**Understanding Balance Sheets for Non-Accountants**

**What is a balance sheet?**

-snapshot at one instant of financial health

-important component of the essential financial documents for an association

**Why is the balance sheet important?**

-provides key numbers for the Board at-a-glance

-helps in decision making

**Where can I find our balance sheet?**

-always page 3 (and possibly going onto 4) of the monthly financial report

-assets must equal liabilities + equity

**Accounting basics**

-accrual – counts when an event happens (invoice sent out, service received, etc.)

-cash – counts when money is actually received or paid

-modified cash – a middle ground where assessments and certain income types are listed in accrual, but all else is posted on a cash basis (essentially the expenses)

-every accounting action has to have a reaction (known as debits and credits)

**The three elements of a balance sheet**

Simple balance sheet

a) assets

b) liabilities

c) equity

More advanced balance sheet

1. assets
   1. operating account
   2. reserve account
2. liabilities
   1. accounts payable
   2. prepaid assessments
   3. loans
3. equity
   1. reserve equity
   2. operating equity.

Advanced balance sheet

1. assets
   1. operating account
   2. reserve account
   3. accounts receivable (A/R)
   4. A/R - Other
2. liabilities
   1. accounts payable
   2. prepaid assessments
   3. loans
3. equity
   1. reserve equity
   2. operating equity.

**Connections with the State of Revenue and Expenses**

Direct

-reserve interest

-reserve contributions

-net income

Indirect

-accounts receivable

-accounts payable

Five Power Numbers on the Balance Sheet

**10 Steps to Understanding the Monthly Financial Report**

(items in yellow pertain to balance sheets)

1) Is the cash balance of the **operating account** equal to 10%-20% of the annual assessment budget?

2) Does the **reserve account** display the monthly reserve contribution transfer? Is the reserve fund balance at least 80% of the Reserve Study recommendation?

3) Did the **Accounts Receivable** balance increase or decrease? Is Board action required?

4) In the **Equity** section were the reserve transactions posted?

5) Review the monthly numbers on the **Statement of Revenue and Expenses**. Is Net Income positive or negative? Pay attention to the Year-to-Date columns; these are often more useful. Focus on variances greater than 10%.

6) Review the **Summary Statement of Revenue and Expenses** for gaps, trends, or missing information.

7) The **general ledger** provides detail about every account, but often the expense items are the most useful.

8) Check the **bank reconciliation report** for accounts with missing statements (“Out-of-Balance") or stale checks or deposits.

9) **Bank statements** show all activity. Review checks to identify any payees or amounts that seem unusual or need clarification.

10) Review **investment accounts** for upcoming maturity dates, cash balances (should not be too large), and types of investments.