OLD GRACE HOUSING CO-OPERATIVE

FINANCIAL MANAGEMENT POLICY

CONTENTS

1. PURPOSE

2. ROLE OF THE FINANCE COMMITTEE

3. BUDGET PREPARATION

- **A. Annual operating budget**
- **B. Mid-year changes**
- **C. Capital planning**
- **D. Planned major capital expenditures**

4. SPENDING CONTROL

- **A. Operating expenses**
- **B. Capital expenses**
- **C. Emergency expenses**
- **D. Budget control**
- **E. Spending authority**

5. FAIR BUSINESS PRACTICES

6. RESERVE FUNDS

- **A. General reserve fund**
- **B. Replacement reserve fund**
- **C. Share redemption fund**
- **D. Share contribution assistance fund**

7. INVESTMENT

APPENDICES

1. Financial Confidentiality Agreement
2. Determining Share Redemption Fund Minimum Balance
3. Examples of Capital Gap / Surplus

---

1. PURPOSE

The co-op's board of directors are the members' elected officers charged with the responsibility of effectively and efficiently managing all the co-op's assets. This policy describes the co-op's guidelines for budget preparation, spending control, reserve funds and investments.

The Finance Committee advises the board on financial matters, and assists the board in fulfilling its financial responsibilities. The Finance Committee consists of the board Treasurer and a volunteer group of co-op members (minimum 2) who are appointed by the board. The Finance Committee will meet as they have need.

2. ROLE OF THE FINANCE COMMITTEE

a. Oversee the co-op's bookkeeping, accounting and cash management systems.
b. Review the co-op's financial position prior to the monthly meeting of the board of directors.
c. Develop and monitor investment policies and performance for the co-op.
d. Prepare the co-op's annual operating budget; prepare a capital budget when needed
e. Present proposed budgets to co-op members at a special member meeting, prior to board approval.
f. Ensure that the co-op complies with any funding agency's reporting requirements
g. At each member meeting, report on the co-op's financial position vis-à-vis the annual budget.

h. Review the co-op's insurance coverage annually; advise the board of directors if any changes are necessary.
i. Ensure and oversee the annual audit of co-op accounts (this would include holding a Finance Committee meeting to review the audit and making a recommendation to the board on the audit); make a presentation to members at the annual general meeting.
j. Recommend an auditor annually, for approval by members at the annual general meeting.

3. BUDGET PREPARATION

A. Annual operating budget

a. The board of directors will annually approve an operating budget for the next fiscal year, in accordance with Article 4.1 of the co-op's *Occupancy Rules.* The co-op's fiscal year runs from 1 January to 31 December.

b. As a policy decision, the board of directors has determined that the co-op's monthly housing charges will not exceed the *Manitoba Housing Affordable Housing Rental Program Rents*. These rents are based on median market rents for similar-sized units in the City of Winnipeg and are adjusted annually by Manitoba Housing.

c. The Finance Committee will develop an operating budget for the next fiscal year which incorporates the housing charges anticipated for the next year. This budget will be reviewed by the board of directors at their November meeting.

d. Before the end of November, the board of directors will hold a general informational meeting in order for members to consider and discuss the proposed operating budget. The operating budget must include:
    I. all sources of revenue
    II. the total expected cost of operating the co-op, including contributions to the replacement reserve fund, and maintenance of other reserve funds.
    III. a breakdown of the total cost into separate categories of expenditure
    IV. sufficiently detailed notes on each category to allow meaningful discussion by members.
    V. the full monthly housing charges proposed for each suite, or size of suite.
    VI. the charges proposed for services provided to members and charged separately, such as parking, laundry, internet access, guestroom rental, etc.

e. At the general informational meeting, members have the right to question the proposed budget and suggest changes in spending priorities. These changes should be incorporated by the board of directors if they are supported by the majority of members and are economically feasible.

f. The board of directors must approve a finalized operating budget no later than the end of December each year.

g. During each fiscal year, the board of directors has the authority to spend the operating funds of the co-op up to the amount of the total operating budget. The board can use a surplus in one category of expense to offset a deficit in another category of expense within the overall budget.

B. Mid-year changes to annual operating budget

a. The board of directors may decide that there should be a change in the operating budget and/or housing charges during a fiscal year.

b. If so, the board will prepare a budget or statement showing the reason for the change and present it to the members at a general informational meeting. Notice of the meeting must be given in accordance with Section 4.3 of the *Occupancy Rules*.

c. Any change in housing charges will be implemented in accordance with the timelines given in Section 4.4 of the *Occupancy Rules*.

C. Capital planning

a. Capital items consist of the major building and property components, services and systems, project facilities and equipment. These items generally have an expected useful lifespan of 10 years or more, although items such as appliances are also treated as capital expense. Repairs that maintain the functionality of a building element but do not extend its lifespan are normally included in the operating budget. The refreshing and repair of units on turnover are considered capital expenses in housing co-operatives if they are carried out by external contractors as opposed to co-op staff.

b. Capital costs can also include the cost of hiring consultants to provide advice and/or contract administration services including:

   I. assessing deficient building components
   II. developing a remedial action plan
   III. preparing specifications and tender documents
   IV. tendering the remedial work and making a recommendation to the co-op
   V. administering the contract and inspecting the remedial work.

c. A capital item should be repaired or replaced when:

   I. it is no longer safe (i.e. it represents a health or safety hazard);
   II. it is no longer performing or operating as it was meant to (i.e. has reached the end of its useful life);
   III. it is no longer cost effective to repair;
   IV. it does not conform to a government regulation for which upgrading of the item is mandatory and subject to a fixed deadline;
   V. a professional recommendation has been made to replace the item to avoid potential major damage to the building and/or land;

VI. a grant or subsidy has been supplied externally to purchase and/or replace a building component that would present a significant cost saving opportunity to the co-op.

d. To facilitate capital planning, the co-op will commission a *Building Condition Assessment* and a *Reserve Fund Study*. Based on these reports the co-op will commission an *Asset Management Plan* that includes a Capital Plan. The co-op will update these plans on a three-to-five-year basis.

e. The replacement reserve will be used to fund capital expenses based on the Capital Plan.

f. Each year the board will present the next year's Capital Plan portion of the Asset Management Plan (which will include costs along with any additional anticipated capital spending, and the funding source to cover the costs) as the Capital Budget for the coming year to a general informational meeting of the membership. At the general informational meeting, the members have the right to question the capital budget and to propose alterations.

g. The board of directors must approve a finalized capital budget no later than the end of December each year.

h. The board has the authority to fund non-budgeted capital spending from the replacement reserve if the spending is identified in the *Building Condition Assessment*.

D. Planned major capital expenditures

a. If the co-op is planning major capital expenditures (over $20,000 in 2025 and adjusted for inflation annually), the board of directors must prepare a project-specific capital budget and work plan for the information of members before entering into contracts for the work.

b. The project-specific capital budget and work plan must show:
   I. the list of capital items to be replaced or repaired
   II. the estimated cost
   III. the proposed source of funds
   IV. the effect of the proposed expenses on the co-op's capital reserves
   V. the impact of the proposed expenses on the co-op's future operating and capital budgets
   VI. the estimated timeline for the capital expenses.

c. The project-specific capital budget may include the cost of hiring consultants to provide advice and/or contract administration services including:
   I. assessing deficient building components
   II. developing a remedial action plan
   III. preparing specifications and tender documents

IV. tendering the remedial work and making a recommendation to the co-op
V. administering the contract and inspecting the remedial work.

d. At the general informational meeting, the members have the right to question the project-specific capital budget and to propose alterations.

e. The project-specific capital budget must be approved by the board.

4. SPENDING CONTROL

This section sets out the rules for how the co-op's money is spent, namely which expenses are discretionary, which are non-discretionary, and who must give permission for each type of spending.

The board will delegate to the Property Manager the authority to spend funds within the limits it sets. The board may also delegate spending authority to co-op advisory committees or co-op work groups for specific expenses or types of expense, within the limits it sets.

A. Operating expenses

a. Non-discretionary Expenses

These are expenses that have been approved by the board of directors and are incurred routinely. They include such items as:

- Mortgage interest and principal
- Property taxes
- Property and liability insurance
- Utilities (hydro, gas, water, waste services)
- Replacement Reserve Fund
- Staff salaries & benefits
- Contracted services (after a contract has been signed)
- Debt repayment

Bills received for non-discretionary expenses may be paid by persons designated by the board. If a non-discretionary expense goes over budget, or is expected to go over budget, the Finance Committee must report this at the next meeting of the board of directors.

b. Discretionary Expenses

These are expenses where the co-op has an option as to when (or if) to incur them, how much to spend, and a choice of potential suppliers. They include items such as:

- Office supplies & related services (printing, couriers)
- Interior maintenance services and cleaning supplies
- Grounds maintenance and landscaping supplies
- Marketing of co-op suites / co-op promotional activities /publications
- Board training / member education / educational materials

- Co-op membership in related organizations / co-op representation at external meetings
- Support for member social events
- Unit Share Contribution Assistance Fund
- Professional services
- New contracts with co-op staff
- New contracts negotiated for any goods or services

Note the above list are examples, the actual list will correspond to the budget line items.

B. Capital expenses

a. Approval of the capital budget by the co-op board of directors will authorize the expenditure of funds for the purposes stated, and from the source specified, to a maximum of the total amount budgeted. The board must present a revised budget to members if it projects that the previously approved maximum will be exceeded by 10% or more.

b. The board of directors must directly approve contracts and other documents that commit the co-op to spend Replacement Reserve Funds in excess of $5,000. These approvals must be noted in the board minutes.

C. Emergency expenses

a. Emergency expenses are those expenses the co-op must make immediately because a delay will:
   I. risk property damage, or
   II. endanger the safety of persons or property, or
   III. disrupt essential services to members (such as electrical power, heat, cooling, water, building security, or fire protection).

b. The board may delegate authority to approve emergency expenditures to the Property Manager or to any other persons.

c. There is no pre-determined spending limit for an emergency expense. All emergency expenditures must be reported immediately to the board of directors and to the Finance Committee.

d. The board must report emergency expenditures over $5,000 to co-op members indicating what is being done, what the cost will be, and when the work will be completed.

D. Budget control

a. Each month, the board of directors will receive a summary budget control report from the Property Manager. The report will:
   I. compare budgeted operating income and expenses to actual income and expenses;

II. show the projected income and expenses for each category in the operating budget for the rest of the year;
III. identify irregularities.

b. If the board has planned capital expenses, the board will receive a summary capital budget control report prepared by the co-op's Property Manager. The report will compare budgeted capital expenses to actual expenses.

E. Spending authority

a. The president, vice-president, secretary and treasurer of the co-operative have signing authority (OGHC By-law 2.02). At the first board meeting following the co-op's annual general meeting, the board of directors may, by ordinary resolution, designate other persons to have signing authority. This authorization must be recorded in the board minutes.

b. No person may initiate or approve any expense or purchase that substantially benefits that person or where that person has any conflict of interest with respect to that expense or purchase.

5. FAIR, OPEN AND OBJECTIVE BUSINESS PRACTICES

a. The co-op will follow fair, open and objective business practices in all its purchasing and contracting. The co-op's spending practices and process for awarding contracts must be consistent with the conflict of interest and confidentiality rules in the co-op's By-laws.

b. Before contracts, written or oral, are entered into by the co-op, committing the co-op to ongoing routine expenditures (for example, staff salaries, management contracts, maintenance contracts), the Treasurer and the Finance Committee must advise the board of directors as to the budgetary implications.

c. The following rules apply to all spending except for non-discretionary expenses such as property taxes, mortgage payments, utilities and contracted services (after the contract has been signed).

Expenses under $5,000

I. The board, or other person authorized by the board, is not required to seek three (3) written quotes for expenses under $5,000, but must take a prudent approach to all spending. This could mean getting at least one (1) written quote or getting more than one (1) oral quote. The $5,000 shall be adjusted annually on January 1, based on the percentage change in the Inflation Calculator as published by Bank of Canada. The base year for $5,000 will be January 2021.

II. The board can delegate authority to the co-op staff to spend lesser amounts. When the board delegates authority, it must set limits on the amounts staff may spend and

give any specific directions relating to the type of expenses that it considers appropriate.

III. Where the co-op has a contract for services, the board, or another person authorized by the board, must review prices at the end of the contract. There will be no automatic renewal of any contract.

IV. The board, or another person authorized by the board, must review the prices of suppliers at least every third year to ensure their prices remain competitive.

Expenses of $5,000 or more

I. The board, or other person authorized by the board, will seek three (3) written quotes based on a detailed written scope of work for contracts of $5,000 or more. The $5,000 shall be adjusted annually on January 1, based on the percentage change in the Inflation Calculator as published by Bank of Canada. The base year for $5,000 will be January 2021.

II. Board approval of the contract is not required where:
- a particular contractor has been used previously by the co-op, with satisfactory results;
- the supplier or contractor has been selected from the Property Manager's list of pre-approved trades.

III. Up to 3 annual extensions of competitively-tendered single-year contracts (such as grass cutting, HVAC filter changes) are allowed without specific board approval, if the work was satisfactory and the quoted price does not increase by more than 10% per annum. The board must be informed of this action.

IV. Multiple-year contracts (such as alarm monitoring, elevator maintenance) may be signed where this is advantageous to the co-op. Where the board had previously approved a multi-year contract, up to 2 one (1) year extensions are allowed, if performance was satisfactory. The board must be informed of this action.

d. When choosing a quote or bid, the board, or other person authorized by the board, must consider:
   I. whether the quote or bid meets the requirements set out in the detailed scope of work;
   II. the quality of goods and services to be provided;
   III. the relevant experience of the service provider or contractor;
   IV. references or testimonials obtained by the co-op;
   V. the timing of the work;
   VI. the environmental impact or extent to which the product or service meets the co-op's environmental standards; and
   VII. the cost of the work.

e. Preference will be given to co-operatives and not-for-profit providers. The board, or other person authorized by the board, does not have to choose the lowest quote or bid. They may choose another for reasons such as quality, experience and timing. If they do not choose the lowest bid, the reasons for their choice must be documented in the minutes of the board meeting.

f. All members of the co-op board of directors have signed an *Ethical Conduct Agreement*. Any other person authorized by the board to be involved in the formal tendering process must sign a confidentiality agreement that applies to all information about the co-op and all information received from the bidders (see attached *Form 1 – Financial Confidentiality Agreement*).

6. RESERVE FUNDS

The co-op is required by its By-laws to maintain a general reserve. The co-op also maintains a Replacement Reserve. In addition, the board of directors may decide to establish and maintain other reserve funds for specific purposes.

A. GENERAL RESERVE FUND

a. The co-op must establish and maintain a general reserve to retain the annual surplus, if any, after the budgeted annual contribution to the Replacement Reserve Fund has been made. The board may set the percentage of the total assets of the co-op, as reported in the year-end financial statements, which must be retained as the general reserve (By-laws 7.01 and 7.02).

b. At the end of each fiscal year, after the co-op has complied with reserve requirements (including any general reserve requirements and the budgeted annual contribution to the Replacement Reserve Fund), the board may determine how to use the balance of the surplus, if any (By-law 7.03). This can include transferring the entire balance of the surplus to the Replacement Reserve Fund.

B. REPLACEMENT RESERVE FUND

a. The purpose of the fund is to have sufficient capital invested for the replacement of capital expenditure items as needed from time to time. In its operating budget, the board will mandate an annual contribution to the Replacement Reserve Fund. The contribution will be based on the recommendations of regularly updated Building Condition Assessment and Reserve Fund Forecasts.

b. Allocations to the Replacement Reserve Fund are non-discretionary expenses made on a monthly basis throughout the year, and are based on board approved budgeted amounts for that year.

c. A transfer of funds should be made at least quarterly into an established, separate bank account at a financial institution that is used by the co-operative. This transfer supports the balance established in the Replacement Reserve account.

d. The balance in the Replacement Reserve account and the bank account established to fund its purpose, along with other approved investments of this money and earned interest, must reconcile; the Finance Committee should report any over- or under-funding of the Replacement Reserve account to the board of directors at their next scheduled meeting.

C. SHARE REDEMPTION FUND

a. Fifty percent of co-op suites are designated "market" housing and require payment of additional Member Shares in an amount close to $100,000. The purpose of the fund is to enable the co-op to repurchase Member Shares from departing residents within six (6) months of receiving their notice of intention to withdraw (in accordance with By-law 6.13), even if a delay occurs in allocating the suite to a new resident. The fund will be deemed to be fully funded at $134,000. At the end of each financial year, the interest earned in this account will be transferred to the Replacement Reserve Fund Account.

b. The Share Redemption Fund can also be used to redeem shares to facilitate internal transfers in the following two ways:

   I. Money from the Share Redemption Fund can be loaned to newcomer households in the four-bedroom units when they are required to move into smaller affordable units to conform with OGHC's Occupancy Rules on over-housing (see Article 9.C.2). Because of limited assets, these households may not qualify for sponsorship under the co-op's *Unit Share Contribution Assistance Policy*. The loan would be used to redeem the shares of the outgoing member.

   The allocation of loans will be at the discretion of the co-op's board of directors. The board may decide to provide a loan of any amount up to the difference between $1,500 (the amount that the member would have to provide immediately) and the required Unit Share Contribution. The board's decision will be guided by:

   - the amount of money in the Share Redemption Fund. The amount will be assessed on the basis of the co-op's *Procedure for Determining the Minimum Balance in the Share Redemption Fund* (see Appendix 2).
   - the expectation for repayment of the loan, based on the member's financial circumstances.

   II. Money from the Share Redemption Fund can be used to cover the capital gap that emerges when, as the result of an internal move, a larger, market unit is converted to affordable status. In such a move:

   - if a member is moving from a smaller, affordable unit to a larger unit that is being converted from market status to affordable status, the member must purchase the appropriate affordable Unit Share Contribution shares for the larger unit and meet all income and household size requirements for an affordable unit.

- if a member is moving from a larger, market unit to a smaller unit that is being converted from affordable status to market status, the member must purchase the appropriate market Unit Share Contribution shares for the smaller unit.
- Appendix 3 provides examples of how a capital gap or a capital surplus can emerge. Any capital surpluses created as the result of an internal move would be placed in the Share Redemption Fund.
- The use of the Share Redemption Fund in this way is at the board's discretion. The board's decision will be guided by the amount of money in the Share Redemption Fund. The amount will be assessed based on the co-op's *Procedure for Determining the Minimum Balance in the Share Redemption Fund* (see Appendix 2).

D. UNIT SHARE CONTRIBUTION ASSISTANCE FUND

a. The purpose of this fund is to enable co-op members to offer financial assistance to low-income applicants for housing who are unable to pay for the additional Member Shares required in full.

b. Subject to the resources available, financial assistance may be provided in the form of partial suite sponsorship, repayable when the member leaves the co-op, or a loan to the member (see *Unit Share Contribution Assistance Policy*).

7. INVESTMENT

a. The co-operative will accumulate funds in the Replacement Reserve Fund and in other bank accounts over time. To the extent that these funds are not required for their established purposes in the foreseeable future, they may be invested for the benefit of the co-op.

b. The investment objectives of the co-op are:
   I. to minimize idle cash holdings;
   II. to optimize the co-op's return on investments;
   III. to provide the funds necessary for the co-op to carry out capital projects, including improvements and replacements, as required from time to time;
   IV. to ensure the co-op has adequate working capital;
   V. to offset or reduce the effect of inflation on the co-op's reserves and operations.

c. The Finance Committee shall make investment recommendations to the board of directors in accordance with the following principles:
   I. Funds shall be invested in a manner that achieves a reasonable rate of return but does not jeopardize the financial stability of the co-op.
   II. Funds shall be invested in the co-operative movement whenever possible.
   III. No funds shall be invested in institutions whose activities knowingly conflict with the principles and objectives of the co-operative movement.

IV. Funds invested in any one institution shall not exceed the maximum amount insured under the Canada Deposit Insurance Corporation.

d. The Finance Committee may seek advice from financial institutions or financial consultants with regard to suitable investments.

e. On a semi-annual basis, the board of directors will review a schedule of all co-op investments, taking note of the annual rate of return and the management fees levied.

Appendix 1

OGHC Financial Confidentiality Agreement

I have agreed to help the co-op in a formal bidding process under the co-op's Financial Management Policy.

I understand that:

- I will learn confidential information during the bidding process.
- I will use any confidential information only to evaluate the bids.
- I must keep secret any confidential information even after the formal bidding process is over.

Confidential information is:

- Any information received from bidders.
- Any information discussed at meetings dealing with the formal bidding process.
- Any information about the co-op that is relevant to the formal bidding process.
- Any information about the financial status of an individual co-op member.

Unless authorized by the Old Grace Housing Co-operative board of directors, I agree not to respond to any inquiries related to the formal bidding process.

Signature:

Print Name: _____ **Position:** _____

Signed: _____ **Date:** _____

Appendix 2

Share Redemption Fund
Procedure for Determining the Minimum Balance

1. In assessing whether to make loans from the Share Redemption Fund, the Board will set a minimum balance for the fund.
2. That minimum balance will be based on an analysis of waiting list risk provided by the Membership Committee. In that analysis, the Membership Committee will identify the three weakest areas in the Waiting List. The minimum balance would be the amount needed to redeem one unit in each of these three categories.
3. Based on the Membership Committee's 2023 analysis, the minimum balance for 2024 would be $66,000. The following table shows the process for determining this balance.
4. An updated analysis is to be undertaken prior to the granting of a new loan.

Unit size & location	**$ Unit Share Contribution**
1 one-bedroom accessible affordable	16,000
1 three-bedroom affordable in 200 Arlington	24,000
1 three-bedroom townhouse affordable	26,000
Total	**66,000**

Appendix 3

The following tables provide examples of how a gap or surplus in the co-op's capital develops.

Scenario 1: Creating a capital gap

In this scenario a two-bedroom market unit becomes available, and a couple in a one-bedroom affordable unit applies to convert the two-bedroom market unit to affordable status.
The capital gap is the difference between the money being refunded and the new money being received.

Payout	$ Amount
2-bedroom market refund to be paid to departing member	92,000
Total refunds	**92,000**
Pay in	
Difference between 1- and 2-bedroom affordable shares (paid by household moving from 1 to 2-bedroom unit)	4,000
1 Bedroom market share from incoming member	72,000
Total new money	**76,000**
Co-op's shortfall / Capital gap (92,000-76,000)	**16,000**

Scenario 2: Creating a capital surplus

In this scenario a two-bedroom market unit becomes available, and a family in a three-bedroom affordable unit applies to convert the two-bedroom market unit to affordable status.
The surplus is the difference between the money being refunded and the new money being received.

Payout	$ Amount
2-bedroom market refund to be paid to departing member	92,000
Difference between 2- and 3-bedroom affordable shares (paid to household moving from 3 to 2-bedroom affordable unit)	4,000
Total refunds	**96,000**
Pay in	
3 Bedroom market share from incoming member	112,000
Total new money	**112,000**
Co-op's surplus (112,000-96,000)	**16,000**