

Scrutinize Your Co-op's Financial Statement

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When you buy a co-op make sure that you scrutinize the financial statement of the co-op corporation. You should be able to have access to it at least five months after the end of the fiscal year. Be wary of delayed statements, as this may be an indicator of bookkeeping difficulties.

Second, take note of the frequency of collection of maintenance and other bills. Regular collection means that those in charge seek to maintain a smooth cash flow, with their systematic method of collecting payables. Uncollected maintenance, as well as other unpaid bills, should be no more than five percent of the total yearly maintenance charges.

Third, keep in mind that cash reserves should comprise one-third of the yearly maintenance bill. There should also be a means of regenerating revenues, as necessary major improvements made can drain the fund. One such means is equalizing earnings and expenditure to achieve a surplus by year's end. Another way is allotting a fraction of the sale price for the co-op with each sale of an apartment.

Fourth, always read the statement Notes because this could contain information on tax reductions, which when expired, will eventually result to rising maintenance charges. As well, it can report likely capital repairs, the foremost consideration of which is whether there is an adequate budget for them. This information can also be obtained from the minutes of the board of directors, ideally one encompassing two years.

Fifth, keep watch of basic mortgage terms. A principal payment that is due, an interest rate increase that is to take place, and the refinancing of a mortgage that has matured all usually spell a higher maintenance bill.

Sixth, find out about the expiration of commercial leases of the tenants, as well as the fraction of debt ascribed to them.

Seventh, well-managed co-ops, notwithstanding legal expenses and pending lawsuits, should be able to deal well with legal problems and fees. These data can typically be found in the fine print of the footnotes which can clue you on other problems.

The bottomline? Scrutiny is key. Pretend to have a magnifying glass and leave no line of the report unread because that seemingly unimportant detail could change the way you look at that highly desirable co-op.