

**October 28-29, 2008 Training**  
**Affordable Housing Financial Management: Intersection between Accounting,**  
**Development and Asset Management**  
**HDC and Kay Sohl Consulting**

**DAY 1: TOOLS TO UNDERSTAND CURRENT CONDITIONS**

- |   |                         |
|---|-------------------------|
| <b>1. Introductions and Expectations</b>  | <b>9:00 – 9:20 AM</b>   |
| <ul style="list-style-type: none"> <li>• Role in organization; what you hope to get out of session</li> </ul>   |                         |
| <b>2. Asset Management Perspective</b>  | <b>9:20 – 10:00 AM</b>  |
| <ul style="list-style-type: none"> <li>• What is asset management?</li> <li>• Interests of the partners</li> <li>• Financial goals for owner</li> </ul>   | CLASS DISCUSSION        |
| <b>MORNING BREAK</b>  | <b>10:00 – 10:15 AM</b> |
| <b>3. Key Definitions for Financial and Asset Management</b>  | <b>10:15 - 11:00 AM</b> |
| <ul style="list-style-type: none"> <li>• <b>EXERCISE 1: Crossword Puzzle</b></li> <li>• Where is the financial information coming from?</li> <li>• Getting the information in a timely manner</li> </ul>  |                         |
| <b>4. Financial Management Perspective</b>  | <b>11:00 – 12:30 PM</b> |
| <ul style="list-style-type: none"> <li>• Accounting goals: internal management</li> <li>• How the financial performance of properties impacts the financial health of the sponsor</li> <li>• External reporting: role of accountant</li> <li>• Audits</li> <li>• Impact of ownership structure of properties on financial records</li> <li>• How accountants can get complete property by property information</li> </ul> |                         |
| <b>LUNCH</b>  | <b>12:30 – 1:15 PM</b>  |
| <b>5. Methods of Accounting</b>   | <b>12:30 – 2:00 PM</b>  |
| <ul style="list-style-type: none"> <li>• Why GAAP matters to the nonprofit</li> <li>• Accrual accounting – the basics</li> <li>• Significant areas in GAAP</li> <li>• Translating to Proforma (e.g. not GAAP)</li> </ul>  |                         |
| <b>AFTERNOON BREAK</b>  | <b>2:00 – 2:15 PM</b>   |

- 6. Translating Information From Financial Statement To Proforma** **2:15 – 3:15 PM**
- **EXERCISE 2: Proforma**
- 7. Discussion: Improving Asset and Financial Manager Communication** **3:15 – 4:00 PM**
- Vocabulary challenges – are we using the same words to describe different info, different words to describe the same info
  - **EXERCISE 3: Roles**
  - Information flow – how can we provide the info everyone needs on a consistent, timely basis
  - Getting what we all want and need from property managers
  - Stress points in asset management
  - Stress points in financial management
  - Board: strategic, fiduciary, generative thinking
- 8. Wrap Up** **4:00 – 4:15 PM**

## **DAY 2: PLANNING IMPLICATIONS AND STRATEGIES**

- 1. Changes In The Financial Markets / Impact On Affordable Housing**      **9:00 – 9:30 AM**
  - The 1990's: Emerging new loan products/ deregulation/ who is regulated, who isn't?
  - Foreclosure rates across the country
  - Impact on rental market
  - Impact on banks
  
- 2. Asset Management Indicators of Financial Performance**      **9:30 – 10:30 AM**
  - Revenue
  - Expenses
  - Debt payments
  - Net cash flow
  - Long term viability: operating expense to revenue ratio; accelerators, milestones
  
- MORNING BREAK**      **10:30 – 10:45 AM**
  
- 3. EXERCISE 4: Calculating Indices**      **10:45 – 12:00 PM**
  
- LUNCH**      **12:00 – 12:45 PM**
  
- 4. Ways of Evaluating Portfolio**      **12:45 – 1:00 PM**
  - Sources and Uses to Balance Sheet
  - Project trends
  - Levels: project, portfolio, organization
  - Asset management financial performance loop
  
- 5. Organizational Financial Strategies**      **1:00 – 1:45 PM**
  - Four legged stool
  - Revenue streams in organizational budgets
  - Shared costs/ indirect costs allocated to properties

DISCUSSION: Do you know your fully loaded costs in your organization (development, property management, asset management)
  
- 6. Project Financial Strategies**      **1:45 – 2:30 PM**
  - **EXERCISE 5: Impact of Restructure Strategies**
  
- AFTERNOON BREAK**      **2:30 – 2:45 PM**
  
- 7. Strategies To Strengthen Organizations To Withstand The Recession**      **2:45 – 3:15 PM**
  - Lines of business
  - Resident services
  - Development opportunities/ market
  
- 8. Steps For Organizations To Strengthen Fiscal System**

# Financial Management: An Intersection between Asset Management and Accounting

Housing Development Center &  
Kay Sohl Consulting  
Oct. 29-30, 2008




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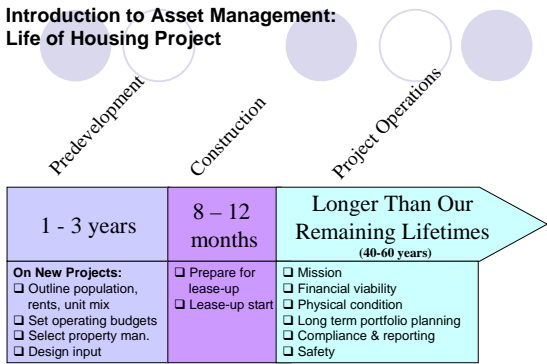
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## Introduction to Asset Management: Life of Housing Project




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## What is Asset Management in the Affordable Housing Context?

- The active and strategic pursuit of an owner's long term social, physical and financial goals from predevelopment through the administration and disposition of a property and portfolio.\*
- A systematic plan for, and ongoing oversight of, the management of one or more housing project(s) in furtherance of the project's goals and the organization's mission.

\* From the Consortium of Asset and Housing Management (CHAM)




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## Components of Asset Management

- Achieving housing mission
- Sustaining financial viability
- Maintaining physical condition
- Managing major transitions and milestones, e.g. Year 15
- Complying and reporting to regulatory entities
- Securing resident and neighborhood safety
- Performing commercial property




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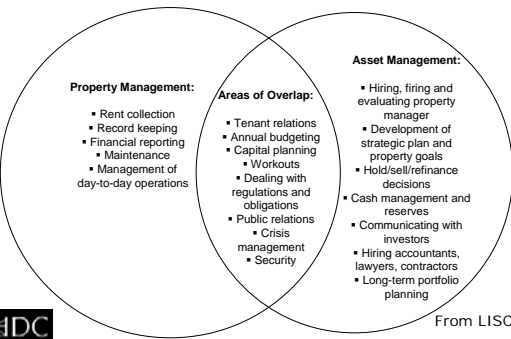
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## What is the Difference between Property and Asset Management?




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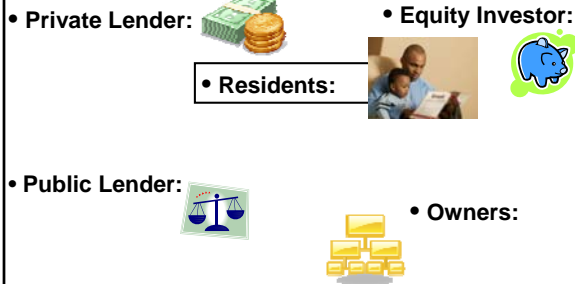
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## Interests of the Parties in Affordable Housing




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## Defining Success

- **Private Lender:**
  - ✓ Debt Repayment
  - ✓ Community Benefit
  - ✓ Profit
- **Public Lender:**
  - ✓ Maximize public benefit
  - ✓ Minimize public cost
  - ✓ Protect asset/ investment
  - ✓ Meet compliance
  - ✓ Repayment

- **Equity Investor:**
  - ✓ Return on investment
  - ✓ Realize federal tax credit
- **Residents:**
  - ✓ Accessibility
  - ✓ Affordability
  - ✓ Quality
- **Owners:**
  - ✓ Further mission
  - ✓ Healthy projects and portfolio
  - ✓ Net cash flow to support organization

**HDC**

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## NON-PROFIT ASSET MANAGEMENT = DOUBLE BOTTOM LINE

**Mission:**

- Affordability
- Access to housing
- Resident success (increasing their personal assets)

**Financial Health:**

- Project (operations & long term needs)
- Portfolio (balance higher mission projects)
- Owner organization

**HDC**

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## Project and Portfolio Structure: Balancing Mission with Financial Viability

**HDC** Conceptual framework from CHAM

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## Baseline Financial Viability

- Cover operating expenses
- Keep project out of default
  - Make required debt payments to lenders, primary and subordinate
  - Make required reserve contributions
  - Meet minimum debt coverage ratio requirements of lender



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## Additional Project Financial Goals

- Deposit additional funds in replacement reserves for long term capital needs
- Fund asset management costs
- Cover resident services costs
- Fund or maintain operating reserves
- Support for your organization
  - subsidize other projects
  - subsidize other lines of business
  - fund a portion of general operating costs



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## Repositioning Your Property or Portfolio

- Good management trumps bad markets
- Excessive debt trumps good management
- Inadequate rehabilitation trumps debt
- Expense controls are rarely the driver of long term problems



Courtesy of Len Talem, Consultant, NeighborWorks Workout Clinic, 2008



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## GAAP to Proforma

1. REVENUES: ADDRESSING RECEIVABLES
  2. DETERMINE TOTAL OPERATING EXPENSES\* (ADJUSTMENTS TO GAAP):
    - Take out depreciation
    - Take out interest expenses
    - Add in contributions to replacement reserves (*funders treat this differently*)
- = Total Operating Expenses (Proforma)
3. DEBT PAYMENT = PRINCIPAL + INTEREST
  4. Net Cashflow

\* Capital improvements: depending on PM, may not show on income statement, or may be called major capital expenditures, adjustment at end of year. Do not include as above the line expense in determining industry ratios.




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Total Project Budgets – Owner using 3<sup>rd</sup> party PMZ

**REVENUES**  
 Gross Potential Rents  
 - Vacancy loss  
 - Loss to lease  
 - Concessions  
 - / + Change in receivable balance  
**Net Rental Income**  
 + Other Revenues (Laundry,...)  
 + Grants  
**Effective Gross Income (Net Revenues)**

**EXPENSES**  
 Onsite Management  
 Property Management Fee  
 Utilities  
 Maintenance & Repairs  
 Insurance  
 Audit  
 Direct staff costs at owner (most would call asset management fees)  
 Indirect costs at owner (handled differently – some include in asset management fee)  
 Resident Services Costs For Project

- TOTAL OPERATING EXPENSES  
 = NET OPERATING INCOME  
 - Debt Service  
 = NET CASHFLOW

- Capital expenditures from rental revenues  
 - Waterfalls

Paid by PM  
 Paid/ received by owner

Note: If PM includes Capital expenditures in operating expenses, move for calculations




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## Exercise 1: Definitions




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## Review Tools for Monitoring Financials

### MONTHLY

- Financial Statements
- Occupancy Reports

### ANNUALLY

- Year End Financials
- Annual Audit and Tax Return



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## Elements of a Financial Statement

### Financial Statements may include:

- Income and Expense Report
- Balance Sheet
- Rent Roll
- Aged Receivables
- Aged Payables
- Others

### Process:

- Prepared by PM, reviewed monthly by AM, submitted to lenders/ investors monthly by PM, trends or major variances reported to board



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## The Income and Expense Report\*

### PURPOSE:

- Monitor operations of property, including comparison to annual operating budget

### KEY ELEMENTS:

- Revenues
- Expenses
- Net Cash Flow
- Prepared on cash or accrual basis



\*Alias Financial Statements, Profit and Loss, Statement of Activities



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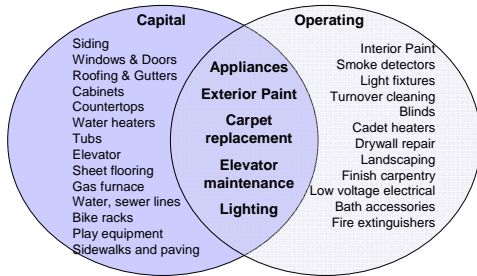
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## The Capital vs. the Operating Budget



**HDC** Items in the middle are either buried in maintenance expenses or come out of net cash flow.

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## Balance Sheet

- **PURPOSE:**
  - Describes the relative financial position of the project at a given point in time
- **PROCESS:**
  - Prepared monthly by PM, but Owner's CFO reconciles generally quarterly
- **KEY ELEMENTS:**
  - Assets, liabilities, and owner's equity



*(Profits or losses from the income and expense report cause changes in the owner's equity on the balance sheet)*

**HDC**

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## Other Monthly Reports in Financial Statement

- **Rent Roll:**
  - Details vacancies (which units are vacant for how long)
  - Use in conjunction with the Income and Expense Report & Aged Receivables Report to evaluate occupancy & rent collection
- **Aged Receivables Report:**
  - Shows past due receivables including rents by 30/ 60/ 90 days
- **Aged Payables Report:**
  - Shows invoices received but not paid
- **Others you use regularly?**

**HDC**

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## Waterfalls: How Positive Cash Flow of the LIHTC Property is to be Distributed

- The Limited Partnership Agreement describes how the profits and losses and housing tax credits are shared (based on partners' percentage ownership interests)
- The General Partner (managing partner) receives a larger share of any positive cash flow, in the form of fees for services
- Example of a Waterfall Provision:
  - Replacement Reserve
  - Operating Reserve
  - Deferred Development Fee
  - Investor Services Fee
  - Resident Services Fee (after 2003) 50% to GP and 50% to HOME Loan accrued interest and principal balance
  - HOME Loan equal amount to unpaid accrued interest and principal balance
  - HOME unpaid accrued interest
  - HOME principal balance
  - Partnership Administrative Fee
  - Incentive Management Fee
  - .01% to GP and 99.99% to LP




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## EXERCISE 2:

1. Translate financial statements to proforma model:
2. Discuss the following questions:
  - A. What view does this provide that is not provided in GAAP?
  - B. What view do the accountants feel is missing in the Proforma model?
  - C. What do these views give you that are not available in audit?
  - D. What does the audit provide that is not available in either of these views?
3. Assign reporter




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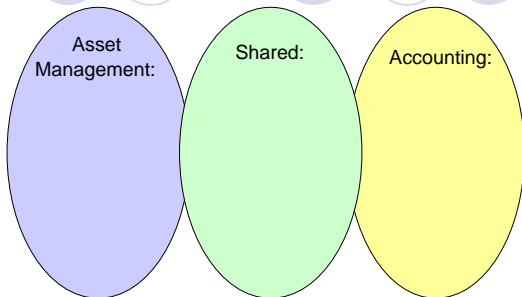
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## Exercise 3: Roles in Financial Management




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## Fiscal Roles

- Prepare monthly financials
- Identify and take action to improve performance
- Manage expenses
- Project impact of properties on portfolio
- Reports to lenders
- Reports to investors
- Annual budgeting
- Monitor and maintain compliance
- Fiscal compliance with funding source requirements
- Establish and maintain internal financial controls (fraud prevention)
- Long term planning (Year 15, refinances)
- Prepare board reports and support board decision making
- Monitor and project capital needs & reserve balances
- Organizational budget & financials
- Project audits & tax returns
- Organizational audits/ 990s
- Establish and implement cost allocation plan




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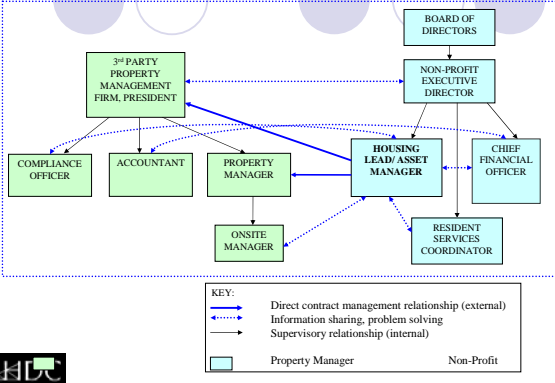
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## Owner and Property Manager Communication & Management Relationships




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## Compliance Chart Template, cont.

	TENANT SERVICE REQUIREMENTS							
	First Mortgage Lender	PDC CDBG	PDC HIF	OHCS - Housing Trust Fund	LIHTC Allocation	Partnership Agreement	City of Portland, Sewer Loan	GP Loan
Requirement								
Monitoring								
INSURANCE REQUIREMENTS								
Property Insurance								
Liability Insurance								
Other Insurance Coverage								
Other Standards & Requirements								
REPORTING REQUIREMENTS								
Financial Reporting & Standards								
Reserve Requirements								
Physical Inspections								
Tenant Files/ Surveys/ Record Keeping								




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## Compliance Chart Template. cont.

	First Mortgage Lender	PDC CDB G	PDC HIF	OHCS – Housing Trust Fund	LIHTC Allocation	Partnership Agreement	City of Portland, Sewer Loan	GP Loan
<b>TENANT SERVICE REQUIREMENTS</b>								
Requirement								
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Property Insurance								
Liability Insurance								
Other Insurance Coverage								
Other Standards & Requirements								
<b>REPORTING REQUIREMENTS</b>								
Financial Reporting & Standards								
Reserve Requirements								
Physical Inspections								
Tenant Files/ Surveys/ Record Keeping								
Other								




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DAY 2:

# Welcome




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### TIMELINE..... Financial Market: How we got here

- < 1930's Mortgages required 50% down and 5-year terms.  
System collapsed in the Great Depression
- 1933 Glass-Steagall Act established FDIC and banking reforms, e.g. separating investment and commercial bank functions
- 1934 FHA created to insure mortgage lenders from default  
Resulted in lower down payments and 30-year fixed terms
- 1938 Fannie Mae (GSE) created – to buy FHA insured loans and resell as securities, i.e. creation of a secondary mortgage market  
*Homeownership jumped from 44% in 1940 to 65% in 1970*
- 1970's Interest rates rose drastically – as high as 21%  
Introduction of Adjustable Rate Mortgages (ARMS)
- 1980 Federal law (DIDMCA) prohibited states from limiting the interest rate that could be charged on first mortgages
- 1980's S&L crisis – first collapse of American financial institutions since Great Depression (cost federal government \$160 - 200 billion)
- 1986 Tax Reform Act eliminates non-mortgage interest as a deduction
- 1990's Subprime and alt-A (alternative documentation) mortgages  
Wall Street securitizes these loans
- 1999 Barriers among banking, securities and insurance relaxed  
*Gramm-Leach-Bliley Act repealed Glass-Steagall provisions that prohibited banks from owning other financial institutions*
- 2000's Subprime and alt-A mortgages grow
- 2000-06 Subprime mortgages triple from \$216 to \$600 billion and alt-A mortgages grow from \$68 to \$400 billion  
*Homeownership jumped from 64% in 1995 to 69% in 2005*
- 2005 Housing prices stabilize/decrease in many markets and interest rates begin to rise  
*By 2007 14% of subprime and 9% of alt-A mortgages were delinquent*

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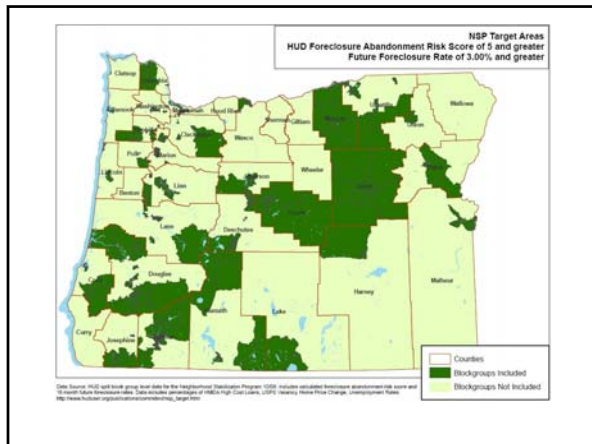
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### Sample Criteria from Enterprise for Selecting Projects for Investment

1. Financial Capacity
  - a. Liquidity
  - b. Ability to meet short and long-term liabilities, including contingent liabilities
  - c. Diversification and/or reliability of operating sources; operating history
  - d. Cash flow outlook
2. Organizational Capacity
  - a. Stable and capable senior leadership
  - b. Adequate staff to carry out the organization's activities
  - c. Adequate governance (board)
  - d. Enterprise Asset Management Feedback
3. Portfolio Performance
  - a. Cash flow
  - b. Watch lists/ risk ratings
  - c. Development performance: delivery of LIHTC benefits
4. Market Environment of Organization
  - a. Local subsidy/ policy environment
  - b. Condition of local real estate market

*Enterprise  
September 18, 2008*




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### Repositioning Your Property or Portfolio

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Courtesy of Len Talem, Consultant, NeighborWorks Workout Clinic, 2008




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### ✓ FINANCIAL INDICATORS

Result	Net Cashflow	<ul style="list-style-type: none"> <li>Net Cashflow per Year (organizational goals)</li> <li>Net Cashflow PUPY</li> <li>Net Cashflow as % Gross Revenues</li> <li>Net Cashflow as % Total Operating Expenses</li> </ul>
Why: Causes	Revenue Side	<ul style="list-style-type: none"> <li>Gross Potential Rents Compared to Maximum Achievable</li> <li>Occupancy Rate</li> <li>Collection Rate</li> </ul>
	Expense Side	<ul style="list-style-type: none"> <li>Operating Expenses per Unit per Year</li> <li>Expense Categories per Unit (e.g. Maintenance)</li> <li>Expense Categories as Percent of Total Expenses</li> </ul>
	Debt Structure	<ul style="list-style-type: none"> <li>Debt Coverage Ratio (over time)</li> <li>Debt Payment Per Unit Per Year</li> </ul>

**HDC**

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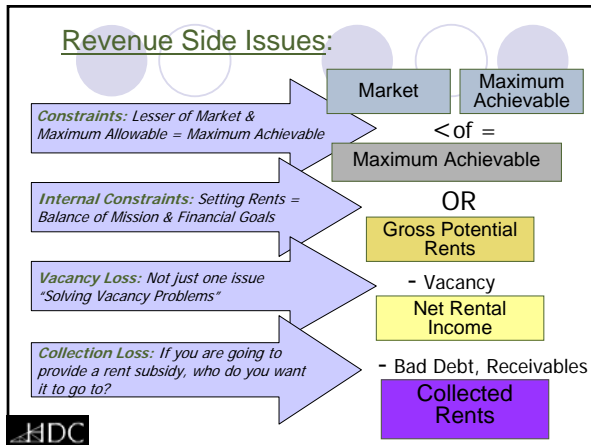
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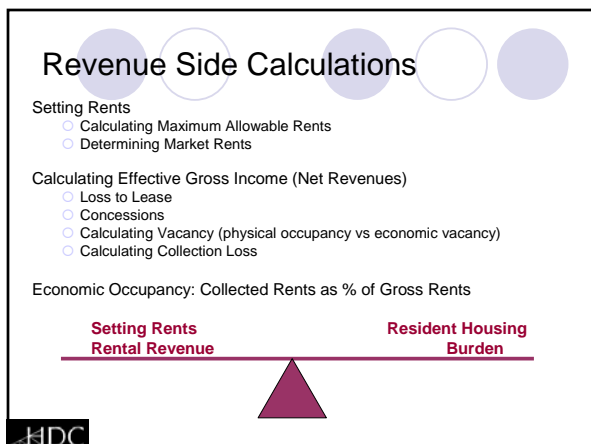
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## Discussion of Impact of Incomes on DCR

SAMPLE 2: TWO BEDROOM APARTMENT, ONE UNIT				
Median Income Served	@ 30%	@ 40%	@ 50%	@ 60%
Annual Net Revenues (7% Vacancy)	\$4,046	\$5,725	\$7,405	\$9,084
less Operating Expenses (per unit per year)*	\$4,200	\$4,200	\$4,200	\$4,200
Net Operating Income per unit per year	-\$155	\$1,525	\$3,205	\$4,884
Available Debt Service at 1.15 dcr	\$0	\$1,326	\$2,787	\$4,247
Net Cash Flow Per Unit Per Year at 1.15 DCR	-\$155	\$199	\$418	\$637
Operating Expense to Net Revenues Ratio	104%	73%	57%	46%
Net Cash Flow as % operating expenses	-3.7%	4.7%	10.0%	15.2%
Net Cash Flow as % net rents	-3.8%	3.5%	5.6%	7.0%




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## EFFICIENCY RATIO

Total Operating Expenses  
Gross Potential Rent

**WARNING!**




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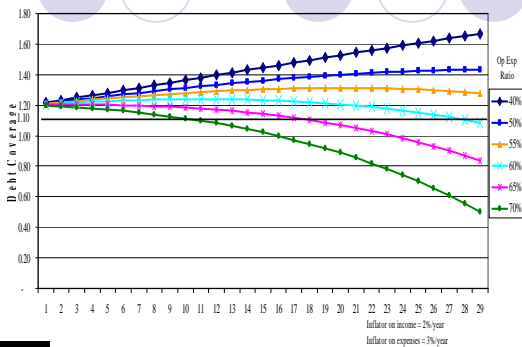
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Operating Expenses as a Percentage of Rent and How that Effects DCR




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## Exercise 4: Indices

Calculate the following:

1. Vacancy Rate
2. Collection Loss
3. Economic Occupancy
4. Total Operating Expenses PUPY
5. Net Cashflow (Total)
6. Net Cashflow per Unit per Year
7. Net Cashflow as % of EGI
8. Net Cashflow as % of Total Operating Expenses
9. Debt Coverage Ratio
10. Efficiency Ratio




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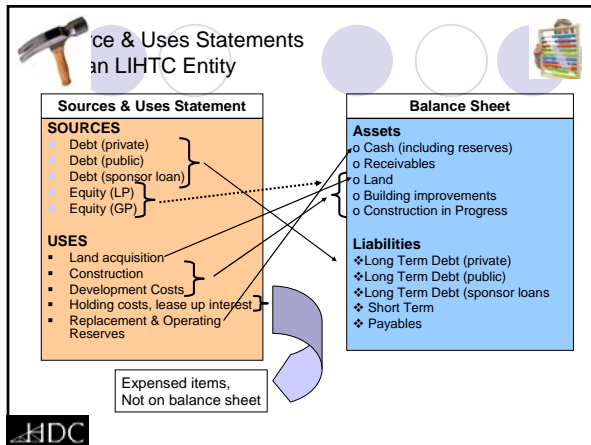
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## Steps to Analyze Portfolio's Financial and Physical Health

- Project by project financial projections
- Trend net cash flow over time using income and expense accelerators
- Rent to market – maximum allowable vs. maximum achievable
- Tenant incomes to rent restrictions
- Analyze outstanding debt – sources and uses, prepayment penalties
- Compare physical property conditions to reserves




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### Financial Review Levels of Analysis

<b>PROJECT</b>	<b>PORTFOLIO</b>	<b>ORGANIZATION</b>
<p>How is each project performing?</p> <ul style="list-style-type: none"> <li>➢ Net Cashflow per Unit</li> <li>➢ Debt Cover Ratio</li> <li>➢ Vacancy</li> <li>➢ Economic Vacancy</li> <li>➢ Expenses per Unit</li> <li>➢ Variances from Budget</li> <li>➢ Expense to Revenue Ratios</li> <li>➢ Reserve Balances</li> </ul>	<p>As a whole, how is your portfolio performing?</p> <ul style="list-style-type: none"> <li>➢ Portfolio's net cashflow</li> <li>➢ Percent of projects/units stabilized, under construction, lease-up</li> <li>➢ Replacement Reserves &amp; Capital Expenditures</li> <li>➢ Operating Reserves</li> <li>➢ Market Risks</li> <li>➢ Management Trends/Risks (rents to allowable, vacancy, economic vacancy, expenses to budget)</li> </ul>	<p>What is the fiscal strength of the organization?</p> <ul style="list-style-type: none"> <li>➢ Organization's operations breakeven or above</li> <li>➢ Balance sheet, net worth</li> <li>➢ Quick response, liquidity</li> <li>➢ Control of revenue sources, type of revenues</li> <li>➢ Reserves</li> <li>➢ Credit worthiness, debt ratios, contingent liabilities</li> <li>➢ Trends over time</li> </ul>

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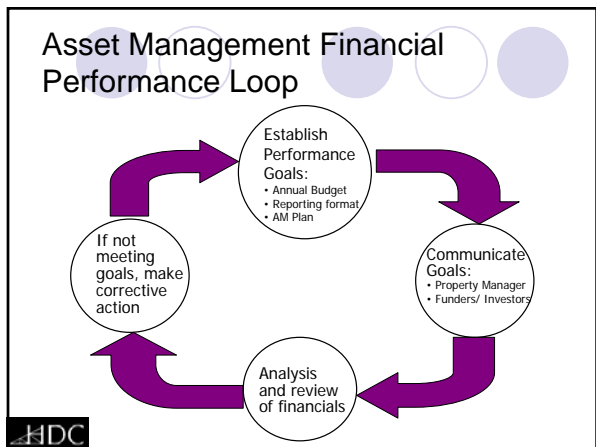
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### REVENUE STREAMS FOR HOUSING NON-PROFITS

Cashflow From Properties  
Developer Fees  
Operating Support

Fund Development

	Property Development	Property Management	Resident Services	Other Programs	Fund Development	Admins	Shared Costs
<b>REVENUES</b>							
Development Fees							
Service Fees							
Government Contracts							
Contributed Income							
Other Income							
<b>EXPENSES</b>							
Allocated Shared & Admins							
<b>NET SURPLUS (Deficit)</b>							

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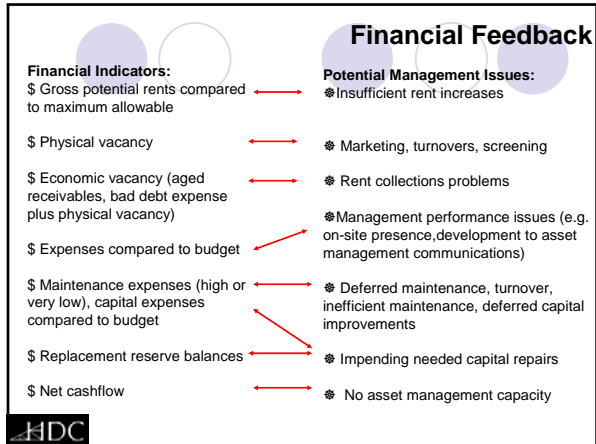
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**When Worlds Collide:  
Accounting, Development, &  
Asset Management**

Neighborhood Partnership Fund  
October 28, 2008

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**Signs of Financial Health in a  
Nonprofit Organization?**

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**Goals of Nonprofit Financial  
Management**

- **Achieve the Mission**
- **Liquidity: Cash when needed**
- **Solvency: Positive Net Worth**
- **Compliance**

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**Nonprofit Compliance Framework**

- **GAAP**
- **IRS**
- **Funding Agreements**

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**Key Financial Goals in Affordable Housing Nonprofits???**

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**Affordable Housing Financial Management Goals**

- **Manage risks**
- **Identify and maximize opportunities**
- **Enhance sustainability and resiliency**

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## Affordable Housing Realities

- **Multiple Entities**
- **Multiple Lines of Business**

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## Multiple Lines of Business

- **Housing Development**
- **Property and Asset Management**
- **Home ownership**
- **Resident Services**
- **Other human services**

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## Multiple Entities

- **Direct Ownership**
- **Single Asset Entities – HUD 811, 202, LIHPRA**
- **Low Income Housing Tax Credit Partnerships or LLC**

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## Financial Impact ??

- **Housing Development**
- **Rental Housing Operation**
- **Home sales**
- **Resident Services**
- **Other Services**

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## Directly Owned Rental

- **Property is an asset of core nonprofit**
- **Debt is debt of core nonprofit**
- **Profit/loss from operation impact core org's net income**
- **Cash flow from property impacts core nonprofit's cash**

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## Directly Owned Rental

### Developer Fee:

- **Provides cash to core organization when collected**
- **Generally increases debt of core organization**
- **Only developer fees paid through grant funds are income**

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### Jargon Alert !!!

- **Net Income (Profit/Loss)** and **Net Cash Flow** are not the same thing
- **Net Income** is computed using **Accrual Accounting** (or **A Cruel Accounting**)
- **Bliss of Accrual** coming very soon !!!!

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### Nonprofit Single Asset Entity

- **Property** is asset of the separate entity
- **Debt** is debt of the separate entity
- **Profit/loss from operation** impacts the net worth of the separate entity, not the core nonprofit

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### Nonprofit Single Asset Entity

- **Property management, asset management, resident services fees** may be paid to the core entity
- **Fees** are expense of the separate entity and income to the core nonprofit
- **Payment of fees** results in cash to core entity

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## Single Asset Entity

- **Developer Fee is part of the cost of the asset recorded on the separate entity's books**
- **Payment of Developer Fee increases debt of the separate entity**
- **Developer Fee is income to the core nonprofit**

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## LIHTC Entities

- **99%+ owned by investors**
- **Core Nonprofit is General Partner with less than 1% ownership**
- **Property recorded as asset on the LIHTC books**
- **Debt, acquisition, and development costs recorded on the LIHTC books**

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## LIHTC

- **In the LIHTC  
assets – liabilities = owner's equity**
- **Core nonprofit records its minority interest in the equity of the LIHTC entity as an asset on the nonprofit's books**

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## LIHTC Developer Fees

- Developer fee is part of the cost of developing the property – recorded on the LIHTC books as an asset
- Obligation to pay the Developer Fee is recorded on the LIHTC books as a liability

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## LIHTC Dev. Fee Impact

- Developer Fee from LIHTC is income to the core nonprofit
- When LIHTC pays the Developer Fee, nonprofit receives cash
- When LIHTC defers payment of Developer Fee, nonprofit records receivable as an asset

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## LIHTC - Operations Impact

- LIHTC operating profit/loss increases/decreases the equity of the LIHTC
- Nonprofit records minority share of the LIHTC net income/loss as income or loss – impacts nonprofit net income

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## LIHTC Cash Flow Impact

- LIHTC net cash flow impacts ability to pay Deferred Developer Fees or other Note Payable to the core nonprofit
- Core nonprofit may be required to contribute cash to LIHTC if severe cash flow problems persist

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## LIHTC Compliance Risks

- Nonprofit general partner responsible for compliance
- For profit partners are at risk for losing tax credits if project not managed properly

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## Major Financial Challenges

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## Developer Fee challenges

- **Cost overruns or difficulty obtaining full financing may result in reduced Developer Fee**
- **Collection of full Developer Fee often depends on cash flow of property**

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## Net Income from Operations

- **Directly owned properties impact net income of core nonprofit**
- **Nonprofit single asset entities don't directly impact net income of core nonprofit**
- **Minority interest share of LIHTC net income impacts core nonprofit**

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## Cash Flow Impact

- **Directly owned properties use/supply cash directly**
- **Separate entity cash flow determines ability of core nonprofit to collect Deferred Developer Fees, Notes Receivable, and fees for asset management or other services**

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## Consolidation !!!

A **fascinating** topic for accountants.....

**More later on how accounting rules may require nonprofits to report income, expenses, assets, and debts of all the different entities (core, nonprofit, LIHTC) as if it were all one big entity !!!**

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## Quick Quiz

- **Why does the cash flow of separate entity properties matter to the core nonprofit?**
  
- **Why does the net income of separate entity properties matter to the core nonprofit?**

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## Longer Term Impact

**Poor financial performance by either directly owned and separate entity properties may damage the credibility of the core nonprofit and reduce opportunities for future development**

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## Financial Impact ??

- ✓Housing Development
- ✓Rental Housing Operation
- Home sales
- Resident Services
- Other Services

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## Home Sales

- Profit or loss on home sales impacts profit or loss of core nonprofit entity
- GAAP accounting requirements may distort measurement of profit or loss when projects extend over multiple years and combine grant \$\$ with debt

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## Home Ownership Accounting

- Record all **grants** and **loans** to finance construction
- **Costs** incurred are recorded in **Housing Inventory** asset account, creating basis
- Compute **gain** or **loss** on sale of home by subtracting basis plus sales expenses from sales price
- Single year profit/loss may not reflect true economic gain or loss on home sales

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## Home Sale Delays

- May require use of the core nonprofit's cash for debt service and maintenance
- Poor sales price may make recovery of the core nonprofit's cash impossible as well as result in net loss on the sale which reduces nonprofit's net income

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## Resident Services

- Expenses generally recorded in core nonprofit entity
- Funded through grants or fees from separate entities
- May create losses
- May be essential to sound operation of property as well as mission

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## Financial Impact ??

- ✓ Housing Development
- ✓ Rental Housing Operation
- ✓ Home sales
- ✓ Resident Services
- Other Services

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## Core Management Goals

- Achieve mission
- Strong cash position
- Adequate net assets
- Compliance
- Confidence – community, funder, lender, investor

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## Healthy Nonprofit Needs

- Positive net income
- Sufficient Net Assets (equity) to withstand adversity and permit innovation/expansion
- Strong cash position
- Ability to achieve and document compliance

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## Financial Management Cycle

- Plan
- Execute
- Record
- Report
- Monitor

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**Financial Management  
Info Needs**

- Legal structure for all projects
- Financing structure for all projects
- Compliance requirements for all grants, loans, or investor agreements
- All development and construction costs
- All debt transactions

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**Breakdowns in Info Flow???**

- Developer/ accountant?
- Property manager/accountant?
- Asset manager/ accountant?
- Grant writer/ accountant?

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**Mysteries and Joys of  
Accounting**

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## Accounting

**Comprehensive record of everything that happens that has financial impact on your organization**

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## Accounting system organizes info from all transactions

- Checks written
- Funds deposited
- In-kind services and products received
- Obligations to pay others
- Others' obligations to pay you

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## Transactions are sorted into categories

- Types of expenses
- Types of income
- Things you own -assets
- Things you owe- liabilities
- Your net worth- net assets

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## Happy Financial Story!

In the beginning:

**Assets – Liabilities = Net Assets**

Then. . .

**Revenue – Expenses = Net Income**

The end:

**Assets – Liabilities = greater Net Assets**

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## Sad Financial Story

In the beginning. .

**Assets – Liabilities = Net Assets**

Then . . .

**Revenues – Expenses = Net Loss**

The end. .

**Assets – Liabilities = reduced Net Assets**

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## Nonprofit Accounting Framework

- **GAAP**
- **Federal funds requirements**
- **IRS requirements**

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## GAAP

- **Generally Accepted Accounting Principles**
- **Standards used by CPAs to determine if financial statements fairly present the financial condition of the organization**
- **Set by the Financial Accounting Standards Board**

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## GAAP for Nonprofits

- **Statements of Financial Accounting Standards:**
  - 116 & 117
  - 124 & 136
- **Emerging Issues Task Force:**
  - EITF 04-05

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## Accounting Challenges

- **Cash versus Accrual Method**
- **Chart of Accounts Structure**
- **Cost Allocation**
- **Restricted Funds**

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### More Challenges

- Development and Pre-development Costs
- Debt and Debt Service
- Valuing investments in partnerships
- Valuing receivables

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### More Challenges

- Depreciation
- Reserves
- Treatment of Asset Management Fees
- Consolidation – dealing with multiple entities

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### Core Accounting Concepts

- Every financial transaction has 2 impacts
- Cash doesn't have to change hands for financial impact to occur

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## Methods of Accounting

- **Cash Basis**
- **Accrual Basis**
- **Modified Cash or Modified Accrual**

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## Cash Basis Accounting

- **Records Income when payment is received**
- **Records Expenses when payment is made**
- **Doesn't record Payables or Receivables**

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## Accrual Basis Accounting records

- **Income – when earned**
- **Expenses – when incurred**
- **Cash**
- **Payables and Receivables**

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## Key Differences

- **Cash Basis** accounting records income when cash is received and expense when cash is paid out
- **Accrual Basis** accounting records income when it is “earned” and expense when an obligation to pay for something is incurred.

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## Accounts Receivable

- **Right to receive payment is an asset**
- **Recorded at time when legal obligation to pay occurs**
- **Right to receive rent results in both rent income and an increase in Rent Receivable**

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## Payments on Receivables

- **Receiving payment for an obligation which has already been recorded as an Account Receivable is recorded as a decrease in Accounts Receivable and an increase in Cash**

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## Accounts Payable

- Amount owed to another entity
- Record when you have incurred the obligation to pay –usually when you have received the goods or services
- Purchasing something on credit is recorded as both an expense and an increase in Accounts Payable

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## Paying Off Payables

- Making payment for purchases which have been recorded as Accounts Payable is recorded as a decrease in Accounts Payable and a decrease in Cash

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## Chart of Accounts Structure

- **Line item categories:** Assets, Liabilities, Net Assets, Revenues, Expenses
- **Function tracking:** cost centers for expenses:
  - Management, Fund Raising, Specific Programs
- **Source tracking:**
  - Unrestricted, Temporarily Restricted, Permanently Restricted
  - Individual Funding Sources

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## Cost Center Accounting

System to identify the income and expenses which are generated by specific lines of business:

- Housing development
- Rental property operations
- Resident services

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## Cost Allocation

Systematic way to assign portions of costs which cannot be directly attributed to specific cost centers  
(Pleasurable Topic for Day 2 !!!!)

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## Restricted Funds

GAAP accounting uses the word "restricted" to describe contributions made by donors who limit the nonprofit's right to use the funds.

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## GAAP & Contributions

Contributions to nonprofits fall in one of three categories:

- Unrestricted
- Temporarily Restricted
- Permanently Restricted

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Sample A  
Statement of Activities  
for the period  
July 1, 2005 - September 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE:</b>				
Public Support:				
Government grants	\$ -	\$ 400,000	\$ -	\$ 400,000
Foundation and corporate grants	80,000	200,000	-	280,000
Donations	40,000	30,000	50,000	120,000
United Way	-	20,000	-	20,000
	120,000	650,000	50,000	820,000
Revenue:				
Service fees	150,000	-	-	150,000
Investment income	1,000	4,000	-	5,000
	151,000	4,000	-	155,000
Net Assets Released From Restrictions:				
Satisfaction of program restrictions	580,000	(580,000)	-	-
Satisfaction of time restrictions	45,000	(45,000)	-	-
	625,000	(625,000)	-	-
Total Public Support and Revenue	896,000	29,000	50,000	975,000
<b>EXPENSES:</b>				
Program services	700,000	-	-	700,000
Administrative	130,000	-	-	130,000
Fund raising	50,000	-	-	50,000
Total Expenses	880,000	-	-	880,000
<b>INCREASE IN NET ASSETS</b>	16,000	29,000	50,000	95,000
<b>NET ASSETS AT BEGINNING OF YEAR</b>	180,200	-	100,000	280,200
<b>NET ASSETS AT END OF YEAR</b>	\$ 196,200	\$ 29,000	\$ 150,000	\$ 375,200

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## Restricted Contributions

- Temporarily Restricted contributions result in creation of Temporarily Restricted Net Assets (equity) until the restrictions are met.
- Permanently Restricted contributions result in Permanently Restricted Net Assets (equity)

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## Timing for Recording Gifts

- **GAAP** requires nonprofits to **record** all contributions and pledges as **income** when **notice of the award is received** and to record fulfillment of restrictions as **releases from Temporarily Restricted Net Assets**

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## Multi-year Grants

- Record the **entire amount** of the grant as Temporarily Restricted Grant Income on the **date the grant award notice is received**
- Record the **entire amount** of the grant as **Grants Receivable**. Discount the amount to reflect the net present value of the stream of payments you will receive.

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## Record Use of Grant Funds

- **Track expenses which meet the requirements of the grant**
- **Release amounts equal to the grant expenses from Temporarily Restricted.**

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## GAAP Treatment of Government Contracts considered Exchange Transactions

Record income when nonprofit complies with contract requirements by **delivering services** or **incurring allowable costs**

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## Recording Government Payments

- Treat funds received in advance as **Deferred Revenue**
- Account for reimbursement contracts by recording **Contract Income** and **Contract Receivable** for amounts invoiced for reimbursement
- Payments received on reimbursement contracts **reduce Contracts Receivable**

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## Tracking Government Funds

- **Code income to correct source**
- Identify all requirements applicable to the source:
  - **OMB A-110**
  - **OMB A-122**
  - **OMB A-133**
  - **Other?**

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## Tracking Expenses charged to Government Sources

- Requires **cost center** accounting
- **One program** may have **multiple sources** of funding
- **Contract cost center** may be portion of program cost center coded to specific funding source

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### Exhibit 11

Organization A - Program A by funding source with multiple caps and limitations

	Program A			Total
	Gov't grant	Private grant	General ops.	
<i>Expenses:</i>				
Salaries and wages	\$ 5,000	—	13,613	18,613
Employee benefits	—	—	2,792	2,792
Materials and supplies	2,600	—	2,600	5,200
Postage and shipping	—	605	—	605
Printing and publications	—	1,000	—	1,000
Telephone	115	—	641	756
Occupancy	400	—	1,819	2,219
Depreciation	—	—	684	684
<b>Total direct expenses</b>	<b>8,115</b>	<b>1,605</b>	<b>22,149</b>	<b>31,869</b>
Allocation of indirect costs	243	106	1,763	2,112
	<b>\$ 8,358</b>	<b>1,711</b>	<b>23,912</b>	<b>33,981</b>

1. Government grant caps salaries at \$5,000, benefits and depreciation at 0, and indirect costs at 3%.
2. Private grant pays only postage and shipping, and printing and publications, but accepts the 6.6% indirect cost rate.

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## Development Accounting

- Use **pre-development cost center** to track initial costs
- In a **directly-owned project**, costs of acquisition/construction/rehab are recorded as an asset

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## Separate Entity Development

- Establish complete general ledger records for separate entity
- Transfer any development costs processed through core nonprofit to the separate entity
- Separate entity records the asset and debt associated with development

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## Development Info Needs

- Legal structure and documents
- Loan agreements and loan draw-downs
- Contractor invoices and payment authorizations
- Funding source agreements

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## Developer Fee Accounting

- Directly owned properties: developer fees paid through draw down of loan funds
- Record Developer Fees as increase in debt, not income

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**Developer Fees –  
Separate Entities**

- Core entity records developer fee as income
- Separate entity records developer fee as part of basis in property (asset)

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**Debt**

- Legal obligation of one entity to pay another entity –
- The entity entitled to receive the payment records a **Receivable (Asset)**
- Entity which is obligated to pay, records a **Payable (Liability)**

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**Info flow challenge**

- Lender may disburse funds directly to contractors – resulting in debt for the owner of the property without cash passing through the owner’s accounts
- Accountant needs trail of all loan draw downs authorized and disbursed

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### **Debt Service**

- **GAAP distinguishes repayment of principle from payment of interest**
- **Interest is an expense**
- **Repayment of principle is a reduction of the liability not an expense**

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### **GAAP Financial Statements**

- **Interest portion of debt service payment is reported as an expense on the Profit and Loss Statement**
- **Principle portion of debt service payment appears as reduction in Liability on the Balance Sheet**

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### **Valuing Investments in GAAP**

- **Record at cost**
- **Adjust to market value if readily determined (i.e. stocks)**
- **Adjust equity in partnerships by gains and losses generated by the partnership**

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## Valuing Receivables

- **Receivable is one entity's right to receive payment from another entity**
- **Record at the Net Present Value**
- **Net Present Value reflects the time value of money – a dollar today is worth more than a dollar in 3 years**

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## Collectability Matters

- **Owner of a receivable must determine the how likely it is that it will receive payment from the entity which owes the money**
- **Reduce the value of the receivable to reflect that it is unlikely to be collected**

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## Impact of Troubled Properties

- **Cash flow problems in separate entities limits their ability to pay fees or debts to the core nonprofit**
- **Core nonprofit must consider whether to reduce the value of receivables from the separate entities if there is substantial doubt on ability to repay**

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## Depreciation

- An expense which reflects the value of the use of asset over time
- Depreciation expense is offset by an entry to **Accumulated Depreciation**, a contra-asset

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Sample A  
Statement of Financial Position  
at September 30, 2005 and June 30, 2005

	9/30/2005	6/30/2005
<b>Assets</b>		
Cash	240,200	235,000
Investments	193,000	190,000
Accounts receivable	75,000	50,000
Grants receivable	145,000	40,000
Prepaid expenses	1,000	200
Land/buildings, equipment	350,000	350,000
Less accumulated depreciation	(23,000)	(50,000)
Net fixed assets	127,000	200,000
<b>Total Assets</b>	<b>690,200</b>	<b>535,200</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Wages payable	50,000	75,000
Equipment less payable	25,000	25,000
Accounts payable	10,000	2,000
Deferred revenue	10,000	0
Mortgage payable	150,000	150,000
<b>Total Liabilities</b>	<b>245,000</b>	<b>252,000</b>
<b>Net Assets</b>		
Unrestricted net assets		
Available for operations	97,200	80,200
Invested in fixed assets	49,800	50,000
Board designated reserves	50,000	50,000
<b>Total unrestricted net assets</b>	<b>197,000</b>	<b>180,200</b>
Temporarily restricted net assets		
Purpose restricted	20,000	0
Time restrictions	8,000	0
<b>Total temporarily restricted net assets</b>	<b>28,000</b>	<b>0</b>
Permanently restricted net assets	150,000	100,000
<b>Total Net Assets</b>	<b>315,200</b>	<b>282,200</b>
<b>Total Liabilities and Net Assets</b>	<b>690,200</b>	<b>535,200</b>

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## Impact of Depreciation

- Depreciation increases expenses but does not use cash
- Recording **Accumulated Depreciation** reduces the value of the asset on the **Balance Sheet**

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**Simple Example**

- Nonprofit buys a van for \$20,000. Van is estimated to have useful life of 5 years.
- Each year, nonprofit records \$4,000 in Depreciation Expense and \$4,000 in Accumulated Depreciation

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**Example - continued**

- At the end of 5 years, the Asset section on the Balance Sheet shows:

Investment in Van	\$20,000
- Accum. Deprec	(20,000)
<b>Net Book Value</b>	<b>0</b>

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**Reserve Accounts**

- Contributions to maintenance or operating reserves are generally not considered expenses in GAAP accounting
- Reserve accounts are generally considered assets of the property owner
- Transferring funds to or from a reserve account is moving \$\$ from one asset to another

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**Accounting/ Cash Flow Differences**

- Investment in assets
- Depreciation
- Borrowing
- Repayment of Debt principle
- Contributions to reserves
- Use of reserves

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**Asset Management Fees**

- Core nonprofits incur expenses for providing asset management for properties owned by separate entities
- If separate entity agrees to pay a fee for asset management, the fee is income to the core nonprofit and expense to the separate entity

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**Consolidation !!!**

**What we've all been waiting for**

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## Consolidation

Consolidated financial statements present the **Balance Sheet and Income Statement** as if revenues, expenses, assets, liabilities, and net assets of the core nonprofit and the separate entities were put together

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## Consolidation is Required If . .

- Core nonprofit has control and economic relationship with a separate entity
- Control for nonprofit separate entities exists through controlling the appointment/ removal of a majority of seats on the separate entity board

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## EITF 04-5

- FASB **Emerging Issues Task Force** – effective for fiscal years beginning **after 12-15-05**
- Investor's **Accounting for an Investment** in a **Limited Partnership**  
When the Investor is the Sole General Partner and the Limited Partners have Certain Rights
- [www.fasb.org/pdf/abs04-5.pdf](http://www.fasb.org/pdf/abs04-5.pdf)

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### EITF 04-5

- Clarified meaning of **CONTROL** when the **General Partner** has a minority ownership interest

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### Consolidation is Required if:

- **General Partner (GP)** has control over the Limited Partnership regardless of holding a minority interest.
- **GP is presumed to have control unless:**
  - Limited Partner (LP) has “kick-out” rights
  - LP has “substantive participating rights” – examples: budget approval, hiring or termination of property management company

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### Reporting Challenges

#### Internal users:

- **Executive Director, construction, program, and asset managers**
- **Board of Directors**

#### External users:

- **Lenders, investors, funders, IRS**

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## Board Info Needs

### Evaluate financial health:

- Cash position
- Net assets
- Risks and opportunities

### Evaluate management performance

- Progress toward targets
- Compliance

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## Management Info Needs

- Financial health
- Compliance
- Progress toward targets
- Cost center performance
- Risks and opportunities

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## Lender /Investor Info Needs

- Cash Flow
- Compliance
- Audited GAAP financial statements

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**Board, management, lender,  
investor, funders and community**

**Need independent auditor  
assurances that financial  
statements fairly present the  
financial condition of the separate  
entity and the core nonprofit**

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### **A-133 and/or HUD Audits**

- **Include all standard independent audit procedures and reports**
- **Require additional testing and reporting on compliance**
- **Include findings on compliance and questioned costs**
- **Nonprofit response to findings and corrective actions undertaken**

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### **SAS 112**

- **New audit standard requires more rigorous analysis of risks of misstatement and design of audit procedures to test for significant risks**
- **Requires test of controls even when controls are deemed inadequate**

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## Impact of SAS 112

- Increased reporting of significant deficiencies or material weaknesses in internal control
- Increased auditor concern about independence – reluctance to perform audits for clients lacking sufficient expertise to form independent judgments about proposed adjustments

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## More SAS 112 Impact

- Higher audit fees
- More emphasis on auditor communication with Board of Directors

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## **When Worlds Collide: Accounting, Development, & Asset Management**

Neighborhood Partnership Fund  
**Planning Implications & Strategies**  
October 29, 2008

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## **Strategic Budget Structure**

- **Distinguishes income and costs of each line of business**
- **Determines the full cost of operating each line of business**

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## **Budget Timeframe**

- **All resources which the core org will obtain or use in the fiscal year**
- **Incorporates the portions of grant budgets which will occur within your fiscal year**

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## Organizational Budget

- Projects all resources the org will obtain and use during the fiscal year
- Includes non-cash items including depreciation and in-kind contributions
- Focus on income earned and expenses incurred during year

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## Organization Budget - continued

- Cost centers for management, fund raising, and program functions:
  - Housing development
  - Rental operations
  - Asset Management
  - Resident Services
- Sub-cost centers for each project in development, operating property

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## Budget - continued

- Identifies income sources associated with each cost center
- Identifies any general operating support- income not associated with specific cost centers
- Presents planned use of general operating support

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**Need to know full cost of specific functions or services to:**

- Set prices
- Make accurate requests for funding
- Measure profit or loss
- Compare costs to other providers
- Evaluate impact of potential changes

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**To Determine Full Cost**

- Identify primary functions/ cost centers
- Identify direct costs of each function
- Identify “shared” or “indirect” costs
- Determine reasonable method to allocate shared costs
- Full cost = direct cost + allocated indirect cost

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**Core Nonprofit Functions**

- Program
- Management/administration
- Fund Raising

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## **Administration/Management**

- **Financial management**
- **Board support**
- **Strategic planning**
- **HR management**

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Seeking funds from government is generally considered administrative rather than fund raising function

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## **Fund Raising**

- **Unsolicited requests for contributions**
- **All forms of contact with individual donors**
- **Most foundation grant-seeking activity**

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## **“Program” Cost Centers**

- **Projects under development**
- **Operating projects – directly owned**
- **Asset management for separately owned projects & directly owned**
- **Home ownership programs**
- **Resident services**

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## **Behavior of Costs**

- **Direct Costs:** costs which can be directly associated with a specific function
- **Indirect Costs:** costs which cannot be directly associated with a specific function

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## **Direct Cost Examples**

- **Cost of a program staff position**
- **Cost of reproducing materials used for a program**
- **Cost of renting space for program staff**

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## Indirect Cost Examples

- Rent for an office housing staff who work on programs, administration, and fund raising
- Costs for an executive director who does work in programs, management, and fund raising.

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## Cost Allocation

Systematic way to assign portions of costs which cannot be directly attributed to specific cost centers

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## Cost Allocation Plan

- Established by nonprofit
- Independent auditor evaluates reasonableness
- Must be applied consistently to all activities
- Multiple allowable methods of application

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**Exhibit 3**

*Organization C - Indirect cost rate of 0%*

	Total expenses					Total
	Programs			Admin.	Indirect	
	A	B	C			
<i>Expenses:</i>						
Salaries and wages	\$ 19,255	21,621	25,388	18,903	-	85,167
Employee benefits	2,881	3,050	3,727	3,117	-	12,775
Materials and supplies	5,200	8,900	3,581	1,124	-	18,805
Postage and shipping	923	1,612	4,541	1,750	-	8,826
Printing and publications	1,025	1,380	800	157	-	3,362
Telephone	1,290	1,417	2,244	2,911	-	7,862
Occupancy	3,219	4,590	8,675	11,116	-	27,600
Depreciation	188	334	671	495	-	1,688
<b>Total direct expenses</b>	<b>33,981</b>	<b>42,904</b>	<b>49,627</b>	<b>39,573</b>	<b>-</b>	<b>166,085</b>
Allocation of indirect costs	-	-	-	-	-	-
	<b>\$ 33,981</b>	<b>42,904</b>	<b>49,627</b>	<b>39,573</b>	<b>-</b>	<b>166,085</b>

1. The indirect cost rate = 0%. No indirect allocation mechanism is used; all expenses are charged directly.
2. The administrative rate = 23.8% [\$39,573/\$166,085].

**Exhibit 4**

*Organization A - Indirect cost rate of 6.6%; administrative and indirect costs combined*

	Total expenses					Total
	Direct Programs			Indirect Admin.	Total	
	A	B	C			
<i>Expenses:</i>						
Salaries and wages	\$ 18,613	19,500	23,347	23,707	-	85,167
Employee benefits	2,792	2,925	3,502	3,556	-	12,775
Materials and supplies	5,200	8,900	3,581	1,124	-	18,805
Postage and shipping	605	987	4,251	2,983	-	8,826
Printing and publications	1,000	1,355	756	251	-	3,362
Telephone	756	1,222	1,336	4,548	-	7,862
Occupancy	2,219	4,590	9,675	11,116	-	27,600
Depreciation	684	758	95	151	-	1,688
<b>Total direct expenses</b>	<b>31,869</b>	<b>40,237</b>	<b>46,543</b>	<b>47,436</b>	<b>-</b>	<b>166,085</b>
Allocation of indirect costs	2,112	2,667	3,084	(7,863)	-	-
	<b>\$ 33,981</b>	<b>42,904</b>	<b>49,627</b>	<b>39,573</b>	<b>-</b>	<b>166,085</b>

1. The effective indirect cost rate = 6.6% [\$10,323/(\$166,085 - \$10,323)].
2. The administrative rate = 23.8% [\$39,573/\$166,085].
3. Indirect costs are allocated by applying the indirect cost rate (6.6%) to each cost center's total direct expenses [e.g., Program A: 6.6% x \$31,869 = \$2,112].

**Exhibit 5**

*Organization A - "Fully loaded" cost model*

	Total expenses					Total
	Programs			Admin.	Indirect	
	A	B	C			
<i>Expenses:</i>						
Salaries and wages	\$ 18,613	19,500	23,347	18,557	5,150	85,167
Employee benefits	2,792	2,925	3,502	2,784	772	12,775
Materials and supplies	5,200	8,900	3,581	1,124	-	18,805
Postage and shipping	605	987	4,251	895	2,088	8,826
Printing and publications	1,000	1,355	756	201	50	3,362
Telephone	756	1,222	1,336	2,285	2,263	7,862
Occupancy	2,219	4,590	9,675	11,116	-	27,600
Depreciation	684	758	95	151	-	1,688
<b>Total direct expenses</b>	<b>31,869</b>	<b>40,237</b>	<b>46,543</b>	<b>37,113</b>	<b>10,323</b>	<b>166,085</b>
Allocation of indirect costs	2,112	2,667	3,084	2,460	(10,323)	-
<b>Total direct and indirect costs</b>	<b>33,981</b>	<b>42,904</b>	<b>49,627</b>	<b>39,573</b>	<b>-</b>	<b>166,085</b>
Allocation of admin. costs	10,629	13,420	15,324	(9,573)	-	-
	<b>\$ 44,610</b>	<b>56,324</b>	<b>65,151</b>	<b>-</b>	<b>-</b>	<b>166,085</b>

1. The effective indirect cost rate = 6.6% [\$10,323/(\$166,085 - \$10,323)].
2. The administrative rate = 23.8% [\$39,573/\$166,085].
3. Indirect costs are allocated by applying the rate (6.6%) to each cost center's total direct expenses [e.g., Program A: 6.6% x \$31,869 = \$2,112].
4. Administrative costs are allocated based on the pro rata distribution of total direct and indirect costs of each program [e.g., Program A: \$33,981 x (\$39,573/(\$166,085 - \$39,573))] = \$10,629].

**Exhibit 6**

*Organization A - Adjustment of fully loaded model for GAAP purposes*

	Total expenses					
	Programs			Admin.	Indirect	Total
	A	B	C			
<b>Expenses:</b>						
Salaries and wages	\$ 18,613	19,500	23,347	18,557	5,150	85,167
Employee benefits	2,792	2,925	3,502	2,784	772	12,775
Materials and supplies	5,200	8,900	3,581	1,124	-	18,805
Postage and shipping	605	987	4,251	895	2,088	8,826
Printing and publications	1,000	1,355	756	201	50	3,362
Telephone	756	1,222	1,336	2,285	2,263	7,862
Occupancy	2,219	4,590	9,675	11,116	-	27,600
Depreciation	684	758	95	151	-	1,688
<b>Total direct expenses</b>	<b>31,869</b>	<b>40,237</b>	<b>46,543</b>	<b>37,113</b>	<b>10,323</b>	<b>166,085</b>
Allocation of certain administrative costs	3,223	4,070	4,707	(12,000)	-	-
	35,092	44,307	51,250	25,113	10,323	166,085
Allocation of indirect costs	2,326	2,936	3,397	1,664	(10,323)	-
	\$ 37,418	47,243	54,647	26,777	-	166,085

- The effective indirect cost rate = 6.6% (\$10,323/\$166,085 - \$10,323).
- \$12,000 of administrative costs are allocated to programs based on total direct expenses. [e.g., \$11,869 × (\$12,000/(\$31,869+\$40,237+\$46,543))] = \$3,223.
- Indirect costs are allocated by applying the indirect cost rate (6.6%) to each cost center's total direct expenses after the allocation of selected administrative costs [e.g., Program A: 6.6% × \$35,092 = \$2,326].

**Exhibit 7**

*Organization A - 5% cap on indirect costs that can be charged to Program A*

	Total expenses					
	Programs			Admin.	Indirect	Total
	A	B	C			
<b>Expenses:</b>						
Salaries and wages	\$ 18,613	19,500	23,347	18,557	5,150	85,167
Employee benefits	2,792	2,925	3,502	2,784	772	12,775
Materials and supplies	5,200	8,900	3,581	1,124	-	18,805
Postage and shipping	605	987	4,251	895	2,088	8,826
Printing and publications	1,000	1,355	756	201	50	3,362
Telephone	756	1,222	1,336	2,285	2,263	7,862
Occupancy	2,219	4,590	9,675	11,116	-	27,600
Depreciation	684	758	95	151	-	1,688
<b>Total direct expenses</b>	<b>31,869</b>	<b>40,237</b>	<b>46,543</b>	<b>37,113</b>	<b>10,323</b>	<b>166,085</b>
Allocation of 5% approved indirect cost cap	1,593	-	-	-	(1,593)	-
<b>Total expenses of Program A reportable to contractor</b>	<b>33,462</b>					
Allocation of Program A's 1.6% excess	519	-	-	-	(519)	-
Allocation of remaining indirect costs	-	2,667	3,084	2,460	(8,211)	-
	\$ 33,981	42,904	49,627	39,573	-	166,085

- \$31,869 × 5% = \$1,593 = maximum indirect costs chargeable to Program A.
- Total indirect cost rate remains 6.6% (\$10,323/\$166,085 - \$10,323).

**Exhibit 8**

*Organization B - Multiple cost pools*

	Total expenses							
	Programs			Admin.	Indirect cost pools			Total
	A	B	C		1	2	3	
<b>Expenses:</b>								
Salaries and wages	\$ 12,500	14,950	19,635	15,400	22,682	-	85,167	
Employee benefits	1,875	2,243	2,945	2,310	3,402	-	12,775	
Materials and supplies	3,300	6,000	895	1,400	7,210	-	18,805	
Postage and shipping	500	1,035	3,675	1,682	-	1,934	8,826	
Printing and publications	950	1,184	642	120	466	-	3,362	
Telephone	1,672	1,724	1,176	2,418	-	922	7,862	
Occupancy	-	-	-	-	12,589	15,011	27,600	
Depreciation	-	-	-	-	-	-	1,688	
<b>Total direct expenses</b>	<b>20,797</b>	<b>27,136</b>	<b>28,918</b>	<b>23,330</b>	<b>46,349</b>	<b>17,867</b>	<b>166,085</b>	
Allocation of indirect costs 1	9,272	11,089	14,565	11,423	(46,349)	-	-	
Allocation of indirect costs 2	6,497	3,249	4,872	3,249	-	(17,867)	-	
Allocation of indirect costs 3	339	467	718	144	-	-	(1,688)	
	\$ 36,925	41,941	49,073	38,146	-	-	166,085	
FTEs	2.0	1.0	1.5	1.0	-	-	5.5	
Square footage utilized	500	650	1000	200	-	-	2350	

- Indirect cost pool 1: costs allocated to programs based on direct salaries and wages.
- Indirect cost pool 2: costs allocated to programs based on FTEs.
- Indirect cost pool 3: costs allocated to programs based on square footage.



## Allocation Pitfalls

- Substantial **expansion** or **contraction** will impact allocated costs
- Many governmental funding agreements require **prior approval** for **budget revisions**
- Failure to obtain budget modification may result in **disallowed costs**

kay@kaysohlconsulting.net

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## Federally Negotiated Indirect Cost Rate

- **Must receive federal funds directly**
- **Negotiated by nonprofit with federal cognizant agency**

kay@kaysohlconsulting.net

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## Federally Negotiated Indirect Cost Rate- continued

- **Identifies direct and indirect cost elements**
- **Requires consistent application of rate to all functions whether paid for with federal or other sources**
- **Requires documentation and adjustment**

kay@kaysohlconsulting.net

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## Grant Budget Issues

- Funder preferences and prohibitions
- Funding core operating costs
- Funding administrative costs
- Relationship of project budget to overall budget

kay@kaysohlconsulting.net

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## More Grant Budget Issues

- Multiple funders for one project
- Timing of proposals and decisions
- Multi-year proposals
- Sustainability

kay@kaysohlconsulting.net

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## Covering Operating Costs in Project Grant Budgets

- Foundation guidelines often prohibit indirect costs
- Portions of management, occupancy, and other overhead costs may be permitted
- New costs versus shares of existing costs

kay@kaysohlconsulting.net

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**Grant Budget Worksheet**

Budget Category	Total Grant Request		Total Desired
	Expenses requested in grant proposal	Expenses already shown in the organization budget	Expenses of the organization not included in the grant proposal
Salaries			
Employee Fees			
Employee Benefits			
Professional services			
Rent			
Utilities			
Supplies			
Insurance			
Printing			
Postage			
Transportation			
Other			

kay@kaysohlconsulting.net

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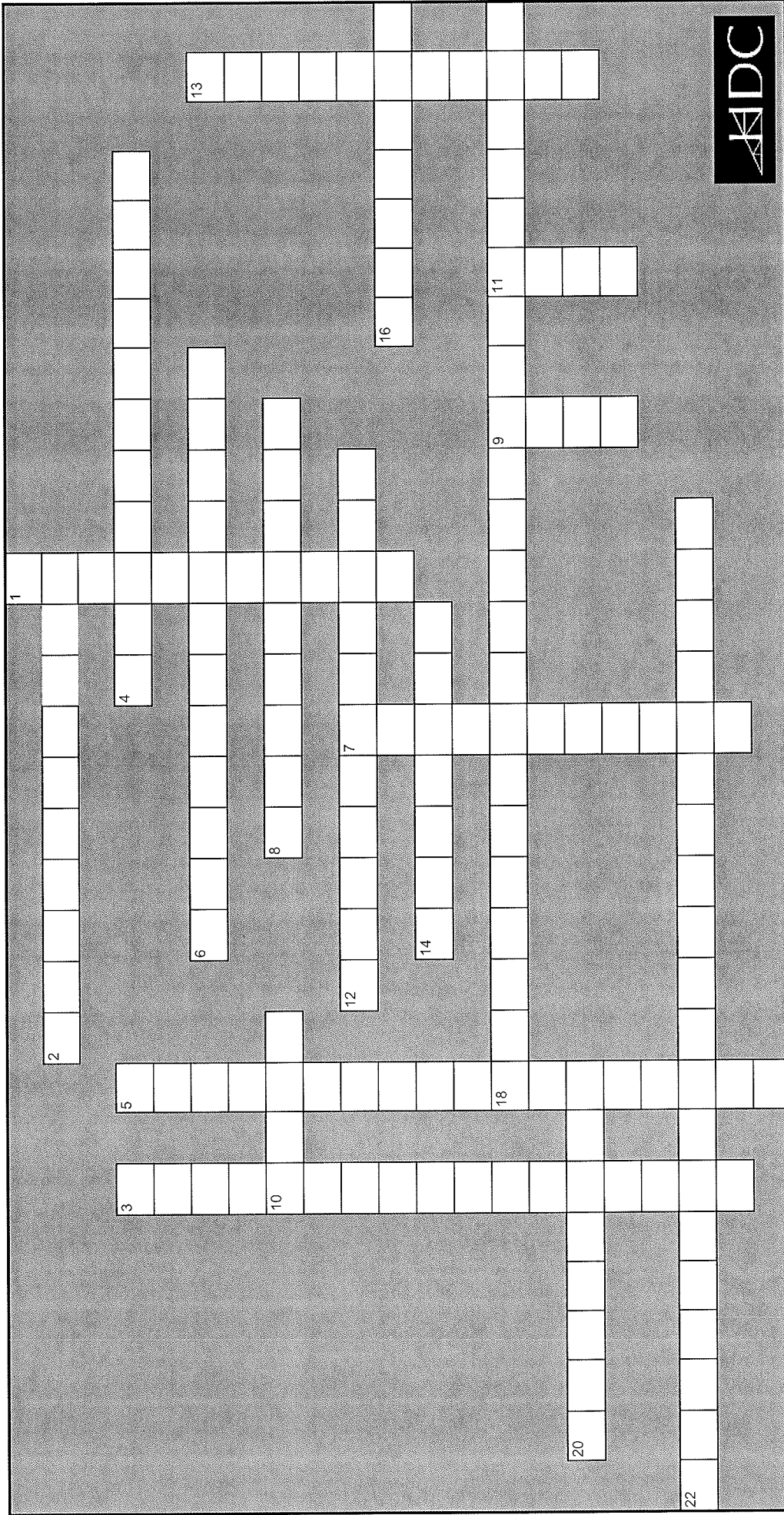
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**October 28-29, 2008 Training**  
**Affordable Housing Financial Management: Intersection between Accounting,  
Development and Asset Management**

TABLE OF CONTENTS: HDC's Background Materials

<b>I. Fiscal Geek Crossword Puzzle</b>	1
<b>II. Financial Indices</b>	2
<b>III. Exercise 3: Roles in Financial Management</b>	7
<b>IV. The Subprime Crisis Materials</b>	8
a. Chart: Number of Seriously Delinquent Loans	9
b. Map: Share of Loans in Foreclosure, 2 <sup>nd</sup> Quarter 2008	10
c. Chart: Share of Loans 60+ Days Late, by Year Originated	11
d. Oregonian article: Tax Credit Crunch Hits Affordable Housing	12

# FISCAL GEEK CROSSWORD PUZZLE



- ACROSS**
- 2 Meeting funding requirements (1 word)
  - 4 Uncollected rent (accrual) (1 word)
  - 6 A useful place to find tenant receivable balances (2 words)
  - 8 Required use of cashflow (1 word)
  - 10 Method of accounting, recognizes revenues when received (1 word)
  - 12 Rate of Rents paid (1 word)
  - 14 Non occupied unit (1 word)
  - 16 Method of accounting, recognizes revenues when earned (1 word)
  - 18 Add up all those bills, and you get.. (3 words)
  - 20 Project financial projection (1 word)
  - 22 Net revenues after vacancy and collection losses (3 words)

- DOWN**
- 1 What left after you pay expenses and debt (3 words)
  - 3 Banks of fond of looking at this (3 words)
  - 5 The rental rate x number of units (3 words)
  - 7 Give up some to get some (1 word)
  - 9 Accountants rules (abbreviation)
  - 11 Way operating expenses are expressed (abbreviation)
  - 13 Principle plus interest (2 words)

**Measuring Property Management Performance –  
What's behind the numbers?**

**Cashflow Calculations**

Measurement	What it tells you	Formula <small>(for each unit type)</small>	Notes/Benefits/Drawbacks
Gross Potential Rent (GPR)	Total rent which could be collected if units are 100% occupied.	Number of Units x Monthly Rent x 12 (months/annual) = GPR	
Effective Gross Income (EGI)	Revenue available to pay for all operating expenses, including reserves, plus debt service and capital expenses.	GPR - Vacancy Loss + Other Income. = EGI	
Net Operating Income (NOI)	Revenue available for debt service and capital expenses, after deducting operating expenses from EGI.	EGI - Operating Expenses = NOI	<b>B:</b> Allows measurement in dollar terms of property performance before debt, reflecting what debt is possible and for operating comparison. <b>D:</b> Ask about Reserves and Resident Services
Debt Service	Current interest and principal due on hard debt. May also include other financial expenses such as mortgage insurance premiums (MIP) and service fees.	Current portion of Principal +Current portion of Interest +Mortgage Insurance Payment +Other Mortgage Fees =Debt Service	Audits will show soft debt in financial statements – audit notes will clarify if it is hard or soft debt.
Hard Debt	Principal and interest payments that must be paid (serviced) during the current period.		Soft debt includes deferred or forgiven debt or loans payable only when cashflow permits.
Cash Flow	Cash remaining after operating expenses (including replacement reserves), debt service and capital expenses are deducted from EGI.	EGI -Operating Expenses =NOI -Debt -Capital Expenses = Cashflow	Ask about what is counted in Operating Expenses – Does it include reserves and resident services? These are sometimes subtracted from cashflow rather than being considered operating expenses.

*Property Measurements  
What's behind the numbers?*

**Occupancy**

<u>Measurement</u>	<u>What it tells you</u>	<u>Formula</u>	<u>Benefits/Drawbacks/Notes</u>
Occupancy Rate (as a percentage of GPR)	What percentage of gross potential rent (GPR) is attained and billed to residents/subsidy sources?	$\frac{\text{GPR} (\$) - \text{Vacancy Loss} (\$)}{\text{GPR} (\$)}$	<b>B:</b> Very good measure of performance toward revenue potential. <b>D:</b> Vacancy in higher rent apartments can skew numbers.
Occupancy Rate (as a percentage of potential days of occupancy).	Occupancy as a measurement of potential days occupied rather than percentage of dollars.	Potential Occupancy Days - Vacancy Days Potential Occupancy Days	<b>B:</b> Good measure of use of the property – occupancy not skewed by higher rent units. <b>D:</b> Does not recognize the different revenue potential of different types of apartments.
Point in Time Occupancy	Percentage of units occupied at a given point in time	$\frac{\text{Occupied units on a given day}}{\text{Total Units}}$	<b>B:</b> Easy to calculate <b>D:</b> Easy to mislead

**Collections**

<u>Measurement</u>	<u>What it tells you</u>	<u>Formula</u>	<u>Benefits/Drawbacks</u>
Percentage collected	Gross cash collections as a percentage of billings.	$\frac{\text{Rent Collected}}{\text{Rent Billed}^*}$ (*GPR-Vacancy Loss)	<b>B:</b> Easy to measure, motivates staff to collect arrearages. <b>D:</b> May overstate current collection rate by counting amounts collected from previous periods.
Percentage of Current Rent Collected.	What percentage of the current period's billings are being collected.	$\frac{\text{Rent Collected} - \text{Amount Collected on Arrears}}{\text{Rent Billed}^*}$ (*GPR-Vacancy Loss)	<b>B:</b> Accurate portrayal of status of current periods' billings <b>D:</b> More complicated due to arrearage reduction calculation.
Percentage of Arrears Collected	What proportion of arrearages are being collected.	$\frac{\text{Amount Collected on Arrears}}{\text{Total Arrears at Start of Period}}$	<b>B:</b> Keeps focus on arrears <b>D:</b> Can be misleading – Arrears can be increasing despite high collection on arrears.
Economic Collection	Quick and dirty analysis of how the asset is performing financially (usually compared to a plan).	$\frac{\text{Cash Amount Collected}}{\text{GPR}}$	<b>B:</b> Useful to funders who want the bottom line – pulls vacancy and collection into one calculation. <b>D:</b> Very little insight into operations

*Property Measurements  
What's behind the numbers?*

**Turnover and Turn Time**

<u>Measurement</u>	<u>What it tells you</u>	<u>Formula</u>	<u>Benefits/Drawbacks</u>
Turnover Rate	Proportion of your population that is moving out.	$\frac{\text{Number of Move Outs}}{\text{Number of Units}}$	<b>B:</b> Good measure of resident satisfaction, easy to calculate. Important data to know for occupancy management. <b>D:</b> Recognize whether it is an annual, quarterly or monthly measurement. Sometimes high turnover rates are central to the mission.
Vacant Unit Turn Time	How long is it taking you to reoccupy vacant units	$\frac{\text{Total Days to Reoccupy Vacant Units}}{\text{Total Units Reoccupied}}$	<b>B:</b> Critical measure of management performance – effects both “Double Bottom Lines” <b>D:</b> Recognize the value of breaking down this measurement into its components – Inspection, Make-Ready, Lease-Up, COORDINATION.

**Workorder/Maintenance**

<u>Measurement</u>	<u>What it tells you</u>	<u>Formula</u>	<u>Benefits/Drawbacks</u>
Average Days to Complete Workorders	How long your workorders are taking to be done	$\frac{\text{Total Days to Complete All W.O}}{\text{Number of W.O Completed}}$	<b>B:</b> Good sense of whether residents are getting good maintenance service. <b>D:</b> Difficult with a manual workorder system. May not be counting those workorders not yet completed, which may point a very different picture of performance. May not delineate between emergency and routine workorders.
Incomplete / Outstanding Workorder Backlog	How many workorders are outstanding and incomplete	Number of incomplete workorders at a given time.	<b>B:</b> Good measure of whether you're on top of maintenance management. <b>D:</b> By itself, it may not tell the entire picture.
Workorder Backlog	How long a backlog exists	$\frac{\text{Incomplete Workorders}}{\text{Average Number of Workorders Completed}}$	<b>B:</b> Perspective on numbers of outstanding workorders <b>D:</b> Can be misleading – Arrears can be increasing despite high percentage on arrears.
Workorder Completion Ratio	Are we keeping up with new workorders?	$\frac{\text{Completed Workorders}}{\text{New Workorders Issued}}$	<b>B:</b> Are you keeping up with your new work? <b>D:</b> No insight into types of work completed

*Property Measurements  
What's behind the numbers?*

**Expense Calculations**

<u>Measurement</u>	<u>What it tells you</u>	<u>Formula</u>	<u>Benefits/Drawbacks</u>
Cost Per Unit	The amount you are spending per unit	$\frac{\text{Total Costs}}{\text{Number of Units}}$ <i>Can be used for total costs or within cost subcategories – Maintenance, Admin, Utilities, Insurance, etc.</i>	<b>B:</b> Widely used in industry and allows measurement of costs across different size properties. <b>D:</b> Recognize that this is not strictly “apples to apples.” Look at the treatment of utilities, reserves, resident services. Regional differences are significant, as are types of housing (elderly/family, etc)
Change over Time Calculation	How much have your costs increased/decreased over time. Trending, etc.	$\frac{\text{Current Year Cost} - \text{Prior Year Cost}}{\text{Prior Year Cost (base year)}}$	<b>B:</b> Trending helps with projection of future costs/income. <b>D:</b> For short-term measurement, numbers may be skewed by nonrecurring expenses.
Percent of Total	What proportion of	$\frac{\text{Target Category Cost (Admin)}}{\text{Total Cost (Total Budget)}}$	<b>B:</b> Insight into spending priorities, how you're spending your money. <b>D:</b> Measure of how much

**Financial Ratios**

<u>Measurement</u>	<u>What it tells you</u>	<u>Formula</u>	<u>Benefits/Drawbacks/Notes</u>
Debt Coverage Ratio (DCR) Debt Service Coverage Ratio (DSCR)	Ability to meet debt obligations	$\frac{\text{NOI}}{\text{Hard Debt}}$  Usually does not include soft or deferred debt.	<b>B:</b> Critical measurement of ability to meet debt obligations – pulls together operational and deal components of a property. <b>D:</b> Recognize the treatment of soft and deferred debt – Don't lose sight of these!
Expense to Revenue Ratio (Efficiency Ratio)	How much you spend to make a dollar	$\frac{\text{Operating Expenses}}{\text{Effective Gross Income (EGI)}}$	A lower percentage is better since that means expenses are low. If expenses increase at a higher rate than revenues, this indicator could help predict when a project goes negative.
Net Cashflow as Percent of Effective Gross Income (EGI)	How much vacancy loss or uncollected rents the budget can tolerate before having a negative cashflow	$\frac{\text{Net Cashflow}}{\text{Effective Gross Income (EGI)}}$	<b>B:</b> Better indicator of risk than DCR for extremely low-income projects where there is little debt <b>D:</b> Recognize that there could be large fluctuations on a monthly basis
Net Cashflow as Percent of Operating Expenses	How much increased operating expenses the budget can tolerate before having a negative cashflow	$\frac{\text{Net Cashflow}}{\text{Operating Expenses}}$	<b>B:</b> Better indicator of risk than DCR for extremely low-income projects where there is little debt <b>D:</b> Recognize that there could be large fluctuations on a monthly basis

*Property Measurements  
What's behind the numbers?*

Return on Equity	The rate of return earned on the equity invested over a specified period of time.	$\frac{\text{Cash Flow}}{\text{Equity}}$	Needs to be calculated annually as equity can change due to pay down of principal and property appreciation.
Return on Investment	The rate of return earned on the initial investment.	$\frac{\text{Cash Flow}}{\text{Initial Investment}}$	Investment does not necessarily equal equity. Initial investment does not change as equity changes.
Present Value (PV)	Converts future dollars into today's dollars using an interest rate (discount rate). PV reflects the "Time Value of Money."	$\frac{FV}{(1+i)^n}$ Best done on a financial calculator or Excel	
Net Present Value (NPV)	Calculation which determines whether the investors anticipated return can be or has been achieved.	Best done on a financial calculator or Excel	Positive NPV indicates that investment exceeded investors return goals. Negative NPV indicates that investment did not meet goals.
Internal Rate of Return (IRR)	Calculates the actual rate of return that the property generates (using discounted cashflows over the investment period)	Best done on a financial calculator or Excel	Represents the rate of return at which the discounted future cashflows equals the investment outlays. IRR is the rate at which NPV is zero
Future Value	How much an investment will be worth after a certain period of time.	$PV \times (1+i)^n$ Best done on a financial calculator or Excel	
Cap Rate	Rate applied to NOI as one of three approaches to determining value	NOI / Cap Rate = Value Known as <b>IRV</b>	The IRV calculation is one of three traditional methods of determining property value. The other two are the Market Value (based on appraisal) and Cost Method (based on actual cost of building the property).

Exercise 3:

Roles in Financial Management

Asset  
Management:

Shared:

Accounting:

**Exhibit 1: Mortgages Originated by Type, 2001-2006**

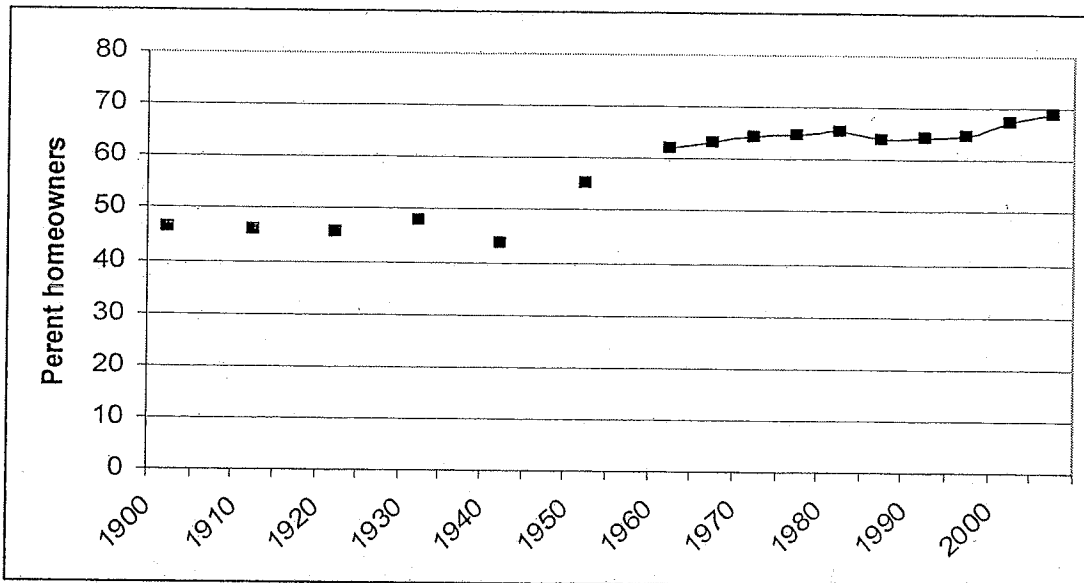
	Traditional or prime mortgages			Non-traditional or non-prime mortgages				All loans	
	Conventional/ conforming	Jumbo <sup>A</sup>	Subtotal	Subprime	Alt-A	Home equity	FHA/VA <sup>B</sup>		Subtotal
Billions of dollars									
2001	1,443	489	1,933	216	68	116	188	589	2,521
2002	1,919	645	2,564	259	76	126	208	669	3,233
2003	2,695	718	3,413	367	93	197	252	909	4,322
2004	1,291	550	1,841	576	213	342	144	1,275	3,116
2005	1,125	588	1,714	645	392	377	93	1,507	3,221
2006	990	480	1,470	600	400	430	80	1,510	2,980
Percent									
2001	57.2%	19.4%	76.7%	8.6%	2.7%	4.6%	7.5%	23.4%	100.0%
2002	59.4%	20.0%	79.3%	8.0%	2.4%	3.9%	6.4%	20.7%	100.0%
2003	62.4%	16.6%	79.0%	8.5%	2.2%	4.6%	5.8%	21.0%	100.0%
2004	41.4%	17.7%	59.1%	18.5%	6.8%	11.0%	4.6%	40.9%	100.0%
2005	34.9%	18.3%	53.2%	20.0%	12.2%	11.7%	2.9%	46.8%	100.0%
2006	33.2%	16.1%	49.3%	20.1%	13.4%	14.4%	2.7%	50.7%	100.0%

Source: Inside Mortgage Finance, *Mortgage Market Statistical Annual*

<sup>A</sup> Jumbo mortgages meet all the FHA requirements except that they are larger than the FHA will insure. These mortgages are considered prime.

<sup>B</sup> Since 1968 the FHA and VA will insure some mortgages for low-wealth households that would not meet traditional FHA underwriting criteria.

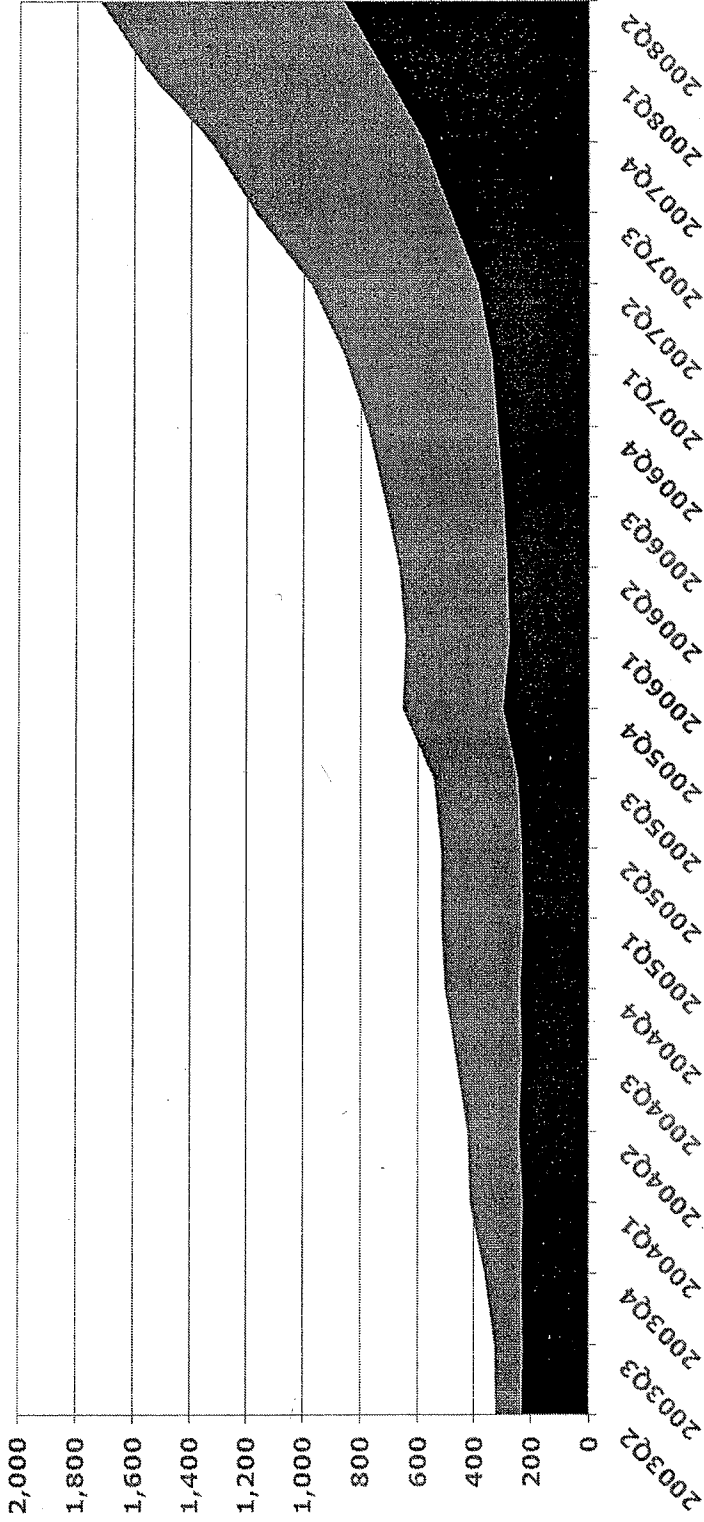
**Exhibit 3: Homeownership Rates in the United States, 1900 to 2005**



Source: U.S. Census, Housing and Household economic Statistics Division website

# Serious Delinquencies Continue to Move Up Sharply

Number of Seriously Delinquent Loans, Thousands



Note: Serious delinquency is defined as loans 60+ days late or starting foreclosure. Based on seasonally adjusted rates.

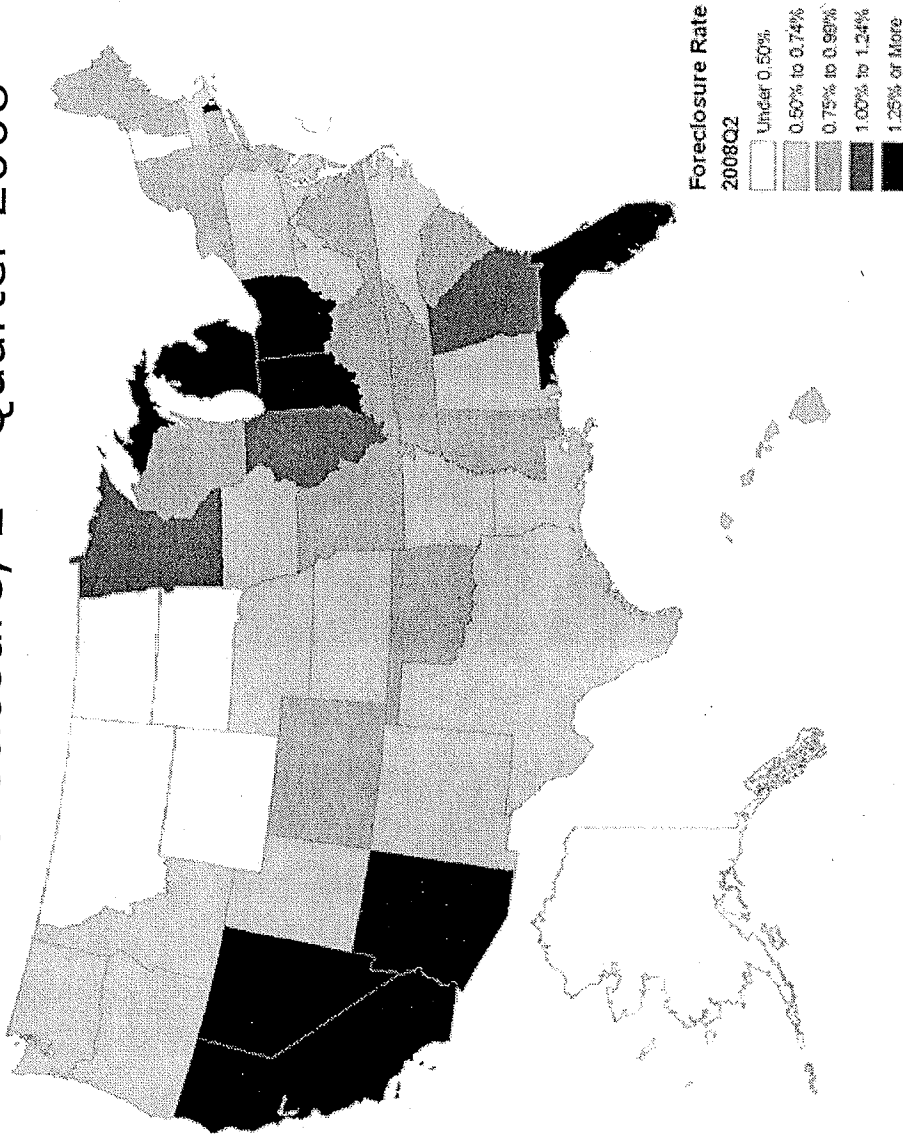
Source: Mortgage Bankers Association, National Delinquency Survey.



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# Foreclosures Now Stand at Record Levels in States Across the Country

## Share of Loans in Foreclosure, 2<sup>nd</sup> Quarter 2008



Source: Mortgage Bankers Association, National Delinquency Survey.

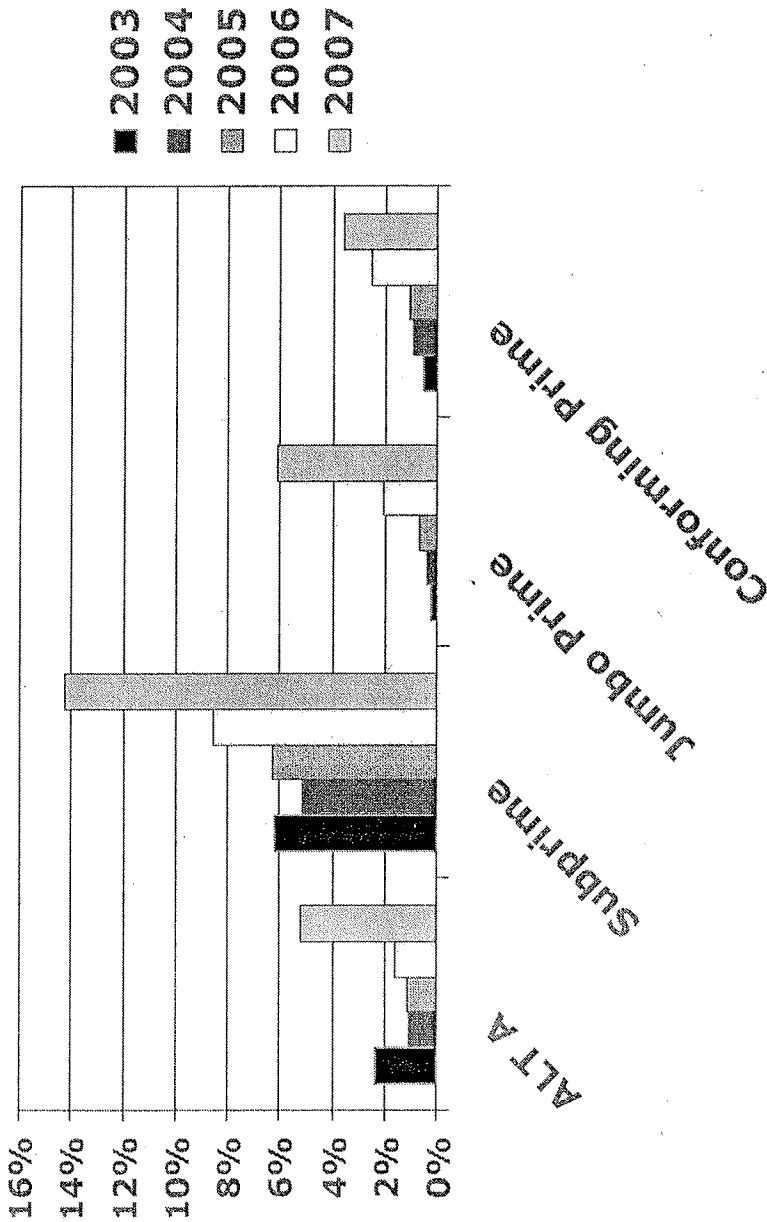
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# Loan Performance Continues To Deteriorate

Share of Loans 60+ Days Late, by Year Originated



Source: Loan Performance

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# Tax credit crunch hits affordable housing

By Diane Dietz

The Register-Guard

Published: Oct 21, 2008 09:36AM

Home: Story

A federal program that gives investors a tax shelter if they buy into low-income housing projects may be the latest victim of the national housing debacle - and the effects are being felt locally.

Low-wage workers in Lane County have benefited mightily from the "low-income housing tax credit" program over the past two decades as local social service agencies became multifamily housing developers - building about 35 apartment projects that house nearly 2,000 Lane County families paying lower-than-market-rate rents.

Two new projects hang in the balance today in Lane County: St. Vincent de Paul's proposed 35-unit Lamb Building on 11th Avenue and Sponsor Inc.'s planned 20-bed transitional housing for homeless ex-criminal offenders on Highway 99.

This week, the Oregon Housing and Community Services Agency is scheduled to announce projects statewide - including potentially those two local projects - that won a twice-yearly competition for tax credits.

But here's the rub: The winning agencies must then find investors willing to buy tax credits associated with their real estate projects - and investors are increasingly scarce. Those who are still willing to buy in are demanding - and getting - high yields, which means less money for the agencies building the housing.

The poor shape of the tax credit market "does threaten our ability to do affordable housing," said Floyd Smith, spokesman for the state housing agency.

The market is likely to get worse before it gets better, said Katy Patricelli, vice president in community lending at Wells Fargo Bank, which has loaned money to several local tax credit projects.

The low-income housing tax credit was created by President Ronald Reagan in 1986 and has resulted in the construction of hundreds of thousands of apartment projects nationally offering low rents.

Lane County social service agencies, led by St. Vincent de Paul, charged into the building program in the early 1990s.

St. Vincent de Paul built 19 of 35 local tax credit projects, including the five-story, \$8.7 million Aurora Building in downtown Eugene and the five-story, \$7.4 million Royal Building in downtown Springfield.

Another nonprofit agency, Metropolitan Affordable Housing Corp., opened the \$20 million WestTown on 8th apartment complex in downtown Eugene in August.

The state of Oregon gives out the credits in a competitive process each year. The nonprofit developers sell the credits through syndicates that gather and pool business/investor dollars. Businesses that buy the tax credits for less than the face value can - each year for the succeeding 10 years - knock the full amount off of their taxes.

The marketplace determines how much less than the full amount the investors pay initially.

For example, a corporation can buy what amounts to \$1 million in tax credits for \$750,000. The developer of the housing project gets the money up front. The corporation gets to take \$100,000 off its taxes for each of the next 10 years.

In the early years of the tax credit, all kinds of Fortune 500 companies sought out the low-income housing tax credit shelter, including Weyerhaeuser Co., Chevron Corp. and Campbell Soup Co.

But in the real estate boom years after 2000, those companies were squeezed out by financial sector investors, topped by Fannie Mae and Freddie Mac. Citibank and Washington Mutual also bought in.

With competition for tax shelters hot and heavy, the price for tax credits soared to more than 94 cents on the dollar, until very recently.

"With these banks that have taken huge losses - Washington Mutual, for example - when you are losing hundreds of millions of dollars, (tax credits are) not something you need at the moment," said Monika Elgert, regional vice president for the syndication firm Enterprise Community Investment Inc.

In other words, businesses without profits are also without tax liabilities and so they have no need for tax credits.

In recent months, with investors withdrawing from the market, the tax credit price has fallen to 80 cents on the dollar and even lower. That means a lot less money for construction, Smith said.

Each year, Smith said, the Internal Revenue Service gives Oregon \$8.5 million in tax credits to allocate to projects. At 90 cents on the dollar, those credits will produce \$76.5 million for the agencies building housing.

But at 80 cents on the dollar, they will bring in only \$68 million to these agencies. The state housing agency is in the midst of choosing which of dozens of proposed projects should get credits this year. The agency has narrowed the field to 16 projects, but it may not make all the awards.

The state may choose to give a fewer number of projects a larger number of tax credits, Smith said.

And those are certain to be worth less than just a few months ago.

The rapidly declining credit price could mean a funding gap of \$100,000 or more for each project, Smith estimated. Some of the organizations won't be able to come up with the additional money.

Earlier, projects could get some bond money from the state, but that's not possible right now. "This agency hasn't been able to sell its bonds in some weeks," Smith said.

In bigger cities, local governments may be able to pitch in to close the deals. But that's not likely in rural areas. "Those projects are going to have a heck of a time. Those projects won't work from a financing perspective," Elgert said.

Syndicators, meanwhile, are looking to businesses outside the financial sector to start buying tax credits. Terry McDonald, executive director of St. Vincent de Paul of Lane County, said lots of industries - even in a down economy - are making a profit and in need of a tax shelter. Petrochemicals comes to mind, he said.

If St. Vincent de Paul gets an allotment of credits this week for the Lamb Building, McDonald said he'd start looking for buyers. "Let me get my checkered suit on and my cigar and I'll say, 'Come on down and make a deal.' We're obviously motivated and everyone else is too," he said.

If the syndicators can't find investors for the Lamb Building, McDonald said, he'd beat the bushes himself. He tried selling credits once before but without a lot of success.

"It was a difficult concept for small investors to get their head around. Is it possible to do that today? Actually, it's a backup strategy for St. Vincent de Paul to invite local pools," McDonald said. "First things first: We'll do it the regular way. And if we don't, we'll do it a different way. I always have a Plan B. That's my job."

And if the tax credit price is too low to finance the Lamb Building?

"We'll work very hard on making sure we have other sources come in. We'll do some significant value engineering. And then we'll do a lot of praying."

# **When Worlds Collide: Accounting, Development, and Asset Management Resource Packet**

## **Table of Contents:**

<b>Budget and Financial Management Terms</b>	<b>1 – 2</b>
<b>Key Budget Terms</b>	<b>3 – 5</b>
<b>Sample Functional Budget</b>	<b>6</b>
<b>Budget Prototype</b>	<b>7 – 8</b>
<b>Common Budget Format Approaches</b>	<b>9 – 10</b>
<b>Cost Allocation Exhibits</b>	<b>11 – 22</b>
<b>CDC Budget Challenges</b>	<b>23 – 26</b>
<b>CDC Accounting Challenges</b>	<b>27 – 29</b>
<b>Multiple Entity Relationships</b>	<b>30 – 32</b>
<b>Highlights of SFAS 116</b>	<b>33 – 36</b>
<b>Highlights of SFAS 117</b>	<b>37 – 39</b>
<b>Evaluating Your Financial Health</b>	<b>40 - 51</b>

## Budget and Financial Management Terminology

Term	Definition
<b>Budget</b>	A projection or plan for income and/or expenses.
<b>Financial Statement</b>	A report drawn from accounting records of financial activity which has already occurred. Some financial statements compare revenue and expense activity as recorded in the accounting records with revenue and expense projections contained in the budget.
<b>Fiscal Year</b>	A 12-month period selected by an organization. Corporations cannot change fiscal years without informing the IRS. Foundation and government funders frequently utilize different fiscal years than the agencies they fund, creating accounting and reporting difficulties for the funded agencies.
<b>Organizational Budget</b>	Projected income and expenses for a defined period (usually the organizations fiscal year) for the operation of the <i>entire</i> organization. Can be presented on a fund and/or functional basis.
<b>Grant Budget</b>	Projected income and expenses for a particular project funded by a grant. The projected income and expenses are for a defined period. The grant period may or may not correspond to the agency's fiscal year. For example, an agency with a July 1 through June 30 fiscal year may receive a grant for a 12-month period beginning January and ending December.
<b>Accrual Basis Accounting</b>	A system of accounting in which income is recorded when it is earned (rather than when it is received by the group) and expenses are recorded when they are incurred (rather than when the expenses are paid).

Term	Definition
<b>Cash Basis Accounting</b>	A system of accounting in which income is recorded when it is received by the group and expenses are recorded when they are paid. Cash accounting data can lead to errors in budget projections. If an agency is currently unable to meet all its debts, the expense figure from cash basis accounting will <i>not</i> reflect the full cost of providing services and may lead to underestimating costs in budget projections.
<b>Zero-Based Budgeting</b>	A process for developing organization or project budgets which begins with zero funding allocated to any purpose and constructs the budget by justifying the need for each item including staff and non-personnel items.
<b>Incremental Budgeting</b>	A process for developing budgets which assumes maintenance of present expenditure patterns as a starting point and adjusts each item for inflationary increases or exceptional changes.
<b>Cash Flow Budget</b>	A projection of anticipated cash receipts and cash disbursements for a defined period, usually three to six months. Cash flow budgets are used primarily to manage cash, i.e. assure that sufficient cash will be on hand to meet demands and that excess cash is properly invested. Cash flow budgets focus on timing—when during the year funds will be received and required. This contrasts with organization or grant budgets which are typically prepared using an accrual concept of projecting costs and revenue associated with services to be provided during the budget period, regardless of the timing of receipts or disbursements.



## Key Budget Terms

### 1. Direct Costs

Costs which can be directly attributed to performing a specific function (program, administration, fund raising).

*Example:* In an organization which offers three programs ( emergency services, senior services, and counseling), the costs associated with employing a case manager who does only emergency services is a direct cost of the emergency services program.

### 2. Indirect Costs

Costs which cannot be directly attributed to a specific function. An estimating method is used to allocate indirect costs to the functions which benefit from the indirect cost item.

*Example:* The cost of renting a facility to house multiple programs as well as administrative and fund raising staff. The rent expense could be allocated to the programs, administration, and fund raising functions by creating a formula based on square footage or based on FTE's (full time equivalent staff positions).

### 3. Administration Costs

Costs of providing overall management and strategic planning for the organization including costs such as:

- Accounting
- Audit
- Board support
- Strategic planning
- Overall organization public relations
- Human resources administration

#### **4. Fund Raising Costs**

Costs of seeking and obtaining contributions, including staff costs for planning and implementing fund raising activities. Fund raising costs include:

- Special event costs
- Direct mail solicitation costs
- Major donor prospecting and solicitation
- Newsletters which include fund raising appeals (special rules apply)
- Foundation and corporate grants research and submission of unsolicited proposals

#### **5. Cost Pools**

A budget and accounting technique in which costs associated with a particular function (administration, facilities, office overhead, etc.) are collected in one or more cost centers. The total cost in each cost center is then allocated by formula to each program, administration, or fund raising function which benefits from the cost pool function activity.

*Example:* An organization collects administrative costs into an Administrative Cost pool and allocates the total pool to each program and fund raising cost center by a formula based on the % of FTE (full time equivalent positions) in each program or fund raising cost center.

#### **6. Line Item Allocation of Costs**

Application of an allocation formula to a specific line-item cost. This is an alternative to the cost pool method.

*Example:* An organization determines that all costs associated with a shared facility should be allocated based on the percentage of FTEs assigned to each function. Instead of pooling all the facility related costs into an indirect cost pool, the organization allocates each facility cost line item individually. No cost pool appears in the budget. Instead, the amount of rent, utilities, maintenance, etc. which appears in each program, administrative, or fund raising cost center is computed by an allocation formula applied to their respective line items.

#### **7. Cost Allocation Plans**

A written plan which describes the cost centers which the organization will use for budgeting and accounting and the methods of cost allocation which will be

utilized to allocate costs which cannot be directly attributed to specific program, administrative, or fund raising cost centers. The plan describes the formulae which will be used to allocate both cost pools and individual line items. Different allocation formulae may be used for different types of costs.

The plan should include the rationale for the selection of each cost allocation formulae, and the basis on which it has been computed.

*Example:* An organization which has decided to use percentage of square feet as the basis for the allocation of facilities costs, would include and create a supplemental schedule for the cost allocation plan every year. The supplemental schedule would list the name of each facility, its location, and the total number of square feet in the location. It would also list the number of square feet assigned to each program, administrative, or fund raising cost center and the number of square feet considered to be "common space". The resulting allocation formula would be computed and the calculation leading to the amounts shown in the budget would be included.

If the organization changes the use of the space during the year, the cost allocation should be revised to show the change in utilization and the resulting change in formula.

# Sample Functional Budget

EXPENSES	TOTAL ADMIN			F.R.	PROG A.	PROG B.	PROG C.	PROG C.
	# Positions	% FTE	Monthly Salary # Months				GENERAL	GRANT 1
Salaries: Positions								
Executive Director	1	1	3000 12	36000 27000	9000	0	0	0
Fiscal Manager	1	1	2300 12	27600 27600	0	0	0	0
Program Director	1	1	2500 12	30000 0	0	7500	7500	7500
Prog A & B Supervisor	1	1	2000 12	24000 0	0	12000	12000	0
Prog C Coordinator	1	0.75	2100 12	18900 0	0	0	9450	9450
Case Manager	4	1	1800 12	86400 0	0	43200	21600	21600
Specialist	3	1	1500 9	40500 0	0	0	13500	13500
Clerical Assistant	2	0.5	1300 9	11700 2925	2925	0	0	5850
<b>Subtotal: Salaries</b>				<b>275100 57525</b>	<b>11925 62700</b>	<b>54600</b>	<b>30450</b>	<b>57900</b>
Payroll Taxes (1.3%)				35763 7478	1550 8151	7098	3959	7527
Fringe Benefits (15%)				41265 8629	1789 9405	8190	4568	8685
<b>Subtotal: Personnel</b>				<b>352128 73632</b>	<b>15264 80256</b>	<b>69888</b>	<b>38976</b>	<b>74112</b>
Professional Services				16000 4000	8000 1000	500	500	2000
Occupancy				40000 8364	1734 9117	7939	4427	8419
Supplies				15000 1000	5000 4000	2000	1000	2000
Transportation				4000 500	600 0	1200	800	900
Other Expenses				20000 2000	4000 2000	3000	4000	5000
<b>Allocation of Admin</b>				<b>0 -89496</b>	<b>8658 24117</b>	<b>21153</b>	<b>12438</b>	<b>23129</b>
<b>SUPPORT AND REVENUE</b>				<b>TOTAL UNDESIGNATED</b>	<b>PROG A</b>	<b>PROG B</b>	<b>PROG C</b>	<b>PROG C</b>
Government Grants/Contracts				160560	0 20000	25000	0	115560
Foundations				40000	0 5000	20000	15000	0
Individual Donations				85000	77000 5000	1000	2000	0
Special Events				50000	50000 0	0	0	0
Program Service Fees				115000	0 70000	40000	5000	0
Investment Income				4000	4000 0	0	0	0
<b>Allocated Undesignated Amounts</b>				<b>0</b>	<b>-80312 20490</b>	<b>19680</b>	<b>40142</b>	<b>0</b>

REVENUE  
 RESTRICTED RENTS  
 RESTRICTED LAUNDRY  
 RESTRICTED VACANCY LOSS  
 FOUNDATION GRANTS  
 STATE GRANTS  
 COUNTY GRANTS  
 INTEREST  
 DEVELOPERS FEES  
 INCOME FROM LIMITED PTRNSHP

TOTAL

EXPENSES

STAFF SALARIES  
 PR TAXES  
 EMPLOYEE BENEFITS

APT MANAGERS  
 FISCAL & AUDIT  
 OTHER PROF SERVICES  
 OFFICE RENT  
 TELEPHONE  
 INTERNET

UTILITIES  
 OFFICE SUPPLIES  
 PRINTING/COPIES  
 POSTAGE  
 ADVERTISING  
 INSURANCE  
 INTEREST EXPENSE  
 STAFF EDUCATION

AUTO ALLOWANCE (MILEAGE?)  
 SEMINAR TRAVEL/STAFF  
 SEMINAR TRAVEL/BOARD  
 TENANT SERVICES  
 FEES  
 REPAIR & MAINTENANCE  
 EQUIPMENT PURCHASES

TOTAL

REVENUE OVER (UNDER) EXPENSE

CASH FLOW ADJUSTMENTS:  
 INVESTMENTS IN PROPERTIES  
 LOAN PROCEEDS:PROJECTS  
 LOAN PROCEEDS:DEV FEES  
 MORTGAGE PRINCIPAL PAYMENTS

NET AFTER CASH FLOW ADJUSTMENTS

	HDC OPERATING		PROJECTS UNDER DEVELOPMENT			OPERATING RD PROJECTS				
	ADMIN	FUND-RAISING	MARIA LUISA II	REEDVILLE (1 MO)	MONTE-BELLO	ELM PARK I	ELM PARK II	CORNELIUS PARK	REEDVILLE (11 MO)	TOTAL
REVENUE										
RESTRICTED RENTS										
RESTRICTED LAUNDRY										
RESTRICTED VACANCY LOSS										
FOUNDATION GRANTS										
STATE GRANTS										
COUNTY GRANTS										
INTEREST										
DEVELOPERS FEES										
INCOME FROM LIMITED PTRNSHP										
TOTAL										
EXPENSES										
STAFF SALARIES										
PR TAXES										
EMPLOYEE BENEFITS										
APT MANAGERS										
FISCAL & AUDIT										
OTHER PROF SERVICES										
OFFICE RENT										
TELEPHONE										
INTERNET										
UTILITIES										
OFFICE SUPPLIES										
PRINTING/COPIES										
POSTAGE										
ADVERTISING										
INSURANCE										
INTEREST EXPENSE										
STAFF EDUCATION										
AUTO ALLOWANCE (MILEAGE?)										
SEMINAR TRAVEL/STAFF										
SEMINAR TRAVEL/BOARD										
TENANT SERVICES										
FEES										
REPAIR & MAINTENANCE										
EQUIPMENT PURCHASES										
TOTAL										
REVENUE OVER (UNDER) EXPENSE										
CASH FLOW ADJUSTMENTS:										
INVESTMENTS IN PROPERTIES										
LOAN PROCEEDS:PROJECTS										
LOAN PROCEEDS:DEV FEES										
MORTGAGE PRINCIPAL PAYMENTS										
NET AFTER CASH FLOW ADJUSTMENTS										

HDC SUMMARIZED BUDGET

PROJECTS UNDER DEVELOPMNT      RD PROJECTS TOTAL

REVENUE		
RESTRICTED RENTS		
RESTRICTED LAUNDRY		
RESTRICTED VACANCY LOSS		
FOUNDATION GRANTS		
STATE GRANTS		
COUNTY GRANTS		
INTEREST		
DEVELOPERS FEES		
INCOME FROM LIMITED PTRNSHP		
TOTAL		

EXPENSES		
STAFF SALARIES		
PR TAXES		
EMPLOYEE BENEFITS		
APT MANAGERS		
FISCAL & AUDIT		
OTHER PROF SERVICES		
OFFICE RENT		
TELEPHONE		
INTERNET		
UTILITIES		
OFFICE SUPPLIES		
PRINTING/COPIES		
POSTAGE		
ADVERTISING		
INSURANCE		
INTEREST EXPENSE		
STAFF EDUCATION		
AUTO ALLOWANCE (MILEAGE?)		
SEMINAR TRAVEL/STAFF		
SEMINAR TRAVEL/BOARD		
TENANT SERVICES		
FEES		
REPAIR & MAINTENANCE		
EQUIPMENT PURCHASES		
TOTAL		

REVENUE OVER (UNDER) EXPENSE		
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CASH FLOW ADJUSTMENTS:		
INVESTMENTS IN PROPERTIES		
LOAN PROCEEDS:PROJECTS		
LOAN PROCEEDS:DEV FEES		
MORTGAGE PRINCIPAL PAYMENTS		

NET AFTER CASH FLOW ADJUSTMENTS		
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## Common Budget Format Approaches

### Fully-loaded

Using a cost-pool approach, allocate all of the administration and indirect costs to the program and fund raising cost centers. The theory behind this approach is that the organization would not have an administration if it didn't have programs to manage. And similarly, that the programs could not be delivered if all of the administrative functions were not performed. The **fully loaded** approach allows you to present the full cost of delivering a specific program.

### GAAP Approach

This approach parallels the GAAP requirement for presenting nonprofit financial statements in which the nonprofit must present the costs of program, management, and fund raising separately. Because the allocation of administration costs used in the the fully loaded method would result in showing no administration costs on the bottom line, it would not meet this GAAP requirement. Many nonprofits use the fully loaded method for budget preparation and in their accounting systems as well. Because they record all administrative costs in an administrative cost center before allocating them, they are able to present the GAAP required statement by using the records from the administrative cost center prior to the allocation entry.

### Contribution to Overhead Approach

This approach is commonly used in business budgeting. Rather than allocate either administrative or indirect costs to a specific program and fund raising cost centers, this approach focuses on the amount of contribution to which each program or fund raising cost center makes to meet the administrative and overhead costs of the organization. All revenues are attributed to the cost centers which give rise to them (i.e., preschool fees are attributed to the preschool cost center). All direct expenses are attributed to the cost center which they benefit. Then a net income is computed for each cost center. This represents the contribution to overhead (administrative and indirect) which that cost center will make.

This approach avoids the potential problems of distortion through allocation of administrative and indirect costs. For example, in the fully loaded approach an organization may base its allocation of these costs on the percentage of FTE's involved in each program or fund raising cost center, but the actual usage of the administrative and

indirect resources may be quite different. Decisions based on the estimates used for allocation may be faulty. Similarly, in the fully loaded approach, a change in one program (for example, adding or reducing staff ) will impact the allocations to all the other program and fund raising cost centers. Advocates of the “contribution to overhead” method would argue that it avoids both the distortion of erroneous estimates for allocation and the disruption of recalculating administrative and indirect allocations based on changes in one cost center. Instead, attention is focused on each cost center’s contribution.

The downside of the “contribution to overhead” method, is that it does not present the full cost of delivering a specific service, because administrative and indirect costs are not allocated. Without some basis for understanding the portion of administrative and indirect costs which are needed to deliver particular programs, it is difficult to evaluate the “contributions” which each cost center is thought to have made.

## **Deficit Funding Method**

This is a variation on the fully loaded approach. Budgeting for expenses is done using the fully loaded methodology – attributing direct costs to their respective program or fund raising cost centers and then allocating admin and indirect costs fully to the program and fund raising cost centers. In the deficit funding approach, revenues are attributed to the program or fund raising cost center with which they are associated. For example, a grant restricted to meeting the cost of Program A would be attributed as revenue in the Program A cost center. Similarly, fees generated through Program A would be attributed to the Program A cost center. A net income is then projected for each cost center by subtracting total cost center expenses from total cost center income. This may result in a break even (income equals expense), a profit, or a loss for each cost center.

In this approach, any unrestricted contributions to the organization, as well income from general product sales or investment income which does not carry restrictions, are attributed to the fund raising cost center. Fund raising expenses are subtracted from this undesignated, unrestricted income, to calculate a net from fund raising total. This total net from fund raising is then available to subsidize the cost centers which do not break even or it may be used to generate a surplus in order to build the organization’s reserves.

Exhibit I

Organization A - Indirect cost rate of 6.6%

Expenses:	Total expenses					
	Programs			Admin.	Indirect	Total
	A	B	C			
	\$					
Salaries and wages	18,613	19,500	23,347	18,557	5,150	85,167
Employee benefits	2,792	2,925	3,502	2,784	772	12,775
Materials and supplies	5,200	8,900	3,581	1,124	-	18,805
Postage and shipping	605	987	4,251	895	2,088	8,826
Printing and publications	1,000	1,355	756	201	50	3,362
Telephone	756	1,222	1,336	2,285	2,263	7,862
Occupancy	2,219	4,590	9,675	11,116	-	27,600
Depreciation	684	758	95	151	-	1,688
Total direct expenses	31,869	40,237	46,543	37,113	10,323	166,085
Allocation of indirect costs	2,112	2,667	3,084	2,460	(10,323)	-
	\$	33,981	42,904	49,627	39,573	166,085

1. The effective indirect cost rate = 6.6% [ $\$10,323 / (\$166,085 - \$10,323)$ ].

2. The administrative rate = 23.8% [ $\$39,573 / \$166,085$ ].

3. Indirect costs are allocated by applying the indirect cost rate (6.6%) to each cost center's total direct expenses  
[e.g., Program A: 6.6% x \$31,869 = \$2,112].

Exhibit 2

Organization B - Indirect cost rate of 65.8%

	Total expenses					
	Programs			Admin.	Indirect	Total
A	B	C				
Expenses:						
Salaries and wages	\$ 12,500	14,950	19,635	15,400	22,682	85,167
Employee benefits	1,875	2,243	2,945	2,310	3,402	12,775
Materials and supplies	3,300	6,000	895	1,400	7,210	18,805
Postage and shipping	500	1,035	3,675	1,682	1,934	8,826
Printing and publications	950	1,184	642	120	466	3,362
Telephone	1,672	1,724	1,126	2,418	922	7,862
Occupancy	-	-	-	-	27,600	27,600
Depreciation	-	-	-	-	1,688	1,688
Total direct expenses	20,797	27,136	28,918	23,330	65,904	166,085
Allocation of indirect costs	13,184	15,768	20,709	16,243	(65,904)	-
	\$ 33,981	42,904	49,627	39,573	-	166,085

1. The effective indirect cost rate = 65.8% [ $\$65,904 / (\$166,085 - \$65,904)$ ].

2. The administrative rate = 23.8% [ $\$39,573 / \$166,085$ ].

3. Indirect costs are allocated based on each cost center's direct salaries & wages as a percentage of total direct salaries & wages [e.g., Program A:  $\$65,904 \times (\$12,500 / (\$85,167 - \$22,682)) = \$13,184$ ].

Exhibit 3

Organization C - Indirect cost rate of 0%

Expenses:	Total expenses					
	Programs			Admin.	Indirect	Total
	A	B	C			
Salaries and wages	\$ 19,255	21,621	25,388	18,903	-	85,167
Employee benefits	2,881	3,050	3,727	3,117	-	12,775
Materials and supplies	5,200	8,900	3,581	1,124	-	18,805
Postage and shipping	923	1,612	4,541	1,750	-	8,826
Printing and publications	1,025	1,380	800	157	-	3,362
Telephone	1,290	1,417	2,244	2,911	-	7,862
Occupancy	3,219	4,590	8,675	11,116	-	27,600
Depreciation	188	334	671	495	-	1,688
Total direct expenses	33,981	42,904	49,627	39,573	-	166,085
Allocation of indirect costs	-	-	-	-	-	-
	\$ 33,981	42,904	49,627	39,573	-	166,085

1. The indirect cost rate = 0%. No indirect allocation mechanism is used; all expenses are charged directly.
2. The administrative rate = 23.8% [(\$39,573/\$166,085)].

(3)

Exhibit 4

Organization A - Indirect cost rate of 6.6%; administrative and indirect costs combined

	Total expenses				
	Direct			Indirect	
	Programs			Admin.	
	A	B	C	Admin.	Total
<i>Expenses:</i>					
Salaries and wages	\$ 18,613	19,500	23,347	23,707	85,167
Employee benefits	2,792	2,925	3,502	3,556	12,775
Materials and supplies	5,200	8,900	3,381	1,124	18,805
Postage and shipping	605	987	4,251	2,983	8,826
Printing and publications	1,000	1,355	756	251	3,362
Telephone	756	1,222	1,336	4,548	7,862
Occupancy	2,219	4,590	9,675	11,116	27,600
Depreciation	684	758	95	151	1,688
Total direct expenses	31,869	40,237	46,543	47,436	166,085
Allocation of indirect costs	2,112	2,667	3,084	(7,863)	-
	\$ 33,981	42,904	49,627	39,573	166,085

1. The effective indirect cost rate = 6.6% [ $\$10,323 / (\$166,085 - \$10,323)$ ].
2. The administrative rate = 23.8% [ $\$39,573 / \$166,085$ ].
3. Indirect costs are allocated by applying the indirect cost rate (6.6%) to each cost center's total direct expenses [e.g., Program A: 6.6% x  $\$31,869 = \$2,112$ ].

Exhibit 5

Organization A - "Fully loaded" cost model

Expenses:	Total expenses				
	Programs				Total
	A	B	C	Admin.	
Salaries and wages	\$ 18,613	19,500	23,347	18,557	85,167
Employee benefits	2,792	2,925	3,502	2,784	12,775
Materials and supplies	5,200	8,900	3,581	1,124	18,805
Postage and shipping	605	987	4,251	895	8,826
Printing and publications	1,000	1,355	756	201	3,362
Telephone	756	1,222	1,336	2,285	7,862
Occupancy	2,219	4,590	9,675	11,116	27,600
Depreciation	684	758	95	151	1,688
Total direct expenses	31,869	40,237	46,543	37,113	166,085
Allocation of indirect costs	2,112	2,667	3,084	2,460	(10,323)
Total direct and indirect costs	33,981	42,904	49,627	39,573	166,085
Allocation of admin. costs	10,629	13,420	15,524	(39,573)	-
	\$ 44,610	56,324	65,151	-	166,085

1. The effective indirect cost rate = 6.6% [ $\$10,323 / (\$166,085 - \$10,323)$ ].
2. The administrative rate = 23.8% [ $\$39,573 / \$166,085$ ].
3. Indirect costs are allocated by applying the rate (6.6%) to each cost center's total direct expenses [e.g., Program A: 6.6% x \$31,869 = \$2,112].
4. Administrative costs are allocated based on the pro rata distribution of total direct and indirect costs of each program [e.g., Program A:  $\$33,981 \times (\$39,573 / (\$166,085 - \$39,573)) = \$10,629$ ].



Exhibit 6

Organization A - Adjustment of fully loaded model for GAAP purposes

Expenses:	Total expenses						
	Programs				Admin.	Indirect	Total
	A	B	C				
Salaries and wages	\$ 18,613	19,500	23,347	18,557	5,150	85,167	
Employee benefits	2,792	2,925	3,502	2,784	772	12,775	
Materials and supplies	5,200	8,900	3,581	1,124	-	18,805	
Postage and shipping	605	987	4,251	895	2,088	8,826	
Printing and publications	1,000	1,355	756	201	50	3,362	
Telephone	756	1,222	1,336	2,285	2,263	7,862	
Occupancy	2,219	4,590	9,675	11,116	-	27,600	
Depreciation	684	758	95	151	-	1,688	
Total direct expenses	31,869	40,237	46,543	37,113	10,323	166,085	
Allocation of certain administrative costs	3,223	4,070	4,707	(12,000)	-	-	
	35,092	44,307	51,250	25,113	10,323	166,085	
Allocation of indirect costs	2,326	2,936	3,397	1,664	(10,323)	-	
	\$ 37,418	47,243	54,647	26,777	-	166,085	

1. The effective indirect cost rate = 6.6%  $[\$10,323/(\$166,085 - \$10,323)]$ .
2. \$12,000 of administrative costs are allocated to programs based on total direct expenses.  
[e.g.,  $\$31,869 \times (\$12,000/(\$31,869 + \$40,237 + \$46,543)) = \$3,223$ ].
3. Indirect costs are allocated by applying the indirect cost rate (6.6%) to each cost center's total direct expenses after the allocation of selected administrative costs [e.g., Program A:  $6.6\% \times \$35,092 = \$2,326$ ].

Exhibit 7

Organization A - 5% cap on indirect costs that can be charged to Program A

	Total expenses					
	Programs			Admin.	Indirect	Total
A	B	C				
<i>Expenses:</i>						
Salaries and wages	\$ 18,613	19,500	23,347	18,557	5,150	85,167
Employee benefits	2,792	2,925	3,502	2,784	772	12,775
Materials and supplies	5,200	8,900	3,581	1,124	-	18,805
Postage and shipping	605	987	4,251	895	2,088	8,826
Printing and publications	1,000	1,355	756	201	50	3,362
Telephone	756	1,222	1,336	2,285	2,263	7,862
Occupancy	2,219	4,590	9,675	11,116	-	27,600
Depreciation	684	758	95	151	-	1,688
<b>Total direct expenses</b>	<b>31,869</b>	<b>40,237</b>	<b>46,543</b>	<b>37,113</b>	<b>10,323</b>	<b>166,085</b>
Allocation of 5% approved indirect cost cap	1,593	-	-	-	(1,593)	-
<b>Total expenses of Program A reportable to contractor</b>	<b>33,462</b>					
Allocation of Program A's 1.6% excess	519	-	-	-	(519)	-
Allocation of remaining indirect costs	-	2,667	3,084	2,460	(8,211)	-
	<b>\$ 33,981</b>	<b>42,904</b>	<b>49,627</b>	<b>39,573</b>	<b>-</b>	<b>166,085</b>

1.  $\$31,869 \times 5\% = \$1,593$  = maximum indirect costs chargeable to Program A.

2. Total indirect cost rate remains 6.6% [ $\$10,323 / (\$166,085 - \$10,323)$ ].

Exhibit 8

Organization B - Multiple cost pools

	Total expenses												
	Programs			Indirect cost pools									
	A	B	C	Admin.	1	2	3						
<b>Expenses:</b>													
Salaries and wages	\$ 12,500	14,950	19,635	15,400	22,682	-	-	-	-	-	-	-	85,167
Employee benefits	1,875	2,243	2,945	2,310	3,402	-	-	-	-	-	-	-	12,775
Materials and supplies	3,300	6,000	895	1,400	7,210	-	-	-	-	-	-	-	18,805
Postage and shipping	500	1,035	3,675	1,682	-	1,934	-	-	-	-	-	-	8,826
Printing and publications	950	1,184	642	120	466	-	-	-	-	922	-	-	3,362
Telephone	1,672	1,724	1,126	2,418	-	-	-	-	-	15,011	-	-	7,862
Occupancy	-	-	-	-	-	-	-	-	-	-	-	-	27,600
Depreciation	-	-	-	-	-	-	-	-	-	-	-	1,688	1,688
<b>Total direct expenses</b>	<b>20,797</b>	<b>27,136</b>	<b>28,918</b>	<b>23,330</b>	<b>46,349</b>	<b>17,867</b>	<b>1,688</b>	<b>166,085</b>					
Allocation of indirect costs 1	9,272	11,089	14,565	11,423	(46,349)	-	-	-	-	-	-	-	-
Allocation of indirect costs 2	6,497	3,249	4,872	3,249	-	(17,867)	-	-	-	-	-	-	-
Allocation of indirect costs 3	359	467	718	144	-	-	-	(1,688)	-	-	-	-	-
	\$ 36,925	41,941	49,073	38,146	-	-	-	166,085					
<b>FTEs</b>	<b>2.0</b>	<b>1.0</b>	<b>1.5</b>	<b>1.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5.5</b>					
<b>Square footage utilized</b>	<b>500</b>	<b>650</b>	<b>1000</b>	<b>200</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2350</b>					

1. Indirect cost pool 1: costs allocated to programs based on direct salaries and wages.
2. Indirect cost pool 2: costs allocated to programs based on FTE.
3. Indirect cost pool 3: costs allocated to programs based on square footage.

Exhibit 9

Organization A - Federal indirect cost proposal format - simplified allocation method

	Total expenses					
	Programs			Indirect		
	A	B	C	Fund-raising	Admin.	Total
<i>Expenses:</i>						
Salaries and wages	\$ 18,613	19,500	23,347	-	23,707	85,167
Employee benefits	2,792	2,925	3,502	-	3,556	12,775
Materials and supplies	5,200	8,900	3,581	-	1,124	18,805
Postage and shipping	605	987	4,251	-	2,983	8,826
Printing and publications	1,000	1,355	756	-	251	3,362
Telephone	756	1,222	1,336	-	4,548	7,862
Occupancy	2,219	4,590	9,675	-	11,116	27,600
Depreciation	684	758	95	-	151	1,688
<b>Total expenses</b>	<b>31,869</b>	<b>40,237</b>	<b>46,543</b>	<b>-</b>	<b>47,436</b>	<b>166,085</b>
<i>Less Direct Cost Adjustments:</i>						
Materials and supplies	(1,645)	(2,499)	(866)	-	-	(5,010)
Alterations and improvements	(980)	(1,210)	-	-	-	(2,190)
Depreciation	(684)	(758)	(95)	-	-	(1,537)
	(2,625)	(3,709)	(866)	-	-	(7,200)
<i>Less Indirect Cost Adjustments:</i>						
Occupancy (interest)	-	-	-	-	(762)	(762)
Depreciation	-	-	-	-	(151)	(151)
	-	-	-	-	(913)	(913)
<i>Reclassifications:</i>						
Fund-raising	-	-	-	4,263	(4,263)	-
Public relations	-	-	-	2,044	(2,044)	-
Membership administration	-	-	-	1,700	(1,700)	-
	-	-	-	8,007	(8,007)	-
<b>Total</b>	<b>\$ 29,244</b>	<b>36,528</b>	<b>45,677</b>	<b>8,007</b>	<b>38,516</b>	<b>157,972</b>

1. Indirect cost rate = \$38,516/(\$157,972-\$38,516) = 32.2%.

Exhibit 10

Organization A - Federal indirect cost proposal format - direct allocation method

	Total expenses					
	Programs			Indirect		Total
	A	B	C	Fund-raising	Admin.	
<i>Expenses:</i>						
Salaries and wages	\$ 18,613	19,500	23,347	4,390	19,317	85,167
Employee benefits	2,792	2,925	3,502	790	2,766	12,775
Materials and supplies	5,200	8,900	3,581	-	1,124	18,805
Postage and shipping	605	987	4,251	-	2,983	8,826
Printing and publications	1,000	1,355	756	-	251	3,362
Telephone	756	1,222	1,336	861	3,687	7,862
Occupancy	2,219	4,590	9,675	1,966	9,150	27,600
Depreciation	684	758	95	-	151	1,688
<b>Total expenses</b>	<b>31,869</b>	<b>40,237</b>	<b>46,543</b>	<b>8,007</b>	<b>39,429</b>	<b>166,085</b>
<i>Less Direct Cost Adjustments:</i>						
Materials and supplies	(1,645)	(2,499)	(866)	-	-	(5,010)
Alterations and improvements	(980)	(1,210)	-	-	-	(2,190)
Depreciation	(684)	(758)	(95)	-	-	(1,537)
	(2,625)	(3,709)	(866)	-	-	(7,200)
<i>Less Indirect Cost Adjustments:</i>						
Occupancy (interest)	-	-	-	-	(762)	(762)
Depreciation	-	-	-	-	(151)	(151)
	-	-	-	-	(913)	(913)
<b>Total</b>	<b>\$ 29,244</b>	<b>36,528</b>	<b>45,677</b>	<b>8,007</b>	<b>38,516</b>	<b>157,972</b>

1. Indirect cost rate = \$38,516/(\$157,972-\$38,516) = 32.2%.

Exhibit II

Organization A - Program A by funding source with multiple caps and limitations

	Program A			Total
	Gov't. grant	Private grant	General ops.	
<i>Expenses:</i>				
Salaries and wages	\$ 5,000	-	13,613	18,613
Employee benefits	-	-	2,792	2,792
Materials and supplies	2,600	-	2,600	5,200
Postage and shipping	-	605	-	605
Printing and publications	-	1,000	-	1,000
Telephone	115	-	641	756
Occupancy	400	-	1,819	2,219
Depreciation	-	-	684	684
Total direct expenses	8,115	1,605	22,149	31,869
Allocation of indirect costs	243	106	1,763	2,112
	\$ 8,358	1,711	23,912	33,981

1. Government grant caps salaries at \$5,000, benefits and depreciation at 0, and indirect costs at 3%.
2. Private grant pays only postage and shipping, and printing and publications, but accepts the 6.6% indirect cost rate.

Exhibit 12

Organization A - Illustration of capital expenditures charged to a government grant

	Program A				Total
	Gov't. grant	Private grant	General ops.	Fixed asset elimin.	
<i>Expenses:</i>					
Salaries and wages	\$ 5,000	-	13,613	-	18,613
Employee benefits	-	-	2,792	-	2,792
Materials and supplies	2,600	-	2,600	-	5,200
Postage and shipping	-	605	-	-	605
Printing and publications	-	1,000	-	-	1,000
Telephone	115	-	641	-	756
Occupancy	400	-	1,819	-	2,219
Depreciation	-	-	684	-	684
Capital expenditures	10,000	-	-	(10,000)	-
Total direct expenses	\$ 18,115	1,605	22,149	(10,000)	31,869



## CDC Financial Management Challenges

### Budget Challenges

#### I. Multiple Functions

CDCs typically engage in multiple functions: housing development, property management, tenant services, business district revitalization, and other community economic development activities. Additionally, like all nonprofits, they engage in management/administration, and fundraising functions.

While each of these functions is quite distinct from the others, a comprehensive organization-wide budget is still needed. Consequently, CDCs need to do functional budgeting which goes beyond simply listing the categories of income and expense which are expected and use a grid or matrix format to describe both line item and function for each anticipated income or expense.

#### II. Cost Allocation

Cost allocation is a budget and accounting method which is used to identify costs according to the function which the cost supports, as well as according to line item description (salaries, supplies, etc.). Direct costs are those which can be directly attributed to a specific function—for example, the cost of paying a property management fee is clearly a cost of the property management function, and the cost of acquiring a property is clearly a cost of property development.

Indirect or shared costs are costs which benefit multiple functions. Not all shared or indirect costs are administrative costs. For example, if multiple programs are housed in one facility, the occupancy cost of that facility is a shared cost which should be allocated among all the functions which are carried out in the facility.

For budget purposes, you will want to assign all direct costs to their appropriate functions and then use a cost allocation formulae to allocate indirect costs. Be sure that the way that you allocate costs in the budget is the same way which you will use them in the accounting system.

### III. Dealing with Restricted Grant Funds

If you anticipate receiving grants, be sure that you reflect any restrictions which will be attached to them by your funders in your budget plan. For example, if a foundation will award \$10,000 to allow you to provide enhanced tenant services such as coordination with social service agencies, reflect both the grant income and the costs associated with providing the services in your "Tenant Services" function. If a funder will give you a grant to purchase a property for development, include it in the "Housing Development" function.

Some funders will provide "operating support" with the direction that your CDC is to decide how to use the funds. Your budget should reflect your decisions. If you decide to split the "operating support" into several categories, using some for administration, some for housing development, and some for community economic development, your budget will show the total grant split into the different functional income sections.

### IV. Borrowing and Debt Repayment

CDCs must integrate the kind of projection done in pro formas for new housing development projects into their comprehensive organization-wide budgets, as part of the housing development function. This is particularly challenging because most housing development involves borrowing funds which will then be repaid, with interest, with proceeds from rental income or through sale of homes in home ownership programs.

However, from an accounting standpoint, borrowing money is not a source of income, and repaying debt is not an expense. Instead, borrowing money creates a liability and paying it back reduces the liability. In a pro forma for a housing development, borrowing is considered a source of funds, and debt repayment is considered a use of funds.

Because CDCs need to have their organization-wide budget correspond to their accounting system so that financial statements can compare what actually happens to what was planned, they must deal with the impact of borrowing and repaying debt in the budget in a way which will not conflict with good accounting practices.

One way to accomplish this is to create a section called "cash adjustments" in the budget format. Generally this section is placed below the listing of expenses and its total. In the "cash adjustment" section, the amounts which will be borrowed to complete projects can be attributed to the housing development function, and the amounts of debt which must be repaid within the year can be attributed to the property management function. Note that the interest portion of debt repayment will be listed in the expense section of the budget because interest is an expense.

## V. Budgeting for Development Costs

It is often challenging to predict exactly when a project which is in your development pipeline will actually be completed, or even when construction will begin. For purposes of putting an organization-wide budget together, you will have to decide which specific development projects will be underway during the fiscal year, and make some assumptions about their timing. Be sure to write down those assumptions so that if reality doesn't conform to your plan, you will be able to revise the Housing Development component of your budget accurately.

In your accounting records you will want to track the pre-development and development costs for individual projects separately so that you have documented the actual cost of bringing the project to completion. Similarly, you will want to budget on a project by project basis, and then combine all the projects which will be underway into totals for the Housing Development component of your budget. Be sure to keep the schedule which shows the plan for each project.

Some pre-development costs can't be attributed to any specific project or are invested in projects which don't come to fruition, so you may need to budget some amounts in your Housing Development budget which are "general" as opposed to attributed to specific projects.

## VI. Budgeting for "Developer Fees"

Developer fees are the amount which the developer is allowed to retain after all other costs of development are met. In a project that is entirely debt financed, developer fees amount to the portion of borrowed funds which you have not had to pay out to contractors or others to complete the project. In a project which combines debt with contributed amounts (grants, equity contributions, etc.), it is sometimes difficult to say whether the developer fee is being funded through debt or through the contributed or equity portion of the project.

While many CDCs rely upon developer fees to fund portions of their operations, if the developer fee is funded through debt, it is not income and should not be included in the revenue portion of the budget. It is debt and should be included in the "cash adjustment portion" discussed in the previous section on borrowing and debt repayment. If the developer fee will be funded through grants, it will be included in the grants line of the budget and shouldn't be double counted by being listed again. If it will be funded by grants and you want to see it separated out from the other grants, subtract the amount of the developer fee from the grants line item, and list it as "grant funded developer fee" in the income section.

One very important policy decision for CDCs is what use will be made of developer fees. Will your CDC use developer fees to subsidize components of your budget which are projecting losses or will you retain the developer fees to use as seed money to undertake new

development projects, or limit its use to paying for staff that do housing development? Your board will need to set a clear policy to guide your budget practices.

## **VII. Depreciation**

Depreciation is an expense even though no cash is paid out to cover it. Consequently, you will want to include depreciation in your schedule of expenses for each property. However, because depreciation expense does not use cash, you will also include it in the "cash adjustment" section as if it were a source of cash. In other words, you are acknowledging that although your pro forma showed that the property could generate enough income to cover depreciation expense, from a cash flow perspective, it doesn't have to generate cash to cover the depreciation.

## **VIII. Budgeting for Home Sales**

CDCs that sell the homes they build will budget for "home sales proceeds" as an income item in their "housing development" function. Most of the costs of building the homes will be reflected in the "cash adjustment" section. Just as in the discussion of developer fees for rental properties, your CDC will need to set a policy about the use of your "profits" from home sales. Will you use them to subsidize administration or other operating programs or will you reserve them to use as seed money for future housing development projects?

## **IX. Budgeting for Property Management Functions**

Your "property management" function budget should reflect the income you expect to realize from renting properties and the expenses which you must pay to operate the properties. You will need to use the "cash adjustment" of your budget to deal with the debt service (principle repayment), depreciation, contributions to reserves, and major rehab costs.

Create your "property management" function section by analyzing and scheduling each of your rental properties. Then combine the schedule of individual properties into a master schedule for use in the organization-wide budget.

Project the actual income and expenses you anticipate for each property. Remember to adjust the projected rental income to reflect your predictions about vacancy rates and losses through non-collection. Don't simply use the projected rental income that was included in the pro forma for development of the property, consult your prior year accounting records and consider the actual circumstance to estimate vacancy rates and collection problems.

Similarly, use your past accounting records and detailed knowledge of the condition of the properties to project expenses for the year, including utilities, insurance, repairs, etc. If you contract for property management, be sure to include this expense. If you have your CDC



## **CDC Financial Management Challenges Accounting Challenges**

### **I. Chart of Accounts Structure**

The Chart of Accounts should parallel your budget categories. It should set up cost centers (departments, divisions) for each distinct function used in your budget (property management, housing development, tenant services, administration), and for any restricted funds which you have budgeted as a separate function. The Chart of Accounts must include Balance Sheet accounts (assets, liabilities, net assets) as well as revenues and expenses

### **II. Cost Allocation**

Use the same method for cost allocation in the accounting system as you used in your comprehensive annual budget. Consider structuring cost pools to streamline the accounting process. For example, set up a department for "administrative costs" which includes all the line items in which administrative costs occur (salary, professional fees, occupancy, etc.) and then allocate a share of the total administrative costs to each function at the end of each month. Create a written description of your cost allocation plan which explains which costs will be allocated, and the basis for the allocation method.

### **III. Pre-Development Costs**

Pre-development costs are the costs of exploring the feasibility of various projects. If a project eventually goes forward, it may be possible to "capitalize" these costs, i.e., include them in the record of the investment made in the property. If the project doesn't go forward, the pre-development costs are just part of the operating costs of the housing development function. It is probably easiest to track pre-development costs by setting up a department (cost center) for them in the structure of your Chart of Accounts.

### **IV. Development Costs: Acquisition, Construction, Etc.**

You will need to maintain a complete record of all costs of acquiring and developing each property. These costs include both amounts which your organization disburses directly from its own cash accounts, and any disbursements made on behalf of your organization, for example, direct payments from a lender or grantor to contract for work done on a project.

You will need a system which tracks costs as they are incurred and compares the costs incurred to the development budget for each project.

## **V. In-Kind Contributions to Development Projects**

If you receive donated materials or services which make a material contribution to a development project, you will need to record them in the accounting system. Establish an "in-kind contributions" revenue account to record the increase in value in the property which results from the contribution. You will balance the journal entry, which records the contribution income, with an entry to the asset account for this property, reflecting the increase in your investment in the property. Be sure to maintain back-up documentation about the nature of the contribution and the basis for the dollar amount you have recorded as an in-kind contribution.

## **VI. Depreciation and Accumulated Depreciation**

In addition to creating "depreciation expense" accounts in the expense section of the Chart of Accounts and "accumulated depreciation" accounts in the assets section, you will need to maintain a detailed depreciation schedule which supports the entries posted to these accounts. You'll need a depreciation schedule for each property, including both the amount of your initial investment and of any major rehabs done to the property, the amount of depreciation recorded each year, and the resulting accumulated depreciation for each property (sum of all depreciation expenses recorded over the life of the property). In addition to the property by property depreciation schedules, you'll need a depreciation schedule for all your office equipment and any other fixed assets.

## **VII. Recording Debt and Debt Service**

Record all debt as it is incurred. To do this, the accountant must receive copies of all loan and line of credit agreements once they are executed. If loan proceeds will be paid through draw downs, copies of requests for draw downs must be given to the accountant to record. Copies of closing agreements must also be provided. In some lending situations, the amount of loan funds disbursed will vary from the draw down requested. These variances can be correctly recorded through adjusting entries.

## **VIII. Non-Recourse Debt**

Some lending agreements state that the debt is "non-recourse" meaning that the lender's ability to collect repayment is significantly limited. In some cases, the lender indicates that it does not intend to require repayment. You will probably need advice from your auditor and

possibly from an attorney about whether to record "non-recourse" debt as a liability or a contribution.

## **IX. Grants with Contingent Liabilities**

Some grants to acquire or rehab property come with a contractual requirement which states that in the event that the property is no longer used for its intended purpose, or the organization sells or otherwise transfers the ownership of the property, the grantor is entitled to repayment of the grant funds. In most instances, you will still record the grant as a grant but include a note disclosing the existence of this contingent liability in the notes to the financial statements which are part of your audit. In order to handle such grants properly, you will need to be sure the accountant has a copy of the grant agreement and discuss the treatment of the grant with your auditor.

## **X. Developer Fees**

The term "developer fee" is used in several different situations, each with its own accounting treatment.

- If your organization is acting as developer for a separate entity, and receives a "developer fee" for the services which you provide to that separate entity, then the "developer fee" should be recorded as revenue.
- If your organization is developing a rental project with a combination of grants and loans, and one of the grants is explicitly designated to fund a "developer fee" for your organization, record this amount as grant income. You could use an account called "grant funded developer fee" if desired.
- If you have included a proposed "developer fee" in the pro forma for a development project and your lender(s) have approved it, you will be permitted to draw down loan proceeds to cover the "developer fee" (typically at the end of the project when other costs are met). These amounts received from lenders are loan proceeds and should be recorded as "loans payable," a liability. If you have used the Cash Adjustments approach to budgeting and have shown these loan-financed "developer fees" as a cash adjustment on the budget, you can use the information which is recorded in the liability section of your general ledger, "loans payable," to report the amount of "developer fees" collected for comparison with the budget amount.

Incidentally, if you are developing properties for sale (home ownership), you will not have developer fees. Instead, you will have "gains on the sale of homes" which provide compensation for your efforts as developer.



## **Multiple Entity Relationships Responsibilities, Potential Liabilities, and Accounting Treatment**

### **I. Core or Parent Entity**

The primary nonprofit affordable housing organization.

### **II. Directly Owned Projects**

Projects owned by the Core or Parent corporation itself.

#### **Responsibilities of the Core Entity**

- Asset Management
- Debt service
- Compliance with funder and lender requirements

#### **Potential Liabilities to the Core Entity**

- All owner liabilities
- Penalties for non-compliance

#### **Accounting Treatment by the Core Entity**

- All Assets, Liabilities, Net Assets, Revenues, and Expenses must be reported in the core entity's financial statements (Balance Sheet, Statement of Activities, Statement of Cash Flows).
- If outsourced property management firm prepares financial statements for the project, the core entity must incorporate data from the property management firm's statements into core entity financial statements.
- Core entity is responsible for the accuracy of the financial information about the project even if financial info is prepared by property management firm.

### **III. Nonprofit Single Asset Entities**

Projects for which the core entity served as sponsor/developer in which the funding source required or the core entity decided to place ownership of the project within a nonprofit corporation other than the core entity. LIHPRA and most 202 and 811 projects (prior to

changes allowing partnerships with for profits for 202 and 811 projects) are typically nonprofit single asset entities.

#### **Responsibilities of the Core Entity**

- Depends on funder /lender requirements
- Generally includes asset management or some form of oversight

#### **Potential Liabilities to the Core Entity**

- In general, obligations of the nonprofit single asset entity are specific to that entity and the core entity is not considered liable for debts or acts of the single asset entity.
- Some funding/lending agreements may create compliance obligations for the sponsoring core entity.

#### **Accounting Treatment by the Core Entity**

- See SOP 94-3 for requirements for consolidation of financial statements.
- If the core entity has both control and economic interest in the single asset entity, consolidation of financial statements is required by GAAP.
- If consolidation is required, the payment of asset management fees by the single asset entity and the receipt of asset management fees by the core entity, is eliminated in the consolidation adjustments.
- If the relationship between the core entity and the single asset entity does not meet the requirements of SOP 94-3 – either because the core entity lacks control or does not have economic interest – financial statements are not consolidated.
- To fulfill asset management responsibilities, the core entity needs to receive financial statements from the single asset entity.
- If the financial statements of the core entity and the single asset entity are not consolidated, the core entity reports fees it is paid or owed for Asset Management as revenue, and reports the costs of providing asset management services as expenses.

### **IV. Partnerships and Limited Liability Corporations Involving For Profit Partners/Shareholders**

Low Income Housing Tax Credit projects are generally structured as Limited Partnerships or Limited Liability Corporations. The nonprofit core entity is the general partner. The for-profit investors are limited partners. Some newer 202 and 811 projects are structured as partnerships between the sponsoring core entity nonprofit and for-profit limited partners.

#### **Responsibilities of the Core Entity**

- As General Partner, the core entity is responsible for overall management and compliance with all LIHTC and other funder/lender requirements.
- General Partner responsibilities include provision of adequate asset management. Although some general partners outsource asset management services, they remain responsible for asset management and compliance.

### **Potential Liabilities for the Core Entity**

- In general, the Partnership/LLC is responsible for its own obligations.
- As General Partner, the nonprofit core entity is potentially liable to the limited partners for failure to keep the project in compliance with LIHTC requirements – if the limited partners lose their tax benefits because the project fails to comply with requirements, the partners have recourse against the core entity as general partner.
- Some partnership agreements require the core entity as general partner to supply cash in the form of loans to operate the project when the project generates insufficient cash flow.
- In some partnership agreements, repayment of debt to the core entity is contingent upon achieving specified levels of net cash flow. If projects perform poorly, the value of the core entity's receivable may be impaired.

### **Accounting Treatment by the Core Entity**

- Partnerships in which the nonprofit core entity has a very small percentage of ownership (typically 1%) do not meet the requirement for consolidation.
- Core entity's account for investments in partnerships/llcs using the equity method – recording their net equity investment in the partnership as an asset.
- The core entity adjusts its equity investment in the partnership to reflect its share of the net income or net losses reported by the partnership.
- The core entity records loans and cash advances provided to the partnership/llc as assets (notes or advances receivable).
- Typically the partnership/llc will agree to pay interest for funds provided by the nonprofit core entity as loans or advances. The core entity records the interest as revenue and the partnership/llc records the interest as expense. If the partnership is not able to pay the interest due to the core entity, the core entity records its right to receive the interest as Interest Receivable and the partnership records it as Interest Payable.
- If the partnership/llc project performs poorly over an extended period, the core entity may need to consider reducing the value of the receivables it has established for loans and advances, and for interest receivable, from the partnership/llc to reflect uncertainty of collection..
- Consequently, the core entity must consider the performance of the partnership/llc as having a potentially material impact on the financial position of the core entity.



## Highlights of SFAS #116

The Statement of Financial Accounting Standards #116 became effective for all not-for-profit organizations in 1995. In order to be in compliance with GAAP (Generally Accepted Accounting Principles) your nonprofit should be following these guidelines.

### I. Recording Contributions and Unconditional Promises to Give

- A. All contributions must be classified as either increasing **PERMANENTLY RESTRICTED NET ASSETS**, **TEMPORARILY RESTRICTED NET ASSETS**, or **UNRESTRICTED NET ASSETS**.

Contributions without donor-imposed restrictions are considered unrestricted support which increases **Unrestricted Net Assets**.

**Restrictions** result from either the donor's explicit stipulation or from circumstances surrounding the gift which make the donor's intent to restrict the use of the gift clear. For example: a donor responding to a specific appeal requesting funds solely to support a single activity can be presumed to have intended to restrict the use of the gift.

**Restrictions** may be either permanent or temporary.

- B. Gifts explicitly restricted by the donor to use in future periods are considered to increase **TEMPORARILY RESTRICTED NET ASSETS**. They are recorded as restricted support in the period in which the gift or the unconditional promise to give is received.

Gifts for which the donor specifies use in a future period are recorded as **Temporarily Restricted**. When the specified time period is reached, the temporarily restricted net assets are considered to be released to the unrestricted net assets.

- C. Gifts received with donor imposed restrictions on the use of the gift are considered to increase **TEMPORARILY RESTRICTED NET ASSETS**. They are recorded as temporarily restricted support in the period in which the gift or unconditional promise to give is received.

When the donor stipulated purpose has been fulfilled, the **Temporarily Restricted Net Assets** are considered to be released to the unrestricted net assets.

- D. Organizations may choose to record gifts with donor restrictions on the purpose for which the gift may be used as **UNRESTRICTED SUPPORT** if the funds will be used for the restricted purpose within the same period the gift or unconditional promise to give is received.
- E. Special rules apply for gifts of long-lived assets or funds to acquire long-lived assets.

Nonprofits may choose to treat gifts of long-lived assets or funds to acquire them as **Temporarily Restricted**, with the restriction expiring as the life of the asset expires, i.e., paralleling depreciation.

Nonprofits may also choose to treat gifts of long-lived assets or funds to acquire them as **Unrestricted Support**.

Long-lived assets are not **Permanently Restricted** unless the donor specifies the use which can be made in perpetuity of the proceeds from the sale of the asset.

- F. If both unrestricted and restricted resources are available for an activity, the restricted resources must be used first.
- G. **UNCONDITIONAL PROMISES TO GIVE (Pledges)** will be recorded as revenue when received, not when collected.

The promise to give may be made in writing or orally. Even if the donor specifically indicates that the gift will be made in a future period for activity to be conducted in a future period, the gift is recorded as **revenue in the period in which verifiable evidence of the pledge is received**.

- H. **CONDITIONAL PROMISES TO GIVE** are recorded as revenue when they become unconditional, that is, when the conditions are substantially met.

A conditional pledge is one which does not bind the donor until some specified uncertain future event occurs. For example: a donor may promise to contribute \$10,000 if five other donors also promise to give \$10,000.

The "mere passage of time" does not constitute a condition: i.e., a promise to give in two years is not a conditional pledge.

A condition is not the same thing as a restriction. It is not a limitation on how the gift can be used. A condition relates to events which must occur in order for the pledge to become binding.

Once the condition is met, the pledge becomes unconditional and is recorded as revenue in the period in which the condition is met.

**I. PLEDGES PAYABLE in future time periods are considered implicitly time restricted and are recorded as temporarily restricted.**

This concept is heavily related to SFAS #117, which establishes three classes of net assets (new term for fund balance): **Unrestricted, Temporarily Restricted, and Permanently Restricted.**

Long-term pledges must be discounted to their present value to reflect the time value of money.

**II. Treatment of Transactions Which Are in Substance Purchase of Goods or Services**

**A. PURCHASES OF GOODS OR SERVICES are not contributions.**

**B. Indicators that a payment is a PURCHASE OF GOODS OR SERVICES:**

- Expressed intent for the payee (the nonprofit) to provide goods/services to the payor or to someone identified by the payor.
- Specified time and plan for the delivery of goods/services.
- Provisions for economic penalties beyond the amount of the payment for failure to meet the terms of the agreement.
- Amount of payment per unit permits a "profit" margin.
- Total amount of payment is based only on the quantity of items delivered.
- Agreement suggests that the payor received approximately equivalent value in return for payment.
- Substantial benefit to the payor itself from the items.
- If the payor is a governmental unit, the items paid for are things the government has taken responsibility to provide.
- Benefits are made available only to the payor or those the payor specifies.

- C. DEFERRED REVENUE or PAYMENTS RECEIVED IN ADVANCE ACCOUNTS in the liabilities section of the statement of financial position may be used to record advance payments for purchases of goods/services.**

Payments received in advance of provision of goods or services are recorded as Deferred Revenue in the liabilities section. They are not recorded as revenue until the goods or services are provided. At that time, an adjusting entry is made to reduce **Deferred Revenue** and increase **Revenue**.

- D. All payments received for purchase of goods/services increase Unrestricted Net Assets rather than Temporarily Restricted or Permanently Restricted Net Assets.**

### **III. Treatment of "In-kind" Donations**

- A. Contributions of Services must be recognized (i.e. recorded as revenue) if:**

- they create or enhance nonfinancial assets or
- they require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Services requiring specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftsmen.

The nonprofit should describe the programs or activities for which the contributed services were used.

- B. Contributed services that do not meet the criteria in III. A. above shall not be recognized.**

If the nonprofit receives services which do not meet the test for being recorded as revenue, SFAS #116 encourages disclosure of the nature and value of the services received in notes to the financial statements.

For example: a nonprofit organization operating a telephone helpline using "nonprofessional" volunteers (not social workers, psychologists, etc.), cannot record the value of the volunteers' time as revenue in the financial statements. However, it should describe the nature of the service and its estimated value in notes to the financial statements.

- C. Special rules for contributions of works of art and museum collection items are beyond the scope of this class.**



## Highlights of SFAS #117

The Statement of Financial Accounting Standards #116 became effective for all not-for-profit organizations in 1995. In order to be in compliance with GAAP (Generally Accepted Accounting Principles) your nonprofit should be following these guidelines.

**1. Three financial statements required of all not-for-profit organizations:**

- Statement of Financial Position
- Statement of Activities
- Statement of Cash Flows

Nonprofits are now guided by SFAS #95 (effective in 1989) for the Statement of Cash Flows.

- 2. All nonprofits are required to disclose expenses by function (i.e. program, fund raising, management and general).**
- 3. Voluntary Health and Welfare Organizations are required to report information about "natural" (line items like Salary, Rent, etc.) and "functional" (i.e. program, fundraising, management, and general) expenses in a matrix format.**
- 4. The term NET ASSETS replaces the term FUND BALANCE.**
- 5. There are three CLASSES of Net Assets: Unrestricted, Temporarily Restricted, and Permanently Restricted.**

The term CLASS replaces the term FUND to describe the group of asset and liability accounts associated with Unrestricted, Temporarily Restricted, or Permanently Restricted Net Assets.

The financial statements must include the "change in net assets" for each distinct class of net assets.

6. **All items are included in the UNRESTRICTED NET ASSETS class, unless a donor has provided a restriction on their use.**

All **BOARD DESIGNATED** unrestricted amounts are to be included in the Unrestricted Net Assets.

Fees from rendering services are unrestricted revenue.

Limits, including self-imposed limits on unrestricted assets may be disclosed. But having a limit does not cause an unrestricted asset to be classified as restricted.

7. **The PERMANENTLY RESTRICTED Net Assets class includes only items which have been donated or acquired with funds donated with permanent donor restrictions.**

For example: land or works of art donated with the restriction that they be used for specific purposes, be preserved, and not be sold; or assets donated with the stipulation that they be invested to provide a permanent source of income (i.e. Endowment Funds).

8. **Four types of TEMPORARY RESTRICTIONS are identified:**

- Funds restricted for the support of particular activities;
- Funds restricted for investment for a particular term (i.e. a gift requiring that the principle be maintained for 20 years, after which the entire gift may be used);
- Funds restricted for use in a future period;
- Funds restricted for acquisition of long-lived assets.

Some contributions may carry double restrictions, i.e. be restricted both for purpose and for time.

The financial statements may present the Temporarily Restricted Net Assets in segments identifying the nature of the restrictions.

9. **The term RECLASSIFICATION rather than TRANSFER is used to communicate events which simultaneously increase one class of net assets while decreasing another class of net assets.**

10. **All expenses are shown in the UNRESTRICTED class.**

The fact that some expenses have been met through use of contributions which carried some form of temporary restriction is shown through:

- Including the expenses in the unrestricted class, and
- Reporting the release of net assets from restrictions on the Statement of Activities as a reclassification in the Revenue, Gains and Other Support section.

11. **Pledges payable in some future period are classified as TEMPORARILY RESTRICTED unless the donor specifies otherwise.**

12. **Donor restricted contributions for which the restrictions are met in the same accounting period in which the contribution is recognized MAY be reported as UNRESTRICTED support.**

13. **Capital gains and losses are reported in the unrestricted class unless otherwise required by the donor or law.**

14. **The Statement of Activities must report gross amounts of revenue and expense.**

There is specific permission to report investment income NET of investment expense.

There is not specific guidance about the use of offsets for cost of goods sold.

15. **New statement formats focus on presenting the organization as a whole.**

Must show total assets, liabilities, and net assets.

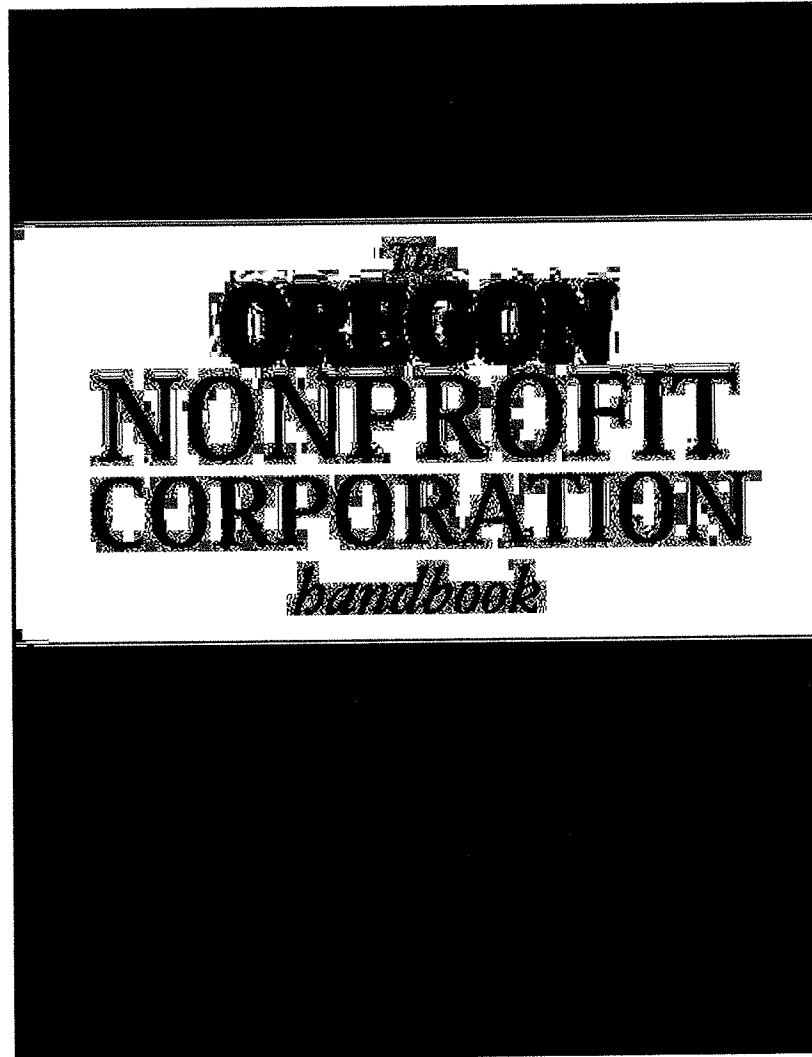
Must also show TOTAL change in net assets.

16. **The Statement of Financial Position must provide LIQUIDITY information:**

Three alternative ways are suggested:

- Sequence the assets according to their nearness of conversion to cash, and sequence the liabilities according to their nearness to maturity.
- Classify both assets and liabilities as "current" and "noncurrent."
- Disclose information about liquidity in the notes to financial statements.

The following is an excerpt from



## Chapter 25: Evaluating Your Organization's Financial Health

pages: 571-591

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# 25 EVALUATING YOUR ORGANIZATION'S FINANCIAL HEALTH

*Your Board and management have responsibilities for being sure your organization is managing its resources effectively to achieve your mission. You'll want to use the financial reports we discussed in Chapter 23 to evaluate the extent to which your plans, as expressed in your annual budget, are working. Beyond comparing the actual revenue you've generated and expenses you've incurred to your budget plan, you'll want to continuously evaluate your organization's overall financial health.*

*Many Boards and some Executive Directors are initially confused about the steps they should take to monitor their organization's financial health and financial management.*

*This chapter provides guidance on making good use of financial reports, and suggests specific questions Boards and Executive Directors should discuss when reviewing financial information. It also provides a step-by-step guide for Executive Directors and program managers to monitor the financial consequences of their work.*

*This chapter will also help you determine whether your organization needs to obtain an independent audit to be certain that your financial statements are giving you a fair picture of your financial position. And it will help you prepare for audits and reviews by funding sources and regulatory agencies.*

## HOW TO ASK THE RIGHT QUESTIONS ABOUT YOUR FINANCIAL STATEMENTS

Here are the eight basic questions you'll want to ask as you review your nonprofit's financial statements:

### How Financially Strong is This Organization?

Start with the Balance Sheet or *Statement of Financial Position*. This statement presents the assets, liabilities and net assets of the organization on a specific month-end date. It may present a comparison of assets, liabilities and net assets at two different dates, for example, the end of the last year, and the end of the most recently completed month.

Look first at the *net assets* line. Net assets represent the net worth of the organization at the date specified on the statement. It's helpful to think of net worth as what would be left if the organization gathered in everything it owns of value (cash, investments, land, buildings, etc.) and collected all that is owed to it (receivables), and then paid off everything it owes to others (wages, payroll taxes, payables, mortgages, etc). The *net assets* are roughly equivalent to *Owner's Equity* in business financial statements.

If the *net assets* amount is shown in <brackets>, the organization has a negative net worth, owing more than it owns. If it's not shown in brackets, the organization has a positive net worth – at least on paper. Like businesses, nonprofits report the land, building, and equipment at the amount they cost when purchased, less accumulated depreciation. This "book value" can be far from market value, that is, what the land, building or equipment could be sold for today. If the market value is much higher than the book value, the net assets will understate your organization's actual net worth. If the market value is much lower than the book value, the net assets will overstate your actual net worth.

Looking at the *net assets* is a first step. To really evaluate your organization's financial strength, you'll have to ask a few more questions.

### Can the Organization Meet Its Obligations on Time?

Simply having a positive net worth doesn't guarantee that the organization can pay its employees, its payroll taxes, and its vendors on time. That depends upon its cash position or liquidity. Look again at the Balance Sheet (Statement of Financial Position). Create a subtotal of all the cash accounts and any receivables or investments which can be readily turned into cash. Next, look at the

liabilities. Create a subtotal for wages, taxes, and other accounts payable shown as current liabilities. Then compare your cash and cash equivalents subtotal to your current liabilities subtotal.

Does the organization have more cash or items which can readily be turned into cash than current liabilities, or at least as much? If so, it will probably be able to meet its obligations on time. If not, it will have difficulty paying everything on time. If it has significantly more cash than is required to meet current liabilities, it is in a good position to take on additional obligations through expansion or taking reasonable risks. Or, it may be time to invest some excess cash in longer term investments.

If the Balance Sheet (Statement of Financial Position) provides information about two points in time – the end of the current month and the end of the previous month or previous fiscal year – you can evaluate whether the cash position (i.e. cash available to meet obligations or invest) is improving or worsening. Compare the cash balances, the accounts receivable, and the accounts payable. If the accounts receivable are increasing, find out why. Does the increase simply reflect a higher volume of service and higher amounts being billed, or does the increase reflect difficulty collecting what is owed to the organization? If the accounts payable are increasing, ask for an “aging,” i.e. a list which shows which of the amounts have been owed for 30, 60, 90, or more days. Then determine why payments have not been made and what will be the consequence of further delays.

### **Are There Limitations on What the Organization Can Do With Its Resources?**

While having a positive net worth is clearly better than having a negative net worth, simply noting that the net assets line on the balance sheet is positive doesn't tell the whole story. Ask a few more questions.

Is part of the net assets balance actually a true or quasi-endowment fund? A true endowment is an endowment built by donor contributions which were specifically directed to the endowment. A quasi-endowment is one which has been created by Board action, deciding to treat certain funds as endowment, but not bound by any donor direction. Both types of endowments restrict the use of the principal and provide direction for the use of earnings generated by the principal, either directing them to general operations or to some restricted use.

In general, the principal of endowments is not available to support operation of the organization. So as you think about the organization's immediate financial strength, don't think of the endowment as available for immediate

needs. However, the endowment does contribute to overall financial strength by representing a future source of certain revenue through the income generated by investing the endowment.

Next, look for the portion of net assets which represents investment in fixed assets. Some organizations will show this as a separate line in the net assets section called *property, plant and equipment*, or *capital net assets*. Others will include it in the total net assets and you will have to do some analysis to figure it out.

To determine the portion of the organization's net assets which represents investment in fixed assets, find all the asset accounts which include land, buildings, equipment, leasehold improvements, etc. Next, find all the liability accounts which are related to these fixed assets – typically, mortgages payable used to finance the purchase of property and buildings, or notes payable associated with major equipment purchases. To compute the portion of total net assets invested in fixed assets, subtract the liabilities you identified from the assets you identified.

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*If your financial statements are being prepared fully in accordance with formal accounting standards, you will see net assets broken down into three groupings: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.*

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Remember that the portion of the net assets invested in fixed assets won't be immediately available to support operations. The organization would have to sell its fixed assets, or borrow against them, in order to obtain cash for operations use. As you look at the organization's investment in fixed assets, think about how essential these assets are to the organization's ability to conduct its operation. Does owning them reduce operating costs or does it tend to increase operating costs by requiring constant maintenance expenses?

Finally, look for restrictions relating to operations which may have been placed on portions of the net assets. If your financial statements are being prepared fully in accordance with formal GAAP accounting standards, you will see net assets broken down into three groupings: *unrestricted net assets*, *temporarily restricted net assets*, and *permanently restricted net assets*.

The term "restricted" refers to a restriction placed on the use of assets by an outside party supplying the funds. For example, a donor may say "use my contribution only for the toys in the children's program" or a government contract may require "use these funds solely to meet the costs of the mental health services approved in the contract budget."

The term “temporarily restricted” is used to refer to restrictions which will be met through the passage of time, the use of funds for the specified purpose, or some other action. The term “permanently restricted” refers to assets which will have restrictions on their use forever, i.e., a permanently restricted endowment.

Less formally presented financial statements may not separate net assets into unrestricted, temporarily restricted, or permanently restricted groupings. If yours have no breakdown, you’ll need to ask whether any of the funds the organization receives are restricted by the donor. If so, you will want to get help to modify your statements so these restrictions are presented clearly.

Your evaluation of overall financial strength should include recognition that restricted funds may be used only for their restricted purposes, and are not available for other purposes. Thus, restricted net assets represent resources that have already been received and are available to carry out restricted purposes in the future, but are not available for general, unrestricted purposes.

### **How Can I Tell If the Organization Is Complying with Restrictions on the Use of Funds?**

In some organizations, a substantial part of the resources received carry restrictions attached by donors or grant funders. The restrictions may be either fairly general (use this money only for the children’s program) or very specific (use this money only to buy art supplies for the children’s program). The Statement of Support, Revenue, and Expenses (Statement of Activities) should let you see that restrictions have been established by the donor/funder, and that the spending of these funds has been in accord with the restrictions.

There are two common ways that nonprofits show the existence of restricted funds in their financial statements. If your nonprofit uses the standard GAAP reporting format, you’ll see a distinction made between unrestricted and temporarily restricted gifts and grants on the statement reporting revenues and expenses. The gifts or grants that your organization received with donor restrictions will be presented in a column titled “temporarily restricted” (or “permanently restricted” if the gifts were to an endowment). In this approach, you’ll also see a line at the bottom of the income section which reports on amounts “released” from temporarily restrictions and added to unrestricted income. This line indicates that you have complied with the donors’ restrictions and used their funds according to their wishes.

Some nonprofits choose not to use the GAAP format. You can read more about this choice in Chapter 23. If your nonprofit is not using the GAAP format, you should still be able to see evidence that you are tracking donor restrictions

by looking at the Balance Sheet. There you will see a line item labeled "deferred revenue- grants received in advance" in the Liabilities section. This line item reports on funds which the nonprofit has received with restrictions which it has not yet used for the restricted purposes. When the nonprofit does use the funds for the purposes directed by the donor/grantor, the "deferred revenue" line item in the Liabilities section will be reduced and the grant income line item on the Statement of Activities (income statement) will be increased by the same amount. This entry reflects the fact that the nonprofit has earned the right to use the restricted funds by incurring costs which meet the donor's restrictions.

Understanding how nonprofits report on receiving and using restricted funds can be challenging, in part because different nonprofits use different methods. If you are not clear how you can see the receipt and use of restricted funds on your nonprofit's financial statements, it will be worthwhile asking an accountant to explain your current system and help you think through whether a different method would work better for your organization.

### Is the Organization "Breaking Even"?

To answer this question you'll have to see the Statement of Activities (Statement of Support, Revenue, and Expenses). This statement reports on revenues and expenses over a period of time – a month, a quarter, or a year. Expect to see both revenues and expenses broken down into separate categories describing the type of revenue (grants, contributions, fees, interest, etc.) and the types of expenses (salaries, taxes, rent, supplies, etc.).

There are two important ways to look at this information. First, look at the bottom line – the *net income* which may also be called the *excess (deficit) of revenues over expenses* or the *increase (decrease) in net assets*. If revenues exceed expenses, the net income will be positive. If expenses exceed revenues, the net income will be negative and shown in brackets. This positive or negative net income for the period you are looking at is really the explanation of whether the net worth (net assets) of the organization is growing or shrinking. A positive net income will result in an increase in the net assets (net worth). A negative net income will result in a decrease in the net assets (net worth).

Another important way to look at revenue and expense information is in comparison to the organization's budget for the time period. Hopefully, the organization has a complete annual budget which shows all the planned sources of income and all the planned types of expenses. You can compare the actual revenues and expenses reported on the Statement of Activity to the planned revenues and expenses presented in the budget. Your questions will be, "Are things going as we had planned? Are we generating the income we thought we would? Are we controlling costs within the limits set in the budget?"

You will also want to look at your revenues and expenses in comparison to prior years. This can be particularly helpful when you have some revenues or expenses which do not occur evenly throughout the year. For example, if you have major fund raising activities every year in December, simply comparing your fund raising income and expense to your annual budget in October won't really tell you whether you're on track. It will be more helpful to compare your current year to past years, and especially helpful to think about what percentage of fund raising income was generated by October in previous years compared to the percentage of your annual budget for fund raising income which has been generated by October this year.

This approach of comparing the current year revenues and expenses to past years allows you to look at trends. Over the past three years, has the percentage of your total income coming from individual donors or program fees increased or decreased? Has the percentage of fund raising income consumed by fund raising expenses increased or decreased? Hopefully you have already thought through what your goals are in these areas as you worked on preparing your annual budget. If you have set a goal of increasing the percentage of your total income which comes from individual donors, you can evaluate whether you are achieving that goal by looking at trend information.

### **Is the Organization Using Its Resources Wisely?**

This is perhaps the most important question of all. To answer it, you must know what the mission of the organization is, and the financial statements must give you enough information to be able to tell the purpose of the expenses as well as their descriptive character. For example, looking at a report which shows that the organization spent x dollars in salaries for the year, tells us the character of the expenses (i.e. salaries) but doesn't tell us the purpose (i.e. were the salaries spent for programs for children, seniors, or for administrators?).

We can get some information about the purpose of expenses through a functional presentation on the Statement of Activities or through a separate Statement of Functional Expenses. (See Appendix 20.) The functional presentation will distinguish expenses for program, administrative, and fundraising purposes, and if the organization has several different programs, distinguish the costs associated with each.

With functional expense data you can consider whether the organization seems to be spending its resources in accord with its mission and in a way which reflects its priorities. You may want to ask whether the organization can also convert this functional expense information into a cost per unit of service (this requires defining units of service and tracking them). The unit of service cost will allow you to compare the cost to provide a service at your organization

with the cost at another similar organization. Of course, such a comparison requires that both organizations have reliable data and have defined things similarly.

You may want to ask to have some supplemental information included on your financial reports to help you keep tabs on key indicators of both program and financial performance. For example, you may ask to see the number of clients served each month in comparison to your capacity, i.e. an average attendance of 200 in a child care facility licensed for 250 could be a sign that the organization needs to enroll children more rapidly or may have customer satisfaction problems. Average client census of nine in a residential care facility with sixteen slots would indicate potentially serious problems. This type of service utilization information is very important for organizations depending on payments per service provided.

### **Are the Books In Balance?**

While most readers of financial statements will have to rely on someone with greater accounting knowledge to evaluate the quality of the accounting in the organization, there is one simple test you can do to alert yourself to very obvious problems with the accounting.

To do the test, you must have the financial statements for two consecutive periods, i.e. for January and February. Take the total *net assets* from the first of the two periods, and add the *net income* (change in net assets) for the second period to it. The answer should be the same number as is shown for the total *net assets* of the second of the two periods. If it's not, seek help from someone knowledgeable about accounting. This could be an indication that the books are not in balance.

### **How Do We Know the Financial Statements Are "Right"?**

An audit completed by an independent CPA will give you the greatest assurance that the information presented on the financial statements presents the organization's financial position and activity fairly and should be relied upon. However, audits are generally done only once a year, and in small organizations, the cost of an audit may simply be too great to consider.

However, there are a number of simple procedures and cross checks which the accountant or executive director can perform each month to test the reliability of the statements. Be sure the organization has written fiscal policies and procedures and that they include the basic tests of accuracy. You could also ask a Director with a business background to review the financial records in detail at least once a year. You may also want to ask the treasurer to complete the

following checklist of simple tests in the following section to verify the financial statements and include the checklist with the financial report.

## THE MANAGER'S ROLE IN MONITORING FINANCIAL PERFORMANCE

Beyond the financial health questions discussed above, organizations with paid staff will need to rely on their managers to examine the financial reports in much greater detail. Be sure you have given specific managers responsibility for performing each of the monitoring steps discussed below. And be sure all those taking parts of these responsibilities are communicating regularly with each other, and that one person has ultimate responsibility for resolving the problems you identify.

### Steps to Be Sure the Reports Are Accurate:

- Verify that bank reconciliations have been completed for all cash accounts each month and that the balances shown on the financial statements agree with the reconciled balances.
- If you have accounts payable and accounts receivable, be certain that there are lists of all the individual amounts owed or owing which add to the totals shown on the financial statements.
- If you have acquired equipment, land or buildings, be sure these items are reflected in the assets section of your Balance Sheet.
- Perform the test of the connection between the Statement of Activity and the Balance Sheet described in the previous section. The *change in net assets (net income)* shown on the Statement of Activities should be the same as the *change in net assets* which can be computed by comparing the net assets at the beginning and end of the period reported on the Statement of Financial Position (Balance Sheet).
- Review the revenue and expense line items carefully. First compare them to the budget and be sure any significant differences between the actual revenues and expenses and the budget make sense to you. If they don't, ask the accountant to show you the detailed listing of transactions posted to the accounts which have unexpected balances. Review the transactions to see if something has been listed in an improper category.

- Review the revenue and expense line items to be sure that expenses have been correctly categorized in relation to different projects or funding sources.

### **Steps to Determine Whether Action Is Needed to Protect the Organization's Financial Health**

- Review the revenue line items which have fallen short of the planned level. Consider whether it is realistic to think that the shortfall can be made up in the remaining portions of the year. Avoid wishful thinking. Base your evaluation on specific plans with specific estimates.
- If part of your funding is dependent upon the number of people served or the volume of service provided, check the numbers in these areas carefully. If you are not achieving your targets, figure out what is preventing it.
- Review all expense items which are significantly greater than the projected level. Determine whether your annual estimate will still prove correct (e.g., you have just expended amounts in this category at a more rapid rate than planned, but the annual estimate is correct).
- Based on your analysis, consider whether you will need to pursue additional strategies to generate the revenue you need or whether you should make reductions in your spending level.
- Review all restricted funding reports with great care. Be sure they are based on the numbers in your General Ledger and those numbers are correct.
- Be sure you are familiar with the requirements of your contracts with restricted funders. Do you have to obtain permission to move amounts from one line item to another? If so, your analysis of the reports should focus on identifying any requests for changes you will need to submit to the funder.
- Are any of your grants or contracts "use it or lose it" agreements in which your organization is not entitled to receive funds unless you expend them on specified items? In a "use it or lose it" contract, controlling costs so that you underspend the contract is not helpful to your organization. Instead, if it appears that you are underspending, consider what additional resources the project needs, or whether you can make a case to include more of



your overall operating costs into the contract budget. Once you've developed a strategy, then you will have seek approval from the funder.

- Write down the major assumptions you've made in your analysis of the financial statements. Compare these assumptions to your next month's financial statements. This will provide rapid feedback about how realistic you are being.
  - Remember, the longer you wait to make revisions in your plan, the more dramatic the revisions may need to be because you will have less time to benefit from their effect.
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**October 28-29, 2008 Training**  
**Affordable Housing Financial Management: Intersection between Accounting,  
Development and Asset Management**

TABLE OF CONTENTS: Financial Documents

<b>I. Sample Project</b>	<b>Page</b>
a. Exercise Blank Financial Spreadsheet	1
b. Budget Comparison (Jan 2006 – Dec 2006)	2
c. Financial Statements with Accountant’s Audit Report (2006 and 2005)	5
<b>II. Sample Organization</b>	
a. Budget Comparison (Dec 2006)	18
b. Balance Sheet (Dec 2006)	20
c. Income Statement (Dec 2006)	23
d. Statements of Financial Position (Dec 2006)	27
e. Financial Audit with Financial Statement	33
<b>III. Happy Affordable Housing Project Case Study</b>	<b>53</b>

<b>SAMPLE PROJECT</b>		
Number of Units		25
		2006
<b>INCOME:</b>		
<b>GROSS POTENTIAL INCOME</b>		
Less: Rent Concession		
Less: Vacancy		
<b>Total Rental Income</b>		
Total Other Income		
<b>TOTAL INCOME</b>		
<b>EXPENSES:</b>		
Total Gen. & Admin. Exp.		
Total Utilities		
Total Repair and Maintenance		
Total Insurance		
Total Grounds		
Total Marketing		
Total Property Management Exp.		
Total Salaries & Wages		
Total Payroll Expense		
Total Taxes		
<b>TOTAL DIRECT EXPENSE</b>		
<b>REPLACEMENT RESERVES</b>		
<b>TOTAL EXPENSES</b>		
<b>NET OPERATING INCOME</b>		
<b>DEBT SERVICE (P&amp;I)</b>		
<b>NET INCOME (Loss)</b>		
<b>Critical Asset Management Indicators</b>		
Economic Vacancy Rate		
Physical Vacancy Loss (no Concessions)		
DCR		
Net Cash Flow PUPY		
Total Oper. Exp. PUPY		
Expense to Revenue Ratio		
Net Cash Flow as % of Revenues		
Net Cash Flow as % of Expenses		

**Sample Project**  
 Budget Comparison  
 Jan 2006 - Dec 2006

	YTD Actual	YTD Budget
<b>INCOME:</b>		
<b>RENTAL INCOME</b>		
Gross Potential Income	108,400.00	103,836.00
Less: Rent Concession	-622.70	0.00
Less: Vacancy	-5,358.70	-8,304.00
Total Rental Income	102,418.60	95,532.00
<b>OTHER INCOME</b>		
Interest Income	1,966.81	0.00
Misc. Income	681.04	1,080.00
Discounts Taken	0.23	0.00
Insurance Claim Reimbursement	284.28	0.00
Deposit Forfeiture Income	522.69	900.00
Total Other Income	3,455.05	1,980.00
<b>TOTAL INCOME</b>	<b>105,873.65</b>	<b>97,512.00</b>
<b>EXPENSES:</b>		
<b>GEN. &amp; ADMINISTRATIVE EXP.</b>		
Audit Fees	4,100.00	4,104.00
Bad Debt Expense	2,630.64	900.00
Compliance Fees	875.00	1,128.00
Interest Expense	16,641.25	16,662.92
Deferred Interest Expense	5,530.00	0.00
Legal Fees	0.00	600.00
Licenses & Other Fees	43.75	0.00
Miscellaneous Expense	98.90	0.00
Office Expense	168.23	180.00
Postage	137.21	0.00
Tenant Screening	504.25	300.00
Travel-Project	1,254.26	900.00
Total Gen. & Admin. Exp.	31,983.49	24,774.92
<b>UTILITIES</b>		
Electricity & Gas	3,603.97	3,672.00
Water	1,625.60	1,584.00
Sewer	7,929.56	7,272.00
Refuse Removal	5,401.37	4,296.00
Telephone	153.56	480.00
Total Utilities	18,714.06	17,304.00
<b>REPAIRS &amp; MAINTENANCE</b>		
Appliance Repairs	180.71	252.00
Cleaning - Labor & Supplies	830.82	540.00
Electrical - Repairs & Maint.	5.96	0.00
Fire & Safety	610.57	240.00
Flooring	722.08	0.00
Security Expense	40.05	0.00
HVAC Repairs & Maintenance	216.32	0.00
Materials & Supplies	5,500.92	5,400.00
Replacements	44.12	0.00
Painting - Labor & Materials	1,463.25	1,680.00
Plumbing Repairs & Maint.	353.19	0.00

**Sample Project**  
Budget Comparison  
Jan 2006 - Dec 2006

	YTD Actual	YTD Budget
Repair & Maintenance-General	7,282.75	6,600.00
Total Repair and Maintenance	17,250.74	14,712.00
<b>INSURANCE EXPENSE</b>		
Insurance	5,341.14	5,676.00
Total Insurance	5,341.14	5,676.00
<b>GROUNDS EXPENSE</b>		
Chemical Applications	330.12	0.00
Lawn / Landscaping	1,417.01	1,500.00
Snow Removal Expense	1,092.25	1,200.00
Total Grounds	2,839.38	2,700.00
<b>MARKETING EXPENSE</b>		
Advertising / Newspaper	86.24	360.00
Total Marketing	86.24	360.00
<b>PROPERTY MANAGEMENT EXP.</b>		
Compliance/Resident Svc Fee	3,000.00	3,000.00
PM Fee	11,400.00	11,400.00
Total Property Management Exp.	14,400.00	14,400.00
<b>SALARIES &amp; WAGES</b>		
Site Management Salaries	6,812.82	6,600.00
Other Direct Staffing	3,517.00	3,384.00
Maintenance Salary	10,544.15	6,000.00
Groundskeeper	619.47	0.00
Total Salaries & Wages	21,493.44	15,984.00
<b>PAYROLL EXPENSE</b>		
Payroll Tax Expenses	2,567.13	2,544.00
Health Insurance	637.77	720.00
Dental Insurance	248.14	240.00
Total Payroll Expense	3,453.04	3,504.00
<b>TAX EXPENSE</b>		
Real Estate Taxes	0.00	360.00
Total Taxes	0.00	360.00
<b>TOTAL DIRECT EXPENSE</b>	<b>115,561.53</b>	<b>99,774.92</b>
<b>TOTAL ALL EXPENSES</b>	<b>115,561.53</b>	<b>99,774.92</b>
<b>NET OPERATING INCOME</b>	<b>-9,687.88</b>	<b>-2,262.92</b>
<b>NON-OPERATING EXPENSE:</b>		
<b>DEBT SERVICE</b>		
Current Debt Prinipal Paid	0.00	3,000.16
Total Debt Service	0.00	3,000.16
<b>OTHER NON-OPERATING EXP.</b>		
Depreciation Expense	55,377.00	0.00
Ammortization Expense	184.33	0.00

**Sample Project**  
Budget Comparison  
Jan 2006 - Dec 2006

	YTD Actual	YTD Budget
Total Other Non-Operating Exp.	55,561.33	0.00
Total Non-Operating Expenses	55,561.33	3,000.16
NET INCOME (Loss)	-65,249.21	-5,263.08

**SAMPLE PROJECT LIMITED PARTNERSHIP**

**FINANCIAL STATEMENTS WITH  
ACCOUNTANT'S AUDIT REPORT**

December 31, 2006 and 2005

**SAMPLE PROJECT LIMITED PARTNERSHIP**

**AUDITED FINANCIAL STATEMENTS**  
December 31, 2006 and 2005

**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report .....	i
Balance Sheets .....	1
Statements of Operations .....	2
Statements of Partners' Capital .....	3
Statements of Cash Flows .....	4
Notes to Financial Statements .....	5-9
Supplemental Information .....	10-11

**SAMPLE PROJECT . LIMITED PARTNERSHIP**

BALANCE SHEETS  
As of December 31, 2006 and 2005

	<u>A S S E T S</u>	
	2006	2005
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 17,687	\$ 21,788
Restricted cash - tenant security deposits	9,161	8,334
Accumulated reserve account	12,604	13,301
Deficit reserve account	44,950	50,950
Accounts receivable	-	573
Prepaid expenses	1,469	1,742
Total current assets	85,871	96,688
<b>INVESTMENT IN REAL ESTATE - AT COST:</b>		
Land	92,100	92,100
Buildings and improvements	1,626,228	1,621,121
Furnishings and equipment	30,314	22,550
	1,748,642	1,735,771
Less accumulated depreciation	(489,236)	(433,859)
Total investments in real estate	1,259,406	1,301,912
<b>OTHER ASSET:</b>		
Unamortized loan origination fees, less accumulated amortization of \$1,812 and \$1,628 respectively	3,718	3,902
	\$ 1,348,995	\$ 1,402,502
<u>L I A B I L I T I E S   A N D   P A R T N E R S '   C A P I T A L</u>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 623	\$ 400
Accounts payable - affiliates, reimbursable expenses	18,089	17,719
Prepaid rent	154	-
Deferred interest	56,880	51,350
Accrued interest	1,377	1,398
Tenant security deposits	8,110	5,624
Bank loan payable, current portion	3,271	3,000
Total current liabilities	88,504	79,491
<b>LIABILITIES APPLICABLE TO INVESTMENT IN REAL ESTATE:</b>		
Bank loan payable	187,495	190,766
Mortgage payable - deferred	553,000	553,000
Total liabilities applicable to investment in real estate	740,495	743,766
Total liabilities	828,999	823,257
<b>PARTNERS' CAPITAL</b>		
	519,996	579,245
	\$ 1,348,995	\$ 1,402,502

See accompanying independent auditor's report and notes to financial statements.

**SAMPLE PROJECT LIMITED PARTNERSHIP**

**STATEMENTS OF OPERATIONS**

For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>REVENUES:</b>		
Rental income	\$ 108,400	\$ 95,478
Less: Vacancies	(5,359)	(7,605)
Concessions	(623)	(510)
Net rental income	<u>102,418</u>	<u>87,363</u>
Interest income	1,967	27
Other operating income	<u>1,488</u>	<u>2,005</u>
Total operating revenue	<u>105,873</u>	<u>89,395</u>
<b>OPERATING EXPENSES:</b>		
Administrative	22,592	17,867
Utilities	18,561	16,375
Professional fees - <i>Admin<sup>2</sup></i>	4,100	4,646
Management fees - <i>PM exp.<sup>2</sup></i>	11,400	11,400
Repairs & maintenance	31,253	19,222
Taxes & insurance - <i>collected by Audit</i>	5,342	6,742
Interest expense	16,642	16,923
Deferred interest expense	5,530	5,530
Miscellaneous	141	402
Total operating expenses	<u>115,561</u>	<u>99,107</u>
OPERATING LOSS BEFORE DEPRECIATION AND AMORTIZATION	(9,688)	(9,712)
DEPRECIATION & AMORTIZATION	<u>(55,561)</u>	<u>(54,350)</u>
OPERATING LOSS	<u>(65,249)</u>	<u>(64,062)</u>
NET LOSS	<u>\$ (65,249)</u>	<u>\$ (64,062)</u>

See accompanying independent auditor's report and notes to financial statements.

**Sample Project** LIMITED PARTNERSHIP

STATEMENTS OF PARTNERS' CAPITAL  
For the years ended December 31, 2006 and 2005

	<u>General Partner</u>	<u>Limited Partner</u>	<u>Total</u>
PARTNERS' CAPITAL - January 1, 2005	\$ 133,886	\$ 410,921	\$ 544,807
Capital Contributions	47,500	51,000	98,500
Net Income (Loss)	<u>(64)</u>	<u>(63,998)</u>	<u>(64,062)</u>
PARTNERS' CAPITAL - December 31, 2005	181,322	397,923	579,245
Capital Contributions	6,000	-	6,000
Net Income (Loss)	<u>(65)</u>	<u>(65,184)</u>	<u>(65,249)</u>
PARTNERS' CAPITAL - December 31, 2006	<u>\$ 187,257</u>	<u>\$ 332,739</u>	<u>\$ 519,996</u>

See accompanying independent auditor's report and notes to financial statements.

**Sample Project** LIMITED PARTNERSHIP

STATEMENTS OF CASH FLOWS  
For the years ended December 31, 2006 and 2005

	2006	2005
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:</b>		
Net loss	\$ (65,249)	\$ (64,062)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	55,561	54,350
Interest reinvested in the accumulated reserve account	(177)	(152)
(Increase) decrease in:		
Restricted cash-tenant security deposits	(827)	(2,102)
Accounts receivable	573	(549)
Prepaid expenses	273	(48)
Increase (decrease) in:		
Accounts payable	223	(802)
Accounts payable - affiliates, development fees & reimb. exp's	370	(4,849)
Prepaid rent	154	(83)
Deferred interest	5,530	5,530
Accrued interest	(21)	(20)
Tenant security deposits	2,486	1,396
Net cash provided (used) by operating activities	(1,104)	(11,391)
<b>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:</b>		
Payments for improvements and furnishings	(12,871)	(21,338)
Deposits to cash reserves	(6,000)	(57,000)
Withdrawals from cash reserves	12,874	50
Net cash provided (used) by investing activities	(5,997)	(78,288)
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:</b>		
Principal payments on loans	(3,000)	(2,752)
Partner contributions	6,000	98,500
Net cash provided by financing activities	3,000	95,748
<b>NET INCREASE (DECREASE) IN CASH</b>	(4,101)	6,069
CASH - Beginning of year	21,788	15,719
CASH - End of year	\$ 17,687	\$ 21,788
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid during the year for interest	\$ 16,663	\$ 16,943

See accompanying independent auditor's report and notes to financial statements.

## Sample Project LIMITED PARTNERSHIP

### NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

#### NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS:

**Sample Project Limited Partnership** (the Partnership) is a limited partnership organized in the State to acquire, own, rehabilitate, lease, manage and operate 25 low income housing units on a rental basis in the greater City area. The Project was completed and began initial rental operations in 1996.

The Partnership was organized initially with Sample Organization being the General Partner and Community as the Limited Partner. On June 15, 1997, the Partnership Agreement was amended to withdraw Community and admit Housing Fund Limited Partnership, as the limited partner with an interest of 99.9%. Net loss for the years ending December 31, 2006 and 2005 has been allocated based on the percentage of ownership at the end of the year.

The Partnership received an allocation of low income housing tax credits from the State Commission under Section 42 of the Internal Revenue Code of 1986, as amended.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting: The financial statements of the Partnership are prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires the partnership to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment: Property and equipment are carried at cost and are depreciated over the assets estimated useful lives using straight-line and accelerated methods. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. The following is a schedule of the estimated useful lives by category.

Buildings and improvements	10-39 years
Appliances, furniture and fixtures	5-10 years
Equipment	5-7 years

The Partnership reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property, including the low-income housing tax credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2006 or 2005.

Amortization: Mortgage loan costs are amortized over the term of the mortgage loan using the straight-line method.

**Sample Project      LIMITED PARTNERSHIP**

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Below-Market Interest Rate Loans: The Partnership holds one loan (see Note 5) with interest rate below standard, commercial interest rates. This loan is part of the financing of a low income housing program. Typically low income housing programs are able to obtain financing at rates similar to the rates being charged to the Partnership. As such, the Partnership does not recognize discounts from the face amount of the loan for the effect of the below-market interest rate loans.

Cash: Cash is defined, for the purposes of the statement of cash flows, as cash held in banks in demand and savings accounts, excluding restricted cash.

Advertising: Advertising costs are charged to expense as incurred.

Rental Income: Rental income is recognized as rent becomes due. Rental payments received in advance are deferred until earned. All leases between the Partnership and the tenants of the property are operating leases. The Partnership requires each new tenant to sign a six month lease agreement. Following completion of this initial lease agreement, tenants may continue renting on a month-to-month basis.

NOTE 3 - INCOME TAXES:

For income tax purposes, all earnings or losses of the Partnership are passed through to the partners and taxed depending on their tax situations. Therefore, the financial statements do not reflect provisions for income taxes.

NOTE 4 - PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	2006	2005
Land	\$ 92,100	\$ 92,100
Buildings	462,075	462,075
Building Improvements	1,164,153	1,159,046
Appliances, furniture & fixtures	30,314	22,550
	1,748,642	1,735,771
Accumulated depreciation	(489,236)	(433,859)
	\$ 1,259,406	\$ 1,301,912

**Sample Project**                      LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS  
December 31, 2006 and 2005

NOTE 5 - MORTGAGE AND NOTES PAYABLE:

As of December 31, 2006 and 2005, the mortgage payable consisted of the following:

As of December 31, 2000, the Partnership had a loan payable to Bank                      secured by a deed of trust with an assignment of rents, security agreement and fixture filing covering land, improvements and certain other property. As of December 31, 2006 and 2005 the principal balance of the loan is \$190,766 and \$193,766, respectively. Payments of principal and interest are due monthly in the amount of \$1,639. Interest has been fixed at 8.66% per annum for the first twenty years of the loan term. The maturity date of the loan is 2028.

Mortgage note payable to State                      Office of Trade and Development, deferred for thirty (30) years. Accrued interest is payable annually at 100% of any available net cash flow in each calendar year beginning on December 31, 1997, and continuing to be due and payable on December 31 for twenty-nine (29) additional consecutive years. Such payments will be applied as interest only payments unless they exceed the accrued interest, then they will be applied first to accrued interest and second to loan principal. Repayment terms will be negotiated at the end of the deferral period. The note accrues compound interest at an effective rate of 1% per annum. Deferred interest amounts to \$56,880 and \$51,350 as of December 31, 2006 and 2005, respectively. The note is secured by a deed of trust covering property situated in Some                      County, some state. As of December 31, 2006 and 2005, the Partnership owed \$553,000 under this loan agreement.

Future maturities of mortgage and notes payable are as follows:

December 31	Bank	Mortgage Note Payable	Total
2006	\$ 3,271	\$ -	\$ 3,271
2007	3,565	-	3,565
2008	3,887	-	3,887
2009	4,237	-	4,237
2010	4,619	-	4,619
Thereafter	171,187	553,000	724,187
	<u>\$ 190,766</u>	<u>\$ 553,000</u>	<u>\$ 743,766</u>

NOTE 6 - RELATED PARTY TRANSACTIONS:

During the course of operations, Sample Organization                      (the general partner) occasionally advances funds to the Partnership via payment of vendor invoices and payroll on their behalf. At December 31, 2006 and 2005, the Partnership has a payable to Sample Organization                      for \$18,089 and \$17,719, respectively, for such reimbursable expenses.

**Sample Project** LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS  
December 31, 2006 and 2005

NOTE 7 - PARTNERSHIP ADMINISTRATION FEES:

The partnership agreement calls for the Partnership to pay the Sample Organization an annual partnership management services fee up to a maximum amount of \$10,000 per annum. The fee shall be payable only to the extent the Partnership has cash from operations remaining after payment of all other Partnership operating expenses (including the property management fee, see Note 11) and the funding of operating and replacement reserves in accordance with the Partnership agreement. There was not sufficient net cash flow to fund this fee in 2006 or 2005.

NOTE 8 - RESERVE ACCOUNTS:

Accumulated Reserve Account - The Partnership and construction agreements require a "Capitalized" Reserve Account (CRA) and an Accumulated Reserve Account (ARA) be set up and maintained by the Partnership for future costs of replacing eligible capital improvement items. The CRA is held by the bank and owned by Community (a not-for-profit organization and the original limited partner), and is pledged to the bank on behalf of the Partnership in the initial amount of \$46,000. The Partnership agreement and subsequent pledge agreement with Bank requires quarterly deposits in the amount of \$1,500 by the Partnership into an Accumulative Reserve Account (ARA), which would eventually replace the CRA. The ARA account is owned by the Partnership. The cumulative total of both accounts must be maintained at \$46,000. Releases from the reserve accounts must be properly approved according to the agreement. During the years ending December 31, 2006 and 2005, \$6,000 and \$6,000 respectively, were authorized for release from the CRA account, of which, \$6,000 and \$6,000 were contributed to the ARA. The ARA account earned interest of \$177 and \$152 during 2006 and 2005. During the year ending December 31, 2006, a withdrawal from the ARA in the amount of \$6,874 was authorized to pay certain operating expenses. The ARA had a balance of \$12,604 and \$13,301 at December 31, 2006 and 2005, respectively.

Based on requirements in the partnership and pledge agreements, the bank will utilize accumulative interest on the funds held in the CRA to maintain the \$46,000 requirement until such time as the quarterly deposits in the ARA are sufficient to meet the obligations of the agreements. Interest over and above the cumulative total of \$46,000 is paid out to Community as requested. As requests are made by the Partnership for CRA funds, the principal amount owned by Community diminishes and there is no obligation on the Partnership to repay those amounts.

Deficit Reserve Account - During the fiscal year ending December 31, 2005, the Partnership received an additional capital contribution of \$51,000 from the limited partner to be used in the funding of a Deficient Reserve Account (see Note 10). This account is to be used to help fund operating deficits so that the partnership can pay operating costs including certain fees due to the general partner.

**Sample Project LIMITED PARTNERSHIP**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2006 and 2005

NOTE 9 - EXEMPTION FROM REAL ESTATE TAXES:

During the year ending December 31, 2001, the Partnership applied for property tax exemption based on the low-income housing facility. The exemption was granted and renewed for the years ending December 31, 2006 and 2005.

NOTE 10 - CAPITAL CONTRIBUTIONS:

Included in Capital Contributions at December 31, 2006 and 2005 are the following:

	General Partner	Limited Partner
Contributions to date, December 31, 2004	\$ 203,471	\$ 784,600
Payments from partners	47,500	51,000
Contributions to date, December 31, 2005	250,971	835,600
Payments from partners	6,000	-
Contributions to date, December 31, 2006	\$ 256,971	\$ 835,600

The Partnership agreement specifies capital contributions totaling \$931,896 be contributed by the Partners, which had been completed by December 31, 2000. During 2005 the limited partner contributed an additional \$51,000, which was used to fund the Deficient Reserve Account (see Note 8). During 2006 and 2005, the general partner contributed an additional \$6,000 and \$47,500, respectively. During 2002, the general partner contributed an additional \$19,175. During 2001, the limited partner contributed an additional \$25,000.

NOTE 11 - PROPERTY MANAGEMENT AGREEMENT:

As of June 1, 2002 Sample Organization assumed the responsibility for residential management of the rental units. For the December 31, 2006 and 2005 fiscal years Sample Organization management fee was based on the budgeted amount the Partnership had allocated for the management fee. For the years ending December 31, 2006 and 2005 the total management fees incurred to Sample Organization totaled \$11,400 and \$11,400.

**Sample Project** LIMITED PARTNERSHIP

SCHEDULES OF INCOME AND EXPENSES  
For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Rental Income		
Residential income	\$ 67,299	\$ 76,914
Local HA subsidy rents	32,348	18,564
( subsidy rents	8,753	-
	<u>\$ 108,400</u>	<u>\$ 95,478</u>
Interest Income		
Savings & temporary investments	<u>\$ 1,967</u>	<u>\$ 27</u>
Other Income		
Late charges	\$ -	\$ 600
Tenant charges	523	847
Miscellaneous	681	558
Insurance reimbursement	284	-
	<u>\$ 1,488</u>	<u>\$ 2,005</u>

**Sample Project LIMITED PARTNERSHIP**

SCHEDULES OF INCOME AND EXPENSES

For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Administrative Expenses:		
Advertising	\$ 86	\$ 431
Education, conferences and workshops	-	60
Site manager payroll and related expenses	10,330	6,228
Payroll taxes and benefits	3,453	2,690
Compliance/ resident service fee	3,875	3,875
Tenant screening	504	501
Telephone	154	386
Travel	1,254	1,124
Office Supplies	305	320
Uncollectible rents	2,631	2,252
	<u>\$ 22,592</u>	<u>\$ 17,867</u>
Utilities:		
Electricity & gas	\$ 3,604	\$ 3,299
Water & sewer	9,556	8,645
Garbage and refuse	5,401	4,431
	<u>\$ 18,561</u>	<u>\$ 16,375</u>
Professional fees:		
Legal	\$ -	\$ 646
Audit and accounting	4,100	4,000
	<u>\$ 4,100</u>	<u>\$ 4,646</u>
Management fees:		
Property management	\$ 11,400	\$ 11,400
Repairs and maintenance:		
Repairs and maintenance	\$ 7,936	\$ 6,508
Grounds expenses	11,062	3,600
Snow removal	1,092	1,519
Maintenance salary	11,163	7,595
	<u>\$ 31,253</u>	<u>\$ 19,222</u>
Taxes and insurance:		
Other taxes	\$ -	\$ 119
Property insurance	5,342	6,623
	<u>\$ 5,342</u>	<u>\$ 6,742</u>
Interest expenses:		
Interest expense - Bank	\$ 16,642	\$ 16,923
Deferred interest expense - CTED	5,530	5,530
	<u>\$ 22,172</u>	<u>\$ 22,453</u>
Miscellaneous:	<u>\$ 141</u>	<u>\$ 402</u>
Depreciation and amortization:		
Depreciation	\$ 55,377	\$ 54,166
Amortization	184	184
	<u>\$ 55,561</u>	<u>\$ 54,350</u>

# All Organization

## Budget Comparison

### Dec 2006

	MTD Actual	MTD Budget	\$ Var.	% Var.	YTD Actual	YTD Budget	\$ Var.	% Var.	Annual
<b>INCOME:</b>									
<b>RENTAL INCOME</b>									
Rent - Agency's Portion	0.00	0.00	0.00	0	259.00	0.00	259.00	0	0.00
<b>Total Rental Income</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0</b>	<b>259.00</b>	<b>0.00</b>	<b>259.00</b>	<b>0</b>	<b>0.00</b>
<b>OTHER INCOME</b>									
Interest Income	36.47	0.00	36.47	0	484.04	0.00	484.04	0	0.00
Laundry Income	0.00	0.00	0.00	0	250.50	0.00	250.50	0	0.00
Other Property Management F	8,900.00	8,900.00	0.00	0.00	106,800.00	106,800.00	0.00	0.00	106,800.00
Sample Project PM Fee Income	1,200.00	1,200.00	0.00	0.00	14,400.00	14,400.00	0.00	0.00	14,400.00
Partnership Fee Income	0.00	1,250.00	-1,250.00	-100.0	0.00	15,000.00	-15,000.00	-100.0	15,000.00
- Prop Mgmt. Fee Inco	2,816.67	2,816.63	0.04	0.00	33,800.04	33,800.00	0.04	0.00	33,800.00
- Prop Mgmt. Fee Inc	2,116.67	2,116.63	0.04	0.00	25,400.04	25,400.00	0.04	0.00	25,400.00
- Prop Mgmt. Fee Inc	2,116.67	2,116.63	0.04	0.00	25,400.04	25,400.00	0.04	0.00	25,400.00
- PM Fee Income	1,616.67	1,616.63	0.04	0.00	19,400.04	19,400.00	0.04	0.00	19,400.00
Misc. Income	30.00	0.00	30.00	0	1,052.11	0.00	1,052.11	0	0.00
Organization PM Fees	13,181.48	12,666.63	514.85	4.06	158,177.76	152,000.00	6,177.76	4.06	152,000.00
Other Direct Mgmt Svc F	1,847.00	1,661.12	185.88	11.19	21,479.32	19,933.00	1,546.32	7.76	19,933.00
Discounts Taken	0.00	0.00	0.00	0	0.80	0.00	0.80	0	0.00
City of Grant	2,125.00	1,833.37	291.63	15.91	28,500.00	22,000.00	6,500.00	29.55	22,000.00
Other Source Grant	13,691.00	2,500.00	11,191.00	447.64	30,000.00	30,000.00	0.00	0.00	30,000.00
Grants to Projects	600.00	3,541.63	-2,941.63	-83.06	27,900.00	42,500.00	-14,600.00	-34.35	42,500.00
<b>Total Other Income</b>	<b>50,277.63</b>	<b>42,219.27</b>	<b>8,058.36</b>	<b>19.09</b>	<b>493,044.69</b>	<b>506,633.00</b>	<b>-13,588.31</b>	<b>-2.68</b>	<b>506,633.00</b>
<b>ADMINISTRATIVE INCOME</b>									
Development Fee Income	0.00	5,583.37	-5,583.37	-100.0	8,000.00	67,000.00	-59,000.00	-88.06	67,000.00
<b>Total Administrativ</b>	<b>0.00</b>	<b>5,583.37</b>	<b>-5,583.37</b>	<b>-100.0</b>	<b>8,000.00</b>	<b>67,000.00</b>	<b>-59,000.00</b>	<b>-88.06</b>	<b>67,000.00</b>
<b>TOTAL INCOME</b>	<b>50,277.63</b>	<b>47,802.64</b>	<b>2,474.99</b>	<b>5.18</b>	<b>501,303.69</b>	<b>573,633.00</b>	<b>-72,329.31</b>	<b>-12.61</b>	<b>573,633.00</b>
<b>EXPENSES:</b>									
<b>GEN. &amp; ADMINISTRATIVE EXP</b>									
Bank Fees	-25.29	0.00	25.29	0	0.00	0.00	0.00	0	0.00
Interest Expense	-3.01	0.00	3.01	0	0.00	0.00	0.00	0	0.00
Licenses & Other Fees	-1.00	0.00	1.00	0	0.00	0.00	0.00	0	0.00
Miscellaneous Expense	-0.01	0.00	0.01	0	0.00	0.00	0.00	0	0.00
Capitalized Office Expen	5,818.63	0.00	-5,818.63	0	7,178.14	0.00	-7,178.14	0	0.00
Petty Cash	0.00	0.00	0.00	0	25.00	0.00	-25.00	0	0.00
Postage	-117.00	0.00	117.00	0	0.00	0.00	0.00	0	0.00
Tenant Screening	-44.00	0.00	44.00	0	0.00	0.00	0.00	0	0.00
Travel-Project	2.96	0.00	-2.96	0	2.96	0.00	-2.96	0	0.00
Travel - Training	0.00	0.00	0.00	0	1.75	0.00	-1.75	0	0.00
<b>Total Gen. &amp; Admi</b>	<b>5,631.28</b>	<b>0.00</b>	<b>-5,631.28</b>	<b>0</b>	<b>7,207.85</b>	<b>0.00</b>	<b>-7,207.85</b>	<b>0</b>	<b>0.00</b>
<b>REPAIRS &amp; MAINTENANCE</b>									
Cleaning - Labor & Supp	0.00	0.00	0.00	0	112.27	0.00	-112.27	0	0.00
Materials & Supplies	2.00	0.00	-2.00	0	2.00	0.00	-2.00	0	0.00
<b>Total Repair and M</b>	<b>2.00</b>	<b>0.00</b>	<b>-2.00</b>	<b>0</b>	<b>114.27</b>	<b>0.00</b>	<b>-114.27</b>	<b>0</b>	<b>0.00</b>
<b>GROUNDS EXPENSE</b>									
Lawn / Landscaping	0.00	0.00	0.00	0	-146.48	0.00	146.48	0	0.00
<b>Total Grounds</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0</b>	<b>-146.48</b>	<b>0.00</b>	<b>.48</b>	<b>0</b>	<b>0.00</b>
<b>PAYROLL EXPENSE</b>									
Payroll Tax Expenses	2.50	0.00	-2.50	0	963.20	0.00	-963.20	0	0.00
Health Insurance	2,213.16	0.00	-2,213.16	0	3,311.84	0.00	-3,311.84	0	0.00
Dental Insurance	-1,627.90	0.00	1,627.90	0	1,095.75	0.00	-1,095.75	0	0.00
<b>Total Payroll Expe</b>	<b>587.76</b>	<b>0.00</b>	<b>-587.76</b>	<b>0</b>	<b>5,370.79</b>	<b>0.00</b>	<b>-5,370.79</b>	<b>0</b>	<b>0.00</b>
<b>TOTAL DIRECT EX</b>	<b>6,221.04</b>	<b>0.00</b>	<b>-6,221.04</b>	<b>0</b>	<b>12,546.43</b>	<b>0.00</b>	<b>-12,546.43</b>	<b>0</b>	<b>0.00</b>
<b>INDIRECT G&amp;A EXPENSES</b>									
Bank Fees	25.29	0.00	-25.29	0	667.14	0.00	-667.14	0	0.00
Computer Expense	-20,629.06	3,291.63	23,920.69	726.71	15,498.63	39,500.00	24,001.37	60.76	39,500.00
Website Expense	0.00	0.00	0.00	0	2,390.00	0.00	-2,390.00	0	0.00
Software Upgrade Expense	26,913.98	0.00	-26,913.98	0	27,884.17	0.00	-27,884.17	0	0.00
Dues & Subscriptions	35.00	183.37	148.37	80.91	2,293.00	2,200.00	-93.00	-4.23	2,200.00

# All Organization Budget Comparison Dec 2006

	MTD Actual	MTD Budget	\$ Var.	% Var.	YTD Actual	YTD Budget	\$ Var.	% Var.	Annual
Board Support Costs	0.00	0.00	0.00	0	930.96	0.00	-930.96	0	0.00
Education, Conf., Workshops	0.00	208.37	208.37	100.00	4,707.04	2,500.00	-2,207.04	-88.28	2,500.00
Licenses & Other Fees	1.00	0.00	-1.00	0	51.00	0.00	-51.00	0	0.00
Legal Administrative	0.00	83.37	83.37	100.00	0.00	1,000.00	1,000.00	100.00	1,000.00
Misc Exp - Indirect	479.31	500.00	20.69	4.14	2,312.51	6,000.00	3,687.49	61.46	6,000.00
Lease Expense	1,272.00	1,475.00	203.00	13.76	15,264.00	17,700.00	2,436.00	13.76	17,700.00
Office Expense	539.29	708.37	169.08	23.87	4,279.65	8,500.00	4,220.35	49.65	8,500.00
Copier Lease	382.69	375.00	-7.69	-2.05	3,310.12	4,500.00	1,189.88	26.44	4,500.00
Admin Postage	-39.22	0.00	39.22	0	1,069.86	0.00	-1,069.86	0	0.00
Tenant Screening	44.00	0.00	-44.00	0	44.00	0.00	-44.00	0	0.00
Travel Project	63.49	0.00	-63.49	0	725.51	0.00	-725.51	0	0.00
Travel Conference	0.00	291.63	291.63	100.00	1,769.47	3,500.00	1,730.53	49.44	3,500.00
Board Mtg Expense	0.00	0.00	0.00	0	362.28	0.00	-362.28	0	0.00
Office Utilities	200.00	0.00	-200.00	0	2,400.00	0.00	-2,400.00	0	0.00
Telephone - Indirect	948.07	1,000.00	51.93	5.19	12,078.36	12,000.00	-78.36	-0.65	12,000.00
Insurance - Indirect	0.00	250.00	250.00	100.00	2,761.80	3,000.00	238.20	7.94	3,000.00
Advertising - Indirect	0.00	41.63	41.63	100.00	434.30	500.00	65.70	13.14	500.00
Contracted Social Service	1,000.00	1,125.00	125.00	11.11	8,000.00	13,500.00	5,500.00	40.74	13,500.00
Salary - Indirect	9,519.20	0.00	-9,519.20	0	9,519.20	0.00	-9,519.20	0	0.00
Administrative Salary Indirect	12,207.28	10,950.00	-1,257.28	-11.48	139,235.80	131,400.00	-7,835.80	-5.96	131,400.00
Christmas Bonus	2,167.30	0.00	-2,167.30	0	2,167.30	0.00	-2,167.30	0	0.00
Resident Svc/Compliance	5,256.84	5,666.63	409.79	7.23	66,780.34	68,000.00	1,219.66	1.79	68,000.00
PM Salary	6,807.80	5,833.37	-974.43	-16.70	87,129.46	70,000.00	-17,129.46	-24.47	70,000.00
Payroll Tax - Indirect	3,040.41	2,870.87	-169.54	-5.91	30,606.43	34,450.00	3,843.57	11.16	34,450.00
Health Ins - Indirect	-5,194.89	2,602.12	7,797.01	299.64	29,427.68	31,225.00	1,797.32	5.76	31,225.00
Dental - Indirect	-1,127.68	0.00	1,127.68	0	4,863.02	0.00	-4,863.02	0	0.00
Flex Spending Expense	90.00	0.00	-90.00	0	485.00	0.00	-485.00	0	0.00
Administrative Exp. - Indirect	-9,519.20	0.00	9,519.20	0	0.00	0.00	0.00	0	0.00
<b>TOTAL INDIRECT</b>	<b>34,482.90</b>	<b>37,456.36</b>	<b>2,973.46</b>	<b>7.94</b>	<b>479,448.03</b>	<b>449,475.00</b>	<b>-29,973.03</b>	<b>-6.67</b>	<b>449,475.00</b>
Development Salary	8,273.07	8,750.00	476.93	5.45	104,948.19	105,000.00	51.81	0.05	105,000.00
Development Tax, Benefit	1,609.87	1,666.63	56.76	3.41	14,914.13	20,000.00	5,085.87	25.43	20,000.00
Development Exp other	722.82	83.37	-639.45	-767.0	7,426.35	1,000.00	-6,426.35	-642.6	1,000.00
<b>TOTAL DEVELOP</b>	<b>10,605.76</b>	<b>10,500.00</b>	<b>-105.76</b>	<b>-1.01</b>	<b>127,288.67</b>	<b>126,000.00</b>	<b>-1,288.67</b>	<b>-1.02</b>	<b>126,000.00</b>
<b>TOTAL ALL EXPENSES</b>	<b>51,309.70</b>	<b>47,956.36</b>	<b>-3,353.34</b>	<b>-6.99</b>	<b>619,283.13</b>	<b>575,475.00</b>	<b>-43,808.13</b>	<b>-7.61</b>	<b>575,475.00</b>
<b>NET OPERATING INCOME</b>	<b>-1,032.07</b>	<b>-153.72</b>	<b>-878.35</b>	<b>571.40</b>	<b>-117,979.44</b>	<b>-1,842.00</b>	<b>-116,137.44</b>	<b>6,304.</b>	<b>-1,842.00</b>
<b>NON-OPERATING EXPENSE:</b>									
<b>NET INCOME (Loss)</b>	<b>-1,032.07</b>	<b>-153.72</b>	<b>-878.35</b>	<b>571.40</b>	<b>-117,979.44</b>	<b>-1,842.00</b>	<b>-116,137.44</b>	<b>6,304.</b>	<b>-1,842.00</b>

# All Organization

1

## Balance Sheet Dec 2006

### ASSETS:

#### CURRENT ASSETS

##### CASH

Petty Cash	600.00
Cash in Bank	232,746.80
Payroll Cash	8,248.33
Trust Acct. - Security Deposit	42,121.23
Grants receivable	8,175.00
RE Tax & OP Reserves	10,000.00
Repl. Reserves	50,299.29
Total Cash	352,190.65

#### OTHER ASSETS

A/R-	8.13
A/R-	330,775.92
A/R-	14,037.27
A/R -	10,397.52
A/R - Sample Project	17,524.96
A/R -	3,782.80
A/R -	2,536.57
A/R -	3,454.91
A/R -	71.09
A/R -	51,104.30
Development	127,408.29
N/R -	797.18
N/R -	122,500.00
N/R -	600,000.00
Accrued Interest-Notes Rec.	12,392.55
Accrued Interest-Prom Note	131,463.60
Capital Investment Sample Project	181,322.00
Capital Investment -	20,927.00
Capital Investment -	45.00
Capital Investment -	-11,336.00
Capital Investment -	51.00
Capital Investment -	56,653.00
Prepaid Medical Insurance	8,922.82
Prepaid Insurance	10,212.62
Prepaid Mgmt Fees	676.00
Prepaid Expenses	6,645.59
Prepaid Annual LID Fees	37.00
Total Other Assets	1,702,411.12

#### TOTAL CURRENT ASSETS

2,054,601.77

#### FIXED ASSETS

Building	3,115,943.90
Building Improvements	1,920,539.30
A/D - Bldgs. & Improvements	1,328,734.90
Furniture & Equipment	167,541.59
A/D - Furniture & Equipment	127,034.87
Loan Fees	16,377.76
Loan Fee Ammortization	-478.34
Computer & Related Software	189.88
Corporate Setup	2,265.67
Land	551,014.21

20

# All Organization

2

## Balance Sheet

Dec 2006

Land-Lot in development	24,753.00
Land-Parking Lot	<u>54,486.00</u>
Total Fixed Assets	4,397,819.88
<b>TOTAL ASSETS</b>	<u><u>6,452,421.65</u></u>
<b>LIABILITIES &amp; CAPITAL:</b>	
<b>LIABILITIES:</b>	
<b>CURRENT LIABILITIES</b>	
A/P Equipment	-9.60
Insurance Payable	8,567.53
Accounts Payable	28,623.85
Accr. Payroll	3.04
SUSPENSE	634.19
Accounts Payable-Admin	1,825.66
Payroll Spread Suspense	223.49
Payroll Tax Spread Suspense	<u>-12.39</u>
Total Current Liabilities	39,855.77
<b>DEPOSITS / INCOME HELD</b>	
Deferred Mgmt fee	676.00
Security Deposits	32,818.87
Pre-Paid Rent	22.98
Clearing Acct-Security Deposit	<u>103.00</u>
Total Sec. Dep. & Prepaid Rent	33,620.85
<b>TAXES PAYABLE</b>	
Fed. W/H Accrued	307.66
FICA W/H Accrued	3,889.66
FICA W/H Accrued-Employee	557.64
State P/R Tax	909.74
State Unemployment Tax	2,660.59
Workers' Compensation Ins.	4,446.91
Child Support Payable	189.27
Annuity Payable	350.00
LT Disability	<u>30.74</u>
Total Payroll Payable	13,342.21
<b>INTEREST PAYABLE</b>	
Accr. Int. Payable Lender	3,393.93
Accr. Int. Payable - Other	8,623.28
Def. Accr. Int. Pay. CTED	211,103.56
Line of Credit	<u>235,716.60</u>
Total Other Payable	458,837.37
<b>LOANS PAYABLE</b>	
Loan Payable	384,354.04
Construction Loan	513,348.07
Loan Payable -	263,329.99
Promissory Note - Payable	322,500.00
Promisary Note -	<u>600,000.00</u>
Total Loans Payable	2,083,532.10
<b>LONG TERM LIABILITIES</b>	
Long Term Payable Loan	1,139,976.76

**All Organization**  
**Balance Sheet**  
**Dec 2006**

3

Def. CTED Payable Loan	1,989,391.05
Def. Mtg. Payable	360,913.00
Long Term Payable Loan - Other	<u>7,102.81</u>
<b>Total Long Term Liabilities</b>	<b>3,497,383.62</b>
<b>TOTAL LIABILITIES</b>	<b><u>6,126,571.92</u></b>
<b>CAPITAL:</b>	
Loss on Partnership Inv	-1,025.00
Res acct Forf Income	6,000.00
Capital Contribution	-14,500.00
Fund Balance	338,863.77
Transfer Net Assets	<u>-3,489.04</u>
<b>TOTAL CAPITAL</b>	<b><u>325,849.73</u></b>
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b><u><u>6,452,421.65</u></u></b>

**All Organization**  
**Income Statement**  
**Dec 2006**

	Month to Date	%	Year to Date	%
<b>INCOME:</b>				
<b>RENTAL INCOME</b>				
Gross Potential Income	64,753.00	100.00	768,536.99	100.00
Rent - Agency's Portion	0.00	0.00	259.00	0.03
Garage & Storage Rent	25.00	0.04	300.00	0.04
Less: Rent Concession	-567.00	-0.88	-5,481.95	-0.71
Less: Vacancy	-4,279.52	-6.61	-50,392.19	-6.56
<b>Total Rental Income</b>	<b>59,931.48</b>	<b>92.55</b>	<b>713,221.85</b>	<b>92.80</b>
<b>OTHER INCOME</b>				
Cable TV Income	127.50	0.20	1,485.00	0.19
Interest Income	58.24	0.09	728.16	0.09
Late Fees	150.00	0.23	650.00	0.08
Parking Fee Income	1,000.00	1.54	6,000.00	0.78
Laundry Income	292.84	0.45	2,764.06	0.36
Management Fee	8,900.00	13.74	106,800.00	13.90
Sample Project PM Fee Income	1,200.00	1.85	14,400.00	1.87
Prop Mgmt. Fee Income	2,816.67	4.35	33,800.04	4.40
- Prop Mgmt. Fee Income	2,116.67	3.27	25,400.04	3.30
- Prop Mgmt. Fee Income	2,116.67	3.27	25,400.04	3.30
- PM Fee Income	1,616.67	2.50	19,400.04	2.52
Misc. Income	30.00	0.05	3,707.11	0.48
Organization PM Fees	13,181.48	20.36	158,177.76	20.58
Other Direct Mgmt Svc Fee	1,847.00	2.85	22,672.32	2.95
NSF Fee Income	0.00	0.00	50.00	0.01
Discounts Taken	0.00	0.00	1.94	0.00
Insurance Claim Reimburse	0.00	0.00	13,347.57	1.74
County Operating Reimburse	0.00	0.00	10,094.98	1.31
Deposit Forfeiture Income	430.00	0.66	5,231.57	0.68
City of Grant	2,125.00	3.28	40,420.58	5.26
Other Source Grant	13,691.00	21.14	30,000.00	3.90
Grants to Projects	600.00	0.93	27,900.00	3.63
<b>Total Other Income</b>	<b>52,299.74</b>	<b>80.77</b>	<b>548,431.21</b>	<b>71.36</b>
<b>ADMINISTRATIVE INCOME</b>				
Development Fee Income	0.00	0.00	8,000.00	1.04
<b>Total Administrative In</b>	<b>0.00</b>	<b>0.00</b>	<b>8,000.00</b>	<b>1.04</b>
<b>TOTAL INCOME</b>	<b>112,231.22</b>	<b>173.32</b>	<b>1,269,653.06</b>	<b>165.20</b>
<b>EXPENSES:</b>				
<b>GEN. &amp; ADMINISTRATIVE EXP.</b>				
Audit Fees	0.00	0.00	4,650.00	0.61
Bad Debt Expense	-75.00	-0.12	3,580.22	0.47
Bank Fees	-0.79	0.00	661.80	0.09
Computer Expense	323.76	0.50	323.76	0.04
Education, Conf., Workshops	0.00	0.00	652.00	0.08
Interest Expense	14,171.85	21.89	163,847.34	21.32
Legal Fees	0.00	0.00	561.30	0.07
Licenses & Other Fees	23.00	0.04	382.75	0.05
Loan Fees	0.00	0.00	506.59	0.07
Miscellaneous Expense	-0.01	0.00	1,848.79	0.24
Unit Lease Expense	832.00	1.28	8,320.00	1.08
Office Expense	210.76	0.33	1,608.38	0.21

**All Organization**  
**Income Statement**  
**Dec 2006**

	Month to Date	%	Year to Date	%
Capitalized Office Expense	6,537.51	10.10	7,897.02	1.03
Petty Cash	0.00	0.00	125.00	0.02
Postage	-34.71	-0.05	573.80	0.07
Tenant Screening	16.00	0.02	3,008.33	0.39
Travel-Project	2.96	0.00	2,929.05	0.38
Travel - Training	0.00	0.00	1.75	0.00
<b>Total Gen. &amp; Admin. Ex</b>	<b>22,007.33</b>	<b>33.99</b>	<b>201,477.88</b>	<b>26.22</b>
<b>UTILITIES</b>				
Alarm System Monitoring	153.00	0.24	1,008.00	0.13
Electricity & Gas	7,201.42	11.12	66,009.72	8.59
Water	1,148.83	1.77	17,232.91	2.24
Sewer	3,634.52	5.61	42,262.33	5.50
Refuse Removal	2,159.38	3.33	26,141.54	3.40
Cable T.V.	126.75	0.20	1,212.25	0.16
Telephone	456.40	0.70	5,085.90	0.66
<b>Total Utilities</b>	<b>14,880.30</b>	<b>22.98</b>	<b>158,952.65</b>	<b>20.68</b>
<b>REPAIRS &amp; MAINTENANCE</b>				
Appliance Repairs	26.98	0.04	596.27	0.08
Cleaning - Labor & Supplies	-77.71	-0.12	519.85	0.07
Electrical - Repairs & Maint.	0.00	0.00	-747.91	-0.10
Fire & Safety	0.00	0.00	2,505.57	0.33
Flooring	0.00	0.00	3,270.00	0.43
Security Expense	166.85	0.26	1,503.47	0.20
City HOME Contract	-1,552.50	-2.40	15,317.18	1.99
County AHTF Contract	963.11	1.49	100,045.74	13.02
HVAC Repairs & Maintenance	0.00	0.00	1,759.94	0.23
Materials & Supplies	3,751.97	5.79	20,756.69	2.70
Replacements	0.00	0.00	755.45	0.10
Painting - Labor & Materials	-222.51	-0.34	4,153.29	0.54
Plumbing Repairs & Maint.	951.61	1.47	18,021.67	2.34
Costs due to Flood Damage	0.00	0.00	11,684.24	1.52
Repair & Maintenance-Gener	619.36	0.96	3,699.11	0.48
Maintenance Capitalized	171.68	0.27	471.68	0.06
<b>Total Repair and Maint</b>	<b>4,798.84</b>	<b>7.41</b>	<b>184,312.24</b>	<b>23.98</b>
<b>INSURANCE EXPENSE</b>				
Insurance	2,020.84	3.12	46,508.57	6.05
<b>Total Insurance</b>	<b>2,020.84</b>	<b>3.12</b>	<b>46,508.57</b>	<b>6.05</b>
<b>GROUNDS EXPENSE</b>				
Landscaping Expense	12.48	0.02	216.17	0.03
Sprinkler Repair & Maintenance	0.00	0.00	763.86	0.10
Chemical Applications	0.00	0.00	1,434.63	0.19
Tree / Shrub Maintenance	0.00	0.00	1,781.54	0.23
Lawn / Landscaping	0.00	0.00	5,191.11	0.68
Snow Removal Expense	941.15	1.45	1,272.29	0.17
<b>Total Grounds</b>	<b>953.63</b>	<b>1.47</b>	<b>10,659.60</b>	<b>1.39</b>
<b>MARKETING EXPENSE</b>				
Advertising / Newspaper	0.00	0.00	833.35	0.11
Other Advertising	0.00	0.00	95.00	0.01
<b>Total Marketing</b>	<b>0.00</b>	<b>0.00</b>	<b>928.35</b>	<b>0.12</b>

# All Organization

## Income Statement Dec 2006

3

	Month to Date	%	Year to Date	%
Parking Lot Expense	0.00	0.00	5.91	0.00
Total Parking Lot Exp.	0.00	0.00	5.91	0.00
<b>PROPERTY MANAGEMENT EXP.</b>				
Indirect Space Fee	2,024.24	3.13	24,291.88	3.16
Compliance/Resident Svc Fe	2,568.25	3.97	30,819.00	4.01
Admin Acctg Fee	5,091.33	7.86	61,095.96	7.95
PM Fee	3,497.66	5.40	41,971.92	5.46
Total Property Manage	13,181.48	20.36	158,178.76	20.58
<b>SALARIES &amp; WAGES</b>				
Site Management Salaries	5,322.39	8.22	65,932.81	8.58
Security Salary	927.82	1.43	9,913.14	1.29
Other Direct Staffing	829.50	1.28	9,797.66	1.27
Maintenance Salary	2,710.79	4.19	31,548.34	4.10
Total Salaries & Wages	9,790.50	15.12	117,191.95	15.25
<b>PAYROLL EXPENSE</b>				
Payroll Tax Expenses	3,168.15	4.89	18,525.27	2.41
Health Insurance	3,052.77	4.71	12,580.67	1.64
Dental Insurance	-1,334.57	-2.06	4,474.13	0.58
Total Payroll Expense	4,886.35	7.55	35,580.07	4.63
<b>TAX EXPENSE</b>				
Real Estate Taxes	0.00	0.00	18,558.45	2.41
Total Taxes	0.00	0.00	18,558.45	2.41
<b>TOTAL DIRECT EXPEN</b>	72,519.27	111.99	932,354.43	121.32
<b>INDIRECT G&amp;A EXPENSES</b>				
Bank Fees	25.29	0.04	667.14	0.09
Computer Expense	-20,629.06	-31.86	15,498.63	2.02
Website Expense	0.00	0.00	2,390.00	0.31
Software Upgrade Expense	26,913.98	41.56	27,884.17	3.63
Dues & Subscriptions	35.00	0.05	2,293.00	0.30
Board Support Costs	0.00	0.00	930.96	0.12
Education, Conf., Workshops	0.00	0.00	4,707.04	0.61
Licenses & Other Fees	1.00	0.00	51.00	0.01
Misc Exp - Indirect	479.31	0.74	2,312.51	0.30
Lease Expense	1,272.00	1.96	15,264.00	1.99
Office Expense	539.29	0.83	4,321.21	0.56
Copier Lease	382.69	0.59	3,310.12	0.43
Admin Postage	-39.22	-0.06	1,069.86	0.14
Tenant Screening	44.00	0.07	44.00	0.01
Travel Project	63.49	0.10	725.51	0.09
Travel Conference	0.00	0.00	1,769.47	0.23
Board Mtg Expense	0.00	0.00	362.28	0.05
Office Utilities	200.00	0.31	2,400.00	0.31
Telephone - Indirect	948.07	1.46	12,078.36	1.57
Insurance - Indirect	0.00	0.00	2,761.80	0.36
Advertising - Indirect	0.00	0.00	434.30	0.06
Contracted Social Service	1,000.00	1.54	8,000.00	1.04
Salary - Indirect	9,519.20	14.70	9,519.20	1.24
Administrative Salary Indirect	12,207.28	18.85	139,235.80	18.12
Christmas Bonus	2,167.30	3.35	2,167.30	0.28

# All Organization

## Income Statement

Dec 2006

4

	<u>Month to Date</u>	<u>%</u>	<u>Year to Date</u>	<u>%</u>
Resident Svc/Compliance	5,256.84	8.12	66,780.34	8.69
PM Salary	6,807.80	10.51	87,129.46	11.34
Payroll Tax - Indirect	3,040.41	4.70	30,606.43	3.98
Health Ins - Indirect	-5,194.89	-8.02	29,427.68	3.83
Dental - Indirect	-1,127.68	-1.74	4,863.02	0.63
Flex Spending Expense	90.00	0.14	485.00	0.06
Administrative Exp. - Indirect	-9,519.20	-14.70	0.00	0.00
<b>TOTAL INDIRECT EXP</b>	<b>34,482.90</b>	<b>53.25</b>	<b>479,489.59</b>	<b>62.39</b>
Development Salary	8,273.07	12.78	104,948.19	13.66
Development Tax, Benefit	1,609.87	2.49	14,914.13	1.94
Development Exp other	722.82	1.12	10,201.35	1.33
<b>TOTAL DEVELOPMENT</b>	<b>10,605.76</b>	<b>16.38</b>	<b>130,063.67</b>	<b>16.92</b>
<b>TOTAL ALL EXPENSES</b>	<b>117,607.93</b>	<b>181.63</b>	<b>1,541,907.69</b>	<b>200.63</b>
<b>NET OPERATING INCOME</b>	<b>-5,376.71</b>	<b>-8.30</b>	<b>-272,254.63</b>	<b>-35.43</b>
<b>NON-OPERATING EXPENSE:</b>				
<b>DEBT SERVICE</b>				
Current Debt Service	0.00	0.00	3,794.40	0.49
Current Debt Prinipal Paid	3,098.49	4.79	35,554.28	4.63
<b>Total Debt Service</b>	<b>3,098.49</b>	<b>4.79</b>	<b>39,348.68</b>	<b>5.12</b>
<b>Total Non-Operating Ex</b>	<b>3,098.49</b>	<b>4.79</b>	<b>39,348.68</b>	<b>5.12</b>
<b>NET INCOME (Loss)</b>	<b>-8,475.20</b>	<b>-13.09</b>	<b>-311,603.31</b>	<b>-40.54</b>

## SAMPLE ORGANIZATION

### STATEMENTS OF FINANCIAL POSITION December 31, 2006 with Comparative Totals for 2005

	<u>A S S E T S</u>	
	<u>2006</u>	<u>2005</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 224,345	\$ 351,617
Cash for property rehabilitation	5,151	-
Cash - security deposits	42,122	44,294
Total cash and cash equivalents	271,618	395,911
Tax, operating and maintenance reserves	60,299	56,612
Prepaid expenses	17,349	14,249
Accounts receivable	15,189	6,204
Accounts receivable - related parties	448,411	427,001
Grants receivable	11,572	22,800
Total current assets	<u>824,438</u>	<u>922,777</u>
 <b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Net of accumulated depreciation	<u>4,541,837</u>	<u>4,454,178</u>
 <b>OTHER ASSETS:</b>		
Loan origination fees, net of amortization	19,540	16,377
Corporate set up fees, net of amortization	1,812	2,266
Loans receivable - related parties	722,500	722,500
Accrued interest receivable	188,969	143,857
Capital investments	266,947	247,662
Total other assets	<u>1,199,768</u>	<u>1,132,662</u>
 <b>Total Assets</b>	 <u><u>\$ 6,566,043</u></u>	 <u><u>\$ 6,509,617</u></u>

See accompanying independent auditor's report and notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2006</u>	<u>2005</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 25,056	\$ 26,918
Interfund payables	11	266
Accrued liabilities	14,755	14,092
Accrued interest	13,217	12,018
Security deposits	33,365	30,939
Unearned rent and management fees	169	-
Line of credit	235,717	222,517
Current maturities of long term debt	<u>453,118</u>	<u>300,677</u>
Total current liabilities	<u>775,408</u>	<u>607,427</u>
LONG TERM DEBT:		
Mortgage and loans payable	1,768,012	1,511,050
Deferred mortgage payable	3,816,069	3,832,787
Deferred accrued interest	228,108	211,104
Less current maturities	<u>(453,118)</u>	<u>(300,677)</u>
Total long term debt	<u>5,359,071</u>	<u>5,254,264</u>
Total liabilities	<u>6,134,479</u>	<u>5,861,691</u>
NET ASSETS:		
Unrestricted	<u>431,564</u>	<u>647,926</u>
 Total Liabilities and Net Assets	 <u>\$ 6,566,043</u>	 <u>\$ 6,509,617</u>

## SAMPLE ORGANIZATION

### STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS For The Year Ending December 31, 2006, with Comparative Totals for 2005

	2006	2005
<b>REVENUES:</b>		
Donations and grants	\$ 90,686	\$ 113,789
Rent income, net	723,191	640,509
Other rental income	5,988	6,075
Laundry and vending income	2,764	2,163
Interest income	45,841	43,250
Management and partnership fees	250,383	211,706
Development fees	8,000	12,000
Donations for capital contributions	20,500	47,500
Gain on sale of property	-	93,122
Other income	6,270	2,265
Total revenues	1,153,623	1,172,379
<b>EXPENSES:</b>		
Program Services		
Payroll expenses	405,736	356,292
Rental expenses	2,963	2,745
Administrative expenses	16,367	8,025
Professional fees	9,311	6,689
Utilities and telephone	157,977	120,386
Repairs and maintenance	73,672	53,578
Taxes and insurance	66,444	45,199
Loan fees	506	3,410
Other operating expenses	3,294	3,596
Interest expense	122,300	116,031
Deferred interest expense	17,005	19,241
Depreciation and amortization	170,068	169,477
Bad debt expense	3,205	5,830
Miscellaneous development expenses	2,775	-
Loss on partnership investments	1,215	1,231
Total program expenses	1,052,838	911,730
Supporting Services and Other Expenses		
Property management and development services	298,781	265,745
Fundraising and financial development services	18,366	22,464
Loss due to theft	-	200
Total supporting services and other expenses	317,147	288,409
Total Expenses	1,369,985	1,200,139
CHANGE IN UNRESTRICTED NET ASSETS	(216,362)	(27,760)
NET ASSETS, Beginning of year	647,926	675,686
NET ASSETS, End of year	\$ 431,564	\$ 647,926

See accompanying independent auditor's report and notes to financial statements.

## Sample Organization

### STATEMENTS OF FUNCTIONAL REVENUES AND EXPENSES For The Year Ending December 31, 2006, with Comparative Totals for 2005

	2006						Dec. 31, 2005 Total Unrestricted
	Total Program Services (see next page)	Supporting Services		Total Supporting Services	Eliminating Intercompany Transactions	Total Unrestricted	
	Administrative Management & Development	Fundraising & Financial Development					
<b>REVENUES:</b>							
Donations and grants	\$ 18,786	\$ -	\$ 71,900	\$ 71,900	\$ -	\$ 90,686	\$ 113,789
Rent income, net	723,191	-	-	-	-	723,191	640,509
Other rental income	5,988	-	-	-	-	5,988	6,075
Laundry and vending income	2,764	-	-	-	-	2,764	2,163
Interest income	45,841	-	-	-	-	45,841	43,250
Management and partnership fees	430,101	-	-	-	(179,718)	250,383	211,706
Development fees	8,000	-	-	-	-	8,000	12,000
Donations for capital contributions	20,500	-	-	-	-	20,500	47,500
Gain on sale of property, net of closing costs of \$10,895	-	-	-	-	-	-	93,122
Other income	6,270	-	-	-	-	6,270	2,265
<b>Total revenues</b>	<b>1,261,441</b>	<b>-</b>	<b>71,900</b>	<b>71,900</b>	<b>(179,718)</b>	<b>1,153,623</b>	<b>1,172,379</b>
<b>EXPENSES:</b>							
Operating expenses							
Payroll expenses	458,034	200,878	18,366	219,244	(52,298)	624,980	567,918
Rental expenses	2,963	-	-	-	-	2,963	2,840
Administrative expenses	143,787	72,782	-	72,782	(127,420)	89,149	49,226
Professional fees	9,311	-	-	-	-	9,311	8,159
Utilities and telephone	157,977	12,078	-	12,078	-	170,055	131,979
Repairs and maintenance	73,672	157	-	157	-	73,829	56,544
Taxes and insurance	66,444	2,762	-	2,762	-	69,206	47,896
Loan fees	506	-	-	-	-	506	3,410
Other operating expenses	3,294	3,061	-	3,061	-	6,355	9,671
Interest expense	122,300	-	-	-	-	122,300	116,081
Deferred interest expense	17,005	-	-	-	-	17,005	19,241
Depreciation and amortization	170,068	902	-	902	-	170,970	170,980
Bad debt expense	3,205	-	-	-	-	3,205	5,830
Misc development expenses	2,775	6,161	-	6,161	-	8,936	8,933
Loss on partnership investments	1,215	-	-	-	-	1,215	1,231
<b>Total operating expenses</b>	<b>1,232,556</b>	<b>298,781</b>	<b>18,366</b>	<b>317,147</b>	<b>(179,718)</b>	<b>1,369,985</b>	<b>1,199,939</b>
Other Expenses							
Loss due to theft	-	-	-	-	-	-	200
<b>Total other expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>200</b>
<b>Total expenses</b>	<b>1,232,556</b>	<b>298,781</b>	<b>18,366</b>	<b>317,147</b>	<b>(179,718)</b>	<b>1,369,985</b>	<b>1,200,139</b>
<b>CHANGES IN NET ASSETS BEFORE TRANSFERS</b>	<b>28,885</b>	<b>(298,781)</b>	<b>53,534</b>	<b>(245,247)</b>	<b>-</b>	<b>(216,362)</b>	<b>(27,760)</b>
<b>TRANSFERS IN (OUT)</b>	<b>12,393</b>	<b>41,141</b>	<b>(53,534)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL CHANGES IN NET ASSETS</b>	<b>\$ 41,278</b>	<b>\$ (257,640)</b>	<b>\$ -</b>	<b>\$ (245,247)</b>	<b>\$ -</b>	<b>\$ (216,362)</b>	<b>\$ (27,760)</b>

See accompanying independent auditor's report and notes to financial statements.

## SAMPLE ORGANIZATION

STATEMENTS OF FUNCTIONAL REVENUES AND EXPENSES - PROGRAM SERVICES  
(Before Intercompany Eliminations)  
For The Year Ending December 31, 2006, with Comparative Totals for 2005

	2006					
	Properties	Properties	Scattered Sites	Other	Properties	Development
<b>REVENUES:</b>						
Donations and grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent income, net	104,012	223,278	59,791	86,140	154,407	-
Other rental income	253	704	642	1,555	1,090	-
Laundry and vending income	741	454	-	453	266	-
Interest income	22	-	11	100	111	-
Management and partnership fees	-	-	-	-	-	-
Development fees	-	-	-	-	-	-
Donations for capital contributions	-	-	-	-	-	-
Gain on sale of property, net of closing costs of \$10,895	-	-	-	-	-	-
Other income	429	2,605	30	50	804	-
<b>Total revenues</b>	<b>105,457</b>	<b>227,041</b>	<b>60,474</b>	<b>88,298</b>	<b>156,678</b>	<b>-</b>
<b>EXPENSES:</b>						
Operating expenses						
Payroll expenses	30,385	55,717	11,559	12,391	44,059	-
Rental expenses	811	661	86	35	956	-
Administrative expenses	21,671	41,599	9,714	14,032	26,745	275
Professional fees	860	1,548	344	823	1,507	4,100
Utilities and telephone	22,567	37,210	2,055	28,411	30,292	51
Repairs and maintenance	5,298	14,184	7,713	7,314	24,784	-
Taxes and insurance	11,259	12,525	5,955	3,375	8,300	-
Loan fees	-	506	-	-	-	-
Other operating expenses	462	677	253	686	934	123
Interest expense	17,878	39,330	14,766	2,638	30,222	-
Deferred interest expense	2,500	5,268	663	2,200	6,374	-
Depreciation and amortization	20,063	44,986	20,399	24,461	49,242	-
Bad debt expense	41	1,293	261	-	1,705	-
Misc development expenses	-	-	-	-	-	-
Loss on partnership investments	-	-	-	-	-	-
<b>Total operating expenses</b>	<b>133,795</b>	<b>255,504</b>	<b>73,768</b>	<b>96,366</b>	<b>225,120</b>	<b>4,549</b>
Other Expenses						
Loss due to theft	-	-	-	-	-	-
<b>Total other expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total expenses</b>	<b>133,795</b>	<b>255,504</b>	<b>73,768</b>	<b>96,366</b>	<b>225,120</b>	<b>4,549</b>
<b>CHANGES IN NET ASSETS BEFORE TRANSFERS</b>	<b>(28,338)</b>	<b>(28,463)</b>	<b>(13,294)</b>	<b>(8,068)</b>	<b>(68,442)</b>	<b>(4,549)</b>
TRANSFERS IN (OUT)	-	-	-	-	-	-
<b>CHANGE IN NET ASSETS</b>	<b>\$ (28,338)</b>	<b>\$ (28,463)</b>	<b>\$ (13,294)</b>	<b>\$ (8,068)</b>	<b>\$ (68,442)</b>	<b>\$ (4,549)</b>

See accompanying independent auditor's report and notes to financial statements.

2006						Dec. 31, 2005
Properties		Dev.	Property Investments	Property Management & Development	Total Program Services	Unrestricted Program Services
\$ 18,786	\$ -	\$ -	\$ -	\$ -	\$ 18,786	\$ -
13,657	75,647	6,000	-	259	723,191	640,509
86	1,658	-	-	-	5,988	6,075
72	527	-	-	251	2,764	2,163
-	-	-	45,112	485	45,841	41,764
-	-	-	-	430,101	430,101	211,706
-	-	-	-	8,000	8,000	-
-	-	-	20,500	-	20,500	47,500
-	-	-	-	-	-	93,122
970	330	-	-	1,052	6,270	2,265
<u>33,571</u>	<u>78,162</u>	<u>6,000</u>	<u>65,612</u>	<u>440,148</u>	<u>1,261,441</u>	<u>1,045,104</u>
4,048	17,886	-	-	281,989	458,034	381,713
210	160	-	-	44	2,963	2,745
13,173	16,266	312	-	-	143,787	8,025
129	-	-	-	-	9,311	6,689
4,255	31,091	2,045	-	-	157,977	120,386
1,444	11,972	963	-	-	73,672	53,578
2,600	9,049	13,381	-	-	66,444	45,199
-	-	-	-	-	506	3,410
-	72	87	-	-	3,294	3,566
-	17,466	-	-	-	122,300	116,031
-	-	-	-	-	17,005	19,241
10,917	-	-	-	-	170,068	169,477
-	(95)	-	-	-	3,205	5,830
-	-	2,775	-	-	2,775	-
-	-	-	1,215	-	1,215	1,231
<u>36,776</u>	<u>103,867</u>	<u>19,563</u>	<u>1,215</u>	<u>282,033</u>	<u>1,232,556</u>	<u>937,151</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>36,776</u>	<u>103,867</u>	<u>19,563</u>	<u>1,215</u>	<u>282,033</u>	<u>1,232,556</u>	<u>937,151</u>
(3,205)	(25,705)	(13,563)	64,397	158,115	28,885	107,953
-	-	-	12,393	-	12,393	-
<u>\$ (3,205)</u>	<u>\$ (25,705)</u>	<u>\$ (13,563)</u>	<u>\$ 76,790</u>	<u>\$ 158,115</u>	<u>\$ 41,278</u>	<u>\$ 107,953</u>

## Sample Organization

### STATEMENTS OF CASH FLOWS For the Year Ending December 31, 2006, with Comparative Totals for 2005

	2006	2005
<b>CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (216,362)	\$ (27,760)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	170,200	169,819
Amortization	770	1,161
Partnership allocated loss	1,215	1,231
Gain on sale of property	-	(93,122)
Loss on impairment of assets	-	-
Net (increase) decrease in:		
Prepaid expenses	(3,100)	(11,242)
Accounts receivable	(8,985)	(2,212)
Accounts receivable - related parties	(21,410)	99,496
Grants receivable	11,228	3,700
Accrued interest receivable	(45,112)	(42,629)
Net increase (decrease) in:		
Accounts payable and accrued expenses	(1,201)	20,569
Accounts payable - interfund	(255)	(99)
Accrued interest	1,199	4,251
Line of credit	13,200	32,434
Deferred accrued interest	17,004	19,241
Prepaid rent income	169	-
Security deposit liability	2,426	2,437
Net cash flows provided (used) by operating activities	(79,014)	177,275
<b>CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES:</b>		
Purchase of fixed assets	(257,859)	(1,092,108)
Net (increase) decrease in reserve accounts	(3,687)	(7,282)
Proceeds on sale of property	-	14,303
Investment in partnerships	(20,500)	(47,500)
Net cash flows provided (used) by investing activities	(282,046)	(1,132,587)
<b>CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES:</b>		
Proceeds from long term debt	270,743	1,067,841
Payments made on long term debt	(33,976)	(32,962)
Net cash flows provided (used) by financing activities	236,767	1,034,879
<b>INCREASE (DECREASE) IN UNRESTRICTED CASH</b>	<b>(124,293)</b>	<b>79,567</b>
CASH BALANCES, Beginning of year	395,911	316,344
CASH BALANCES, End of year	<b>\$ 271,618</b>	<b>\$ 395,911</b>
<b>OTHER INFORMATION:</b>		
Interest paid in cash	\$ 171,054	\$ 111,830
Loan proceeds used to pay loan principal	210,500	-
Interest capitalized as part of development costs	48,121	-
Line of credit used for fixed asset additions	13,200	31,809
Loan fees financed	3,478	9,775
Long term debt forgiven, included in gain on sale	-	65,670
Payments on long term debt from sale of property	-	168,552

See accompanying independent auditor's report and notes to financial statements.

## Sample Organization

### NOTES TO FINANCIAL STATEMENTS December 31, 2006

#### NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS:

**Sample Organization (ORG.)** is a not for profit community Housing Development Organization (CHDO), incorporated under the laws of **Some State**,

The purpose of the organization is to purchase, renovate and operate rental units and housing developments serving low income households. As a CHDO, federal HOME set aside dollars designated for capital and operating funds and technical assistance are available. In addition, as a CHDO, the organization must maintain accountability to low income community residents by maintaining at least one-third of its Board's membership for residents of low income neighborhoods, other low income residents (earning 80% or less than area median income), or elected representatives of low income neighborhood organizations.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting - The financials are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States.

Net Assets - Net assets of the two restricted classes are created only by loan or donor-imposed restrictions on their use. Donor restricted contributions are recognized as temporarily restricted and are reclassified to unrestricted when the restriction is satisfied. All other net assets, including board-designated or appropriated amounts, are legally unrestricted, and are reported as part of the unrestricted class. There were no temporarily or permanently restricted net assets at December 31, 2006.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Tax Exemption - **ORG.** is a not-for-profit agency exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in these financial statements.

Cash and Cash Equivalents - For the purpose of the statement of cash flows, cash and cash equivalents consist of amounts in checking accounts, temporary investments, savings accounts and cash on hand. Also included in cash and cash equivalents is cash held for property rehabilitation, which includes loan proceeds for the rehabilitation of the properties which was not fully utilized at December 31, 2006.

Investments - Investments are carried at market value.

Contributions - Contributions are recorded as revenue when pledges are made. All contributions are available for unrestricted use unless specifically restricted by donor. Donated goods and services are recorded at fair market value at the date of contribution.

Advertising Costs: Advertising costs are charged to expense as incurred.

## Sample Organization

### NOTES TO FINANCIAL STATEMENTS December 31, 2006

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Rental Income and Prepaid Rents - Rental income is recognized for apartment rentals as it accrues. Advance receipts of rental income are classified as liabilities until earned. All leases between the Projects and the tenants of the properties are operating leases.

Uncollectible Rents and Bad Debts - **ORG.** considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made.

Property and Equipment - Land, building and improvements are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation is provided over the estimated service lives of the assets under the straight-line and accelerated methods. The estimated service life of the assets for depreciation purposes may ultimately be different than their actual economic useful life.

	<u>Estimated Life</u>	<u>Method</u>
Land improvements	15 years	Straight-Line
Buildings and improvements	27.5 years	Straight-Line
Furniture and equipment	various	Declining balance

**ORG.** reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There are no impairment losses recognized in 2006.

Loan Origination Amortization - Loan origination costs are amortized over the term of the mortgage loan using the straight-line method.

Below-Market Interest Rate Loans: The Organization is obligated on several mortgages and loans pursuant to federal and non-federal loan programs, with interest rates below standard, commercial interest rates. These loans are part of the financing of low income housing projects. Typically low income housing projects are able to obtain financing at rates similar to the rates being charged to **ORG.** It is the organization's policy not to adjust the fair market value of mortgages payable for the below-market rate loans, as loans of this nature are considered part of the program for which they were obtained to provide. In addition, the Organization received several zero-interest loans which were subsequently loaned to related parties, at below the market rates. These too, are considered to be part of the programs the loans were intended to provide, thus the fair market value of the mortgage or loan payable, has not been adjusted.

Concentration of Credit Risk Arising from Cash Deposits in Excess of Insured Limits - **ORG.** maintains its cash in several bank deposit accounts which, at times, may exceed federally insured limits. **ORG.** has not experienced any losses in such accounts, **ORG.** believes it is not exposed to any significant credit risk on cash and cash equivalents.

## Sample Organization

### NOTES TO FINANCIAL STATEMENTS December 31, 2006

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Functional Allocation of Expenses and Joint Costs – The costs of providing various programs and activities have been summarized on a functional basis in the Statement of Functional Revenues and Expenses. Accordingly, certain costs have been allocated among the properties and supporting programs benefited.

Certain payroll expenses have been allocated between program service and supporting services based upon time spent on the corresponding activity. The costs are further allocated between the various properties based upon the property size and compliance requirements for each property and included as income in the department for property management and development, which are eliminated on the Statement of Functional Revenues and Expenses as inter-company transactions. Details by property are included in the Statement of Functional Revenues and Expenses – Program Services and the Supplemental Schedule of Expenses. Total payroll and other expenses which have been allocated in this manner are as follows:

	2006	2005
Wages and salaries	\$ 577,019	\$ 493,573
Payroll taxes	48,913	50,947
Employee benefits	51,346	48,820
Total payroll expenses, before inter-company eliminations	\$ 677,278	\$ 593,340
Allocation:		
Program services	\$ 405,736	\$ 356,292
Administrative services	200,878	189,162
Fundraising and financial services	18,366	22,464
Subtotal as shown on the Statements of Functional Revenues and Expenses	624,980	567,918
Inter-company transactions, eliminated	52,298	25,422
Total payroll expenses	\$ 677,278	\$ 593,340

#### NOTE 3 – RECLASSIFICATIONS:

Certain amounts from the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the 2006 financial statements.

#### NOTE 4 – EMPLOYEE BENEFIT PLANS:

**ORG.** offers a deferred income plan under Internal Revenue Code Section 403(b) to provide retirement benefits to all of its employees who meet the plan eligibility requirements. **ORG.** does not contribute to the plan; the plan is funded solely by employee's voluntary withholding.

The Organization also has a cafeteria plan under Internal Revenue Code Section 125 to provide tax benefits for medical and child care expenses. The plan includes a flexible spending arrangement to provide additional pre-tax benefits to eligible employees.

## Sample Organization

### NOTES TO FINANCIAL STATEMENTS December 31, 2006

#### NOTE 5 - TRANSACTIONS WITH RELATED PARTIES:

**Sample Organization (ORG.)** is the general partner of several Limited Partnerships and a member of a Limited Liability Company as described in Note 7. **ORG.** provides management services to the partnerships and occasionally advances funds via use of a line of credit for the construction phases of the projects, and for various operational expenses. These properties are listed as follows:

Other Property Court Limited Partnership	-	36 units
<b>Sample Project</b> Limited Partnership	-	25 units
Other Property Apartments Limited Partnership	-	37 units
Other Property Limited Partnership	-	26 units
Other Property Limited Partnership	-	26 units
Other Property Limited Liability Company	-	123 units

**ORG.** has a note receivable from Other Court for the construction of the Project, in the amount of \$122,500, bearing interest at 1% per annum. See Note 6.

**ORG.** has a note receivable from Other for the construction of the Project, in the amount of \$600,000, bearing interest at 6% per annum. See Note 6.

**ORG.** receives development fees during the development phase of the projects. **ORG.** recognized development fees totaling \$8,000 for the year ending December 31, 2006 for additional development cost for the Other Property Limited Partnership. **ORG.** also manages all of the properties and receives management fee income, accounting and administrative fee income according to the terms of the property management agreements, as well as reimbursement for allocated management overhead, resident services and direct costs provided to the properties. A summary of the management and partnership fees earned by **ORG.** are as follows:

Management fees	\$	225,200
Partnership fees		25,183

For each of the related parties listed above, included in the financial statements presented are the following:

Related Party/Entity	Accounts Receivable	Accounts Payable	Accrued Interest	Reimbursed Expenses (Income)
Other Property	\$ 51,104	\$ -	\$ 13,618	\$ 19,400
<b>Sample Project</b>	17,525	-	-	14,400
Other Property	18,967	-	-	33,800
Other Property	5,547	-	-	25,400
Other Property	10,455	-	-	25,400
Other Property	344,813	-	175,351	106,800
	\$ 448,411	\$ -	\$ 188,969	\$ 225,200

In addition, the partnership agreements provide for various obligations of the general partner, including an obligation to provide funds for any development and operating deficits. Further, several

## Sample Organization

### NOTES TO FINANCIAL STATEMENTS December 31, 2006

#### NOTE 5 - TRANSACTIONS WITH RELATED PARTIES (Continued):

of the partnership agreements call for a contingent incentive partnership management fee equal to 33-1/3 percent of net operating cash flow of the property, subject to the agreement's priorities for use of net operating cash flow. The fee must be set aside in a capital reserve in the name of the Partnership and is payable to the general partner (**ORG**) at the time of exercise of the purchase option. There was not sufficient net cash flow to fund the capital reserves for any of the Partnerships in 2006.

#### NOTE 6 - NOTES RECEIVABLE - RELATED PARTIES:

Note Receivable Other Court, bearing interest at 1% per annum, secured by a Deed of Trust covering certain real property, maturing December 31, . (The amount due under this note may be forgiven by the holder) \$ 122,500

Note receivable - Other, bearing interest at 6% per annum, secured by a Deed of Trust covering certain real property, maturing January 1, . (Accrued interest shall be paid from net cash flow, per the partnership agreement) \$ 600,000

Accrued interest on notes receivable total \$188,969 and \$143,857 at December 31, 2006, and 2005 respectively.

#### NOTE 7 - CAPITAL INVESTMENTS:

**Sample Organization** is the general partner or member of several Limited Partnerships and a Limited Liability Company. The Projects are financed in part by low income housing credits through the **Some State** (see also Note 5). All properties were either acquired or were new construction projects and are located in various locations in **Some County**. In most cases, **ORG** holds a .01% general partnership interest in the properties. Each partnership has a limited entity life expectancy according to each individual agreement, at which time, **ORG** has the first right of refusal to purchase the limited investor(s) interest.

#### **Sample Project**

During the year ending December 31, **ORG** received a grant from **Some Neighborhood Action Program** and the **Some City HOME Program**. These grants were awarded for the purpose of making a capital contribution to the **Sample Project** Limited Partnership, which was established for the purpose of developing and operating a low income housing tax credit project.

During the year ending December 31, 2005, a grant was received from the **Some County Housing and Community Development Department** for \$41,500. The grant was provided to support affordable housing with rehabilitation costs.

The **Some City HOME Grant** has a twenty five (25) year specified use clause beginning on the date the Project was initially occupied by qualified tenants. The tenants must be approved according to their level of income pursuant to the Grant agreement and the rents charged must be in

## Sample Organization

### NOTES TO FINANCIAL STATEMENTS December 31, 2006

#### NOTE 7 – CAPITAL INVESTMENT (Continued):

compliance with those specified in the agreement per the guidelines established by the U.S. Department of Housing and Urban Development.

The Capital investment as a General Partner of **Sample Project** Limited Partnership is as follows:

Some City (HOME Grant)	\$ 40,000
Some Grant during	63,247
Capital Contribution	19,175
Capital Contribution ;	6,000
Capital Contribution	6,000
Capital Contribution	6,000
Capital Contribution	6,000
Additional contribution from Grant	41,500
Accumulated operating losses,	(665)
Capital Investment in <b>Sample Project</b>	\$ 187,257

The original and subsequent grant funds are to be used by **Sample Project** for property improvements.

#### Other Property Court

During the year ending December 31, 2005, a grant was awarded from the Some County Housing and Community Development Department for \$43,500. The grant was provided to support affordable housing with rehabilitation costs. The grant began to be utilized during the year ending December 31, 2006, with an initial \$14,500.

The Capital investment as a General Partner of **Other Property Court** Limited Partnership is as follows:

Capital contribution from grant - 2006	\$ 14,500
Accumulated operating losses, – 2006	(12,435)
Capital Investment in <b>Other Property Court</b>	\$ 2,065

#### Other Property

The Capital investment as a General Partner of **Other Property** Limited Partnership is as follows:

Original Investment	\$ 90,000
Return of Capital – related party	(69,000)
Accumulated operating losses, – 2006	(79)
Capital Investment in <b>Other Property</b>	\$ 20,920

#### Other Property

The Capital investment as a General Partner of **Other Property** Limited Partnership is as follows:

Accumulated operating losses, – 2006	\$ 39
Capital Investment in <b>Other Property</b>	\$ 39

## Sample Organization

### NOTES TO FINANCIAL STATEMENTS December 31, 2006

#### NOTE 7 – CAPITAL INVESTMENT (Continued):

##### Other Property

The Capital investment as a General Partner of Other Property Limited Partnership is as follows:

Accumulated operating losses, – 2006		\$ <u>42</u>
Capital Investment in Other Property		\$ <u>42</u>

##### Other Property

The Capital investment as a General Partner of Other Limited Liability Company is as follows:

Capital Contribution –		\$ 56,762
Accumulated operating losses, – 2006		<u>(137)</u>
Capital Investment in Other Property		<u>\$ 56,625</u>

#### NOTE 8 - PROPERTY AND EQUIPMENT:

Property and equipment are summarized as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Improvements</u>	<u>Furnishings and Equipment</u>	<u>Total</u>
	\$ 106,500	\$ 328,500	\$ 211,544	\$ 9,098	\$ 655,642
	53,500	143,500	1,031,973	74,552	1,303,525
	88,400	403,559	141,234	9,305	642,498
	-	-	24,832	-	24,832
	62,200	367,378	215,361	39,124	684,063
	92,200	969,653	250,527	67,145	1,379,525
	14,745	153,700	136,212	3,748	308,405
	59,137	181,551	-	-	240,688
					-
Development	153,571	568,103	179,088	-	900,762
Property Management	-	-	141	27,726	27,867
Sub Total	<u>\$ 630,253</u>	<u>\$ 3,115,944</u>	<u>\$ 2,190,912</u>	<u>\$ 230,698</u>	<u>6,167,807</u>
Less: accumulated Depreciation					<u>(1,625,970)</u>
Net					<u>\$ 4,541,837</u>
Depreciation Expense for the year ending December 31, 2006					<u>\$ 170,200</u>

Included in improvements are \$24,832 and \$179,088 in pre-development costs for and the Development properties, respectively, which have not yet been placed into service as of December 31, 2006.

Included in pre-development costs is capitalized interest on the project. Total capitalized interest was \$48,121 at December 31, 2006.

Development

## Sample Organization

### NOTES TO FINANCIAL STATEMENTS December 31, 2006

**NOTE 8 - PROPERTY AND EQUIPMENT (continued):**

Subsequent to year-end, **ORG** decided to abandon development of \_\_\_\_\_ project. Due to many considerations, it was decided that the project should be considered for sale and the proceeds used to develop other affordable housing sites in the \_\_\_\_\_ City \_\_\_\_\_ area.

**NOTE 9 – LINES OF CREDIT:**

**ORG.** has a bank line of credit with **Other** \_\_\_\_\_ Bank. The line has a credit limit of \$50,000. The line of credit has been used on occasion for construction advances for work in process on the limited partnerships and pre-development costs for new projects under development.

A second line of credit is also available from **Other** \_\_\_\_\_ Bank with a credit limit of \$150,000. The line of credit is available for operating cash flow needs.

In addition, **ORG** has a line of credit with **Other** \_\_\_\_\_ Bank. The line has a credit limit of \$241,895, which is secured by property. The line of credit has been used to refinance loans for the property at \_\_\_\_\_ and for development of \_\_\_\_\_ Apartments and \_\_\_\_\_ in \_\_\_\_\_ City. The principal balance as of December 31, 2006 is \$235,717. Interest accrues at a variable rate at prime, currently at 8.25% at December 31, 2006. Interest only payments are due monthly.

**NOTE 10 – LONG TERM DEBT:**

A summary of long term debt by property is as follows:

<u>Other Property</u>	deferred mortgage payable, CTED Housing Finance Unit loan, at an interest rate of 1.0% compounded annually, and collateralized by real estate. Payments are deferred until December 31, 2014, when \$11,999 annual payments are due, until final maturity in 2038.	\$ 250,000
<b>Total</b>	<b>Other property loans</b>	<b>250,000</b>
Less current portion:		-
Long-term portion		<u>\$ 250,000</u>

<u>Other Property</u>	mortgage payable held by _____ Some _____ Bank, at an interest rate of 8.0%, and collateralized by real estate. Payments are made monthly at \$4,711 until paid in full, during the year 2020.	\$ 474,383
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<b>Other</b>	property deferred mortgage payable, held by _____ CTED HOME Program, at an interest rate of 1% compounded annually, and collateralized by real estate. Payments are deferred until June 30, 2007 when annual payments of \$12,125 are due, including interest, for 49 years until paid in full during the year 2056. Subsequent to year end, an extension has been requested to defer payments for an additional ten years. A decision is pending.	475,239
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**Sample Organization**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2006

NOTE 10 – LONG TERM DEBT (Continued):

**Other** property rehabilitation loan payable, held by the Some City at an interest rate of 4%, compounded annually. After the fifteen (15) year deferral period, a portion of the principal may be forgiven each year during the period of the extension if the borrower has complied with the affordability requirements according to the agreement, until it is fully forgiven or paid at the end of the maximum extended term of ten (10) years. Final maturity is expected during the year 2030. \$ 15,317

**Other** property promissory note payable, held by Some Note, at an interest rate of 10%, and collateralized by real estate. Payments are due monthly at \$195 until paid in full, which is expected during the year 2009. 5,380

**Total Other property loans** **970,319**  
 Less current portion: (28,366)  
 Long-term portion \$ 941,953

**Other properties**, mortgage payable held by Some Bank, at an interest rate of 8.75%, and collateralized by real estate. Payments are made monthly at \$1,495 including interest. Final payment is expected during the year 2026. \$ 166,998

**Other** properties, deferred mortgage payable, held by CTED HOME Program and funds, at an interest rate of 1% compounded annually, and collateralized by real estate. Payments are deferred until June 30, 2016 when annual payments of \$12,185 are due. Final maturity is due on or before June 30, 2056. 366,736

**Total Other properties loans** **533,734**  
 Less current portion: (3,461)  
 Long-term portion \$ 530,273

**property**, promissory note payable held by , at an interest rate of 9.0%, and collateralized by real estate. Payments are made monthly at \$712 including interest. Final payment is due in June, 2017. \$ 106,400

Under the mortgage for **ORG.** receives an interest subsidy according to the mortgage agreement. The subsidy is paid on a straight line monthly basis, recalculated annually. The interest subsidy amounted to \$6,580 in the year ended December 31, 2006.

property, mortgage payable, held by CTED HOME Program, at an interest rate of 1.1% until December 31, 2020, when interest is reduced to 1% annually. The Loan is collateralized by real estate. Payments are deferred until December 31, 2020 when payments of \$9,456 are due. Final maturity is due December 31, 2049. 200,000

**Sample Organization**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2006

NOTE 10 – LONG TERM DEBT (Continued):

property, mortgage payable held by CTED HOME Program, at a zero interest rate, and collateralized by real estate. Payments are deferred for 50 years then will be eligible for conversion to a grant, at December 31, 2049.	\$ 210,000
<b>Total</b> property loans, carried forward	<b>516,400</b>
Less current portion:	<u>(6,462)</u>
Long-term portion	<u>\$ 509,938</u>
 <u>Other Property</u> , mortgage payable, held by Bank, at an interest rate of 7.87%, and collateralized by real estate. Payments of \$2,946 are monthly including interest. Final maturity is due in April, 2028.	\$ 359,942
 properties, deferred mortgage payable held by CTED HOME Partnership Program, at an interest rate of 1.0% compounded annually, and collateralized by real estate. Payments are deferred until December 31, 2029 when annual payments of \$44,068 begin. Final maturity is December 31, 2048.	\$ 590,000
 property, rehabilitation loan payable held by Some County Capital Loan Fund, is collateralized by real estate. Interest accrues on the full \$162,250 available loan, at an interest rate of 1% compounded annually. Payments are deferred until May 1, 2016 when accrued interest and principal are due in full.	<u>109,443</u>
<b>Total</b> properties loans	<b>1,059,385</b>
Less current portion:	<u>( 7,180)</u>
Long-term portion	<u>\$ 1,052,205</u>
 property, deferred mortgage payable held by due in full March 2007 subject to extension, at a zero interest rate, and collateralized by real estate. Subsequent to year-end, an additional ninety-day (90) extension has been requested. A decision is pending.	\$ 27,540
<b>Tota</b> property loans	<b>27,540</b>
Less current portion:	<u>(27,540)</u>
Long-term portion	<u>\$ -</u>

**Sample Organization**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2006

NOTE 10 – LONG TERM DEBT (Continued):

Some <b>property</b> , deferred mortgage payable held by Some County using HOME and HUD Supportive Housing Program funds, at zero interest rate, and collateralized by real estate. Final Maturity is August 1, 2024 when it will be eligible for conversion to a grant.	\$ 347,416
<b>Total Some property loans</b>	<b>347,416</b>
Less current portion:	<u>-</u>
Long-term portion	<u>\$ 347,416</u>
<b>property</b> , mortgage payable held by Some Bank, at a variable interest rate (8.25% at December 31, 2006). Interest only payments are due monthly. Final maturity is November 30, 2008.	<u>\$ 241,334</u>
Other Property <b>Development</b> , mortgage payable held by Some Bank, at a variable interest rate (8.25% at December 31, 2006). Interest only payments are due monthly. Final maturity is November 30, 2008.	\$ 535,344
by Development, three pre-development loans held at a zero interest rates. Maturity is December 31, 2007.	<u>380,109</u>
<b>Total Development loans</b>	<b>915,453</b>
Less current portion:	<u>(380,109)</u>
Long-term portion	<u>\$ 535,344</u>
Some <b>Court</b> note payable held by Bank through the Federal Home Loan Bank, AHP Program, at a zero interest rate, and collateralized by real estate. Final maturity is in 51 years, on December 31, 2027.	\$ 122,500
deferred mortgage payable held by <b>Some State</b> Department, at a zero interest rate, and collateralized by real estate. Final maturity is September 30, 2043.	<u>600,000</u>
<b>Total Property management loans</b> , see also Note 6	<u>\$ 722,500</u>

The fair values of the mortgages payable are estimated based on the current rates offered to the Organization for debt of the same remaining maturities. At December 31, 2006, the fair value of the mortgages payable approximate the amounts recorded in the financial statements.

**Sample Organization**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2006

**NOTE 10 – LONG TERM DEBT (Continued):**

Future maturities of notes and mortgages payable are as follows:

<u>Other Property</u>	Deferred Mtg. Payable CTED	<u>Other Property Total</u>
December 31,	Home Loan	
2007-2011	\$ -	\$ -
Thereafter	250,000	250,000
	<u>\$ 250,000</u>	<u>\$ 250,000</u>

<u>Other Property</u>	Mtg. Payable Some Bank	Deferred Mtg. Payable State CTED Loan	Mtg. Payable Some Note	<u>Other Property Total</u>
December 31,				
2007	\$ 19,531	\$ 6,977	\$ 1,858	\$ 28,366
2008	21,152	7,022	2,062	30,236
2009	22,908	7,106	1,460	31,474
2010	24,809	7,177	-	31,986
2011	26,868	7,249	-	34,117
Thereafter	359,115	439,708	-	798,823
	<u>\$ 474,383</u>	<u>\$ 475,239</u>	<u>\$ 5,380</u>	<u>\$ 955,002</u>
Forgivable Loan payable - Some City				15,317
				<u>\$ 970,319</u>

payments may begin after year 2020

<u>Other Property</u>	Mtg. Payable Some Bank	Deferred Mtg. Payable State CTED Loan	<u>Other Property Total</u>
December 31,			
2007	\$ 3,461	\$ -	\$ 3,461
2008	3,776	-	3,776
2009	4,121	-	4,121
2010	4,496	-	4,496
2011	4,905	-	4,905
Thereafter	146,239	366,736	512,975
	<u>\$ 166,998</u>	<u>\$ 366,736</u>	<u>\$ 533,734</u>

<u>Other Property</u>	Other	Deferred Mtg. Payable Some State CTED Loan	Deferred Mtg. Payable Some State CTED Loan	<u>Other Property Total</u>
December 31,				
2007	\$ 6,462	\$ -	\$ -	\$ 6,462
2008	7,068	-	-	7,068
2009	7,731	-	-	7,731
2010	8,456	-	-	8,456
2011	9,249	-	-	9,249
Thereafter	67,434	200,000	210,000	477,434
	<u>\$ 106,400</u>	<u>\$ 200,000</u>	<u>\$ 210,000</u>	<u>\$ 516,400</u>

**Sample Organization**

NOTES TO FINANCIAL STATEMENTS  
December 31, 2006

NOTE 10 – LONG TERM DEBT (Continued):

<u>Other Property</u>		Deferred	Deferred	<u>Other</u>	
December 31,	Other Bank	Some State	Rehabilitation	Loan - Some	Property Total
		CTED Loan	Loan - Some	County	
2007	\$ 7,180	\$ -	\$ -	\$ -	\$ 7,180
2008	7,850	-	-	-	7,850
2009	8,491	-	-	-	8,491
2010	9,184	-	-	-	9,184
2011	9,934	-	-	-	9,934
Thereafter	317,303	590,000	109,443		1,016,746
	<u>\$ 359,942</u>	<u>\$ 590,000</u>	<u>\$ 109,443</u>		<u>\$ 1,059,385</u>

<u>Other Property</u>		<u>Other</u>	<u>Other</u>
December 31,	Other	Property Total	
2007	\$ 27,540	\$ 27,540	
Thereafter	-	-	
	<u>\$ 27,540</u>	<u>\$ 27,540</u>	

<u>Other Property</u>		<u>Other Property</u>
December 31,	Some County	Total
2007-2011	\$ -	\$ -
Thereafter	347,416	347,416
	<u>\$ 347,416</u>	<u>\$ 347,416</u>

Other Property Development:

		<u>Bridge Loan</u>	<u>Other Property</u>
December 31,			Total
2007	\$ -	\$ -	\$ -
2008	241,334	241,334	241,334
Thereafter	-	-	-
	<u>\$ 241,334</u>	<u>\$ 241,334</u>	<u>\$ 241,334</u>

		<u>Bridge Loan</u>	<u>Other</u>	<u>Other Property</u>
December 31,				Total
2007	\$ -	\$ -	\$ 380,109	\$ 380,109
2008	535,344	-	-	535,344
2009-2011	-	-	-	-
Thereafter	-	-	-	-
	<u>\$ 535,344</u>	<u>\$ 380,109</u>		<u>\$ 915,453</u>
Total				
Some Bank	<u>\$ 776,678</u>			

## Sample Organization

### NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE 10 – LONG TERM DEBT (Continued):

<u>Property Management:</u>	AHP Program Bank	Mtg. Payable <b>Some State</b> CTED Loan	<b>Property Management Total</b>
<u>December 31,</u>			
2007-2011	\$ -	\$ -	\$ -
Thereafter	122,500	600,000	722,500
	<u>\$ 122,500</u>	<u>\$ 600,000</u>	<u>\$ 722,500</u>

NOTE 11 – CONTINGENCIES:

The Organization received several grants from various funding sources for the purpose of funding the acquisition and rehabilitation of low income housing at various property locations. The terms of the grants generally included a requirement to use the property to provide housing to the under privileged in accordance with income guidelines. Failure to comply with the terms of the grants usually results in repayment of the original grant.

The organization had the following grants subject to these requirements:

	<u>Compliance Period Expires</u>	<u>Amount</u>
Some City Community Development Dept.	November, 2022	\$ 240,000
Grants: #	April, 2008	33,000
#	December, 2008	25,000
#	various 2007 - 2009	81,000
Federal Home Loan Bank (AHP Subsidy)		<u>89,900</u>
Total acquisition & rehabilitation grants subject to compliance		<u>\$ 468,900</u>

In addition, the Organization has obtained below market interest rate mortgages and deferred mortgages for various properties as described in Note 2 and summarized in Note 10. The agreements require that the project be rented to qualifying low income tenants and places certain restrictions on the properties. Failure to comply with the terms of the agreements could result in foreclosure, immediate demand for repayment of the loan and any accrued interest, and, in some cases, an amount representing the prorated appreciated value of the property as defined by the contracts.

The loan for **Other Property** requires the maintenance of operating and replacement reserves, which are designed to be used for replacement and repair costs of the property.

The activities of tax, operating and maintenance reserves are as follows:

	<u>Replacement Reserves</u>	<u>Tax &amp; Operating Reserves</u>	<u>Total</u>
Balance, January 1, 2006	\$ 30,572	\$ 10,000	\$ 40,572
Additions and interest	3,687	-	3,687
Withdrawals and transfers	-	-	-
Balance, December 31, 2006	<u>\$ 34,259</u>	<u>\$ 10,000</u>	<u>\$ 44,259</u>

## Sample Organization

### NOTES TO FINANCIAL STATEMENTS December 31, 2006

#### NOTE 12 – RENT INCOME:

Included in rent income for the property are Housing Assistance Payments. The Organization has an agreement with the U.S. Department of Housing and Urban Development (HUD) for the property, under Section 8, Moderate Rehabilitation Program. The contract is between Housing Authority and **Sample Organization**, and began during fiscal year 1995. The contract expires September 1, 2007 with an option to renew annually. Under the agreement, units must be rented to low income homeless individuals whereby the Housing Authority determines eligibility in accordance with HUD requirements. HUD funds passed through the Housing Authority totaled \$186,187 during the year ending December 31, 2006.

In addition, the Some **Other** properties receive Section 8 Housing Assistance payments from the Housing Authority, under the U.S. Department of Housing and Urban Development (HUD) voucher program. During the year ending December 31, 2006, several units received such subsidies.

Rental assistance from HUD, Section 8 and tenant vouchers, combined	\$ 285,498
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In addition, **Other Property** receives rental subsidies under the US Department Other subsidy program.

Rental assistance from Other	\$ 41,325
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Total rental assistance received under these contracts for the year ending December 31, 2006 was \$326,823.

#### NOTE 13 – REAL ESTATE TAX EXEMPTIONS:

Many of the properties owned by **ORG** are exempt from real estate taxes. The exemption is based on qualifying low income tenants residing in the units. The income limits are according to published HUD income limits. The exemptions are renewed annually.

During the year ending December 31, 2006 however, several of the scattered site properties lost real estate tax exemption because the tenants' income went over the limit. Accrued property taxes totaling \$1,377 is included in accrued liabilities at December 31, 2006.

#### NOTE 14 – SUBSEQUENT EVENTS:

Subsequent to year-end, **ORG** has three new development projects in process or in the pre-development phase. One such property had a signed commitment agreement for purchase and had obtained a commitment for funding, during the year ending December 31, 2006. No advances on the loan had been taken and no costs have been incurred as of December 31, 2006.

Subsequent to year-end, **ORG** entered into a lead-based paint abatement loan in the amount of \$30,000 for the **Sample Project** Limited Partnership. In addition, **ORG** entered into several forgivable loans totaling \$43,000 for the purpose of removing lead-based paint in several of the scattered-sites properties.

## Sample Organization

### SUPPLEMENTAL SCHEDULE OF FINANCIAL POSITION December 31, 2006

	ASSETS					
	Other Properties	Other Properties	Scattered Sites	Other	Other Properties	Other
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 10,417	\$ -	\$ 20,469	\$ 10,483	\$ -	\$ -
Cash for property rehabilitation	-	-	-	-	5,151	-
Cash - security deposits	7,325	5,943	4,087	3,675	12,339	-
<b>Total cash and cash equivalents</b>	<b>17,742</b>	<b>5,943</b>	<b>24,556</b>	<b>14,158</b>	<b>17,490</b>	<b>-</b>
Tax, operating and maintenance reserves	-	-	-	44,259	-	-
Prepaid expenses	3,722	2,573	982	1,447	1,736	-
Rents and accounts receivable	1,121	10,145	22	-	700	-
Accounts receivable - related parties	-	68	2	-	188	-
Grants and loan draws receivable	-	3,397	-	-	-	-
Interfund receivables	-	-	-	2,443	-	-
Short term loans receivable	-	-	-	-	-	-
<b>Total current assets</b>	<b>22,565</b>	<b>22,126</b>	<b>25,562</b>	<b>62,307</b>	<b>20,114</b>	<b>-</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>						
Land, buildings, improvements & furnishings	655,642	1,303,525	642,498	684,063	1,379,525	24,832
Accumulated depreciation	(272,730)	(549,915)	(199,626)	(170,452)	(403,835)	-
<b>Net of accumulated depreciation</b>	<b>382,912</b>	<b>753,610</b>	<b>442,872</b>	<b>513,611</b>	<b>975,690</b>	<b>24,832</b>
<b>OTHER ASSETS:</b>						
Loan origination fees, net of amortization	-	1,262	1,219	-	4,284	3,000
Corporate set up fees, net of amortization	-	1,812	-	-	-	-
Loans receivable - related parties	-	-	-	-	-	-
Accrued interest receivable	-	-	-	-	-	-
Capital investments	-	-	-	-	-	-
<b>Total other assets</b>	<b>-</b>	<b>3,074</b>	<b>1,219</b>	<b>-</b>	<b>4,284</b>	<b>3,000</b>
<b>Total assets</b>	<b>\$ 405,497</b>	<b>\$ 778,810</b>	<b>\$ 469,653</b>	<b>\$ 575,918</b>	<b>\$ 1,000,088</b>	<b>\$ 27,832</b>

### LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES:</b>						
Bank overdrafts	\$ -	\$ 4,462	\$ -	\$ -	\$ 43,260	\$ 5,381
Accounts payable	2,079	5,599	112	1,306	2,753	-
Accounts payable - related parties	-	-	-	-	-	-
Interfund payables	909	995	41	832	222	-
Accrued liabilities	4	107	1,377	30	-	-
Accrued interest	1,350	3,477	1,262	886	2,142	-
Security deposits	6,628	4,739	3,186	2,850	10,190	-
Unearned rents and management fees	-	146	-	21	-	-
Line of credit	190,083	-	-	-	-	-
Current maturities of long term debt	-	28,366	3,461	6,462	7,180	27,540
<b>Total current liabilities</b>	<b>201,053</b>	<b>47,891</b>	<b>9,439</b>	<b>12,387</b>	<b>65,747</b>	<b>32,921</b>
<b>LONG TERM DEBT:</b>						
Mortgage and loans payable	-	495,080	166,998	106,400	469,385	27,540
Deferred mortgage payable	250,000	475,239	366,736	410,000	590,000	-
Deferred accrued interest	35,850	61,569	61,492	15,438	53,759	-
Less current maturities	-	(28,366)	(3,461)	(6,462)	(7,180)	(27,540)
<b>Total long term debt</b>	<b>285,850</b>	<b>1,003,522</b>	<b>591,765</b>	<b>525,376</b>	<b>1,105,964</b>	<b>-</b>
<b>Total liabilities</b>	<b>486,903</b>	<b>1,051,413</b>	<b>601,204</b>	<b>537,763</b>	<b>1,171,711</b>	<b>32,921</b>
<b>NET ASSETS:</b>						
Unrestricted	(81,406)	(272,603)	(131,551)	38,155	(171,623)	(5,089)
<b>Total liabilities and net assets</b>	<b>\$ 405,497</b>	<b>\$ 778,810</b>	<b>\$ 469,653</b>	<b>\$ 575,918</b>	<b>\$ 1,000,088</b>	<b>\$ 27,832</b>

Properties	Development	Other	Other Dev.	Property Investments	Administration & Property Management	Eliminating Intercompany Transactions	Total Unrestricted
\$ 17,026	\$ -	\$ -	\$ 15,745	\$ -	\$ 217,872	\$ (67,667)	\$ 224,345
-	-	-	-	-	-	-	5,151
2,800	-	5,907	-	-	46	-	42,122
19,826	-	5,907	15,745	-	217,918	(67,667)	271,618
16,040	-	-	-	-	-	-	60,299
246	-	3,206	3,762	-	291	(616)	17,349
2,486	-	365	-	-	350	-	15,189
-	-	-	-	-	448,153	-	448,411
-	-	-	-	-	8,175	-	11,572
-	-	-	18	-	805	(3,266)	-
-	-	-	-	-	-	-	-
38,598	-	9,478	19,525	-	675,692	(71,549)	824,438
308,405	-	240,688	900,762	-	27,867	-	6,167,807
(21,833)	-	-	-	-	(7,579)	-	(1,625,970)
286,572	-	240,688	900,762	-	20,288	-	4,541,837
-	-	-	9,775	-	-	-	19,540
-	-	-	-	-	-	-	1,812
-	-	-	-	722,500	-	-	722,500
-	-	-	-	188,969	-	-	188,969
-	-	-	-	266,947	-	-	266,947
-	-	-	9,775	1,178,416	-	-	1,199,768
\$ 325,170	\$ -	\$ 250,166	\$ 930,062	\$ 1,178,416	\$ 695,980	\$ (71,549)	\$ 6,566,043

\$ -	\$ -	\$ 14,564	\$ -	\$ -	\$ -	\$ (67,667)	\$ -
-	-	3,987	4,599	-	4,621	-	25,056
-	-	-	-	-	-	-	-
67	-	-	-	-	211	(3,266)	11
-	-	-	-	-	13,237	-	14,755
-	-	1,250	2,850	-	-	-	13,217
1,750	-	4,022	-	-	-	-	33,365
2	-	-	-	-	616	(616)	169
-	-	10,000	35,634	-	-	-	235,717
-	-	-	380,109	-	-	-	453,118
1,819	-	33,823	423,192	-	18,685	(71,549)	775,408
-	-	-	380,109	122,500	-	-	1,768,012
347,416	-	241,334	535,344	600,000	-	-	3,816,069
-	-	-	-	-	-	-	228,108
-	-	-	(380,109)	-	-	-	(453,118)
347,416	-	241,334	535,344	722,500	-	-	5,359,071
349,235	-	275,157	958,536	722,500	18,685	(71,549)	6,134,479
(24,065)	-	(24,991)	(28,474)	455,916	677,295	-	431,564
\$ 325,170	\$ -	\$ 250,166	\$ 930,062	\$ 1,178,416	\$ 695,980	\$ (71,549)	\$ 6,566,043

**Sample Organization**

**SUPPLEMENTAL SCHEDULE OF RENTAL INCOME**  
For The Year Ending December 31, 2006

	Properties	Properties	Scattered Sites	-	Properties
Rental Income:					
Gross tenant rents	\$ 80,176	\$ 57,958	\$ 39,158	\$ 44,955	\$ 121,217
Rental assistance	31,304	186,187	22,213	41,325	45,794
Gross rent potential	<u>111,480</u>	<u>244,145</u>	<u>61,371</u>	<u>86,280</u>	<u>167,011</u>
Less:					
Vacancies	(7,468)	(18,652)	(1,580)	(35)	(11,763)
Rent Concessions	-	(2,215)	-	(105)	(841)
	<u>(7,468)</u>	<u>(20,867)</u>	<u>(1,580)</u>	<u>(140)</u>	<u>(12,604)</u>
Rental income, net	<u>\$ 104,012</u>	<u>\$ 223,278</u>	<u>\$ 59,791</u>	<u>\$ 86,140</u>	<u>\$ 154,407</u>
Other Rental Income:					
Late charges	\$ -	\$ 25	\$ 150	\$ -	\$ 400
Tenant charges	253	679	492	70	690
Miscellaneous	-	-	-	1,485	-
	<u>\$ 253</u>	<u>\$ 704</u>	<u>\$ 642</u>	<u>\$ 1,555</u>	<u>\$ 1,090</u>

Other	Other	Dev.	Property Management & Development	Total Unrestricted
\$ 14,710	\$ 86,997	\$ 6,000	\$ 259	\$ 451,430
-	-	-	-	326,823
<u>14,710</u>	<u>86,997</u>	<u>6,000</u>	<u>259</u>	<u>778,253</u>
(1,053)	(10,300)	-	-	(50,851)
-	(1,050)	-	-	(4,211)
<u>(1,053)</u>	<u>(11,350)</u>	<u>-</u>	<u>-</u>	<u>(55,062)</u>
<u>\$ 13,657</u>	<u>\$ 75,647</u>	<u>\$ 6,000</u>	<u>\$ 259</u>	<u>\$ 723,191</u>
\$ -	\$ 75	\$ -	\$ -	\$ 650
86	1,583	-	-	3,853
-	-	-	-	1,485
<u>\$ 86</u>	<u>\$ 1,658</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,988</u>

**Happy Affordable Housing Project  
Case Study  
Using Proforma to Stress Test Restructure Strategies**

**Happy Affordable Housing (Happy)** is comprised of five separate (scattered site) buildings with a total of 25 rental units and was developed using LIHTCs. These were severely distressed rental units in low income neighborhoods of Happy City.

**Rent Restrictions**

These units provide affordable housing to individuals and families at 45% or less of median income for the County. Five of the units are set-aside for the homeless.

**Description of Revenue-side Issues**

- The project is achieving 90% of maximum allowable rents in 2006 due to the Housing Authority setting the contract rents from between 35 and 40% of MFI.
- Presently, Happy has 11 units subsidized through tenant-based Section 8.
- The vacancy for Happy in 2006 was 6%.

**Description of Expense-side Issues**

- Given that Happy consists of 5 buildings scattered in different locations, its expenses are only \$100 more popy than the average unit in this portfolio.
- The maintenance costs are higher than its portfolio average, which is typical for scattered site projects.
- The replacement reserve contributions are at least \$250 popy.
- This project has two operating reserves. Both reserves will be depleted by 2011 if this project remains at status quo.
- The minimum reserve balance for a replacement reserve is \$46,000 per the regulatory agreements.

**Description of Debt structure**

- The outstanding principal on the first mortgage with Big Bank is \$190,766, with annual debt payments of \$19,668.
- Happy has a subordinate loan with the State with cash-flow contingent payments. The total loan is \$553,000.
- Given this project's target population and homeless set-asides, this project cannot support debt for the long term.
- Once the operating reserves are spent by 2011, this project will not be able to meet its debt obligations.
- The Owner's outstanding liability is \$18,089 (see balance sheet).

**Happy's Capital Needs**

Happy has exhausted its replacement reserves and needs a recapitalization of a replacement reserve to address **\$118,446** in immediate capital needs. This recapitalization amount is based on 5% inflation rate and a 3% savings rate.

The replacements and repairs necessary for this property are a little more extensive because of the age of the buildings and the five separate locations. The major items that will need to be addressed in the next 3 years are the following:

- Roofs will have to be replaced (\$24,300)
- 3 buildings will have to be painted (\$12,000)
- Asphalt replacement in the parking areas will have to be repaired/replaced/resurfaced (\$5,000)
- Additional exterior repairs, common area/hallway carpet replacement and landscaping issues (\$19,646)
- The carpet and vinyl in the apartment units will need to be replaced over the next 2 years as most are old, stained and quite worn (\$14,650)
- Most refrigerators and several ranges are at the end of their useful life and will need to be replaced over the next 2 years (\$13,350)
- The separate furnaces are being maintained regularly but some will need major overhaul/replacement (\$12,500)
- Electrical systems upgrades, plumbing systems upgrades and water heater replacements will add \$13,000
- The cabinets in several units have been badly damaged and/or show much wear. Replacing cabinet doors will cost \$4,000 and should be done on turnover of the affected units