# MEASURING COOP FINANCIAL PERFORMANCE

This session concentrates on evaluating how well the coop itself is functioning. Participants will learn how to use three key indicators for measuring performance: status of finances, delinquency, and occupancy.

In order to know how healthy a co-op is, how well it is functioning, the board should be aware of trends in its performance over an extended period of time. The co-op's status is the result of many actions by many people over a long period of time. Only by understanding long-term trends can the board devise effective means of improving operations.

## MEASURING FINANCIAL PERFORMANCE

The first important measure of co-op performance is the financial status of the co-op. Here we review a means of using financial data to determine how well the co-op is doing.

Looking at one month's performance or at year-end figures may indicate that a financial problem exists, but they usually do not help identify the nature of the problem, when it developed, or at what rate it is growing.

One way to make use of information to plan solutions is to chart it, to put it on a graph. Graphing is a way of picturing numbers so that they are easier to understand than they would be in a series or column of figures. Graphs are often used in newspapers or magazines. The Consumer Price Index, for example, indicates our cost of living and tells some people whether or not they can expect raises.

Statistical information provides the numbers on a graph showing the cost of living. For analyzing a co-op's finances, the source of information is the accounting provided by the manager. If the accounting is not current, or not accurate, the information upon which the board bases its decisions will be false. If the accounting is correct, then the graphing can be accurate.

Graphs are based on measures, which are used to determine what the numbers mean. The measure you use should reflect what you are interested in evaluating. For example, if your board asks the manager to provide information's on vandalism, the measure should depend on what you want to know. If you are most interested in the effect of vandalism upon insurance rates, you will want to know the dollar cost of vandalism. If you are more interested in security problems, you will want to know the number of vandalism incidents. Looking at co-op finances, your measure will be dollars spent, because dollars are the best measure of financial interest.

If reliable statistical information and an appropriate measure are available, a graph that depicts the co-ops performance can be prepared. Such a graph will help the board see how the co-op is functioning. When analyzing a co-op's financial position, a board will want to know if expenses are above or below income, or above or below budget. The amount above or below expenses and budget will indicate how well the co-op is doing. If expenses are exceeding income, the board can see that it must act to change performance.

When numbers are organized on a graph, they show a trend in performance. This trend is indicated by the graph line. For example, if the graph line for income goes up and up, a positive trend toward improved collections would be noted. In preparing graphs, one uses figures that are collected at periodic intervals, such as monthly collections and expenditures. These figures are plotted on the graph.

The following financial material, Chart 1, Yearly Summary of Financial Statistics, and Graph 1, Graph of Monthly Receipts, Expenses, and Budgeted Expenses, will be used to illustrate how a co-op can graph its financial performance. Chart 1 provides the basic statistical information. It includes statistics on the co-op's monthly receipts and expenditures and on the monthly budgeted expenses. This information is then portrayed in Graph 1. An "x" line is used to indicate each month's income. For example, the income for July was $29,100, so an "x" is put at $29,100 for the month of July. Then, the "x" position for each following month will be based on the income for each month. The expenses are graphed in the same manner using a dashed (---) line. Finally, the budgeted amount, $28,500 for each month, is graphed as a straight line.

By studying the graph, a board could draw several conclusions about its monthly income and expenses compared to the budget. First, the co-op's monthly expenses are consistently higher than its income for the first eight months from July through February. For the remaining three months, income is greater than expenses. This trend may mean that the co-op is making a concerted effort to collect more income and reduce its expenses. In June, however, expenses began to rise in relation to income. Why this new trend? The board would have to provide the answer.

This graph also indicates that the dollar amount budgeted for expenditures is much lower than actual expenses. Based on this trend, the co-op is either overspending or has underbudgeted actual expenditures. In either case, the coop's income does not meet its expenses. Using the information in this graph, the board would be able to do some concerted planning in order to increase income, reduce expenses, and re-budget expected expenditures for its next fiscal year.

During this session, performance indicators for occupancy and for delinquency will also be graphed. In each case, a monthly report will serve as the data base and a monthly summary will provide measures. Data will be used to illustrate a co-ops performance in occupancy and delinquency. It will provide an opportunity to illustrate the data that should be available in all co-ops.

As the directors graph this information, however, they must remember that their job does not end once they have produced the graphs. The more difficult and important part of the directors' task is to analyze the data and review what the graph means for co-op performance.

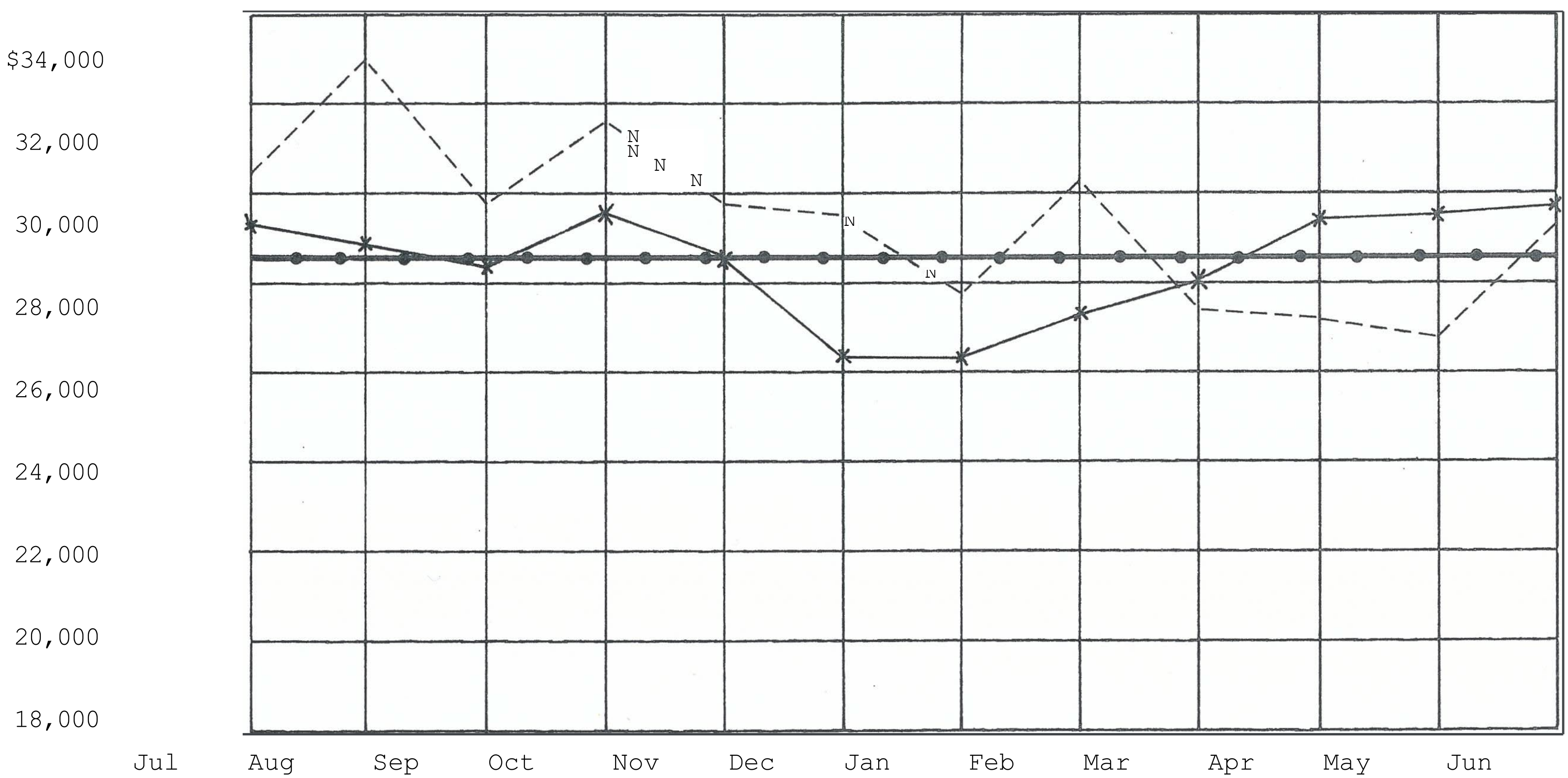
Chart 1

YEARLY SUMMARY OF FINANCIAL STATISTICS

| | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Totals |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Monthly Receipts | 29,100 | 28,800 | 28,350 | 29,400 | 28,500 | 26,250 | 26,250 | 27,300 | 28,000 | 29,100 | 29,100 | 29,250 | 339,400 |
| Total Monthly Expenditures | 30,600 | 33,000 | 29,700 | 31,500 | 29,900 | 29,500 | 27,700 | 30,200 | 27,500 | 27,200 | 27,000 | 29,100 | 352,900 |
| Monthly Budgeted Expenditures | 28,500 | 28,500 | 28,500 | 28,500 | 28,500 | 28,500 | 28,500 | 28,500 | 28,500 | 28,500 | 28,500 | 28,500 | 342,000 |

Graph 1

MONTHLY RECEIPTS, EXPENSES, AND BUDGETED EXPENSES*




Income x_______ Dollar Amount of Monthly Receipts

Expenses - - - Dollar Amount of Monthly Expenditures

Budget Dollar Amount of Monthly Co-op Budget Expenditures

*Information on this graph is based on Chart 1, Yearly Summary of Financial Statistics.

## MEASURING DELINQUENCY

Staying aware of delinquencies is essential because if a co-op member is not paying, no income is coming in from that unit. Most co-ops' monthly charges are due on the first of the month and considered late on the fifth or tenth of the month. When members do not pay the charges or pay them late, they are delinquent. Without the income, the co-op cannot pay its bills. If a co-op has an average income per unit of $200 per month and has an average of ten delinquencies a month, the cost would be $2,000 per month. Even if the co-op collects the $2,000 two or three weeks late, the co-op loses the use of that money, may miss out on supplier discounts, may incur bookkeeping and accounting problems, and jeopardizes the cash flow position of the co-op.

To control the situation, the board should know if there are patterns to the delinquencies. By charting them, the board can get a picture of trends over a period of time and can then propose solutions. Using graphs of delinquencies can also help the board direct the manager and review how well the manager is doing. The board and the manager may also be able to use this information to anticipate problems before they occur.

A number of charts and graphs may be useful to the board for assessing delinquencies. The important graphs that will be emphasized during this seminar are: Number of Delinquencies, Dollar Amount of Delinquency, and Days Delinquent.

### Number of Delinquencies

This graph will tell the board how many delinquents the co-op has. If the number is large and remains large from month to month, the board may have to change the co-op's member selection process or change collection procedures and policies. If the number of delinquencies fluctuates from month to month, the policies may be well stated but may be followed only part of the time. Large seasonal increases in delinquencies may reflect seasonal lay-offs among co-op members or heavy expenditures by co-op members for utilities or other expenses. The co-op may have to tighten up its delinquency policy by increasing late charges or by budgeting for delinquencies according to season.

### Dollar Amount of Delinquencies

This chart will tell the board the cost to the co-op of delinquencies from month to month. The numbers show how many delinquencies there are and the length of the delinquency. The graph gives the board a good indication of the effectiveness of collection and delinquency policies and procedures.

### Days Delinquent

This graph charts the number of delinquent accounts each month that are 30, 60, or 90 days old. The board would be interested in knowing if accounts are getting older or are kept current. If accounts are getting older, the board and manager may want to put special emphasis on collections. Older accounts are more likely to become uncollectable.

MEASURING CO-OP PERFORMANCE ON
DELINQUENCIES: SMALL-GROUP TASK 1

This small-group task is designed to provide participants with experience in reviewing co-op performance on delinquencies. The task requires the use of actual data gathered over a one-year period, so that participants can observe both short- and long-term trends in delinquencies. The small groups will use data from the monthly delinquency report to prepare a yearly summary of delinquencies. Data on dollar amount of delinquencies, number of delinquencies, and age of delinquencies will be graphed and reviewed. By accomplishing this task, participants learn a useful procedure for analyzing their own delinquency performance and learn to identify changes needed in the way they handle delinquencies.

Materials for Small Group Task

Chart 2, Monthly Delinquency Report Chart 3, Yearly
Summary of Delinquencies Graph 2, Number of Delinquencies
Graph 3, Dollar Amount of Delinquencies Graph 4, Days
Delinquent
Worksheet on Analyzing Delinquencies

Instructions:

Your small group is the board of directors of the Midwest Townhouse Co-op, a 200-unit co-op of thirty buildings, each having six to ten townhouse units with full basements. The co-op is located on the outskirts of Middle City, a town of 300,000 people within commuting distance of Detroit. The co-op is five years old and has a satisfactory ethnic mix. Your tasks are to:

1. Use the monthly delinquency report, Chart 2, to prepare the first month of the yearly summary report, Chart 3.

2. Use the yearly summary report, to graph:
    a. Number of delinquencies, Graph 2
    b. Dollar amount of delinquencies, Graph 3
    c. Days delinquent, Graph 4

3. Answer the questions on the worksheet for analyzing delinquencies.

Chart 2

MONTHLY DELINQUENCY REPORT

For the Period Ending July 31, 20--

| ADDRESS | NAME | OCCUPANCY CHARGE | | | MAINTENANCE CHARGES | OTHER CHARGES | TOTAL | ACTION TAKEN |
|---|---|---|---|---|---|---|---|---|
| | | 30 | 60 | 90 | | | | |
| 3015 Lane Ave | A. Jones | $190.00 | | | | L/C | $200.00 | Late Notice |
| 3045 Lane Ave | B. Johnson | 190.00 | | | | L/C | 200.00 | Late Notice |
| 3100 Rose Ave | C. Shaw | 190.00 | | | | L/C | 200.00 | Late Notice |
| 3106 Lane Rd | E. Evans | 190.00 | | | | L/C | 200.00 | Late Notice |
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| | | | | | | | | |
| | | | | | | TOTAL | $800.00 | |

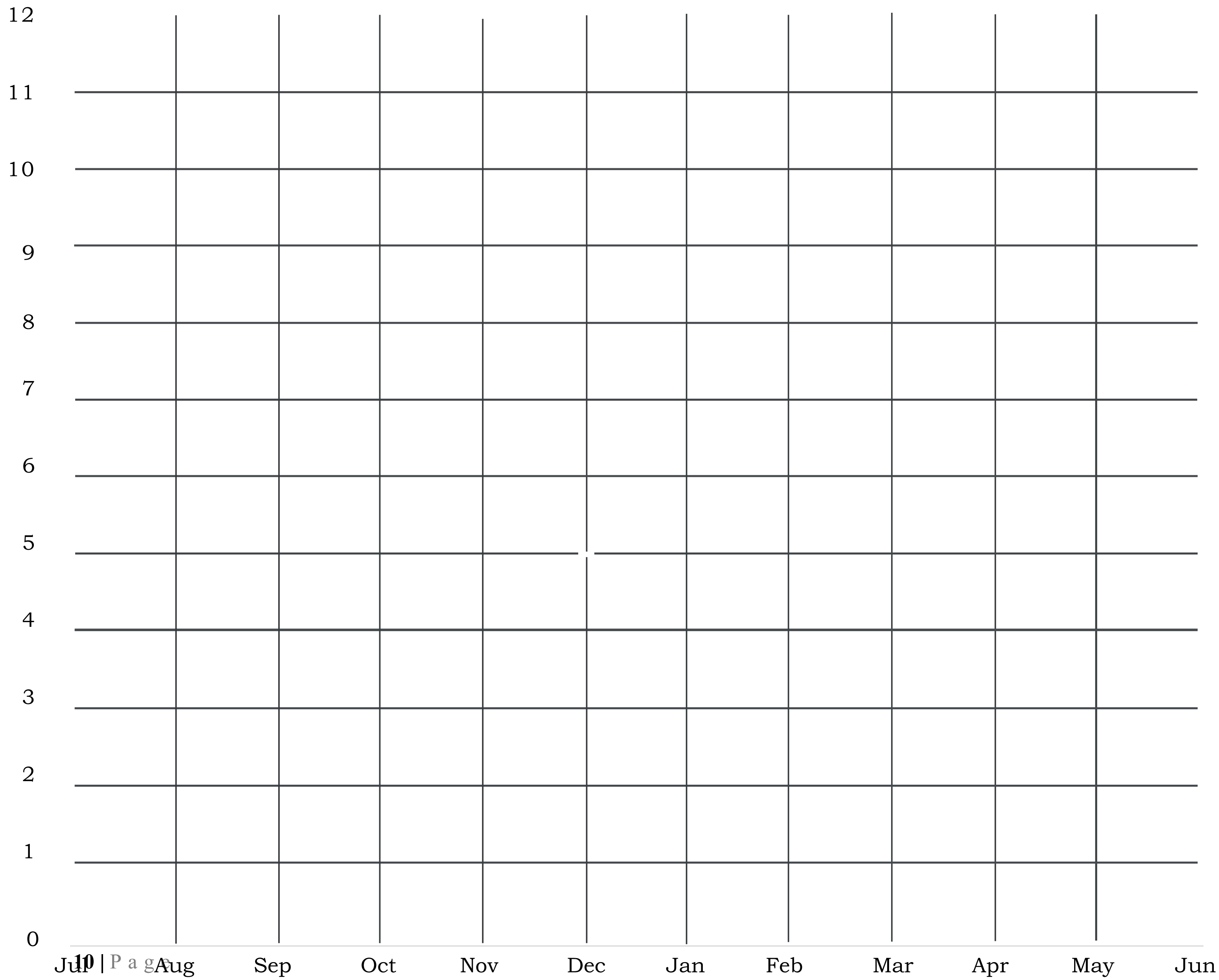
Chart 3

YEARLY SUMMARY OF DELINQUENCIES

| | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar. | Apr | May | Jun | Totals |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Dollar Amount of Delinquencies | | 1600 | 2800 | 800 | 1000 | 3000 | 3000 | 1400 | 1600 | 400 | 400 | 600 | |
| Number of Delinquencies | | 4 | 6 | 4 | 3 | 10 | 8 | 5 | 4 | 2 | 2 | 2 | |
| Thirty Days Delinquent | | 0 | 2 | 4 | 1 | 7 | 1 | 4 | 0 | 2 | 2 | 1 | |
| Sixty Days Delinquent | | 4 | 0 | 0 | 2 | 1 | 7 | 0 | 4 | 0 | 0 | 1 | |
| Ninety Days Delinquent | | 0 | 4 | 0 | 0 | 2 | 0 | 1 | 0 | 0 | 0 | 0 | |

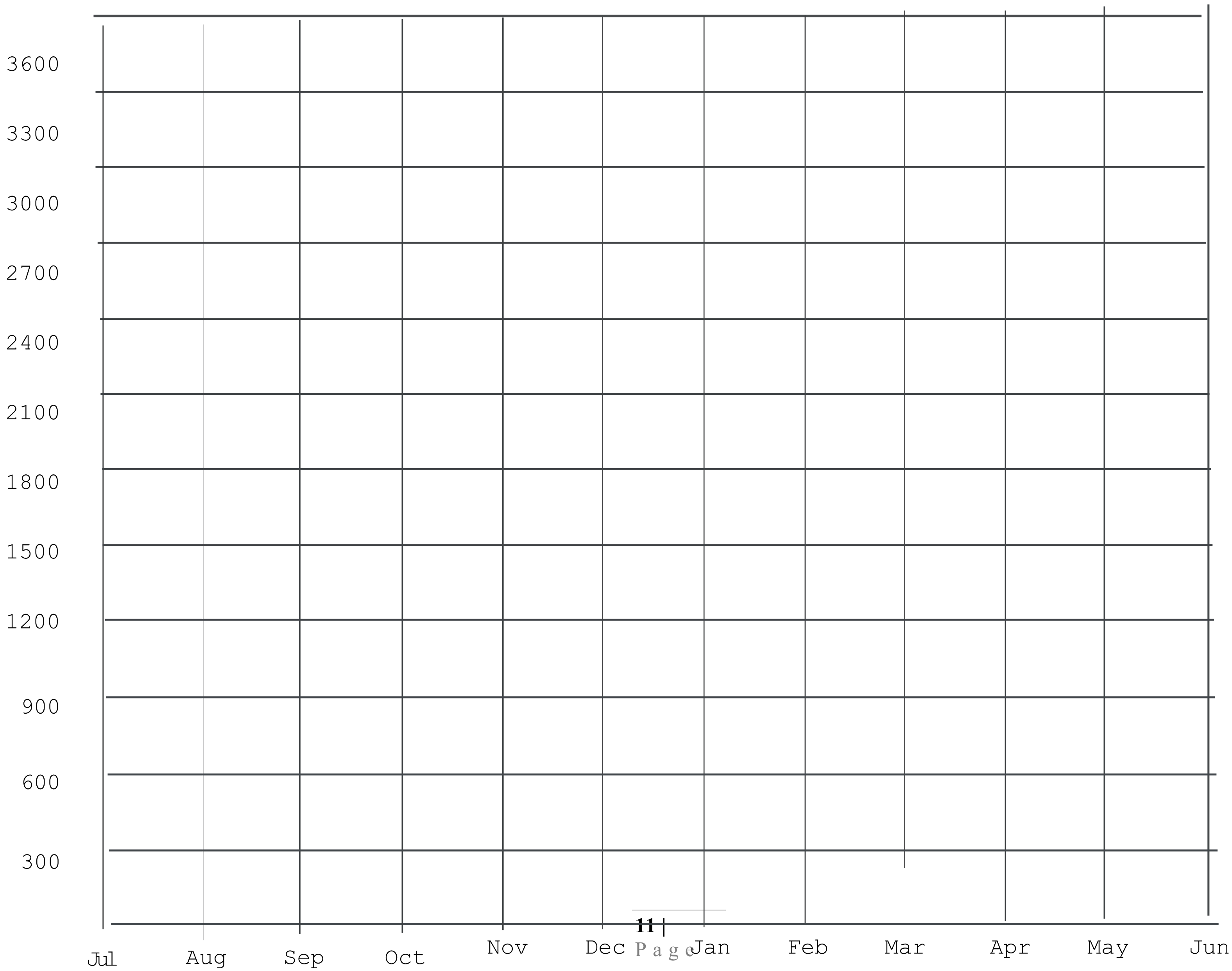
Graph 2

NUMBER OF DELINQUENCIES



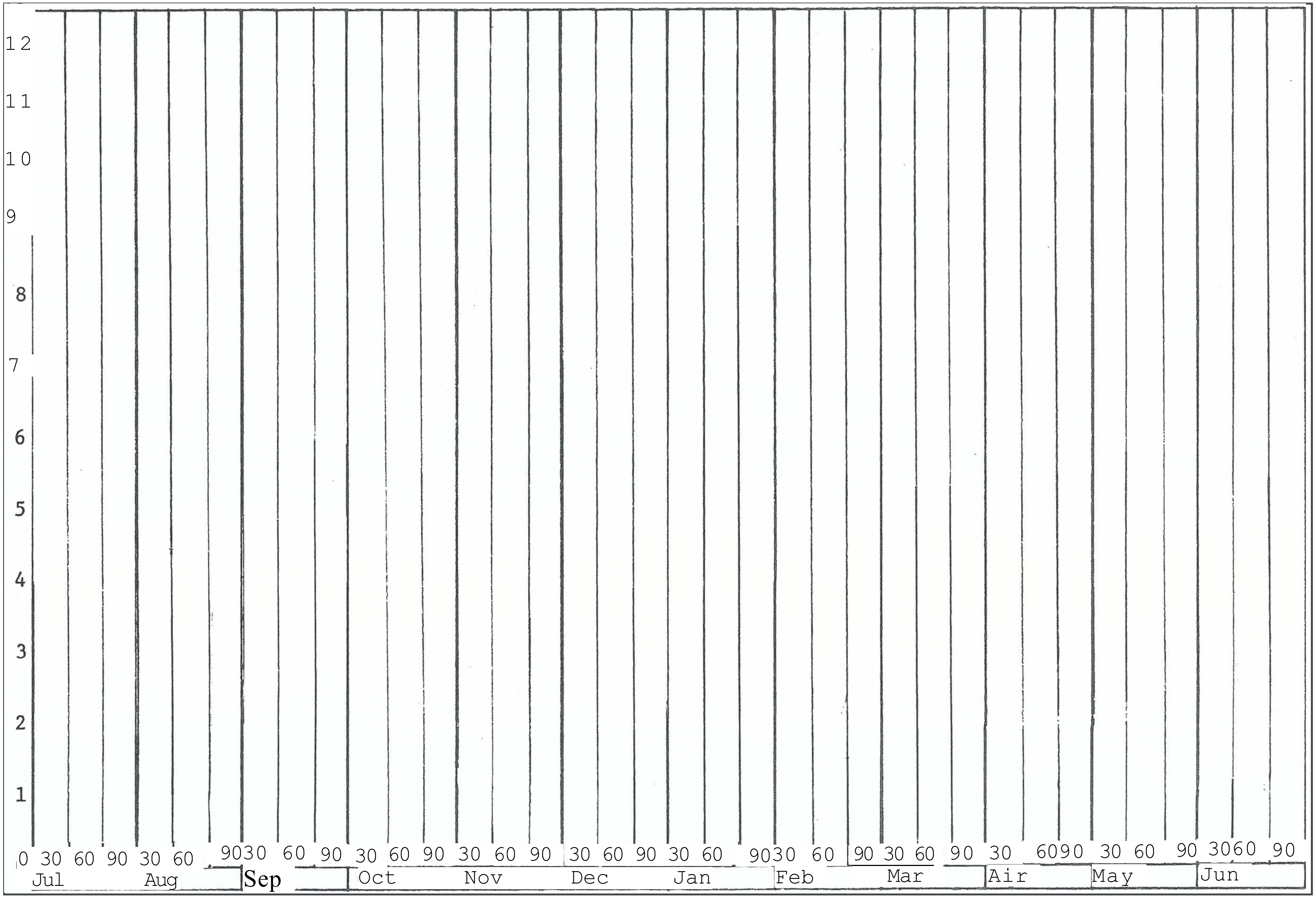
Graph 3

DOLLAR AMOUNT OF DELINQUENCY



Graph 4

DAYS DELINQUENT



WORKSHEET FOR ANALYZING DELINQUENCIES

1. Reviewing Graph 2, Number of Delinquencies:
   a) What trends in the number of delinquencies do you note?

   b) What seasonal variations could account for the peaks in number of delinquencies?

2. Reviewing Graph 3, Dollar Amount of Delinquencies:
   a) How does the graph on dollar amount compare with the graph on number of delinquencies?

   b) Why might the dollar amount of delinquency rise faster than the number of delinquencies?

3. Reviewing Graph 4, Days Delinquent:
   a) What factors might account for the fluctuation in number of 60- and 90-day accounts?

   b) In what months are delinquencies under control?

<u>Comparing Your Group's Results</u>

Copies of the completed graphs for delinquency are included in the appendix. Participants may compare their own graph with those in the appendix to check on the accuracy of their graphing.

## CO-OP PERFORMANCE ON OCCUPANCY

Occupancy-with the payment of monthly housing charges--provides a primary source of income for the co-op. The coop's physical appearance and maintenance may be good, and the board and its committees may function well, but the co-op is likely to develop financial difficulties if vacancies are increasing or high. The review of vacancy trends then becomes very important for a board. Through an analysis of the vacancy graphs, the board can determine if there are any patterns to its vacancies, and try to identify reasons for these trends. The board can also get an indication of how well the manager is doing in filling vacant units and running an effective marketing program.

A number of charts and graphs can be used by the board for understanding trends in vacancies. These aid in the identification of problems that may be causing the vacancies and may suggest possible solutions. The important measures of vacancy are: number of vacant units, vacancy days, unit preparation days, and number of applicants. Graphs showing each of these will be discussed in this section.

### Number of Vacant Units

This graph shows the number of vacant units existing at the end of each month. If there is a large number of vacant units, the board and management must find ways to increase occupancy. When the managing agent reports on the number of vacant units, the board should ask how many units are available for occupancy; in other words, how many units have been prepared by maintenance. If a co-op has many vacancies, it should be ready for the applicant who comes in and needs a unit in a very short time. Prospective members can be lost if they have to wait for the units to be prepared for occupancy. If the co-op has vacant units, the absolute minimum number of units ready for occupancy should be one of each type of unit the co-op has to offer. The report should show the number of vacant units, upcoming move-outs, and incoming members.

### Vacancy Days

The number of days units are vacant each month is shown on this graph. This figure gives a more accurate reflection of vacancy problems than the number of vacant units. A member could move out on the first of the month, and membership for the unit might not be sold until the last days of the month. The report on vacant units thus would not reflect those three weeks' lost income for that particular unit. Why were there so many vacancy days? Was the three weeks' income lost because the unit was not prepared for occupancy, or because the membership committee did not meet to review the applications? A vacancy days report will indicate days for which income is missing. This lost income can add up to a substantial amount over a year's time.

### Unit Preparation Days

This graph is of critical importance if the co-op has a number of vacancies. It provides a check on the efficiency of the maintenance crew. By reviewing the chart on unit preparation days, the board can soon determine how long unit preparation is taking. If the number of days spent in preparing units is too great, then the board should investigate the reasons why. Outside services (painting, sanding floors, etc.) are sometimes used to rehabilitate units. The board must determine the value of the maintenance crew's time. If maintenance has too much to do, then it might be best to use an outside contractor.

The condition of the unit can affect the number of unit preparation days. A unit that has been well kept during occupancy will certainly be ready in a shorter time than one that has been vandalized. If vandalism is a problem in the co-op, the board must check out its security procedures. An empty unit is an attraction to vandals; if the unit can be entered without too much trouble, a vandalism problem may result.

Eviction procedures are a key to the unit being left in proper condition. If members get so far behind that they will have no refund, they will have less interest in leaving the unit clean.

Number of Applicants

A vacancy problem may result from a lack of applicants. The board should review the activity of the sales office. The manager should report on the number of applications that are given out each month and the number of phone contacts and walk-ins. If the board charts the number of persons who have completed applications for each month and compares that with the number of people with whom contacts were made, it can assess sales office efficiency. If many people are inquiring, then advertising is good. If there is a substantial drop-off between inquiries and completed applications, then there may be a problem with the sales office's procedures, or the size of the down payment may be too high for the people the ads are attracting.

Advertising becomes a necessity to reach potential applicants. The board can ask the manager to draw up an advertising plan and have representatives come to a board meeting to make their sales pitch. The cost and the market that will be reached should be considered.

MEASURING CO-OP PERFORMANCE ON OCCUPANCIES & VACANCIES: SMALL-GROUP TASK 2

This small-group task is designed to give participants experience in actually measuring co-op performance on occupancies and vacancies. The small group will use the types of data on number of vacant units, vacancy days, unit preparation days, and applicants that were discussed earlier. Participants will chart and graph this information and then review its meaning for co-op performance. By performing this task, co-op members will learn a useful procedure that can be used to analyze their own vacancy and occupancy problems.

Materials for Small Group Task:

Charts 4a and 4b, Vacant Unit Preparation List
Chart 5, Yearly Summary of Occupancy Statistics
Graph 5, Number of Vacant Units
Graph 6, Vacancy Days
Graph 7, Average Preparation Days
Graph 8, Number of Applicants
Worksheet on Analyzing Occupancy and Vacancy

Instructions:

Your small group is the board of directors of the Midwest Townhouse Co-op, a 200 unit co-op of thirty buildings, each with six to ten townhouse units with full basements. The coop is located on the outskirts of Middle City, a town of 300,000 people within commuting distance of Detroit. The coop is five years old and has a satisfactory ethnic mix. Your tasks are to:

1. Use the vacant unit preparation list, Chart 4a, to add the July figures for the yearly summary report, Chart 5.
2. Chart the data on the number of vacant units for the year on Graph 5.
3. Chart the data on the number of vacancy days for the year on Graph 6.
4. Answer the questions on the Worksheet on Analyzing Occupancy and Vacancy.

Chart 4A

VACANT UNIT PREPARATION LIST

For the Period Ending July 31, 20--

| Vacant Unit's Address | Days Vacant | Ready Occupancy | | Unit Preparation Days | No. of Applicants Shown Unit | Remarks |
|---|---|---|---|---|---|---|
| | | Yes | No | | | |
| 3017 Rose Lane | 50 | X | | 5 | 0 | |
| 3019 Rose Lane | 50 | X | | 3 | 0 | |
| 3020 Rose Lane | 30 | X | | 2 | 0 | |
| 3110 Lane Road | 30 | X | | 6 | 0 | |
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| Total for Month | 160 | 4 | | 16 | 0 | |

Chart 4B

VACANT UNIT PREPARATION LIST

For the Period Ending July 31, 20--

| Vacant Unit's Address | Days Vacant | Ready Occupancy | | Unit Preparation Days | No. of Applicants Shown Unit | Remarks |
|---|---|---|---|---|---|---|
| | | Yes | No | | | |
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Total for Month

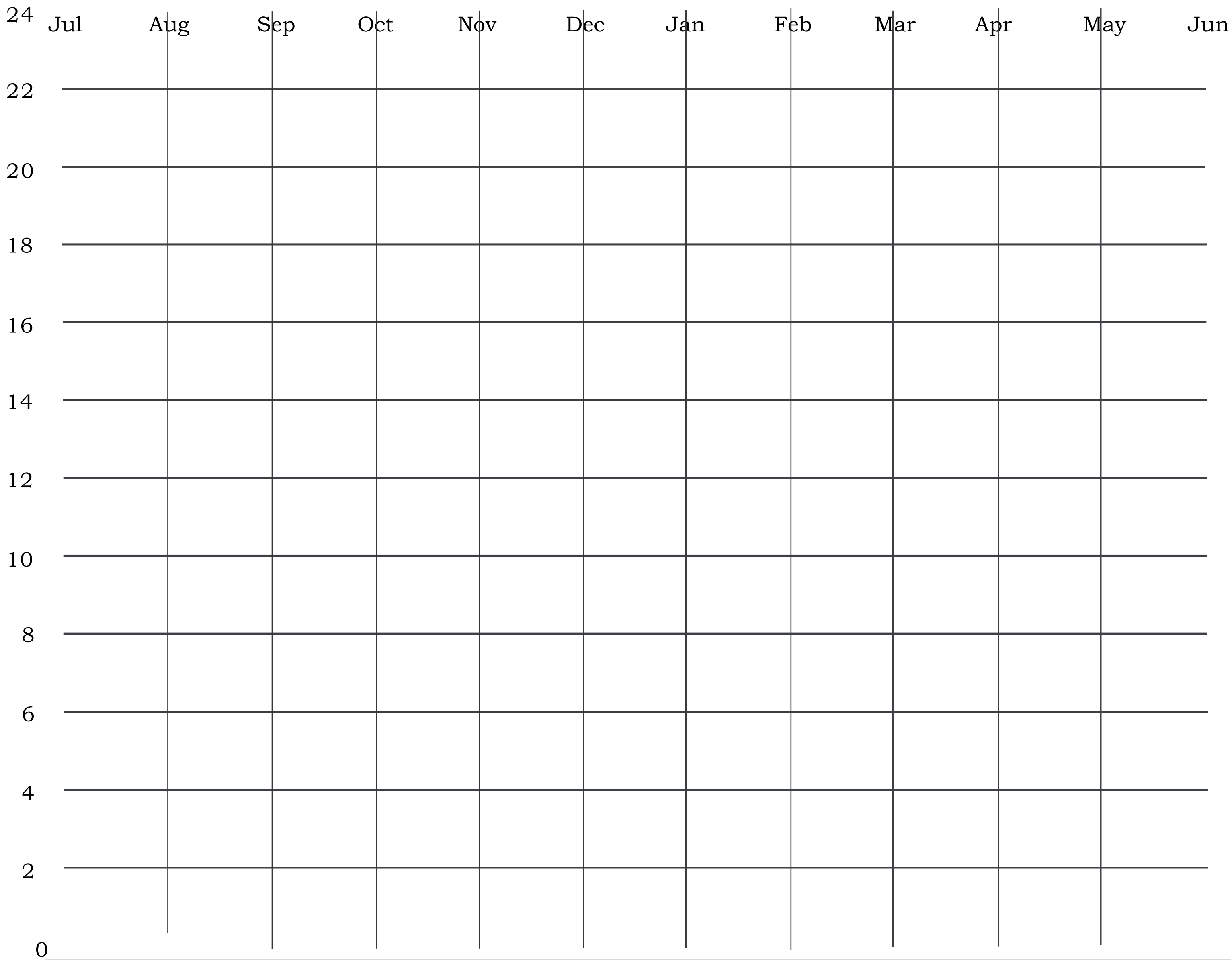
Chart 5

YEARLY SUMMARY OF OCCUPANCY STATISTICS

| | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Totals |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Number of Vacant Units | | 4 | 5 | 6 | 9 | 15 | 20 | 20 | 10 | 8 | 6 | 4 | |
| Number of Vacancy Days | | 100 | 130 | 160 | 250 | 400 | 450 | 400 | 280 | 200 | 170 | 180 | |
| Average of Unit Preparation Days | | 4 | 4 | 5 | 7 | 7 | 6 | 6 | 5 | 5 | 8 | 10 | |
| Number of Applicants | | 3 | 0 | 4 | 1 | 1 | 0 | 0 | 15 | 5 | 6 | 3 | |

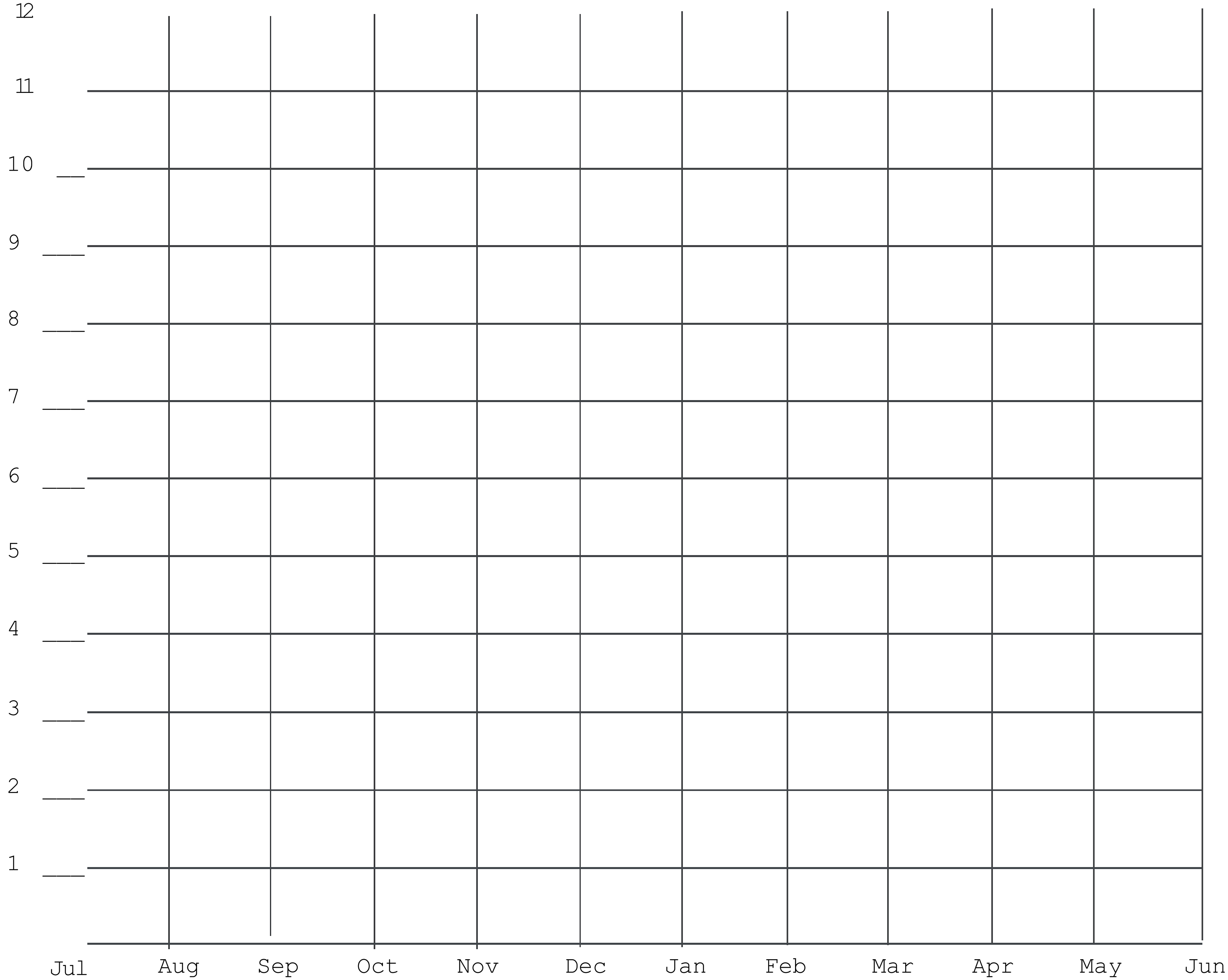
Graph 5

NUMBER OF VACANT UNITS

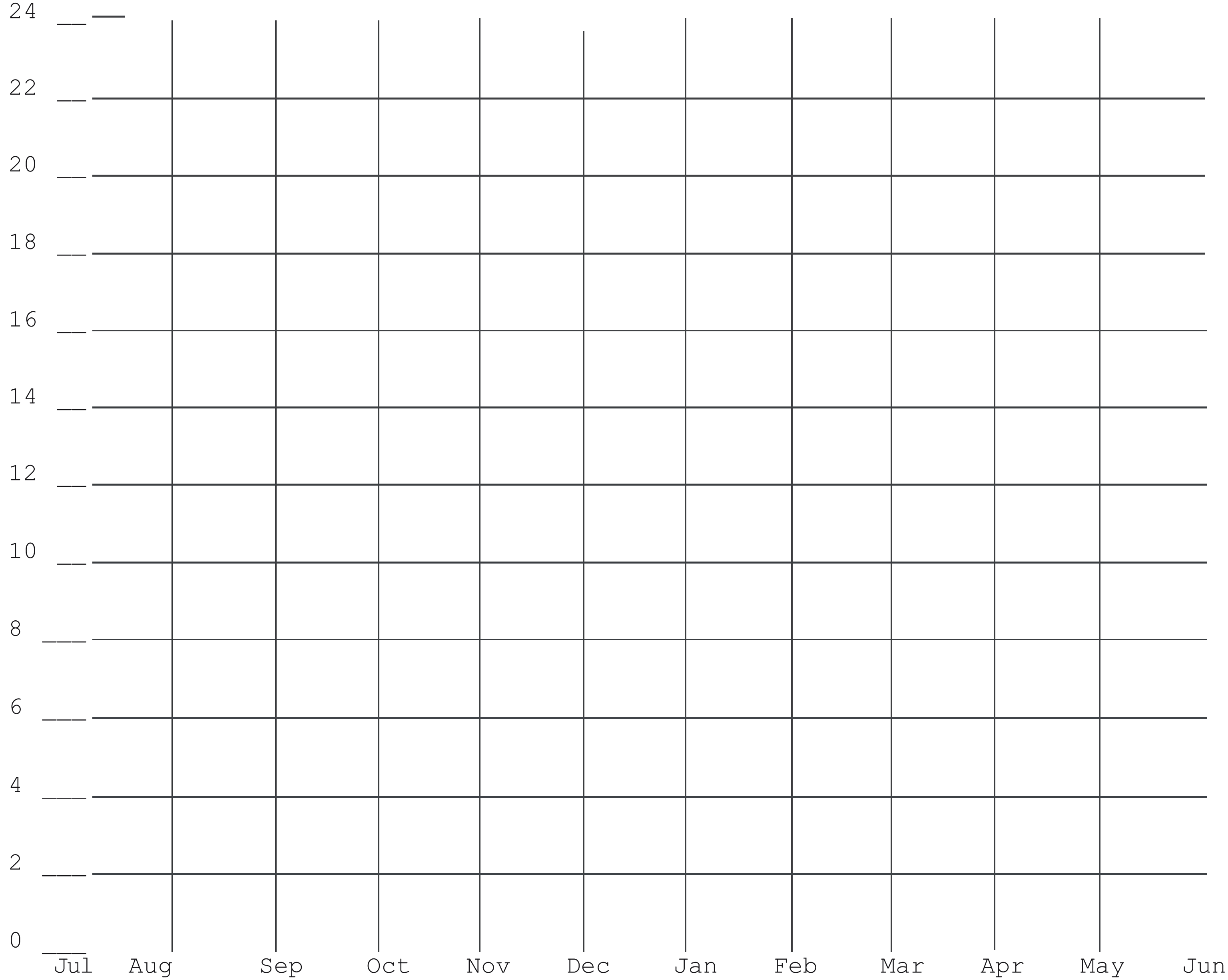


Graph 6
VACANCY DAYS

Graph 7
UNIT PREPARATION DAYS



Graph 8
NUMBER OF APPLICANTS



WORKSHEET ON ANALYZING OCCUPANCY & VACANCY

1. Reviewing the graph on number of vacant units:
    a) What are some possible reasons for a sharp increase in the number of vacant units between November and March?

    b) What would be some reasons for a sudden decrease in number of vacant units from February to March?

2. Reviewing the graphs on vacancy days:
    a) Why does the number of vacancy days remain high although the number of vacant units decrease during this same time period?

3. Reviewing the graph on average preparation days:
    a) Should a board expect such a fluctuation from month to month in the number of preparation days?

    b) What would be some reasons for this fluctuation?

    c) Why especially might there be an increase in the number of preparation days for May and June?

4. Reviewing the graph on number of applicants:
    a) What factors might be responsible for the month-to-month fluctuations in number of applicants?

    b) How does the graph on the number of applicants compare to the graph on vacancy days?

Comparing Your Group's Results

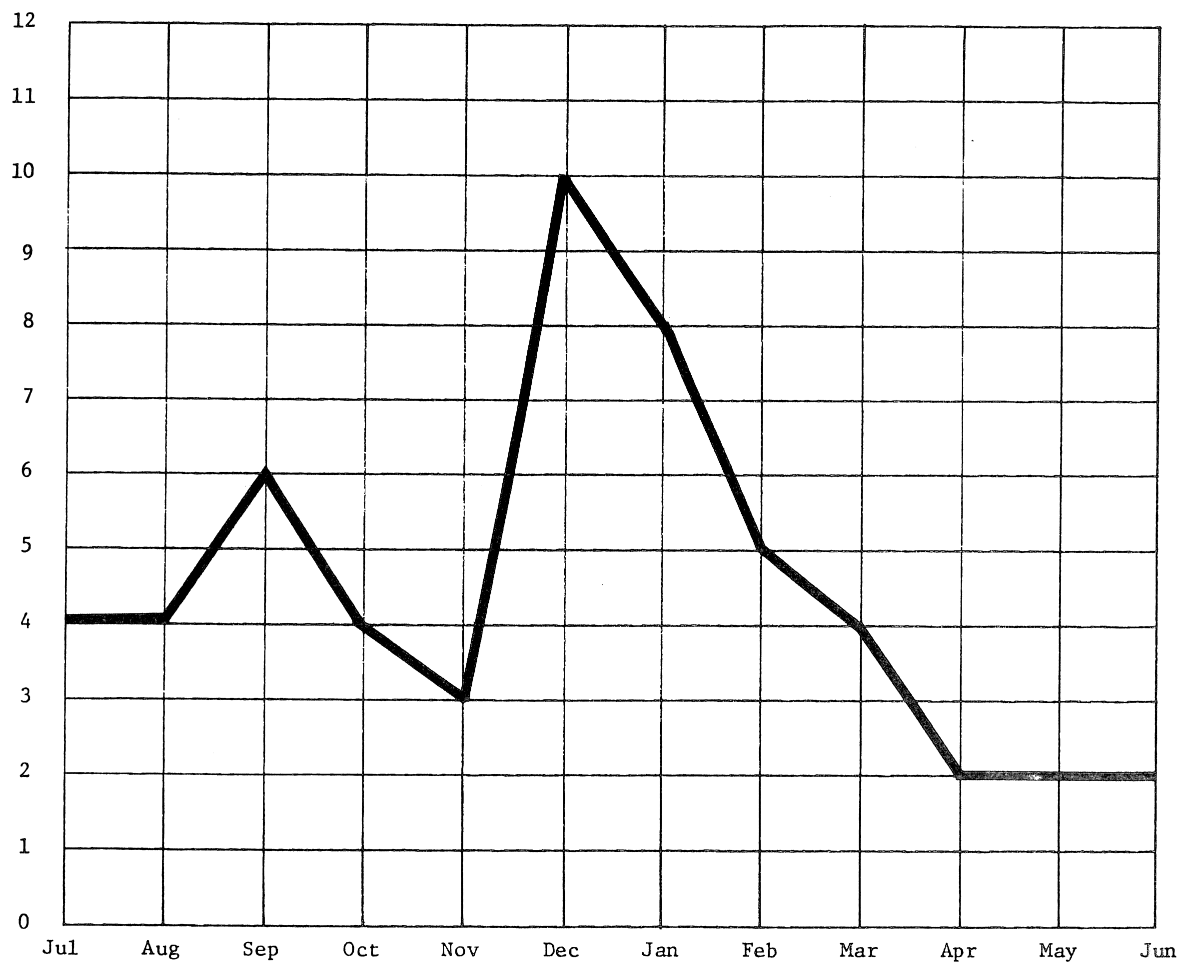
Copies of the completed graphs for occupancy and vacancy are included in the appendix. Participants may compare their own graphs with those in the appendix in order to insure their accuracy.

SUMMARY OF SESSION

The session on management performance emphasized measuring the performance of co-ops. The focus has been upon evaluation of finances, delinquencies, and occupancy. For each of these areas, actual co-op data from monthly reports were assembled to form a yearly report. The data from the yearly report were then graphed. The graphs were analyzed and the meaning of the data reviewed. Through the use of charts and graphs, you determined trends and changes in the management of a co-op. You then considered how this information could be used to plan for more effective co-op management. The analysis of each set of graphs helped identify potential action that might be taken to improve performance.

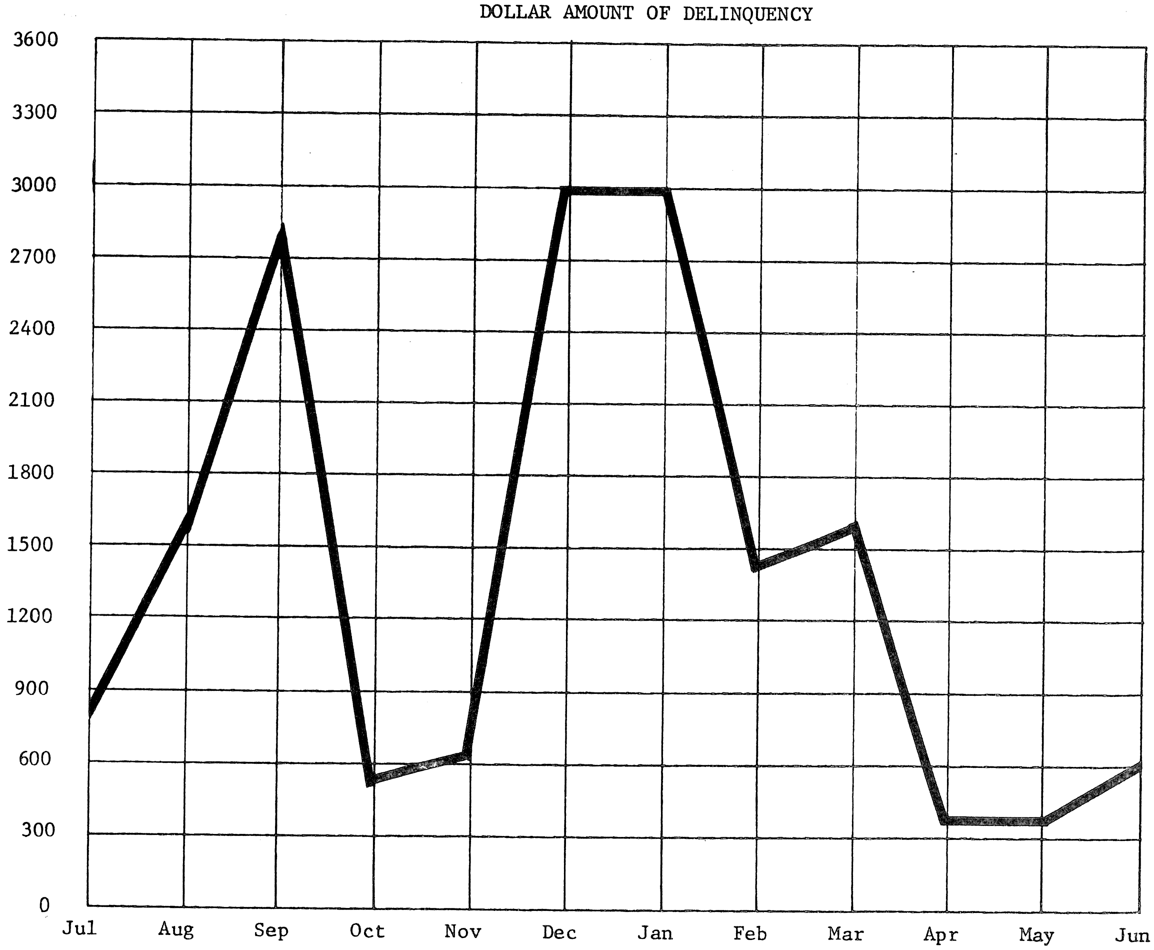
Graph 2

NUMBER OF DELINQUENCIES



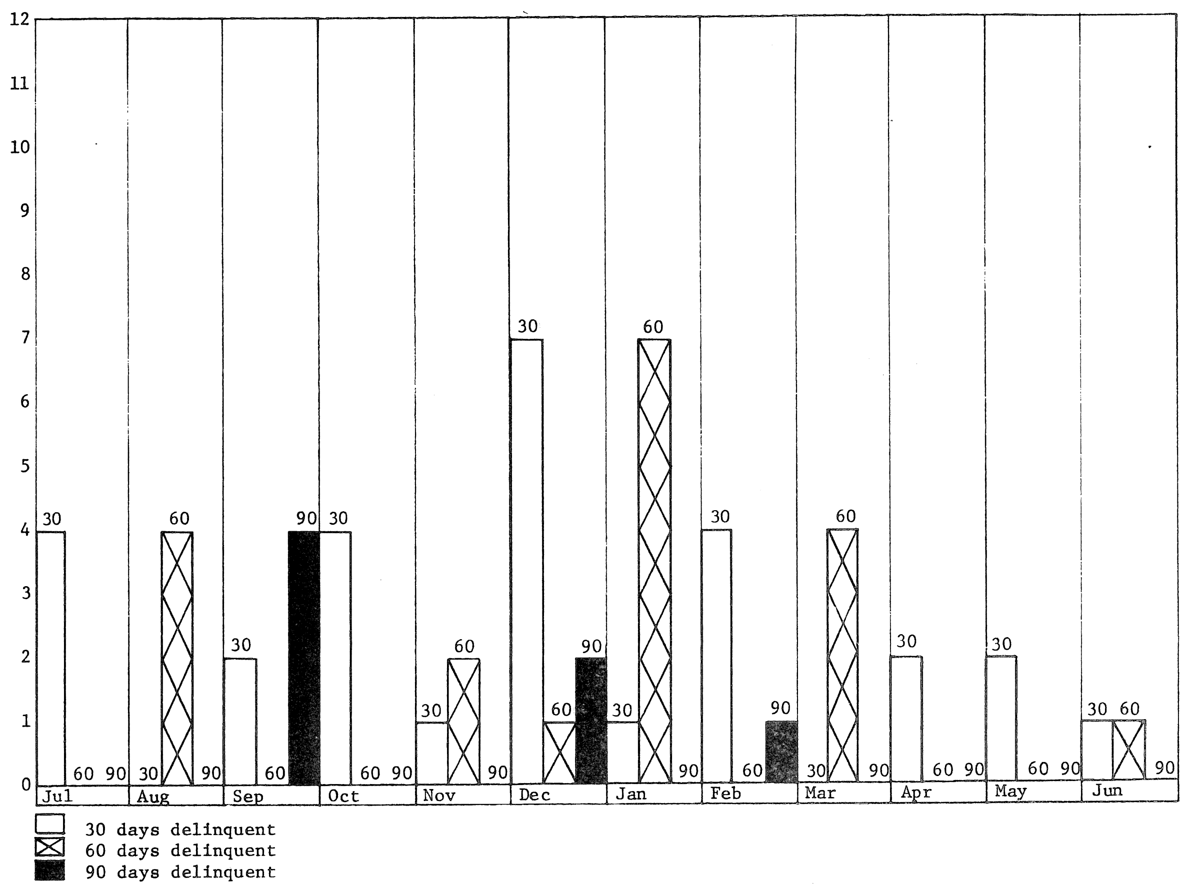
Graph 3

DOLLAR AMOUNT OF DELINQUENCY



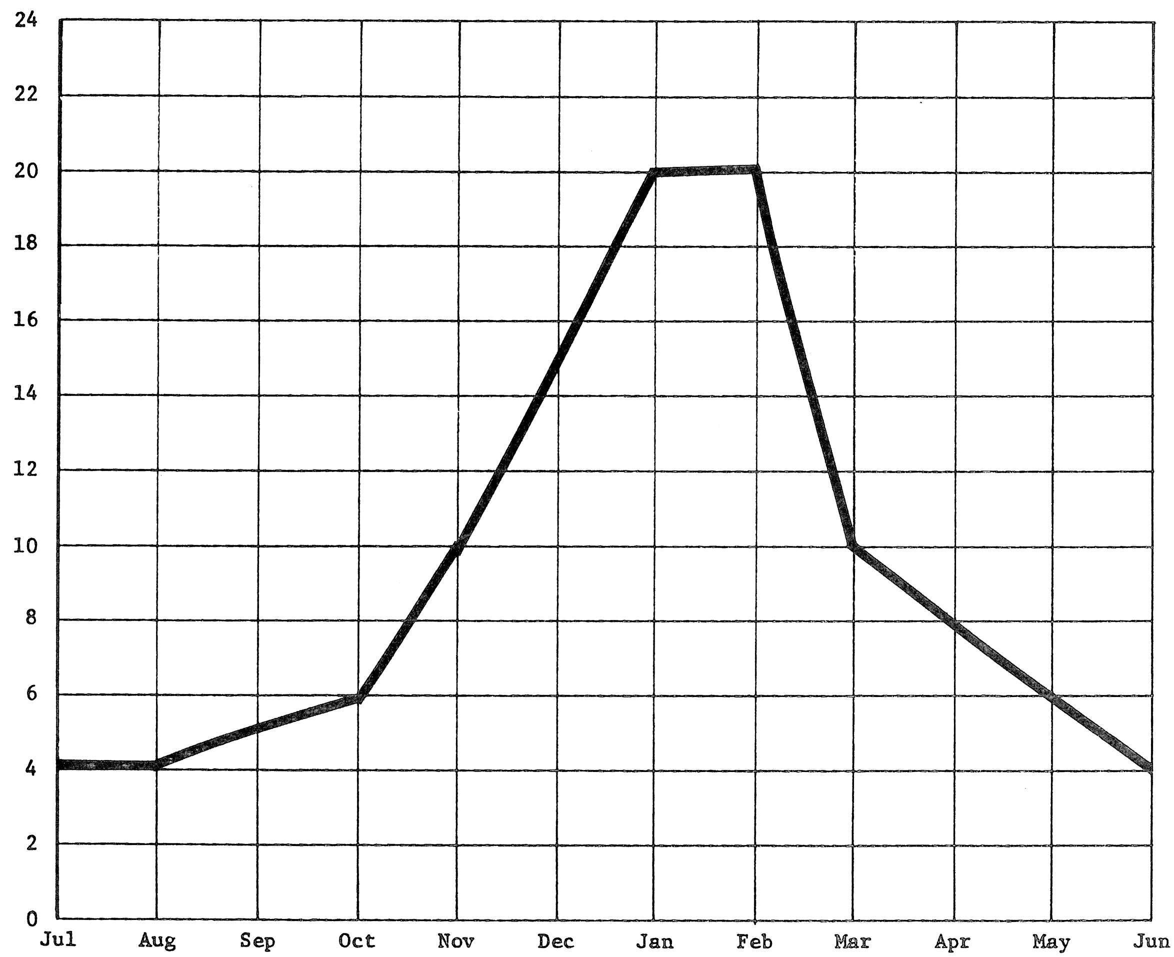
Graph 4

DAYS DELINQUENT



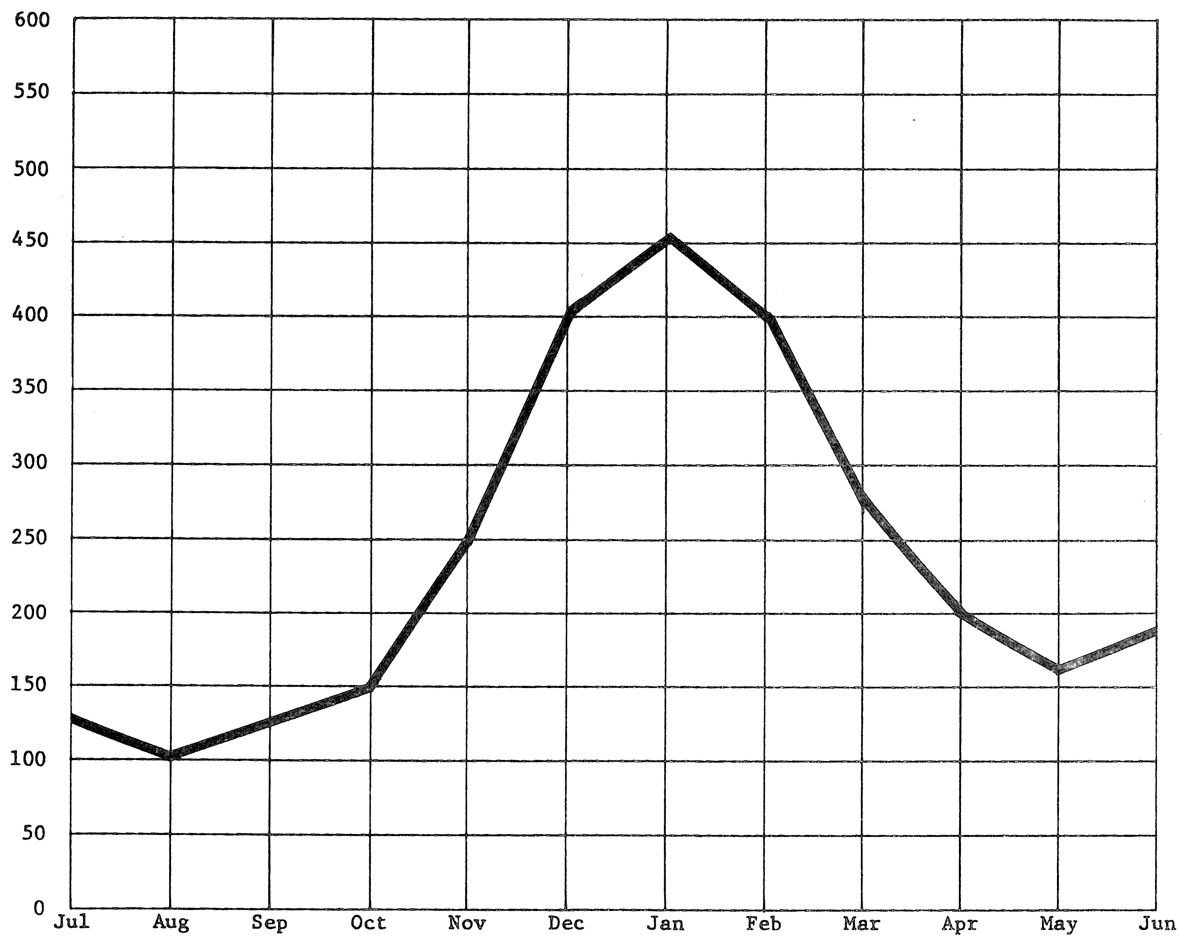
Graph 5

NUMBER OF VACANT UNITS



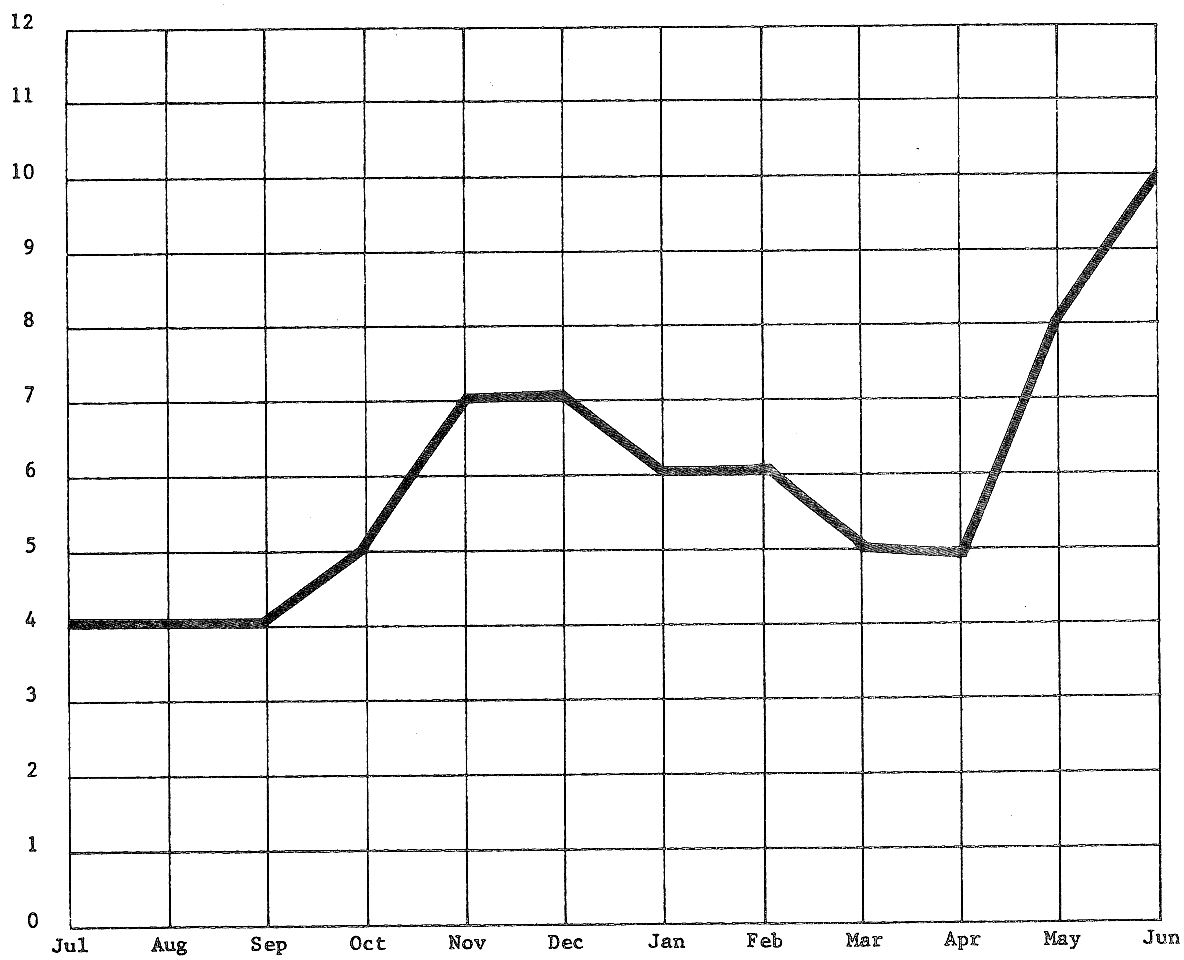
Graph 6

VACANCY DAYS



Graph 7

UNIT PREPARATION DAYS



Graph 8

NUMBER OF APPLICANTS