



When it comes to revenue, nonprofits need to think like auditors

Auditors examining a not-for-profit's financial statements spend considerable time on the revenue figures. They look at the accounting methods used to record revenues and perform a detailed income analysis. You can use the same techniques to increase your understanding of your organization's revenue profile.

In particular, consider:

Individual contributions

Compare the donation dollars raised to past years to pinpoint trends. For example, have individual contributions been increasing over the past five years? What campaigns have you implemented during that period? You might go beyond the totals and determine if the number of major donors has grown.

Also estimate what portion of contributions is restricted. If a large percentage of donations are tied up in restricted funds, you might want to re-evaluate your gift acceptance policy or fundraising materials.

Grants

Grants can vary dramatically in size and purpose — from covering operational costs, to launching a program, to funding client services. Pay attention to trends here, too. Did one funder supply 50% of total revenue in 2015, 75% in 2016, and 80% last year?

A growing reliance on a single funding source is a red flag to auditors and it should be to you, too. In this case, if funding stopped, your organization might be forced to close its doors.

Fees for services

Fees from clients, joint venture partners or other third parties can be similar to fees for-profit organizations earn. They're generally considered exchange transactions because the client receives a product or service of value in exchange for its payment. Sometimes fees are charged on a sliding scale based on income or ability to pay. In other cases, fees are subject to legal limitations set by government agencies. You'll need to assess whether these services are paying for themselves.

Membership dues

If your nonprofit is a membership organization and charges dues, determine whether membership has grown or declined in recent years. How does this compare with your peers? Do you suspect that dues income will decline? You might consider dropping dues altogether and restructuring. If so, examine other income sources for growth potential.

Once you've gained a deeper understanding of your revenue picture, you can apply that knowledge to various aspects of managing your organization. This includes setting annual goals and preparing your budget. Contact us for help interpreting and applying revenue data.

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