



Greater Orlando IFMA Chapter CFM Roundtable

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Welcome to the CFM roundtable presented by The Greater Orlando IFMA Chapter.

Today's facilitator:

Larry T. Simmons, CFM
Immediate Past President, IFMA Orlando
Associate Director Physical Plant – Seminole State College of
Florida



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Today, we will review one competency

- Finance

CFM



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Progress to the CFM goal

- I. Self – assessment
- II. Study
- III. Comprehensive exam review
- IV. PMA (Positive Mental Attitude)
- V. Exam





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Finance – p79

Why do I need to know this?

Nationally, the lack of financial acumen is often expressed as upper management's number one reason for dissatisfaction with FM performance*

*Coffee per hour - costs by week/month – familiar common benchmarks



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Finance

Learning to Get the Funding that FMs Need(1)

1. To a financial officer, everything is financial
2. Learn the CFO's language
3. Learn here you fit in the CFO's frame of reference
4. Learn the time value of money
5. If it is an expense, eliminate it. If you can't eliminate it, minimize it
6. If it is an investment, maximize the return on it
7. Cash is KING
8. Hedge all risks
9. Don't ignore politics
10. Emphasize the corporation's (your org's) welfare, not your divisions'/department's



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Finance

Competency area & performances

- **Manage the finances of the facility function**

- Analyze financial information
- Manage charge back systems
- Prepare budgets

"It's clearly a budget. It's got a lot of numbers in it." George W. Bush

- Manage the budget

"If you don't know where you are going, you might wind up someplace else."

Yogi Berra

- Monitor **revenues** and expenditures to contain costs
- Manage the financial obligations of the facility function

*Common language – costs of familiar benchmark items



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Finance – p87 Managing the process

... the FM should be familiar with the following concepts and processes:

- Balance Sheet and Income statements
- Return on Investment in whatever format your organization uses
- Life Cycle costing and the time value of money
- Appreciation and depreciation of assets
- Procurement of goods and services

*Common language – costs of familiar benchmark items



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Finance – p87 Managing the process

... the FM should be familiar with the following concepts and processes:

What is a Balance Sheet:

Assets = Liabilities + Shareholders'/Owner's Equity



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Finance – Managing the process

Balance Sheet for Wal-Mart			
<i>As of Jan 31, 2006</i>			
Assets		Liabilities and Shareholders' Equity	
<i>Current Assets:</i>		<i>Current Liabilities:</i>	
Cash and Cash Equivalents	6,414	Commercial Paper	3,754
Receivables	2,662	Accounts Payable	25,373
Inventories	32,191	Accrued Liabilities	13,465
Prepaid Expenses and Other	2,557	Accrued Income Taxes	1,340
Total Current Assets	43,824	Long-term Debt, due within one year	4,595
		Obligations Under Capital Leases, due within one year	299
		Total Current Liabilities	46,826
<i>Property and Equipment, at cost:</i>			
Land	16,643	Long-term Debt	26,429
Buildings and Improvements	56,163	Long-term Obligations Under Capital Leases	3,742
Fixtures and Equipment	22,750	Deferred Income Taxes and Other	4,552
Transportation Equipment	1,746	Minority Interest	1,467
Total Property and Equipment, at cost:	97,302		
		<i>Shareholders' Equity:</i>	
Less Accumulated Depreciation	21,427	Preferred Stock	0
Property and Equipment, net	75,875	Common Stock	417
Property Under Capital Lease:	5,578	Capital in Excess of Par Value	2,596
Less Accumulated Amortization	2,163	Accumulated Other Comprehensive Income	1,053
Property Under Capital Lease, net	3,415	Retained Earnings	49,105
Goodwill	12,188	Total Shareholders' Equity	53,171
Other Assets and Deferred Charges	2,885		
Total Assets	138,187	Total Liabilities and Shareholders' Equity	138,187



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Finance – Managing the process-Income Statement

Income Statement For the Three Months Ending March 31, 2006		
	Year to Date	
Revenues		
Landscaping Fees	\$ 20,075.00	99.50
Finance Charge Income	100.00	0.50
	<hr/>	
Total Revenues	20,175.00	100.00
	<hr/>	
Cost of Sales		
	<hr/>	
Total Cost of Sales	0.00	0.00
	<hr/>	
Gross Profit	20,175.00	100.00
	<hr/>	
Expenses		
Auto Expense	2,200.00	10.90
Commissions and Fees Exp	6,000.00	29.74
Dues and Subscriptions Exp	600.00	2.97
Insurance Expense	250.00	1.24
	<hr/>	
Total Expenses	9,050.00	44.86
	<hr/>	
Net Income	\$ 11,125.00	55.14
	<hr/> <hr/>	



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?? Sample question ??

1. Your budget has been cut this year. You know services will suffer if your budget is cut again next year. In the past, you have laid off people to balance the budget. How should you prepare for next years budget cuts?
 - A. Develop a list of service cuts and inform upper management about them.
 - B. Find equipment or contracted services that could allow a budget cut without loss of services.
 - C. Reorganize so people can be cut and accept reduction of service levels.
 - D. Find ways to give selected responsibilities to other departments in the company.



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?? Sample question ??

2. If the present value of the future cash flows from an investment is greater than the initial investment, then:

- A. The expected rate of return has not been achieved
- B. The investment should not be made
- C. The internal rate of return is greater than the expected rate of return
- D. The expected rate of return is too high



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?? Sample question ??

2. If the present value of the future cash flows from an investment is greater than the initial investment, then: The internal rate of return (IRR) is greater than the expected rate of return?

FMpedia-

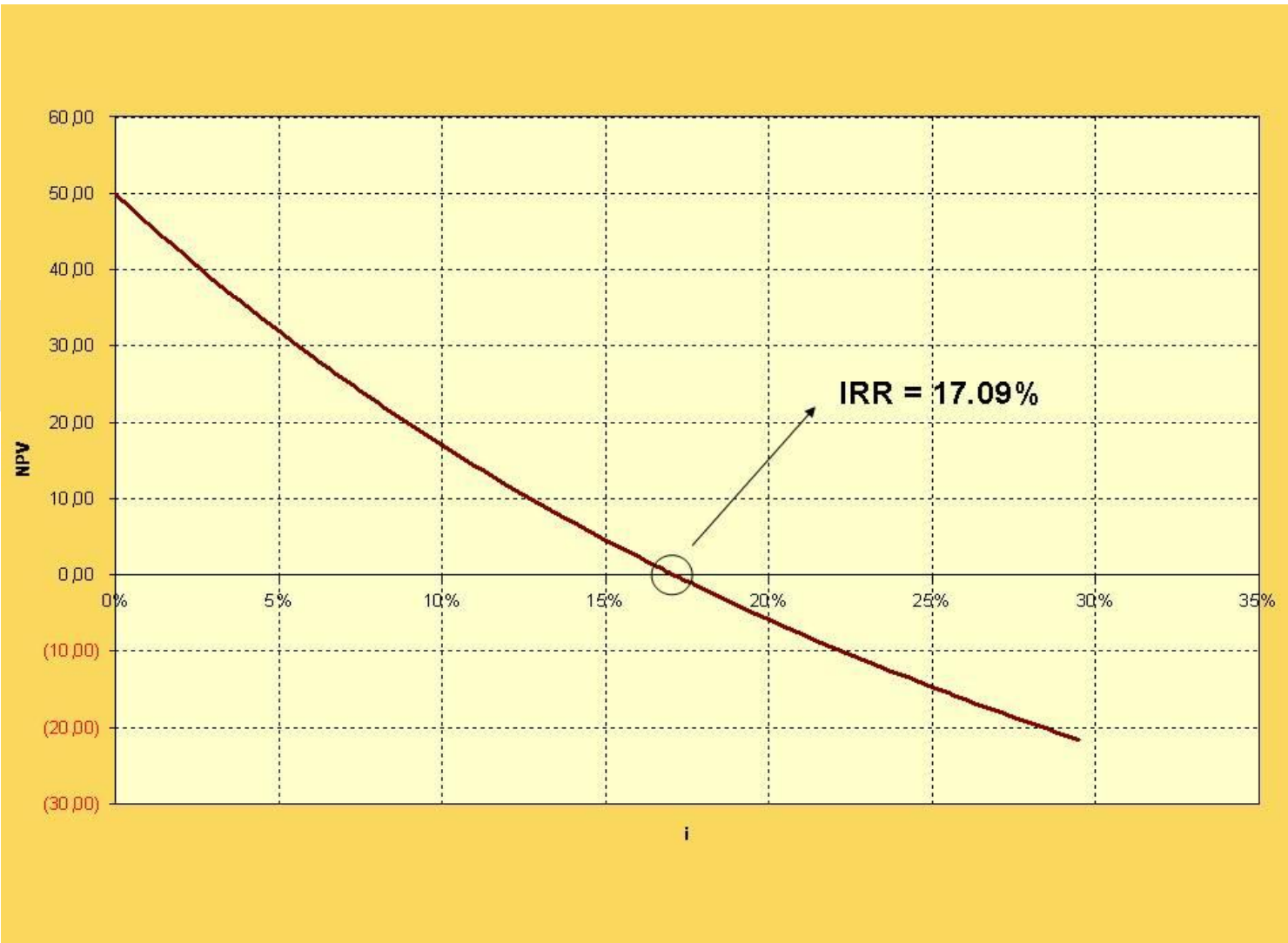
IRR - The discount or interest rate at which the net present value of an investment is equal to zero.

Present Value (PV) - The concept that the value of money changes over time and that a dollar today is worth more than a dollar sometime in the future. (2) The discounted value of a stream of future cash flows based on an expected rate of return. (3) A comparison of the anticipated cash flow from an investment to the initial investment.

A nickel ain't worth a dime anymore. Yogi Berra



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?? Sample question ??

3. Charging an interest rate higher than allowed by law is called?
- A. Good business practice
 - B. A breach in ethics
 - C. Usury
 - D. Jail time



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?? Sample question ??

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?? Sample question ??

4. Variable expenses include all of the following except:

- A. Management and administration
- B. Cleaning
- C. Utilities
- D. Depreciation



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?? Sample question ??

4. Variable expenses include all of the following except:

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- C. Utilities
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?? Sample question ??

Fmpedia -

What is Variable Expenses? An expense influenced by occupancy levels and the quality of professional management. Management skill and knowledge greatly affect the level of variable expenses. See fixed expense.

Fixed Expense. A recurring expense over which a business has little control, which must be paid regardless of whether the property is occupied. It is determined mostly by an outside agent, whose actions a company cannot influence. Examples include real property taxes, hazard insurance, and debt service.



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?? Sample question ??

5. Approximately how long will it take to double your money if you receive a 4% yield on your investment?

- A. 19 years
- B. 18 years
- C. 4 years
- D. 12 years



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?? Sample question ??

5. Approximately how long will it take to double your money if you receive a 4% yield on your investment?

A. 19 years

B. 18 years

C. 4 years

D. 12 years



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?? Sample question ??

5. Approximately how long will it take to double your money if you receive a 4% yield on your investment? **72 Rule**

$$72 / \text{Rate of return} = \# \text{Yrs to } 2X \$ \$$$

$$72 / 4\% = 18 \text{Yrs}$$



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?? Study question ??

6. A method of evaluating proposed capital investments that sums the installation, energy, maintenance, and replacement salvage costs is called?
- A. Net benefit or savings
 - B. Life cycle cost analysis
 - C. Internal rate of return
 - D. Savings-to-investment ratio



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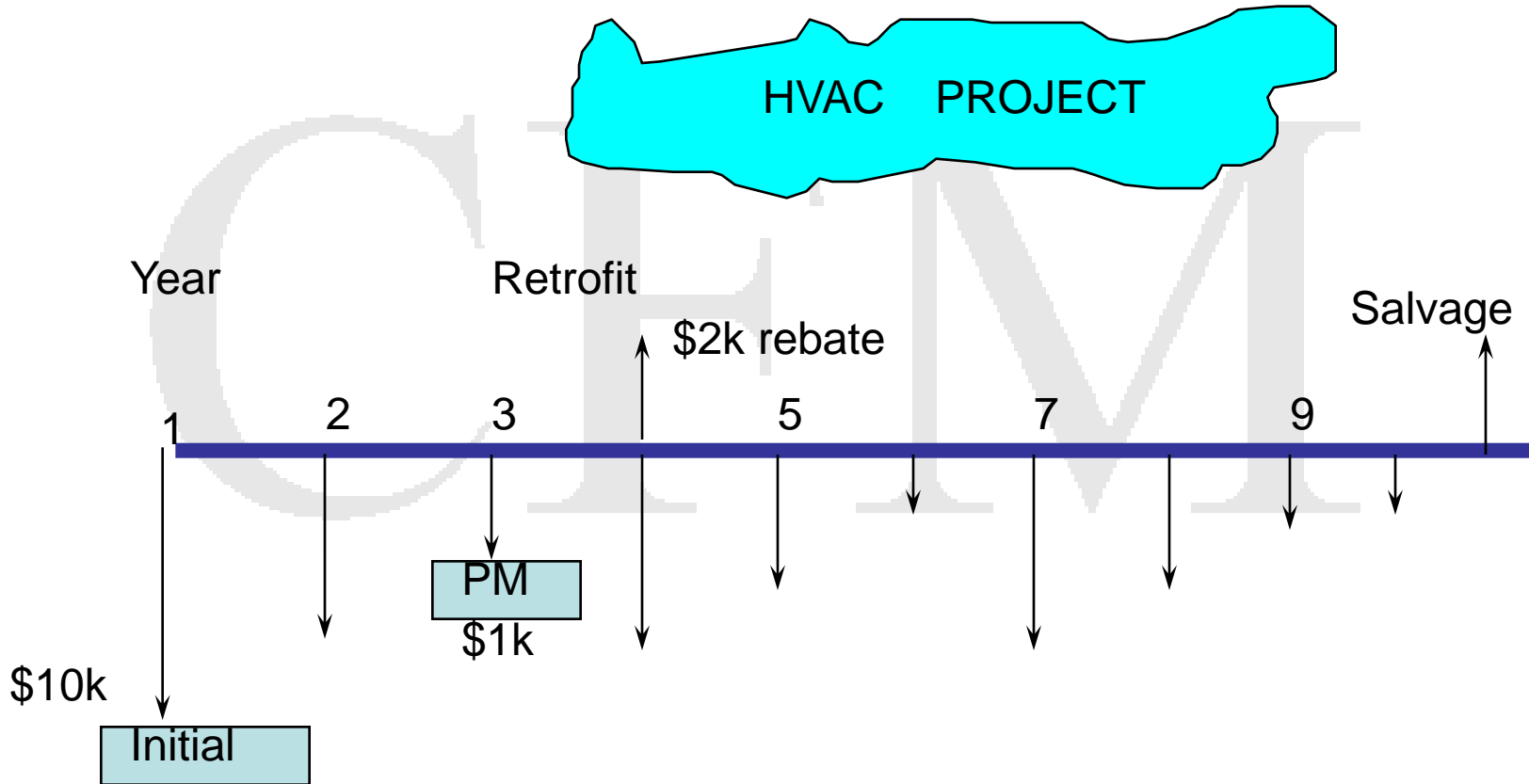
?? Study question ??

6. A method of evaluating proposed capital investments that sums the installation, energy, maintenance, and replacement salvage costs is called?
- A. Net benefit or savings
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 - C. Internal rate of return
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Life cycle cost analysis –Cash Flow Diagram





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?? Study question ??

7. What information is most important in a charge-back system? (choose 2)
- A. Information needed to explain charges
 - B. Information on corporate standards and accounting principles
 - C. Information delineating causal relationships
 - D. Information that shows financial responsibility
 - E. Information that shows work responsibility



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?? Study question ??

7. What information is most important in a charge-back system? (choose 2)

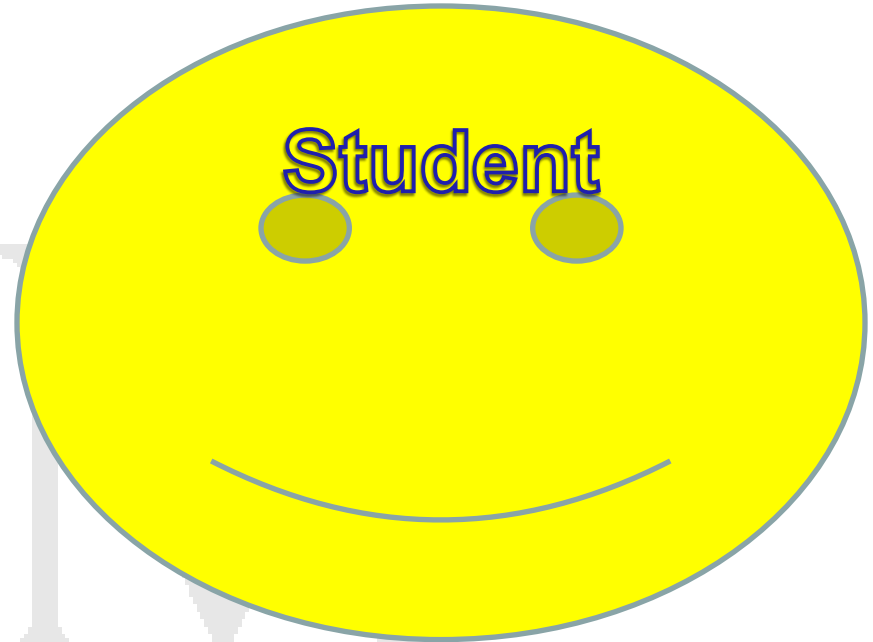
- A. Information needed to explain charges
- B. Information on corporate standards and accounting principles
- C. Information delineating causal relationships
- D. Information that shows financial responsibility
- E. Information that shows work responsibility



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Preparing for the Exam

- I. p116 glossary
- II. Rollups
- III. Sample exam questions w multiple answers
- IV. Mnemonics / memory pegs
- V. Time of day schedule





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Suggested Readings:

Thomas McCune, *How to Talk to a CFO, Proceedings of World WorkPlace 1999*, (Houston: International Facility Management Association)*

David G. Cotts & Edmond P. Rondeau, *The Facility Manager's Guide to Finance & Budgeting*, (New York: AMACOM, 2004)*

David G. Cotts & Michael Lee, *The Facility Management Handbook*, (New York: AMACOM, 1992)

Phyllis J. Meng, CFM, IFMA Fellow, *Finance for the Public Sector FM, Proceeding of World WorldPlace 2010*, (Houston: International Facility Management Association)



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**Thank you for participating
in the CFM roundtable**

Watch the IFMA Orlando Website Calendar for the next roundtable schedule? Typically the first Tuesday of the month 11:30-1:00.

CFM

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