

Financial Aspects of Strategic Planning

November 11, 2011

WHY A DIRECTOR?

- You are legally responsible.
- You are the continuing link over the years.
- Boards must complement the weaknesses and strengths of management.
- Directors as individuals should be successful decision makers.
- Directors must establish priorities to build successfully.
- The Cooperative you serve is not the manager's company, not the board's company , but the member's company.

DIRECTOR “TYPES”

- *Rubber Stamps* – Those board members who assent to everything manager or committees recommend, rather than thinking out the problems themselves.
- *Watch-in-hand* – Those who come in late and want to leave early. They often do not participate so that the meeting can be adjourned early.
- *Usurpers* – *those who act as though they own the Cooperative and attempt to dominate the Board*

DIRECTOR “TYPES”

- *Hedgers* – those who try to get others to decide so they will not become involved or be blamed for mistakes.
- *Negatives* – those who use “killer phrases” such as “We are not ready for that” whenever a new idea is presented.

FOUR COMPONENTS OF A GREAT TEAM

- Good People
- Right Position
- Good People In the right position who know what they are doing
- Love and Respect

Leadership and Strategic Planning Objectives

- Learn the importance of strategic planning
- Learn how your personality fits into developing the team work necessary to successfully complete the goal of implementing a strategic plan.
- Learn how to financially plan to meet the strategic goals.

Leadership and Strategy

- Strategic planning in the areas of:
 - Planning for the future
 - Partnership with the membership for the present and the future
 - Policy setting for the now and the future
 - Leading your Cooperative by “leading edge” directives
 - Leading with an eye on the integrity of the cooperative now and later.
 - How does the money fit in to the planning process?

What is Strategic Planning?

- A strategy is an overall approach and plan
- Strategic Planning is the overall planning that facilitates the good management of a process.
- Strategic Planning takes you outside the day to day activities of the organization or project.
- Provides us with the BIG PICTURE.

What is Strategic Planning?

- The Strategic Plan determines where the organization is going over the next year.
- And more importantly, how the organization is going to get there.
- The process can be done by the cooperative organization as a whole , by department, by committee, or by a combination of methods.

What is Strategic Planning?

- ***A strategy is an overall approach, based on an understanding of the broader context in which you function, your own strengths and weaknesses, and the problem you are attempting to address. A strategy gives you a framework within which to work, it clarifies what you are trying to achieve and the approach you intend to use.***

What is Strategic Planning?

- Strategic Planning gives you clarity about what you actually want to achieve and how to go about achieving it – rather than a plan of action for day to day operations.
- The Board has to use the financial reports, audit report, budget and long range capital budget to determine if the Cooperative can afford to support the strategic plan.

What questions do we want answered?

- Who are we?
- What capacity do we have?
- What can we do?
- What problems are we addressing?
- What difference do we want to make?
- Which critical issues must we respond to?
- How should we allocate our financial resources?
- What should our priorities be?

Now what?

- Once these questions are answered, we must consider:
 - What is our immediate objective?
 - How we should organize ourselves to meet these objective?
 - Who will do what – when?
 - How much will it cost and where is the money coming from?

Strategic Planning

- Base the strategic plan on a real understanding of the external environment.
- Use the work that has already been accomplished to extend your understanding of the external environment and of your own capacity.
- Understand the Cooperative's finances and how the finances will support plan.

Strategy: Are you ready?

- 1. Does your organization have a process for planning strategy in place?
- 2. Has the process for planning been identified in a set of mega issues for the organization? Have those issues been scheduled for consideration over the next 12-18 months?
- 3. Are they really strategic or are they operational items?
- 4. Does the agenda consider what needs to happen next as opposed to reviewing work already under way?

Strategy: Are you Ready?

- 5. Does the Board have all of the information (including financial information) that they need to make a quality decision?
- 6. Does the Board identify choices & consider advantage and disadvantages of each as part of their decision making?
- 7. Is the Board reacting & ratifying rather than deciding & delegating
- 8. Does the Board have a plan to make a plan?

Steps to Strategic planning

- Strategic Analysis
 - We need to scan or review the organization and its environment to determine the driving forces in the environment
 - We need to review our financial situation.
 - A mission statement needs to be developed to identify what the organization is trying to accomplish.
 - A vision statement must also be stated to identify what the organization plans to accomplish over time.

Steps to Strategic Planning

- Setting Strategic Direction
 - Decide what we must do as a result of the major issues facing the organization.
 - These conclusions include what overall accomplishments (strategic goals) HACCC should achieve, and the overall methods to achieve the accomplishments.
 - In the setting of the strategic direction – we must determine a strategy.

Steps to Strategic Planning

- Setting Strategic Direction
 - In developing the strategic direction, we must update or create the mission statement.
 - WE must also develop or update the vision statement of the organization.
 - These two statements will clearly define the organization.

Vision, Mission

- **Vision — Statement about desired future state that inspires and compels action**
- **Mission — Statement of purpose focused on customer needs, not organizational strengths.**

MISSION STATEMENT

- Who are We?
- What do we have to offer?
- What are our goals?
- How are we going to try to achieve those goals?

VISION

- Top Board Members and Staff have the same aspirations for the organization
- What do your members want from your Cooperative?
- Are you communicating your vision to your members?

Steps to Strategic Planning

- Action Planning
 - Action Planning is carefully laying out how the strategic goals will be accomplished.
 - Action planning usually includes specifying objectives, or specific results, with each strategic goal.
 - Each objective is associated with a tactic or method of completing the objective.
 - Action planning also includes specifying responsibilities and timelines.

Goals, Objectives

- **Goal — Clearer statement of vision, specifying accomplishments that must be achieved if vision is to be realized.**
- **Objectives — smaller goals. Dictate strategy that should be pursued. Detail specific approach to take to achieve goal.**

LEADERSHIP & BASIC FUNCTIONS

- 1. Understanding and approving outcomes that are to be accomplished.
- 2. Ensuring resources needed for achievement are available and used efficiently.
- 3. Desired outcomes are being achieved with or without changes as needed.
- 4. Empowering individuals or teams to complete their assignments and reap the rewards.
- Complete the necessary budgets to ensure that the planning will be covered.

COOPERATIVE FINANCIAL PLANNING

- All decisions center on the financial position of the Cooperative
- It is important to understand the different phases of financial planning.

Basic Financial Literacy

- Prepare and implement a budget**
- Understand how financial statements are generated**
- Understand how to analyze financial statements to understand the financial condition of the Cooperative**
- Manage the Cooperative's finances and financial decisions**

What is Financial Planning?

The process of:

- Assessing your financial situation**
- Determining your objectives**
- Formulating a plan to achieve them**
- The financial planning process is best completed through the use of budgets, review of audits and monthly financial statements, and understanding the Cooperative's current financial standing**

What is Financial Analysis?

- **Financial Analysis is Using techniques (ratio analysis, calculation of return on investment, profitability analysis, and cost analysis) to determine money needs and spending patterns in a business.**

What is Financial Management?

Financial Management is the process of:

- Implementing and managing financial control systems**
- Collecting financial data**
- Analyzing financial reports**
- Making sound financial decisions based on the analyses**
- Includes activities such as budgeting, costing, managing revenues, managing property, procuring and fiscal auditing**

Financial Management

Financial Management requires knowing how to read and interpret three key documents:

- **Statement of Cash Flows**
- **Balance Sheet**
- **Income Statement**

Key Resources - Financial Management

- **Board Treasurer**
- **Management Agent**
- **Accountant**
- **Bank or Banker**
- **Basic Accounting Principles**
- **Budgets**

Basic Financial Literacy

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Financial Controls

- **Basis for operations**
- **Operations comply with financial policies and procedures**
- **Ensure financial integrity**

Financial Reporting

- **The types and frequency of financial reporting depends on the needs of the Board and the Cooperative to understand and act on financial information.**
 - **Monthly financial reports – each board mtg**
 - **Board may request financial reports for each program**
 - **Board may review reports before completing taxes**
 - **Board needs to review each financial audit**
 - **Banks may review reports to verify financial strength**

Monthly Financial Statements

- **Statement of cash flows**
- **Income statement**
- **Balance sheet**

Statement of Cash Flows

Statement shows changes in cash during a specific period of time:

- Beginning cash balance
- Sources of cash received
- Uses of cash spent
- The statement of cash flows is used to evaluate actual expenses vs. projected or budgeted amounts
- The statement should be reviewed monthly

Income Statement

- **Provides an overall profit and loss analysis over a period of time**
- **Provides a view of the income and expenses of the Cooperative**
- **Provides a sense for how well the cooperative is operating**

Balance Sheet

- **Overall value of cooperative at a given time (usually end of the year)**
- **The balance sheet reports total assets, subtracts total liabilities and reports the ending fund balance.**

Balance Sheet

- The Board should give special attention to the following general ledger accounts:
 - Cash
 - Accounts Receivables
 - Allowances for doubtful accounts
 - Accounts Payables
 - Cooperative equity
 - Fund Balance

Budgets

- **Operating (Annual) budget**
- **Cash budget**
- **Capital (Reserve) budget**
- **Program budget (may be included in your operating budget)**

BUDGET

- Income versus Expense
- Not an Exact Science – more like an “educated guess.”
- Historical Data
- Planned Activities
- Don’t forget the “wish list”
- Review Reserve Needs

Budget

- Budgets are prepared with the intent of meeting operating expenses with operating income over the next year.
- The budgets can usually first prepared by the manager and then referred to the budget committee.
- The budget committee then brings the budget to the board for an approval.

What Do we Need to review to start our Budget?

- Planned major improvements, with bids
- Mortgage interest and principal
- If paid off – other loan or savings info
- Tax and insurance info for escrow funding
- Proposed utility increase
- GOR funding
- Replacement Reserve Funding
- Subsidy Analysis

What do we need?

- PBE data, if applicable
- Payroll costs plus anticipated increases
- Christmas Bonus information
- Current contract prices
- Utility increases
- Special Projects
- “Wish” List

Budget Checklist

- A budget checklist containing guidelines should be used so figures can be derived accurately and efficiently.
- Checklist should be completed following published and used in appropriate expense accounts.
- Expense section completed first – using numbers from checklist.

Budget Checklist

- Determination of the carrying charge rate is made after the expenses for the next year are determined and after consideration has been given to the market “costs” in the area.
- Meetings should be set up to discuss the budget and finalize the increase.
- Posting of the proposed increase must follow Bylaw guidelines.

Budget schedule

- 90 days
 - Obtain confirmation of tax assessment of tax rate applicable for the budget year.
 - Obtain confirmation of estimated utility increases.
 - Prepare budget and detailed budget notes
 - Prepare the notice to the members of an increase
 - Prepare PBE consumption rate, if applicable

Budget Schedule

- 75 days
 - Submit budget package to Board for review and approval
 - Adjust as necessary

Budget Schedule

- 60 days
 - Submit the budget package to regulatory agency with supporting documentation
 - Cover letter to regulatory agency

Budget Schedule

- 30 days
 - Send revised rental schedule to agency
 - Send final notice to members
 - Prepare final cover letter to regulatory agency

Financial Controls

- Basis for Operations
- Operations comply with financial policies and procedures
- Ensure financial integrity

Financial Audit

- Do you know what is in your audit?
- Do you understand your audit?
- How do you start to review your audit?

Audits

- An audit is a comprehensive analysis of the Cooperative's financial management procedures and activities.
- The audit is required to be completed by a CPA.
- The Cooperative Board should understand the basic components of an audit
- The Cooperative Board should use their audit as a tool in their financial planning and management process.

Financial Audit

- Ten Steps to Understanding your audit:
 - Balance Sheet
 - Income Statement
 - Statement of Financial Conditions
 - Cash Flow Statement
 - Financial Notes
 - Subsidiary Information
 - Management Letter
 - Findings
 - Overall Statement
 - What does my audit mean to me

Financial Audit

- How does my audit affect decisions that are made for my Cooperative?

Capital Expense Planning

- **As the Cooperative grows with age, an increasing number of capital expense projects will be needed in order to keep the Cooperative in good condition.**
- **The cooperative needs to review the sources of income that they can capitalize on in order to promote the program**
- **The Board should develop a five year plan to identify funding resources and the needed capital improvements**

Capital Expense Planning

- Older – but not necessary better
- Completing a long range plan
- What am I looking at?
- Reserve Analysts
- Maintenance
- Other help

Capital Expense Planning

- What do we need to do?
- How much money do we have?
- How can we get this money?
- WOW.

Capital Expense Planning

- Review the replacement reserves, GOR and other funding.
- Verify funding
- What additions and improvements do we need?
- Addition of monthly reserves
- Consider required minimum balances

Capital Expense Planning

- We are back to the “Wish” List
- Safe, Sanitary, Quality Housing
- Some of the items that we are going to discuss have been completed – but you may need to complete these items again.

Capital Expense Planning

- Carrying charges
- Physical Improvements of Existing nature to the property
- Physical Additions
- Quality of Life Items

Carrying Charges

- When considering the capital expense planning, the amount of carrying charges need to be considered.
- The amount of an increase affects everyone.
- Affordability needs to be considered.

Physical Improvements

- Roofs
- Siding
- Concrete or asphalt
- Office equipment
- Interior Cosmetic Improvements (kitchen)
- Hot Water Heater
- Furnace
- Energy Savings

Physical Improvements

- Windows
- Elevators
- Trash Chutes
- Security Systems
- Appliances
- Electrical Systems
- Landscaping
- Structural Improvements

Physical Improvements

- Ongoing – may need to be upgraded
- Replacement Reserves may need to be increased
- Long range planning – same direction
- Discussion

Physical Additions

- Garages
- Carports
- Central A/C
- Community Center
- Satellite TV
- Playground
- Picnic Area
- Nature or walking trails

Physical Additions

- Transportation Services
- Dishwashers
- Washers
- Dryers
- Microwaves
- Sprinkler Systems
- Carpeting
- Swimming Pool
- Exercise Facility
- WHEN?

Quality of Life Issues

- Scholarship Programs
- Drug Rehab Programs
- Educational Programs
- Social Director Programs
- Insurance Pool
- Food Cooperatives
- Child Care Services
- Recycling Program
- Exercise Program
- Fitness Program

Personalizing Your Mortgage

- When will you pay off?
- Have you paid off?
- How much money is generated per month and what can it be used for?
- Amortization Schedule
- Discussion

Replacement Reserves

- Cooperative could choose to complete all needed replacements by increasing monthly funding now.
- Cooperative may choose to keep their replacements to a minimum for next ten years, building up a reserve – for expenditure later.
- Cooperative could choose to maintain the status quo.

General Operating Reserves

- HUD Requirement
- How do we use these funds?
- How do we track these funds?

Tax and Insurance Escrows

- How to track the funds?
- How to use the other funds for other uses?
- Know your money

Other Financial Considerations

- Flexible Subsidy Loan
- GOR loan
- Second Mortgages
- Other Mortgages

Personalizing your Mortgage

- When will you pay off?
- Have you paid off?
- How much money is generated per month and what can it be used for?
- Review Amortization Schedule
- Discussion

Steps to the Planning process

- The Cooperative Board plans a “retreat”.
- Off site – Off mind
- A moderator should be used to oversee the strategic planning process.
- The steps to the strategic plan process should be started – i.e. vision statement, mission statement.
- Start the financial planning process.
- Assign, Assign, Assign

Thank you,

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