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/selectthbk.cgi
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.mapfornonprofits.org
Minnesota Housing Finance Agency
www.mhfa.org
Minnesota Multifamily Housing Association
www.mmha.org

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

BOARD OF DIRECTORS
MONITORING
FINANCIAL CONDITION
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.