U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

OFFICE OF PUBLIC AND INDIAN HOUSING

Special Attention of:

Public Housing Agencies (PHA);
Public Housing Hub Office Directors;
Public Housing Program Center Directors;
Regional Directors;
Field Office Directors;
Resident Management Corporations

Notice: PIH-2025-14 (HA)

Issued: May 22, 2025

Expires: Effective until amended, superseded, or rescinded

Cross References:
2 CFR part 200
24 CFR § 902.79
24 CFR § 905.300
24 CFR § 990.325
24 CFR § 5.801
PIH Notice 96-33 (HA)
PIH Notice 2016-18 (HA)
PIH Notice 2018-03 (HA)
PIH Notice 2024-25
Supplement to HUD Handbook 7475.1 REV., CHG-1, Financial Management Handbook

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Subject: Guidance on the Administration, Accurate Reporting, and Use of Public Housing Operating Funds

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1. PURPOSE

This Notice provides guidance on requirements and best practices for Public Housing Agencies (PHAs) when administering Public Housing Operating Funds, including guidance on options for the structure of centralized accounts from which to pay various program expenses. This Notice also restates and clarifies the permissible uses of Public Housing Operating Funds and provides guidance on the proper reporting of and controls over cash and investments, interfund inter-program and affiliate receivable/payable activity, and possible sanctions for PHAs related to the ineligible use of such funds (see Section 5). This Notice reiterates PHAs' responsibilities regarding the uses of centralized payor accounts.

2. APPLICABILITY

This Notice applies to PHAs administering the Public Housing program, including PHAs that participate in the Moving to Work (MTW) Demonstration program.

3. BACKGROUND

Although applicable statutes and Department of Housing and Urban Development (HUD) regulations (see Section 5) restrict the use of Public Housing Operating Funds[1] and Operating reserves[2], PHAs are permitted to pool program funds into one or more bank accounts and have program expenses paid through a centralized payor account arrangement such as a Paymaster Account or a Revolving Fund Account. These arrangements allow for bills and other financial transactions (e.g., payroll and vendor payments) to be disbursed and processed centrally. The centralized payor account often accesses funds (such as from pooled funds maintained in a General Fund or from other sources) to pay bills on behalf of participating accounts or cost objectives.[3]

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[1] Operating Funds is defined as Operating Subsidy and all associated program income.
[2] Locally held funds which include grants, rents, and program income.
[3] *Cost objective* means a program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes,

Accounts participating in central payor arrangements may encompass various PHA programs, activities, and enterprises and administrative functions, such as programs funded by federal, state, and local grant programs; capital and construction projects; development and other asset management activities and a Central Office Cost Center (COCC), which administers and supports these operations. These accounts may also include properties (e.g., Public Housing, Mixed Finance, Multi-Family, and Tax credit) owned or managed by the PHA as well as funds associated with affiliated entities[4] and other business activities.

Although funds may be pooled for convenience as noted above, PHAs must be able to track the costs and use of funds. If pooled funds and central payor arrangements are not properly managed in a restricted fund environment[5] (such as at PHAs where restricted program reserves may also be held locally), these practices may result in the ineligible use of Public Housing Operating Funds and other Federally restricted funds. For example, if a PHA uses restricted funds from one program to improperly pay for another program or activity. This may occur through interfund inter-program (due from/to), affiliate receivable/payable, and other transactions. These practices expose PHAs to increased program noncompliance and financial risks including the consequences of material program violations.

HUD considers these program areas to be high risk for the potential misreporting and misuse of funds with associated adverse program impacts. For example, a PHA's misuse of public housing funds for another program can lead to the depletion of Public Housing Operating reserves, negatively impacting a PHA's financial position and ability to meet its central mandate to provide decent, safe and sanitary housing for residents.[6]

Key terms that are used in this Notice are defined in Appendix A. Except for *Component Units*, the terms primarily relate to various accounts and methods used by PHAs to fund and replenish central payor account arrangements.

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products, jobs, capital projects. A cost objective may be a major function of the non-Federal entity, a particular service or project, a Federal award, or an indirect (Facilities & Administrative) cost activity (see 2 CFR § 200.1 Definitions).

[4] Interfund inter-program transactions (current assets and current liabilities) are *internal* to a PHA and may involve transactions with affiliate entities such as Blended Component Units (BCUs). *Internal* transactions such as with BCUs are eliminated for purposes of top line financial statement reporting in accordance with REAC Accounting Brief 14 and government accounting standards (GASB No. 34). Similar affiliate transactions between a PHA and Discreetly Presented Component Units (DCUs) are considered *external* to a PHA and, depending on the timing and nature of the transaction, would be recorded as short- or long-term receivables/payables on the financial statements and not eliminated. See definitions at Appendix A.

[5] Generally, restricted funds are funds upon which restrictions are imposed by an external person(s) or entity, such as a federal agency or a private donor. For example, Public Housing Operating Funds are restricted funds. They may only be used for purposes authorized by Section 9(e) of the U.S. Housing Act of 1937 and the relevant appropriation, in accordance with the Purpose Statute (31 U.S.C. § 1301(a)). Funds available under Section 9 may not be used to cover or support nonpublic housing program activities. Unrestricted funds do not have external imposed restrictions as to use or purpose and can be used for any purpose that supports an organization's mission.

[6] For cases that are not specifically addressed in this Notice, PHAs and their auditors should use the intent of this Notice and apply it to the specific situation. Since HUD gives flexibilities to PHAs on how to account for their programs, and accounting systems vary from one PHA to another (sometimes based on their size and the programs they administer), this Notice cannot and does not address every situation. As such, guidance may need to be applied differentially based on the structure of the accounting system.

4. OVERVIEW OF CHANGES

This Notice supersedes the guidelines and definitions for reporting balances on the below Financial Data Schedule (FDS) Line-Items (the FDS Line Definition Guide was last updated in July 2020[7]). See Appendix B of this Notice for the new definitions and requirements and Appendix C for details on the eliminated language.

FDS Line	Type	FDS Line Description – Updated
144	Asset	Inter-Program Due From Other Programs
172	Asset	Notes, Loans, & Mortgages Receivable – Non-Current – Past Due
347	Liability	Inter-Program Due To Other Programs
352	Liability	Notes Payable Operating – Long-Term Debt, Net of Current - Operating Borrowings

Moreover, this Notice strikes[8] the section on page 4 (paragraph 1 and 2) "Inter-program Due To/Due From Activity" of REAC Accounting Brief No. 14 entitled "Use of the Elimination Column and Reporting of Elimination Entries on the FDS." It also strikes sentence three on page 17 of the Public Housing Financial Management Handbook[9], (paragraph 6 under Section 5.3 "Banks Accounts") that refers to FDS reporting of inter-program activity. See Appendix D and Appendix E of this Notice for details on the eliminated language that is no longer in effect.

The guidelines aim to (1) improve the accuracy, consistency, reliability and transparency of the PHAs accounting and FDS reporting to HUD for the relevant line items, and (2) to incorporate compliance considerations including ensuring FDS reporting is readily traceable to and supported by the PHA's official books and records.

The guidelines include changes:

- For the reporting of FDS line 144 Inter-program (due from) receivable balances as "non-current" under FDS line 172 "Notes, loans & mortgages receivable – non-current – past due" if certain criteria are met including providing supporting comments and justifications.
- For the reporting of FDS line 347 Inter-program (due to) payable balances as "non-current" under FDS line 352 "Long-term debt, net of current - operating borrowings" if certain criteria are met including providing supporting comments and justifications.

[7] The FDS Line Definition Guide is updated periodically when significant changes occur in accounting standards or regulations, often every few years; with past updates occurring in 2012, 2014, and 2020. In between publications dates, updates and changes to specific FASS-PH FDS reporting requirements are provided on PIH's REAC website: https://www.hud.gov/program_offices/public_indian_housing/reac/products/fassph

[8] The stricken language that is no longer in effect are restricted to the language specifically set forth in Appendices D and E. The eliminations are not intended to affect the other parts of the document.

[9] Changes in Financial Management and Reporting for Public Housing Agencies Under the New Operating Fund Rule (24 CFR part 990) Supplement to HUD Handbook 7475.1 REV., CHG-1, Financial Management Handbook Office of Public and Indian Housing (PIH) Revised April 2007.

Also, revisions with important clarifications, refinements, and modifications to FDS reporting are highlighted below. The guidelines:

- Explain that unsettled inter-program payable and receivable balances (e.g., arising from inter-program loaning and not settled through actual cash transfers) should not be reported as cash simply because the benefiting program has the funds on hand to settle the balance at year-end. For the inter-program balance to be eliminated as a liability and not to be reported as an inter-program balance (i.e., as cash), the transaction has to be settled.
- Provide clarifications to ensure financial activities and transactions are properly and consistently classified and accurately reported on the FDS.
- Incorporate program compliance and Generally Accepted Accounting Principles (GAAP) that need to be addressed (1) when the inter-program activity represents the ineligible use (or potential ineligible use) of program funds and (2) to ensure reclassifications of inter-program balances to transfers in/out do not result it program noncompliance.

5. USE OF PUBLIC HOUSING OPERATING FUNDS

Public Housing Operating Funds, which primarily include grant assistance and rental income, are restricted funds and may only be used for eligible expenses included in Section 9(e) of the U.S. Housing Act of 1937 (1937 Act) (42 USC 1437g(e)). Public Housing Operating Subsidy grant funding can only be used for the statutory period of availability.[10] PHAs are required to maintain compliance with program statutory and regulatory requirements including the PHA's Annual Contributions Contract (ACC), Form HUD-53012. Pursuant to Section 9(k) of the 1937 Act (42 U.S.C. 1437g(k)), nonrental income "[may only] be used for low-income housing or to benefit the residents assisted by the [PHA]."

PHAs are reminded of their responsibilities under the ACC, to retain adequate records to support compliance with FDS reporting requirements per 24 CFR § 902.79, to substantiate the eligible use of program funds in accordance with 24 CFR § 990.325, and with OMB's Part 200 requirements for Federal Awards including Internal Controls (2 CFR § 200.303) and Financial Management (2 CFR § 200.302). PHAs must comply with these requirements and establish and maintain effective internal controls and financial management over federal program funds that include but are not limited to:

a. the maintenance of adequate books of accounts and records that allow for verification of transactions to source documentation,
b. identify adequately the source and use of federal program funds so that program eligibility and compliance determinations can be made,
c. ensures timely traceability, auditability, and accountability for all funds, property, and other assets and allows for a timely and effective review,

[10] Appropriated funds are available for obligation by the Federal government only for their defined period of availability and remain available for the liquidation of properly incurred obligations for an additional five-year period. After that five-year period, an expired account is closed and any remaining balance "shall be canceled and thereafter shall not be available for obligation or expenditure for any purpose." 31 U.S.C. § 1552(a). Funds from cancelled accounts must be returned to the U.S. Treasury (via HUD) as required by law. 31 U.S.C. § 1552(b).

d. adequately safeguards all assets and ensures that they are used solely for authorized purposes, and
e. ensures program funds are deposited and safeguarded in accordance with the terms of properly executed General Depository Agreement(s) (Form HUD-51999) including collateralization requirements.

The use of Public Housing Operating Funds for non-program purposes is an ineligible use of program funds and violates statutory and regulatory requirements, including the 1937 Act, the ACC, and appropriations statutes Law statutes (see Sanctions in Section 9 of this Notice).

While central payor arrangements differ, all arrangements must provide for effective internal controls and financial management over HUD program funds to ensure they are managed in compliance with Federal requirements. When employing these arrangements, PHAs must take the below requirements and those contained in Section 6 into account to prevent the misuse of funds and ensure they are properly accounted for, reported and safeguarded. PHAs must accurately classify and report financial information on the FDS and be consistent with GAAP requirements as set forth in Section 7 and in accordance with the requirements under the revised FDS Line Definitions set forth in Appendix B.

5.1. Guidelines on the Use of Public Housing Operating Funds

Public Housing Operating Funds:

a. Are not fungible between programs except as approved by HUD and consistent with HUD Requirements.[11] PHAs may use Operating Funds as outlined by sections 9(e), 9(g) and 9(l) of the 1937 Act, HUD regulations and MTW agreements (as applicable). PHAs may use Capital Funds as outlined by sections 9(d), 9(g), and 9(l) of the 1937 Act and HUD regulations.

   Example: Public Housing Operating Funds cannot be even temporarily used to cover or support non-Public Housing program activities through central payor type arrangements such as Paymaster and Revolving Fund Accounts.

b. May be pooled in an account such as the General Fund, Public Housing Operating Funds, but may not be advanced from the pooled account in excess of the Public Housing program's expenditure rate.

   Example: If funds are needed for payroll coming due, Public Housing Operating Funds may only be advanced to cover the proportionate share of bills coming due for Operating Fund expenses in the public housing program.

c. Cannot be used to cover COCC administrative expenses and cannot be loaned, advanced or transferred to other component units or other non-Public Housing programs and activities. Per 24 CFR § 990.280(c) funding for the COCC from the

[11] See PIH 2018-03 (HA) regarding the use of Public Housing Operating Funds for capital activities. Additionally, see PIH 2016-18 (HA) regarding guidance on flexibilities for small PHAs.

Public Housing Operating Fund program is limited to allowable COCC fees only.

Example: Public Housing Operating Funds must not be used in a central payor or other arrangement to pay for COCC costs that are only recoverable through allowable project-based fees. Nor may they be used to fund short- or long-term loans to cover COCC deficit spending.

d. Cannot be used to pay for Public Housing Capital Fund Program (CFP) expenditures in advance. While Federal requirements provide certain flexibilities[12] between the use of Public Housing Operating and CFP funds, it does not extend to the temporary use of Public Housing Operating funds to pay for a reimbursable CFP grant expense. CFP funds are available to PHAs for immediate cash needs as set forth in 24 CFR § 905.314(l)), which) requires for initiation of "Disbursements from HUD" for CFP expenses when funds are due and payable.

   Example: Public Housing Operating Funds may not be used to initially pay for designated CFP-only grant expenses, with a later CFP drawdown then being used to reimburse Public Housing Operating Funds.

e. Cannot be used or transferred to provide overdraft protection for other PHA programs and enterprise bank accounts.

   Example: Public Housing Operating Funds cannot be transferred to a dedicated ROSS bank account to pay for bills coming due for the ROSS program or to cover anticipated cash shortfalls. If, however, a PHA chooses to provide additional supportive services that are Public Housing program eligible using Public Housing Operating Funds, it may do so after identifying such expenses in the annual budgetary process, as set forth in. See 24 CFR § 990.190(a).

f. Must not be used to pay up front for the expenses of other federal programs unless legally authorized.

   Example: Public Housing Operating Funds cannot be used to pay up front for Jobs Plus Initiative[13] grant expenses until reimbursements are received.

g. Cannot be used to fund guarantees that are legally the responsibility of the PHA as an organization or an affiliate Component Unit and do not represent Public Housing program liabilities or authorized uses of program funds. Additionally, guarantees that are represented by an interfund, affiliate accounts receivable, or any other short- or long-term receivable cannot be written down or written off.

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[12] PHAs may use Capital Funds as outlined by sections 9(d), 9(g), and 9(l) of the 1937 Act and HUD regulations consistent with HUD Requirements.

[13] Except for the properly accounted for due from / due to (payable and receivable) balances generated between Public Housing and the Jobs Plus grant representing rent reimbursements to the PHA. (The Jobs Plus rent incentive offered through the Jobs Plus Initiative known as the Jobs Plus Earned Income Disregard (JPEID) is reimbursed to the PHA via the awarded Jobs Plus grant.)

Example: Public Housing Operating Funds cannot be used to subsidize operating losses of a Discreetly Presented Component Unit such as a post-RAD Tax Credit property (either directly through the transfer of funds, or indirectly through the generation of affiliate payables/receivable balances that are subsequently written down or written off).

h. Retain their identity as Federal funds from the time of appropriation through their disbursement and use (or return of funds) through closeout. Public Housing Operating Funds held locally in pooled accounts or advanced to central payor arrangements remain restricted by time, purpose and amount and are subject to applicable program statutory and regulatory requirements.

i. Must be readily traceable from the source of funds (the grant number and associated year) to their ultimate use in accordance with the ACC, 2 CFR § 200.302, 24 CFR § 990.325 (Records retention requirements) and 24 CFR § 902.79 (Verification and records).

Example: To facilitate the tracking of grants, each Public Housing Operating Fund grant award includes a grant award identifier that also indicates the associated year. The first 5 characters of the award ID are reserved for the PHA's State Abbreviation and 3-digit code (e.g., <u>AK999</u>00000324D). The next six are reserved to identify the Development/AMP number (e.g., AK999<u>000003</u>24D identifies that the grant award is for AMP 3). The next two numbers (e.g., AK999000003<u>24</u>D) indicate the calendar year the funding is being provided for (1/1/2024 - 12/31/2024).

j. Must be fully accounted for and supported by a PHA's official books of account. The accounting records must be in sufficient detail to readily determine and validate the cash balances of each AMP and the COCC. The records must be kept in sufficient detail to validate and support the amounts reported to HUD in the Single Audit and FDS and document the accounting and reporting conventions used to establish and report the PHA's financial data. This is applicable to a PHA's programs and activities which have short- or long-term payables directly or indirectly (through the COCC, Revolving Fund or another intermediary such as a Blended Component Unit) owed to Public Housing.

5.2. General Depository Agreement Requirements

The ACC requires PHAs to deposit and invest, in HUD-approved investment accounts, all program funds for projects under an ACC, in accordance with the terms of the HUD General Depository Agreement (GDA). The GDA safeguards program funds and limits risk by providing third-party rights to HUD and executes controls over program reserves requiring that any portion of PHA funds not insured by a federal insurance organization be fully and continually collateralized. Regardless of central payor, mixed-finance, or other arrangements the following requirements apply:

a. Consistent with the Annual Contributions Contract (ACC), PHAs must deposit all program funds in accordance with the terms of a GDA. The General Depository Agreement Form HUD-51999 must be fully and properly executed between the PHA and the depository, and funds fully collateralized.
b. The executed GDA must include, cover, and list all deposit bank account numbers in which all Public Housing program funds are held including any pooled account(s) and other accounts as applicable (Revolving Fund, General Fund, Mixed Finance).
c. The PHA may only withdraw deposited program receipts for use in connection with the program in accordance with HUD requirements.

6. BEST PRACTICES, FINANCIAL MANAGEMENT, AND INTERNAL CONTROLS

This section discusses strategies and best practices for maintaining compliance with funding requirements (addressed previously in Section 5) when working with different types of central payor arrangements. The examples discussed below are consistent with the requirements for Federal awards applicable to PHAs under OMB's Part 200 as articulated in Financial Management (2 CFR § 200.302) and Internal Controls (2 CFR § 200.303).

Central payor type arrangements and practices must incorporate effective internal controls to prevent the misuse and misapplication of restricted[14] funds and ensure all Federally restricted program funds are properly accounted for, reported and safeguarded consistent with criteria outlined in Operating Fund requirements above. Below are three potential funding strategies that can be implemented to ensure the central payor account is replenished while maintaining compliance with funding requirements:

a. Advance Funding: Subject to availability of funds and specific program rules, the simplest approach would be to advance fund the central payor account with unrestricted discretionary funds (such as Developer Fees or unrestricted funds available from a line of credit) and have all participating program/activity accounts return funds based on each program/activity eligible expenditure on a reimbursement basis.
b. Proportional Advances: Other approaches may include providing advances from all participating programs/accounts to the central payor account (as allowed), proportionate to each program's expenditure rate and using discretionary funds to cover the cash position of program/activity accounts where program/activity advances are not allowed or available.
c. Major Program Advances: Another alternative may include providing advances from all major programs to the central payor account (as allowed), with the cash position of other participating program/activity accounts covered with discretionary funds until reimbursements can be made.

If PHAs anticipate a lack of working cash or unrestricted cash to support new Federal grant award expenditures until they can be reimbursed, they should consult with the awarding Agency

[14] See Footnote 5 of this Notice.

(such as the responsible HUD awarding office for HUD grants or the granting agency in the case of non-HUD grants) in advance of the grant application to see if alternate Federal payment methods can be made available and incorporated into the grant agreement. Under 2 § CFR 200.305 (Federal Payments) Agencies are provided with flexibility to consider other payment methods such as advance payments and payments made on a working capital advance basis. According to 2 CFR part 200 the advance method of payment is required for grant recipients who have implemented cash management practices. The reimbursement method of payment is preferred if the grant recipient cannot comply with cash management requirements. The availability of alternate Federal payment methods depends on Agency policy and may be subject to qualifying criteria and risk considerations.

Table 1 below provides a checklist for PHAs in implementing successful financial management and internal control mechanisms.

TABLE 1. Checklist for best practices for financial management and internal controls.

Checklist	Clarification
Are there sufficient controls in place to ensure compliance with governing fund restrictions?	Central payor arrangements will, by design, contain funds from multiple programs and/or Grants. Ensure sufficient controls are in place so funds are utilized in accordance with any/all associated restrictions. **Example:** A central payor account may contain funds from the Public Housing Operating Fund and the Housing Choice Voucher Programs. Ensure sufficient controls are in place and routine reconciliations are completed to safeguard funds and maintain compliance with the Public Housing Operating Fund(s) restrictions as outlined within this document and the Housing Choice Voucher Program funding usage restrictions(s) as outlined in the relevant guidance. • Ensure responsible staff are knowledgeable about applicable program rules and fund restrictions. • Maintain strong cash management controls including over the receipt and movement of funds such as authorizations to make drawdowns, initiate fund transfers between accounts, and disburse funds. • Ensure that all cash transactions are authorized, accounted for, and documented properly. There should be a sufficient audit trail so that federal program funds can be traced from the source of funds to their ultimate use. • Routinely monitor and reconcile bank account (monthly) and central payor account activity (no less frequently than monthly). • Institute accounting controls to ensure (1) advances, transfers, and disbursement of funds are made only for authorized purposes, and (2) expenditures and reimbursements are made only for authorized uses within approved timeframes such as the period of performance, budget or liquidation period.

Are internal controls, procedures and practices adequate and well-documented?	Ensure adequate internal controls such as written standard operating policies and procedures are in place to document the established central payor account arrangement practices. Ensure the practices are widely understood, effectively implemented, and properly monitored and controlled. **Example:** Create a Standard Operating Policy and Procedure to document central payor arrangement practices, objectives, processes and controls. Establish and implement routine monitoring mechanisms to ensure effective financial management practices and oversight of the arrangement, including the timing and availability of cash flows and the appropriate use of funds. • Assign responsibilities and timelines for actions and tasks including for oversight and monitoring of the arrangement. • Document the accounting system set-up, identify the sources of funds being used in the arrangement and the accounts involved. • Document accounting, authorization, monitoring and reconciliation controls. • Describe the funds flow, reconciliation, settlement, and reimbursement cycles and processes. • Document the procedures and records used to analyze, reconcile, and validate the account activity. • Describe the steps used to settle (and document the settlement of) outstanding inter-program and affiliate receivable balances through the transfer of funds or by other means.
Is information on the participating accounts well-documented and maintained?	Adequately document and maintain relevant information on each account participating in the central payor arrangement. **Example:** Maintain an account profile for each participating account that includes information such as: • the accounting system identification numbers (e.g., cost code or cost center numbers assigned to the activity); • the account type (e.g., advance grant, reimbursable grant, internal cost center); • the account name, activity description, and reason and basis for participation in the central payor account; • the source(s) of funds available to support expenditures including the payment and billing terms, anticipated cash needs, and the timing and frequency of payments (such as grant reimbursements); • the length of participation in the arrangement (such as for an internal cost center or the start/expiration date for a project or activity); and • restrictions or special conditions that apply such as funding, time, and expenditure type limitations. For example, identify if grant funds are time limited to pay for a specific period of performance, if any pre-approvals for expenditures (e.g., travel or training costs) are required, if pre-contract costs are allowable, and note ceiling limits on expenditures.

Are controls and approvals in place before accounts are added to a central payor arrangement?	Ensure controls and approvals to establish each account are in place before they are added to a central payor arrangement. The controls should ensure (1) the activities and expenditures are authorized, (2) funds are available to support the activities, and (3) compliance with any time, use, and expenditure limitations on the funds. **Example:** Establish and document an account request set-up (and closeout) policy and procedure that includes authorized approvers. • Validate that the activities and expenditures are authorized. Verify account data and spending authorization to source documents such as grant awards and renewal documents, Board approved budgets, and Management & Operations Agreements. • Review source documents and note any funding restrictions or special grant provisions. • Designate the specific funding source(s) to be used to support the account activity from inception to closeout. • Confirm that eligible funding sources are available to cover the costs of the participating programs and enterprises on a temporary or permanent basis, such as designating the temporary use of unrestricted funds to cover the costs of accounts that receive funding only on a reimbursement basis or to cover any potential losses.
Did you ensure that expired participating accounts do not have an activity?	Ensure participating accounts are not able to have activity in the central payor account once the terms of the participating accounts have expired. **Example:** If a one-time grant has been closed out, the associated account should be closed or inactivated in the accounting system so that unauthorized expenditures cannot be automatically processed through the account. • Establish a written account close out policy and procedure that provides for the routine monitoring of the participating accounts in a central payor arrangement. • Assign responsibilities and timelines for actions and tasks including for account monitoring so account closeouts occur on a timely basis.
Are there internal controls to limit spending?	When managing payments centrally, ensure that budgetary, expenditure and other internal controls are in place to limit spending. **Example:** If a PHA receives a $100,000 advance grant as the only authorized funds for an activity, internal controls such as spending limits and monitoring of budget to actual grant expenditures should be implemented to avoid using Paymaster or Revolving fund arrangements to cover spending beyond authorized and available amounts.
Are there strong controls over the billing and	To ensure sound financial management, institute strong internal controls over the billing and collection functions for revenues of participating accounts (including management and operating fees) to ensure the timeliness of receipts and

collection functions for revenues of participating accounts?	advances, and the routine application of reimbursements to the central payor account in keeping with the participating account's expenditure rate. **Example:** If Federal grant funds are available for the immediate cash needs of a federal program they should be accessed and applied timely to the central payor account to cover those immediate cash needs.
Are there preventive controls to avoid the accumulation of outstanding multi-year receivable balances?	Institute preventive controls to avoid the accumulation of multi-year balances owed to the central payor account that could potentially represent and mask unrecognized losses, deficit spending, or other problematic practices. **Example:** Routinely monitor monthly outstanding balances to determine the age of the balances (e.g., if they are 30, 60, or 90 or more days outstanding). Ensure they do not exceed 10% of the program operating cycle expenditure rate. Investigate the reason balances are not being settled on a timely basis within the normal operating cycle. Identify and address root causes and ensure settlements are made timely from eligible funding sources.
Are there strong reconciliation controls in place?	Central payor arrangements generate a variety of financial transactions and activity across multiple funding, disbursing, and participating accounts. Ensure strong reconciliation controls and settlement policies, procedures and practices are in place, well documented, and are being properly and routinely performed. These controls are critical to (1) safeguard funds, (2) ensure they are being properly used and fully accounted for in the central payor arrangement, and (3) reimbursements are being applied timely and accurately to the funding accounts. Since reconciliation and validation processes are manual (and often resource-intensive), they are at risk of not being performed timely, consistently or completely (i.e., financial activity may not be fully reconciled due to time constraints or due to the large number of accounts and transactions involved). **Examples:** • Confirm and validate cash balances (from the bank accounts to the applicable books and records) through a monthly reconciliation process for all accounts in which funds are held or disbursed. Ensure the cash position of each participating account (and funding source of origin as applicable) remains readily traceable through each step in the central payor arrangement. • Routinely reconcile and analyze financial activity (such as advances, disbursements, outstanding inter-program payable and receivable balances, reimbursements, and settlements) between books of account and bank statements to ensure funds have been accurately accounted for and properly disbursed and applied in the arrangement. • Reconcile related General Ledger and Revolving Fund General Ledger activity to subsidiary ledgers (e.g., accounts receivable/payable and interfund accounting modules).

	• Validate that reconciliations are routinely being completed by staff on a timely basis.
Are interfund inter-program and affiliate receivable balances cleared appropriately?	Ensure policies, procedures and practices require interfund inter-program (i.e., due from / due to) and affiliate receivable/payable balances to be cleared on a timely and routine basis with eligible sources of funds. Monthly balances should not normally exceed 1-month (approximately 10 percent) of operating cycle expenditures for the participating program/account. (Operating cycle expenditure refers to annual cash expenses.)
Did you identify and review the participating accounts to ensure that shortfalls are funded appropriately?	Ensure non-routine replenishments required to fund central payor account shortfalls are made from eligible sources. Identify and review the participating accounts and activities that are driving projected shortfalls so the correct funding sources can be applied to cover the corresponding expenditures, and adjustments made as necessary. **Example:** Annual increases in salaries and fringe benefits may require an increase in advances being made to the central payor account to cover salaries and benefits for the participating accounts. Increases in advances should be in keeping with a participating accounts expenditure rate and proportionate share of the increase. Shortages may also identify areas where cost containment or other measures need to be undertaken to avoid deficits. For example, if a participating account is having cash flow issues, or if an organization's multi-year grant applications and funding requests are not accounting for anticipated annual increases in salaries and benefits.
Do you periodically assess the system against current business requirements?	Periodically assess the system and evaluate performance, compliance with business requirements, and effective resource utilization. **Example**: Review legacy systems and the costs and resources involved to effectively maintain the system. Determine if the system is accessible to staff, reliable, functioning effectively, and achieving the desired cost and operational efficiencies. Assess whether the system meets current business needs. Identify areas for improvement and implement necessary changes.

7. FASS-PH FINANCIAL DATA SCHEDULE (FDS) REPORTING

The Uniform Financial Reporting Standards (UFRS) at 24 CFR § 5.801 and specifically § 5.801(b)(1), require PHAs to prepare information in accordance with GAAP and submit financial information to HUD electronically. PHAs are required by regulation to submit their fiscal year end (FYE) financial information and FDS to HUD through the Financial Assessment Subsystem for Public Housing (FASS-PH).

7.1. FDS Reporting and Presentation/Format Conventions: Restricted and Unrestricted Resources

As outlined in the Financial Data Schedule Line Definition Guide referenced below, the reporting content and format of the "Financial Data Schedule" assumes that federal program assets (such as capital assets, cash, investments, investment income, net position), as well as many state and local program assets, are restricted and limited in their use to support only that program for which the funds were provided.

Therefore, for FDS reporting and presentation purposes the term "restricted" is only used when funds and other resources are deemed unavailable to support the general day-to-day operations of the program due to *further restrictions* (legally unavailable for use) or *further limitations* (by a third-party agreement) being imposed by the providing government/source itself. For example, if a PHA pledged assets as collateral for a loan, or if a PHA's bond proceeds are restricted for certain capital project expenditures. The FDS formatting and reporting conventions for "restricted" and "unrestricted" assets must not be interpreted to mean that federal program resources per schedule are not subject to the restrictions imposed by applicable federal program statutory and regulatory (and sub regulatory) requirements.

HUD relies on the FDS for decision making and for PHA performance monitoring, including for the Public Housing Assessment System (PHAS) and for assessing shortfall status. HUD has provided specific line-items on the FDS for PHA's to report cash, investment, and short- and long-term receivable balances (including interfund inter-program activity and affiliate receivable/payable balances), which are among key metrics HUD collects for monitoring a PHA's financial health. PHAs must accurately classify and report financial information on the FDS and be consistent with GAAP requirements.

As discussed in Section 4, the current definition for each FDS line can be found in the Financial Data Schedule Line Definition Guide (July 2020 Update) except for the definitions for FDS lines 144, 172, 347, and 352 that are superseded by this Notice. See Appendix B for the new definitions and Appendix C for the eliminated language. Refer to Section 4 for specific changes to related guidelines (REAC Accounting Brief # 14 and the HUD Handbook[15]) with regard to FDS reporting of cash and inter-program activity that are eliminated by this Notice. (These definitions assume that PHAs are compliant with Section 5 and Section 6 of this Notice on the use of Public Housing Operating Funds and Appendix B requirements.)[16]

If PHAs are excluding interfund inter-program and affiliate[17] accounts receivable/payable balances and related financial activity from FDS reporting such as through (1) closing and "presentation only" entries (e.g., reclasses to cash), (2) transfers and reclassifications (e.g., in/out to another program/account, or to other FDS lines such as to noncurrent assets and liabilities.), (3) the elimination or reduction in inter-program program asset and liability balances

[15] Supplement to HUD Handbook 7475.1 REV., CHG-1, Financial Management Handbook Office of Public and Indian Housing (PIH) Revised April 2007.

[16] 2 CFR part 200 subpart F – Audit Requirements.

[17] PHA transactions with external affiliated entities classified as Discreetly presented Component Units (DCUs) are reported as accounts receivable and payable rather than as interfund inter-program activity. For example, DCU receivables reported on FDS Line Item 125 Accounts Receivable – miscellaneous (with detailed subaccount links for entity type; 125_010 Not For Profit, _020 Partnership, _030 Joint Venture, _040 Tax Credit, _050 Other) rather than on FDS Line Item 144 (Inter-Program Due From Other Programs).

via other adjustments (e.g., equity, prior- and out-of-period adjustments, corrections of errors, allowances or write-offs or write-downs), or (4) the balances are otherwise problematic (e.g., if they represent the misuse of funds, uncleared legacy balances, and/or the collectability is in question), this must be detailed and explained in an upload with the FDS submission. This must include the rationale and accounting and reporting conventions used to determine the FDS line-item reporting or exclusion from FDS reporting.

7.2. Financial Data Schedule Crosswalk Reconciliation

Consistent with Federal requirements outlined in Section 5 of this Notice (including the ACC, 24 CFR § 990.325 and 24 CFR § 902.79), PHAs must maintain records and supporting documentation to allow for tracing and verification of all Operating Fund program financial transactions. Accordingly, a PHA's FDS reporting to HUD must be readily traceable to and supported by the PHA's official books and records. This includes for pooled cash and central payor account funds, investments, interfunds, affiliate short- and long-term receivables, and other related PHA transactions such as payroll and central cost allocations.

The FDS must tie to a PHA's official books and records either directly, or indirectly through a fully documented, explained and transparent crosswalk. As part of the review of the PHA's financial submission for cash, investments, interfund and affiliate receivables/payables, HUD may require that the PHA provide such information, prior to the submission being accepted. PHAs may want to provide a crosswalk reconciliation of related line items as part of their submission and comments to HUD, so HUD staff can easily see the details of these line items in their review.

8. EXPENDITURE REPORTING

PHAs must comply with any additional expenditure reporting requirements in the manner and on the schedule that HUD may prescribe. HUD reserves the right to exercise all available rights and remedies for any noncompliance with these additional financial reporting requirements, to include requiring 100% review or stopping future disbursements altogether if reporting is not timely submitted.

9. SANCTIONS

Improper use of Public Housing Operating Funds represents non-compliance with the 1937 Act, relevant program regulations, and the ACC. Such non-compliance may be subject to repayments, offsets, administrative sanctions, or other authorized remedies, including but not limited to actions under section 6(j)(4)(A) of the United States Housing Act of 1937 (42 U.S.C. § 1437d(j)(4)(A)) and 2 CFR part 200.

10. PAPERWORK REDUCTION ACT

The information collection requirements contained in this Notice have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. §§ 3521) and assigned OMB control number 2577-0157. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

11. EFFECTIVE DATE

This Notice is effective upon publication.

12. FURTHER INFORMATION

For further information about this Notice, contact your local HUD Office of Public Housing. Locations of these offices are available on HUD's website at http://www.hud.gov.

Benjamin Hobbs
Principal Deputy Assistant Secretary
Office of Public and Indian Housing

APPENDIX A. KEY TERMS AND DEFINITIONS

Paymaster Account	A central payor financial arrangement where a common checking or working capital bank account is used to receive funds from multiple programs and sources and disburse funds to pay bills and process transactions centrally for a PHA's activities and enterprises. These accounts may contain both restricted and unrestricted program funds.
Paymaster Arrangement	A type of central payor arrangement. Paymaster arrangements can vary widely. However, when employed, a PHA usually designates one account as the Paymaster Account (Central Office Cost Center, Business Activities, other). A. *Initial and Ongoing Funding:* PHA practices for funding Paymaster Accounts vary widely. Paymaster Accounts may be funded by multiple participating programs and accounts that provide initial funding for the Paymaster account through cash advances, or it may be advance funded by one source only (for example unrestricted reserves such as Development Fees). Participating accounts may have their own dedicated bank accounts outside the Paymaster Account and may participate with the Paymaster on (1) an advance basis (providing funds in advance to pay for the bills coming due), (2) on an advance-retention basis where all or a majority of a participating account's funds are retained by the Paymaster Account (in some cases a participating account may not have a dedicated bank account), (3) a real time basis (by transferring funds based on immediate cash need to pay for the payroll or bills coming due for that program or activity), (4) a reimbursement basis (reimbursing the Paymaster after the fact), (5) a combination of participation types outlined in 1-4, or on another basis. B. *Receipts and Expenditures:* Some PHAs may minimize Paymaster activity including receipts and disbursements by utilizing individual program checking and other bank accounts (program operating, reserve, rent, escrow) to receive federal funds, rents, and other income and to pay for directly identifiable costs of those programs outside of the Paymaster account. Other PHAs have all expenditures disbursed through the central payor account (payroll, non-personnel costs, direct and administrative costs), or a mix (payroll and administrative costs) with the flow of receipts and timing of settlements varying by each participating account.

Primary Account	The PHA's designated Paymaster Fund Account in a PHA's Accounting System. It serves as the central account from which bills are paid for participating PHA programs and enterprises. It is also the account in which various program and enterprise funds are deposited for the purpose of paying for items chargeable to those participating accounts. The Primary Account may or may not have its own funds to pay bills on behalf of other programs and entities. It may access funds from pooled accounts and may retain funds from other programs in the form of advance payments or residual reserves to fund the account, and to receive reimbursements to replenish it. For all or a subset of participating accounts, the Primary Account may be the default account where all revenues are received such as Federal electronic fund transfers and rental receipts.
Program Expenditure Rate	An established or anticipated pattern of spending of a particular program whereby immediate or monthly cash needs can be predicted for the program.
Pooled Account	A pooled bank account is a financial arrangement where funds from multiple programs and sources are held in a single account. Please note that not all funds are eligible to be maintained in a pooled account. For example, some Federal grant programs require a recipient to segregate awards into separate bank accounts and some states require that tenant security deposits be maintained separately in an escrow account.
Revolving Fund Account	A type of central payor arrangement where a separate bank account (or more than one account) is established specifically to handle cash transactions for the various PHA activities and enterprises. These accounts may include both restricted and unrestricted funds. A separate General Ledger is maintained for the revolving account entity in addition to the books of account maintained for a PHA's individual programs and enterprises. PHAs may maintain one or more Revolving Fund Accounts. Like the Paymaster arrangement described above, outlays are made from the central account on behalf of participating programs and enterprises. These accounts may participate on a combination of bases including advance, advance-retention, real-time, reimbursable or other as discussed above.

Component Units (Blended and Discretely Presented)	A Component Unit is defined as (1) a legally separate organization for which the elected officials of the primary government are financially accountable, or (2) a legally separate organization for which the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading. A *Blended Component Unit (BCU)* is treated as part of the primary government, and its financial information is reported within the primary government's financial statements. BCUs are so intertwined with the primary government that they are, in substance, the same as the primary government. A *Discretely Presented Component Unit (DCU)* is a legally separate organization that is reported in a separate column or row from the primary government's financial data on government-wide financial statements.

APPENDIX B. REVISED FDS LINE DEFINITIONS

FDS line 144: Inter-program - due from

(PHAs are cautioned that funds are normally not fungible between different federal programs regardless of the nature of the transfer or receivable. This includes the use of restricted funds in these transactions. Inappropriate use of funds, including restricted[18] funds such as operating subsidy, for even a temporary loan, are ineligible costs resulting in program non-compliance.)

<u>General Definition</u>

Inter-program due from/to accounts (144/347) are used to track receivable/payable relationships between internal funds and activities of a PHA; for example, between programs, accounts, and cost objectives.[19] Inter-program balances (representing eligible borrowing between funds) are expected to be repaid "within a reasonable time"[20] during the operating cycle (i.e., 1-year).

Accordingly, FDS balance sheet line item 144 is used to report amounts due from other PHA projects, programs, and activities of a temporary nature. The "due from" balance reported represents the outstanding inter-program receivable balance due from the benefiting program/account at year-end. The balance in this line represents the decrease of resources (i.e., cash) of one program/activity/account that was used for another.

FDS Line 144 is a current asset/receivable. Current assets (including cash and other assets or resources) are defined as those reasonably expected to be realized as cash or sold or consumed within a year (i.e., a normal operating cycle). Any portion of the "inter-program - due from" that has been determined to be not current must be reported as a non-current asset for FDS reporting, as long as the PHA has demonstrated their ability and intent to defer the repayment for at least 12 months after the reporting period and the non-current transaction is an eligible use of the funds. FDS line 172 "Notes, loans & mortgages receivable – non-current – past due" must be used to report the long-term portion of the receivable balance. See discussion of accounting and compliance considerations below.

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[18] Generally, restricted funds are funds upon which restrictions are imposed by an external person(s) or entity, such as a federal agency or a private donor. For example, Public Housing Operating Funds are restricted funds. They may only be used for the operation and management of Public Housing per Section 9(e) of the U.S. Housing Act of 1937 and the Appropriations Purpose statute 31 USC § 1301(a). Funds available under Section 9 may not be used to cover or support nonpublic housing program activities. Unrestricted funds do not have external imposed restrictions as to use or purpose and which can be used for any purpose that supports an organization's mission.

[19] Cost objective means a program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capital projects, etc. A cost objective may be a major function of the non-Federal entity, a particular service or project, a Federal award, or an indirect (Facilities & Administrative) cost activity (see 2 CFR § 201. Definitions).

[20] Reasonable time is a matter of professional judgement. However, monthly balances should not normally exceed 1-month (approximately 10 percent) of operating cycle expenditures (i.e., annual cash expenses) for the participating program/account.

Due From / Due To: Ineligible (Actual or Potential) Use of Funds

- Program Compliance and GAAP Considerations -Transfers In / Transfers Out.
  According to GAAP, inter-program receivable/payable balances and transactions that a government does not have the ability or intent to repay should typically be reclassified as a transfer in/out. However, PHAs are operating in a restricted fund environment where transfers in/out are specifically limited by program statutory and regulatory requirements. Accordingly, this accounting principle must be carefully applied (when appropriate) so that any reclassifications of due from / due to inter-program balances and transactions to transfers in/out do not result in program noncompliance. Similarly, inter-program balances and transactions that represent findings (or potential findings) of program noncompliance must not be recorded as a transfer in/out. See guidance below and in the FDS Reporting section to follow.
- Program Compliance and GAAP Considerations - Due From / Due To
  Inter-program due from /due to ((i.e., payable/receivable) balances and transactions representing findings (or potential findings) of program noncompliance and the ineligible use of federal program funds must not be reclassed or reported as noncurrent assets in absence of a documented repayment arrangement such as with HUD[21] or another third party. Examples of repayment arrangements include (1) an executed repayment agreement between the PHA and HUD, and (2) repayments being overseen by HUD under a HUD Management Decision or Corrective Action Plan that identifies the proper application and timeline for the return of funds (such as through a confirmed HUD offset schedule of future grant assistance.)

FDS Reporting: Conventions, Exclusions, and Classification of Due From(s)/To(s) Balances

Inter-program balances and related financial activities and transactions must be properly and consistently classified and reported.

- Transfers In/Out. Reclassifications of inter-program transactions to transfers in/out may result in program noncompliance and should be carefully evaluated on a case-by-case basis. To avoid program noncompliance, “Due from other program” balances and transactions eliminated through reclassification to “transfers out” should not be initiated without documentation regarding the permissibility and allowability of the transfer such as documented by express permission from HUD.

- Due From/Due To vs. Cash.
  - *Unsettled Balances.* Unsettled inter-program payable and receivable balances (e.g., arising from inter-program loaning and not settled through actual cash transfers) must not be reported as cash. Additionally, to prevent the “build up” of inter-program balances, the balances and related financial activities must not be excluded from reporting as due from / due to, simply because the benefiting program has the funds on hand to settle the balance at year-end. For the inter-program balance to be eliminated as a liability and not to be reported as an inter-program balance (i.e., as cash), the transaction has to be settled in fact.

[21] Inter-program balances that represent a finding or potential finding related to the ineligible or unallowable use of restricted HUD program funds are immediately payable and must not be reclassed to long-term assets or liabilities in absence of a documented repayment arrangement with HUD.

- *Temporarily Held Funds.* For year-end FDS reporting purposes, cash (***reconciled to and supported by bank statements and books of account***) temporarily held in a central payor account on behalf of another program (e.g., representing program advances to fund centrally paid program expenditures) must be reported as cash of the contributing program, project or activity. Oftentimes, cash temporarily held by a central payor account will be a component of year-end inter-program balances (e.g., central payor account due to other program balance representing the cash held). In such situations interfund balances will need to be reported as Cash for FDS reporting purposes. This must not be misinterpreted to mean that multi-year unsettled inter-program receivable balances should accrue or be reported as cash or investments.

- FDS Line Use. Except for reclassification to FDS line item 172 (non-current past-due), interfund inter-program balances must not be reported in (i.e., misclassed to) other FDS line items including FDS line items 125 "Accounts receivable – miscellaneous," 171 "Notes, Loans, and Mortgages and Receivables – Non-Current", 171 "Other Assets", and 311 "Bank overdraft" reporting. Similarly, inter-program liabilities related to Construction in Progress must not be reclassified and reported as if the asset had been placed in service or treated as an investment or other asset.

- Gross vs. Net. Inter-program balances must be reported at gross and not as net amounts on the FDS, and not excluded from reporting via the offsetting of due from / due to balances against each other.

- Payable/Receivable Relationships. Reported inter-program balances and transactions should represent true payable/receivable relationships between programs/accounts. They should not represent unrecognized losses incurred as a result of a PHA's deficit spending. For example, if the amounts used to support the other program represent an unallowable use of federal program funds, these losses may represent a liability of the PHA to an external entity such as to a Federal Agency and may no longer represent a true receivable/payable relationship between programs.

- Time Restricted and Expired Funds. Similarly, the impact of the expiration date of program funds (such as grant funds) may affect the classification of inter-program transactions and balances. See examples below.
    - Time restricted funds (limited to a specific performance period) may not be eligible to be used to reimburse another account for prior period expenditures made outside of the grant cycle or the liquidation period (2 CFR 200.344).
    - Funds used to support another program (due from) from a funding source that has since expired may result in the reimbursement no longer qualifying to be repaid to the local program account. Repayments may be required to be made to an external entity such as to the funder and may negate the receivable/payable relationship between programs.

Other FDS Reporting Instructions

- PHA's including long-term inter-program receivable balances in FDS line 172 reporting are required to provide comment/justification in their FDS submission that includes (1) an explanation of the activity, (2) reason(s) for the reclassification of the receivable balance(s) from short- to long-term, and (3) a schedule of the outstanding balances by year and by account including the expected payoff date(s) and anticipated source(s) of funds to make the settlement.

- FDS line 144 is a required field if an amount has been recorded in FDS line 347 in the PHAs other programs / projects. These FDS line items are eliminated in the FDS elimination column from top level entity wide reporting.

FDS line 172: Notes, loans, & mortgages receivable – non-current – past due
This FDS line represents unconditional written promises, signed by the maker, to pay a certain sum of money on demand, or at a fixed or determinable future time as evidenced by formal instruments of indebtedness where the payment for the current portion of the amount due from the debtor has been past due in accordance with payment terms agreed in the loan agreement (See FDS line 127 for current portion of notes and mortgages receivable and FDS line 171 for the Noncurrent portion).

Refer to FDS line 144: Inter-program - due from. Any portion of the "inter-program - due from" that is not current must be reported in this (past due) line item (172) as long as the PHA has demonstrated their ability and intent to defer the repayment for at least 12 months after the reporting period, and the non-current transaction is an eligible use of the funds. PHAs including long-term inter-program receivable balances in FDS line 172 reporting are required to provide comment/justification in their FDS submission that includes (1) an explanation of the activity, (2) reason(s) for the reclassification of the receivable balance(s) from short- to long-term, and (3) a schedule of the outstanding balances by year and by account including the expected payoff date(s) and anticipated source(s) of funds to make the settlement.

FDS line 347: Inter-program - due to
(PHAs are cautioned that funds are normally not fungible between different federal programs regardless of the nature of the transfer or receivable. This includes the use of restricted funds in these transactions. Inappropriate use of funds, including restricted funds[22] such as operating subsidy for even a temporary loan, are ineligible costs resulting in program non-compliance.)

General Definition
Inter-program due to/from accounts (347/144) are used to track payable/receivable relationships between internal funds and activities of a PHA. For example, between programs, accounts, and cost objectives.[23] Inter-program balances (representing eligible borrowing between funds) are expected to be repaid "within a reasonable time"[24] during the operating cycle (i.e., 1-year).

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[22] See Footnote 17. In general, restricted funds are funds upon which restrictions are imposed by an external person(s) or entity.
[23] See Footnote 18 for definition of cost objective.
[24] Reasonable time is a matter of professional judgement. However, monthly balances should not normally exceed 1-month (approximately 10 percent) of operating cycle expenditures (i.e., annual cash expenses) for the participating program/account.

Accordingly, FDS balance sheet line item 347 is used to report amounts due to other PHA projects, programs, and activities of a temporary nature. The "due to" balance reported represents the outstanding inter-program payable balance due to the program/account providing the resources at year-end. The balance in this line represents an increase of program/account resources (i.e., cash) provided by another program/account.

FDS Line 347 is a current liability/payable. Debts owed (inter-program payables) are expected to be paid during the normal operating cycle (i.e., 1-year). Any portion of the "inter-program - due to" that has been established as not a current liability (i.e., associated with the long-term receivable reported in FDS Line 172 Notes, loans, & mortgages receivable – non-current – past due) must be reported as a non-current liability for FDS reporting, using FDS line 352 "Long-term debt, net of current - operating borrowings" as long as the PHA has demonstrated their ability and intent to defer the repayment for at least 12 months after the reporting period and the non-current transaction is an eligible use of the funds. See discussion of accounting and compliance considerations below.

Due From / Due To: Ineligible (Actual or Potential) Use of Funds

- Program Compliance and GAAP Considerations -Transfers In / Transfers Out.
  According to GAAP, inter-program payable/receivable balances that a government does not have the ability or intent to repay should typically be reclassified as a transfer in/out. However, PHAs are operating in a restricted fund environment where transfers in/out are specifically limited by program statutory and regulatory requirements. Accordingly, this accounting principle must be carefully applied (when appropriate) so that any reclassifications of due from / due to inter-program balances and transactions to transfers in/out do not result in program noncompliance. Inter-program balances and transactions that represent findings (or potential findings) of program noncompliance must not be recorded as a transfer in/out. See guidance below and in the FDS Reporting section to follow.

- Program Compliance and GAAP Considerations - Due From / Due To
  Inter-program due from/due to (i.e., payable/receivable) balances and transactions representing findings (or potential findings) of program noncompliance and the ineligible use of federal program funds must not be reclassed or reported as noncurrent assets in absence of a documented repayment arrangement such as with HUD[25] or another third party. Examples of repayment arrangements include (1) an executed repayment agreement between the PHA and HUD, and (2) repayments being overseen by HUD under a HUD Management Decision or Corrective Action Plan that identifies the proper application and timeline for the return of funds (such as through a confirmed HUD offset schedule of future grant assistance.)

FDS Reporting: Conventions, Exclusions, and Classification of Due To(s)/From(s) Balances

[25] Inter-program balances that represent a finding or potential finding related to the ineligible or unallowable use of restricted HUD program funds are immediately payable and must not be reclassed to long-term assets or liabilities in absence of a documented repayment arrangement with HUD.

Inter-program balances and related financial activities and transactions must be properly and consistently classified and reported.

- Transfers In/Out. Reclassifications from inter-program balances to transfers in/out may result in program noncompliance and should be carefully evaluated on a case-by-case basis. "Due to other program" balances eliminated through reclassification to "transfers in" should not be initiated without documentation regarding the permissibility and allowability of the transfer or as documented by express permission from HUD.

- Due From/Due To vs. Cash.
    - *Unsettled Balances*. Unsettled inter-program payable and receivable balances (e.g., arising from inter-program loaning and not settled through actual cash transfers) must not be reported as cash. Additionally, to prevent the "build up" of inter-program balances, the balances and related financial activities must not be excluded from reporting as due from / due to, simply because the benefiting program has the funds on hand to settle the balance at year-end. For the inter-program balance to be eliminated as a liability and not to be reported as an inter-program balance (i.e., as cash), the transaction has to be settled in fact.
    - *Temporarily Held Funds*. For year-end FDS reporting purposes, cash (*reconciled to and supported by bank statements and books of account*) temporarily held in a central payor account on behalf of another program (e.g., representing program advances to fund centrally paid program expenditures) must be reported as cash of the contributing program, project or activity. Oftentimes, cash temporarily held by a central payor account will be a component of year-end inter-program balances (e.g., central payor account due to other program balance representing the cash held). In such situations interfund balances will need to be reported as Cash for FDS reporting purposes. This must not be misinterpreted to mean that multi-year unsettled inter-program receivable balances should accrue or be reported as cash or investments.

- FDS Line Use. Except for reclassification to FDS line item 172 (non-current past-due), interfund inter-program balances must not be reported in (i.e., misclassed to) other FDS line items including FDS line items 125 "Accounts receivable – miscellaneous," 171 "Notes, Loans, and Mortgages and Receivables – Non-Current", 171 "Other Assets", and 311 "Bank overdraft" reporting. Similarly, inter-program liabilities related to Construction in Progress must not be reclassified and reported as if the asset had been placed in service or treated as an investment or other asset.

- Gross vs. Net. Inter-program balances must be reported at gross and not as net amounts on the FDS, and not excluded from reporting via the offsetting of due to / due from balances against each other.

- Payable/Receivable Relationships. Reported inter-program balances and transactions should represent true payable/receivable relationships between programs/accounts. They should not represent unrecognized losses incurred as a result of a PHA's deficit spending. For example, if the amounts used to support the other program represent an unallowable use of Federal funds, these losses may represent a liability of the PHA to an external entity such as to a

Federal Agency and may no longer represent a true receivable/payable relationship between programs.

- Time Restricted and Expired Funds. Similarly, the impact of the expiration date of program funds (such as grant funds) may affect the classification of inter-program transactions and balances. See examples below.
    - Time restricted funds (limited to a specific performance period) may not be eligible to be used to reimburse another account for prior period expenditures made outside of the grant cycle or the liquidation period (2 CFR 200.344).
    - Funds used to support another program from a funding source that has since expired may result in the reimbursement (due to) no longer qualifying to be repaid to the local program account. Repayments may be required to be made to an external entity such as to the funder and may negate the receivable/payable relationship between programs.

Other FDS Reporting Instructions

- PHA's including long-term inter-program payable balances in FDS line 352 reporting are required to provide a (1) comment/justification in their FDS submission including an explanation of the activity, (2) reason for the reclassification of the payable balances from short- to long-term, and (3) a schedule of the outstanding balances by year and by account including the expected payoff date(s) and anticipated source(s) of funds to make the settlement.

- FDS line 347 is a required field if an amount has been recorded in FDS line 144 in the PHAs other programs / projects. These FDS line items are eliminated in the FDS elimination column for top level entity wide reporting.

FDS line 352: Long-term debt, net of current - operating borrowings

This FDS line represents the noncurrent portion of long-term debt obtained to aid in the financing of the PHA's operating expenses (non-capital activities of the PHA/Entity). This line will also be used to report the noncurrent portion of debt acquired or bonds issued for lending purposes (loaned to 3rd parties, component units, and/or related parties). This line represents operating notes payable, which may be required as a result of funding a replacement reserve or capital projects reserve required in the RAD and mixed finance agreements. The debt that was originally issued for operating expenses, but subsequently refinanced, must still be reported under this FDS line item.

Please refer to *FDS line 347: Inter-program - due to*. Any portion of the "inter-program – due to" that has been established as not current/past due (i.e., associated with the long-term portion of the receivable balance reported in FDS Line 172 Notes, loans, and mortgages receivable – non-current – past due) must be reported in this line item as long as the PHA has demonstrated their ability and intent to defer the repayment for at least 12 months after the reporting period and the non-current transaction is an eligible use of the funds. PHAs including long-term inter-program payable balances in FDS line 352 reporting are required to provide comment/justification in their FDS submission that includes (1) an explanation of the activity, (2) reason(s) for the reclassification of the receivable balance(s) from short- to long-term, and (3) a schedule of the outstanding balances by year and by account including the expected payoff date(s) and anticipated source(s) of funds to make the settlement.

APPENDIX C. SUPERSEDED LANGUAGE NO LONGER IN EFFECT
(FDS LINE DEFINITIONS- FDS Line Definition Guide July 2020)

144 Inter-program - due from (page 12)
This FDS line represents amounts due from other PHA projects, programs, and activities of a temporary nature. The balance in this line represents a decrease of unrestricted resources of the transferor and are expected to be repaid "within a reasonable time"[26] during the operating cycle. The expectation is that the transferee has the intent and available funds to repay the inter-program due from balance but was not able to complete the repayment due to accounting period cut-off. It is recommended that reconciliation and repayment occur monthly. Reconciliation and repayment should not exceed the annual operating cycle of the PHA.

Many PHAs use a centralized revolving account (including the use of one program's cash that is subsequently reimbursed by other programs) for more efficient daily cash management. The balance in this line represents the amount of receivable from other program for expenditures made on their behalf not to hold the cash for them.

PHAs are reminded that HUD Handbook 7475.1: "Changes in Financial Management and Reporting Requirements for Public Housing Agencies" and the New Operating Fund Rule requires actual project, COCC, and other programs to report at fiscal year-end, actual program cash and investment balances instead of using "due to" or "due from" balances.

PHAs are cautioned that funds are normally not fungible between different federal programs regardless of the nature of the transfer or receivable. This includes the use of restricted funds in these transactions. Inter-program due to and due from should only be reported for temporary loans made to another program or project at year-end. Without the intent and ability to repay, the transaction should be reclassified as a transfer. Inappropriate use of funds, including restricted funds for even a temporary loan, are ineligible costs resulting in non-compliance. FDS line 144 is a required field if an amount has been recorded in FDS line 347.

172 Notes, loans, & mortgages receivable – non-current – past due (page 15 excluding table)
This FDS line represents unconditional written promises, signed by the maker, to pay a certain sum of money on demand, or at a fixed or determinable future time as evidenced by formal instruments of indebtedness where the payment for the current portion of the amount due from the debtor has been past due in accordance to payment terms agreed in the loan agreement (See FDS line 127 for current portion of notes and mortgages receivable and FDS line 171 for the Non-current portion).

347 Inter-program – due to (page 22 and 23)
This FDS line represents amounts due to other PHA projects, programs and activities of a temporary nature. The balance on this line represents a decrease of unrestricted resources of the transferor that are expected to be repaid "within a reasonable time[27] during the operating cycle.

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[26] In the original document, Footnote Number 2: "Reasonable time is matter of professional judgment."
[27] Ibid.

The expectation is that the receiving program has the intent and ability to repay the due to balance, it is recommended that reconciliation and repayment occur monthly.
Many PHAs use a centralized revolving account (including the use of one program's cash that is subsequently reimbursed by other programs) for more efficient daily cash management. The balance in this line represents the amount payable to project or program for expenditures made on their behalf, not to hold the cash for projects/programs.

For year-end reporting, the PHA must reduce this inter-program due to balance through the transfer of other program cash back to the centralized account. Any balance remaining in this account should be reconciled and determined to be payable to the centralized account without the use of restricted or otherwise unavailable funds of the program owing the money. PHAs are reminded that HUD Handbook 7475.1: "Changes in Financial Management and Reporting Requirements for Public Housing Agencies" and the New Operating Fund Rule requires actual project, COCC, and other programs to report at fiscal year-end, actual program cash and investment balances instead of using "due to" or "due from" line items.

Inter-program due to should be reported where the program has incurred expenses through the use of a centralized revolving fund account but does not have the cash to reimburse the account at year-end. PHAs are cautioned that funds are normally not fungible between different federal programs regardless of the nature of the transfer or receivable. This includes the use of restricted funds during these transactions. Inter-program due to should only be reported for temporary loans to another program or project at year-end. Without the intent and ability to repay, the transaction should be reclassified as a transfer. Inappropriate use of funds, including restricted funds for even a temporary loan, are ineligible costs resulting in non-compliance. FDS line 347 is a required field if an amount has been recorded in FDS line 144.

352 Long-term debt, net of current - operating borrowings (page 24)
This FDS line represents the noncurrent portion of long-term debt obtained to aid in the financing of the PHA's operating expenses (non-capital activities of the PHA/Entity). This line will also be used to report the noncurrent portion of debt acquired or bonds issued for lending purposes (loaned to 3rd parties, component units, and/or related parties). This line represents operating notes payable, which may be required as a result of funding a replacement reserve or capital projects reserve required in the RAD and mixed finance agreements. The debt that was originally issued for operating expenses, but subsequently refinanced, should still be reported under this FDS line item.

APPENDIX D. ELIMINATED LANGUAGE NO LONGER IN EFFECT
(REAC ACCOUNTING BRIEF No. 14)[28]

INTER-PROGRAM DUE TO/DUE FROM ACTIVITIES
Due To/Due From relationships should not be reported under accrual accounting simply from the result of a PHA using a common checking or working capital account. Because of the basic nature of most Federal and state programs, resources from one program cannot be used to support the costs of another program. For example, a PHA is not allowed to use its Low Rent program's cash and investments to pay for costs related to the HCV program, even on a short-term temporary basis. Low Rent program resources are constrained by law and regulation to support public housing activities. Therefore, HUD views Due To's and Due From's reported in a PHA's Federal programs as possible indicators of non-compliance.

HUD allows PHAs to use a common checking or working capital account. However, for FDS reporting the cash balance must be reconciled for any timing differences related to the processing of billing and accounting. That is, the cash balances reported in the FDS under each program should reflect the actual share of cash of that program as if no common checking or working capital account existed. If this results in a program(s) having a negative cash balance, the PHA would then report a Due To/ Due From transaction for this amount (negative amount). The use of a Due To/Due From between Federal programs signifies to HUD that in fact one program has in fact used resources to cover the costs of another program, which could represent ineligible expenditures.

[28] U.S. Department of Housing and Urban Development, Office of Public and Indian Housing, Real Estate Assessment Center, PIH-REAC: PHA-Finance Accounting Briefs, Issued Date: August 2011, Use of the Elimination Column and Reporting of Elimination Entries on the FDS, Accounting Brief #14, page 4, paragraphs 1 and 2.

APPENDIX E. ELIMINATED LANGUAGE NO LONGER IN EFFECT
(HUD HANDBOOK)

HUD Public Housing Financial Management Handbook[29] language, page 17, (paragraph 6 under Section 5.3 "Banks Accounts") sentence three, that refers to FDS reporting of inter-program activity:

Actual AMP, COCC, and other program cash and investment balances are to be reported on the associated FDS line items for their respective balances (not using "due to" or "due from" line items).

[29] Changes in Financial Management and Reporting for Public Housing Agencies Under the New Operating Fund Rule (24 CFR part 990) Supplement to HUD Handbook 7475.1 REV., CHG-1, Financial Management Handbook Office of Public and Indian Housing (PIH) Revised April 2007.