

# PHA Post Federal Award Requirements Guidance: Interest Earned on Operating Funds

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## Purpose

This guidance supports public housing agencies (PHAs) when complying with 2 CFR 200.305(b), which requires the return of interest earned exceeding \$500 per year on all Federal grant funds to the Department of Health and Human Services (HHS) as directed in the regulation. Additional cash management requirements are found in 24 CFR part 990 for Operating Funds, the Annual Contributions Contract and the General Depository Agreement (HUD-51999). Specifically, this guidance provides commonly used methodologies to determine interest earnings allocable to Operating Subsidy.

## Requirements for Maintaining Grant Funds at Financial Institutions

- PHAs that receive Operating Funds must maintain these funds in an interest-bearing account with a financial institution following 2 CFR 200.305(b)(11). The account must be subject to a General Depository Agreement (GDA), form HUD-51999, and cash management requirements in 24 CFR part 990.
- Where a PHA has combined Operating Subsidy with other grant funds and non-grant funds in a manner where the interest earned on the balances of the different funds cannot be recorded in accordance with the financial requirements in 2 CFR 200.302, then the entire balance (excepting tenant security deposits) of reserves must be considered Operating Subsidy for the purposes of calculating interest earned pursuant to 2 CFR 200.305.

## Calculating Interest: Grant Funds Maintained or Accounted for Separately from Non-Grant Funds

When Operating Subsidy is maintained or accounted for separately from other grant funds and non-grant funds, interest earned pursuant to 2 CFR 200.305 will be the total interest earned on Operating Subsidy.

## Calculating Interest: Grant Funds Combined with Non-Grant Funds

When a PHA combines Operating Subsidy with other grant funds and non-grant funds into a single account or investment but does account for the balances of the different funds, then the entire balance (excepting tenant security deposits) will be considered Operating Subsidy for the purposes of calculating interest earned pursuant to 2 CFR 200.305.

PHAs may use different methodologies to allocate interest earned to Operating Subsidy. The following methods are examples of methodologies a PHA can use to allocate interest earned to Operating Subsidy.

### A. Calculating Interest Earned Using the Year-End Balance

**Example:** PHA XYZ has a year-end balance of \$240,000, of which \$60,000 is Operating Subsidy.  $\$60,000/\$240,000 = 25\%$ .

The PHA earned \$7,200 interest on the depository account during the year.  $\$7,200 \times 25\%$ , or \$1,800 is allocable to the Operating Fund. Assuming the PHA had no other Federal Funds, \$500 could be retained, leaving \$1,300 to be returned to HHS.

## B. Calculating Interest Accounted for Quarterly or Monthly

When the PHA accounts for Operating Subsidy balances on either a quarterly or monthly basis, it can use the below methodologies. Regardless of the methodology used, the PHA remains responsible for returning interest earned beyond the \$500 threshold to HHS on an annual basis.

1. Identify the **monthly balance** on hand for Operating Subsidy.
2. Identify the **total bank balance**.
3. Identify the **percentage of the bank balance** Operating Subsidy represents.
4. Record **total interest** earned for the month.
5. Multiply the **total interest** earned by the **percent of bank balance** represented by Operating Subsidy.
6. Calculate **annual interest** by summing interest allocated to Operating Subsidy for all months or quarters.
7. Retain \$500 allowable interest (unless \$500 retained for other Federal programs) – return the remainder identifying Operating Fund program.

**QUARTERLY REPORTING OF INTEREST**

<b>Quarter Ending</b>	<b>Operating Subsidy Balance (A)</b>	<b>Balance from All Sources of Funds (Including Operating Subsidy) (B)</b>	<b>Interest Allocable to Operating Subsidy (A/B) (C)</b>	<b>Interest Earned During Quarter (D)</b>	<b>Interest Allocable to Operating Subsidy (C x D) (E)</b>
March 31	\$250,000	\$750,000	33.33%	\$5,625.00	\$1,874.81
June 30	\$200,000	\$1,000,000	20.00%	\$7,500.00	\$1,500.00
September 30	\$250,000	\$1,500,000	16.67%	\$11,250.00	\$1,875.38
December 31	\$300,000	\$2,000,000	15.00%	\$15,000.00	\$2,250.00
<b>Annual Interest Allocable to Operating Subsidy</b>					<b>\$7,500.19</b>
<b>Allowable Interest Retained by the PHA</b>					<b>\$500.00</b>
<b>Interest Payable to HHS</b>					<b>\$7,000.19</b>

**MONTHLY REPORTING OF INTEREST**

<b>Quarter Ending</b>	<b>Operating Subsidy Balance (A)</b>	<b>Balance from All Sources of Funds (Including Operating Subsidy) (B)</b>	<b>Interest Allocable to Operating Subsidy (A/B) (C)</b>	<b>Interest Earned During Month (D)</b>	<b>Interest Allocable to Operating Subsidy (C x D) (E)</b>
January	\$200,000.00	\$1,000,000	20.00%	\$2,500.00	\$500.00
February	\$250,000.00	\$1,000,000	25.00%	\$2,500.00	\$625.00
March	\$250,000.00	\$750,000	33.33%	\$1,875.00	\$624.94
April	\$200,000.00	\$1,000,000	20%	\$2,500.00	\$500.00
May	\$250,000.00	\$750,000	33.33%	\$1,875.00	\$624.94
June	\$200,000.00	\$1,000,000	20%	\$2,500.00	\$500.00
July	\$250,000.00	\$1,000,000	25.00%	\$2,500.00	\$625.00
August	\$250,000.00	\$1,250,000	20.00%	\$3,125.00	\$625.00
September	\$250,000.00	\$1,500,000	16.67%	\$3,750.00	\$625.13
October	\$250,000.00	\$1,500,000	16.67%	\$3,750.00	\$625.13
November	\$275,000.00	\$1,750,000	15.71%	\$4,375.00	\$687.31
December	\$300,000.00	\$2,000,000	15.00%	\$5,000.00	\$750.00
<b>Annual Interest Allocable to Operating Subsidy</b>					<b>\$7,312.45</b>
<b>Allowable Interest Retained by the PHA</b>					<b>\$500.00</b>
<b>Interest Payable to HHS</b>					<b>\$6,812.45</b>

### C. Calculating Interest Earned Using Average Daily Balances

Average daily Operating Subsidy balances can be calculated when the PHA accounts for daily balances of all funds pooled in a single account.

PHAs should note that the negative cash balances of Operating Subsidy may represent noncompliance with the ACC (Annual Contributions Contract) if the funds were ineligibly used or advanced to support nonpublic housing program activities, which is disallowed pursuant to the ACC.

#### **Step 1: Separating the Balances by Fund Type**

In the chart below, the columns are labeled: *Operating Subsidy, Program Income and Non-Program Income*, representing the different sources of funds pooled in the account. The objective of the PHA is to calculate the interest earned allocable to Operating Subsidy.

#### **Step 2: Calculating the Operating Subsidy Interest Earned Amount**

**Example:** The example below represents the month of December. The PHA would be required to repeat this calculation each month, then sum the interest earned each month to determine the amount that must be returned to HHS.

##### *Step 2.1: Calculate the Average Daily Balance*

Divide the total Daily Balances of Operating Subsidy in Reporting Period by the actual number of days in reporting period.

**Example:** Divide total Operating Subsidy daily balances of \$7,400 in reporting period by 31 actual days in reporting period equals average daily balance of \$238.71.

##### *Step 2.2: Calculate the Annual Interest Amount*

Multiply the Average Daily Balance by the Interest Rate.

**Example:** Multiply the average daily balance of \$238.71 by an interest rate of 3.00% equals annual interest amount of \$7.16.

##### *Step 2.3: Calculate the Daily Interest Amount*

Divide interest amount by number of days in year.

**Example:** Divide annual interest amount of \$7.16 by 365 days in year equals daily interest amount of \$0.01961997.

##### *Step 2.4: Calculate the Total Federal Interest Due*

Multiply the Daily Interest Amount by number of days in the reporting period.

**Example:** Multiply daily interest amount of \$0.01961997 by 31 days in reporting period equals interest allocable to Operating Subsidy of \$0.61.

*Step 2.5: Repeat*

Repeat this process for each month in the year. Sum the interest earned for each month to derive the annual interest allocable to the Operating Subsidy.

Date	Operating Subsidy	Program Income	Non-Program Income
12/01/09	\$500	\$400	\$200
12/02/09	500	400	200
12/03/09	500	400	200
12/04/09	500	(400)	200
12/05/09	500	(400)	200
12/06/09	500	(400)	200
12/07/09	500	(400)	200
12/08/09	500	(400)	200
12/09/09	200	(400)	(200)
12/10/09	200	400	(200)
12/11/09	200	400	(200)
12/12/09	200	400	(200)
12/13/09	200	400	(200)
12/14/09	200	400	(200)
12/15/09	200	400	200
12/16/09	200	400	200
12/17/09	200	400	200
12/18/09	200	400	200
12/19/09	200	100	200

12/20/09	100	100	200
12/21/09	100	100	200
12/22/09	100	100	200
12/23/09	100	100	200
12/24/09	100	100	200
12/25/09	100	100	200
12/26/09	100	100	200
12/27/09	100	100	200
12/28/09	100	100	200
12/29/09	100	100	200
12/30/09	100	100	0
12/31/09	100	100	0
<b>Daily Balances in Reporting Period (December 1-December 31)</b>	<b>\$7,400.00</b>	<b>\$6,100.00</b>	<b>\$4,600.00</b>

### Reporting and Returning Federal Interest

- The interest earned on Federal funds must be returned annually to the HHS Payment Management System (PMS) by either the Automated Clearing House (ACH) network or a Fedwire Funds Service payment.
- In accordance with 2 CFR 200.305, all other Federal funds are to be returned to HUD through the LOCCS payment system following agency requirements. All returns to PMS are to follow the instructions provided at [Returning Funds to PMS](#).
- All recipients and subrecipients are responsible for returning interest in excess of \$500 annually, if paid by PMS or not.

### Funds Not Maintained in an Interest-Bearing Account

If a PHA fails to maintain its grant funds in an interest-bearing account and does not meet any of the exceptions outlined at 2 CFR §200.305(b) then HUD may impose additional conditions or take any of the actions described in 2 CFR 200.339.