

3 Huge

Revenue And Expense Facts For

Nonprofits

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Who Will Benefit from This eBook?

This eBook is intended for board members, executives and leaders, bookkeepers, office managers, or anyone else responsible for the integrity of their organization and the financial systems that are being used for organizations.

Introduction

In a for-profit business, reconciling the money in and out is relatively straightforward. The business can use revenue from any source to pay their bills. In a nonprofit organization, restrictions on revenue can make balancing the budget a bit trickier.

If your organization has funds that must be used for a specific purpose or program, it cannot use the money for something else.

Therefore, it is essential for every nonprofit to keep track of revenue sources and refer to that data whenever financial decisions are made. Failure to do so can lead to a shortfall, even though the organization has money.



Revenue Categories

Building a steady and dependable stream of funding requires nonprofits to tap many different sources. In general, nonprofits receive revenue in two ways: **contributions and earned revenue.**

Contributions are generally what comes to most peoples' minds when they think of nonprofit funding. Contributions are funds given to the organization by donors with no expectation of a direct return. That doesn't mean a contribution is a gift. Because donors often want to control how their money is used, some contributions come with strings attached. The organization must recognize and follow the restrictions laid out by the donor. Contributions fall into three broad categories:

- **Unrestricted funds** are available immediately and have no limitations on how the nonprofit can use the money. The organization can use the money for expenses such as payroll, operations, or investments. Examples of unrestricted funding include an individual writing a check to their favorite charity or revenue collected from a general fundraiser.

- **Temporarily restricted funds** have stipulations on how the organization can use the money, when it becomes available, or a deadline by which it must be spent. This type of funding includes grants, scholarships, fundraisers organized with a specific purpose, and individual/corporate donations earmarked for a specific program or cause. The nonprofit must meet the qualifications, or the donor has the legal right to demand a refund.

For example, a nonprofit animal shelter that applies for a grant to spay or neuter pets for low-income owners cannot use the money to fund other operations.

- **Permanently restricted funds** typically come from long-term sources of funding

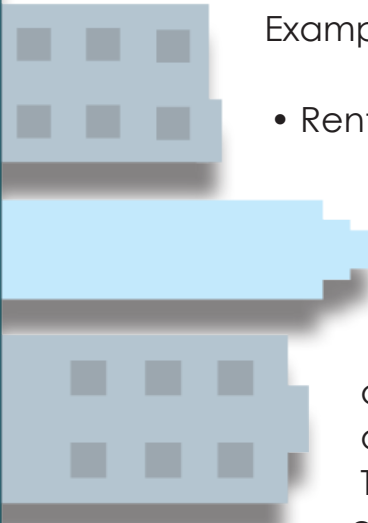


Contributions

EARNED REVENUE

such as endowments. The nonprofit receives an asset that earns interest and holds it as a permanent investment. The organization cannot sell the asset or, in the case of a financial endowment, use the principal. The revenue for this type of contribution comes from earned interest. It is possible for endowments to be both permanently and temporarily restricted. For example, a donor may create an endowment and stipulate the organization use the interest for a specific purpose.

- **Earned Revenue** comes from an exchange of goods or services, much like any business. Income from earned revenue is considered unrestricted. Examples include:



- Rent from a building leased to another party.
- The sale of fundraising items such as clothing, food, and other merchandise.
- Services provided to customers such as admission to an attraction, museum, or collection operated by the nonprofit. This can also include services donated by contributors and resold.
- Royalties from intellectual properties or patents held by the organization.

DETAIL BOX

How Denali Fund can help your nonprofit

The system allows you to establish a robust chart of accounts and define parameters for each fund. You can customize your chart of accounts to meet your needs.

A screenshot of a software window titled "GL Set Up Funds". The window contains a form for setting up a fund. The "Fund Number" is 300, and the "Description" is "Government Funds to improve". The "Fund Transfer Type" is "Restricted", the "Present Period" is "10 - 10/1/2010 - 10/31/2010", and the "Fund Starting Date" is "01/01/2010". The "Last Processed" date is "12/31/2010". Below the form, there are several rows of data for "General Ledger Accounts":

Account Type	Code
Due to	9300 - 010 - 01 - 300
Due from	1999 - 010 - 01 - 300
Reserved for Encumbrances	3500 - 010 - 01 - 300
Unreserved for Encumbrances	3500 - 010 - 01 - 300
Retained Fund Balances	3990 - 010 - 01 - 300

Expenses

While nonprofits vary widely in their mission and organization structure, we can break down their expenses by type.

Operating expenses are costs the nonprofit incurs just to keep the doors open. They generally fall into two categories:

- **Fixed expenses** are the same every month. Examples include rent on leased office space, static utility costs such as internet access, and payments on fixed-rate loans and insurance.

- **Flexible expenses** are the costs that change every month. They include costs such as metered utilities like water and power, replacement costs of consumable office products, and upkeep costs on vehicles, buildings, and equipment.

Administrative expenses are costs associated with payroll and benefits. Many nonprofits operate with a mix of both unpaid volunteers and paid employees. Employees may be paid on an hourly or salaried basis. Don't forget to take payroll taxes into account. Nonprofits don't have to pay taxes, but their employees do. The organization is still responsible for the employer's half of the employee's income tax on Social Security.

Program expenses are the costs directly associated with running the programs and services the nonprofit offers. For example, if a nonprofit food bank picks up donations of leftover food from restaurants and supermarkets, program expenses would include vehicle mileage and fuel, refrigeration and storage, and possibly a paid driver.

Fundraising expenses are costs incurred in the course of raising funds and gaining donors. The specifics vary

widely depending on the type of funding. For example, obtaining a grant often requires a lengthy application written by a professional grant writer. Mailing a fundraising letter might include the cost of hiring a copywriter and graphic designer, printing the material, purchasing any pack-in items, stuffing and addressing envelopes, and the cost of postage. A fundraising dinner might require reserving a venue, renting equipment such as tables and chairs, hiring a catering company, and entertainment.

Marketing expenses are costs associated with promoting the organization independent of any specific fundraiser. Many nonprofits only do fundraising, but others use advertising to promote their good works. Costs associated with creating television ads, billboards, and online advertising fall into this category.

DETAIL BOX

How Denali Fund can help manage your expenses

Denali Fund makes it easy for you to manage your expenses. Detailed reports allow you to see at a glance where your money is being used.

Statement of Activities				
All Books Surplus (ALLBOO)				
01/01/2011 to 10/31/2011				
Fund Start to End				
05/10/2011 9:51:03 AM				Page 1
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support / Revenue and Gains				
Public Support:				
Fundraising	0.00	0.00	0.00	0.00
Mail and Membership	0.00	0.00	0.00	0.00
Special Events	120,551.10	150,000.00	26,762.10	297,313.20
Less: Direct Costs	0.00	0.00	109,720.91	109,720.91
Net	120,551.10	150,000.00	(82,958.81)	187,592.29
Legacies & Bequests	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00
Revenues and Gains				
Other Investment Income	0.00	0.00	0.00	0.00
Income from Long-Term Investments	0.00	0.00	0.00	0.00
Net Realized Gains on Long-Term Investments	0.00	0.00	0.00	0.00
Grants	0.00	0.00	0.00	0.00
Contracts	0.00	0.00	0.00	0.00
Products & Services	0.00	0.00	0.00	0.00
Tax Revenue	0.00	0.00	0.00	0.00
Gain on Sales of Assets and Other Revenues	65,302.73	0.00	98,825.00	0.00
Net Assets Released from Restrictions	0.00	0.00	0.00	164,127.73

Balancing Revenue and Expenses

The document nonprofits use to track income and expenses over a specific period of time is called the Statement of Activities (SOA). The SOA is a simple financial document that takes the place of the income statement in a for-profit business. The purpose of the SOA is to show all of the organization's revenue and expenses and the changes in the organization's net assets during the specified time period.

The SOA breaks down revenue by source on separate lines. Each line lists income from that source as unrestricted, temporarily restricted, or permanently restricted. This allows the reader to tell at a glance which type of funds are available. The SOA also gives an overview of the total expenses of each program or service and shows which type of funding was used to cover them. The difference between the revenue and expenses shows the remaining assets at the end of the period.

DETAIL BOX

How Denali Fund can help you get organized

Denali Fund provides your organization with the tools it needs to manage revenue and expenses.

Statement of Cash Flows
All Books Surplus (ALLBOO)
01/01/2011 to 10/31/2011

05/10/2011 9:51:40 AM Fund Start to End Page 1

Cash Flows from Operating Activities	
Change in Net Assets	18,101.75
Adjustments to reconcile change in net assets to net cash used by operating activities	
Depreciation of Buildings and Equipment	0.00
Net Book Value of Property Disposals	0.00
Provisions for Doubtful Accounts, Obsolete Inventories and Other Allowances	0.00
Changes in Certain Assets and Liabilities	
Receivables	98,809.63
Inventories	(216,335.42)
Other Assets	37.00
Accounts Payable and Accrued Liabilities	407,444.01
Total Adjustments to Net Assets	289,955.22
Net Cash used by Operating Activities	308,056.97

Statement of Activities
All Books Surplus (ALLBOO)
01/01/2011 to 10/31/2011

05/10/2011 9:51:03 AM Fund Start to End Page 1

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support / Revenue and Gains				
Public Support:				
Fundraising	0.00	0.00	0.00	0.00
Mail and Membership	0.00	0.00	0.00	0.00
Special Events	120,551.10	150,000.00	26,762.10	297,313.20
Less: Direct Costs	0.00	0.00	109,720.91	109,720.91
Net	120,551.10	150,000.00	(82,958.81)	187,592.29
Legacies & Bequests	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00
Revenues and Gains				
Other Investment Income	0.00	0.00	0.00	0.00
Income from Long-Term Investments	0.00	0.00	0.00	0.00
Net Realized Gains on Long-Term Investments	0.00	0.00	0.00	0.00
Grants	0.00	0.00	0.00	0.00
Contracts	0.00	0.00	0.00	0.00
Products & Services	0.00	0.00	0.00	0.00
Tax Revenue	0.00	0.00	0.00	0.00
Gain on Sales of Assets and Other Revenues	65,302.73	0.00	98,825.00	0.00
Net Assets Released from Restrictions	0.00	0.00	0.00	164,127.73

Statement of Financial Position
All Books Surplus (ALLBOO)

05/10/2011 9:52:03 AM Fund Start to End Page 1

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Current Assets				
Cash and Cash Equivalents	0.00	147,577.50	50,658.14	198,235.64
Accounts and Interest Receivable	0.00	0.00	19.30	19.30
Notes Receivable	37.00	0.00	0.00	37.00
Inventories	75,532.58	0.00	31,081.93	106,614.51
Contributions Receivable	0.00	0.00	0.00	0.00
Short Term Investments	0.00	0.00	0.00	0.00
Interest/Taxes/Penalties Receivable	0.00	0.00	0.00	0.00
Notes and Loans Received Current Portion	0.00	0.00	0.00	0.00
Due from Other Classes	0.00	0.00	0.00	0.00
Total Current Assets	75,569.58	147,577.50	81,758.37	304,905.45
Non Current Assets				
Contributions Receivable	0.00	0.00	0.00	0.00
Notes and Loans Receivable	0.00	0.00	0.00	0.00
Land Buildings and Equipment - Accumulated D	0.00	0.00	0.00	0.00

Detailed records of the organization's expenses are covered in a separate document called the Statement of Functional Expenses (SFE). The SFE gives totals for each program or service and allows the reader to see exactly where the money went. It lists all expenses broken down by category such as depreciation, employment costs, insurance, utilities, and transportation.

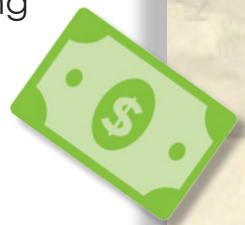
In general, nonprofits should use unrestricted contributions and earned revenue to cover costs not associated with programs and services, unless they have a restricted contribution that specifically covers those expenses. Any leftover unrestricted funds can then be applied wherever the board decides the money will do the most good.

Cougar Mountain Software nonprofit accounting software gives your nonprofit organization the tools to easily track revenue sources, allocate funding, and keep up on expenses.

For more information on how Denali Fund can be used to help your organization meet your goals please see our extensive online documentation system: [Denali Web Help](#)

There you will find details of how Denali Fund handles your accounting needs. Including these topics:

- **Setting up Funds**
- **FASB Reports (SOA, Financial Position)**
- **Budgets**



Credits

Cougar Mountain Software

Cougar Mountain Software was founded in 1982 with a vision to develop powerful business accounting, nonprofit accounting, and point of sale software solutions. [Our 30 years of success](#) comes from two key practices; (1) employing in-house accounting and business professionals for our sales, support, training, and development teams, and (2) listening to our clients. These two practices make our accounting solutions unique to competitors who outsource their support and build fixed and un-scalable solutions to meet the general needs of the masses.

www.cougarmtn.com

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Visit Us Online



Appendix: Further Resources

These additional resources will help you learn more about Cougar Mountain's nonprofit software and support.

[Cougar Mountain Nonprofit Blog](#)

[CPA Practice Advisor review of Denali Fund](#)

[Setting up budgets using Denali Nonprofit Software](#)

[Viewing budgets using Denali Nonprofit Dashboards](#)

[How to import and export budgets to csv or xml file formats](#)

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