

LOW-INCOME HOUSING  
LEASED HOUSING HANDBOOK

CHAPTER 5

\* CHAPTER 5. FINANCIAL CLOSE-OUT AND TERMINATION OF SECTION 23  
LEASED HOUSING PROGRAMS

5-1. PURPOSE. This Chapter provides instructions to Public Housing Agencies (PHAs) and HUD Field Offices for financial close-out and termination of a PHA's Section 23 Leased Housing Program when all units of the program: (1) are converted to the Section 8 Housing Assistance Payments (HAP) Existing Program; (2) are acquired by the PHA under the Low-Income Public Housing Program; or (3) are terminated outright.

5-2. BACKGROUND.

- a. When Section 23 units are converted to Section 8, Section 23 contract authority is redistributed to the Section 8 List and supplemented by additional Section 8 contract authority to provide for the total cost of funding the Section 8 program. Adjustments to the Basic Annual Contribution (ABAC) are provided during the "phase-out" period to cover Section 23 leases with owners, damages to units for which the PHA is responsible, and expenses of closing-out and terminating the Section 23 program, to the extent that operating reserves and anticipated PHA generated income are not adequate for these purposes. ABAC replaces the funding formerly provided under the Basic Annual Contribution (BAC), which is no longer available once the Section 23 contract authority has been redistributed to the Section 8 List.
- b. To the maximum extent possible, operating reserves shall be utilized in place of ABAC during the "phase-out" period so that cash remaining at the termination of the Section 23 program will be minimal.
- c. Allowable expenses for the close-out and termination of the Section 23 program shall include items such as: minimal administrative expenses necessary to accomplish close-out and termination of the program (e.g., collection of Tenants Accounts Receivable (TAR) and closing of the Books of Account); an Independent Public Accountant (IPA) audit (or prorated cost thereof); and the settlement of claims and litigation against the PHA arising out of the Section 23 program for which the PHA is under legal obligation to pay. After expiration/termination of all leases with owners and families, adjusting entries are made to close the Books of Account. \*

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5-3. DEFINITIONS.

- a. Lease with an Owner (Lease Agreement). An agreement between the PHA and the owner in which a premises is rented to the PHA subject to stated terms and conditions.
- b. Lease with a Family. An agreement between the PHA and an individual family in which a unit is rented to the family subject to stated terms and conditions.
- c. Total Conversion. Conversion of all the Section 23 units of a PHA which are under the same Annual Contributions Contract (ACC).
- d. Close-out and Termination of a Section 23 Program. Withdrawal of all contract authority and units from a Section 23 program and termination of all HUD obligation to provide BAC or ABAC for those units. After a Section 23 program has been closed-out, there will be no remaining assets or liabilities attributable to the program.
- e. Final Close-out. Final Close-out takes place when adjusting entries are made to close the Books of Account for the Section 23 program; a resolution is adopted by the PHA Board of Commissioners and submitted to HUD certifying that the closeout of the Section 23 program has been completed in accordance with the instructions provided in this chapter; and the Section 23 ACC is terminated or, if appropriate, a consolidated ACC is amended to terminate the Section 23 program.
- f. Conversion Budget(s). (1) The Section 23 Operating Budget, Form HUD-52564, (see Low-Income Housing Financial Management Handbook 7475.1 , Appendix 1) or budget revision, which is prepared subsequent to the approval for conversion to Section 8. (This budget or revision reflects the payment of ABAC to the PHA by HUD for Section 23 leases and other expenses during the "phase-out" period and replacement costs, if required.) (2) Operating Budgets in subsequent PHA fiscal years, up to but not including the PHA fiscal year during which final close-out and termination of the Section 23 program will take place (final fiscal year). \*

- \* g. Final Budget. The Final Budget contains the last

projected expenditures of the PHA with respect to the Section 23 program. Any remaining claims and adjustments relating to any creditors shall be included in total operating expenditures. The final budget shall reflect the use of all available operating reserves prior to approval of ABAC to underwrite the approved operating deficit.

5-4. CONVERSION BUDGET(S).

- a. After HUD approval for the conversion of all or part of a Section 23 program has been obtained and the Section 23 ACC amended, a Conversion Budget shall be prepared for the fiscal year in which the ACC is amended. This budget shall reflect the estimated need for ABAC for replacement costs and phaseout costs, where such costs are required. In subsequent fiscal years, a Conversion Budget also shall be prepared for each PHA fiscal year up to, but not including, the PHA fiscal year during which final close-out will occur.
- b. Where a Section 23 program will be converted over a period covering more than one PHA fiscal year, the initial Conversion Budget shall reflect the use of ABAC for any phase-out costs associated with units approved in the conversion application, even though some leases with families may not expire or be terminated until a PHA fiscal year subsequent to the one for which the budget is prepared.
- c. The maximum operating reserve level approved in a Conversion Budget shall be the minimum amount necessary to cover estimated remaining close-out costs (such as administrative expenses and claims against the PHA) to the extent that these cannot be covered by operating income, taking into consideration TAR and other receivables. If the PHA's actual Section 23 operating reserve exceeds the maximum established in the Conversion Budget, ABAC shall be reduced and the deficit shall be funded by a drawdown of the operating reserve. If the actual operating reserve is less than that established in the conversion budget, ABAC shall be approved as needed to cover budgeted expenditures; however, the operating reserve shall not be augmented. At the time of the final close-out and termination of the Section 23 program, the balance of operating reserves shall be as close to zero as possible. \*

PHA's conversion application, the PHA shall notify, in writing, all owners, tenants and others, including those having a financial interest in the units being converted, of its intent to terminate the Section 23 program. Simultaneously, in accordance with Section 882.123 of the Section 8 Housing Assistance Payments Program - Existing Housing Regulations, the PHA shall issue Certificates of Family Participation in the Section 8 Existing Housing Program to families assisted under the Section 23 program being converted. Where possible, a Certificate of Family Participation shall be issued at least 60 calendar days prior to the expiration of a Section 23 lease with a family for a unit being converted to Section 8. The PHA shall require, through publication of a notice in an established media of general circulation, that all parties having a financial interest in units being converted submit claims within 30 calendar days following the date of the expiration/termination of the last lease with an owner. During the period between the approval for conversion and the expiration/termination of the last lease with an owner, actions to be taken by the PHA shall include the following:

- a. The PHA shall settle claims and obtain a written release from the owner(s) relieving the PHA of all obligations to the owner(s) under the Section 23 program. If litigation is required, the PHA shall pursue settlement as expeditiously as possible.
- b. The PHA shall comply with the requirements of Section 882.123 of the Section 8 Housing Assistance Payments Program - Existing Housing Regulations.

5-6. FINAL BUDGET. The final Operating Budget for the Section 23 program shall be prepared for the PHA fiscal year during which it is expected that all remaining Section 23 leases will expire or will be terminated, and all remaining claims against and obligations of the PHA with respect to the Section 23 program will be settled. The final Operating Budget shall include all claims that have been filed with the PHA and verified by PHA staff as legitimate, but not yet paid. This would include all legitimate claims by owners, suppliers, etc. The final Operating Budget also shall include, if necessary, estimated remaining costs associated with close-out and termination of the Section 23 program, such as the final IPA audit (or proration, if applicable), administrative expenses of close-out and \*

\* termination, and the cost of the services of a fee-accountant, if needed, to close the Books of Account. The final budget shall also reflect estimated income, if any, from disposition of assets other than cash during the final budget year. The final

budget shall provide for a zero (0) operating reserve. If total expenditures in the final fiscal year of the Section 23 program, including expenses of close-out and settlement of claims, exceed the actual amount of the operating reserve plus anticipated PHA-generated income, HUD will approve ABAC to cover the deficit.

5-7. DISPOSITION OF ASSETS OTHER THAN CASH. To the maximum extent possible, assets other than cash, such as equipment and inventories, remaining from a Section 23 program after conversion to the Section 8 HAP Existing Program, acquisition by the PHA under the Low-Income Public Housing Program or outright termination, shall be transferred to the Section 8 program or a Low-Income Public Housing Program (including Mutual Help and Turnkey III), if these programs can exhibit a current or future need for the assets. With prior written authorization from the Field Office, the assets shall be transferred to these programs at no cost. If a PHA justifies that a Section 23 asset is of no use to either its Section 8 program or its Low-Income Public Housing program, the asset shall be disposed of in accordance with the PHA's adopted Disposition Policy. The PHA shall advise the Field Office Manager/Supervisor, in a letter signed by the Executive Director, of its proposal for the Disposition of Section 23 assets. For Section 23 assets transferred to a Section 8 or Low-Income Public Housing Program at no cost, the letter shall include an agreement that no duplicate purchases shall be made as long as the Section 23 assets are usable. The Field Office shall review the PHA's proposal for compliance with the requirements of this chapter and, if approvable, advise the PHA in writing to proceed with the disposition of any remaining Section 23 assets.

5-8. DISPOSITION OF CASH REMAINING AT TIME OF FINAL CLOSE-OUT. Cash remaining at the time of final close-out of a Section 23 program shall be used, with prior written authorization from HUD, to offset amounts due the PHA from HUD, for either the Section 8 HAP Program or the PHA-Owned Rental Housing Program, as follows:

- a. If the Section 23 units are converted to the Section 8 Existing Housing Program, cash remaining from the Section 23 program shall be used by the PHA as an offset against the annual contributions payable by HUD for the Section 8 program; \*

- \* b. If the Section 23 units are acquired by the PHA under a PHA-owned Rental Housing Program, cash remaining from the Section 23 program shall be used by the PHA as an offset against operating subsidies payable by HUD for the

PHA-owned Rental Housing program; and

- c. If the Section 23 program is terminated outright, remaining cash shall be used as an offset against either annual contributions payable by HUD for the Section 8 HAP Program or operating subsidies payable by HUD for the PHA-owned Rental Program, whichever is approved by the Field Office.

When the PHA determines the amount of cash which will remain at final close-out, it shall advise the Field Office Manager/ Supervisor, in a letter signed by the Executive Director, of its proposal for the disposition of the remaining cash. The Field Office shall review the PHA's proposal for compliance with the requirements of this chapter and, if approvable, advise the PHA, with a copy to the Regional Accounting Division (RAD), to offset the correct amount. At the same time, the Field Office shall reduce operating subsidies or annual contribution payments to the PHA, as appropriate, by the amount of Section 23 cash being offset. If, for some reason, cash remaining from the Section 23 program cannot be offset against HUD payments to the PHA for the Section 8 HAP Program or the PHA-owned Rental Housing Program, such cash shall be repaid to HUD and placed in the General Fund of the U.S. Treasury.

5-9. ACCOUNTING ENTRIES FOR THE DISPOSITION OF CASH AND OTHER ASSETS.

- a. Disposition of Assets Other than Cash.

- (1) Transfer to a PHA-owned Project which is Under the Same ACC as the Section 23 Program. If the assets are transferred for use in a PHA-owned project which is under the same ACC as the Section 23 program, no accounting entries are necessary. The property ledger for the property in Account 1400.4 shall be annotated to reflect the transfer from the Section 23 program to the PHA-owned projects.

- (2) Transfer to Section 8 HAP Program. If the assets are transferred to a Section 8 program, the following entries are needed.

- (a) Section 23 Books of Account.

Debit:      Account 6120, Gain or Loss on  
Disposition of Assets      \*

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Equipment

(b) Section 8 Books of Account.

Debit: Account 1400.4, Land Structures and  
Equipment

Credit: Account 2850, Surplus - Cumulative  
Donations

(3) Transfer to a PHA-owned Project which is Under a Separate ACC from the Section 23 Program. If the assets are transferred for use in a PHA-owned project which is under a separate ACC from the Section 23 program, the entries in paragraph 9a(2) shall be made in the Books of Account for both the Section 23 Program and the PHA-owned project.

b. Disposition of Cash. The following entries shall be made in the Section 23 Books of Account to establish the payable to HUD of excess cash remaining from the Section 23 program.

Debit: Account 2821, Reserved Surplus - Operating  
Reserve - Leased Programs

Credit: Account 7011, Provision for Operating Reserve,  
Leased Programs

To close-out that portion of the operating reserve, if any, applicable to the Section 23 program being closed-out (the amount of excess cash).

Debit: Account 7011, Provision for Operating Reserve,  
Leased Programs

Credit: Account 2810, Unreserved Surplus

To close Account 7011 to Account 2810.

Debit: Account 2810, Unreserved Surplus

Credit: Account 2118, Accounts Payable - HUD

To establish the payable to HUD of excess cash remaining from the Section 23 program at time of close-out. \*

\* In addition, the entries below shall be made to the appropriate Books of Account to record the disposition of

excess cash depending on the specific method of disposition approved by the Field Office.

- (1) If cash remaining from the Section 23 program is used to reduce the next scheduled annual contribution payments(s) for a Section 8 program, the following entries shall be made:

(a) Section 23 Books of Account.

Debit: Account 2118, Accounts Payable  
- HUD

Credit: Account 1111.1, Cash - General  
Fund

(b) Section 8 Books of Account.

Debit: Account 1111.1, Cash - General  
Fund

Credit: Account 2210, Deferred Credits  
- Prepaid Annual  
Contributions

A debit to Account 1111.1 and a credit to Account 2210 will be made for both the transfer from the Section 23 program and the amount of the check, if any, from HUD for the balance of the scheduled annual contribution payment.

- (2) If cash remaining from the Section 23 Program is used to offset operating subsidy for a PHA-owned Rental Housing Program which is under the same ACC as the Section 23 program, the following entries shall be made in the PHA's Books of Account

Debit: Account 1111.1, Cash - General Fund

Debit: Account 2118, Accounts Payable - HUD

Credit: Account 8020, Contributions Earned  
- Operating Subsidy-Current Year

The debit to Account 2118 will be made for the amount of cash used as an offset against operating subsidy. The

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debit to Account 1111.1 will be made for the amount of the check, if any, from HUD for the balance of the scheduled operating subsidy payment. A credit to Account 8020 will be made for each of the above two amounts.

- (3) If cash remaining from the Section 23 program is used to offset operating subsidy for a PHA-owned Rental Housing Program which is under a separate ACC from the Section 23 program, the entries shown in paragraph 9b(1)(a) shall be made in the Section 23 Books of Account. The following entries shall be made in the Books of Account for the PHA-owned Rental Housing Program.

Debit: Account 1111.1, Cash - General Fund

Credit: Account 8020, Contributions Earned  
- Operating Subsidy  
- Current Year

These entries shall be made for the amount of cash used as an offset against operating subsidy and for the amount of the check, if any, received from HUD for the balance of the scheduled operating subsidy payment.

- 5-10. TENANTS ACCOUNTS RECEIVABLE (TAR). Every feasible attempt shall be made by the PHA during the close-out process to collect all TAR. If a Section 23 family is transferred to a Low-Income Public Housing program, any amounts owed by the family also shall be transferred to that program. If the Board of Commissioners determines that TAR are uncollectible or if TAR attributable to families converted to Section 8 remain uncollected when the PHA is otherwise ready to close the Books of Account, the PHA, with the approval of the Board of Commissioners, shall write-off the TAR as collection losses in accordance with the Low-Rent Housing Accounting Handbook 7510.1; however, the PHA shall continue to pursue collection of TAR which are written-off, or refer them to a collection agency. Any amounts subsequently collected shall be remitted to HUD.

- 5-11. INDEPENDENT PUBLIC ACCOUNTANT AUDIT. An IPA audit of the Section 23 program shall be scheduled within 90 calendars days after closing the Books of Account, unless the PHA administers other units under the Low-Income Public Housing program. In such cases, all PHA projects, including those in the Section 23 program, shall be audited no later than the next regularly scheduled IPA audit. In no case shall an audit be postponed beyond the required date of the next regular audit and the Section 23 ACC shall not be terminated, or the consolidated

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- \* ACC shall not be amended, as appropriate, until the IPA audit is completed and all findings therefrom are closed or cleared. If the Field Office determines that other audit arrangements are necessary, the Field Office Manager/Supervisor shall consult with the Regional Inspector General for Audit (RIGA) regarding alternative audit arrangements. The IPA audit shall specifically state whether or not contingent liabilities or other contingencies exist and, if so, the Section 23 ACC shall not be terminated, or the consolidated ACC shall not be amended, as appropriate, until such contingent liabilities or other contingencies are cleared.
- 5-12. UNUSED PREPAID INSURANCE AND OTHER RECEIVABLES. The PHA shall be responsible for obtaining payment of any unused prepaid insurance and any other receivable of the Section 23 program not mentioned above prior to final close-out. All amounts shall be accounted for in accordance with the Low-Rent Housing Accounting Handbook 7510.1, and placed in the general fund pending final close-out.
- 5-13. FINANCIAL STATEMENTS AND REPORTS. During the close-out process, the PHA shall continue to submit all regular financial statements and reports. In addition, the Field Office, at its discretion, may require special reports from time-to-time in order to properly monitor the close-out process. Additional financial statements or reports may also be required at the time of final close-out as necessary to provide a final accounting of program funds.
- 5-14. FINAL CLOSE-OUT. The PHA may proceed with final close-out after all leases with owners and families have expired or have been terminated; all TAR have been collected or written-off; all liabilities of and claims and litigation against the PHA with respect to the Section 23 program have been settled; unused prepaid insurance and other receivables have been collected; remaining cash and other assets have been properly disposed of; and a final IPA audit has been performed and all findings therefrom closed or cleared. The PHA may start final close-out prior to completion of the final IPA audit; however, the Section 23 ACC shall not be terminated, or if applicable, the consolidated ACC shall not be amended, until such audit has been completed and all findings therefrom have been closed or cleared. All accounting entries and other transactions involving the Section 23 program, whether done prior to or during close-out, are subject to adjustment based upon findings from the final IPA audit or other information which may subsequently become available.
- a. Books of Account. After the PHA has collected all

receivables, disposed of all assets, and satisfied all liabilities, it shall close the Books of Account and repay to HUD \*

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any remaining cash not used as an offset against amounts due from HUD for the Section 8 HAP Program or the PHA-owned Rental Housing Program. The Books of Account shall be closed even if the final IPA audit has not been completed and will not be started within 90 calendar days. HUD will approve ABAC to pay for the final IPA audit at the time that it is done. If the PHA requires the services of a fee accountant to close the Books of Account, the expenses of such shall be included in the final Operating Budget.

- b. Certification of Close-out. After the Books of Account are closed, the PHA shall prepare all required forms covering the final fiscal year, including Forms HUD-52595 , Balance Sheet; HUD-52599, Operating Statement; and HUD-52981, Statement and Voucher for Basic Annual Contribution-Leased Housing. (See Low-Rent Housing Accounting Guide 7511.1, Chapter 12.) In addition, the PHA Board of Commissioners shall adopt a resolution containing the following items:
- (1) A certification that close-out of the Section 23 program has been conducted in accordance with the requirements of this chapter and is complete (with the possible exception of the IPA audit) and that all assets and cash remaining from the Section 23 program have been disposed of in accordance with this chapter;
  - (2) A certification that Board of Commissioners has examined the Books of Account and Records of the Section 23 program and has determined that there are no outstanding obligations or receivables; and (3) A statement agreeing to the termination of the Section 23 ACC, or removal of the Section 23 program from the consolidated ACC, if appropriate, once the final IPA audit is completed and all findings therefrom are closed or cleared. The Board of Commissioners' resolution shall be submitted, together with the three financial forms listed above, to the RAD, with copies to the Field Office. All other forms shall be submitted to the appropriate HUD Office. A check payable to HUD in the amount of any cash remaining from the Section 23 program which has not been offset against amounts payable by HUD to the PHA for the Section 8 HAP Program or the PHA-owned Rental Housing Program, shall be attached to the Form HUD-52981 submitted to the RAD.

- c. Audit Findings. In clearing findings presented in the final IPA audit, the PHA may incur additional eligible expenses in addition to the cost of the audit itself. In this case, HUD will approve ABAC to cover the added eligible expenditures. If the final IPA audit finds that there is additional cash remaining from the Section 23 program, such cash shall be repaid to HUD rather than used as an offset against amounts \*

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\* payable by HUD to the PHA for the Section 8 HAP Program or PHA-owned Rental Housing Program. When it is necessary to clear audit findings after the Books of Account have been closed, adjusting entries shall be made and the Books of Account shall be closed again. In addition, originals or revisions, as appropriate, of some or all of the following forms must be submitted to the RAD or other appropriate HUD Office, with copies to the Field Office: HUD-52564, Operating Budget; HUD-52595, Balance Sheet; HUD-52599, Operating Statement; HUD-52981, Statement and Voucher for Basic Annual Contribution-Leased Housing; HUD-53087, Request for Payment of Subsidies for Operations, Non-PFS Projects (see Low-Income Housing Financial Management Handbook 7475.1, Appendix 6), and any other form requiring revision.

- d. Termination of ACC. At such time as: (1) the RAD and the Field Office have received (a) the PHA's certification that final close-out has been completed, (b) the required financial forms and (c) the final IPA audit; (2) the Field Office and the RAD have reviewed these items and the IPA audit and found them to be in order; and (3) all remaining cash and assets have been disposed of in accordance with the instructions provided in this chapter, the Field Office Manager/Supervisor shall request the Area Counsel to take the appropriate action to terminate the Section 23 ACC, or amend the consolidated ACC to remove the Section 23 Program, as appropriate.

5-15. RECEIPTS AND EXPENDITURES SUBSEQUENT TO TERMINATION OF ACC.

- a. Receipts. Any amounts originating from the closed-out Section 23 program which are collected subsequent to termination of the ACC (e.g., TAR) shall be remitted to HUD, along with an explanation as to their source,

to be placed in the General Fund of the U.S Treasury.

- b. Expenditures. No additional expenditures associated with the Section 23 program which are incurred subsequent to the termination of the ACC will be approved by HUD.
- c. Basic Annual Contribution or Adjustments to BAC. No BAC or ABAC will be paid by HUD to a PHA after termination of the Section 23 ACC or removal of the Section 23 program from a consolidated ACC. \*