



2017 ONPHA Conference and Trade Show

Shaping
our
Future

307

Reading and understanding
financial statements

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Learning goals

1. Components of Financial Statements (FS) of a Non-Profit Housing Organization
2. Highlight areas of concern
3. Identify potential trends
4. Ask the right questions



Financial Reporting

- Annual Audited Financial Statements (AFS)
 - Based on the Organization accounting records
 - Standard format
 - Required to comply with the Auditing and Accounting Standards
- Internal Monthly Financial Reports
- Other Internal Reports
 - Bank reconciliations, Receivables, Payables, Reserve expenses



Annual Audited Financial Statements

- Independent Auditors' Report
- Statement of Financial Position
- Statement of Operations
- Statement of Cash Flows
- Notes to Financial Statements



Auditors' Report

- Standard
- Board of Directors responsibilities
- Auditors responsibilities
- Opinion
 - Qualified Opinion
 - Denial of Opinion
- Basis of Accounting
- Subsequent Event, Going Concern, Comparative Information



A Story to Tell

- Analyze Operations
 - Revenues and expenses
 - Trends (5 years)
 - One-time events
- Review Receivables and Payables
- Financial Health
 - Cash and investments
 - Obligations, loans, mortgages



A Story to Tell – continued

- Ask Questions – Why?
 - Tenant receivables increased from prior year
 - Vacancy losses high compared to total units
 - Painting expense has increased over the last year
- Understand the issue
 - Trend or one-time event
- Impact of an isolated event



A Story to Tell – continued

- Solution to fix the problem
- Work together (Board of Directors, management)
- Make informed decisions
 - Keep up to date on upcoming changes (utility rates, rebates)
- Follow up on a regular basis
 - Timeline
 - Deadlines
 - Assign responsibilities



Tools - Estimates

Estimate Potentials

- Amounts based on contracts/agreements
 - Management fees – Management contract
 - Roof rental – Agreement
 - Cable expense – Cable agreement
- Amounts based on monthly charges/rates
 - Rents – budget monthly rates (per unit type) X # of units
 - Parking – monthly rates X # of spots available



Tools - Expectations

Develop Expectations

- Set highs and lows for various items
- Incorporate various factors
 - Market conditions
 - Tenant demographics
 - Weather impact
 - Building condition



Tools - Variances

- Compare to prior year
- Compare to budget
- Be aware of slight variances that increase over a number of years

	2017	2016	2015	2014	2013
Room rental	500	700	900	1,200	2,000



Tools – Understand Relationships

- High turnover
 - Higher vacancy losses
 - Higher unit renovation costs – unit rentable again
 - Higher tenant receivables from past tenants
- Late fees
 - Higher revenue from late fees
 - Potential lower tenant receivables
- Installation low-flow toilets
 - Decrease in water consumption in year of installation and afterwards



Cash and Investments

- Total Cash and Investments
 - Increase or decrease
 - Temporary or real
 - Enough investments to cover replacement reserve balance
 - Enough cash and investments for the future
- Operating current account
 - Excess cash non-interest bearing account
 - Oversight or intentional
 - Significant future cash outflow (major renovation)



Cash and Investments - continued

- Investments
 - Short-term vs Long-term
 - Composition: GICs, bonds, etc
 - Higher rate of return – Higher risk
 - Acceptable level of risk
 - Investment policy (written)
 - Rules required by funder
 - E.g. Housing Services Act – Social Housing Investments



Tenant Receivables

- Check for increases/decreases
- Component: current and past tenants
- Current tenants
 - How many tenants in arrears
 - Problem tenants
 - Repayment/performance agreements
- Past tenants – collection, status
- Allowance for doubtful accounts
- Bad debt expense



Tenant Receivables - continued

	2017	2016
Curent Tenant A	1,000.00	1,000.00
Past/ Current Tenant B	9,000.00 *	9,000.00
Past Tenant D	10,000.00 *	10,000.00 *
	<u>20,000.00</u>	<u>20,000.00</u>
Allowance	<u>(19,000.00) *</u>	<u>(10,000.00) *</u>
Net Receivable	<u>1,000.00</u>	<u>10,000.00</u>
Bad Debt Expense	9,000.00	



Other Current Assets

- HST rebate
- Subsidy receivable
- Other receivables
- Prepaids



Current Liabilities

- Accounts payable and accrued liabilities
- Tenants' deposits
- Interest on LMR



Replacement Reserve

- Appropriation from operations
 - Expense line
 - May be set by funder
- Investment income
 - Earned from restricted investments
 - Allocation between replacement reserve and operations
 - Impact on surplus/deficit



Replacement Reserve - continued

- Expenditures
 - Review expenses, capital in nature
 - Allocation between replacement reserve and operations
 - Guideline from funder
 - Develop a policy
 - Easy to follow
 - Consistency
 - Projects planned not yet completed
 - Usually no comparison to prior year



Replacement Reserve - continued

- Compare expenses to capital budget
- Follow replacement reserve study to complete projects
- Enough cash and investments to fund replacement reserve
- Enough funds to cover future capital expenses
 - Reserve study
 - Building condition assessment



Accumulated Surplus

- Accumulated surplus position
- Increase/decrease based on surplus/deficit for the year
- Other transfers between accumulated surplus and replacement reserve



Operating Budgets

- Prepared by management/Board of Directors
- Approved by the Board of Directors
- No audit opinion on the budget
 - May comment if unreasonable
- Prepare budget
 - Use prior 2 year actuals
 - Incorporate upcoming/expected changes
- Compare budget versus actual on a monthly basis
- Properly prepared budget => useful budget-versus-actual analysis



Rents

- One of two major sources of revenue
- Easy to calculate
- Typically increase from prior year
- Compare potential budget rents to actual
- Review market, subsidized, vacancy losses and internal subsidy (if applicable)



Rents - continued

	2017		
	Market Units	RGI Units	Total
Gross	\$ 700,000	\$ 1,200,000	\$ 1,900,000
RGI subsidy	0	(670,000)	(670,000)
Vacancy loss	(5,000)	(30,000)	(35,000)
Internal subsidy	0	(50,000)	(50,000)
	695,000	450,000	1,145,000



Vacancy losses

- Percentage of total rents
- Number of months unit remains vacant
- Length of time to renovate unit
- Centralized waiting list
- Geographical areas – difficulty to fill units
- Rents at par with commercial residential units
- Sudden increases in vacancy losses



Government Subsidies

- Understand funding formula
 - Fixed; based on subsidies given out; based on expenses
- Review subsidy amounts reported
 - Look for underspending => subsidy being paid back
 - Look for surplus repayment => ask why
- Maximize/utilize available subsidy (follow rules)



Other Revenues - Parking

- Easy to calculate
- # of spots x monthly charges x 12 months
- Compare actual to potential
- Compare to prior year
- Reason for empty spots



Other Revenues - Laundry

- Compare to prior year (ideal 5 years)
- Compare to budget
- Difficult to calculate potential
- Collection agency or collection by staff



Other Revenues – Investment Income

- Combine amount in the statement of operations and the replacement reserve
- Look for variances
- Refer to cash and investments slides
- Many factors
 - Market conditions
 - Interest rates
 - Types of investments



Other Revenues

- Roof rental
 - Annual amount – contract
- Late fees
- Room rentals



Expenses

- Compare to prior year
- Compare to budget
- Review should be done on a monthly basis – no surprises at year-end
- Should be able to explain variances



Maintenance and Administrative

- May fluctuate based on various factors
- Unexpected costs: emergencies
- Fluctuate based on weather: cold/snowy winter => higher snow removal costs
- High turnover => increase in unit renovations
- Board decision: increase security => higher security costs



Utilities

- Compare to prior year (5 years best)
- Be aware of recent changes in utility rates
 - Notice in separate letters or utility bills (e.g. City of Toronto water bill)
- Be aware of one-time credits – non recurring
- Based on various factors
 - Utility rates
 - Consumption – weather, tenant awareness
 - Energy efficiency measures



Other Expenses

- Insurance premiums
 - Compare to prior year
 - Claims over the last few years
- Amortization and mortgage
 - Calculate total = monthly mortgage payment x 12 months
 - Amortization may be based on useful life
- Municipal taxes
 - Set annually
 - May change significantly if significant change in value of the property



Questions and Answers

