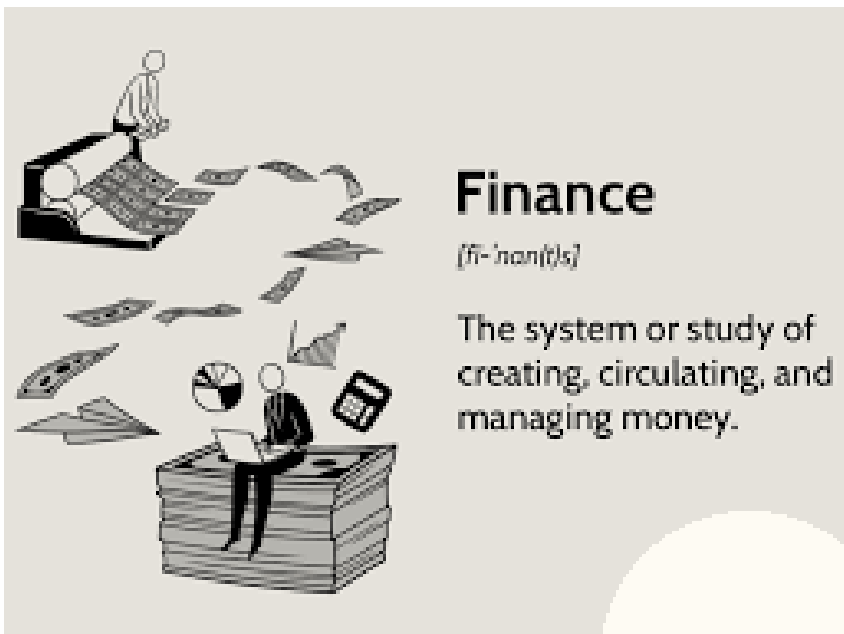
A Guide to Financial Management



By Richard Berendson

FISCAL NEEDS OF A HOUSING COOPERATIVE

A housing cooperative is a specialized corporation that 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 attaining the best housing possible at the lowest possible cost. Best housing means not only a pleasant, well-maintained dwelling but also 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 make emergency repairs and replace equipment and structural elements when they wear out.

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

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

5. To provide a measure of financial stability in periods of particular 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 –valuable information in planning and policy development.

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

THE TREASURER

The By-Laws state that The Treasurer shall be responsible for corporate funds and securities and keeping complete, curated accounts of all receipts and disbursements in books belonging to the corporation. He shall be responsible for depositing all monies and other valuable effects in the name, and to the credit of, the corporation- in such depositories as may be designated by the Board of Directors from time to time."

The Treasurer is a volunteer with a regular job that takes his time. He is not going wild with anything with his own hands. He is good-willed. They are done by the managing agent, who is paid to do them.

It is the Treasurer whom 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 to help 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 primary legal documents, the By-Laws ‘Regulator, Agreement, Occupancy Agreement, and Articles of Incorporation, outline the cooperative's fiscal requirements and give the board of directors total budgetary responsibility.

By-Laws:

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

Regulatory Agreement:

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.

Occupancy Agreement:

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

Articles of Incorporation:

The legal documents filed with a state government give 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 are 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 allows repurchasing 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 the managing agent may levy a service charge.

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 to directors as directors. Board resolution required to pay any director any payment 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 the keeping of accounts,

14) The fiscal year stated.

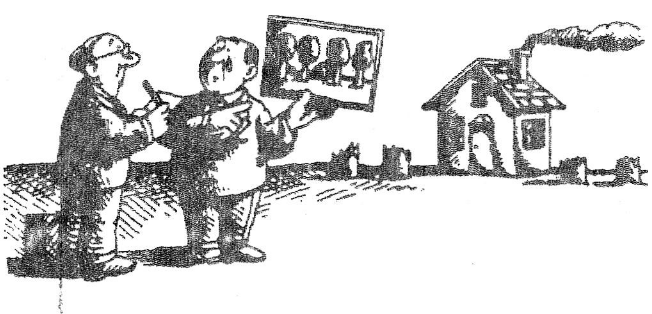
15) Books are kept under the direction of the Treasurer according to the HUD uniform system of accounts; Amount paid on mortgage principal shall be credited on the books to a "paid-in surplus" account as a capital contribution by the members.

16) Books shall be audited annually by an accountant acceptable to HUD-by-HUD requirements. The co-op will furnish its members with an annual financial statement including the income and •disbursements of the corporation and 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 to HUD as required, and membership records shall be available for inspection by any member.

18) Any officer authorized by the Board shall execute corporate documentsoard, and any two officers shall sign checks. (This does not apply to accounts in the custody of the 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 the fiscal policy of the co-op.

1. Make mortgage payments,
2. Maintain replacement reserve in the dollar amount specified.
3) Maintain general operating reserve.
4) Collect enough carrying charges from members to pay expenses, debt service, taxes, and insurance, as estimated by HUD.
5) Get HUD approval before selling any of the properties.
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 over 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 within 68 days before the end of the fiscal year, and minutes of membership meetings with HUD.

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

17) Get HUD approval before suing anyone for more than a 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 for bankruptcy.

If the cooperative fails to abide by its contract with HUD, then HUD may notify the co-op of
It’s violating of the agreement and demands 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 work it in compliance 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 the 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 Cooperative's 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 the mortgage and other insurance required by fire insurance.
   e) The cost of furnishing all utilities if the co-op provides utilities.
   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, maintenance, 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 and for the purpose necessary to obtain mortgage insurance from HUD.

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

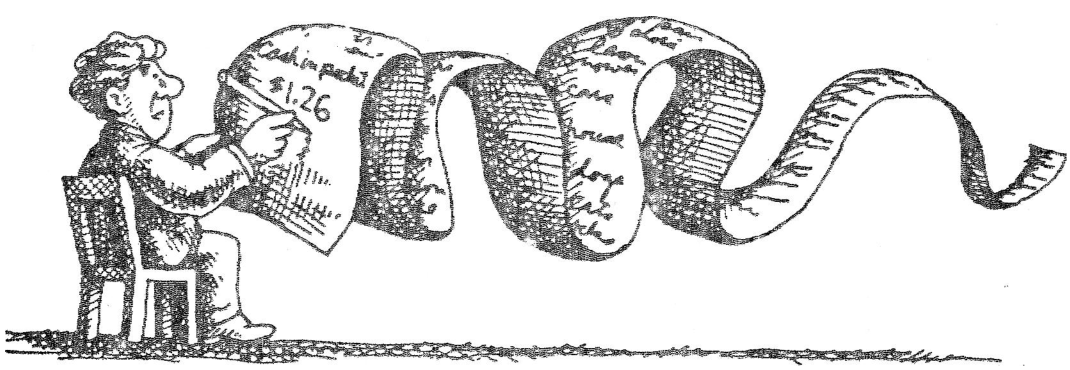
3) Sorrow money and issue evidence of indebtedness of its business objects; to secure the same by mortgage pledge or another lien.

4) Obtain from HUD a contract for mortgage insurance.

5) Enter a contract (Regulatory Agreement) that shall bind 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 accounting system 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 matters is the budget, prepared yearly by the managing agent for Board approval and HUD approval. The budget is the Board's instructions to the managing agent about how the coops should be spent during the following year. The monthly statements compare the budgeted amounts with the amounts 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 several 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 corporation's total equity or net worth (as shown in the 3000 accounts), which includes membership certificates, surplus from operations, replacement reserve, available operating reserve, and paid-in surplus. This meaning of the word equity is comparable in commercial corporations, which is the corporation's net worth or the amount of the assets after all liabilities have been subtracted; it is the value on the corporation's books that songs to the owners in total. It may surprise those who don't have an accounting background. Still, this figure does not necessarily represent what the owners would get if the Corporation's assets were sold off and the net proceeds were 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 interest when he leaves; this 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 the following.

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, stated explicitly in the by-laws for a particular type of dwelling.

You should read your own by-laws carefully and be sure you are familiar with the details in your co-op because there are so many variations in handling 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 that 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

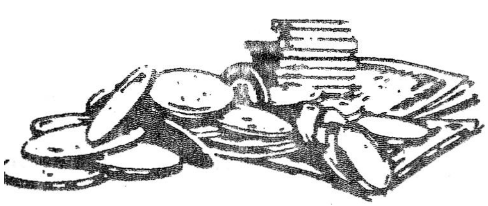
g) Land

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 with 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, 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

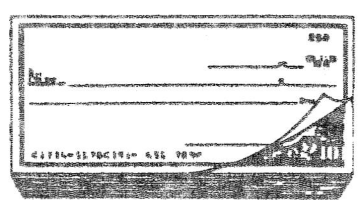
d) Prepaid occupancy income, carrying charges a member paid ahead of time and which are considered as owed to him until the month arrives for which they were paid

e) Mortgage payable, owed to the mortgagee

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

Since the co-op is a corporation, it 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, the members. This is the amount called 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 summarizes all the money received and paid out during a month or a year. You need both reports to tell you where you stand and what has happened.



DEPRECIATION

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

Deprecation is very often misunderstood, both in co-ops and in other corporations. 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 significant item.

When calculating any corporation’s expenses, you must consider not only those day-by-day expenses which show up monthly when you write checks. You must also include the cost of the significant buildings and equipment the corporation uses. You might think these essential items are considerable aid for just when the corporation starts a business. Therefore, they should all be charged against the first year's company. But this would not make sense: you'd overload the first year and put no load on the subsequent years, making any comparison from one year to another worthless. It makes more sense to divide the total expense of the building and significant equipment among many years of operation, that is, to depreciate the construction and equipment over several years.

Depreciation is simply an arbitrary schedule of allocating the expense of buildings and equipment over a period of years. You might choose to give 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. However, depreciation is not shown on the monthly reports since it d involves 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 building and equipment expense, not 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 standard payday-to-type of care, you will have significant breakdowns of considerable expense from time to time--this is what your replacement reserve is intended to protect you against.

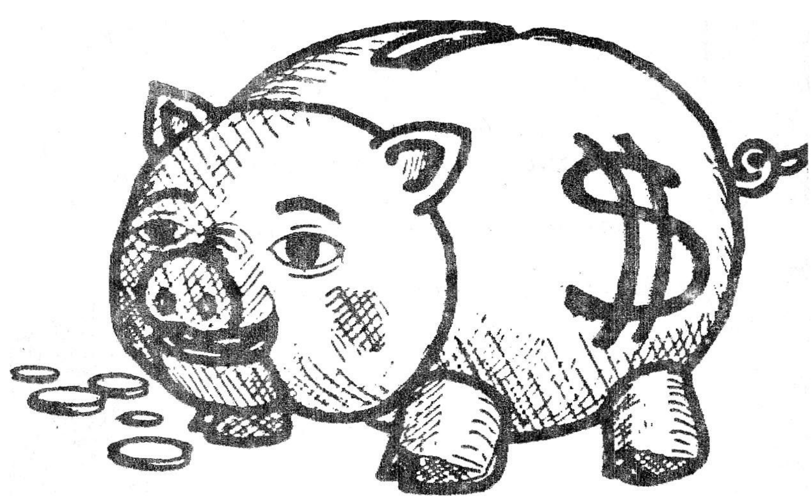
Notice, too, that there is no necessary relationship between paying off your mortgage and your depreciation rate. A corporation starting a business might do so with enough capital that it could pay for its building and equipment outright instead of financing it with a mortgage. They would nevertheless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

There is an essential 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 those which necessitate cash outlays and depreciation expense which doesn't involve any cash outlay. When these depreciation expenses amount to a great deal, the corporation is blessed with considerable cash it is not obligated to pay out. That is an advantage to a corporation that wants to accumulate funds for future operations and maximize profits.

But for a housing co-op that 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 COOP.

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

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 for the item. Some reserves are required under the Regulatory Agreement the co-op has signed with HUD: The replacement reserve and the available operating reserve. In addition, the mortgage requires that you contribute monthly enough money to pay real estate taxes when they become due and the property insurance premium and mortgage insurance premium if and when they become due. The mortgage holder holds the replacement reserve, tax escrow, and insurance premium escrow; 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 available 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 essential to allow you to replace central 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.

You'll need a vacancy and collection loss reserve if your co-op suffers vacancies. If you have excess funds in your management account, your managing agent will wish to segregate those funds - perhaps even invest them--in a separate account; this particular 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, including expenses, mortgage payments, and payments into reserve accounts, go 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 are 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 a sense used in a business; for example, co-ops that 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 available funds to make the most efficient use of its resources. Effective use of co-op funds will help keep They were 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 following 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, given spending which has 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 spending, such as a tax increase?

2. How do expenditures compare with other co-ops'? Do you have more men on your payroll than you 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 ruffles worth the additional expense?

3. If you are on a cash receipts and disbursements accounting basis, have you considered unpaid invoices when calculating the past year's expenditures? Your expenses will 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. They have 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 more significant collection loss expense, or can you reduce this expense?

6 Do you have a reserve for each of the significant

lump-significant expenditures the co-op may have to make? Painting reserve? Project equipment reserve? Is it 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 outlined in the replacement reserve breakdown schedule--you will indent. In the HUD commitment among your initial closing documents—see if YOU still agree in the light of your recent experience and current costs and whether the amounts you are setting aside in your replacement reserve are adequate. Are you finding some equipment or structural elements requiring attention sooner than first estimated? You may wish to establish an added resource supplement what YOU put 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 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 accountant should be included as expected 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 use 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 to be 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 generally required to put in

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

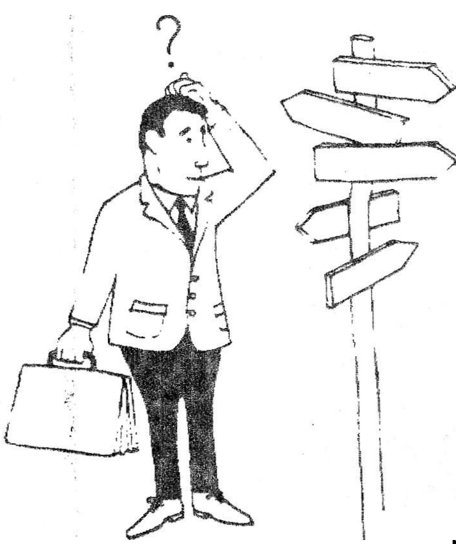
The budget is one of the chief means by which the Board exercises its control over the affairs of the cooperative; its approval of the budget prepared by the managing agent should be made thoughtfully and after careful analysis by the Treasurer and the Finance Committee.

EXPENDITURE CONTROL

Once the budget has been approved, the Board-management team has its work cut out for living within it. There is always a temptation to let the many demands from all quarters control expenditures rather than allowing the budget to control expenses. Many members will have ideas for spending money, which they will urge upon the Board enthusiastically. 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 crucial role, reminding the Board and the membership of the total impact of many small expenditures.

It is up to the Board to interpret the general statement that the co-op takes care of. Of the ll maintenance problems. Some members will be tempted to make unusual--and expensive--demands that most consider unreasonable. Does the hair-Line crack so offensive to one member warrant the expense of repairing it, or would most members decide it is of no importance, not worth spending any money on? Suppose there is an excessive demand for maintenance service. In that case, the Board may ask the finance committee and the property improvement committee to work together on the problem and suggest some guidelines for the maintenance standards 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 items. For example, if the co-op has 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 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 more 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 increasing carrying charges.

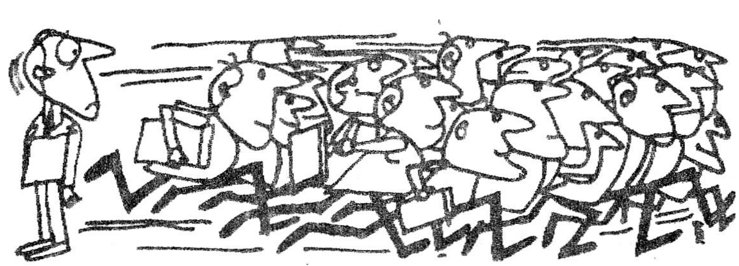
INCOME CONTROL

The money to pay bills comes from the members. Achieving income control at budgeted levels ensures that every member pays their carrying charges promptly.

The management agreement the co-op has signed with the managing agent instructs him to demand and collect carrying charges and evict 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 have had an excellent record of making collections compared to other housing types. 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 been known to brag to his neighbors, "You don't have to pay if you know the right people." And an isolated case then becomes a general epidemic. Any lack of resolution on the part of either Board or management can create severe delinquency. problem

Minor co-op income additions can be secured by investing reserve funds in government bonds or federally insured accounts. 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 installing coin-operated washers and dryers on co-op property. However, the income derived has generally been modest and is of secondary interest; the primary purpose of allowing such concessions is to provide a convenient service to the members.



USE OF RESERVES

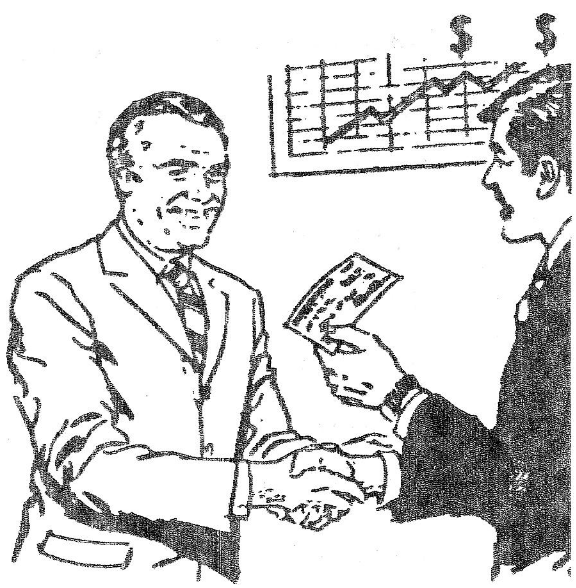
In a housing cooperative, reserves are special savings accounts added monthly for some future need. The replacement reserve, real estate tax escrow, and insurance premium escrow are kept in the hands of the mortgage holder and are required under the regulatory agreement and mortgage. Other reserves, 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's 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 available 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 after that. 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 to affect the replacement of structural elements and mechanical equipment of the Project and for other purposes as the Commissioner may have agreed to in writing. Disbursements from the such fund may 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 guarantees need be made into such General

Operating Reserve so long as said 25 percent level is maintained and provided 'additional 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 particular all account ama 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 financial stability to the Project during periods of particular str. It may be used to meet deficiencies from time to time due to delinquent payments by individual cooperators in the Project, to provide funds for the re-purchase of stock of withdrawing Members, and to other contingencies. Disbursements totaling more than 20 percent of the total balance in reserve as of the close of the preceding annual period may not be made during any yearly period without the consent of the Commissioner. Reimbursement shall be made to the account upon payment of delinquencies or stock sales for which funds are 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, the Finance Committee should prepare a schedule.

Estimating the valuable life of each piece of equipment or structural element is necessary 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 usually runs fifty to fifty-five years. If, for example, the ranges are expected to run for twelve years. You will have to buy four complete sets of fields 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 fields during the economic life of the co-op. The sum of each specific calculation is the amount of money you should put aside in your replacement reserve during the economic life of the co-op in anticipation of our immediate significant 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.

Remember 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, control may proceed to contract for replacement. Upon receipt of the invoice, man-command quests the withdrawal from the Replacement Reserve thru HUD.

HUD will approve reasonable expenditures for items listed on the breakdown schedule; In unusual circumstances, HUD may authorize expenses for other things than that on the breakdown schedule, providing funds that seem ample to meet the standard 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 job; 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 must be returned as soon as possible because it will be needed again someday. The general able rating 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 particular tax thatch has crept up on you, even seven or by any nonunique specific problems. But you must pay either as the failures are collected or when the particulars for which you needed it are resolved. If this is impossible, YOU must include the repayment of the available operating reserve in your next year's budget, even if you have to increase carrying charges.

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 account can become very important when the cooperative grows older and the down payments become Quite large. You might wish to give an incoming member the option of paying his down payment in installments over time, using a part of the general operating reserve as a revolving fund.

You can use up to 20% of the amount in the general operating reserve at 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 particular savings account in your control.

How much do YOU put into the available operating reserve? The minimums indicated below refer to the percentage of carrying charges which must be placed in the open, active account.

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 yearly 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 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 the front and the back doors and trim. Put aside one-third of this total amount, notably coal savings, so 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 available when it needs painting.

PROJECT EQUIPMENT RESERVE

It takes much money to buy the machinery YOU need to shove snow, cut the grass, transport materials and do the many tasks necessary to keep your co-op 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 initial working capital. This gives the co-op a little extra financial boost in that challenging first year. 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 cooperative's exact dollar needs is a task by the hazard. My wish may 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 items, as well as essential items such as the snowplow, 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 sum of valuable, helpful years, give you the total amount you must put aside each year in your project equipment to reserve and meet these expenses.

VACANCY AND COLLECTION LOSS RESERVE

For the first year, all limited income. All Section 213 co-ops with down payments of less than $500 must allocate 2% of the budget for vacancies and collect 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 particular savings account, as all otherwise are It is Simply put in the budget as an expense item so that income calculated to provide a breakeven operation will be then expected cash expenditures are in effect, boosting your budgeted revenue by, 2%· in the expectation that you won't be receiving: all your budgeted income revenue you have to expect some vacancy or collection losses.

CAPITAL RESERVE

Particular circumstances in some co-ops may, at times, produce more cash than is needed in the management account covering average 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

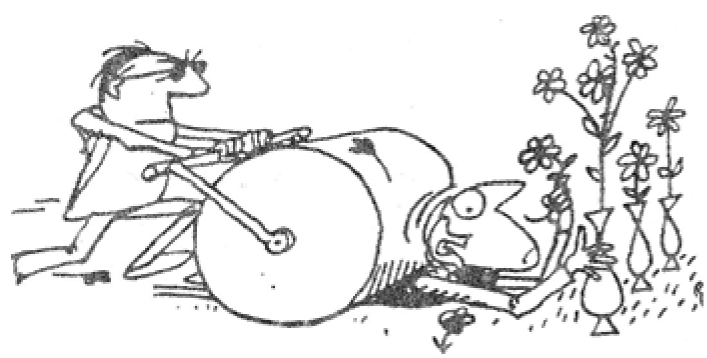
Your mortgagee wants to be sure his interest in your property is not jeopardized by your failure to pay real estate taxes or b damage the property not recoverable under insurance. The year's estimated taxes are pro-rated on every month the mortgagee and included with the mortgage invoices; these monthly 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 usually comes from the member's down payments and is equal to 2% of the total mortgage. The mortgagee uses this fund 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 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 stored instead 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 monthly receipts and expenditures. 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 month's 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 Reconciliations</u>
When analyzing the monthly statement, start with the most public figures and work from them into detailed statistics. Look first at "Income Over Expense." he you had taken in enough Money meet expenses. If you are using the cash reporting basis, you should check the accounts payable; if you have that situation, unpaid bills are a part of the excess of expenditure over income.

If you have a problem meeting expenses, check your monthly and year-to-date figures to see if the current month adds to the problem or helps to solve it. You may wish to look back over the past few months to see the trend, i.e., things getting progressively worse.

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

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

Ground maintenance can easily be over budget, too. However, there are seasons when you'll generally be spending over the budget and make it up with meager 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 corrects those reasons.

It is a serious matter if the finance committee, Treasurer, and Board conclude that you have a budget that 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 to keep from raising carrying charges. Each item will have to be judged whether it is worth the cost. Some things, like the mortgage payment, can't be changed. Some things, like real estate taxes, may rise regardless of what you do. Yet tax increases may be appealed, and some services may not be worth their cost. You may, by careful work, cut expenses that look irreducible at first,

Use the monthly statement in this fashion AS an analytical tool picking out items on which you'll want to add information from your managing agent. As YOU become more familiar with the monthly statement, you'll find it increasingly helpful 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 check your annual audit also. Your managing agent prepares your monthly statement; your yearly audit is ready for you by your auditor, who works for the co-op. Your monthly statement can be scheduled on either a cash-receipts-and-disbursement basis, on an accrual basis, or some combination of both as determined by your managing agent. Your annual statement will usually be on 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 annual report analysis. We suggest your research include comparing the yearly 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 piece that you can compare with the yearly budget.

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

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 that 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 nice, attractive neighborhood and a social organization of neighbors capable of meeting the problems the co-op may face 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 much time and effort seeking the most efficient methods of meeting the co-op's purposes. Your own time and efforts, combined with those of other Volunteers working on other' cooperative tasks, will 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 remember 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. 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 its contents' accuracy and appropriateness. That's your job as a Board of Directors,

The first thing you should do is look at a blank form 93211; become familiar with each account, not its numbers, but indeed the names. After understanding these genera/ and broad definitions, have your manager explain each history or line item on the form and the expenses or income assigned to 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 understand its number.

You might find it necessary (or desirable) to add an account 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, the 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 would be three times the amount for one month.

COLUMN 6 - Over (Under) to Date - This column is a comparison between columns 4 and 5. Always scrutinize this column. Are the accounts over or (under) the budgeted amounts? Under-budgeted amounts are in parentheses. If expenses are significantly over budget, you should demand explanations from your agent. If this continues 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.

<u>POINTS OF IMPORTANCE</u>

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 help understand the 93211.

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

5. insists 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 are reported on page 2. Direct your agent to submit an itemized list of vacancies and collection losses with the 93211.

2. <u>Employee Apartment Rent</u> - This is the amount you would collect if the employee's 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. Costs for resale might show under other accounts, such as "advertising." Variances may occur. The board should check on the reasons for this with the managing agent.

4. <u>Management Fee</u> - This is the amount the managing agent pays. The two most popular ways of delivering the agent are (1) or a percentage of collections; or (2) as a flat fee. The amount spent will remain the same month if you pay a flat fee. 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 exact 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 cost will only show once a year.

7. <u>Telephone Expense</u> - This is the monthly charge for the telephone. The fee will vary from month to month, depending on the amount of usage. Police the telephone bills. Check to see if the phone company is charging you by the call. Your managing agent should pay for his calls. If the expenses seem too high, direct the agent to bring the bills to the Board. The cost should be pretty constant.

8. Office and Administrative Salaries - You may or may not have an expense shown on this line. If the co-op pays office help, it will be handled like other salaries.

9. <u>Office Expenses</u> – The expenses shown on this line item should be worked out with the agent. If necessary, put this agreement in writing.,

10. <u>Miscellaneous Administrative Expense</u> This is a catch-all for administrative accounts,

15. <u>Fuel</u> - This is heating oil or natural gas expense. The expense will naturally be more significant 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 consist of 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 in vacant units.

17. <u>Water and Sewer</u> - 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 if you are being charged a sewage rate for the water used on your properties. These hills usually are made quarterly.

18. <u>Vehicle and Equipment operating Expenses</u> - This reflects Gas, oil, tune-ups, and other maintenance for the equipment. The agent should validate the excess expense here.

19. <u>Janitors Payroll</u> – Janitors are persons hired to clean. If you have any such employees, this will reflect their payroll

20. <u>Janitors Supplies</u> – 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 emergency call agreement. With a contract, the expenses will be constant from month to month. Otherwise, it will vary according to need.

22. Rubbish Removal – Some cooperatives have to pay for private companies to remove the trash. Others have to pay for the cleanup of garbage stations. Most cooperatives will need a least a limited amount of privet services. Expenses here should be pretty constant.

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

27 Grounds Maintenance – What does it cost to maintain the ground? The appearance of the grounds is significant for selling and maintaining occupancy. It costs more to support bases in the summertime. This line may include 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 more significant 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 on this account.

30 Heating and Air Conditioner Maintenance – This account includes expenses for repairing heating and air conditioner maintenance. This item is often reserved for the allocation of costs to outside contractors.

31 Plumbing Maintenance – the most frequent expense here is for service because of plugged updates. 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 the members should be paying for, such as light globes and outlet covers that members lose. 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 existing elevators. The monthly costs should be constant if you have a maintenance contract on the elevators.

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 collections and Vehicle and Equipment Operating Expenses.

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

37. Miscellaneous Maintenance Repair - This account and line may be similar to line 35 - Maintenance Supplies—details of what expenses are reported and where they 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 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 and annually. It's for those taxes imposed on an employer and those withheld from the employees. It will include Federal Unemployment Taxes and 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 - 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 delivered separately; if so, it is paid annually.

43. Workmen's Compensation Insurance This is another annual Expense that is required by state and 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, such as auto or theft insurance. Premiums are usually paid once a year.

49. Ground Rent - If your cooperative does not own the property on which it was built, it probably pays an annual lease payment for the land. This will 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 prices 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 mortgage principal's increase.

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 savings adequate for replacing appliances and structural-type repairs. The monthly amount is the same 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 significant purchases such as tractors, trucks, etc. The amounts here could be payments on equipment purchased, or as a reserve to accumulate money to buy such equipment, or it could show a onetime considerable expense.

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

58. TOTAL EXPENSE – This 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 indicate problems with vacancies and collection policies.

60. <u>Late Charges</u> - The amount the corporation collects from the members for late payment of the "carrying charges." A policy should be established and enforced on everyone late, for whatever reason.

61. <u>Interest Income</u> - Any interest from the cooperative's investments will be reported. Some co-ops have interest-bearing accounts and bonds. It usually comes in quarterly or semi-annually.

68. <u>TOTAL INCOME</u> - Self-explanatory.

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

70. <u>INCOME OVER (UNDER) EXPENSE</u> - This line is the one that makes all the comparisons you do mean something. While expenses vary monthly and seasonally, income should be relatively constant. This line should show each month 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 use their forms to provide the rest of the information for page 2. However, whatever conditions are used, you, the Board of Directors, should insist on complete information.

Other forms and 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 how long.

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

PREPARING THE ANNUAL BUDGET

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

Your regulatory agreement with the Department of Housing and Urban Development requires that you, the Board of Directors, be responsible for submitting an annual budget to them for review and approval before the beginning of each fiscal year. You may have, by contract, delegated the preparation, groundwork, 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. Whoever does it, it is essential that you have a clear concept of the budget and where those figures come from.

BUDGET PURPOSE

As a cooperative corporation, most of your income is from monthly housing charges (carrying charges). About 957. to 98% of your total income is what your residents pay each month. To decide what to charge your residents next year, it is essential 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 central policy regarding preventive maintenance, regular maintenance, anticipated building or improvements, services to be given to your residents, landscaping, and further provide a significant guide for management. Remember that your management contract should and probably does give your agent the right to spend up to a maximum amount of dollars without consultation. However, the agreement also provides that the budget approved by the owners (the Board) shall be a significant limit on spending.

Essential things to be considered before the preparation of a budget may be (1) past patterns of spending and (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 expensive items become much easier to identify as to level; that is, while electricity prices may rise or fall (7), your volume of usage over the years will remain pretty constant.

INFORMATION FOR PREPARATION

Suppose either the Board of Directors or a committee of the Board should prepare the budget, including the preliminary sheet sheets and schedules, rather than leaving that preparation to your manager or agent. In that case, the following will provide a guide for doing so. It is essential, however, that the members of the Board of Directors are aware of the procedures used by your agent if they prepare your budget for you. Therefore, the following is meant to provide some guidance 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 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 the information recorded on all of the books of original entry (that is, the 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 must be consulted to verify and substantiate the figures. No explanation will be entered with the statistics, only an index of where documentation may be found.

Monthly Cash Flow reports are (or should be) the instrument by which your agent puts together, each month, the information contained in the ledger books and messages to you. In addition, much greater volumes of data 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 essential 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 you have must be considered, such as management, utility, extermination, etc. Read them carefully for all provisions for increases, either regular or pass along (if the supplier's costs increase, 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.

To be adequately prepared for what you are about to do, it will be helpful to prepare some "summaries" of the information 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 year’s annual budgets and actual years' expenses as experienced; and (3) several sheets detailing expenses for every account used during the year. Many accounts are very clear-cut. You always pay the same amount each month of the year. Therefore, there is no need to schedule each expense for these accounts. 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.

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

If the detailed work outlined above is done regularly, you will be sure of being complete and accurate. First, have sheets of paper available for each account you wish to itemize, and number them by history. 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 an unusual cash receipts entry that affected this account, or perhaps your bookkeeper had to make a journal entry for some reason. Check both of these places. If the three sources (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 cash flow line. BEFORE YOU PROCEED ANY FURTHER, be sure that all figures check and balanced; otherwise, you may be doing much work based on false information, Now that you have all necessary accounts itemized in your files (or the agent's), you will find backup information justifying each expense. Go to these records and fill in the sheets just completed with the detail of each expense. Depending on the nature of the expense, you may want a greater or lesser amount of detail. Often, the Board of Directors is surprised at the amount that may be spent during a year on office supplies, and incredible fact 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 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 to be 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, approve. You must be sufficiently detailed and accurate to satisfy them and yourself.

Utility accounts and tax accounts will demand a much different type of detail. You may find it essential that accurate records be kept (or compiled) of actual usage, not in dollar amounts, but in volume amounts. When your cooperative is facing increases in any of these items, it is far superior if the compiled experience for several years shows how much (gallons or cubic feet) of water has been used on average. Now many water meters of various sizes exist in development. The 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 use all of that preparation you have made.

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

If you use more than one calculation method, whoever reviews and approves your eventual proposal should know the different 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.

(2) "Pro-Rated" means that the figure was arrived at by pro-rating the actual expenses for the known period over the entire fiscal year. (Again, if you prepare 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 anticipated annual expense.) This is used for those lines that are relatively constant throughout the year and are NOT seasonal.

(3) "Expected" - This means that the figure was arrived at using only those items constant throughout the year - i.e., contract rates mainly. 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. 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 vacant unit with nobody responsible for paying the charges (vacancy loss), or someone was responsible for payment. Still, 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 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 crucial that you order enough each year to meet expenses, and if you only rely on collecting your monthly charges with no loss, you surely will be short at the

end of the year.

Because of your good or bad experience, you may want to review how you coordinate move-ins and move-outs from your units, how you can 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 and good periods. Therefore, look over your 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, despite the efforts you may make.

2. EMPLOYEE APARTMENT RENT. As explained in line 1. You will not collect whatever unit values you give to your panel (maintenance and management), although your income is based on the full potential of 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 expect other family additions 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 costs you may generally expect in handling your resales. Do your pay for a credit check for each applicant? Do you pay your agent a resale commission or fee? Do you classify or display advertising? Do you pay someone other than your agent to handle the resales? Total all of these and enter them into this account. To project next year's expenses, it will probably be a good idea to check the past several 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; they prefer, alternatively, to make separate accountings, listing them in the 'blank spaces provided in lines 11-14. For instance, Advertising, Resale Commissions, and 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 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 more than one year but to expire with their contemplated fiscal year-end is With proper and timely negotiations, this practice inevitably make your budgeting easier.

5. LEGAL EXPENSE. This expense item may be based on several things: (1) Do you pay a monthly retainer to an attorney? (2) Do you pay your attorney for only his work hourly rate or by the case? (3) Does the amount paid to 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 for you for the money paid to 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 increasingly inclined to sue when they think they have any reasons, and this line item may easily be more insured than you anticipate. So be sure that this item is sufficiently budgeted for, that is, more 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 determining expenses, it is essential that you review the senior 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 determine if the following determined service times, twelve will remain constant (barring any rate increase, check it!). The average long-distance and local charges will probably remain long-distance 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 reasonably rapidly. Usually, once service has been established well 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 would not repeat those charges, and they would 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 remember when you are negotiating a contract that different management companies will provide services in various manners, some providing on-site staff as a part of their fee and at the same or similar price to those who don't. Bargain sharply! If your budget for these expenses here, make salary increases for extra help during peak work periods. Etc.

9. OFFICE EXPENSES. This is one Line item for which it becomes necessary to prepare a detailed exhibit of "last year's" expenses. Many of the things that you spend and are reported on this line will be non-recurring expenses 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, the printing of subscription agreements, occupancy agreements, etc., ribbons for the typewriter, and on and on. The only way you can know what items are usually needed by your office or that would generally be reported on this line item that recurs is to have an itemized schedule of what was spent last year (and perhaps the year before) and what it was for. Some expenses only recur every second or third year, such as printing members' handbooks, purchasing checks., etc. Some of the costs may *be* furnished by your agent as a part of his management agreement with you, Be sure to check with your agent and the treatment's extraneous ADMINISTRATIVE EXPENSES. This line item is a "catchall" for those things that the Board *of* Directors decides to spend money for other than items commonly reported elsewhere on the form. Mainly this may include such tor 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 essential must n it be reconsidered. Also, for clarity, some cooperatives prefer to split " Dues" out of this line and report it separately on one of the blank lines 11-14.

11 - 4, * * * * * * * * * * * . These lines are blank on the form and are often used, as indicated above, to report such things as Credit Report Expenses, 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 fuel oil use, storage and inventory. For their projects, those developments that use gas for heating, etc., substitute HUD Account Number 6452 - Gas. Nevertheless, whichever "fuel" you use, it is essential for your calculations that before 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, these times, by some governmental agency, and for this reason, they are sometimes hesitant to give any figure. Still, 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 or recommendations that may be pending.

Whatever fuel you supply, whether for all of the units or only for the community building, your most specific indicator of use will be a compilation of the volume of usage rather than a compilation of costs. The book should remain fairly instant if you use a 'cost" basis for calculating your costs war expenses. If you pay for the community building fuel, how has the use of that facility compared with your anticipated improvement of its possible service in the future?

Watch out for clauses that allow "pass-along" of their wholesale costs if you have a long tract with your supplier. If you have such a contract including such a' cause, 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 one? The project was re-metered so that each resident was responsible for 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 *instead of h*aving it supplied as a normal of their housing charges.

16. ELECTRICITY. Many of the same considerations indicated above apply equally to this line item. Here, care must be given to the amount of exterior lighting (security and 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 water heater heaters run by electricity.

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

(GENERAL COMMENT ON ALL UTILITIES: You are dealing with monopolies that set prices with their interest, not yours. Consumer protests, including yours, may help delay rises in rates, but you are at their mercy and very vulnerable, With that; 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 wells generating their electricity,., Let your imagination run, and you may find an alternative that is reasonable or may become reasonable, given the present options 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, lawnmowers, cooperative pick-ups, etc.) Schedule your costs for prior years, and then realize that the priests are rising rapidly; once again, the volume may be a better indicator in that it may be easier to determine the four 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. An essential thing to remove from guarding this account because "janitors" are not the same as "maintenance personnel." This distinction *is critical* if you ever wish to compare your expenses with other developments. Janitorial staffs are clean-up persons and the operators of specific building equipment, such as boilers. If you have common hallways and lobbies to keep clean, they will have a janitor’s s payroll. If you are of town-house 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 regularly cleaning your community building and office space and cleaning units when vacated. Such cleaning supplies include cleansers, wiping rags, oven cleaners, sponges, etc. If the rate of turnover of your units is pretty constant from relatively year, then this expense item will also remain reasonably stable. I am pretty consistent 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 experiences, your forecasts will be easier to be much more accurate.

21. EXTERMINATING, This account will reflect all charges paid to any outside

contractor for his servi^c^es. 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 see the market so regularly and pay only on a per-call basis, making a budgetary calculation more difficult, but possible by the averaging experience of past years If your needs are infrequent, own maintenance staff may perform this service. You may buy the chemicals, in which case, the expense of the chemicals may be better reflected under maintenance supplies (line 35).

22. RUBBISH REMOVAL. There are signs 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 maybe in your Real Estate taxes. If it is so informed, there will be a 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 other frequently picking up trash, purchasing or renting containers (perhaps dumpsters), and purchasing trash bags. The cost for regular pickup and rental of containers should be fairly cost-prohibitable (and preferably) governed by a contract. If you supply, suppose you provide your members with trash bags. In that case, you need to investigate the price with various suppliers and buy 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 an average quantity of use and provide only that number of packs per period without charge. Or by purchasing in bulk, some have found it helpful to sell to the members a cost that 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 extra for those trips, as there is always some minor charge.

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

It is often wise to anticipate this expense by setting up a specific reserve. When the cost becomes necessary, show the payment and the withdrawal from the account as some form o income (see later sections re: INCOME). Some cooperatives may also desire to show the expenditures needed because of snow removal contracts in this area. If so, it is good practice to count on a bard winter with heavy snowfall and budget enough rather than be caught short. Other cooperatives may show "snow removal" contract expense in line 27 - Grounds Maintenance. 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 various expenses, including lawn fertilizer, sod replacement, new trees and 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 the property improvement committee may have some substantial input regarding what is planned shortly for landscaping. The appearance of the grounds is what will attract many people to your cooperative (or keep them away), and this budget item mustn't be cut any more than necessary. With fertilizer and salt, considerations might be (1) fertilizer - what kind of regular maintenance program do you have, how much is used per time, and how often is it applied during the summer? Again, past volume is a better 'guideline than one-time cost; (2) salt – the volume of one-time usage combined with the knowledge of how severe past winters were is mandatory as you will want to budget for a harsh, icy winter.

Often, these two items make it possible to order and assure price structures well in advance of need. For instance, many cooperatives call 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 regional associations in bulk purchasing may be available and helpful for both categories.

28. PAINTING AND DECORATING. This line is tough to discuss, as so Much

depends on your cooperative's attitude toward the membership sales (or transfers). Many cooperatives recondition all units when members vacate, including painting if necessary. Other cooperatives do not renovate except for those cases of termination of membership or eviction. Whenever the cooperative does recondition 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 substantially affect the amount of painting and decorating done. Last year's expense will be some guide to your budget, but temper this with your best judgment 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 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. It is appropriate to set up a reserve for this significant expense as it happens. 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. STRUCTURAL REPAIRS. If you are in a relatively newly constructed development, there will be very little need for structural repairs. This 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 more significant as you have to begin to repair sidewalks, chimneys, foundations, roofs, doors, etc. These items very seldom come up in an "emergency" situation. By careful planning, many of these expenses may be anticipated, contractors contacted, and cost estimates received early enough to indicate payment. 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 cause a Housing charge increase. In all cases, attempt to find out from your HUD regional office whether a particular expense may be covered from this reserve well before the need for the payment arrives:

30. HEATING AND AIR CONDITIONING. This line is usually used for expenses incurred by the cooperative for work outside contractors on heating and air conditioning equipment. Here, age will also have a definite effect on the level of expenditure unless you are fortunate enough to have a competent maintenance staff 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 record-keeping, it is much more complicated to break down each purchase from the hardware to the spare parts store of 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 precede the cost of accounting.

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 repairing your particular needs rather than contract with outside firms.

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, remember that low costs one year (caused by non-preventive maintenance) may be replaced by extra-ordinary expenses the following year. If your team is performing the maintenance on the plumbing, be confident that you, your agent, and your employees have worked out an excellent preventive care program. Replacement of many plumbing items is recoverable from the Reserve for Replacements. Still, 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 expenses. This is not a significant expense item, as your staff can usually handle problems with the electrical system 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 to have regular safety inspections and maintenance, which you probably have arranged a contract for. Although vandalism is not typically included in a service contract, your staff can often care for that type *of* problem. More serious destruction 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 generally reflect outside contract services. You may want to include those expense items purchased explicitly 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 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, 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 beneficial to have a detailed itemization of what expenses are reported in this account (what was spent and what for - exactly). This account will grow consistently from year to year **as** the cooperative ages.

36. MAINTENANCE PAYROLL. The only way to 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 analysis 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," you must consider 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 other line items by hiring and 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 can take advantage of the many governmental (state or federal) programs that assist in the payment of wages to specific 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 your budget is to utilize this type of assistance, be sure that your agent is aware of your desire, or he may be 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. You, the Board, and your agent must have a coon understanding regarding what expenses are reported on which line in these cases. For budgetary purposes, because of the nature of the account, it will be beneficial if you can get a detailed schedule of each expense for this account so that you may make an intelligent judgment as to what expense is likely to be repeated, what expense is expected to increase, etc.

39. REAL ESTATE TAXES. Depending on your mortgagee, there may be variations in the method of calculating 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 your actual expense 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 to arrive at some determination as to what your expenses are likely to be, in the coming year. Suppose that is not possible, either because assessor 33 is unwilling to commit to his office or because he may not have the knowledge you require at the time. In that case, it is usually acceptable to anticipate an increase of 57. and 107., depending on your locality's past several years' tax history.

(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 and 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 vital that your monthly budget payments to the tax escrow fund be 1/12 of the total summer tax bill plus 1/12 of the whole 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 calculation factors. Be sure 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 they feel is insufficient to enable them to make the tax payments when they are due, in their sole judgment. It is your Job to be sure that you fund sufficiently and to convince the mortgagee of your figures if they figure differently. Prepare your case carefully!

40. <u>EMPLOYER'S PAYROLL. TAXES</u>. 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 state and federal governments, including Federal Unemployment Taxes, F.I.C.A. (Social Security Taxes), and state unemployment insurance. To find the various rates that apply, check the quarterly or annual tax returns submitted for each particular tax. The rates are always expressed as a percentage of gross payroll (which may also include some fringe benefits) and may vary from time to time based on your experience. Usually, the Federal Unemployment Tax gives 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. <u>MISCELLANEOUS TAXES</u>. 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 others 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, considering the amount of personal property owned by the cooperative. Depending on local customs and/or laws, personal pandy may include the stoves, refrigerators, etc., in all units. Still, more typically, it consists of all maintenance and office equipment, as well as any furnishings of common areas, such as lobbies, community buildings, etc.

42. <u>PROPERTY AND LIABILITY INSURANCE</u>. 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 and other types of liability insurance (perhaps auto, directors and officers, liability umbrella). You must 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 adequately budget.

The annual premium for Hazard Insurance Is typically paid to the mortgagee who holds it in escrow; such payments are usually 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. Oversee your policies, 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 for these premiums, as the total will have to be escrowed with the mortgagee.

43. WORKMEN'S COMPENSATION. This amount is, like others, based on a percentage of your total payroll. Depending on your employees (maintenance, office supervisory), you may have several differing rates. 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 make appropriate adjustments.

    This particular form of insurance is, or maybe, group-oriented. This is, you may be able to secure better rates, or rates based on an "experience" rating if you can 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. Suppose any officers of the cooperative have access to any of the funds or are responsible for the actual expenditure of funds (such as being a signatory on one of your checking accounts). In that case, any such person must be bonded. Don't be misled by the feeling that your officers are honest, so you don't need bonding. Only genuine people will ever steal from you because they will be the only ones given the opportunity to do so. There is not one company that has been embezzled from that didn't believe that the person responsible wasn't honest. This also extends to any other members (or employees) with access to your funds. (If your office staff I employed by the agent, be sure he has proper fidelity bonding and ask to see a copy.) The price of fidelity bonds depends on the coverage you buy - and it is imperative that you accept a policy that is slightly larger than you think necessary.

45. MISCELLANEOUS INSURANCE. This will cover all of the insurances not accounted for in the lines mentioned above, 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 remove 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 vast differences between types of cooperatives and financing methods 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 and shown 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, add all sections' payments to get a total. This is always indicated in the mortgagee's billings and 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 significant 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 improve payments, it is not always wise to increase your expenses to the mortgagee, but, as an alternative, set up your supplementary reserve on which. You can gain income from investments 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. Read your Regulatory Agreement carefully to determine this. Usually, 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 five 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 the 257. The requirement is still being met.

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

56. PROJECT EQUIPMENT PURCHASE. This line is usually used to record the expense involved in purchasing any significant equipment that is not fixed (i.e., maintenance equipment such as tractors, binding machines, sewer augers, vehicles, etc., as well as furnishings for the community building). For accounting purposes, these expenses will have to be depreciated over several years rather than treated as an expense for the year spent, which is why they must 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 ensures 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 your cooperative's permanent improvements (or replacements). 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 costs that will add to your real estate tax evaluation rather than to your property evaluation. Just what you plan to do will determine this budget item, and 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 allow you to plan and assure yourselves that your cooperative will continue to function and be a friendly community for the term of your existence. The Board of Directors must take the time and opportunity to do this type of long-range planning and deal with the day-to-day business that tends to occupy your time and efforts.)

58. TOTAL EXPENSE. This is the sum 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. <u>CARRYING CHARGES.</u> 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 word "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 special relationship of the resident owners to the cooperative corporation, <u>it is not a </u>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 payment- that you reasonably expect to derive from other sources. So, proceed with the other line items under Income and return 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 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 less: 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 cause significant 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 can accumulate. Or this might be an excellent time to set up some of the reserves discussed earlier for special projects or purchases. While it is often a prevalent 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 receive a budget that leaves you with substantial plenty and total reserves for all your needs. Several circumstances may bring this about; if it happens, it will usually be in the first few years of your corporate life. In that case, a patronage refund may be better than reducing the carrying charges if your board is determined to give money back.

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

The most common occurrence is that you need more money this year than last. 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, you must raise the monthly charges so you will not go into the next year knowing that you will spend more than you can collect (which would be highly irresponsible). So - you must raise the charges - BUT HOW? There are many methods to determine exactly how the increase shall be apportioned among the members, each with its 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 several ways to divide the rise "equally."

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

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

Many other methods and arguments can be raised as to "how," but the two above examples are the most often utilized, so if you want to get complicated and confused, you will have to think of the various other twists yourself. An essential 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 sure that any expenses based on monthly charge collections are now accurate. For instance, Employee Apartment Rent might need adjusting or the General Operating Reserve, a percentage of readers.

60. LATE CHARGES. Note that although you collect late charges, 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 about the necessity of paying their charges on time, and if you are successful, 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 payments. Indeed, if you do not have the budget for late charges and collect some, you will always be able to find some good use for the extra money.

61. INTEREST INCOME: Any reserve funds that you have, including General Operating Reserves, Reserves for Replacements, Surcharge Reserves, and any self-determined reserves, should be invested in whatever manner possible that is consistent with your Regulatory Agreement. It would help if you kept only that cash in a checking account) that is necessary to meet your expenses and never hold a non-interest-producing slush fund. To determine your probable income, schedule your various investments with the rates and project the income Don`t forget that during the following 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 you can provide incomes derived from application processing fees, maintenance service charges, coin-operated laundry or vending machines, commercial rents, or whatever forms of payment 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 will not likely repeat each succeeding year. Likewise, such things as easement and right-of-way purchases by others are items that are not usually repeated.

68. TOTAL INCOME. A total of lines 59 through 67.

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

70. <u>INCOME OVER (UNDER) EXPENSE</u>. This subtraction of the above two lines (68 and 69). Usually, it is essential that this figure is not 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 teams in your development. If your cooperative consists of 200 units, this dollar figure would be between $2,400.00 over or under.

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The other part of the budget preparation that might prove difficult is the subsequent section entitled "<u>STATUS OF FUNDED RESERVES."</u> Here you must decide (at least for the reserves that are required by your regulatory agreement) the appropriate amounts needed 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 actual amounts on deposit can be selected from your mortgagee's statements, 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 a lot. Each year your Board prepares and 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 the 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 as circumstances dictate, you should know that for your manager (or agent), the budget is a significant 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 things overboard-approved amounts, without the Board of Directors, express permission and direction. Be sure that additional expenditures requested by management are consistent with your ideas and plans or that any alterations to your goals are compatible with your best interests. Only those over-expenditures that are truly beyond the control of either you or your manager should be allowed the thought question, and even then, you might question them to be sure 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 keep abreast of your development's financial condition 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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