

Assembly 2008 Preconference Workshop

What Do the Numbers Tell You?
Learning to Look at Financial Statements

Wednesday, September 10, 2008

9:00 am – 5:00 pm

Faculty:

Eric Frait, Founder and President, Your Part-Time Controller

Facilitators:

Angela Han, Director of Research, NASAA

Mollie Lakin-Hayes, Deputy Director, Southern Arts Federation

Charlie McDermott, Deputy Director, Massachusetts Cultural Council

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9:00 am – 9:30 am Introduction

Following opening welcomes, we will set the stage for the day's work by briefly reviewing the kinds of financial reports state arts agencies require from grantees.

9:30 am – 12:00 pm Reading financial statements

The morning session will focus on reading audited financial statements, including the relationship between key components of an audit (income statement, balance sheet, statements of cash flow).

12:00 pm – 1:00 pm Lunch on your own

1:00 pm – 3:15 pm Interpreting financial statements

The afternoon session will feature hands-on ratio analysis. What types of ratios can be examined? What can – and can't – they tell you about an organization's fiscal health?

3:30 pm – 5:00 pm Facilitated discussion

How can state arts agencies apply these skills to their work? What are the implications for state arts agency grant-making, information collection and policy?



The **NONPROFIT** accounting specialists.™

YPTC TRAINING SESSIONS

NATIONAL ASSEMBLY OF STATE ARTS AGENCIES

TOPIC: READING AND INTERPRETING FINANCIAL REPORTS

September 10, 2008

Presenter: **Eric Fraint**, President and Founder
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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. Let's jump right in! - Group activity - **Handout 1 - Report Puzzler - What Account Goes Where?**
 - B. Discussion of basic account types
 1. Assets
 2. Liabilities
 3. Net Assets
 4. Revenue
 5. Expenses
 - C. Discussion of basic financial reports
 1. Balance Sheet
 2. Income Statement
 - D. Group activity - **Handout 2 - Audit Scavenger Hunt**
 - E. How Balance Sheets and Income Statements are related
 1. Discussion
 2. Group exercise - **Handout 3 - The Missing Link - How Financial Reports are Related**
 - F. Cash Flow Statement
 - G. Questions?
- 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 4 - 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 5 - 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
- E. Questions?

READINGS:

Reading 1. “*What financial statements are nonprofits required to issue?*” Alliance for Nonprofit Management. http://www.allianceonline.org/FAQ/financial_management/

Reading 2. “*What is cash flow and how should we manage it?*” Alliance for Nonprofit Management. http://www.allianceonline.org/FAQ/financial_management/

Reading 3. “*The Problem with Nonprofit Accounting Rules.*” Fraint, Eric. *Don Kramer’s Nonprofit Issues*, <http://nonprofitissues.org/public/indices/byfeature/numbers.html>

Reading 4. “*How do we interpret our financial statements?*” Alliance for Nonprofit Management. http://www.allianceonline.org/FAQ/financial_management/

Reading 5. “*How to Assess Nonprofit Financial Performance.*” Keating, Elizabeth K. & Frumkin, Peter. Excerpt, pp 28 - 57.

Reading 6. “*Spinning the Numbers: Understanding and Using Nonprofit Financials.*” St. Luke’s Health Initiative Community Connect, Fall 2002.

Reading 7. “*Nonprofit Performance Measurement: The Use and Misuse of Ratio Analysis.*” Fraint, Eric. *Don Kramer’s Nonprofit Issues*, <http://nonprofitissues.org/public/indices/byfeature/numbers.html>