

**§ 902.28 Overall physical condition indicator grade.**

(a) *Property grade.* To determine a property's base grade, all livability deficiencies reported for dwelling units, buildings (which combines the inspectable areas of building exterior, building systems and common areas), and site are counted. To quantify the impact of the cited deficiencies on the inspectable areas, values called "livability points" are calculated separately for dwelling units, buildings (adjusted for the number of units in each building and to account for any sampling of the buildings), and site. The livability points are then combined into overall livability points for the property, with dwelling units, buildings, and site each contributing 60 percent, 30 percent, and 10 percent, respectively. Property livability points are translated into the base grade as specified in the Physical Condition Grading Process notice. When there are no EHS deficiencies cited, the base grade is the property's reported grade.

(b) *Impact of EHS deficiencies on a property grade.* If at least one EHS deficiency is cited, other than for smoke detectors, then the reported grade will be one grade lower than the base grade (*i.e.*, A becomes B, B becomes C, C becomes D, D becomes F, and F remains as F).

(c) *Correction of EHS deficiencies.* When a PHA corrects all of the EHS deficiencies on a property inspection report and certifies to HUD that they have been corrected pursuant to section § 902.24 (c), the property grade will revert to the base grade. If an EHS certification review later shows that all of the EHS deficiencies to which the PHA certified were not corrected, then the PHA's property grade will be reduced one-letter grade below the reported property grade and the PHA's overall physical inspection grade also may be reduced, with F being the lowest possible grade.

(d) *PHAS Indicator #1 grade.* The PHAS Indicator #1 grade for a PHA is based on the grades for all the properties in a PHA's portfolio. To determine the PHAS Indicator #1 grade, each property grade is assigned a numerical value. Then a weighted average of property grade values is calculated with weights equal to the number of units in the property divided by the total number of units in the PHA. This PHAS Indicator #1 grade is the letter grade corresponding to the weighted average of property grade values.

**§ 902.29 Threshold.**

When a PHA receives a grade of F under this indicator, the PHA shall be

designated a Grade F PHA. When a PHA receives a grade of D under this indicator, the PHA shall be designated a Grade D PHA.

**Subpart C—PHAS Indicator #2: Financial Condition****§ 902.30 Financial condition assessment.**

(a) *Annual financial filing dates.* Under this indicator, PHAs shall submit unaudited and audited financial information to HUD on an annual basis.

(1) *Unaudited financial information filing date.* The unaudited financial information shall be submitted to HUD annually, no later than two months after the end of the PHA's fiscal year in accordance with Uniform Financial Reporting Standards (see 24 CFR part 5, subpart H).

(2) *Audited financial information filing date.* The audited financial information shall be submitted no later than nine months after the end of the PHA's fiscal year, in accordance with the Single Audit Act and OMB Circular A-133 (see 24 CFR 84.26). A PHA that has an audit conducted, but is not subject to the Single Audit Act, shall also submit audited information no later than nine months after the end of the PHA's fiscal year.

(b) *Certification or attestation.* Prior to the electronic submission of the PHA's audited statement, the PHA's IPA or CPA shall certify or attest that the financial information being submitted electronically accurately reflects the audited "hard copy" financial information.

(c) *Annual financial information.* The financial information shall be:

- (1) Submitted on an entity-wide basis;
- (2) Prepared in accordance with GAAP; and
- (3) Submitted electronically in the format prescribed by HUD.

(d) *Components of Financial Condition Indicator.* A PHA's financial condition shall be assessed on the basis of six components described in § 902.35. The six components are:

- (1) Current Ratio;
- (2) Number of Months Expendable Fund Balance;
- (3) Tenant Receivables Outstanding;
- (4) Occupancy Loss;
- (5) Expense Management/Utility Consumption; and
- (6) Net Income or Loss Divided by the Expendable Fund Balance.

(e) *Annual submission requirement.* A PHA shall electronically submit its unaudited and audited financial information to HUD every year. In accordance with § 902.13, HUD will not grade the unaudited and audited financial information in the years that a PHA is not being assessed under PHAS.

**§ 902.33 Financial condition grading.**

(a) Under PHAS Indicator #2, HUD will determine a grade based on the calculated values of the six financial condition components, and the results of the audit.

(b) Each financial condition component value will be converted to a grade. The grade from each financial condition component will then be combined to create the overall financial condition assessment grade. A PHA's grade for a financial condition component depends upon both the calculated value of the financial condition components and the PHA's peer group. A PHA's peer group will be determined based on a PHA's size and regional location. HUD will use a region as part of the peer group only if a peer group based solely on size would not allow an equitable assessment. A PHA's size will be based on the number of public housing, Section 8, and other units the PHA operates.

(c) HUD may adjust a PHA's Financial Conditioner Indicator grade after receipt of the PHA's audited submission for the assessed fiscal year. Any adjustment to the Financial Conditioner Indicator grade (*i.e.*, increase or decrease) shall result in a corresponding adjustment to the PHA's final overall PHAS grade. In addition, if there is a significant difference between the unaudited and audited submissions, a PHA's financial condition grade and final overall PHAS grade shall be adjusted (*i.e.*, a letter grade reduction) as described in the PHAS notice on the Financial Condition Grading Process. Findings, qualifications, or other conditions reported as the result of an audit may also reduce the Financial Condition grade by one or more letter grades. The letter grade reductions are based on the severity of the finding, qualifications, or reported condition, as described in the PHAS notice on the Financial Condition Grading Process.

**§ 902.35 Financial condition components.**

The six Financial Condition Indicator components are:

(a) *Current Ratio.* This component is calculated by dividing the current assets by current liabilities. This component measures a PHA's liquidity position. This component is calculated on an entity-wide basis.

(b) *Number of Months Expendable Fund Balance.* This component is calculated by dividing the expendable fund balance by the monthly operating expenses. This component measures the adequacy of the PHA's reserves. This component is calculated on an entity-wide basis.