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10 things to look for in your co-op's financial statements

20 VISION 20

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Introduction—who and what this guide is for

This guide is for directors of housing co-ops.

Your financial statements are the most important indicators of your co-op's financial health.

It can be difficult for co-op board members to get much out of the co-op's financial statements. Most directors don't have training in finance or accounting. And yet these statements are the most important indicators of your co-op's financial health. Is there a way for the non-expert co-op director to learn more from the financial statements without going back to school?

We think there is. In this how-to guide, instead of trying to explain everything in your financial statements, we're going to do two things:

1. give you an easy-to-follow introduction to financial statements—what we're calling "a look under the hood", and
2. focus on 10 key indicators—10 things to watch for that will give you a window on your co-op's financial health.

So let's get started!

Part 1: A look under the hood—how your co-op's statements are put together

First, what statements are we talking about?

There are a number of different financial statements your co-op might be receiving. Here's a partial list:

- balance sheet
- member arrears report
- income statement
- statement of cashflows.

Each financial statement tells us something about a co-op's finances.

Each of these statements can tell us something about the financial condition of a housing co-op. For example, the member arrears report is a key management tool and a statement of cashflows is important in managing capital reserve investing, and in managing day-to-day operations in the co-op when cash is tight.

The two statements we're going to focus on are the balance sheet and the income statement. That's where we're going to look when we get to our 10 key indicators in the second part of this guide. So let's take a look around and see what these two statements are all about.

An overview of the balance sheet

This statement is now called the "statement of financial position" in your annual audited financial statements, but most people still refer to it as the balance sheet and that's what we're going to call it here. So why that name? What does the reference to "balance" mean?

It's pretty simple really. There are two "sides" to a balance sheet (in reality a top part and a bottom part).

The two sides of a balance sheet are two different ways of looking at the same thing.

The first side shows the value of the co-op's **assets.** Assets are things of financial value that the co-op owns, such as the money it has in the bank and its land and buildings. The other side shows the co-op's **liabilities and equity**—what the co-op owes and what we call its "net worth", or "equity". We'll come back to what that means shortly.

Here's where the balance part comes in: the amounts on each side of the balance sheet equal each other in total. They balance. Why? Because the two sides are really a different way of looking at the same thing.

A simple example from personal finances will make this really clear. Meet Jean. Let's say Jean has $5,000 in the bank. She's also owed a tax refund of $1,500. These are her assets. She has $5,000 in cash and $1,500 in money owed to her—what we call an account receivable, which is a fancy way of saying the same thing. It may not be money now, but it will be soon and therefore it has value.

So Jean has a total of $6,500 in assets. Here's how the asset side of Jean's personal balance sheet looks.

Assets		
Cash	$	5,000
Accounts receivable		1,500
Total Assets		**6,500**

Amounts of money owed to others are liabilities.

So far, so good. Now let's look at more of Jean's finances. She owes $2,000 in student loans that she's steadily paying off, and she owes $500 on her credit card. So Jean has debts totaling $2,500. These are called accounts payable in accounting language. They are "liabilities". So we can do the first part of the other side of the balance sheet by listing Jean's liabilities.

Liabilities		
Accounts payable	$	2,500

So what about Jean's net worth? Well, she has $6,500 in assets, and she owes $2,500. If Jean had to pay both her debts today (she doesn't, but if she did) she'd still have $4,000 in assets left over. And that's her net worth. So let's complete Jean's balance sheet.

Assets:		
Cash	$	5,000
Accounts receivable		1,500
Total Assets		**6,500**
Liabilities:		
Accounts payable	$	2,500
Jean's net worth		4,000
Total Liabilities & Net Worth		**6,500**

Note that if Jean's accounts payables, money she owes to others, were more than the value of her assets, her net worth would be a negative number.

Net worth is sometimes called by other names—equity, accumulated surplus, or fund balance in the case of some non-profits and charities. In this guide we'll use the word equity because it's common when talking about simple accounting ideas like this one.

A balance sheet is easy to understand because it's simple.

And the balance sheet is simple. There may be many more lines on the balance sheet of a housing co-op or a big corporation, but the principle is the same. We can express it in two very well-known ways. First what's called the **fundamental equation** of a balance sheet:

ASSETS = LIABILITIES + EQUITY

Which we saw is true in the case of Jean's balance sheet:

ASSETS	=	LIABILITIES	+	EQUITY
$6,500	=	$2,500	+	$4,000

The other way to express this relationship between the parts of the balance sheet is this:

ASSETS – LIABILITIES = EQUITY

Which is how we arrived at Jean's equity, or net worth as we called it on her personal balance sheet:

ASSETS	–	LIABILITIES	=	EQUITY
$6,500	–	$2,500	=	$4,000

In Jean's case we got the equity number by simple subtraction. In your co-op's case all the numbers come from your accounting system but the logic is exactly the same.

Point-in-time statement

The balance sheet shows the co-op's financial position at a particular moment in time.

It's important to understand that Jean's balance sheet shows her financial position at one moment in time. The next day Jean could receive her salary, pay her rent, pay off her credit card and make a payment against her student loan. That would change the picture quite a bit: her cash would change, and so would her accounts payable. Her net worth would probably change too.

It's the same for your co-op. Balance sheets are shown at the end of an accounting period—either the end of a month in the case of your monthly financial statements, or the end of a 12-month period in the case of your annual audited statements.

A balance sheet is a bit like checking a person's vital signs—a good indicator of the patient's present state of health. But, like a checkup, a balance sheet can also give you clues to the future. We'll talk more about that when we get to our 10 key indicators in Part 2.

Now let's look at the other financial statement we're going to talk about: the income statement.

An overview of the income statement

The income statement shows revenues and expenses over a period of time.

Like the balance sheet, the income statement comes with a variety of names: the statement of revenues and expenses is one, the profit and loss statement (or P&L) for for-profit businesses, and you may see it labeled as the statement of operations in your co-op's audited financial statements. Whatever it's called it does basically the same thing: it shows revenues and expenses over a period of time.

Income statements are easy to understand because we have revenues and expenses in our own lives.

Co-op members are usually more comfortable with income statements because they are familiar with revenues and expenses in their own lives. If we were to look at Jean's income statement, for example, we would see her salary on the revenue side, and maybe a bit of interest on the $5,000 she has in the bank. On the expense side we'd see her rent, her groceries and utility bills, clothing, all the routine expenses of a household. We'd also see an expense for interest on her outstanding loan[1].

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1. But we wouldn't see the payments that reduce the balance of the loan—so-called payments against principal. Those payments are recorded on the balance sheet, affecting cash and liabilities only. You don't need to understand why that is to follow this guide.

Unlike the balance sheet, which paints a financial picture at one point in time, the income statement shows us what has happens over a period of time—a month, the year so far (known as the year to date), or the whole year in the case of the income statement in your auditor's report.

We won't bother creating a personal income statement for Jean because it's pretty easy to imagine what it would look like. But we'll be taking a close look at a co-op's income statement shortly, and a co-op's balance sheet.

First, though, we need to talk about how your co-op's accounting is done. This is going to sound tricky but it's not, because it really boils down to you asking a simple question about your bookkeeping.

What on earth is accrual accounting and why does it matter to me?

Unless your co-op uses what is called **accrual accounting**, your statements won't necessarily tell you what you need to know about the state of your co-op's finances. So what does this geeky-sounding term mean?

How your bookkeeping is done is important for understanding the state of your co-op's finances.

Let's go back to Jean's financial world. If Jean puts something on a credit card this month, the bill might not arrive until next month. So is the credit card purchase an expense for this month, or next month?

The answer is that it's an expense for this month because that's when the purchase happens. And in accrual accounting that's how the expense is counted—in the month it happens, not in the month the bill gets paid. We can say generally that accrual accounting means

- recording revenues in the period in which they're earned
- recording expenses in the period in which they take place.

If we don't use this approach, it means we are keeping the books on what is called a cash basis—only recording revenues and expenses when cash is received or paid out. And that's very dangerous. Here's why, just to give you one example.

Let's say a co-op counts housing charge revenue only when the money is actually received from the member. That's cash accounting. That co-op will have no idea if members are in arrears, because nothing goes on the books until the cheque comes in or a direct deposit takes place into the co-op's account. But if the revenue is counted when

"Cash accounting" won't tell you what you need to know about your co-op's finances.

it's *due*—on the first day of the month to which it applies—then the housing charge gets recorded on the books as an account receivable and the co-op can track who has paid and who hasn't. And it means the housing charge revenue is attributed to the month it is earned by the co-op.

A good example of accrual accounting on the expense side might be your co-op's water bill. Many co-ops pay their water bill every three months. If we just record the water expense when the bill is paid, on a cash basis that is, we will show a distorted pattern for our water expense on our income statement, because we use water every month, not just in the month the bill gets settled. Instead, we want to estimate and record a water expense for each month and record that amount as an account payable. That's accounting on an accrual basis.

Make sure you use "accrual accounting"—check with your bookkeeper.

The same principle can apply to other expenses that are billed in this way. For example, in British Columbia it applies to property taxes. A BC co-op makes a property tax payment once, sometimes twice a year depending on the rules for each municipality. But the expense is for the whole year and should be recorded that way—in equal amounts for each month. Otherwise the statements will become distorted.

Housing Services Act (HSA) co-ops in Ontario need to pay special attention to their government subsidies and make sure they are recorded on an accrual basis. In this case it means only recording as revenue what is actually used, according to the rules, not necessarily all the money the government pays you. Otherwise you can get a nasty surprise if the government has paid you more than you've used and you find at the end of the year that you owe money back. By just counting what you use as revenue, that won't happen, because you'll already know what you owe back. For more on this you can contact staff at CHF Canada's Ontario Region.

And that's what we mean by accrual accounting. Make sure it's happening at your co-op.

Now to the co-op statements.

The balance sheet of a housing co-op

Looking at the sample balance sheet in Appendix 1, we see some things that were on Jean's personal balance sheet: cash, and accounts receivable. There are also some items that may be less familiar. We'll list some of them in a moment.

The co-op's assets

You also see that assets are separated out on the sample balance sheet. There are **current assets**, **restricted assets**, and **fixed assets**.

Assets are all the things of financial value that the co-op owns, from cash to the property itself.

Current assets

Current assets are the assets that

- are "liquid"—in the form of cash or assets that can be turned into cash soon, like accounts receivable, or
- will be used up over a short period of time, usually one year or less, like prepaid expenses (more on prepaid expenses in a moment).

Here's a list of current assets you'll commonly see on a co-op balance sheet:

- **Cash**, which needs no explanation, representing money you have in the bank, credit union or in investments, that is meant to cover your operating costs
- **Accounts receivable**, which we've talked about; there may be separate lines for specific kinds of accounts receivable such as money due from members and ex-members, and subsidy due from a funding agency
- **Allowance for bad debt**, which is always going to be a negative amount if it's not zero. It represents any part of your accounts receivable that you think you'll have trouble collecting; it doesn't mean you stop trying though
- **Prepaid expense—**read on.

A note on prepaid expense

Under assets on our sample balance sheet you see an item called prepaid expenses. We won't be focusing on prepaid expenses in this guide, but it's a term that baffles some people, so it's worth taking a moment to explain what a prepaid expense means, because it's easy to understand.

A prepaid expense represents something you've paid for that you haven't used yet. A prepaid expense is like a ticket you buy in advance for a show. Until you use the ticket, it has value—you could sell it, or make a gift of it to a friend, if it turns out you can't go yourself. So it's an asset.

Likewise, in a co-op, you might pay for your co-op's insurance policy for a whole year in advance. That's a prepaid expense, and it's an asset too. Over the year, as you "use up" the policy, the amount of it that's prepaid goes down, until it reaches zero at the end of the year.

That's all there is to prepaid expenses.

Restricted assets

Restricted assets are cash and investments that can only be used for certain defined purposes.

Restricted assets are the cash and investments that you can use only for certain defined purposes. Your capital or replacement reserve assets are restricted because under your government program rules you can only use these funds for capital replacements or major repairs. Section 95 co-ops may also have income-tested assistance in reserve, money that is also restricted, in this case for households qualifying for a reduced housing charge, based on income. The member deposits that Ontario co-ops collect are also restricted. The assets of these funds, which are likely to be a combination of cash and investments, should be shown separately on the balance sheet, as they are on our sample.

Fixed assets

Fixed assets are physical assets that have value over time, like your property and land, and the value of any improvements you've invested in. Except for land the co-op owns, fixed assets get used up over time, so their value is gradually reduced, or "depreciated" to use the accounting term. Fixed assets can also include equipment, such as a photocopier or maintenance equipment that also has value over time.

Examples of fixed assets are your co-op's buildings, and land you own.

There are special rules for depreciation of co-op assets under government programs. They are different from normal accounting rules for depreciation. But the differences don't change the general idea behind depreciation that we just looked at.

The co-op's liabilities and equity

The liabilities and equity side of the balance sheet is divided into two broad categories which are, you guessed it, liabilities and equity! Let's look at liabilities first. Note that, like the assets, they are divided into groups: current liabilities and long-term liabilities.

Current liabilities

Current liabilities are amounts due to others that the co-op has to pay within one year. When you get a hydro bill that must be paid within 30 days, say, that's a current liability for you. Like Jean's statement, the co-op's current liabilities include accounts payable—bills that have not yet been paid for goods and services that have been provided to your co-op, such as invoices for repairs and utilities billings.

Current liabilities are amounts due to others that must be paid within one year.

Here are some examples of current liabilities you might find on your balance sheet:

- **accounts payable**, which we have talked about, this can include payments due to members who have moved out
- **accrued interest** on the mortgage, a form of account payable, the interest on the mortgage that is due on the first day of the next month, every month
- **member deposits**, the deposits paid by members in some co-ops; they are repaid when a member leaves[2]
- **unearned income**, read on.

A note on unearned income

We don't show unearned income on our sample balance sheet but you may see it on the one for your co-op. It can also be called deferred income, or income received in advance, which describes it better. It is any payments the co-op receives that are income for a future period, like subsidy or housing charges paid in advance. Now that you know that, for the purposes of this guide you can ignore it.

Depending on where your co-op is in Canada, you may also find member deposits listed under current liabilities. These are the security deposits paid by members when they move in and which must be refunded, the net amount of any money owing to the co-op if members move away. Therefore they are liabilities.

Long-term liabilities

Long-term liabilities are loans the co-op has taken out that are to be repaid over a period of more than one year. For most co-ops that means the mortgage. Some co-ops may have additional long-term loans, if they have borrowed money to do major repairs or help them

For most co-ops, long-term liabilities means the mortgage you took out when your co-op was developed.

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2. Co-ops that require members to buy shares when they move in, which is the case in Western Canada, do not record these payments as current liabilities, but as a form of member equity, to be found in the equity section of the balance sheet. These co-ops do not ask for a member deposit as the share payments are used for the same purpose.

through a time of difficulty. As the long-term loans get repaid, long-term liabilities go down.

Reserves and equity (or net worth)

Then there's the equity part of the balance sheet. On Jean's balance sheet the equity was pretty simple—one line showing her net worth, the difference between her liabilities and her equity. There's a bit more to it on a housing co-op's balance sheet but the principle is the same.

We talked earlier about the assets in your reserves. A co-op's reserves are also part of its equity. Usually the reserves are in a separate section, as they are on our sample statement, to show that there is a special purpose for them. But this is just a matter of presentation.

What reserves does a co-op have? As we noted earlier, all should have a capital reserve. This may be called by another name—the replacement reserve, for example. It's the fund you keep for replacing or repairing major building items as well as appliances and flooring—the big-spend jobs that you need to save for.

The other reserve that's common is the subsidy surplus fund that some federal co-ops can keep. ILM co-ops have something called a security of tenure fund, which is shown with the reserves.

We'll talk more about the reserves and whether they are properly funded when we talk about 10 things to look for in your co-op's financial statements, in the next section.

In the equity section you'll also find the member shares, if yours is a co-op that has member-contributed share capital (see footnote #2, page 9). You may also find a line called contributed surplus. That would be grants towards your co-op's original development, if the amount is significant. In Ontario the small membership fee that is charged appears here. It's another item you can ignore.

The accumulated surplus line tells you if your co-op has earned more or less revenue since it began operations—that's important.

Finally, we get to the accumulated surplus line in the equity section (accumulated deficit if it's negative). This number does matter. It tells you whether your co-op has earned more or less revenue than the total of its expenses since it began operating. It will include, usually on a separate line, the surplus or deficit for the current year that shows up on your income statement. Putting it simply, if you have an accumulated surplus, that's a good thing - if you have an accumulated deficit, it's probably not. We'll talk more about this when we get to the key indicators.

Now let's look at the income statement.

The income statement of a housing co-op

You'll find a sample income statement for a co-op in Appendix 3. There is a separate example of an income statement for an Ontario HSA co-op in Appendix 5.

As we said, the income statement is a lot easier to understand, because we could write down our own finances in the same sort of way—the income we bring in and the expenses we have over a certain period of time. A co-op's income statement is just like that. It records revenue and expenses for the co-op's "fiscal year" to date—or for the whole year if it is a year-end income statement. "Fiscal year" refers to the 12-month period the co-op uses to budget and account for its revenues and expenses. The fiscal year may be the same as the calendar year but it can begin on the first day of any month.

Fiscal year means the 12 month period the co-op uses to budget and account for revenue and expenses.

What's on your co-op's income statement? It probably won't be exactly like our sample, but it shouldn't be that different either. First, note the format for the columns. Reading from the left:

- column 1 shows revenues and expenses for the year to date
- column 2 shows the budgeted revenues and expenses for the year to date
- column 3 shows the difference, or variance, between actual revenues and expenses and the budget numbers
- column 4 shows the same variance as a percentage.
- column 5 shows the budget for the whole year
- column 6 shows the amount of the annual budget remaining.

If the co-op has already overspent the annual budget for an expense line, the column 6 number will be negative. For an example, look at the line for painting in the maintenance section.

This is just one format. Depending on the accounting software you use, the columns can give you other numbers—the budget or actuals for the last month for example. This can be done by keeping the same number of columns but changing what they tell you, or by adding more columns. But be careful here. Too much information on the page can lead to a lack of attention to key numbers.

Accounting software can give you a lot of flexibility in how you format your co-op's income statement.

Sometimes, co-ops that really have to watch the bottom line might add a column called year-end projection. It projects year-end totals for each line based on what has happened so far. It's likely to be a bit different from the original budget for the year. These numbers can't come from your accounting system because they involve making estimates.

Unless it's the first month of the year the income statement will give us results for more than one month. Our sample is for 11 months, or accounting periods.

Now to the lines on the income statement, starting with revenues.

Housing revenue

Beginning on the revenue side, our income statement has housing charges as the first item. This will be the biggest single item of revenue for a housing co-op. Note that this line should include both the housing charges paid by the members and any subsidy applied to the housing charges to help low-income households. That way, the line will equal the amount you budgeted for housing charges—the full charge for each unit each month.

You don't earn all the housing charges you budgeted for if any units are empty. That's dealt with on the next line, under vacancies. That's where we record the revenue that's been lost (if any) due to units being vacant. Because this represents a reduction of revenues the amount is always negative unless it's zero.

It's very important to show vacancies separately from housing charges in the income statement.

It's very important for your income statement to show vacancies separately from housing charge revenue because you need to pay close attention to your vacancies. More on this later.

Other revenue

Then we have the other sources of revenue. Here are some examples:

- **operating subsidy** that some co-ops get from the government (not shown on our sample), a general subsidy that some co-ops get that's different from housing charge subsidies to members
- **investment earnings**, any interest, dividends, or capital gains your co-op makes from investing its money (this is not what you earn on your capital reserve; that money is added straight to the reserve)
- o**ther items** like income from laundry facilities, penalties, parking, fees from member use of co-op facilities, and any other source of revenue coming into your co-op.

Housing co-op expenses

Now to the expenses on your income statement. There are many more categories of expense than there are categories of revenue for a housing co-op, and there will be greater variation in the expense side of the income statement from co-op to co-op. Typically expenses fall into one or other of these broad groupings:

- maintenance and repairs
- administration
- professional fees
- membership dues
- insurance
- property taxes
- education
- community
- interest on long-term debt.

Note though that there can be variations in the groupings as well. But none of this affects the basic principle of an income statement: revenues come in, expenses are paid, which results in…

Surplus or deficit

The difference between the total of the revenues and the total expenses will be a surplus if revenues are greater than expenses and a deficit if they are less. This result will change the balance sheet as it affects net worth, or equity—specifically it will change the accumulated surplus or deficit[3].

How the income statement and the balance sheet work together

These two statements do not live in different worlds. Most financial transactions involve both the balance sheet and the income statement. Here are just two examples.

- **Housing charge revenue:** recorded on the income statement as revenue; on the balance sheet as an account receivable (and then as an addition to cash as receipts are deposited)
- **Repair bill received:** recorded on the income statement as an expense; on the balance sheet as an account payable (then as a reduction to cash when the bill is paid).

Housing charge revenue recorded on the income statement will affect accounts receivable—and then cash on the balance sheet.

3. Usually the balance sheet will show the accumulated surplus or deficit for the beginning of the year and the surplus/deficit for the year so far on a separate line (see the current surplus or deficit line towards the bottom of the sample balance sheet). At the end of the year these amounts are combined and become the opening accumulated surplus/deficit for the next year.

And there are many more. Note also that the difference between your revenues and expenses for the current year and your operating surplus or deficit is added to your balance sheet bottom line as well.

Financial statements can vary…

You may find additional items on your co-op's financial statements besides the ones we've been discussing. Here are some examples.

Ontario HSA Co-ops

Financial statements can vary according to the government program for your co-op, but the principles don't change.

Co-ops regulated by *Ontario's Housing Services Act*, or HSA, (these used to be called SHRA co-ops) are required to account separately for sector support. You can see this on the sample income statement for these co-ops in Appendix 5. Sector support is the amount of money some co-ops have included in their original mortgages to make a contribution to the co-op housing sector. HSA co-ops must show the portion of the housing charges that goes to pay this part of the mortgage and what part of the mortgage payment is for the sector support part of the loan.

ILM Co-ops

Almost all federal ILM co-ops also make a sector support contribution though they are not required to account for it separately on their financial statements. But ILM co-ops are required to have an additional fund on their balance sheets—the so-called Security of Tenure Fund. This is a modest fund that can offer temporary financial help to members paying the full housing charge who suffer a drop in their incomes that makes paying their housing charges a burden. The Security of Tenure Fund is usually shown in the member equity part of the balance sheet.

Co-ops in British Columbia

The Agency for Co-operative Housing produces a plain language year-end statement for its clients that is very easy to understand.

In British Columbia, the presentation of the year-end audited financial statements can be quite different from the standard presentation used elsewhere in the country. That is because many auditors there prefer what is called a fund-accounting presentation. Different aspects of a co-op's finances are treated as distinct financial entities. So, you have a fund for general operations, a fund for transactions relating to the capital assets (land, buildings etc.) and the mortgage on those assets, and separate funds for the co-op's reserves. Each fund has its own balance sheet and income statement. These are shown in a side-by-side format, and transactions between the funds are shown as what are called interfund transfers.

Many co-op members find this approach difficult to follow. But you should still be able to follow the internal statements produced by your manager, which will look a lot like the ones we show in this guide. And for federal co-ops in BC, the Agency for Co-operative Housing produces a plain-language version of your audited financial statements that is very easy to understand.

British Columbia has a small provincial program for co-op and non-profit housing groups. Delivered in the 1990s as the Homes BC initiative, this program comes with two kinds of provincial subsidy: a rent subsidy to assist low-income households, and a repayable operating subsidy. So you will see the repayable subsidy as a revenue line item on the income statement for these co-ops. It is not recorded as a liability to the government on the balance sheet as it is paid back through reductions in future subsidy, according to a formula. You can find out more by contacting the Co-operative Housing Federation of British Columbia.

Other variations

Other co-ops may have set up additional reserves and/or surcharges that will show on the balance sheet or the income statement. These items will make a co-op's financial statements a little bit different from the standard ones we show you in this guide. But any of these additional items will always fit into one of the sets of accounts we see on financial statements: assets, liabilities and equity on the balance sheet; revenues and expenses on the income statement.

Even if you have additional items on your statements, they will still follow the rules we have discussed for balance sheet and income statement accounts.

Part 2: 10 things to look for in your co-op's financial statements

As we said at the beginning, we aren't going to try to explain everything in your financial statements. Instead we've picked out 10 key indicators that will give you a good idea of how your co-op is doing financially: 10 numbers to watch for that will give you a window on your co-op's financial health.

Our 10 key indicators will give you a window on your co-op's financial health.

Here's the list of things we're going to look at and where to find them in the financial statements.

I. On the balance sheet:

1. cash and reserve funding – assets side
2. member receivables – assets side
3. accounts payable – liabilities and equity side
4. levels of capital reserves – liabilities and equity side
5. accumulated position: surplus or deficit – liabilities and equity side.

II. On the income statement:

6. housing charge revenue to budget – revenues section
7. expenses compared to budget – expenses section
8. maintenance spending – expenses section
9. bad debt – expenses section
10. operating surplus or deficit – bottom line.

You'll see that we are interested in looking at these indicators in two ways: actual amounts in your financial statements, and trends—whether things are getting better or worse.

This is by no means a perfect set of tests. And our advice does not mean you shouldn't ask your bookkeeper or manager to go over the financial statements with you. But we can say this:

If your co-op measures up to the indicators you're probably in good financial shape.

If your co-op measures up to these 10 indicators, you are probably in fairly good financial shape.

I. What to watch for on the balance sheet

1. CASH AND RESERVE FUNDING:

What to watch for:

- operating cash as a ratio of your monthly budget
- operating cash declining
- reserves not fully funded.

Operating cash as a ratio of your monthly budget

It's difficult to say exactly how much cash a co-op should have on hand. Cash goes up and down as the co-op goes through its annual budget cycle, depending on the timing of spending. But a co-op will always want to have a cash cushion against demands on cash such as surprise expenses like a maintenance emergency, or a drop in revenue due to units that need repairs before they can be filled.

So how much of a cushion is enough? There is no golden rule. Some managers say that co-ops should be keeping a careful eye on their cash if it dips below an amount equal to two months of your budgeted expenses. Another opinion is that co-ops should have minimum operating cash of at least 1.5 times the full monthly housing charge budget for all units. So our advice is this for operating cash:

- **operating cash equal to two times your full monthly housing charge budget:** your co-op is in a healthy cash position with a reasonable cash cushion
- **operating cash between 1.5 and 2 times your full monthly housing charges:** your co-op is probably ok for cash but you should pay attention to your cash position, and ask for cashflow projections for the next quarter. That means figuring out the cash that will come in and the cash you'll spend over the next three months to see whether cash continues to go down
- **operating cash less than 1.5 times your full monthly housing charges:** you need to be concerned about your cash. An unexpected cost or loss of income—and they do happen in the best of co-ops—could put you in a position where you can't make all your payments.

A word of warning about the operating cash test!
The cash test only works if you **don't have reserve fund cash mixed up with your operating cash** on the balance sheet. Reserve fund cash should be separated on the balance sheet under restricted assets.

Otherwise, if your operating cash includes some funds that belong to your reserves, you will think you have more of a cash cushion than you really do. This doesn't mean every dollar of your reserves has to be held in a separate investment account. We know that co-ops keep some capital reserves in their operating account to pay for replacements that will be done soon. But these funds should still be separated on your books—make sure that whoever keeps your books understands this. This also applies to co-ops that take member deposits. Make sure the money for these deposits is not included in the cash test calculation.

Operating cash declining

You should be concerned if your cash is declining. Cash will go up and down throughout the year as annual expenses like taxes and insurance come due. And you'll probably spend more on maintenance in the summer months. But if cash is trending downwards over the longer term, you should find out why. It could be due to rising receivables and/or vacancies—both of which we'll get to shortly. We recommend that a co-op with a declining cash trend do a cashflow analysis to see what the future looks like. If it's not looking good you will probably have to find a way to increase your co-op's revenue.

If reserve fund cash is with operating cash, you'll think you have more of a cushion than you really do.

Declining cash over the long term is a warning sign.

Funding of your reserves

When you make a contribution to your reserves, the value of your reserve fund balance in the equity section of your balance sheet is increased. This should be matched by an equivalent change in the asset value of your reserve, shown in our sample balance sheet as a restricted asset. **So the value of your reserve fund assets**, on the top half of the balance sheet, **should be equal to the balance of the reserve fund(s)** on the lower half of the balance sheet.

If the asset value of your reserves does not equal the equity value it means one of two things:

- your bookkeeper is not accounting correctly for your restricted assets; or
- your co-op does not have the money to fully fund the capital reserve.

If your capital reserve is not fully funded, you need to find out why.

The first of these possibilities is easily fixed. The second is serious. It will almost certainly mean your co-op has failed the operating cash test, and you are in danger of not being able to pay your bills.

2. MEMBER RECEIVABLES

What to look for:

- high arrears balance
- arrears growing.

"Receivables" is just a fancy accounting word for money that is owed to you. **Member receivables are amounts that members owe to the housing co-op**, usually for unpaid housing charges. These are the arrears.

It should go without saying that your members need to pay their housing charges if the co-op is going to be successful. Housing charges are your co-op's lifeblood. They pay the bills and keep the co-op in good shape. Co-ops can and do get into great financial difficulty when housing charges go unpaid and arrears mount up.

The amount of the arrears

So you need to watch your arrears and make sure that they are kept under control. What is a reasonable amount of arrears? Some would say that the only reasonable amount is zero, but zero arrears should always be the target. Realistically, co-ops will find it hard to avoid arrears altogether.

Zero member arrears should always be the target.

CHF Canada's standard for a 2020 Co-op is arrears that are no greater than three per cent of the monthly housing charges paid by the members. Don't include housing charge subsidy in this calculation—that is paid directly by the government. You can use this amount as a standard to test your arrears. If, for example, the amount of housing charges due from members is $40,000 each month, your arrears benchmark at 3% would be $1,200. A co-op that is determined not to have an arrears problem should not have difficulty meeting or beating that target.

Arrears growing

Regardless of the actual amount of your co-op's arrears, you need to look at whether they are growing, because growth here is never good. If you notice arrears are increasing month over month, you need to find out why. Is it a problem with one particular household? Or is your management of arrears getting weaker? Either way you need to take steps to correct the problem.

Soft on arrears?

When members don't pay their housing charges, that's a problem for the whole co-op.

Sometimes you might hear this argument: we're a housing co-op and we need to be compassionate when our members fall into arrears. It probably means they are going through hard times. Forcing them to pay money they can't afford makes us no different from a market landlord.

This argument is understandable. It's also wrong. Co-ops do their best to make their housing charges reasonable for the members. But it doesn't work when, for whatever reason, members don't pay. The co-op has its own bills to pay and if it can't do that, then all the members are going to suffer. So you can't be soft on collecting housing charges. If a member is really having difficulty, put that household on a payment plan. But don't simply let the matter slide.

3. ACCOUNTS PAYABLE

What to watch for:

- bills going unpaid
- payables aging.

We talked about accounts payable earlier. They represent money your co-op owes or will owe soon that must be paid within one year, and usually much sooner than that. Examples are current property taxes that for some co-ops are not paid until later in the year and the interest on your mortgage that you will owe at the end of the month.

There are also the bills you get from businesses and individuals for goods and services your co-op has purchased. These payables are known by accountants as **trade payables**. Here we'll just call them your co-op's bills.

They include your utility bills, invoices for repairs and maintenance, perhaps a bill for management or accounting services and any bills for accounts your co-op has set up, such as an account with a supplier of building parts and materials.

Every time your co-op receives one of these bills for goods and services that have already been provided, the amount of the bill should be entered into your accounting system as an account payable. That way you can track your co-op's outstanding bills at the end of each month.

The balance of your accounts payable will vary over the annual cycle, depending on what you buy and when, and how often you have repairs and maintenance carried out by an outside supplier. But if you see that the balance of your accounts payable is steadily increasing month over month, that could be a sign that

- your bills are going unpaid
- your payables are "aging".

Aging payables means there are unpaid bills that have been in the co-op's hands for some time and may now be past due. That can risk legal action for collection, and having liens placed on your co-op in some cases. A lien represents a claim on your co-op's assets by an outside party. It is placed on the legal title of your co-op and it can mean you can't get refinancing when your mortgage comes up for renewal.

If the bills are going unpaid, there could be a problem with your co-op's administration—or with your cash flow.

So keep a careful eye on your payables. If bills are going unpaid that can mean either that your co-op has cashflow problems, which you would detect anyway if you apply the cash tests we described earlier, or that your co-op's financial administration is being neglected. More than one co-op has found long-unpaid bills lying around in the co-op's office. Ask for information on how long your bills have been outstanding. If your payables are on the rise and aging, you need to find out why.

4. CAPITAL RESERVES

What to watch for:

- declining balance
- no capital plan to support the amount of the reserve funding.

In the cash test we talked about the funding of your reserves on the asset side of the balance sheet. Here we're going to look at the balance of the reserve. You'll find it on the liabilities and equity side of the balance sheet.

You should look out for three capital reserve warning signs:

- a continuously declining reserve balance
- the absence of a capital plan that supports the amounts being transferred to the reserve
- the reserves are not matched by the restricted assets on the assets side of the balance sheet.

Only a capital plan can tell you how much money you need in your capital reserve.

If the balance of the reserve is going nowhere but down you have reason to be alarmed. It's more than likely you are going to run out of the funds you need to take care of your co-op's property. But you can't really know whether you have a capital reserve shortfall unless your co-op has a **capital plan**.

A capital plan predicts when you will need to replace or make major repairs, how much they are expected to cost, and therefore how much money you should be setting aside to pay for them.

You won't find a capital plan mentioned in your financial statements. So if you're new to the board you need to ask if your co-op has a capital plan, and if so, whether your co-op is putting into reserves the money the plan calls for.

If you don't have a capital plan, you need to get one! CHF Canada has a guide to help federal program co-ops get a plan done. Go to the resource section of our website and follow the links.

We talked about this earlier: your restricted reserve assets should equal the balances in the reserve section of your balance sheet. It's worth repeating what we said when we talked about the funding of reserves:

> If the asset value of your reserves does not equal the equity value it means one of two things:
> - your bookkeeper is not accounting correctly for your restricted assets; or
> - your co-op does not have the money to fully fund the replacement reserve.

The first of these possibilities is easily fixed. The second is serious. It will almost certainly mean your co-op has failed the operating cash test, and you are in danger of not being able to pay your bills.

5. YOUR CO-OP'S NET WORTH: ACCUMULATED SURPLUS OR DEFICIT

What to watch for:

- accumulated deficit.

An accumulated deficit needs to be corrected before it threatens your co-op's viability.

When we explained the balance sheet in an earlier section, we said this: if you have an accumulated surplus, that's a good thing, if you have an accumulated deficit, it's probably not.

If your co-op is in an accumulated deficit position it means that, since day one of your co-op's operations, you've spent more money than you've taken in—or more precisely, your expenses have been greater than your revenues.

It doesn't take a financial genius to know that's not a good thing. From your own experience you know that someone who spends more than they earn is headed for trouble and it's no different for a housing co-op. An accumulated deficit needs to be corrected before it threatens the co-op's viability.

So if you find an accumulated deficit on your co-op's balance sheet, you need to propose that a deficit reduction plan be created if there is not already one in place. That may mean an increase in housing charges but, in the long term, if the situation continues and the deficit grows, the alternative is much worse—the possible loss of your co-op.

II. What to watch for on the income statement

6. HOUSING CHARGE REVENUE

What to watch for:

- housing charge revenue lower than budget.

When you create a budget for your co-op, you assume that you will collect the maximum housing charge for each unit—either from the member directly, or from a combination of the member's payment and any subsidy to which the member is entitled. Then you make a small allowance for any vacancies that might unavoidably occur[4].

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4. In some markets a co-op might offer financial incentives to fill units, such as a housing charge break in the sixth month of occupancy. Incentives must be allowed for too.

The combination of the housing charges and the allowance for vacancies is your housing-charge budget for the year. If you find that your actual housing charge revenue is falling short of budget then you need to ask why.

In all likelihood the reason will be vacancies that are greater than the vacancy allowance you budgeted for. **It won't be because of members who are in arrears, because you count housing charge revenue when it is due at the beginning of each month, not when you collect it**.

Vacant units mean lost revenue you co-op can never recover.

You need to take unbudgeted vacancies very seriously, because that's lost revenue you can never recover. The causes could be

- a poor process for filling vacant units, perhaps involving too many decision steps
- no marketing strategy
- vacant units are not in occupancy condition
- a combination of these factors.

It's important for the board to take the time to look carefully into the reasons for unbudgeted vacancies and to address the causes. And make sure, when the budget is set for housing charges, that the allowance for vacancies is not a large one. A large vacancy allowance could be a sign that the co-op has come to accept vacancies as normal, which is not good. **Co-ops should aim to avoid having any vacancies** through effective member recruitment and sound unit maintenance and preparation practices.

7. EXPENSES COMPARED TO BUDGET

What to watch for:

- significant variances in actual spending compared to the adopted annual budget.

In the sample income statement we looked at earlier you can see that we have a column for the year-to-date actual expenses and another for the year-to-date budget. Make sure that your co-op's income statement has these two columns because that's how you can see how your co-op is actually doing compared to budget. Our sample statement also shows the difference, or variance, between actual and budget.

Look for significant variances of expenses compared to budget and ask about them.

There will always be differences between the budget and what actually gets spent and when during the co-op's fiscal year. For example, co-ops usually divide the annual budget figures into equal monthly amounts on their financial statements, but many kinds of expenses don't follow the same pattern. Budgets can be under-spent for good reason and sometimes the co-op will incur unavoidable expenses that were not budgeted at all.

So don't expect the actual expense to be a mirror image of the budget. But do look for significant variances against budget and ask about them. Are they simply to do with the timing of expenses? Or do they mean something else? Poor budgeting in the first place? A lack of spending control? Or a failure to carry out planned spending?

These are the questions you should be asking yourselves as directors—and asking your manager—where you identify significant differences between what was budgeted and what the actual expenses are. You should be able to count on your manager to explain these variances to you clearly.

The issue of failing to carry out spending as budgeted can become very serious when the budget in question is for maintenance and repairs, so we'll talk about that next.

8. MAINTENANCE SPENDING[5]

What to watch for:

- maintenance budget significantly under-spent (yes, under-spent).

When a co-op sets a budget for maintenance, it should be based on the costs of an actual maintenance plan for the year. In a well-maintained co-op that plan should provide for:

- preventive maintenance and equipment servicing
- a response to repairs requests
- emergency repairs

—with all maintenance and repairs carried out to a professional service standard.

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5. Note that maintenance spending does not include spending from the capital or replacement reserve on major repairs or renovations. We talk about what to watch for in your co-op's capital reserve under indicator #4 on page 22.

Some co-ops, though, put money in the budget for maintenance without having any real system for delivering a maintenance program. Or member volunteers try to do work that requires skilled trades. The result can be that a significant portion of the maintenance budget goes unspent. What's worse is that some co-ops see this as a good thing.

Under-spending the maintenance budget is not a good thing.

Under-spending the maintenance budget is *not* a good thing. Because it means maintenance at your co-op is either being deferred or done poorly. And if we're going to be honest about it, maintenance has not turned out to be a co-op housing strong point over the years.

So look for two things:

- a maintenance budget that is supported by a maintenance plan and that has enough funding to carry the plan out
- evidence in the financial statements that the budget is actually being spent.

As with some other expenses, maintenance spending is uneven over the year; but if you're seeing a consistently unspent maintenance budget, find out why.

9. BAD DEBT

What to watch for:

- bad debt as a significant ratio of member receivables
- bad debt increasing/over budget.

What is bad debt? It's a provision you make for money owed from members—or, more likely, ex-members—that you don't think you can collect.

Keep bad debt to a minimum by collecting housing charge arrears promptly.

Bad debts begin with an allowance for doubtful accounts on the balance sheet when the co-op loses confidence that it will collect all the money it is owed. That becomes a bad debt expense on the income statement. Many co-ops do not budget for bad debt; some do if they have had members leave owing significant money to the co-op. We said earlier that making an allowance does not mean you stop chasing what you are owed. But amounts that can't be collected must eventually be written off.

A bad debt write-off represents lost income you will not recover. So you want to see your co-op's manager keeping bad debt to a minimum by having a thorough arrears collection program.

In our sample income statement we allow a budget of $500 for doubtful accounts, though the "actual" column shows double that amount. But it's still not a material amount. If you are starting to see significant bad debt expense, or bad debt that's increasing and going over budget, you should ask why and question arrears control in the co-op.

Note that co-ops should not give up on collecting money owed just because a member has left the co-op. Money owed to the co-op is a legally collectible debt, and you should consult your lawyer for further advice.

10. OPERATING SURPLUS/DEFICIT

What to watch for:

- operating deficit (may also appear as current deficit).

Operating surplus/deficit shows you how your co-op is doing in the current year.

Test 5 talked about accumulated surplus and accumulated deficit. Those are numbers—one or the other—that you'll find on your balance sheet. The **operating surplus/deficit refers to how your co-op is doing in the current year**. It works like this:

- If your expenses have been **lower** than your revenues, you will have an operating surplus by the amount of the difference
- If your expenses have been **greater** than your revenues, you will be showing an operating deficit by the amount of the difference.

Showing an operating deficit may not be the sign of a problem because some expenses tend to "clump up" at certain times of the year, but you must ask why you have a deficit, especially if it persists from month to month. Assuming that you have budgeted to break even for the year, as you should, you need to pay attention to an emerging operating deficit. It can only be due to one or both of these two things:

- revenues are lower than budgeted
- expenses are higher than budgeted.

How do you deal with an operating deficit? First make sure that spending is under control. If your co-op has expenses that weren't budgeted, you're probably going to run a deficit. Sometimes you may face unbudgeted expenses that you cannot avoid, such as emergency repairs or the cost of defending or commencing a legal action. But otherwise you do need to make sure that your co-op isn't spending money it doesn't have.

A common cause of an operating deficit is a failure to earn all the revenue you budgeted for.

An equally likely cause of an operating deficit is a failure to earn the revenues you have budgeted for. How can that happen? Most likely through vacancy losses, perhaps the worst thing that can happen to a co-op's finances.

Another revenue-related cause of a deficit is a failure to collect housing charges that leads to bad debt expense—money you are owed by members that you don't think you can collect. In most cases these losses are avoidable through good management practices. If you are losing money for these reasons at your co-op you need to ask questions about whether you have the right management in place.

A last word

So there you have it. Ten things to look for in your financial statements that will tell you a lot about your co-op's financial health even if you're not a financial expert.

In the previous section we talked about asking questions. Asking questions about the financial statements is the key to making the best use of them. You should ask about anything you don't understand or that needs more explanation. And if your financial statements don't contain the level of detail we've talked about, your co-op needs to think about improving the financial services you're getting. Information is the key to taking the financial temperature of your co-op.

You should ask questions about anything you don't understand on your financial statements.

So go ahead, grab your co-op's financial statements and put them to the test. You'll be surprised how much you'll learn!

Appendix 1

Sample Housing Co-op
Balance Sheet as at July 31, 20XX
(Federal Section 95 co-op without share capital)

Assets		
Current assets:		
Unrestricted cash:	$	116,200
Accounts receivable – members		1,800
Accounts receivable – ex-members		1,200
Subsidy receivable		10,000
Prepaid expense		5,000
Allowance for bad debt		(1,200)
Total current assets		**133,000**
Restricted assets:		
Replacement reserve fund		485,000
Subsidy surplus fund		28,500
Member deposits		90,000
Total restricted assets		**603,500**
Fixed assets:		
Land and buildings		4,500,000
Less: accumulated depreciation		(1,500,000)
Total fixed assets		**3,000,000**
TOTAL ASSETS	**$**	**3,736,500**

Appendix 1 – Sample housing co-op balance sheet (Federal Section 95 co-op without share capital) continued

Liabilities & Equity		
Current liabilities:		
Accounts payable	$	5,600
Due to ex-members		1,400
Accrued mortgage interest		17,000
Member deposits		90,000
Total current liabilities		**114,000**
Long-term liabilities:		
Mortgage payable		3,000,000
Total long-term liabilities		3,000,000
Total liabilities		**3,114,000**
Reserves:		
Replacement reserve		**485,000**
Subsidy surplus fund		28,500
Total reserves		**513,500**
Member equity:		
Accumulated surplus		**100,000**
Current surplus or (deficit)		**9,000**
Total equity		**109,000**
TOTAL LIABILITIES & EQUITY	**$**	**3,736,500**

Appendix 2

Sample Housing Co-op
Balance Sheet as at July 31, 20XX
(Federal Section 95 co-op with share capital)

Assets	
Current assets:	
Unrestricted cash:	$ 210,000
Accounts receivable – members	(3,300)
Accounts receivable – ex-members	5,000
Subsidy receivable	10,800
Prepaid expense	5,500
Allowance for bad debt	(5,000)
Total current assets	**223,000**
Restricted assets:	
Replacement reserve fund	485,000
Subsidy surplus fund	28,500
Total restricted assets	**513,500**
Fixed assets:	
Land and buildings	4,500,000
Less: accumulated depreciation	(1,500,000)
Total fixed assets	**3,000,000**
TOTAL ASSETS	**$ 3,736,500**

Appendix 2 – Sample housing co-op balance sheet (Federal Section 95 co-op with share capital) continued

Liabilities & Equity	
Current liabilities:	
Accounts payable	$ 5,600
Due to ex-members	1,400
Accrued mortgage interest	17,000
Total current liabilities	**24,000**
Long-term liabilities:	
Mortgage payable	3,000,000
Total long-term liabilities	3,000,000
Total liabilities	**3,024,000**
Reserves:	
Replacement reserve	485,000
Subsidy surplus fund	28,500
Total reserves	**513,500**
Member equity:	
Shares	90,000
Accumulated surplus	100,000
Current surplus or (deficit)	9,000
Total equity	**199,000**
TOTAL LIABILITIES & EQUITY	**$ 3,736,500**

Appendix 3

Sample Housing Co-op
Statement of Income for the Month Ended July 31, 20XX
Federal Co-op, Fiscal Period No. 11

	Y-T-D Actual	Y-T-D Budget	Y-T-D Variance	Y-T-D Variance -%	Annual Budget	Budget Remaining
REVENUE:						
Housing revenue:						
Housing charges	550,000	550,000	–	0.0%	600,000	50,000
Less: vacancy	(915)	(1,833)	918	-50.1%	(2,000)	(1,085)
Total housing revenue	549,085	548,167	918	0.2%	598,000	48,915
Other revenue:						
Investment returns	5,100	4,583	517	11.3%	5,000	(100)
Laundry income	1,485	1,375	110	8.0%	1,500	15
Penalty charges	150	183	(33)	-18.2%	200	50
Misc. income	250	–	250	N/A	–	(250)
TOTAL REVENUE	**556,070**	**554,308**	**1,762**		**604,700**	**48,630**
EXPENSES:						
Operating:						
Property taxes	19,529	19,525	4	0.0%	21,300	1,771
Insurance	10,031	10,267	(236)	-2.3%	11,200	1,169
Garbage/recycling	5,664	5,958	(294)	-4.9%	6,500	836
Water/sewer	9,648	11,000	(1,352)	-12.3%	12,000	2,352
Electrical	2,364	2,292	72	3.2%	2,500	136
HST	6,800	3,667	3,133	85.5%	4,000	(2,800)
Operating – total	**54,036**	**52,708**	**1,328**	**2.5%**	**57,500**	**3,464**

Appendix 3 – Sample Federal housing co-op statement of income continued

	Y-T-D Actual	Y-T-D Budget	Y-T-D Variance	Y-T-D Variance -%	Annual Budget	Budget Remaining
Maintenance:						
Exterior	3,198	13,191	(9,993)	-75.8%	14,390	11,192
Common areas	3,838	4,991	(1,153)	-23.1%	5,445	1,607
In suite	18,331	22,917	(4,586)	–20.0%	25,000	6,669
Pest control	820	917	(97)	-10.5%	1,000	180
Painting	6,805	3,176	3,629	114.2%	3,465	(3,340)
Service contracts	16,500	16,500	–	0.0%	18,000	1,500
Annual cleanup	1,000	917	83	9.1%	1,000	–
Tree care	900	917	(17)	-1.8%	1,000	100
Landscaping	11,170	12,320	(1,150)	-9.3%	13,440	2,270
Maintenance – total	**62,562**	**75,845**	**(13,283)**	**-17.5%**	**82,740**	**20,178**
Administration:						
Telephone/enterphone	1,740	1,375	365	26.5%	1,500	(240)
Bank charges	113	147	(34)	-23.0%	160	47
Management services	27,500	27,500	–	0.0%	30,000	2,500
Office expense	2,670	2,750	(80)	-2.9%	3,000	330
Membership dues	3,850	3,850	–	0.0%	4,200	350
Audit expense	3,000	2,998	3	0.1%	3,270	270
Legal	8,390	4,583	3,807	83.1%	5,000	(3,390)
Bad debts	1,000	458	542	118.2%	500	(500)
Administration – total	**48,263**	**43,661**	**4,602**	**10.5%**	**47,630**	**(633)**
Committees:						
Social	750	917	(167)	-18.2%	1,000	250
Education	650	275	375	136.4%	300	(350)
Ad-hoc committees	–	92	(92)	-100.0%	100	100
Committees – total	**1,400**	**1,283**	**117**	**9.1%**	**1,400**	**–**
Mortgage & Reserves:						
Mortgage expense	305,892	305,892	0	0.0%	333,700	27,808
Replacement reserve alloc.	74,917	74,919	(2)	0.0%	81,730	6,811
Mortgage & reserves – total	380,809	380,811	(2)	0.0%	415,430	34,619
TOTAL EXPENSES	**547,070**	**554,308**	**(4)**	**-1.3%**	**604,700**	**57,628**
NET INCOME/(DEFICIT)	**9,000**	**–**	**9,000**	**N/A**	**–**	

Appendix 4

Sample Housing Co-op
Balance Sheet as at July 31, 20XX
(HSA Co-op)

Assets	
Current assets:	
Unrestricted cash	$ 110,780
Accounts receivable – members	1,800
Accounts receivable – ex-members	5,000
Allowance for bad debt	(5,000)
Subsidy receivable	10,800
Prepaid expense	5,500
HST receivable	4,120
Total current assets	**133,000**
Restricted assets:	
Replacement reserve fund	485,000
Subsidy surplus fund	90,000
Total restricted assets	**575,000**
Fixed assets:	
Land and buildings	4,500,000
Less: accumulated depreciation	(1,500,000)
Total fixed assets	**3,000,000**
TOTAL ASSETS	**$ 3,708,000**

Appendix 4 – Sample HSA housing co-op balance sheet continued

Liabilities & Equity	
Current liabilities:	
Accounts payable	$ 5,600
Due to service manager	680
Accrued mortgage interest	17,000
Member deposits	90,000
Total current liabilities	**113,280**
Long-term liabilities:	
Mortgage payable	3,000,000
Total long-term liabilities	3,000,000
Total liabilities	**3,113,280**
Reserves:	
Replacement reserve	485,000
Total reserves	**485,000**
Member equity:	
Contributed surplus	720
Accumulated surplus	100,000
Current surplus or (deficit)	9,000
Total equity	**109,720**
TOTAL LIABILITIES & EQUITY	**$ 3,708,000**

Appendix 5

Sample Housing Co-op
Statement of Income for the Month Ended July 31, 20XX
HSA Co-op, Fiscal Period No. 11

	Y-T-D Actual	Y-T-D Budget	Y-T-D Variance	Y-T-D Variance -%	Annual Budget	Budget Remaining
REVENUE:						
Housing revenue:						
Housing charges	477,285	477,285	(0)	0.0%	520,675	43,390
Less: vacancy	(968)	(4,125)	3,157	-76.5%	(4,500)	(3,532)
Total housing revenue	476,317	473,160	3,157	0.7%	516,175	39,858
Other revenue:						
Property tax subsidy	19,525	19,525	–	0.0%	21,300	1,775
Operating subsidy	79,650	79,650	(0)	0.0%	86,891	7,241
Investment returns	1,008	917	91	10.0%	1,000	(8)
Laundry income	1,485	1,375	110	8.0%	1,500	15
Penalty charges	150	183	(33)	-18.2%	200	50
Misc. income	250	-	250	N/A	–	(250)
TOTAL REVENUE	**578,385**	**574,811**	**3,575**		**627,066**	**48,681**
EXPENSES:						
Operating:						
Property taxes	19,525	19,525	–	0.0%	21,300	1,775
Insurance	10,031	10,267	(236)	-2.3%	11,200	1,169
Garbage/recycling	5,664	5,958	(294)	-4.9%	6,500	836
Water/sewer	9,648	11,000	(1,352)	-12.3%	12,000	2,352
Electrical	2,364	2,292	72	3.2%	2,500	136
Fuel	6,800	3,667	3,133	85.5%	4,000	(2,800)
Operating – total	**54,032**	**52,708**	**1,324**	**2.5%**	**57,500**	**3,468**

Appendix 5 – Sample HSA housing co-op statement of income continued

	Y-T-D Actual	Y-T-D Budget	Y-T-D Variance	Y-T-D Variance -%	Annual Budget	Budget Remaining
Maintenance:						
Exterior	5,198	13,191	(7,993)	-60.6%	14,390	9,192
Common areas	4,516	4,991	(475)	-9.5%	5,445	929
In suite	18,331	22,917	(4,586)	-20.0%	25,000	6,669
Pest control	820	917	(97)	-10.5%	1,000	180
Painting	6,805	3,176	3,629	114.2%	3,465	(3,340)
Service contracts	16,500	16,500	–	0.0%	18,000	1,500
Annual cleanup	1,000	917	83	9.1%	1,000	–
Tree care	900	917	(17)	-1.8%	1,000	100
Landscaping	11,170	12,320	(1,150)	-9.3%	13,440	2,270
Maintenance – total	**65,240**	**75,845**	**(10,605)**	**-14.0%**	**82,740**	**17,500**
Administration:						
Telephone/enterphone	1,840	1,375	465	33.8%	1,500	(340)
Bank charges	125	147	(22)	-14.8%	160	35
Management services	27,500	27,500	–	0.0%	30,000	2,500
Office expense	2,670	2,750	(80)	-2.9%	3,000	330
Membership dues	3,850	3,850	–	0.0%	4,200	350
Audit expense	3,000	2,998	3	0.1%	3,270	270
Legal	8,390	4,583	3,807	83.1%	5,000	(3,390)
Bad debts	1,000	458	542	118.2%	500	(500)
Other	1,400	1,283	117	0	1,400	–
Administration – total	**49,775**	**44,944**	**4,831**	**10.7%**	**49,030**	**(745)**
Mortgage & Reserves:						
Mortgage expense	326,394	326,394	0	0.0%	356,066	29,672
Replacement reserve alloc.	74,917	74,919	(2)	0.0%	81,730	6,811
Mortgage & reserves – total	401,311	401,313	(2)	0.0%	437,796	36,483
TOTAL EXPENSES	**570,358**	**574,811**	**(4)**	**-0.8%**	**627,066**	**56,706**
NET SHELTER INCOME/(DEFICIT)	**8,027**	**–**	**8,027**	**N/A**	**–**	
Other:						
Sector support revenue	3,975	3,002	973	32.4%	3,275	273
Sector support mortgage expense	3,002	3,002	(0)	0.0%	3,275	273
Other income/(deficit)	**973**	**–**	**973**	**N/A**	**–**	**–**
INCOME/(DEFICIT)	**9,000**	**–**	**9,000**	**N/A**	**–**	

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