



Imagineers Board Training Series Presents

How to get the most from your Community Financial Statements

A basic introduction to Community financial reports

Presenter Michael Brogan

Attendee Self-Evaluation

- Summary results of self evaluations
 - Rankings summary
 - # of Treasurer's in attendance
 - Tenure on Board

Objectives of this Seminar

1. Provide you with a general working knowledge of financial statements (not debits and credits, nor Accounting 101).
2. Provide insight as to “how” to review your Association’s financial statements.
3. Provide you with key metrics to consider when reviewing your Association’s financial statements.
4. Provide you with tips to identify areas of concern should they arise.
5. Peak your interest to request other comparable data from your dedicated Imagineers Property Manager.

Basic Overview of Financial Statements

- When we say “Financial Statements”, what do we mean?
- Which statements are we talking about?

Basic Overview of Financial Statements

- Balance Sheet (B/S)
- Income Statement (I/S)
- Changes in Fund Balance
- Statement of Cash Flows (SCF)

- What is another name for each?

Basic Overview of Financial Statements

- Balance Sheet or
 - Statement of Financial Condition
- Income Statement or
 - Statement of Operations
- Changes in Fund Balance or
 - Changes in Equity
- Statement of Cash Flows or
 - Sources and Uses of Cash

Tonight, we will focus our attention on Balance Sheets and Income Statements.

Basic Overview of Financial Statements

- What are the three (3) major components of a Balance Sheet?
 1. Assets
 2. Liabilities
 3. Fund balances or Equity
- How are each calculated?
 - Assets at fair market value (with some exceptions)
 - Liabilities at fair market value (with some exceptions)
 - Fund balance/Equity = Assets minus Liabilities

Basic Overview of Financial Statements

- What are the two (2) major components of an Income Statement?
 1. Revenues
 2. Expenses

Basic Overview of Financial Statements

- What are the two (2) major components of a Statement of Cash Flows?
 1. Sources of cash
 2. Uses of cash

John Doe Financial Statements

- ❑ Balance Sheet
- ❑ Income Statement
- ❑ What do we think of John's financial health?

John Doe Financial Statements [Cont.]

Age

JOHN DOE

40

Balance Sheet as of June 30, 2009 in 000's

Assets

Operating Cash Checking account	\$	2
Cash in Reserves (deferred monies 401k, etc)	\$	75
Accounts Receivable - Loan to crazy uncle	\$	5
Home	\$	300
Vehicles	\$	30
Prepaid Gym membership	\$	1

Total assets \$ 413

Liabilities

Mortgage	\$	175
Vehicle loans	\$	15
Trade payables for oil, cable, electricity, etc.	\$	1
Credit card debt	\$	5

Total liabilities \$ 196

Equity

Members Equity	\$	217
----------------	----	-----

Total Equity \$ 217

Liabilities plus Equity

\$ 413

Summary highlights

Assets divided by Liabilities 2.1

John Doe Financial Statements [Cont.]

JOHN DOE

Age

40

<u>Current year operating budget</u>		
Revenues in 000's	Salaries	\$ 75
	Reserve appropriations/ assessments	\$ -
	Other	\$ -
		\$ 75
Expenses in 000's	Withheld taxes at 33%	\$ 25
	Mortgage	\$ 16
	Vehicle loans	\$ 6
	Utilities/home expenses	\$ 8
	Insurance	\$ 4
	Grounds maintenance	\$ 2
	Maintenance/repairs	\$ 3
	Reserve funding - 401k	\$ 6
	Vacations	\$ 4
	Other	\$ 1
		\$ 75
NET		\$ 0

Accounting Methods Used for Reports

- What are the methods of reporting financial activity?
 - Accrual
 - Cash
- Which method is preferred and why?
- Provide examples of when cash accounting differs from accrual accounting and how there is an impact on your Association.

Year-end Financial Reports & Role of CPA

- What level of assurances are available on financial statements?
- Who makes these assurances?

Year-end Financial Reports & Role of CPA

- Audit opinion
- Review opinion
- Compilation opinion

- Assurances provided by independent accounting firm.

Year-end Financial Reports & Role of CPA

- Handouts – various audit opinions
- Can you determine the name of the company receiving the audit opinion?
- What do the audit opinions have in common?

Year-end Financial Reports & Role of CPA

■ **Common themes**

- Unqualified opinion on
 - A balance sheet as of a point in time
 - An income statement for a period of time (usually 1 year)
 - A statement of changes in equity for a period of time (1 year)
 - A statement of cash flows for a period of time (1 year)
- Who is the responsible party of the financial statements?
- The language “Reasonable assurance”
- The language “Present fairly, in all material respects”
- The language “In conformity with accounting principles generally accepted in the U.S.”

Financial Statements & Role of Board

- Role of a Board member with regards to community financial statements
 - ❑ Fiduciary custodian. Remember, you are an Officer of a Connecticut Corporation
 - ❑ To demonstrate fiscal responsibility through “reasonable business practices”
 - ❑ Assess the integrity of the financial information

Financial Statements & Role of Board

- Pitfalls we see in how Board members look at community financial statements
 - Too much time spent on items considered “immaterial”. As a dollar amount, materiality can vary, but as a percentage it is < 3-5%
 - Not enough time spent on long-term plans and analyses

Financial Statements & Role of Board

- **Effective Board members:**
 - ❑ Recognize the balancing act of keeping common fees low and resale values high
 - ❑ Establish fiscal policy and understand the importance of corporate governance
 - ❑ Possess the skill set to review detailed financial information for accuracy and integrity while providing oversight and review from 30,000 feet

Handouts

Community A versus B

- Summary of Financial Data
- Observations
 - Similarities
 - Differences
 - What do we not know by simply looking at ‘the numbers’?

Financial statements Community A vs. B

# of Units in community	98	104
Age of community in years	32	30

Balance Sheets as of June 30,2009 in 000's			
Assets			
	Operating Cash	\$ 14	\$ 4
	Cash in Reserves	\$ 94	\$ 185
	Accounts Receivable - common fees	\$ 19	\$ 1
	Prepaid Insurance	\$ 30	\$ 20
	Total assets	\$ 157	\$ 210
Liabilities			
	Trade payables	\$ 4	\$ 6
	Insurance payable	\$ 13	\$ 14
	Accruals/other	\$ 2	\$ 4
	Prepaid fees	\$ 5	\$ 9
	Total liabilities	\$ 24	\$ 33
Equity			
	Members Equity	\$ 37	\$ (7)
	Replacement Reserve	\$ 96	\$ 184
	Total Equity	\$ 133	\$ 177
	Liabilities plus Equity	\$ 157	\$ 210
Summary highlights			
	Assets divided by Liabilities	6.5	6.4
	Operating cash less trade payables and prepaid fees in 000's	\$ 5	\$ (11)
	Total Cash per unit	\$ 1,102	\$ 1,817
	Total Net Worth per unit	\$ 1,357	\$ 1,702
	Total Net Worth per unit per month since inception	\$ 3.53	\$ 4.73
	Receivables as % of monthly fees	105%	6%

Financial statements Community A vs. B

# of Units in community	98	104
Age of community in years	32	30

<u>Current year operating budgets</u>			
Revenues in 000's			
	Common fees	\$ 217	\$ 217
	Reserve appropriations/ assessments	\$ -	\$ -
	Other	\$ 4	\$ -
		\$ 221	\$ 217
Expenses in 000's			
	Professional fees	\$ 23	\$ 26
	Utilities	\$ 74	\$ 29
	Insurance	\$ 34	\$ 25
	Grounds maintenance	\$ 33	\$ 53
	Maintenance/repairs/payroll	\$ 36	\$ 17
	Other/Clubhouse fees	\$ 1	\$ 27
	Reserve funding	\$ 20	\$ 35
	Capital projects	\$ -	\$ 5
		\$ 221	\$ 217
NET		\$ -	\$ -
<u>Summary highlights</u>			
		<u>Per unit Per month</u>	
	Common fees	\$ 188	\$ 174
	Professional fees	10% \$ 20	12% \$ 21
	Utilities	33% \$ 63	13% \$ 23
	Insurance	15% \$ 29	12% \$ 20
	Grounds maintenance	15% \$ 28	24% \$ 42
	Maintenance/repairs/payroll	16% \$ 31	8% \$ 14
	Other/Clubhouse fees	0% \$ 1	12% \$ 22
	Reserve funding	9% \$ 17	16% \$ 28
	Capital projects	0% \$ -	2% \$ 4
		100% \$ 188	100% \$ 174

Handouts – Financials

Community A versus B

- Similarities
 - Similar # of units (98 vs. 104).
 - Same amount of common fees (\$217,000).
 - Similar age (32 years old vs. 30 years old).
 - Assets divided by liabilities is approx. 6.5 to 1.

- Differences, as of June 30, 2009
 - Community A has more cash in operating account.
 - Community B collects receivables faster.
 - Community B has more cash and equity per unit.
 - Community B is budgeted to spend 2x Community A on reserve funding and capital projects in current year.
 - Community B has created more net worth/net equity per unit since inception (\$4.73 per unit/month versus \$3.53 per unit/month).

Summary of Key Community Financial Indicators

- Handout – For each Community Association attendee, attached to financial statements provided
 - June 30, 2009 balance sheet
 - Current year operating budget
 - Association specific key metrics

Other items with financial impact

- Items having an impact on your Association's financial statements that are not numerical
 - ❑ Age of your community
 - ❑ Age of recent (within past 5-10 years) capital improvements
 - ❑ Construction type and composition of your community
 - ❑ Preferred vendor relationships
 - ❑ Duration of existing contracts

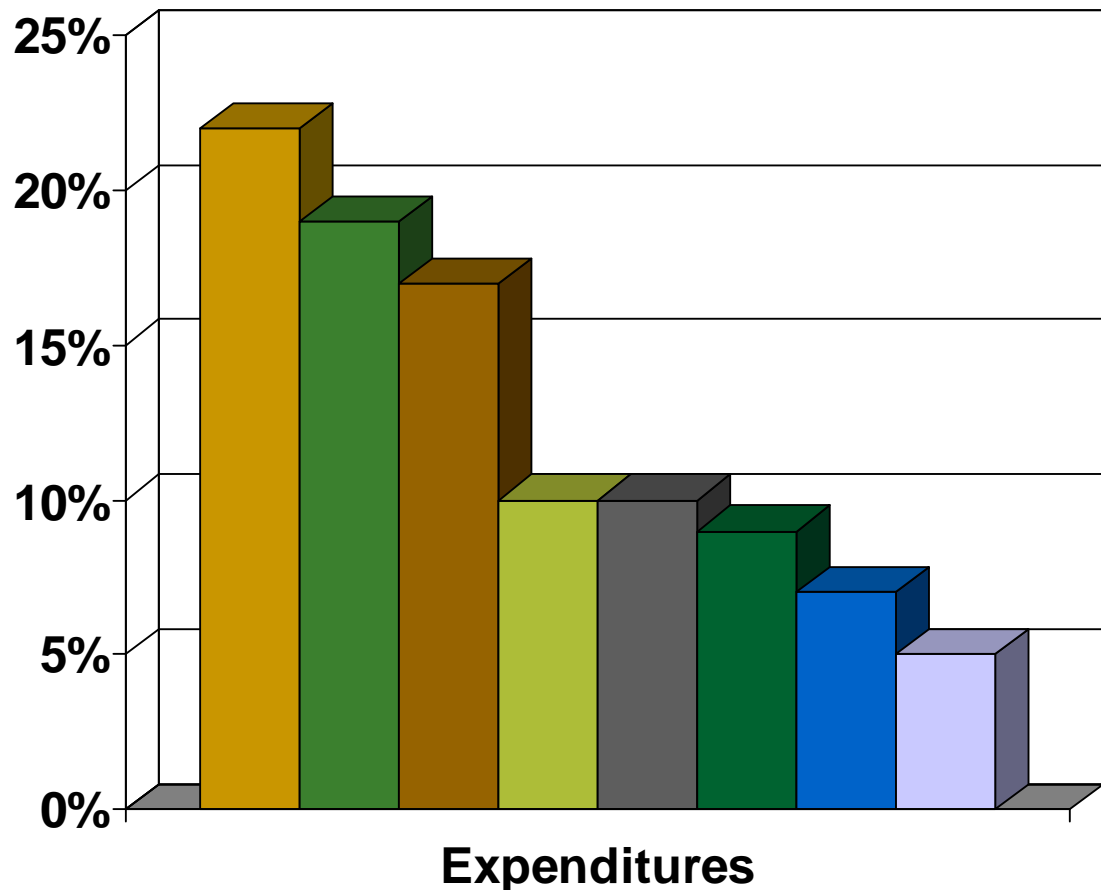
Warning Signs to Watch When Reviewing Financial Reports

Financial health warning signs

- ❑ Increase in receivables
- ❑ Increase in payables
- ❑ Payables to reserves
- ❑ Negative balances in Members' Equity
- ❑ Consistent (year after year) low amount (<10%) contributed to reserves

Summary of Key Community Financial Indicators

[*Imagineers Managed Properties, 12,000 + units]



- **Grounds maintenance (22%)**
- **Maintenance/repairs (19%)**
- **Utilities (17%)**
- **Reserve funding (10%)**
- **Capital projects (10%)**
- **Insurance (9%)**
- **Professional fees (7%)**
- **Other (5%)**

Key Community Financial Indicators

Suggested Takeaways

- It is important to spend more time analyzing Balance Sheets than Income Statements. It will provide you with an idea of the financial health of your community (whether it is 40 units or 400 units, whether it is 5 years old or 25 years old).
- The Balance Sheet is a snapshot at one point in time, and includes all financial transactions in all previous years.
- Whatever common fees were 5, 10, and 15 years ago, may not mean much to current year fees, however if those fees in that period of time were too low for too many years, you will know. You will know this whether or not you were on the Board at the time.

Conclusions – Key Indicators of Financial Health

❑ Short-term

- Operating cash less trade payables less prepaid fees
- % of common fees uncollected

❑ Long-term

- Association Assets divided by Liabilities
- Cash per unit
- Equity per unit

- ❑ Imagineers will seek assistance/approval to utilize financial information of comparably sized communities to conduct a Financial Analysis of Key Indicators