



## Session 5: PHA Financial Assessment

### PHA Financial Assessment – Today's Discussion

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- Basics of PHA Financial Assessment
  - PHAs Basics
    - ◆ Ratios
    - ◆ Comparisons
- Beyond PHAS for Agency-Wide Assessments
- Helping PHA understand financial issues
- Communication of Financial Matters to Governance



## Interim PHAS Scoring Methodology

### PHAS Scoring

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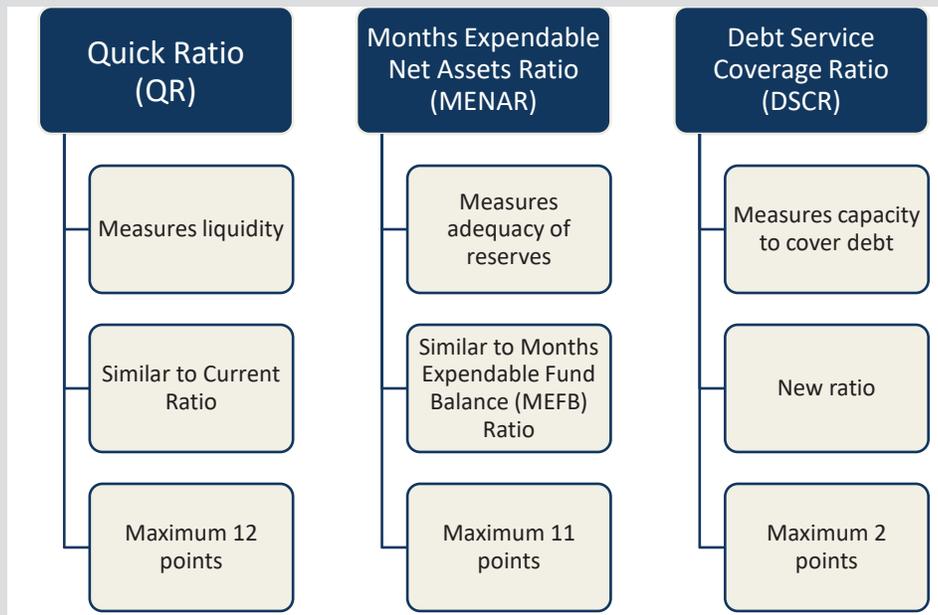
- Only scored on projects column of FDS
  - No COCC
  - No RAD Projects

PHAS Indicator	Interim PHAS Rule	Transition Year 2
	Max Points	Max Points
1. Physical Condition	40 points	30 points
2. Financial Condition	25 points	30 points
3. Management Operations	25 points	30 points
4. Capital Fund Program	10 points	10 points
<b>Overall PHAS Score =</b>	<b>100 Points</b>	<b>100 Points</b>

- Interim PHAS scores assess only the public housing program (the financial assessment is no longer based on an entity-wide assessment).
- Mixed-finance projects will not receive financial or management scores; they will receive a physical score.



## FINANCIAL CONDITION INDICATOR (FASS) SCORING METHODOLOGY



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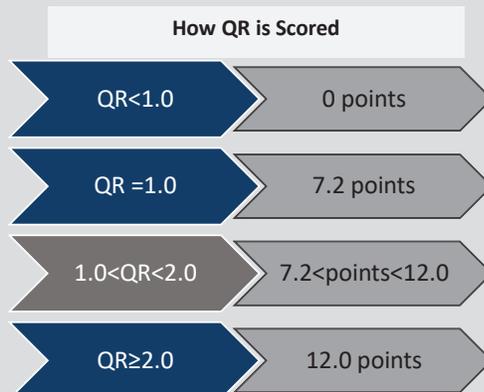
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## Quick Ratio Calculation (12 Points)

- Calculation Methodology
- Detail Line Item Calculation

$$\frac{\text{Cash} + \text{Cash Equivalents} + \text{Current Receivables}}{\text{Current Liabilities}}$$

$$\frac{111 + 114 + 115 + 120 + 131 + 135 + 142 + 144}{310 - 343.010}$$



When the QR calculates to a value > 1.0 but < 2.0, the number of points that will be assigned for this ratio can be calculated as follows: 7.2 + ((QR-1) × 4.80)

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## Quick Ratio: FDS Reporting

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- Ensure that the long-term portion of accrued compensated absences, FSS escrow liabilities, and any other long-term debt is reported as non-current on the FDS.
- Ensure that cash and investments are properly reported between unrestricted and restricted, paying special attention to any restricted cash and investments that will be used for payment of a currently liability.
  - For PHAs that have multiple projects and excess cash, consider transferring excess cash to those projects that have a quick ratio of 2.0 or less
  - Ensure CFFP & EPC debt is identified separately on the FDS detail lines.

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## Quick Ratio: FDS Reporting, cont'd.

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- Since it is only scored on projects look at allocation of expenses between projects and COCC
  - Also look at allocation of Assets & Liabilities between projects and COCC
    - ◆ Prepaid expense
    - ◆ Payables
    - ◆ Receivables
- Review current liabilities
  - Are they really current?

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# Months Expendable Net Asset Ratio Calculation (11 Points)

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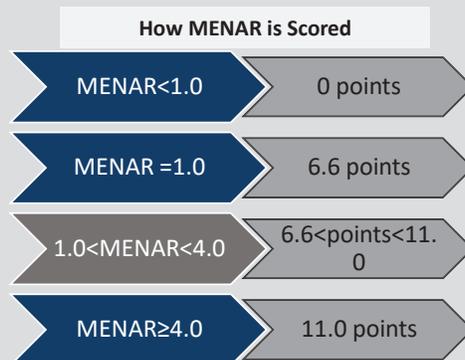
- Calculation Methodology
- Detail Line Item Calculation

$$\frac{\text{Unrestricted Resources}}{\text{Average Monthly Operating and Other Expenses}}$$

$$\frac{[(111+114+115+120+131+135+142+144) - 310]}{[(96900 + 97100 + 97200 + 97800)/12]}$$



For the MENAR calculation, the denominator is from the Low Rent column of the project only and does not include any amounts reported in the Capital Fund column for these line items



When the MENAR calculates to a value > 1.0 but < 4.0, the number of points that will be assigned for this ratio can be calculated as follows:  $6.6 + ((\text{MENAR} - 1) \times 1.46667)$

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# MENAR: FDS Reporting

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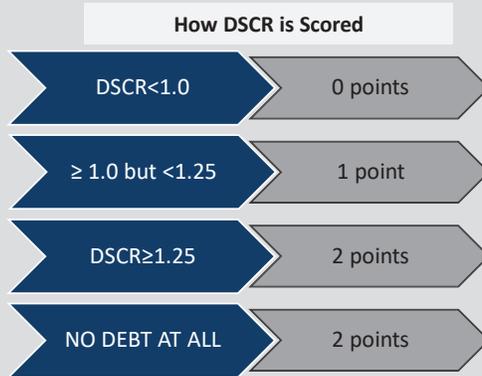
- See Quick Ratio
- Ensure that Capital Fund Management fees or other CFP Administration expenses (BLI 1410) are reported in the CFP column of the project.
- Ensure that CFFP Debt transactions are reported in the CFP column of the project.
- Check Extraordinary Maintenance expense
  - Should any of it be capitalized?

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# Debt Service Coverage Ratio Calculation (2 Points)

- Calculation Methodology
- Detail Line Item Calculation

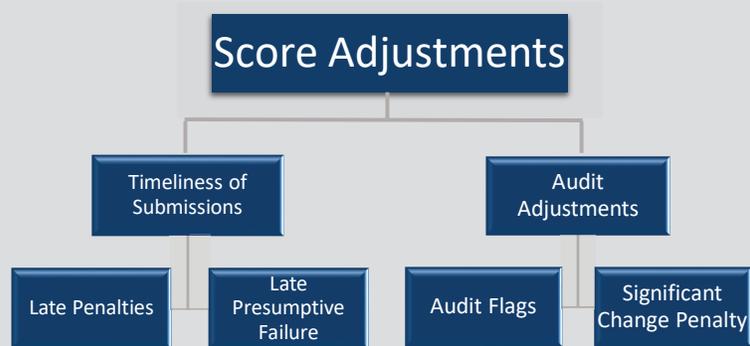


$$\frac{\text{Adjusted Operating Income}}{\text{Annual Debt Service, excluding CFFP Debt}} = \frac{(97000 + 96700)}{(96710 + 96720 + 11020)}$$

NOTE: The numerator and denominator are derived from the "Operations Column" of the project only and do not include any amounts reported in the "Capital Fund" column for those line items

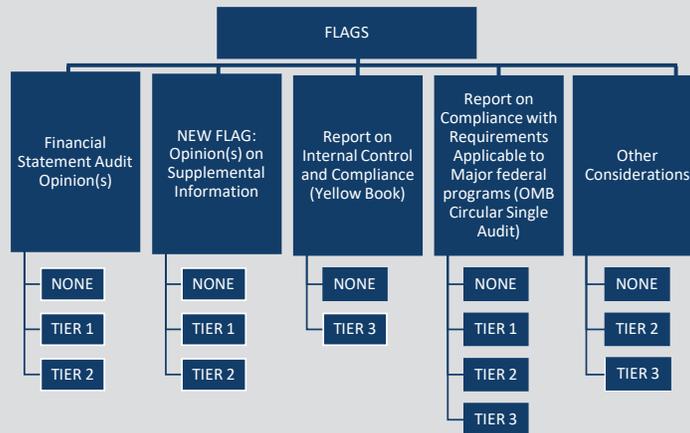


## Finalization and PHAS Adjustments



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Each tier assesses point deductions of varying severity

## Tier 1

•Any Tier 1 finding assesses a 100% deduction of the PHA's financial condition indicator score

## Tier 2

•Any Tier 2 finding assesses a point deduction equal to 10% of the unadjusted financial condition indicator score

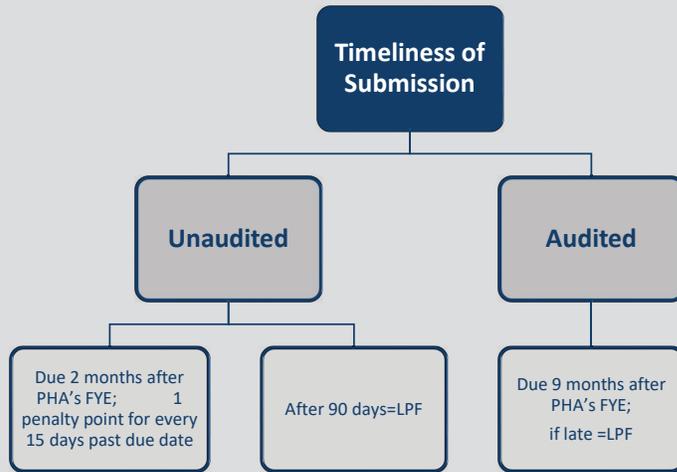
## Tier 3

•Each Tier 3 finding assess a 0.5 point deduction per occurrence to a maximum of 4 points of the financial condition indicator score

Unmodified Opinion (no penalty)

# Financial Statement Audit Flags

Financial Statement			
Element#	Description	Value	Details
*G3000-005	Financial Statements Using Basis Other Than GAAP	No	---
	Tier 2. Assesses a point deduction equal to 10% of the unaudited financial condition indicator score	<b>Tier 2</b>	<input type="checkbox"/> Modified Opinion <input checked="" type="checkbox"/> Unmodified Opinion
*G3000-010	Type of Audit Report		<input checked="" type="checkbox"/> <b>None</b> <input type="checkbox"/> <b>Tier 1</b> Adverse Opinion <input type="checkbox"/> <b>Tier 1</b> Disclaimer of Opinion
	Tier 1. Assesses a 100% (25 pts) deduction of the PHA's financial condition indicator score		<a href="#">Details</a>
*G3000-020	Going Concern Indicator	No	---
*G3000-030	Significant Deficiency Indicator	No	---
*G3000-040	Material Weakness Indicator	No	---
*G3000-050	Material Noncompliance Indicator	No	---
*G3000-060	Fraud	No	---
*G3000-070	Illegal Acts	No	---
*G3000-080	Abuse	No	---



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## MANAGEMENT OPERATIONS (MASS) SCORING METHODOLOGY

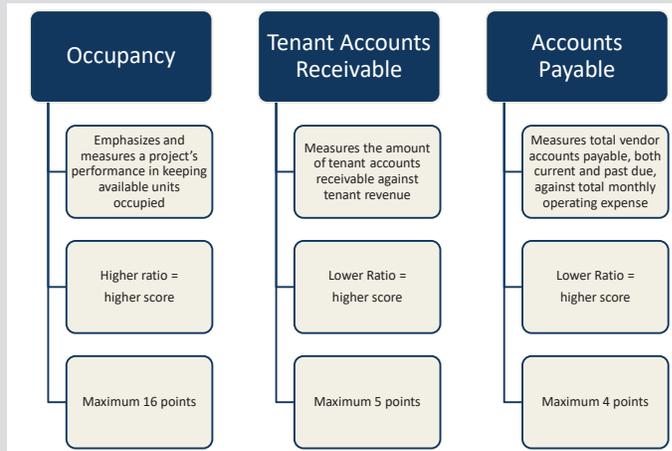
- The Interim Rule removes the requirement for a PHA to submit and self-certify to management indicators using the form HUD-50072.
- The management capability of a PHA is assessed annually based on detailed information submitted electronically to REAC through the FASS system (unaudited and audited submissions).
- The PHA is assessed under three management performance indicators.

Prior PHAS	
Vacant Unit Turnaround Time	4.0
Capital Fund	7.0
Work Orders	4.0
Annual Inspections	4.0
Security	4.0
Economic Self-Sufficiency	7.0
<b>Total Points</b>	<b>30.0</b>

Interim PHAS	
Occupancy	16.0
Tenants Account Receivable	5.0
Accounts Payable	4.0
<b>Total Points</b>	<b>25.0</b>

## Changes in MASS Scoring

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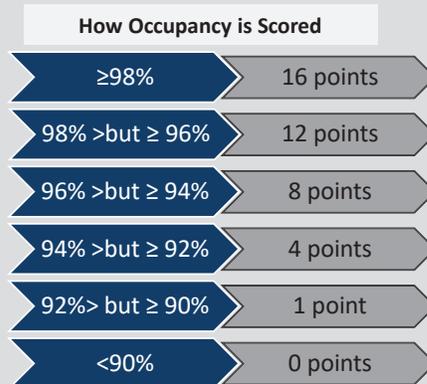
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## Occupancy (16 points)

- Calculation Methodology
- Detail Line Item Calculation

$$\frac{\text{Unit Months Leased}}{\text{Unit Months Available}} = \frac{11210}{11190}$$



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# Occupancy (16 points)

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- Types of HUD-approved vacant units (per 24 CFR 990.145)
  - Vacant units under going HUD approved modernization
  - Special use units
  - Vacant units as a result of court litigation
  - Vacant units due to natural disaster
  - Vacant units due to casualty loss

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# Occupancy: FDS Reporting

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- Track units leased monthly and support them with underlying data (the rent roll or rental register)
- Track, document, and report the number of HUD approved vacancy unit months

Occupancy	Unit Months
Base units available (100 units * 12 months)	1,200
Units occupied	1,090
Vacant units under CFP repair	42
Vacant units being turned	66
Police unit (1 unit)	12

- Based on the table above, the PHA's occupancy rate was 95.1% resulting in an occupancy score of 8 points out of a possible 16 points.  $[1,090 \div [(1,200 \text{ base units available}) - 42 \text{ vacant unit months} - 12 \text{ special unit months}]$

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# Tenant Accounts Receivable (TARs) (5 points)

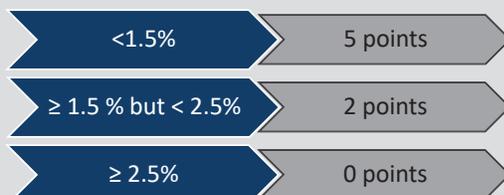
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- Calculation Methodology
- Detail Line Item Calculation

$$\frac{\text{Accounts Receivable - Tenants}}{\text{Total Tenant Revenue}^*} = \frac{126}{70500}$$

### How Tenant Accounts Receivable is scored

*\*Includes rents and other charges to the tenants*



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# Tenant Accounts Receivable: FDS Reporting

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- Write off non-collectable tenant accounts receivable in accordance with the PHA's policy before the end of the fiscal year.
- Separate any fraud receivable balance accrued from tenant accounts receivable balances from tenants that
  - Have committed fraud
  - Owe additional rent from prior periods (retroactive adjustments)
- Report additional tenant income such as misc. charges, late fees, excess utilities on FDS line 70400 (Tenant revenue – other), not on FDS line 71500 (Other Revenue)

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# Accounts Payable (AP) (4 points)

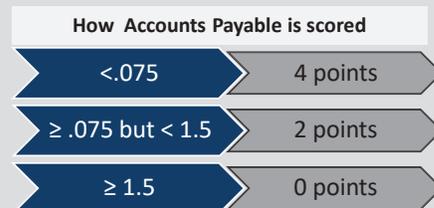
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- Calculation Methodology

$$\frac{(\text{Current Accounts Payable } < 90 \text{ days} + \text{Past Due Accounts Payable } > 90 \text{ days})}{(\text{Total Operating Expenses} / 12)}$$

- Detail Line Item Calculation

$$\frac{312 + 313}{96900 \div 12}$$



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# Accounts Payable: FDS Reporting

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- Make sure that all CFP liabilities have been paid by the end of the fiscal year
- Ensure that accounts payable lines (FDS lines 312 and 313) do not contain accrual transactions that are to be reported in FDS lines 321-325 and 346.
- Commonly misreported items
  - Accrued employee benefits and payroll
  - Construction premiums
  - Utilities
- Review A/P to see if any amounts can be allocated to COCC

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## Beyond PHAS – Case Studies