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## Financial Literacy: The Statement of Financial Position (Balance Sheet)

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The statement of financial position (SFP) or balance sheet is one of the reports commonly presented to Council, Owners and managers for periodic review. This is often a confusing beast for those unfamiliar with it. Hopefully, after reading this article, the statement will be demystified and you will be able to read a statement of financial position with understanding.

In its simplest form, a SFP shows what *assets* (things of value) the Strata controls and who owns them. When someone else owns the assets those are called *liabilities* and when the Strata owns the assets that ownership is reflected in the *fund balances* (sometimes called 'Owners equity').

Unlike the statement of operations which shows how the Strata performed over a period of time, the SFP is like a snapshot and reports the financial health of the Strata at a point in time – the date stated at the top of the statement.

Figure 1 is a typical SFP for a Strata. Notice the three components:

- Assets – things of value the Strata controls (eg. cash, bank accounts, accounts receivable)
- Liabilities – amounts owed to others (eg. Accounts payable, Strata fees paid in advance)
- Fund Balances – amounts owned by the strata (eg. Operating Fund balance, Contingency Reserve Fund Balance)

Notice also that the total of the assets is equal to (balances with) the total of the liabilities and fund balances combined – thus the original name of this statement, the *Balance Sheet*.

Although not relevant to the date of the SFP, there is typically a comparative column of figures that represent the balances for a previous date. On annual statements

the comparative date is exactly one year prior to the fiscal year end being reported (the date at the top of the SFP).

One more thing you need to know is that the various assets and liabilities are grouped together. CURRENT assets and liabilities are those that are expected to be realized or paid within one year. All non-current ones are grouped under various other headings such as: Other assets or liabilities, Long-term, Capital assets, and Investments.

Your SFP should be in the basic format discussed above and displayed in Figure 1. The SFP should be supported by various notes that explain or disclose details that are not readily apparent on the SFP. Figure 2 is an example of just some of the notes that are mandatory and enhance the understanding of the SFP. For instance, the SFP (Figure 1) has tangible capital assets with a reference to 'Note 4'. Note 4 (Figure 2) discloses details about the types of tangible capital assets the Strata owns, the accumulated depreciation for each type and the net book value (cost less accumulated depreciation) for each type. When the net book values are added together they sum to the amount disclosed on the SFP. Notice also that Note 2(b) discloses the accounting policies for the tangible capital assets.

Sadly, most Strata financial statements I see have no accompanying notes and so you are left with just the SFP to work with. To make up for the lack of notes, I see many SFP that are chocked full of details that make this statement into the mysterious beast that you see at each meeting. To help understand such a statement, take a look at Figure 3 which is a list of typical line items you might see on the SFP along with their definitions.

Often the components listed in the definition are shown on the SFP instead of the items listed in Figure 1.

For me, every set of financial statements tells a story. The story begins with the comparative figures in the SFP, the story line is shown in the statement of operations\* and the end result is shown on the SFP current period column. Remember that the SFP is a snapshot that shows the financial health of the Strata at the end of a period of time, so it is like reading the last page of the story.

Now you have a basic understanding of how to read the SFP, what should you look for and how do you tell if there is a problem? Here are a few things to look for:

1. Banks should not be overdrawn or in a negative balance.
2. It is preferable that the total of the current assets exceeds the total of the current liabilities.

3. A significant balance in accounts receivable usually means that several owners are not paying their strata fees on time.
4. A large balance in accounts payable could mean the Strata is not paying its debts on time.
5. Payroll liabilities are usually paid on or before the 15<sup>th</sup> of the month for the previous month, so it is normal to have about the same amount payable at the end of each month. When the usual amount doubles or triples it can mean that remittances are not being made and that can lead to penalties and interest being levied by the Canada Revenue Agency.
6. Fund balances should not be negative – a negative balance means that one or more funds are in a deficit position (over-spent) and some action may have to be taken to cover the deficit.

\*Look for a future Financial Literacy article on the Statement of Operations.

Figure 1

**THE OWNERS, STRATA PLAN NO. [REDACTED]**

**STATEMENT OF FINANCIAL POSITION  
September 30, 2014**

	2014	2013
	\$	\$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	1,074,941	577,592
Accounts receivable - owners	8,475	10,225
Prepaid expenses	17,873	16,967
	<u>1,101,289</u>	<u>604,784</u>
<b>TANGIBLE CAPITAL (Note 4)</b>	<b>23,444</b>	<b>3,583</b>
	<u><b>1,124,733</b></u>	<u><b>608,367</b></u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accruals	165,163	39,285
Strata fees received in advance	2,676	5,208
Payroll liabilities	3,140	2,454
Vacation payable	3,715	2,971
Deposits	343	343
	<u>175,037</u>	<u>50,261</u>
<b>FUND BALANCES</b>		
UNRESTRICTED	22,407	(16,526)
RESTRICTED	903,845	571,049
INVESTED IN TANGIBLE CAPITAL ASSETS	23,444	3,583
	<u>949,696</u>	<u>558,106</u>
	<u><b>1,124,733</b></u>	<u><b>608,367</b></u>

Figure 2

**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2014**

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**1 THE STRATA CORPORATION**

The Strata Corporation has been established in accordance with the Strata Property Act of British Columbia and is responsible for managing and maintaining the common property and common assets of the Strata Corporation for the benefit of the owners.

**2 SIGNIFICANT ACCOUNTING POLICIES**

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations. The significant policies are:

**(a) Restricted Fund Method of Accounting**

These financial statements have been prepared following the restricted fund method of accounting, where revenues are recorded in the period in which they were assessed or earned and expenditures are recorded in the period in which they became an obligation.

**(i) Operating Fund**

The Operating Fund reports unrestricted resources used for administrative activities and routine maintenance.

**(ii) Contingency Reserve Fund**

The Contingency Reserve Fund reports restricted resources used for non-annual repair, maintenance and replacement of common property, common facilities and other assets.

The Strata Property Act requires if the amount of money in the Contingency Reserve Fund at the end of any fiscal year after the first annual general meeting is less than 25% of the total contribution to the Operating Fund for the fiscal year that has just ended, the annual contribution to the Contingency Reserve Fund for the current fiscal year must be at least the lesser of: 10% of the total contribution to the Operating Fund for the current fiscal year and the amount required to bring the Contingency Reserve Fund to at least 25% of the total amount budgeted for the contribution to the Operating Fund for the current fiscal year. If the balance in the Contingency Reserve Fund at the end of any fiscal year after the first annual general meeting is equal to or greater than 25% of the annual budgeted contribution to the Operating Fund for the fiscal year that has just ended, additional contributions to the Contingency Reserve Fund may be made as part of the annual budget approval process after consideration of the depreciation report, if any, obtained under section 94 of the Strata Property Act.

Investment income generated by the Contingency Reserve Fund is to be retained in the Contingency Reserve Fund.

Expenditures may be charged to the Contingency Reserve Fund if approved by 75% of owners entitled to vote at a properly convened general meeting or if there are reasonable grounds to believe that an immediate expenditure is necessary to ensure safety or prevent significant loss or damage, whether physical or otherwise.

**(iii) Capital Fund**

The Capital Fund reports common tangible capital assets, their related financing and depreciation.

**(iv) Other Restricted Funds**

Other Restricted Funds report any other funds set up for specified purposes in accordance with resolutions approved by a 75% vote.

(b) **Tangible Capital Assets**

Tangible capital assets are expensed in the Fund from which the acquisition was budgeted when purchased and are capitalized in a Capital Fund at cost. Major capital expenditures of a repair, replacement or renovation nature related to the original equipment, building and grounds (common property) are expensed to the appropriate fund. They are not capitalized nor is depreciation claimed thereon.

Depreciation is allocated to the Capital Fund on a declining balance basis at the following annual rates (reduced to one half the normal rate in the year of acquisition):

Computer equipment	3 year straight line
Fitness equipment	20 %
Security system	20 %

(c) **Income Tax Status**

For income tax purposes, the Strata Corporation is a non-profit organization exempt from income taxes under Section 149(1)(l) of the Canadian Income Tax Act.

**3 FINANCIAL INSTRUMENTS**

The Strata Corporation's financial instruments consist of cash, accounts receivable, accounts payable and accruals, strata fees received in advance and deposits. Unless otherwise noted, it is management's opinion that the Strata Corporation is not exposed to significant interest, currency, or credit risks arising from these financial instruments.

**4 TANGIBLE CAPITAL ASSETS**

	<b>COST</b>	<b>ACCUMULATED DEPRECIATION</b>	<b>2014 NET</b>	<b>2013 NET</b>
	\$	\$	\$	\$
Computer Equipment	1,060	176	884	16
Fitness equipment	4,648	3,551	1,097	1,371
Security system	32,813	11,350	21,463	2,196
	<b>38,521</b>	<b>15,077</b>	<b>23,444</b>	<b>3,583</b>

Figure 3

Component	Definition
Current Assets	Types of assets that will be realized within one year
Cash	Bank balances and petty cash – each bank account may be listed instead of aggregated under 'cash'
Investments	Usually, Guaranteed Investment Certificates (GICs) or Term Deposits (TDs) – money not needed right away (normally from the Contingency Reserve Fund) and invested to gain a higher interest rate
Accounts receivable	Amounts owing to the Strata – usually strata, special levy and bylaw fees
Prepaid expenses	Expenses paid on or before the SFP date that are for a future period
Tangible Capital Assets	Any physical assets owned by the Strata (eg. Maintenance equipment, caretaker suite, exercise equipment) usually stated at cost less accumulated amortization
Current liabilities	Amounts owing to others that will be paid or realized within one year
Accounts payable and accrued liabilities	Amounts owing for goods and services that were acquired before the SFP date
Strata fees in advance	Any strata fees received before the SFP date that are for a future period
Payroll liabilities	Withholdings and payroll taxes owing to the government
Vacation payable	Accumulated vacation pay for employees of the Strata
Deposits	Usually damage deposits or key deposits received and held by the Strata
Unrestricted Fund Balance	The surplus or deficit in the Operating Fund
Restricted Fund Balance	The surplus or deficit in the Contingency Reserve Fund and any Special Levy Funds
Invested in Tangible Capital Assets	The book value of the tangible capital assets less an debt remaining on those assets
Inter-fund loan	A loan from one fund to another. Typically a temporary loan from the Contingency Reserve Fund to the Operating Fund to pay large bills such as the insurance premium.