or foundation.

Multiple sources of funding help with financial stability and protect against substantial program interruption that may come from a sudden change or loss of a significant funding source.

00:04:42 Val: Jennifer, is there anything else we should know about the income statement?

00:04:46 Jennifer: Yes, you want to make sure the board receives an income statement with the right level of details for your organization's needs. The report should not be a long scrolling experience full of tiny details. Board members may struggle to focus on the important items and may get stuck on little things, while missing the bigger picture. You want to bring the report up to the right level for board members to ask good questions and make informed decisions. If got my pick, the income statement would fit on one page.

Anything that needs to be calculated, like the budget variance, should be done before the board members receive the report. We want board members to focus on asking questions and engaging in discussion that will support the executive director and organization, not doing the math.

Lastly, you may want to consider including a short summary in words to accompany the income statement. This can really help people follow along with the numbers.

00:05:43 Val: Okay, so rather than an epic novel we're hoping for an informative blogpost. I've learned so much about the income statement, and I'm looking forward to our next conversation on the IRS Form 990.

00:06:00 Video description: *The videos of the speakers fade to white. Finance Unlocked for Nonprofits. The FUN padlock with a combination 1 Balance sheet, 2 Income Statement, 3 Nine-Ninety, 4 Giving, 5 Oversight. When the combination is entered, the lock opens.*

Nonprofit Association of Washington, Jacobson Jarvis & CO PLLC Certified Public Accountants, In partnership with Washington Secretary of State Corporation & Charities Division.

nonprofitwa.org/learn

00:06:16 Video description: *The screen fades to black. 3 Choices Creative Communications. 3greatchoices.com.*