




Understanding Cooperative Financial Statements

Czarnowski & Beer, LLP

 **Understanding Cooperative Financial Statements**


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 CZARNOWSKI & BEER LLP
Auditors | Advisors

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 **Our Agenda**

- Components of Financial Statements
- Working With the Numbers
- Key Metrics

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 **Components of Financial Statements**

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 **Components of Financial Statements**

- Independent Auditors' Report
- Balance Sheet
- Statement of Operations and Deficit (Income Statement)
- Statement of Cash Flows
- Notes to Financial Statements

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Understanding Cooperative Financial Statements

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Independent Auditors' Report

CB

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Xxxxxx xxxxxx Owners Corp
New York, New York

We have audited the accompanying balance sheets of Xxxxxx xxxxxx Owners Corp (a cooperative housing corporation) as of December 31, 2009 and 2008, and the related statements of operations and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Xxxxxx xxxxxx Owners Corp, as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 16, Xxxxxx xxxxxx Owners Corp. has not compiled the supplementary information on future major repairs and replacements that the American Institute of Certified Public Accountants has determined is necessary to supplement, although it is not required to be part of, the basic financial statements.

April 26, 2010

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Independent Auditors' Report

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- Specifies what service was provided (audit, compilation, review)
- Explains what was done
 - Audit does not mean every transaction was looked at
- Indicates any exceptions to GAAP (Generally Accepted Accounting Principles)
- May indicate supplementary information on repairs and replacements has not been included

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Independent Auditors' Report

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- Look for:
 - "...present fairly, in all material respects"
 - No exceptions to GAAP
 - No "going concern" issue
 - Other basis of presentation
 - Cash Basis
 - Tax Basis (can also be Cash Basis)

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Income Statement

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14 Cooperative Housing Corporation
Statements of Operations and Deficit
For the Years Ended December 31

	2009	2008
Revenues		
Net maintenance charges to shareholders	\$717,123	\$717,144
Special assessment	131,125	63,285
Lobby income	14,476	37,664
Other member income	13,967	17,222
Grant income	228,522	193,269
Administrative income	76	27,719
Electric charges	184,744	182,111
Membership income	15,216	9,486
Grant income	0	14,982
Interest income	4,870	3,851
Total Revenues	2,164,051	2,284,373
Expenses		
Operating		
Repairs and related costs	461,111	436,568
Utilities and gas	166,897	238,425
Water and sewer	80,916	100,262
Fuel	198,429	237,899
Repairs, supplies and maintenance	197,769	187,107
Interest	71,261	71,831
Management fees	61,500	61,500
Office and incidental	24,466	30,214
Licenses, permits and fees	3,929	5,571
Total Operating Expenses	1,267,378	1,337,377
Mortgage and loan interest	239,121	340,899
Real estate taxes	106,668	464,138
Corporate income taxes	0	0
Professional fees	48,625	35,881
Total Expenses	2,111,892	2,228,315
Excess of Revenues over Expenses before Other Items	205,159	63,436
Other Items		
Capital Assessment	21,543	200,899
Transfer fees	16,485	0
Depreciation and Amortization	(870,791)	(847,361)
Net Other Items	(832,763)	(846,462)
Excess of Revenues over Expenses	113,939	(182,538)
Accumulated Deficit - January 1	(8,439,451)	(8,250,471)
Accumulated Deficit - December 31	(8,325,512)	(8,439,451)

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Income Statement

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- Reports how a company performed during the period(s) presented.
- Shows whether the company's operations have resulted in a profit or loss.

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Income Statement

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Excess of Revenue over Expenses before Other Items	202,129	63,436
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Income Statement

- Cash Basis**
 - How much income was received
 - What expenses were paid
- Accrual Basis**
 - How much income was earned (How much were we entitled to)
 - What costs were incurred

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Balance Sheet

(A Cooperative Housing Corporation)
Balance Sheet
December 31.

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ASSETS		2009	2008
Current Assets			
Cash		\$174,732	\$141,000
Cash - reserve funds		709,861	229,509
Receivable - tenants/owners		11,002	16,013
Receivable - Sponsor		20,432	3,048
Real estate for escrow account		25,984	128,778
Prepaid expenses		16,712	3,295
Total Current Assets		1,032,614	534,643
Fixed Assets			
Land		1,895,995	1,895,995
Building		12,034,076	12,034,076
Building improvements		5,726,538	5,566,034
Energy projects		590,240	590,240
Treasury and renovations		117,645	117,645
Equipment		57,292	52,075
Total Fixed Assets		20,381,846	20,346,135
Less: Accumulated Depreciation		(10,828,284)	(10,234,374)
Net Fixed Assets		9,553,562	10,111,761
Other Assets			
Mortgage and loan costs		575,256	552,160
Leasing costs		14,754	0
Less: accumulated amortization		(350,220)	(249,478)
Net mortgage costs		239,790	302,682
Reverse fund - cash		19,983	2,487
Cash - garage security account		51,428	52,584
Total Other Assets		291,201	357,753
Total Assets		\$10,245,112	\$10,212,500

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Balance Sheet

(A Cooperative Housing Corporation)
Balance Sheet
December 31.

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LIABILITIES AND STOCKHOLDER EQUITY		2009	2008
Current Liabilities			
Accounts payable		\$48,840	\$47,514
Accrued expenses		80,311	87,361
Real estate for statements payable		25,423	30,750
Current portion of long term debt		142,389	76,000
Prepaid maintenance charges		46,090	54,232
Total Current Liabilities		342,753	295,857
Long Term Debt			
Mortgage payable		6,136,877	6,281,227
Energy loan payable		132,081	130,663
Co-Generation loan payable		420,590	0
Total Long Term Debt		6,689,548	6,532,550
Other Liabilities			
Tenant security payable		79,920	71,584
Total Liabilities		7,102,191	6,724,491
Stockholder's Equity			
Capital stock - \$1 par value, 80,000 shares authorized		78,404	78,404
78,000 shares issued and outstanding		11,789,851	11,789,851
Paid in Capital		(422,573)	(422,573)
Less: Treasury stock (887 shares)		(2,087,288)	(2,087,288)
Accumulated deficit - Other B		3,117,840	4,189,079
Total Stockholder's Equity		\$10,245,112	\$10,212,500

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Balance Sheet

- Snapshot of the company's financial position at a specific point in time.
- Shows what the company owns and what it owes as of that date.
- Helps study the company's solvency (ability to meet debts)

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Balance Sheet

- Remember if presented on Cash Basis you won't see:
 - Accounts Payable
 - No indication of unpaid bills
 - Construction in Progress
 - May be under commitments in Notes

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Statement of Cash Flows

(A Cooperative Housing Corporation)
Statement of Cash Flows
For the Years Ended December 31.

	2009	2008
Cash Flows from Operating Activities		
Continuity of Revenue over Expenses	(308,113)	(833,130)
Adjustments to reconcile deficiency to net cash provided to operations		
Depreciation and amortization	600,705	647,384
Decrease increase in:		
Receivable - tenants/owners	5,511	2,083
Receivable - Sponsor	(33,380)	(2,370)
Accrued income	0	284,000
Prepaid expenses	(128,815)	184,074
Real estate for escrow account	102,791	(108,416)
Cash - garage security account	1,194	(937)
Increase (decrease) in:		
Accounts payable	(21,280)	(13,046)
Accrued expenses	(1,280)	(202,341)
Real estate for statements payable	4,803	1,762
Prepaid maintenance	60,337	20,902
Tenant security payable	(889)	5,137
Net Cash Provided by Operations	268,866	162,869
Cash Flows from Investing Activities		
Net transactions in: Treasury bills	0	58,489
Capital investment received	(12,536)	(8,742)
Purchase of building improvements and equipment	(132,075)	(133,584)
Costs to obtain cash	(7,897)	0
Leasing costs	(14,154)	0
Net Cash Used for Investing Activities	(156,562)	(78,877)
Cash Flows from Financing Activities		
Proceeds from mortgage proceeds	900,000	0
Payment of mortgage proceeds	(86,703)	(72,822)
Net Cash Provided by/Used for Financing Activities	812,935	(14,209)
Increase in Cash	415,239	249,863
Cash - January 1	(202,740)	(120,544)
Cash - December 31	\$174,732	\$141,000
Supplemental Disclosures of Cash Flow Information		
Cash paid for:		
Income taxes	\$102,361	\$101,462
Real estate for statements	\$5,418	\$5,289
Building improvements payable	80	\$17,266

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CB **Statement of Cash Flows**

- Reports on the company's cash movements during the period(s).
- Three Sections:
 - From Operations
 - From Investments (fixed assets)
 - From Financing (debt and treasury units)

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CB **Notes to the Financial Statements**

Xxxxxx xxxxxxx Owners Corp.
Notes to Financial Statements
December 31, 2009

Note 1 - Significant Accounting Policies

(A) Nature of organization

Xxxxxx xxxxxxx Owners Corp. (the "Corporation") is a Cooperative Housing Corporation whose principal assets consist of a fifteen-story building located at xxx West xxth Street in New York, New York which was acquired on December xx, 19xx. The building consists of 217 residential units. The primary purpose of the Corporation is to maintain and manage the property.

(B) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Corporation to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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CB **Notes to the Financial Statements**

- Provides more detailed information about the financial statements.

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CB **Notes to the Financial Statements**

- Significant Accounting Policies
 - Nature of Organization
 - Use of Estimates
 - Cash Equivalents
- Concentrations
- Related Party Transactions
- Mortgage Payable
 - Shows next five years of principal

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CB **Notes to the Financial Statements**

- Commitments & Contingencies
- Special Assessment
- Rental Income
 - Shows next five years of minimum lease payments
- Future Major Repairs and Replacements
- Subsequent Events

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CB **Other Items**

- There may be supplemental schedules

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Working With the Numbers

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Working With The Numbers

- Current Assets vs. Current Liabilities
 - Compare current assets to current liabilities
 - Looks at ability to pay bills in the next year
- Net Income vs. Net Income before other items/depreciation
 - Did operations run at a profit
 - Highlights the ordinary operations

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Working With The Numbers

- Cash flow from operations
 - Are operations throwing off enough cash or is a maintenance increase called for
- Supplemental Cash Flow
 - Look at improvements payable
 - Highlights unpaid bills on major repairs and replacements

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Payroll as Percentage of Net Maintenance

Statements of Operations and Deficit		2009
Revenue		
Net maintenance charges to tenant-owners		\$1,751,272

Statements of Operations and Deficit		2009
Expenses		
Operating		
Payroll and related costs		465,191

Step 1: $\$ 465,191 \div \$ 1,751,272 = .2656$
(approximately 27%)

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Payroll as Percentage of Net Maintenance

- Informational
 - Indicates what portion of maintenance is locked up by payroll costs

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Real Estate Tax as Percentage of Net Maintenance

Statements of Operations and Deficit		2009
Revenue		
Net maintenance charges to tenant-owners		\$1,751,272

Statements of Operations and Deficit		2009
Expenses		
Operating		
Real estate taxes		505,648

Step 1: $\$ 505,648 \div \$ 1,751,272 = .2887$
(approximately 29%)

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Real Estate Tax as Percentage of Net Maintenance

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- Informational
 - Indicates what portion of maintenance is locked up by real estate taxes

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One Other Item

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- Watch the Funding
 - Every item funded – reserves, special assessment, real estate tax, water and sewer – should be segregated
 - Do not spend excess elsewhere unless absolutely sure why excess exists

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Key Metrics

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Key Metrics – Cash Per Unit

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Current Assets	Balance Sheets	2009
Cash		\$114,732
Cash - reserve funds		709,561

Note 1 - Significant Accounting Policies
(A) Nature of organization
The building consists of 217 residential units.

Step 1: $\$114,732 + 709,561 = \$824,293$
Step 2: $\$824,293 \div 217 = \$3,798.59$ cash per unit

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Key Metrics – Cash Per Unit

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- Benchmark
 - \$2,000 minimum suggested level
 - \$5,000 healthy
 - \$10,000 extraordinary

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Key Metrics – Debt Per Unit
(Generally applicable to Co-ops only)

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Long Term Debt	Balance Sheets	2009
Mortgage payable		\$136,877
Energy loan payable		120,061
Co-Generation loan payable		429,550

Note 1 - Significant Accounting Policies
(A) Nature of organization
The building consists of 217 residential units.

Step 1: $\$6,136,877 + 120,061 + 429,550 = \$6,686,488$
Step 2: $\$6,686,488 \div 217 = \$30,813.31$ debt per unit

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Key Metrics – Debt Per Unit

(Generally applicable to Co-ops only)

- Benchmark
 - \$35,000 - \$40,000 (Manhattan)
 - \$25,000 - \$35,000 (Other Boroughs)

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Key Metrics – Deductible Portion of Maintenance

Statements of Operations and Deficit		2009
Revenue		
Net maintenance charges to tenant-owners		\$1,751,272

Statements of Operations and Deficit		
Expenses		
Operating		339,103
Mortgage and loan interest		505,648
Real estate taxes		

Step 1: $\$339,103 + 505,648 = \$844,751$

Step 2: $\$844,751 \div \$1,751,272 = .4824$

(approximately 48%)

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Key Metrics – Deductible Portion of Maintenance

- Benchmark
 - 40% to 60%

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Key Metrics

- What to do with this information:
 - Use guidelines provided
 - Benchmark to the averages
 - CNYC Study – shown on per room basis
 - Czarnowski & Beer, LLP. Study – approximate benchmark numbers for a variety of metrics

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One Last Thing

- Financial statements “present fairly, in all *material* respects”
- Audit does not check every penny !

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- Put "Understanding Cooperative Financial Statements" in the subject

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