



Agenda

1. Managing the finances – an overview
2. Finance & budget – Speaking the language
3. Budgeting
 - Order of operations
 - Operating
 - Capital and reserves
4. Presenting the budget
 - Board
 - General members
5. Monitoring the budget



Managing the finances – the results you want

The Co-op...

- pays its bills in full, on time
- has up-to-date books and financial records
- board gets and reviews financial statements each month
- manages its financial risks
- avoids dealing in cash
- collects housing charges right away
- develops a long-term financial plan
- keeps the housing well maintained and in safe condition
- audit, reports and rent support programs are completed accurately

The co-op adopts a workable budget each year



Fiscal year

The budget or financial year

- Doesn't have to match the calendar year
- Usually set when the co-op starts paying interest on the mortgage



Finance and budget: Speaking the language



Some definitions - Assets

- **Assets**
 - everything of financial value that the co-op owns
- **Current assets**
 - cash or can be turned into cash soon
- **Restricted assets**
 - cash and investments you can only use for certain purposes
- **Fixed assets**
 - physical assets that have value over time (e.g. property)
- **Prepaid expenses**
 - something you have already paid for but not used yet

Definitions: Liabilities

- **Liabilities**
 - money owed to others
- **Current liabilities**
 - funds due to others by the co-op within one year
 - accounts payable
 - this year's interest on the mortgage
 - member deposits are current, could move out anytime
 - unearned income
- **Long-term liabilities**
 - loans the co-op must repay over more than one year (e.g. mortgage)

Financial statements for housing co-ops

In this workshop we will focus on two statements:

- balance sheet
- income/operating statement



The balance sheet



A snapshot of your co-op's finances

The balance sheet

- point in time statement – a snapshot of the co-op's finances
- also known as the statement of financial position
- two sides must always balance

assets:

- what the co-op owns that is of value

liabilities + equity:

- what is owed to others + what is left over for the co-op



What is wrong with this picture?

Statement of Financial Position	2017	Statement of Financial Position	2017
Current Assets		Current Liabilities	
Cash, Note 3	89,065	Accounts payable and accrued liabilities	12,029
Accounts receivable		Accrued mortgage interest	854
Members receivable	12,380	Members deposits	87,079
HST receivable	2,317	Prepaid housing charges	9,741
CMHC subsidy receivable	3,584	Total Current	109,703
Prepaid expenses	6,597	Mortgage Payable, Note 5	1,327,467
Total Current	113,943	Total Liabilities	1,437,170
Capital Assets, Note 4	1,327,467	Restricted	
Investment Funds restricted , Note 9	350,000	Replacement reserve, per statement, Note 9	400,000
Subsidy surplus fund	59,239	Subsidy/surplus reserve, per statement, Note 9	59,239
Total Assets	1,850,649	Member Equity	(50,000)
		Contributed surplus	4,240
		Total liabilities and member equity	1,850,649

Operating Statement

Statement of Operations	Budget	Actual
Revenues		
Housing charges	706,751	705,230
CMHC income tested subsidies	48,673	48,194
Vacancy loss	(10,000)	(15,500)
laundry	2,000	1,123
Investment income, Note 3	500	495
Other	4,500	1,023
Total Revenues	752,424	740,565
Expenses		
Repairs and maintenance	86,750	56,350
Administrative, per schedule	90,225	94,564
Amortization	248,730	258,251
Mortgage Interest	32,834	20,952
Municipal taxes	88,150	96,350
Bad debts	0	5,558
Insurance	25,362	33,500
Electricity	8,100	9,500
Fuel	1,175	2,550
Replacement reserve	149,200	149,200
Internal subsidy reserve	20,000	0
Contingency (budget only)	1,898	9,550
Total Expenses	752,424	736,325
Surplus (deficit)	0	4,204

What is a budget?

A plan:

- where your money will come from and
- what expenses you will have to pay for

A tool that:

- sets goals for a future period
- allows actual results to be compared with the goals

Two Budgets:

- Operating budgets and
- Capital (reserve) budgets



Operating budget: who is responsible?

- *Co-op Act* requires that co-ops maintain accounting records and gives members the right to review.
- Management usually
 - Conducts the environmental scans and advises board
 - drafts the budget(s)
- the Board reviews and adopts the budgets
- recommends the budgets to the members.



Revenue - Where does the money come from?

1. Members

- Housing charges
- Parking/laundry/interest
- Member deposits?

2. Government

- Monthly subsidy
- Additional subsidy
- Grants or loans

3. Other

- Interest
- Non-shelter



Collecting housing charges right away

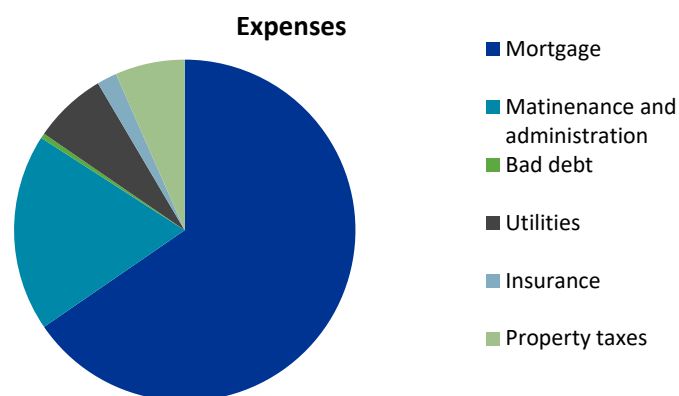
- Make certain housing charge policy is clear about payment and collections
- Board members pay their housing charges in full and on time or step down
- emphasize with staff that collecting housing charges is a priority
- make sure staff administers the housing charge policy
- review and follow-up on arrears reports every month

Where does the money go?

1. Current operations
 - Vacancy loss
 - Mortgage
 - Administration and management
 - Utilities
 - Insurance
 - Property taxes
 - Maintenance
 - Bad debt
2. Set aside for the future
 - Replacement reserve
 - Retained earnings (accumulated surplus)
 - Re-pay member deposits?



Where does the money go?



Budget preparation, Order of operations:

1. External scan – what is rate of inflation, housing market?
Set a base line increase to all costs and revenue.
2. Internal Scan – How good are our current finances, surplus or deficit and...
3. Do we have a Building Condition Assessment – What major repairs are due/ can we afford them?
4. Set Maintenance costs – Annual inspection results, annual maintenance requirements, unit turnovers?
5. Set Reserve contribution – Spending required in current year from BCA, future reserves requirements. Is the replacement reserves fully funded?
6. Review bottom line, surplus or deficit
7. Set housing charges

P E M D A S	
Please Excuse My Dear Aunt Sally	
Paraphrase	Order of Operations
Step 1: Parenthesis	$8^2 + (10 - 4) - 3 - 5 \times 2$
Step 2: Exponents	$8^2 + (6) - 3 - 5 \times 2$
Step 3: Multiply and Divide (Perform the operations in order first)	$36 + (6) - 3 - 5 \times 2$ $36 + 2 - 5 \times 2$
Step 4: Add and Subtract (Perform the operations in order first)	$36 + 2 - 10$ $38 - 10$
Solution:	28

Internal scan How healthy are our finances?

Financial Statements

- Do we owe people money? Does anyone owe us?
- Do we have an operating surplus or a loss each year?
- Do we have a long term (accumulated) surplus or deficit?
- Do we spend our full maintenance budget each year?
- Do we transfer any surplus to reserves?
- What are our current reserves?
- Are they fully funded? (Do we have the cash to match the liability?)
- What is our annual contribution to reserves?
- Can we implement necessary repairs?



Environmental scan: (external)

What is CPI? (consumer price index of inflation)

- Insurance
- Utilities
- Professional fees and administration



What is our municipality doing (Mill rate)

- Municipal taxes
- Water/sewer

What is happening in the national, provincial housing sector?

- Continuance of rent support program
- Availability of other funding programs

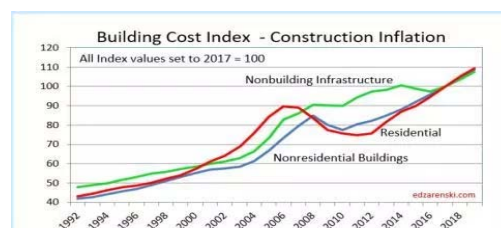
Environmental scan: (external) Cont.

What is happening in our local housing sector

- Local vacancy rates
- Local housing charges/market rent
- CMHC market rent reports

How busy is the construction sector?

- Construction inflation is often higher than CPI



Capital Reserve and maintenance budgets

The Maintenance Budget is the operating line item, "maintenance" in your operating budget and is used for ongoing unit repairs, (also snow removal, landscaping etc.)

- This work is paid for as an annual expense in the operating budget

The Capital Budget is the money the co-op sets aside for replacements of major items such as roof, windows, parking lots, flooring, kitchens and bathrooms.

- This is paid for through savings in the capital reserve which is funded by the annual reserve transfer from the operating budget.



Capital Reserve and maintenance budget

Sources of information : Maintenance budget

- Annual unit turnover records
- Annual unit inspections
- Previous budget records
- Building condition assessment annual maintenance recommendations
- Previous year's work orders, were they all completed?



Capital Reserve Plan

A Capital Reserve Plan consists of:

A building condition assessment –

- a detailed inspection of all parts of your building and the cost required for replacements each year.

A reserve fund forecast,

- shows how much money you will add to your reserve fund each year (replacement reserve line in operating budget) and how much money you will spend each year from the fund on capital repairs.

Often, you will find you are not putting enough into your replacement reserve each year.

Budget preparation, (review)

1. External scan –Set a base line increase to all costs and revenue equal to inflation.
2. Internal Scan – budget for current surplus, ensure any long term accumulated deficit is reduced over time
3. Set Maintenance costs – ensure that the budget is sufficient and spend it all during the year.
4. Set Reserve contribution – Ensure that reserves are fully funded over time, look at financing if there is a long term negative balance in the reserve.
5. Review bottom line operating, surplus or deficit
6. Set housing charges to cover your costs

PEMDAS	
Phrase	Equation
Step 1: Parentheses	$6^2 + (10 - 4) \cdot 3 - 5 \cdot 2$
Step 2: Exponents	$6^2 + (6) \cdot 3 - 5 \cdot 2$
Step 3: Multiply and Divide (Perform the operations in order from left to right)	$36 + 18 - 10$
Step 4: Add and Subtract (Perform the operations in order from left to right)	$36 + 18 - 10$
Solution:	44

Budgeting, Statements and long term planning

- Budget for small annual surpluses, or larger if in accumulated deficit
- Budget carefully and expect inflation and the unexpected
- Increase housing charges each year
- Collect housing charges and control vacancy loss
- Make certain your reserves are fully funded (keep your promise)
- Be aware of maintenance budgets

Presenting the budget to the board

Set aside a meeting just to talk about the budget.

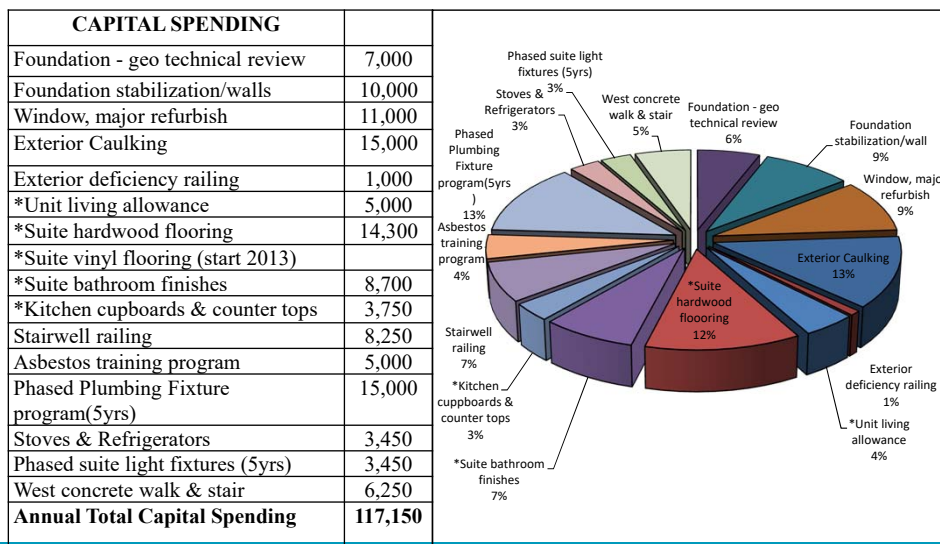


- Make sure you have the right people at the meeting (manager and those who were most involved in preparing the budget) – they need to be able to answer questions
- Make sure the budget summary is no more than one page – include more details in schedules.

Presenting the budget to the board

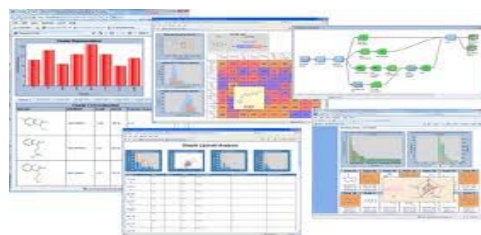
- Use graphics to help your presentation
- Include notes on key items or where you think members will have questions – one or two page should be enough
- Include a list of recommendations (motions for the members to pass)

Capital Spending Plan and Graph



Reviewing budgets

- How does your co-op present budget proposals to the general members?
- Do you think the system your co-op uses is effective in engaging the members?



Preparing the package for the members meeting

Make it simple and easy to understand

- Use the same format you did for the board meeting
- Don't try to put too much on one page, numbers are hard enough to read anyway
- Send the package out one to two weeks before the meeting
- Schedule an information meeting if the budget is likely to be controversial

Presenting the budget to the members

Don't forget to remind members of the basics
Income – expenses = surplus (deficit)

Choose the right person to present the budget.

Choose someone who:

- can explain complex items so they seem simple
- can talk in plain language rather than accountant's language
- can answer members' questions.

Monitoring the budget

Put review of the financial statements toward the beginning of the board agenda

- get your staff, bookkeeper or management company to walk you through them and educate at first meeting.
- set board meeting dates so that previous months budget can be available for the current month meeting (review January budget vs actual at February meeting)
- take time to compare your operating results with your budget **every** month – quarterly is not good enough
- if there are problems developing, deal with them quickly

Monitoring the budget


- make sure there are budget figures for comparison
- pay special attention to vacancies (income statement) and arrears (balance sheet)
- recommend changes to by-laws, policies or procedures if needed to keep the co-op in good financial condition
- ask questions if it doesn't make sense – keep asking until you are satisfied

Wrap-Up




- Assess Needs – Financials, Environmental scans, BCA, Reserve Fund
- Develop Strategies – Budget for a surplus, reduce any deficit.
- Invest Resources – Reserves & financing analysis
- Create solutions – Improved infrastructure
- Improve Lives – Financial stability

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Getting workshop materials

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 **Workshop Materials**

Here are handouts from recent national and regional workshops to download and share with your co-op.

 Co-operative Housing Federation of Canada

Evaluations Please
Developing your annual budget
David Spackman



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