

*the advantage update*tm



2007
Volume I

Financial Statement and Financial Data Schedule Reporting Changes (Part 1)

Congress has mandated that HUD institute a new business model for PHA's across the country - Project Based Accounting and Management. The way PHA's conduct their business will change internally (operations) and externally (tenant management and communications). PHA's are entering a new culture or an "unexplored territory" to manage their finances and employees to service their residents and maintain compliance with standards promulgated by HUD/REAC, GAAP and GASB. PHA's are now being administered as a business rather than a service organization.

The Uniform Financial Reporting Standards (UFRS), 25 CFR Part 5, Subpart H, mandates that PHA's report financial data in accordance with GAAP for governmental entities as set by the GASB. The reporting requirements of OMB Circular A-133 continue to apply.

The Financial Data Schedule (FDS) was created in order to standardize financial information reported by PHA's to HUD. The FDS is used to analyze a PHA's financial performance and to help HUD in monitoring PHA's across the country. This information is reported in GAAP, but not necessarily in the format in which a PHA may find its audit report. The FDS along with other information is considered supplementary information to the financial statements.

Beginning with September 30, 2006 year-ends, authorities will be required to report using the revised FDS format.

The changes the FDS will incur include:

- Additional columns for the Asset Management Property Groupings (AMP's);
- Combining the accounting and reporting of financial activity of the Operating Fund and the Capital Fund at the AMP level;
- Adding an eliminations column to allow for the elimination of revenue and expenses between AMP's and the Central Office Cost Center (COCC);

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- Adding line items in the FDS to accommodate changes in reporting requirement.
 - o Section 8 Equity Distinction
 - o Property/Asset/Bookkeeping Management Fees
 - o Additional “Details” for various line items

Additional Columns for Asset Management Property Groupings

Before the transition to Asset Management, programs were reported in columnar format as noted on the following FDS submission.

Historical FDS

	Program				Total
	LIPH	Housing Choice Voucher	Section 8	Capital Fund	
Assets	\$ 5,000,000	\$ 300,000	\$ 750,000	\$ 1,200,000	\$ 7,250,000
Liabilities	2,500,000	200,000	250,000		2,950,000
Net Assets	2,500,000	100,000	500,000	1,200,000	4,300,000
Liabilities and Net Assets	\$ 5,000,000	\$ 300,000	\$ 750,000	\$ 1,200,000	\$ 7,250,000

Under Asset Management, the Public Housing Program and Capital Fund Program will no longer be reported as individual programs, but are combined in the column labeled Asset Management Projects. HUD reverted its focus on the AMP and not the reporting for the Public Housing program. HUD will now be reviewing each individual AMP’s activity including Capital Funds allocated to that AMP.

Two additional columns have been added to the Financial Data Schedule. The first is the Central Office Cost Center (COCC) and the second is an Elimination column. The COCC column will be used by the PHA’s to report revenues, expenses, assets, liabilities and net assets of the COCC and other “non-restricted” business activities of the PHA. Examples of non-restricted business activities would include fees earned from managing non-profit for private real estate and contracting the central maintenance services to outside parties. The Elimination column will be used to eliminate the expense paid by the AMP’s as fee revenue to the COCC. An example of the revised FDS is noted below:

Revised FDS

	Program					Total
	Total AMP’s	Housing Choice Voucher	Section 8	Central Office Cost Center	Eliminations	
Assets	\$ 10,100,000	\$ 300,000	\$ 750,000	\$ 200,000	\$ (50,000)	\$ 11,300,000
Liabilities	4,850,000	200,000	250,000	100,000	(50,000)	5,350,000
Net Assets	5,250,000	100,000	500,000	100,000		5,950,000
Liabilities and Net Assets	\$ 10,100,000	\$ 300,000	\$ 750,000	\$ 200,000	\$ -	\$ 11,300,000

	Program				Total
	Project 1	Project 2	Project 3	Other AMP	
Assets	\$ 3,434,000	\$ 3,253,000	\$ 3,131,000	\$ 282,000	\$ 10,100,000
Liabilities	1,649,000	1,521,500	1,503,500	176,000	4,850,000
Net Assets	1,785,000	1,731,500	1,627,500	106,000	5,250,000
Liabilities and Net Assets	\$ 3,434,000	\$ 3,253,000	\$ 3,131,000	\$ 282,000	\$ 10,100,000

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As noted above “Total AMP’s” include an “Other AMP” column. This column will account for those activities that are directly supported by either the Capital Fund or the Operating Fund programs but not necessarily related to a recognized AMP. Examples could be a new project not recognized in PIC or homeownership activities that cannot be directly linked to an AMP.

Additional reporting line items that have been added to the FDS as well as other reporting requirements that have not been addressed above will be concluded in our next issue.

Excess Cash

The final rule establishes certain limitations, as well as certain freedoms on the use of project income depending on whether a project generates excess cash. Excess cash represents non-restricted liquid or near liquid assets available after current liabilities and normal project operation expenses are considered.

Excess cash will be calculated using PHA reported data from the Financial Data Schedule (FDS). It represents the sum of certain current asset accounts less the sum of all current liability accounts and less one month worth of operating expenses for a project. The determination of one-month operating expenses will be calculated by dividing FDS line 969, Total Operating Expenses, by 12. The result is excess cash. See figure below.

FDS Line

<u>Number</u>	<u>FDS Description</u>	<u>Account Type</u>
111	Cash - unrestricted	Current Asset
114	Cash - tenant security deposits	Current Asset
115	Cash - restricted for payment of current liability	Current Asset
120	Total Receivables, net of allowances for doubtful accounts	Current Asset
131	Investments - unrestricted	Current Asset
144	Interprogram - due from	Current Asset
310	All current liabilities FDS Line items (311-348)	Current Liability
969	Total operating expenses/12	Working Capital Minimum

Expressed as a formula using FDS line numbers

$$(111+114+115+120+131+144)-310) - (969/12)$$

PHA’s are limited in the amount of excess cash to be transferred between Asset Management Property Groupings (AMP’s) or to be paid as asset management fees to the Central Office Cost Center (COCC).

Excess cash may be used for the following:

- Retained for future use
- Transfer these funds to other AMP’s
- Pay an asset management fee to the COCC
- Use these funds for other HUD approved eligible purposes, including;
 - o Financing costs for the development of new units
 - o PHA-wide lawsuits and legal issues incurred prior to asset management that cannot be charged to specific AMP’s or other programs with any degree of accuracy or fairness
 - o Accrued pension liabilities, retirement benefits liabilities and other “legacy costs” incurred prior to the adoption of asset management.

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A PHA may not loan or transfer cash to the COCC from an AMP except as an Asset Management Fee. Additionally, proceeds from the sale of an AMP asset may not be transferred to the COCC without HUD approval.

The effective date for determining excess cash will begin with fiscal year 2008.

PHA Fiscal Year End	Effective Start Date for Excess Cash
June	7/1/08 and after
September	10/1/08 and after
December	1/1/09 and after
March	4/1/09 and after

Restrictions on excess cash will occur with the first project-based submission. Prior to this event, all funds are considered fully fundable, including to the COCC. Once the PHA has reported project-based financial data, the AMP and COCC balance sheets will be used to calculate the amount of excess cash available.

Items for Consideration

- If a PHA fails to submit a required FDS or the FDS is not accepted, excess cash will remain at the AMP.
- The final amount of excess cash available is based on the approved audited submission. Properties may not transfer excess cash or loan these funds at any time during a given fiscal year-end on projections or “expected” excess cash calculations.
- If the PHA is not required to file an audited submission, then the final amount is based on the approved un-audited submission.
- The working capital component of the excess cash calculation will be eliminated on mixed finance projects that are managed by a separate owner or entity.
- PHA’s that choose to use Capital Fund Program Funds for Operations will have ordinary expenses associated with the use of these funds calculated as part of that AMP’s operating expense.
- Cash and other resources can be transferred to AMP’s from the COCC without any restrictions.
- PHA’s are encouraged to develop their own minimum working capital levels based on the individual current project AMP needs, including any management restrictions.

And Let Us Not Forget About GASB 34...

Statement 34 is firmly rooted in (Government Accounting Standards Board) GASB Concepts Statement No. 1, Objectives of Financial Reporting, published in 1987. Statement 34, as issued by the GASB, established requirements for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions (or who may do so in the future): legislators, their staff, and members of oversight bodies; investors, creditors, and others who provide resources to governments; and citizen groups and the public in general.

Currently most Authorities have transitioned to GASB 34 reporting. Part of the transition will eventually include the reporting of infrastructure assets which will be required for several agencies depending on total revenues for the fiscal year ended June 15, 1999.

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What are infrastructure assets?

Infrastructure assets are long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets. These assets could include Roads, Bridges, Tunnels, Drainage Systems, Water & Sewer Systems and Lighting Systems. These items will have to be separated from your current fixed asset classification and reported as infrastructure assets. For example, a building has a value of \$1,750,000 on the depreciation schedule. Included in the value of the building is a lighting system that has a value of \$150,000. The revised value of the building will be \$1,600,000 and the value of the lighting system reported under infrastructure assets will be \$150,000.

When and what size authorities have to implement reporting of infrastructure assets?

INFRASTRUCTURE REPORTING DATES

PHASE 1	\$100 + million in revenues	Fiscal Year beginning June 15, 2005
PHASE 2	\$10 + million in revenues	Fiscal Year beginning June 15, 2006
PHASE 3	Less than \$10 million in revenues	Encouraged, but not required

What infrastructure assets have to be reported?

At the applicable general infrastructure transition date, Phase 1 and 2 authorities are required to capitalize and report major general infrastructure assets that were acquired (purchased, constructed, or donated) in fiscal years ended after June 30, 1980, or which have received major renovations, restorations or improvements during that period.

Where to start?

1. Authorities should review their Cooperation Agreement and determine what infrastructure assets belong to the Authority and which infrastructure assets belong to the municipality.
2. Authorities can contact their "Town Hall" and review historical records for ownership of infrastructure assets.
3. Review the depreciation schedule for possible infrastructure assets that exist.
4. Be able to determine estimated dates purchase of assets.
5. If not able to determine cost at time of purchase, estimate based on current replacement value and deflate based on annual inflation factors.

Occupational Fraud

Most individuals in an Authority would like to believe that occupational fraud is an activity that never happens in their workplace. Fraud, by definition, encompasses a wide range of misconduct by employees. The Association of Certified Fraud Examiners defines Occupational Fraud as "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources of assets."

Occupational fraud is generally considered a "white collar crime" even though pilfering supplies would normally be thought of as a "blue collar crime." The difference is that the pilfering is conducted by the employee. Occupational fraud has four key elements in common:

- Is clandestine "sneaky"
- Violates the perpetrator's fiduciary duty to the Authority
- Is committed for the purpose of financial benefit to the perpetrator
- Costs the Authority assets, revenues and reserves.

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In a broad sense, occupational fraud has three elements:

- Act – Taking something without payment, using deception for payment, causing payment to someone else to get them to do something against their normal duties, or misrepresentation of information or financial records.
- Concealment – These are additional actions the perpetrator takes to enable the fraud to go undetected. Fraudsters can create, alter or destroy records that would otherwise leave an audit trail to the act. Fraud can also be concealed by the collusion of two or more people. Many frauds may be blatant but concealed, not by their own activities, but rather rely on poor management, the paucity of internal controls or audit failures.
- Conversion – Many frauds involve additional steps to be taken prior to the acquisition of value. Examples include creating ghost employees or vendors. Conversion may include forgery.

Though the frequency of fraud is similar between managers and employees, the occupational position is strongly related to the size of the loss. Persons in higher levels of responsibility and income are generally associated with higher dollar losses. These individuals are more likely to be in a position having the resources and opportunity to conceal fraud.

Fraudsters can be identified with other traits as well. Perpetrators with longer tenure at the organization tend to be more apt to commit fraud. These employees operate with more autonomy and trust as well as being more familiar with the gaps in the internal controls. Additionally, these individuals rise to higher ranks and not only become more successful at their position, but are poised to be more successful at committing fraud as well.

Other traits affect the occurrence and amounts of fraud, including gender, age, education and department. Most of the occurrence of fraud detected involves the accounting and finance department. Naturally, those in these departments have access to checks, both receipts and disbursements. Additionally, these individuals are better situated to override internal controls and create fictitious employees and vendors.

Occupational fraud can be very difficult to detect. Many schemes, on average, go on for approximately eighteen months before being detected assuming they are ever detected. Frauds are most likely to be detected by a tip; primarily from another employee, but also from customers and vendors. One reason that tips account for more detection is the absence of internal auditors and weak internal controls. Much of the fraud detected is simply by accident.

Occupational fraud can be reduced by a strong internal control policy. Separation of duties is one of the most critical elements to internal controls but must be weighed against the cost benefit. Many authorities do not have the resources to implement the ideal separation of duties or hire an internal auditor. Regardless of the size of the authority or its staff, management must be aware and involved in preventing and identifying fraud.

A good start is to develop and implement a fraud and ethics training program for all employees, from the seasonal help to the board of directors. Additionally, management should cross train employees, where applicable, not only to cover someone's day off but in doing so they may help detect or deter fraudulent actions of others. With any educational process, training should be ongoing in order to reinforce management's commitment to preventing fraud.

This article presents a brief overview of occupational fraud. Future issues of this newsletter will discuss more specific types of occupational fraud such as assets misappropriation, payroll and purchasing fraud and inventory

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theft. Look for guidance and checklists that will assist you in detecting, deterring and ensuring your internal controls are operating effectively and efficiently.

For questions or an assessment of your internal control system please contact James Mantell, CPA, MA at jmantell@asherco.com.

Affordable Housing Update: Timely Delivery of K-1s is Important to Investors

For general partners, delivering K-1s on time makes it easier for a developer or promoter to approach the same investors for the next project. The most important matter to investors, right after the collection of their distribution checks, is the timely delivery of their annual tax information.

Investors are K-1 savvy and often have numerous investments. Some investors may refuse to invest again with the same party, regardless of the economic success of the project, if the K-1s are late.

Most limited partnership agreements call for a delivery date of the K-1s to the investors by March 15. This allows individual investors time to meet with their return preparers and file their personal returns by April 15.

To accomplish getting the K-1s out in a timely manner, planning is important on the part of the tax professional and the general partner. Cooperation, communication, and careful planning are the keys to success. While the tax professional must begin work in a timely manner to foster timely results, the general partner must have the books and records organized and available as planned. The tax practitioner must have software capable of a quick turnaround and handle multi-state filing requirements. Both parties must contribute well-trained, competent and supervised staff. When both parties meet their commitments, the process goes smoothly and satisfies everyone's requirements.

Asher & Company, Ltd. delivers over 5,000 K-1s on time every year. Call Mike Byrnes at 215-564-1900 for more information.

Focus On...The Year-End Close Advantage™

The Year-End Close Advantage™ will assist your Authority in analyzing your general ledgers, providing adjusting entries and closing entries. We will also prepare workpapers that will ready you for your annual audit. We will prepare your Financial Data Schedule (FDS) to assist you to obtain the highest scores for your FASS reporting (six financial ratios) and submit the FDS to REAC in the required time frame. Additionally, we will provide an analysis of your Operating Reserves. The analysis of your Operating Reserves will include the required separation of Section 8 Reserves for HAP assistance and administrative fee revenue and the calculation of Excess Cash.

For information on how the Year-End Close Advantage™ can benefit your housing authority, call Brian Alten today at 1-800-645-1845.

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Subscription Information

Welcome to the first complementary issue of The Advantage Update newsletter. The Advantage Update is your primary source of HUD financial information published on a monthly basis. The Advantage Update will contain valuable information such as technical guidance to implement the latest regulation from HUD, GAAP and GASB. Expect to see the latest updates for the implementation to Project Based Accounting & Management, audit tips, various Section 8 issues, Capital Fund, tax credits, development of affordable housing and various internal control issues including fraud prevention & detection.

Subscribers to The Advantage Update newsletter will also receive emails as new regulations are published. In the future, the Advantage Update will also provide you with the option to earn CPE credits during the year as well.

To continue receiving monthly issues of this newsletter for the remainder of 2007, there are two easy ways to sign up:

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What main areas are you interested in learning about?

Describe the key challenges you face.

Do you have any comments or special requests?

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Asher was awarded the **Gold Team Philadelphia Cares Day STAR** award by Greater Philadelphia Cares.



l to r: Randee Mellon and Bill Burns of Asher with Lissa Hilsee, President and CEO of Greater Philadelphia Cares.



Asher named one of the **Best Places to Work** by the *Philadelphia Business Journal*.