PROJECT-BASED DEVELOPMENT AND ANALYSIS

Day 4

LEAD THE WAY

PHA GOVERNANCE AND FINANCIAL MANAGEMENT

A Training for Board Members and Staff

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

TABLE OF CONTENTS

Welcome to Day Four of *Lead the Way: Project-Based Development and Analysis.*

Who should complete this training?

This training is for all staff members of a public housing agency (PHA)—particularly those with any financial management responsibility. Typically this includes the Executive Director or the CEO, the Chief Financial Officer, Chief Operations Officer of administrator, other executive staff, program heads, including Housing Choice Voucher administrators, and any other staff interested or involved in the finances and oversight of the PHA You may complete this course with your colleagues from your PHA, or with other PHAs in your region.

How long will it take to complete and how should we structure our time?

The entire training should be completed over the course of five days. We recommend that there be no more than one day between Days One through Three, and no more than one week between Days Three through Five. Sample agendas for each day are provided for your reference. These agendas are meant to provide a reference of how much time should be spent on each lesson. However, different groups will have different needs. If a group feels the need to spend more time on a particular topic, they should do so.

Are there knowledge checks or quizzes?

Pre- and post-tests are provided, so that the group has a sense of where they could improve their knowledge, and to provide a measurement of the knowledge obtained in the training. These may be used to assess completion if certificates of completion are included. You should have completed a pre-test for Days 1-3 on Day 1.

How is this training facilitated?

It is recommended that you have a leader and a coordinator to shepherd the group through the process of the training. The leader either takes on the role of lead instructor, or hires someone to do so. The coordinator helps to obtain space for the training, sets up registration, ensures that the facility is accessible to people with special needs, takes notes, and is available to answer questions throughout the day. Both the leader and participants will use the same Training Guide. Leaders should also look at the notes provided in the Day One slides.

Are there PowerPoint slides?

Slides are provided for use in the training. We have noted the corresponding slide for each topic area in the text. Remember that these slides are samples, and can be adjusted according to your needs.

How do I use this training guide?

Participants can use the training guides to review the material ahead of the training. Information provided in these guides provides helpful contextual information and background to what will be presented on the PowerPoint slides. Participants should also keep their guides with them during the training, and follow along with the slide numbers.

01 Project-Based Budget Development and Analysis

Agenda

8:30 a.m.	Check-In
8:45 a.m.	Module 1: Financial Concepts on page 9
10:30 a.m.	Break
10:45 a.m.	Module 2: Project-Based Budgeting on page 18
12:00 p.m.	Lunch
1:00 p.m.	Module 3: Analyzing Project-Based Budgets on page 31
2:15 p.m.	Break
2:30 p.m.	Module 4: Financial Tools to Measure Performance on page 48
4:00 p.m.	Class ends

02 Pre-Test

Day 4—Project-Based Budget & Analysis—Pre-Test

Note to leader: This pre-test is intended to gauge the existing knowledge of the students as they begin Day Four of the training. You may wish to request that students take this test upon registration of the class (using an electronic survey method), or when the class begins. You may wish to review the answers ahead of time and tailor the instruction accordingly, or allow students to keep the test with them to use as a reference throughout the course.

An answer key can be found at the end of this document.

1. The Asset Management Model resulted from:
   a) The new operating rule
   b) The cost model based on the Multifamily Housing Program
   c) Both
2. Asset management is a process of making investment decisions for a collection (portfolio) of assets, based on the mission, goals, and objectives of the owner/agent, lender, sponsor, or regulatory body.
   a) True
   b) False
3. PHA board and MFH program owners/agents are responsible for (select all that apply):
   a) Approving project-based budgets
   b) Developing project-based budgets
   c) Monitoring and oversight of budgets
4. Project-based funding provides subsidy (PH or MFH programs) for:
   a) Operating the entire housing program
   b) Individual housing projects or AMPs
   c) Staff salaries for all PHA or MFH staff
5. Performance-based management means:
   a) PHA AMPs or MFH properties are evaluated individually
   b) The PHA or property company is evaluated agency- or company-wide
   c) Performance is measured by a self-evaluation process.
6. Project-based budgets are developed at the:
   a) Agency-wide level
   b) Project or AMP level
   c) Central Office Cost Center (COCC)

7. PRACs in Multifamily Housing programs are renewed:
   a) Every 5 years
   b) Every 3 years
   c) Every 2 years
   d) Every year
8. Dwelling rent in both the PIH and MFH programs is considered project income.
   a) True
   b) False
9. One of the objectives of budgeting is to provide a base against which actual performance can be measured.
   a) True
   b) False
10. The minimum public housing operating reserve level is:
    a) $100,000
    b) $4,000,000
    c) $0
11. Which of the following is an allowable fee expense in the PIH and MFH programs?
    a) Property management
    b) Housekeeping
    c) Delivery
    d) Recordkeeping
12. A ***front-line expense*** is an expense that is directly related to the operation of an AMP.
    a) True
    b) False
13. Benchmarking is used to:
    a) Identify financial goals
    b) Compare business process and performance against industry standards
    c) Claim a bench as your own
14. Financial metrics are a report of a business's financial situation monthly, quarterly, bi-annually, or annually.
    a) True
    b) False
15. Which one is not a financial ratio?
    a) Net Operating Income (NOI)
    b) Debt Service Coverage Ratio (DSCR)
    c) Accounts payable

16. FASS-PHA uses how many financial ratios to measure a project's financial performance under the PHAS?
    a) Six
    b) Three
    c) None
17. MENAR measures:
    a) The liquidity of a project
    b) The ability of project to meet its regular debt obligations
    c) The ability of a project to operate using primarily its net available, unrestricted resources without reliance on additional funding
18. Surplus cash is a concept of which program?
    a) Public Housing Program
    b) MFH Program
19. The quick ratio is used in both the public housing and MFH programs to measure a project's liquidity.
    a) True
    b) False
20. Both in the Public Housing Program and the MFH Program, a Reserve for Replacements is required.
    a) True
    b) False

Introduction

Welcome to ***Project-Based Budgeting Development and Analysis,*** a developmental course that teaches skills on how to develop and analyze budgets used to manage public housing and multifamily low-income properties. This course addresses asset management, financial concepts, project-based budget development and monitoring, and measuring financial performance.

Training Purpose

The purpose of the training on Day 4 is to provide training on management and executive-level financial tools and concepts.

Course Objectives

Day 4, Slide 4

Upon completion of this course, you will have an understanding of:

- Asset management
- Project-based budgeting
- Budget development and tools
- Financial benchmarking
- Cash management
- Fee income and operating reserves

03 Module 1: Financial Concepts

Note: Slides 5-28 correspond with this module.

Module Objectives

Day 4, Slide 6

Upon completion of this module, you will have a working knowledge of:

- Asset management
- The history of asset management
- The role of the board of commissioners and MFH owners/agents
- The concept of asset management in assisted housing programs

Introduction to Asset Management

Day 4, Slides 7-8

Asset Management is a process of making investment decisions for a collection (portfolio) of assets, based on the mission, goals, and objectives of the owner, lender, sponsor, or regulatory body.

In both Public Housing and the Multifamily Housing Program (MFH), asset management is a business model used to manage properties by establishing project-based budgeting, project-based accounting, and project-based management. The primary goals of asset management are to:

- Improve the operational efficiency and effectiveness of managing public housing assets
- Better preserve and protect each asset
- Provide appropriate mechanisms for monitoring performance at the property level
- Facilitate future investment and reinvestment in public housing by public and private sector entities

THE HISTORY OF ASSET MANAGEMENT IN HUD PUBLIC HOUSING PROGRAMS

Day 4, Slides 9-11

In 1998, Congress passed the Quality Housing and Work Responsibility Act (QHWRA), which created a new Operating Fund Program for public housing. This replaced the Performance Funding System (PFS). At the same time, the Congress directed HUD to develop this new program through Negotiated Rulemaking.

Based on the recommendations resulting from the negotiated rulemaking sessions, Congress further directed HUD to contract with Harvard University's Graduate School of Design to "conduct a study of the costs to operate well-run public housing." This study became known as the "Harvard Cost Study."

The Harvard Cost Study was completed in 2003 and recommended that public housing:

- Adopt a cost model similar to multifamily housing once actual operating costs at the project level were known
- In the interim, the new Operating Fund formula should be based on the unique characteristics of each project in order to estimate the costs of a well-managed project
- Operating subsidy provided by the new Operating Fund formula be determined and provided for at the project level
- Convert to the asset management model

In 2005, HUD published what was essentially the negotiated rule, referred to as the “Final Rule” on the Operating Fund Program. The Final Rule did two things. First, it established a new formula for distributing operating subsidy to PHAs. Second, it required PHAs of 250 or more units to convert to asset management.[1]

Under the new Operating Fund formula, each public housing project is assigned a model-generated “Project Expense Level,” or “PEL.” The PEL represents the estimated cost to operate each project, exclusive of property taxes and utilities. This change did not affect Multifamily Housing Program funding.

In 2007, the Department issued final guidance on implementation of the Final Rule, including PIH Notice 2007-09. This Notice contained an important supplement to the Financial Management Handbook 7475.1 REV., CHG-1, “Changes in Financial Management and Reporting for Public Housing Agencies Under the New Operating Fund Rule (24 CFR 990)—Revised April 2007.” The Supplement provides guidance to PHAs for project-based budgeting and accounting, Capital Fund reporting, fee income and assignment of costs, the calculation and uses for excess cash and the financial reporting requirements for public housing under asset management.

The Roles and Responsibilities of PHA Board of Commissioners and MFH Owners/Agents in Asset Management

Day 4, Slides 11-13

The PHA board of commissioners or MFH owners/agents are responsible for securing the management of federally subsidized properties in its portfolio, and ensuring that those properties operations are in accordance with the laws and program requirements of HUD and the Office of Management and Budget (OMB), and the priorities and policies of housing agencies or property management companies.

PHA boards are responsible for ensuring that agency practices and policies align with the overall mission and goals of the organization. Under asset management, PHA staff are responsible for preparing project-level budgets that serve as guidelines for operating projects. It is the role of PHA boards and MFH program owners/agents to review and approve those budgets. Another key responsibility of PHA boards or MFH owners/agents is to evaluate progress and recommend corrective action. This may

1 225 of Title II of Division I of the Consolidated Appropriations Act, 2009, P.L. 111-8 provided through an administrative provision that PHAs that own or operate 400 or fewer public housing units may elect to be exempt from any asset management requirement imposed by HUD in connection with HUD’s Operating Fund rule, with one exception—a PHA seeking discontinuance of a reduction of subsidy under the operating fund formula shall not be exempt from asset management requirements. Since requirements in appropriations acts, unless otherwise indicated, apply only to the fiscal year to which the appropriations act is directed, HUD’s proposed rule to revise PHAS does not reflect this one-year provision.

involve developing goals for the projects or making policy decisions that affect management practices.

Key responsibilities of PHA boards and MFH property owners/agents are to:

- Adopt fiscal policies
- Adopt project-based budgets
- Conduct a monthly review of budgets vs. actual expenses and revenues
- Approve major contracts and purchases
- Monitor fiscal activities
- Stay abreast of subsidized housing industry rules and regulations

The Concept of Asset Management in the Public Housing Program

Day 4, Slides 14-20

Conversion to asset management changed the way public housing agencies conducted business, both operationally and financially. Under the old system, agencies operated at a program level with centralized services. Asset management caused PHAs to adopt a management model similar to that of multifamily housing programs.

Under the New Operating Fund Rule, 24 CFR 990.255(a) mandated that:

> *PHAs shall manage their properties according to an asset management model, consistent with the management norms in the broader multi-family management industry. PHAs shall also implement project-based management, project-based budgeting, and project-based accounting, which are essential components of asset management. The goals of asset management are to*
>
> 1. *Improve the operational efficiency and effectiveness of managing public housing assets;*
> 2. *Better preserve and protect each asset;*
> 3. *Provide appropriate mechanisms for monitoring performance at the property level; and*
> 4. *Facilitate future investment and reinvestment in public housing by public and private sector entities.*

As part of the conversion to asset management, PHAs were required to group properties into effective management groupings referred to as "Asset Management Properties" or AMPs and assign the AMPs new identifying numbers. AMP managers or project managers under the asset management model assumed responsibility for day-to-day management functions at the site level. This means that activities that were once centralized now are operated at the project site (e.g., waiting list management, maintenance, purchasing, and rent collection).

Another significant change in the public housing management model under asset management is the establishment of the Central Office Cost Center (COCC). The COCC is a separate business unit within the PHA that is responsible for the general oversight and indirect support activities of all public housing projects and programs administered by the PHA. Examples of these activities include the executive director, supervision of project managers, the accounting function, risk management, and the human resource function. Under asset management, HUD operating funds can no longer be used to pay salaries of non-program-level staff. The COCC charges the AMPs various fees as allowed by HUD.

These fees are used to pay all costs incurred by the COCC and, once paid to the COCC by the AMPs or programs, are considered defederalized. To the extent the COCC earns more in fees than it incurs in expenses, it will have a profit; if less, it will have a loss. Any loss must be covered by the COCC's own resources.

The five major components of asset management that changed the way PHAs conducted business and their financial structures are:

PROJECT-BASED FUNDING

Day 4, Slides 21-23

Under the Operating Fund formula, PHAs receive a separate subsidy for each AMP. An AMP's subsidy is calculated using the Project Expense Level (PEL). The PEL is a model-generated estimate of the cost to operate the AMP, excluding utilities, taxes, and add-ons. It is based on the costs of operating other federally funded multifamily housing properties with similar characteristics (building type, location, number of bedrooms per unit, etc.). HUD uses the following formula to calculate operating subsidy for properties under the Operating Fund formula. There are four major components to the calculation of a PHA's operating subsidy:

1. Project Expense Level (PEL): Model-generated estimate of the cost of operating each project, exclusive of utilities, taxes, and certain add-ons.
2. Utility Expense Level (UEL): Funding eligibility for a project's utilities based on its consumption, applicable rates, and inflation factor.
3. Add-ons: Special funding amounts for certain items outside the PEL and UEL, such as asset management fees, Payment in Lieu of Taxes (PILOT), audit costs, and resident activity funds ($25 per unit).
4. Formula Income: Income recognized by the formula for subsidy purposes. Primarily dwelling rental income and revenue generated from dwelling rental units approved by HUD for non-dwelling rental purposes and rental income from non-dwelling units, such as common areas.

A simplified formula for calculating Operating Subsidy is: Expense level (PEL+UEL) plus add-ons, minus formula income.

PEL + UEL + Add-On – Formula Income = Operating Subsidy

PROJECT-BASED BUDGETING

Day 4, Slide 24

Project-based budgeting means that operating budgets for the public housing program will be completed at the project level, as opposed to the program level. Primarily, project-based budgets will be used for internal PHA planning purposes. Project-based budgets must be approved by the PHA's board prior to the start of each fiscal year using *Form HUD 52574, Board Resolution Approving the AMPs Budgets.* AMP budgets are not subject to HUD approval, except in the case of non-performing properties. HUD does not prescribe a specific budget format, although the budget should reconcile to the updated Financial Data Schedule (FDS).

PROJECT-BASED ACCOUNTING

Day 4, Slide 25

Project-based accounting provides the ability to track financial performance at the project level. Ultimately, project-based accounting provides the necessary information to make effective decisions at the project level. As with other federally assisted housing programs, such as MFH, PHAs are required to submit to HUD year-end financial statements on each project. These financial statements must include revenue, expense, and balance sheet items.

PROJECT-BASED MANAGEMENT

Day 4, Slide 26

Under project-based management, property management services are arranged, coordinated, or overseen by site-based personnel who are assigned responsibility for the day-to-day operation of that property and who are charged with the direct oversight of operations of that property. Property management services may be arranged or provided centrally; however, in those cases in which property management services are arranged or provided centrally, the arrangement or provision of these services must be done in the best interest of the property, considering such factors as cost and responsiveness.

Project-Based Oversight and Performance Management

Day 4, Slides 27-28

Project-based oversight and performance management means that each AMP will be evaluated on its financial and management performance in addition to its physical condition. A central part of this new performance measurement structure will be a system of on-site management reviews of each project. PHAs will also be assessed in the obligation and expenditure of Capital Fund dollars.

Module 1: Knowledge Check Questions

This knowledge check should be completed at the end of Module 1. Participants should circle their chosen answer. Leaders should review the correct answer using the following answer key once participants complete the knowledge check.

1. The Asset Management Model resulted from:
   a) The new operating rule
   b) The cost model based on the Multifamily Housing Program
   c) Both

2. PHA board and MFH owners/agents are responsible for (select all that apply):
   a) Approving project-based budgets
   b) Developing project-based budgets
   c) Monitoring and oversight of budgets

3. Performance-based management means:
   a) PHA AMPs or MFH properties are evaluated individually
   b) The PHA or property management company is evaluated agency- or company-wide
   c) Performance is measured by a self-evaluation process

4. The Public Housing Operating Fund formula provides operating subsidy for:
   a) Operating an entire housing program
   b) Individual housing projects or AMPs
   c) Staff salaries for all PHA or MFH staff

5. Under the asset management model, day-to-day operations of the property are performed by:
   a) COCC staff
   b) Site-based staff
   c) Asset/project managers

6. The COCC will be responsible for:
   a) Day-to-day operations
   b) Oversight and monitoring
   c) Both

7. The Project Expense Level (PEL) represents:
   a) The actual expense level for a project based on its characteristics such as age, size, and geographic location
   b) The estimated expense level for a project based on its characteristics such as age, size, and geographic location
   c) Neither

8. Operating subsidy for a public housing project is based on:
   a) PEL + UEL + Add-ons + Formula Income
   b) PEL + UEL + Add-ons – Formula Income
   c) PEL + UEL + Add-ons

Stop: Do not proceed until the training Leader prompts you to turn the page.

Module 1: Knowledge Check Questions

Answer key

Correct answers are indicated in ***bold****.*

1. The Asset Management Model resulted from:
   a) The new operating rule
   b) The cost model based on the Multifamily Housing Program
   c) ***Both***

2. PHA board and MFH owners/agents are responsible for (select all that apply):
   a) ***Approving project-based budgets***
   b) Developing project-based budgets
   c) ***Monitoring and oversight of budgets***

3. Performance-based management means:
   a) ***PHA AMPs or MFH properties are evaluated individually***
   b) The PHA or property management company is evaluated agency- or company-wide
   c) Performance is measured by a self-evaluation process

4. The Public Housing Operating Fund formula provides operating subsidy for:
   a) Operating an entire housing program
   b) ***Individual housing projects or AMPs***
   c) Staff salaries for all PHA or MFH staff

5. Under the asset management model, day-to-day operations of the property are performed by:
   a) COCC staff
   b) Site-based staff
   c) ***Asset/project managers***

6. The COCC will be responsible for:
   a) Day-to-day operations
   b) ***Oversight and monitoring***
   c) Both

7. The Project Expense Level (PEL) represents:
   a) The actual expense level for a project based on its characteristics such as age, size, and geographic location
   b) ***The estimated expense level for a project based on its characteristics such as age, size, and geographic location***
   c) Neither

8. Operating subsidy for a public housing project is based on:
   a) PEL + UEL + Add-ons + Formula Income
   b) ***PEL + UEL + Add-ons – Formula Income***
   c) PEL + UEL + Add-ons

05 Module 2: Project-Based Budgeting

Note: Slides 29-63 correspond with this module.

Module Objectives

Day 4, Slide 30

Upon completion of this module, you will have a working knowledge of:

- The purpose of project-based budgets
- HUD's requirements for project-based budgeting
- How to prepare a project-based budget

Introduction to Project-Based Budgeting in the Public Housing Program

Day 4, Slides 31-33

Traditionally, PHAs have prepared the public housing operating budget at the program level and not at the project level. In addition, the entire budgeting process for the public housing program has historically been a top-down approach. In many cases, site staff were not aware of budgeted resources for a property, nor were they involved in the actual preparation of a property budget. With the exception of rent collection, PHA property managers, prior to the adoption of the asset management model, were not held accountable for the financial health of properties under their management.

That all changed in 2005. Under 24 CFR 990.255 of the Public Housing Operating Fund Program Final Rule, PHAs were required to implement asset management, which includes project-based management, project-based budgeting, and project-based accounting.

An operating budget for a property is a tool management uses to establish the priorities for spending during the year, based on the expected income flow of the property and the goals and objectives of management. It also provides an estimate of the expected financial position of the property during the fiscal year. This is important for management to know so that they can make appropriate decisions about whether additional resources will be needed to carry out the goals and objectives for a property.

Although the focus of this section is on public housing project operating budgets, it is important to point out that the PHA should have a financial plan (a budget) for all activities under PHA operation. This ensures that all programs and activities have adequate resources to meet their goals and objectives and, if not, decisions can be made as to whether expenses should be cut or additional sources of capital, where available, can be obtained. From a PHA perspective, good budget planning and control is essential to prevent the inappropriate use of federal funds from one federal program to another, when such fungibility is not allowed.

With the exception of troubled PHAs, budget data does not have to be sent to HUD for approval. Budgetary approval will rest with the PHA's board. Although PHAs have a significant amount of discretion in preparing project-based operating budgets, HUD has set certain requirements for this process.

HUD BUDGET REQUIREMENTS AND CLARIFICATIONS

Day 4, Slides 34-35

- Operating budgets shall be developed for each AMP. A COCC budget is highly recommended, but not required by HUD. However, as a good business practice, PHAs should develop a COCC budget to efficiently monitor and track financial activities. There is no specific budget format, including for those troubled PHAs that must submit their budget to HUD for approval. While there will be no uniform/required format, all budgets must be easily reconcilable to FDS line items.
- PHAs shall develop and maintain AMP budgets that allow for comparative analysis of budgeted line items to actual revenues and expenses.
- Operating budgets shall include estimates for all revenue and expenses under the Operating Fund and Capital Fund Programs (CFP) that directly or indirectly support the operations of the AMP, as well as capital expenses to be paid with operating funds, including all data needed to complete AMP-based financial statements in accordance with GAAP. In this context, the operating budget should contain such CFP activities as operating transfers, management improvements, or other CFP activity allowed by the program that is not capital in nature (for example, a vacancy reduction program which is aimed at marketing).
- Operating budget revenues include operating subsidy, dwelling rents, Capital Funds used for non-capital activities, and all other revenue used to support the AMP. Subsidy levels should be based on the project formula components (i.e., the AMP's PEL, UEL, add-ons, and formula income), with an estimate of the projected proration percentage. Budgets should also include any "transfers" under the "fungibility" provisions of the Final Rule. As an example, management may decide to transfer excess cash from one project to another in order to provide additional resources for a project to improve its performance.
- Operating budget expenses shall include, but are not limited to, direct administrative costs, utilities, maintenance, security, general expenses, and non-routine or capital expenses to be paid with operating funds. These categories also include any COCC front-line costs charged as fee-for-service. The budgets should also show any anticipated uses of excess cash expected to be generated by the AMP. Such amounts will be made available for transfer to other AMPs, paid under the asset management fee, or for any other eligible purposes.
- AMP operating budgets must be approved by the PHA's board before the commencement of the fiscal year; however, the board does not need to pass a resolution for each project budget. Operating budgets for all or multiple AMPs can be approved with a board joint vote. The board resolution must be submitted to the local field office.

Preparing a Project-Based Budget for Public Housing

Day 4, Slides 36-38

Under project-based management, the project manager plays a significant role in preparing and monitoring the respective AMP's budget. HUD considers this concept an integral part of the asset management model based on MFH practice.

Before budget preparation starts, project managers should know of any strategic goals set by management and how these goals translate into financial terms. For example, management may have set an overall strategic goal for the public housing program that occupancy will not be less than 98 percent. This is important for the project manager to know before the budget process for the project begins in order to evaluate how this goal will need to be reflected in the individual project budget. It is important that all budgets be consistent with agency or company financial goals and objectives for the upcoming fiscal year and should:

- Reasonably represent expected financial performance and consider all revenue sources and expenses of a project
- Reflect expected transfers and anticipated uses of excess cash
- Include Capital Funds that will be used for operations (BLI 1406) and management improvements (BLI 1408) at the project level

Before the budget process begins, the asset manager and PHA CFO must know the AMP's formula income expressed as Per Unit Month (PUM). The PUM is determined by the PHA's previous year's audited financial data submitted to HUD via the FDS. PUMs are adjusted each year by HUD based the annual rental income inflation factor.

GENERAL STEPS FOR PLANNING A PROJECT-BASED BUDGET ARE:

Day 4, Slide 40

Step 1: Define the Objectives

- Define the goals for the project for the year. What are the strategic objectives set by management and what impact will they have on the project's planned financial resources?
- What are the specific objectives (goals) for the property for the year?
- Define these in financial terms (i.e., prepare a budget that is consistent with helping to achieve these objectives).

Step 2: Determine Project Income

- The next step in developing a project budget is to identify the revenue the project is expected to generate. Examples of project income include:
  - Dwelling rent
  - Operating subsidy (PEL + UEL + Add-Ons – Formula Income)
  - Other revenue
  - CFP funds
- The rent roll provides information about the tenant portion of rent for occupied units. Rental income for new units will have to be estimated—most likely an average for a project, since rent is based on income. The amount of rental income budgeted will be directly related to the number of units occupied and/or expected to be occupied in the fiscal year.
- Once the average rent from the rent roll has been determined, it should be adjusted by expected

KEY CONCEPT

The higher the vacancy percent, the less dwelling rental income will be earned. PUM is calculated by the vacancy rate at the last six months of the budget year. Therefore, it is important that project managers keep vacancies at a minimum.

vacancy. The vacancy rate should reflect both recent history and expected levels in the coming period.

- Operating subsidy is another form of income. The operating subsidy calculations PHAs are required to submit to HUD will be the source document for this revenue item.
- Other sources of project income include a collection of revenue items referred to as "Other Revenue." Nationally, "Other Revenue" averages $36 PUM. Other revenue includes:
    - Other tenant charges (late fees, assessments, maintenance charges)
    - Excess utilities
    - Investment income
    - Fraud recovery
    - Non-dwelling rent
    - Other income
- Another possible revenue source for a project is Capital Fund Program (CFP) contributions.
    - CFP funds are typically available for two types of expenditures. Those that improve or extend the useful life of a property, called "capital improvement," and those that are considered part of the project's operating expenses. For example, CFP funds can be used for operations and or management improvements.

Step 3: Determine Project Expenses

Once a project's expected revenue has been estimated, the next step is to estimate its operating expenses. The typical operating budget expense categories are:

- Administrative
- Asset management fees
- Tenant services
- Utilities
- Maintenance
- Protective services
- Insurance
- General expenses

TIPS FOR ESTIMATING EXPENSES

Keep in mind the following when estimating project expenses:

- Strategic goals for the project
- Plans that would impact spending such that planned expenses will fall outside historical averages
- Expected price increases for wages, goods, and services.

Step 4: Finalize the Budget Document

Using financial estimates for project subsidy, project income, and project expenses, a timeline budget is prepared and presented to the PHA board of commissioners for approval using HUD Form 52574—Board Resolution Approving the AMP Budget. This Resolution is submitted to the PHA's HUD Field Office prior to the beginning of the fiscal year to prove that the board examined and approved the AMP budget.

Eligible Uses of Operating Funds

Day 4, Slide 41

Under Section 9(3) of the Housing Act of 1937, operating funds are available to PHAs for the operation and management of public housing, including:

Eligible Uses for Project-Based Operating Subsidy	
A	Procedures and systems to maintain and ensure the efficient management and operation of public housing units (including amounts sufficient to pay for the reasonable costs of review by an independent auditor or other information maintained pursuant to section 6(j) (6) by a public housing agency or resident management corporation to substantiate the performance of that agency or corporation)
B	Activities to ensure a program of routine preventative maintenance
C	Anticrime and anti-drug activities, including the costs of providing adequate security for public housing residents, including above-baseline police service agreements
D	Activities related to the provision of services, including service coordinators for elderly persons or persons with disabilities and activities to provide for management and participation in the management and policy making of public housing by public housing residents
E	The costs of insurances
F	The energy costs associated with public housing units, with an emphasis on energy conservation
G	The costs of administering a public housing work program under Section 12, including the costs of any related insurance needs
H	The cost of repaying, together with rent contributions, debt incurred to finance the rehabilitation and development of public housing units, which shall be subject to such reasonable requirements as the Secretary may establish
I	The costs associated with the operation and management of mixed finance projects, to the extent appropriate
J	The costs of operating computer centers in public housing through a Neighborhood Networks initiative described in subjection (d)(2)E, and of activities related to that initiative
K	The cost of auditing PHA programs

Budget Planning Tools

Day 4, Slides 42-49

The Project Budget Tool is a Microsoft Excel® spreadsheet template that creates both individual project budgets, as well as combining reports (covering all projects). The spreadsheet uses a series of macros and hyperlinks to allow the PHA to budget each AMP individually while compiling the data into a combining budget presentation. PHAs should download the Project Budget Tool into a dedicated file folder for the initial budget preparation.

BUDGET FORMAT

Day 4, Slide 42

Currently, PHAs submit year-end financial data to HUD's Real Estate Assessment Center (REAC) utilizing a prescribed Financial Data Schedule (FDS). The Project Budget Tool utilizes the prospective line items of this FDS. PHAs may view the most recent version of the proposed FDS at: http://www.hud.gov/offices/pih/programs/ph/am/fds.cfm

The budget format consists of projected or anticipated sources of income and expenditures for a given period. The budget focuses on the projected cash flows of the project. The layout differs slightly from the manner in which the accounts are presented on the FDS.

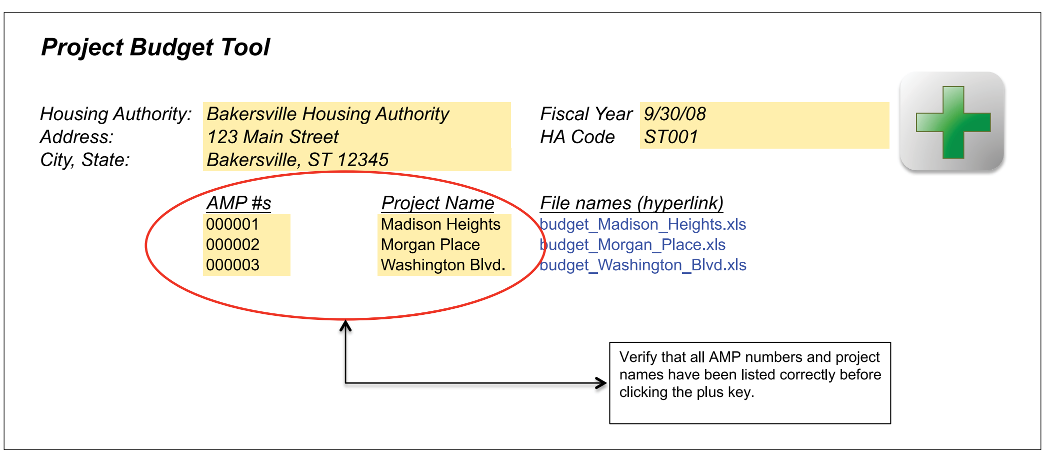
Other financial items (sources and uses) consist of items that are not typically recurring in nature or are unusual. These items may include operating transfers, non-routine maintenance expense, debt service payments, and capital expenditures. The total of these other financial items is added or subtracted from cash flow from operations to arrive at the projected net cash flow of the individual project.

The worksheet has four tabs under which information can be input. Tab examples are:

GENERAL INFORMATION TAB

Day 4, Slide 43

The General Information tab is used to input information about the general characteristics of the project.



PROJECT SUMMARY TAB

Day 4, Slide 44

The Project Summary tab lists the totals from each prepared AMP budget and combines them into a summarized budget format. The total of the individual AMP budgets is listed in the "total" column. These amounts are taken from completed budgets of each individual AMP. Information related to the completion of the individual AMP is listed in a following section.

PUM SUMMARY TAB

Day 4, Slide 45

The PUM Summary tab lists information based on the estimated number of ACC units. The weighted average column averages the costs across each AMP based on the estimated number of ACC units and the total costs incurred for the agency. This action provides a comparative analysis of costs between individual AMPs. The data used to calculate these amounts comes from the individual budget formats.

AMOUNT BUDGET TAB

Day 4, Slide 46

The Amount Budget tab is used as the main worksheet for the preparation of the individual project budget. You will note that general information related to the agency name and address is pre-populated through the macro process. Additional information that is needed will include the number of ACC units, the build date, type of project, the date of last renovation, the estimated occupancy rate expressed as a percentage, the average size of bedrooms, and the anticipated number of turnovers during the budgeted fiscal year. Several fields are shaded in gray, as they do not apply under the column of funding. Other than the salaries and benefits worksheet and the non-routine and capitalized costs worksheet, each line item will need to be entered individually.

BUDGET REVISIONS

Day 4, Slide 48

The Project Budget Tool can also be used to make budget revisions. Original budget information should be saved in a designated file folder. Revisions should be saved in new folders to preserve a history of budget transactions.

Budget revisions should also be approved by the PHA's board prior to their implementation.

Introduction to Project-Based Budgeting in Multifamily Housing Programs

Day 4, Slides 49-50

Operating subsidy determines sufficient funds approved through the budget-based rent incease (BBRI) or operating cose adjustment factors (OCAF) process (depending on whether they are renewing a HAP or amending rents process under the Multifamily Assisted Housing Reform and. Affordability Act of 1997 (MAHRHA) for a multi-term HAP) to provide sufficient funds to pay normal operating expenses, taxes, insurances, and escrows. The methodology for the rent processing to provide operating budget rent setting is prescribed by the HUD Business Agreement between the owner and HUD. That may include, but is not limited to, a Regulatory Agreement, HAP, PRAC, PAC, Use Agreement, or other business agreement defined by HUD.

Budget-based rent increase requests are prepared in accordance with the requirements of HUD Handbook 4350.1, Chapter 7.

When current rent levels are NOT sufficient to cover anticipated or unavoidable increases in operating costs, owners should request that HUD approve an increase in rents.

Types of Subsidy Contracts include:

- Housing Assistance Payments (HAP) Contract
- Project Rental Assistance Contract (PRAC)

HOUSING ASSISTANCE PAYMENTS (HAP) CONTRACT

Day 4, Slide 51

HAP contracts provide Section 8 rental subsidies to the owners of certain mortgaged properties.

In general, rent adjustments are processed through an Operating Cost Adjustment Factor (OCAF) or budget-based rent adjustment (Section 8 Renewal Policy Guide).

Submission: At least 120 days before expiration of the Section 8 contract

PROJECT RENTAL ASSISTANCE CONTRACT (PRAC)

Day 4, Slides 52-58

PRACs will be increased commensurate with adjustments in operating expenses. HUD will calculate operating expense adjustments based on the sum of the costs for operating the project (as approved by HUD) with adjustments for vacancies, the project's non-rental income, and other factors that HUD deems appropriate. The calculation will be made on the basis of the information provided by the owner on a form prescribed by HUD (HUD-90173-A).

Submission: At least 120 days before expiration of the PRAC

The budget shall include all necessary operating expenses, current maintenance charges, expenses of reasonable upkeep and repairs, taxes and special assessment levies, prorated amounts required for insurance, and all other expenses incident to the operation of the project; and shall show the expected revenue to pay such expenses, including reserve fund deposits. The expenses incurred and disbursements shall not exceed the reasonable and necessary amount thereof.

The owner is responsible for establishing an adequate budget to cover the daily operating expenses of the property. HUD provides the following tool to assist the owner/agent in preparing the budget for a property: ***Budget Worksheet (form# HUD-92547-A)***. The ***Budget Worksheet*** provides income and expenses for the 12 months following the anticipated effective date of the proposed rent increase.

Keep in mind when using form #HUD-92547-A:

- Left column: Contains the most recent audited financial figures. (These figures must match the most recent audited financial statements submitted to HUD.)
- Center column: Contains the year-to-date actual expenses. Includes the number of months for the reporting period.
- Right column: Contains the proposed figures for the requested budget year.

The form #HUD-92547-A ***must*** be signed and dated by the owner or designated representative authorized to prepare and submit the budget.

Common misclassifications of income and expense that occur when completing the form #HUD-92547-A, Budget Worksheet include the following:	
5200 Vacancies	Budgeting for vacancies. No percentage factor is permitted for 202 properties. Any exception would be based on 36 months average of actual and marketing steps.
5440 Revenue from Investments	Not counted toward operations
5920 Tenant Charges	Included as income. HUD Handbook 4350.1 Chapter 7, paragraph 7-30(L)(2)(b)(3) directs owners and agents not to count the tenants charge as Other Revenue, as this amount fluctuates from year to year and is not guaranteed.
6203 Conventions and Meetings	Must be a reasonable expense. May not exceed one half of one percent of the gross rents.
6320 Management Fee	Basis: PUM fee instead of approved percentage. May not exceed current Hub-approved plus add-ons.
6390 Misc. Admin Expenses	Including expenses that belong to other categories: i.e., Office Supplies (6310); Criminal Background Checks (6250); Telephone (6311); Training (6203). Including ineligible costs, such as refreshments for the board of directors meetings and social activities for tenants, excessive mileage, cable TV, etc. Failed to provide breakdown of these expenses
6520 Contracts	Failed to provide specific information or copies of the contracts

Common misclassifications of income and expense that occur when completing the form #HUD-92547-A, Budget Worksheet include the following:	
6590 Misc. Maintenance Expenses	Failed to provide breakdown
6723 Health Insurance	For 202 projects only, this account includes the fringe benefits for the Service Coordinator (6900).

RESERVE FOR REPLACEMENT

Day 4, Slide 59

Owners must complete a Reserve for Replacement analysis when a change in the monthly deposit to the Replacement Reserves is needed (HUD Handbook# 4350.1, Chapter 4). At a minimum, analysis should be done every five years. Do not include the addition of capital items in the operating budget. Capital items should be funded through the reserve for replacement account and are ultimately the responsibility of the owner.

SERVICE COORDINATOR BUDGET FOR SECTION 202 PROPERTIES

Day 4, Slide 60

If a project has a HUD-approved Service Coordinator, it should include the Service Coordinator budget as part of the rent increase request.

- Multifamily Housing Service Coordinator One-Year Budget (***form # HUD-91186-A***) must be provided detailing the program costs, with the income and expense summarized on the Budget Worksheet.
- Performance Report (***form # HUD-92456***) must also be submitted annually.

EXPENSES FOR THE SERVICE COORDINATOR PROGRAM INCLUDE THE FOLLOWING:

Day 4, Slide 61

- Salary
- Fringe benefits
- Quality assurance (limited to ten percent of the Service Coordinator's salary)
- Training (initial 36 hours certification and additional 12 hours annually)
- Supplies and materials
- Other direct costs

Note: *The total of the Service Coordinator expenses are included in account 6900 Nursing Homes/ Assisted Living/Board & Care/Other Elderly Care/Coop/Other Revenues.*

SOME FINAL POINTS—MFH PROJECT BUDGETS

Day 4, Slide 62

- The owner is responsible for monitoring the operating budget.
- Failure to request a rent increase when necessary may be due to poor management or disinterested ownership.

Module 2 Knowledge Check Questions

This knowledge check should be completed at the end of Module 2. Participants should circle their chosen answer. Leaders should review the correct answer using the following answer key once participants complete the knowledge check.

1. Project-based budgets are developed at the:
   a) Agency-wide level
   b) Project or AMP level
   c) Central Office Cost Center (COCC)
2. In the MFH Program, the Project Rental Assistance Contract (PRAC) is:
   a) The difference between rental revenue and actual operating expenses of the project
   b) The difference between rental revenue and the HUD-approved operating expenses of the project
   c) The difference between the rental revenue and the PEL
3. Dwelling rent in PIH and MFH is considered project income.
   a) True
   b) False
4. Comparing differences between income and expense between projects is more beneficial if the comparison is done using PUM amounts, as opposed to dollar amounts.
   a) True
   b) False
5. Operating subsidies are needed in the public housing program because (select all that apply):
   a) To provide capital funds
   b) Rents are not based on the amount needed to cash flow the project
   c) Rents are based on tenant incomes.
6. In both the Public Housing and MFH Programs, why is the occupancy type (family, senior, mixed) and age of the project important to know when preparing an operating budget for a project?
   a) They have a big impact on other revenue
   b) They have a big impact on the operating costs
   c) They have a big impact on the capital improvement needs of the project
7. In the MFH Program, when current rent levels are not sufficient to cover anticipated or unavoidable increases in operating costs, owners should request that HUD approve an increase in rents.
   a) True
   b) False

Module 2 Knowledge Check Questions

Answer Key

*Correct answers are indicated in **bold**.*

1. Project-based budgets are developed at the:
   a) Agency-wide level
   b) ***Project or AMP level***
   c) Central Office Cost Center (COCC)
2. In the MFH Program, the Project Rental Assistance Contract (PRAC) is:
   a) ***The difference between rental revenue and actual operating expenses of the project***
   b) The difference between rental revenue and the HUD-approved operating expenses of the project
   c) The difference between the rental revenue and the PEL
3. Dwelling rent in PIH and MFH is considered project income.
   a) ***True***
   b) False
4. Comparing differences between income and expense between projects is more beneficial if the comparison is done using PUM amounts, as opposed to dollar amounts.
   a) ***True***
   b) False
5. Operating subsidies are needed in the public housing program because (select all that apply):
   a) To provide capital funds
   b) ***Rents are not based on the amount needed to cash flow the project***
   c) Rents are based on tenant incomes.
6. In both the Public Housing and MFH Programs, why is the occupancy type (family, senior, mixed) and age of the project important to know when preparing an operating budget for a project?
   a) They have a big impact on other revenue
   b) ***They have a big impact on the operating costs***
   c) They have a big impact on the capital improvement needs of the project
7. In the MFH Program, when current rent levels are not sufficient to cover anticipated or unavoidable increases in operating costs, owners should request that HUD approve an increase in rents.
   a) ***True***
   b) False

06 Module 3: Analyzing Project-Based Budgets

Note: Slides 64-87 correspond with this module.

Module Objectives

Day 4, Slide 65

Upon completion of this module, you will be able to:

- Understand basic financial benchmarking
- Understand budget variances and their impacts
- Understand cash management and cash flows
- Understand management fees, their sources, and structure

Budgetary Controls and Variance Analysis

Day 4, Slides 66

One of the objectives of budgeting is to provide a base against which actual performance can be measured. This is only worth doing if action will be taken as a result. Comparing actual expenditures to budgeted expenses is called "variance analysis."

MEASURING RESULTS

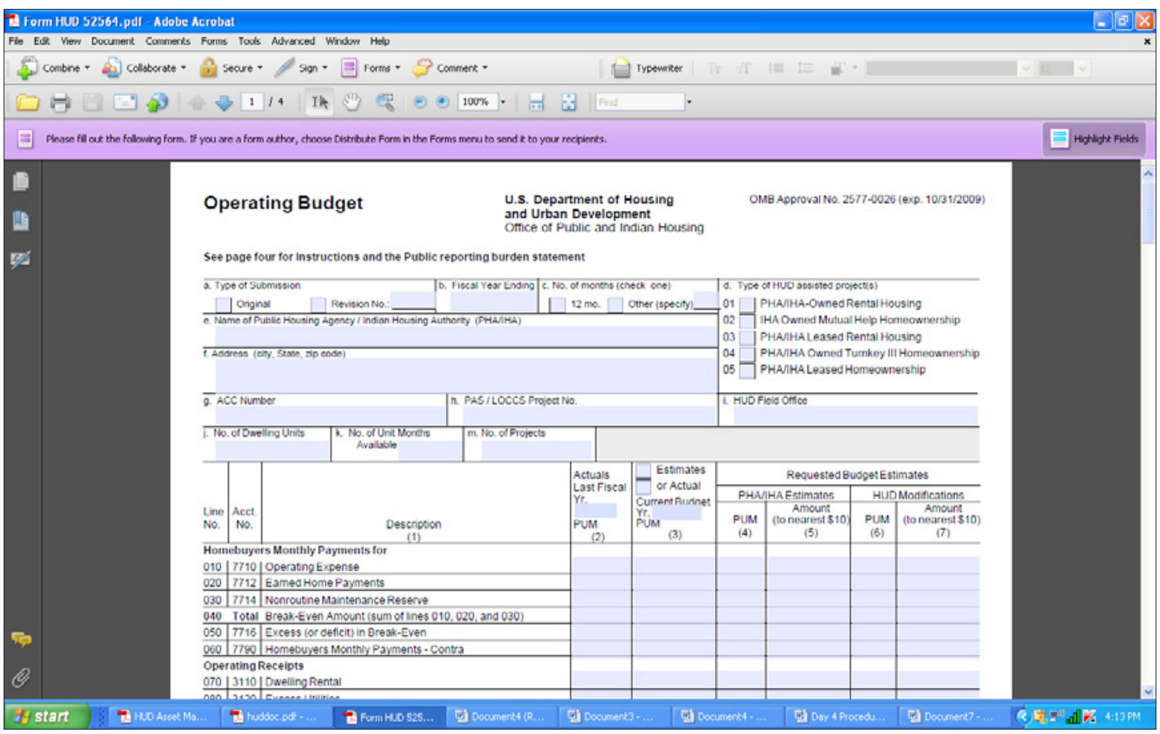
Measuring actual results against budgeted amounts is aimed at monitoring and recording business activities, the results of which are used for further performance evaluation. The comparison of actual vs. budget often shows a difference, or "variance," that can be either favorable or unfavorable. When monitoring budget activity, for revenue line items, a higher actual number compared to budget would be considered favorable, while a lower actual number compared to budget would be considered unfavorable. For expense line items, a higher actual number to budget would be considered unfavorable, while a lower actual number compared to budget would normally be considered unfavorable. However, keep in mind that spending less than budget may not always be a good thing. For example, if management had approved an increase in routine maintenance expenses for the year to implement a preventative maintenance program, large favorable variances in the maintenance expense categories may indicate a failure to implement the preventative maintenance program.

The best way to measure spending habits is tracking actual amounts vs. budgeted amounts on an actual vs. budget analysis report. Although HUD does not prescribe a standard format for tracking budgets under asset management, a good actual vs. budget analysis report will typically contain the following type of information:

- Actual vs. budget presented in both dollar and PUM amounts
- A comparison of the current month actual with the current budget amount with the variance shown in dollars and as a percent
- A comparison of the actual year-to-date amount with the year-to-date budget with the variance shown in dollars and as a percent
- A comparison of the actual year-to-date amount with the total yearly budget with the variance shown in dollars and as a percent remaining

Comparing the percent remaining for each budget line item is a good way to see if spending is on track. For example, at six months into the fiscal year, the budget remaining should be fifty percent. Any budget line item that has a variance above or below fifty percent should be investigated based on a variance threshold established by management. For example, management may direct property managers to explain in writing by a certain date each month variances for any budget line item that exceeds the budget by ten percent. In the narrative, the property manager would also explain what steps will be taken, if appropriate, to bring the budget back into line. Requiring property managers to provide a monthly written budget variance report is a good way to monitor financial performance of a property and make the property manager accountable for budget management.

Example of using the HUD Operating Budget to track budget variances:


Operating Budget

U.S. Department of Housing and Urban Development
Office of Public and Indian Housing

OMB Approval No. 2577-0026 (exp. 10/31/2009)

See page four for Instructions and the Public reporting burden statement

a. Type of Submission: Original / Revision No.:
b. Fiscal Year Ending
c. No. of months (check one): 12 mo. / Other (specify)
d. Type of HUD assisted project(s):
01 PHA/IHA-Owned Rental Housing
02 IHA Owned Mutual Help Homeownership
03 PHA/IHA Leased Rental Housing
04 PHA/IHA Owned Turnkey III Homeownership
05 PHA/IHA Leased Homeownership
e. Name of Public Housing Agency / Indian Housing Authority (PHA/IHA)
f. Address (city, State, zip code)
g. ACC Number
h. PAS / LOCCS Project No.
i. HUD Field Office
j. No. of Dwelling Units
k. No. of Unit Months Available
m. No. of Projects

Line No.	Acct. No.	Description (1)	Actuals Last Fiscal Yr. PUM (2)	Estimates or Actual Current Budget Yr. PUM (3)	Requested Budget Estimates: PHA/IHA Estimates PUM (4)	PHA/IHA Estimates Amount (to nearest $10) (5)	HUD Modifications PUM (6)	HUD Modifications Amount (to nearest $10) (7)
		Homebuyers Monthly Payments for						
010	7710	Operating Expense						
020	7712	Earned Home Payments						
030	7714	Nonroutine Maintenance Reserve						
040	Total	Break-Even Amount (sum of lines 010, 020, and 030)						
050	7716	Excess (or deficit) in Break-Even						
060	7790	Homebuyers Monthly Payments - Contra						
		Operating Receipts						
070	3110	Dwelling Rental						

THE CAUSES OF UNFAVORABLE BUDGET VARIANCES AND HOW TO AVOID THEM

Day 4, Slide 67

There are six key reasons for unfavorable budget variances and it is important that good managers recognize the differences, because the action required may be completely different in each case. The six reasons are:

a) Faulty arithmetic in the budget figures
b) Errors in the arithmetic of the actual results
c) Incorrect assumptions regarding expenses or revenue
d) Differences between budget assumptions and actual outcome
e) Unexpected increases in planned expenses or costs
f) Unanticipated drops in rental incomes

While some forms of budget variances are caused by unpredictable events beyond the control of the project manager, one of the most common causes of large variances is easily preventable: an inaccurate budget. Inaccurate budgets, be they derived from an abundance of optimism or a lack of data, lead to unrealistic expectations and frequent inaccuracies. Frequent and severe budget variances are an indicator that an audit of the budget should be conducted and, if appropriate, a revised budget should be prepared and reapproved by the board.

Cash Management

Day 4, Slides 68-71

Cash management is the process of maintaining an appropriate level of cash to meet daily operating expenses and provide a cushion for unplanned events. Good cash management procedures ensure that there are sufficient funds to meet daily cash needs, ensure that all excess funds are invested when not needed for daily expenditures, and provide for internal control over cash on-hand and the disbursement process.

Typically, the function of establishing an internal control process over cash on-hand and the disbursement process, as well as the investment function, will be the responsibility of management and not the project manager. The project manager will be responsible for ensuring that the internal control process established by management over cash receipts and disbursements is followed. In addition, the cash management responsibilities of a project manager include the timely collection of rents and other charges and for ensuring that expenditures remain within budgeted amounts.

Internal control over cash management is needed at all levels of PHA/MFH programs that handle cash and/or cash equivalents, i.e., income, expenditures, investments, etc. Both asset managers and financial managers are accountable for cash under their control. However, the PHA/MFH finance officers must provide guidance to all employees who have cash management responsibilities. He/she also bears ultimate responsibility for establishing internal control procedures over cash collections, disbursements, and holdings and ensuring these procedures are communicated and followed by all employees who will be responsible for cash management activities.

Therefore, the responsibility of cash management officers, cashiers, certifying officers, and other accountable officers to establish and maintain controls should be formally delegated by the organization's finance officers.

Cash management internal controls represent an application of common sense and prudent conduct to the use and proper safeguarding of government assets. Proper internal control mechanisms provide management with a reasonable assurance that intended safeguards are being practiced consistently. Therefore, the integrity of any cash management activity depends on the application of internal control principles and standards. The attainment of these principles and standards in the cash management area can be achieved by pursuing the following guidelines:

- The time-value-of-money shall be recognized as a part of each cash management decision (funds not needed for daily operations should be invested).
- Cash-related transactions shall occur only after the approval of an individual with delegated authority to make approvals.
- Cash-related transactions shall be fully documented so that an undisputable audit trail exists.
- Cash-related transactions shall be recorded promptly during each step of the cash-handling function.
- Serially numbered forms shall be used to document cash-related transactions to enhance reconciliation and accountability.
- Documents used in cash-related transactions shall be safeguarded against re-use, tampering, or unauthorized disposal.
- Provisions shall be made for the regular review and comparison of transaction documentation to detect errors and duplicate payments.
- The approval of adjustments to cash-related transactions shall be administratively controlled.
- Supervision of cash management activities shall be strictly and continually administered.
- Cash-related duties, such as maintenance of accounts receivable, cashiering, accounting, disbursing, and collecting funds shall be segregated.
- Cash-related accounts shall be frequently reviewed and reconciled with subsidiary records.
- The accessibility to funds and fund records shall be restricted and administratively controlled.
- Only properly designated employees shall handle impressed funds (petty cash), disbursement certifications, and collection duties.
- Employees assigned cash-related duties shall be trained and must accept their responsibilities.
- Unnecessary clerical routines and handling of cash or cash-related documentation shall be eliminated to lessen the risk of loss and exposure to errors.
- LOCCs fund transfer and direct deposit shall be handled by only authorized staff.
- Computer edit programs shall be used to the maximum extent possible to disclose or reduce the incidence of error in cash-related transactions.
- Checks or money orders derived from rent collections and cash used for disbursements shall not be commingled.

- Cash transactions shall not be used to substitute, or circumvent, prescribed procurement approvals and procedures (i.e., the use of petty cash to make repeated purchases of goods that are more appropriately procured).

CASH FLOW

Day 4, Slide 72

The term "cash flow" refers to the need to have cash come in at the right time to meet expenses. Cash flow can be projected, monitored, and controlled. Cash flow projections are typically developed as part of the budget process, so that possible cash shortages or cash surpluses can be anticipated.

As the year progresses, cash flow projections can and should be updated as new information becomes available. Cash flow projections may be done weekly or monthly, depending on how tight cash is in an organization. Based on cash flow projections, management may decide to postpone a project, borrow money, cut expenses, or increase revenues.

There is no universal format for cash flow projections, so organizations should establish one that meets their needs. While preparing the budget, the focus is on how much revenue and support the organization will earn, how much expense it will incur, and how much of the support will be restricted to specific purposes. In preparing the cash flow projection, the focus is on the timing of receipt and disbursement of cash, regardless of its origins and use.

For example, assume a PHA has a contract to provide services for a governmental agency during the month of January for a cost of $30,000. In February, the PHA prepares and submits an invoice to the agency for the previous month's services, but it does not receive payment on the invoice until March. In this situation, the operating budget will show $30,000 in expected income for the month of January, where the cash flow projection will show an expected receipt of $30,000 in the month of March.

Understanding the Allowable Fees under the Asset Management Model

Day 4, Slides 73-83

A key feature of the asset management model for both MFH programs and the Public Housing Program is the use of various fees to cover the costs of supervision and general oversight of project operations, including overhead (indirect costs). In MFH programs, owners of multifamily properties typically employ property management companies to perform the day-to-day activities of property management. These property management companies are paid various fees as approved by HUD to cover the costs of supervision and oversight of property operations. In the Public Housing Program, PHAs are required by the asset management provisions of the Operating Fund Rule to establish a Central Office Cost Center (COCC)[2] to perform the supervisory and oversight activities of property management. Just as in the MFH programs, HUD allows various fees to be paid to the COCC to cover these costs. Fees are allowable expenses of a property as long as they are reasonable and income for the property management company or the COCC.

This section will review the various fees allowed by HUD in the Public Housing Program and the MFH programs.

2 There are exceptions to this rule. PHAs with 400 or fewer public housing units are exempted from this requirement, as well as PHAs that elect to utilize the Sec. 226 provision of the 2008 Consolidated Appropriations Act.

PUBLIC HOUSING PROGRAM ALLOWABLE FEES

Day 4, Slides 75-77

The allowable fees in the Public Housing Program include:

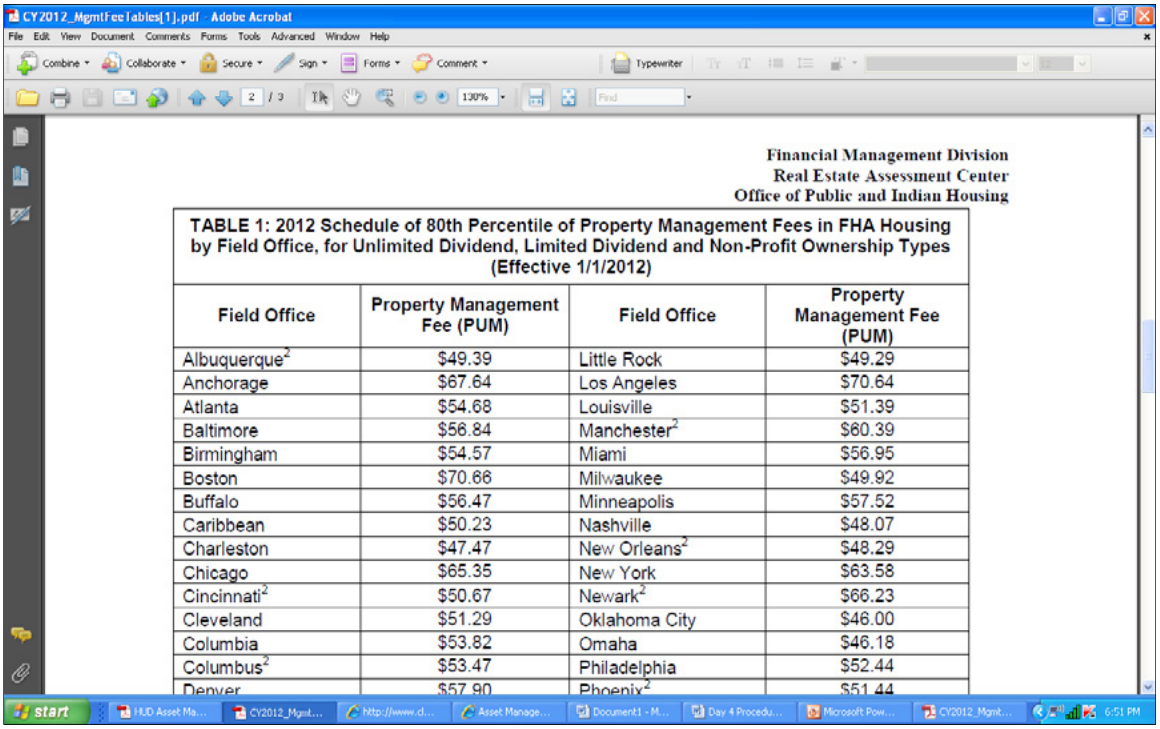
- Property management fee
- Bookkeeping fee
- Asset management fee
- Capital Fund Program management fee
- Housing Choice Voucher (HCV) program fees
- Management fees from other PIH programs and grants
- Fees for centralized services (fee-for-services) as allowed by HUD

Property Management Fees: Property management fees are charged to AMPs for oversight provided by COCC. It replaces traditional PHA overhead allocations and is based on occupied units and HUD-approved vacancies (not including limited vacancies).

The Public Housing Financial Management Division (FMD) posts property management fee tables by the HUD Field Office, which are applicable for one calendar year. The property management fee tables represent the 80th percentile of management fees paid in HUD's multifamily housing programs based on the most recently filed (2010) Annual Financial Statements (AFS). Nationally, the 80th percentile management fee increased 2.59 percent from $54.94 per unit month (PUM) to $56.40 PUM. The calendar year 2012 fee tables represent this change.

In accordance with PIH Notice 2007-9, PHAs may use the amounts from the HUD established property management fee table to determine the allowable property management fee that may be charged by the COCC to Public Housing projects.

Example of the CY 2012 Property Management Fee Table



Financial Management Division
Real Estate Assessment Center
Office of Public and Indian Housing

TABLE 1: 2012 Schedule of 80th Percentile of Property Management Fees in FHA Housing by Field Office, for Unlimited Dividend, Limited Dividend and Non-Profit Ownership Types (Effective 1/1/2012)

Field Office	Property Management Fee (PUM)	Field Office	Property Management Fee (PUM)
Albuquerque[2]	$49.39	Little Rock	$49.29
Anchorage	$67.64	Los Angeles	$70.64
Atlanta	$54.68	Louisville	$51.39
Baltimore	$56.84	Manchester[2]	$60.39
Birmingham	$54.57	Miami	$56.95
Boston	$70.66	Milwaukee	$49.92
Buffalo	$56.47	Minneapolis	$57.52
Caribbean	$50.23	Nashville	$48.07
Charleston	$47.47	New Orleans[2]	$48.29
Chicago	$65.35	New York	$63.58
Cincinnati[2]	$50.67	Newark[2]	$66.23
Cleveland	$51.29	Oklahoma City	$46.00
Columbia	$53.82	Omaha	$46.18
Columbus[2]	$53.47	Philadelphia	$52.44
Denver	$57.90	Phoenix[2]	$51.44

Day 4, Slide 78

Bookkeeping Fees: The COCC is permitted to charge a bookkeeping fee for the project accounting function of $7.50 PUM, which is based on occupied units and HUD-approved vacancies (not including limited vacancies). In comparison, the average bookkeeping fee allowed in HUD's multifamily housing programs was approximately $3.50 PUM (2004).

Asset Management Fees: An asset management fee is a fee HUD allows to be charged to AMPs for tasks that would be residual if all property management functions were contracted to a third-party ($10 per PUM). This fee is subject to the availability of excess cash based on the total number of ACC units. Of note is that this fee does not exist in HUD MFH programs.

For PHAs administering a Housing Choice Voucher Program, HUD published Notice PIH 2011-67—*Implementation of New Cash Management Requirements for the Housing Choice Voucher Program* that details new cash management requirements and procedures for disbursement of by HUD of Housing Assistance Payments (HAP) to public housing agencies. This notice does not apply to the Moderate Rehab Program.

Capital Fund Management Fee: The Capital Fund Management Fee is a fee HUD allows to be charged to the Capital Fund Program for general grant oversight activities, including reporting, planning, LOCCS draw downs, and accounting. The maximum Capital Fund Management Fee that may be charged by the COCC is ten percent of the total yearly Capital Fund Program grant.

Housing Choice Voucher Program Fees: Housing Choice Voucher Program Fees are fees HUD allows to be charged for all administrative work performed by COCC staff related to the operation of the HCV program. Two different fees can be charged:

- HCV Management Fee: HUD allows the COCC to charge the HCV program the higher of either 20 percent of the annual ongoing administrative fees earned or $12 PUM based on the number of vouchers leased.
- HCV Bookkeeping Fee: $7.50 PUM based on number of vouchers leased.

Management Fees from Other HUD Programs and Grants: If a fee rate has not been established for a grant, the COCC may charge no more than 15 percent of the grant as a management fee. Where administrative costs are set for other HUD programs or grants through other notices, regulations, and grant agreements, the provisions of those documents are controlling.

Fees for Centralized Services (Fee-for-Service): In cases where the COCC provides certain centralized services to the AMPs not related to those provided for by the other allowable fees, the PHA may charge a market rate fee for providing the service. As an example, the PHA may have organized its specialized maintenance services, such as electricians or plumbers, as part of the COCC. In this case, the COCC may charge a market rate fee for providing electrical or plumbing services to the AMPs. These fee-for-service charges must be based on actual time spent at the AMP providing these services and the market rate charged must be discrete for each type of service provided. In cases where the COCC is not able to fully recover the cost of these centralized services through actual time spent providing the services at the AMPs, the unrecovered cost must be covered by other COCC fee income. In all cases, fee-for-service charges must be in the best interest of the AMPs and may not cost more than if performed on-site. In addition, the asset management provisions of the Operating Fund Rule require that centralized maintenance must be charged based on fee-for-service and may not be allocated. PHAs must maintain documentation for the fees charged to the AMPs.

MANAGEMENT FEES AND OTHER BUSINESS ACTIVITY INCOME FROM NON-FEDERAL PROGRAMS

Day 4, Slides 79-80

In addition to the fees allowed by HUD, the COCC, as a separate business unit of the PHA, may also be engaged in various other activities that provide fee income. These could include the management of various state housing programs, housing programs not financed with federal or state funds, and various sources of miscellaneous income, such as investment income earned on the investment of the COCC's excess cash.

In reviewing the various fees the COCC may earn, it's also important to understand the concept of a front-line expense vs. a fee expense. PHAs are required to segregate between front-line expenses and fee expenses. The difference between the two can be explained as follows:

A *front-line expense* is an expense that is directly related to the operation of an AMP. As such, this expense should be paid for by the AMP income, such as Operating Subsidy or tenant rental revenue. Examples are: the salary and benefits of on-site housing managers and maintenance staff; maintenance materials; and on-site management office expenses, such as equipment, furniture, and supplies.

A *fee expense* is any expense that would be considered a general supervisory expense and a general administrative expense of the PHA. These general administrative expenses are also commonly referred to as "indirect costs of operation." They are normally not avoidable by the elimination of one or more programs. These expenses should be paid for by the COCC through the fee income it generates, such as property management fees or any fee-for-service fees. Examples of fee expenses are: executive director, human resources, finance department, management software/IT systems, etc.

PROPERTY MANAGEMENT FEES—MULTIFAMILY HOUSING PROGRAMS

Day 4, Slides 81-83

Management agents operating HUD-insured and HUD-assisted properties are paid a management fee for their services. Management fees may be paid only to the person or entity approved by HUD to manage the project. Management agents must cover the costs of supervising and overseeing project operations out of the fee they receive.

Owners determine the actual amount of fee to be paid to the management agent based on the approved management certification (form HUD-9839). There are five major types of fees that, when added together, make up the overall management fee for a project. The five types of fees are:

- Residential income fee
- Commercial income fee
- Miscellaneous income fee
- Special fees
- Add-on fees

Fees are based on geographic area costs and calculated by HUD. Notices are sent from HUD Multifamily HUB Directors to managing agents and owners by region. For example, the 2011 cap for management fees for MFH properties under the jurisdiction of the San Francisco Multifamily HUD is $78.00 per unit per month. The allowable bookkeeping fees are now set at $9.50 per unit.

The public housing asset management model is based on practices from multifamily, including the management fee structure.

Public Housing Program Operating Reserves

Day 4, Slides 84-87

The broad definition of PHA Operating Reserves is: the amount of current assets that are available for operations after liquidating any liability that is due within the next year (current liability). For most PHAs, operating reserves are the accumulation of funds that include but are not limited to:

Unspent operating subsidy, including Asset Repositioning Fees[3]

- Unspent tenant rent

3 A PHA that transitions projects or entire buildings of a project out of its public housing inventory is eligible for an asset-repositioning fee. This fee supplements resources available with administration and management of demolition or disposition, tenant relocation, and minimum protection and service associated with such efforts (24 CFR 990.190(h)).

- Unspent investment income earned on excess cash balances
- Unspent other miscellaneous revenue, including program income that has expanded uses
- Unrestricted, unspent insurance proceeds
- Section 18 proceeds

RECOMMENDED OPERATING RESERVES

The following are recommendations for minimum public housing operating reserves based on the formula HUD used in calendar year 2012 to determine excess operating reserves as part of the requirement of the 2012 Appropriations Act for the recapture of excess public housing operating reserves.

For PHAs with 250 or more public housing units, the recommended operating reserves level is the greater of:

- Four months of formula operating expenses, or $100,000

For PHAs with 249 or fewer public housing units, the minimum recommended operating reserve level is the greater of:

- Six months of formula operating expenses, or $100,000

NEW USES FOR OPERATING RESERVES

The 2012 Appropriations Act provided for the use of operating reserves to fund capital improvements. Prior to this, the use of operating reserves to fund capital improvements was prohibited. Provisions of the Act provide for PHAs to use operating reserves above the minimum recommended levels to fund capital improvements, except for those that would be classified as large modernization projects. This provision applies only for calendar year 2012. PHAs are not required to request approval prior to using operating reserves above the HUD-recommended minimum level of operating reserves for capital improvements that are less than large modernization projects.

However, it is important that PHAs review their final 2012 operating subsidy eligibility and minimum operating reserve level calculations provided by HUD in planning for the use of excess operating reserves for capital improvements. PHAs that do not hold operating reserves above the HUD-recommended minimum operating reserve level may not use this expanded authority. All operating reserves used for capital improvements must be obligated by September 30, 2012.

Multifamily Operating and Replacement Reserves

Day 4, Slide 87

Multifamily property owners are required to maintain cash reserves to use for replacement of capital items and for emergency repairs or situations.

The required monthly Reserve for Replacement (R4R) deposit is property specific. The initial requirement was determined, for each property, when the initial contracts or business agreements were executed.

Please note that some projects that have undergone mortgage restructuring and/or refinanced could be subject to a Use Agreement. As a result, new Replacement for Reserve deposits may have been established.

Operating and replacement reserves for multifamily housing programs vary per program.

Module 3 Knowledge Check Questions

This knowledge check should be completed at the end of Module 3. Participants should circle their chosen answer. Leaders should review the correct answer using the following answer key once participants complete the knowledge check.

1. One of the objectives of budgeting is to provide a base against which actual performance can be measured.
   a) True
   b) False
2. Line-item budget variances are the result of actual income or expense being greater or less than the amount budgeted.
   a) True
   b) False
3. Extreme budget variances could be an indication that:
   a) Budget estimates were inaccurate or unrealistic
   b) Unplanned events occurred
   c) Both
4. Good cash management procedures will:
   a) Ensure that there are sufficient funds to meet daily cash needs
   b) Provide a system of internal controls over the handling of cash and the cash disbursement process
   c) Provide for a process of investing excess cash balances in order to earn a return on idle funds
   d) All of the above
5. An example of an internal control procedure over cash transactions at the project level would be:
   a) The use of serially numbered receipt forms provided to tenants at the time they pay their rent
   b) The use of petty cash is documented with serially numbered Petty Cash Receipts
   c) All tenant rent checks are immediately endorsed with “For Deposit Only” at the time they are received if rent is paid at the site
   d) All of the above
6. In order to determine a project’s expected cash flow, the operating budget must be:
   a) Used as the source document to determine the expected income and expenses
   b) Converted to a cash basis, that is, revised to reflect the expected timing of cash receipts and cash disbursements
   c) Both
7. In the public housing program, the COCC will act very much like a property management company in the MFH programs.
   a) True
   b) False

8. Which fees allowed in the public housing program are based on units leased on the first of each month? (Select all that apply.)
   a) Asset management fee
   b) Bookkeeping fee
   c) Property management fee
   d) Capital Fund Grant management fee

9. Currently in the public housing program, the maximum amount that may be charged as a bookkeeping fee, regardless of the PHA location, is:
   a) $5.00 PUM
   b) $7.50 PUM
   c) $10.00 PUM

10. Which fee allowed by HUD in the public housing program is based on the excess cash from the previous PHA fiscal year?
   a) Property management fee
   b) Bookkeeping fee
   c) Asset management fee

11. All of the following are HUD-allowed fees in the MFH Program, except:
   a) Residential income fee
   b) Asset management fee
   c) Commercial income fee
   d) Miscellaneous income fee
   e) Special fees as approved by HUD
   f) Add-on fees

12. In MFH programs, fees are based on geographic area costs and calculated by HUD.
   a) True
   b) False

13. Operating reserves in the public housing program are primarily the difference between current assets and current liabilities.
   a) True
   b) False

14. The HUD-recommended minimum public housing operating reserve is:
   a) $100,000
   b) $4,000,000
   c) $0

15. In the Public Housing Program, if the PHA centralizes all or part of the maintenance function, these services if provided to the projects, must be charged as a fee-for-service.
    a) True
    b) False

16. A *front-line expense* is an expense that is directly related to the operation of an AMP.
    a) True
    b) False

Stop: Do not proceed until the training Leader prompts you to turn the page.

Module 3 Knowledge Check Questions

Answer Key

Correct answers are indicated in ***bold****.*

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   a) The use of serially numbered receipt forms provided to tenants at the time they pay their rent
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   b) False

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   c) ***Property management fee***
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    c) $0

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    b) False
16. A *front-line expense* is an expense that is directly related to the operation of an AMP.
    a) ***True***
    b) False

07 Module 4: Financial Tools to Measure Performance

Note: Slides 89-110 correspond with this module.

Module Objectives

Day 4, Slide 90

Upon completion of this module, you will be able to describe:

- Financial benchmarking as a financial management tool
- Financial metrics to measure performance
- Financial ratios as indicators of financial condition

Financial Benchmarking to Determine Reasonableness of Expenditures

Day 4, Slides 93-93

Benchmarking is the process of comparing one's business processes and performance metrics to industry bests or best practices from other industries.

Preparing a budget comparing income and expenses with industry benchmarks can aid in determining the reasonableness of various expenses.

When approving project-level budgets, how does the PHA/MFH owner/agent know whether a property's expenses are appropriate when compared to the income? There are two key benchmarks that are used to compare the reasonableness of expenses. They are:

- Operating expense ratio
- Operating expense per unit

Common variables affecting both of these benchmarks include: the property's age, taxes, the number of floors, and the size of units. Both the operating expense ratio and the operating expense per unit figure can be used to compare properties both within and outside the PHA/MFH property portfolio.

The operating expense ratio divides expenses by income to arrive at a percentage; the lower the ratio, the more efficient the operation. Operating expense per unit divides expenses by the number of units to arrive at a dollar amount.

In public housing, the operating expense ratio is currently close to 99 percent because income just covers expenses and there is no debt service. The same does not apply to the MFH Program, where debt service on mortgage loans may exist.

RATIOS USED FOR EXPENSE BENCHMARKING

Day 4, Slides 93-94

Operating Expense Ratio (%) = Operating Expenses/Income

Operating Expense Per Unit ($) = Operating Expenses/Number of Units

EXAMPLE OF COMPARISONS

Day 4, Slide 95

	Rockville Village	Evergreen Estates
Number of Units	10	20
Income	$175,000	$160,000
Operating Expenses	$150,000	$145,000
Operating Expense Ratio	86%	91%
Operating Expense/Unit	$15,000	$7,250

Using Financial Metrics to Measure Performance

Day 4, Slides 96-97

Financial metrics are a report of a business's financial situation on a monthly, quarterly, bi-annual, or annual basis. The subsidized housing industry uses financial condition metrics to assess the financial health of rental properties. Common financial condition metrics are:

- Net Operating Income (NOI)
- Quick Ratio (QR)
- Months Expendable Assets Ratio (MENAR)
- Debt Service Coverage Ratio (DSCR)
- Total Debt-to-Equity Ratio (TDE)

An example of a NOI in the Multifamily Housing Program is:	
Income	
Gross Income	$100,000
Other Income	$ 3,000
Gross Potential Income	$103,000
Vacancy Loss	$(2,000)
Gross Effective Income	$101,000
Operating Expenses	$(61,000)
Net Operating Income	$ 40,000

Financial Condition Indicators—Financial Ratios

Day 4, Slides 98-100

While MFH Program property owners may use ratios to assess financial conditions of rental properties, ratios are used in the public housing industry as a financial condition sub-indicator under the Public Housing Assessment System (PHAS). Using annual financial data submitting yearly by PHAs in HUD's Public Housing Subsystem (FASS-PH), HUD calculates the financial condition sub-indicators of PHAs. Mixed-financed projects are not scored under PHAS. While multifamily properties are scored for financial performance using annual financial data submitted in HUD's Multifamily Financial Subsystem (FASS-MF), ratios are not part of the submission.

Under the PHAS Interim Rule (issued February 23, 2011), the following three ratios, reduced from six, will now be used to determine a PHA's financial condition. The financial condition sub-indicators (ratios) are calculated for each public housing project. Each project will receive its own score based on the combination of the Capital Fund and Low Rent program.

QUICK RATIO (QR)

Day 4, Slide 101

The Quick Ratio (QR) is a liquidity measure of the project's ability to cover its current obligations. The QR is measured by using the project's available, unrestricted current assets (except inventory and assets held for sale), divided by the project's current liabilities.

The QR is designed to indicate if a project could meet all current obligations if the obligations became immediately due and payable. A project should generally have available current resources equal to or greater than their current obligations in order to be considered financially solvent.

A project with a QR value of less than one will be considered financially unacceptable and will receive zero points for this sub-indicator. If the value for the QR is equal to, or greater than one, the project is evaluated and assigned a score up to a maximum of 12 points based on its financial condition. The QR calculation is:

Quick Ratio = Cash + Cash Equivalents + Current Receivables/Total Current Liabilities

MONTHS EXPENDABLE NET ASSETS RATIO (MENAR)

Day 4, Slide 102

The Months Expendable Net Assets Ratio (MENAR) measures the viability of a project. The MENAR measures the ability of a project to operate using primarily its net available, unrestricted resources without reliance on additional funding.

This sub-indicator compares the net available unrestricted resources to the average monthly operating expenses. The result of this calculation shows how many months of operating expenses can be covered with currently available, unrestricted resources. Net available, unrestricted resources include unrestricted current resources available to the project after subtracting the amount needed by the project to pay current obligations. A project with a MENAR value of less than one will receive zero points and will be considered financially unacceptable. A value greater than one can be assigned a score up to 11 points. The calculation for MENAR is:

MENAR = Unrestricted Resources/Average Monthly Operating and Other Expenses

DEBT SERVICE COVERAGE RATIO (DSCR)

Day 4, Slide 103

The Debt Service Coverage Ratio (DSCR) is a measure of a project's ability to meet its regular debt obligations. The DSCR indicates whether the project has generated enough income from its operations to meet its annual interest and principal payment on long-term debt service obligations. It also indicates whether the project has generated enough income from its operations to meet its annual interest and principal payment on long-term debt service obligations. The DSCR ratio excludes debt associated with the Capital Fund Financing Program (CFFP).

DSCR = Adjusted Operating Income/Annual Debt Service (excluding CFFP Debt)

FASS MFH PROGRAM FINANCIAL INDICATORS

Day 4, Slides 104-105

Performance Indicator	
Surplus cash per unit	Surplus cash/Number of units
Net Cash Throw-off per Unit	(Net Income before depreciation – Mortgage Principal Payments – Required Reserve Deposits + Reserve Releases shown on P&L) / Number of Units
Reserves per Unit	(Reserve for Replacement + Residual Receipts Balance) / Number of Units
Occupancy Rate	Net Rent Revenue / Total Rent Revenue * 100
Operating Cost Coverage	Total Revenue / (Total Operating Expenses + Reserve Deposits – Expensed Reserve Releases)

Performance Indicator	
Quick Ratio	Cash and Cash Equivalents + Accounts Receivable) / (Total Current Liabilities – Construction and Entity Liabilities – 11/12 of Current Mortgage Principal)
Debt Service Coverage	(Net Operating Income – Adjusted Reserve Deposit Requirement)/Debt Service

SURPLUS CASH PER UNIT

Day 4, Slide 105

- Ratio should be > 0
- Unable to pay distributions and/or deposit funds to Residual Receipts

NET CASH THROW OFF

Day 4, Slide 105

- Ratio should be > 0
- Determines the property's ability to support routine operations and ensure capital expenditures are reimbursed in a timely manner

RESERVES PER UNIT

Day 4, Slide 106

- Minimum threshold can either be:
    - Current Reserve for Replacement deposit multiplied by 24 months; or,
    - $1,000 per unit.

OCCUPANCY RATE

Day 4, Slide 106

- Ratio should be < 93 percent
- Expressed as the economic occupancy rate
- Failure to achieve the occupancy rate from underwriting can lead to cash flow problems and inability to cover expenses

OPERATING COST COVERAGE

Day 4, Slide 107

- Ratio should be < 75 percent
- Expressed by total revenue divided by the total operating expenses plus R4R deposits minus expensed R4R releases

QUICK RATIO

Day 4, Slide 107

- Ratio should be 1.0 or better
- Relationship between a property's quick assets to current liabilities

DEBT SERVICE COVERAGE RATIO

Day 4, Slide 108

- Defined as net available funds divided by the current mortgage payment, including escrows
- If the ratio is greater than 1.0, the project appears financially able to meet debt service and other obligations
- To mitigate risk, we prefer to see a ratio of at least 1.10

MODULE 4: PRACTICE EXERCISE #1—MULTIFAMILY HOUSING RATIO ANALYSIS

Day 4, Slide 109

Eagle Valley is a 60-unit Section 202 PRAC development. The fiscal year end (FYE) for the project is 3/31.

The current operating cost is $434 PUM. The monthly reserve for replacement deposit is $1,388.

According to the 3/31/2012 AFS, the following applies:

		Location on AFS
Total Current Assets	48,269	Balance Sheet
Prepaid Expenses	589	Balance Sheet Account 1200
Total Current Liabilities	15,249	Balance Sheet
Construction & Entity Liabilities	0	Balance Sheet
Mortgage Payable—Current	0	Balance Sheet Acct 2170
Total Rent Revenue	115,200	Statement of Activities—Part I
Net Rent Revenue	95,215	Statement of Activities—Part I
Total Revenue	97,090	Statement of Activities—Part I
Total Cost of Operations before Depreciation	92,748	Statement of Activities Part I
Profit or Loss Before Depreciation	4,342	Statement of Activities Part I
Mortgage Principal payments	$0	Statement of Activities Part II
Reserve for Replacement Deposits	7,200	Statement of Activities Part II
Reserve Released shows on P&L	$0	Statement of Activities Part II
Surplus Cash	(3,160)	Computation of Surplus Cash

Calculate the following:	
Surplus Cash per Unit	Surplus Cash/No. of Units
Net Cash Throw-off per Unit	(Profit or Loss before Depreciation – Mortgage Principal Payments – Reserve for Replacement Deposits + Reserve Releases shown on P&L)/ No. of Units
Occupancy Rate	Net Rent Revenue / Total Rent Revenue * 100
Operating Cost Coverage	(Total Cost of Operations before Depreciation + Reserve for Replacement Deposits – Reserve Released shown on P&L)/Total Revenue
Quick Ratio	(Total Current Assets – Prepaid Expenses) / (Total Current Assets – Construction & Entity Liabilities – (0.916 X Mortgage Payable – Current))

Will this project require monitoring from the Asset Manager?

Module 4 Knowledge Check Questions

This knowledge check should be completed at the end of Module 4. Participants should circle their chosen answer. Leaders should review the correct answer using the following answer key once participants complete the knowledge check.

1. Benchmarking is used to:
   a) Identify financial goals
   b) Compare business process and performance against industry standards
   c) Claim a bench as your own
2. Financial metrics are a report of a business's financial situation, monthly, quarterly, bi-annually, or annually.
   a) True
   b) False
3. Which one is not a financial ratio?
   a) Net Operating Income (NOI)
   b) Debt Service Coverage Ratio (DSCR)
   c) Accounts payable
4. A Quick Ratio of less than one would indicate:
   a) The entity has sufficient liquid resources (cash) to meet its current obligations
   b) The entity has insufficient liquid resources (cash) to meet its current obligations
   c) Neither a nor b
5. PHAS uses how many financial ratios?
   a) Six
   b) Three
   c) None
6. MENAR measures:
   a) The liquidity of a project
   b) The ability of project to meet its regular debt obligations
   c) The ability of a project to operate using primarily its net available, unrestricted resources without reliance on additional funding
7. In the calculation of the Debt Service Coverage Ratio (DSCR), any CFFP debt the PHAs has incurred will be included in the calculation.
   a) True
   b) False

8. A project's ability to service debt will be directly related to the amount of operating income the property generates.
   a) True
   b) False

Stop: Do not proceed until the training Leader prompts you to turn the page.

Module 4 Knowledge Check Questions

Answer Key

*Correct answers are indicated in **bold**.*

1. Benchmarking is used to:
   a) Identify financial goals
   b) ***Compare business process and performance against industry standards***
   c) Claim a bench as your own

2. Financial metrics are a report of a business's financial situation, monthly, quarterly, bi-annually, or annually.
   a) ***True***
   b) False

3. Which one is not a financial ratio?
   a) Net Operating Income (NOI)
   b) Debt Service Coverage Ratio (DSCR)
   c) ***Accounts payable***

4. A Quick Ratio of less than one would indicate:
   a) The entity has sufficient liquid resources (cash) to meet its current obligations
   b) ***The entity has insufficient liquid resources (cash) to meet its current obligations***
   c) Neither a nor b

5. PHAS uses how many financial ratios?
   a) Six
   b) ***Three***
   c) None

6. MENAR measures:
   a) The liquidity of a project
   b) The ability of project to meet its regular debt obligations
   c) ***The ability of a project to operate using primarily its net available, unrestricted resources without reliance on additional funding***

7. In the calculation of the Debt Service Coverage Ratio (DSCR), any CFFP debt the PHAs has incurred will be included in the calculation.
   a) True
   b) ***False***

8. A project's ability to service debt will be directly related to the amount of operating income the property generates.
   a) ***True***
   b) False

Project-Based Budget Development and Analysis

Appendix 1: Example Revenue and Expense Summaries

Viabilityville Housing Authority (TR001) Viabilityville, TR Project Revenue and Expense Summary Submission Type: Audited | Fiscal Year End: 06/30/2011		
	AMP 1	**Total**
70300 Net Tenant Rental Revenue	$341,242.00	$341,242.00
70400 Tenant Revenue—Other	$10,499.00	$10,499.00
70500 Total Tenant Revenue	$351,741.00	$351,741.00
70600 HUD PHA Operating Grants	$102,858.00	$102,858.00
70610 Capital Grants	$127,923.00	$127,923.00
70710 Management Fee		
70720 Asset Management Fee		
70730 Bookkeeping Fee		
70740 Front Line Service Fee		
70750 Other Fees		
70700 Total Fee Revenue		
70800 Other Government Grants		
71100 Investment Income—Unrestricted	$5,198.00	$5,198.00
71200 Mortgage Interest Income		
71300 Proceeds from Disposition of Assets Held for Sale		
71310 Cost of Sale of Assets		
71400 Fraud Recovery		

Viabilityville Housing Authority (TR001) Viabilityville, TR Project Revenue and Expense Summary Submission Type: Audited | Fiscal Year End: 06/30/2011		
	AMP 1	**Total**
71500 Other Revenue	$2,941.00	$2,941.00
71600 Gain or Loss on Sale of Capital Assets		
72000 Investment Income—Restricted		
70000 Total Revenue	$590,661.00	$590,661.00
91100 Administrative Salaries	$33,341.00	$33,341.00
91200 Auditing Fees	$6,900.00	$6,900.00
91300 Management Fee	$69,992.00	$69,992.00
91310 Bookkeeping Fee	$8,070.00	$8,070.00
91400 Advertising and Marketing	$193.00	$193.00
91500 Employee Benefit Contributions—Administrative	$23,491.00	$23,491.00
91600 Office Expenses	$15,734.00	$15,734.00
91700 Legal Expense	$9,645.00	$9,645.00
91800 Travel	$3,598.00	$3,598.00
91810 Allocated Overhead		
91900 Other	$2,032.00	$2,032.00

Viabilityville Housing Authority (TR001) Viabilityville, TR Project Revenue and Expense Summary Submission Type: Audited | Fiscal Year End: 06/30/2011		
	AMP 1	**Total**
91000 Total Operating—Administrative	$172,996.00	$172,996.00
92000 Asset Management Fee		
92100 Tenant Services—Salaries		
92200 Relocation Costs		
92300 Employee Benefit Contributions—Tenant Services		
92400 Tenant Services—Other		
92500 Total Tenant Services	$0.00	$0.00
93100 Water	$7,614.00	$7,614.00
93200 Electricity	$6,738.00	$6,738.00
93300 Gas	$2,216.00	$2,216.00
93400 Fuel		
93500 Labor		
93600 Sewer	$21,520.00	$21,520.00
93700 Employee Benefit Contributions—Utilities		
93800 Other Utilities Expense		
93000 Total Utilities	$38,088.00	$38,088.00
94100 Ordinary Maintenance and Operations—Labor	$50,741.00	$50,741.00
94200 Ordinary Maintenance and Operations—Materials and Other	$14,986.00	$14,986.00
94300 Ordinary Maintenance and Operations Contracts	$60,797.00	$60,797.00
94500 Employee Benefit Contributions—Ordinary Maintenance	$30,832.00	$30,832.00

Viabilityville Housing Authority (TR001) Viabilityville, TR Project Revenue and Expense Summary Submission Type: Audited | Fiscal Year End: 06/30/2011		
	AMP 1	**Total**
94000 Total Maintenance	$157,356.00	$157,356.00
95100 Protective Services—Labor		
95200 Protective Services—Other Contract Costs	$709.00	$709.00
95300 Protective Services—Other	$55.00	$55.00
95500 Employee Benefit Contributions—Protective Services		
95000 Total Protective Services	$764.00	$764.00
96110 Property Insurance	$3,750.00	$3,750.00
96120 Liability Insurance	$1,950.00	$1,950.00
96130 Workmen’s Compensation	$7,951.00	$7,951.00

Viabilityville Housing Authority (TR001) Viabilityville, TR Project Revenue and Expense Summary Submission Type: Audited | Fiscal Year End: 06/30/2011		
	AMP 1	**Total**
96140 All Other Insurance	$354.00	$354.00
96100 Total Insurance Premiums	$14,005.00	$14,005.00
96200 Other General Expenses	$104,019.00	$104,019.00
96210 Compensated Absences		
96300 Payments in Lieu of Taxes	$29,648.00	$29,648.00
96400 Bad debt—Tenant Rents	$12,275.00	$12,275.00
96500 Bad debt—Mortgages		
96600 Bad debt—Other		
96800 Severance Expense		
96000 Total Other General Expenses	$145,942.00	$145,942.00
96710 Interest of Mortgage (or Bonds) Payable		
96720 Interest on Notes Payable (Short- and Long-Term)		
96730 Amortization of Bond Issue Costs		
96700 Total Interest Expense and Amortization Cost	$0.00	$0.00
96900 Total Operating Expenses	$529,151.00	$529,151.00
97000 Excess of Operating Revenue over Operating Expenses	$61,510.00	$61,510.00
97100 Extraordinary Maintenance		
97200 Casualty Losses—Non-capitalized		
97300 Housing Assistance Payments		
97350 HAP Portability-In		

Viabilityville Housing Authority (TR001) Viabilityville, TR Project Revenue and Expense Summary Submission Type: Audited | Fiscal Year End: 06/30/2011		
	AMP 1	**Total**
97400 Depreciation Expense	$167,462.00	$167,462.00
97500 Fraud Losses		
97600 Capital Outlays—Governmental Funds		
97700 Debt Principal Payment—Governmental Funds		
97800 Dwelling Units Rent Expense		
90000 Total Expenses	$696,613.00	$696,613.00
10010 Operating Transfer In		
10020 Operating Transfer Out		

Viabilityville Housing Authority (TR001) Viabilityville, TR Project Revenue and Expense Summary Submission Type: Audited | Fiscal Year End: 06/30/2011		
	AMP 1	**Total**
10030 Operating Transfers from/to Primary Government		
10040 Operating Transfers from/to Component Unit		
10050 Proceeds from Notes, Loans, and Bonds		
10060 Proceeds from Property Sales		
10070 Extraordinary Items, Net Gain/Loss		
10080 Special Items (Net Gain/Loss)		
10091 Inter Project Excess Cash Transfer In		
10092 Inter Project Excess Cash Transfer Out		
10093 Transfers between Program and Project—In		
10094 Transfers between Project and Program—Out		
10100 Total Other Financing Sources (Uses)	$0.00	$0.00
10000 Excess (Deficiency) of Total Revenue Over (Under) Total	($105,952.00)	($105,952.00)
11020 Required Annual Debt Principal Payments	$0.00	$0.00
11030 Beginning Equity	$3,595,917.00	$3,595,917.00
11040 Prior Period Adjustments, Equity Transfers, and Correction	$110,000.00	$110,000.00
11050 Changes in Compensated Absence Balance		
11060 Changes in Contingent Liability Balance		
11070 Changes in Unrecognized Pension Transition Liability		
11080 Changes in Special Term/Severance Benefits Liability		
11090 Changes in Allowance for Doubtful Accounts—Dwelling Rents		

Viabilityville Housing Authority (TR001) Viabilityville, TR Project Revenue and Expense Summary Submission Type: Audited | Fiscal Year End: 06/30/2011		
	AMP 1	**Total**
11100 Changes in Allowance for Doubtful Accounts—Other		
11170 Administrative Fee Equity		
11180 Housing Assistance Payments Equity		
11190 Unit Months Available	$1,080.00	$1,080.00
11210 Number of Unit Months Leased	$1,077.00	$1,077.00
11270 Excess Cash	$947,828.00	$947,828.00
11610 Land Purchases	$0.00	$0.00
11620 Building Purchases	$237,923.00	$237,923.00
11630 Furniture & Equipment—Dwelling Purchases	$0.00	$0.00
11640 Furniture & Equipment—Administrative Purchases	$0.00	$0.00

Viabilityville Housing Authority (TR001) Viabilityville, TR Project Revenue and Expense Summary Submission Type: Audited | Fiscal Year End: 06/30/2011		
	AMP 1	**Total**
11650 Leasehold Improvements Purchases	$0.00	$0.00
11660 Infrastructure Purchases	$0.00	$0.00
13510 CFFP Debt Service Payments	$0.00	$0.00
13901 Replacement Housing Factor Funds	$0.00	$0.00

Viabilityville Housing Authority (TR001) Viabilityville, TR Project Balance Sheet Summary Submission Type: Audited | Fiscal Year End: 06/30/2011		
	AMP1	**Total**
111 Cash—Unrestricted	$72,217.00	$72,217.00
112 Cash—Restricted—Modernization and Development		
113 Cash—Other Restricted		
114 Cash—Tenant Security Deposits	$30,377.00	$30,377.00
115 Cash—Restricted for Payment of Current Liabilities		
100 Total Cash	$102,594.00	$102,594.00
121 Accounts Receivable—PHA Projects		
122 Accounts Receivable—HUD Other Projects	$3,009.00	$3,009.00
124 Accounts Receivable—Other Government		
125 Accounts Receivable—Miscellaneous	$4.00	$4.00
126 Accounts Receivable—Tenants	$8,866.00	$8,866.00
126.1 Allowance for Doubtful Accounts -Tenants	($4,796.00)	($4,796.00)
126.2 Allowance for Doubtful Accounts—Other	$0.00	$0.00
127 Notes, Loans, & Mortgages Receivable—Current		
128 Fraud Recovery		
128.1 Allowance for Doubtful Accounts—Fraud		
129 Accrued Interest Receivable	$1,267.00	$1,267.00
120 Total Receivables, Net of Allowances for Doubtful Accounts	$8,350.00	$8,350.00
131 Investments—Unrestricted	$1,067,185.00	$1,067,185.00

Viabilityville Housing Authority (TR001) Viabilityville, TR Project Balance Sheet Summary Submission Type: Audited | Fiscal Year End: 06/30/2011		
	AMP1	**Total**
132 Investments—Restricted		
135 Investments—Restricted for Payment of Current Liability		
142 Prepaid Expenses and Other Assets	$9,772.00	$9,772.00
143 Inventories		
143.1 Allowance for Obsolete Inventories		
144 Inter Program Due		
145 Assets Held for Sale		
150 Total Current Assets	$1,187,901.00	$1,187,901.00
161 Land	$315,316.00	$315,316.00
162 Buildings	$5,070,062.00	$5,070,062.00
163 Furniture, Equipment, & Machinery—Dwellings	$114,665.00	$114,665.00
164 Furniture, Equipment, & Machinery—Administration	$32,313.00	$32,313.00
165 Leasehold Improvements		
166 Accumulated Depreciation	($2,930,208.00)	($2,930,208.00)
167 Construction in Progress		
168 Infrastructure		
160 Total Capital Assets, Net of Accumulated Depreciation	$2,602,148.00	$2,602,148.00
171 Notes, Loans, and Mortgages Receivable—Non-Current		
172 Notes, Loans, & Mortgages Receivable—Non-Current—Past Due		
173 Grants Receivable—Non-Current		

Viabilityville Housing Authority (TR001) Viabilityville, TR Project Balance Sheet Summary Submission Type: Audited | Fiscal Year End: 06/30/2011		
	AMP1	**Total**
174 Other Assets		
176 Investments in Joint Ventures		
180 Total Non-Current Assets	$2,602,148.00	$2,602,148.00
190 Total Assets	$3,790,049.00	$3,790,049.00
311 Bank Overdraft		
312 Accounts Payable <= 90 Days	$13,782.00	$13,782.00
313 Accounts Payable >90 Days Past Due		
321 Accrued Wage/Payroll Taxes Payable		
322 Accrued Compensated Absences—Current Portion	$9,821.00	$9,821.00
324 Accrued Contingency Liability		
325 Accrued Interest Payable		
331 Accounts Payable—HUD PHA Programs		
332 Account Payable—PHA Projects		
333 Accounts Payable—Other Government	$104,019.00	$104,019.00
341 Tenant Security Deposits	$30,377.00	$30,377.00
342 Deferred Revenues		
343 Current Portion of Long-term Debt—Capital Projects/Mortgage		
344 Current Portion of Long-term Debt—Operating Borrowings		
345 Other Current Liabilities	$29,630.00	$29,630.00
346 Accrued Liabilities—Other		

Viabilityville Housing Authority (TR001) Viabilityville, TR Project Balance Sheet Summary Submission Type: Audited | Fiscal Year End: 06/30/2011		
	AMP1	**Total**
347 Inter Program—Due To		
348 Loan Liability—Current		
310 Total Current Liabilities	$187,629.00	$187,629.00
351 Long-term Debt, Net of Current—Capital Projects/Mortgage Revenue		
352 Long-term Debt, Net of Current—Operating Borrowings		
353 Non-current Liabilities—Other		
354 Accrued Compensated Absences – Non-Current	$2,455.00	$2,455.00
355 Loan Liability—Non Current		
356 FASB 5 Liabilities		
357 Accrued Pension and OPEB Liabilities		
350 Total Non-Current Liabilities	$2,455.00	$2,455.00
300 Total Liabilities	$190,084.00	$190,084.00
508.1 Invested In Capital Assets, Net of Related Debt	$2,602,148.00	$2,602,148.00
509.2 Fund Balance Reserved		
511.2 Unreserved, Designated Fund Balance		
511.1 Restricted Net Assets		
512.1 Unrestricted Net Assets	$997,817.00	$997,817.00
512.2 Unreserved, Undesignated Fund Balance		
513 Total Equity/Net Assets	$3,599,965.00	$3,599,965.00
600 Total Liabilities and Equity/Net Assets	$3,790,049.00	$3,790,049.00

Troubleston (TR002) Troubleston, TR Project Revenue and Expense Summary Submission Type: Audited/A-133 | Fiscal Year End: 03/31/2011		
	TR0002	**Total**
70300 Net Tenant Rental Revenue	$527,372.00	$527,372.00
70400 Tenant Revenue—Other	$11,439.00	$11,439.00
70500 Total Tenant Revenue	$538,811.00	$538,811.00
70600 HUD PHA Operating Grants	$547,751.00	$547,751.00
70610 Capital Grants	$127,359.00	$127,359.00
70710 Management Fee		
70720 Asset Management Fee		
70730 Bookkeeping Fee		
70740 Front Line Service Fee		
70750 Other Fees		
70700 Total Fee Revenue		
70800 Other Government Grants		
71100 Investment Income—Unrestricted	$153.00	$153.00
71200 Mortgage Interest Income		
71300 Proceeds from Disposition of Assets Held for Sale		
71310 Cost of Sale of Assets		
71400 Fraud Recovery		
71500 Other Revenue	$25,581.00	$25,581.00
71600 Gain or Loss on Sale of Capital Assets	($1,162.00)	($1,162.00)
72000 Investment Income—Restricted		

Troubleston (TR002) Troubleston, TR Project Revenue and Expense Summary Submission Type: Audited/A-133 | Fiscal Year End: 03/31/2011		
	TR0002	**Total**
70000 Total Revenue	$1,238,493.00	$1,238,493.00
91100 Administrative Salaries	$149,156.00	$149,156.00
91200 Auditing Fees	$5,160.00	$5,160.00
91300 Management Fee		
91310 Bookkeeping Fee		
91400 Advertising and Marketing		
91500 Employee Benefit Contributions—Administrative	$78,848.00	$78,848.00
91600 Office Expenses	$76,021.00	$76,021.00
91700 Legal Expense	$51,862.00	$51,862.00
91800 Travel	$15,047.00	$15,047.00
91810 Allocated Overhead		
91900 Other	$30,220.00	$30,220.00
91000 Total Operating—Administrative	$406,314.00	$406,314.00
92000 Asset Management Fee		
92100 Tenant Services—Salaries		
92200 Relocation Costs		
92300 Employee Benefit Contributions—Tenant Services		
92400 Tenant Services—Other	$56,067.00	$56,067.00
92500 Total Tenant Services	$56,067.00	$56,067.00
93100 Water	$90,180.00	$90,180.00

Troubleston (TR002) Troubleston, TR Project Revenue and Expense Summary Submission Type: Audited/A-133 | Fiscal Year End: 03/31/2011		
	TR0002	**Total**
93200 Electricity	$62,871.00	$62,871.00
93300 Gas	$74,721.00	$74,721.00
93400 Fuel		
93500 Labor		
93600 Sewer		
93700 Employee Benefit Contributions—Utilities		
93800 Other Utilities Expense		
93000 Total Utilities	$227,772.00	$227,772.00
94100 Ordinary Maintenance and Operations—Labor	$190,511.00	$190,511.00
94200 Ordinary Maintenance and Operations—Materials and Other	$84,707.00	$84,707.00
94300 Ordinary Maintenance and Operations Contracts	$117,975.00	$117,975.00
94500 Employee Benefit Contributions—Ordinary Maintenance	$100,760.00	$100,760.00
94000 Total Maintenance	$493,953.00	$493,953.00
95100 Protective Services—Labor		
95200 Protective Services—Other Contract Costs	$400.00	$400.00
95300 Protective Services—Other		
95500 Employee Benefit Contributions—Protective Services		
95000 Total Protective Services	$400.00	$400.00
96110 Property Insurance	$54,726.00	$54,726.00
96120 Liability Insurance	$9,552.00	$9,552.00

Troubleston (TR002) Troubleston, TR Project Revenue and Expense Summary Submission Type: Audited/A-133 | Fiscal Year End: 03/31/2011		
	TR0002	**Total**
96130 Workmen's Compensation	$7,176.00	$7,176.00
96140 All Other Insurance		
96100 Total Insurance Premiums	$71,454.00	$71,454.00
96200 Other General Expenses		
96210 Compensated Absences	$1,255.00	$1,255.00
96300 Payments in Lieu of Taxes		
96400 Bad debt—Tenant Rents	$19,054.00	$19,054.00
96500 Bad debt—Mortgages		
96600 Bad debt—Other		
96800 Severance Expense		
96000 Total Other General Expenses	$20,309.00	$20,309.00
96710 Interest of Mortgage (or Bonds) Payable		
96720 Interest on Notes Payable (Short- and Long-Term)	$14,927.00	$14,927.00
96730 Amortization of Bond Issue Costs		
96700 Total Interest Expense and Amortization Cost	$14,927.00	$14,927.00
96900 Total Operating Expenses	$1,291,196.00	$1,291,196.00
97000 Excess of Operating Revenue over Operating Expenses	($187,692.00)	($187,692.00)
97100 Extraordinary Maintenance		
97200 Casualty Losses—Non-capitalized		
97300 Housing Assistance Payments		

Troubleston (TR002) Troubleston, TR Project Revenue and Expense Summary Submission Type: Audited/A-133 | Fiscal Year End: 03/31/2011	TR0002	Total
97350 HAP Portability-In		
97400 Depreciation Expense	$334,157.00	$334,157.00
97500 Fraud Losses		
97600 Capital Outlays—Governmental Funds		
97700 Debt Principal Payment—Governmental Funds		
97800 Dwelling Units Rent Expense		
90000 Total Expenses	$1,625,353.00	$1,625,353.00
10010 Operating Transfer In	$7,630.00	$7,630.00
10020 Operating Transfer Out	($7,630.00)	($7,630.00)
10030 Operating Transfers from/to Primary Government		
10040 Operating Transfers from/to Component Unit		
10050 Proceeds from Notes, Loans, and Bonds		
10060 Proceeds from Property Sales		
10070 Extraordinary Items, Net Gain/Loss		
10080 Special Items (Net Gain/Loss)		
10091 Inter Project Excess Cash Transfer In		
10092 Inter Project Excess Cash Transfer Out		
10093 Transfers between Program and Project—In		
10094 Transfers between Project and Program—Out		
10100 Total Other Financing Sources (Uses)	$0.00	$0.00

Troubleston (TR002) Troubleston, TR Project Revenue and Expense Summary Submission Type: Audited/A-133 | Fiscal Year End: 03/31/2011		
	TR0002	**Total**
10000 Excess (Deficiency) of Total Revenue Over (Under) Total	($386,860.00)	($386,860.00)
11020 Required Annual Debt Principal Payments	$0.00	$0.00
11030 Beginning Equity	$1,779,705.00	$1,779,705.00
11040 Prior Period Adjustments, Equity Transfers and Correction	$172,764.00	$172,764.00
11050 Changes in Compensated Absence Balance		
11060 Changes in Contingent Liability Balance		
11070 Changes in Unrecognized Pension Transition Liability		
11080 Changes in Special Term/Severance Benefits Liability		
11090 Changes in Allowance for Doubtful Accounts—Dwelling Rents		
11100 Changes in Allowance for Doubtful Accounts—Other		
11170 Administrative Fee Equity		
11180 Housing Assistance Payments Equity		
11190 Unit Months Available	$1,620.00	$1,620.00
11210 Number of Unit Months Leased	$1,505.00	$1,505.00
11270 Excess Cash	($69,658.00)	($69,658.00)
11610 Land Purchases	$0.00	$0.00
11620 Building Purchases	$184,289.00	$184,289.00
11630 Furniture & Equipment—Dwelling Purchases	$0.00	$0.00
11640 Furniture & Equipment—Administrative Purchases	$120,206.00	$120,206.00
11650 Leasehold Improvements Purchases	$3,866.00	$3,866.00

Troubleston (TR002) Troubleston, TR Project Revenue and Expense Summary Submission Type: Audited/A-133 | Fiscal Year End: 03/31/2011		
	TR0002	**Total**
11660 Infrastructure Purchases	$0.00	$0.00
13510 CFFP Debt Service Payments	$0.00	$0.00
13901 Replacement Housing Factor Funds	$0.00	$0.00

Troubleston (TR002) Troubleston, TR Project Balance Sheet Summary Submission Type: Audited/A-133 | Fiscal Year End: 03/31/2011		
	TR0002	**Total**
111 Cash—Unrestricted	$221,083.00	$221,083.00
112 Cash—Restricted—Modernization and Development		
113 Cash—Other Restricted		
114 Cash—Tenant Security Deposits	$37,610.00	$37,610.00
115 Cash—Restricted for Payment of Current Liabilities		
100 Total Cash	$258,693.00	$258,693.00
121 Accounts Receivable—PHA Projects		
122 Accounts Receivable—HUD Other Projects	$22,650.00	$22,650.00
124 Accounts Receivable—Other Government		
125 Accounts Receivable—Miscellaneous		
126 Accounts Receivable—Tenants	$919.00	$919.00
126.1 Allowance for Doubtful Accounts -Tenants	($138.00)	($138.00)
126.2 Allowance for Doubtful Accounts—Other	$0.00	$0.00
127 Notes, Loans, & Mortgages Receivable—Current		
128 Fraud Recovery		
128.1 Allowance for Doubtful Accounts—Fraud		
129 Accrued Interest Receivable		
120 Total Receivables, Net of Allowances for Doubtful Accounts	$23,431.00	$23,431.00
131 Investments—Unrestricted		
132 Investments—Restricted		

Troubleston (TR002) Troubleston, TR Project Balance Sheet Summary Submission Type: Audited/A-133 | Fiscal Year End: 03/31/2011		
	TR0002	Total
135 Investments—Restricted for Payment of Current Liability		
142 Prepaid Expenses and Other Assets	$23,182.00	$23,182.00
143 Inventories		
143.1 Allowance for Obsolete Inventories		
144 Inter Program Due From		
145 Assets Held for Sale		
150 Total Current Assets	$305,306.00	$305,306.00
161 Land	$155,648.00	$155,648.00
162 Buildings	$4,910,733.00	$4,910,733.00
163 Furniture, Equipment, & Machinery—Dwellings		
164 Furniture, Equipment, & Machinery—Administration	$312,509.00	$312,509.00
165 Leasehold Improvements	$840,747.00	$840,747.00
166 Accumulated Depreciation	($4,389,641.00)	($4,389,641.00)
167 Construction in Progress		
168 Infrastructure		
160 Total Capital Assets, Net of Accumulated Depreciation	$1,829,996.00	$1,829,996.00
171 Notes, Loans, and Mortgages Receivable—Non-Current		
172 Notes, Loans, & Mortgages Receivable—Non-Current—Past Due		
173 Grants Receivable—Non-Current		
174 Other Assets		

Troubleston (TR002)
Troubleston, TR
Project Balance Sheet Summary
Submission Type: Audited/A-133 | Fiscal Year End: 03/31/2011

	TR0002	Total
176 Investments in Joint Ventures		
180 Total Non-Current Assets	$1,829,996.00	$1,829,996.00
190 Total Assets	$2,135,302.00	$2,135,302.00
311 Bank Overdraft		
312 Accounts Payable <= 90 Days	$71,405.00	$71,405.00
313 Accounts Payable >90 Days Past Due		
321 Accrued Wage/Payroll Taxes Payable	$5,863.00	$5,863.00
322 Accrued Compensated Absences—Current Portion	$2,024.00	$2,024.00
324 Accrued Contingency Liability		
325 Accrued Interest Payable	$14,927.00	$14,927.00
331 Accounts Payable—HUD PHA Programs		
332 Account Payable—PHA Projects		
333 Accounts Payable—Other Government		
341 Tenant Security Deposits	$37,610.00	$37,610.00
342 Deferred Revenues	$39,144.00	$39,144.00
343 Current Portion of Long-term Debt—Capital Projects/Mortgage		
344 Current Portion of Long-term Debt—Operating Borrowings		
345 Other Current Liabilities	$1,434.00	$1,434.00
346 Accrued Liabilities—Other		
347 Inter Program—Due To	$78,198.00	$78,198.00

Troubleston (TR002) Troubleston, TR Project Balance Sheet Summary Submission Type: Audited/A-133 | Fiscal Year End: 03/31/2011		
	TR0002	**Total**
348 Loan Liability—Current		
310 Total Current Liabilities	$250,605.00	$250,605.00
351 Long-term Debt, Net of Current—Capital Projects/Mortgage Revenue		
352 Long-term Debt, Net of Current—Operating Borrowings		
353 Non-Current Liabilities—Other	$257,992.00	$257,992.00
354 Accrued Compensated Absences—Non-Current	$18,212.00	$18,212.00
355 Loan Liability—Non-Current		
356 FASB 5 Liabilities		
357 Accrued Pension and OPEB Liabilities	$42,884.00	$42,884.00
350 Total Non-Current Liabilities	$319,088.00	$319,088.00
300 Total Liabilities	$569,693.00	$569,693.00
508.1 Invested In Capital Assets, Net of Related Debt	$1,829,996.00	$1,829,996.00
509.2 Fund Balance Reserved		
511.2 Unreserved, Designated Fund Balance		
511.1 Restricted Net Assets		
512.1 Unrestricted Net Assets	($264,387.00)	($264,387.00)
512.2 Unreserved, Undesignated Fund Balance		
513 Total Equity/Net Assets	$1,565,609.00	$1,565,609.00
600 Total Liabilities and Equity/Net Assets	$2,135,302.00	$2,135,302.00

Appendix 2: Day 4 Checklist—Project-Based Budget Development and Analysis

1. The goals of asset management are to:
   - ✓ Improve the operational efficiency and effectiveness of managing public housing assets
   - ✓ Better preserve and protect each asset
   - ✓ Provide appropriate mechanisms for monitoring performance at the property level
   - ✓ Facilitate future investment and reinvestment in public housing by public and private sector entities

2. The roles of the board of commissioners or property owner/agent in asset management include:
   - ✓ Adopt fiscal policies
   - ✓ Adopt project-based budgets
   - ✓ Conduct monthly reviews of budgets vs. actual expenses and revenues
   - ✓ Approve major contracts and purchases
   - ✓ Monitor fiscal activities
   - ✓ Stay abreast of subsidized housing industry rules and regulations

3. There are four major concepts of asset management:
   - ✓ Project Expense Level (PEL): Model-generated estimate of the cost of operating each project, exclusive of utilities, taxes, and certain add-ons
   - ✓ Utility Expense Level (UEL): Funding eligibility for a project's utilities based on its consumption, applicable rates, and inflation factor
   - ✓ Add-ons: Special funding amounts for certain items outside the PEL and UEL, such as asset management fees, Payment in Lieu of Taxes (PILOT), audit costs, and resident activity funds ($25 per unit)
   - ✓ Formula income: Income recognized by the formula for subsidy purposes

4. The asset management model is based on:
   - ✓ Decentralization of services
   - ✓ Establishment of project-based management
   - ✓ Project-based budget and accounting
   - ✓ Oversight and administrative services through a Central Office Cost Center
   - ✓ Performance based on individual properties or AMPs

5. Project-based budget principles include:
   - ✓ Operating budgets shall be developed for each AMP.
   - ✓ With the exception of troubled PHAs, budget data does not have to be sent to HUD for approval. Budgetary approval will rest with the PHA's board.

- ✓ Operating budgets shall include estimates for all revenue and expenses under the Operating Fund and Capital Fund Programs (CFP) that directly or indirectly support the operations of the AMP, as well as capital expenses to be paid with operating funds, including all data needed to complete AMP-based financial statements in accordance with GAAP.
- ✓ Operating budget expenses shall include, but are not limited to, direct administrative costs, utilities, maintenance, security, general expenses, and non-routine or capital expenses to be paid with operating funds. These categories also include any COCC front-line costs charged as fee-for-service.
- ✓ HUD funds the operating costs of housing produced under the current Section 202 program for the elderly and the Section 811 program for persons with disabilities through a Project Rental Assistance Contract, or PRAC.
- ✓ Funding for the Section 811 and Section 202 Programs is calculated using Operating Costs Standards (OCS) published by HUD. In fiscal years where the OCS does not change, HUD publishes Operating Costs Adjustment Factors (OCAF) that are multiplied by the last published OCS to calculate the current OCS for the fiscal year.

6. Project-based budgets should:
   - ✓ Reasonably represent expected financial performance and consider all revenue sources and expenses of a project
   - ✓ Reflect expected transfers and anticipated uses of excess cash
   - ✓ Include Capital Funds that will be used for operations (BLI 1406) and management improvements (BLI 1408) at the project level

7. Project budgets are developed using:
   - ✓ Operating income
   - ✓ Project expenses

8. Project income can include:
   - ✓ Dwelling rent
   - ✓ Operating subsidy (PEL + UEL + Add-Ons)
   - ✓ Other revenue
   - ✓ CFP funds

9. Project expenses can include:
   - ✓ Administrative
   - ✓ Asset management fees
   - ✓ Tenant services
   - ✓ Utilities
   - ✓ Maintenance
   - ✓ Protective services

- ✓ Insurance
- ✓ General expenses

10. Eligible uses of operating funds include:
    - ✓ Procedures and systems to maintain and ensure the efficient management and operation of public housing units (including amounts sufficient to pay for the reasonable costs of review by an independent auditor)
    - ✓ Activities to ensure a program of routine preventative maintenance
    - ✓ The costs of operating Neighborhood Networks Centers
    - ✓ The costs of insurances

11. Budgets are monitored using:
    - ✓ Budget reports
    - ✓ Budget variances

12. Common causes for negative budget variances include:
    - ✓ Faulty arithmetic in the budget figures
    - ✓ Errors in the arithmetic of the actual results
    - ✓ Incorrect assumptions regarding expenses
    - ✓ Differences between budget assumptions and actual outcome
    - ✓ Unexpected increases in planned expenses or costs
    - ✓ Unanticipated drops in rental incomes

13. Cash management standards include:
    - ✓ Cash-related transactions shall occur only after the approval of an individual with delegated authority to make approvals.
    - ✓ Cash-related transactions shall be fully documented so that an undisputable audit trail exists.
    - ✓ Cash-related transactions shall be recorded promptly during each step of the cash-handling function.
    - ✓ Serially numbered forms shall be used to document cash-related transactions to enhance reconciliation and accountability.
    - ✓ Documents used in cash-related transactions shall be safeguarded against re-use, tampering, or unauthorized disposal.

14. Fee income for project-based properties can include:
    - ✓ Property management fee
    - ✓ Bookkeeping fee
    - ✓ Asset management fee
    - ✓ Housing Choice Voucher Program fees

- ✓ Program management fees and other business activity
- ✓ Fee-for-service (e.g., centralized painting or extermination)

15. Operating Reserves include:
    - ✓ Unspent operating subsidy, including Asset Repositioning Fee
    - ✓ Unspent tenant rent
    - ✓ Other miscellaneous revenue, including program income that has expanded uses
    - ✓ Unrestricted, unspent insurance proceeds
    - ✓ Section 18 proceeds
16. Benchmarking is used to:
    - ✓ Compare one's business processes and performance metrics to industry bests or best practices from other industries
    - ✓ Prepare a budget comparing income and expenses with industry benchmarks, which can aid in determining the reasonable expense for items
17. Financial metrics are:
    - ✓ Used to report a business's financial situation monthly, quarterly, bi-annually, or annually
18. Common financial condition metrics are:
    - ✓ Net Operating Income (NOI)
    - ✓ Quick Ratio (QR)
    - ✓ Months Expendable Assets Ratio (MENAR)
    - ✓ Debt Service Coverage Ratio (DSCR)
    - ✓ Total Debt-to-Equity Ratio (TDE)
19. Ratios to determine financial condition under FASS include:
    - ✓ Quick Ratio (QR)
    - ✓ Months Expendable Assets Ratio (MENAR)
    - ✓ Debt Service Coverage Ratio (DSCR)

Appendix 3: Day 4 Pre-Test Answer Key

1. The Asset Management Model resulted from:
   a) The new operating rule
   b) The cost model based on the Multifamily Housing Program
   c) Both
2. Asset management is a process of making investment decisions for a collection (portfolio) of assets, based on the mission, goals, and objectives of the owner/agent, lender, sponsor, or regulatory body.
   a) True
   b) False
3. PHA board and MFH program owners/agents are responsible for (select all that apply):
   a) Approving project-based budgets
   b) Developing project-based budgets
   c) Monitoring and oversight of budgets
4. Project-based funding provides subsidy (PH or MFH programs) for:
   a) Operating the entire housing program
   b) Individual housing projects or AMPs
   c) Staff salaries for all PHA or MFH staff
5. Performance-based management means:
   a) PHA AMPs or MFH properties are evaluated individually
   b) The PHA or property company is evaluated agency- or company-wide
   c) Performance is measured by a self-evaluation process.
6. Project-based budgets are developed at the:
   a) Agency-wide level
   b) Project or AMP level
   c) Central Office Cost Center (COCC)
7. PRACs in Multifamily Housing programs are renewed:
   a) Every 5 years
   b) Every 2 years
   c) Every year
8. Dwelling rent in both the PIH and MFH programs is considered project income.
   a) True
   b) False

9. One of the objectives of budgeting is to provide a base against which actual performance can be measured.
   a) True
   b) False

10. The minimum public housing operating reserve level is:
    a) $100,000
    b) $4,000,000
    c) $0

11. Which of the following is an allowable fee expense in the PIH and MFH programs?
    a) Property management
    b) Housekeeping
    c) Delivery
    d) Recordkeeping

12. A ***front-line expense*** is an expense that is directly related to the operation of an AMP.
    a) True
    b) False

13. Benchmarking is used to:
    a) Identify financial goals
    b) Compare business process and performance against industry standards
    c) Claim a bench as your own

14. Financial metrics are a report of a business's financial situation monthly, quarterly, bi-annually, or annually.
    a) True
    b) False

15. Which one is not a financial ratio?
    a) Net Operating Income (NOI)
    b) Debt Service Coverage Ratio (DSCR)
    c) Accounts payable

16. FASS-PHA uses how many financial ratios to measure a project's financial performance under the PHAS?
    a) Six
    b) Three
    c) None

17. MENAR measures:
    a) The liquidity of a project
    b) The ability of project to meet its regular debt obligations
    c) The ability of a project to operate using primarily its net available, unrestricted resources without reliance on additional funding
18. Surplus cash is a concept of which program?
    a) Public Housing Program
    b) MFH Program
19. The quick ratio is used in both the public housing and MFH programs to measure a project's liquidity.
    a) True
    b) False
20. Both in the Public Housing Program and the MFH Program, a Reserve for Replacements is required.
    a) True
    b) False

Day 4—Project-Based Budget & Analysis

Answer Key

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   b) The cost model based on the Multifamily Housing Program
   c) ***Both***
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