

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR-4509-N-13]

Public Housing Assessment System Financial Condition Scoring Process

AGENCY: Office of the Director of the Real Estate Assessment Center, HUD.

ACTION: Notice.

SUMMARY: This Notice provides additional information to public housing agencies and members of the public about HUD's process for issuing scores under the Financial Condition Indicator of the Public Housing Assessment System (PHAS), including GAAP-based threshold values and associated scores for each Financial Condition Indicator component and peer group based on the data pool as of June 30, 1999.

This notice is an update of the Financial Condition Scoring Process notice on scoring that was published on June 23, 1999. This notice takes into consideration public comment received on the June 23, 1999 notice and reflects the changes made to the PHAS regulations published on January 11, 2000, with certain corrections published on June 6, 2000. The changes made to this notice are discussed in the Supplementary Information section of this notice.

FOR FURTHER INFORMATION CONTACT: For further information contact Wanda Funk, the Real Estate Assessment Center, Department of Housing and Urban Development, 1280 Maryland Avenue, SW, Suite 800, Washington, DC 20024; telephone Technical Assistance Center, 1-888-245-4860 (this is a toll free number). Persons with hearing or speech impairments may access that number via TTY by calling the Federal Information Relay Service at (800) 877-8339. Additional information is available from the REAC Internet Site <http://www.hud.gov/reac>.

SUPPLEMENTAL INFORMATION

Background

HUD published the first Public Housing Assessment System; Financial Condition Scoring Process Notice in the *Federal Register* (64 FR 26222) on May 13, 1999. On June 23, 1999, HUD republished the Notice (64 FR 33700) to coincide with the June 22, 1999, publication of the Public Housing Assessment System proposed rule. In the June 23, 1999, Notice, HUD stated that any changes to the scoring process and any modifications to the thresholds will be communicated through a subsequent Federal Notice. Accordingly,

this Notice updates the June 23, 1999 Notice, and provides detailed information on the changes to the Financial Condition Scoring Process Notice. By this Notice, HUD is:

- Adding an extra-large size PHA category for the entity-wide assessment only
- Revising the scoring methodology for the Expense Management component, including the addition of regional peer groups and a weighted average scoring approach.
- Changing the calculation of Unit Months Available for the Occupancy Loss component to allow for additional exemptions.
- Modifying the scoring penalty for PHAs with too high reserves and/or liquidity.
- Changing the Net Income component threshold level.
- Scoring Low Rent-only program for first year of scoring, with Entity-Wide scoring thereafter.
- Changing financial submission deadlines.
- Eliminating the "marginal" PHA designation level in order to be consistent with the PHAS Rule.
- Changing the schedule for reevaluation of thresholds.

These changes have been made based on the industry comments HUD received on the June 22, 1999, Public Housing Assessment System proposed rule, and on the input from the industry obtained during discussions by and among representatives from HUD, the PHAs, and industry groups.

More specifically, the changes identified above are as follows:

Extra Large Size Category

Each PHA is awarded points according to its performance relative to its peers. Peer groupings are established based on the number of units operated by the PHA. Since the publication of the June 23, 1999, Financial Condition Scoring Process Notice, the REAC has determined that there is a statistically significant difference between those PHAs administering between 1,250 and 9,999 units and those PHAs administering 10,000 or more units. Based on these statistical analyses, including the running of the Wald-Wolfowitz and Kolmogorov-Smirnov tests, the REAC has concluded that there is sufficient statistical validity to support adding an extra-large size category for those PHAs administering more than 10,000 units. The REAC has left unchanged the other five size peer groupings. This only applies to the entity-wide assessment because there are not sufficient statistical observations for low-rent only scoring to differentiate an extra-large size category.

Expense Management/Utility Consumption Component

The Expense Management/Utility Consumption (EM/UC) component

measures the ability of a PHA to maintain its expense ratios at a reasonable level relative to its peers. Two changes have been made to this component. REAC's statistical analysis has shown that certain expenses vary substantially depending upon the region of the country in which the PHA resides. Therefore, in order to have a more equitable assessment of a PHA's expenses relative to its peers, REAC has developed new regional peer groupings for the EM/UC component, to supplement the size-based peer groups. Thus, a PHA will now be scored on EM/UC against a threshold that is calculated from all expense data in that PHA's similar size group and region. The regions have been based on the first number of the PHA's zip code.

The second change that has been made to the EM/UC component is in the scoring approach. Previously, PHAs that were beyond the threshold on any one of the expense categories that comprised the EM/UC component received zero points for EM/UC. The revised scoring methodology instead uses a weighted average of all the expenses that comprise the EM/UC component and assigns points based on this summed amount. Thus, a PHA may have high expenses in one category, but may still receive 1.5 points if its other expenses are reasonable relative to its peers. The weighted averages chart shown below is reproduced in Appendix 1.

Expense category	Weight
Administrative	.34
General Expenses	.33
Ordinary Maintenance	.10
Protective Services	.10
Tenant Services	.10
Utilities	.03
Total	1.00

Occupancy Loss Component

The Occupancy Loss component of the Financial Condition Indicator measures the unit months leased as a percentage of total unit months available. In order to obtain a fully verifiable measure of this component, REAC originally allowed no exemptions to be taken for units held off-line by the PHA, as it was difficult to ensure the validity of the number of units or their intended use. However, following discussions with the industry, it is believed that allowing no exemptions may discourage PHAs from making decisions that improve their housing projects, such as modernizing units or providing resident services, such as day care facilities. Therefore, PHAs, when reporting their occupancy information

on the FDS for Unit Months Available, may exclude vacant units approved by HUD to be taken off-line for demolition, conversion, on-going modernization, and non-dwelling units.

The change to the Occupancy Loss Component is set forth in Appendix 1.

Modification to Current Ratio and Months Expendable Fund Balance Scoring

The scoring methodologies for the Current Ratio (CR) and Months Expendable Fund Balance (MEFB) components of the Financial Condition Indicator award slightly less points to PHAs whose ratios indicate that their liquidity and/or expendable fund balance are too high. These PHAs fall beyond the 80th percentile of the peer group distribution of CR and/or MEFB values respectively. These PHAs can lose up to 1.5 points out of the 9 possible points for each of the two indicators. This system was established because HUD believes that PHAs with too high expendable fund balance and liquidity could be better utilizing their resources to improve the quality of housing or services to their residents. However, in recognition of PHAs who are performing well in their quality of housing and resident services, HUD has modified this scoring methodology. REAC will restore any points lost by PHAs for falling beyond the 80th percentile if:

- The PHA is a high performer under the Physical Assessment Subsystem, and
 - The PHA is not required to submit a follow-up plan under the Resident Satisfaction Assessment Subsystem.
- The points restored will be added to the total PHAS score.

The modification of the scoring penalty has been incorporated into Appendix 1.

Change to Net Income Component Threshold Level

The Net Income (NI) component previously had a threshold of -10% ; *i.e.* a PHA with a net loss for the year and positive expendable fund balance (EFB), and whose net loss was greater than 10% of its reserve (EFB) level would receive zero points. HUD recognizes that at times it is necessary for a PHA to draw down from its reserves (EFB) to take measures to improve its financial position. This action would, however, result in a less favorable NI ratio. Therefore, in order to provide more flexibility to PHAs in

these measures, HUD has changed the NI threshold to -20% ; *i.e.* a PHA with a net loss for the year and positive EFB is allowed to have loss up to 20% of its EFB levels before any point deductions are made to the NI component.

This change to the Net Income component threshold level is incorporated in the indicator discussions in Appendix 1.

Low Rent-Only Assessment Versus Entity-Wide Assessment

As a result of discussions among representatives from HUD, PHAs and industry groups, REAC has modified the first four quarters of scores to produce both low rent and entity-wide financial assessments. The Non-GAAP Advisory Scores that have been produced for PHAs from 9/30/98 through 6/30/99 have been based on financial information for PHAs' Low Rent Program only. The GAAP-based scoring of PHAS is intended to capture an assessment of the financial condition of a PHA as a whole, which would incorporate all program activities, *i.e.* an entity-wide assessment. However, in order to provide a parallel basis for comparison, the REAC has modified the assessment for the first year of scores. The first four quarters of scores (9/30/99 fiscal year ends through 6/30/00 fiscal year ends) will be based on GAAP Low Rent-only information. For the first three quarters, these scores will be advisory; for the last quarter, this score will be enforceable. GAAP-based Entity-wide scores will also be produced, but used for advisory purposes only during the first four quarters. Thereafter, all scores will be based on an entity-wide assessment.

There are two primary differences between the low rent only and the entity wide assessments. First, each assessment uses a different unit count for a PHA (low rent only units v. all program units), which may result in a PHA falling into different size peer groups depending on the level of its other program activity. Second, the low rent only assessment includes inter-program due from and due to line items as part of current assets and current liabilities. However, for the entity-wide assessment, these line items net to zero and thus are not included in neither the assets nor the liabilities for purposes of the overall assessment.

Financial Submission Deadlines

PHAs with fiscal years ending September 30, 1999, and later, are

required to submit their unaudited financial data electronically using the Financial Data Schedule (FDS) within two months of their fiscal year end. Because of the conversion to GAAP reporting, HUD will provide additional time for submission of the FDS for PHAs to ensure the most accurate GAAP reporting possible. For the first four quarters of reporting (9/30/99, 12/31/99, 3/31/00, and 6/30/00), every PHA will receive an automatic one month extension for submission of the FDS. Following the first four quarters, PHAs must submit within two months of their fiscal year end, with a 15 day grace period.

Removal of Marginal Designation Level

The previous performance designation levels included a marginal designation for PHAs that received between 18 and 21 points out of the total 30 points attainable for the Financial Condition Indicator. This designation has been removed from the PHAS rule. The new performance designations are as follows:

Points received	Designation
Less than 18	Troubled.
18 to 27	Standard.
27 or more	High.

The performance designations are set forth in § 902.67 of the PHAS rule, published in the **Federal Register** on January 11, 2000.

Threshold Reevaluation Schedule

The June 23, 1999 Financial Condition Scoring Process Notice indicated that thresholds would be reassessed on a quarterly basis. This schedule has been modified. See Appendices 2 and 3 for the thresholds. The thresholds listed in this Notice, which are based on a sample of PHAs reporting under GAAP prior to 9/30/99, will be used for all unaudited and audited financial submissions through June 30, 2000. At that point the thresholds will be reevaluated based on the full year's worth of unaudited and available audited GAAP data. Thereafter, REAC plans to keep the reevaluated thresholds constant for a three year period, unless there is a need for revisions.

The chart below shows the six components that constitute the Financial Condition Indicator and their assigned points.

FINANCIAL CONDITION INDICATOR

Scoring components	Measurement	Points
Current Ratio (CR)	Liquidity	9.0
Number of Months Expendable Fund Balance (MEFB) ...	Adequacy of Reserves	9.0
Tenant Receivables Outstanding (TRO)	Ability to collect payments of tenant receivables	4.5
Occupancy Loss (OL)	Ability to maximize rental income	4.5
Expense Management (EM)/ Utility Consumption	Ability to maintain expense ratios at a reasonable level relative to peers (adjusted for size and region).	1.5
Net Income or Loss as a percentage of Expendable Fund Balance (NI).	Profitability measured against the current year's operations	1.5

The values of the six components of the Financial Condition Indicator calculated from the financial data comprise the overall financial assessment of the PHA. The components and their relative importance to the total financial score are the result of studies of PHA financial performance and of industry portfolio management techniques to identify the most appropriate financial measures to gauge a PHA's financial position. These components represent measures that are appropriate benchmarks in any residential real estate environment. The score assigned to each component is based on the distributions of that component's values and the relative relationship between the components and the PHA's overall financial performance.

Under the PHAS, the components that make up the Financial Condition Indicator are approached in the same manner for GAAP as they were for non-GAAP financial information although the thresholds may change as a result of the conversion to GAAP. For example, a good Current Ratio under the current basis of accounting (non-GAAP) for a small PHA may be 6 to 1 and receive the maximum 9 points. In contrast, under GAAP a good Current Ratio may be 5 to 1 and also get the maximum 9 points. Thus, to the extent that a PHA's performance relative to its peers does not change, its score will not be significantly affected by the conversion to GAAP. The GAAP conversion schedule by a PHA's fiscal year end, shown below, is reprinted from the PHAS final rule published on September 1, 1998.

GAAP CONVERSION SCHEDULE

Fiscal year end dates for PHAS	Unaudited GAAP financial data to HUD by—	Audit reports due to HUD by—
9/30/99	11/30/99	6/30/00
12/31/99	2/28/00	9/30/00
3/31/00	5/31/00	12/31/00
6/30/00	8/31/00	3/31/01

Reporting Method

PHAs with fiscal years ending September 30, 1999, and later, must submit their unaudited financial data electronically using the Financial Data Schedule (FDS), within two months of their fiscal year end. For the first four quarters of reporting (9/30/99, 12/31/99, 3/31/00, and 6/30/00), each PHA has an automatic one month extension to submit the FDS. Following the first four quarters, PHAs must submit the FDS within two months of their fiscal year end, with a 15 day grace period. All submissions will be reviewed by REAC for completeness and reasonableness. To the extent that an audit is required for a PHA under OMB Circular A-133, or the PHA elects to have a financial statement audit pursuant to 24 CFR part 902, a PHA will submit its audited data using the FDS within nine months of the fiscal year end.

Program Funds

The PHAS financial assessment is intended to be based on the entity-wide operations of a PHA, which includes financial information on Section 8, Community Development Block Grants, and other HUD funding in its calculations, as well as funds from non-HUD sources. However, in order to provide a parallel basis for comparison with the non-GAAP advisory scores produced during FY 1999, which have been based on PHAs' Low Rent program only, for the first four quarters of scores (9/30/99 fiscal year ends through 6/30/00 fiscal year ends), REAC will produce scores based on GAAP Low Rent information only.

For the first three quarters, these scores will be advisory; for the last quarter, this score will be enforceable. GAAP-based entity-wide scores will also be produced over all four quarters, but used for advisory purposes only during this time. Thereafter, all scores will be enforceable and will be based on an entity-wide assessment only. This assessment schedule is summarized below:

Quarter	Financial condition	
	Low-rent	Entity-wide
9/30/99	Advisory	Advisory.
12/31/99	Advisory	Advisory.
3/31/00	Advisory	Advisory.
6/30/00	Score	Advisory.
9/30/00 and beyond.	N/A	Score.

While the two assessments remain primarily the same, the assessment of the low rent program only requires a different treatment of inter-program transfers of funds. In the entity wide assessment, inter-program transfers are not a factor because any "due to" amounts are balanced out by equal amounts "due from" other programs. In the assessment of the low rent program only, though, any funds borrowed from or lent to other programs must be taken into account as either a current asset or current liability for the low rent program. These line items are therefore included in the calculation of the Current Ratio, Months Expendable Fund Balance, and Net Income indicators in the low rent only scoring.

Scoring Approach

Under PHAS, the components of the PHAS Financial Indicator were developed to both fairly and accurately assess a PHA's financial performance and financial management. As part of the development, the components were tested to establish the correlation between PHA performance under each component and the fiscal health of a PHA. PHAs were evaluated and assigned scores based on a PHA's performance relative to its peers. In other words, all PHAs as a group determine the mean score and each PHA is then ranked accordingly. This peer assessment approach, which was formulated following extensive economic and financial analysis, examination of well-accepted business principles, and discussions with PHA industry representatives and PHA staff, provides an equitable means of measuring the financial performance of PHAs.

Comparable Scoring Systems

The HUD Peer Assessment system is not unique to REAC. Companies in the mortgage housing and securities industry, and federal agencies utilize similar systems in assessing their constituents. In the mortgage housing and securities industries, Fannie Mae, the mortgage housing industry leader, developed an assessment system with financial indicators similar to those contained in HUD's financial assessment of PHAs. These indicators include vacancy, reserve balances, and net income. Like HUD, Fannie Mae uses these indicators to rank properties and identify those which require further attention. In the securities area, Standard & Poor's conducts peer assessment of a company's operational capabilities and cash flows relative to their peers. Among federal agencies, the Department of Health and Human Services (HHS) contracts with state and local entities to perform financial audits of nursing homes and hospitals participating in the federal Medicare program.

Based on these financial audits, HHS determines the continued eligibility of these health service providers in the Medicare program.

GAAP Scoring Processes

GAAP-based scores are produced using data contained in the Financial Data Schedule (FDS). The GAAP-based financial data are first used to calculate the six financial components that measure various aspects of financial health, such as short term liquidity, expense management/utility consumption, and collection of tenant receivables. Each PHA is awarded points for each component according to its performance relative to its peers. Peer groupings are established according to the size of the PHA, based on the total number of units operated by the PHA, and for the expense management component, the geographic region in which it falls.

Since the June 23, 1999 publication of the **Federal Register** Notice on the Public Housing Assessment System Financial Condition Scoring Process, the REAC has determined that there is a statistically significant difference between those PHAs administering between 1,250 and 9,999 units and those PHAs administering 10,000 or more units. Thus, a new PHA size category has been added. The new size peer groupings are as follows:

Very Small (0–49 units)
Small (50–249 units)
Low Medium (250–499 units)
High Medium (500–1,249 units)

Large (1,250–9,999 units)
Extra-Large (10,000+ units)

The size group in which a PHA falls may vary between the entity wide and the low rent scoring approaches. The entity wide assessment uses all units to designate a PHA's size category, whereas the low rent assessment counts only low rent units in the designation of size category. Thus, depending on each PHA's activity level in programs besides low rent, it may stay in the same size group or fall to a smaller size group for the purposes of the low rent assessment. In addition, because of this change in size category designation for a number of the PHAs, there was no longer a statistical distinction between the extra large and large size groups. Therefore, for the purposes of low rent only scoring, large and extra-large PHAs are scored using the same thresholds.

In order to have a more equitable assessment of a PHA's expenses relative to its peers, REAC has developed new regional peer groupings for the expense management/utility consumption component, to supplement the size-based peer groups already in place. Thus, a PHA will now be scored on EM/UC against a threshold that is calculated from all expense data in that PHA's similar size group and region.

The regions have been based on the first number of the PHA's zip code, and are divided as follows:

Re- gion	States
0	CT, MA, ME, NH, NJ, RI, VT
1	DE, NY, PA
2	DC, MD, NC, SC, VA, WV
3	AL, FL, GA, MS, TN, RQ (including Virgin Islands)
4	IN, KY, MI, OH
5	IA, MN, MT, ND, SD, WI
6	IL, KS, MO, NE
7	AR, LA, OK, TX
8	AZ, CO, ID, NM, NV, UT, WY
9	AK, CA, HI, OR, WA, GQ

Thresholds

A PHA is assigned a score for each of the six components of the Financial Indicator based on its component value relative to its peers. The minimum number of points (zero) and the maximum number of points can each be achieved over a range of values. For example, on the current ratio, large PHAs receive zero points for a ratio that is less than one, while they receive nine points for a ratio between 2.3 and 3.6. Therefore, PHAs can target one range of values that they want to avoid and target one range that they should strive to achieve. Aside from these ranges, points are assigned to component values along a continuous line. This means that each

component value will receive a different number of points.

This system ("continuous scoring") ensures that points are awarded equitably to PHAs along the distribution of component values because, in most cases, small differences in component values result in only small differences in the scores of the individual components. Therefore, two PHAs of a similar size whose values for their financial condition components are in close proximity will receive only slightly different scores to capture their performance relative to each other. For example, a large PHA with a current ratio of 1.1 would receive 4.4 points, while a PHA of the same size with a ratio of 1.2 would receive 4.8 points.

The number of points assigned to each component value or range of values is based on where the thresholds for that component are set. The thresholds separate distinct ranges of scores along the distribution of component values. The thresholds and their associated scores are estimated based on well-accepted business principles and statistical distributions of values within the peer groupings of the PHAs.

Business Principles

Scoring of certain of the components follows generally recognized business principles. These principles indicate that there are certain absolute thresholds below which component values are clearly financially unacceptable and component values below that point should result in a score of zero. These principles are used in scoring the Current Ratio and Number of Months Expendable Fund Balance components. For both of these components, a value of less than one is financially unacceptable, regardless of PHA size, and therefore merits a score of zero.

Statistical Distributions

The thresholds are estimated by examining the distributions of component values by peer group. For the four most significant components (Current Ratio, Number of Months Expendable Fund Balance, Days Receivable Outstanding, and Occupancy Loss), thresholds are set such that approximately 50 percent of the distribution receives the maximum number of points, as long as 50 percent of the distribution have acceptable values for the component. Thus, the highest number of points is awarded to the PHAs whose financial measures are most reasonable both relative to their peers and in an absolute business sense. The specific percentiles that make up

this 50 percent of PHAs are established by identifying natural breakpoints along the distributions. For example, for the Current Ratio and Number of Months Expendable Fund Balance, these breakpoints fall at approximately the 30th and 80th percentiles. The remaining two components (Expense Management and Net Income as a Percentage of Fund Balance) assign zero points to PHAs that fall only in the extreme outer ranges of the distribution of values, and award 1.5 points to the remaining PHAs. The scoring functions and thresholds derived from these distributions can be found in Appendices 1, 2, and 3.

Audit Adjustments

There are two types of adjustments related to financial audit information. The first type deals with the audit flags and reports that result from the audit itself. Reportable conditions and material weaknesses are considered to be audit flags, alerting REAC to an internal control weakness or an instance of noncompliance with Federal laws and regulations. The second adjustment deals with material differences between the unaudited and audited financial information reported to HUD.

Audit Opinion and Flags

As part of the analysis of the financial health of a PHA including assessment of the potential or actual waste, fraud or abuse at a PHA, HUD will look to the Audit Report to provide an additional basis for accepting or adjusting financial component scores. (See 63 FR 46607, September 1, 1998) The information collected from the annual audit report pertains to the type of audit opinion, details of the audit opinion, and the presence of reportable conditions and material weaknesses.

If the auditor's opinion is anything other than unqualified, points will be deducted from the financial components to determine the PHA's financial score. The points to be deducted have been established by REAC using a system that considers the seriousness of the audit qualification and limits the deducted points to a reasonable portion of the PHA's available score.

REAC will review audit flags to determine their significance as it directly pertains to the assessment of the PHA's financial condition. If the flag has no effect on the financial components or the overall financial condition of the PHA as it relates to the PHAS assessment, the score will not be adjusted. However, if the flags have an

impact on the PHAS assessment, the PHA's financial component score will be adjusted, in accordance with the seriousness of the reported finding.

These flags are collected by using the OMB A-133 Data Collection Form. The PHA completes this form for both the unaudited and audited submissions. At the time of the unaudited submission the form is used as a self-assessment tool and should reflect the PHA's knowledge of their financial and internal control condition and should acknowledge their understanding of what the auditor will report. In the PHAS final rule, published September 1, 1998, HUD discussed the review of audit and internal control flags as follows, and also included the following chart. (See 63 FR 46607, September 1, 1998).

Type of flag	PHAS points deducted
Unqualified Opinion	0
No audit opinion	30
Adverse opinion	30
Disclaimer of opinion	30
Qualified opinion	(*)
Going concern opinion	30
Material weakness in internal control	(*)
Reportable condition	(*)
Findings of non-compliance and/or questioned costs	(*)
Indicator outlier analyses	(*)

* Note: See table titled "Audit Flags and Tier Classification" for PHAS points to be deducted

If the OMB A-133 Data Collection Form indicates that the auditor's opinion will be anything other than unqualified, PHAS will automatically deduct the appropriate points based on the above table. The points have been established by REAC using a three-tier system. The tiers are meant to give consideration to the seriousness of the audit qualification and to limit the deducted points to a reasonable portion of the PHA's total, actual score. The tiers, as established by REAC, are also defined below.

AUDIT FLAG TIERS

Tier	PHAS points deducted
Tier 1	Maximum reduction: Lesser of 30 points or 100 percent of the PHA's total unadjusted PHAS score.
Tier 2	Maximum reduction: Lesser of 3 points or 10 percent of the PHA's total unadjusted PHAS score.

AUDIT FLAG TIERS—Continued

Tier	PHAS points deducted
Tier 3	Maximum reduction: Lesser of 1.5 points or 5 percent of the PHA's total unadjusted PHAS score. This maximum is cumulative and not to be assessed for each audit or internal control flag.

Review of Audited Versus Unaudited Submission

The purpose of a comparison of the ratios and scores resulting from the current year's unaudited Financial Data Schedule submission to the ratios and scores resulting from the current year's audited submission is to:

Identify material changes in ratio calculation results and/or scores from the unaudited submission to the audited submission;

Identify PHA's that consistently provide materially different data from their unaudited submission to their audited submission;

Assess or alleviate penalties associated with the inability to provide reasonably accurate unaudited data within the required time period.

This review process will only be performed for the audited submission.

Materiality and Penalty Assessment

REAC views the transmission of materially inaccurate unaudited financial data as a serious condition. Therefore, PHAs are encouraged to assure financial data is as reliable as possible at the 2 month submission.

A materiality penalty will be assessed for material differences between the unaudited and audited submissions. A material change is considered to be an overall FASS score decrease of three or more points from the unaudited to audited submission. The PHAS system automatically deducts the applicable points and this reduction triggers the REAC analyst's review.

REAC may waive the materiality penalty if the PHA provides reasonable documentation of the material difference in its submission.

A materiality penalty is considered a Tier 3 audit flag, and will result in a reduction of points as associated with all other Tier 3 audit flags.

The table below summarizes the audit flags and associated tier classifications.

AUDIT FLAGS AND TIER CLASSIFICATIONS

Audit flag	Tier classification
Unqualified opinion	None.
No audit opinion	Tier 1.
Adverse opinion	Tier 1.
Disclaimer of opinion	Tier 1.
Qualified opinion:	
1. GAAP qualifications:	
• Change in accounting principle	Tier 3.
• Change in accounting estimate	Tier 3.
• Change in accounting method	Tier 3.
• Departures from GAAP	Tier 2.
Financial statements using basis other than GAAP	Tier 1.
Exclusion of alternate accounting for an account or group of accounts	Tier 2.
Inconsistently applied GAAP	Tier 2.
Omissions/Inadequate Disclosure	Tier 2.
2. GASS—Scope Limitations	Tier 2.
• Imposed by management	Tier 2.
• Imposed by circumstance	Tier 3.
• Year 2000 (add back)	Tier 3.
3. Report on major program compliance	Tier 3.
4. Report on internal control	Tier 3.
Accounting principles used caused the financial statements to be materially misstated	Tier 2.
Inadequate records	Tier 2.
Going concern	Tier 1.
Material noncompliance disclosed	Tier 2.
• Internal control weakness	Tier 3.
• Compliance	Tier 3.
• Opinion on Supplemental schedules	Tier 3.
Reportable condition:	
• Internal control	Tier 3.
• Compliance	Tier 3.

Appendices

The graphs shown in Appendix 1 depict the approximate GAAP-based scoring functions used for each of the six components of the Financial Indicator. Appendices 2 and 3 provide revised GAAP-based threshold values and associated scores for each component and peer group, based on the GAAP data pool as of June 30, 1999. Appendix 2 provides the GAAP-based thresholds that will be used for Low

Rent-only scoring. Appendix 3 provides the GAAP-based thresholds that will be used for the entity-wide scoring.

These thresholds, which are based on a sample of PHAs reporting under GAAP prior to 09/30/99 will remain in effect for all *unaudited* and *audited* PHA financial submissions for PHAs through fiscal years ending June 30, 2000. At that time, the thresholds will be reevaluated based on a full year of *unaudited* GAAP data and available *audited* data to ensure their statistical

validity. Any revisions will be communicated through a Notice. Thereafter, REAC plans to keep the reevaluated thresholds constant for a three year period, unless it finds a need for revisions, at which time REAC will again make the revisions known by way of a Notice.

Dated: June 20, 2000.

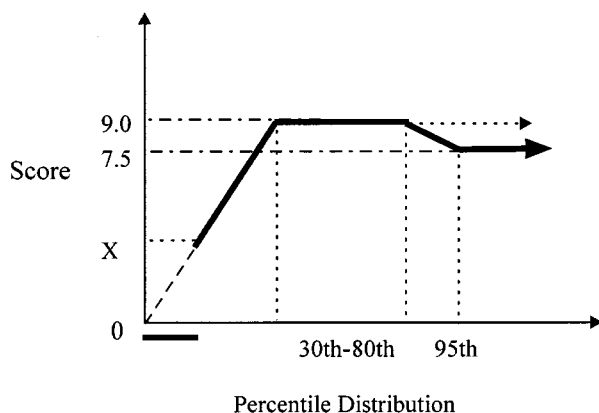
Donald J. LaVoy,

Director, Real Estate Assessment Center.

BILLING CODE 4210-01-P

Appendix 1 – Graphs of GAAP-based Financial Indicators

Graph 1: Financial Indicators #1 & #2: Current Ratio & Months Expendable Funds Balance



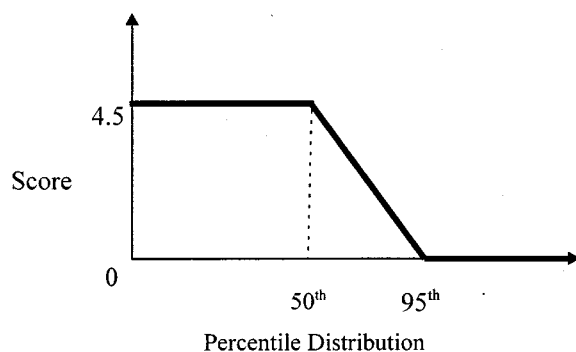
The scoring structure depicted above is established based on the distribution of data for each peer group. For both CR and MEFB, a PHA receives zero points when the calculated ratio is less than one. With a value of one, they receive X points, which is determined by the distribution of the data, and therefore varies by size category. The maximum number of points is received between approximately the 30th and 80th percentiles. PHAs with values falling beyond the upper bound of this range receive incrementally fewer points. This reduction in points was established because HUD believes that PHAs with too high reserves and liquidity may be better utilizing their resources to improve the quality of housing or services to its residents.

However, in recognition of PHAs who are performing well in their quality of housing and resident services, HUD has modified this scoring methodology. If a PHA:

- has lost points in the Financial Assessment as a result of having too high reserves and/or liquidity (i.e. falling to the right of the 80th percentile), AND
- is a high performer under the Physical Assessment Subsystem, AND
- is not required to submit a follow-up plan under the Resident Satisfaction Assessment Subsystem

then these lost points will be restored.

Graph 2: Financial Indicators #3 & #4: Occupancy Loss & Tenant Receivables Outstanding

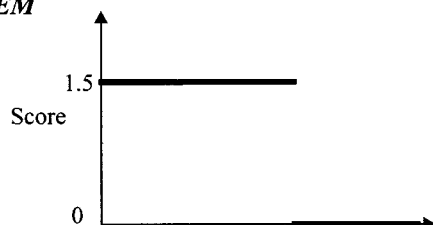


For OL and DRO, the maximum number of possible points is 4.5, which is received up to approximately the 50th percentile. For values beyond approximately the 95th percentile, the PHA receives zero points.

For the OL calculation, the PHA may exclude the vacant units approved by HUD to be taken off-line for ongoing modernization, conversion, non-dwelling purposes, or demolition.

Graph 3: Financial Indicators #5 & #6: Expense Management & Net Income

EM



NI

	Negative Reserves	Positive Reserves
Positive Profits	I. Positive Profits, Negative Reserves Score = 1.5	III. Positive Profits and Positive Reserves Score = 1.5
Negative Profits	II. Negative Profits and Negative Reserve Score = 0	IV. Negative Profits and Positive Reserves If there at least \$20 of Reserve for every \$1 of Loss, then score = 1.5. If there less than \$20 of Reserve for every \$1 of Loss, then score = 0.

For both EM and NI, a PHA can receive either 1.5 or zero points.

EM:

There are six expense categories that comprise EM. A PHA's per unit, per month expense amount in each category is multiplied by the weights listed below, and summed to produce a weighted average. This summed number is compared to the threshold for that PHA's size and regional peer group. Each cross-section of size and region has one threshold that is set at 1.645 standard deviations (approximately the 95th percentile) from the mean of the distribution in that group. If the PHA's weighted average expense amount falls below the threshold, it receives 1.5 points; above the threshold, it receives zero points. With this weighted average methodology, a PHA may have high expenses in one category, for example, but may still receive 1.5 points if its other expense categories are reasonable relative to its peers. The weights are as follows:

Expenses	Percent Weight
Administrative Expense	34%
General Expense	33%

Tenant Service Expense	10%
Protective Service Expense	10%
Maintenance & Operation Expense	10%
Utilities Expense	3%
<i>Total</i>	100%

For example: The following PHA is in the Extra Large size category, is geographically located in region 0, and has the following expense totals:

Expense	Amount	Weighted Average
Administrative Expense	\$115	.34 * \$115 = \$39.10
General Expense	\$105	.33 * \$105 = \$34.65
Tenant Services	\$15	.10 * \$15 = \$1.50
Protective Service Expense	\$20	.10 * \$20 = \$2.00
Maintenance & Operation Expense	\$45	.10 * \$45 = \$4.50
Utilities Expense	\$150	.03 * \$150 = \$4.50
TOTAL		\$86.25

The threshold for an Extra Large PHA in Region 0 is \$105. Because the PHA has a weighted average expense total that is less than the applicable threshold, the PHA receives the full 1.5 points.

NI:

All PHAs that have a net income for the year receive the full score. If a PHA reports a net loss for the year, and has a positive expendable funds balance, as long as the loss does not exceed 20% of the EFB, the PHA will also receive the full score. This 20% threshold does not vary by region or size.

Appendix 2 – Threshold Tables for Low-Rent GAAP Scoring

These tables can be interpreted in the following manner:

- o Identify a size category for an indicator;
- o The rows under that size category identify ranges of possible values for that indicator; and
- o The column to the right labeled “Score” identifies the score or range of scores that is awarded to each range of indicator value for that size category.

Current Ratio (CR)							
Very Small	Score	Small	Score	Low Medium	Score	High Medium	Score
CR<1	0	CR<1	0	CR<1	0	CR<1	0
CR=1	2.1	CR=1	2.3	CR=1	1.9	CR=1	2.1
1<CR<4.2	2.1<Score<9	1<CR<3.9	2.3<Score<9	1<CR<4.6	1.9<Score<9	1<CR<4.2	2.1<Score<9
4.2≤CR≤12.0	9	3.9≤CR≤11.3	9	4.6≤CR≤9.7	9	4.2≤CR≤9.3	9
12.0<CR<16.6	9>Score>7.5	11.3<CR<15.6	9>Score>7.5	9.7<CR<12.7	9>Score>7.5	9.3<CR<12.3	9>Score>7.5
CR≥16.6	7.5	CR≥15.6	7.5	CR≥12.7	7.5	CR≥12.3	7.5

Current Ratio (CR)			
Large	Score	Extra Large	Score
CR<1	0	CR<1	0
CR=1	4.4	CR=1	4.4
1<CR<2.0	4.4<Score<9	1<CR<2.0	4.4<Score<9
2.0≤CR≤5.0	9	2.0≤CR≤5.0	9
5.0<CR<6.8	9>Score>7.5	5.0<CR<6.8	9>Score>7.5
CR≥6.8	7.5	CR≥6.8	7.5

Months Expendable Fund Balance (MEFB)							
Very Small	Score	Small	Score	Low Medium	Score	High Medium	Score
MEFB<1	0	MEFB<1	0	MEFB<1	0	MEFB<1	0
MEFB=1	1.7	MEFB=1	1.8	MEFB=1	1.9	MEFB=1	1.6
1<MEFB<5.4	1.7<Score<9	1<MEFB<5.1	1.8<Score<9	1<MEFB<4.8	1.9<Score<9	1<MEFB<5.7	1.6<Score<9
5.4≤MEFB≤12.3	9	5.1≤MEFB≤11.0	9	4.8≤MEFB≤9.2	9	5.7≤MEFB≤15.4	9
12.3<MEFB<16.5	9>Score>7.5	11.0<MEFB<14.5	9>Score>7.5	9.2<MEFB<11.7	9>Score>7.5	15.4<MEFB<21.1	9>Score>7.5
MEFB≥16.5	7.5	MEFB≥14.5	7.5	MEFB≥11.7	7.5	MEFB≥21.1	7.5

Months Expendable Fund Balance (MEFB)			
Large	Score	Extra Large	Score
MEFB<1	0	MEFB<1	0
MEFB=1	2.9	MEFB=1	2.9
1<MEFB<3.2	2.9<Score<9	1<MEFB<3.2	2.9<Score<9
3.2≤MEFB≤7.6	9	3.2≤MEFB≤7.6	9
7.6<MEFB<10.2	9>Score>7.5	7.6<MEFB<10.2	9>Score>7.5
MEFB≥10.2	7.5	MEFB≥10.2	7.5

Days Receivable Outstanding (DRO)							
Very Small	Score	Small	Score	Low Medium	Score	High Medium	Score
DRO ≤ 2	4.5	DRO ≤ 6	4.5	DRO ≤ 6	4.5	DRO ≤ 9	4.5
2<DRO<7	4.5>Score>0	6<DRO<18	4.5>Score>0	6<DRO<15	4.5>Score>0	9<DRO<26	4.5>Score>0
DRO ≥ 7	0	DRO ≥ 18	0	DRO ≥ 15	0	DRO ≥ 26	0

Days Receivable Outstanding (DRO)			
Large	Score	Extra Large	Score
DRO $\leq$ 14	4.5	DRO $\leq$ 14	4.5
14 < DRO < 33	4.5 > Score > 0	14 < DRO < 33	4.5 > Score > 0
DRO $\geq$ 33	0	DRO $\geq$ 33	0

Occupancy Loss (OL)							
Very Small	Score	Small	Score	Low Medium	Score	High Medium	Score
OL $\leq$ 4%	4.5	OL $\leq$ 5%	4.5	OL $\leq$ 4%	4.5	OL $\leq$ 4%	4.5
4 < OL < 12%	4.5 > Score > 0	5 < OL < 14%	4.5 > Score > 0	4 < OL < 10%	4.5 > Score > 0	4 < OL < 13%	4.5 > Score > 0
OL $\geq$ 12%	0	OL $\geq$ 14%	0	OL $\geq$ 10%	0	OL $\geq$ 13%	0

Occupancy Loss (OL)			
Large	Score	Extra Large	Score
OL $\leq$ 8%	4.5	OL $\leq$ 8%	4.5
8 < OL < 21%	4.5 > Score > 0	8 < OL < 21%	4.5 > Score > 0
OL $\geq$ 21%	0	OL $\geq$ 21%	0

EXPENSE MANAGEMENT

REAC HAS REVISED THE CALCULATION FOR THE EXPENSE MANAGEMENT COMPONENT. EACH EXPENSE MANAGEMENT INDICATOR WILL BE WEIGHTED ACCORDING TO THE TABLE BELOW. NON-TENANT RELATED EXPENSE CATEGORIES WERE ASSIGNED HIGHER WEIGHT TO ENCOURAGE PHAS TO ALLOCATE RESOURCES TO TENANT-RELATED EXPENSES.

Expense Management Indicator Weightings

<u>Expenses</u>	<u>Percent Weight</u>
Administrative Expense	34%
General Expense	33%
Tenant Service Expense	10%
Protective Service Expense	10%
Maintenance & Operation Expense	10%
Utilities Expense	3%
<i>Total</i>	100%

IN ADDITION, REAC HAS ADDED REGIONAL PEER GROUPINGS BASED ON ANALYSIS THAT POINTS TO A SIGNIFICANT IMPACT ON PHA EXPENSES BECAUSE OF REGIONAL DIFFERENCES.

Regional Groupings

<u>Region</u>	<u>States</u>
0	CT, MA, ME, NH, NJ, RI, VT
1	DE, NY, PA
2	DC, MD, NC, SC, VA, WV
3	AL, FL, GA, MS, TN
4	IN, KY, MI, OH
5	IA, MN, MT, ND, SD, WI
6	IL, KS, MO, NE
7	AR, LA, OK, TX
8	AZ, CO, ID, NM, NV, UT, WY
9	AK, CA, HI, OR, WA

TO CALCULATE A SCORE, THE WEIGHTED THRESHOLDS FOR ALL SIX CATEGORIES ARE SUMMED. PHAs THAT HAVE EXPENSES PER UNIT PER MONTH OF LESS THAN THE TOTAL THRESHOLD WILL RECEIVE 1.5 POINTS. THE EXPENSE MANAGEMENT THRESHOLDS ARE EXPRESSED IN DOLLARS PER UNIT PER MONTH AND ARE ORGANIZED BY REGIONAL PEER GROUPINGS.

Expense Management (EM)							
Region	Very small	Small	Low Medium	High Medium	Large	Extra Large	Score
0	EM<\$57	EM<\$59	EM<\$58	EM<\$65	EM<\$73	EM<105	1.5
0	EM≥\$57	EM≥\$59	EM≥\$58	EM≥\$65	EM≥\$73	EM≥105	0
1	EM<\$63	EM<\$58	EM<\$61	EM<\$66	EM<\$73	EM<105	1.5
1	EM≥\$63	EM≥\$58	EM≥\$61	EM≥\$66	EM≥\$73	EM≥105	0
2	EM<\$57	EM<\$62	EM<\$53	EM<\$64	EM<\$69	EM<105	1.5
2	EM≥\$57	EM≥\$62	EM≥\$53	EM≥\$64	EM≥\$69	EM≥105	0
3	EM<\$62	EM<\$56	EM<\$54	EM<\$60	EM<\$66	EM<105	1.5
3	EM≥\$62	EM≥\$56	EM≥\$54	EM≥\$60	EM≥\$66	EM≥105	0
4	EM<\$64	EM<\$62	EM<\$60	EM<\$62	EM<\$70	EM<105	1.5
4	EM≥\$64	EM≥\$62	EM≥\$60	EM≥\$62	EM≥\$70	EM≥105	0
5	EM<\$53	EM<\$53	EM<\$51	EM<\$57	EM<\$71	EM<105	1.5
5	EM≥\$53	EM≥\$53	EM≥\$51	EM≥\$57	EM≥\$71	EM≥105	0
6	EM<\$57	EM<\$55	EM<\$54	EM<\$58	EM<\$77	EM<105	1.5
6	EM≥\$57	EM≥\$55	EM≥\$54	EM≥\$58	EM≥\$77	EM≥105	0
7	EM<\$54	EM<\$53	EM<\$52	EM<\$57	EM<\$63	EM<105	1.5
7	EM≥\$54	EM≥\$53	EM≥\$52	EM≥\$57	EM≥\$63	EM≥105	0
8	EM<\$60	EM<\$61	EM<\$57	EM<\$60	EM<\$66	EM<105	1.5
8	EM≥\$60	EM≥\$61	EM≥\$57	EM≥\$60	EM≥\$66	EM≥105	0
9	EM<\$57	EM<\$58	EM<\$56	EM<\$68	EM<\$72	EM<105	1.5
9	EM≥\$57	EM≥\$58	EM≥\$56	EM≥\$68	EM≥\$72	EM≥105	0

* THE ESTIMATED GAAP THRESHOLDS WERE BASED ON DATA FROM FINANCIAL INFORMATION OBTAINED FROM PHAS CURRENTLY REPORTING UNDER GAAP AS OF JULY 1, 1999. THE PHA FINANCIAL STATEMENTS HAD FISCAL YEAR ENDS RANGING BETWEEN 1996 AND 1998. AS MORE DATA IS ENTERED INTO THE SYSTEM, THESE THRESHOLDS WILL BE RE-ASSESSED TO BETTER REFLECT THE DATA DISTRIBUTIONS. THE THRESHOLDS PRESENTED HERE HAVE BEEN ROUNDED TO ONE DECIMAL PLACE FOR PRESENTATION PURPOSES, WHEREAS THOSE USED TO CALCULATE SCORES AT REAC ARE NOT ROUNDED.

Appendix 3 – Threshold Tables for Entity-Wide GAAP Scoring

These tables can be interpreted in the following manner:

- o Identify a size category for an indicator;
- o The rows under that size category identify ranges of possible values for that indicator; and
- o The column to the right labeled “Score” identifies the score or range of scores that is awarded to each range of indicator value for that size category.

Current Ratio (CR)							
Very Small	Score	Small	Score	Low Medium	Score	High Medium	Score
CR<1	0	CR<1	0	CR<1	0	CR<1	0
CR=1	2.4	CR=1	2.9	CR=1	2.9	CR=1	3.4
1<CR<3.7	2.4<Score<9	1<CR<3.1	2.9<Score<9	1<CR<3.1	2.9<Score<9	1<CR<2.6	3.4<Score<9
3.7≤CR≤9.7	9	3.1≤CR≤7.2	9	3.1≤CR≤6.9	9	2.6≤CR≤5.3	9
9.7<CR<13.2	9>Score>7.5	7.2<CR<9.5	9>Score>7.5	6.9<CR<9.1	9>Score>7.5	5.3<CR<6.8	9>Score>7.5
CR≥13.2	7.5	CR≥9.5	7.5	CR≥9.1	7.5	CR≥6.8	7.5

Current Ratio (CR)			
Large	Score	Extra Large	Score
CR<1	0	CR<1	0
CR=1	4	CR=1	5.8
1<CR<2.3	4<Score<9	1<CR<1.6	5.8<Score<9
2.3≤CR≤3.6	9	1.6≤CR≤2.5	9
3.6<CR<4.4	9>Score>7.5	2.5<CR<3	9>Score>7.5
CR≥4.4	7.5	CR≥3	7.5

Months Expendable Fund Balance (MEFB)							
Very Small	Score	Small	Score	Low Medium	Score	High Medium	Score
MEFB<1	0	MEFB<1	0	MEFB<1	0	MEFB<1	0
MEFB=1	1.9	MEFB=1	2	MEFB=1	1.9	MEFB=1	2.1
1<MEFB<4.7	1.9<Score<9	1<MEFB<4.5	2<Score<9	1<MEFB<4.7	1.9<Score<9	1<MEFB<4.3	2.1<Score<9
4.7≤MEFB≤15	9	4.5≤MEFB≤10.6	9	4.7≤MEFB≤9.8	9	4.3≤MEFB≤12.2	9
15<MEFB<20.9	9>Score>7.5	10.6<MEFB<14.2	9>Score>7.5	9.8<MEFB<12.7	9>Score>7.5	12.2<MEFB<16.9	9>Score>7.5
MEFB≥20.9	7.5	MEFB≥14.2	7.5	MEFB≥12.7	7.5	MEFB≥16.9	7.5

Months Expendable Fund Balance (MEFB)			
Large	Score	Extra Large	Score
MEFB<1	0	MEFB<1	0
MEFB=1	1.7	MEFB=1	4.9
1<MEFB<5.3	1.7<Score<9	1<MEFB<1.8	4.9<Score<9
5.3≤MEFB≤11.1	9	1.8≤MEFB≤6.8	9
11.1<MEFB<14.5	9>Score>7.5	6.8<MEFB<9.7	9>Score>7.5
MEFB≥14.5	7.5	MEFB≥9.7	7.5

Days Receivable Outstanding (DRO)							
Very Small	Score	Small	Score	Low Medium	Score	High Medium	Score
DRO ≤ 2	4.5	DRO ≤ 5	4.5	DRO ≤ 7	4.5	DRO ≤ 9	4.5
2<DRO<8	4.5>Score>0	5<DRO<17	4.5>Score>0	7<DRO<20	4.5>Score>0	9<DRO<25	4.5>Score>0
DRO ≥ 8	0	DRO ≥ 17	0	DRO ≥ 20	0	DRO ≥ 25	0

Days Receivable Outstanding (DRO)			
Large	Score	Extra Large	Score
DRO ≤ 10	4.5	DRO ≤ 11	4.5
10 < DRO < 26	4.5 > Score > 0	11 < DRO < 22	4.5 > Score > 0
DRO ≥ 26	0	DRO ≥ 22	0

Occupancy Loss (OL)							
Very Small	Score	Small	Score	Low Medium	Score	High Medium	Score
OL ≤ 5%	4.5	OL ≤ 5%	4.5	OL ≤ 4%	4.5	OL ≤ 4%	4.5
5 < OL < 13%	4.5 > Score > 0	5 < OL < 14%	4.5 > Score > 0	4 < OL < 11%	4.5 > Score > 0	4.0 < OL < 12%	4.5 > Score > 0
OL ≥ 13%	0	OL ≥ 14%	0	OL ≥ 11%	0	OL ≥ 12%	0

Occupancy Loss (OL)			
Large	Score	Extra Large	Score
OL ≤ 5%	4.5	OL ≤ 13%	4.5
5 < OL < 12%	4.5 > Score > 0	13 < OL < 25%	4.5 > Score > 0
OL ≥ 12%	0	OL ≥ 25%	0

EXPENSE MANAGEMENT

REAC HAS REVISED THE CALCULATION FOR THE EXPENSE MANAGEMENT COMPONENT. EACH EXPENSE MANAGEMENT INDICATOR WILL BE WEIGHTED ACCORDING TO THE TABLE BELOW. NON-TENANT RELATED EXPENSE CATEGORIES WERE ASSIGNED HIGHER WEIGHT TO ENCOURAGE PHAS TO ALLOCATE RESOURCES TO TENANT-RELATED EXPENSES.

Expense Management Indicator Weightings

<u>Expenses</u>	<u>Percent Weight</u>
Administrative Expense	34%
General Expense	33%
Tenant Service Expense	10%
Protective Service Expense	10%
Maintenance & Operation Expense	10%
Utilities Expense	3%
<i>Total</i>	100%

IN ADDITION, REAC HAS ADDED REGIONAL PEER GROUPINGS BASED ON ANALYSIS THAT POINTS TO A SIGNIFICANT IMPACT ON PHA EXPENSES BECAUSE OF REGIONAL DIFFERENCES.

Regional Groupings

<u>Region</u>	<u>States</u>
0	CT, MA, ME, NH, NJ, RI, VT
1	DE, NY, PA
2	DC, MD, NC, SC, VA, WV
3	AL, FL, GA, MS, TN
4	IN, KY, MI, OH
5	IA, MN, MT, ND, SD, WI
6	IL, KS, MO, NE
7	AR, LA, OK, TX
8	AZ, CO, ID, NM, NV, UT, WY
9	AK, CA, HI, OR, WA

TO CALCULATE A SCORE, THE WEIGHTED THRESHOLDS FOR ALL SIX CATEGORIES ARE SUMMED. PHAs THAT HAVE EXPENSES PER UNIT PER MONTH OF LESS THAN THE TOTAL THRESHOLD WILL RECEIVE 1.5 POINTS. THE EXPENSE MANAGEMENT THRESHOLDS ARE EXPRESSED IN DOLLARS PER UNIT PER MONTH AND ARE ORGANIZED BY REGIONAL PEER GROUPINGS.

Expense Management (EM)							
Region	Very small	Small	Low Medium	High Medium	Large	Extra Large	Score
0	EM<\$57	EM<\$59	EM<\$58	EM<\$65	EM<\$73	EM<105	1.5
0	EM≥\$57	EM≥\$59	EM≥\$58	EM≥\$65	EM≥\$73	EM≥105	0
1	EM<\$63	EM<\$58	EM<\$61	EM<\$66	EM<\$73	EM<105	1.5
1	EM≥\$63	EM≥\$58	EM≥\$61	EM≥\$66	EM≥\$73	EM≥105	0
2	EM<\$57	EM<\$62	EM<\$53	EM<\$64	EM<\$69	EM<105	1.5
2	EM≥\$57	EM≥\$62	EM≥\$53	EM≥\$64	EM≥\$69	EM≥105	0
3	EM<\$62	EM<\$56	EM<\$54	EM<\$60	EM<\$66	EM<105	1.5
3	EM≥\$62	EM≥\$56	EM≥\$54	EM≥\$60	EM≥\$66	EM≥105	0
4	EM<\$64	EM<\$62	EM<\$60	EM<\$62	EM<\$70	EM<105	1.5
4	EM≥\$64	EM≥\$62	EM≥\$60	EM≥\$62	EM≥\$70	EM≥105	0
5	EM<\$53	EM<\$53	EM<\$51	EM<\$57	EM<\$71	EM<105	1.5
5	EM≥\$53	EM≥\$53	EM≥\$51	EM≥\$57	EM≥\$71	EM≥105	0
6	EM<\$57	EM<\$55	EM<\$54	EM<\$58	EM<\$77	EM<105	1.5
6	EM≥\$57	EM≥\$55	EM≥\$54	EM≥\$58	EM≥\$77	EM≥105	0
7	EM<\$54	EM<\$53	EM<\$52	EM<\$57	EM<\$63	EM<105	1.5
7	EM≥\$54	EM≥\$53	EM≥\$52	EM≥\$57	EM≥\$63	EM≥105	0
8	EM<\$60	EM<\$61	EM<\$57	EM<\$60	EM<\$66	EM<105	1.5
8	EM≥\$60	EM≥\$61	EM≥\$57	EM≥\$60	EM≥\$66	EM≥105	0
9	EM<\$57	EM<\$58	EM<\$56	EM<\$68	EM<\$72	EM<105	1.5
9	EM≥\$57	EM≥\$58	EM≥\$56	EM≥\$68	EM≥\$72	EM≥105	0

* THE ESTIMATED GAAP THRESHOLDS WERE BASED ON DATA FROM FINANCIAL INFORMATION OBTAINED FROM PHAS CURRENTLY REPORTING UNDER GAAP AS OF JULY 1, 1999. THE PHA FINANCIAL STATEMENTS HAD FISCAL YEAR ENDS RANGING BETWEEN 1996 AND 1998. AS MORE DATA IS ENTERED INTO THE SYSTEM, THESE THRESHOLDS WILL BE RE-ASSESSED TO BETTER REFLECT THE DATA DISTRIBUTIONS. THE THRESHOLDS PRESENTED HERE HAVE BEEN ROUNDED TO ONE DECIMAL PLACE FOR PRESENTATION PURPOSES, WHEREAS THOSE USED TO CALCULATE SCORES AT REAC ARE NOT ROUNDED.