Co-op Toolbox - Part 1:

Board oversight of co-op finances

CHFT
CO-OPERATIVE HOUSING FEDERATION OF TORONTO

Serving co-ops in Durham, Toronto and York Region.

A housing co-op is both a community and a business. As a business, the co-op cannot afford to spend more money than it earns, so there is not much room for errors.

The board oversees the co-op's finances, paying careful attention to these items

- budgeting
- record keeping
- reporting
- monitoring and evaluating
- internal financial controls.

Budgeting (annual operating budgets and capital budgets)

The operating budget is the co-op's financial plan for the year. When the members approve the budget they are making decisions such as

- what the housing charges will be for the year
- the amount the co-op will charge for services like parking and laundry
- the maintenance projects the co-op will carry out
- the amount the co-op will set aside for future replacements.

The board must make sure that

- the budget is complete and accurate
- the budget is realistic
- the co-op's actual operating costs are the basis of the budget
- the co-op is following its operating agreement (program rules).

A capital budget tells you how much you need to put in your replacement reserve each year. Co-ops use this reserve to pay for replacing or repairing large items such as roofs and furnaces. The capital budget spreads the cost of equipment or building parts over several years.

Record keeping (bookkeeping and filing financial documents)
A professional bookkeeper who does not live in the co-op should do the bookkeeping because

- it avoids a possible conflict of interest
- it reduces the risk of fraud or theft

The bookkeeper should know double entry bookkeeping and use a computer accounting program.

Most co-ops administer a subsidy program for members who pay housing charges based on their income. These members must supply proof of their income and the co-op must keep this information confidential. Board directors should not personally collect this information or calculate the subsidies.

Reporting (year-to-date financial statements and annual audit)

Make sure you get financial reports every month. Some co-ops get quarterly reports, but monthly reports are best. The board definitely needs monthly arrears reports and bank reconciliations.

You need to see

- a balance sheet
- an income statement
- an arrears report
- a cash disbursements report
- a vacancy report.

The treasurer, or another director, should regularly look at the bank statement, the bank reconciliation, the deposit book, and the cheque book. Unexplained differences between these documents and your financial statements may mean careless work. They could also mean fraud.

Remember to share the financial reports with the members. They have a right to know how their co-op is doing financially. Regular reports will help members understand the co-op's financial situation. This will be useful if the co-op needs to change the budget during the year.

The co-op has to produce audited financial statements at the end of each financial year. A qualified auditor comes and reviews the co-op's books. The co-op must give a copy of the audit to

- the members
- the government agency that administers the co-op program. The agency must receive the audit within the time set by the co-op's operating agreement (program rules).
- the province if the province requires it.

Monitoring and evaluating (reviewing financial statements and reports and making decisions)

When you receive the monthly financial statements, you need to review them and talk about any concerns or questions you have. If you do not understand something, ask your bookkeeper, treasurer or staff to explain.

Internal financial controls (policies and procedures that protect the co-op's money)

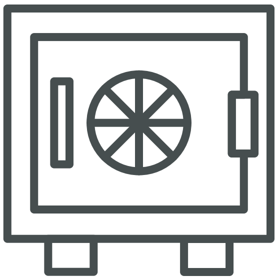
Boards can reduce the risk of financial loss by having good financial controls. Internal financial controls are policies and procedures that ensure the members' money is safe and property accounted for.

Internal financial controls reduce the risk of losing money because of poor management or fraud. They ensure that not just one person is recording transactions, paying bills and/or reviewing statements.

Internal financial controls ensure the accounting records are reliable and timely, and there are measures in places to safeguard the co-op's money.

Examples of internal financial controls include

- there are two signatures on every cheque
- there are cheque requisitions or purchase orders for all purchases
- no cash policy
- limits to who has banking authority
- having a deposit only ATM card



Annual financial calendar
Board tasks to schedule for a co-op with an August 31 year end.

February

- Make sure that the finance committee or the staff begin work on the budget.

April

- Review and approve the draft budget.

May

- Present the budget to members for approval.

June

- Give the members notice of housing charge increase.

July

- Send the budget to the funding agency if the agency requires it.

September

- Start of the new fiscal year. New housing charges begin.

October

- Begin the audit.

November

- Finish the audit and prepare reports for the funding agency.
- Send the audited financial statements to the finance committee for review.
- Review and approve the audited statements.
- Send the audited statements to members.

December

- Hold the annual general meeting to approve the audited financial statements.

January

- Send the audited statements and reports to the funding agency according to your operating agreement (program rules).
- Send the audited statements to the provincial government if necessary.
- Review finance by-laws and procedures if necessary.