

Manhattan Housing Authority

Management Discussion & Analysis - 2010

Management's Discussion and Analysis (MD&A) is an element of the 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, 2010. 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

Current assets increased during the year from \$901,545 to \$1,012,119 and fixed assets increased from \$1,523,226 to \$1,978,266.

The Housing Authority's total assets reflect an increase during the year. Total assets increased from \$2,424,771 to \$2,990,385, an increase of \$565,614. As a small agency the Housing Authority has the ability to utilize 100% of its Capital Fund Program grant funds in Operations, which represents the majority of the increase in net assets.

Liabilities

Current liabilities increased from \$172,042 to \$180,550 and non-current liabilities decreased from \$46,230 to \$43,966. Non-current liabilities decreased due to a decrease in non-current compensated absences.

The Housing Authority's net liabilities increased from \$218,272 at year end in 2009 to \$224,516 at year end in 2010. This change can be largely attributed to an increase in current liability in regards to net of intra-program funds.

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Revenue

The Authority received Operating Subsidy and Capital Grants of \$2,399,547 for the year ended December 31, 2010 as compared to \$1,895,347 in the prior year. Congress appropriated more funds for operating subsidy in the current year for the Public Housing Program under the American Recovery and Reinvestment Act (ARRA) Capital Fund Programs. Tenant revenue increased by \$68,464 from the previous year due to fluctuations in tenant rent and an increase in flat rent and ceiling rents.

Expenses

Total actual operating expenses increased in 2010 from \$2,297,506 to \$2,448,408. In 2010, the Housing Authority experienced an increase in Utilities of \$22,027 due to increased utility costs, Routine Maintenance of \$117,393 due to an increase in overtime for staff and contract costs to turnover vacant units, and General Expenses of \$17,502 due to an increase of bad tenant debt. The Housing Authority realized decreases in Tenant services of \$21,453 and Protective Services of \$1,340. These decreases can be attributed to the reduction in work force under the Resident Opportunity and Self Sufficiency Grant and contract costs for protective services.

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.

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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, 2010.

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, 2010. The Statement of Changes in Net Assets summarizes the revenues and sources of those revenues generated during the year ended December 31, 2010 and the expenses incurred in operating the Housing Authority for the year ended December 31, 2010.

The Housing Authority accounts for its housing activities in five (5) 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 Section 8 Housing Choice Voucher program that provides rental assistance to qualified participants, and two Family Self-Sufficiency Programs 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.

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.

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	Net Assets		
	December 31, 2010		
	2010	2009	Increase (Decrease)
Current Assets, Net of Intra program	\$ 1,012,119	\$ 901,545	\$ 110,574
Capital Assets, Net of Depreciation	1,978,266	1,523,226	455,040
Total Assets	\$ 2,990,385	\$ 2,424,771	\$ 565,614
Current Liabilities, Net of Intra program	\$ 180,550	\$ 172,042	\$ 8,508
Non-Current Liabilities	43,966	46,230	(2,264)
Total Liabilities	\$ 224,516	\$ 218,272	\$ 6,244
Net Assets:			
Invested in Capital Assets, Net Of Related Debt	\$ 1,978,266	\$ 1,523,226	\$ 455,040
Restricted Assets	150,149	121,892	28,257
Unrestricted Assets	637,454	561,381	76,073
Total Net Assets	\$ 2,765,869	\$ 2,206,499	\$ 559,370
Expendable Fund Balance	\$ 668,400	\$ 525,985	\$ 147,386
No. of Months Expendable Balance	5.47	4.78	.69

A current asset is an asset on the balance sheet which is expected to be sold or otherwise used up in the near future, usually within one year, or one business cycle - whichever is longer. Typical current assets include cash, cash equivalents, accounts receivable, inventory, the portion of prepaid accounts which will be used within a year, and short-term investments.

A capital asset is an asset that is recorded on a balance sheet as capital - that is, property that creates more property and which produces a benefit that extends beyond the current tax year.

Total net assets increased by \$559,370 due to the ability to draw 100% of its Capital Fund monies upon receipt and defer capital expenses, and also due to the ability to utilize Capital Funds to supplement operating income and the addition of funding through the Capital Fund ARRA Program.

Total liabilities increased from \$218,272 to \$224,516, a difference of \$6,244. Current liabilities increased from \$172,042 to \$180,550 due to an increase in net of intra program.

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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 2010 was \$668,400 as compared to \$525,985 at the end of 2009, an increase of \$142,415 due to an increase in unrestricted cash. Average monthly expenses at the end of 2009 totaled \$109,361 compared to \$122,199 at the end of 2010. Unrestricted cash at the end of 2010 totaled \$748,084 compared to \$451,594 at the end of 2009.

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 remained fairly constant only increasing by .69 months. This increase is attributed to an increase in available cash.

**Changes in Net Assets
For the Year Ended December 31, 2010**

	2010	2009	Increase (Decrease)
Revenue:			
Tenant Revenue	\$ 488,155	\$ 419,691	\$ 68,464
Federal Grants & Subsidy	2,399,547	1,895,347	504,200
Investment Income	4,859	8,454	(3,595)
Gain or loss on the sale of fixed asset	-	-	-
Other Income/Fraud Recovery	147,671	158,819	(11,148)
Total Revenue	\$ 3,040,232	\$ 2,482,311	\$ 557,921
Expenses:			
Administrative	\$ 503,221	\$ 498,348	\$ 4,873
Tenant Services	32,941	54,394	(21,453)
Utilities	197,796	175,769	22,027
Routine Maintenance	537,417	420,024	117,393
General Expenses	152,472	134,970	17,502
Protective Services	11,723	13,063	(1,340)
Casualty Losses	16,209	6,758	9,451
Non-Routine Expenses	14,614	9,004	5,610
Depreciation	71,915	75,150	(3,235)
Housing Assistance Payments	910,100	910,026	74
Total Operating Expense	\$ 2,448,408	\$ 2,297,506	\$ 150,902
Increase (Decrease) in Net Assets	\$ 591,824	\$ 184,805	\$ 407,019

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Revenues:

The increase in revenue from Federal grants and subsidies is the result of more federal subsidies received in the Section 8 HCV program, an increase in Capital Fund Program funds drawn and the additional funding through the Capital Fund ARRA Program.

Other Income decreased by \$11,148 as a result of a decrease in income received through management and maintenance agreements with other agencies.

Tenant revenues increased \$68,464, mostly due to fluctuations in tenant rents due to the increase of ceiling and flat rents.

Tenant services expense decreased due to the salaries funded under the Resident Opportunities and Self Sufficiency (ROSS) grant were exhausted and these duties were re-allocated to other administrative staff.

General Expenses increased mostly due to an increase in bad tenant rents and other general expenses.

Routine maintenance increased by \$117,393 due to an increase in overtime for maintenance salaries and contract costs for unit turnovers. Administrative costs increased by \$4,873 due to an increase in administrative expenses.

Casualty losses increased by \$9,451 due to an increase in losses such as fire, theft or disaster over \$500.00.

Capital Assets

At December 31, 2010, the Housing Authority had \$1,978,266 invested in net capital assets. This amount represents a net increase of \$455,040

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 \$360,086 due to the difference of hard costs and soft costs for Capital Fund grants which are not closed out as of December 31, 2010.

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

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>
Buildings	\$ 7,476,978	\$ 7,320,978	\$ 156,000
Furniture, Equipment Dwelling	34,417	34,417	-
Furniture, Equipment & Machinery – Admin	156,540	145,671	10,869
Lease Hold Improvements	35,363	35,363	-
Construction in Progress	663,433	303,347	360,086
Subtotal	8,366,731	7,839,776	526,955
Accumulated Depreciation	(6,388,465)	(6,316,550)	71,915
Net Capital Assets	<u>\$ 1,978,266</u>	<u>\$ 1,523,226</u>	<u>\$ 455,040</u>

List of Major Improvements:

During 2010 the Housing Authority was in the process of completing many repairs to buildings, units and exteriors through the Capital Fund Program such as replacing carpet, upgrading shower valves at Apartment Towers, replacing storm and entry doors at Pottawatomie Court and Hudson Circle, as well as passage locks at Pottawatomie Court and Hudson Circle. The Housing Authority received \$468,163 additional Capital Fund Program funds through the ARRA grant to complete replacement of hot water heaters and heating and air conditioning units at Pottawatomie Court and Hudson Circle, replacement of trash compactor at Carlson Plaza, replacement of siding and gutters at Pottawatomie Court and Hudson Circle, replacement of the roof at Carlson Plaza and upgrade of the electrical panels at Baehr Place.

Debt:

At December 31, 2010 the Housing Authority had non-current liabilities of \$43,966. 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 Housing Choice Voucher clients to find suitable housing that meet program guidelines. The funding of programs could be significantly affected by the 2011 federal budget.

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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. 308.