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Statement of Financial Activities

Note: Articles published before January 1, 2017 may be out of date. We are in the process of updating this content.

Originally Posted: June 12, 2009

Topics:

- Financial Management
- Internal Reporting

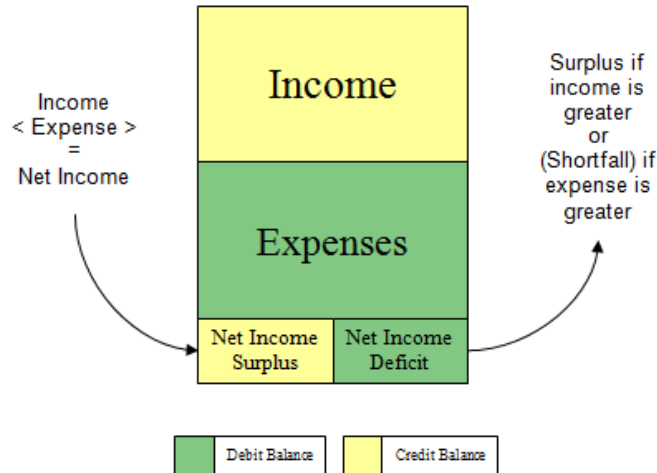
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Statement of Financial Activities

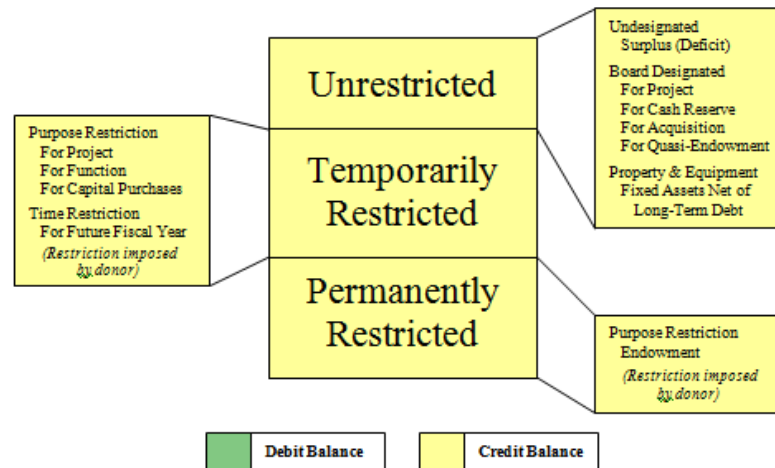
It used to be called the income statement, and many nonprofit organizations produce a variety of versions of this report calling it various names such as budget report, profit & loss, income and expense, etc. No matter what it's called, the statement of financial activities (SOA) shows the nonprofit organization's income and expenses for a specific period of time. The report reflects the changes to an organization's net assets resulting from income and expenses that occur during the current fiscal year.

STATEMENT OF FINANCIAL ACTIVITIES - DIAGRAM



The results of the year's activities result in a change to the organization's net assets, thus the SOA and the statement of financial position (SOP) reports are related. Net results in unrestricted (UR), temporarily restricted (TR), and permanently restricted (PR) financial activity for each year are accumulated on the SOP and show as changes--increases or decreases--in those net assets categories. The relationship of the SOA to the SOP is shown below.

NET ASSETS - DIAGRAM



Net assets beginning balances in each category of UR, TR, and PR are increased by each year's surplus and decreased by each year's deficit.

Recommended SOA Internal Report Format

A well-formatted SOA report provides accurate and relevant information with enough context for the board to thoroughly understand what's going on with your organization financially. To be strategically useful, SOA reports should show numbers in context so a board member could answer the following questions about the SOA report: What was the total last year? What is the annual budget for this year and what percentage of the budget is represented by the year-to-date amounts? How do we expect to end the year and how does that compare to the approved budget? What are the reasons for the significant variances? What is the status of restricted revenue, if any, as distinct from unrestricted?

Below is a general format for a Statement of Financial Activities recommended for internal reporting purposes. The report for your organization would include more detailed line items in each category, but the objective would be to keep the report at one page in length, although narrative explanations may flow to a second page.

In this report design, income is shown by source and subtotaled separately as earned and contributed. Within earned and contributed categories, you may include additional line items to show more detail such as earned income by program, or each contributed income by source such as government, foundations, corporations, individuals, and special events. Restricted contributions and releases from restriction are shown separately from unrestricted operating activity.

Expenses are shown by major program activity, management, and fundraising. Showing expenses by activity (function) clearly demonstrates how your organization spends its resources toward accomplishing mission activities.

The prior-year total provides context for comparison. The year-to-date total from the accounting software is provided as well as a calculation of the percent of the budget represented by the year-to-date totals. The annual budget as approved by the board is shown as well as a year-end forecast in lieu of frequent budget revisions. The forecast column is equal to the budget column at the beginning of the year and it is updated monthly to reflect anticipated changes from the original budget. Variances between the approved budget and the year-end forecast are shown both in dollar amounts and in percentages, and significant variances are noted and explained. On this report, the notes may extend to a second page, but it is desirable to keep the numbers and columns on a single page.

RECOMMENDED SOA INTERNAL REPORT FORMAT

Show context: History; YTD; Budget; Forecast to year end; Explain variances

	ORG NAME	Prior Year Actual	Current Year to Date	Current Year Budget	% Budget to Date	Year End Forecast	Budget to YE Variance	Notes
	Statement of Activities							
Income by source	Earned Revenue							
	Contributed Revenue							A
	Released from Restriction (1)							
	Total Unrestricted Revenue							
Expenses by function / activity	Program Expense							B
	Development Expense							
	Admin Expense							
	Total Operating Expense							
	NET UNRESTRICTED INCOME							
Separate restricted	Restricted Contributions							C
	Released to Unrestricted							
	NET RESTRICTED INCOME							
	NET ALL ACTIVITY							
Narrative notes	Note A (Narrative explanation)							
	Note B (Narrative explanation)							
	Note C (Narrative explanation)							

(1) Some organizations find it more useful for internal purposes to record revenue that has been released from restriction in its natural income category. The release shows as a negative number on the "Released to Unrestricted" line and is added as a positive number within the natural income category, for instance foundations or government grants.

No accounting software, particularly ones in the price range of most small and midsize nonprofits, can produce a "canned" report with as much context and analysis as the above. Therefore this report is formatted in a spreadsheet and raw data are taken from the accounting software and inserted or linked into the preformatted report. The preformatted report takes some time to set up at the beginning of each fiscal year, but afterwards the majority of management time is spent in updating the year-end forecast.

For a "how to" on exporting data from QuickBooks and linking it into a preformatted Excel report, see the following link:

[Custom Excel Reports from QuickBooks Data](#)

You will note that this report does not include the activity for the current month alone or a current month budget. This level of detail would be more appropriate for management and finance committee members to examine, but it encourages unproductive discussion at full board meetings.

This report format is designed to promote maximum understanding by the board by showing the year-to-date but focusing on the expected year-end results: is the organization still on track to hit all of its revenue targets and to stay within the budgeted expenses? Management updates the year-end forecast to reflect expected changes to line items, focusing the board on what can be done to mitigate changes that might cause a deficit.

Particularly for income and expenses, it is important to have the accounting line items in your accounting software match the line items in your budget template. Misalignment between budget and accounting line items necessitates tedious regrouping of numbers for budget comparison reports and can lead to over-spending of accounting line items not represented in the budgeting process.

Also:

FASB 116 & 117 (Re: restricted contributions)

SOP (Statement of Financial Position) aka Balance Sheet

SFE (Statement of Functional Expenses) or P&L by Activity

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