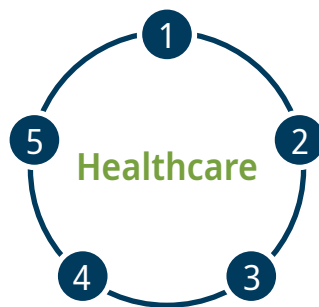


# Understanding financial statements:

A quick reference guide for lenders

Reading and understanding financial statements is a complex task. Every set of financial statements is slightly different, and the key focuses will be different depending on the industry of your customer.

BerryDunn's financial experts have gathered the top five considerations for nonprofit, healthcare, and commercial industries' financial statements for your easy reference. Also provided are key BerryDunn contacts for each industry, as well as subsectors within each industry. We welcome you to reach out to us with any questions about financial statement reviews.





## Nonprofit

### Top considerations when reviewing nonprofit financial statements

- 1 Restricted funds must be used in accordance with donor-imposed restrictions. Spending from donor-restricted endowed funds must abide by an organization's spending policy, not to exceed 7%, as defined by the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by each state.
- 2 The terms "endowment" and "investment" are not synonymous. An endowment implies the funds are permanently restricted, whereby only total return income earned is available for appropriation under an organization's spending policy and in accordance with UPMIFA. Permanent donor restrictions are in perpetuity unless the donor authorizes a change in the fund's use. Investments can be a combination of donor endowed funds, donor restricted funds, board endowed funds, board restricted funds, and unrestricted excess cash.
- 3 Board designated funds have the flexibility to be "undesignated" upon board vote.
- 4 The liquidity footnote is a useful place to find an organization's liquidity policy.
- 5 Net asset accounting and releases from restrictions are unique in financial statement presentation for nonprofits. The accounting for pledges is also unique. Keep in mind, as with all items in US Generally Accepted Accounting Principles (GAAP), pledge accounting is on an accrual basis, not a cash basis.

## Key contacts: Nonprofit Practice Group

### Affordable housing

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## Healthcare

### Top considerations when reviewing healthcare financial statements

- 1 Financial health is driven by a combination of financial measures, not only bottom-line profitability.
- 2 Review the quality of earnings. Results can sometimes be distorted by one-time income items such as third-party settlements, grants, etc.
- 3 Some healthcare organizations are for-profit entities, and others are nonprofit. Understand differentiators in mission and financial metrics.
- 4 Many healthcare organizations have a high percentage of government payors whose rates are highly regulated.
- 5 Understand non-operating revenues and expenses and the degree to which the organization has control over the results of these items, including investment returns, certain grants, etc.

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## Commercial businesses

### Top considerations when reviewing commercial financial statements

- 1 There are significant areas where management's assumptions and judgements can influence the financial results, such as accounts receivable and inventory allowances, accruals, and other types of reserves. Refer to the notes for the company's policies on these significant assumptions and judgements.
- 2 In an acquisition, purchase accounting (US GAAP) requires that assets and liabilities be reported at fair values and not at the price that was paid for the acquisition. Further, any professional and other expenses are considered operating and expensed immediately.
- 3 The cash flow from the operations line on the statement of cash flows shows a better result of the flow of cash from operations than the income statement.
- 4 Different companies in the same industry can have different accounting policies, such as inventory costing, revenue recognition, and reserves. Read the notes to understand how these may be different from company to company.
- 5 How do related parties influence the financial results? Related parties are assumed to not be at arm's length and should be disclosed in the notes to the financial statements.



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wherever you are based, we look forward to working together.

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