Understanding Budgets & Financial Reports

Presented by

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1

Topics

- **Operating Budget**
  - Purpose of the Operating Budget
  - HUD's Requirements for the Public Housing Operating Budget
  - Budget Policy & Items Submitted with Operating Budget
  - Steps in Preparing an Operating Budget

2

Topics

- **Operating Budget & Capital Budget**
  - Relationship between the Operating & Capital Budgets
- **Additional Information – Preparing an Operating Budget**

3

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Purpose of the Operating Budget

4

What is an Operating Budget?

- An operating budget is a realistic forecast of the next fiscal year's operating results and is a combination of known and estimated income and expenses for the future year

5

What is an Operating Budget?

- An approved operating budget:
  - Shows management's priorities and expected goals and outcomes through various line items
  - Provides authority to incur expenses
  - Acts as a control and monitoring device (actual financial performance can be compared to the budget)
- See Handout: Budget to Actual Example

6

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Why Prepare an Operating Budget?

- HUD requires PHAs to prepare an operating budget for the **public housing program**. The operating budget must be approved by the PHA's Board
  - While not required by HUD, PHAs are strongly encouraged to prepare operating budgets for all programs that are administered by the PHA (for example, Housing Choice Voucher, Rural Development, etc.)

7

7

Why Prepare an Operating Budget?

- Operating Budget:
  - Helps ensure that the PHA remains financially healthy
  - Serves as a tool to monitor and project the future financial performance of the PHA's projects and programs
  - Helps the PHA allocate resources appropriately and highlight the areas that need improvement

8

8

Public Housing Operating Budget & HUD Requirements

9

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Public Housing
Operating Budget Requirements

- HUD requires PHAs to prepare and maintain operating budgets for every project in a way that allows for the comparison of budgeted line items to actual revenues and expenses
- The budget, prepared by the PHA, is reviewed and approved by the Board of Commissioners by resolution. The resolution should be submitted to the local field office
- Budgets are not subject to HUD approval, except in cases of non-performance

10

10

Public Housing
Operating Budget Requirements

- The budget must include:
  - Reasonable estimates for all revenue and expenses under the Operating Fund and Capital Fund Programs (CFP) that directly or indirectly support the operations of the project
  - Operating subsidy, dwelling rents, Capital Fund grants used for operations, and all other revenue used to support the projects
  - Direct administrative costs, utilities, maintenance, security, general expenses, and non-routine or capital expenses to be paid with Operating Subsidy funds

11

11

Public Housing
Operating Budget Requirements

- The budget must:
  - Reflect expected transfers and anticipated uses of excess cash
  - Include Capital Funds that will be used for:
    - Operations (BLI 1406),
    - Management improvements (BLI 1408), and
    - Administration (BLI 1410) (normally shown on a CFP operational budget)
  - Be easily reconciled to the Financial Data Schedule (FDS)

12

12

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Budget Policy & Operating Budget Supporting Materials

13

Budget Policy

- All PHAs should have a Budget Policy and associated procedures
  - The Budget Policy should address the following:
    - What programs are required to have an operating budget
    - Who is to be involved in the budget process
    - Who is expected to provide information
    - General time frame / schedule for the annual adoption of the budget
    - The requirement for Board approval before the start of the fiscal year

14

14

Budget Policy

- Best practices would have the Budget Policy or procedures also address the following items:
  - PHA decision to allow or not allow a non-balanced budget (net loss)
  - Limitations not to incur costs beyond the approved budget, unless in cases of emergencies
  - Documentation required to support the budget (i.e., budget assumptions, schedule of positions, and initiatives)
  - Board approval or ED discretion to hire new staff / back fill positions / create new positions

15

15

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Budget Policy – Revisions

- Emergencies
  - A budget revision is required for an emergency. The operating budget will be revised as soon as possible to reflect the costs associated with the emergency
- Revenue
  - With the exception of transfers of monies (i.e., CFP to operations, project to project, etc.) and the use of reserves above the initially budgeted amount, there is normally no need for a budget revision for a revenue item. However, lower revenue may result in the need for a budget revision to reduce expenses

16

16

Budget Policy – Revisions

- Material Financial Impact (Best practice)
  - Regardless of the amount, the budget should be revised for transactions that will materially impact the financial feasibility or considerably alter services / expected results of the project or program
    - For example, a budget revision should be approved for a much lower than expected HAP funding level which will require the PHA to stop issuing any vouchers, using most or all of its program reserves, and possibly being in a shortfall position
    - A material financial impact policy helps ensure that everyone understands the financial issue

17

17

Budget Policy – Revisions

Expenses: The approval of the budget allows for the PHA to incur costs up to the approved amount. What does that mean?

Partial Budget Presented to Board	Amount
Administrative salaries	100,000
Auditing fees	5,000
Advertising and marketing	1,000
Employee benefits - administrative	35,000
Office expenses	15,000
Legal expenses	1,000
Travel	5,000
Other admin.	8,000
Total Administrative	170,000
Maintenance labor	70,000
Maintenance materials	20,000
Maintenance contracts	40,000
Employee benefits - maintenance	20,000
Total Maintenance	150,000
.... Other Budget Items	40,000
Total Operating Expenses	360,000

- Without a revision policy that addresses this matter, a budget revision is required at the line item level of the budget that was approved by the Board
- Possible policy language: "A budget revision is required when the total operating expenses (or line items marked as significant) is greater than 2% or more of the approved annual budget"

18

18

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Items Submitted with Operating Budget

- Operating Budget
- Budget Justification and Assumptions
- Supporting Schedules and Calculations
  - Schedule of Positions and Salaries
  - Calculations Supporting Other Major Revenue and Expense Items
  - Schedule of Nonroutine Expenditures and Initiatives

19

19

1. Budget Justification & Assumptions

- Allows the PHA to provide explanations and notes of budgeted line items, including basic calculations and assumptions used in determining the line item amount
- Facilitates the discussion of the budget between the project manager, the Executive Director, PHA's Finance staff and the Board
- Documents budget process and expectations

20

20

1. Budget Justification & Assumptions <u>EXAMPLE</u>

- CFP for Operations (BLI 1406) – Historically, the PHA budgets 20% of the CFP grant to be used to support project operations, specifically BLI 1406. No CFP funds have been budgeted as the expected loss could be absorbed through the use of operating reserves and inter-project transfers; leaving 100% of the CFP funds available for modernization and other capital projects
- Training and Travel – Training and associated travel costs have been increased by $2,400 per person (Administrative and Maintenance staff) which aligns to the PHA's goal to further invest in staff skills

21

21

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2. Schedule of Positions and Salaries

- Created for positions not employees
- Consists of a listing of each position and the costs related to the individual project/program
- Costs are split between programs and projects as necessary
  - These costs further can be broken out into administrative, maintenance, protective services and tenant services, as necessary
- Includes shared staff and centralized front-line staff

22

22

2. Schedule of Positions and Salaries
EXAMPLE

Partial schedule, does not show all staff or benefit load. The schedule should identify positions not currently filled (i.e. new hires) and known staff retirements

Administrative Positions	Total Salary Base, OT & Standby	0% Increase	Project 001	Project 002	Project 003	COCC	Section 8
Executive Director	109,800	109,800	0	0	0	109,800	0
Accountant Supervisor 1	59,583	59,583	0	0	0	59,583	0
Fac. Maint. Manager A	54,015	54,015	0	0	0	54,015	0
Admin Assistant 4	36,807	36,807	0	0	0	36,807	0
Human Resource Analyst A	36,551	36,551	0	0	0	36,551	0
Housing Mgr. A	39,689	39,689	0	0	0	0	39,689
Housing Inspector 1	30,763	30,763	0	0	0	0	30,763
Administrative Coor. 2	24,502	24,502	0	0	0	0	24,502
Housing Specialist 3	32,053	32,053	0	0	0	0	32,053
Housing Inspector 1	30,763	30,763	0	0	0	0	30,763
Housing Specialist 3	27,040	27,040	0	27,040	0	0	0
Housing Specialist 3	27,040	27,040	27,040	0	0	0	0
Housing Specialist 3	27,040	27,040			27,040	0	0
Housing Specialist 3	25,418	25,418	4,321	7,879	13,217	0	0
Administrative Coor. 2	26,478	26,478	4,501	8,208	13,769		0
Housing Supervisor	38,782	38,782	0	38,782	0		0
Total			35,862	81,909	54,026	296,755	157,770

23

23

3. Calculations Supporting Other Major Revenue & Expense Items

- Provides detail support on how major revenue and expenses were determined, including assumptions used
  - Examples include operating subsidy, tenant rent, HAP revenue and expense

24

24

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3. Calculations Supporting Other Major Revenue & Expense Items

- Not all budget line items warrant detailed support
  - Example of budget line item codes
    - Calc. – Supporting calculation has been developed to support amount
    - PM – Property / Project Manager developed new estimate; historical data no longer valid
    - TB – Historical data used as basis for amount (i.e., prior year and current year trial balance and Financial Data Schedule) can include inflation factor / be based on average, etc.)
    - N/A – Budget line item not needed (expected to be zero)

25

25

4. Calculations Supporting Other Major Revenue and Expense Items EXAMPLES

Line Item	Line Description	Code	Amount
94100	Labor	Calc	$59,670
94500	Employee Benefits - Maintenance	Calc	$20,976
94200	Maintenance Materials - CFP	PM	$0
94200	Maintenance Materials	TB	$28,065
94300	Contracts - Garbage & Trash Removal	TB	$30,771
94300	Maintenance - Maint. Temp Services	Calc	$30,000
94300	Maintenance - Vehicle Maintenance	TB	$671

Supporting Calculations			
Project	Project 001	Project 002	Project 003
ACC Units	102	174	292
Current Average Rent	$174	$162	$184
Occupancy Goal	95%	90%	98%
Gross Potential Rent	$213,153	$338,341	$646,122
Vacancy Loss	($10,658)	($33,834)	($12,922)
Net Rental Revenue	$202,496	$304,507	$633,199

26

26

5. Schedule of Non-routine Expenses & Initiatives

- Lists all non-routine and capitalized "operational" costs that will be incurred during the fiscal year of the project:
  - All "minor" capital items that support operations (such as a printer, desk, copier, lawn mower, drill) whether funded by operations or Capital Funds
    - Larger or major capital activity should not be budgeted on the project's Operating Budget
  - Costs related to the extraordinary maintenance (if possible, to determine)
  - Estimated one-time expenses, such as hiring a contractor for a short period of time in the following year to help with unit turnaround

27

27

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5. Schedule of New Initiatives & Non-Routine Expenses EXAMPLE

#	New Initiatives / Non-routine	Justification	Budget	Estimated Cost
1	Equipment for Ground Maintenance (1 Chain Saw)	Maintenance is in need of equipment to trim bushes and trees at the property.	Operating	$350
2	Jet Router (Maintenance Equipment)	Sewer back-up are common and property does not have a Jet Router. Therefore, the project must borrow this piece of equipment from another property causing delays in completing the work order or must call a plumber.	Operating	$5,000
3	Hire 1 Maintenance Staff (MR 1)	Hire one maintenance staff	Operating	$33,330
4	Repair of Sidewalks	Sidewalks are in need of repair. Sidewalk repair will be completed via contract.	Operating	$4,500
5	Tenant Parking	Non-residents are parking at the property resulting in residents not have a parking space or parking on the lawn. Restripe parking areas, require car tags, enforce towing.	Operating	$3,750
6	~~Replace Top /Bottom Cabinets and Counter Tops - all units / on a flow basis~~	~~Units should be updated with central air at both properties. Roofing concerns also exist at both sites.~~	~~CFP~~	~~N/A~~
		Total - New Initiatives		**$43,180**

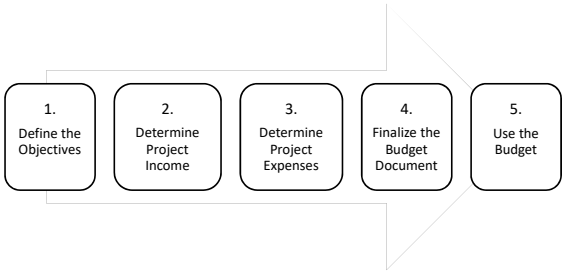
28

28

Steps in Preparing an Operating Budget

29

Budget Planning Steps



30

30

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Budget Preparation Responsibilities

Seq	Responsibility	Accounting / Finance	Project / Program Manager	Board, ED, Asset Manager
1	Define the objectives of the operating budget	☑	☑	☑
	• Set goals and priorities			☑
	• Conduct meetings to outline the financial and operational goals of each project	☑	☑	☑
	• Develop a schedule to identify the due dates for budget preparation	☑	☑	☑
2	Determine project income	☑	☑	
	• Calculate operating subsidy	☑		
	• Project dwelling rent, other tenant charges, and vacancy loss		☑	
3	Determine project expenses	☑	☑	
4	Review and finalize the operating budget	☑		☑
	• Schedule and conduct meeting to review the draft budget	☑		☑
	• Present the operating budget to the Board of Commissioners			☑
5	Use the Operating Budget	☑	☑	☑

31

31

Operating & Capital Budgets

32

Capital Budgets

- Capital Budgets are used to plan for needed capital outlays, modernization and large equipment purchases which will benefit the project over a number of years
- For most PHAs, capital budgets are normally associated with the Capital Fund grant
- PHAs need to consider their long-term Capital Plan when creating the Operating Budget because there can be a relationship between the Operating and Capital Budget

33

33

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Relationship Between the Operating & Capital Budgets

#	Operating/Capital Event that Impacts the Other Budget
1	Delay in planned modernization which would result in increased work orders (i.e., increase to maintenance expense – Operating Budget)
2	Reduction in CFP grant funds resulting in planned modernization re-scoped to a much lower level which would result in increased work orders (increase to maintenance expense – Operating Budget)
3	Reduction in CFP grant funds resulting in CFP funds that are reprogrammed from CFP to Operations (BLI 1406) to capital activity (reduction in overall operating budget expenses)
4	Demolition, disposition, reconfiguration of units which would have units offline resulting in a decrease in work orders (i.e., do not fix items that will be replaced) (decrease to maintenance expense – Operating Budget)
5	Completion of energy conservation initiatives (decrease in utility expenses – Operating Budget)
6	Continued deferral of maintenance items (increase to Capital Budget)
7	Long-term vacancies (increase Capital Budget to put units back on line and reduce overall Operating Budget expenses due to resulting reduction of revenue)

34

34

Additional Information Preparing an Operating Budget

35

35

Step 1 - Define the Objectives

- Objectives should be determined and communicated prior to the start of the preparation of the budgets (What is the Board's and senior management's goals?)

36

36

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Step 1 - Define the Objectives

- Objectives and strategic goals that should be communicated includes such items as:
  - New or changes in initiatives
  - Types and extent of services to be provided
  - Target occupancy / utilization rates
  - Profit margin to be generated
  - Use of funds for specific purposes
  - Determination of an adequate safety net
  - Security needs
  - Maintenance needs
  - Capital needs

37

37

Step 1 - Define the Objectives

- Determine if there should be major changes to the programs service delivery model. Examples include:
  - Change of staffing levels (adding new position, termination of positions, changes in position roles, etc.)
  - Reduction or elimination of services that are not effective
  - Increase in funding for existing contracts or new contracts for services that are normally provided in-house (unit turnaround activity)
  - Use of reserves and CFP funds

38

38

Step 2 - Determine Project Income

- Revenue sources can be divided into the following categories:
  - Revenue calculated by the central office (PHA's

Central Office (PHA Accounting / Fee Accountant)	Project / Program Manager
1. Operating Subsidy	1. Dwelling Rent
2. CFP to Support Operations • BLI 1406 Operations • BLI 1408 Management Improvements • 1410 Administration	2. Other Tenant Charges
3. Interest Income	3. Other revenue (i.e., laundry receipts)
4. Eligible Transfers / Use of Reserves	

39

39

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Step 2 - Determine Project Income

Central Office (PHA Accounting / Fee Accountant)	Project/Program Manager
1. Operating Subsidy	1. Dwelling Rent
2. CFP to Support Operations • BLI 1406 Operations • BLI 1408 Management Improvements • 1410 Administration	2. Other Tenant Charges
3. Interest Income	3. Other revenue (i.e., laundry receipts)
4. Eligible Transfers / Use of Reserves	

40

40

Step 2 - Vacancy Loss

Budget Lines	Tenant Rent	Operating Subsidy
Gross Potential	$360,000	$600,000
Vacancy Loss	-$14,400	-$6,000
Net Revenue	$345,600	$594,000

For transparency, the amount of lost dwelling rent and operating subsidy should be shown on the budget

#	Descripition	Data	Vacancy Loss		
			Tenant Rent	Operating Subsidy	Total
1	Total Units in Project	200	2,400	2,400	
2	Occupancy Rate[1]	96%	2,304	2376	
3	Unit Months Not Rented	-	96	24	
4	Average Rent per Unit per Month	$150			
5	Net Operating Susbidy Per Unit per Month	$250			
6	Vacancy Loss Year	-	$14,400	$6,000	$20,400

[1] Operating Subsidy column includes the limited vacancy adjustment (for PHAs with 100 or fewer units – 60-unit months); for PHAs with more than 100 units – 3%) permitted by HUD

41

41

Step 3 - Determine Project Expenses

- Estimate of expenses for the following year should include the following steps:
  - Update and review budget support schedules (i.e., salary and position schedule)
  - Analyze current and prior year(s) reported expenses
  - Determine the impact of the new objectives and identified goals
  - Determine how current initiatives / policy changes will impact the upcoming budget (e.g., EPCs, vacancy reduction efforts, utility allowance schedules, etc.)
  - Review the contract costs and determine estimated future costs
  - Contact utility companies to determine whether utility rates are increasing

42

42

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Step 3 - Determine Project Expenses

- Project expenses can also be divided into the following categories:
  - Expenses calculated by the central office

Central Office (PHA Accounting / Fee Accountant)	Project / Program Manager
1. Salary and Labor Costs	1. Maintenance Materials / Contracts
2. Employee Benefits	2. Utilities
3. Insurance	3. Administrative Costs (e.g., telephone, office supplies, etc.)
4. Audit Costs	4. Protective Services
5. Eligible Transfers	5. Tenant Services
	6. Management / Bookkeeping Fees

43

43

Step 3 - Determine Project Expenses

Central Office (PHA Accounting / Fee Accountant)	Project/Program Manager
1. Salary and Labor Costs	1. Maintenance Materials / Contracts
2. Employee Benefits	2. Utilities
3. Insurance	3. Administrative Costs (e.g., telephone, office supplies, etc.)
4. Audit Costs	4. Protective Services
5. Eligible Transfers	5. Tenant Services
	6. Management / Bookkeeping Fees

44

44

Step 4 - Finalize the Budget

- Once the budget is formulated, the project manager should review to make certain that the objectives and goals as established by senior management (i.e., central office) have been met
- If the project manager is unable to prepare a budget that meets the identified goals, senior management should be contacted to determine a course of action
- It is recommended that the project manager and senior management discuss the budget together

45

45

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Step 4 - Finalize the Budget

- Large cash disbursement items, such as payroll and property insurance, should be analyzed to verify that there is sufficient cash balance at the time of payment
  - The budget should be allocated to the months in which the revenue and expense is expected to occur (i.e., certain activity and costs are seasonal or are scheduled)
- Depending on the circumstances, a project budget does not have to "break even"

46

46

Step 4 - Finalize the Budget

- The following funding sources can be considered by senior management to cover the deficit:
  - Project reserves
  - Capital Funds
  - Excess cash transfer from other projects

47

47

Step 4 - Finalize the Budget

- If the budget cannot sustain a deficit, costs need to be reduced; long-term revenue streams need to be identified or an asset repositioning strategy needs to be considered
- Upon the receipt of all project / program budgets, the senior management should review the budgets for consistency between the projects, for reasonableness, and to verify that objectives have been met
- If the PHA has multiple projects, budgets between projects can be compared to other projects by analyzing each project's per unit month (PUM) cost

48

48

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Step 5 - Use the Budget

- Approval of the budget allows for the PHA to incur costs as prescribed
- The budget becomes a monitoring tool, with budget to actuals to be reviewed every month, variances analyzed, and corrective action made as necessary

49

49

Review of PHA Budgets
& Budget Line Items

Monthly Accounting Reports

50

50

Monthly Accounting Reports

- The PHA's accounting department, fee accountant, or a combination of both, should produce a number of financial reports on a monthly basis
  - These accounting reports are base products from accounting operations, therefore if the report is not available, the lack of availability is an indication that there may be an issue with the PHA's accounting operations

51

51

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Monthly Accounting Reports

- These reports help form the basis of monitoring and the board meeting package
  - If the PHA uses a fee accountant, the contract between the PHA and fee accountant will provide the reports that are the responsibility of the fee accountant and the reporting schedule (usually monthly)
  - If the fee accountant does not produce the report, the responsibility for the report is on the PHA

52

52

Monthly Financial Statements

- Below is a list of common financial reports that should be prepared and provided on a monthly basis:
  - Board Required Reports
    - Balance Sheet (Statement of Net Position)
    - Income Statement (Profit & Loss Statement) with budget comparisons
    - Financial Dashboard

53

53

Monthly Financial Statements

  - Additional Reports
    - Capital Fund Program (CFP) Reports
    - Bank Reconciliation
    - General Ledger
    - Transaction Journals
  - The needs of additional departments should be considered in the design of financial reports
    - Executive Management
    - Property/Program Management

54

54

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Monthly Financial Statements

- Balance Sheet (Statement of Net Position)
  - Consolidated
  - Program Level
- Income Statement (Profit & Loss Statement)
  - Consolidated
  - Program Level with budget to actual comparison

55

55

Other Financial Reports Public Housing

- The following reports should be available on a monthly basis if the PHA is administering the Public Housing program:
  - **Capital Fund Report**: A report that compares the total costs of the grant incurred to the approved budget by CFP Budget Line Item (BLI) and grant year.
    - A Capital Fund report is normally provided as part of a Board meeting package

56

56

Other Financial Reports Public Housing

  - **Utility Consumption Information Report**: A report which provides monthly utility costs and consumption data normally at a utility bill level for use in monitoring and completing the HUD Form – 52722: Calculation of Utilities Expense Level
- While these reports / information should be available, as a general rule most fee accountants do not provide these reports

57

57

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Other Financial Reports Housing Choice Voucher

- The following reports should be available on a monthly basis if the PHA is administering the HCV program:
  - HCV Utilization Report: A report that shows voucher leasing and HAP utilization information, including projection of future leasing and HAP expenses.
  - VMS Report: A report which provide UNP, NRP and other accounts for VMS reporting lines. Typically this report is provided by the fee accountant in cases where the PHA is entering their own VMS data.

58

58

Financial Reporting Process

Accountant	• Prepare accurate financial statements in accordance with framework. • Provide financial statements in a timely manner.
Management	• Review and analyze financial statements. • Answer Board's questions on financial statements.
Board of Commissioners	• Review financial statements. • Verify that the actual results are within the approved operating budget amounts. • Ask about variance amounts on reports.

59

59

Review of PHA Financial Statements

60

60

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Key Performance Indicators (KPIs)

- Cash/investment balances
- Tenant accounts receivable
- Occupancy
- Monthly/year to date profit (loss)
- HUD PHAS indicators

61

61

Development of Key Performance Indicators (KPIs)

- Stay within the financial reporting framework
- Indicators
  - Monthly
  - Year end
  - Compare results for that time period
- Depending on the reporting framework used, the PHA may not need to track certain items every month

62

62

Review of PHA Key Performance Indicators

63

63

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Monthly Monitoring EXAMPLE

Item	Established KPI	Comment
Minimum unrestricted cash balance	$50,000	As a measurement, cash will not be permitted to decrease lower than this amount. Any balance lower than this must be explained.
Investment balance	Investments not allowed to be reduced without Board approval	
Tenant A/R	$1,500	Maximum balance, explain any reason for amounts over.
Occupancy	97%	Explain any amount lower than the established benchmark.
Budget to actual	10%	Explain any monthly variance above 10%.

64

64

65

66

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