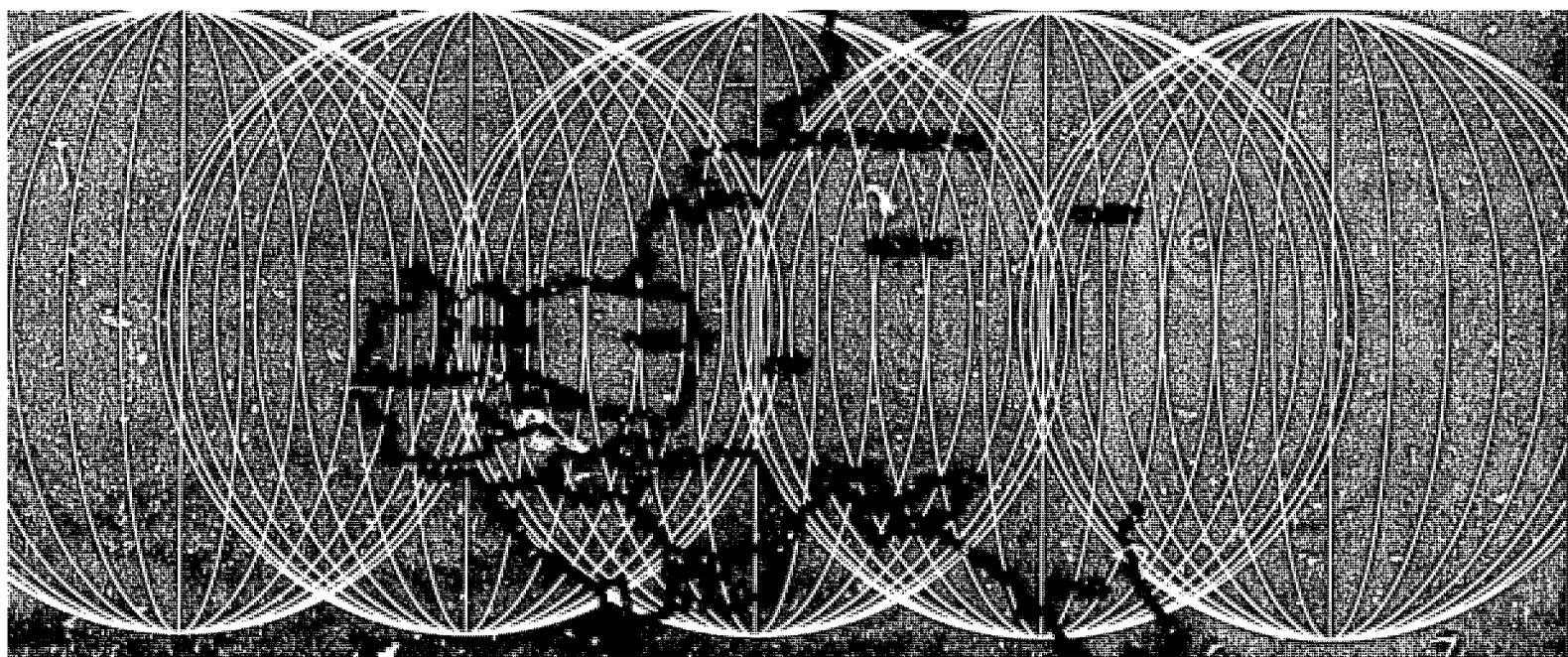


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FROM PLANNING TO MARKETS
HOUSING IN EASTERN EUROPE



THE URBAN INSTITUTE
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**AN INTRODUCTION TO THE PRINCIPLES
OF ASSET AND PROPERTY MANAGEMENT**

by

Toni S. Baar

The Urban Institute
2100 M Street, NW
Washington, DC 20037

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I. INTRODUCTION

Housing in Hungary has traditionally been viewed as a right which has been given to the people. This is true to a lesser extent in Western Europe, and to a much lesser extent in the United States where the provision of housing is seen as a business.

Currently, municipally owned council flats are provided to individuals in Hungary at very low rents. However, due to a general lack of maintenance over the years, as well as escalating costs and decreases in subsidies from the State, the majority of the housing is in poor condition. In addition, available affordable housing is in short supply.

In the past, the operation, maintenance and renovation of the housing stock was the responsibility of the State. Within the last two years, the responsibility for the housing stock has been transferred to the municipality. The municipalities do not have the resources to continue to subsidize publicly-owned housing.

Rents have not been increased sufficiently to keep pace with inflation, but the costs for services and materials have increased exponentially. Tenants have already been experiencing increases in the fees for utilities. Despite the added financial burden that it will pose for the tenants, at some point, rents will have to be increased in order for the gap between rising maintenance costs and decreasing operating subsidies to be partially closed. Another way to close this gap is to raise the level of effectiveness of property management, or the actual day-to-day management of the housing stock.

The housing situation in Hungary will improve over time if both the owner and the manager assume their respective responsibilities to ensure that the housing is preserved and maintained properly. As state subsidies diminish, the importance of effective asset and property management will increase.

The municipal government of Szolnok is attempting to address this situation by creating an asset management capability within its housing department and participating in a pilot project in which a sample of the municipally owned housing stock may be competitively bid. This process should help to facilitate improvement in property management services provided to Szolnok's council flats. It is expected that this improvement in services will eventually be extended throughout Szolnok's rental sector.

II. THE ROLE OF THE OWNER

Housing is a commodity that can and should be viewed as an asset, something which has tangible value. Blocks of flats are built to last over the long term, and generally increase in value over time as the actual cost to build new housing increases. In the west, real estate is seen as a valuable asset, one that is worthy of investment. Two reasons for this are that real estate is something that lasts, and that people will always need shelter.

The role of the owner is to maximize the value of the asset. A way to do this is by carefully monitoring its physical characteristics, by making sure that the building's physical systems are properly maintained, and by regulating its financial performance.

There are two ways in which the owner can accomplish the items mentioned in the above paragraph. One is that the owner can assume the responsibility for day-to-day operations of the property himself. The other is to contract out this responsibility to a firm which specializes in handling the day-to-day operations of apartment buildings, and by carefully monitoring the performance of this company.

Both of these methods can work well. The owner may find that he can effectively manage his building himself. However, if he owns a lot of property, or if he has a lot of other time commitments, he may wish to contract out the responsibility of managing his property to a specialized firm, commonly called a property management firm.

It is not important which method is chosen, but that the building is managed as effectively and as efficiently as possible. The better the building is managed and maintained, the longer it will last. Over time, as the market economy develops and as housing costs increase, the building should also increase in value. It is the owner's ultimate responsibility to assure this result.

The owner should be involved in long-term planning for the building. He should not only ensure that the day-to-day operations are carried out well, but that plans are made to address deferred maintenance and capital repair and improvements. He must be involved not only in the physical needs assessment but the financial planning as well (i.e., he should help plan how these repairs will be financed).

Typically, the owner of the property, while being entitled to derive financial benefits from it, must assume the risks as well. One of the components of monitoring how the property is managed is to ensure that health and safety risks for tenants and workers are minimized. The owner must procure any property insurance which is relevant or legally required.

III. THE ROLE OF THE HOUSING MANAGER

The role of the housing manager is performed then either by the owner himself or a separate organization. Currently in Szolnok, and throughout Hungary, the organization which generally assumes this function with regard to the management of the municipally owned housing stock is the IKV. It is not necessarily important who assumes this role, but that whoever does assume it assumes certain responsibilities and performs certain functions.

The primary responsibility of the housing (or property) manager is to carry out the day-to-day operations of the building. This includes making certain that the common areas (such as elevators, stairwells and hallways) are kept clean, that garbage is removed, that bugs and other pests are kept to a minimum, and that the surrounding territories (grounds) are maintained in a

clean and safe manner. In addition, it is the property manager's responsibility to ensure that the building systems are in working condition: heating, hot and cold water, gas, electricity, air ventilation, elevator.

The property manager must ensure that repairs are made on a timely basis. These include plumbing, electrical, carpentry repairs, as well as repairs to building systems, the roof, and windows. The property manager to a large extent must also ensure resident security by maintaining security systems such as intercoms, locks, and doors.

In order to ensure the effective management of the building, the property manager must perform financial management tasks. These include rent collection and accounting for all revenue, payment of bills and accounting of all expenses incurred by the building (both directly and indirectly), budget preparation and implementation, cash and cost management. In addition, the property management firm must prepare periodic financial reports, preferably on a monthly basis, to provide itself and the owner with the information needed to make sound financial decisions regarding the management of the building.

Another responsibility of the property manager has to do with leasing units to tenants. The property manager should provide orientation regarding the building and the particular unit to be inhabited by the new tenant. In addition, he should make certain that vacant units are prepared for occupancy and leased to a new tenant as soon as possible. The property manager must keep organized records for each tenant which include relevant information regarding the tenant (i.e., number of residents, family composition, place of work of primary tenant, etc.), leases (if applicable), rent payment records, and unit maintenance records. The property manager is also responsible for ensuring that the tenants pay their rent, and that appropriate measures are taken if they do not do so.

In addition, the property manager should encourage tenant participation in management, should provide certain services, and try to the greatest extent to ensure tenant satisfaction.

IV. MAINTENANCE AND SECURITY

A. General Appearance

It is important for the property manager to ensure that the general appearance of the building is satisfactory. This includes items such keeping the common areas such as the building entryways, stairwells, hallways, rubbish receptacles and elevators, as well as the building exterior clean. These areas should be kept free of debris. In addition, it includes the aesthetic maintenance of the common areas and surrounding grounds, such as making certain that the mailboxes are presentable, that painted surfaces are not peeling and are free of graffiti.

In some ways, this is one of the most important facets of the property management, because if the owner and manager show concern over the appearance of the building, they set an example for the tenants. In addition, as the market rental sector grows in Hungary and new housing is built, the competition between housing facilities will increase. Because of this, it is important for property managers to start thinking about and improving the buildings' "curb appeal" or exterior appearance. At some point, when there is not such an extreme shortage of housing and tenants have a choice in where they decide to live, they will begin to consider items such as curb appeal, amenities and location.

Obviously, improving building cleanliness, particularly if janitorial services are increased, can lead to increases in certain operating expense categories. However, the budget for each individual housing estate should be compiled separately, and should take into consideration the particular circumstances of the particular building or buildings. Choices have to be made on a per estate basis which ultimately give assurance that the money being spent is done so wisely, or in a way that is most beneficial to the building.

For instance, there was a large residential family complex in the eastern United States which was located in a very difficult, low income area of a large city. The complex was composed of one large, multi-story building with long enclosed corridors. Management had a difficult time keeping the hallways clean; individuals would urinate in the hallway and stairways.

In order to combat this problem, management increased janitorial services to include a complete washing of the hallway and stairway floors with an ammonia-based solution which was a good disinfectant and gave off a very strong smell. This was done twice a day. Eventually, because of the strong odor, people refrained from urinating in the hallway, and janitorial services were gradually decreased to their former level.

The point here is that the amount of funds spent on the appearance of a building, janitorial services, etc., should not be the same for every building. Management must make intelligent decisions on how best to spend available resources in a way which will have the most positive effect on building.

B. Work Scheduling

Building maintenance is ongoing; it is never completely finished. Problems continually occur, particularly as buildings age, and need to be addressed as expeditiously as possible. In addition, long term needs such as repairs to systems must be accomplished. The property manager must be adept at prioritizing the work which needs to be done and scheduling the work so that emergency maintenance is handled along with items that must be addressed on a periodic basis.

Some general guidelines for the scheduling of work are as follows:

1. Emergency maintenance items should be addressed immediately. If more than one emergency situation occurs at a time, the one which should be addressed first is that which, if left unattended, could cause the greatest damage to the property and pose the greatest safety hazard.
2. Non-emergency items should be handled in the order of priority. If there is no priority, these items should be addressed in the order in which the complaints were received.
3. The timely preparation of vacant units is essential in order to prevent loss of rental revenue. Vacant unit preparation comes after emergency maintenance in terms of priority, but should be addressed along with requests for current repairs of a non-emergency nature.
4. Preventive maintenance items need to be scheduled on a timely basis to ensure that roofs, building systems and equipment are sound or in good working condition.
5. If capital repairs are to be made to a building, the maintenance and janitorial team should be scheduled to prepare the units or buildings for the work to be done by the contractor(s). This could include removal of debris, preparation of walls for painting, repairs to plumbing or electrical systems, removal of appliances, etc. Immediately upon the Contractor's completion of capital repairs, the maintenance and janitorial team should be scheduled to remove any leftover construction debris and clean the units and common areas of the building.

C. Preventive Maintenance

As mentioned previously, preventive maintenance must be done on an ongoing basis to ensure that building systems are in working order and to increase their useful life.

Preventive maintenance items include but are not limited to cleaning the roof and gutters of debris, preparation of the heating system for winter, preparation of the ventilating systems for summer, sealing of windows and doors, servicing of locks, periodic checks of the intercom system, etc.

A schedule for preventive maintenance should be prepared no less than annually and preferably prior to each season. The cost of the various replacement items should be calculated and included in the annual operating budget.

D. Unit Inspections

Prior to a new tenant moving into a vacant unit, the unit should be thoroughly inspected to determine the condition of plumbing, walls, ceilings, floors, windows, electrical fixtures, etc. A form should be completed which documents the condition of each item. The management agent should walk through the unit with the new tenant prior to the tenant's occupancy of the flat. Both the management agent and the tenant should sign the inspection form.

Units should be inspected on an annual basis in order to determine if there are any conditions existing which are hazardous to the tenant may cause damage to the building. These conditions should be noted on an inspection form which should also be signed by both the management agent and the tenant, a copy of which should be placed in the tenant file. Any hazardous conditions should be remedied as soon as possible. If the condition is a result of normal wear and tear of building systems, the tenant should not be charged for the damage. If, however, the condition is a result of tenant negligence or malfeasance, the tenant should be charged for necessary repairs.

E. Vacant Unit Preparation

One of the most important components of a good maintenance program is the timely, efficient and high quality preparation of vacant units. As long as a unit is vacant, the building is losing rent revenue. Also, because of Szolnok's long waiting list for municipally owned rental flats, it is important for vacancies to be filled as quickly as possible.

If management knows that a unit is going to be vacated ahead of time, a representative of the maintenance department as well as one of the administrative staff can visit the unit prior to the tenant's move-out date. They can assess what needs to be done, and can prioritize and schedule the work. Obviously, if there is no money in the budget for this work, then nothing can be done. It is important, however, to give the new tenant an apartment which is as clean as possible and in which all necessary repairs have been made. This is for psychological reasons as well as practical ones. For instance, why should a tenant be expected to maintain an apartment when the owner shows no interest in doing so?

If work is scheduled to be done, then once the old tenant moves out, the work should begin immediately. The work should be scheduled in as systematic a way as possible so that it is completed as quickly as possible. For instance, any materials, abandoned belongings or debris should be removed from the unit first. Next, all necessary repairs should be made (plumbing, electrical, carpentry). Then, if any aesthetic repairs are to be made, they should be done next. These repairs should be done from the ceiling to the floor. For instance, if the unit is to receive new paint and new floor covering, the painting should be done first, and then the floor covering should be installed. This is for

obvious reasons; one does not want to get paint on the newly installed floors, so it makes sense to paint first.

Finally, the unit should be thoroughly cleaned before the new tenant moves into it. If there is no money in the budget to do anything to vacant units, at the very least, this last step should be accomplished.

F. Inventory and Equipment Controls

Maintenance should keep enough supplies and equipment on hand so that work is not delayed due to lack of materials.

All materials should be safely stored and the storage area should be kept clean. All equipment should be catalogued and each item entered on an equipment inventory sheet. Any time a worker uses a piece of equipment, he or she should have to sign for it. That way, the person who is in charge of the inventory will have control over what is being used, and if a piece of equipment is missing, he will know which worker last signed for it.

Likewise, all materials on hand should be catalogued and listed on a materials inventory sheet. Each time a person needs some materials to perform a repair, he should be required to sign a sheet which notes what type of materials are being used, the quantity, and the location of the repair. This helps to prevent the disappearance of materials.

Periodically, someone should count all of the materials on hand and check the total against the amount shown when the inventory was last taken. The total current inventory should equal the previous amount, plus any materials purchased during the interim, less any materials used. Also, this will enable the person in charge of supplies to know when to re-stock particular items.

G. Procurement and Supply Procedures

It is important in any property management organization that sound purchasing procedures be put into practice. Someone must spend time to determine what sources are available for the purchase of supplies and equipment, as well as relative quality and prices. Obviously, the key to good purchasing procedures is to determine where to get the best materials at the lowest prices. A list of vendors for each type of equipment, material and supply should be kept which includes relevant information such as vendor name, address, telephone number. If brochures or current price lists are available, a file of these should be maintained.

In addition, it is important that any systems put into practice include safeguards against loss or theft of the items purchased. For instance, it is common practice for a company

which purchases a lot of supplies and equipment to establish a purchase order system. The system works like this:

1. A staff member wishes to purchase 50 cans of paint. The staff member goes to the person at the company who is in charge of supplies, and requests that a purchase order be completed.
2. The person in charge of supplies completes a purchase order, which is like a requisition form, for the paint. The form includes a description of the item requested as well as the quantity. If the per unit price for the paint is known, then it would also be included on the purchase order.
3. The person in charge of supplies gives a copy of the purchase order to the worker, and keeps a copy. The purchase orders have a number stamped on them, and are kept in numerical order.
4. The worker goes to buy the paint. The paint is not available, and the clerk at the store agrees to deliver it when it is received from its supplier. The worker gives the purchase order to the clerk.
5. The paint is delivered in one week. It is accompanied by an invoice, or bill, which goes to the person in charge of supplies. The person checks to make sure that a copy of the purchase order is on file, which provides assurance that the purchase was authorized, and if so, approves the bill to be paid by the accounting department.
6. The approved invoice is submitted to the accounting department for payment.

H. Security

It is an important property management function to ensure the security of the residents to the greatest possible extent. Obviously, the potential effect the property manager has on resident safety is limited because he can only control certain factors, but these factors should receive considerable attention.

1. Maintenance of Doors, Windows and Locks

At the minimum, doors should be maintained so that they are solid, are on their hinges and close properly. Broken windows, if they allow access into a building or unit, should be replaced immediately. Building and entry door locks should be replaced immediately if they are not in proper working condition.

2. Lighting

Light fixtures in the common areas (entryways, stairways, hallways, and surrounding areas) should be maintained in good condition, and burnt out lightbulbs should be replaced as quickly as possible. If additional lighting is needed to increase resident security, this item should be given high priority in plans for renovation or physical improvements.

3. Entry Phone Systems or Intercoms

If a building has an entry phone system or intercom, management must maintain the system in good working condition. If a defect in the system is reported, it is to be considered a priority repair item. In addition, tenants should receive written instructions on the proper use of the system. The House Rules (see Section VI.B.) should instruct the tenants how and when the entrance door to the building should be opened, and the appropriate way to handle encounters with strangers.

I. Energy Conservation

Energy costs, or costs for the provision of utilities (electricity, gas, fuel, coal, water and sewer services), generally represent a significant percentage of a building's operating costs. It is therefore important for property managers to look at ways to decrease consumption without causing discomfort to the residents of a building. Obviously, certain building systems which provide utilities are more cost-effective and efficient than others. However, when system replacement costs are prohibitive, as is often the case, energy consumption can be decreased by ensuring that the building systems are maintained properly. Proper insulation of the building is also effective, and there are other low cost modifications which can be easily made which can cut down on overall energy consumption.

1. Individual Metering of Units

If the usage of a particular utility can be controlled, and if it is directly tied to need, then it is generally easier to control energy costs. Also, shifting the responsibility of utility payments directly to the tenants can decrease building costs considerably. Likewise, if the tenants have to pay for utility costs directly, and are able to control their usage of these utilities, they are more likely to consume less energy.

Energy costs are generally passed on to the tenant in some fashion. Either they pay for these costs directly, or they are considered to be part of the rent they pay. The most equitable situation is when the amount that tenants are charged corresponds most directly to their actual energy consumption.

Individual metering of utilities is a good way to ensure that people are being charged for what they actually use. It is a very expensive alternative, and can be prohibitive. However, it generally pays for itself in the long run, because the residents have to pay the utility company directly, rather than the management company. Therefore, if a tenant does not pay his bill, the management company no longer has to advance the payment to the utility company. Individual metering generally leads to decreases in utility consumption, because the tenants can see the direct result of their utility usage.

2. Insulation of Roofs, Pipes, Exterior Walls

Obviously, insulation prevents the loss of heat from roofs, pipes and walls. It is very valuable for a building to have roof insulation, because the building's heat rises, and much of it can be lost through the roof. The same is true for the exterior walls, particularly at the corners of the buildings which receive the most exposure.

Insulation is generally installed when the building is constructed. However, buildings can have insulation "blown in" the walls and it can also be installed after the fact in areas that are easily accessible, such as the pipes, parts of the roof, etc. (Tenants can wrap exposed pipes with fiberglass insulation and fasten the material with heavy tape. It is also not difficult to insulate the roof if there is an attic or crawl space, because the insulation can be fastened into place. Installing "blown-in" insulation is a bit more complicated, because holes have to be drilled in the building exterior and the insulating material has to be blown in or injected. This should be done by a professional.)

3. Weatherstripping

Weatherstripping is a low-cost technique which conserves on energy by preventing the loss of heat from windows and doors. Weatherstripping can be made of many materials, but is most commonly composed of foam rubber. The strips of foam rubber can be attached, or can adhere to the door and window frames to prevent the entrance of cold air into a room or the escape of warm air.

4. Installation of Flow Restrictors in Showers

In order to conserve on water consumption, water flow restrictors can be installed in showers. These are low-cost devices, or actual shower heads, which restrict the flow of water but increase the pressure of that which does flow so that the reduced flow is not noticeable to the user.

5. Other

Other types of materials, equipment or techniques which are commonly used to decrease energy consumption include installation of low-flush toilets, installation of devices to

regulate the flow of heat, and use of fluorescent rather than incandescent light bulbs, particularly in common areas.

Low-flush toilets have smaller tanks which utilize fewer liters of water when the toilet is flushed. Thermostatic controls can be installed in individual units when certain types of heating systems are used. These regulate the heat by allowing it to be turned on when the temperature goes below a certain set point. Fluorescent bulbs generate light using fewer kilowatts, thereby decreasing energy consumption.

J. Contracting Procedures

When the staff of the building or Management Company cannot perform a particular service or repair, it is generally contracted out to a separate company. It is advisable in this situation, particularly if the work will cost in excess of a certain amount of money, that the owner, management agent and contractor have a contractual arrangement secured by an actual written document.

Contract administration and the following of various contracting procedures is a key responsibility of the Management Company. If these procedures are not properly followed, the building may suffer serious consequences. An owner of a building wants the Property Management company to assure that repairs and services are properly performed, that the work performed is reasonably priced, that the work done meets any requirements which are in accordance with the locality, that the contractor assumes a certain amount of liability for the work, and that the work is paid for so that the property is not subject to lien by the contractor.

The following is an explanation of recommended procedures for contracting for major repair work, such as the replacement of a building's roof, pipe replacement, etc.

1. Determining Scope of Work

It is important that before undertaking any type of repair work in a building that the Management Company has at least a basic understanding of the type of work that needs to be done and an estimate of the costs involved. If the work is not straightforward and the Management Company is not aware of the full scope, it should hire an engineer or other specialist to determine the scope of work and to provide a range of cost estimates.

By knowing the extent of the work to be done and how much it will cost, the Management Company will be in a position to judge whether or not the work can be done, and how to either budget the funds from operating capital or obtain the necessary amount from other sources.

If the Management Company determines that the property can financially afford to have the work done, it is important that it writes specifications for the work, or has a qualified individual write them. Specifications include a scope of work which actually states the type of work which needs to be performed, the way in which it should be performed, and the standards by which the work is to be completed. For instance, if a building's roof is to be replaced, the specifications would address the following issues:

- a. Whether or not the old roof was to be removed, and if so how many layers, or if the new roof was to be installed over the old layers;
- b. The type of materials to be used, such as asphalt and rubber, shingles, or tiles;
- c. The number of layers to be installed;
- d. The type, number and location of the drains to be installed, and the slope of the roof;
- e. Requirements for finishing the work, disposal of debris, and general clean-up.

It is advisable in many cases, when the repair or replacement item is of a technical nature and/or is particularly costly, that a set engineering or architectural drawings is included with the scope of work.

2. Bidding Procedures

Once the specifications for the work to be done are prepared, the Management Company should provide them to at least three qualified contractors and request that bids be submitted.

The request for bids, which is often called Request for Proposals or Request for Qualifications generally includes the scope of work, a copy of the required bid format, a list of information to be required of the Contractor, and some general terms. The types of items this generally includes are as follows:

- a. The manner in which payment will be made to the Contractor, including down payments, installment payments, and retention amounts;
- b. The type of permits or licenses required of the Contractor;
- c. The type and amount of insurance coverage to be carried by the Contractor, as well as any applicable bonding requirements;
- d. Due date for submission of bids;

- e. Any requirements for references.

It is important that the bids are submitted in the same format by the Contractors, so that the Management Company can carefully judge and compare the relative merits of each. The effectiveness of this procedure is dependent upon how specific the required information is. Furthermore, the bid procedure, if properly followed, can prevent, at least to some extent, the possibility of the Management Company's awarding a contract to a firm which pays a bribe, or "kickback," to it.

The bids should be submitted in the required written format and be reviewed by the Management Company. The Management Company should judge the bids on the basis of their thoroughness, the cost of the work relative to the extent of the work proposed, and the perceived capability of the contractor to perform the proposed work.

If the proposed work exceeds a certain agreed upon monetary amount, the Property Management Company should submit the bids for review by the Owner or Asset Manager, who will make the ultimate decision to whom to award the contract.

3. The Contract

Once the contract is awarded, an actual legal contract document should be prepared, which should be signed by the Contractor, a representative of the Management Company, and the Owner or his designee. Fully executed copies of the contract should be provided to each party.

The contract should be a legally enforceable document which contains the following:

- a. The name of the Owner of the building or buildings;
- b. The name of the Contractor who will perform the work;
- c. The name of the Architect, Engineer or person or firm which supplied the specifications;
- d. The date on which the document was prepared;
- e. A statement of the nature of the work to be performed (a copy of the actual specifications should be attached to the contract and labeled as an exhibit);
- f. Commencement date and period during which the Contractor should substantially complete the work;
- g. The amount of the contract, and how the sum was determined;

- h. Payment terms;
 - i. Provision for any penalties for late payments to the Contractor;
 - j. Provisions for the Final Payment to the Contractor;
 - k. An enumeration of documents to be included with the contract (such as the specifications, architectural drawings, a copy of the Contractor's business license, certificate of insurance, etc.;
 - l. General conditions, which include definitions of the various parties, provisions and requirements for subcontractors, any changes in the scope of work, corrections to the work, provisions for termination of the contract and liquidated damages, and a signature page.
4. Monitoring of Contract Performance

The Management Company is responsible for monitoring the Contractor's performance on an ongoing basis to ensure that the work is being done properly, and that the terms of the contract document are being fulfilled. If work is not being done to the Management Company's satisfaction, it must take action to remedy the situation as defined in the contract. Payments should not be made to the Contractor unless the Management Company is satisfied that each phase of the work is properly completed. Prior to tendering the final payment to the contractor, the Management Company should ensure that all of the required work is completed in a satisfactory manner and that no work is remaining. The Property Management Company should sign a document which certifies that the work has been completed as required, and this certification should be attached to the Company's copy of the contract

V. FINANCIAL MANAGEMENT

A. Accounting and Bookkeeping

It is very important that the Property Manager keeps good accounting and bookkeeping records for all properties managed. It is advisable that these records be kept on a per building basis. This is important for many reasons, not the least of which is described in Section IV.A. General Appearance. Decisions regarding management, maintenance, operation and administration should be made on a per building or per estate basis, not for the inventory as a whole. Recording of expenses on a per building or per estate basis gives Asset and Property Managers a more accurate sense of the financial impact of certain decisions made in the management of individual buildings. However, if this is not possible, then all transactions should be coded with the applicable building and/or unit designation, so that it is possible to keep track of the derivation of each expense.

Transactions should always be recorded in the most logical manner possible, so that all journals, ledgers and financial statements are comprehensible. Every transaction should be recorded, no matter how immaterial it may seem. Records of all transactions should be kept in separate files in order that they may be verified for legitimacy at a later date.

1. Revenue

All revenue generated by the properties in the Property Manager's portfolio should be recorded in an appropriate manner and thoroughly documented. It is advisable that revenue is recorded on a per building basis, but if this is not possible, then each revenue receipt should include documentation: a code which designates the building and unit number. It is further advisable that all revenue be deposited in a separate bank account for each building. Again, if this is not feasible, then it is important that all revenue is adequately earmarked so that the Property Manager knows the amount of revenue generated per each source (estate, building, or unit). At a minimum, building revenue should be documented and kept separate from the income of the IKV or Management entity. This is to ensure that the rental income is spent on the buildings, not to cover the overhead of the Management Company.

The most obvious type of revenue received by a building is rental income from residential units and from commercial units. Other types of revenue which are common, at least in the west, are garage rent, furniture and appliance rent, revenue from coin-operated washing machines and vending machines, reimbursements for damages to the unit caused by the tenant (or improvements made to a unit at the request of the tenant), reimbursements for legal actions filed on behalf of the landlord (such as eviction actions), reimbursements from utility companies, and interest on bank accounts.

Each type of revenue (as well as each type of expense, asset, liability, and capital account) should be assigned an account number from the general ledger. The general ledger is the master document to which all transactions (asset, liability, capital, income, expense) are posted. [For a sample general ledger chart of accounts, please see Appendix A.]

Revenue is generally recorded on a daily basis in a document called a journal, which in this case is called the receipts journal. If done by hand, this is no more than a specific sheet of paper designated for this purpose which includes certain information. If it is computer generated, it's function is the same and it would be one of the menu options of the software.

At the beginning of each month, on a per building basis, a cash receipts journal should be generated. This will be used to record of all cash received during that month. The journal can be generated and kept manually, or it can be generated and updated by computer. At a minimum, the journal should include the following information:

1. Building number
2. Unit number
3. Tenant family name
4. Current month rent
5. Current month charges
6. Past due rent
7. Past due charges
8. Balance due

Obviously, items 4, 5, 6 and 7 should be added together to come up with the amount to be shown in column 8.

Current month charges and past due charges are those items billed to the tenant (such as utility charges) and collected by the Property Management Company. It is important that the current and past due amounts for these other charges are monitored, along with current and past due rents.

There should be two additional columns on the journal. Column number 9 should be for recording the amounts received from the tenants during the month. Column number 10 should show the balance due after any and all payments are received during the month. (Obviously, if the tenant doesn't make a payment during the month, the balance shown in column 10 will equal that which is shown in column 8.)

At the end of the month, the transactions for the month are all tabulated, and ending balances are determined. This is called "closing the books" or "the month end closing." At the end of the month, after the books are closed, a journal for the new month should be printed. The balance shown in column 10 at the end of the previous month should be the amount shown in columns 6 and 7, past due rent and past due charges. These items, plus current rent and current charges, will make up the new opening balance (column 8).

At any time during the month, the Property Manager should be able to post additional fees or charges to a tenant's account, as necessary. These include late fees, fees for checks which are returned for insufficient funds, damage charges or legal fees. (Each of these charges should have its own general ledger account code number). For instance, if a late payment fee is to be charged to any tenant who doesn't pay rent before the sixth day of the month in which it is due, on the sixth, the charge should automatically be posted to the account of any tenant who has not yet paid. This can be done in a manual system as well as in a computerized system. On this date, letters should be sent to all tenants who have not yet paid their rent, in which it is requested that they do so immediately.

The receipts journal can be expanded to include more columns, one for each type of other charge. It would thus be easier to distinguish between different types of revenue.

This journal should also have a section for other types of revenue, as described previously. A separate general ledger account code should be assigned to each type of revenue.

If a manual system is used, it is common for a separate ledger card to be maintained for each tenant. This gives a chronological record of all transactions (charges and payments) affecting the particular tenant's account. Similar ledgers or records can be kept on a computer as well.¹

At the end of each day, if a manual system is used, the Property Manager should add up each column for each of the transactions posted for that day. If a computerized system is being used, the program should have the capacity to print a summary of transactions for the day, so that one person can check to make sure that the amounts entered on the computer equal the amount of revenue actually received. This summary of transactions should be checked against the bank deposit slip, which should record all payments deposited into the bank on that day.

If an error is discovered in an entry to the journal from a previous day, a manual contra-entry (one that is the opposite of the previous entry) should be made to the journal if a manual system is used. If a computerized system is used, the system should allow for a contra entry to be made. This can be illustrated by the following: Mr. Varadi made a rent payment of 1,150 forint on July 5. Someone posts a payment of 5,150 forint to his account on the receipts journal. This is discovered the next day, and a contra entry is made. The appropriate contra entry would be to post a negative entry in the amount of 5,150 forint to Mr. Varadi's account, and then post the proper amount in a separate entry. It is important to note that when the contra entry is made to reverse the incorrect entry, the original charges made should not be re-posted, or the charge columns will not be correct. The tenant should only be charged once for rent and other charges (See figure A on the following page).

¹In a manual system, it is common for a Property Manager to use what is generally referred to as a "one-write system." This is a system in which the journal is placed on a pegboard. When a payment is received, the Property Manager puts a receipt on top of the journal so that the line on the receipt where the payment information is written directly covers the next entry line on the journal. The tenant ledger card is pulled, and is placed on top of the journal and receipts so that the next line on the ledger card covers the payment information line on the receipt. There are carbons (or NCR paper) between the receipt and the journal and between the ledger card and the receipt, so that the information has to be written out only once and gets entered onto each document.

FIGURE A

Name	Current Month Rent	Current Month Charge	Past Due Rent	Past Due Other	Bal. Due	Amt. Rec'd	Current Balance
Varadi	1,000	150	0	0	1,150	5,150	<4,000>
(Contra Entry) Varadi						<5,150>	1,150
(Proper Entry) Varadi						1,150	0

2. Accounting for Expenses

The Property Manager should account for any and all expenses incurred on behalf of a building or buildings, no matter how insignificant. The Property Manager should receive a written, typed or printed receipt for all expenses incurred, **without exception**. As in the case of revenue, building expenses should be documented and accounted for separately from the IKV's or Management Company's expenses.

As in the revenue category, the general ledger chart of accounts should include categories for all types of administrative, operating, utility, repairs and maintenance, relevant taxes and insurance, and financial expenses.

Expenses should be posted as soon as they are received in a daily expense journal, which can either be a manually kept sheet, or a computerized software menu option. Expenses should be posted to the appropriate expense account. The information recorded should include the name of the vendor, the entry date (date bill is received and entered onto the journal), date of the bill, period covered (if applicable), payment due date, a brief description, and the amount of the bill.

On the journal, particularly if it is computerized, there should be a section called "pay or hold." If the bill is to be paid immediately upon receipt, the "pay" designation should be highlighted. If the bill is not to be paid immediately for any reason, such as lack of available funds, then "hold" should be designated.

If the bill is to be paid immediately, then there should be a separate accounting function for the issuance of a bank draft (this can either be done manually or by computer as well). The accounting department should check the bank balance to determine if there are sufficient funds in the account to cover the bank draft. As long as the expense shows up on the daily expense journal, it will be posted to the appropriate general ledger account, regardless of whether it is paid immediately or not. This is called accrual based accounting. Accrual based accounting recognizes revenue and expenses as they are incurred, not as they are received or paid.

During each month, two separate lists, or schedules, should be kept in connection with expenses: the month-to-date check (payment) register and the schedule of accounts payable. Any time a bill is paid, it should be entered on the check register. The information included should be the date of payment, the vendor's name, date of the bill (date expense was incurred), a brief description, and the amount paid. If the bill is paid by bank draft (check), the number of the draft or check should be included. If the bill is paid by cash, then this should be duly noted.

Any bill that is incurred, received, and not paid should be included in the schedule of accounts payable. This should be a listing of all unpaid bills in chronological order from the date the bill was received. On a weekly basis, this list should be reviewed. As funds are received by the IKV or Property Management entity, bills which appear on the Schedule of Accounts Payable should be paid in order of due date or priority.

B. Budget Preparation and Management

A budget should be prepared on an annual basis which includes all of the projected revenue and expenses for each building in the Management Company's portfolio. This forces the Management Company to plan for the coming year: the level of service to be provided to each building, the amount of planned maintenance and repair, preventive maintenance, etc. It also allows Management to look at projected income and determine whether or not there will be sufficient income to cover expenses, and if not, to think about alternate ways in which to raise the necessary cash.

The budget is to act as a guide, as an indicator to let the Management Company and Owner know how well the building is "performing," particularly in comparison to what was anticipated. It is supposed to be a fluid or changing document, which means that it can and should be revised as additional information is received. For example, let us say that the 1993 calendar year budget for Building X is prepared in October, 1992. As of that time, it is projected that inflation during 1993 is anticipated to be 30 percent. If in March, 1993, additional information is received which indicates that inflation will be closer to 15 percent, the budget should be revised to reflect this change.

The budget should be prepared with care, using as much historical cost information and current data as possible. In addition, sources of revenue should be thoroughly examined

so that the Property Manager knows how much money will be available for operations, maintenance, administration and capital repair. Any anticipated repairs should be planned, and cost estimates should be obtained so that the budgets are realistic. [For detailed information on the preparation of the an operating budget, please see Appendix B.]

As was mentioned earlier, it is common for a building to have more than one bank account. Most buildings in the west have a general bank account which is for day-to-day operating expenses. In addition, generally, the building deposits a set amount of funds to a separate account, the Reserve for Replacement account, on a monthly basis. This account is for capital repairs and replacements. It is advisable, then, for the annual building budget to take into consideration the two types of accounts and budget operating and capital expenses accordingly.

In preparing a budget for capital repairs, it is important to take into account all the building systems and major pieces of equipment. Each system and piece of equipment will only last a certain period of time, the length of which is dependent upon the level of maintenance and wear-and-tear. Taking these factors into consideration, each system has an **estimated useful life**. It is important that when preparing a budget for capital repairs, that the estimated useful life of a system or piece of equipment is considered and funds are put aside for future repairs or replacements. [For detailed information on preparing a budget for Capital Repairs and Replacements, please refer to Appendix C].

C. Safeguards - Cash Controls

Currently, in Szolnok, rent and other charges are collected by the IKV's Utility Charge group. Sometimes, in other countries, tenants take their rent and deposit it into their savings bank, which transfers the money to the account of the appropriate Property Management Company. This latter practice is good because it prevents theft or fraud on the part of the Property Management Company. However, it is somewhat inconvenient from a bookkeeping/accounting standpoint, because it is thus almost impossible for the Property Management Company to keep track of receipts on a daily basis. If the Property Management Company accepts rent monies directly, there are several procedures which should be followed so that a minimum amount of funds are lost due to employee dishonesty. These are as follows:

1. To the greatest extent, funds should be received in the form of a bank draft rather than in cash.
2. A written receipt should be given to the tenant for any money he or she pays to the IKV's Utility Charge group or other Property Management entity. These receipts should be pre-numbered and kept in chronological order. They should be two part forms, one of which is given to the tenant at the time of payment, and one which is kept with

the funds received. When the funds are deposited into the bank, the copy of the receipt could be placed in the tenant file or attached to the tenant's ledger card.

3. Funds should be deposited into the bank daily. If any bank drafts are left in the Property Management office overnight, they should be placed in a locked box, either in a safe or a drawer which can also be locked.

4. Function should be split so that the person who receives the rent and completes the rent receipts is not the same person who prepares the bank deposits and checks the deposit slip against the receipts.

D. Cost Controls

As stated in Section IV.G. Procurement and Supply Procedures, it is an important part of financial management of a building to purchase goods and services at the lowest possible cost. One of the Property Manager or Superintendent's responsibilities is to continually look at its suppliers to determine if goods and services can be obtained at a lower price for the same quality. However, it is important that quality not be compromised in favor of lower prices.

One of the ways to lower costs is to periodically put service contracts out to bid, if there are competitive companies which provide similar services. In Section IV.J Contracting, a bidding procedure was described wherein specifications were provided to potential contractors. At least three contractors are invited to bid for a particular job. The contract is awarded on the basis of the amount of work to be performed with respect to the price charged by each, as well as other factors such as the contractor's reputation. In the case of service providers, a similar procedure can and should be followed. For instance, if there are several companies which perform pest control services, it is advisable for Management to periodically put the pest control contract out for competitive bidding. A specification should be prepared describing the minimum scope of service expected by the Management entity for the particular building. Management can then award the service contract on the basis of price as it compares to the scope of service to be provided.

With material and equipment suppliers, if competitors exist, Management should periodically check prices on commonly used items to determine if the same items can be purchased elsewhere for less. Again, Management should not favor lower prices at the expense of quality.

There are instances when it is not advantageous to choose a lower price materials supplier. For instance, if a particular building has a difficult cash flow situation, it may be advisable for that building to purchase materials from a supplier which charges higher prices but has more favorable payment terms. A supplier which offers lower prices may have very strict payment terms and charge interest and penalties on late payments. If the

building cannot afford to pay its bills on time, then the lower priced supplier may turn out to be more expensive, once penalties and interest are added to the original price of the goods purchased.

The same is also true for contractors and service providers. Take, for instance, the following example:

Management decides to have the asphalt replaced in the parking area of a particular building. A construction expert prepares specifications and these are provided to four contractors. One declines to bid, but Management receives bids from the other three. Of the three bids, Contractor A's bid is the lowest. However, Management used Contractor A to perform a similar job in a different building, and found the company's performance to be lacking. Contractor C submitted the next lowest price; however, Management has used Contractor C before as well, and found this company's work product to be outstanding. In such a case, it would be advisable for Management to award the contract to Contractor C.

In summary, competition often provides incentives for contractors, service providers, and materials suppliers to offer quality goods and services at reasonable prices. Occasional shopping on the part of Management is an important component of cost control.

E. Rent and Fee Collection

The method of accounting which is recommended for the collection of rent and fees is discussed above in Section V.A.1 Revenue. In this section, actual techniques of rent and fee collection, as well as the philosophy behind these techniques, are discussed.

Whether rent and fees are collected by the Management entity, the site superintendent, the bank, or other institution, various rules should be established. These include rules governing payment due dates, required method of payments, penalties and interest, and imposing of certain sanctions on delinquent rent payers.

1. Payment Due Dates

Payment due dates should be established for the payment of rent and other charges. The due date should be the same for all items, and should be near the beginning of the month in which they are due. The building has bills to pay on a continuous basis; therefore, tenants should be required to pay rent by a certain time. Otherwise, late or nonpayment of rent and other charges impinges upon Management's ability to run the property smoothly. The building's bills must be paid, regardless of whether or not the tenants pay their rent and communal services charges. Therefore, tenants must be encouraged to pay on a timely basis, to the extent allowed by applicable law.

2. Method of Payment

As stated in Section V.C.1, if possible, rent and other charges should either be drawn directly from the tenant's savings account, or paid by bank draft, if possible. Cash should only be accepted by the Property Management entity, Property Superintendent or other independent fee collector if there is no other option available. This is to reduce the possibility of theft or misappropriation of funds.

3. Penalties

As discussed briefly in Section V.A.1, in the west it is customary for Management to charge tenants a fee if they pay rent beyond a certain date. Often, a late fee is imposed on tenants who have not paid their rent before the sixth day of the month in which it is due.

The penalty, or late fee, should not be used as a potential source of revenue for the property. The motive behind charging the fee, which should be large enough so that the tenants will try to prevent having to pay it but not prohibitively expensive, is to act as a deterrent against late payments.

4. Sanctions on Delinquent Rent Payers

During the past year, there has been a sharp incline in rent and utility charges delinquencies in Szolnok. Part of this is due to the sharp increases in utility charges, as well as the general problem of inflation.

The rents have not increased in Hungary during the past few years. They constitute a very small percentage of a household's total income. As state subsidies diminish, it is important that the rents are paid, since they are one of the housing stock's few sources of revenue.

There are few real evictions in the Hungary, and it is difficult to enforce any sanctions on households which do not pay rent and/or utility charges. However, there are legal sanctions which can be imposed, but which are not actually used due to political reasons and the lack of availability of low comfort units. The municipality has to re-think this situation. A question to be asked is why should anyone pay rent when there are no enforceable penalties for those who don't pay? This creates a situation in which tenants are, in effect, penalized for paying rent.

If there are any enforceable sanctions which can be imposed on those who don't pay, then these sanctions should be used in a consistent manner. This will act as a deterrent against other situations in which tenants who can pay don't pay because they think that there will be no negative consequences.

a. **Payment Agreements**

Sometimes tenants who have not paid their rent over a period of several months are afraid to address the problem because the amount of the arrearage is overwhelming. In this instance, Management should encourage the tenant to sign a Payment Agreement. In the Agreement, it should stipulate that the tenant must pay installment payments of a certain amount every month for a fixed period of time until the delinquent rent and/or other charges are paid off. The Agreement should further stipulate that the tenant must make the current month payments every month. Even if the delinquent amount is paid off very slowly, even over a period of two years, it is better for the building to receive a little bit of the outstanding revenue rather than none at all.

b. **Reminder Letters**

At the very least, after the payment deadline date for each month, a letter should be sent to each tenant who has not yet paid. The letter should be a reminder to tenants to pay rent and other charges. The letter should be politely worded and not threatening. However, it should contain a statement which discusses steps that Management will take if the delinquency is not cleared.

F. **Financial Reports**

There are certain reports which should be generated by the Property Management Entity which describe the financial performance of the real estate, as well as certain other important performance indicators. These reports should reflect the activity in the general ledger, and should be produced on a per building basis, if possible.

Some reports should be generated on a weekly basis, because they contain information which changes rapidly. These include the following: Tenant Accounts Receivable Report, Accounts Payable Report, Month-to-Date Check Register, Income Summary.

Certain reports should be generated on a monthly basis. These are as follows: Income and Expense Statement with a comparison to the annual budget, summary Sources and Uses of Cash Statement, Detailed Income Summary, Vacancy Report, and Tenant Accounts Receivable report.

On an annual basis, it is important for the owner to see a group of financial statements which demonstrate the property's financial performance during the fiscal year. These statements should cover a full twelve months' worth of activity. They include the following: Profit and Loss Statement, Balance Sheet, Cash Flow Statement, and Statement of Change in Financial Position.

1. Tenant Accounts Receivable Report
[Please refer to Section V.G. below]
2. Accounts Payable Report
[Please refer to Section V.G. below]
3. Month-to-Date Check Register

The main purpose of this report is so that the Property Manager and Owner have a continually updated record of what bills have been paid for a given building.

The Month-to-Date Check Register, as described above in Section V.A.2., is a document which shows which bills have been paid during a given period. A new register should be started at the beginning of every month, after the books have been closed for the previous month.

The register should be produced weekly, and should be a cumulative log of what bills have been paid for one month. For instance, those bills which were paid during week 1 should also be shown on the register produced after week 2. The only difference between the two is that the register produced after week 2 should include the bills paid during the second week as well as bills paid during the first week. The register produced after week three should list all of bills paid during the first, second and third weeks. The list produced at the month-end closing should include all of the bills paid during the month.

[Please see Appendix D for Sample Month-to-Date Check Register].

4. Income Summary

The Income Summary, which should be produced on a weekly basis, is a listing of income received from all sources since the beginning of the month, compared to the total revenue expected to be received during the month.

For instance, take for example a building that has 100 apartments. The total gross potential rent for one month for all apartments, if they are all occupied and all of the tenants pay rent, is 100,000 forint. As of the end of the first week of August, rent in the amount of 80,000 forint was collected. Perhaps rent from the commercial spaces was also received in the amount of 90,000 forint, as well as income from the vending machines in the amount of 350 forint.

The Income Summary would summarize what revenue been received to date by specific category. It should also show what fraction of the gross potential had been received to date.

[Please see Appendix E for Sample Income Summary.]

5. Income and Expense Statement, with Comparison to Budget Information

The Income and Expense is perhaps the best summary of a property's financial performance. It includes all sources of receipts and disbursements from the property's operating account, and shows the amount of net gain or loss for a given period.

This particular statement, which includes a Comparison to Budget component, generally contains 7 columns, which are as follows:

1. Description of account, which corresponds to the general ledger chart of accounts
2. Actual receipts or disbursement amount for the current month
3. Amount budgeted for that line item for the current month
4. Variance between the two amounts (b and c)
5. Actual receipt or disbursement amount in the particular account, cumulative for the year to date
6. Amount budgeted for that line item for the year to date
7. Variance between the two amounts (e and f)

The Comparison to Budget component of the statement is very helpful, as it shows the difference between what revenue and expenses were estimated, or projected, and what was actually received or spent. It is the Property Manager's role to explain any substantial deviation between the budget and actual receipts and/or disbursements to the owner. Sometimes there are very good reasons for a substantial deviation, but sometimes it can be a sign of poor management controls or misappropriation of funds.

The Income and Expense statement usually differs from the profit and loss statement, in that it takes into account all expenditures, even those which are not considered to be expenses in the general ledger (such as a payment toward the principal portion of a loan, which is considered to be a reduction of a liability.)

[Please see Appendix F for Sample Income and Expense Statement with Comparison to Budget.]

6. Summary Sources and Uses of Cash Statement

There are several ways to present this report, which provides the opening operating account balance, a summary of all sources and uses of cash, and the ending balance in the operating account. The statement is almost a mirror of the account statement which is provided by the bank on a monthly basis, at least in the west.

This statement is valuable in that it highlights the effect of net gains and net losses with regard to a building's available cash.

The following is an example of this kind of statement:

Building Name: Petöfi Sandor Terrace

Month Covered: December, 1991

1.	Cash On Hand and In the Bank- Beginning of the Month	(1) Opening Cash	4,429.67
2.	Amounts Received During the Month:		
	(a) Tenants Apartment Rent	28,969.25	
	(b) Prepaid Rent	2.00	
	(c) Govt. Rent Subsidy Payments	24,096.00	
	(d) Laundry Income	112.00	
	(e) Miscellaneous Refunds	295.00	
	(f) Legal Fee Reimbursements	50.00	
		(2) Total Receipts	53,524.25
3.	Disbursements Made During the Month:		
	(a) Routine Operations	(3) Total Disbursements	
			60,534.04
4.	Cash On Hand and in the Bank- End of Month (Line 1 + 2 - 3)		<2,580.12>

The statement shows the different types of revenue received by Petöfi Sandor Terrace during the month. The only types of expenses paid by the property were routine operating expenses. The property started with a positive balance in the operating bank account in the amount of 4,429.67 forint. Bank drafts, or checks, were written on behalf of the property in excess of revenue received. The ending balance was a negative amount because checks were written in excess of the balance in the account. This would be a serious situation if the checks were written and disbursed, instead of being held until there were sufficient funds in the bank account to cover them.

7. Detailed Income Summary

A detailed Income Summary, which should be generated for each property at the end of the month, is a detailed accounting of all sources of revenue which were received by a property during the month. Often the detailed summary provides a tenant-by-tenant listing of who paid rent and other charges. It also includes every other source of income.

[Please see Appendix G for Sample Detailed Income Summary.]

8. Vacancy Report

The Vacancy Report is used to highlight all vacant units and determine if they are being made ready for occupancy and re-rented in a timely fashion. Vacant units create losses in rent revenue. Therefore, vacancy periods should be minimized as much as possible.

Information that should be included in the Vacancy Report is as follows:

- a. Unit number
- b. Date of vacancy
- c. Brief description of repair/renovation work needed
- d. Date work completed
- e. Date unit re-rented
- f. Occupancy date of new tenant

Another form of vacancy report shows the rent amount paid by the previous tenant. This can be used to calculate how much rent is being lost due to the vacancy. For instance, if a unit is vacant for 45 days (one and one-half months), and the rent amount paid by the previous tenant was 12,000 forint, then 18,000 forint were lost due to the vacancy.

Since there is a large demand for municipally owned rental flats in Szolnok, tenants can be pre-qualified for housing as soon as Management knows that a vacancy is upcoming. Also, as mentioned in Section IV.E., Vacant Unit Preparation, the vacancy period can be minimized through intelligent scheduling of any work that needs to be done in the unit.

The period between the vacancy and new occupancy dates can be very revealing. If the period is relatively short, it signifies that Management is making an effort to minimize vacancy loss and is successfully accomplishing this. If the period is relatively long, it may signify that Management is not handling vacancies in an organized fashion. However, it may signify that despite Management's conscientious efforts, it is difficult to re-rent the unit. For instance, the unit may be uninhabitable due to excessive roof leakage, severe plumbing problems, etc. The building may not be generating enough revenue to address these problems. If the building cannot afford to remedy severe maintenance conditions, units may have to remain vacant for an indefinite period. In addition, when the rental market begins to be more competitive in Szolnok, an excessive

vacancy period may indicate that a particular unit lacks desirable attributes and may be overpriced.

Thus, the Vacancy Report not only provides valuable financial information on rent loss, but tacitly provides information on Management and Maintenance operations as well.

[Please see Appendix H for Sample Vacancy Report.]

9. Profit and Loss Statement

The Profit and Loss Statement, as previously stated, should be one of the financial statements prepared at the end of a property's fiscal year.

The Profit and Loss Statement is very similar to the Income and Expense Statement. The differences are that the Profit and Loss Statement does not include any of the activity in the Asset, Liability or Capital accounts. Therefore, while disbursements might be made from the property's operating accounts for principal payments on a loan, these are considered to be reduction to liability accounts rather than actual expenses. Conversely, depreciation of the building and equipment, while it is not an actual disbursement, is classified in the general ledger as an expense. Therefore, it is included in the Profit and Loss Statement.

The Profit and Loss Statement is valuable in that it provides another perspective on the overall financial performance of a building.

[Please see Appendix I for Sample Profit and Loss Statement.]

10. Balance Sheet

The Balance Sheet is prepared at the end of a building's fiscal year. It is the statement which shows the balances at a given point in time of the Asset, Liability and Capital Accounts. The Balance Sheet is based on one of the premier tenets of western accountancy:

ASSETS = LIABILITIES + OWNER'S EQUITY (CAPITAL)

The balance sheet shows a listing of the cash value of each asset, from the most liquid (most easily convertible) to the least liquid. Obviously, cash is a liquid asset, while equipment, which would have to be sold in order to realize any cash gain, is not a liquid asset.

The balance sheet also shows a listing of the cash value of each liability, such as accounts payable, loans and mortgages payable. These are generally listed in the order of the most short-term obligations to the longer term obligations.

The final category shown is the capital or owners equity. This amount equals the amount of cash the owner has invested in the property, plus or minus any gain or loss in the property's value. For instance, an owner purchases a building for 1,000,000,000 forint. He pays a down payment of 10,000,000 forint and gets a mortgage for 900,000,000 forint. Ten years later, he has paid part of the principal of the mortgage, which brings his cash equity to 30,000,000. However, the property has appreciated in value substantially, and is now worth 3,000,000,000. Therefore, the owner's equity is actually as follows:

$$3,000,000,000 - (1,000,000,000 - 30,000,000) = 2,700,000$$

The balance sheet gives the owner another perspective on how the building is performing financially. For instance, if the building generates a profit, it increases the Owners' Equity, and if it generates a loss, it decreases the Owners' Equity.

[Please see Appendix J for Sample Balance Sheet.]

11. Statement of Change in Financial Position

The Statement of Change in Financial Position is another statement which is generally prepared at the end of a building's fiscal year. It is similar to a Sources and Uses of Cash Statement. Its primary purpose is to highlight the changes in asset, liability, income and expense accounts. It gives a good picture of the fluctuation of these accounts from one year to the next.

[Please see Appendix K for Sample Statement of Change in Financial Position.]

G. Accounts Receivable/Accounts Payable

1. Accounts Receivable

Accounts receivable, with regard to property management, are any amounts owing to a building. By definition, accounts receivable are debts owed to an entity which the entity expects to collect. The most common type of accounts receivable are rent and other charges which are owed to the building. Occasionally, other entities may owe money to the building, as when the building overpays for a particular service or commodity and is owed a refund. However, the latter happens infrequently and will not be discussed here.

Accounts receivable are referred to above in Section V.A. Rent and Fee Collection, in which the importance of collecting past due rents and other charges is discussed, as well as procedures to be used. This section focuses on the accounts receivable reporting methods and how and why these are helpful to the Property Manager and Owner.

Because rents are a large source of revenue for any building, it is important to maximize rent collection and to ensure that rent collection occurs on a timely basis. It is important for the Property Manager to be aware of accounts receivable in order to make certain decisions regarding the property, such as what funds may be available and used for expenses. It is also important to know this information so that the Property Manager can determine what recourse is available for collecting these outstanding debts, and whether or not it makes economic sense to try to do so.

Tenant accounts receivable reports should be prepared on a weekly basis, so that the Property Manager has a running record on uncollected amounts and "problem" or habitually late-paying tenants. A final tenant accounts receivable report should be prepared at the month-end closing, to help give an accurate view of the property's financial position at the end of the month when most of the other financial statements are prepared.

There are two types of tenant accounts receivable reports which are customarily used in the west - an accounts receivable listing and an aged delinquency report.

a. Accounts Receivable Listing

The accounts receivable listing is a chronological unit by unit listing which shows all tenants who have a debit or credit balance (an underpayment or overpayment). This listing includes the following information:

- (1) Unit number
- (2) Tenant family name
- (3) Monthly rent amount
- (4) Monthly other charges amount
- (5) Additional charges (such as late fees, legal fees, or damage fees)
- (6) Date last payment was made
- (7) Debit or credit balance

This report is helpful because it shows a detail of who has underpaid and overpaid. At the bottom of the report, the total amount outstanding should be shown. This amount is generally compared to the monthly gross potential and can be used as an indicator by which to judge Management's rent collection efforts.

b. Aged Delinquency Report

An aged delinquency report is similar to the accounts receivable listing, in that it gives a unit by unit account of those tenant who have not paid or underpaid. There are two main differences between this report and the accounts receivable listing, however. These are that the aged delinquency report does not include tenants who have overpaid, or who

have credit balances. The other difference is that the arrearage amounts are divided into categories which describe the amount of time the tenant's account is past due, as follows:

- (1) 0 - 30 days past due
- (2) 31 - 60 days past due
- (3) 61 - 90 days past due
- (4) 91 - 120 days past due
- (5) over 120 days past due

This report is helpful because it shows who has had an outstanding balance for the longest period of time. Generally, when a Property Manager makes a decision about sanctioning tenants who have large past due balances, it makes sense for Management to focus upon those tenants who have been delinquent for the longest period of time.

These two reports contain very important information. However, as with any report, the information is valuable only insofar as it is used. The accounts receivable reports should be used to make decisions on the course of action to be taken to get delinquent tenants to pay their rent and other charges, and to help strengthen overall rent collection procedures.

2. Accounts Payable

Accounts payable are outstanding bills that an entity owes to outside suppliers or service providers. In the case of buildings, accounts payable are expenses incurred on a building's behalf which have not yet been paid (such as the bill for garbage removal, for the purchase of plumbing supplies, for the purchase of a chain-saw, etc.). Accounts payable are briefly discussed, from an accounting standpoint, in Section V.A.2. Expenses.

As was stated in Section V.A.2., any bill that the property does not immediately pay becomes an accounts payable. These bills should be paid in the order of priority, as soon as the building has money to cover these expenses. Accounts payable should be minimized; the building should not purchase items which it cannot afford unless it is absolutely necessary to do so, such as for emergency repairs and to rehab vacant units.

- e. General ledger account code
- f. Due date of invoice
- g. Invoice amount

At the month-end closing, a final Schedule of Accounts Payable should also be printed. This helps to present a complete picture of a building's financial position as of the end of each month.

As much as possible, it is important that vendors are paid by the invoice due date. This is important since some vendors charge penalties and/or interest on all invoices which are not paid on time. If invoices cannot be paid on time, they should be paid as soon as possible thereafter. Vendors often have the right to refuse to provide supplies, equipment and services to a building which has a poor payment history.

VI. LEASING AND OCCUPANCY

A. Leases

Generally in the West, the relationship between the owner of a building and a tenant is governed by a legal document known as a rental contract, rental agreement, or lease. The landlord is the lessor and the tenant is the lessee. The lease between the landlord and the tenant is a very important document, as it delineates the rights and responsibilities of both parties. If properly written, it provides protection and restrictions for both sides.

Generally, such agreements include the following components:

1. Name of the owner and the tenant and co-tenants
2. Term (applicable dates) of the lease
3. Amount of the rent and other charges, if applicable
4. Amount of security deposit - payment and refund terms
5. Date rental payments are due, and explanation of penalties
6. Enumeration of the services included in the rent
7. Enumeration and explanation of the types of use restrictions for the dwelling including:
 - a. The maximum (or minimum) number of occupants
 - b. The use of the dwelling (residential, commercial, etc.)
 - c. Whether or not pets are allowed, and if so, which kind and how many
 - d. Subleasing the premises
 - e. Allowable noise levels and times
 - f. Guests, overnight and otherwise, and which party is responsible for their actions
 - g. Decoration and alteration to the unit
 - h. Common areas of the building

- i. Storage
- j. Parking

In addition, the lease explains who is responsible for maintenance of the common areas of the building and the units, when repairs are the financial responsibility of the owner and when they are the responsibility of the tenant, and provision for remuneration to the landlord for damages caused by the tenant. It also usually includes a clause which explains the limits of the owner's liability.

One or two paragraphs are usually devoted to what happens in the case of the the tenant's noncompliance with the lease, including but not limited to nonpayment of rent. These paragraphs discuss the cases in which eviction actions can be brought by the owner against the tenant, the payment of damages and legal fees, penalties for bounced checks, etc.

And finally, the lease includes a section on termination of the contract. This generally includes protection of the tenants against unlawful termination of the tenant's right to occupy the flat, as well as protection of the landlord against early termination of the contract by the tenant. The notice terms are specifically delineated for both parties.

The most important aspect of the lease is that it must be legally enforceable; it must be possible for each provision to be backed up by the courts. Thus, the lease form should be developed in correspondence with applicable tenant/landlord law, and should be written in such a way that it takes advantage of the full extent of the law.

1. Lease Terms

In Hungary, lease terms are not fixed but indefinite, and the right to occupy a unit is currently inheritable. This lifetime tenancy is similar to a right of ownership, and the actual landlord (in most cases, the municipality) has little or no protection, nor tangible reason to care about his investment.

In the West, particularly in the United States, residential leases are often fixed one-year term leases. The landlord or tenant can give the other party one month's notice of intention to terminate the contract thirty days prior to its expiration date. It is customary in "market" rentals for the lease to revert to a month-to-month contract after the expiration of the original term. In this case, theoretically, either the tenant or the landlord may terminate the lease at any time provided one month's notice is given to the other party.²

²The reason that this statement is only theoretically true is as follows. Tenant-landlord law in the West is usually regulated by individual localities, and municipalities can and do enact additional legislation that is valid, provided the terms of the State laws are not superseded. In the United States, most communities and some states enact legal provisions which restrict the landlord from terminating a lease, even a fixed term lease at the end of its expiration

2. Lease Terminations

There are good arguments for imposing different lease termination rules for "market rent" tenants and low income tenants or those who are protected for reasons of social welfare (elderly, handicapped, etc.). This is that low income tenants have less mobility, and therefore should be entitled to special legal protection. Another is that the imposition of such restrictions helps to preserve the existence of low-income or social housing.

It is customary in government-subsidized housing that the owner only has the right to terminate a tenancy due to serious abrogations of the lease on the part of the tenant, such as nonpayment of rent.³

Lease termination, or the removal of a tenant's legal title to a unit, is a severe penalty for abrogation of the lease. This is why the criteria for lease termination must be strict and completely objective. However, these criteria must be consistently applied in order to act as a deterrent against tenants who do not comply with the terms of the lease.

Thus, the lease, rental contract or rental agreement should provide protections to both the owner and the tenant, in which the tenant usually retains more rights and has fewer restrictions than the owner. This is due to the fact that housing is more of a right than a commodity.

B. House Rules

As an attachment to the lease, it is a good idea to include a list of House Rules. This should be a list, written in simple language, which enumerates the specific "do's and don'ts" required of or prohibitions to the tenants. While tenants often do not read their leases, they generally read the House Rules.

It is a good idea to include House Rules with the lease for another reason. Once a good lease format is developed, it is usually used for most buildings or housing estates with only minor modifications. The House Rules, however, should be tailored to the specific building.

period. For instance, in some communities in the state of California, a landlord may not terminate a tenancy because he wants to sell the building or because he wants to rent to a tenant who might pay a higher rent.

³In the United States, theoretically a tenant may be evicted for other kinds of lease noncompliance, but in practice, courts generally rule in favor of the tenant unless the issue is nonpayment of rent. This is because most types of lease noncompliance are too subjective. For instance, a lease may state that the tenant must keep the premises clean and neat and that the premises must not be kept in violation of applicable health and safety standards. It is very difficult to prove whether a unit is clean and neat, because people's standards of cleanliness differ widely. However, nonpayment of rent is an indisputable action; either the tenant has paid or he hasn't. The more objective the issue, the more legally enforceable it is.

House Rules generally contain information pertaining to the following, whenever applicable:

1. Play areas, if any, for children
2. Restrictions on pets
3. The proper disposal of garbage
4. Preparing for pest control services
5. Storage facilities
6. Maintenance and repair reporting procedures
7. Office hours of the Property Management entity
8. Telephone numbers (both regular and emergency) of the Management office
9. Access to the building - use of intercom, hours entry door is to be locked, etc.
10. Emergency reporting procedures, and an explanation of what does and does not constitute an emergency
11. Rules regarding overnight guests
12. The procedure for reporting grievances against other tenants
13. The use of laundry facilities or individual washing machines
14. The use of vending machines
15. Rules governing the use of community space
16. Use of balconies
17. Parking areas
18. Care of the surrounding territories

C. Tenant Orientation

It is the task of Management to provide orientation to new tenants who move into a building. This is important so that the tenants know the particulars of the building and of their individual units. The tenant orientation is helpful in that management can alert the tenants to emergency procedures and practices that will ensure their continued safety in the building. In addition, the orientation should provide important information about the relationship between Management and the tenant, procedures for reporting repair needs, etc. Finally, the tenant orientation should help make the tenants aware of their immediate surroundings - the particulars of their neighborhood.

The tenant orientation should include several components: written and oral information, unit inspections, building inspections, demonstrations.

1. Building Orientation

When tenants first move into a building, a representative of the Property Management entity should walk through the building with them and point out various items. Among these are:

- a. The location of the elevators and what to do in case of elevator malfunction

- b. The location of all of the entrances/exits (particularly emergency exits) and stairwells
- c. The location of all fire extinguishers, fire alarms, etc.
- d. The building systems: boilers, heat, water and gas lines, electrical and gas meters (if applicable)
- e. Proper operation of building entry system, any other security systems (if applicable), entry door locks, etc.
- f. Shut-off valves (if applicable)

Even if the tenants never need to use this information, it is important for them to know where these items are located. In addition, it is important for them to know how to get out of the building in case of emergency, and if possible, how to shut off various systems.

2. Unit Orientation

As mentioned above in section IV.D., a representative of the Management entity should walk through the unit with the new tenant when the new household is ready to occupy the unit. The purpose of this is twofold. On the one hand, it is important for both the tenant and Management to have a record of the condition of the unit before the tenant moves in, particularly if there is any chance that the tenant may be held accountable for any future repairs which may be necessary inside the unit.

The other reason that the new tenant should receive an orientation about the unit is for health and safety purposes. Even if Management has no responsibility for unit interiors, if a tenant does not have knowledge regarding the proper care, upkeep and cleanliness of the unit, this may ultimately have a negative impact upon the building itself.

For instance, tenants should know how to care for and clean any appliances that come with the unit (if any), and basic items about the plumbing and electricity, etc. In the case of younger tenants, it may be necessary to alert them to the fact that if there is excessive grease build-up on the stove, this could ultimately cause a fire. Tenants likewise should know how to keep drains clear, what to flush and what not to flush the toilet, and how to prevent floods and leakages into the apartment unit below. If there are circuit breakers or fuse boxes, the tenants should be aware of their location and how to pull a circuit breaker or change a fuse. While many people are aware of all of these items, it does not hurt for Management to bring up certain subjects with the tenants in an inoffensive way. Proper care of a unit and hygienic practices are important; improper care and unhygienic practices can cause problems for the rest of the building. For instance, if a tenant's poor cleaning and sanitary habits lead to insect infestation, this infestation can spread from one unit to the others.

3. Emergency Procedures

Part of a new tenant's orientation should include the receipt of information on emergency procedures. These include what the tenant should do in the following instances:

- a. In case of fire
- b. In case of a loss of power (electrical or otherwise)
- c. In case of an earthquake (if relevant in the area)
- d. If the elevator is out of order (and if a person or persons are stuck inside)
- e. In the case of a person's health emergency
- f. If a crime is witnessed against another tenant, or if the person himself is a victim of crime
- g. If vandalism against the building is witnessed.

It is advisable for Management to have a written document for distribution among tenants which explains what tenants should do in the advent of any of the above items. This document should be given to tenants at their move-in orientation. At that time, Management should go over the document verbally with the tenant, in order that there be no misunderstanding on the part of the tenant regarding proper emergency procedures.

4. Orientation on the Tenant/Management Relationship

The move-in orientation should also include information regarding the relationship between tenants and Management. Such items which should be discussed are generally included in good lease agreements. However, often people are intimidated by legal documents and terminology and do not read contracts. Therefore, it is Management's responsibility to clarify certain points. Among these are maintenance reporting procedures, and who is responsible (Management or the tenant) for items such as repairs to building systems, repairs inside of the units, etc.

It is very important that tenants know who to contact in case building or unit repairs are necessary. Even if most unit repairs are not Management's responsibility, because unit conditions may have an impact on overall building safety, the Management entity should be able to refer tenants to various maintenance and repair organizations.

If the IKV or other Property Management entity are to provide repair services at a nominal charge to the tenants, then at the time that they move into the unit, tenants should be provided with a general price list for common repairs that are not the responsibility of Management. When there are price increases, all of the tenants should be provided with new price lists.

In addition, the Management representative should reiterate when, where and how tenants should pay rent and communal services charges, and what types of extra charges it is possible for the tenant to incur.

Tenants should always be provided with a telephone number or contact person to whom emergencies or problems which occur after normal office hours can be reported.

5. Neighborhood Orientation

Orientation for new tenants should include information regarding the neighborhood. Written information should be provided to the tenant by Management on the location of schools, the post office, the police station, the fire department, and the closest hospitals. In addition, it is helpful if Management also lets the tenant know where the closest food stores are located, as well as the location of social service providers, banks, houses of worship, etc. The provision of such information goes a long way in helping the tenant to feel at home and to feel a part of the community.

D. Tenant Participation

Effective Asset and Property Management generally leads to better building operations. The benefits of having a building run smoothly are not merely financial. Indeed, one of Asset and Property Management's primary goals is to provide a good living environment for the tenants: decent, safe and sanitary housing.

The preceding pages focus on the role of asset vs. property management, and the various tasks which property managers are supposed to perform. No matter how vigilant an Asset Manager is and how skillfully a Property Manager performs his assigned duties, performance of both parties can and should be enhanced through tenant participation. Tenants should be encouraged to provide their input on building operations and Property Management services to either their Asset or Property Management representative.

1. Tenant Councils

One of the ways to encourage tenant involvement in the management of the building is to encourage and facilitate the formation of tenant groups or councils. These are generally informal associations in which the tenants get together periodically to discuss issues relevant to their housing.

Sometimes the tenants organize a formal group in which all tenants are encouraged to participate. The primary difference between an informal tenant group and a formal tenant association is that generally in the latter, a tenant council or small group of officers is elected by all the tenants. The tenant council is usually responsible for acting as a liaison between the tenants as a group and the Property Management entity to alert management of grievances, give them suggestions regarding certain procedures or ways in which the building's physical problems can better be addressed, or any other situation which effects the tenants' "peaceful enjoyment of the premises." It is not uncommon for a building or housing estate to have an elected tenant council of three to seven members, with a President, Vice President, Secretary and/or Treasurer.

The tenant council can be helpful in fostering the mutual cooperation between Property Management and the tenant body. Often tenant councils create a building newsletter which is disseminated to the tenants on a monthly, bi-monthly or quarterly basis. When this is the case, Property Management, and even a representative of the Owner, should contribute to the newsletter by writing a regular column in which Management issues are discussed, upcoming events (such as the initiation of a capital repair program) are announced, and tenant input is solicited.

Often, encouraging tenants to organize in order to address both the positive and negative aspects of living in a particular building or community assists in the effective management of the housing, because organized groups tend to facilitate the calm transfer of information. This is much preferable to situations in which tenants overhear something regarding the management of the property, spread rumors, and stir the excitement and fears of the general population. Furthermore, it can be advantageous for Management to deal regularly with a small group of tenant representatives rather than having to answer to random grievances, and in the worst cases, angry mobs.

2. Soliciting Tenant Input

Even if the tenants in a particular building or housing estate do not meet regularly, on a formal or even informal basis, it is advisable that Property Management, and certainly Asset Management solicit tenant input periodically, to get a fuller picture of the effectiveness of property management services.

a. Property Management

Property Management should solicit input from the tenants, both in oral and written form, particularly before certain events or courses of action occur. For instance, if Property Management is going to change any services offered by a particular building, tenant input should be solicited regarding the current level of service or performance of the service providers, as well as about the proposed level of service. Another example of when Management should have productive dialogue with the tenants is when a capital repair program is being planned.

In the latter instance, proposed capital repair programs should be discussed with the tenants on a formal or informal basis, either through group meetings or with each tenant individually. When any capital repair program is being planned, Management should inform the tenants about the type of repairs that will take place, where they will take place, how long it will take for the work to be done, and if their lives will be disrupted in any way. If the tenants are aware of what is planned, they will generally be more cooperative and not obstructive, either intentionally or unintentionally. This will enable the repair work to proceed more smoothly. For instance, if various exterior building repairs are going to take place, and conditions in the surrounding territories may become hazardous during the period in which the

repair work is being done, it makes sense for Management to alert the tenants about the scope of the work and the attendant hazards. Tenants will no doubt appreciate being informed of such hazards.

It is often helpful to have some tenant input in the planning of capital repair programs. Because tenants actually live in the buildings where the proposed repair programs are to take place, they generally have special insight or knowledge that Property Management staff may not have with regard to various building systems or attributes. This is especially true in the prioritizing of repairs. Management might decide that all of the windows and window frames in a particular building need to be replaced because air and water are infiltrating the units. However, tenants may feel that while this infiltration problem is considerable, it is not as bad as the leaking roof which causes ceiling leaks in the units. Tenants can often provide Management with an indication of how bad certain problems actually are.

Management may solicit tenant input by informally querying tenants in person, door-to-door. Conversely, written surveys can be provided to tenants which are to be completed anonymously and returned to the Management office.

b. Asset Management

While Asset Managers should not as a rule become directly involved in the day-to-operations of a property, one of the ways which can help them to have a full picture of the effectiveness of Property Management is to occasionally solicit tenant input themselves. Financial information which appears to be in order and periodic physical inspections of the property provide the Asset Manager with a lot of insight, but do not provide the entire picture regarding the performance of a Property Manager.

For instance, a property may be sound financially, may be spotlessly clean and well maintained, but Management may be producing such results partially by being dictatorial, rude, and unfair with the tenants. It is important to remember, particularly as housing becomes more of a commodity and the provision of housing services becomes more competitive, that increased tenant satisfaction is a desired result of Property Management.

It is advisable, therefore, that when Asset Managers make site visits to their properties, they should informally talk with tenants, and listen to their positive and negative comments about the level of property management services being provided. In addition, if Property Management's attitude toward residents is questionable or seems to be becoming an increasingly serious problem, an Asset Manager might want to distribute a written survey and solicit anonymous written input. Tenants should never be forced to speak up about Property Management or other tenants, but should feel comfortable to do so if the need arises.

E. Tenant Services

Currently, the IKV does not provide services to residents other than normal property maintenance.

In the West, customarily, social services are not provided by Property Management entities, at least not formally, except in the case of government-subsidized housing. This is because property management, the management and maintenance of real estate, is itself very labor intensive. Property Managers should be experts at providing services related to building management, not social work. This latter activity can be more expeditiously and effectively carried out by experts in the field of social welfare. It is a good idea, however, for the Property Management entity to have information regarding various tenant services and to provide objective referrals. The type of referrals Management may wish to provide are those regarding services for the elderly, childcare services, medical services, schools, extracurricular activities such as sports, exercise programs, and various social service agencies. Management may wish to have a written brochure printed which lists these services.

F. Community Space

Some buildings or housing estates have a community space or room in which tenants can congregate, either formally or informally, to socialize, play games, have parties or meetings, or hold other activities. A community space, if properly regulated, can lead to the tenant's increased satisfaction with his or her living space.

Often, buildings have no extra space for community facilities. However, if Management is creative and uses a little ingenuity, sometimes storage space or other unused areas can be inexpensively developed for use by the tenants.

Community areas should have places for tenants to sit, and under ideal circumstances, should have games and/or other recreational equipment. Management should make efforts to ensure that any furnishings and/or equipment are not stolen or vandalized. Management should also be responsible for keeping the community space clean and well-maintained. However, tenants should be encouraged to do so as well, as well as to make improvements to the space and/or assist in its organization. In some cases, tenant associations take over the entire responsibility of the community space from management, except for maintenance and repairs.

If community spaces are actually rooms, they can be reserved for tenant activities - parties, family get-togethers - by individual tenants. In such cases it is advisable for either Management or the tenant association to request a refundable security deposit from the tenant, to be kept only in the case of tenant-caused damages. The House Rules, discussed above in Section VI.B., should list the rules governing the use of the Community Space, tenant liability, etc. A policy should be developed wherein the building is not

responsible to pay for tenant damages to the Community Space, and in which tenants are fully aware of their responsibilities in this regard.

VII. GENERAL MANAGEMENT

A. Owner Participation/Asset Management

The participation of the owner, and by extension, the Asset Management department, is critical in the success of management. Currently, in Hungary, the IKV are not as effective as they could be because the municipal housing administration has been too diffuse and no administrative body took the responsibility to regulate the activities of the IKV: to monitor, discipline, reward, or guide them.

Successful Asset Management incorporates several activities: establishing parameters with regard to how individual properties should be managed, contracting with property management entities, monitoring the physical and financial performance of the buildings as well as other activities of the property management entity, and helping to establish budgets and financial plans as well as physical improvement programs. In Szolnok, this Asset Management role is to be assumed by the municipal housing department.

1. The Role and Organization of Asset Management Departments

The success of property management relies not only on the extent of the Management entity's abilities, but on the extent of the City's willingness to assume its role as an owner and regulatory body.

Currently, the municipal housing department in Szolnok is headed by a chief, under whose leadership are a deputy chief and four staff members. Recently, two temporary part-time individuals were hired in order to assist in the Asset/Property Management Pilot Project. Currently, the City is focusing its efforts on making the supervision of its housing stock work more effectively. To perform this task in a more efficient and worthwhile manner, the responsibilities of the housing department staff would have to be reviewed and reapportioned. In order to perform Asset Management tasks more effectively, it would be advisable for the staff to have some background in accounting, or at least an affinity for it, as well as some background in building systems, construction and maintenance.

The duties of the Asset Managers should be as follows:

- a. Development of a database with information on all the units in the particular Asset Manager's portfolio.
- b. Division of inventory into segments. For each segment, annual operating budgets should be compiled with the aid of the IKV or other property management entities.

- In addition, the two agencies should develop plans to address physical needs over the long term and should explore ways to fund these repairs and improvements.
- c. Development of criteria for the management of each segment. This is the basis upon which the performance of the IKV or other Property Management entity should be judged.
 - d. Review of financial and physical monitoring reports.
 - e. Preparation of Management Contracts. If it is ever decided that individual segments of the inventory will be bid competitively, the Asset Managers will supervise the bidding process, select contractors, and prepare the management contracts.
 - f. Monitor contract compliance. Asset Managers will monitor the IKV or other Property Management entity's compliance with the contract.
 - g. Approve extraordinary expenses. Asset Managers will approve all project expenses in excess of the limit specified in the Management Contract.
 - h. Act as liaison between the property management company and the entity which handles unit allocation.
 - i. Report to the Municipal government and other levels of the government structure, as appropriate. Asset Managers should provide periodic reports to the Municipality and keep them abreast of relevant developments and problems with the housing stock.

2. The Management Contract Document

One of the ways to ensure continued responsiveness of the IKV or other Property Management entity is to establish a tight contractual relationship between the two parties which is legally enforceable. The Management Contract should stipulate the term of the contract and the fee for Property Management services. It should enumerate the responsibilities of the Owner (or Asset Manager) vis-a-vis those of the Property Management Company, and should include a list of duties that the Management Company should perform, the basis upon which it will ultimately be evaluated. Furthermore, the contract should establish the limits of liability of both parties. [For an example of a Management Contract recommended for use by the United States Department of Housing and Urban Development, please see Appendix L.]

The Management Contract should establish the reporting requirements of the Management Company (the financial reports enumerated in Section V.F., reports on physical condition, etc.). The contract generally specifies the format in which these reports should be submitted.

The Contract should also establish the performance standards for the IKV or other Property Management entity. It should state exactly what is expected of the firm in terms of the duties it is to perform, and should further establish minimum performance standards.

The most important aspect which should be included in the Management Contract is an enforcement provision, which gives the Owner recourse would the Property Management

entity not meet minimum performance standards or otherwise does not comply with the terms of the contract. Traditionally, in the west, if a Management Company is in noncompliance, the Owner may issue a warning to the Company to take appropriate steps to correct the problem. The contract includes a cancellation clause which is enforced should continued violation of the contract occur on the part of the Management Company.

3. Developing a Fee Structure

Given the fact that rental income currently does not cover the cost of building operations in Szolnok, it may be difficult for Asset Managers to determine a management fee structure based on traditional western methods. Based on the number of units in a building and its other physical attributes, the Asset Manager needs to determine the minimum amount a potential contractor would have to charge in order to consent to perform the required services. This is very important. No one is going to want to provide these services if the fees they receive are not enough to allow them to stay in business. It is important that a management fee be structured so that potential contractors will be interested in bidding for the job, and that they will have an incentive to maintain a high level of performance.

In the west, one of the most common ways used to calculate a management fee is to take a percentage of gross collections. Gross collections generally include rent revenue, late fees, maintenance fees collected, and legal fee reimbursements. This is a very straightforward manner in which to calculate the fee, but in Szolnok, the gross collections may be too small an amount from which to extract a percentage.

However, this type of fee calculation is desirable. The overhead of the Property Management entity is covered by the various management fees it collects from whatever properties it manages. The company's overhead cannot be charged back to the buildings.⁴ Rather, the management fee is just one of the building's expenses. This allows the Owner to have a more accurate picture of the building's financial performance, because the Property Management entity's overhead is confined to a small percentage of the total expenditures. In reality, it is not a concern of the Owner how the Management entity covers its overhead; that is the Management entity's problem. The Owner's main concern is that the overhead is not being completely financed by his building.

Another way in which the Management fee might be calculated, which may be a more reasonable method to employ in Szolnok, is to use a fixed per unit per month amount. For instance, a company may submit a bid to manage a building at a rate of 400 forint per unit per month. If the building has 90 units, the IKV's monthly fee would be 36,000

⁴Occasionally, the management contract provides for certain specific overhead costs of the Management Company to be charged back to the property, such as a nominal fee for bookkeeping, accounting services. However, these charges must be straight-forward and cannot represent a material amount of the overall expenses of the building.

forint. Again, this method has advantages similar to those described above, because the fee is a known amount which is only a small part of the building's total overhead.

A bonus program could be built into the management contract, which would allow the Property Management entity to receive additional sums of money if certain performance goals are reached. This may act as an incentive to the Property Manager to provide increasingly better service.

4. Selecting a Property Management Entity

Competition in the field of Property Management should lead to the provision of better building services.

Once the Asset Management staff divides its inventory into segments, creates operating budgets for each group of buildings, and develops a set of Property Management goals for each individual building, it could then conceivably be in a position to competitively bid out management contracts.

If Asset Management decides to do this, they must develop a format for a request for qualifications (or request for proposal) in order to solicit bids from interested firms. Then, Asset Management should decide upon a format in which they would like to see the bids submitted, so that they can more accurately compare the merits of each. At this point, advertisements should be placed in strategic locations and local publications to announce the bid competition. Seminars should be held for potential bidders in which the bid format is discussed, as well as the parameters for managing the units (the tasks to be performed; the reports required for submission to Asset Management; the fee schedule; spending authority, etc.).

After the bidding seminars are held, a deadline date for the submission of bids should be specified. After the deadline date, the bids are to be reviewed by the Asset Management staff. Criteria to be considered are cost, proposed services, terms for the provision of extra services, and the characteristics and reputation of each individual firm. A mechanism for assigning a rating to each bid should be developed prior to the bid solicitation.

Once Asset Management receives and critiques the bids, the department staff should select and interview finalists. It is a good idea to involve tenants in the selection of a management contractor. After the interview process is completed, the contract should be awarded to the most qualified finalist.

5. Monitoring Contract Performance

Once a Management contract is awarded, Asset Management staff begins the day-to-day process of monitoring the Property Management entity's performance. This includes

reviewing Financial Reports (as discussed in Section V.F.), reviewing reports of physical performance, making periodic, random site visits, and speaking directly with tenants (as discussed in Section VI.D.).

In reviewing financial reports, it is important for Asset Managers to consider the following:

- a. With regard to the Income and Expense statement with Comparison to Budget, is the budget being adhered to? If not, the Asset Manager should question the Property Manager about individual income and expense line items.
- b. At the end of each month, does the building have a substantial list of accounts payable, and if so, is the amount of accounts payable growing from month to month? If this is the case, then the available building revenue may not be sufficient to cover the building's expenses, or the building's finances may not be being managed properly.
- c. If the list of tenant accounts receivable is increasing from month to month, Property Management may be remiss in its rent collection efforts.
- d. Does the building have a Reserve for Replacement account? Is the level of deposit sufficient? How could the building tighten operations and find alternate sources of funds in order to finance a modest program of capital repairs, if such a program would be desirable?
- e. In reviewing the month-to-date check register, do all disbursements look legitimate?

On a quarterly or semi-annual basis, Asset Management should require the Property Management entity to complete a report which gives information on the physical state of the building, as well as some statistical information. [For a sample Quarterly Report format, please see Appendix M.]

Nothing substitutes for what one can see with one's own eyes. Therefore, Asset Managers should visit the sites in their individual portfolios on a random basis, in order to see for themselves whether or not the building is being maintained properly, and if operational tasks are being performed effectively. They should document their findings and discuss them with representatives from the IKV or Property Management entity.

B. Organization and Supervision

As with any business or governmental department, a Property Management entity is most effective when the organization is straightforward and logical. The chain of command should be as clear as possible, so that every staff member knows to whom he or she reports and is responsible.

Currently, the IKV are organized in a very logical manner, much like any Property Management company in the west. The IKV have administrative staff and staff that handle the physical aspects of the building: janitorial, repairs, maintenance. The main difference between the IKV and western property management firms is that the IKV does not really operate like a business - it does not completely separate its own finances from those of the buildings it manages. For instance, most western firms have separate accounting departments for corporate income and expenses and for the buildings which the company manages. Thus, corporate and building finances are not intermingled at all.

In addition, many property management companies have supervisors within the organization who oversee a small group of buildings. Often, if the buildings are large enough, they have their own superintendent, administrative personnel, maintenance and janitorial staff.

There are numerous ways to effectively organize a property management entity. The IKV utilizes one good method for doing so. As long as the firm is divided into departments which are functionally aligned, and as long as good supervision is provided by the higher echelon employees to those lower in the chain of command, the Property Management entity will have a sound foundation.

C. Staff/Personnel

One of the difficulties of running a successful Property Management organization anywhere in the world is hiring and keeping qualified staff. Many tasks associated with building operations are menial in nature, and require unskilled, low paid workers. It is a particular challenge for a property management firm to hire qualified individuals, to provide continued training and motivation, and to promote them as far as their capabilities allow. Employees are generally more effective when they feel that they are part of a team -and team spirit leads to motivation and company loyalty. It is the task of Property Management supervisors to foster team spirit - a sense of belonging - among the employees.

A good Property Management entity has an established personnel policy, which includes written job descriptions and background requirements for each position. The policy describes what employees may or may not do while on the job with regard to proper behavior, dress, adherence to health and safety regulations. The policy addresses sick and vacation leave, retirement and pensions. A large part of the policy is usually devoted to hiring and termination practices, and lays out the entire disciplinary process, from the first warning due to a minor infraction to suspension from work without pay, to termination of employment. The policy should be fair and consistently applied to all employees of the Property Management entity.

D. Operating Procedures and Written Manuals

A good Property Management firm generally has written operating procedures and manuals for every phase of its business. The types of written materials generally available are as follows:

1. Personnel policy manual
2. Bookkeeping/Accounting procedures
 - a. Rent collection
 - b. Payment of bills
 - c. Handling accounts receivable and accounts payable
 - d. The month-end closing
 - e. General ledger and trial balance
 - f. Preparation of monthly accounting reports
3. Employee safety
4. Inventory controls
5. Purchasing
6. How to handle maintenance/repair requests
7. Resident Orientation
8. Emergency procedures

These written policies and procedures are usually provided to employees when they first join the organization, and are intended to be used as reference materials. They usually include a Table of Contents and Index so that if an employee has a question about a certain topic, he can quickly find the pages he is looking for in the relevant handbook.

As Property Managers find new procedures which are effective, and as policies change, the written materials should be updated on a periodic basis so that they continue to be valuable tools for the employees.

E. Training

Property Management entities should provide periodic training to their employees. If the entity itself does not have the capacity to train employees on certain subjects, either qualified individuals should be contracted with to do so, or the employees should be sent to specialized classes.

Training is only valuable when the information being presented is useful and relevant to the employees' jobs. Employees should never be sent to training programs if all they will receive is a useless certificate or meaningless title. Therefore, before an employee is sent to a course, some research should be done on the course as well as the training institution which is offering the course in order to determine if it is worth sending the employee.

Property Management administrative staff should be given training on applicable laws that affect their jobs, such as laws regarding employment practices, tax laws, arrears and evictions, social security and pensions, accounting practices, etc. In addition, training on office organization and automation, as well as time management may also be helpful to administrative employees and supervisors alike. Department heads may benefit from attending seminars on effective supervision and conflict resolution.

An important area in which training is valuable is maintenance, repairs, and engineering. As technologies quickly become outdated, it is important for technical staff to keep abreast of new developments. Courses on refrigeration, appliance repair, heating systems, plumbing and electrical systems, construction techniques, the use of new materials would be very instructive for maintenance and repair staff.

Training in certain areas, particularly in technical procedures, may be available at vocational schools or institutes, through manufacturers and professional associations. If no training programs exist in certain areas, Asset and Property Managers should explore the possibility to develop their own programs. These programs can not only be offered to their own staffs, but the staff of other IKV's or Property Management companies as well.

Relevant, insightful training not only provides employees with increased knowledge in their respective fields, but motivation as well. It is important to maintain an employee's level of interest in his or her job, and imparting valuable knowledge can contribute to this. Additionally, training adds to the future marketability of the employee.

APPENDIX A

SAMPLE CHART OF GENERAL LEDGER ACCOUNTS

Property Management (on a per building basis)

ASSETS

- Cash on hand (petty cash)
- Cash in Bank, Operating Account
- Cash in Bank, Security Deposit Account
- Cash in Bank, Operating Reserve Account
- Cash in Bank, Reserve for Replacement Account
- Tenant Accounts Receivable
- Accounts Receivable - Other
- Pre-paid expenses
- Fixed Assets - Equipment and Furnishings
- Fixed Assets - Building
- Fixed Assets- Land

LIABILITIES

- Accounts Payable
- Short-term Notes Payable
- Long-term Notes Payable
- Security Deposits Payable
- Principle - 1st Mortgage
- Principle - 2nd Mortgage

CAPITAL (Owners Equity)

- Owners Equity

INCOME

- Rental Income (gross potential - if all units were occupied and 100% of the tenants paid their rent)
 - Rent - Residential Units - Paid by Tenants
 - Rent - Residential Units - Subsidy from Government

- Rent - Residential Units - Subsidy from Other Sources
- Rent - Commercial Units
- Rent - Furniture, Appliances, Equipment
- Rent - Parking Space or Garage
- Rent - Community Space

- Vacancy <Loss> (Contra Account)
 - <Rent - Residential Units>
 - <Rent - Commercial Units>
 - <Rent - Parking Space or Garage>

- Interest Income - Operations
- Interest Income - Security Deposit Account
- Interest Income - Operating Reserve Account
- Interest Income - Reserve for Replacement Account

- Other Income
 - Laundry Income
 - Late Charges
 - Communal Services Charges
 - Bounced Check Fees
 - Damages and Cleaning Fees
 - Legal Fees (Reimbursed by Tenants)
 - Other Revenue

EXPENSES

- Administrative
 - Advertising
 - Credit Checks
 - Tenant Concessions
 - Other Renting Expenses
 - Office Salaries
 - Office Expenses (materials, etc.)
 - Office Rent
 - Management Fee
 - Manager's Salary
 - Rent for Manager's Apartment
 - Legal Fees
 - Auditing Fees/Tax Return Preparation
 - Accounting/Bookkeeping Fees
 - Computer Services/Supplies
 - Telephone

Bad Depts
Employee Training
Community/Tenant Affairs
Miscellaneous Administrative Expenses

Utilities

Fuel (Oil/Coal)
Electricity
Water
Gas
Sewer

Operating and Maintenance Expenses

Janitor and Cleaning Payroll
Janitor and Cleaning Supplies
Janitor and Cleaning Contract
Exterminating Supplies
Exterminating Contract
Garbage Removal
Security Payroll
Security Contract
Grounds Payroll
Grounds Supplies
Grounds (Landscaping) Contract
Repairs Payroll
Repairs Supplies
Repairs Contract
Elevator Maintenance/Repairs
Elevator Service Contract
Heating/Air Conditioning Repairs
Snow Removal
Decorating Payroll
Decorating Supplies
Decorating Contract
Vehicle and Equipment Repair
Uniform Expense
Miscellaneous Operating Expense

Taxes and Insurance

Real Estate Taxes
Employee Payroll Taxes
Miscellaneous Taxes, Licenses, and Permits
Property and Liability Insurance
Fidelity Bond

Workers Compensation Insurance
Employee Benefits
Automobile Insurance
Other Insurance

Financial Expenses

Interest on Mortgage (1st)
Interest on Mortgage (2nd)
Interest on Notes Payable
Mortgage Insurance Premium or Service Charge
Miscellaneous Financial Expenses

Depreciation Expenses

Depreciation - Equipment and Furnishings
Depreciation - Building

APPENDIX B

Preparation of Operating Budget

The following is an explanation of how to prepare an operating budget, based on the income and expense categories shown above in Appendix A.

For our example, let us take a small housing estate of 101 units called Petöfi Sandor Terrace. Petöfi Sandor Terrace consists of one fifteen story building surrounded by several hectares of land. The site is slightly hilly, and the building is surrounded by grassy slopes, thick vegetation and trees. The estate was built in 1968.

The property has its own administrative and maintenance staff due to the amount of administrative paperwork required by the owner, deferred maintenance, and complicated nature of operations. It has one full-time superintendent (manager), one full-time office worker, one maintenance supervisor, and two maintenance/janitorial workers.

The following is a copy of the Petöfi Sandor Terrace budget plus an explanation of how the budget was developed.

BUDGET WORKSHEET FOR PETÖFI SANDOR TERRACE

<u>Description of Account</u>	<u>Audited 1990</u>	<u>Current 1991 (8 mos.)</u>	<u>Budget 1/92- 12/92</u>
<u>INCOME</u>			
Rental Income			
Tenant Rent	2,780,040	2,156,720	1,902,420
Subsidy Payments from Gov't.	1,103,760	920,432	4,438,980
Total Rent Potential at 100% Occupancy	3,883,800	3,081,040	6,341,400
Vacancies			
Residential Units	<150,990>	<90,450>	<63,414>
Total Vacancies	<150,990>	<90,450>	<63,414>
Net Rental Revenue	3,732,810	2,990,590	6,277,986
Financial Revenue			
Interest Income - Oper. Acct.	5,270	40,000	36,000
Interest Income - R & R Acct.	64,060	42,190	365,760
Total Financial Revenue	69,330	82,190	401,760
Other Revenue			
Late fees	900	590	6,200
Damages and Cleaning Fees	52,550	105,400	
Other Revenue	8,650	18,610	17,500
Total Other Revenue	62,100	19,200	129,100
TOTAL REVENUE	3,864,240	3,091,480	6,808,846

EXPENSES**Administrative Expenses**

Advertising			1,500
Tenant Concessions			4,800
Office Salaries	191,400	127,600	256,800
Office Supplies	61,130	61,270	112,240
Management Fee	313,400	242,970	536,550
Manager's Salary	332,520	221,680	349,200
Rent for Manager's Apartment	119,280	94,640	121,920
Legal Expenses	7,500	500	15,000
Auditing Expenses	49,690	64,180	50,000
Bookkeeping/Accounting	32,130	20,200	42,420
Telephone	23,480	21,560	26,700
Employee Training	2,130	58,790	17,200
Total Admin. Expenses	1,132,660	913,390	1,534,330

Utilities

Electricity	31,190	15,370	32,750
Water	95,400	53,250	100,170
Gas	34,650	28,050	36,380
Sewer	218,510	140,330	250,420
Total Utility Expenses	379,750	237,000	419,720

Operating and Maintenance Expenses

Janitor and Cleaning Supplies	1,240		1,800
Janitor and Cleaning Contract	11,800	14,400	
Exterminating Contract	15,550	18,210	21,600
Garbage and Trash Removal	259,070	109,820	65,448
Security Contract	16,310	9,300	36,840
Grounds Supplies	2,240		2,400
Grounds Contract	128,760	125,000	184,800
Repairs Payroll	303,710	205,540	643,000
Repairs Material	263,130	93,180	281,550
Repairs Contract	97,100	246,970	145,500
Heating and Air Conditioning			
Repairs	1,450	1,180	2,500
Decorating Contract	436,410	37,020	195,000
Decorating Supplies	35,450	3,480	15,000
Vehicle & Equipment Repair	57,600	30,850	54,210
Miscellaneous Maint. Expenses	16,260	12,910	14,330
Total Operating & Maintenance Expenses	1,646,080	893,460	1,678,378

Taxes and Insurance			
Real Estate Taxes	156,480	110,940	159,610
Employee Payroll Taxes	73,250	49,930	312,250
Misc. Taxes, Licenses and Permits	15,170	4,240	15,200
Property & Liability Insurance	168,890	107,680	180,710
Fidelity Bond	400	320	400
Social Security	77,790	54,690	674,460
Employee Benefits	24,000	16,340	36,000
Other Insurance			18,610
Total Taxes & Insurance	515,980	344,140	1,397,240
Financial Expenses			
Interest on Mortgage (1st)	264,020	166,720	215,000
Mortgage Service Charge	93,330	60,560	88,040
Total Financial Expenses	357,350	227,280	303,040
Total Cost of Operations	4,031,820	2,615,270	5,332,708
Reserve for Replacement Deposits Required	351,240	461,670	1,110,000
Principal Payments Required	317,930	223,310	363,430
TOTAL: ALL EXPENSES	4,700,990	3,300,250	6,806,138
LESS TOTAL REVENUE	<3,875,510>	<3,101,370>	<6,808,846>
NET PROFIT/<DEFICIT>	<825,480>	<198,880>	2,708

NOTES FOR PREPARATION OF BUDGET FOR PETÖFI SANDOR TERRACE

The budget for Petöfi Sandor Terrace has three columns. One is a column which shows actual receipts and expenses which occurred during the 1990 calendar year. In the west, it is common for the financial records, or books, to be audited at the end of each fiscal year by an independent accountancy firm. The audit consists of a series of financial tests which are used to determine whether or not the property's financial records are accurate and to safeguard against misappropriation of funds. In any event, the final profit and loss statement, as verified by the accountancy firm after the audit is conducted, provides the most accurate picture of the financial activity which occurred during the subject period. This historical data partially forms the basis for the budget for successive years.

The second column shows income received and expenses incurred during the first eight months of 1991. One may assume that the 1992 budget was prepared during September, 1991. This eight month "snapshot" of financial activity can be used to estimate total income and expenses for the year. For instance, if the total revenue for the first eight months of 1991 was 3,101,370 forint, and no changes in income were anticipated for the balance of the year, it would be relatively safe to assume that the total income for 1991 would be as follows:

$$\frac{3,101,370}{8 \text{ months}} = 387,670 \text{ per month}$$

$$387,670 \times 12 \text{ months} = 4,652,040$$

The same method of projection can be used for all income and expenses, provided one takes into consideration any unusual circumstances, such as windfall revenue or large extraordinary expenses. Therefore, if Petöfi Sandor Terrace's revenue and expenses for the first eight months of 1991 were standard, and no unusual circumstances were foreseen for the remaining four months of the year, it would be safe to assume the following:

$$\frac{3,300,250}{8 \text{ months}} \text{ (total expenses, 1/91 - 8/91)} = 412,530$$

$$412,530 \times 12 \text{ months} = 4,950,360 \text{ (total estimated 1991 expenses, based on actual expenses incurred, 1/91 - 8/91)}$$

Furthermore, it can be assumed that the projected operating deficit at the end of 1991 would be as follows:

$$\begin{array}{l} 4,652,040 \text{ (estimated 191 revenue)} \\ <4,950,360> \text{ (less: estimated 1991 expenditures)} \\ \hline <298,320> \text{ (estimated 1991 deficit)} \end{array}$$

This information also provides a partial basis for the 1992 operating budget, as historical information can demonstrate usual and unusual circumstances, both in the collection of revenue and the occurrence of expenses. Furthermore, if the rate of inflation can be predicted, and the level of operations is not expected to change dramatically from year to year, it is safe to assume that the projected budget expenses should be roughly equal to the preceding year's expenses plus multiplied by the inflation factor. Thus, if estimated inflation for 1992 is projected at 30%, 1992 projected expenses would be roughly as follows:

$$\begin{array}{r}
 4,950,360 \text{ (1991 estimated expenditures)} \\
 \underline{\times 1.30} \\
 6,435,470
 \end{array}$$

In the case of Petöfi Sandor Terrace, the historical information as well as information regarding current costs and planned repairs was used to create the 1992 operating budget. The following is an explanation of the derivation of each line-item.

INCOME

Tenant Rent: The total rent potential at 100% occupancy is equal to the sum of all of the monthly rents for each unit in the building multiplied by twelve months. For the purposes of discussion, let us say that in the case of Petöfi Sandor Terrace, this amount is made up of two components: tenant rent and subsidy payments from government. The tenant rent is the portion that the tenants are expected to pay, if all units are occupied and everyone pays 100% of the time. If the rent amounts are known for each unit, and the amount of subsidy can be estimated, then the tenant rent portion can be calculated quite easily. For instance, if the rents are as follows,

Small one room flat	393	X	12 apts. =	47,160
Large one room flat	468	X	36 apts. =	168,480
Small two room flat	548	X	28 apts. =	153,440
Large two room flat	613	X	14 apts. =	85,820
Three room flat	668	X	10 apts. =	66,800
Four room flat	675	X	1 apt. =	<u>6,750</u>
				528,450

if all units are occupied and all tenants pay rent, then the total potential rent for one month equals 528,450. This amount multiplied by twelve months equals 6,341,400, which is the annual gross potential rent. If an approximate amount of the subsidy is known, then the tenant portion of the rent equals the gross potential rent less the subsidy portion.

Subsidy Payments from Government: Once the gross potential rent is calculated, the subsidy portion can be deduced if the Property Manager knows that estimated percentage of subsidy which it is expected that the property will receive. In the case of Petöfi Sandor Terrace, the Property Manager knows that the subsidy portion of the rent revenue will be approximately 70%. [Please note that the percentage of subsidy in this building is extremely high, and is not representative of the amount of subsidy to be received by most buildings.]

$$6,341,400 \times .70 = 4,438,980$$

Furthermore, the gross potential rent, 6,341,400 minus the subsidy payment portion, 4,438,980 equals the tenant rent payment in the amount of 1,902,420.

Vacancies - Residential Units: The vacancy loss is an estimated percentage of revenue based on the projected loss of revenue due to temporarily uninhabited units. This figure is generally consistent from year to year, depending upon market conditions and demographics, as well as how long it takes to prepare a vacant unit for occupancy. In the case of Petöfi Sandor Terrace, Management budgeted a vacancy loss of 1%.

Interest Income - Operating Account: This amount can be estimated by determining an average daily account balance, and multiplying this amount by the current standard interest rate on savings. In the case of Petöfi Sandor Terrace, it was projected that the average balance in the Operating Account would be 120,000 forint. The current interest paid on deposits is 30% per annum.

$$\frac{30}{100} = \frac{X}{120,000}$$

$$X = 36,000$$

Interest Income - Reserve for Replacement Account: This amount is calculated in the same manner as was used above to calculate projected interest on the operating account. It was estimated that the average balance in Petöfi Sandor Terrace's Reserve for Replacement account would be 1,143,000, based on the current balance plus anticipated deposits, less projected disbursements from the account. The prevailing interest rate was higher than that for the operating account, 32% rather than 30%, because the amount of funds on deposit was quite high.

$$\frac{32}{100} = \frac{X}{1,143,000}$$

$$X = 365,760$$

Late Fees: In theory, if tenants did not pay rent by the sixth day of the month in which it was due, Petöfi Sandor Terrace was to receive a late fee in the amount of 100 forint which was to be included with the rent payment. In 1990 and 1991, this was not consistently applied. The

Management of Petöfi Sandor Terrace decided to impose this regulation more strictly in 1992. It was estimated that approximately 5% of the 101 tenant households would continue to pay their rent late during 1992. From this amount, an approximation of the amount of late fees to be received was calculated.

Damages and Cleaning Fees: This amount was calculated based on projections of the amount of funds to be collected for reimbursements for tenant-caused repairs. This type of figure is difficult to calculate, but should be estimated based on current prices for repairs and historical information.

Other Revenue: In 1990, Petöfi Sandor Terrace received a rebate of 8,650 forint from the garbage removal company because it collected a large number of bottles for recycling. During 1991, it was estimated that the amount of the rebate would double, due to a greater volume of bottles collected. From these two amounts, it was estimated that in 1992, the rebate amount would be approximately 17,500 forint.

EXPENSES

Advertising: In 1990 and 1991, Petöfi Sandor Terrace had a waiting list of potential applicants who needed housing, so there was no need for the building to advertise. However, due to the change in market conditions and the diminution of the waiting list, it was projected that in 1992, the building would have to advertise in order to alert prospective residents about the availability of apartments. The Property Manager estimated that advertisements might be needed three times during the year, for one week each. He called a local newspaper, which had rental listings, and asked about the weekly rates, which were 500 forint.

500 forint X 3 weeks = 1,500 forint

Tenant Concessions: At the time the 1992 budget was compiled, Management was aware of the fact that major plumbing repairs would be necessary in 8 units in the beginning of the year. The water would have to be turned off in these units for approximately one month, and the bathrooms would be unusable for that period. In order to placate the tenants, Management planned to give each tenant a partial rent concession for that month, in the amount of 600 forint a piece.

Office Salaries: During 1990, a full-time office worker was employed at Petöfi Sandor Terrace who handled the administrative paperwork of the office, rent collection, etc. This person retired during 1991, and the position was left vacant for several months. During 1991, a new person was hired for the job at a rate of pay of 20,000 forint per month. In compiling the operating budget for 1992, the property manager included the salary for this person with a 7% projected salary increase which was to go into effect as of January, 1992.

Office Supplies: In connection with running the office, Petöfi Sandor Terrace periodically is in need of supplies such as paper, envelopes, pens, pencils, adding machine tape, paper clips, and file folders. The amount shown includes 45,000 forint for the purchase of one piece of new office furniture, plus a 10% anticipated price increase over 1990 costs for office supplies.

$$\begin{array}{r} 61,130 \times 1.10 = 67,240 \\ \underline{45,000} \text{ (for office furniture)} \\ 112,240 \end{array}$$

Management Fee: Petöfi Sandor Terrace is owned by the municipality in which it is located. The Asset Manager decided to bid the management out for contract at a fixed percentage of revenue, which in this case is roughly 8.5% of gross revenue collections. The management company is responsible for covering its own overhead through the fees it collects for managing different buildings within the city. The municipality does not provide the Management Company with any other operating subsidy.

Manager's Salary: The salary for the manager (superintendent) of Petöfi Sandor Terrace was budgeted at 5% over the 1990 salary. The nominal wage increase was due to the fact that the manager's salary was already higher than that of any other manager of similar-sized buildings supervised by the Property Management Company.

Rent for Manager's Apartment: The rent for the Manager's Apartment is part of the Manager's monthly compensation package. Since the Manager has a large one room apartment, the monthly rent is 4,680 forint, and the annual rent is 56,160 forint. In addition, one of the maintenance workers receives the rent of a small two room apartment as part of his compensation (5,480 forint X 12 = 65,760 forint).

$$\begin{array}{r} 56,160 \\ \underline{65,760} \\ 121,920 \text{ forint} \end{array}$$

Legal Expenses: It was determined by law that in the case of extended nonpayment of rent, a landlord could go to court and sue the tenant. If a favorable judgment was granted on behalf of the landlord, the landlord could petition to garnish the tenant's wages. The fee required by the attorney to process the necessary paperwork is 15,000 forint. Management anticipated that such legal action would be necessary once during 1992. (A property could also use legal assistance in dealing with contractors, particularly those who do not perform in accordance with the terms of a specific contract.)

Auditing Expenses: The Municipality decided that it would require that the financial records of Petöfi Sandor Terrace be subject to review at the end of each year by an independent accounting firm. The Management Company submitted a request for bids to several accountancy firms. For the 1992 audit, the most reasonable bid received by the management company was 50,000 forint.

Bookkeeping Fees/Accounting Services: The Management Contract between the Municipality and the Management Company, which sets forth the parameters of managing Petöfi Sandor Terrace, stipulates that the Management Company can charge a per unit per month fee for providing the owner with various financial reports on a monthly basis. The maximum amount the Management Company can charge for this service is 35 forint per unit per month.

$$\begin{array}{r} 35 \text{ forint} \times 101 \text{ units} = 3,535 \text{ forint} \\ \times \quad \underline{12} \text{ months} \end{array}$$

42,420 forint per year

Telephone: Includes charges for the two telephone lines in the Manager's office, one in the maintenance shop, and one in the Manager's home. Also includes fees for the maintenance of the main switchboard. These charges were documented on the monthly telephone bills and switchboard maintenance contract.

Employee Training: This includes the cost of sending one the maintenance supervisor to a semester long night course in refining maintenance organizational systems. Includes the cost of transportation to and from the course.

Electricity: Includes cost to light the common areas of the building and surrounding territories, plus power to run the automatic sprinkler system. The electricity costs were estimated to increase 5% over 1990 actual costs. The information regarding this increase was received from an official at the electric company, and therefore considered to be accurate.

Water: Petöfi Sandor Terrace is responsible for paying for water used in connection with the automatic sprinkler system, and in the site office, Manager's apartment, Maintenance shop, and Maintenance Worker's apartment. Increase of 5% over 1990 figures was anticipated, due to verification from an official of the water department.

Gas: Gas is used to heat the common areas of Petöfi Sandor Terrace, the site office, the Manager and Maintenance Worker's units, and the Maintenance shop. Increase of 5% over 1990 figures was anticipated, due to verification from an official of the gas department.

Sewer: Historically, it appears that water charges are roughly 40% of sewer charges. By estimating the cost of water, it is then possible to extrapolate sewer charges.

Janitor and Cleaning Supplies: The Property Manager checked with the supplier of Petöfi Sandor Terrace's cleaning supplies: Sponges, mops, cleaning fluids, garbage bags, rags, etc. The supplier verified that there would be an estimated cumulative price increase of 45% from 1990 to 1992.

$$1,240 \times 1.45 = 1,800$$

Janitor and Cleaning Contract: This amount is based on a cost of 600 forint per unit for cleaning of two vacant apartments per month, which would allow the maintenance staff to concentrate more expeditiously on Petöfi Sandor Terrace's deferred maintenance needs.

Exterminating Contract: Monthly contract cost in the amount of 1,800 forint for the control of insects and vermin in the common areas and surrounding territories.

Garbage and Trash Removal: Reflects monthly contract charge of 5,454 forint by the rubbish removal contractor to empty the central garbage bins. The charge is 27 forint per room per month, and the units have an average of two rooms each.

$$\begin{array}{rcl} 27 \times 2 & = & 54 \\ 54 \times 101 & = & 5,454 \\ 5,454 \times 12 & = & 65,448 \text{ per year} \end{array}$$

Security Contract: Contract cost of 3,070 forint per month for the maintenance of the property's security entry system.

Grounds Supplies: This consists of 200 forint per month for the purchase of supplies to keep the surrounding areas of Petöfi Sandor Terrace clean and tidy: garbage bags, rakes, push brooms, cleaning fluids, miscellaneous cleaning supplies. Price information was provided by the warehouse where these supplies are purchased.

Grounds (Landscaping) Contract: Monthly expense in the amount of 15,400 forint for maintenance of the surrounding territories by an independent contractor. Represents a documented increase of 10% over 1990 fees paid to the contractor. It was determined that despite this price increase, because the contractor has access to heavy landscaping equipment, it is still more cost effective to have the contractor perform this service, rather than the site maintenance staff.

Repairs Payroll: Represents a 5% salary increase for the senior maintenance person, and a 10% increase for the junior maintenance person, both of whom were paid below-market wages in 1991. Also includes 140 forint per hour for a full-time maintenance supervisor who is to be hired as of January, 1992. In 1991, with only two maintenance workers and no grounds nor janitorial staff, the property was seriously understaffed and its deferred maintenance could not be adequately addressed.

Repairs Material: The Property Manager checked with the warehouse which supplies routine maintenance and repair materials and small equipment. It was determined that at the 1990 level of repair and material usage, the increase in cost during 1992 would be 7%.

Repairs Contract: Although the site maintenance staff has the ability to perform numerous types of repairs, Petöfi Sandor Terrace has historically had some maintenance needs that must be addressed by outside contractors. These items are as follows:

Major plumbing repairs relating to sewer back-ups and broken pipes at an average cost of 3,000 forint per month	36,000
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Electrical system repairs at an average cost of 750 forint per month	9,000
--	-------

In addition, the following repairs were planned and their costs were included in the budget:

Replacement of concrete parking barriers	14,500
--	--------

Installation of iron fences surrounding the parking area	86,000
--	--------

Heating and Air Conditioning Repairs: Petöfi Sandor Terrace has no air conditioning system, but this category includes a contingency in the amount of 2,500 forint for repairs to the heating pumps, which are generally in good condition as they were replaced in 1990.

Decorating Contract: Total estimated cost of 225,000 forint breaks down as follows:

Painting of hallways on three floors	75,000
--------------------------------------	--------

Replacement of linoleum on three floors	97,500
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Painting of unit entry doors on three floors	<u>22,500</u>
--	---------------

195,000

Decorating Supplies: Includes contingency amount of 15,000 forint for the purchasing of rollers, brushes, drop cloths, and paint so that the site maintenance staff can paint over graffiti in the common areas and building exterior.

Vehicle and Equipment Repair: Includes reimbursement to the Maintenance Supervisor in the amount of 3,284 forint per month for use of his truck at the site. Also includes 400 forint per month gasoline reimbursement, and a contingency in the amount of 10,000 forint for repairs to the truck.

3,284	X	12	=	39,410
400	X	12	=	4,800
				<u>10,000</u>

54,210

Miscellaneous Maintenance Expenses: Includes weekly charge of 179.5 forint for laundering of uniforms for the maintenance staff, as well as 5,000 for the annual testing of Petöfi Sandor Terrace's fire extinguishers.

Real Estate Taxes: The municipality introduced a tax on real property, an assessment which is equal to 2% of the appraised value. The tax is to be paid in two installments per year. The appraised value of Petöfi Sandor Terrace is 7,980,500 forint, of which 2% is 159,610 forint.

Employee Payroll Taxes: Payroll tax must be paid by Petöfi Sandor Terrace based on its total budgeted payroll, which is as follows:

Manager	349,200
Office	256,800
Maintenance	<u>643,000</u>
TOTAL PAYROLL	1,249,000

For 1992, the graduated employer-paid payroll tax percentage is approximately 25% of total payroll.

Miscellaneous Taxes, Licenses and Permits: This includes a fee in the amount of 15,200 forint for a building fire safety inspection and occupancy permit, which is required by the municipality.

Property & Liability Insurance: The municipality recently imposed a regulation stating that for each apartment building, the owner has to purchase a policy which insures the building against fire, vandalism and other similar disasters. In addition, the owner must carry liability insurance, so that if someone trips and falls on the stairs inside the building and decides to sue the owner, the owner and building will be protected financially. The premiums paid for this insurance coverage during 1990 was 168,890. The insurance broker told the Property Manager of Petöfi Sandor Terrace that the premium would increase 7% in 1992 to 180,710.

Fidelity Bond: The Property Management company decided that it would like for Petöfi Sandor Terrace to be protected in the case of employee theft. They purchased a policy for 400 forint which would insure the property against theft of up to two month's worth of rental income.

Social Security: It is currently required in Hungary that all employers pay social security for each employee, which equals 54% of the employees' gross annual wages.

Employee Benefits: Consists of 7,200 forint for each of the five employees to be applied toward their summer vacations.

Other Insurance: Consists of premium, quoted by the insurance broker, for insurance of the maintenance supervisor's truck which is used to haul materials and equipment to and from Petöfi Sandor Terrace.

Financial Expenses: Petöfi Sandor Terrace has a first mortgage, toward which principal and interest are paid every month. The mortgage has a fixed interest rate and a forty year term. The amount of principal and interest payments to be paid annually is shown on the amortization table that was produced by the Property Management Company's computer. In addition, Petöfi Sandor Terrace pays a small annual fee to the bank for processing the mortgage payments.

Reserve for Replacement Deposits Required: As of January 1, 1992, Petöfi Sandor Terrace was required to deposit 92,500 forint per month in its Reserve for Replacement account, from which capital repairs and improvements are funded.

APPENDIX C

Budgeting for Capital Repairs and Improvements

It is very difficult to calculate the estimated useful life of all of the systems and equipment of a building, as well as the eventual replacement cost. This is because the number of useful years of a system or piece of equipment is dependent upon a variety of factors: whether or not it was installed correctly, its quality, how it is maintained, level of normal wear-and-tear, level of vandalism, weather conditions, etc.

Once a Property Manager has some historical information about a property - its systems and their level of maintenance - it is easier to predict what capital repairs will be needed during a specified period, such as three to five years. If the rate of inflation is relatively stable, it is possible to estimate costs of capital repairs and replacements over a three to five year period as well, which facilitates the creation of a long-term budget.

To show how a budget for capital repairs and replacements is created, the following example should be noted.

Petőfi Sandor Terrace is approximately 20 years old. During its first fifteen years of operation, it had plenty of operating capital and maintenance items were addressed on an as needed basis. During the last five years, however, rents did not increase at the same pace as did operating expenses. Also, certain building systems began to deteriorate. The result of these factors is that there are now serious deferred maintenance items which need to be addressed.

The Property Manager of Petőfi Sandor Terrace realized that the first step which needed to be taken to solve this problem was to increase rents. In conjunction with the rent increase, however, the Property Manager had to compile a physical needs assessment and a three year plan in which these needs would be addressed.

The Property Manager hired a construction expert to help determine Petőfi Sandor Terrace's physical needs, to prioritize these needs, and to provide cost estimates for the work. It was determined that during the next three years, various items would need to be addressed in order for the building to be in good condition. If all of these items were addressed, then very little would have to be spent on maintenance during the following five years, and the implementation of proper preventive maintenance techniques could extend this estimate to seven to ten years.

The deferred maintenance items which the construction expert discovered, and the cost estimates for performance of the work were as follows (note: these estimates included an inflation factor):

Exterior Painting	743,000
Roof Replacement	656,800
Replacement of gutters/downspouts	152,000
Concrete repairs	20,000
Sprinkler system, partial replacement	80,000
Replacement, domestic galvanized hot water system	1,197,470
Replacement of boilers	420,000
Replacement of exhaust fans	3,000
Replacement of entry doors and locks	445,000
Replacement of windows at building entry	90,000
Replacement of common area windows, each floor	<u>720,000</u>
Total Anticipated Needs	4,527,270

Upon receipt of this list from the Construction Expert, the Property Manager realized that it would be impossible for Petöfi Sandor Terrace to afford to pay for these repairs at one time. For one thing, as of September, 1991, when the budget was being prepared, the balance in Petöfi Sandor Terrace's Reserve for Replacement account was only 1,496,060.

The Property Manager decided that it was feasible for the required repairs to be made over a three year period, from 1992 through 1994, if the monthly deposits to the Reserve for Replacement account were increased.

The Property Manager first prepared a three year repair schedule. In the schedule, items of the highest priority were addressed first. The schedule is as follows:

<u>Description of Item</u>	<u>Total</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Exterior painting	743,000		600,000	143,000
Roof replacement	656,800	208,300	223,950	224,550
Gutters and downspouts	152,000	50,000	52,000	50,000
Concrete repairs	20,000	20,000		
Sprinkler system	80,000			80,000
Domestic galvanized hot water system	1,197,470	1,197,470		
Replacement of boilers	420,000	140,000	140,000	140,000
Replacement of exhaust fans	3,000	1,000	1,000	1,000
Replacement, entry doors and locks	445,000	222,500	102,500	120,000

Replacement of windows at building entry	90,000	45,000	45,000	
Replacement of common area windows, each floor	<u>720,000</u>	<u>240,000</u>	<u>240,000</u>	<u>240,000</u>
Totals	4,527,270	2,124,270	1,404,450	998,550

The Property Manager then prepared an analysis of the Reserve for Replacement account to determine what the shortfall would be each year at the current rate of deposit, 57,780 forint per month

Account balance as of 9/30/91	1,496,060
Plus deposits, 10/91 - 12/91	173,340
Less withdrawals, 10/91 - 12/91	<u>0</u>
Account balance as of 12/31/91	1,669,400
Plus deposits, 1/92 - 12/92	693,360
Less 1992 estimated expenditures	<u>2,124,270</u>
Account balance as of 12/31/92	238,490
Plus deposits, 1/93 - 12/93	693,360
Less 1993 estimated expenditures	<u>1,404,450</u>
Account balance as of 12/31/93	<472,600>
Plus deposits, 1/94 - 12/94	693,360
Less 1994 estimated expenditures	<u>998,550</u>
Account balance as of 12/31/94	<777,790>

It was obvious that the monthly deposits to the Reserve for Replacement account would have to be increased so that shortfalls would not occur during 1993 and 1994. As is shown in Appendix B, in the Operating Budget, the monthly deposits were increased to 92,500 as of January, 1992. Rents were increased to cover this amount as well as increases in the other expense categories. The account fluctuation analysis at the new rate of deposit is as follows:

Account balance as of 9/30/91	1,496,060
Plus deposits, 10/91 - 12/91	173,340
Less withdrawals	0
Account balance as of 12/31/91	1,669,400
Plus deposits, 1/92 - 12/92	1,110,000
Less 1992 estimated expenditures	< <u>2,124,270</u> >
Account balance as of 12/31/92	655,130
Plus deposits, 1/93 - 12/93	1,110,000
Less 1993 estimated expenditures	< <u>1,404,450</u> >
Account balance as of 12/31/93	360,680
Plus deposits, 1/94 - 12/94	1,110,000

Less 1994 estimated expenditures	<u><998,550></u>
Account balance as of 12/31/94	4,721,300

With the increase in monthly deposits to the Reserve for Replacement account, the priority work items will be addressed, while the account will still have a positive balance at the end of the three year period.

It is important that the Capital Repairs analysis be done in advance of the budget preparation, so that the annual deposit amount can be included in the budget.

APPENDIX D

Sample Month-to-Date Check Register

**PETÖFI SANDOR TERRACE
Month-to-Date Check Register
(25/11/91 - 12/12/91)**

<u>Ck#</u>	<u>Description</u>	<u>G/L Acct</u>	<u>Inv. Date</u>	<u>Ck. Date</u>	<u>Amount</u>
	MIKLOS MANAGEMENT CO.				
962	Mgmt. fee	6320	25/11/91	26/11/91	52,650
	THE DOOR DOCTOR				
963	Doors	6541	8/10/91	26/11/91	16,000
	SANDOR & CO.				
964	Tax Service	6342	31/10/91	05/12/91	1,000
	KOPANYI ROOFING CO.				
965	Roof replace- ment	6542	15/11/81	05/12/91	15,900
	ABC OFFICE SUPPLY				
966	Paper	6311	18/11/91	05/12/91	5,390
	LASZLO LUMBER				
967	Lumber	6541	25/10/91	05/12/91	3,460
	MAGYAR TELEPHONE CO.				
968	Telephone	6360	05/11/91	05/12/91	1,920
	MAGYAR WATER DEPT.				
969	Water	6451	21/10/91	05/12/91	6,780
	Sewer	6453	21/10/91	05/12/91	15,580
					22,360
	MAGYAR RUBBISH REMOVAL				
970	Trash removal	6525	01/12/91	05/12/91	20,210
	MORVAI CPA				
971	Annual Audit	6350	15/10/91	05/12/91	470

	METROPOLITAN INTERIORS				
972	Vinyl flooring	6560	18/9/91	10/12/91	77,300
	LONYAY LANDSCAPING				
973	Landscaping	6537	30/11/91	12/12/91	14,000
	MAGYAR GAS AND ELECTRIC				
974	Electricity	6450	06/11/91	12/12/91	1,720
	Gas	6452	06/11/91	12/12/91	610
					2,330
	TOTAL CHECKS WRITTEN				232,990

APPENDIX E

Sample Summary Income Statement

Petőfi Sandor Terrace

Period: 01/12/91 - 10/12/91

<u>Type of Revenue</u>	<u>Collected to Date</u>	<u>Month Budget</u>	<u>%</u>
Rent from tenants	127,500	158,540	80
Subsidy payments	369,920	369,920	100
Interest from operations	-0-	500	0
Laundry & vending	900	990	91
Late fees	400	520	77
Damages & cleaning fees	4,000	3,780	106
Other revenue	1,000	1,460	68
Total collected (01/12/91 - 10/12/91)	503,720	535,710	94

APPENDIX F

SAMPLE INCOME AND EXPENSE STATEMENT

INCOME AND EXPENSE STATEMENT AND
COMPARISON TO BUDGET REPORT

PETOFI SANDOR TERRACE

FOR THE PERIOD ENDED 20/12/91

<u>ACTUAL</u>	<u>CURRENT MONTH</u>		DESCRIPTION	<u>YEAR-TO-DATE</u>		
	<u>BUDGET</u>	<u>VARIANCE</u>		<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>
			REVENUE			
			RENTAL			
274030	264230	9800	Tenant rents	3465970	3027440	438530
240960	264220	-23260	Subsidy payments	2553220	3027320	-474100
	-15850	15850	Less: Vacancies	0	-189300	189300
514990	512600	2390	Total rental income	6019190	5865460	153730
			FINANCIAL INCOME			
0	500	-500	Interest income	0	18320	-18320
0	500	-500	Total financial income	0	18320	-183200
			OTHER INCOME			
1120	990	130	Laundry and vending	12350	11820	530
0	520	-520	Late fees	300	6200	-5900
0	0	0	Cleaning & Damages	980	0	980
0	3790	-3790	Forfeited Sec. Deposits	0	45390	-45390
3450	0	3450	Other Income	45110	0	45110
<u>4570</u>	<u>5300</u>	<u>-730</u>	Total other income	<u>58740</u>	<u>63410</u>	<u>-46700</u>
519560	518400	1160	TOTAL REVENUE	6077930	5947190	130740

<u>ACTUAL</u>	<u>CURRENT MONTH</u>	
	<u>BUDGET</u>	<u>VARIANCE</u>
0	0	0
0	400	400
26200	21400	-4800
12020	9360	-2660
52660	44710	-7950
27710	29100	1390
0	10160	10160
0	0	0
470	0	-470
3530	3540	10
1920	2230	310
0	0	0
0	1020	1020
124510	121920	-2590
1720	2900	1180
6780	8350	1560
620	3250	2630
15590	20870	5280
24710	35370	10650
0	150	150
0	1200	1200
0	1800	1800
20210	18160	-2050
3450	3070	-380
3970	200	-3770
14000	15400	1400
37070	53580	16510
9790	23460	13670
33480	19290	-14190
0	0	0
79000	18750	-60250
0	1250	1250
0	780	780

EXPENSES

ADMINISTRATIVE EXPENSES

	<u>YEAR-TO-DATE</u>		
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>
Advertising	0	1500	1500
Tenant concessions	0	4630	4630
Office salaries	300730	256800	-43930
Office Expenses	192260	103540	-88720
Management Fees	492270	501600	9330
Manager's salary	333840	346420	12580
Manager's rent	159290	125260	-34030
Legal fees	7880	10000	2120
Auditing expense	49960	50000	40
Bookkeeping/Accounting	36360	42420	6060
Telephone	28250	26700	-1550
Employee training	15140	0	-15140
Miscellaneous Admin.	30860	17200	-13660
Total administrative expenses	1646840	1486070	-160770

UTILITIES EXPENSES

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>
Electricity	49530	32750	-16780
Water	251240	100170	-151070
Gas	18930	36380	17450
Sewer	32320	250420	218100
Total utilities expense	352020	419720	67700

OPERATING & MAINTENANCE EXPENSES

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>
Janitor & cleaning supplies	3820	1800	-2020
Janitor & cleaning contract	0	12000	12000
Exterminating contract	25550	21600	-3950
Garbage removal	284960	217920	-67040
Security contract	29520	36840	7320
Grounds supplies	3980	2400	-1580
Grounds contract	313090	184660	-128430
Repairs payroll	495100	571800	77700
Repairs material	327620	244600	-83020
Repairs contract	298080	192900	-105180
Heating repairs	0	2500	2500
Decorating contract	566980	202500	-364480
Decorating supplies	1250	15000	13750
Uniform rental	2860	9360	1500

CURRENT MONTH			EXPENSES (Cont.)	YEAR-TO-DATE		
<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>		<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>
0	0	0	Vehicle & equip. repair	56790	54210	-2580
0	0	0	Misc. operating expense	3480	4970	1490
200970	157090	-43880	Total operating & maintenance	2413080	1775060	-642020
			TAXES & INSURANCE			
13490	13300	-190	Property taxes	163730	159610	-4120
7360	9240	1880	Payroll taxes	99730	107240	7510
0	0	0	Business taxes & licenses	37920	15200	-22720
12800	15060	2260	Property insurance	155950	180710	24760
0	0	0	Fidelity bond insurance	570	400	-170
8660	10360	1700	Workers compensation	103700	117230	13530
3020	3000	-20	Employee benefits	37030	36000	-1030
0	1550	1550	Other insurance	48360	18600	-29760
<u>45330</u>	<u>52510</u>	<u>7180</u>	Total taxes & insurance	<u>646990</u>	<u>634990</u>	<u>-12000</u>
395520	366890	-28640	TOTAL OPERATING EXPENSES	5058930	4315840	-747090
124040	151510	-29800	NET OPERATING INCOME	1019000	1631350	-612350
			DEBT SERVICE			
17000	17920	920	Mortgage interest	234390	215000	-19390
7310	7340	30	Mortgage service charge	88550	88040	-510
24310	25260	950	Total debt service	322940	303040	-19900
419830	392150	-27690	TOTAL EXPENSES	5381870	4618880	-766990
32020	30290	-1730	Payments to principal	352940	363430	10480
92500	72500	-20000	Deposits to reserve account	1056060	840560	-215500
544350	494940	-49420	TOTAL CASH DISBURSEMENTS	6790870	5822870	-972010
			RELEASES FROM RESERVE ACCOUNT			
0	0	0		1115570	1000000	115570
-24790	23460	-48250	NET CASH FLOW	402630	1124320	-721690

APPENDIX G

Sample Detailed Income Summary

Petőfi Sandor Terrace

Detailed Income Summary

December, 1991

1. Prepaid rent	20.00
2. Subsidy payments	240,950.00
3. Laundry Income	1,120.00
4. Overpayment reimburs	2,950.00
5. Legal fee reimburseme	500.00
6. Tenant Rent	
-01 Hegedus	1,550.00
-02 Tosics	4,680.00
-03 Zsamboki	4,720.00
-04 Varhegyi	2,820.00
-05 Keri	2,820.00
-06 Sarkany	1,330.00
-07 San'or	6,340.00
-08 Stefanik	1,360.00
-09 Varadi	5,620.00
-10 Laszlo	60.00
-11 Kiss	2,540.00
-12 Ribli	1,330.00
-13 Kopanyi	4,490.00
-14 Morvai	2,910.00
-15 Domany	1,510.00
-16 Molnar	3,500.00
-17 Fekete	1,360.00
-18 Probald	5,040.00
-19 Szilagyi	2,700.00
-20 Reszegi	1,360.00
-21 Antall	7,540.00

-22	Gabor	3,040.00
-23	Toth	1,150.00
-24	Andrassy	1,640.00
-25	Arpad	1,360.00
-26	Istvan	6,340.00
-27	Miklos	1,570.00
-28	Farkas	1,540.00
-29	Dohany	7,540.00
-30	Diossy	1,680.00
-31	Horvath	7,540.00
-32	Czaun	1,610.00
-33	Bors	3,170.00
-34	Szanto	1,140.00
-35	Schunk	2,860.00
-36	Berke	6,340.00
-37	Csomos	2,480.00
-38	Battha	2,090.00
-39	Tar	1,730.00
-40	Dobak	6,990.00
-41	Kissomlyoi	1,160.00
-42	Nagy	6,990.00
-43	Schantz	2,650.00
-44	Torok	4,070.00
-45	Kovacs	5,480.00
-46	Balazs	3,060.00
-47	Balogh	300.00
-48	Andras	6,340.00
-49	Kossuth	1,320.00
-50	Szabo	4,090.00
-51	Rozsa	4,340.00
-52	Timar	1,210.00
-53	Jeles	3,750.00
-54	Jancso	1,760.00
-55	Bacso	1,490.00
-56	Gazdag	1,550.00
-57	Huszarik	1,770.00
-58	Bathory	1,490.00
-59	Rackoszi	810.00
-60	Deak	4,680.00
-61	Eotvos	1,550.00
-62	Daranyi	4,680.00
-63	Imredy	5,550.00
-64	Horthy	5,550.00
-65	Bethlen	3,160.00

-66	Zrinyi	1,490.00	
-67	Wesselenyi	5,550.00	
-68	Vilagos	5,550.00	
-69	Ady	1,540.00	
-70	Becsi	1,490.00	
-71	Kadar	1,740.00	
-72	Brody	800.00	
-73	Szechenyi	1,550.00	
-74	Goncz	5,550.00	
-75	Boross	5,550.00	
-76	Kosztá	1,550.00	
-77	Lakatos	3,610.00	
-78	Voros	5,550.00	
-79	Zalai	850.00	
-80	Karcagi	1,310.00	
-81	Ritecz	3,210.00	
-82	Varga	1,670.00	
-83	Vekerdi	1,700.00	
-84	Tomai	1,550.00	
-85	Sereny	2,850.00	
-86	Pilcz	5,550.00	
-87	Seres	4,680.00	
-88	Soros	1,550.00	
-89	Bossanyi	2,590.00	
-90	Mag	2,480.00	
-91	Szendrei	1,650.00	
-92	Pogonyi	1,650.00	
-93	Torgyan	1,290.00	
-94	Tolgyessi	1,650.00	
-95	Fonay	3,930.00	
-96	Stolmar	1,540.00	
-97	Kiraly	1,530.00	
-98	Mark	3,330.00	
-99	Baar	1,590.00	
-100	Struyk	1,550.00	
-101	Telgarsky	<u>1,550.00</u>	<u>308,130.00</u>
	TOTAL RECEIPTS		553,670.00

APPENDIX H

Sample Vacancy Report

Petőfi Sandor Terrace

Vacancy Report
as of 31/12/91

<u>Unit #</u>	<u>Date Vacated</u>	<u>Work Needed</u>	<u>Date Completed</u>	<u>Date Re-rented</u>	<u>Date Occupied</u>
12	30/11/91	New linoleum, new living room window, cleaning	20/12/91	24/12/91	
33	31/10/91	New linoleum, New toilet, bathtub, sink, kitchen cabinets			
67	15/12/91	Cleaning	20/12/91	24/12/91	27/12/91

APPENDIX I

Sample Profit and Loss Statement

Profit and Loss Statement for

Petőfi Sandor Terrace

for the Period Beginning 1/1/91 and Ending 31/12/9

<u>Description of Account</u>	<u>Acct. No.</u>	<u>Amount</u>
Rental Income - 5100		
Apartment Rent - Tenants	5120	3,501,540
Govt. Subsidy Payments	5121	2,553,220
Total Rent Revenue Potential at 100% Occupancy		6,054,760
Vacancies - 5200		
Apartments	5220	<99,790>
Total Vacancies		<99,790>
Net Rental Revenue Rent Revenue Less Vacancies		5,954,970
Financial Revenue - 5400		
Interest Income - Operations	5410	5,200
Total Financial Revenue		5,200
Other Revenue - 5900		
Laundry and Vending	5910	6,350
Late Fees	5920	300
Damages and Cleaning Fees	5930	16,910
Forfeited Tenant Security Depcsits	5940	42,370
Total Other Revenue		65,930
Total Revenue		6,026,100
Administrative Expenses - 6200/6300		
Office Salaries	6310	280,540
Office Supplies	6311	209,020
Management Fee	6320	498,090
Manager/Superintendent Salaries	6330	332,520

Manager/Superintendent's		
Apartment Rent	6331	125,260
Legal Expenses	6340	7,880
Auditing Expenses	6350	49,960
Bookkeeping Fees/ Accounting Services	6351	37,370
Telephone	6360	26,780
Total Administrative Expenses		1,567,420
Utilities Expense - 6400		
Electricity	6450	31,790
Water	6451	126,840
Gas	6452	34,670
Sewer	6453	186,000
Total Utilities Expense		379,300
Operating and Maintenance Expenses - 6500		
Janitor and Cleaning Supplies	6515	11,670
Exterminating Payroll/Contract	6519	22,150
Garbage and Trash Removal	6525	232,500
Security Payroll/Contract	6530	29,520
Grounds Supplies	6536	3,980
Grounds Contract	6537	271,090
Repairs Payroll	6540	511,350
Repairs Material	6541	302,490
Repairs Contract	6542	377,960
Decorating Payroll/Contract	6560	554,560
Decorating Supplies	6561	1,260
Vehicle & Equipment Repair	6570	56,800
Total Operating & Maintenance Expense		2,375,330
Taxes and Insurance - 6700		
Real Estate Taxes	6710	173,250
Payroll Taxes	6711	99,350
Miscellaneous Taxes, Licenses & Permits	6719	37,920
Property & Liability Insurance	6720	174,640
Fidelity Bond Insurance	6721	570
Workers Compensation	6722	106,380
Employee Benefits	6723	37,050
Total Taxes and Insurance		629,160

Financial Expenses - 6800		
Interest on 1st Mortgage	6820	219,790
Mortgage Service Charge	6850	89,930
Total Financial Expenses		309,720
Total Cost of Operations Before Depreciation		5,210,930
Profit (Loss) Before Depreciation		765,170
Depreciation		1,093,890
Operating Profit or (Loss)		(328,720)
Corporate or Mortgagor Entity Expenses		
Long-term Notes Payable Interest Expense		3,544,100
Total Corporate Expenses		3,544,100
NET PROFIT OR (LOSS)		(3,872,820)

APPENDIX J

Sample Balance Sheet

Petőfi Sandor Terrace

Balance Sheet

December 31, 1991

ASSETS

Cash	21,020	
Receivables		
Tenants	8,880	
Reserve for Replacements	<u>102,800</u>	111,680
Prepaid Insurance	130,930	
Tenant Security Deposits held in Trust	169,440	
Impounds (for taxes, insurance) ⁵	166,140	
Reserve for Replacements	1,687,080	
Rental property - at cost (Fixed Assets)		
Building	32,729,830	
Furniture and equipment	<u>981,900</u>	
	33,711,730	
Less accumulated depreciation	<u>10,322,190</u>	
	23,389,540	
Land	<u>3,535,000</u>	26,924,540

⁵Impounds are amounts paid with the mortgage payment which are placed in a separate account for express purposes, such as the eventual payment of real estate taxes or property and liability insurance. Impounds are like forced savings. The mortgagee occasionally requests that impound accounts be set up so that a property is certain of having sufficient funds to pay for certain expenses.

Deposit	<u>4,000</u>
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29,214,830

LIABILITIES

Accounts payable	404,370
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Excess rents due HUD	408,680
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Accrued interest	27,225,240
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Prepaid rent	20
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Tenant security deposits	169,000
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14% long-term note payable	35,000,000
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Contributions from owner	4,392,690
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Accumulated deficit	<u>(38,385,170)</u>
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29,214,830

APPENDIX K

Sample Statement of Change in Financial Position

Petőfi Sandor Terrace

Statement of Change in Financial Position

Year ended 31 December, 1991

SOURCE OF FUNDS

Operations:		
Revenue		
Rental income	5,881,240	
Other income		
Financial	5,200	
Other	<u>65,940</u>	5,952,380
Expenses		
Administrative expenses	460,880	
Management fees	483,080	
Utilities expense	352,030	
Payroll	1,129,670	
Operating and maintenance expenses	1,961,910	
Taxes - real estate	173,250	
Taxes - other	137,650	
Insurance	315,940	
Interest on building loan	221,770	
Mortgage service charge	<u>89,930</u>	<u>5,326,110</u>
Cash provided by operations before amortization	626,270	
Amortization of mortgage	<u>365,570</u>	
Cash provided by operations after debt service	260,700	

Other:	
Tenant security deposits - funded	34,020
Decrease in impounds	5,760
Withdrawals from reserve for replacements	1,238,380
Accounts payable	24,340
Tenant security deposits	6,230

APPLICATION OF FUNDS:

Receivable from reserve for replacements	102,800
Increase in prepaid insurance	7,550
Reserve for replacements - funded	1,056,060
Additions to fixed assets	26,760
Increase in deposits	4,000
Long-term note payable payments	<u>396,300</u>
	<u>1,593,470</u>

DECREASE IN CASH (24,040)

UNRESTRICTED CASH AT BEGINNING OF YEAR 45,060

UNRESTRICTED CASH AT END OF YEAR 21,020

APPENDIX L

Sample Management Contract

MANAGEMENT AGREEMENT

This Agreement is made the _____ day of _____, 19__ between _____ (the "Owner") and _____, (the "Agent").

1. Appointment and Acceptance. The Owner appoints the Agent as exclusive agent for the management of the property described in Section 2 of this Agreement, and the Agent accepts the appointment, subject to the terms and conditions set forth in this Agreement.
2. Description of Project. The property (the "Project"), to be managed by the Agent under this Agreement is a housing development consisting of the land, buildings and other improvements which make up the the housing estate as further described as follows:
 - (Project Name)
 - (Project Address)
 - (Number of units)
3. Definitions. As used in this Agreement.
 - a. "HUD" means the United States Department of Housing and Urban Development.
 - b. "Secretary" means the Secretary of the United States Department of Housing and Urban Development.
 - c. A "Mortgage" is an instrument of agreement between the Owner, as mortgagor, and the mortgagee, creating a lien on the Project as security for the payment of debt, which mortgage is insured by the United States Department of Housing and Urban Development.
 - d. "Mortgagee" means any holder of the Mortgage.
 - e. "Principal Parties" means the Owner and the Agent.
 - f. "Consenting Parties" means the Secretary and the Mortgagee.
4. HUD Requirements. The project is subject to a mortgage which will be or is insured by HUD under Section ____ of the National Housing Act, and the Owner has entered or will accordingly enter into a Regulatory Agreement with the Secretary, whereby the Owner is obligated to provide for management of the project in a manner satisfactory to the Secretary. The Owner has furnished or will furnish copies of the Regulatory Agreement. In performing

its duties under this Management Agreement, the Agent will comply with all pertinent requirements of the Regulatory Agreement and the directives of the Secretary. In the event any instruction from the Owner is in contravention of such requirements, the latter will prevail.

5. **Management Plan.** Attached hereto as Exhibit ___ and hereby incorporated herein, is a copy of the Management Plan for the Project, which provides a comprehensive and detailed description of the policies and procedures to be followed in the management of the Project. In many of its provisions this Agreement briefly defines the nature of the Agent's obligations, with the intention that references be made to the Management Plan for more detailed policies and procedures. Accordingly, the Owner and the Agent will comply with all applicable provisions of the Management Plan, regardless of whether specific reference is made thereto in any particular provision of this Agreement.
6. **Basic Information.** As soon as possible, the Owner will furnish the Agent with a complete set of plans and specifications approved by the Secretary and copies of all guaranties and warranties pertinent to construction, fixtures, and equipment. With the aid of this information and through inspection by competent personnel, the Agent will thoroughly familiarize itself with the character, location, construction, layout, plan and operation of the Project, and especially the electrical, heating, plumbing, ventilating systems, the elevators, and all other mechanical equipment.
7. **Marketing.** The Agent will carry out the marketing activities prescribed in the Management Plan, observing all requirements of the Affirmative Marketing Plan. Subject to the Owner's prior approval, advertising expenses will be paid out of the operating account as Project expenses.
8. **Rentals.** The Agent will offer for rent and will rent the dwelling units, parking spaces, commercial space and other rental facilities and concessions in the Project. Incident thereto, the following provisions will apply:
 - a. The Agent will follow the tenant selection policy described in the Management Plan.
 - b. The Agent will show the premises to prospective tenants.
 - c. The Agent will take and process applications for rentals. If an application is rejected, the applicant will be told the reason for rejection, and the rejected application, with reason for rejection noted thereon, will be kept on file for one (1) year. A current list of prospective tenants will be maintained.
 - d. The Agent will prepare all dwelling leases and parking permits, and will execute the same in its name, identified thereon as agent for the Owner. The terms of all leases will comply with the pertinent provision of the Regulatory Agreement and the directives of the Secretary. Dwelling leases will be in a form approved by the Owner and the

(including but not limited to nonpayment of rent) for such termination occurs under the terms of the tenant's lease. For this purpose, the Agent is authorized to consult with legal counsel to be designated by the Owner, to bring actions for eviction and to execute notices to vacate and judicial pleading incident to such actions; provided, however, the Agent keeps the Owner informed of such actions and follows such instructions as the Owner may prescribe for the conduct of any such action. Subject to the Owner's approval, attorney fees and other necessary costs will be paid out of the Management Account as Project expenses.

11. Maintenance and Repair. The Agent will maintain the Project in good repair in accordance with the Management Plan and local codes, and in a condition at all times acceptable to the Owner and the Secretary, including but not limited to cleaning, painting, decorating, plumbing, carpentry, grounds care, and such other maintenance and repair work as may be necessary, subject to any limitations imposed by the Owner in addition to those contained herein.

Incident thereto, the following provisions will apply:

- a. Special attention will be given to preventive maintenance and, to the greatest extent feasible, the services of regular maintenance employees will be used.
 - b. Subject to the Owner's prior approval, the Agent will contract with qualified independent contractors for the maintenance of ventilating systems and elevators, and for extraordinary repairs beyond the capability of regular maintenance employees.
 - c. The Agent will systematically and promptly receive and investigate all service requests from tenants, taking such action thereon as may be justified, and will keep records of same. Emergency requests will be received and serviced on a twenty-four (24) hour basis. Complaints of a serious nature will be reported to the Owner after investigation.
 - d. The Agent is authorized to purchase all materials, equipment, tools, appliances, supplies and services necessary to proper maintenance and repair.
 - e. Notwithstanding any of the foregoing provisions, the prior approval of the Owner will be required for any expenditure which exceeds (amount) in any one instance for labor, materials, or otherwise in connection with the maintenance and repair of the Project, except for recurring expenses within the limits of the operating budget or emergency repairs involving manifest danger to persons or property, or required to avoid suspension of any necessary service to the Project. In the latter event, the Agent will inform the Owner of the facts as promptly as possible.
12. Utilities and Services. In accordance with the Management Plan and the operating budget, the Agent will make arrangements for water, electricity, gas, fuel, oil, sewage and trash disposal, vermin extermination, decorating, laundry facilities, and telephone services. Subject

to the Owner's prior approval, the Agent will make such contracts as may be necessary to secure such utilities and services.

13. **Employees.** The Management Plan prescribes the number, qualifications and duties of the personnel to be regularly employed in the management of the Project, including a Resident Manager, a Social Services Director (if applicable), and maintenance, bookkeeping, clerical and other managerial employees. All such on-site personnel will be employees of the Project and not the Agent, but will be hired, paid, supervised, and discharged through the Agent, subject to the following conditions:
 - a. As more particularly described in the Management Plan, the Superintendent (or Resident Manager) will have duties of the type usually associated with this position, and the Social Services Director will be responsible for the conduct of the social services program for the Project. Each will be directly responsible to the Agent's Project Manager or other officer, and neither will have authority to supervise or discharge the other. Nevertheless, the Resident Manager and Social Services Director will coordinate their activities in the interest of good overall management.
 - b. The compensation (including fringe benefits) of the Superintendent, the Social Services Director, and maintenance employees will be as prescribed in the Management Plan. Compensation of bookkeeping, clerical, and other managerial personnel will be within the Agent's sole discretion provided minimum wage standards are met.
 - c. The Owner will reimburse the Agent for compensation (including fringe benefits) payable to the on-site management and maintenance employees, as prescribed in the Management Plan, and for all local, state, and Federal taxes and assessments (including but not limited to Social Security taxes, unemployment insurance, and worker's compensation insurance) incident to the employment of such personnel. Such reimbursements will be paid out of the Management account and will be treated as Project expenses.
 - d. Compensation (including fringe benefits) payable to the on-site staff, such as the Superintendent, Social Services Director, and all bookkeeping, clerical and other managerial personnel, plus all local, state and Federal taxes and assessments incident to the employment of such personnel will be borne solely by the Project, and will not be paid out of the Agent's fee. The rental value of the dwelling unit furnished rent-free to the Superintendent will be treated as a cost of the Project.
 - e. The Agent will establish and follow an employment policy that affords residents of the Project maximum opportunities for employment in the management and operation of the Project and, to the extent consistent with that consideration, employment opportunities to lower-income persons in the area. While personnel will be employed primarily on the basis of ability, the Agent will make a conscientious effort to provide a special assistance and training for Project residents and members of minority groups who are not initially qualified.

14. Disbursements from the Project Operating (Management) Account.

a. From the funds collected and deposited by the Agent in the Management Account pursuant to Section 9 above, the Agent will make the following disbursements promptly when payable:

(1) Reimbursement to the Agent for compensation payable to the employees specified in Subsection 13c above, and for the taxes and assessments payable to local, state and Federal governments in connection with the employment of such personnel.

(2) The single aggregate payment required to be made monthly by the Owner to the Mortgagee, including the amounts due under the mortgage for principal amortization, interest, mortgage insurance premium, ground rents, taxes and assessments, fire and other hazards insurance premiums, and the amount specified in the Certificate of Incorporation or Regulatory Agreement for allocation to the Reserve for Replacements.

(3) All sums otherwise due and payable by the Owner as expenses of the Project authorized to be incurred by the Agent under the terms of this Agreement, including compensation payable to the Agent, pursuant to Section 24 below, for its service hereunder.

b. Except for disbursements mentioned in Subsection 14a above, funds will be disbursed or transferred from the Management Account only as the Owner may from time to time direct in writing.

c. In the event the balance in the Management Account is at any time insufficient to pay disbursements due and payable under Subsection 14a above, the Agent will inform the Owner of that fact and the Owner will then remit to the Agent sufficient funds to cover the deficiency. In no event will the Agent be required to use its own funds to pay such disbursements.

15. Budgets. Annual operating budgets for the Project will be as approved by the Owner. Except as permitted under Subsection 11e above, annual disbursements for each type of operating expenses itemized in the budget will not exceed the amount authorized by the approved budget. In addition to preparation and submission of a recommended operating budget for the initial fiscal year, the Agent will prepare a recommended operating budget for each subsequent fiscal year beginning during the term of this Agreement, and will submit the same to the Owner at least thirty (30) days before the beginning of the fiscal year. The Owner will promptly inform the Agent of any changes incorporated in the approved budget, and the Agent will keep the Owner informed of any anticipated deviation from the receipts or disbursements stated in the approved budget.

16. **Records and Reports.** In addition to any requirements specified in the Management Plan or in other provisions of this Agreement, the Agent will have the following responsibilities with respect to records and reports:
- a. The Agent will establish and maintain a comprehensive system of records, books, and accounts in a manner conforming to the directives of the Secretary, and otherwise satisfactory to the Owner and the Consenting Parties. All records, books and accounts will be subject to examination at reasonable hours by any authorized representative of the Owner or either of the Consenting Parties.
 - b. With respect to each fiscal year ending during the term of this Agreement, the Agent will have an annual financial report prepared by a Certified Public Accountant or other person acceptable to the Owner and Secretary, based upon the preparer's examination of the books and records of the Owner and the Agent. The report will be prepared in accordance with the directives of the Secretary, will be certified by the preparer and the Agent, and will be submitted to the Owner within sixty (60) days after the end of the fiscal year, for the Owner's further certification and submission to the Secretary and the Mortgagee. Compensation for the preparer's services will be paid out of the Management Account as an expense of the Project.
 - c. The Agent will prepare a quarterly report comparing actual and budgeted figures for receipts and disbursements, and will submit each such report to the Owner within fifteen (15) days after the end of the quarter covered.
 - d. The Agent will furnish such information (including occupancy reports) as may be requested by the Owner or the Secretary from time to time with respect to the financial, physical, or operational condition of the Project.
 - e. By the tenth (10th) day of each month, the Agent will furnish the Owner with a statement of income and expenditures during the previous month, and with a schedule of accounts receivable and payable, and reconciled bank statements for the Management Account and Trust Account at the end of the previous month.
 - f. If, after the Project reaches sustaining (95%) occupancy, the rental collections fall below operating expenses for a sustained period of sixty (60) days, the Agent will immediately send written notification of the same to the appropriate HUD area/Insuring office.
 - g. Except as otherwise provided in this Agreement, all off-site bookkeeping, clerical, and other management overhead expenses (including but not limited to costs of office supplies and equipment, postage, transportation for managerial personnel, and telephone services) will be borne by the Agent out of his own funds and will not be treated as Project expenses.

h. By the fifteenth (15th) day of each month, the Agent will furnish the Owner with an itemized list of all delinquent accounts, including rental accounts as of the tenth (10th) day of the same month.

i. Upon termination or change in project management:

(1) The accounting records of this Project, even if maintained and housed at the office of the Management Agent, shall be considered to be the official records of this Project. They must be turned over to the Project upon termination of the Management Agreement or whenever a changeover of management occurs.

(2) All cash, bank accounts, and trust accounts must be accounted for in writing and be turned over to the Project or any Agent authorized by the Project.

(3) A cutoff date should be established and agreed upon between the outgoing managing Agent and the Project or its authorized Agent. All accounts shall be verified for their accuracy by a CPA or a licensed public accountant before these records can be turned over to the Project or its Agents.

j. The Agent will prepare and submit:

[list types of reports]

17. Fidelity Bond. The Agent will furnish, at its own expense, a fidelity bond in the principal sum of (amount), which is at least equal to the gross potential income for two months and is conditioned to protect the Owner and the Consenting Parties against misappropriation of Project funds by the Agent and its employees. The Owner shall provide a bond of like kind to cover the on-site personnel expressed in Section 13 and it shall be paid for from Project income. The other terms and conditions of the bond and the surety thereon, will be subject to the approval of the Owner and the Consenting Parties.

18. Bids and Purchase Discounts, Rebates or Commissions. The Project Owner and Management Agent agree to obtain contract materials, supplies and services at the lowest possible cost and on the terms most advantageous to the Project and to secure and credit to the Project all discounts, rebates, or commissions obtainable with respect to purchases, service contracts and other transactions on behalf of the Project. The Project Owner and the Management Agent agree that all goods and services purchased from individuals or companies having an identity-of-interest with the Agent or Project Owner shall be purchased at costs not in excess of those that would be incurred in making arms-length purchases on the open market.

The Agent shall solicit written cost estimates (i.e., bids) from at least three contractors or suppliers for any work item which the Project Owner or the Secretary estimates will cost (amount) or more and for any contact or ongoing supply or service arrangement which is estimated to exceed (amount) per year. The Agent agrees to accept the bid which represents

the lowest price taking into consideration the bidder's reputation for quality of workmanship or materials and timely performance, and the time frame within which the service or goods are needed. For any contract or ongoing supply or service arrangement obtainable from more than one source and estimated to cost less than (amount), the Agent shall solicit verbal or written cost estimates, as necessary to assure that the Project is obtaining services, supplies and purchases at the lowest possible cost. Agent must make a written record of any verbal estimate. Copies of all required bids and documentation of all other written or verbal cost comparisons made by the Agent shall be made part of the Project's records and shall be retained for three years from the date the work was completed. This documentation shall be subject to inspection by the Secretary or his/her designee and the Management Agent agrees to submit such documentation upon request.

The Agent further agrees to include the following clause in any contract entered into with an identity-of-interest firm for provision of goods or services to the project, the cost of which services are to be paid from project funds: "Upon request by the (Project Owner or Management Agent) or the Secretary, (name of contractor or supplier) will make available to the Secretary at a reasonable time and place; (name of contractor or supplier's) records which relate to goods or services provided to the Project." The Agent agrees to request such records from the contractor or supplier within seven days of receipt of a written request from the Secretary or his/her designee.

The Agent agrees to make available to the Secretary all records of the Agent's management company and its identity-of-interest company(s), if any, which relate to the provision of goods or services to the Project whenever Project funds have been used to pay for such goods and/or services (other than management services).

In the event charges levied by an identity-of-interest firm exceed charges which were or would have been levied by non-identity-of-interest firms for similar services or materials, the Owner, at the request of HUD, shall refund any excessive amounts which were paid from the Project funds. If the Project Owner and Field Office cannot agree as to the amount of refund due, the Loan Management Branch Chief shall request the Office of the Inspector General to review the Agent's or identity-of-interest firm's records related to the transactions under review. The Inspector General shall provide the Loan Management Branch Chief with an estimate of the amount of refund due. The Deputy Director for Housing Management and the Chief shall review the Inspector General's report and shall notify the Project Owner of the amount of refund due. Within twenty (20) days of receipt of the Field Office's letter, the Project Owner shall refund any amounts found to be excessive.

19. Social Services Program. The Agent will be responsible to the Owner for carrying out the social services program described in the Management Plan. The Social Services Director will be directly responsible to the Agent for the conduct of this program.
20. Tenant-Management Relations. The Agent will encourage and assist residents of the Project in forming and maintaining representative organizations to promote their common interest,

and will maintain good-faith communication with such organizations to the end that problems affecting the Project and its residents may be avoided or solved on the basis of mutual self-interest.

21. On-Site Management Facilities. Subject to further agreement of the Owner and Agent as to more specific terms, the Agent will maintain a management office within the Project and the Superintendent will reside in one of the dwelling units in the Project, and the Owner will make no rental charge for the same.
22. Insurance. The Owner will inform the Agent of insurance to be carried with respect to the Project and its operations, and the Agent will cause such insurance to be placed and kept in effect at all times. The Agent will pay premiums out of the Management Account, and premiums will be treated as operating expenses. All insurance will be placed with such companies, on such conditions, in such amounts, and with such beneficial interests appearing thereon as shall be acceptable to the Owner and Consenting Parties, and shall be otherwise in conformity with the mortgage; provided that the same will include public liability coverage, with the Agent designated as one of the insured, in amounts acceptable to the Agent as well as the Owner and the Consenting Parties. The Agent will investigate and furnish the Owner with full reports as to all accidents, claims, and potential claims for damage relating to the Project, and will cooperate with the Owner's insurers in connection therewith.
23. Compliance with Governmental Orders. The Agent will take such actions as may be necessary to comply promptly with any and all governmental orders or other requirements affecting the Project, whether imposed by Federal, state, county or municipal authority, subject, however, to the limitation stated in Subsection 11e with respect to repairs. Nevertheless, the Agent will take no such action so long as the Owner is contesting, or has affirmed its intention to contest, any such order or requirement. The Agent will notify the Owner in writing of all notices of such orders or other requirements, within seventy-two (72) hours from the time of their receipt.
24. Nondiscrimination. In the performance of its obligations under this Agreement, the Agent will comply with the provisions of any Federal, state or local law prohibiting discrimination in housing on the grounds of race, color, sex, creed or national origin, including (name of applicable laws).
25. Agent's Compensation. The Agent will be compensated for its services under this Agreement by monthly fees, to be paid out of the Management Account and treated as Project expenses. Such fees will be payable on the first day of each month for the term of the contract.
 - a. Each such monthly fee will be in an amount equal to

_____ percent of gross collections received during the preceding month. Gross collections include rental income and income from other sources such as coin-operated laundry equipment.

- b. The percentage fee stipulated in Section 25a may be increased by one-fourth of one percent (1/4%) on the anniversary date of this Agreement if HUD approves the Owner's written request, based upon its determination that the Agent's performance has been of superior quality. Such requests are not automatically approved, and may not be implemented without written authorization from the HUD Area/Insuring Office having jurisdiction over the Project mortgage.

26. Term of Agreement. This Agreement shall be in effect for _____ years beginning on the _____ day of _____, _____ and ending on the _____ day of _____, 19____ subject, however, to the following conditions:

- a. This Agreement will not be binding upon the Principal Parties until endorsed by the Consenting Parties.
- b. This Agreement may be terminated by the mutual consent of the Principal Parties as of the end of any calendar month, provided at least thirty (30) days advance written notice thereof is given to each of the Consenting Parties.
- c. In the event a petition in bankruptcy is filed by or against either of the Principal Parties, or in the event either makes an assignment for the benefit of creditors or takes advantage of any insolvency act, the other party may terminate this Agreement without notice to the other, provided prompt written notice of such termination is given to each of the Consenting Parties.
- d. It is expressly understood and agreed by and between the Principal Parties that the Secretary or the Mortgagee have the right to terminate this Agreement at the end of any calendar month, with or without cause, on thirty (30) days advance written notice to each of the Principal Parties, except that in the event of a default by the Owner under its Articles of Incorporation under the obligation of the Mortgage, the Secretary or the Mortgagee may terminate this Agreement immediately upon the issuance of a notice of cancellation to each of the Principal Parties. It is further understood and agreed that no liability will attach to either of the Principal Parties in the event of such termination.
- e. Upon termination, the Agent will submit to the Owner any financial statements required by the Secretary and, after the Principal Parties have accounted to each other with respect to all matters outstanding as of the date of termination, the Owner will furnish the Agent security, in form and principal amount satisfactory to the Agent, against any obligations or liabilities the Agent may properly have incurred on behalf of the Owner hereunder.

27. Interpretative Provisions.

- a. At all times, this Agreement will be subject and subordinate to all rights of the Secretary, and will inure to the benefit of and constitute a binding obligation upon the Principal Parties and their respective successors and assigns. To the extent that this Agreement confers rights upon the Consenting Parties, it will be deemed to inure to their benefit, but without liability to either, in the same manner and with the same effect as though the Consenting Parties were primary parties to the Agreement.
- b. This Agreement constitutes the entire agreement between the Owner and the Agent with respect to the management and operation of the Project, and no change will be valid, unless made by supplemental written agreement, executed and approved by the Consenting Parties as well as the Principal Parties.
- c. This Agreement has been executed in several counterparts, each of which shall constitute a complete original Agreement, which may be introduced in evidence or used for any other purpose without production of any of the other counterparts.

IN WITNESS WHEREOF, the Principal Parties (by their duly authorized officers) have executed this Agreement on the date first above written.

OWNER: (Name of Owner)

By: _____
(Name of person executing agreement)

WITNESS: _____

AGENT: (Name of Management Agent)

By: _____
(Name of person executing agreement)

WITNESS: _____

APPENDIX M

Sample Quarterly Report Form_____

**QUARTERLY REPORT TO
THE ASSET MANAGER**

QUARTER ENDING:_____

Property Name:_____

Address:_____

Name of IKV (or Management Entity):_____

Telephone Number:_____

Name of Site Superintendent:_____

Telephone Number:_____

FINANCIAL SECTION

Current gross monthly rent potential:_____

Current gross monthly potential, other charges:_____

Payables Trend

Payables, end of prior quarter: _____

Payables, end of this quarter: _____

Net change in payables: _____

Receivables Trend

Receivables, end of prior quarter: _____

Receivables, end of this quarter: _____

Net change in receivables: _____

Cash Balance Trend

Cash Balance, end of prior quarter:_____

Cash Balance, end of this quarter:_____

Net change in Cash Balance:_____

Explain any significant trends or changes in FINANCIAL section:

OCCUPANCY

Occupancy in units, end of prior quarter: _____

Occupancy in units, end of this quarter: _____

Net change in occupancy: _____

Number of units occupied, end of 1st mo. of qtr. _____

Number of units occupied, end of 2nd mo. of qtr. _____

Number of units occupied, end of 3rd mo. of qtr. _____

Explain any significant trends or changes in the OCCUPANCY SECTION:

PHYSICAL/MAINTENANCE

1. Are there any conditions on the property which are hazardous? If yes, please explain:

2. What type of efforts are being made to reduce or eliminate hazardous conditions?

3. What is the average response time for a maintenance/repair request? _____

4. What preventive maintenance has been performed during this quarter?

5. Are all units in the building habitable? If no, please explain:

6. Describe significant work completed during the quarter (extraordinary repairs, capital repairs/improvements, etc.):

7. Provide a brief description of the condition of the project:

8. What do you consider to be the most positive aspects of the property, in terms of progress made in a physical or financial sense? _____

9. What do you consider to be the most negative aspects of the project?

Signed by: _____
Position: _____

Date: _____

Reviewed by: _____

Date: _____

Asset Manager