

Demystifying Owners Corporation Financial Statements



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TURNBULL COOK

Financial statements provide an itemised report of the Owners Corporation financial position as at a particular time or for a particular period. The financial statements that are produced by an owner's corporation fall under the requirements of "Special Purpose Financial Reporting" and the requirements as provided by the Owners Corporations Act 2006.

Financial Statements consist of the following:

- 1 Balance Sheet
- 2 Statement of Income and Expenditure - Administrative Fund
- 3 Statement of Income and Expenditure - Sinking Fund

It is imperative that all members have an understanding on how to read and understand Owners Corporation financial statements.

Budgets

The Executive Committee has an important role in managing the income and expenditure of the Owners Corporation. The Committee is responsible for setting budgets in partnership with their Owners Corporation Manager.

Budgets are presented GST exclusive to provide a true reflection of the revenues and expenses of the Owners Corporation. Once a budget is prepared, it is presented at the AGM for resolution.

Note that the acceptance of a budget at a general meeting does not give the Committee authority to spend money outside its restrictions.



Balance Sheet

The balance sheet sets out the assets and liabilities of the Owners Corporation. Listed below are the common types of assets and liabilities for Owners Corporations:

Assets

Assets of the Owners Corporation may include:

- Cash at bank balance
- Investment or other bank account balances
- Petty cash balances
- Outstanding contributions
- Debtors such as lot owners and tenants who owe utility payments (if applicable).

The bulk of assets in an Owners Corporation should be money in the bank, both in the operating and investment accounts.

Liabilities

Liabilities of the Owners Corporation may include:

- Accounts that have been received and are to be paid, for example invoices from tradesmen
- Contributions paid in advance, meaning contributions that are not included in the financial period
- Loans taken by the Owners Corporation.

Items to check in the Balance Sheet

- Are both the Administrative Fund and Sinking Fund in credit?
- Is there money in the bank or is the bulk of the funds represented by debtors and levies owing and owed by owners?
- Are the debtors under control or are unpaid levies either high or on the increase from the previous period?
- Does the Owners Corporation have a large amount showing as creditors in the liabilities column which, if paid, would greatly reduce the amount the Owners Corporation has in the bank?

Important notes on the Balance Sheet

As an Owners Corporation's financial statements are prepared in accordance with the requirements of Special Purpose Financial Reporting, note that building assets such as elevators are treated as expenses at the point of purchase. This also means there is no depreciation accumulated on these assets.

Statements of Income & Expenditure

The Income and Expenditure Statement shows the trading details for the Owners Corporation for a specified period. There are separate Statements of Income and Expenditure for both the Administrative Fund and the Sinking Fund (if applicable) which separately record the income for the fund and the expenses paid from the fund.

Administrative Fund and Sinking Fund Income

The income from an Owners Corporation is mainly generated from levying fees. Other typical income items include:

- Bank interest on investments
- Additional or sundry income such as interest from late levy payments
- Payment from third parties for signage on the roof or for telecommunication towers
- Recovery of other costs
- Transfers from the Administration or Sinking Fund. (More information on this transaction type can be found under 'Transfers between Funds' below.)

Items to check on in Income:

- Do the levies collected for the period match the budgeted levies for the same period?
- If there is other budgeted income from a source apart from levies, has any actual income been received and credited to that source?
- If there are funds invested, is there an income item for interest earned on that investment?
- Are there enough funds raised in the Administrative Fund to cover all expenses for that financial year.

Administrative Fund Expenditure

The expenses section for the Administrative Fund usually has the most line items as it includes all the expenses that are incurred in running the Owners Corporation.

Administrative Fund expenses are generally recurring for example:

- Common area electricity
- Management fees
- Fire control contracts
- Insurance premiums
- General repairs and maintenance
- Gardening

Sinking Fund Expenditure

The Sinking Fund is often referred to as the Owners Corporation's savings account. Sinking Fund expenses are usually infrequent expenses of a capital nature.

Examples of Sinking Fund expenditure include:

- Purchasing assets
- Major improvements to the common property of the scheme
- Painting

Items to check with Expenses:

- Is an expense for the period in excess of budget and, if so, is the excess minor or significant?
- Was there a budgeted expense for the period, for which there was no actual expense? If so, did the Owners Corporation intend to do something that was not done?

- If there is a budgeted item for building insurance for the period without an actual expense—has the premium been paid and is the building insured?
- Was there an actual expense during the period for which there was no budget item for the period? If so, was the expense a one off or is it something that needs be budgeted for in the future and added to the next year's budget as an additional expense?
- Did the management fee reflect an agreed budget?
- Did the total income cover the total expenses? If so, then the overall levies could be assessed as having been adequate even if some actual expenses were less than budget and others were more. If the total income was significantly less than the total expenses do future budgets need to be increased?
- Are the Sinking Fund expenses in line with the Sinking Fund forecast?
- Regardless of whether there was a surplus or a deficit in the Sinking Fund for the year, how does the balance in the fund compare with the projected balance from the Sinking Fund forecast?

Transfers between funds

Transfers from Sinking Fund (income)

When an expense has been paid from the Administration Fund for long term maintenance, the Owners Corporation must replenish the amount paid from the Sinking Fund.

This transaction will show as revenue on the Owners Corporations Income and Expenditure statement as it is a receipt from the Sinking Fund to the Administration Fund which offsets an expense for the same period.

Transfers to Sinking Fund (expense)

As above, if an amount has been used for non-long term expenses, the Administration Fund must pay it back to the Sinking Fund. The amount will show as an expense to the Administration Fund for the period as it is an amount that has to be expensed out of the levies raised for the period.



Income Tax

The Australian Taxation Office (ATO) views Owners Corporations as companies that are assessable for income which includes interest on income. However, levies are generally considered mutually received income and are therefore not included as part of income tax for the Owners Corporation.

GST

The ATO views an Owners Corporation as a body made up of separate entities (owners) and that the Owners Corporation provides taxable services to its members. This means that an Owners Corporation is required to be registered for GST if its turnover exceeds the \$150,000.00 registration threshold for non-profit bodies on both current and projected turnover. This turnover includes the Administration and Sinking Fund levies.

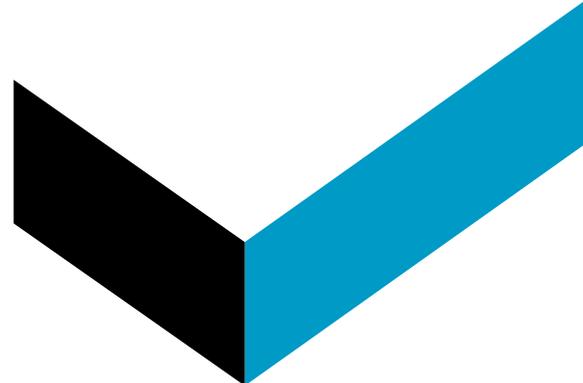
Registered Owners Corporations must include GST on any levies they raise (for taxable supply) and pay the GST to the Australian Taxation Office. Such supplies include amounts levied on owners in the form of Administrative and Sinking Fund levies.

Registered Owners Corporations can also claim input tax credits for GST included in expenditure on cleaning, gardening, repair and maintenance services, assuming they purchase the goods and services for a creditable purpose, and have a tax invoice for any expense over \$82.50. Input Credits will reduce the GST amounts payable to the ATO on the quarterly Business Activity Statement (BAS).

A Note on Insurance

As stamp duty does not attract GST, insurance invoices are split between two different accounts to ensure that the GST is accounted for correctly. The split is:

- Insurance—stamp duty (no GST)
- Insurance—premium (GST payable). Includes everything except stamp duty.



DISCLAIMER: This information is intended as a guide only. If you have further queries please contact Turnbull Cook's Owners Corporation professionals on 03 8697 0600.

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