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