

## **HOW TO READ FINANCIAL STATEMENTS**

This document is intended to be a guide to understanding the monthly financial statement for your property. The document is organized in the same order that the reports appear in your monthly financial package.

**Accrual Accounting** - The accounting is done on an accrual basis. Accrual accounting reports total income billed and total expenses incurred. Cash accounting reports income collected and expenses paid. Accrual accounting is used to better match income and expenses to the period in which they were billed on incurred and allows for reporting on who owes the property money and who the property owes money.

**Operating & Reserve Accounting** – The accounting is done using separate funds for the operating and reserve accounts.

**Numbers in Parentheses** – A number listed on the financial statements that is contained within parentheses is a negative number. If there are no parentheses the number is positive.

**Statement of Revenue & Expenses** – This report shows the monthly billed income and incurred expenses. The income represents all of the fees billed in that month, but not necessarily collected. The expenses represent all expenses incurred in that month but not necessarily paid. The first four numerical columns on the report from left to right show the Current Period (Month) Operating, Reserve, Budget and Variance to Budget for the full month ending on the date listed at the top middle of the report. The next four columns show the Year-To-Date Operating, Reserve, Budget and Variance to Budget for the current fiscal year to date. The last column shows the total Annual Budget for the current year.

The Total Expenses listed in the second to last row at the bottom of the report in the Operating Current Period ties in to the next report in the package, the General Ledger Trial Balance with Details report. The Total Expenses from the Statement of Revenue & Expenses report equal the sum of the Totals listed at the bottom on the General Ledger Trial Balance with Details report in the Current Debit and Current Credit column.

The final row of the Statement of Revenue & Expenses report shows the Revenue in Excess of Expenses, also known as Net Income. This number represents the difference between income billed and expenses incurred. If income is greater than expenses this will be a positive number. If expenses are greater than income this will be a negative number shown in parentheses. The Net Income number for the current year is listed on the Balance Sheet report, shown later in reporting package, on the Operating and Reserve Net Income Gain/Loss line. This is how the Statement of Revenue & Expenses report ties in to the Balance Sheet report.

**General Ledger Trial Balance with Details** – This report shows the detail of all expenses incurred during the monthly time period listed at the top of the report. The report begins with the first expense account listed on the Statement of Revenue & Expenses report and ends with the last expense account. The expenses are listed in the same ascending order by expense account number on each report. The current month's expense is listed in the Current Debit column. A number listed in the Current Credit column would be an adjustment to expenses. The Prior Balance and End Balance show the year-to-date expenses at the beginning and end of the month. The Description shows the vendor, invoice number and brief description of the work performed. At the bottom of the report on the Totals line the sum of the Current Debit and Current Credit equals the Total Expenses from the Operating column of the Statement of Revenue & Expenses report.

**Balance Sheet** – This report shows the current bank balances for the property, funds due from homeowners and funds due to vendors. The top of the report shows bank balances for both operating and reserve accounts. Accounts Receivable shows funds due to the property from homeowners. These numbers represent the Assets of the property.

The next section is Liabilities. These are funds due to other parties by the property. Accounts Payable shows funds due to vendors. Loan Payable (if any) shows funds due to the bank. Pre-Paid Fees are fees paid by homeowners prior to the beginning of the next month.

The final section of the report deals with Equity. Retained Earnings is the sum of all Net Income figures from year end since the beginning of time at the property. For example at the end of Year 1 the Net Income was \$10,000. At the end of Year 2 the Net Income was \$15,000. On January 1<sup>st</sup> of Year 3 the retained earnings account would show the sum of these two years  $\$10,000 + \$15,000 = \$25,000$ . At the end of Year 3 the Net Income would be added to retained earnings and then subsequently at the end of each year thereafter. The retained earnings number does not represent actual funds available to the property.

The final lines on the report show Year-to-Date Net Income Gain/Loss. This number is taken directly from the Statement of Revenue & Expenses report that is the first report in the financial package. The number is the Net Income to date in that year. At the end of the year the total listed on this line will be swept in to the Retained Earnings line to be added to all prior year's Net Income.

**Bank Account Register** – This report is the detail behind the bank account balances listed on the Balance Sheet report. This report shows all activity in the property bank accounts for the month listed at the top of the report. Deposits, checks and other adjustments are listed. The ending balance listed for each bank account matches the amount listed on the previous report the Balance Sheet.

**Bank Account Reconciliation** – This report shows any un-cleared items for each bank account as of the last day of the month. Bank accounts are reconciled every month. Any item listed on this report is either a deposit that was made and not posted to the account or a check that was cut and not yet cashed by the payee. Many times at the end of the month checks are paid to vendors and are not cashed until the following month. Please note that the bank account balance listed on the

Balance Sheet will not necessarily match the balance listed on the bank statement. The reason for this difference is un-cleared items that are listed on the Bank Account Reconciliation Report. If you take the bank account balance from the Balance Sheet and add back any un-cleared items from the Bank Account Reconciliation Report you will arrive at the bank account balance listed on the bank statement. The reason for this variance is checks or deposits that have been written or recorded in the accounting system, but have not yet cleared the bank.

**Homeowner Aging Report** – This report is the detail behind the number listed on the Accounts Receivable and Pre-Paid Fees lines on the Balance Sheet report. This report shows the funds due to the property by homeowners. On the Balance Sheet report the sum of the Accounts Receivable balance and the Pre-Paid Fees balance equal the total on the Homeowner Aging Report. Please note that the Pre-Paid Fees number is a negative number when adding to the Accounts Receivable balance. A number listed on the Homeowner Aging Report in parentheses is a negative number indicating a pre-payment. Many times homeowners pay their monthly fee before the due date on the 1<sup>st</sup> of the month therefore their balance shows up as a credit (negative) because the offsetting expense for the next month has not been incurred. At the bottom middle of the report the types of balances are listed.

**Payable Aging Report** – This report is the detail behind the number listed in the Liabilities section of the Balance Sheet report on the Accounts Payable line. This report shows the funds due to vendors for work done at the property and not yet paid. Many times bills are received at the end of the month and not paid until the next month; therefore the expenses are listed on this report as unpaid. Also, if the property does not have sufficient funds to pay vendors unpaid invoices can show up on this report.

**Invoice Images** – The invoice images are the supporting documents for the expenses listed on the General Ledger Trial Balance with Details report. The invoice images represent all of the invoices for the month listed at the top of the reports.

**Bank Statements** – The final reports are the actual bank statements for the operating and reserve accounts for the last full month. The ending balances listed on the bank statements match the bank balances listed on the Balance Sheet report plus any un-cleared balance listed on the Bank Account Reconciliation Report. For example, the bank statement balance at month end is \$10,000. The Balance Sheet balance is \$9,000. There is one un-cleared check for \$1,000 listed on the Bank Account Reconciliation Report. This check has been written from the accounting system but has not cleared the bank. So you add the \$9,000 bank balance from the financial reports to the \$1,000 un-cleared item to arrive at the \$10,000 balance listed on the bank statement. Check images are also included.

Financial reports can be customized to meet the needs of your property. If you have any questions please feel free to contact your property manager.