

Financial Aspects of Strategic Planning

October 12, 2012

COOPERATIVE FINANCIAL PLANNING

- All decisions center on the Full time consideration
- Decisions center on the financial position of the Cooperative
- This is a class that should take a WEEK.
- We have adjusted the class to discuss all of the important topics and have suggestions for further consideration.

BUDGET

- Income versus Expense
- Not an Exact Science – more like an “educated guess.”
- Historical Data
- Planned Activities
- Don’t forget the “wish list”
- Review Reserve Needs

Budget

- Budgets are prepared with the intent of meeting operating expenses with operating income over the next year.
- The budgets can usually first prepared by the manager and then referred to the budget committee.
- The budget committee then brings the budget to the board for an approval.

What Do we Need to review to start our Budget?

- Planned major improvements, with bids
- Mortgage interest and principal
- If paid off – other loan or savings info
- Tax and insurance info for escrow funding
- Proposed utility increase
- GOR funding
- Replacement Reserve Funding
- Subsidy Analysis

What do we need?

- PBE data, if applicable
- Payroll costs plus anticipated increases
- Christmas Bonus information
- Current contract prices
- Utility increases
- Special Projects
- “Wish” List

Budget Checklist

- A budget checklist containing guidelines should be used so figures can be derived accurately and efficiently.
- Checklist should be completed following published and used in appropriate expense accounts.
- Expense section completed first – using numbers from checklist.

Budget Checklist

- Determination of the carrying charge rate is made after the expenses for the next year are determined and after consideration has been given to the market “costs” in the area.
- Meetings should be set up to discuss the budget and finalize the increase.
- Posting of the proposed increase must follow Bylaw guidelines.

Budget schedule

- 90 days
 - Obtain confirmation of tax assessment of tax rate applicable for the budget year.
 - Obtain confirmation of estimated utility increases.
 - Prepare budget and detailed budget notes
 - Prepare the notice to the members of an increase
 - Prepare PBE consumption rate, if applicable

Budget Schedule

- 75 days
 - Submit budget package to Board for review and approval
 - Adjust as necessary

Budget Schedule

- 60 days
 - Submit the budget package to regulatory agency with supporting documentation
 - Cover letter to regulatory agency

Budget Schedule

- 30 days
 - Send revised rental schedule to agency
 - Send final notice to members
 - Prepare final cover letter to regulatory agency

Financial Audit

- Do you know what is in your audit?
- Do you understand your audit?
- How do you start to review your audit?

Financial Audit

- Ten Steps to Understanding your audit:
 - Balance Sheet
 - Income Statement
 - Statement of Financial Conditions
 - Cash Flow Statement
 - Financial Notes
 - Subsidiary Information
 - Management Letter
 - Findings
 - Overall Statement
 - What does my audit mean to me

Financial Audit

- How does my audit affect decisions that are made for my Cooperative?

Long Range Plan

- Older – but not necessary better
- Completing a long range plan
- What am I looking at?
- Reserve Analysts
- Maintenance
- Other help

Long Range Plan

- What do we need to do?
- How much money do we have?
- How can we get this money?
- **WOW.**

Long Range Plan

- Review the replacement reserves, GOR and other funding.
- Verify funding
- What additions and improvements do we need?
- Addition of monthly reserves
- Consider required minimum balances

Long Range Plan

- We are back to the “Wish” List
- Safe, Sanitary, Quality Housing
- Some of the items that we are going to discuss have been completed – but you may need to complete these items again.

Long Range Plan Considerations

- Carrying charges
- Physical Improvements of Existing nature to the property
- Physical Additions
- Quality of Life Items

Carrying Charges

- When considering the long range plan, the amount of carrying charges need to be considered.
- The amount of an increase affects everyone.
- Affordability needs to be considered.

Physical Improvements

- Roofs
- Siding
- Concrete or asphalt
- Office equipment
- Interior Cosmetic Improvements (kitchen)
- Hot Water Heater
- Furnace
- Energy Savings

Physical Improvements

- Windows
- Elevators
- Trash Chutes
- Security Systems
- Appliances
- Electrical Systems
- Landscaping
- Structural Improvements

Physical Improvements

- Ongoing – may need to be upgraded
- Replacement Reserves may need to be increased
- Long range planning – same direction
- Discussion

Physical Additions

- Garages
- Carports
- Central A/C
- Community Center
- Satellite TV
- Playground
- Picnic Area
- Nature or walking trails

Physical Additions

- Transportation Services
- Dishwashers
- Washers
- Dryers
- Microwaves
- Sprinkler Systems
- Carpeting
- Swimming Pool
- Exercise Facility
- WHEN?

Quality of Life Issues

- Scholarship Programs
- Drug Rehab Programs
- Educational Programs
- Social Director Programs
- Insurance Pool
- Food Cooperatives
- Child Care Services
- Recycling Program
- Exercise Program
- Fitness Program

Personalizing Your Mortgage

- When will you pay off?
- Have you paid off?
- How much money is generated per month and what can it be used for?
- Amortization Schedule
- Discussion

Replacement Reserves

- Cooperative could choose to complete all needed replacements by increasing monthly funding now.
- Cooperative may choose to keep their replacements to a minimum for next ten years, building up a reserve – for expenditure later.
- Cooperative could choose to maintain the status quo.

General Operating Reserves

- HUD Requirement
- How do we use these funds?
- How do we track these funds?

Tax and Insurance Escrows

- How to track the funds?
- How to use the other funds for other uses?
- Know your money

Other Financial Considerations

- Flexible Subsidy Loan
- GOR loan
- Second Mortgages
- Other Mortgages

Questions/Follow Up