NATIONAL ASSEMBLY OF STATE ARTS AGENCIES

TOPIC: READING AND INTERPRETING FINANCIAL REPORTS

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Note: For Copies of the handouts referenced below, contact Angela Han at 202-347-6352 x115 or write to Angela.Han@nasaa-arts.org.

Goal: To provide technical assistance to state arts administrators so that they will be able to understand and use financial data submitted by grant applicants, and encourage thoughtful review of applicant’s financial reports by grant panels

I. Reading financial reports
   A. Discussion of basic account types
      1. Assets
      2. Liabilities
      3. Net Assets
      4. Revenue
      5. Expenses
   B. Discussion of basic financial reports
      1. Balance Sheet
      2. Income Statement
   C. Quick quiz! - Handout 1 - Audit Scavenger Hunt
   D. Group exercise - Handout 2 - The Missing Link - How Financial Reports are Related
      1. Discussion of how Balance Sheets and Income Statements are related
   E. Cash Flow Statement
      1. Group exercise - Handout 3 - Cash Flow Affect
      2. Group activity - Handout 4 - What’s My Cash Flow?

II. Analysis and interpretation of financial reports
   A. Unique nonprofit issues
      1. Understanding the problems of multi-year grants
      2. Understanding and identifying problems with restricted funds
         a. Handout 5 - Multi-Year Grant Example
   B. Ratio analysis
1. Why use ratios?
   a. Importance of context
2. Vertical vs. horizontal comparisons
   a. Compare one organization to another
   b. Compare organization to itself over time
3. Ratio analysis - some sample ratios
   a. Current ratio
   b. Debt-to-Equity ratio
   c. Fixed Asset-to-Total Asset ratio
   d. Profit Margin
4. Group activity - Handout 6 - Ratio Worksheet
C. Misuse of ratio analysis
   a. Current ratio
   b. Debt-to-Equity ratio
   c. Fixed Asset-to-Total Asset ratio
   d. Profit Margin
D. Conclusions

READINGS:


