

# BASICS OF FINANCIAL STATEMENTS

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As a prior owner of a management company and on-line manager, one of the most frustrating part of my job was discussing the financial statements at each Board meeting. As the Manager, I was not the preparer of the documents and did not have each little entry grained into my head. I would get questions from the Treasurer and other Board members who were looking at the documents for the first time at the meeting. Some questions would pop into their head and they expected me to have an answer at the tips of my tongue. The most frustrating questions came from CPA's who had volunteered to serve on the Board. For some reason they had a need to show their knowledge and your possible lack of the same.

After a few years of frustration and dread of these portions of the Board meetings, I found a solution, which helped not only me, but the Board members as well. As they were required by law to review the financial statements and a reconciliation for both their operating and reserve accounts on a quarterly basis, I found a way to make the meetings more productive for all of us.

I asked the bookkeeper to take a sample set of financial statements, number each line item, and give a description of each number on a separate sheet of paper. For example, on the Balance Sheet, number 1 would be the current balance in the Operating Account at the Bank of Nevada as of the date shown on the statements. Number 2 would be the current balance in one of the Reserve Accounts (if you have more than \$100,000 in one account it is not insured for more than \$100,000) at Norwest Bank, etc.

The bookkeeper was able to advise which numbers should tie in together to show that the Income Statement and Balance Sheet balanced with each other. She was also able to show which line-items on the actual bank statements from the bank should tie into both documents. Please do not accept any reconciliation from your bookkeepers unless a copy of the actual bank statement is attached. How can you verify that the money is still in the accounts if you don't have verification from the bank on a monthly basis? As a manager, I used to bring the original bank statements and a reconciliation to each meeting in the event any director wished to verify the original figures.

After the sample documents and explanation are prepared, a special workshop should be scheduled to discuss the documents with the preparer of the documents, not the manager (unless he or she prepares them). This will save time at the Board meetings and allow Board members to ask questions openly without fear of "appearing" stupid, since this is the purpose of the meeting.

After everyone is comfortable with the information they have received and understand their responsibility in reviewing the documents, the Board should understand that they should receive the documents BEFORE the meeting and call the management company with any questions as well. It is not fair to the manager to play "got you" at the meeting. If you see a mistake, bring it to his or her attention before the meeting and then the Board will be prepared to accept the financial statement with the corrections that the Management Company has already agreed to make. Please remember that everyone makes mistakes and should be allowed to correct them while advising the steps that will be taken to try to eliminate the same mistakes in the future.

This practice will save a considerable amount of time at meetings and keep your manager from getting ulcers over "the financials".