

# Understanding Your Co-op's Audit

PRENTICE  
YATES &  
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CHARTERED  
ACCOUNTANTS

Every year you receive a copy of the audited financial statements. The members discuss and approve them at the Annual General Meeting. Accountants (called the auditors) have gone through the co-op's books and verified the numbers in the financial statements.

## The Independent Auditors' Report

On the first few pages is a report from the auditors to the members. The first paragraph tells the members the reporting framework used. The second paragraph tells members that the financial statements are the responsibility of the Board of Directors. The third and fourth paragraphs tell the members about the auditors' responsibilities. The auditor's responsibility is to audit the statements, that is, to verify that they are materially correct. The auditor does this by assessing risks of material error, testing and analysis. The auditor considers the internal controls when testing. The sixth paragraph gives the auditor's opinion on whether the statements show fairly the co-op's financial position, operating results and cash flows. The seventh paragraph sets out the restrictions on the use of the statements. The statements are prepared only for the co-op and its funders and should not be used by anyone else. If there is a paragraph entitled "Emphasis of Matter" the auditor may be pointing to a problem.

## The Statement of Financial Position

The Statement of Financial Position shows the co-op's financial position on the last day of the financial year. Usually it is on two pages. On the first page is a list of what the co-op owns (assets). On the second page is a list of:

- What the co-op owes (liabilities), and
- The difference between assets and liabilities (Net assets).

The Statement of Financial Position used to be called a Balance Sheet because the total on the first page equals the total on the second page, they balance. (*Note:* Sometimes, the Statement of Financial Position will be on one page only).

➤ Start by looking at the **Assets** (normally on page 5 of your financial statements). This is what the co-op owns. Key things to look for are:

- (a) **Cash and Investments.** Is there a good balance between cash and investments? Where is the co-op's money; is it only in a savings account, Term Deposits or Treasury Bills? Could it be getting a better rate of interest? If you have Social Housing Investment Fund, what are the risk levels?
- (b) **Accounts Receivable - members.** These are members' arrears. What is the co-op doing to collect them?
- (c) **Reserve Funds.** This is cash and investments set aside for future capital expenditures. The balance should equal the total of reserves listed under Net Assets (normally on page 6). Note that there are restrictions on how this money can be spent.
- (d) **Capital Assets.** If it is higher than last year, the co-op has probably made some major purchases. Ask for details.

➤ Next, look at **Liabilities** and **Net Assets** on page 6.

- (a) Liabilities start at the top of the page. This lists what the co-op owes. A key one to look at is Accounts Payable. This should be a low figure. If it is high, ask why.
- (b) At the bottom of page 6, you will find **Net Assets**. You will see these lines:
  - **Reserve for Future Capital Replacement.** This is the amount that the co-op should have set aside for future capital expenditures since it started (less any expenditures that have been made).
  - **Contributed Surplus.** This shows membership fees and members' donations.
  - **Accumulated Surplus.** This shows the surplus (or deficit) that the co-op has experienced since it started less any transfers to reserves. Was there a large increase or decrease last year? This will tell you how accurate the budget was last year. If there is a surplus, you could

ask about plans to use it. Some statements say "Operating Fund" instead of "Accumulated Surplus". If there is an "accumulated deficit", the co-op should plan to make up the loss through higher housing charges or reduced costs.

### **Statement of Subsidy Reserve**

If your co-op was built between 1979 and 1986 under the Section 95 agreement, you will find this statement on the next page. It shows what CMHC gave to the co-op for "geared-to-income" subsidies, and how much the co-op used.

Check how much is in the Reserve. More or less than last year?

Co-ops under this program can usually keep \$500 per unit, plus interest, in the Reserve. They must send the excess back to CMHC.

### **Statement of Reserve for Future Capital Replacement**

The Reserve holds money the co-op will need for replacement of its building and appliances. This statement shows how much was added or spent last year, and the total in the Reserve at year-end.

Does the co-op have enough in the Reserve? Are there plans to use any of the Reserve this year? What has the co-op done to be sure that its Reserve is big enough?

### **Statement of Accumulated Surplus**

This shows the surplus or deficit the co-op had last year, plus the total of surpluses or deficits from all previous years less any transfers to reserves.

### **Statement of Changes in Net Assets**

Your Co-op may have all of its reserves and accumulated surplus or deficit shown in one statement called a statement of Changes in Net Assets.

### **Statement of Operations**

It shows details of operating results for the year. It also shows the surplus or deficit for the year.

Look at each line and compare the figure for this year with that of the previous year and the budget. If the budget figures are not shown, ask why. You will also find the bottom line figure (Surplus or Deficit) in the Statement of Accumulated Surplus (Deficit).

*Note:* Co-ops with several properties may have a Statement of Operations for each property.

### **Administrative Expenses**

Usually a list is attached to the Statement of Operations as an extra page. This is a breakdown of the expenses of the administration of the co-op.

Compare the actual figures to the prior year and the budget. Ask about any big changes.

### **Statement of Cash Flows**

This statement shows receipts and disbursements of cash, rather than revenues and expenses. The statement explains the increase and decrease in the co-op's cash and short-term investments.

### **Notes**

There are a number of notes that refer to items in the statements. If possible, write your questions about the financial statements and send them to the office a few days before the meeting.