JACK AND THE BEAN COUNTER

By Patrick Niland

FEE, FIE, FOE, FUM . . . just counting beans is really dumb.

This is the latest in a continuing series of articles which urges cooperative board members to take full advantage of the skill and experience of each of their professional advisors.

Co-op accountants get lots of calls at this time of year. The holidays are over, the new year celebrations have come and gone, and many boards have started asking for their co-op's annual financial reports, as well as their statements of deductible real estate taxes and underlying mortgage interest. In addition, those boards which had operated under a budget during the previous year are anxious to see how they actually fared before finalizing a new budget for the coming year. From an accountant's viewpoint, everyone is clammering for "numbers."

This demand for financial results appears every year, unaffected by the economy at large, board turnover, or other changes. Equally predictable is the drop in board interest once the co-op's accountant has delivered the audited financial statements and filed the apartment corporation's annual tax return. During the remainder of the year, accountants rarely hear from their co-op clients. The little contact which does occur usually is limited to discrepancies over some bill that was or wasn't paid, and these calls almost always are initiated by the accountant. So, why the change in board attitude?

The reasons are as varied as co-ops themselves, but most reflect the fact that many board members view their accountants as mere "bean counters," unwanted but necessary chroniclers of the financial past – whose services should be purchased as cheaply as possible. Woefully few boards consider their CPAs as helpful advisors for the present and valuable resources for the future.

That most boards are myopic when it comes to financial management becomes immediately apparent whenever one asks a co-op accountant to list the mistakes that most boards make. "No planning," sighs Richard Montanye of Marin & Montanye, a firm that represents over 200 co-ops. The same frustration is echoed by Norman Prisand of Prisand-Newman, which also represents more than 200 co-ops, who calls boards' lack of long-range planning their "single biggest error."

In today's highly-competitive and fast-paced world, any business that doesn't operate under a long-range plan is opening the door to many a costly surprise, if not sowing the seeds of its own demise. Yet, as Mark Shernicoff of Zucker & Shernicoff, which handles over 100 co-ops and condos, notes, "not too many" boards do long-range planning. With the vast majority of co-ops operating day-to-day and hand-to-mouth, is it any wonder that so many of them find themselves in financial hot water? Instead of pointing fingers and screaming "How'd this happen?", guilty board members should reflect on the advice of that great planner, Yogi Berra, who warned that “if you don’t know where you’re going, you might not get there.”

As I have recommended in many previous articles, and as I will continue to urge in this and future ones, *all* boards need to assemble, and then make full use of, a team of experienced professional advisors. That team should include not only a trusted managing agent, but also a practical attorney and a future-focused accountant. Larger buildings should add an engineer, an insurance expert, and an investment counselor. When major projects are necessary, the team should include a cost-conscious construction manager. For refinancings, a skilled mortgage broker is a must if the board is serious about saving money.

In any well-run business, such professional skills are taken for granted. Co-op boards need to recognize that they, too, are running a business – a very complex operation that requires the very best advice that money can buy. Board members who are infected with the “do it yourself” mentality are either too proud or too afraid to admit that they just don’t know everything. This hubris usually costs their co-op many times what they think they have saved by not hiring the proper professional help. Remember: *free* advice truly is cheap; *real* advice is priceless.

There is perhaps no activity in which the right professional advice will generate more savings than in a refinancing of a co-op‘s underlying mortgage. Aside from a good mortgage broker, no other professional can have as big a “dollar-and-sense” impact as the co-op’s accountant.

To prepare for a refinancing, some boards ask their accountant to “crunch some numbers.” Knowing where your co-op is financially is helpful, but it is more important to understand *how* your co-op got where it is – and it is even *more* important to decide where your co-op should be in five or ten years. Your accountant can highlight the lessons to be learned from your past and then guide your board in developing a good five- or ten-year plan. Most importantly, your accountant will recommend the steps necessary to ensure that your co-op actually reaches its goal.

To be successful borrowers, Richard Montanye suggests that boards must be “realistic” about operating expenses and capital improvement costs. He sees too many board members who blithely assume that “we’ll get by somehow.” This “head-in-the-sand” wishful thinking often leads board members to commit what Norman Prisand calls their “second biggest error”: not borrowing enough money when refinancing. Fearful of raising maintenance, many boards trim their new loans so severely as to cause funding shortfalls soon after closing. These same boards usually have forgotten to negotiate secondary financing privileges and/or the more lenient prepayment terms that could alleviate at least some of their funding problems.

Arnold Silver and Amy Brelia, partners at Silver & Brelia in Larchmont, try hard to cure their co-op clients of this “level maintenance” thinking. You may not know which expense item will increase during the coming year, cautions Arnold Silver, but you can be sure that *something* will go up. As an example of this, Richard Montanye points to the recent doubling in fuel oil prices. “No one expected that!” he exclaims. In addition, Arnold Silver strives to get each of his boards to include a substantial contribution to reserves as a *regular* line item in their co-op's annual budget. Boards who have followed his advice often have been able to postpone, or even avoid, the expense of a refinancing simply because they were disciplined enough to save for (unknown) future needs.

Mark Shernicoff also warns boards against rushing into a refinancing without considering the "80/20" impact of their proposed new loan's amortization. This often will limit the types and terms of loans that certain boards should consider. Other critical issues include prepayment penalties, the payment of interest on escrow accounts, lender formulas for calculating monthly loan interest, and hidden charges for annual mortgage certifications. Improper handling of such items can mount up to much more than a hill of beans over the life of your new loan.

As with many things, "the devil is in the details." Not paying attention to every detail of a refinancing can cost your co-op a bundle of money. In fact, Norman Prisand calls this failing the "third biggest mistake" that many board members make. However, even if you pay close attention, you can't possibly catch *everything*. That is why you need a team of professionals to help you do the job right. As a critical member of your professional team, your accountant has much to offer. Don't short-change your co-op by asking them to just count your "beans." Instead, ask them *which* beans to plant, *where* to plant them, and *what* fertilizer to use to make them grow big and strong. That way, your financial harvest will be very rich.