



## Chapter 8

### FINANCIAL STATEMENTS

## Preparing Financial Statements

If you have more than one subsidized development, have your accountant prepare consolidated financial statements, as well as separate revenue and expenditure schedules for each development. We require the use of fund accounting and separate shelter schedules for each development that has an operating agreement with BC Housing. Each schedule should outline the shelter related income and expenses for operating the development separately from other activities, such as fundraising, providing care for residents, or commercial operations.

Remember to use the same categories in the financial statements that you used in the operating budget. Then we can compare the individual financial statements to the operating budget for each development, and review performance against projections.

A separate replacement reserve schedule is required, detailing the beginning balance, annual budget provision for the reserve, expenditures, accrued interest and ending balance.

Prepare the financial statements using Generally Accepted Accounting Principles, including the Canadian Institute of Chartered Accountants recommendations for not-for-profit organizations. Refer to BC Housing's *Financial Reporting Requirements* supplement, which outlines the financial reporting requirements for not-for-profit organizations and explains the fund accounting method.

The table on the next page lists the financial reporting requirements for different housing programs.



## Financial Reporting Requirements Chart

	82(1)(a) Disabled	82(1)(b) Seniors	PRAP	Post-1986	Special Purpose Non-Profit	Rent Supp	ILM Co-ops	HOMES BC: Non-Profit Co-ops, Rent Support	HOMES BC: HAR, LIUS, Multi-service	SIL
Financial statements to BC Housing	•	•	•	•	•	•*		•	•	•*
Financial statements to CMHC		•					•			
Operating budget to BC Housing	•		•	•				•	•	
Rent subsidy application to BC Housing	•	•	•	•		•	•	•	•**	
CMHC Project Data Form 2254			•							
Annual report to Registrar of Companies	•	•	•	•	•	•	•	•	•	
Market rent review			•					•		

\*A completed Rent Supplement or SIL Report is required instead of financial statements.

\*\*Applications for Rent Subsidy are not required for residents who pay a 'fixed' rent.

~ HAR stands for Homeless/At Risk housing.

~ ILM stands for Index Linked Mortgage co-ops.

~ LIUS stands for Lower Income Urban Singles housing.

~ PRAP stands for Provincial Rental Assistance Program.

~ SIL stands for the Supported Independent Living program.



## **a) FINANCIAL REVIEW AND SUBSIDY RECONCILIATION**

When we conduct a financial review, we review operating revenues for each development to:

- Verify the subsidies and repayable assistance that were paid.
- Verify that housing providers are collecting the correct amount for resident rents and occupancy charges.
- Determine if any subsidy adjustment is needed.

When we review your audited financial statements, we:

- Evaluate your organization's adherence to the financial management terms of the operating agreement.
- Ensure housing providers are able to meet financial obligations.
- Go over actual expenses and compare them to the amounts projected in your approved operating budget.

If the revenues or expenditures vary significantly from the budget, we will need you to clarify why the variance has occurred.

If the rent revenue reported shows you are collecting more or less than our records show, we may ask you to submit the rent/housing charge roll information for comparison. Our figures may differ from yours if resident changes are not reported on time. Keep each year's rent roll records until the financial records for the year have been reviewed.

When the financial statement review is complete, we may provide additional subsidy for an operating deficit or rent subsidy underpayment, depending on the terms of your operating agreement. We may also request repayment of an operating surplus or rent subsidy overpayments.

We do not make up an operating deficit or request repayment of an operating surplus for HOMES BC non-profit and co-op developments, because your organization manages any deficit or surplus for these buildings. (Refer to Chapter five for more information on surpluses and deficits.)

## **b) UNAUTHORIZED EXPENDITURES AND ACTS**

Your operating agreements contain some legal limitations to ensure public funds support affordable housing, which may include:

- The amount you borrow to operate the development is limited to the mortgage loan.
- You cannot sign as a guarantor on a loan for another person or organization. For example, your organization cannot guarantee a loan taken out by one of your members or another community agency.
- Development funding cannot be used to pay lobbyists. For example, your organization may support environmental issues, but cannot use revenues from your HOMES BC development to hire an environmental advocate.



- Your responsibility for the development cannot be transferred to another party. However, you can hire property management support, with approval from BC Housing.

## Audit Requirements

Hire a professional auditor to audit your financial statements, someone who is *not* a member of the Board of Directors. Consult the *Cooperative Association Act*, which lists additional disqualifications in choosing an auditor. To prepare for an audit, gather the:

- Financial statements prepared by your accountant or bookkeeper.
- Operating agreement(s).
- Year's financial records including journals, rent rolls, cancelled cheques, cheque stubs, receipts and invoices.
- Society Constitution and Bylaws or co-op Memorandum and Rules.
- Minutes of Board meetings.
- Policies and procedures manuals.

The supplement to this guide, *Financial Reporting Requirements*, contains detailed information for your auditor on the presentation of financial statements. Give a copy of this supplement to your auditor to ensure they know which financial statements are required.

Submit your audited financial statements for HOMES BC developments to Program Operations at BC Housing for review and approval, within four months of the fiscal year end. For all other housing programs administered by BC Housing, submit the documents within three months. HOMES BC statements must include confirmation that surplus funds are accounted for and spent according to the terms of the operating agreement.