A Guide to Financial Management

FISCAL NEEDS OF A HOUSING COOPERATIVE

A housing cooperative is a specialized corporation which has obtained a mortgage loan, used it to build housing for its members, and collects monthly carrying charges from its members--who are both residents and owners--with which it operates and maintains the housing and repays the mortgage loan.

Fiscal policy set by the Board should be drawn up in such a manner as to achieve the most effective use of the members' money in achieving the best housing possible at the lowest possible cost. Best housing means not only a pleasant, well-maintained dwelling but also a pleasant. attractive neighborhood and a friendly, effective organization of neighbors capable of meeting the problems which may face the co-op from time to time.

To this end, most Boards will want to meet the following specific goals:

1. To meet all financial obligations in good order. Mortgage payments, taxes, salaries, and other obligations must be disbursed at the right time. Cash must be available when needed.

2. To be able to make emergency repairs and to replace equipment and structural elements when they wear out.

3. To control expenditures of the cooperative in order to implement Board policies and priorities.

4. To anticipate large irregular expenses so that cash will be available when needed for them.

5. To provide a measure of financial stability in periods of special stress.

6. To collect budgeted income from members and max miscellaneous income.

7. To keep secure all assets of the cooperative.

8. To analyze income and expenditures for –information useful in planning, and in development of policy.

To meet these goals, the Board will rely on the Treasurer for advice and on the Finance Committee for their analysis and recommendations.

THE TREASURER

The By-Laws state The Treasurer shall have the responsibility of corporate funds and securities and shall be responsible for keep ng full and accurate accounts of all receipts and disbursements in books belonging to the corporation. He shall be responsible for the deposit of all monies and other valuable effects in the name, and to the credit of, the corporation- in such depositories as may from time to time be designated by the Board of Directors."

The Treasurer is a volunteer with a regular job of his own which takes his time. Obviously, he is not going to do these things with his own hands. He is going to see that they are done by the managing agent, who is paid to do them.

It is the Treasurer who the Board must turn to for the answers to the co-op's financial questions, The Treasurer should seek the aid of the Finance Committee, the Auditor, Management, and its banking institution in helping him to find the best solution to financial problems that will be presented to the Board.

THE COOPERATIVE'S LEGAL DOCUMENTS

The co-op's major legal documents, the By-Laws‘ Regulator, Agreement, Occupancy Agreement and Articles of Incorporation, outline the cooperative's fiscal requirements and gives the total fiscal responsibility of the Board of Directors.

<u>By-Laws:</u>

A written set of rules and regulations governing the operation of an organization, that is secondary only to the Articles of Incorporation which sets forth the structure and functioning of the organization.

<u>Regulatory Agreement:</u>

A contractual agreement between the agency insuring the mortgage (often HUD), the mortgagor (the cooperative), and the mortgagee (the lending institution), providing for mutual obligations and
responsibilities.

<u>Occupancy Agreement:</u>

An agreement which allows occupancy of a specific unit in a cooperative development by a member of the cooperative. In many regards, the Occupancy Agreement is similar to a lease in a rental development

<u>Articles of Incorporation:</u>

The legal documents filed with a state government giving life and purpose to a corporation.

FISCAL REQUIREMENTS OF THE BY-LAWS

Your By-Laws constitute the basic rules under which the cooperative is governed; many of these basic rules pertain to fiscal policy

1) The dollar value of memberships is stated.

2) The down payment (or "value of occupancy agreement") is stated.

3) The wording', general form and authorized signatures of membership certificates is fixed.

4) A lien by the cooperative is placed on all member. ships to secure payment of any sums due the co-op from the members.

5) The cooperative is giver the option to repurchase the membership and occupancy rights of any member leaving the development.

6) The transfer value at which the co-op shall purchase any membership and occupancy rights is set forth.

7) Sales price of any Membership and occupancy rights shall be the same as the transfer value, and a service charge may be levied by the managing agent.

8) No member may vote or be eligible to be elected to the Board who is more than 30 days delinquent in carrying charges.

9) Board of Directors establishes carrying charges, subject to HUD approval.

10) [221(d)3 co-ops] Establish surcharges to be paid by over-income families, subject to HUD approval.

11) No remuneration shall be paid directors as directors. Board resolution required to pay any director any remuneration in another capacity than as director, before services are undertaken; HUD approval required. Director may not be an employee of the co-op.

12) Any officers or employees handling funds must be bonded.

13) Treasurer is responsible for corporate funds and securities and for the keeping of accounts,

14) The fiscal year stated.

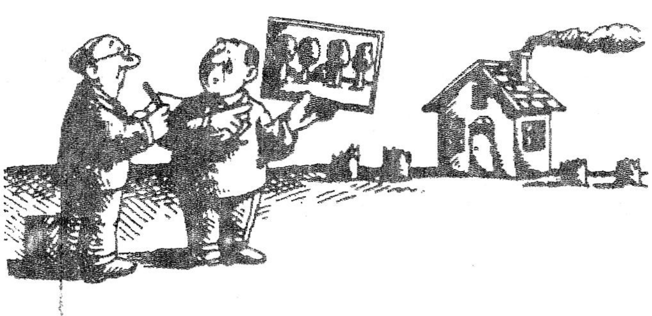
15) Books are kept under the direction of the Treasurer according to HUD uniform system of accounts, Amount paid on mortgage principal shall be credited on the books to "paid-in surplus" account as a capital contribution by the members.

16) Books shall be audited each fiscal year by an accountant acceptable to HUD in accordance with HUD requirements. The co-op will furnish its members with an annual financial statement including the income and •disbursements of the corporation and including a statement showing each member's pro rata share of real estate taxes and mortgage interest paid by the co-op the preceding year,

17) Financial reports shall be given HUD as required and membership records shall be available for inspection by any member.

18) Corporate documents shall be executed by any officer as authorized by the Board and checks shall be signed by any two officers. (Does not apply to accounts in custody of managing agent.)

19) The co-op may join an association of cooperatives for mutual aid and to advance housing cooperatives.



FISCAL REQUIREMENTS OF THE REGULATORY AGREEMENT

The Regulatory Agreement is a contract between the cooperative and the agency insuring the mortgage, usually HUD. In it the co-op has agreed to do many things, including the following which pertain to fiscal policy of the co-op.

1. Make mortgage payments,

2. Maintain replacement reserve in dollar amount specified.

3) Maintain general operating reserve.

4) Collect enough carrying charges from members to pay expenses, debt service, taxes, insurance, as estimated by HUD.

5) Get HUD approval before selling any of the property.

6) Get HUD approval before reconstructing or demolishing any of the property.

7) Get HUD approval before altering anyone's carrying charges.

8) Get HUD approval before permitting a non-member to live in the co-op,

9) Get HUD approval before liquidating, merging r re-organizing the corporation or changing its capital structure or by-laws.

10) Get HUD approval before failing to keep up the replacement reserve or general operating reserve,

11) Get HUD approval before incurring liabilities in excess of the amount stipulated in the agreement.

12) Get HUD approval before investing in anything other than government bonds or government-insured deposits

13) Make all records and documents available for inspection by HUD at all times.

14) Keep the co-op's books according to the HUD uniform system of accounts,

15) File statements (when required), annual reports in 68 days of the end of the fiscal year and minutes of membership meetings with HUD.

16) Don't execute or file any instrument restricting sale, leasing or occupancy on the basis of race, color or creed.

17) Get HUD approval before suing anyone of more than specified amount, usually $,3,000.

18) 236 and 221(d)3 co-ops only) Enforce maximum income regulations.; admit only qualified families.

19) Don't file bankruptcy.

If the cooperative fails to abide by its contract with HUD, then HUD may notify the co-op of
Its violation of the agreement and demand correction. If the violation is not corrected after 15 days, the HUD Commissioner may declare a default and begin the proceedings to foreclose on the Mortgage. At this time, HUD has the power to collect all carrying charges and use them to pay the Coop's obligations and to take possession of the property and operate it until HUD decides the co-op can operate it in compliancy with the agreement itself.

The Department of Housing and Urban Development wants the co-op to operate its property successfully and will take action to advise a co-op and to assist it in avoiding a default.

FISCAL REQUIREMENTS OF THE OCCUPANCY AGREEMENT

The Occupancy Agreement breaks the fiscal responsibilities into two groups; those of the Cooperative and those of the member.

1) The Cooperatives responsibility
    a) All operating expenses of the co-op and services to be furnished.

    b) The cost of necessary management and administration.

    c) All taxes and assessments levied against the co-op.

    d) The cost of fire insurances and other insurances required by the mortgage.

    e) The cost of furnishing all utilities, if utilities are furnished by the co-op.

    f) All reserves.

    g) The principal interest and other required payments mentioned in the mortgage

    h) All other expenses approved by the Board.

    i) Credit members with their proportionate share of any patronage funds.

    j) All necessary repairs, maintenances and replacements when said items were not caused by negligence or misuse.

2) The Member's responsibilities
    a. To pay....
        1) Down payment (value of Occupancy Agreement.)

        2) Monthly carrying charges.

        3) Late charges when required.

        4) Additional monthly carrying charges, if required, when total income exceeds HUD) income limitations.

FISCAL REQUIREMENTS OF THE ARTICLES OF INCORPORATION

Under the Articles of Incorporation, the Co-op is to

1) Provide housing on a cooperative basis in the manner and for the purpose necessary in order to obtain mortgage insurance from HUD.

2) BUY, sell, assign, mortgage or lease any real estate and any personal property necessary to the provision of such housing.

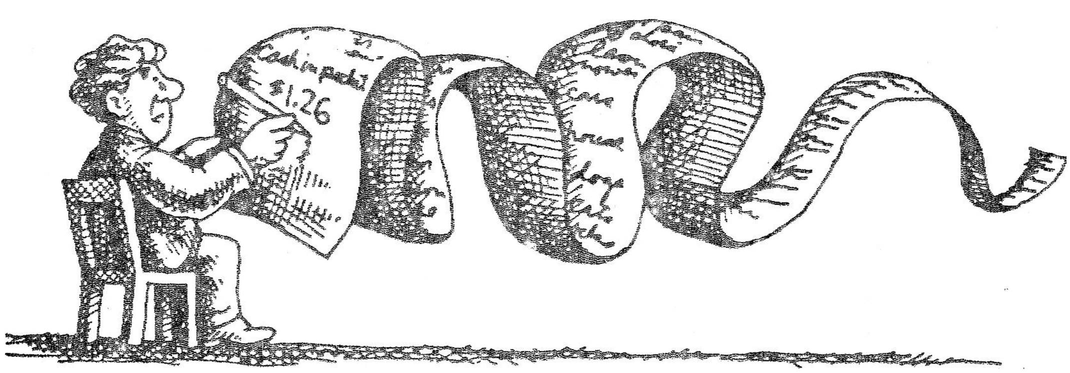
3) Sorrow money and issue evidences of indebtedness of the objects of its business; to secure the same by mortgage pledge or other lien.

4) Obtain from HUD a contract for mortgage insurance.

5) Enter into a contract (Regulatory Agreement) that shall be binding upon the co-op so long as a mortgage is outstanding, unpaid and insured by HUD.

6) Be a corporation organized on a non-stock basis. The consideration for membership shall be an amount fixed by the Board.

7) No dividend shall be paid.



ACCOUNTING SYSTEM FOR A HOUSING COOPERATIVE

The Cooperative agreed to use the Department of Housing and Urban Development's uniform system of accounting when it signed the Regulatory Agreement which is part of the co-op mortgage. This system is detailed in the HUD Handbook, titled Uniform system of Accounts for Cooperative Housing Corporations Insured Under the National Housing Act,

The uniform system of accounts' basic concept may be compared to a family's household accounts. the monthly receipts are used to make mortgage payments, pay current expenses, put aside a fund for taxes, save a little for future replacement of the furnace or other equipment, pay for utilities, and pay the People who work for the co-op. In addition, the uniform system of accounts keeps track of how much money comes in from different sources.

The Boards Primary control over fiscal matter is the budget, prepared each year by the managing agent for Board approval and also for HUD approval. The budget is the Board's instructions to the managing agent about how the c op's more, should be spent during the next year. The monthly statements compare the budgeted amounts with the amounts actually expended so that the Board may see how closely the managing agent has been able to follow the budget. The monthly statements enable the Board to give the managing agent corrective instructions when the Board deems it necessary.

SOME COMMON TERMS

You'll run across a number of terms from time to time which YOU know in general terms, but not with the precise meaning in co-op accounting. Some of these are:

EQUITY

There are two meanings of equity in a co-op. One is the total equity or net worth of the corporation, (as shown in the 3000 accounts) which includes membership certificates, surplus from operations, replacement reserve, general operating reserve and paid-in surplus. This meaning of the word equity is comparable its meaning in commercial corporations, which the net worth of the corporation, or the amount of the assets after all liabilities have been subtracted; it is the value on the books of the corporation of what belongs to the owners in total. It may be a surprise to those who don't have an accounting background but this figure does not necessarily represent what the owners would get if the Corporation's assets were sold off and the net proceeds distributed to owners. Such a sale would involve a variety of expenses and might incur speculative gains or losses which would change the net worth figure considerably.

The more usual meaning of the word equity as used in a housing cooperative is the amount of money the member will take with him as his ownership interest when he leaves, this amount is set by the by-laws of each co-op and varies considerably from co-op to co-op.

A typical definition of the members' equity or membership transfer value, includes;

a) The amount the member paid for his membership when he joined,

b) The amount the member paid for his occupancy agreement when he joined,

c) The amount approved by the Board of Directors as the value of improvements the members had made to his dwelling, less depreciation,

d) And, an amount of annual increase, usually between $90 and $200, as specifically stated in the by-laws for a particular type of dwelling.

You should read your own by-laws carefully be sure you are familiar with the details in your own co-op because there are so many variations in the handling of transfer value. Each of these different variations has its enthusiastic partisans; the most heated arguments among housing co-op leaders usually deal with the question of which of these points of view is most fa and just to all concerned.

ASSETS

The CO-OP - assets are those things of monetary value which the co-op owns. These things can be:

a) Cash

b) Accounts Receivable (what people owe the co-op)

c) Investments such as government bonds

d) Inventory, such as salt, fertilizer, fuel, etc.

e) Prepaid accounts, money already paid out for something you will get in the future

f) Funds and cash reserves, kept in separate accounts for specified purposes

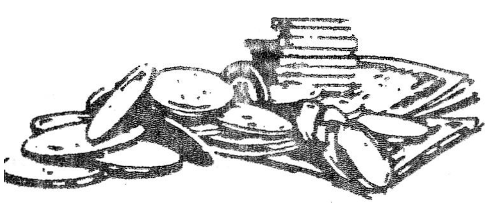
g) Land

h) Buildings

i) Organization expenses, paid at the time the co-op was organized and expensed out along with the mortgage

Note that assets refer only to that narrow group of things which have cash value on the books.

Sometimes you'll hear the word used loosely, as in "Our Treasurer is a real asset to the co-op." While this statement is undoubtedly true, in that he performs a valuable service, nevertheless he is not listed among the co-op's assets because he cannot be sold for spot cash.



LIABILITIES

co-op's liabilities are those claims or debts which the co-op owes someone else, such as:

a) Accounts Payable, owed to suppliers or others

b) Accrued payroll, owed to employees for hours they have worked

c) Over-income surcharges, owed to the mortgagee

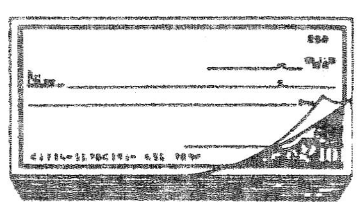
d) Prepaid occupancy income, carrying charges a member paid ahead of time and which are considered as owed to him until the month arrives for which they were paid

e) Mortgage payable, owed to the mortgagee

Note that listed liabilities are those items the co-op will have to pay cash for eventually.

Since the co-op is a corporation, does not hold any of its assets for itself alone but on behalf of others. Any assets left after the liabilities have been subtracted belong to the owners, that is, the members. This is the amount called the net worth. This simple equation: Assets minus liabilities equal net worth is the basis for the balance sheet, which is like a photograph of the corporation's accounts at a Given instant--usually the end of the fiscal year

Contrast this balance sheet, frozen at a given moment, with the income and expense statement, which is a summary of all the money received and money paid out during a month or during a year. You need both kinds of reports to tell you where you stand and what has been happening.



DEPRECIATION

HUD does not prescribe depreciation rates for the co-op.

Deprecation is very often misunderstood, both in co-ops and in other corporations as . Sometimes it is confused with maintenance expense, sometimes with deterioration of physical assets; it has nothing to do with either. It is simply a way of expensing out a major item.

When you are calculating all the expenses of any corporation, you must take into account not only those day-by-day expenses which show up monthly when you write checks. You must also somehow include the expense of the major buildings and equipment which are being used by the corporation. In many cases, these major items have been paid for just at the time the corporation starts business; you might think therefore, they should all be charged against the first year's business. But this would not make sense: you'd overload the first year and put no load at all on the subsequent years, which would make any comparison from on year to another worthless. It makes more sense to divide the total expense of the building and major equipment among many years of operation, that is, to depreciate the building and equipment of a number of years.

Depreciation is simply an arbitrary schedule of allocating the expense of buildings and equipment over a period of years. You might choose to allocate the same amount each year or you might believe it makes more sense to make the allocations a little heavier in the early Years than in the later years.

For your co-op, your auditor generally makes such depreciation charges for his year-end statement, though depreciation is not shown on the monthly statements at all, since it does not involve writing a check. This is one of the reasons your year-end statement's 'figures do not jibe with the accumulated monthly statement's figures.

Notice that we are talking only of the original expense of building the building and equipment , not of repairing it. In addition to depreciation, you must also spend money keeping the building in good repair; that is maintenance, not depreciation. In addition to the normal day-today type of maintenance, you will have major breakdowns of considerable expense from time to time--this is what your replacement reserve is intended to protect you against.

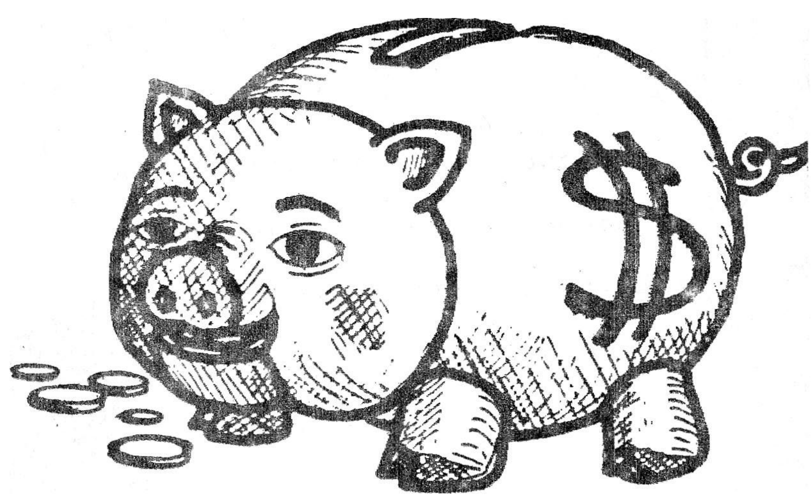
Notice, too, that there is no necessary relationship between your paying off your mortgage and your rate of depreciation. A corporation starting business might do so with enough capital that it could pay for its building and equipment outright, instead of financing it with a mortgage. They would nevertheless have to allocate the expense of that building over a period of time that is, they would still have to depreciate the cost of the building and equipment. It might be that the corporation would later need cash and would get a loan for which it would then sign a mortgage on its building; the depreciation charges continue without any change.

There is an important difference in the handling of depreciation in a cooperative and the handling of depreciation in other corporations which comes about as a result of the non-profit nature of co-ops. A corporation des ring to make a profit will endeavor to adjust income to cover all expenses, including Both those which necessitate cash outlays and also depreciation expense which doesn't involve any cash outlay. When these depreciation expenses amount to a great deal, the corporation finds itself blessed with considerable cash coming in which Its is not obligated to pay out. That is an advantage to a corporation which wants to accumulate funds for future operations and maximize profits.

But for a housing co-op which has an identity of interest between the co-op and its owner Patrons, building up such a fund is pointless. In a co-op building up such a cash fund would merely be taking it from the members' pockets and holding the cash for them in a savings account-- something each member might be more anxious to do for himself than have it done for him by the CO-OP.

The cash would not be needed for any disbursement, it would belong to the members anyway, and the addition of the required amount to the members' carrying charges would constitute an unnecessary hardship to the members.

Therefore, housing co-ops adjust their income to meet their cash expenses, not to build up a depreciation fund. That is why your auditor's year-end statement, which does include deprecation, always shows a loss for the year even though the co-op should be on a break even basis when considering cash expenses. This also serves to protect the co-op from income taxes



RESERVES

A housing co-op handles its large, irregular expenditures the way many families do; by putting aside a specific amount each month until a fund is accumulated large enough to pay the item. Some reserves are required under the Regulatory Agreement the co-op has signed with HUD: The replacement reserve and the general operating reserve. In addition, the mortgage requires that you contribute monthly enough money to pay real estate taxes when they become due and to pay the property insurance premium and mortgage insurance premium, if any, when they become due. The replacement reserve, tax escrow and insurance premium escrow are all held by the mortgage-holder; these reserves are considered extra assurance by the lending institution that the property they've loaned money on is maintained and protected.

Other reserves are set up as needed and--like the general operating reserve--are kept in the co-op's hands.

You will probably want a painting reserve to enable you to repaint every few years. A project equipment reserve is important to enable you to replace major grounds-care machinery. If You are a limited-income co-op, you will want to prepare for the expense of recertification by building up a reserve for this expense.

If your co-op suffers vacancies, you'll need a vacancy and collection loss reserve. If you have excess funds in your Management account, your managing agent will wish to segregate those fund - perhaps even invest them--in a separate account; this separate account is called a capital reserve. Any fund the Board of Directors wishes to set up in anticipation of a future expense is a reserve. Management of these reserves is discussed later in this manual.

MANAGEMENT ACCOUNT

This account is the co-op's checking account. All money paid out, including expenses, mortgage payments and payments into reserve accounts, goes through this account. All receipts, including members' carrying charges and income from investments, go into this account

HUD form 93211 of the monthly report gives you the paid-outs and receipts of the management account. Even though all pay-outs are referred to as 'expenses', many of them are actually not expenses in the usual sense but are simply payments from the co-op's checking account into one or' another of the co-op's many savings or reserve accounts. The section 'income', contains some items which are not income in the sense used in a bus ness; for example, co-op's which offer optional occupancy life insurance serve as a collection agent for the insurance company-the premiums collected and turned over to the insurance company appear as an income item and again as an expense item,

MONEY MANAGEMENT

Every corporation must give thought to its handling of the funds available to it in order to make, the most efficient use of its resources. Effective use of co-op funds will help keep carrying charges from rising.

BUDGETING

Your managing agent will present to your Board a proposed budget for its consideration, Often the Board will turn the budget over to the Finance Committee for its comments and suggestions, from a strictly financial point of view. The Treasurer of the co-op is expected to make a broad analysis of the budget, relating financial questions to the questions of overall policy with which he will be familiar since he meets regularly with other directors as an integral part of the Board

On the next two pages is a. checklist of questions You will want to consider in analyzing your budget.

1. Are the amounts of expenditures specie adequate to meet the cooperative's needs, in view of expenditures which have been considered necessary in the past? Are there any changes in the co-op's situation which may make it possible to reduce any given expenditure? Any changes which may make it necessary to increase expenditures, such as a tax increase?

2. How do expenditures compare with other co-ops'? Do you have more men on your payroll than you really need? A customary rule of thumb is to have one maintenance man per hundred dwellings; sure, YOU can always use more than this for frills and extra services--but are the frills worth the extra expense?

3. If you are on a cash receipts and disbursements accounting basis, have you taken unpaid invoices into account when calculating the past year's expenditures? Your expenses would be understated if you have not made allowance for things purchased during the year which haven't been paid for yet.

4. Have new services, like floodlighting for the parking lots. been added during the past year which must be budgeted for in full, even though they affected only a part of last year's expenditures?

5. What is the trend of your vacancy and collection loss experience? Will you need a larger collection loss expense or can you reduce this expense?

6 Do you have a reserve established for each of the major lump-sum expenditures the co-op may possibly have to make? Painting reserve? Project equipment reserve? Are they really building fast enough to meet your projected needs?

If you haven't done so for a couple of years, analyze the estimated needs of your co-op as set forth in the replacement reserve breakdown schedule--you find it. in the HUD commitment among your initial closing documents—and see if YOU still agree in the light of your current experience and current costs whether the amounts you are setting aside in your replacement reserve are adequate. Are you finding that some equipment or structural elements are requiring attention sooner than first estimated? You may wish to establish an added reserve to supplement what YOU are putting aside in the replacement reserve.

Since it is not required under the regulatory agreements YOU would probably wish to put it in a savings account under the coop's control, not add the extra amount to the replacement reserve which is held for YOU by the mortgagee.
In the coming year, do you anticipate using your painting. reserve to repaint? Then the transfer of funds from the painting reserve to the management account should be included as anticipated income for the coming year. And the expenditure of -funds for the repainting job should be included in your budget expenditures. The same goes for any reserves you know you will be using during the year. Of course, some funds may have to be Used during the year because of an unforeseen emergency; since you can't budget an unexpected expenditure, the Board will have to give special authorization for anything they want done over and above the budget.

If you have withdrawn any funds from the General Operating Reserve
during the previous year and not yet replaced them your new budget must provide for the replacement of such funds—as well as the amount you are normally required to put in

Budget preparation time is the time to weigh the value of the services the co-op is buying, and to decide whether those services are worth the cost involved. Can you do without any particular service? Is there a more economical way of obtaining essentially the same service?

The budget is one of the chief means by which the Board exercises its control over the affairs of the cooperative; its approval of the budget prepared by the managing agent should be made thoughtfully and after careful analysis by the Treasurer and the Finance Committee

EXPENDITURE CONTROL

Once the budget has been approved, the Board-management team has its work cut out for it in living within it. There always a temptation to let the many demands from all quarters control expenditures. rather than letting the budget control expenditures. Many members will have ideas for spending money, which they will urge upon the Board with enthusiasm. They are unaware of other demands upon the Board and often may not understand why their request for only $50 or $100 for their pet project is denied, when it appears so little in the co-op's total annual budget.

Indeed, sometimes directors fail to appreciate how quickly a multitude of apparently small expenditures add up to a deficiency at the end of the year Here is where the Treasurer of the Board finds himself playing h s most important role, reminding the Board and the membership of the total impact of many apparently small expenditures.

It is up to the Board to interpret the general statement that the co-op takes care.of all maintenance problems. Some members will be tempted to make unusual--and expensive--demands which would be considered unreasonable by most members. Does the hair-line crack which is so offensive to one member really warrant the expense of repairing it, or would most members decide it is of no importance, not worth spending any money on? If there is an excessive demand for maintenance service, the Board may ask the finance committee and the property improvement committee to work together on the problem and suggest some guidelines as to the standards of maintenance which the managing agent will be instructed to follow.

Be alert for situations in which a moderate expenditure for additional equipment will eliminate some recurring and expensive maintenance item. For example, if the co-op is having to call in the plumber at night often to some obstruction in the sewer, it might pay to purchase a snake for use by the co-op's own maintenance men.

Any problem caused by a member's negligence should be billed to the member; there is no reason other members should have to pay for the thoughtlessness of a member who damages co—op property

Vandalism can at times cost the co-op a great deal. Keep the members informed when vandalism is a problem and urge them to Keep a watchful eye for the culprits. A well-organized co-op with plenty of planned activities for the children and close personal contacts established between children and adults in clubs and meetings will usually have significantly vandalism than a co-op with no activities. Most Boards insist that such an activities program be self-supporting and not an expense to the co-op; in most co-ops the surplus earned at an adult dance might be used to put on a program for the children which isn't expected to produce any income.

In weighing any new expenditure, ask yourself whether it is worth an increase in carrying charges.

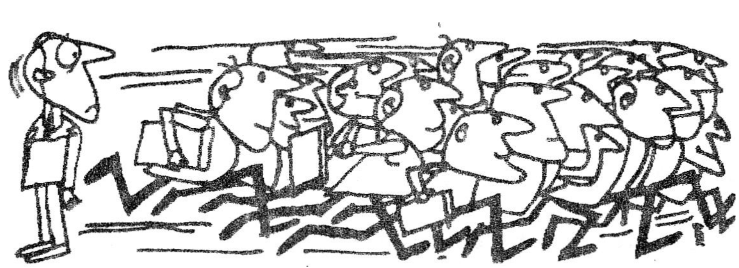
INCOME CONTROL

The money to pay bills comes from the members. Achieving income control at budgeted levels is primarily a matter of making sure every member pays his carrying charges promptly.

The management agreement the co-op has signed with the managing agent instructs him to demand and collect carrying charges and to evict any member who does not pay. The Board should receive a list of the members who have been turned over to the co-op attorney each month.

Cooperatives as a whole have had an excellent record of making collections, compared to other types of housing. Occasional trouble spots seem to be due to a failure to follow-through on standard collection procedures--reminding members they should pay--by the Board-management team. A tearful member who wins some special privilege by an eloquent presentation to the Board has at times been known to brag to his neighbors that, "You don't have to pay if you know the right people." And an isolated case then be becomes a general epidemic. Any lack of resolution on the part of either Board or management can create a serious delinquency. problem.

Minor additions to the co-op's income can be secured by investing reserve funds in government bonds or federally-insured account. Some co-ops have had modest success in renting space to concessionaires who place cigarette machines, milk machines or other services on co-op property. Co-ops have also had some good experience by installing coin-operated washers and dryers on co-op property, too, However, the income derived has generally been modest and is of secondary interest; the main purpose in allowing such concessions is to provide a convenient service to the members.



USE OF RESERVES

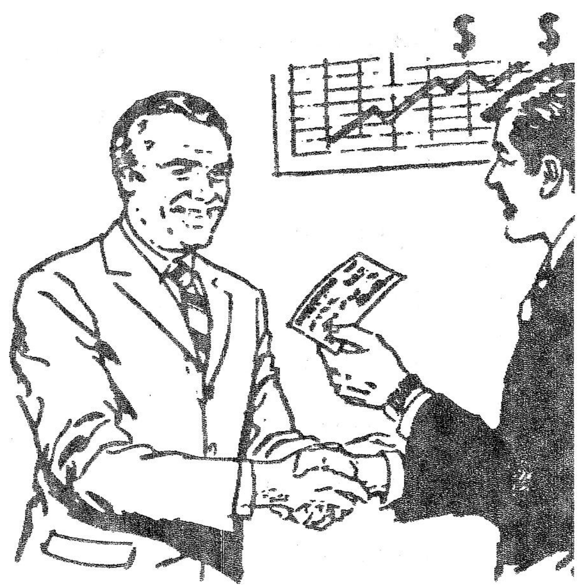
In a housing cooperative, reserves are special savings accounts added to monthly for some future need. The replacement reserve, real estate tax escrow and insurance premium escrow are kept in the hands of the mortgage holder, and are required under the regulatory agreement and mortgage. Other reserves, set up by the Board for whatever purposes it wishes, are kept in passbook savings accounts or certificates of deposit under the co-op's manager's control. The General Operating Reserve is required by the regulatory agreement, but is kept in a passbook savings account or certificates of deposit under the co-op's control; the co-op may use up to 20% of it whenever it wishes but must get HUD' approval to use more than 20% and must pay back whatever has been borrowed.

These are the relevant paragraphs from the regulatory agreement regarding the replacement reserve and general operating reserve:

1. The Mortgagor shall establish and maintain a reserve fund for replacements for the project by the allocation to such reserve fund in a separate account with the Mortgagee or in a safe and responsible depository designated by the Mortgagee commencing on the date of the first payment towards amortization of the principal of the mortgage insured by the Commissioner, of an amount equal to $______ and a like amount monthly thereafter. Such -Fund may be in the form of a cash deposit or invested in obligations of, or fully guaranteed as to the principal by the United States of America and shall at all times be under the control of the Mortgagee. Such fund is for the purpose of effecting replacement of structural elements and mechanical equipment of the Project and for such other purposes as may be agreed to in writing by the Commissioner. Disbursements from such fund max be made only after receiving the consent in writing of the Commissioner.

2. Commencing with occupancy, the Mortgagor shall establish and maintain a general operating reserve for the Project by allocation and payment thereto monthly of a sum equivalent to not less than 3 percent of the • monthly amount otherwise chargeable to the members residing in the Project (hereinafter referred to as "Members") pursuant to their occupancy agreements, Upon accrual in said General Operating Reserve Account of an amount equal to 15 percent of the current annual amount, otherwise chargeable to the members pursuant to their Occupancy Agreement, the rate of such monthly allocations may by appropriate action of the Mortgagor, be reduced from 3 percent to 2 percent, provided, however, that in the event withdrawals from such account reduce it below said 15 percent accrual, the rate of such monthly deposits shall immediately be restored to 3 percent; at any time thereafter upon accrual in said General Operating Reserve Account o4 an amount equal to 5 percent of the current annual amount otherwise chargeable to the Members pursuant to their Occupancy Agreements, such monthly deposits may, by appropriate action of the Mortgagor, be discontinued and no further deposits need be made into such General

Operating Reserve so long as said 25 percent level is maintained and provided 'further that upon any reduction of such reserve below said 25 percent level, monthly deposits shall forthwith be made at the 3 percent rate until the 25 percent level is restored. This reserve shall remain in a special account and ma may be in the form of a cash deposit or invested in obligations of, or fully guaranteed as to principal b, the United States of America, and shall at all times be under the control of the Mortgagor. The cumulative reserve is intended to provide a measure of financial stability to the Project during the periods of special stress and may be used to meet deficiencies from time to time as a result of delinquent payments by individual cooperators in the Project, to provide funds for the re-purchase of stock of withdrawing Members, and other contingencies. Disbursements totaling in excess of 20 percent of the total balance in the reserve as of the close of the preceding annual period may not be made during any annual period without the consent of the Commissioner. Reimbursement shall be made to the account upon payment of delinquencies or sale of stock for which funds withdrawn from the reserve.



REPLACEMENT RESERVE

When the Department of Housing and Urban Development granted the commitment for your mortgage, they calculated the specific dollar amount needed for each section of your co-op to build a replacement reserve adequate to meet the needs of your particular co-op. You'll find this breakdown schedule of estimated replacement needs in the HUD commitment in your initial closing documents (except for recent co-ops processed under Accelerated Multifamily Processing—for such co-ops a schedule should be prepared by the Finance Committee.

It is necessary to estimate the useful life in Years of each piece of equipment or structural element to determine the money needed in the years ahead. This estimate of useful life in years is then translated into the number of replacements expected during the economic life of the co-op, which normally runs fifty to fifty-five years.

If for example the ranges are expected to run twelve year. you will have to buy four complete sets of ranges in fifty years. The heating system, with a useful life of 2 years, will have to be replaced twice

You can calculate each specific item's total cash requirements if it costs $5,700 to replace all the ranges and you must do it twice then you will spend $11,400 replacing ranges during the economic life of the co-op. The sum of each specific calculation is the total amount of money you should he putting aside in your replacement reserve during the economic life of the co-op in anticipation of your major replacement needs. • Divide this total figure by the number of years in the co-op's economic life and you have the amount you should set aside each year for replacements.

Keep in mind that these estimates cannot be precise, since they are made years ahead of the actual expenditure. Inflation may increase replacement costs, or new materials may extend the life of the equipment.

To use the replacement reserve, management must determine if the item requiring replacement is on schedule. If so, management may proceed to contract for replacement. Upon receipt of the invoice, management requests the withdrawal from the Replacement Reserve thru HUD.

HUD will approve expenditures which are reasonable and are for items listed on the breakdown schedule; In unusual circumstances, HUD may approve expenditures for other items than are on the breakdown schedule providing funds seem ample to meet, the usual requirements of the replacement reserve. The cooperative may then have the work done. Conserve your funds by choosing the Most economical way of achieving what must be done. After it is completed, HUD will inspect the work done; if it is satisfactory and in accord with the permission HUD gave, they will approve the release of funds. This approval will be forwarded to the mortgage-holder by the managing agent. The mortgage holder will withdraw the required amount from the replacement reserve and give it to the co-op to pay the bill.

GENERAL OPERATING RESERVE

A little extra cash set aside in the sugar bowl for emergencies is always a comfort, for a housing co-op Just as much as for a family. But money taken from the sugar bowl has to be put back as soon as possible, because it will be needed again someday. The general operating reserve is intended to be used "to provide a measure of financial stability to the project during the periods of special stress", which can be caused by delinquencies, by a special tax bill which has crept up on you 7 or by any number of special problems. But you must pay it back, either as the delinquencies are collected or when the special use for which you needed it is resolved. If this is not possible, YOU must include the repayment of the general operating reserve in your next year's budget, even if you have to increase carrying charges to do so.

You can use up to 20< of the amount in the general operating reserve to provide funds to repurchase the memberships of departing members. This use of the reserve can become very important when the cooperative grows older and the down payments become Quite large. It is possible you might wish to give an incoming member the option of paying his down payment in installments over a period of time, using a part of the general operating reserve as a revolving fund for this purpose.

You can use up to 20% of the amount in the general operating reserve as of the end of the last fiscal year without consulting the Department of Housing and Urban Development— If YOU wish to use more than 20% during the Year, you must first ask HUD's permission even though you keep the fund in a special savings account in your own control.

How much do YOU put into the general operating reserve? The minimums indicated below refer to the percentage of carrying charges which must be placed in the general operating reserve:

3% when you have less than 15% of your annual income accumulated in the GOR;

2% when you have more than 15% of your annual income accumulated in the GOR, but less than 25X of your annual income;

No payment to GOR -- when you have .25X or more of your annual income accumulated in the GOR.

PAINTING RESERVE

You''ll want to repaint all exterior painted surfaces every three or four years and hallways and other common indoor areas, if any, as needed.

(Interior decoration is the member's responsibility, not - the co-op.'s)

Get an estimate of the total costs, which can be a large amount of money, even when you have to paint only front and back doors and trim. Put aside one-third of this total amount in a special savings account so that the funds will be there when you need them. HUD does not require this reserve be established, but does recommend it; besides, HUD does require the coop to maintain the project in good repair, which would be hard to do without the money being available when it reeds painting.

PROJECT EQUIPMENT RESERVE

It takes a lot of money to buy the machinery YOU need to shove snow, cut the grass, transport materials and the many tasks necessary to keep your co-op looking well-cared for. And YOU will find the machinery does wear out--you'll need funds to replace them when they do.

The original equipment needed when the co-op is first established is often purchased from the original working capital this gives the co-op a little extra financial boost in that difficult first year or so. The prudent Board of Directors will begin putting aside money in a special reserve for project equipment needed as this first equipment begins to wear out. Calculating the exact dollar needs of the cooperative is a task which the Board. may wish to delegate to the finance committee. To make this analysis, the committee will get the most accurate estimate by totaling the costs of all project equipment presently used by the cooperative, including lawn sprinklers, hand tools and other small item as well as major items such as the snow plow, the jeep, the lawn mowers, and so forth. A realistic estimate of the useful life of these items will, by dividing the cost by the number of useful years, give you the total amount you must put aside each year in your project equipment reserve meet these expenses

VACANCY AND COLLECTION LOSS RESERVE

For the first year, all limited income. co-ops and all Section 213 co-ops That have down payments of less than $500 must allocate 2% of the budget for vacancies and for collection losses. Budgets for subsequent Years must have a vacancy and collect on loss reserve if the co-op's expedience shows a need for one

This reserve is usually not funded in a special savings account, as all other reserve are It is
simply there in the budget as an expense item so that income calculated to provide a breakeven operation will actually be 2% higher than the actual cash expenditures otherwise expected. You are in effect, boosting your budgeted income by 2% in the expectation that you won't actually be receiving: all your budgeted income since you have to expect some vacancy or collection losses.

CAPITAL RESERVE

Special circumstances in some co-ops may at times produce more cash than is needed in the management account for covering normal expenditures. In such cases, the excess is usually placed in a savings account to earn interest. Such an account is called a capital reserve and can be drawn upon by the manager for any authorized purpose at any time.

REAL ESTATE TAX ESCROW AND HAZARD INSURANCE ESCROW

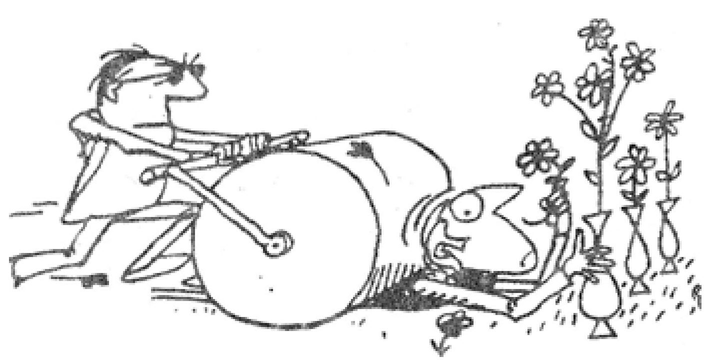
Your mortgagee wants to be sure his interest in your property is not jeopardized by your failure to pay real estate taxes or b damage to the property not recoverable under insurance. The year's estimated taxes are pro-rated on a monthly basis by the mortgagee and included with the mortgage invoices; these monthly amounts are sent to the mortgagee with the monthly mortgage payments. After being checked for accuracy, the tax bills are sent to the mortgagee and paid directly by him.

Similarly in most cases monthly payments are sent to the mortgagee to cover insurance premiums and he pays the insurance company directly.

WORKING CAPITAL DEPOSIT

Newly formed cooperatives have a special fund, held by the mortgagee, called the working capital deposit, which comes usually from the members' down payments and is equal to 2% of the total mortgage. This fund is used by the mortgagee for taxes, mortgage insurance premiums, property insurance premiums, purchase of office equipment and supplies, maintenance equipment, administrative expenses and other expenses incidental to initial occupancy. Any money not used for these purposes is placed in the co-op's replacement reserve at the time of final closing and the working capital deposit is closed out.

All these reserves may be placed in interest-bearing accounts, except the real estate tax escrow and hazard insurance premium escrow. A part of the replacement reserve, held by the mortgage-holder, is usually invested in government bonds, which are held in lieu of cash by the mortgage-holder. Income from these bonds goes to the co-op and shows on your monthly statement as other income. Other reserves are placed in savings accounts--insured by the federal government--or in certificates of deposit of banks insured by the federal government. As the co-op grows older these various reserves should grow quite large, providing not only security for the co-op but also a modest interest income.



UNDERSTANDING THE MONTHLY STATEMENT

The heart of the monthly statement is the HUD Form 93211 which deals with receipts and expenditures for the month. Depending upon the cooperative's needs, some managing agents may also provide the Board of Directors with one or more of the following reports:

<u>The Status of Accounts</u>.
which shows the month-end balances in all accounts of the cooperative.

<u>Accounts Payable Schedule,</u>
listing all outstanding bills as of the reported months end

<u>The Check Register,</u>
listing all checks written to suppliers, utility companies the mortgage-holder and into various reserve accounts.

<u>The Payroll Register,</u>
showing individual employees' Gross pay, deductions and take-home cash.

<u>The Carrying Charges Reconcilement,</u>
which lists total potential income, current arrears, prepayments, vacancies if any, and collections on prior months' arrears

<u>Bank Statements and Reconciliation's</u>
When analyzing the monthly statement, start with the most general figures and work from them into the detailed -figures. Look first at "Income Over Expense". Have you taken in enough Money to meet expenses? If you are using the cash reporting basis you should check the accounts payable; unpaid bills are a part of the excess of expense over income, if you have that situation.

If you have a problem meeting expenses, check your monthly figures and your year-to-date figures to see if the current month is adding to the problem or is helping to solve it. You may wish to look back over the past few months to see what the trend is; Are things getting progressively worse?

Next, let's find out where the problem comes from: Check to see whether your problems are caused by sagging income or sparing expenses, or both. If income appears to be a problem, check to see whether your carrying charges are as much as budgeted; if not why not? Are delinquencies getting out of line? What is being done about it? Are you suffering a vacancy lose? If so, what efforts are being made to fill empty units?

Or you might be troubled with rising expenses. There is a detail of your expenses on the report. Compare them with the budgets for both the current month and for the year to date. What stands out as radically over-budget? Payroll is one item which can get out of hand easily; do you have more people working for you than you intended when you approved the budget?

Grounds maintenance can easily be over budget too, though there are seasons when you'll normally be spending over the budget and make it up by very low expenses in other seasons. Is this the case, or are YOU spending too much even in the off-season? Find the reasons why
an item is Over budget and correct those reasons.

It is a serious matter indeed if the finance committee, Treasurer and Board conclude that you have a budget which YOU can't live within. for that implies YOU will have to raise
carrying charges. In some situations, everyone concerned. with leadership within the co-op will have to work on the problem of living within the budget, in order to keep from raising carrying charges. Each item will have to be judged as to whether it is worth the cost. Some items, like the mortgage payment, can't be changed. Some items, like real estate taxes, may rise regardless of what you do. Yet tax increases may be appealed and some services may not really be worth their cost. You may by careful work, cut expenses which look irreducible at first,

Use the monthly statement in this fashion AS an analytical tool picking out items on which
you'll want add information from your managing agent. As YOU become more familiar with the use of the monthly statement, you'll find it increasingly useful, so that in a few moments of examining the statement you'll get all the data YOU need
to know to initiate Board or committee action.

GETTING THE MOST FROM YOUR AUDIT REPORT

Just as you review your monthly statement, you should review your annual audit also. Your monthly statement is prepared for you by your managing agent; your annual audit is prepared for you by your auditor, who works for the co-op. Your monthly statement can be prepared on either a cash-receipts-and-disbursement basis, or on an accrual basis or some combination of both as determined by your managing agent. Your annual statement will usually be or an accrual basis and may include non-cash expenses--such as depreciation--not included in the monthly statements. Your monthly statement is a working management tool; your annual audit is an overall review for the entire Year which takes a broader view.

Your Board may request the finance committee to prepare an analysis of the annual report. We would suggest your analysis include a comparison of the annual report figures with the annual budget. "Wash" item items in which income and expense cancel each other are usually reported in the annual report giving a more uncluttered report which you can compare with the annual budget.

Your analysis should include comments on the adequacy of the reserves; was the required amount put into the general operating reserve? Are you succeeding in the Board's desire to build a painting reserve? Is the replacement reserve growing as scheduled? What is inflation doing to your reserves? Check the amount actually paid on taxes and compare it with the amount set aside in the tax escrow during the year; everything look ok?

The most important thing you can do to Get the most out of your annual report is to invite a representative of your auditing firm to attend a special meeting of the Board and finance committee to explain his report and answer questions. try to squeeze it in at a regular meeting; you'll run out of time Don't forget your auditor works for the co-op, not the managing agent; he wants to and should report to the cooperative

SUMMARY

A cooperative uses prudent fiscal policy to most effectively meet its purposes of providing the best possible housing at the lowest possible cost. Best housing means not only a pleasant well-maintained dwelling, but also a pleasant, attractive neighborhood and a friendly organization of neighbors capable of meeting the problems which may face the co-op from time to time.

Unlike a commercial business, a co-op does not aim to make the maximum profit possible. It aims s to utilize the members 'resources thriftily to meet the necessary expenses of the cooperative on an equitable basis of non-profit operation. To do this, many volunteers will spend a great deal of time and effort seeking the most efficient methods of meeting the co-op's purposes. Your own time and efforts joined with those of other Volunteers working on other' cooperative tasks, will do much to improve the standard of living and the quality of life 04 all the members. Your efforts, are greatly appreciated and are a Valuable contribution to your fellow citizens; you have their thanks and the thanks of all those seeking to improve our communities through cooperative effort. It's a. nice thing to keep in mind when YOU are sitting up late at night wearily coping with your cooperative's latest problem.

UNDERSTANDING THE MONTHLY CASH FLOW

A cooperative is a multi-million dollar business. You, the Board of Directors, are running this business. If you are to be successful, you must regularly review the financial conditions of your operation.

The United States Department of Housing and Urban Development has a form called the 93211, Monthly Report of Cooperative Housing Corporations, commonly called the Monthly Cash Flow. This form is used to show the income and expenditures of the cooperative. A report must be made every month by the managing agent and explained to the Board of Directors. H.U.D. should also receive a copy, but they may not examine and certainly will not certify the accuracy and/or appropriateness of its contents. That's your job as a Board of Directors,

The first thing you should do is take a look at a blank form 93211, Become familiar with each account, not its numbers, but surely the names. After an understanding of these genera/ and broad definitions, have your manager explain each account or line item on the form and the expenses or income assigned that line or account, as used by the management company.

Before we go into detail on the 93211, we should get an understanding of a similar form, the HUD 93240, which is used for the Annual Operating Budget. (See chapter) This form has the same account names and numbers as the 93211.

THE ACCOUNTS - THEIR NAMES AND NUMBERS

It is more important to know the name of an account and what expenditures appear in that account than it is to know its number.

You might find it necessary (or desirable) to add an account that is not listed on the form. For instance, there is no account for advertising, cooperative association, cable television, etc.

READING THE COLUMNS OF THE 93211

Let's look at the columns. There are six of them

COLUMN 1 - Annual Budget - These figures are taken from column 5 on the 93240. These are the amounts you budgeted for each line item. for the year..

COLUMN 2 - Monthly Budget - This is 1/12 of the annual budget in column 1.. These amounts are often rounded off.

COLUMN 3 Expenses This Month - These. are the actual amounts you spent for the month.

COLUMN 4 - Expenses to Date - These are the total amounts spent so far during the current fiscal year, If the cooperative's fiscal year begins in January, and you look at the March report, column would show the amount you spent for January, February and March.

COLUMN 5 - Budget to Date - This column reflects the amounts you budgeted to spend so far (i.e. for January, February and March). These amounts for one month are 1/12 of the annual budgeted amount. The amount for three months, then, would be three times the amount for one month.

COLUMN 6 - Over (Under) to Date - This column is a comparison between the columns 4 and 5. Always examine this column carefully. Are the accounts over or (under) the budgeted amounts? Under-budgeted amounts are in parenthesis. If expenses are significantly over budget, you should demand explanations from you agent. If this continued for several months, you are facing trouble and might have to make adjustments. - This may mean setting new priorities. You may have to stop Watering the lawn to pay the light bill. It may also mean drafting a new budget and increasing carrying charges. It could also mean borrowing from reserves. A good general indicator of the general condition is column 6, line 58.

Page 2 - The income part of the 93211 will give you your totals and final comparisons. The columns are numbered and titled the same as on page one.

POINTS OF IMPORTANCE

1. All accounts should be examined each month and questions about concerns and misunderstandings should be submitted to the manager in writing, keeping a copy for the Board. Answers should be given in written form at the next Board meeting.

2. You don't have to be an accountant to understand these forms. The vocabulary should be simple. The most important words you need to know are "income" and "expense."

3. A check register of monthly expenditures may be helpful in understanding the 93211.

4. The report is based on a cash budget. The main thing to remember with a cash budget is that you show on the form what you actually spend.

5. Insist on the manager using words like income, spent, expenditure, and bills owed, instead of accounts payable, accounts receivable, etc.

6. Don't pretend to know when you don't know. Ask questions and make sure answers are understood.

7. Get your manager to explain <u>everything.</u> •

8. Stick to your budget, if at all possible.

9. The Board and manager. Should have an understanding of each account. Your definitions must be the same.

<u>DESCRIPTIONS OF THE ACCOUNTS</u>

1. <u>Vacancy and Collection Loss</u> – This is the loss because of vacancies. The total number of vacancies and the amount of revenue lost is reported on page 2. Direct your agent to submit an itemized list of vacancy and collection loss with the 93211.

2. <u>Employee Apartment Rent</u> - This is the amount-you would collect if the employees units were occupied by paying members. This is a cost to the corporation and is part of the employees' income.

3. <u>Apartment Resale Expense</u> - This is the expense incurred by the cooperative in sales. If there are expenses for resale, work them out with the agent. Expenses for resale might show under some other accounts such as "advertising." Variances may occur. Board should check on the validity of the reasons for this with the managing agent.

4. <u>Management Fee</u> - This is the amount paid the managing agent. The two most popular ways of paying the agent are: (1) or a percentage of collections; or (2) as a flat fee. If you are paying a flat fee, the amount spent will remain the same from month to month. The amount will vary each month if payment is calculated on a percentage basis, If so, the fee should be checked periodically.

5. <u>Legal Expense</u> - These are attorneys' fees and expenses incurred from legal actions such as evictions and legal advice. Sort co-ops have attorneys on retainer. Some hire them on a case-by-case basis. Remember, the attorney is not the manager's attorney. He is yours to hire or fire. Be aware of possible conflicts if your agent has the same attorney.

6. <u>Audit Expense</u> - An annual audit is required by your regulatory agreement. The expense for this service can be obtained in advance and budgeted. The actual expense will only show once a year.

7. Telephone Expense - This is the monthly charge for telephone. The fee will vary from month to month depending on the amount of usage. Police the telephone bills. Check to see if you are being charged by the phone company by the call. Your managing agent should pay for his awn calls. If the expenses seem to be too high, direct the agent to bring the bills in to the Board. The expense should be fairly constant.

8. Office and Administrative Salaries - You may or may not have an expense show on this line. If the co-op pays office help, it will be handled here in the same manner as other salaries.

9. Office Expenses - What expenses are shown on this line item should be worked out with the agent. If necessary, put this agreement in writing.,

10. Miscellaneous Administrative Expense This is a catch- all for Administrative accounts,

15. Fuel - This is the expense for heating oil or natural gas. The expense will naturally be greater during the winter months.

16. Electricity - This includes electricity used for offices and units used by the co-op. If you are on a master meter, it will include electricity for the whole complex. Cooperatives whose units are on individual meters, sometimes have members move in and leave the lights in the cooperative's name. The bill could be too high because you have unnecessary lights on in vacant units.

17. Water and Sewer - Many co-ops pay this for the whole development. It covers all water and sewer expenses. The water expenses will be much higher during the summer when you are watering the lawns. Check to see if you are being charged a sewage rate for the water used on your lawns. These hills usually are made quarterly.

18. Vehicle and Equipment operating Expense - This reflects gas, oil, tune-ups and other maintenance for the equipment. Excess expense here should be validated by the agent.

19. Janitors Payroll – Janitors are persons hired to clean. Of you have any such employees, this will reflect their payroll

20. Janitors Supplies – you might not have janitors but janitors supplies are necessary for cleaning the community room, models or vacant units.

21. Exterminating – Many Cooperatives have an extermination contract that requires periodic extermination service for the complex and in emergency call agreement . With a contract the expenses will be constant from month to month. Otherwise it will very according to need.

22. Rubbish Removal – Some cooperatives have to pay for private companies to remove trash. Other have to pay for the clean up of garbage station. Most cooperatives will need a least a limited amount of privet services. Expenses here should be fairly constant.

23. Parking area expenses – This will usually show expenses for parking, resealing, resurfacing and re-striping the parking lot.

27 Grounds Maintenance – What does it cost to maintain the grounds. The appearance of the grounds is very important for selling and maintaining occupancy. Obviously it cost more to maintain grounds in the summer time. This line may include such things as hoses, sprinklers, grass, seed fertilizer salt, etc.

28 Painting and decorating – this line includes painting vacant units and other painting and decorating the cooperative chose to do. If you are painting the exteriors of the entire complex, there will be a greater expense on this line item.

29 Structural repairs- Repairs done on the building structures are included here. Sometimes expenses for these repairs are covered by the Reserve or replacement. Work closely with your agent in this account.

30 Heating and Air Conditioner Maintenance – include in this account are expenses for repairing heating and air conditioner maintenance. This item is often reserved for allocation of expenses to outside contractors.

31 Plumbing Maintenance – the most frequent expense here is for service because of plugged up drains. Required service caused by regular use should not be a cooperative expense. But should be charged back to the negligent resident. If there is a need for a great deal of plumbing service, it may be wise to investigate buying equipment and having the staff do it.

32 Electrical Maintenance - This includes repair to the electrical systems. Be sure that the cooperative is not paying for things that the members should he paying for, such as light globes, and outlet covers that are lost by members. You will not have expenses in this account every month.

33 Elevator Maintenance - This line will report all expenses incurred in the routine maintenance of any elevators that may exist. If you have a maintenance contract on the elevators, the monthly expenses should be constant.

34 Pool Maintenance - Ditto above.

35. Maintenance Supplies - This includes all supplies necessary for maintenance. Be careful not to mix this account with Janitor's supplies and/or Vehicle and Equipment Operating Expense.

36. Maintenance Payroll - This is what you may pay your maintenance staff - full time and part time. The amount of expense in this account will probably increase in the summer if you have any grounds to care for.

37. Miscellaneous Maintenance Repair - This account and line may be similar to line 35 - Maintenance Supplies. Details of what expenses are reported where should be worked out carefully with your agent.

39. Real Estate Taxes - Unless your mortgage is paid off, this line will show the regular monthly payments into an escrow account as determined by the mortgagor. The amount will remain constant each month, but may change from year to year, depending on the status of your local taxing rates.

40. Payroll Taxes - This expense is usually -paid quarterly annually. It s for those taxes imposed on an employer in addition to those withheld from the employees. It will include Federal Unemployment Taxes as well as any state or local unemployment taxes.

41. Miscellaneous Taxes - This line is for taxes not otherwise shown on other lines. Expenses will not appear here each month.

42. Property and Liability Insurance - The property insurance (sometimes called "hazard insurance") is paid into escrow with the mortgagor (as is the Real Estate Taxes), and will be the same each month. The liability insurance might be paid separately, and if so, is paid once each year.

43. Workmen's Compensation Insurance This is another annual expense that is required by state and/or federal law.

44. Fidelity Bond This is a once-a-year expense if the cooperative bonds anyone, either Board members or employees of the cooperative.

45. Miscellaneous Insurance - This line is for other types of insurance such as auto insurance or theft insurance. Premiums are usually paid once a year.

49. Ground Rent - If your cooperative does not own the property on which your cooperative was built, it probably pays an annual lease payment for the land. This would be reported here.

50. Mortgage Insurance Premium - 221(d)(3) BMIR and 236 cooperatives do not pay this insurance. However, this is insurance that guarantees the payment of the mortgage in case of default. The payments are the same each month, as they are based on the amount of the original mortgage.

51. Mortgage Interest- This is the amount of interest paid on the original mortgage. The amount will decrease each month in direct proportion to the amount that. the mortgage principal increases.

52. Mortgage Principal - This amount is paid against the mortgage or actual loan. The amount increases each month.

53. Replacement Reserve - This reserve is funded to develop a savings adequate for replacing appliances and structural-type repairs. The monthly amount is the same each month, and is paid to an escrow account held by the mortgagor.

54. General operating reserve- Funding of the reserve is based on 3%. of carrying charge collections. The percentage may be reduced according to a formula in the Regulatory Agreement.

55. Painting Reserve - This line is used if the Board establishes an appropriate reserve.

56. Project Equipment reserve - This line includes major purchases such as tractors, trucks, etc. The amounts here could be payments on equipment purchased, or as a reserve to accumulate money to purchase such equipment, or it could show a onetime large expense.

57. Capital Improvements - Major improvements to the real property such as sidewalks, parking lots, etc., would be shown here.

58. TOTAL EXPENSE - Should be self-explanatory.

59. Carrying Charges- This line will report the monthly monetary obligations of the total of the cooperative members. Collections below budget indicates problems with vacancies and/or collection policies.

60. Late Charges - This is the amount the corporation collects from the members for late payment of the "carrying charges." A definite policy should be established and enforced on everyone who is late, for whatever reason.

61. Interest Income - Here will be reported any interest received from investments the cooperative has made. Some co-ops have interest-bearing accounts and bonds. It normally comes in quarterly or semi-annually.

68. TOTAL INCOME - Self-explanatory.

69. TOTAL EXPENSE- This line is a carry-over and copy of the line 58 on the first side,

70. INCOME OVER (UNDER) EXPENSE - This line is the one that makes all the comparisons you do mean something. While expenses will vary from month to month, and season to season, income should be relatively constant. This line should show each monthly -comparison such that the cooperative is not falling behind. The figures in columns 3 and 4, together with a listing of the outstanding bill yet to pay can give you a pretty good overall picture of your financial condition.

The remainder of page 2 should be studied carefully. It is relatively easy to understand. Some agents choose to use their own forms to provide the rest of the information for page 2. However, whatever forms are used, you, the Board of Directors, should insist on full and complete information.

Other forms and/or reports that Boards of Directors often require are copies of bank checking account reconciliations; copies of the check register(s); reports on the status of all reserve and escrow accounts; listing of all residents prepaid for subsequent months; - and move-in/move-out reports listing specific units vacant for exactly bow long.

Hopefully, this will give you a basic- understanding of what normally goes into the reporting you see on the form 93211. If you have more questions - ASK YOUR AGENT. Each has their own. systems and procedures, and you should be aware of exactly how your agent functions in this most important area,

PREPARING THE ANNUAL BUDGET

The single most important function of the Board of Directors of a cooperative is that aspect dealing with financial matters, and primary concern should be the preparation of the annual budget.

Your regulatory agreement with the Department of Housing and Urban Development does require that you, the Board of Directors, be responsible for the submission of an annual budget to them for review and approval prior to the beginning of each fiscal year. You may have, by contract, delegated the preparation, ground work, and proposal of that budget to your agent, or that work may be done by a finance committee of the Board, or even by the Board of Directors itself. Whoever does it, it is important that you have a clear concept of what the budget is, and where those figures come from.

BUDGET PURPOSE

As a cooperative corporation, by far the majority of your income is generated from monthly housing charges (carrying charges). In fact, about 957. to 98% of your total income is what your residents pay each month. In order to decide what to charge your residents next year, it is important that you estimate, as closely as possible, what you anticipate spending.

By giving careful consideration to all the aspects of your budget, you not only determine the monthly housing charges for your residents, but you set major policy regarding preventive maintenance, regular maintenance, anticipated building or improvements, services to be given your residents, landscaping, and further provide a major guide for management. Remember that you management contract should and probably does give your agent the right to spend up to a maximum amount of dollars without consultation. However, the contract also provides that the budget approved by the owners (the Board) shall be a major limit on spending.

Basic things to be considered before actual preparation of a budget may be (1) past patterns of spending, (2) comparisons of expenses and income at this property with comparable properties on a per-unit basis. and (3) as much input as possible from Board members, maintenance staff, manager, agent, contractors, etc., regarding any special conditions which must be considered. After your cooperative has been functioning for several years, most expense items become much easier to identify as to level, that is, while prices for electricity may rise or fall (7), your volume of usage over the years will remain fairly constant.

INFORMATION FOR PREPARATION

If either the Board of Directors or a committee of the Board should prepare the budget, including the preliminary work-sheets and schedules, rather than leaving that preparation to your manager or agent, then the following will provide a guide for doing so. It is important, however, that the members of the Board of Directors is aware of the procedures used by your agent if they prepare your budget for you, and therefore, the following is meant to provide some guide to those procedures.

Before you begin to work on the preparation of any budget, it is necessary to have a working knowledge of the following sources of information (at least). The ledger book and/or journal are the official "books" of the cooperation, and will have monthly entries summarizing the activities in each of the accounts used by your cooperative. This is a pulling-together of all of the information that is recorded on all of the books of original entry (that is, check register, the cash receipts records, and any journal entries that may %eve been made). In other words, all the financial information is available in one place in these volumes. Various other sources will have to be consulted to verify and substantiate the figures, as no explanation will be entered with the figures, only an index of where documentation may be found.

Monthly Cash Flow reports are (or should be) the instrument in which your agent puts together, each month, the information contained in the ledger books and reports to you. In addition, much greater volumes of information can be gathered from the monthly cash flow report (see chapter ----).

The Document Brochure Book of your cooperative will contain a copy of your Articles of Incorporation (or your Charter), your regulatory agreement, and other important documents which will spell out several of the obligations that you must have assumed, as well as copies of By-Laws, Occupancy Agreement forms, etc. What exact services are you bound to give your residents?

The Past Annual Budgets, as approved by prior Boards, and the results of those years of operations will provide you with valuable guidance to the-plans and provisions of other Boards that you may want to continue, delete, or expand upon.

Any Current Contracts that you have must be considered, such as the management contract, utility contracts, extermination contracts, etc. Read them carefully for all provisions for increases, either regular, or pass along (if the supplier's costs increases, he can pass it along to you).

You must have a descriptive listing of all the various unit sizes, addresses, and current monthly rates. Your agent should be able to provide you with such a list from his records, if he does not regularly have one made up.

In addition to the above items, it will be beneficial if you or your agent, at your direction, write letters to your various utility companies, the tax assessor's office, and appropriate service companies, to secure the best available information on current rates and any expected changes in the future.

In order to be properly prepared for what you are about to do, it will be helpful if you prepare some "summaries" of the information that you have gathered as indicated above. This narrows down to three specific summaries: (1) a summary of your past year's cash flow reports (use a columnar pad of at least 13 columns to include 12 months and totals); (2) a columnar summary of the past several years annual budgets and actual years' expenses as experienced; and (3) several sheets detailing expenses for each and every account used during the year. Many accounts are very clear-cut. You always pay the same amount each month of the year. Therefore, for these accounts, there is no need to schedule out each expense. Typically, these accounts will be your mortgage payment (interest and principal), any reserve payments (required or set up by your Board), management fees (if not a percentage of collections), etc.

If there is any doubt as to the regularity of payments, either in time or amount, schedule it out. Such a schedule is most easy to understand if it is prepared with all of the following information: check number; date of check; who it was paid to; itemized detail of expense; and the amount,

If the detail work outlined above is done in a regular manner, you will be certain of being complete and accurate. First have sheets of paper available for each account you wish to itemize, and number them by account. Using the check register, list the various payments, including all information available (date, payee, amount, check number). When all entries have been made from the check register to these sheets, be sure that the totals you arrive et on each sheet are the same as those reported on your cash flow statement, If they do not, you are missing something! Maybe there was a cash receipts entry which was unusual and affected this account, or perhaps your bookkeeper had to make a journal entry for some reason. Check both of these places. If the three source (of original entries have been accounted for and the totals still do not match, check your addition. Another thing to consider is that perhaps more than one account is reported on a given line of the cash flow. BEFORE YOU PROCEED ANY FURTHER, be certain that all figures check and balance, otherwise you may be doing a lot of work based on false information, Now that you have all necessary accounts itemized, in your files (or those of the agent), you will find back-up information justifying each expense. Go to these records and fill, in the sheets just completed with the detail of what each expense was for. Depending on the nature of the expense, you may want a greater or lesser amount of detail. Often, Board of Directors are surprised at the amount that may be spent during a year on office supplies, and great detail will indicate how much of that expense was justified, how much of it was made up of small items that mount up, and perhaps what may not really be necessary. Similar other expenses requiring detail may be Miscellaneous Maintenance Repair (FHA Account # 6441), Maintenance Payroll (FHA Account # 6585), etc. only your particular experience will dictate which accounts you want explained as fully as possible, and which need little or no explanation, Remember, you will probably be preparing this proposal for several other people to review and/or, approve, and you must be sufficiently detailed and accurate to satisfy them, as well as yourself.

Utility accounts and tax accounts will demand a much different type of detail. You ma find it essential that accurate records be kept (or compiled) of actual usage, nor in dollar amounts, but in volume amounts. When your cooperative is facing increases in any of these items, it is far superior if compiled experience for several years is available of how much (gallons or cubic feet) of water have been used on an average, and now many water meters of various sizes exist on the development. Then budget "estimation" is reduced to extending calculations of $ X per unit volume.

Once you have compiled all available data, and are comfortable working with it, you are ready to begin to prepare your annual budget. The form you will use will be the HUD 93240, "Operating Budget for Cooperative Housing Corporations." (see exhibit) This form has five (5) columns that you will need to concern yourself with at this time (the sixth will become a concern if HUD adjusts your carefully worked budget in some way). Of the five columns, only two (2) need to be of concern, i.e. columns 2 - "prior year actual," and column 5 - "new annual budget." The other three columns are simply copying or calculations from these first two.

First copy your existing budget into the spaces provided in column 1 - "Prior Year Budget." And now we get to the "meat" of the preparation, and will made use of all of that preparation you have made.

Inasmuch as all budgets must be submitted to HUD sixty (60) days prior to the beginning of each fiscal year, you may well be working on this ninety (90) days before the actual end of the "prior year," and perhaps before that. Therefore, in determining what the "Prior Year Actual" will be, you will have to use several differing methods of computation. There are three (3) methods of calculation that will provide fairly accurate results, depending on the type of expense you are dealing with.

If you use more than one method of calculation, whoever reviews and/or approves your eventual proposal should be aware of the differing methods, where they were used, and how they were applied. So be sure to explain your recommendations in some way.

The three methods that we recommend as being most accurate are as follows:

(1) "Actual" - This means that the figure was arrived at by obtaining the actual expenses for the past twelve (12) months. (If you are Preparing a budget in September of 1990, then these expenses would be from September 1989 through August of 1990.) This type of calculation will be most accurate in determining expense level for those lines that tend to be seasonal in nature.

(2) “Pro-Rated" - This means that the figure was arrived at by pro-rating the actual expenses for the known period over the total fiscal year. (Again, if you are preparing in September, you will have actual figures through August for that year. Then divide by eight (8) to arrive at an average monthly figure, and multiply by twelve (12) to get the annual anticipated expense.) This is used for those lines that are fairly constant throughout the year and are NOT seasonal in nature.

(3) "Expected" - This means that the figure was arrived at by using only those items that are definitely constant throughout the year - i.e. contract rates mostly. Typically, this will include management fees (if not figured on a percentage of collections), reserve payments, and amortization of the mortgage. These items should be exact.

With this much done, figures collected and procedures clearly in mind, you are in the best possible position to make the best educated guesses as to what this year's expenses will be when your fiscal year ends in two, three or four months, as well as what kind of expenses you are likely to incur next year. In order to give you the benefit of many cooperatives' experience and knowledge, we have compiled the following checklist of budget line items with thoughts regarding the preparation of each one. Each account is identified by line number (as it appears on the 93240) and name,

1. VACANCY AND COLLECTION LOSS. Every unit in your cooperative has a "potential," i.e. the amount of money that that unit is supposed to generate for the cooperative during the year. Either you collect that amount from each resident, or the unit is vacant with nobody responsible for paying the charges (vacancy loss), or someone was responsible for payment but they didn't (collection loss). This is an expense. Your records should carefully document how much is lost, for which unit, from whom, and why. In the case of collection loss, you will, be discussing "probable" collection loss, as in fact, your attorney or collection agent may, someday, collect some of that: for you. But don't count on any return for budgetary purposes. This is discussed because it is important that you collect enough each year to meet expenses, and if you only

count on collecting your monthly charges with no loss, you surely will be short at the end of the year.

Because of your past experience, either good or bad, you may want to review the manner in which you are able to coordinate move-ins and move-outs from your units, the manner in which you are able to maintain a waiting list,- etc.

Whatever adjustments this may entice you to make for the coming year, remember that the most efficient system will have its bad periods as well as its good periods. Therefore, look over your past records carefully, and anticipate your future needs based on reasonable figures. Be very careful not to budget this line too low. It pays to over-estimate. Perhaps next year will be your worst year, in spite of the efforts you may make.

2. EMPLOYEE APARTMENT RENT. As explained in line 1. Whatever unit values you give to your personnel (maintenance and/or management), you will not collect, although your income is based on the full potential from every unit. How many units of which size do you furnish to your personnel? Do you anticipate the addition of any others? Do your present personnel anticipate additions to their families that would require larger units? Remember, if your budget necessitates an increase in housing charge income, this figure will have to be adjusted accordingly

3. APARTMENT RESALE EXPENSE. This line of the budget may include a total of several expenses. Add up all the expenses you may normally expect in the handling of your resales. Do your pay for a credit check for each applicant? Do you pay your agent a resale commission or fee? Do you do classified or display advertising? Do you pay someone other than your agent to handle the resales? Total all of these and enter into this account. In order to project next year's expenses, it will probably be a good idea to check several past years (if possible) to see what kind of expenses you have incurred, how many applicants you have processed, how many resales you have handled, what your advertising has consisted of, and how much it has cost you.

Some cooperatives do not like to list these accounts in a group like this, Preferring, alternatively, to make separate accountings, listing them in the 'blank spaces provided in lines 11-14. For instance, Advertising, Resale Commissions, Credit Report Fees may be listed as separate and distinct line items. If you pay someone separately to handle the resales, this may be reported on line 8 - Office & Administrative Salaries. This method of separating the accounts does, for some Boards, make the whole easier to understand and account for each month throughout the year.

4. MANAGEMENT FEE. This expense item is naturally found in the Management Contract. If that contract does not extend into the next fiscal year, immediately start negotiations with your agent so that you may determine the necessary expense. Watch to see that your Management Contract does not expire in the middle of the fiscal year, thus forcing you to "guesstimate" the management fee for a portion of the year, and perhaps putting you in a less than desirable negotiating position. In the case of a contract that does expire in the middle of a year, many cooperatives have found it helpful to negotiate a contract for a partial year, or for more than one year but to expire with their contemplated fiscal year end. This practice, with proper and timely negotiations, will inevitably make your budgeting easier.

5. LEGAL EXPENSE. This expense item may be based on a number of things: (1) Do you pay a monthly retainer to an attorney? (2) Do you pay your attorney for only the work he does on an hourly rate or by the case? (3) Does the amount paid the attorney cover only delinquent actions and evictions, or does it also anticipate other legal problems such as suits, tax appeals, etc? What does your attorney do me for you for the money paid him? Does he perform some function that could just as well be performed by the management staff more cheaply (such as preparing Notices to Quit)? Remember, people are more and more inclined to sue when they think they have Any reasons, and this line item may easily be larger than you may normally anticipate. So be sure that this item is sufficiently budgeted for, that is, more than you actually think necessary.

6. AUDIT EXPENSE. Do you have a contract, a letter of agreement, or an estimate of cost from your audit firm? Unless there are unusual difficulties, the auditor should be able to give you a pretty accurate estimate of the cost involved. Don't take Last year's figures for granted - check with the auditor!

7. TELEPHONE EXPENSE. In making a determination of "this year's" expense, it is important that you review the bills for the past twelve (12) months and separate the billings into the various categories: monthly service in advance; long distance charges; local service (if charged separately); advertising charges; and service charges. To make a determination of next year's anticipated expense, the monthly service times twelve will remain constant (barring any rate increase check it!). The average long distance and local charges will probably remain similar, but the service charges may or may not be repeated. Do you plan to install different equipment, move phones from one office to another, move the telephone supplied to your maintenance men, etc? Consider these things carefully, as service charges may have a way of mounting fairly rapidly. Usually, once service has been established and is found to be meeting the needs of the cooperative, the service will very seldom be changed drastically. If you spent a lot on service charges last year, you probably will not repeat those charges again, and they need not be included in next year's budget.

8. OFFICE AND ADMINISTRATIVE SALARIES. According to the H.U.D. Handbook 4351.1 REV -Management of HUD-Insured Multifamily- Protects, the coats of any on-site manager or other on-site staff, such as clerical assistants and custodians are expenses to be paid by the development and not to be borne by the agent as a part of his fee. Therefore, these expenses will have to be accounted for on this line of the annual budget. Be sure to keep in mind when you are negotiating a contract that different management companies will provide services in different manners, some providing on-site staff as a part of their fee, and at the same or similar fee to those who don't. Bargain sharply! If you do budget for these expenses here, be sure to make allowances for salary increases, for extra help during peak work periods. etc.

9. OFFICE EXPENSES. This is one Line item that it becomes necessary to prepare a detailed exhibit of "last year's" expenses for. Many of the things that you spend and are reported on this line will be non-recurring expenses that you need not budget for in succeeding years, such as the purchase of typewriters, calculators or adding machines, mimeograph machines, photocopiers, etc. The items that typically are recurring are such items *as* pens and pencils, postage, newsletter costs (stencils, paper, ink), special notices or flyers, printing of subscription agreements, occupancy agreements, etc., ribbons for the typewriter, and on and on. The only way that you can know what items are usually needed by your office, or that would normally be reported on this line item that recur. is to have an itemized schedule of whet was spent last year (and perhaps the year before) and what, exactly, it was spent for. Some types of expenses only recur every second or third year, such as the printing *of* members' handbooks, purchase of checks., etc. Some of the expenses indicated above may *be* furnished by your agent as a part of his management agreement with you, Be sure and check with both your agent, and with the text of the agreement.

10. MISCELLANEOUS ADMINISTRATIVE EXPENSES. This line item is a "catchall" for those things that the Board *of* Directors decides to spend money for other than items normally reported elsewhere on the form. Particularly this may include such things as dues for associating with other groups, including regional or national cooperative associations, contributions to charity that the Board might make, expenses for holiday parties, expenses for education of Board members (such as attendance at conferences), and the like. It is important that past experience be taken into consideration in setting the future level of expenditure. Also, for the sake of clarity, some cooperatives prefer to split "Association Dues" out of this line, and report it separately on one of the blank lines 11-14.

11 - 14, * * * * * * * * * * * * . These lines are blank on the form, and are often used, as indicated above, to report such things as Credit Report Expense, Advertising, Association Dues, Resale Commission Expense, Etc.

15. FUEL. This budget line is given the account number by HUD of 6420, which is assigned for the use, storage and inventory of fuel oil. for those project which use it. Those developments that use gas for heating, etc, substitute HUD Account Number 6452 - Gas. Nevertheless, whichever "fuel" you use, it is important for your calculations that prior to the *time* you do any figuring, you initiate a letter to the utility supplier to question them about any pending increases in charges or rates that they are anticipating. Often they are controlled, in these times, by some governmental agency, and for this reason are sometimes hesitant to give any figures, but by follow up personal conversation, indications may be obtained of possible requests for increases. Watch your newspapers and cultivate contacts so that you may be aware of trends and/or requests that may be pending.

Whatever fuel you supply, whether for all of the units, or only for the community building, your most certain indicator of use will be a compilation of the volume of usage, rather than a compilation of costs. Volume should remain fairly constant, and therefore, that basis should be more certain for calculation of costs. If you use a 'cost" basis for calculation, be sure to determine what your costs were for. If you pay for the community building fuel, how has the use of that facility compared with your anticipated improvement of it and possible use in the future?

Watch out, if you have a contract with your supplier, for clauses that allow "pass-alongs" of their wholesale costs. If you have such a contract including such a' clause, budget carefully and higher than you may feel necessary - give yourself proper protection.

Another aspect of your fuel costs will be the relative severity of the winter weather. Always budget as though you anticipate a severe one.

Have you considered the possibility (if you are master-metered) of having. the project re-metered so that each resident is responsible for his/her own fuel usage? People tend to be more careful with the use (or waste) of this valuable and expensive commodity when they pay for it themselves *as* opposed to having it supplied as a nomal part of their housing charges.

16. ELECTRICITY. Many of the came considerations indicated above apply equally to this line item. Here, consideration must be given to the amount of exterior lighting (security and/or decorative lighting). Do you have too much and can you cut this use somehow - without sacrificing safety or aesthetics? To a certain extent, electrical costs, are also related to the severity of the winter in that fan motors for the furnace, or pumps for hot water heat are run by electricity.

17. WATER AND SEWER. Again, consider the same concepts and methods as outlined for lines 15 and 16. Additionally, water usage is substantially higher in the summer, when the maintenance department is watering lawns, and residents are washing cars. Check to determine whether you are paying your supplier for "sewage" use on that portion of the water used for lawns. If you are, see if you can make arrangements to have that changed, as none of the water put on the lawn goes into the sewage treatment system, and summer watering usage is normally a considerable amount, assuming substantial grounds to care for.

(GENERAL COMMENT ON ALL UTILITIES: You are dealing with monopolies which set prices with their interest, not your, in mind. Consumer protests, including yours, may help delay rises in rates, but basically you are at their mercy, an very vulnerable, With this thought in mind, more and more cooperatives are looking at alternatives that may have been considered "far out" in times earlier, such as drilling their own wells, generating their own electricity, etc,., Let your imagination run and you may find an alternative that is reasonable, or may become reasonable, given the present alternatives and sources.)

18. VEHICLE AND EQUIPMENT OPERATING EXPENSE, This account covers the gas, oil, tune-ups, tires, etc., for your various vehicles (i.e tractors, lawn mowers, cooperative pick-up, etc.) Schedule your costs for prior years, and then realize that the costs are rising repidly , Once again, volume may be a better indicator, in that it may be easier to determine that 4 tune-ups per year for all your equipment will be easier to schedule and cost out than by attempting to add a percentage to the total cost factor of the past.

19. JANITOR'S PAYROLL. A basic thing to remember as it regards this account is that "janitors" are not the same as "maintenance personnel." This distinction *is* important if you ever wish to compare your expenses with other developments. Janitorial staff are clean-up persons, and/or the operators of certain building equipment, such as boilers. If you have common hallways and/or lobbies to keep clean, then you will have janitor's payroll. If you are of townhouse construction, then you will not.

20. JANITOR'S SUPPLIES. As janitors do cleaning, etc., janitor's supplies are those supplies used for cleaning. Your maintenance personnel may undertake certain cleaning from time to time, including the cleaning regularly of your community building and office space, as well as cleaning of units when vacated. Such cleaning supplies would include such things as soaps, cleansers, wiping rags, oven cleaners, sponges, etc. If the rate of turnover of your units is fairly constant from year to year, then this expense item will also remain fairly constant. In the budgets of the first couple of years, as with all line items, it is far better to budget on the high side than too low. After you have several years' experience, it becomes possible to be much more accurate in your forecasts.

21. <u>EXTERMINATING</u>, This account will reflect all charges paid to any outside contractor for his services. Many cooperatives who find a need for regular extermination service will arrange a contract with a company, and thus each year's expenses can be anticipated exactly, Others do not find the need so regularly, and pay only on a per-call basis, making a budgetary calculation more difficult, but possible by averaging experience of past years If your needs are infrequent, your own maintenance staff may perform this service, and you may buy the chemicals, in which case, the expense of the chemicals may be better reflected under maintenance supplies (line 35).

22. <u>RUBBISH REMOVAL</u>. There are a great number of ways of handling this expense, In some cases, the local municipality does provide this service for a standard weekly, monthly, or annual fee, or else these costs are (or may be) included in your real. estate taxes. If it is so included, then obviously there will be no budget item. Other cooperatives have decided that they can provide the services to their members more inexpensively by hiring other contractors in those cases where the local government charges a separate fee. In that case there are charges for pick-up of trash regularly, for the purchase or rental of containers (perhaps dumpsters), and/for the purchase of plastic trash bags. The charge for regular pickup and rental of containers should be fairly constant, perhaps (and preferably) governed by a contract. If you supply your members with trash bags, however, you need to investigate the price with a variety of suppliers, as well as investigate buying them in cooperation with local or regional associations to minimize costs.

    Many cooperatives that supply trash bags to their members have found it desirable to determine a normal quantity of usage, and supply only that number of bags per period without charge. Or by purchasing in bulk, some have fond it helpful to sell to the members at cost, which must be lower than retail store prices.

    Additionally, it will occasionally be necessary for your maintenance personnel to take large items to the local dump. Don't forget to include some extra for those trips, as there is always some small charge.

23. PARKING AREA EXPENSE. This line usually relates to the major maintenance of the parking areas, such as resealing or resurfacing the lots. Obviously this needs only to be done one every several years, and the expenditure involved (when it does arrive) is generally very substantial.

It is often wise to anticipate this type of expense by setting up a specific reserve for it, and then, when the expense becomes necessary, show the expense here, and the withdrawal from the reserve as some form o income (see later sections re: INCOME). Some cooperatives may desire to show the expenditures needed because of snow removal contracts in this area as well. If so, again, it is good practice to count on a bard winter with heavy snowfall and budget enough rather than to be caught short. Other cooperatives may show "snow removal" contract expense in line 27 - Grounds Maintenance. Any many cooperatives do not have snow removal contracts, as their equipment is designed to allow the maintenance staff to take care of that matter.

24 - 26. * * * * * * * * * * * * These blank lines will allow you to separate or segregate any particular expense item that is not provided for explicitly or that you may want to keep specific track of.

27. GROUNDS MAINTENANCE. This budget item encompasses a large variety of expenses including lawn fertilizer, sod replacement, new trees and/or shrubs, salt for ice removal, etc. Here again, it is almost mandatory that you be provided (or that you get) an itemized detail of the past expenses. The maintenance department and/or the property improvement committee may have some substantial input regarding what is planned in the near future for landscaping. The appearance of the grounds is what will attract many people to your cooperative (or keep them away) and it is important that this budget item is not cut any more than necessary. With fertilizer and salt, considerations might be: (1) fertilizer - what kind of program of regular maintenance do you have, how much is used per time, and how often during the summer is it applied. Again past volume is a better 'guideline than past cost; (2) salt - volume of past usage combined with the knowledge of how severe past winters were is mandatory as you will want to budget for a severe, icy winter.

Often, with these two items, it Is possible to order and assure price structures well in advance of teed. For instance, many cooperatives order their fertilizer for the ensuing year during the early fall of the prior year, thus assuring both price and quantity availability. Be sure to check and see if this is possible in your area. Cooperation with local and/or regional associations in the field of bulk purchasing may be available and helpful with both of these categories.

28. <u>PAINTING AND DECORATING.</u> This line is very difficult to discuss, as so Much depends on your cooperative's attitude toward the membership sales (or transfers). Many cooperatives do recondition all units when vacated by members including painting if necessary. Other cooperatives do not do any reconditioning excepting for those cases of termination of membership or eviction. Whenever the cooperative does do reconditioning work, the costs are supposedly recoverable from the member, but you must determine how much can be realistically recovered. Also, the rate of member turnover will have a substantial effect on the amount of painting and decorating done. Last, year's expense will be some guide to your budget, but temper this with your best judgement regarding your particular marketing situation.

Above and beyond the costs of unit redecoration, the cooperative will always have the responsibility and expense of repainting and/or restraining the exteriors and any common areas from time to time. As indicated in the Parking Area Expense line, this will occur only every several years, and it is appropriate to set up a reserve for this major expense as it occurs. Exterior painting should be anticipated about every three years. Periodic inspections will determine whether you can delay it further, or need to do it more frequently.

29. <u>STRUCTURAL REPAIRS</u>. Obviously, if you are in a relatively newly constructed development, there will be very little need of structural repairs. This of course, assumes that you are the beneficiary of competent construction in the first place (which is a large and often unfounded assumption). As your cooperative ages, the need will become greater as you have to begin to repair sidewalks, chimneys, foundations, roofs, doors, eta. These items very seldom come up in an "emergency" situation, and by careful planning in advance, many of these types of expenses may be anticipated, contractors contacted, and cost estimates received early enough to give some indication of expense. Of course, as these expenses become necessary, many of them may be able to be paid for out of the Replacement Reserve, with HUD approval, and will therefore not be a cause of a Housing charge increase. In all cases, attempt to find out from your HUD regional office whether a certain expense may be covered from this reserve well before the need for the expense arrives:

30. <u>HEATING AND AIR CONDITIONING</u>. This line is normally used for expenses incurred by the cooperative for work performed by outside contractors on any heating and air conditioning equipment. Here, also, age will have a definite effect on the level of expenditure, unless you are fortunate enough to have a maintenance staff that is competent to perform whatever work is needed. Of course, complete replacement of furnaces or boilers because of age is a Replacement Reserve item. Many cooperatives may desire to have the purchases of equipment and parts for repair of heating and or air conditioning shown on this line, and others will group this type of expense with line 7-Miscellaneous.

Maintenance Repair. For the purposes of record keeping, it is much more complicated to break down each purchase from the hardware store of spare parts into the various categories outlined in lines 30-34. However, remember that your agent is your employee, and the need for understanding the budget (end monthly cash flows) rests with the Board, so your preferences must have precedence over east of accounting.

Both Heating and Air Conditioning repair and maintenance can be an expensive item in your budget. Depending on your circumstances, you may find it desirable to send one or more of your maintenance employees to receive special training in the repair of your particular types of needs, rather than contract with outside firms.

Basically, check last year's expenses, and remember that your equipment is now a little older and a little more worn.

31. PLUMBING MAINTENANCE. Again, this is generally used to account for the work performed by outside contractors. If your account for the parts and repairs done by your staff he-e, remember that low costs one year (caused by non-preventive maintenance) may be replaced by extra-ordinary expenses the next year. If your own staff is performing the maintenance on the plumbing, be certain that you, your agent, and your employees have worked out a satisfactory program of preventive maintenance. Replacement of many plumbing items are recoverable from the Reserve for Replacements, but the extras, such as clean-up time, emergency calls, etc., are not recoverable, so obviously it is much better to prevent than to replace.

32. ELECTRICAL MAINTENANCE. Some as lines 30 & 31, i.e. generally used for outside contractor expense. This is not a major expense item, as problems with the electrical system can usually be handled by your staff by replacing a fixture, putting a new fuse in place, throwing a breaker switch, etc.

33. ELEVATOR MAINTENANCE. Same as above, except it is usually required by statute that you have regular safety inspections and maintenance, which you probably have arranged a contract for. Although vandalism is not normally included in a service contract, your staff can often take care of that type *of* problem. More serious vandalism may require extra expense under your contract terms, and only your experience can give you some idea of those needs.

34. POOL MAINTENANCE. Same as above, in that this will normally reflect outside contract services. You may want to include here those expense items specifically purchased for the maintenance of the pool, such as purifiers and other chemicals if not arranged for by contract. Because of increasing pollution of water, either. from use, or by polluted air and/or rain, you may find yourself draining and refilling the pool *more* often than you feel should be necessary. Therefore, provide yourself with sufficient budgetary cushion.

35. MAINTENANCE SUPPLIES. This account is treated differently by different cooperatives. Some use it only for supplies, such as uniforms, needed to equip the maintenance staff. Others use it more commonly to serve as a "catch-all" for the various repair parts and equipment used by the maintenance staff to make repairs as needed (see lines 30-34). At any rate, it will be very helpful to have a detailed itemization of exactly what expenses are reported in this account (what was spent and what for - exactly). This account will grow with consistent regularity from year to year **as** the cooperative ages.

36. MAINTENANCE PAYROLL. About the only way that you can achieve an accurate picture of your past and anticipated costs will, be to schedule your past expenses for the past twelve (12) months (at least). You may find it convenient to list all of your salaried personnel first, with a monthly breakdown of their salaries, followed by a list of all the employees you have used on an hourly basis, with a monthly breakdown of the costs for each person. A columnar pad of at least thirteen columns is desirable for this purpose.

Once you know exactly how the total sum was broken down "last year,' then you must give consideration to any commitments to salary increases (either contractual or otherwise), as well as a review of your maintenance program and plans. Are some of your past employees used for special projects that will not be continued from year to year, or are you planning any such projects in the future that have not occurred previously? Can you save costs on some other line items by hiring and/or training your personnel to handle whatever it may be? If so, will this require additional people, or will your present staff be sufficient? Another thing to consider is whether you are able to take advantage of the many governmental (state or federal) programs that assist in the payment of wages to certain groups of persons, because of unemployment, special training available, or age, such as youth with working permits? Or are these types of projects desirable for your particular circumstance, even if they are available? If you budget to utilize this type of assistance, be certain that your agent is aware of your desire, or he may find himself unable to maintain your budgetary limits.

37. MISCELLANEOUS MAINTENANCE REPAIR. This is another "catch-all" account that may reflect the same types of expenses outlined for line 35 above. It is particularly important that you, the Board, and your agent have a coon understanding regarding what expanses are reported on which line, in these cases. For budgetary purposes, because of the nature of the account, it will be very helpful if you can get a detailed schedule of each individual expense for this account so that you may make an intelligent judgement as to what expense is likely to be repeated, what expense is likely to increase, etc.

39. REAL ESTATE TAXES. Depending on your mortgagee, there may be variations in the method of calculation of the required escrow for real estate taxes that will be acceptable to them. If your mortgagee is F.N.M.A. or G.N,M.A. (probably the most common), the following method of determination is appropriate:

(1) First determine what your actual expense has been during the past year. Such Information is commonly indicated on your mortgage payment receipts as an expense from escrow in the month it was paid.

(2) Next be sure to correspond with your local tax assessor and attempt to get his evaluation of the probable effect of anticipated tax increases or possible tax equalization factors that may be applied, in order to arrive at some determination as to what your expenses are likely to be, in the coming year. If that is not possible, either because the assessor 33 unwilling to commit his office, or because he may not have the knowledge you require at the time, then it is usually acceptable to anticipate an increase of between 57. and 107., depending on the past several years' tax history of your locality.

(3) Remember, that most localities Have two (2) tax collection periods, one in the summer and one in the winter. Make a determination of your anticipated expense for each of those periods.

(4) Now, by determining the balance in escrow at some given point, subtracting that amount from the amount you think you will need, you will arrive at a total annual figure to budget.

Depending on your mortgagee, it may be important that you monthly budge, payments to the tax escrow fund be 1/12 of the total summer tax bill plus 1/12 of the total winter tax bill. Other mortgagees may be willing to accept payments that are less than those figures depending on the surplus that may accumulate, when the taxes are due, or other factors of calculation. Be certain to check whichever method you use with your mortgagee, as the mortgage documents give the right to the mortgagee to determine what monthly amounts are required to make the payments as needed.

Whatever method you use, be assured that the mortgagee will not allow you to fund at a level that they feel is insufficient to enable them to make the tax payments when they are due, in their sole judgement. It is your Job to be certain that you fund sufficiently, and to convince the mortgagee of your figures if they figure differently. Prepare your case carefully!

40. EMPLOYER'S PAYROLL. TAXES. The amount for this line is determined as a percentage of the sum of lines 2, 8, 19, and 36. There are several taxes required of employers by both state and federal governments, including Federal Unemployment Taxes, F.I.C.A. (Social Security Taxes), and state unemployment insurance. In order to find the various rates which, apply, check with the tax returns submitted either quarterly or annually for each particular tax. The rates are always expressed as a percentage of gross payroll (which may also include some types of fringe benefits), and may vary from time to time based on your particular experience. Usually the Federal Unemployment Tax gives a credit for some payments to the state unemployment funds. Add your total payroll for all categories, plus any fringe benefits that may be included in the taxable definition of wages, and multiply by the total percentage calculated for taxes to get an annual budget figure. (NOTE; the value of any units supplied to your personnel is typically considered with wages for these purposes.)

41. MISCELLANEOUS TAXES. This is another of those "catch-all" lines, which shows the payment of all taxes, licenses, and fees charged by governmental units that are not accounted for elsewhere. License plates for your vehicles, inspection fees for heating units, sales taxes and licensing fees (if applicable), and building inspection fees are typically accounted for here.

Some cooperatives also reflect the expense for Personal Property Tax on this line, and other have preferred to make a separate line item to report it. Personal property taxes are calculated from the millage rate in the same manner as Real Estate Taxes, taking into consideration the amount of personal property owned by the cooperative. Personal property may, depending on your local customs and/or laws, include the stoves, refrigerators, etc., in all of the units, but more typically, it includes all maintenance and office equipment, as well as any furnishings of common areas, such as lobby's, community buildings, etc.

42. PROPERTY AND LIABILITY INSURANCE. This line is usually a total of the monthly payments to the mortgagee for hazard insurance premiums plus any additional premiums paid for General Liability insurance, as well as other types of liability insurances (perhaps auto, directors and officers, liability umbrella). It is important that you check with your insurance agent to determine what coverages you have, as well as how much the annual premiums are. Premiums are often adjusted when one policy expires and another is written to replace it, so check expiration dates. This also might be a good time to make a note to have your insurance agent review your various coverages and recommend deletions or additions, so that you may properly budget.

The annual premium for Hazard Insurance Is normally paid to the mortgagee who holds it in escrow, such payments are normally monthly, and often accounted for by the mortgagee by including the amount together with the Real Estate Tax Escrow payments. For this purpose, divide your total annual premium by twelve, and add it to the amount you plan to escrow for taxes. Watch your policies carefully, as some are written in such a way to include the liability insurance In one package policy with the, hazard insurance, If so, remember not to budget separately ford these premiums, as the total will have to be escrowed with the mortgagee.

43. WORKMEN'S COMPENSATION. This amount is, like other, based on a percentage of your total payroll. Depending on what types of employees you have (maintenance, office supervisory), you may have several differing percentages to account for. Usually this insurance premium is paid for in two payments: the first being a percentage of your estimated annual payroll and the second being a percentage of your actual payroll after the insurance company has had the opportunity to audit your records, and made appropriate adjustments.

    This is one particular form of insurance that is, or may be, group oriented. This is, you may be able to secure better rates, or rates based on an "experience" rating, if you are able to participate with a large group of similar businesses, Check with your local or regional cooperative association, as well as local or regional home builder’s associations, local associations of owners of multi-family housing, etc.

44. FIDELITY BONDS. if any officers of the cooperative have access to any of the funds, or *is* responsible for the actual expenditure of funds (such as being a signatory on one of your checking accounts), then it *is* very important that any such person be bonded. Don't be misled by the feeling that your officers are honest, so you don't need bonding. Only the honest people will ever steal from you because they will be the only ones that are given the opportunity to do so. There is not one company who has been embezzled from that didn't believe that the person responsible wasn't honest. This also extends to any of your other members (or employees) who have access to your funds. (If your office staff i employed by the agent, he sure he has proper fidelity bonding, and ask to see a copy.) The price of fidelity bonds depends on the amount of coverage you buy - and it is imperative that you buy a policy that is slightly larger than you think necessary.

45. MISCELLANEOUS INSURANCE. This will cover all of the insurances that are not accounted for in the above-mentioned lines, such as hospitalization, retirement insurance, disability insurance that you may supply as fringe benefits to your employees, and theft insurance for your personal property. You may want to account for your auto insurance here rather than with the liability insurance. Simply get out the policies and add up the premiums, or perhaps just have your agent do it for you.

46-48, * * * * * * * * * * *, Some more of those blank lines for you to provide additional or separate accounting for specific requirements of your cooperative.

50. MORTGAGE INSURANCE PREMIUM. There are wide differences between types of cooperatives and method of financing as to whether or not you may have 'to pay a Mortgage Insurance Premium. If you do, this will commonly be indicated in your mortgage documents, as well as indicated on your amortization schedule from the mortgagee.

51. MORTGAGE INTEREST. This calculation is a simple addition of the amounts indicated on your amortization schedule as provided by the mortgagee for the twelve months of your fiscal year.

52. MORTGAGE PRINCIPAL. Ditto. (As line 51)

53. REPLACEMENT RESERVE. The amount of the monthly payments to your Reserve for Replacements will be found in the appropriate mortgage documents most often the Regulatory Agreement. Remember, if your cooperative was built and financed in several sections, to add all sections' payments to get a total. This is always indicated in the mortgagee's billings as well as the mortgage documents.

While the amount that you are supposed to fund to this account was determined at the time of your mortgage, and is based on supposed replacement costs of major equipment and structures, the rate of inflation and your rate of use (or withdrawal) of that fund may dictate that you re-examine your funding level and perhaps increase it beyond the stated demands. If you conclude to increase payments, it is not always wise to increase your payments to the mortgagee, but, as an alternative, set up your supplementary reserve on which you can gain income from investment as you choose.

54. GENERAL OPERATING RESERVE. Again, according to your Regulatory Agreement, you must deposit (in a federally-insured account) 37. of your total collections from members for housing charges. Your Regulatory Agreement also probably provides that at some time when you reach a certain level of funding, the percentage may drop or be eliminated completely. Read your Regulatory Agreement carefully to determine this. Normally, you may stop funding completely when the total in the General Operating Reserve reaches a level that

is the same as 257. of your annual occupancy charges, or perhaps, 257. of the average total operating expense over the past 5 years. If you have reached the point where you are no longer funding this reserve, it only remains for you to check each year to see that the 257. requirement is still being met.

55. PAINTING RESERVE. This is the one reserve that is at often utilized by developments for the re-painting of the exteriors and coon areas that must be done periodically. If a reserve is not set up, then you will surely find yourself, one year, with a whopping expense facing you for that work. If you have had the work done once, then by some fairly simple calcul-ation, you can determine how often it needs doing, how much is should cost, and simply pro-rate the cost over the term involved between jobs.

56. PROJECT EQUIPMENT PURCHASE. This line is used usually to record the expense involved in the purchase of any major equipment that is not fixed (i.e. maintenance equipment such as tractors, key machines, sewer augers, vehicles, etc., as well as furnishings for the community building). For accounting purposes, these types of expenses will have to be depreciated over a period of several years, rather than treated as an expense for the year spent, and that is why it is important that they be kept separately.

Other cooperatives have sometimes used this account as another reserve fund to provide for the regular replacement of such equipment as suggested above, which makes certain that you will not have extraordinary expenses one year and very little the next, which certainly would make planning and consistency difficult.

57. CAPITAL IMPROVEMENTS. These expenses will be for permanent improvements (or replacements) to your cooperative. If you add new buildings, an in-house cable T.V. system, permanent playground equipment, and so forth, those expenses would be reported here. These are the types of expenses that will add to your real estate tax evaluation rather than to your personal property evaluation. Just what you plan to do Is what will, determine this budget item, and past experience will not usually be of much help.

(SPECIAL NOTE: The self-funded reserves that you set up, and any expenses for Project Equipment Purchases and Capital Improvements provide you with the opportunity to plan ahead and assure yourselves that your cooperative will continue to function, and be a pleasant community for the term of your existence. It is imperative that the Board of Directors take the time and opportunity to do this type of long range planning, as well as to deal with the day to day business that tends to occupy your time and efforts.)

58. TOTAL EXPENSE. Obviously, this is simply the sum of all of the preceding fifty sever lines as indicated above.

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Now, either turn the budget form over, or go to the second page (if you are working from a copy), and we will begin to deal with the part of the budget that is so dear to the hearts of us all - where the money comes from that you have so blithely spent on the first side.

59. CARRYING CHARGES. This item is often confused by non-members because of the legal meaning given to the term by the Uniform Commercial Code (which defines terms regarding financial dealings). For this reason, it is helpful to use the term "Occupancy Charges" or "Monthly Housing Charges" in its place. Whatever term you use, the meaning for you is the proportionate share of the costs of running the cooperative which is allocated to each member. Because of the particular relationship of the resident-owners to the cooperative corporation, it is not rant, either.

As most of your income comes from the members, the total amount you will need can only be determined after you have calculated the income- that you reasonably expect to derive from other sources. So proceed with the other line items under Income, and come back to this item later.

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Now that you are back to this line, and have finished with all other sources of income, subtract the total that you have obtained from other income from the total on line 58, and you will have the amount of money that you need to collect from the members.

Next, get last year's annual budget figure for carrying charges and compare the two. One of three alternatives will be immediately apparent: (1) you need les: money than last year; (2) you can get along for another year on the same amount of money; or (3) you need more money.

You will probably never be faced with the problem of what to do in case of alternative 1, but if you are, it may well be the cause of great amounts of discussion and consternation among the members of your Board. If, at some point, you find yourself in the fortunate position of having too much money, keep in mind that each succeeding year will probably bring other increases that will eat up any surplus you are able to accumulate. Or, this might be a good time to set up some of the reserves discussed earlier for special projects or purchases. While it is often a very popular decision to lower the monthly charges, it is very seldom a wise decision, as time will always prevail and eat up those surpluses. The only exception is if you find yourself the recipient of a budget which leaves you with a very substantial surplus, and full, reserves for all your needs. This may be brought about by a number of circumstances, and, if it happens, it will usually be in the first few years of your corporate life. In that case, a patronage refund may be a better alternative than reducing the carrying charges, if your board is determined to give money back.

Once in a while, you will find yourself in the fortunate position of having the coming years expenses be such that you do not need to change the monthly charges in either direction. This is certainly the easiest to deal with, but if that happens, WATCH OUT Have you budgeted properly? Have you cut some expenses beyond your needs to create this situation? Remember, you are' planning for the long term of the development, and not for your particular gain this year or next year.

The most common occurrence you will find is that you need more money this year than you did last year. Now it is time to determine whether you may have over-budgeted some expenses and whether some of them might be cut without damaging your financial stability. If you cannot make realistic cuts, then you must raise the monthly charges so you will, not go into the next year knowing that you will spend more than you cane collect (that would be extremely irresponsible). SO - you must raise the charges - BUT HOW? There are many methods to use to determine exactly how the increase shall be apportioned among the members, each with their good and bad points. Your only official guide is the concept that all members shall pay their proportionate share of the total operating expenses, i.e. that any increases shall be passed along equally to all members. There are a number of ways to divide an increase "equally."

Some co-ops divide the total increase necessary by the total number of dwelling units to arrive at an equal dollar amount for the increase. The obvious objection that may be raised is that this method makes the smaller units pay a proportionately greater increase than the larger units. And the larger units, with more facilities within the unit, and being occupied by a greater number of persons, certainly costs more in all ways.

An alternative method might be to determine the percentage the increase is of the existing rates and increase each unit by an equal percent. This method invariably raises the coubt of uneven amounts, such as a unit being increased from $125.00 per month by 7%. (which would be $133.75 per month). The odd cents raises the question of whether or not to "round off" each calculation.

There are many other methods and arguments that can be raised as to "how," but the two above examples are the most often utilized, so if you want to get complicated and/or confused, you will have to think of the various other twists yourself. A basic point to remember is that whichever method you settle on, you will have to explain and interpret it to your membership, and simplicity is often best.

Once you have determined how much carrying charges you need, and which method to use to increase them (or decrease them), don't forget to go back to the expense side and be certain that any expenses that are based on monthly charge collections are now accurate. For instance, Employee Apartment Rent might need adjusting, or the General Operating Reserve which is a percentage of collections.

60. LATE CHARGES. Note that even though you collect late charges, and your monthly reports (93211) show them, and the budget form (93240) has a line and an account number, they are crossed out of your budget calculations. Every effort should be made to educate your members to the necessity of paying their charges on time, and if you are successful, ideally, you will not collect late charges. Realistically, this is most likely not ever going to be possible, but you should not build a reliance on late charges. Certainly if you do not budget for late charges and you do collect some, you will always be able to find some good use for the extra money.

61. INTEREST INCOME, Any and all reserve funds that you have, including General Operating Reserve, Reserve for Replacements, Surcharge Reserves, and any self-determined reserves should be invested in whatever manner possible that is consistent with your Regulatory Agreement. You should keep only that cash in a checking account) that is necessary to meet your expenses, and never keep a non-interest producing slush fund. To determine your probable income simply schedule your various investments together with the rates and project the income Don `t forget that during the next year, you will be making regular deposits to some of those reserves which will increase the interest income also.

62-67. OTHER INCOMES. These lines are blank so that you can provide for incomes derived from application processing fees, maintenance service charges, coin operated laundry or vending machines, commercial rents, or whatever other forms of income your particular cooperative might have.

Last year's income in these areas will give you some indication, but, another word of caution, only budget for those items that can reasonably be expected to repeat. For instance, if you have had a substantial draw from your reserves for one year, that amount is not likely to repeat each succeeding year. Likewise such things as easement and/or right-of-way purchases by others are items that are not usually repeated.

68. TOTAL INCOME. Obviously a total of lines 59 through 67.

69. TOTAL EXPENSE. Carry the totals indicated in line 58 over to here.

70. INCOME OVER (UNDER) EXPENSE. This is a subtraction of the above two lines (68 and 69). Usually it is important that this figure not be unrealistically high (either over or under), or you should go back and refigure some more to close the "gap." A target figure to shoot for on this line might be equivalent to one dollar per unit per month for the number of units in your development. That is, if your cooperative consists of 200 units, this dollar figure would be acceptable between $2,400.00 over or under.

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The only other part of the budget preparation that might prove difficult is the next section entitled "STATUS OF FUNDED RESERVES." Here you must make a determination (at least for the reserves that are required by your regulatory agreement) of the appropriate amounts required since the beginning of the funding of those reserves, less any amount that you may have withdrawn with the consent of the regulating agency (and, of course, are not required to pay back). These figures are simple extensions, from year to year, of the calculations that you made when determining the annual budget figures in the expense lines. The amounts that are actually on deposit can be determined from your mortgagee's statements or your bank deposit books, etc. Remember that deficiencies may have to be made up, depending on the requirements of your regulating agency.

NOW - APPROVE IT, SIGN IT, AND SEND IT FOR APPROVAL!

Finally, there are two things that you should keep in mind about your annual budget:

(1) This budget that you have so carefully prepared is now no more nor less than your best educated "guestimates" of what you, as a Board of Directors, anticipate for the coming year. As time progresses, you may find some of your projections off the mark, by a little or by a lot. Each year your Board prepares and/or approves a budget will give you a better understanding of what is happening so that you will become increasingly aware and accurate. Do remember to consult that practices and results of prior Boards of Directors and benefit from their 'experiences. The importance of a smooth flow from year to year in plans and methods should be realized by all your Board members so that your residents can feel secure and unconfused.

(2) While the budget is your best "guesstimate," Which you should feel free to alter it as circumstances dictate, you should know that for your manager (or agent), the budget is a major guide for his operations. The agent should never expend money that is not budgeted, either for some items not anticipated by the Board or for items in excess of Board-approved amounts, without the express permission an/or direction of the Board of Directors. Be certain that additional expenditures requested by management are consistent with your ideas and plans, or that any alterations of your plans are consistent with your best interests. Only those over-expenditures that are truly beyond the control of either you or your manager should be allowed thought question, and even then you might question them to be certain that they are, in fact, beyond control.

Now that you have completed drafting your annual budget, it is further incumbent on you to examine each monthly report, and to keep abreast of the financial condition of your development as regularly and as closely as possible. You own it. You live there. YOU run it. You are responsible. Don't let your members or yourself down.

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