



Income Statement

CHAPTER OUTLINE

1. What is an income statement?
 - A. How is an income statement structured?
 - B. Sample income statement
2. What do I need to know about the income statement?

Chapter 2 Summary: Income Statement

INTRODUCTION

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. This financial report provides an opportunity to examine the actual income and expenses in comparison to the planned budget.

1. WHAT IS AN INCOME STATEMENT?

An income statement is a financial report that summarizes the income and expenses of an organization during a period of time. This report is also known as a statement of activities or profit and loss statement. The income statement shows financial information over a period of time, which is a set, recurring increment that could be over a month, quarter, or year. The time period is often reflected as “YTD” or year to date.

A. How is an income statement structured?

Unlike the balance sheet that is always arranged in the same order, the income statement may look different if being prepared for sharing outside the organization with external audiences. For example, you may choose to highlight what is restricted. Although the format may be adjusted, generally the following items are present in some way on the income statement.

BUDGET: This is an organization's financial plan, usually for the coming year.

- The budget includes an estimate of income and expenses, considering both fiscal accountability and mission priorities.
- The budget should be reviewed and approved by the board.

ACTUALS: True financial results – numbers that show what actually happened.

Actual income and expenses may differ from those budgeted or projected.

INCOME: Nonprofits have two main types of income – support and revenue.

- Support comes from resources for which no services or goods were exchanged, such as grants, contributions, and in-kind donations. (See Chapter 4. Giving for more information.)
- Revenue includes resources that resulted from an exchange transaction, such as program and service fees, ticket sales/event income, and investment income.
- In-kind donations represent the gift of nonfinancial goods or professional services. Nonprofits should track in-kind donations on their accounting books. In-kind donations have value and nonprofits need to plan for scenarios in which those items are not donated and need to be purchased.

EXPENSES: Nonprofits have many of the same expense categories as other organizations (e.g., wages, operating expenses, and communications). Unlike other types of organizations, nonprofits are also required to track expenses by **functional classification** in addition to their natural classifications.

- Functional classification groups expenses according to their purposes like program services, administration, or fundraising. This classification is required on the IRS Form 990. (See Chapter 3. Nine-Ninety for more information.)

BUDGET VARIANCE: This is a measure to quantify the difference between budgeted and actual figures for a particular accounting category.

YTD Actual — YTD Budget = Budget Variance

- In general, a financially favorable budget variance is when the actual income is higher than the budget and actual expenses are lower than the budget.

B. Sample income statement

In this section, there is a sample income statement and short activity to apply the ideas learned thus far.

A REALLY GREAT NONPROFIT ORGANIZATION (SAMPLE) STATEMENT OF ACTIVITIES SEPTEMBER 30, 2024				
	YTD Actual	YTD Budget	Budget Variance \$	Annual 2024 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
Return on investments	1,659	1,275	384	1,700
Other revenue	674	413	261	550
Total Revenue	41,572	39,383	2,189	52,509
Total Support and Revenue	195,059	218,729	(23,670)	296,360
Expenses				
Salaries, benefits, & taxes	144,764	143,073	1,691	190,764
Occupancy (rent, utilities)	24,686	24,911	(225)	33,214
Grants to others	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
Communications	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)	(17,022)	\$63	\$(17,085)	\$1,791
Beginning Net Assets	316,834			
Ending Net Assets	\$299,812			

**ACTIVITY**

Review the sample income statement and respond to the following questions.

**Answers are on page 46.*

Question	Response
1. Assuming the fiscal year starts on January 1, what is the period of time being compared in the income statement?	
2. For the period of time identified, how is the organization doing relative to the budget?	
3. Are there any large budget variances? If yes, are the variances in the income, expenses, or both?	
4. Could this income statement be shared with funders? Would this statement provide the right level of information for a funder's needs?	
5. How diversified are the nonprofit's funding streams? Is the budget overly dependent on a single revenue stream?	

2. WHAT DO I NEED TO KNOW ABOUT THE INCOME STATEMENT?

As a nonprofit board member, you should understand the following income statement concepts.

- **The income statement is a report showing financial results over a period of time.** The period of time can be a month, quarter, or year, and is often reflected as YTD or year to date.
- **An income statement should include details on the budget, actuals, income, expenses, and budget variances.**
- **Internal reporting** to board members, key staff, etc. should be completed on a consistent, timely basis, and reports should facilitate informed decision-making.
- **External reporting** to funders, donors, banks, etc. should meet any specific requirements outlined by the requesting party and should be reviewed with an understanding that your financial reports tell a story about your organization.

- **Think intentionally about your nonprofit's revenue diversification.** Multiple sources of funding help ensure financial stability and protect against substantial program interruption that may come from a sudden change or loss of a significant funding source.

There are income statement-related actions that you can take to develop and instill a strong nonprofit finance culture within your organization.

- **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. If you have questions after reviewing the income statement, do not be afraid to ask for more information.
- **Compare the story you are receiving about the organization** from things like executive director reports, committee reports, or newsletters **to the income statement.** Ask questions when items seem inconsistent.
- With an understanding of your nonprofit's income, **develop strategies for diversifying sources of funding.** Research what other organizations are doing to diversify income.



ACTIVITY

Your turn: Review your organization’s most recent income statement. Here are some questions to ask yourself. Use the space provided to write down your answers and any action steps. Consider asking these questions across several board meetings to see how your answers change over time.

Ask yourself...

Period of Time:

- What period of time is captured?
- Is the period of time frequent enough for the board and organization’s needs?

Budget vs. Actual:

- How is your organization financially doing relative to your budget?

Budget Variances:

- Does the income statement show any large budget variances? If yes, why?
- Is the board and organization taking action related to the budget variances?

Reporting:

- Is the income statement formatted and at the right level of detail to give you and the board the information needed for informed decision-making?
- What format changes or additional information could make the income statement more meaningful?

Revenue Diversification:

- How diversified are the organization’s funding sources?
- Is the organization overly dependent on a single revenue source?

Notes & Next Steps



1. The income statement is a report that shows the organization’s financial results – actual income and expenses compared to the budget – over a period of time.
2. Nonprofits have two main types of income – support and revenue. Also, nonprofits are required on the IRS Form 990 to track expenses by both functional classification, which groups expenses according to purpose, and natural category.
3. All board members should receive and review the organization’s income statement monthly. Review the income statement for significant budget variances, anything unusual, or any unexpected trends.
4. Multiple sources of funding help ensure financial stability, ultimately protecting the organization from operating issues that may arise from a sudden change or loss of a significant funding source.



Here are some questions to think about:

Reflections

- In reviewing the income statement, are there any trends or changing relationships the board should consider?
- How diversified are your nonprofit’s funding sources? Is your nonprofit’s budget overly dependent on a single revenue source? Are the funding sources consistent and reliable?
- If your nonprofit’s revenue is diverse and consistent, what opportunities exist for new program investments or investing in reserves?



Next steps:

- Use your income statement to tell a story. At your next board meeting, instead of asking “Do you have any questions?” think about a prompt like “What is one observation that you had after reviewing the financial report?” Then invite each board member to share their one observation to build a financial story together.
- Learn more about budgeting for nonprofits with resources from the [National Council of Nonprofits](#) and [Propel Nonprofits Budgeting: A 10-Step Checklist](#).