

Annual Audit

Review project's Annual Financial Statements, Notes and auditors findings.

Determine that reserve and escrow balances are sufficient.

Check Statement of Activities for:

- ▶ Annual vacancy rate
- ▶ Reasonable interest earnings
- ▶ Unusually large expense line items
- ▶ Positive net cash throw off which indicates that total operations expenses plus Reserve deposits plus mortgage principal payment is less than or equal to net income before depreciation

Review Reserve Schedule for deposits and withdrawals.

Check for positive Surplus Cash that indicates sufficient liquidity to cover current liabilities.

If HUD's review of the Financial Statements indicates finding(s), a response is required or the audit may be referred to Departmental Enforcement Center (DEC) to resolve findings.

Resources

HUD Publications

Handbook, 4370.2 REV-1.

www.hudclips.org/sub_nonhud/cgi/selectbtk.cgi

Industry User Guide for the Financial Assessment Subsystem MF

www.hud.gov/offices/reac/products/fass/fassmf_guide.cfm

LISC Publications

Occasional Paper Series No. 3

A Guide to the Roles & Responsibilities of an Asset Manager

A Guide to Comprehensive Maintenance Repair

Chapter 5: Long Range Planning

Websites

U. S. Department of Housing and Urban Development

www.hud.gov

Institute of Real Estate Management

www.irem.org

Local Initiatives Support Corporation

www.lisc.org

Management Assistance Program

www.mapforprofits.org

Minnesota Housing Finance Agency

www.mhfa.org

Minnesota Multifamily Housing Association

www.mmha.org

ORIENTATION GUIDE

BOARD OF DIRECTORS



This Orientation Guide is one of a series of five
Compiled by the
Minneapolis Office
Multifamily Housing Division
U.S. Department of Housing and Urban Development



MONITORING FINANCIAL CONDITION



FINANCIAL

Goals

To approve a budget that ensures that the project is generating sufficient cash flow to cover operating expenses and funding of the reserves.

To ensure on-going financial stability and preserve the long term financial health of the project.



Budget

To be completed annually by the management agent and approved by the Board.

Budget must reflect adequate cash flow.

Income must exceed expenses

Income

- ▶ Rents sufficient to cover all operating expenses?

What other sources are available for generating income?

- ▶ Vacancy Problems?

Are units being aggressively marketed? How much time does it take to turnover the units? Does the property have poor curb appeal?

- ▶ Rent collections at least 90%?

Are changes needed to the rent collection policy?

- ▶ Funds in bank accounts earning interest?



Expenses

- ▶ Expenses of the project reasonable and necessary?
- ▶ Increases in line item expenses over 5% explained?
- ▶ Routinely are bids solicited for contracted services and insurance to ensure that you are obtaining the lowest prices?
- ▶ Reserve deposits adequate based on project's replacement needs?

Financial Reporting



Are monthly/quarterly reports being provided to the Board?

- ▶ Budget variance report (showing differences between projected expenses and actual expenses)
- ▶ Accounts Receivable
- ▶ Accounts Payable
- ▶ Vacancy and turnover rates

Review expenses and consider the property's financial performance trends.