

Housing Authority of the City of Manhattan, Kansas
Management's Discussion and Analysis (MD & A)
December 31, 2006

Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their *Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999.

Our discussion and analysis of the Housing Authority of the City of Manhattan, Kansas, financial performance provides an overview of the Housing Authority's financial activities for the fiscal year ended December 31, 2006. Please read the MD&A in conjunction with the Housing Authority's financial statements.

For accounting purposes, the Housing Authority is classified as an enterprise fund. Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

Financial Highlights

Assets

The Housing Authority's total assets reflect an increase during the year. Total assets increased from \$429,047 to \$3,079,763, an increase of \$2,650,716. This increase was due to the addition of the Housing Authority property to the accounting books and an increase of construction in progress at public housing sites.

Liabilities

The Housing Authority's liabilities decreased from \$264,508 at year end in 2005 to \$260,922 at year end in 2006. This change can be largely attributed to decreases in accounts payables to other Government entities and in non-current liabilities, such as accrued compensated absences.

Revenue

The Authority received Operating Subsidy and Capital Grants of \$1,621,526 for the year ended December 31, 2006 as compared to \$1,778,077 in the prior year. Congress appropriated less money for subsidy in the current year in both the Section 8 Housing Choice Voucher Program and Public Housing Program, and the Housing Authority drew down less funds from the Capital Fund Program. However, tenant revenue increased \$39,207 from the previous year.

Housing Authority of the City of Manhattan, Kansas
Management's Discussion and Analysis (MD & A)

Expenses

Total expenses increased from the prior year by \$29,203. This increase was due to the addition of Housing Authority property to the financial statements. The depreciation expense increased from \$13,151 at year end 2005 to \$275,047 at year end 2006, with an overall increase of \$261,896.

Overview of the Financial Statements

This annual report includes this Management Discussion and Analysis report, the Basic Financial Statements and the Notes to the Financial Statements. This annual report also contains the Financial Data Schedule (FDS) as referenced in the section of Supplemental Information Required by HUD. The Housing Authority's financial statements are presented as fund level financial statements because the Housing Authority only has proprietary funds.

The financial statements of the Housing Authority report information of the Housing Authority using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about the Housing Authority's activities. The Statement of Net Assets includes all the Housing Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to the Housing Authority's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Housing Authority and assessing the liquidity and financial flexibility of the Housing Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Changes in Net Assets. This statement measures the success of the Housing Authority's operations over the past year and can be used to determine whether the Housing Authority has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The section Supplemental Information Required by HUD contains the Financial Data Schedule (FDS). HUD has established Uniform Financial Reporting Standards that require the Housing Authority to submit financial information electronically to HUD using the FDS format. This financial information has been electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended December 31, 2006.

Housing Authority of the City of Manhattan, Kansas
Management's Discussion and Analysis (MD & A)

Financial Analysis

The Housing Authority's basic financial statements are the Statement of Net Assets and the Statement of Changes in Net Assets. The Statement of Net Assets provides a summary of the Housing Authority's assets and liabilities as of the close of business on December 31, 2006. The Statement of Changes in Net Assets summarizes the revenues and sources of those revenues generated during the year ended December 31, 2006 and the expenses incurred in operating the Housing Authority for the year ended December 31, 2006.

The Housing Authority accounts for its housing activities in six (6) programs. The Housing Authority has a low rent program that provides housing for qualified tenants, a Capital Fund program that the Housing Authority uses for improvements to its low rent property, a Neighborhood Network (NNC) grant for public housing residents to assist them in attaining independence from federal, state and local aide through computer labs; a Section 8 Housing Choice Voucher program that provides rental assistance to qualified participants, and a Family Self-Sufficiency Program available to Section 8 Housing Choice Voucher participants and Public Housing residents to assist them in attaining independence from federal, state and local aide.

The Housing Authority also provides security and utility deposit assistance through a HOME program administered by the State of Kansas. The Housing Authority received a Special Alcohol Fund (SAF) grant in 2006 to fund drug and alcohol awareness activities for residents of Public Housing. Our analysis below focuses on the net assets and the change in net assets of the Housing Authority as a whole and not the individual programs.

Housing Authority of the City of Manhattan, Kansas
Management's Discussion and Analysis (MD & A)

Net Assets
December 31, 2006

	2006	2005	Increase (Decrease)
Current Assets, Net of Intraprogram	\$ 375,960	\$ 352,361	\$ 23,599
Capital Assets, Net of Depreciation	<u>2,703,803</u>	<u>76,686</u>	<u>2,627,117</u>
Total Assets	<u>\$3,079,763</u>	<u>\$429,047</u>	<u>\$2,650,716</u>
Current Liabilities, Net of Intraprogram	\$162,064	\$156,477	\$5,587
Non-Current Liabilities	<u>98,858</u>	<u>108,031</u>	<u>(9,173)</u>
Total Liabilities	<u>\$ 260,922</u>	<u>\$ 264,508</u>	<u>\$(3,586)</u>
Net Assets:			
Invested in Capital Assets, Net			
Of Related Debt	\$ 2,703,803	\$ 76,686	\$2,627,117
Restricted Assets	<u>0</u>	<u>2,024</u>	<u>(2,024)</u>
Unrestricted Assets	<u>115,038</u>	<u>85,829</u>	<u>29,209</u>
Total Net Assets	<u>\$2,818,841</u>	<u>\$ 164,539</u>	<u>\$2,654,302</u>
Expendable Fund Balance	<u>\$ 187,473</u>	<u>\$ 148,283</u>	<u>\$39,190</u>
No. of Months Expendable Balance	<u>3.3</u>	<u>2.3</u>	<u>1.0</u>

The increase in current assets was mostly due to the City of Manhattan deeding the property to the Housing Authority. The increase in fixed assets is also the result of improvements and purchases made through HUD's Capital Fund Program.

Total liabilities decreased \$3,586, from \$264,508 to \$260,922. This change was mostly due to a decrease in non-current accrued compensated absences at year end.

The expendable fund balance of an authority is a measure of the liquidity of the entity. If all of the authority's current assets, less materials inventory are converted to cash, and the authority pays all current liabilities, the amount of cash left on hand is the expendable fund balance.

The expendable fund balance at the end of 2006 was \$187,473 as compared to \$148,283 at the end of 2005, an increase of \$39,190, due to the under utilization of Section 8 Housing Choice Voucher program funds and the receipt of additional funds for FYE 2004 Section 8 Housing Choice Voucher year-end settlement from the Department of Housing and Urban Development.

Housing Authority of the City of Manhattan, Kansas
 Management's Discussion and Analysis (MD & A)

The number of months expendable fund balance is a measure of how many months the authority could operate under current conditions without any additional income. The number of months of expendable fund balance is calculated by dividing the total expenses for the year, less depreciation, by twelve (12) to arrive at the average monthly expenses. The expendable fund balance is then divided by the average monthly expenses to arrive at the number of months expendable fund balance.

The number of months of expendable fund increased by 1.0 months due to an increase in cash flow in the Section 8 Department.

Changes in Net Assets
For the Year Ended December 31, 2006

	2006	2005	Increase (Decrease)
Revenue:			
Tenant Revenue	\$ 524,444	\$ 485,237	\$ 39,207
Federal Grants & Subsidy	1,621,526	1,778,077	(156,151)
Investment Income	3,729	3,475	254
Gain or loss on the sale of fixed asset	0	25,900	(25,900)
Other Government Grants	1,400	23,486	(22,086)
Other Income/Fraud Recovery	74,085	58,192	15,893
Total Revenue	<u>\$2,225,184</u>	<u>\$2,350,881</u>	<u>\$(125,697)</u>
Expenses:			
Administrative	\$ 527,124	\$ 474,520	\$ 52,604
Tenant Services	41,736	165,599	(123,863)
Utilities	179,671	175,839	3,832
Routine Maintenance	372,723	467,488	(94,765)
General Expenses	117,827	128,010	(10,183)
Protective Services	0	4,163	(4,163)
Casualty Losses	1,526	0	1,526
Non-Routine Expenses	0	0	0
Depreciation	275,047	13,151	261,896
Housing Assistance Payments	<u>850,808</u>	<u>908,489</u>	<u>(57,681)</u>
Total Operating Expense	<u>\$2,366,462</u>	<u>\$2,337,259</u>	<u>\$ 29,203</u>
Increase (Decrease) in Net Assets	<u>\$ (141,278)</u>	<u>\$ 13,622</u>	<u>\$ (154,900)</u>

Housing Authority of the City of Manhattan, Kansas
 Management's Discussion and Analysis (MD & A)

The decrease in revenue from Federal grants and subsidies is the result of less federal subsidies received in the Public Housing and Section 8 HCV programs due to a reduced amount of funding allocations by HUD and a decrease in Capital Fund Program funds drawn. Other Income increased by \$15,893 caused by more revenue collected from vending machine and Cellular Tower monthly rental fees. Tenant revenues increased \$39,207, mostly due to the utilization of the State of Kansas Set Off Program for collection of delinquent accounts.

Administrative expenses increased primarily due to reallocation of expenses between the Public Housing and Section 8 programs. In 2006 the Housing Authority performed a comprehensive review of its cost allocation plan and as a result it was determined necessary to reallocate expenses between the two programs at 90% Public Housing and 10% Section 8.

Tenant services expense decreased due to completion of the Resident Opportunity & Self-Sufficiency (ROSS) grant, which assisted public housing residents in attaining economic independence. General Expenses decreased mostly due to a decrease in bad debt associated with tenant rents. Housing Assistance Payments decreased \$57,681, due to a reduction in program utilization.

Depreciation expense increased due to the addition of capital assets in the financial statements after the City of Manhattan deeded the property to the Housing Authority.

Routine maintenance decreased due to a decrease in contract costs and the utilization of Capital Funds to supplement labor salaries.

Capital Assets

At December 31, 2006, the Housing Authority had \$2,703,803 invested in net capital assets. This amount represents a net increase of \$2,627,117.

**Capital Assets at Year End
 (Net of Accumulated Depreciation)**

	2006	2005	Increase (Decrease)
Buildings	\$9,929,409	\$0	\$9,929,409
Furniture, Equipment Dwelling	25,505	0	25,505
Furniture, Equipment & Machinery – Admin	182,547	166,231	16,316
Construction in Progress	<u>171,722</u>	<u>42,237</u>	<u>129,485</u>
Subtotal	<u>10,309,183</u>	<u>208,468</u>	<u>10,100,715</u>
Accumulated Depreciation	<u>(7,605,380)</u>	<u>(131,782)</u>	<u>7,473,598</u>
Net Capital Assets	<u>\$ 2,703,803</u>	<u>\$ 76,686</u>	<u>\$ 2,627,117</u>

Housing Authority of the City of Manhattan, Kansas

Management's Discussion and Analysis (MD & A)

On January 3, 2006 the Housing Authority received deeds to all Housing Authority owned land and buildings. Items such as stoves and refrigerators are included in Administrative furniture, equipment and machinery. The Housing Authority owns the dwelling equipment such as stoves, refrigerators, furniture and other appliances.

The Construction in Progress increased by \$129,485 due to the difference of hard costs and soft costs for Capital Fund grants which are not closed out as of December 31, 2006.

List of Major Improvements:

During 2006 the Housing Authority was in the process of completing many repairs to buildings, units and exteriors through the Capital Fund Program. The Housing Authority repaired the handrail and concrete walkway at Carlson Plaza, replaced kitchen cabinets, stoves and refrigerators at Baehr Place, replaced entry doors at Carlson Plaza and resurfaced the parking lot at Carlson Plaza.

Debt:

At December 31, 2006 the Housing Authority had non-current liabilities of \$98,858. This consists of compensated absences and accrued Family Self Sufficiency Escrow accounts in Public Housing and the Housing Choice Voucher Programs. The Housing Authority does not have any long term debt in the form of bonds or notes.

Economic Factors

The Housing Authority is primarily dependent upon HUD for the funding of operations; therefore, the Housing Authority is affected more by the federal budget than by local economic conditions, although local economic conditions have affected the ability of Section 8 HCV clients to find suitable housing that meet program guidelines. The funding of programs could be significantly affected by the 2007 federal budget.

Contacting the Housing Authority's Financial Management

Our financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Housing Authority's finances and to show the Housing Authority's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact JoAnn R. Sutton, Executive Director, at the Housing Authority of the City of Manhattan, Kansas, PO Box 1024, Manhattan, KS, 66505-1024, telephone number (785) 776-8588, Ext. 106.