



Accounting for Commissioners 101: What you need to know

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Objectives

- Identify top risks related to your Authority
- Identify which financial indicators matter the most for your Authority
- Understand what information you should receive each month and how to analyze it
- Determine the effectiveness and efficiency of your internal staff
- Demonstrate how to read a financial statement
- What do YOU want to get out of this session?



Before we begin...

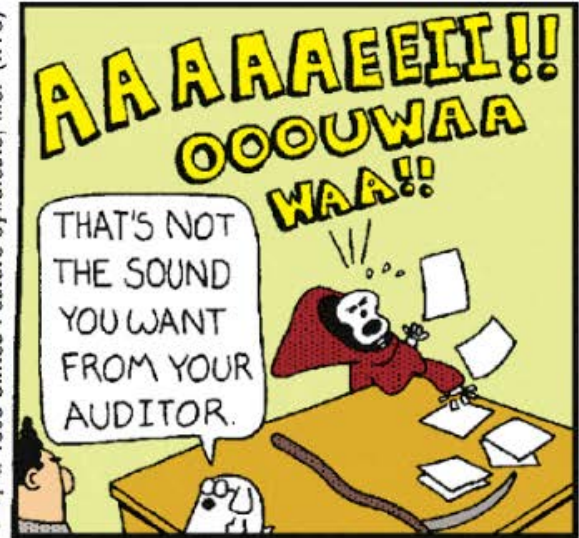
Tuesday March 14, 1995



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Why are you so important?



Audience Poll

#1

Who is here today?

#2

How many years have you served on the Board?

#3

How would you rate your PHA financial IQ?

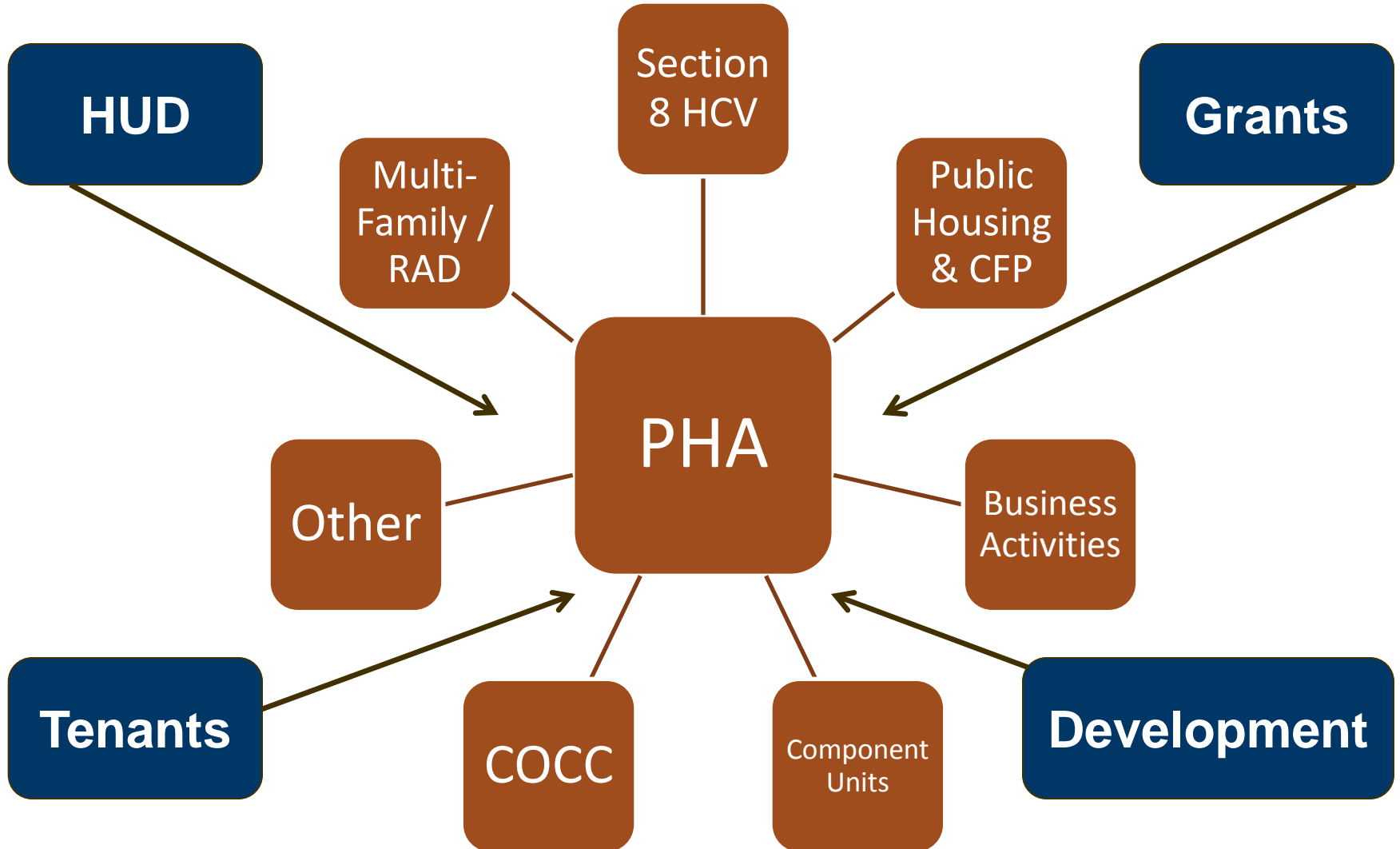


Our Mission

**To provide affordable
housing to our
communities.**



What makes a PHA unique?



How do you define financial health or success for your Authority?





Defining Success for Your PHA

Looking deeper into PHA programs

1. Section 8 Housing Choice Voucher

Revenue

- Funded by HUD in two parts
- Admin and Housing Assistance Payments

Expenses

- 90% - HAP
- 10% - Administrative

Other

- Portables – In and Out
- Limited flexibility



1. Section 8 Housing Choice Voucher

- Key Metrics

- Number of vouchers leased determines admin funding (set amount per unit)
- Number of vouchers leased tells you how many families you are serving
- Section 8 Management Assessment Program (SEMAP)
 - ◇ 14 indicators to assess High, Standard, Substandard and Troubled
- Portables are the number one way PHAs get in trouble with this program
 - ◇ Is the PHA collecting amounts due from other authorities?



2. Public Housing and Capital Fund

Revenue

- Funded by HUD Operating and Capital
- Tenant revenue

Expenses

- Property Insurance, maintenance, utilities
- Labor intensive

Other

- Not allowed to borrow against property
- PHA responsible for all operations



2. Public Housing and Capital Fund

- Key Metrics
 - Number of units leased (“heads in beds”)
 - Managing operating costs (manage by the budget)
 - Collecting rent
 - Identifying tenant fraud
 - Managing “unit turnarounds” (the quicker the better)
 - Each AMP or Project is scored individually by HUD
 - Monitoring your PHAS score



What is a PHAS Score?

- PHAS = Public Housing Assessment Scoring
- PHAS is a HUD system used to assess a PHA's performance in managing its low-rent public housing programs
- Each individual public housing *AMP* is assessed to determine the PHA's overall performance based of the following four indicators

Interim PHAS Indicator	Maximum Points Available
1. Physical Condition	40
2. Financial Condition	25
3. Management Operations	25
4. Capital Fund Program	10
Overall PHAS Score	100

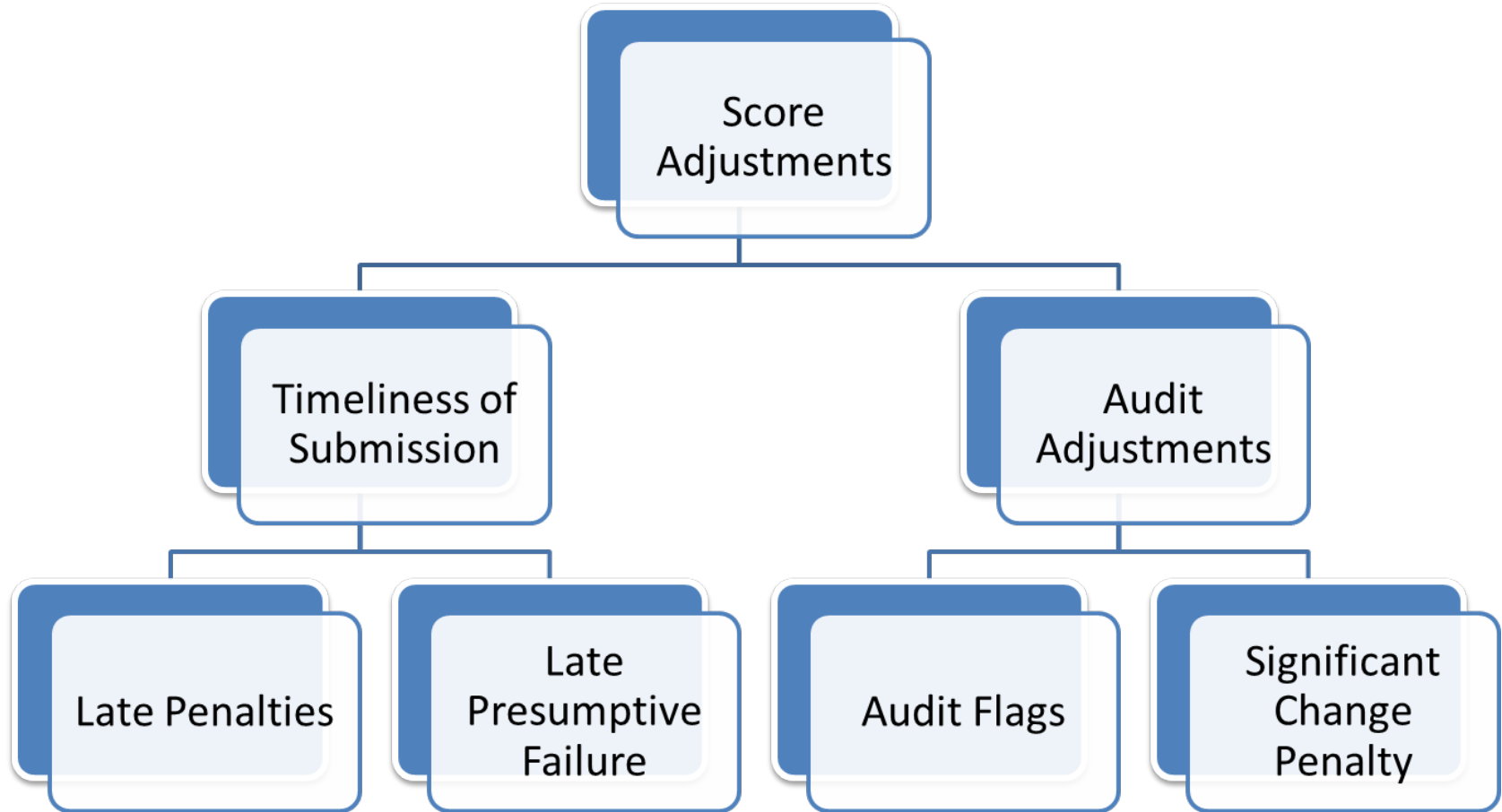
- We see the most point reduction in the Financial & Management sub-indicators.

Performance Designation

- After the score is calculated for each project under the Physical, Financial, and Management Indicators, a weighted average (by number of units) indicator score is calculated and summed with the Capital Fund Program Indicator score to determine the PHA's overall PHAS score and performance designation.

PHAS Status Designation	Combined PHAS Score	Individual Indicator Score
<i>High Performer</i>	Overall PHAS score of 90% or higher	At least 60% of total points available in PASS(24), MASS(15), FASS(15) and 50% of the total points for CFP(5) and an overall score of 90% or greater
<i>Standard</i>	Overall PHAS score of at least 60%	Not less than 60% of total points available in PASS(24), MASS(15), FASS(15) and 50% of the total points for CFP(5)
<i>Substandard</i>	Overall PHAS score of at least 60%	Less than 60% in one or more of the PASS, FASS, or MASS indicators
<i>Troubled</i>	Less than 60% of the overall PHAS score	-----
<i>Capital Fund Troubled</i>	-----	Less than 50% on CFP indicator

Other Score Adjustments



Financial Condition Sub-Indicator (FASS)

- There are three financial condition sub-indicators used to assess the financial condition of a project. These sub-indicators are discussed below.
 1. Quick Ratio (QR) – Max 12 Points: A measure of liquidity; measures the PHA's ability to cover its current obligations.
 2. Months Expendable Net Assets Ratio (MENAR) – Max 11 Points: A measure of viability; measures the PHA's ability to operate using its net available unrestricted resources without relying on additional funding.
 3. Debt Service Coverage Ratio (DSCR) – Max 2 Points: A measure of a PHAs' capability to meet its long-term obligations.



How to improve FASS

- Monthly monitoring of sub-indicators by AMP
 - Use excess cash rules to adjust for a poor performing AMP where applicable
- Verify accurate placement of activity on FDS
 - Cash unrestricted vs restricted vs restricted for liability
 - Review liabilities in detail to determine current vs non current obligations
- Pay off liabilities before year end
- Settle interfund payables before year end
- Increase cash flow, by enforcing rent collection, and reducing operating cost



Management Operations Sub-Indicator (MASS)

- There are three management operations sub-indicators used to assess the operations of the project. These sub-indicators are discussed below.
 1. Occupancy Rate(AR) – Max 16 Points: Emphasizes and measures projects performance in keeping available units occupied (Higher rate, higher score)
 2. Tenant Accounts Receivable(TAR) – Max 5 Points: Represents the amount of tenant accounts receivable against tenant revenue (Lower ratio, higher score)
 3. Accounts Payable(AP) – Max 4 Points: Measures total vendor accounts payable, both current and past due against total monthly operating expenses (lower ratio, higher score)



How to improve MASS

- Monthly monitoring of sub-indicators
- Increase number of occupied units/reduce vacancies
 - Shorten time for unit turn over
 - Maintain updated waitlist
- Collect rents on time
 - Enforce collection policies
- Pay vendors timely to reduce accounts payable



3. Central Office Cost Center (COCC)

Revenue

- Funded by other PHA programs
- Fees set by HUD

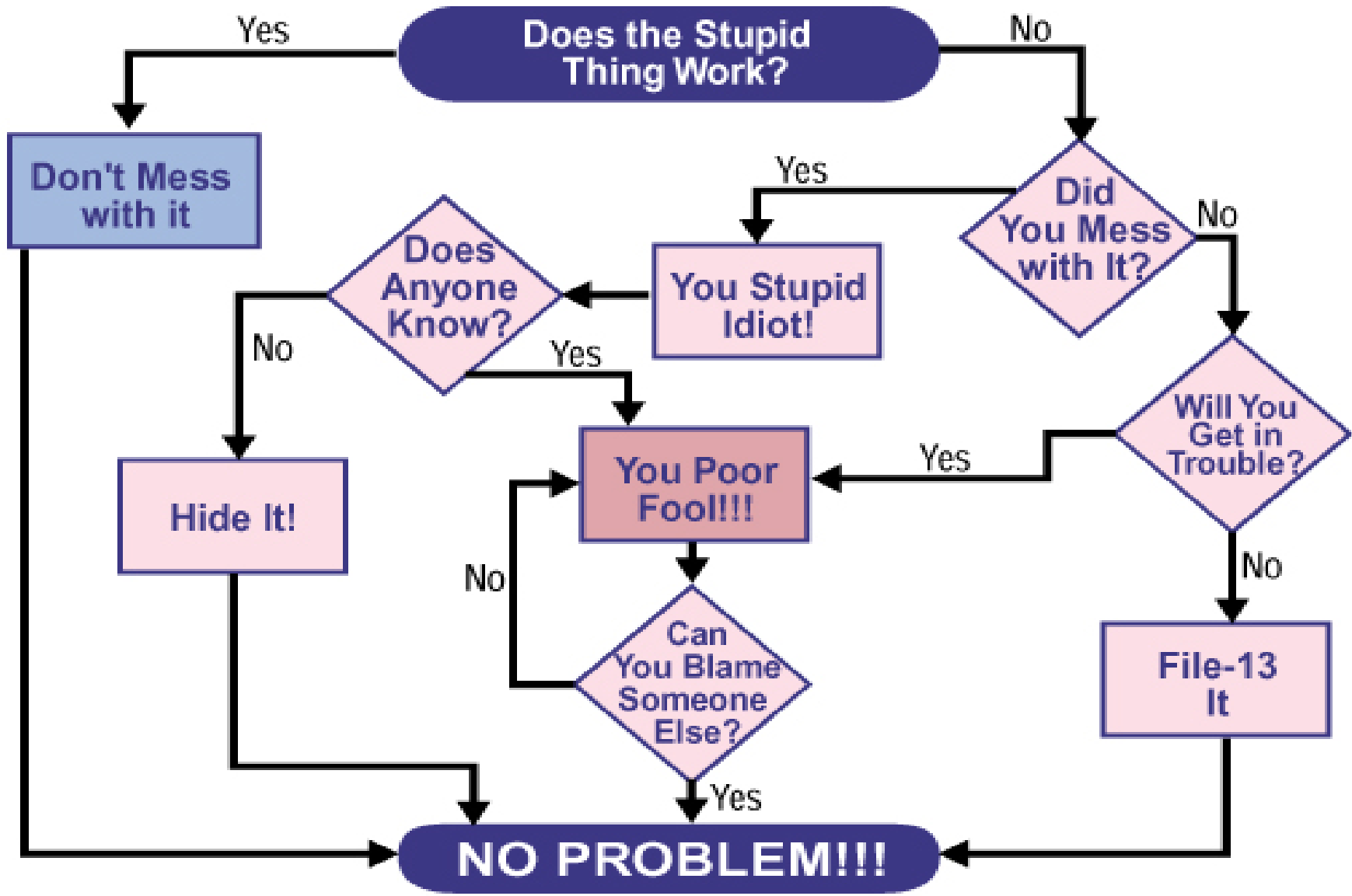
Expenses

- All general administrative costs

Other

- Rules are changing for the COCC





3. Central Office Cost Center (COCC)

- So what went wrong?
 - HUD OIG determined HUD did not do enough to justify the management fees and costs been charged by the COCC
 - Also stated COCC **ARE** federal funds (previously these were considered by some to be de-federalized)
 - Still many things to be resolved



4. Business Activities

Revenue

- Sources of income vary from PHA to PHA
- Generally non-federal funding

Expenses

- Generally, anything is allowable in accordance with state and local laws

Other

- Provides funding for other affordable housing ventures

4. Business Activities

- Key Metrics
 - Are your PHA's business activities making earning a surplus?
 - Are the risks worth the investment?
 - What other opportunities exist that you are not taking advantage of?



4. Business Activities

- Maximize non-federal sources of income
 - Opportunity to more creative deals, retain good talent, provide beneficial services to tenants
- Ideas for generating income
 - No organization is better suited to provide affordable housing than you
 - ◇ Team up with the City and County to run their housing related programs (i.e. HOME, CDBG, Affordable Properties)
 - Taking over old LIHTC properties or multifamily properties that owners no longer want





Mixed Finance and Development

You can't afford to not ask these questions!

Audience Poll

#4

How many PHAs did a development deal recently?

#5

How many hired a consultant to assist with the project?



Questions you should be asking for mixed finance projects:

- How much is the management or developer fee?
- How much will the consultants cost?
- When will the management or developer fee be paid?
- If we make a loan in a mixed finance deal, do we know the likelihood we will ever be paid?
 - Are we ok if we never get paid?
- Do we get the property at a later date?
- Do we get to manage the property?
- What are risk or what can go wrong?





Understanding PHA Financial Statements

The Numbers Just Tell a Story

Top 5 Uses for Your PHA's Financial Statements

5. A cure for insomnia
4. To look really important while hanging out at Starbucks
3. Starting a bonfire
2. Punishing your kids by telling them you will read every page of the financials until they clean up their room
- 1. TO UNDERSTAND YOUR AUTHORITY'S FINANCIAL HEALTH!**



Audience Poll

#6

Has anyone ever read the financial statements for an Authority?

#7

How many people enjoyed it?

What's in a financial statement?

- Management Discussion and Analysis
- Statement of Net Position (aka Balance Sheet)
- Statement of Changes in Revenues, Expenses and Net Position (aka Income Statement)
- Statement of Cash flows
- Notes to the Financial Statements
- Financial Data Schedule
- Auditor Reports
- Schedule of Expenditures and Federal Awards (SEFA)
- Schedule of Findings and Questioned Cost



Management Discussion and Analysis (MD&A)

- Provides a comparative analysis of the Authority's health (current year vs. prior year)
- Provides summarized financial information
- Provides an opportunity for management to formally discuss the Authority's operations
- If you only have time to read one section, this is a must read!



The Statements

- Statement of Net Position
 - Provides as snapshot as of the end of year regarding the health of the Authority (e.g December 31 or June 30)
 - How are we doing as of the end of the year?
- Statement of Changes in Revenues, Expenses and Net Position
 - Provides a measure of health over the course of the previous year (e.g. January 1 through December 31)
 - How did we do last year?
- Statement of Cash Flows
 - Show sources and uses of cash over the course of the year
 - Why did our cash increase/decrease this past year?



The Footnotes

- Footnotes tell the rest of the story
- Personal Favorites:
 - Long-term debt
 - Notes Receivable
 - Accounts receivable
 - Subsequent events
 - Concentration footnote
 - Commitments and Contingencies
 - Prior period adjustment
 - Pension and Other Post Employment Benefits



Financial Data Schedules (aka REAC)

- Forms prescribed by HUD
- Organized by Line of Business (programs and projects)
- Standardizes HUD's ability to analyze PHAs to each other
- Same for every authority
- Used in HUD scoring
- Compared to other HUD systems to ensure data is consistent



Auditor Reports

- Independent Auditors' Report
- Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and on Internal Control over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133 / UGG



SEFA and Findings

- SEFA
 - Provides a list of federal expenditures/awards
- Schedule of Findings and Questioned Costs
 - Shows the Authority's Compliance with Federal Programs
 - Provides a listing of programs audited for compliance
 - Identifies issues noted during compliance testing and internal controls of financial reporting





Call to Action

How can I make my Authority more healthy financially ?

Next Steps

- Know your Authority's programs
- Identify the key metrics important to the success of your authority
- Monitor the metrics
- Ask the tough questions
- Engage with your auditors



Address Significant Risks

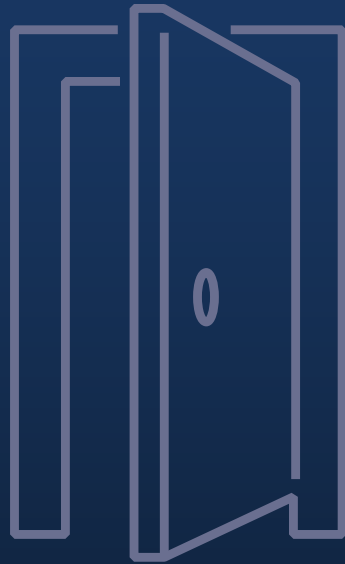
- What risks exist at your Authority?
 - Financial Stability – Is the Authority threatened by decreased funding?
 - Is there excessive pressure on management to perform?
 - Is management compensation dependent on performance?
 - Are there related party transactions?
 - Adequate segregation of duties?



Monthly Board Financial Reports

- Insist on timely and relevant financial information
 - Most authorities will need 30 days to close out the financial statements, some will be less
- Balance Sheet & Income Statement
 - Recommend year over year comparison and budget to actual comparison
- Tenants Accounts Receivable
- Vacancy Reports
- Portability Reports





Questions?

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