



## *The Trials and Tribulations of Collecting the Rent*

It's the 15<sup>th</sup> of the month, and you've got . . . what, eight, maybe ten rent checks. The House Corporation has a monthly mortgage payment, but your undergraduate residents don't seem too pressed to get their room rent checks in on time. Calls to the chapter treasurer go unreturned, and the prospect that you might have to go door-to-door yourself looms like a bad cold.

Alumni Advisor . . . it seemed like a good idea at the time, but now you're spending all of your time collecting money when you'd rather focus on character and chapter development issues. That's the worst part of the job.

After more than twelve years in the business working with more than 1,100 chapters and collecting more than \$350 million for Greek organizations, Omega Financial, Inc. has identified a number of critical factors to better manage and collect the bills and fees fraternity and sorority members incur. Specifically:

- If possible, mail statements to the undergraduate's parent's address. Send copies to the undergraduate by e-mail.
- Clearly define a billing cycle identifying the date by which charges must be paid.
- Charge late fees for late payments.
- Statements should be sent at least four times a semester or three times a quarter.

- Each statement should contain an itemized description of charges, a perforated portion the member can return with payment and a return envelope. Statements should show any previous balances owed, any payments made, any new charges incurred and a total amount due.

To receive a payment, you need to provide members and their parents with as many payment options as possible. The chapter and House Corporation need to make it as convenient as possible for members and parents to pay including paying in person, by mail, over the phone and online using checks, cashier's checks and all major credit cards.

Collecting funds is a daily responsibility. Use a local third party property management company, or use the online interfaces, resources and dedicated staff of Omega Financial to help.

Omega Financial will work with your chapter and House Corporation treasurers to develop the billing cycle, charges, discount options, late payment penalties and other parameters appropriate for your organization. Omega will mail and e-mail

the statements, and they will collect the money. When Omega receives funds for your chapter, they update the paying member's account, and they electronically transfer those funds to your chapter's bank account on a daily basis.

Using their online interfaces, you can look at every transaction to see which members have and have not paid, and how much money has been transferred into your account. There's even a percentage split feature that lets you tell Omega to deposit a portion of payments into multiple bank accounts to be used, among other things, to:

- Send housing fees and rent directly to the House Corporation
- Send money to a chapter savings account
- Pay off debt owed to a National Headquarters.

Implementing Omega's suggestions clearly work. Chapters using Omega have a collection rate average above 96%. You can learn more by visiting [www.omegafi.com](http://www.omegafi.com).



# COVERAGE CORNER

## **Understanding Business Income & Extra Expense Coverage**

*Rich Jungman - Manager of Client Services & Claims, Initiate of Phi Sigma Kappa*

Business Income (BI) and Extra Expense (EE) is an optional coverage available through the FPMA property insurance program. While it is not required for participation in the FPMA program, it is a recommended coverage and all chapters owning or leasing a property should purchase it. Business Income (BI) and Extra Expense (EE) coverage protects a chapter against a financial loss in the event a chapter house becomes uninhabitable and the income generated by its tenants is lost. It also protects against increased expenses to keep your chapter operating without interruption. A covered loss must be the cause for the loss of income or increased expense in order to be covered.

Business Income (BI) or as it is often referred to, Business Interruption, protects against the loss of your critical cash flow. If the chapter house cannot be occupied due to a loss, you will need to either find alternative housing for your undergraduates or you will need to refund the unearned rent that has been paid. Business Income coverage steps in and replaces the cash flow produced by rent

paying tenants needed by your Housing Corporation to meet your financial obligations until the repairs to the chapter house are completed. It

is typically paid monthly and is based upon historical net rental income. Net rental income is gross rental income less variable expenses that cease to exist or are reduced due to the absence of tenants living in the chapter house. We understand the nature of student housing is unique. The FPMA policy provides lost rental income protection for up to 90 days after the repairs should have been reasonably completed. At renewal on April 1, 2005, it will extend to 180 days. Under most policies, rental income coverage ceases 30 days after repairs should have been reasonably completed.

Extra Expense (EE) coverage is intended to protect a business from extra expenses incurred to keep a business operating during the restoration period of a loss. If the damage is minor and there is only a need to relocate a few students and/or relocate them for a short period of time, it is often more cost effective to place them in temporary housing while repairs are being done. Extra Expense (EE) coverage protects against this unexpected increased expense. In the long run, the expenses incurred ultimately reduce the over all cost of the interruption by allowing a Housing Corporation to retain the tenants. Rent continues to be paid and the obligations promised within the terms of the lease agreement are fulfilled.

An advantage of the FPMA program is that the stated limit for this coverage can be applied to either a Business Income (BI) or Extra Expense (EE) loss or a combination of both. Most policies require an insured to declare stated limits for each line of coverage. It is important this line of coverage be reviewed annually. At a minimum, HRH/Kirklin & Co. recommends twelve months revenue be stated for this coverage. As rent is adjusted to remain competitive with the local student housing market, the amount declared as stated limits should be adjusted.

Over the past two years as the capacity of college and university housing has not been sufficient to meet the growing demand, rent charged by both for-profit and not-for-profit student housing corporations has increased. Despite this increase, many have not re-evaluated their insurance need in this area and do not adjust the stated limits. As a result, they are not sufficiently insured when a loss occurs. A common denominator present in a vast majority of large fraternity property losses has been inadequate coverage for this exposure. This left the housing corporations without a steady income stream creating a significant financial strain on the corporation during the extended period of restoration.

For FPMA participants, on April 1<sup>st</sup> your policy will renew making this an excellent time to review if you are properly insured in this area. If have any questions or would like to change your limits, give your Account Executive a call.

## **Spotlighting Risk Management Resources ...Be Prepared for Summer Break!**

The end of the spring semester is just around the corner and this means everyone gets busy with activities to close out the year and, for most, studying and taking finals. With this in mind, some simple planning now can put you in a position to have chapter house in good shape for the break before it is too late.

Summer break is a high risk period for chapter houses, A few simple, inexpensive steps can help you reduce the chance of sustaining a loss.

1. Review the rent you are going to charge and get the leases signed for the fall term;
2. Make sure each suite is walked through and tenant damage is addressed and deducted from the security deposit. Photographing the damage is suggested in the event it is disputed later.
3. Prior to closing the property or leaving for the break, make sure:

- ✓ Gutters and downspouts are properly attached and cleaned ;
  - ✓ Broken windows are repaired or replaced ;
  - ✓ Have a professional spot check the roof; and
  - ✓ Repair any ongoing maintenance problems .
4. If the property is going to be occupied, it is imperative to have someone designated as the "summer" house manger.
  5. If it is not going to be occupied, consider securing a caretaker to reside in the property. Or have someone, whether it be a volunteer or a service paid for, walk through the property on a daily basis.

For a complete check list of protecting your chapter house over summer break, visit the risk management resources section of [www.kirklin.com](http://www.kirklin.com). The check list can be downloaded and printed for easy use.

# Fire Safety and Fraternities

By Richard Jungman  
Manager - Client Services & Claims and  
initiate of Phi Sigma Kappa

Did you know?

- ✓ Thirty-eight of the last 41 fire fatalities in university-related fires occurred in a fraternity chapter house or off-campus housing.
- ✓ There is a fraternity/sorority house fire every 60 hours of the school year.

As the statistics from the National Fire Sprinkler Association indicate, fire safety continues to be an area of opportunity for fraternities. The tragic multiple fatality fire at Ole Miss has brought the area of fire safety within our facilities back to the fore-front where it belongs. As Housing Corporations act within their capacity as landlords, it's imperative they work with undergraduates to ensure the chapter is addressing this critical issue and the facility is in compliance with building codes and industry guidelines relating to fire safety. Outlined below are some specific areas that should be addressed:

1. Review your candle burning and smoking policy. Do you allow your tenants to burn candles and smoke in the chapter house? If you do, prohibiting this is a big step in avoiding a costly fire. Of the fire losses incurred under the FPMA property insurance program during the 2004-2005 policy term, 57% were attributed to careless smoking. Our recommendation for a candle and smoking policy is clear; absolutely no candle burning within the facility and designate a smoking area outside the facility. Make sure the designated spot is at ground level. A compromise would be a designated spot within the facility with commercial ashtrays to make sure all cigarettes are properly extinguished. As a majority of careless smoking fires start in members' rooms, it is critical smoking in the suites is prohibited.
2. When was the last time you had your electrical system professionally inspected

for capacity and adequate receptacles? If you are constantly tripping breakers or your tenants have to use drop cords to get adequate coverage for their furnishings and you are doing nothing to address it, you are at risk for a tragedy. Drop cords become worn and frayed resulting in a much higher risk of fire. Perhaps the breaker is tripping because someone decided to do a little



home wiring and it was not done safely. A number of the electrical fires in fraternity houses were caused by poor electrical improvements done by undergraduates.

3. What is your policy concerning space heaters? Electrical space heaters are a fire hazard and also inefficient sources of heat. When left on, they can malfunction or cause a flammable material close by to combust. There are low voltage radiating

systems out there that do not pose as great of risk of causing a fire and also are much more energy efficient.

4. Combustible materials should be stored in a safe place. Unfortunately, this is a frequently re-occurring problem noted by the insurance inspectors. Paint, gas, mowers are stored in the same enclosed room as the boiler and furnace. Mattresses are stacked up against the hot water heater. **The boiler furnace room is not the store room! If it is, make that change immediately.**

5. Do not stack old lumber, mattresses and general debris next to the chapter house. Arson is the second leading cause of fires at fraternity properties and the most costly. For almost all reported arson fires at fraternities, the origin and accelerant which started the fire were materials improperly stored next to the chapter house.

The list provided above, with the exception of assessing the capacity of the electrical system, are all relatively inexpensive, but go a long way in substantially reducing the chance you will be one of the chapter houses having a fire in the next sixty hours.

## WHAT IS FPMA?

Would you like a premium quote?  
Contact  
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or visit our website at [www.kirklin.com](http://www.kirklin.com)

- \* An association developed to make fraternal house of alumni corporation officers better property managers through education and other assistance.
- \* Providing a comprehensive and competitive Property and Boiler & Machinery insurance program to protect the physical plant of the association participants.

Founded to serve the needs of fraternal organizations. Committed to improving the risk management programs of its clients.

HRH/Kirkin & Co., LLC.

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## Readers' Comments

January 14, 2005

Mr. Richard Jungman, Manager  
Client Services & Claims  
HRH/Kirkin & Co., LLC  
P.O. Box 540673  
Omaha, Nebraska 68154

Dear Mr. Jungman:

SUBJECT: FPMA Newsletter

The Fall FPMA Newsletter contained an article that grabbed my attention, *Protecting Against Embezzlement*. I am happy to see this topic is receiving attention, as I believe the problem is more common than most people realize. The net result is that significant dollars are being stolen from our alumni and volunteer corporations, which are funds our facilities desperately need to stay competitive with other campus housing options.

Sigma Phi Epsilon has encountered four embezzlement cases in the past two-and-a-half years. Taking a step back and analyzing the individuals behind the crimes, I cannot "profile" this type of criminal. However, I can profile the crime. In each case:

1. The treasurer was one of the only consistent volunteers engaged with the chapter.

2. The treasurer did not supply monthly bank statements or basic cash-in/cash-out receipts.
3. The treasurer was unable to produce financial statements when requested.
4. The treasurer had 100% control of the funds and bank statements.
5. The chapter house was full or near capacity.
6. Tenants were paying near market or market rates.
7. Collection rate was high (low accounts receivable).
8. Ongoing trouble to stay current on bills.
9. Little or no money in savings.

In the event you encounter multiple themes mentioned above, it should be cause for further investigation. At the end of the day, no ethical treasurer will be offended by being asked to produce financial statements and/or be subjected to an audit. An audit will give credibility to the financial position of the company, as well as the person handling the finances.

Sincerely,  
John D. Weir  
Director of Housing