

2016 ONPHA Conference and Trade Show

304

Show me the money: Finance basics for boards

Liza Gowe, Finance, HR and Office
Services Coordinator, ONPHA

ONPhA



Understand your funding model

- Who subsidizes your organization?
- Are your expenses “benchmarked”
- What happens if you have a surplus/deficit?
- Do you have “non-shelter” revenue and expenses?
- Are there constraints on what you can charge if you have market units?



Carefully review financial statements

- Statement of Operations (Income statements)
- Statement of Financial Position (Balance sheet)
- Capital Reserve report
- Arrears report
- Vacancy report



Financial health

- Non profit Board members have a legal obligation to ensure the financial health of the organization by managing:
 - assets
 - resources
 - finances



Good financial management means

- collecting as much planned-for revenue as possible each month
- protecting the housing provider's assets from loss
- keeping spending within budget and cash availability
- getting the best value for each dollar spent
- tracking Net Assets and reserve growth/(losses)



On a monthly basis

- Sign cheques
- Monitor investments
- Review bank reconciliation
- Review arrears report
- Vacancy reports
- Review financial statements
 - Statement of financial position, (balance sheet)
 - Statement of operations (income statement)
 - Statement of net assets, capital reserves



Bank reconciliation

Review monthly before review of financial statements:

- Check list of outstanding cheques
 - are there cheques older than 6 months?
- List of all cheques prepared for the month
 - cheque numbers should be in sequence
 - any unusual payees?
 - large non-contract amounts?
 - are large cheques consistent with spending policy?



Bank reconciliation - Continued

Confirm that balance on bank statement matches balance on bank reconciliation

Confirm ending balance on bank reconciliation matches bank balance on Balance Sheet



Statement of Financial Position (SFP) (Balance sheet)

- Gives complete financial picture of the housing provider (at a particular point in time)
- Review the SFP to:
 - confirm certain assets are being protected
 - look for issues in the accounts that might also affect the statement of operations
 - confirm cash balances



Statement of Financial Position (Balance sheet)

- Generally uses one of the following formats:

$\text{Assets} = \text{Liabilities} + \text{Net Assets}$

Or

$\text{Assets} - \text{Liabilities} = \text{Net assets}$



Statement of Financial Position (Balance sheet)

- Statement of Financial Position (Balance sheet) should include columns as at:
 - end date of the month in review
 - year end of the prior year
 - end date of the prior month



Statement of Financial Position –
(Balance Sheet) to April 30 2016

ASSETS	Audited Dec. 31 2015	MAR 31 2016	APR 30 2016
Current Assets:			
Petty Cash	100	100	100
Current Account - XX Bank	525	600	550.00
Investments	170,000	175,000	175,000
Total Cash	170,625	175,700	175,650
Tenants' Receivable	11,950	12,950	13,500
Subsidy Receivable	15,275	13,587	13,523
Allowance for Doubtful Accts	(9,500)	(10,000)	(10,500)
GST Rebate Receivable	554	663	276
Total Accounts Receivable	18,279	17,200	27,299
Prepaid Insurance	8,493	7,748	7,003
Prepaid Taxes	0	0	0
Trust Co. Shares	15	15	15
Total Other Current Assets	8,508	7,763	7,018
Total Current Assets	197,412	200,663	209,968
Capital Assets:			
Land & Building Costs	1,500,079	1,500,079	1,500,079
Account Depreciation	(5,990)	(5,990)	(5,990)
Net Land/Building Costs	1,494,089	1,494,089	1,494,089
Total Capital Assets	1,494,089	1,494,089	1,494,089
TOTAL ASSETS	\$1,691,501	\$ 1,694,752	\$ 1,704,057

Statement of Financial Position
(Balance sheet) to April 30 2016

LIABILITIES & Net Assets	Audited Dec. 31 2015	MAR 2016	APR 2016
Current Liabilities:			
Accounts Payable	5,736	6,694	33,815
Receiver General Payable	1,875	1,250	1,250
Tenants' LMR Deposits	11,731	11,151	11,206
Total Current Liabilities	19,342	19,095	46,271
Capital Reserves	180,988	178,746	172,721
Mortgage Payable	1,494,089	1,494,089	1,494,089
Total Liabilities	1,694,419	1,691,930	1,713,081
Net Assets:			
Retained Earnings	0	7,979	7,979
Current Year's Surplus/(Deficit)	0	(5,157)	(9,024)
Total Net Assets	0	(2,822)	(9,024)
TOTAL LIABILITIES & Net Assets	\$1,694,419	\$ 1,694,752	\$ 1,704,057

Statement of Financial Position (Balance sheet)

- Confirm that cash balance is sufficient to cover accounts payable and mortgage
- Confirm investments in the capital/replacement reserve account is equal to or greater than capital/replacement reserve



Cash

Statement of Financial Position (Balance Sheet) to
April 30 2016

ASSETS	Audited Dec. 31 2015	MAR 31 2016	APR 30 2016
Current Assets:			
Petty Cash	100	100	100
Current Account - XX Bank	525	600	550
Investments	175,000	175,000	175,000
Total Cash	175,625	175,700	175,650

LIABILITIES & NET ASSETS	Audited Dec. 31 2015	MAR 31 2016	APR 30 2016
Current Liabilities:			
Accounts Payable	5,736	6,694	33,815
Receiver General Payable	1,875	1,250	1,250
Tenants' LMR Deposits	11,731	11,151	11,206
Total Current Liabilities	19,342	19,095	46,271
Capital Reserves	180,988	178,746	172,721

Operating & RGI subsidy

- *Housing Services Act* providers need to confirm operating subsidy receivable is correct
- Confirm rent supplement/RGI subsidies receivable are correct
- Has the subsidy amount changed from the prior month?



Other receivables

- HST should increase most months
 - Confirm that there has been a month-over-month change in HST receivable
- Reduction to HST receivable only occurs when rebate has been received from CRA
- HST should be submitted at least annually
- Check for other receivables



Prepaid expenses

- Prepaids are expenses that are paid in advance
most common are insurance and property taxes
- Balance should be changing monthly



Capital assets

- Most housing providers – no change until audit
- Some may have office equipment which will affect statement of operations
- The value of the property less amortization should equal the outstanding mortgage.



Payables

- Should see month-to-month changes in balance in:
 - accounts payables
 - accrued professional fees
 - accrued utilities



Statement of Operations

- Compare budget with year-to-date
- Review every account
- Look for:
 - unusual variances between budget and actual, either positive or negative
 - unexpected trends
 - a projected surplus/(loss)
- If projections are for a deficit, make revenue and expense adjustments



Financial statement transactions will appear as either...

Cash

- post financial transactions when cash passes to/from non-profit
- gives unexpected swings in financial data

Monthly financial statements tend to be a mix of cash and accrual

Accrual

- date financial transactions for when they occur, not when they are paid
- tends to even out data to avoid a swing in revenues /expenditures based on cash flow

Annual financial statements are done on an accrual basis



Monthly accruals

- Utilities (if significant), insurance, doubtful accounts and bad debts
- Audit fees
- Capital/replacement reserve allocation
- For HSA providers, subsidies (rent, mortgage, property tax)



Non-shelter

- Revenue and expenses not related to providing housing; non-shelter must be segregated
- Includes revenue & expenses related to:
 - Ministry of Health supports
 - Supports to Daily Living
 - commercial rentals
- Are these consistent with the budget?



Statement of Operations (Income Statement)
for the Period January 1, 2016 to April 30, 2016

REVENUE	Current month actual	YTD Actual	YTD Budget	YTD Variance (\$)	YTD Variance (%)
RGI Rents	1,615	6,460	7,450	-990	-13%
RGI Subsidy	2,263	9,050	9,050	0	0%
Market Rents	3,115	10,140	10,140	0	0%
Subtotal	6,993	25,650	26,640	-990	-4%
Market Vacancy Loss	0	-735	0	-735	
Net Occupancy Revenue	6,993	24,915	26,640	-1,725	-6%
Parking & Laundry	480	1,920	1,833	87	5%
Interest	0	0	533	-533	-100%
Miscellaneous	25	50	67	-17	-25%
Total Non-Rental Revenue	505	1,970	2,433	-463	-19%
Operating Subsidy	10,700	42,800	42,800		0%
Property Tax Subsidy	800	3,200	3,200	0	0%
Total Subsidies	11,500	46,000	46,000	0	0%
TOTAL REVENUE	18,998	72,885	75,073	-2,188	-3%

Statement of Operations (Income Statement)
for the Period January 1, 2016 to April 30, 2016

REVENUE	Current month actual	YTD Actual	YTD Budget	YTD Variance (\$)	YTD Variance (%)
RGI Rents	1,615	6,460	7,450	-990	-13%
RGI Subsidy	2,263	9,050	9,050	0	0%
Market Rents	3,115	10,140	10,140	0	0%
Subtotal	6,993	25,650	26,640	-990	-4%
Market Vacancy Loss	0	-735	0	-735	

No budget for vacancy loss. It is possible that the provider has not experienced vacancy loss in the past, but unlikely.

E.g. Vacancy loss was benchmarked at 3% of market rents in family buildings and 1.5% in seniors buildings

Lower than budgeted rental income may be the result of reductions in RGI rent for some tenants.

This amount should be added to the RGI subsidy AND as an increase in government receivable on the balance sheet, and income statement

EXPENSES	Current Month Actual	YTD Actual	YTD Budget	YTD Variance (\$)	YTD Variance (%)
Building and Equipment	725	1,108	2,575	-1,467	-57%
Heating, Plumbing Etc	0	0	333	-333	-100%
Grounds	0	250	333	-83	-25%
Painting	0	0	167	-167	-100%
Electricity	100	400	500	-100	-20%
Fuel	200	1,700	1,000	700	70%
Water & Sewage	120	480	460	20	4%
Admin Salaries, Wages Etc	1,400	5,600	5,467	133	2%
Audit	400	1,600	1,600	0	0%
Bank Charges & Interest	33	239	267	-28	-10%
Deposit Interest	55	225	0	225	
Fees & Dues	0	2,500	1,000	1,500	150%

EXPENSES	Current Month Actual	YTD Actual	YTD Budget	YTD Variance	YTD Variance (%)
Office Equipment	0	594	167	427	256%
Office Supplies	0	311	53	258	487%
Postage & Couriers	0	32	33	-1	-3%
Professional Services	4,925	5,175	333	4,842	1454%
Staff Training	300	300	167	133	80%
Telephone	29	191	167	24	14%
Other Admin Overhead	0	153	167	-14	-8%
Insurance	745	2,931	2,978	-47	-2%
Bad Debts	500	1,000	0	1,000	
Total Operating Expenses	9,532	24,789	17,767	7,022	40%

	EXPENSES	Current Month Actual	YTD Actual	YTD Budget	YTD Variance	Annual Budget	Budget Remaining	% Budget Used	Projections to Year End
1	Building and Equipment	725	1,108	2,575	(1,467)	7,726	6,618	14.3%	3,324
2	Fuel	200	1,700	1,000	700	3,000	1,300	56.7%	6,000
3	Deposit Interest	55	225	0	225	0	(225)		300
4	Professional Services	4,925	5,175	333	4,842	1,000	(4,175)	517.5%	6,000
5	Telephone	29	191	167	24	500	309	38.2%	575
6	Bad Debts	500	1,000	0	1,000	0	(1,000)		(2,000)
7	Municipal Taxes	800	3,200	3,200	200	9,600	6,400	33.3%	9,600

1

The account is significantly below budget; may be a budgeting error, but may also be that the staff are not appropriately maintaining the building.

2

Fuel is significantly over budget, could be the result of higher than expected utility costs, or a bad winter.

3

No budget for deposit interest. If the non-profit is collecting tenant LMR deposits then they must pay interest on them equal to the annual rent increase guideline.

4

This increase may be the result of legal fees. Projections should be adjusted to reflect what is causing the increase, e.g. evictions, a lawsuit.

5

Projection should be based on current monthly charges.

6

There is no budget for bad debts; an unrealistic expectation.

7

For HSA providers property taxes should always equal the Property Tax Subsidy amount, as this is a subsidy pass through on HSA projects.

EXPENSES	Current Month Actual	YTD Actual	YTD Budget	YTD Variance	Annual Budget
Municipal Taxes	800	3,200	3,200	200	6%
Mortgage Principal & Interest	12,980	51,920	51,920	0	0%
Capital Reserves	500	2,000	2,000	0	0%
Transfer to Other	0	0	0	0	
TOTAL EXPENSES	23,812	81,909	74,887	7,222	10%
Net Surplus/Loss	-4,814	-9,024	186	-9,410	-5059%
Due from/to Government	0	0	0	0	
Surplus after Government Recon.	-4,814	-9,024	186	-9,410	-5059%

Capital reserve report

- Capital reserve report should include:
 - income for month (should match transfer from Statement of Operations)
 - expenditures for the month
- Does the balance on the report match the balance on the Statement of Financial Position?
- Are expenditures consistent with capital budget and/or Board decisions?



Accounts receivable & arrears report

- Arrears report should include:
 - amount of arrears owing by tenant
 - (note - no tenant names should appear)
 - indication of how long the arrears have been owing
 - what actions have been taken to collect the arrears
- Are the actions taken consistent with the arrears policy?



Accounts receivable & arrears report

*Prepared May 15
2016*

<i>Owing as of</i>				
	May 15	April 30	Mar 31	Feb 28
<i>Current</i>	6,539.52	11,488.91	8,733.91	8,523.19
<i>Moved out</i>	2,011.09	2,011.09	4,216.09	3,426.81
	\$ 8,550.61	\$13,500.00	\$12,950.00	\$11,950.00

Accounts receivable & arrears report

Current Tenant Arrears		Owing as of					To Be Paid		Comments / Recommendations
Case #	Monthly charge	15-May-16	30-Apr-16	31-Mar-16	28-Feb-16	Status	Date	Amt	
1	412	300	462.30	500	555.30				Attempting to pay back as much as possible per month. No further action is required at this time
2	1,001	-	28	-		N4			NSF in prior month and had not paid NSF charge.
3	186	22.50	52.50	82.50	112.50	PA			paying \$30/mth; adhering
4	785	1,490	1,490	1,314.21	2,409.91	PA	15-May	860	paying \$860/mth; adhering
5	1,001	-	28			N4			NSF in prior month and had not paid NSF charge.
6	569	116.00	379.00	151.00	175.00				Attempting to pay back as much as possible per month. No further action is required at this time

Accounts receivable & arrears report

Current Tenant Arrears		Owing as of				Status	To Be Paid		Comments / Recommendations
Case #	Monthly charge	15-May-16	30-Apr-16	31-Mar-16	28-Feb-16		Date	Amt	
1	412	300	462.30	500	555.30				Attempting to pay back as much as possible per month. No further action is required at this time
2	1,001	-	28	-		N4			NSF in prior month and had not paid NSF charge.
3	186	22.50	52.50	82.50	112.50	PA			paying \$30/mth; adhering
4	785	1,490	1,490	1,314.21	2,409.91	PA	15-May	860	paying \$860/mth; adhering
5	1,001	-	28			N4			NSF in prior month and had not paid NSF charge.
6	569	116.00	379.00	151.00	175.00				Attempting to pay back as much as possible per month. No further action is required at this time

status codes

PD Tenant submitted dated cheque
N4 N4 Sent

ED Eviction Decision
PA Payment Agreement

Accounts receivable & arrears report

Current Tenant Arrears							To Be Paid		Comments / Recommendations
Owing as of							Date	Amt	
Case #	Monthly charge	15-May-16	30-Apr-16	31-Mar-16	28-Feb-16	Status			
7	1,357	270.00	270.00	660.30	660.30	PD	15-May	270.00	Amount will clear with post-dated cheque. No further action required at this time.
8	1,070	1,070.00	1,549.00	-		N4			Letter sent for late payment. Tenant usually pays on time
9	1,070	500.00	1,100.00						
10	1,357	-	1,105.00						
11	1,357	2,098.91	2,098.91	2,658.00	1,357.00	ED			Tenant has been sent 2nd notice. May need to proceed to the Board.
12	752	1,315.20	1,558.20	1,801.20	2,044.20	PA	20-May	243.00	paying \$243/mth; adhering
13	1,147	1,368.00	1,368.00	1,566.70	419.70				Awaiting lawyer's instruction for eviction
Total		8,550.61	11,488.91	8,733.91	7,733.91			1,373.00	Payments expected before month end
								7,177.61	Arrears projected at month end

Steps to Calculate the Allowance for Bad Debt Calculation

1. Age the receivables

Total Receivables	Less than 30 days	30 to 89 days	90 days or greater
10,500	1,200	3,000	6,300

2. Calculate the allowance

Total Allowance	Calculate 10% of the less than 30 days	Calculate 50% of the 30 to 89 days	Calculate 100% of 90 days or greater
7,920	120	1,500	6,300

3. Calculate the difference between the prior months allowance and the current calculation

Current Calculation	7,920
Prior Month's Allowance	6,500
Adjustment Required to the Allowance for Doubtful Accounts	1,420

4. The Journal Entry

Account	Debit	Credit
Bad Debt Expense	1,420	
Allowance for Doubtful Accounts		1,420

The arrears report should include the above calculations and indicate what follow up has been done on each of the listed receivables. The arrears report should *not* include the names of the tenants.

Accounts receivable & arrears report

- Arrears report should show calculation of bad debt for the month
 - does the bad debt/allowance for doubtful accounts calculation agree with the income statement and balance sheet?
- Confirm that the allowance for bad debts has changed from the prior month.



In summary:

- ✓ look for variances on the statement of operations and ask for an explanation
- ✓ review accounts receivable and be sure that appropriate follow up is occurring
- ✓ review statement of financial position to spot large variances month to month and trends (longer term increases or decreases in assets and liabilities)
- ✓ make sure there is cash on hand to cover your operating costs
- ✓ make sure your replacement reserve amount is covered

