

**INSTRUCTIONS FOR
FIFTEEN YEAR PROJECTIONS & FINANCIAL INDICES
EXCEL MODEL**

RESTRUCTURING AND REFINANCING WORKSHOP

June 19, 2008

I. OVERVIEW/INTRO

Purpose and Use

This Excel workbook helps project financial performance for housing projects already in operations.

The model calculates standard affordable housing industry financial indices like vacancy rates, net cash flow, net cashflow per unit, debt service coverage, operating expenses per unit and efficiency ratio (operating expenses divided by net revenues). The model also provides a fifteen year cashflow projection (numeric and graph format), and provides a table for summarizing debt and reserve balances on the property.

These instructions are meant to be reviewed along with the “Blank Fifteen Year Projections and Financial Indices” Model provided in your training packet.

Disclaimer

The intent of this model is to provide a basic spreadsheet tool that can be easily modified to meet your organization’s needs. Reports and information generated by this product are based upon data collected and entered by the users. Users are responsible for the accuracy of the data collection and entry. This template should be used as an asset management tool, and does not replace your financial statements, which serve as your account of record for the project.

This template uses a proforma format to represent an operational view of the property financial performance, and therefore, does not present information according to Generally Accepted Accounting Principles. This model also presumes that the project financials used to obtain data are based on accrual accounting, reflecting items such as gross potential rents, vacancy loss, tenant receivables, etc.

The creators of this product make no representation as to the accuracy of the reports and information generated by this product and assume no liability for the use of such.

Requirements

In order to run these spreadsheets you will need:

- Excel 2007 or a more recent version

II. GENERAL INSTRUCTIONS

1. This "Blank Template" has no data entered in it. When starting a new set-up, make a copy of "Blank Template" by using the "Saving As" option and reference the fiscal year and Project Name. You will probably use your edited model for subsequent years or projects.
2. None of the worksheets are protected. You are free to manipulate the cells, hide certain rows or columns, or change the formulas to make it work for you. However, most cells are linked to other cells, so change cells cautiously.
3. All tabs that require manual entry are shaded in blue. The non-shaded cells are calculated or names/ descriptions.

III. OVERVIEW OF THE WORKBOOK AND SHEETS

The model contains one workbook with four worksheets (see tabs):

1. Instructions Tab (white)
2. Project Summary Tab (pink)
3. Project Projections Tab (purple)
4. Project Balance Sheet Tab (green)

1. Instructions Tab: (white tab)

This tab lists instructions for all manually entered cells, cell by cell. Therefore, cell specific information is not included on this instruction sheet unless there are additional notes and clarifications (see Section IV below).

2. Project Summary Tab: (pink tab)

This worksheet (tab) is a report format only. No data should be entered onto this tab. Most of the cells, as well as the chart, are linked to the Project Projections Tab. While this worksheet is not locked, edit cautiously as there are many links. This report is set to print on 8.5 x 11 paper.

3. Project Projections Tab:

This is the data entry tab for information coming primarily from the project's income statement or statement of operations. This spreadsheet is set up for you to enter year to date revenue and expense data on the left side of the spreadsheet. The spreadsheet will annualize the year to date data and then project forward on the fifteen year projection on the right side of the spreadsheet. Projections are based on the accelerators in cells L1 and L2. If your debt payments change over time, you will need to manually enter that information on the projections.

The financial indices are calculated for the current (or year entered) fiscal year and those indices are reflected on the Project Summary Tab. The financial indices are also calculated an additional fourteen years based on projections. Cell by cell instructions for this tab are included on the Instructions Tab of the Workbook.

4. Project Balance Sheet Tab:

This tab is primarily a data table intended to highlight key information for two purposes:

- Short term issues that reflect management and cashflow problems can best be seen by looking at several line items on the balance sheet:
 - Cash available: Is there enough cash available to meet liquidity needs?
 - Tenant Receivables: How large are they, are they larger or smaller than the last month/ year. If they are smaller, is it because some receivables have been written off as uncollectible (shows in bad debt expense), or because they have been collected? Review aged receivable reports for more data.
 - Housing Authority payables – slow payments can sometimes create significant Cashflow challenges and may reflect the need to work with your housing authority on processing payments.
 - Short Term Payables: are vendors getting paid? Are short term payables growing? You may need to review aged payables report.
- Long Term Issues:
 - Reserve balances: are they sufficient?
 - What are the outstanding principal balance (s) for your loans to third parties? This information is needed to review refinancing options, and calculate available equity.

IV. ADDITIONAL HINTS

This section outlines additional information that may help you prevent or correct problems using the model:

- a. Be sure to enter year end dates and number of months completed in the fiscal year accurately. These should reflect the number of months and fiscal year end of the PROJECT. The first year of the projections will annualize the revenues, expenses and debt based on the number of months in fiscal year completed entered in cell I1. Enter these carefully or the projections and indices will be incorrect. The future year dates will build off of the date entered in cell I2.
- b. You may change the line items of operating expenses by overriding names. Most users find it easiest and most likely to be accurate if they use their own chart of accounts/ expense categories. Generally, you will find it easiest to enter expense categories line by line from your financial statements, in order of their financial statements, rather than manually summing several line items, even if you don't need that level of detail. Therefore, unless you are following another report, it is worth tailoring this section. In Washington state, where there is a Common Funder Report (which this tab builds from), most users are familiar with the expense categories included in this report template.
- c. This report is a Proforma model. If you are drawing your information from a standard GAAP or modified GAAP financial statement or audit, DO NOT include depreciation in the Project Projection Tab expense categories. Also, DO NOT include interest expenses

as an operating expense line item for this report. Interest should be included as part of the loan payments in rows 56 and 57. DO add in the amount of replacement reserve deposits (not shown on GAAP operating statements). You may need to get reserve deposit information from you finance director or property management firm.

- d. For debt payments – include only must pay debt. Also, note that cells F56 and F57 ask for MONTHLY debt payments. Include both principal and interest. The spreadsheet will calculate year to date and annual payments. You will NOT find this on your income statement. You will likely need to look at the Promissory Note for your loan (s), or you may find this information in the Notes to your audit. The information on terms, interest rate, and amortization are NOT linked to other cells, so you can leave these blank. They are handy for future financial modeling.
- e. Revenue and Expense Accelerators: (cells L1 and L2) You may want to play around with these – what happens if revenues only increase at 1%, or if they increase at 2.5%? What happens if expenses accelerate at 4%? Folks who like to play with EXCEL may want to create additional reference cells for expense accelerators, and link these to specific expense line items. You can then play with what happens if utilities or insurance go up at a faster rate than other line items. This is sometimes referred to as stress testing your Proforma.
- f. Vacancy Rate Assumption: (cell P1) You may want to adjust this rate – particularly if your combined vacancy loss and collection loss is exceeding 5%. Often budgets to not include reductions for collection loss. Some organizations budget for bad debt (as an expense), but this is not generally a budget line item, nor viewed favorably by funders.

V. YOUR USE OF THIS MODEL

It is the intent of HDC, that organizations will take the financial indices and calculations from this model and work to modify them for your own use. Some organizations find electronic ways to link information from your financial reports into asset management reports to calculate these indices on a monthly (duplicate entry becomes prohibitive for larger portfolios on a monthly basis).

However, on an annual basis, you may find it useful to replace the revenues and expenses on the model with actual figures to maintain the Proforma and track trending for your project.

We welcome your comments and suggestions on how to make this model more useful or user friendly.