Public Housing Assessment System (PHAS)- Interim Rule

Financial Condition Indicator

February 18, 2011

Financial Assessment Subsystem (FASS): Areas To Be Covered

Asset Management

A brief overview

Prior vs. New FASS Sub-Indicators

Compare & Contrast

New FASS Sub-Indicators

What are they? What do they mean?

FASS Scoring Process

Tiers: 1, 2, 3

Asset Management

Implemented for PHAs beginning with FYE of 06/30/2008

PHAs account for activities by projects. PHAs report to FASS-PH on **a project level** as well as on an entity-wide basis

Low Rent and Capital Fund program (CFP) activities are reported at the **project level**

All other programs and activities (entity-wide) are reported on separate columns on the Financial Data Schedule (FDS)

Asset Management (Cont)

Projects report Low Rent and Capital Fund program activities at a **project level**

Each project will be assessed based on the combination of the Capital Fund and Low Rent programs

Each **project** will receive a Financial Condition Indicator score based on the three (3) new sub-indicators (ratios)

PHAs will also receive a weighted average Financial Condition Indicator score **based on the weighted average score for each project**

Interim PHAS Score by Indicator

Physical Condition	• 40 points
Financial Condition *	• 25 points
Management Operations	• 25 points
Capital Fund Program	• 10 points
Overall PHAS score	100 points

*** Threshold score for this indicator must be at least 15 points, or 60% of maximum number of points (25).**

Prior vs. New Sub-indicators (Ratios)

Prior PHAS

Current Ratio	9.0
Months Expendable Fund Balance (MEFB)	9.0
Tenant Receivables Outstanding (TRO)	4.5
Occupancy Loss (OL)	4.5
Net Income (NI)	1.5
Expense Management (EM)	1.5
TOTAL POINTS	30.0

Interim PHAS

Quick Ratio (QR)	12.0
Months Expendable Net Assets Ratio (MENAR)	11.0
Debt Service Coverage Ratio (DSCR)	2.0
TOTAL POINTS	25.0

New Ratios

Quick Ratio (QR)

- Measures liquidity
- Similar to Current Ratio (CR)
- Maximum 12 points

Months Expendable Net Assets Ratio (MENAR)

- Measures adequacy of reserves
- Similar to Months Expendable Fund Balance (MEFB) Ratio
- Maximum 11 points

Debt Service Coverage Ratio (DSCR)

- Measures capacity to cover debt
- **New ratio**
- Maximum 2 points

New Ratio Computations: QR

NUMERATOR

Cash

FDS 111*
Cash-Unrestricted

** Henceforth, FDS##### refers to FDS line items*

+

Cash Equivalent

FDS 114
Cash Tenant Security Deposits

FDS 115
Cash Restricted for Payment of Current Liabilities

+

Current Receivables

FDS 120
Total Receivables net of allowance for doubtful accounts

FDS 131
Investments Unrestricted

FDS 135
Investments Restricted for payment of current liability

FDS 142
Prepaid Expenses and Other Assets

FDS 144
Inter-program-due-from

Current Liabilities

FDS 310
Total Current Liabilities

−

[343-010]
CFFP Current Portion of long-term debt capital projects/mortgage revenue bonds

DENOMINATOR

How QR is Scored

QR < 1.0	0 points
QR = 1.0	7.2 points
1.0<QR<2.0	7.2<points<12.0
QR ≥ 2.0	12.0 points

New Ratio Computations: MENAR

NUMERATOR

Unrestricted Resources

Cash

- FDS 111 Cash-Unrestricted

+

Cash Equivalent

- FDS 114 Cash Tenant Security Deposits
- FDS 115 Cash Restricted for Payment of Current Liabilities

+

Current Receivables

- FDS 120 Total Receivables net of allowance for doubtful accounts
- FDS 131 Investments Unrestricted
- FDS 135 Investments Restricted for payment of current liability
- FDS 142 Prepaid Expenses and Other Assets
- FDS 144 Inter-program-due-from

−

- FDS 310 Total Current Liabilities

Average Monthly Operating & Other Expenses

(FDS 96900 Total Operating Expenses + FDS 97100 Extraordinary Maintenance + FDS 97200 Casualty Loss Non-capitalized + FDS 97800 Dwelling Units Rent Expense) ÷ 12

DENOMINATOR

How MENAR is Scored

MENAR < 1.0	0 points
MENAR = 1.0	6.6 points
1.0<MENAR<4.0	6.6<points<11.0
MENAR ≥ 4.0	11.0 points

New Ratio Computations: Debt Service Coverage Ratio (DSCR)

NUMERATOR

Adjusted Operating Income

FDS 97000
Excess Operating Revenue over Operating Expenses

+

FDS 96700
Interest Expense and Amortization Costs

Annual Debt Service excluding CFFP debt*

FDS 96710
Interest on Mortgage (or bonds payable)

+

FDS 96720
Interest on notes payable (short-& long -term)

+

FDS 11020
Required Annual Debt Payments

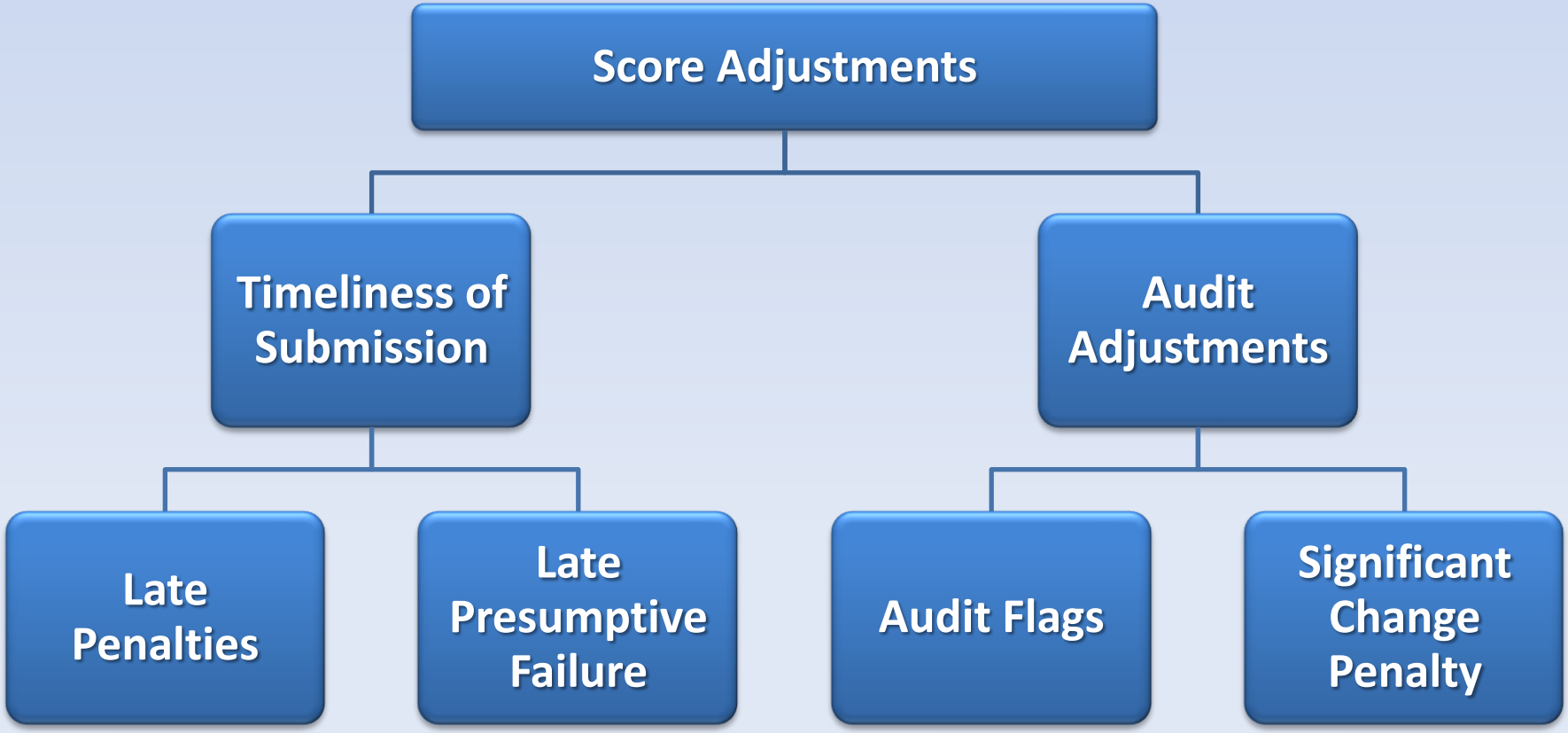
DENOMINATOR

*The denominator of FDS lines items is derived from the ***Operations Column of the FDS***

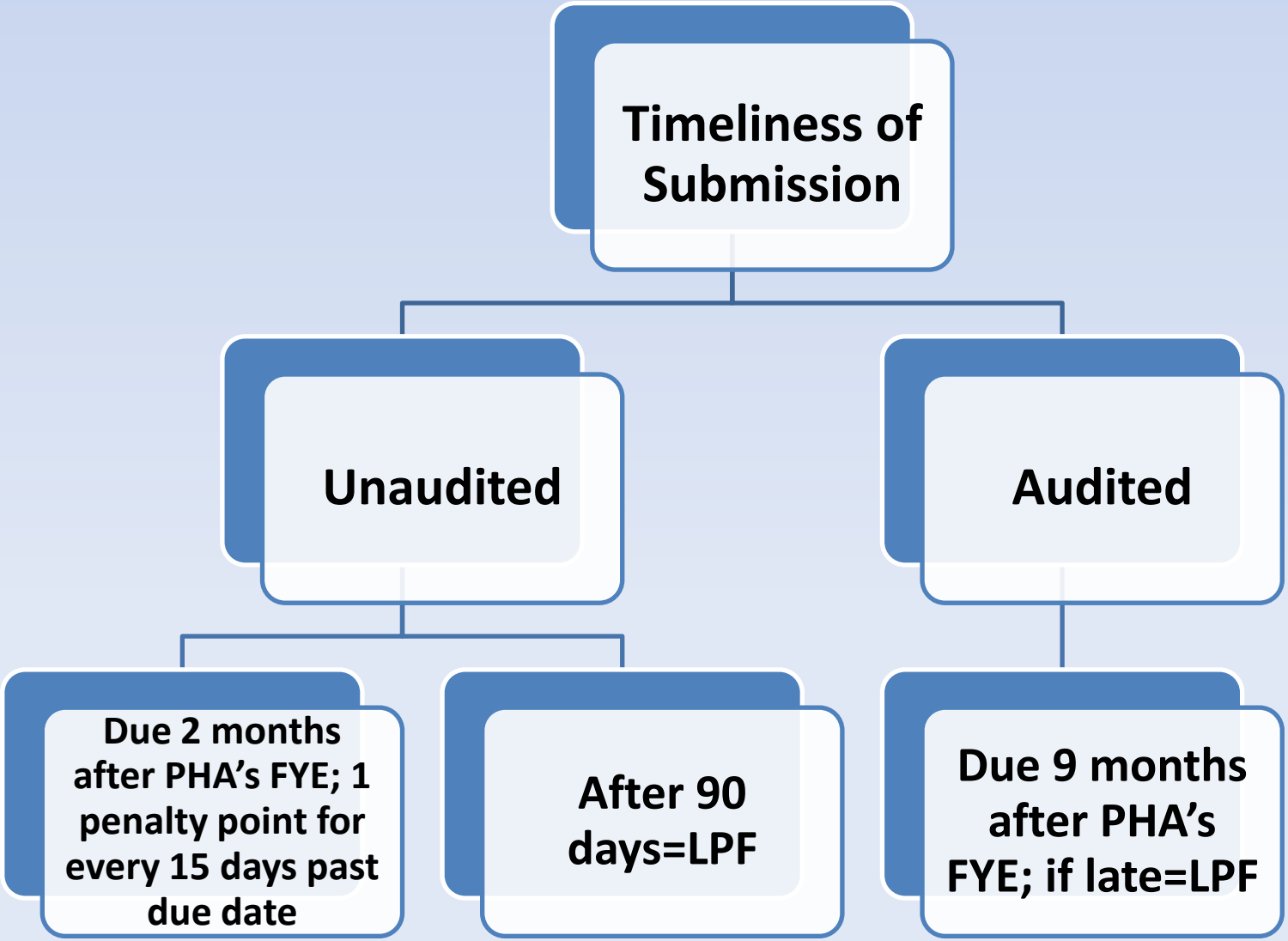
How DSCR is scored

DSCR < 1.0	0 points
≥ 1.0 but <1.25	1 point
DSCR ≥ 1.25	2 points
NO DEBT AT ALL	2 points

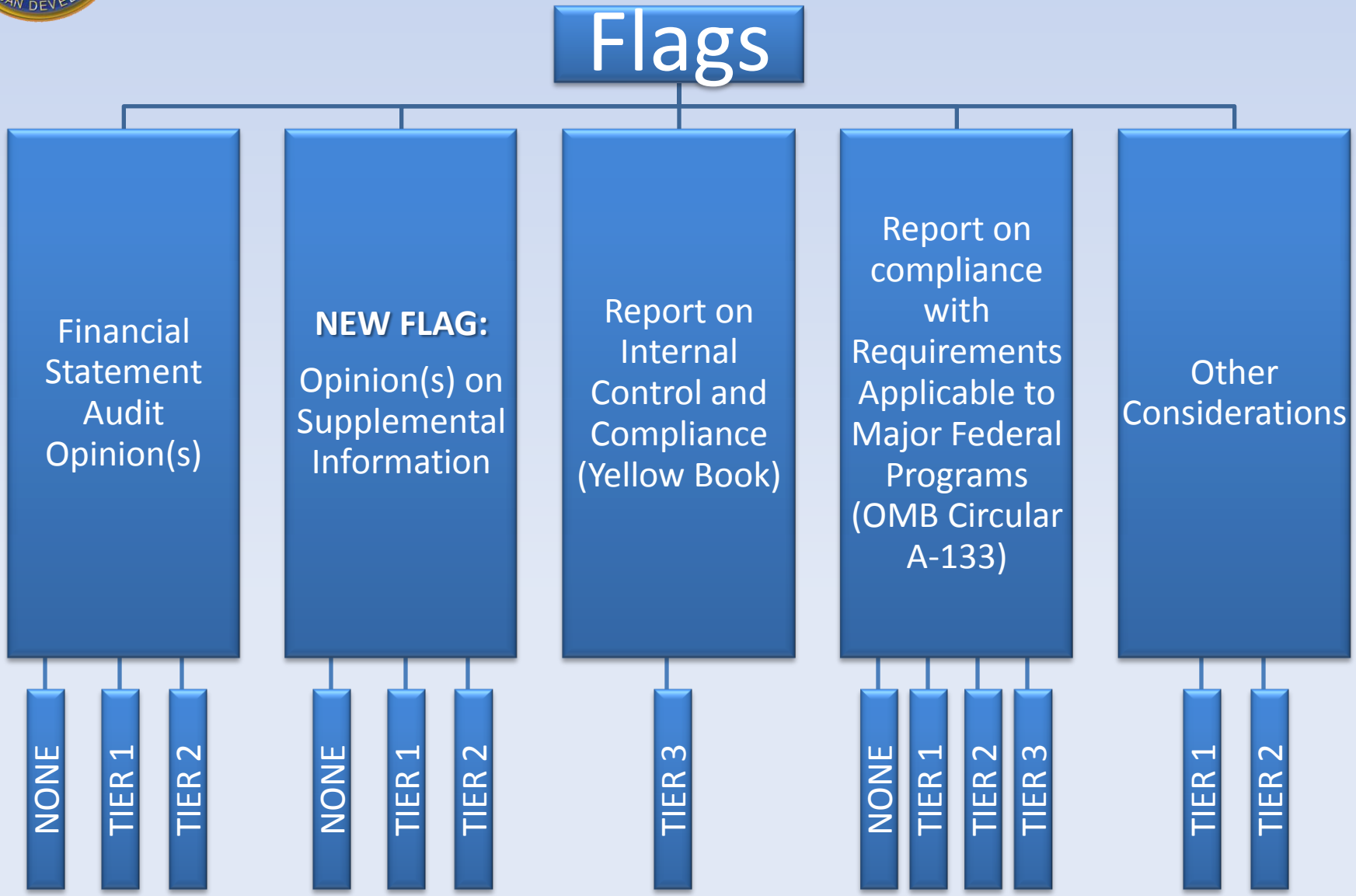
FASS-PH Scoring Process



Timeliness of Submission



Types of Audit Flags



Tier Classification

Each tier assesses point deductions of varying severity

Tier 1

- Any Tier 1 finding assesses a 100 percent deduction of the PHA's financial condition indicator score.

Tier 2

- Any Tier 2 finding assesses a point deduction equal to 10 percent of the unadjusted financial condition indicator score.

Tier 3

- Each Tier 3 finding assesses a 0.5 point deduction per occurrence, to a maximum of 4 points of the financial condition indicator score.

Unqualified Opinion (no penalty)

Audit Flags and Tier Interactions

	Categories	Tier Classification *
Financial Statement Audit Opinion(s)	1. Unqualified Opinion	None
	2. Qualified Opinions •Departures from GAAP not significant enough to cause adverse opinion(s) •Limitations on the scope of the audit (regardless of cause) not significant enough to cause a disclaimer of opinion	Tier 2
	3. Adverse Opinion(s) regardless of reason(s)	Tier 1
	4. Disclaimer of Opinion(s) regardless of reason(s)	Tier 1

* Deduction only if the departure includes Low Rent or Capital Fund programs

Audit Flags and Tier Interactions

NEW: Opinion(s) on Supplemental Information [Statement of Auditing Standard (SAS) 117 "in relation to" type of opinion]*	**Categories**	**Tier Classification**
	1. Fairly stated	None
	2. Fairly stated except for:	Tier 2
	3. No opinion	Tier 1
	4. Incomplete or missing	Tier 1

* Applies to the FDS

Report on Internal Control and Compliance and Other Matters Noted in an Audit of the Financial Statement performed in accordance with Government Auditing Standards (GAS) (Yellow Book)**	**Categories**	**Tier Classification**
	1. Control Deficiencies • Significant Deficiencies • Material Weaknesses	Tier 3
	2. Material noncompliance	Tier 3
	3. Fraud (new)	**Tier 3**
	4. Illegal Acts (new)	**Tier 3**
	5. Abuse (new)	**Tier 3**

** Deduction applies only if it relates to Low Rent or Capital Fund programs

Audit Flags and Tier Interactions

	Categories	Tier Classifications
Report on compliance with requirements applicable to major federal programs and internal control over compliance with OMB Circular A-133	***Opinion on compliance with each major federal program requirements***	
	1. Unqualified Opinion(s)*	None
	2. Qualified Opinion(s)*(regardless of cause)	Tier 2
	3. Adverse Opinion(s)*(regardless of cause)	Tier 1
	4. Disclaimer of Opinion(s) *(regardless of cause)	Tier 1
	Internal controls and compliance	
	1. Control deficiencies in internal controls • Significant deficiencies (over compliance)** • Material weaknesses (over compliance)**	Tier 3
	2. Material noncompliance**	Tier 3

On compliance with Low Rent program and Capital Fund program **major federal requirements*
*** Regarding Low Rent program and Capital Fund program requirements*

Audit Flags and Tier Interactions

	Categories	Tier Classification
Other Considerations	1. Significant change penalty deduction applies only if the significant change(s) relates to the Low Rent or Capital Fund programs	Tier 2
	2. Going concern	Tier 1
	3. Management Discussion and Analysis and other supplemental information omitted (new)	**Tier 2**
	4. Financial statements using basis other than GAAP	Tier 1

Significant Change Penalty

A penalty will be assessed for significant differences between the unaudited and audited submissions

A significant difference is considered to be an overall score decrease of 3+ points from unaudited to audited

A Significant Change Penalty is considered a Tier 2 flag; therefore it will result in a 10% audited score reduction

Summary: Point Values

Financial Condition Indicator

- **Up to 25 points**
- Threshold score is at least **15 points**

3 New Sub-Indicators (Ratios):

- Quick Ratio (QR) - **12 points**
- Months Expendable Net Assets Ratio (MENAR) - **11 points**
- Debt Service Coverage Ration (DSCR) - **2 points**

Summary: Subtracting Points

Late Penalties and Late Presumptive Failure

- Same as prior PHAS

Audit Flags each based on a 3 tier classification system

- Tier 1: 100% deduction from FASS score
- Tier 2: 10% deduction of unadjusted FASS score
- Tier 3: 0.5 point deduction per occurrence of up to 4 points of the FASS score

Significant Change Penalty

- Difference between unaudited and audited submissions
- Tier 2 Flag→ 10% deduction

FASS Resources & Contacts

- **Financial Assessment Subsystem-PH webpage**

  http://www.hud.gov/offices/reac/products/prodpha.cfm

- **FASS-PH team**

  http://www.hud.gov/offices/reac/products/fass/pha_team.cfm

- **Technical Assistance Center (TAC)**

  (7:00 am-8:30 p.m., EST, M-F)

  1(888)245-4860

  REAC_TAC@hud.gov