





Understanding HUD Financials for
Nonfinancial people

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Norfolk, Virginia
June 25, 2018

Why am I here?

—  —

- What is the background of Public Housing?
- What is my role as Commissioner?
- What is important in the Financial Statements?
- What doesn't matter?
- What should be on my dashboard and what shouldn't be there?



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U.S. Housing Act of 1937



- ☞ Another New Deal initiative designed to relieve conditions in the nation's housing stock
- ☞ This was the beginning of Public Housing on the federal level
- ☞ Public Housing got off to a slow start, as the program was new and somewhat cumbersome to administer
- ☞ During World War II the program's emphasis shifted to building homes for defense industry workers
- ☞ By 1950, about 150,000 public housing units had been built nationally



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Growth of HUD Public Housing 1941-1980



Year	Number of Assisted Rental Housing Units
1941	24,000
1950	147,000
1960	426,000
1970	891,000
1980	1,200,000

Public housing is housing that is owned by the federal government and is operated by local Public Housing Authorities (PHAs). Persons living in public housing generally pay 30% of their monthly income toward rent, with the remaining costs being covered by the federal government. There are over 3,200 Public Housing Authorities nationwide managing 1.2 million units of public housing.

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Housing and Community Development Act of 1974



Three major components:

1. Halted activity under the array of private rental housing assistance programs and turned emphasis to new Section 8 "project based" rental assistance
2. Introduced a fundamentally new approach to rental housing assistance-namely the "tenant-based" Section 8 program (Certificate program)
3. Rolled seven Health of the Cities programs into the CDBG program which distributes funds annually, largely by formula, to local governments

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1975 – Performance Funding System for Operating Subsidy (Utility)



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- ☞ This was a new way to fund the ever growing amount of operating subsidy needed.
- ☞ The computation is based upon the age of the units, the bedroom sizes, and the historical cost to operate.
- ☞ The subsidy was first termed as a “utility subsidy” and had nothing to do with “performance”

Operating Subsidy Per Unit



Category	AMP 1	AMP 2	AMP 3	Total
PEL	481.50	397.36	365.92	
UEL	53.33	26.73	25.65	
Add-Ons	12.57	12.64	25.91	
Total expense	547.40	436.73	417.48	
Tenant income	116.30	130.01	240.31	
Subsidy	431.10	306.72	177.17	

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Operating Subsidy Total




Category	AMP 1	AMP 2	AMP 3	Total
PEL	947,592	777,236	351,283	2,076,111
UEL	104,953	52,284	24,624	181,861
Add-Ons	24,741	24,717	24,878	74,336
Total expense	1,077,286	854,237	316,553	2,332,308
Tenant income	228,878	254,300	230,698	713,876
Subsidy	848,408	599,937	170,087	1,618,432
Units	164	163	80	407

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Brief History

- ☞ U.S. Housing Act – 1937
- ☞ Housing and Community Development Act of 1974
- ☞ Tax Reform Act of 1986
- ☞ Uniform Guidance – 1998
- ☞ Asset Management Rules – passed in 2005, rules published April 2007
- ☞ RAD – Public Law 112-35 November 2011



Rector, Reeder & Lofton, P.C.

HUD Acronyms

- ☞ ABA
- ☞ ACC
- ☞ AMP
- ☞ BLI
- ☞ CFDA
- ☞ CFP
- ☞ CFR
- ☞ COCC
- ☞ COSO

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HUD Acronyms

- ☞ DCF
- ☞ eLOCCS
- ☞ FASB
- ☞ FASS - PHA
- ☞ FAS - SUB
- ☞ FDS
- ☞ FSS

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HUD Acronyms

- GAAP
- GAO
- GASB
- HAP
- HCV
- HUD

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HUD Acronyms

- HUD OIG
- LIHTC
- MASS
- MF
- NASS
- OMB
- OPED
- PEL

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HUD Acronyms

- PHA
- PHAS
- PIC
- PIH
- QWHRA
- RAD
- REAC
- SEFA
- UEL

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WHAT IS RAD?



The Rental Assistance Demonstration Program was created in order to give public housing authorities a tool to improve public housing properties to address a backlog of \$26 billion in deferred maintenance.

1. The ability to leverage debt and equity in order to reinvest in public housing.
2. Allow for a more stable funding through long-term Section 8 contracts which must be renewed.
3. Continued Public Housing Stewardship.
4. Maintain the same 30% of income towards rent, and residents maintain same basic rights.
5. The program was sold to be revenue neutral.

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Understanding Financial Statements



☞ Statement of Net Position (Balance Sheet):

- ☞ Snapshot of one date in time
- ☞ Shows financial stability of the Agency
- ☞ Current vs. Noncurrent - One Year
- ☞ Cash vs. Investments - 90 Days
- ☞ Capital Assets and Debt
- ☞ Net Position - 3 categories
 - ☞ Investment in Capital Assets
 - ☞ Restricted
 - ☞ Unrestricted
- ☞ What is HUD looking at?
- ☞ Managing your "Operating Reserves"

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Statement of Net Position (Balance Sheet)




- ☞ Assets = Liabilities & Net Position
- ☞ Current Assets less Current Liabilities = Operating funds available
- ☞ Total Net Position (Equity) less Capital Assets and Debt and Restricted Net Position = Unrestricted Operating Reserves
- ☞ Unrestricted amount divided by average monthly expenses = MENAR
- ☞ HUD wants 4 months of liquidity in the working capital

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Statement of Net Position

What is Important?

- ☞ Unrestricted Cash
- ☞ Liquidity - Working Capital
- ☞ Unrestricted Net Position



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Understanding Financial Statements

- ☞ Income Statement:
 - ☞ Results of Operations for a given period of time
 - ☞ Are the numbers critical?
 - ☞ How does this relate to the Statement of Net Position (Balance Sheet)?
 - ☞ Where does the Net Income/(Loss) go?
 - ☞ How is performance measured?
 - ☞ What are "below the line" items and how should they be explained?

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Income Statement

- Net Income/(Loss) should tie to the Statement of Net Position (Balance Sheet)
- Net Income/(Loss) includes depreciation, so not entirely devoted to Unrestricted Net Position
- Does not show capital grants
- End of year statements/ audited financials will give better picture
- This report allows you to monitor your progress during the year

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Operating Receipts & Expenditures Report for Period Ended April 30, 2018							
	Current Period	FY18	Year To Date	FY18	Budget FY18	FY18	FY18 Budget Over/Under
UNPAID							
OPERATING RECEIPTS							
Dwelling Income							
100412000 Dwelling Rental	18,773.90	234.67	75,426.14	235.74	74,980.00	231.50	1,296.24
100412000 Service Utilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Dwelling Income	18,773.90	234.67	75,426.14	235.74	74,980.00	231.50	1,296.24
MOI Contributions							
100416000 Operating Subsidy	12,889.00	162.26	51,626.00	200.60	50,727.00	154.77	(1,791.00)
Total MOI Contributions	12,889.00	162.26	51,626.00	200.60	50,727.00	154.77	(1,791.00)
Other Income							
100416000 Interest - Gov Fund Investments	2.37	0.00	35.17	0.11	324.36	3.04	(289.19)
100416000 Govt Lic on Sale of Fixed Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00
100416000 Other Income	462.80	1.76	1,762.29	1.51	2,250.00	7.00	(487.71)
100416000 Other Income - CIP Operations	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Operating Income	32,125.67	402.63	128,224.43	406.45	126,981.36	404.24	(1,131.76)
OPERATING EXPENSES							
Administration							
100412000 Admin Salaries	4,902.18	62.40	22,762.04	71.19	22,965.12	74.69	(1,183.68)
100412000 Legal Expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00
100412000 Travel	0.00	0.00	7.61	0.00	1,226.00	1.91	(1,241.19)
100417000 Accounting Fees	345.00	4.31	2,455.00	7.62	2,278.36	7.12	126.64
100417000 Audit Fees	0.00	0.00	0.00	0.00	1,293.36	1.17	(1,293.36)
100418000 Office - Administration	0.00	0.00	0.00	0.00	0.00	0.00	0.00
100419000 Laundry	312.61	31.67	4,175.67	35.89	4,723.00	35.79	(547.33)
Total Administration	5,259.79	78.37	29,400.32	95.12	33,085.44	104.68	(3,176.00)
Resident Services							
100412000 LT - Salaries	1,639.41	20.43	9,712.94	20.96	7,346.00	22.34	(934.00)
100412000 LT - Misc. Pkgs & Other St	107.40	1.84	768.60	1.80	1,184.12	1.80	(1,084.80)
100412000 Benefits - Resident Services	0.00	0.00	0.00	0.00	0.00	0.00	0.00
100412000 LT - Resident Participation Cost	0.00	0.00	0.00	0.00	0.00	0.00	0.00
100412000 LT - General Care - Training - Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Resident Services	1,746.81	22.27	10,481.54	22.76	8,530.12	24.14	(1,147.82)
See Accountant's Compilation Report							

Operating Receipts & Expenditures Report for Period Ended April 30, 2018							
	Current Period	FY18	Year To Date	FY18	Budget FY18	FY18	FY18 Budget Over/Under
UTILITIES							
100412000 Water	1,323.54	24.49	5,261.67	16.74	7,000.00	23.84	(1,741.13)
100412000 Electricity	112.18	1.91	472.00	2.10	833.36	2.80	(361.17)
100412000 Gas	89.04	1.18	343.11	1.70	400.00	1.20	(43.11)
100412000 Other Utility Expense	1,113.12	34.45	5,451.67	16.74	1,200.00	18.84	(71.18)
Total Utilities	2,637.88	38.03	11,528.45	37.28	16,233.36	50.78	(4,704.91)
Ordinary Maintenance and Operation							
100412000 Labor - OMBG	6,126.75	81.61	27,223.10	86.67	26,402.00	91.88	(1,178.67)
100412000 Materials - OMBG	427.01	1.30	4,776.89	14.80	1,100.00	17.10	(3,643.60)
100412000 Contract Costs - OMBG	1,889.62	20.87	5,845.21	18.37	7,068.96	23.75	(1,453.10)
100412000 Benefits - Maintenance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Ordinary Maint. & Operations	8,435.38	103.78	37,845.20	119.87	44,570.96	132.73	(6,725.40)
Protective Services							
100412000 Contract Costs - Pkg Services	0.00	0.00	0.00	0.00	0.00	0.00	0.00
100412000 Benefits - Protective Services	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Protective Services	0.00	0.00	0.00	0.00	0.00	0.00	0.00
General Expense							
100412000 Insurance	2,877.00	35.96	11,452.48	35.79	11,508.12	35.96	(76.16)
100412000 Payments to Sale of Land	1,417.00	17.71	5,468.00	17.71	5,468.12	17.71	1.39
100414000 Employee Benefit Costs	6,213.00	77.79	26,651.67	80.00	26,110.00	89.12	(4,451.00)
100419000 Collection Losses	(263.00)	(2.45)	(263.00)	(2.10)	1,266.72	3.40	(1,529.72)
Total General Expense	10,144.00	133.61	43,699.15	135.61	44,352.96	146.24	(1,653.81)
Total Operating Expenses	29,043.96	370.78	100,055.75	407.89	147,266.76	462.37	(17,461.01)
Non-Resident Maintenance							
100412000 Extraordinary Maintenance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
100412000 Laundry (on Other Capital)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Non-Resident Maintenance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
See Accountant's Compilation Report							

Operating Receipts & Expenditures Report for Period Ended April 30, 2018							
	Current Period	FY18	Year To Date	FY18	Budget FY18	FY18	FY18 Budget Over/Under
DEPRECIATION							
100400000 Depreciation Expense	14,126.00	181.18	58,189.00	181.18	58,189.00	181.18	0.00
Total Depreciation Expense	14,126.00	181.18	58,189.00	181.18	58,189.00	181.18	0.00
Additional Asset Operations							
100712000 Replace Non-Fuel Equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00
100714000 Property Betterments & Additions	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Additional Asset Operations	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Operating Expenditures	44,189.96	552.36	108,620.75	589.17	206,065.76	643.91	(17,445.01)
Depreciation Budget Def							
100400000 Depreciation Expense	(14,126.00)	(181.18)	(58,189.00)	(181.18)	(58,189.00)	(181.18)	0.00
Total Operating Expenditures	29,043.96	370.78	100,055.75	407.89	147,266.76	462.37	(17,461.01)
Without Depreciation							
Residual Receipts/(Shorts)	2,882.21	32.84	(2,086.10)	(17.47)	(18,085.40)	(108.13)	36,989.27
See Accountant's Compilation Report							

Income Statement What is Important?

- ☞ Budget to Actual
- ☞ Operating Results
- ☞ Unusual Transactions



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Presenting Financial Statements

- ☞ Know your audience - what do they care about?
 - ☞ The bottom line?
 - ☞ How many months of reserves we have?
 - ☞ Whether HUD will be happy?
 - ☞ Whether the Auditor will be happy?
- ☞ Focus on key elements
 - ☞ Cash (Unrestricted, Restricted - Federal & Local)
 - ☞ Net Position
 - ☞ Net Income/(Loss)
- ☞ Explain Net Position and how this shows the financial stability of the Agency

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Presenting Financial Statements

- ☞ Explain what the Capital Assets are, why they are noncurrent, and what depreciation means.
- ☞ Focus on the cash accounts and the importance of monitoring them with ratios
 - ☞ Quick Ratio = (Current Assets - Inventories)/Current Liabilities (1.5 means you have \$1.50 of liquid assets to cover \$1.0 of current liabilities - the higher the better)
 - ☞ Current Ratio = Current Assets/Current Liabilities (Greater than 1 means you can pay your bills)
- ☞ Give your reader a dashboard
 - ☞ Allows the user to focus on important items

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Sample Dashboard

County Housing Authority Year 24 Financial Dashboard			
December 24			
Cash & Investments	555,595		
Other Current Assets	54,295		
Liabilities	(215,585)		
Net Funds Available	494,305		
December 24			
Net Profit/Loss	(45,457)		
Investment in Capital Assets	5,987,303		
Unrestricted	477,811		
Net Position	6,489,357		
December 24			
	2024	Budget	Variance
Operating Revenue	252,814	277,484	(24,670)
Operating Expense	(245,114)	(246,510)	1,396
Net Operating Profit/Loss	7,700	31,004	(23,304)
Depreciation Expense	(8,327)	(8,414)	87
Change in Net Position	(65,627)	(5,406)	(60,221)

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- Eliminates the details to avoid confusion.
- Gives a snapshot of the financial health of the Authority.
- Quick overview of Budget over/under amounts.

Quick Ratio Analysis



Quick Ratio - 12 possible points:

Cash - unrestricted
 Cash - security deposits
 Cash - restricted for current liabilities
 Total receivables, net of allowances
 Investments - unrestricted
 Investments - restricted for payment of current liabilities
 Prepaid expenses and other assets
 Interfunds

Total Current Liabilities
 CFFP

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MENAR




MENAR (Months Expendable Net Assets Ratio) - 11 possible points:

Cash - unrestricted
 Cash - security deposits
 Cash - restricted for current liabilities
 Total receivables, net of allowances
 Investments - unrestricted
 Investments - restricted for payment of current liabilities
 Prepaid expenses and other assets
 Interfunds
 (Less: Total Current Liabilities)

Total Operating Expenses/12
 Extraordinary Maintenance/12
 Casualty Losses - Non-capitalized/12
 Dwelling Units Rent Expense/12

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Audited Financial Statements




Financial and Compliance Audit required by the Uniform Administrative Requirements

- ☞ Must give an opinion on "financial position" in accordance with accounting rules (GASB).
- ☞ Must give an opinion on general governmental compliance requirements
- ☞ Must give an opinion on the Single Audit Programs tested for compliance.

Auditor must be independent and licensed by the State Board of Accountancy - reviewed by the AICPA.

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Audited Financial Statements




Which pages of the report are important?

- ☞ Auditor Results
- ☞ Schedule of Federal Financial Assistance
- ☞ Management Discussion & Analysis - condensed comparative financial statements.
- ☞ Notes to Financials - summarizes the operations of the Housing Authority, pertinent accounting policies and disclosure of material and required financial information.

As a commissioner what do I need to know about the financial and compliance audit of the agency?

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Audited Financial Statements



Why is there so much information in the audit report?

- ☞ Audit report is meant to be issued to the Board of Commissioners, the local City or County, Department of Housing & Urban Development and banks doing business with the agency.
- ☞ Financial Data Schedule - presents individual programs and funding sources (CFDA - Catalogue of Federal Domestic Assistance)
- ☞ Financial Data Schedule by Asset Managed Property (AMP).

All information from each Housing Authority is combined and presented to Congress in a combined countrywide reporting in order to make appropriate budgeting decisions.

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Purpose of Budget



- ☞ To provide an estimate of revenues and expenses over a specific period of time
- ☞ Tool for property management
- ☞ Forecasting tool
- ☞ Measure of staff/financial performance
- ☞ Internal controls over expenditures
- ☞ It's a requirement

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What are the requirements?



- ☞ Annual contributions contract
- ☞ Code of Federal Regulations
- ☞ Asset management requirements
- ☞ Specific grant requirements

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HUD Regulations



- ☞ Uniform Financial Reporting Requirements – GAAP financial statements in accordance with GASB.
- ☞ Project Based Budgeting and Accounting Asset Management Provisions – 24 CFR §990.310
- ☞ Section 8 – Housing Choice Voucher requirements 24 CFR §982.157
- ☞ General Requirements – 24 CFR §85.20, Budgetary Controls (§85.40 & 41 is Monitoring and Financial Reporting)
- ☞ Annual Contributions Contract – Part A, Section 11

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Benefits of the Budget

- ☞ Knowledge
- ☞ Control
- ☞ Organization
- ☞ Communication
- ☞ Financial Allstars
- ☞ Efficiency



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Project-Based Budgeting Final Rule

- ☞ 990.255 "PHAs shall also implement project-based management, project-based budgeting, and project based accounting, which are essential components of asset management"
- ☞ 990.280 (a) "Project-based budgeting and accounting will be applied to all programs and revenue sources that support projects under an ACC"
- ☞ 990.285 "Each PHA shall maintain project-based budgets...and make these budgets...available for review upon request by interested members of the public"


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Project-Based Budgeting Reporting Requirement

- ☞ Project-based budgets do not need to be submitted to HUD
 - ☞ Exception: Troubled PHAs must submit project-based budgets to HUD for all properties
- ☞ Budget must be submitted to PHA's Chairman and each member of the board
- ☞ Budget must be made available upon request to interested members of the public

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Project-Based Budgeting Requirements



- ☞ Budget required for program and revenue sources that support projects under ACC, at the AMP level
- ☞ HUD will not prescribe specific budget format
- ☞ PHA wide budget not required, but it's a pretty good idea!
- ☞ Any budget should be approved by the Board of Commissioners
- ☞ Budgets should be approved before the beginning of the year, and revised during the year

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Budget Review – Variance Analysis



- ☞ Identify significant variances
- ☞ Explain variances
- ☞ Dollar Amount vs. % Change
- ☞ Impact of variances on project bottom line
- ☞ Is there a limit to the amount of overruns if any that are allowed by management?

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Budgeting - Revenue



- ☞ Operating Subsidy
 - ☞ Remember Subsidy is based on a Calendar Year
 - ☞ Very difficult to predict at this time with proration
- ☞ Capital Funds
 - ☞ What major improvements are you making?
 - ☞ Have you drawn all of your operations money?
 - ☞ Do you even need operations money?
- ☞ Dwelling Rental
 - ☞ Are you expecting to take any units off-line?
 - ☞ Are you expecting any demo/dispo next year?
 - ☞ Take current monthly rent roll * 12 months.

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Budgeting - Expenditures



- ☞ Administration:
 - ☞ Salaries
 - ☞ Legal, sundry, travel & training
 - ☞ Accounting & audit
- ☞ Utilities
- ☞ Tenant Services
- ☞ Protective Services
- ☞ Maintenance
- ☞ General expenses:
 - ☞ Casualty losses & PILOT
 - ☞ Insurance
 - ☞ Employee Benefits



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Looking Ahead



- ☞ Are our reserves adequate? (Impact of GASB 68)
- ☞ Do we need to fudge excess cash?
 - ☞ Can only use amounts from THIS year's excess cash to pay NEXT year's fees.
 - ☞ Do we have enough?
- ☞ Any RAD closing in the next fiscal year?
- ☞ Are we applying for extra grants?
- ☞ Do we need to cut employees/benefits?
- ☞ Do we need to cut other expenses?
- ☞ What bottom line does the budget give us?
- ☞ Does HCV have enough equity or should we request set-aside funds?

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Static Budgets

A static budget is prepared for only one level of a given type of activity.

This is a budget based on a single level of activity. With HUD this is similar to a program budget for Public Housing or a CFP program budget.

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Master Budget Variance: Rental Income



The variances of actual results from the master budget are called master (static) budget variances.

Actual	Budget	Variance
\$265,000	\$279,000	\$(14,000)

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Flexible Budget



A *flexible budget* (variable budget) is a budget that adjusts for changes in multiple activities. Because of the number of programs and activities of a PHA a flexible budget should be used.

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Activity-Based Flexible Budget



An *activity-based flexible budget* is based on budgeted costs for each activity or program.

Within each activity center, costs depend on an appropriate funding and planned timing of expenditures.

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Challenges in Budgeting



- ❏ Public Housing Subsidy shortfall/recapture
- ❏ Public Housing Capital Fund Program timing
- ❏ Calendar year funding vs fiscal year planning
- ❏ Planning for the unknown event – IG audit, fraud, natural disaster, employee turnover
- ❏ Limited resources with the HCV program, and still trying to maintain quality
- ❏ Transfer of funds between programs – legal restriction and understanding “nonfederal” funds.
- ❏ Asset management issues

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