

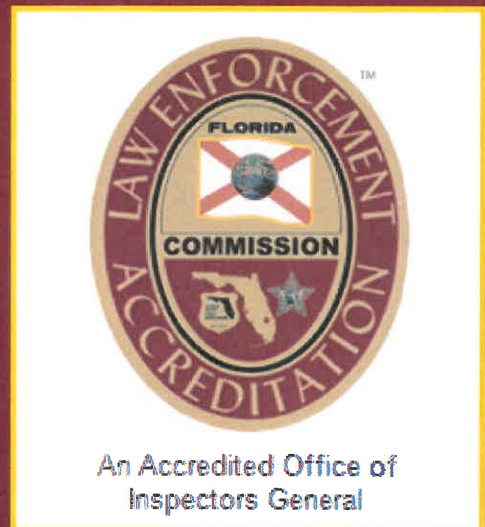


DIVISION OF INSPECTOR GENERAL

KEN BURKE, CPA

**CLERK OF THE CIRCUIT COURT AND COMPTROLLER
PINELLAS COUNTY, FLORIDA**

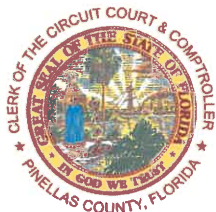
FOLLOW-UP AUDIT OF HOUSING FINANCE AUTHORITY LONG-TERM OBLIGATIONS



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**NOVEMBER 3, 2016
REPORT NO. 2016-24**



Ken Burke, CPA

CLERK OF THE CIRCUIT COURT AND COMPTROLLER
PINELLAS COUNTY, FLORIDA

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Recorder of Deeds
Clerk and Accountant of the Board of County Commissioners
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November 3, 2016

The Honorable Chairman and Members
of the Board of County Commissioners

The Honorable Chairman and Board Members
of the Housing Finance Authority of Pinellas County

We have conducted a Follow-Up Audit of the Housing Finance Authority of Pinellas County Long-Term Obligations. The objective of our review was to determine the implementation status of our previous recommendations.

Of the ten recommendations contained in the audit report, we determined that three have been implemented, three have been partially implemented, and four have not been implemented. The status of each recommendation is presented in this follow-up review.

We appreciate the cooperation shown by the staff of the Housing Finance Authority of Pinellas County during the course of this review.

Respectfully Submitted,

Hector Collazo Jr.
Inspector General/Chief Audit Executive

Approved:

Ken Burke, CPA*
Clerk of the Circuit Court and Comptroller
Ex Officio County Auditor

*Regulated by the State of Florida



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Inspectors General

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INTRODUCTION

Scope and Methodology

We conducted a follow-up audit of the Housing Finance Authority of Pinellas County Long-Term Obligations. The purpose of our follow-up review is to determine the status of previous recommendations for improvement.

The purpose of the original audit was to:

- 1) Determine that the Authority's Single-Family Revenue Bond issues are adequately documented to protect the County and the Authority from liability with regards to the proper authorizations, approvals, and Federal and State regulatory filings.
- 2) Determine that the Authority's Multi-Family Housing Revenue Bond issues are adequately documented to protect the County and the Authority from liability with regards to the proper authorizations, approvals, and Federal and State regulatory filings.
- 3) Determine that the minimum cash inflow from assets relating to the Single Family Authority's outstanding Revenue Bond issues is adequate to meet, on a timely basis, the scheduled principal and interest payments for each outstanding Single Family Authority Revenue Bond issued.
- 4) Determine that the County's and the Authority's financial reports properly present the Authority's outstanding Revenue Bonds and related disclosures.
- 5) Determine that the residences secured by mortgages funded by Single-Family Housing Bonds are adequately maintained and appear to be in good condition.

To determine the current status of our previous recommendations, we surveyed and/or interviewed management to determine the actual actions taken to implement recommendations for improvement. We performed limited testing to verify the process of the recommendations for improvement.

Our follow-up audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the *Principles and Standards for Offices of Inspector General*, and, accordingly, included such tests of records and other auditing procedures, as we considered necessary in the circumstances. Our follow-up testing was performed during the month of July 2016. The original audit period was September 30, 2013 through June 30, 2014. However, transactions and processes reviewed were not limited by the audit period.

Overall Conclusion

Of the ten recommendations in the report, we determined that three were implemented, three were partially implemented and four were not implemented. We commend management for implementation of three of our recommendations, partially implementation of three of our recommendations, and continue to encourage management to implement fully the remaining recommendations.

Status

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
1	<p>The Long-Term Bond Discount/Premium Amortization Method ("Straight-Line") Stated In The Authority's Fiscal 2013 Financial Statements' Footnote And The Actual Method Being Used ("Declining Balance") Is Misstated In The Footnote.</p> <p>Authority management change the description of the bond discount/premium amortization method in its Financial Statements' footnote to the "Declining Balance" method so that its accounting practice is correctly stated.</p>	✓				
2	<p>The Authority's Fiscal 2013 Financial Statements Report A \$1,100,000 Note Receivable From A Single Business Entity As A "Non-Current Asset," With A Corresponding \$1,100,000 "Allowance For Doubtful Account."</p> <p>Authority management state in its Financial Statements' footnotes:</p> <p>A. Why the Authority does not deem the \$1,100,000 note to CHAF Properties LLC as collectable.</p> <p>Authority management state in its Financial Statements' footnotes:</p> <p>B. And if so, why it does not intend to collect the \$1,100,000 note.</p> <p>Authority management state in its Financial Statements' footnotes:</p> <p>C. That its Board of Directors approved the Authority's actions with respect to this note.</p>			✓		

Introduction

Follow-Up Audit of the Housing Finance Authority Long-Term Obligations

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
	Authority management state in its Financial Statements' footnotes: D. That the loan due date be corrected in the footnote.	✓				
	The Footnote In The Housing Finance Authority's Fiscal 2013 Financial Statements For Long-Term Single-Family Bond Issues May Be Improved By Including The Overall Effective Interest Rate For The Authority's Outstanding Long-Term Bonds.					
3	Authority management consider reporting an overall effective interest rate for its long-term bond issues.	✓				
	The Authority's "Conduit Debt Obligations" Of \$33,657,256 For Bonds Issued For Five Multi-Family Housing Developments Are Not Shown As A Liability On The Authority's Fiscal 2013 Balance Sheet. The Obligation Is Disclosed As A Footnote To Its Fiscal 2013 Financial Statements.					
4	Authority management: A. Reconsider its practice of treating "Conduit Debt Obligations" as "Off-Balance Sheet" long-term debt obligations.	✓				
	Authority management: B. Obtain and document its auditors, Dufresne & Associates, opinion about this reporting practice.	✓				
5	The Authority's Fiscal 2013 Financial Statements' Disclosure Of The Amount Of Its Required Debt Service For Its Single-Family Housing Bonds Is \$160,435,106 As Of September 30, 2013. This Amount					

Introduction
Follow-Up Audit of the Housing Finance Authority Long-Term Obligations

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
	<p><i>Is Not In Agreement With Its Independent Actuarial Advisors' (CSG Advisors) "Scheduled Principal And Interest Payments For The Rating Agency Consolidated Cash Flow" For These Bonds As Of The Same Date, which is \$137,413,079.</i></p> <p>Authority management, in addition to providing the GAAP-required financial debt service information, also consider providing the actuarial-developed debt service information using a conservative scenario.</p>				✓	
	<p><i>The Authority's Actuarial Consultants Were Not Requested To Provide A Cash Flow Forecast As Of September 30, 2013 For The Authority's Conduit Debt Obligations.</i></p> <p>Authority management consider requesting its actuarial consultants to provide cash flow forecasts for each of the apartment complexes funded by the "Conduit Debt Obligations." We do recognize that the current Multi-Housing Revenue Bonds structure contains no vehicle for the Authority to recover the cost of performing periodical cash flow analysis.</p>				✓	

Background

The Authority was created in accordance with Florida Statutes, Part IV of Chapter 159, in 1979 to encourage the investment of private capital and stimulate the construction of residential housing for low-, moderate- and middle-income families through the use of public financing. The Authority is authorized to issue bonds to fulfill its corporate purpose in principal amounts specifically authorized by the Pinellas County Board of County Commissioners. The Authority is a component of Pinellas County.

Single-Family Revenue Bonds issued by the Authority are payable, both as to principal and interest, solely from the assets of the Single-Family programs, which are pledged under the resolutions authorizing the particular bond issues. These bond issues do not constitute an obligation, either general or special, of the County, the State of Florida or of any local government. Neither the full-faith and credit, nor revenues, nor the taxing power of the County, the State of Florida or any local government, is pledged for the payment of the principal and interest on these bond obligations.

The Authority is a participant in the “*New Issue Bond Purchase Program*” (“NIBP”) initiative created by the U.S. Treasury Department in October 2009. Under this program, Treasury has agreed to purchase from Housing Finance Authorities (HFA) nationwide up to \$15.3 billion in tax-exempt single-family and multi-family housing bonds, securitized by Government Sponsored Enterprises (“GSE”) - “Fannie Mae” (The Federal National Mortgage Association) and “Freddie Mac” (The Federal Home Loan Mortgage Corporation). Some of the funds have already been used by local HFAs to finance low-cost mortgages on approximately 60,000 single-family units and affordable financing for the development of 7,800 multifamily units (as of the second quarter of 2012).*

As of September 30, 2011, 44 of 47 local HFAs used \$270 million of the \$1.0 billion allocated by the Treasury for single-family housing to assist 7,540 homebuyers - 97 percent of whom were first-time homebuyers with average incomes of 78% of the local area median income - to purchase affordable homes. (\$39.0 million of NIBP funds was allocated to Pinellas County.)*

The average purchase price of these homes was \$133,927 to a family whose average income was \$49,840 or 78% of the average area median income. (Average purchase prices varied from a low of \$76,764 to a high of \$279,903.) The average household size was 2.08 persons and the average age of the borrower was 34.4 years. Some HFAs provided the Down Payment Assistance (“DPA”) in the form of a grant, but most provided a second mortgage loan of approximately \$5,000 to \$7,500 often at zero percent that was either due at sale or refinancing or forgiven if a borrower remained in the house for a given period of time, such as 10 years.*

The mortgage rates charged to borrowers under the local NIBP ranged from a low of 3.25% to a high of 5.375% and tended to be higher for those receiving DPA. Rates as low as 3.25% were offered because local HFAs were able to borrow at the Treasury’s cost of funds, a key feature of the NIBP.*

On the multi-family side of the program, during this same period, 11 local HFAs used \$795 million of the \$1.1 billion allocated by the Treasury to finance 71 new construction or preservation projects containing 9,427 units - 91% of which were affordable to households with incomes at or below 60% of median income (the restricted income ceiling under the Low-Income Housing Tax Credit program). While not every HFA was able to estimate the number of jobs created under their program, those that did reported at least 4,736 construction or permanent jobs.*

The U.S. Treasury's authority to enter additional purchase commitments under the NIBP program expired on December 31, 2009. Use of escrowed proceeds to finance new mortgages originally was required to be completed by December 31, 2010; however, continued disruptions in the HFA market led to extensions. After two one-year extensions, HFAs had a deadline of December 31, 2012 to use NIBP funds.**

The Authority is a party to agreements with other duly created local Housing Finance Authorities. These agreements provide for the Authority to issue bonds to provide funds to make loans to qualified persons or families of low-, moderate-, or middle-income to finance the purchase of qualified owner-occupied single-family residences to alleviate the shortage of housing in the jurisdictions of the parties to the respective agreements.

From time to time, the Authority has issued long-term revenue bonds (known as "Conduit Debt Obligations") to finance the construction or acquisition of multi-family housing developments, which are intended for occupancy, in part, by persons of low-, moderate-, or middle-income. Neither the Authority, nor the County, or the State, or any political subdivision is obligated in any manner for repayment of these bonds. These bonds are not reported as liabilities in the County or the Authority's Financial Statements.

* *National Association of Local Housing Finance Agencies, 2025 M Street, NW, Suite 800, Washington, DC 20036, 202-367-1197.*

** www.treasury.gov/about/budget-performance

STATUS OF RECOMMENDATIONS

This section reports our follow-up on actions taken by management on the Recommendations for Improvement in our original audit of the Housing Finance Authority of Pinellas County Long-Term Obligations. The recommendations contained herein are those of the original audit, followed by the current status of the recommendations.

1. *The Long-Term Bond Discount/Premium Amortization Method (“Straight-Line”) Stated In The Authority’s Fiscal 2013 Financial Statements’ Footnote And The Actual Method Being Used (“Declining Balance”) Is Misstated In The Footnote.*

Note 1 (I) to the Authority’s 2013 Financial Statements states:

"Discounts and premiums on the sale of bonds are capitalized and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method."

This statement is incorrect. The Authority uses the “Declining Balance” method for amortizing the discounts and premiums for its long-term bond issuances. Authority management has been made aware of this misstatement and has indicated that a correction will be made in future Financial Reports.

We recommended Authority management change the description of the bond discount/premium amortization method in its Financial Statements’ footnote to the “*Declining Balance*” method so that its accounting practice is correctly stated.

Status:

Implemented. Management has corrected the description of the bond-premium amortization method in its Financial Statements’ footnote.

2. The Authority's Fiscal 2013 Financial Statements Report A \$1,100,000 Note Receivable From A Single Business Entity As A "Non-Current Asset," With A Corresponding \$1,100,000 "Allowance For Doubtful Account."

The Authority's Balance Sheet of September 30, 2013 includes a \$1,100,000 Promissory Note Receivable from CHAF Properties, LLC that is fully reserved. The information presented in the Authority's Financial Statements' footnote 6 about this note does not adequately explain this arrangement. Footnote 6 states:

Note 6; Notes receivable:

"A promissory note from CHAF Properties, LLC secured by a mortgage in the amount of \$1,100,000 with maturity date of April 1, 2042 and 1% interest. The first payment on this note is due on April 1, 2012. The note is restricted for the development of new residential rental housing. The Authority does not intend to collect on the note; therefore the allowance for uncollectible accounts and program expenditure was recorded in 2011. As of September 30, 2013 the outstanding principal on the note was \$1,100,000."

The presentation of this note as a non-current asset with a contra allowance for doubtful accounts and the footnote describing the arrangement does not present an accurate picture of the events underlying the arrangement. The financial statement presentation presents a loan that the Authority's management deems repayment as doubtful. The footnote further states that Authority's management has decided not to pursue repayment of the note. In that case, the loan should be "forgiven" and removed from the Authority's Financial Statements.

There is no information in the Authority's loan files documenting either position.

Information presented on the Authority's Financial Statement should clearly state the background information to the reader to promote transparency. Although the Authority has met the basic reporting requirements for presenting its CHAF Note Receivable, as noted above, we encourage the Authority to adopt the additional disclosure noted herein that we believe will increase the transparency of the Authority's financing activities.

Background:

This Note Receivable was part of a funding package for a Community Development Affordable Housing Multi-Family construction project by CHAF Properties, LLC ("CHAF") called "Ashley Place." The Note is secured by a "Leasehold Mortgage" for \$1,100,000.00 dated March 18, 2009.

The “*Ashley Place*” project was for the new construction of a 55 multi-family housing unit apartment complex (20 percent set aside for affordable housing) on an undeveloped property located in the St Petersburg, West Lealman, area. The financing of the project consisted of:

- A loan to CHAF from the County’s Community Development Department for \$1,550,000 to purchase a 3.7 acre undeveloped parcel of land located at 8143 46th Avenue North, St Petersburg, from Mr. Clifford Stout. (The parcel of land is located in the unincorporated area of Pinellas County.)
- A loan to CHAF from the Housing Finance Authority for \$1,100,000 for construction costs.
- A loan to CHAF from Community Development for \$500,000 also for construction costs.
- A loan to CHAF from First Housing Development Corporation of Florida for \$2,775,000 also for construction costs.

This project was sponsored by the Pinellas County Affordable Housing Development Program Agency Agreement dated January 11, 2008.

The \$1,550,000 Community Development loan for the purchase of the land was “forgiven” by the County concurrent with the transfer of the parcel of land to the Pinellas County Community Housing Program Land Trust on March 18, 2009. CHAF now has a 99-year land-lease with the County for the property.

On May 4, 2012, the Housing Finance Authority’s \$1,100,000 loan was amended as follows:

- A new due date of April 1, 2053 (*This loan’s due date is incorrectly stated in the Authority’s Financial Statements footnote. The pre-amendment date is being used.*)
- Payment will begin April 1, 2013. (*No payment was made on April 1, 2013 by CHAF.*)
- Payments are based on CHAF’s available “Surplus Cash,” as defined. Thirty percent of Surplus Cash will be applied as a loan payment.
- CHAF will supply audited financial statements to the County. (*Fiscal 2013 Financial Statements were unaudited.*)
- All the rights of the property that secure the above note and mortgage are subordinate to a \$15,350,000 loan to CHAF from Dougherty Mortgage LLC with the Federal National Mortgage Association (“Fannie Mae”).

We recommended Authority management state in its Financial Statements’ footnotes:

- A. Why the Authority does not deem the \$1,100,000 note to CHAF Properties LLC as collectable.
- B. And if so, why it does not intend to collect the \$1,100,000 note.
- C. That its Board of Directors approved the Authority’s actions with respect to this note.

D. That the loan due date be corrected in the footnote.

Status:

A, B, C. Partially Implemented. The Authority's ability to ultimately collect this note is highly doubtful because of the subordinate nature of the note and the repayment terms, which relates solely to future available surplus cash flow that the Authority does not believe will be available in the foreseeable future.

D. Not Implemented. During the July 29, 2016 meeting, management agreed to correct the loan due date in future footnotes.

3. The Footnote In The Housing Finance Authority's Fiscal 2013 Financial Statements For Long-Term Single-Family Bond Issues May Be Improved By Including The Overall Effective Interest Rate For The Authority's Outstanding Long-Term Bonds.

In the Housing Financial Authority of Pinellas County financial report as of September 30, 2013, Note 7 (see below) describes the Authority's outstanding long-term bonds including the Generally Accepted Accounting Principles (GAAP)-required basic information. A reader is able to view a listing of all bonds, the outstanding bond amounts, and the total of these bonds. In addition, this note presents the interest rate range for each bond group. However, there is no overall effective interest rate for all bonds.

Note 7; Bonds payable:

Series	Type	Annual Percentage Rate	Principal Maturity	Principal Balance Outstanding
Master Indenture Single-Family Issues: 2004A	Serial	5.05%	2014	\$60,000
	Term	5.20-5.75%	2026-2035	\$3,605,000
2005A	Serial	4.30-4.40%	2014-2015	\$70,000
	Term	4.00-5.50%	2025-2036	\$3,615,000
2005B	Serial	4.15-4.45%	2014-2018	\$440,000
	Term	4.50-5.20%	2020-2036	\$3,935,000
2006A	Serial	4.25-4.40%	2014-2016	\$210,000
	Term	4.625-5.35%	2021-2037	\$4,630,000
2006B	Serial	4.25-4.40%	2014-2016	\$130,000

Status of Recommendations
Follow-Up Audit of the Housing Finance Authority Long-Term Obligations

Series	Type	Annual Percentage Rate	Principal Maturity	Principal Balance Outstanding
	Term	4.875-5.50%	2032-2046	\$5,505,000
2007A	Serial	4.70-4.80%	2014-2016	\$125,000
	Term	4.85-5.45%	2017-2048	\$8,125,000
GSE Single-Family Issues: 2009A-1 & 2010A	Serial	1.70-3.60%	2014-2021	\$1,300,000
	Term	3.01-4.25%	2027-2041	\$11,085,000
2009A-2 & 2011A	Serial	1.35-4.00%	2014-2022	\$2,240,000
	Term	2.77-4.70%	2026-2041	\$14,995,000
2009A-3 & 2011B	Serial	1.30-3.65%	2014-2022	\$2,260,000
	Term	2.32-4.375%	2027-2041	\$11,665,000
2009A-4 & 2012A	Serial	0.55-2.625%	2014-2023	\$3,000,000
	Term	2.71%	2041	\$9,000,000
<i>Total</i>				\$85,995,000

In place of an overall interest rate is a list of 38 interest rates' ranges placed into 20 bond groups. This presentation does not supply the HFA Board, the Board of County Commissioners, and the citizens of Pinellas County with an easy-to-grasp overall/effective interest rate for the total Bonds. Without the disclosure of an overall/effective interest rate, a reader does not have the complete information needed to determine the ability of the Authority to obtain reasonable interest rates for its long-term borrowings.

GAAP does not require the reporting of an entity's overall effective interest rate for its long-term debt. However, we have noted that publicly traded companies' financial statement footnotes do present, at times, an overall average or effective interest rate for their long-term debt in their financial reports.

Although the Authority has met the basic reporting requirements for presenting its long-term debt attributes, as noted above, we encourage the Authority to adopt the recommendation for an overall effective interest rate noted above that we believe will increase the transparency of the Authority's long-term debt disclosure presented in its Financial Statements.

We recommended Authority management consider reporting an overall effective interest rate for its long-term bond issues.

Status:

Not Implemented. During the July 29, 2016 meeting, management agreed to consider the feasibility of reporting an overall effective interest rate for its outstanding bonds. The Inspector General's (IG) Office agreed to show the Executive Director how to calculate the effective interest rate and provided the calculation workpaper that IG prepared for the original audit.

4. The Authority's "Conduit Debt Obligations" Of \$33,657,256 For Bonds Issued For Five Multi-Family Housing Developments Are Not Shown As A Liability On The Authority's Fiscal 2013 Balance Sheet. The Obligation Is Disclosed As A Footnote To Its Fiscal 2013 Financial Statements.

Financial Reporting of the Authority's \$33,657,256 of Multi-Family Housing Revenue Bond issues is limited to Note 11 (see below) on the Authority's Fiscal 2013 Financial Statements. This amount is not reported as an Authority long-term liability.

Note 11; Conduit debt obligations:

"From time to time, the Authority has issued revenue bonds to finance the construction or acquisition of multi-family housing developments which are intended for occupancy in part by persons of low, moderate, or middle income. Neither the Authority, nor the County, or the State, or any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements."

These bonds consist of:

MULTI-FAMILY	Principal Balance on September 30, 2013
James Park	\$3,605,000
Tuscany	\$6,815,000
Columbian Apartments	\$4,642,256
Brooker Creek	\$10,050,000
Bayside Court	\$8,545,000
TOTAL MULTI-FAMILY	\$33,657,256

Correspondingly, the future cash flow from the Multi-Family Housing complexes funded by these bonds is not reported as an Authority asset. The cash flow from these Multi-Family Housing units is pledged to secure the respective bond obligations.

These Multi-Family Housing development bonds are "Conduit Debt Obligations" for which the Authority states it has no liability. In addition, the Authority states that these bonds differ from its Single-Family Housing bonds in that they are not direct obligations of the Authority. Each Single-Family Housing bond issue is collateralized by a separate collateral package with

certain assets further restricted for payment of interest and principal in the event that the related debt service and other available funds are insufficient.

This “*Off-Balance Sheet*” reporting practice for “*Conduit Debt Obligations*” potentially misinforms the financial statement users as to the extent of the HFA's potential liabilities and the possibility of undervalued pledged assets.

The Government Accounting Standards Board (“GASB”) “*Interpretation No. 2 Disclosure of Conduit Debt Obligations—An Interpretation Of NCGA* Statement 1*” states:

“This Interpretation provides disclosure requirements for conduit debt obligations. Conduit debt obligations are certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued.”

The required disclosures include a general description of the conduit debt transactions, the aggregate amount of all conduit debt obligations outstanding at the balance sheet date, and a clear indication that the issuer has no obligation for the debt beyond the resources provided by related leases or loans.”

** National Council on Governmental Accounting*

The above statement does not address the “*Off-Balance Sheet*” presentation of “*Conduit Debt Obligations*.” It also does not address the recognition of the offsetting assets' valuation.

Information on the GASB internet website indicates that some organizations are recording Conduit Debt Obligations in their Balance Sheets.

Although the Authority has met the basic reporting requirements for presenting its outstanding long-term debt, as noted above, we encourage the Authority to adopt the additional accounting and reporting practice of recording its *Conduit Debt Obligations* noted above that we believe will increase the transparency of the Authority's long-term debt financial position in its Financial Statements.

We recommended Authority management:

- A. Reconsider its practice of treating “*Conduit Debt Obligations*” as “*Off-Balance Sheet*” long-term debt obligations.
- B. Obtain and document its auditors, Dufresne & Associates, opinion about this reporting practice.

Status:

A, B. Implemented. The presentation of the conduit debt obligations has been discussed at length with GASB and management’s auditors, who concur that the disclosure is presented correctly.

5. The Authority’s Fiscal 2013 Financial Statements’ Disclosure Of The Amount Of Its Required Debt Service For Its Single-Family Housing Bonds Is \$160,435,106 As Of September 30, 2013. This Amount Is Not In Agreement With Its Independent Actuarial Advisors’ (CSG Advisors) “Scheduled Principal And Interest Payments For The Rating Agency Consolidated Cash Flow” For These Bonds As Of The Same Date, Which Is \$137,413,079.

The Authority’s footnote disclosure for its ten outstanding Single-Family Housing Bond issues complies with the GAAP requirement to present the amount of annual debt service for all outstanding bonds’ principal and interest for each year for five years, then by five-year groups thereafter until maturity of the last bond. The interest portion of these future debt service payments is based solely on the actual required interest payment for each payment date throughout the term of each bond issue, without regard to any financing arrangements available to the Authority for available cash. This presentation method is not stated in the actual footnote.

The following debt service disclosure is summarized from Note 7 (“Bonds Payable”) to the Authority’s Fiscal 2013 Financial Statements:

Note 7; Bonds payable:

Principal	Interest	Total
\$85,995,000	\$74,440,106	\$160,435,106

The Authority requests its actuarial advisors, CSG Advisors, to perform cash flow forecasts for the ten Single-Family Housing Bond issues. These cash flow forecasts are prepared using multiple scenarios for the repayment of the first mortgage loans secured by single-family residences financed by these bonds, such as:

- Availability of investment options for available cash;
- Earlier bond principal payments;

- Steady lag in payments from due date; and
- Tendency of mortgagors to make prepayments in earlier years.

Under the most conservative of these scenarios (the available cash is invested) - CSG's estimated debt service for these bonds amounts to the following:

Principal	Interest	Total
\$85,995,000	\$51,418,079	\$137,413,079

Although there is no GAAP requirement to explain variations between scheduled debt service requirements and management's need for alternate debt service views, the \$23,022,027 difference creates a need for further disclosure. Additional information would increase the HFA Board, the Board of County Commissioners, and the citizens of Pinellas County comprehension of the Authority's debt service activities and improve transparency between rigid financial reporting and reasonable operational forecast outcomes.

Although the Authority has met the basic reporting requirements for presenting its long-term debt service requirements, as noted above, we encourage the Authority to adopt the additional debt service presentation noted above that we believe will increase the transparency of the Authority's long-term debt requirements presented in its Financial Statements.

We recommended Authority management, in addition to providing the GAAP-required financial debt service information, also consider providing the actuarial-developed debt service information using a conservative scenario.

Status:

Not Implemented. Authority management did not concur with the recommendation. Their initial management response was and still is that the GAAP disclosure requirement specified was met. The difference is attributable to a difference in methodology. The computations prepared by CSG utilize the term bond mandatory principal redemption installment dates as principal maturity dates when calculating the interest to maturity. The interest to maturity for presentation in the audit footnote utilizes the maturity stated on the security without regard to term bond mandatory principal redemption installments. As a result, the interest to maturity calculated by CSG is a lower interest to maturity than that presented in the footnote.

6. The Authority's Actuarial Consultants Were Not Requested To Provide A Cash Flow Forecast As Of September 30, 2013, For The Authority's Conduit Debt Obligations.

We note that cash flows for multi-family revenue bonds are not required on an annual basis by the Authority, which set forth the cash flow generated for a specific multi-family project financed with the proceeds of multi-family mortgage revenue conduit bonds issued by the Authority. However, we understand that an industry standard for affordable housing is to require cash flows for single-family mortgage revenue bonds, but not multi-family mortgage revenue conduit bonds.

The Authority's Fiscal 2013 Financial Statements do not disclose the required future debt service for its Multi-Family Housing Revenue Bond issues, which are classified as "*Conduit Debt Obligations*." Such obligations are not recorded as liabilities by the Authority in its Financial Statements. Since the apartment complexes constructed with the proceeds of these Multi-Family Housing Revenue Bond issues have a known number of units and a known unit segregation (i.e. low-income, moderate-income, and middle-income), it is not unreasonable for an actuarial firm to forecast the future rental income over the remaining life of the associated bond issues.

Once proper cash flow analyses for these Multi-Family Housing Revenue Bond issues are prepared, the projected rental net revenues from the related apartment complexes, constructed with funding from these bonds, may be compared to the outstanding balance of the related bond issue. Failure to develop this information will not make the Authority aware of any shortfall existing between the projected rental net revenues for any of the apartment complexes and the outstanding balance of the related bond issue. In addition, this type of information provides the HFA Board, the Board of County Commissioners, and the citizens of Pinellas County with a complete profile of the Authority's long-term financial commitments.

Although the Authority has met the basic reporting requirements for presenting its long-term debt cash flow, as noted above, we encourage the Authority to adopt the additional cash flow financial reporting recommendation, as noted above, that we believe will increase the transparency of the Authority's long-term debt and related assets presented in its Financial Statements.

Management stated that the Authority does receive performance reports for the Bond issues that allow analysis of the current cash flow status.

We recommended Authority management consider requesting its actuarial consultants to provide cash flow forecasts for each of the apartment complexes funded by the "*Conduit Debt Obligations*." We do recognize that the current Multi-Housing Revenue Bonds structure

contains no vehicle for the Authority to recover the cost of performing periodical cash flow analysis.

Status:

Not Implemented. Authority management did not concur with the recommendation. Their initial management response was and still is that in the process of reviewing projects brought to the Authority for approval to be financed with conduit debt, the Authority practice has been to hire a third party credit underwriter to review the cash flow projections of every conduit debt issuance backed by each project to be financed. Through this independent review of the cash flow projections by the third party credit underwriter, the Authority ensures that the projected rental and other income supports the proposed debt at appropriate levels of debt service coverage ratios. Such cash flow forecasts for each project are independently reviewed by the third party credit underwriter prior to approving and issuing each set of conduit bonds. Given that the Authority has no obligation of debt issued on a conduit basis, the Authority's (and other HFAs) practice is not to prepare updated cash flow forecasts after such projects are placed in service, but rather monitors the performance of the projects by receiving periodic reports on vacancy status, financial performance, physical monitoring of the project, and debt service coverage ratios



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