

Annual Operating Budget

The Annual Operating Budget is a financial projection of the operations for the upcoming fiscal year. It reflects the best judgment of the owner and management agent concerning the anticipated expenditures to be incurred and income to be received. As a planning tool and financial control aid, the budget process involves: (1) establishing performance objectives; (2) comparing actual performance against established objectives; (3) determining reasons for deviations from objectives; and (4) taking corrective action to improve performance.

Sixty days prior to initial occupancy and the commencement of each fiscal year, the management agent is required to submit to the property's Financial Analyst an annual operating budget in the required PHFA format. The fiscal year ending date will be determined by the owner. The number of months to be included in the initial operating budget will be based on initial occupancy. The property's Financial Spreadsheet should be used as the basis for preparing the initial budget.

A sample of the required PHFA form is shown in Appendix 2 or at www.phfa.org. On the initial annual operating budget, only Column 3, New Annual Budget, should be completed. All subsequent budgets should be submitted with Columns 1 through 3 completed. Column 1, Prior Year Budget, reflects the PHFA approved operating budget for the current fiscal period. Column 2, Prior Year Actual, records the actual operations of the current fiscal period. Column 3, New Annual Budget, reflects the determination by the owner and management agent of the project operating income and expenses for the upcoming year. Budgets that are received that do not follow this PHFA-approved format will be returned for proper completion.

Since the Annual Operating Budget must be submitted before the close of the current year, expenditures for the last two or three months of operations must be estimated in order to complete Column 2 of the new budget. These estimates should be verified for reasonableness by comparing them to the prior year's actual experience during the same months. A comprehensive review of the current period expenditures should be made. Investigation of unusual variations between actual expenditures and budgeted expenses should disclose if adjustments are required in the new annual budget.

In addition to the budget form, the Agency also requires that a **budget narrative** be submitted, which **should include the following items**:

1. A schedule of the calculation of gross rental income. A rent roll should also be submitted for all non-Section 8 properties indicating the current rents paid by the tenants. This should also include any utility allowance, if applicable.

2. Four supplemental schedules are included with the new budget form, one each for Miscellaneous Administrative Expenses, Payroll, Reserve for Replacement withdrawals and Capital Improvements/Equipment. If any of these items are applicable to your budget, the supplemental schedule must be completed in order for the amounts to carry over and be included on your budget.
 - The Miscellaneous Administrative Expense schedule should include a detailed listing of the items included in this category. The total will automatically carry over to line 26 on the budget.
 - The Payroll Worksheet should be completed to include all employees for the property. If employees are paid on an hourly rate, include the number of hours, hourly rate, and the total (hours x rate) in the Salary/Total box. If the employee is paid a salary, simply include their total salary in the Salary/Total box. In the percentage box, include the amount of time the employee works at the property. The Total for Property box will then automatically calculate and the total payroll per category will carry over to the appropriate line item on the budget. You will need to enter amounts for Administrative Rent Free Unit, Payroll Taxes, Workers' Compensation, and Health Insurance and Employee Benefits directly on the budget as applicable.
 - The Reserve for Replacement withdrawals supplemental schedule should include the item, the account number where it is included on the budget, and the amount. The total will automatically carry over to Line 75 on the budget.
 - The Capital Improvement/Equipment supplemental schedule should include a description of the item and the amount. The total will automatically carry over to Line 81 on the budget.
3. An explanation of any variance of 10% or more from the prior year's actual amount.

The following section provides detailed instructions for the completion of the budget:

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| Line 26 | A supplemental schedule is now included for Miscellaneous Administrative Expenses. The total will automatically carry over from the supplemental schedule. |
| Line 54 | This line item is now the Real Estate Tax Escrow deposits for the fiscal year. If the Agency does not hold the Escrow, this should be the estimated tax expense. |

- Line 55 This line item is now the Insurance Escrow deposits for the fiscal year. If the Agency does not hold the Escrow, this should be the estimated insurance expense.

- Line 59 This line item is now the total Mortgage Interest and Principal for the fiscal year.

- Line 74 This line item is now the Reserve for Replacement deposits for the fiscal year.

- Line 75 This line item is now the estimated Reserve for Replacement withdrawals for the fiscal year. The amount will automatically carry over from the supplemental schedule.

- Line 76 This line item is now the Painting and Decorating Reserve deposits for the fiscal year, if applicable.

- Line 77 This line item is now the estimated Painting and Decorating Reserve withdrawals for the fiscal year, if applicable.

- Line 78 This line item is now estimated Operating Reserve withdrawals for the fiscal year, if applicable.

- Line 79 This line item is now estimated FSSP Escrow withdrawals for the fiscal year, if applicable.

- Line 80 This line item is now for Other Reserve withdrawals or Bond Refunding Assistance for the fiscal year, if applicable.

- Line 81 This line item is now the estimated Capital Improvements and Equipment Purchases for the fiscal year. The total amount will automatically carry over from the supplemental schedule.

The budget is to be submitted to the owner for approval prior to submission to PHFA. When necessary, PHFA may consult the owner regarding budget content. All inquiries by PHFA, whether to the owner or management agent, should be addressed as expeditiously as possible to ensure a timely completion of the budget review.

Any adjustments made by PHFA will be highlighted and reflected in Column 4 with a letter referencing the adjustment in Column 5. The referenced adjustments, if any, are on the bottom of the third page of the budget. The final PHFA adjusted budget will be returned via email. Included will be a budget confirmation that must be completed and returned to the Agency. The preferred method of confirmation is via email, however the confirmation may be returned via fax or regular mail. The

approved annual operating budget (Column 4) must be used on all subsequent quarterly reports. No changes in budgeted figures are to be made without written approval by PHFA.

Should the management agent determine that the annual operating budget cannot be submitted by the required date, a letter requesting an extension should be addressed to the Financial Analyst assigned to the property.

The budget and narrative must be submitted via e-mail. The e-mail should be sent to the Financial Analyst currently assigned to the property. The e-mail address is the person's first initial and last name @phfa.org. If you are uncertain who is assigned to the property, please call 717/780-3819 for assistance. The e-mail should include the name and phone number of the person who prepared the budget so that they can be contacted with any questions. No signature page is required to be completed for initial submission via e-mail.