CHOA

Condominium Home Owners' Association of British Columbia

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Financial Literacy: The Statement of Operations (Income Statement)

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The statement of operations or income statement is one of the reports commonly presented to Strata Council, Owners and professional managers for periodic review. This statement is fairly intuitive but is often not fully understood because the purpose of the statement is not known and the accounting methods used to prepare it are sometimes inconsistently applied. Hopefully, after reading this article, you will be able to read a statement of operations and understand what's happening with your Strata.

In its simplest form, the statement of operations shows how the Strata has performed over a period of time. It is the report showing what money was supposed to come in, how money was spent, and what money was left over for a specific period of time.

The period of time is shown at the top of the statement and is typically 'for the xx months ended [month end date]' in the case of monthly financial statements, or 'for the year ended [fiscal year end date]' in the case of annual financial statements.

Figure 1 is a typical statement of operations showing the three components:

- Revenues – strata fees and ancillary income such as interest and fines
- Expenditures – what the money was spent on
- Excess (or deficiency) of revenue over expenditures - calculated revenues less expenditures

Notice that the statement in figure 1 has 3 columns of figures:

- Budget
- Actual for the period of time being reported
- Actual for the previous period of time being reported

The budget and previous period columns are there to help you determine if the actual revenues and expenses are in accordance with the budget (comparison to budget) and are reasonable (comparison to previous actual).

The statement in figure 1 also shows a fourth component – the Operating Fund Balance. Notice the statement name includes 'and changes in Fund Balance'. After the Excess of revenue over expenditures there are a few lines showing the operating fund opening and closing fund balances along with any transfers to other Funds. This information is important because the Strata Property Act (SPA) requires that an opening deficit (negative balance at the beginning of the year) must be eliminated in the next fiscal year. And, if there is an opening surplus (positive balance at the beginning of the year), the surplus can be used for operating expenditures in the current year – thus, the current year budget could actually show expenditures in excess of revenues.

So, fairly simple: money in, money spent, some left over or a shortage, and a positive or negative fund balance. All good – but is it? To know for sure you have to understand the purpose of the statement and a little bit about the accounting methods used to prepare the statement.

Purpose

Typically, at the annual general meeting, an operating budget is presented for approval. The budget puts forward estimates of what Strata Council anticipates will need to be spent in the various categories along with any proposed contributions to the Contingency Reserve Fund (CRF). To support the spending, the budget lists the various sources of revenue as well. Usually, after some deliberations and all the questions are answered, the budget is passed. Immediately after the budget is passed responsibility is divided:

- The **owners** become responsible to pay strata fees in accordance with the budget; and
- The **Strata Council** becomes responsible to collect fees and spend the money in accordance with the budget.

Note that Strata Council is responsible to manage the Strata Corporation's activities. Strata Council may engage a Professional Strata Manager to perform the administrative tasks necessary to accomplish all the planned activities in the budget. This may reduce considerably the time and effort Council members have to invest in managing the strata corporation but it does not relieve Strata Council of its responsibilities.
The statement of operations is the report back from Strata Council to let you know that the Strata Corporation is charging the appropriate fees and levies and that the money has been spent in accordance with the budget.

Accounting Methods

Revenues:
In figure 1, the revenues section shows actual strata fees revenue exactly equal to budget. It is important to understand that this is not the actual amount of strata fees that were paid in, rather it is the amount of strata fees that became due during the period of time reported. So, you can see that strata fees were charged in accordance with budget but you can't see what was collected. To see if there are strata fees in arrears or strata fees paid early, you have to look at the statement of financial position which lists the magnitude of the strata fees still receivable and fees paid in advance. Similarly, with the ancillary revenues, the amounts are what became due during the period of the statement of operations.

Expenditures:
In figure 1, the expenditures section shows what money was spent on by category. It is important to know that the amounts listed are supposed to be the expenses incurred during the period of the statement of operations. This part of the statement is much harder to get right because bills don't always come in when the service is rendered or the goods are purchased.

Examples:

- A BC Hydro bill is for 2 months from April 20 to June 19. The May financial statements may show zero spent on electricity because there was no bill in May, and the June financial statement may show the June 19 billing which is actually 2 months' worth of electricity. The May and June statements do not accurately reflect the amounts spent on electricity in each month. The appropriate way to show what was spent on electricity is to record estimates of the electricity used from May 1 to 31 in the May statement and from June 1 to June 30 in the June statement.
- A tradesperson comes in to repair something. The tradesperson does the work on the 20th of June and then, at some point after month-end, the tradesperson gathers all the bills on the dashboard of the truck and mails them out. The Strata gets the bill on July 15 and pays the bill on August 5. The June financial statement may show zero paid for this service because the June statement is prepared on July 10 and the bill wasn't received until July 15. The July financial statement might show the tradesperson's bill because it was received in July. Or, the August financial statement might show the bill because it was paid in August. The expenditure should be recorded in June when the work was done.

When expenditure estimates are made such as for electricity in the example above, this gives rise to an 'accrued liability'. And, when goods or services invoices are recorded in the month incurred and the invoices are paid in a subsequent period, the unpaid invoices at the end of the period are 'accounts payable'. To see the magnitude of the accrued liabilities and accounts payable you have to look at the statement of financial position which usually has a line for 'accounts payable and accrued liabilities'.

It takes extra time and skill to accrue liabilities and record accounts payable. The simplest and most expedient method of accounting for the expenditures is to simply record the bills incurred in the month they are paid. Often there is a routine set up where all bills on hand are paid once a month within the first few weeks of the month and those bills that are paid are recorded in the accounts on the day paid. Strata Council rationalizes this method by saying that it is easier for readers to understand. Sadly, this method actually reduces the informational value of the statement of operations and makes it harder for readers to see if the spending was in accordance with the budget.

Things To Watch For

When you read through the expenditures, remember that Strata Council is responsible to spend in accordance with the budget. When the actual expenditure is higher than the annual budget it means that the expenditures were higher than anticipated. The over-expenditure is actually an unapproved expenditure and owners should obtain satisfactory explanations for all expenditures that are significantly over the annual budget. When an expenditure is lower than the budget it means that the expenditures were lower than anticipated. It can also mean that a planned project or repair is not being carried out by Strata Council. Again, owners should obtain satisfactory explanations for all expenditures that are significantly under budget. As a general guideline, I suggest obtaining explanations for expenditures that vary 10% or more from the annual budgeted amount.

Figure 1

THE OWNERS, STRATA PLAN NO.[redacted]

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCE
For the year ended September 30, 2014

	Operating Fund Budget 2014 (Unaudited)	Operating Fund Actual 2014	Operating Fund Actual 2013
	$	$	$
REVENUES			
Strata fees	904,670	**904,672**	884,998
Fines/liens	500	**5,600**	12,000
Interest	400	**301**	510
Miscellaneous	5,000	**5,919**	6,006
	910,570	**916,492**	903,514
EXPENDITURES			
General			
Appraisal	1,150	**682**	-
Audit	4,600	**3,636**	3,796
Concierge	180,000	**170,776**	175,390
Insurance	60,000	**62,943**	55,679
Janitorial	37,000	**35,964**	39,957
Legal	5,000	**2,650**	9,638
Management fees	26,300	**25,410**	26,646
Miscellaneous	11,000	**10,527**	10,585
	325,050	**312,588**	321,691
Buildings and Grounds			
Electricity	55,000	**53,471**	53,176
Elevator	23,000	**23,381**	22,781
Fire protection	8,000	**17,311**	12,085
Gas	63,000	**62,079**	58,858
Landscaping	25,000	**21,152**	16,236
Mechanical maintenance	35,000	**43,343**	28,491
Repairs and maintenance	70,000	**82,118**	88,858
Security	4,000	**311**	3,910
Waste removal	16,000	**12,644**	16,024
Water and sewer	32,000	**31,208**	34,081
Water treatment	8,500	**9,710**	8,414
Window cleaning	13,000	**8,243**	8,138
	352,500	**364,971**	351,052
	677,550	**677,559**	672,743
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES, Before	233,020	**238,933**	230,771
Budgeted interfund transfers	(200,000)	**(200,000)**	(230,000)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	33,020	**38,933**	771
Fund balance, beginning of the year		**(16,526)**	(16,006)
Interfund transfers		**-**	(1,291)
Fund balance, end of the year		**22,407**	(16,526)