

is capable of managing those financial resources effectively to support the provision of housing that is decent, safe, sanitary and in good repair.

(b) *Financial reporting standards.* A PHA's financial condition will be assessed under this indicator by measuring the PHA's entity-wide performance in each of the components listed in § 902.35, on the basis of the annual financial report provided in accordance with § 902.33.

#### § 902.33 Financial reporting requirements.

(a) *Annual financial report.* All PHAs must submit their unaudited and audited financial data to HUD on an annual basis. The financial information must be:

(1) Prepared in accordance with Generally Accepted Accounting Principles (GAAP) as further defined by HUD in supplementary guidance; and

(2) Submitted electronically in the format prescribed by HUD using the Financial Data Schedule (FDS).

(b) *Annual financial report filing dates.* The unaudited financial information to be submitted to HUD in accordance with paragraph (a) of this section, must be submitted to HUD annually, no later than two months after the end of the PHA's fiscal year end, with no penalty applying until the 16th day of the third month after the PHA's fiscal year end in accordance with Uniform Financial Reporting Standards (see 24 CFR part 5, subpart H). An automatic one month extension will be granted for PHAs with fiscal years ending September 30, 1999 through June 30, 2000.

(c) *Reporting compliance dates.* The requirement for compliance with the financial reporting requirements of this section begins with PHAs with fiscal years ending on and after September 30, 1999. Unaudited financial statements will be required two months after the PHA's fiscal year end, and audited financial statements will be required no later than 9 months after the PHA's fiscal year end, in accordance with the Single Audit Act and OMB Circular A-133 (see 24 CFR 84.26).

[65 FR 1738, Jan. 11, 2000, as amended at 68 FR 37671, June 24, 2003]

#### § 902.35 Financial condition scoring and thresholds.

(a) *Scoring.* Under PHAS Indicator #2, REAC will calculate a score based on the values of financial condition components, as well as audit and internal control flags. Each financial condition component has several levels of performance, with different point values for each level. A PHA's score for a financial condition component depends upon both the level of the PHA's performance under a component, and the PHA's size, based on the number of public housing and section 8 units and other units the PHA operates.

(1) Under PHAS Indicator #2, REAC will calculate a score following the procedures described in the PHAS Notice on the Financial Condition Scoring Process (PHAS FASS Notice 3), which will be published in the FEDERAL REGISTER. HUD may revise this notice in the future, but HUD will publish for comment any significant proposed amendments to this notice. After comments have been considered, HUD will publish a notice adopting a final notice or amendment. The PHAS Notice on the Financial Condition Scoring Process that is currently in effect can be found at the REAC Internet site at <http://www.hud.gov/reac> or obtained from REAC's Technical Assistance Center at 888-245-4860 (this is a toll free number).

(2) PHAs with fiscal years ending on or before June 30, 2000, will receive an advisory score based on the PHA's entity-wide operations. PHAs with fiscal years ending March 31, 2000, and June 30, 2000, will also receive a score under this subpart C. These PHAs will receive a PHAS financial condition score on the basis of their public housing operating subsidies program. PHAs with fiscal years ending after June 30, 2000, will receive PHAS financial condition scores on the basis of their entity-wide operations.

(3) *High liquidity or reserves.* (i) Under the scoring process for the Financial Condition Indicator, no points will be deducted under the Current Ratio or Monthly Expenditure Fund Balance components for a PHA that has too high liquidity or reserves if the PHA has achieved at least 90 percent of the points available under the Physical

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Condition Indicator, and is not required to prepare a follow-up survey plan under the Resident Service and Satisfaction Indicator.

(ii) A PHA that has too high liquidity or reserves but does not meet the qualifications described in paragraph (a)(3)(i) of this section may appeal point deductions under the Current Ratio or Monthly Expenditure Fund Balance components based on mitigating circumstances if the PHA's physical condition score is at least 60 percent of the total available points under the Physical Condition Indicator.

(A) The appeal may be made without regard to change in designation.

(B) To adjust a financial condition score based on mitigating circumstances, the PHA must submit a request to the applicable HUD HUB/Program Center within 15 days of the issuance of the financial condition score to the PHA and must be accompanied by a description of the mitigating circumstances. Based on the recommendation of the applicable HUD HUB/Program Center following its review of the PHA's evidence or documentation, HUD may determine that a point adjustment for the financial condition score is acceptable.

(b) *Components of PHAS Indicator #2.* The components of PHAS Indicator #2 are:

(1) *Current Ratio* is current assets divided by current liabilities.

(2) *Number of Months Expendable Fund Balance* is expendable fund balance (Expendable Fund Balance) divided by monthly operating expenses. The Expendable Fund Balance is the portion of the fund balance representing expendable available financial resources, that is, the unreserved and undesignated fund balance.

(3) *Tenant Receivable Outstanding* is the average number of days tenant receivables are outstanding and it is calculated by dividing tenant accounts receivable by Daily Tenant Revenue (rental revenue/365).

(4) *Occupancy Loss* is one minus unit months leased divided by unit months available.

(5) *Expense Management/Utility Consumption* is the expense per unit for key expenses, including utility consump-

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tion, and other expenses such as maintenance and security.

(6) *Net Income or Loss divided by the Expendable Fund Balance* measures how the year's operations have affected the PHA's viability.

(c) *Thresholds.* In order to receive a passing score under the Financial Condition Indicator, the PHA must achieve a score of at least 18 points, or 60 percent of the available points under this indicator. If the PHA fails to receive a passing score on the Financial Condition Indicator, the PHA shall be categorized as a substandard financial agency.

[65 FR 1738, Jan. 11, 2000, as amended at 65 FR 36044, June 6, 2000]

### § 902.37 Financial condition portion of total PHAS points.

Of the total 100 points available for a PHAS score, a PHA may receive up to 30 points based on the Financial Condition Indicator.

### Subpart D—PHAS Indicator #3: Management Operations

#### § 902.40 Management operations assessment.

(a) *Objective.* The objective of the Management Operations Indicator is to measure certain key management operations and responsibilities of a PHA for the purpose of assessing the PHA's management operations capabilities.

(b) *Management assessment.* PHAS Indicator #3 pertaining to Management Operations incorporates the majority of the statutory indicators of section 6(j) of the Act, as provided in § 902.43. (The remaining statutory indicators are addressed under the other PHAS Indicators.)

#### § 902.43 Management operations performance standards.

(a) *Management operations sub-indicators.* The following sub-indicators listed in this section will be used to assess a PHA's management operations. The components and grades for each sub-indicator are the same as those provided in Appendix 1 to the PHAS Notice on the Management Operations Scoring Process, except as may be otherwise noted in this subpart.