



**Revenue Recognition for Housing Assistance Payments and
Administrative Fees for the Housing Choice Voucher (HCV) Program**

ACCOUNTING BRIEF #19

(The Cash Management provisions contained in this brief are applicable to Moving to Work PHAs and supersedes information issued in Accounting Brief No. 11 related to the Housing Choice Vouchers program.)

GOVERNING REGULATIONS AND GUIDANCE

1. Governmental Accounting Standards Board (GASB) Statement No. 33 – Accounting and Financial Reporting for Nonexchange Transactions.
2. PIH Notice 2011-67 (*Implementation of New Cash Management Requirements for the Housing Choice Voucher Program*), dated December 9, 2011.
3. 2012 Conference Report (Report 112-284), dated November 14, 2011 to accompany the *2012 Consolidated and Further Continuing Appropriations Act* (P.L. 112-55) signed into law on November 18, 2011.

BACKGROUND

The Uniform Financial Reporting Standards (24 CFR Part 5 – Subpart H) requires public housing agencies (PHAs) to provide annual financial information to the U.S. Department of Housing and Urban Development (HUD) using Generally Accepted Accounting Principles (GAAP).

Funding for the Housing Choice Voucher (HCV) program is provided by Congress through Annual Appropriation Acts to HUD. HUD in turn distributes the funds to PHAs in accordance with the Appropriation Acts. The 2012 Conference Report contains Congressional language which requires HUD “to follow Treasury’s rules on cash management” for the HCV program effective January 1, 2012. Cash management refers to the disbursements of funds and the Department of Treasury’s rules on cash management as provided in the Treasury Financial Manual, Vol. 1, Part 6 Section 2025 and states that:

“Advances to a recipient organization will be limited to the minimum amounts necessary for immediate disbursement needs and will be timed to be in accord only with the actual immediate cash requirements of the recipient organization in carrying out the purpose of an approved program or project. The timing and amount of cash advances will be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program costs and proportionate share of any allowable indirect costs”.

The Conference Report language, in effect, requires HUD to control the disbursement of HCV funds to PHAs in such a way as to ensure that PHAs do not receive federal funds before the funds are needed. This accounting brief provides assistance to PHAs on the recognition of revenue with

respect to HUD funding of housing assistance payments (HAP) and administrative fees in the HCV program under cash management. Specifically, the brief provides information on the following topics:

1. A summary of the cash management requirements as provided in PIH Notice 2011-67 and examples that illustrate the impact of these requirements on HUD's funding of Housing Assistance Payments (HAP), including a PHA's NRA¹ and program reserves. **(Page 3)**
2. Revenue recognition requirements for the HCV program as prescribed under *GASB Statement No. 33: Accounting and Financial Reporting for Nonexchange Transactions* for PHAs using the accrual and modified basis of accounting. **(Page 11)**
3. Changes to the revenue recognition requirements for the HCV program (Housing Assistance Payments and Administrative Fees) as a result of the cash management requirements. Examples are provided that illustrates the proper journal entries associated with HAP revenue and administrative fees under cash management. **(Page 14)**

¹ **CURRENT CHANGES IN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AS PROMULGATED BY THE GASB** - GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position is effective for financial statements with fiscal year ends of 12/31/2012 and after. Cash management became effective as of January 1, 2012. As it relates to cash management and GASB Statement No. 63, one of the major changes is the use of new required terminology. Specifically, Net Restricted Assets under GASB Statement No. 63 will be now referred to as Net Restricted Position, Unrestricted Net Assets will be referred to as Unrestricted Net Position, and Deferred Revenue will be referred to as Unearned Revenue. Since PHAs are required to follow GAAP, it is expected that PHA's financial statements for fiscal year ends on or after 12/31/2012 reflect the required changes of GASB Statement No. 63. However, since most PHAs have not implemented GASB Statement No. 63 and are familiar with the older terminology (i.e., net restricted assets), this Accounting Brief reflects pre-GASB Statement No. 63 language.

I. PIH Notice 2011-67: Cash Management Requirements & Impact on HAP Funding

HUD's implementation of Treasury's rules on cash management for the HCV program is provided in PIH Notice 2011-67. The requirements of cash management will result in a number of changes associated with HAP accounting. However, cash management does not change the amount of HAP funds that are available to the PHA, as the amount of funds available is still determined by formula, but will impact the *timing* when such funds are made available to the PHA.

The following is a list of items associated with HAP that are impacted as a result of cash management.

1. Disbursement of HAP funds. HUD will limit the disbursement of HAP funds to the amount needed by the PHA to make immediate HAP payments.
2. Undisbursed HAP funds will be available for future HAP payments. The amount determined by formula (known as the annual budget authority (ABA)) will still be available to the PHA for future HAP payments, unless recaptured by Congress or other similar action.
3. Undisbursed HAP funds will be held by HUD rather than by the PHA. HUD will only disburse HAP funds to the PHA when funds are needed by the PHA to make immediate HAP payments. The difference between the PHA's ABA and the disbursed funds will remain at HUD.
4. Undisbursed HAP funds held at HUD will be referred to as program reserves. Program reserves are equal to the difference between accumulated ABA (starting with the 2012 Appropriation) and the unearned undisbursed HAP². In some cases, PHAs will have earned HAP revenue above the amount disbursed for any given calendar year. For example, a PHA may request additional HAP funds above the scheduled amount in December 2012 for December 2012 HAPs. In cases where HUD disburses these additional funds in the following calendar year, these HAP funds will be considered earned in the calendar year (2012) associated with the request/need and will reduce the program reserves calculated as of 12/31/2012. If the same request was for January 2013 HAPs, the additional disbursement would decrease the 2013 program reserve.
Unearned undisbursed HAP funds accumulating at HUD during the calendar year becomes program reserves after the respective calendar year is over. While not officially called program reserves during the current calendar year, any unearned undisbursed HAP funds are still available to PHAs for HAP needs.
5. Program reserves will not be presented or reflected in the PHA's financial statements. Program reserves should not be reported as an asset, deferred outflow of resources or equity on the PHA's financial statements. However, program reserves need to be taken into consideration by PHA management when making financial management and leasing decisions for the HCV program. The Department will calculate and provide the PHA the amount of its program reserves on an ongoing basis (e.g., reported on the final calendar year reconciliation).

² Offsets mandated by Appropriation language would also likely reduce a PHA's program reserve.

6. The concept of net restricted assets (NRA) will still exist. The concept of NRA (i.e., unspent HAP funds held by the PHA) will still exist under cash management. However, the amount of NRA will decrease over time.
- Actual HAP disbursements will be based on the best information available to HUD of the PHA's HAP needs, as calculated from the data reported in HUD's systems³. However, actual disbursements will likely differ from the actual HAP expense incurred by the PHA.
 - Unused HAP funds held by the PHA will still reside in the NRA.
 - Fraud recovery (the amount due HUD) and FSS participant escrow account forfeitures will continue to close into the PHA's NRA balance.
 - Interest revenue earned on invested NRA balances, however, will now be returned to the U.S. Treasury, starting with interest income earned on or after 01/01/2012.

Most PHAs will continue to report NRA balances; however, the PHA's future disbursement schedule will be reduced (offset) by the NRA balance. The quarterly reconciliation process and HUD's determination of need will continue to require the PHA to use its NRA balances for immediate HAP payments.

7. Existing NRA balances currently held by the PHA will be transitioned to program reserves. HUD will disburse HAP funds taking into consideration the PHA's available NRA balances. For example, where a PHA's monthly HAP payment is \$500,000 and the PHA has \$700,000 in NRA, the PHA may not receive a HAP disbursement from HUD or the HAP disbursement amount may be significantly reduced for that month. In effect, this practice will require the PHA to spend down the NRA. Through this process, PHAs will first use their NRA balances to fund their current HAP needs, resulting in an increase in their program reserves. Additionally, HUD may require PHAs to remit NRA balances back to HUD if the NRA balances are not reduced to an appropriate level through the reduction of HAP disbursements.

Illustrative Example 1

Table 1 provides an example of the effects of cash management on the PHA's NRA and program reserves. The PHA has a 12/31 fiscal year and based on the 2012 Appropriations and formula, the PHA has an ABA of \$2,500,000. Since this is the first year of cash management, the PHA has a beginning program reserve of \$0 (01/01/2012). The PHA's NRA balance as of 12/31/2011 is \$200,000. **Note:** The example below is used to only illustrate the general effect of cash management on the PHA's NRA balance and funding. The actual determination of annual budget authority, HAP disbursements, etc. is outlined in annual PIH notices.

Assumptions:

1. **PHA FYE:** 12/31
2. **2012 Budget Authority:** \$2,500,000
3. **Program Reserve (01/01/2012):** \$0
4. **NRA (12/31/2011):** \$200,000
5. Actual HAP Disbursement (Col B) and Actual HAP Expense (Col C) are for illustration only; the calculation used by HUD to determine the amount of actual HAP disbursement is dependent on the specific PHA circumstances.

³ Currently HUD uses data contained in the Voucher Management System.

6. Fraud recovery and interest earned as shown on the table below refer to the Fraud recovery credited to HAP and the interest earned on NRA balances only.

Table 1. Example 1

Line #	A Time Period	B Actual HAP Disbursement	C Actual HAP Expense	D Net HAP Activity	E Fraud Recovery	F NRA Balance	G Program Reserve*	H Interest Earned
1	01/01/2012 - 3/31/2012	\$625,000	\$580,000	\$45,000	\$4,000	\$249,000	\$1,875,000	\$1,500
2	04/01/2012 - 06/30/2012	\$625,000	\$620,000	\$5,000	\$3,000	\$257,000	\$1,250,000	\$1,700
3	07/01/2012 - 09/30/2012	\$350,000	\$600,000	-\$250,000	\$6,000	\$13,000	\$900,000	\$1,000
4	10/01/2012 - 12/31/2012	\$580,000	\$590,000	-\$10,000	\$2,000	\$5,000	\$320,000	\$50
5	Total	\$2,180,000	\$2,390,000	-\$210,000	\$15,000			\$4,250

Program Reserve - 12/31/2012

\$320,000

* Unearned undisbursed ABA does not become program reserves until the end of the calendar year but are still available for the PHA for HAP needs, other than to cover the cost of over-leasing during the calendar year. For illustration, the table column name does not make a distinction.

Explanation of Table 1. Example 1:

1. In the first two quarters (01/01/2012 - 06/30/2012) of the year, the initial HAP disbursements are disbursed without taking into consideration a PHA's NRA balance or other NRA income. For the first two quarters, this PHA was disbursed HAP funds of \$1,250,000 (B1 + B2) and processed \$1,200,000 (C1 + C2) in HAP payments. The amount of unearned undisbursed ABA is \$1,250,000 (G2) calculated based on the \$2,500,000 in ABA minus the \$1,250,000 in HAP disbursement for the first two quarters.
2. HAP disbursements from HUD are \$50,000 more than the PHA's actual HAP expense. Therefore, the NRA will increase by \$50,000 (D1 + D2).
3. In addition to the \$50,000, the PHA's NRA balance was credited (increased) with \$4,000 (E1) and \$3,000 (E2) of fraud recovery (HAP portion). Therefore, as of 06/30/2012, the PHA's ending NRA balance is \$257,000 (F2) calculated as follows: \$200,000 beginning balance plus \$50,000 (D1 + D2) increased for net HAP activity plus \$7,000 (E1 + E2) of fraud recovery.
4. In the third quarter (09/30/2012), HUD disbursed \$250,000 (D3) less than the PHA's HAP expense and the PHA is using NRA to help fund the HAP expenses. This action has the effect of lowering the NRA balance to \$13,000 (F3) as of 09/30/2012.
5. In the final quarter of the year (12/31/2012), HUD increased the PHA's HAP disbursements (but still takes into consideration the PHA's NRA balance) to make sure the PHA has enough funds to cover immediate HAP needs.
6. At the end of the fiscal year, the PHA has a NRA balance of \$5,000 (F4) and program reserves of \$320,000 (G4) (ABA of \$2,500,000 minus HUD disbursements of \$2,180,000). The PHA would report HAP revenue of \$2,180,000 in the PHA's financial statements; this amount is equal to HUD's actual HAP disbursements for the fiscal year. Annually, HUD is expected to complete both quarterly reconciliations and a calendar year-end reconciliation. The result of these reconciliations will result in changes to the PHA's subsequent HAP disbursement schedule. If the PHA was disbursed more HAP funds than needed, HUD will reduce future HAP disbursements. If the PHA received insufficient HAP disbursements, HUD will make up the shortage in a subsequent disbursement(s) to the PHA.
7. Over-leasing will continue to be calculated at the end of the calendar year. If it is determined that a PHA was provided HAP funds for over-leasing, the funds disbursed to cover these ineligible costs will be offset via the year end reconciliation process.
8. Even though the PHA received \$4,250 in interest on the NRA balance, the NRA balance is not increased by this amount as the interest earned is due to the U.S. Treasury.

Under pre-cash management, the PHA would have instead recognized revenue in the amount of \$2,500,000 (2012 ABA) and the NRA would be increased by \$320,000 to reflect the amount of program reserves plus any amounts for fraud recovery HAP and interest earned.

Illustrative Example 2

The following example is the same as Example 1 except that HUD only disbursed \$570,000 (B4) (\$10,000 less) in the last quarter of the year. Since this level of disbursement will result in a shortfall, the PHA requested HUD to provide an additional \$5,000 in HAP. These funds were not received in 2012.

Assumptions:

1. PHA FYE: 12/31
2. 2012 Budget Authority: \$2,500,000
3. Program Reserve (01/01/2012): \$0
4. NRA (12/31/2011): \$200,000

Table 2. Example 2

	A	B	C	D	E	F	G	H
Line #	Time Period	Actual HAP Disbursement	Actual HAP Expense	Net HAP Activity	Fraud Recovery	NRA Balance	Program Reserve*	Interest Earned
1	01/01/2012 - 3/31/2012	\$625,000	\$580,000	\$45,000	\$4,000	\$249,000	\$1,875,000	\$1,500
2	04/01/2012 - 06/30/2012	\$625,000	\$620,000	\$5,000	\$3,000	\$257,000	\$1,250,000	\$1,700
3	07/01/2012 - 09/30/2012	\$350,000	\$600,000	-\$250,000	\$6,000	\$13,000	\$900,000	\$1,000
4	10/01/2012 - 12/31/2012	\$570,000	\$590,000	-\$20,000	\$2,000	-\$5,000	\$330,000	\$50
5	Total	\$2,170,000	\$2,390,000	-\$220,000	\$15,000			\$4,250
6	HAP Requested but Not Received	\$5,000		-\$215,000		\$0	\$325,000	

Program Reserve - 12/31/2012

\$325,000

* Unearned undisbursed ABA does not become program reserves until the end of the calendar year but are still available for the PHA for HAP needs, other than to cover the cost of over-leasing during the calendar year. For illustration, the table column name does not make a distinction.

At the end of the fiscal year, the PHA has a NRA balance of \$0 (F6) and program reserves at 12/31/2012 of \$325,000 (G6). This amount was calculated as follows: ABA of \$2,500,000 minus HUD disbursements of \$2,170,000 minus \$5,000 of HAP earned but not disbursed. However, the PHA would report HAP revenue of \$2,175,000 in the PHA's financial statements; this amount is equal to the HUD HAP disbursements of \$2,170,000 plus the additional amount requested by the PHA for 2012 HAP of \$5,000 but not yet received.

The following illustrates the journal entry for the PHA's 2012 HAP revenue for Example 2.

FDS Line Item		Debit	Credit
113	Cash - Other Restricted	\$2,170,000	
122	Accounts Receivable - HUD Other Projects	\$5,000	
70600-010	HUD PHA Operating Grants - HAP		\$2,175,000

Normally, a PHA will only have an accounts receivable when the PHA is maintaining and reporting a \$0 NRA balance at the end of the fiscal year. Through the reconciliation process, HUD will determine the amount due to the PHA and automatically disburse additional funds if the PHA fails to request the additional funding needed.

NRA Balance and Interest Income

Prior to 01/01/2012, interest earned on NRA balances was considered PHA revenue and credited to NRA equity. However, with the advent of cash management, interest income on NRA balances is no longer classified as revenue because interest income does not represent an available resource that can be used by the PHA. Beginning with CY 2012, interest earned on NRA balances must be returned to the Federal government. Therefore, any interest income earned on the PHA's NRA balance since 01/01/2012 should not be recognized as revenue on the PHA's income statement, but instead should be reported as Cash – restricted for payment of current liability (FDS line 115) and as an Accounts payable HUD PHA programs (FDS line 331).

Journal Entries – Recording of Interest Earned on NRA Balances after 12/31/2011

The following journal entries illustrate the proper recording of interest earned on the NRA balance beginning with CY 2012. Assume for this example the PHA earned a total of \$4,250 in interest income on the NRA balance.

FDS Line Item		Debit	Credit
115	Cash - restricted for payment of current liability	\$4,250	
331	Accounts Payable - HUD PHA programs		\$4,250

The following journal entry illustrates the remittance of interest earned on the NRA balance to the Federal government.

FDS Line Item		Debit	Credit
331	Accounts Payable - HUD PHA programs	\$4,250	
115	Cash - restricted for payment of current liability		\$4,250

PHAs who have submitted financial data to the REAC for FYEs of 3/31/2012, 6/30/2012, 9/30/2012, 12/31/2012 and 3/31/2013 would have likely reported all interest earned on NRA balances as investment income - restricted (FDS line 72000) with a corresponding increase in the NRA balance (FDS line 511.1). In this case the PHA will need to adjust its prior reported NRA balance in its next submission to the REAC in order to correctly record interest income earned on the NRA balance from January 1, 2012 forward as a payable to HUD. If the PHA recognized all interest income earned on NRA balances as investment income restricted in a prior period, then the PHA will need to reduce its NRA equity through the use of a Prior period adjustment - correction of error (FDS line 11040-010) and Other expenses (FDS line 11180-090) in the HAP equity memo account and through a reclassification of NRA (FDS line 511.1) to Accounts payable HUD PHA programs (FDS line 331). For most PHAs this amount will generally be immaterial.

Journal Entries – Reclassification of Interest Income on NRA Balances after 12/31/2011

The following journal entries illustrates how to reclassify the interest income earned on the NRA balance from January 1, 2012 to the end of a PHA's fiscal year that was recorded as revenue in a previous reporting period on the HCV program's income statement. In this example, the PHA has a fiscal year end of June 30 and earned interest income on NRA balances for the following quarters:

Quarter Ending	Amount
30-Sep-11	\$800
31-Dec-11	\$700
31-Mar-12	\$700
30-Jun-12	\$600
Total	\$2,800

In the 2012 fiscal year the PHA recorded the total amount of interest earned on the NRA balance of \$2,800 to Investment income – unrestricted (FDS line 72000). For the 2013 fiscal year, the PHA will need to correct the reporting of interest income earned on the NRA balance in the **2012 calendar year** as investment income restricted. Since in the above example the last two quarters of interest were earned during the calendar year 2012, the PHA will need to reclassify \$1,300 of the interest earned on the NRA balance (2012 calendar year portion of interest income).

FDS Line Item		Debit	Credit
11040-010	Prior Period Adjustment - Correction of error	\$1,300	
331	Accounts Payable - HUD PHA programs		\$1,300

The following illustrates the journal entry to reclassify the cash pertaining to the interest income to Cash – restricted for payment of current liability (FDS line 115) previously reported on Cash – restricted (FDS line 113).

FDS Line Item		Debit	Credit
115	Cash - restricted for payment of current liability	\$1,300	
113	Cash - restricted		\$1,300

The following illustrates the journal entry showing the remittance of interest to the Federal government.

FDS Line Item		Debit	Credit
331	Accounts Payable - HUD PHA programs	\$1,300	
115	Cash - restricted for payment of current liability		\$1,300

The prior period adjustment reported on FDS line 11040-010 also needs to be recorded on Other Expenses (FDS line 11180-090) in in the HAP equity detail line items. A comment should be included on FDS line 11180-091.

FDS Line Item		Debit	Credit
11180-090	Other Expenses	\$1,300	

NRA Balance and “Transfer” to Program Reserves

Typically, HUD will disburse HAP funds taking into consideration the PHA’s available NRA balances. This practice will require the PHA to spend down any accumulated NRA balance and therefore increase its program reserves. HUD may additionally require PHAs to remit its NRA balances back to HUD via a check or electronic fund transfer if the PHA’s NRA balance has not been reduced to an appropriate level through a reduction of HAP disbursements. This remittance of funds will increase the PHA’s HUD-held program reserves. If HUD requires the PHA to remit NRA, HUD recommends that the PHA report this transaction as an Extraordinary item, net gain/loss (FDS line 10070). The PHA is required to also reflect the adjustment to HAP equity on HAP – other expenses (FDS line 11180-090) in the HAP equity detail line items.

The following illustrates the journal entry to set-up an accounts payable and to record the payable for the NRA balance that is to be returned to the PHA’s HUD-held program reserves.

FDS Line Item		Debit	Credit
10070	Extraordinary items	\$200,000	
331	Accounts Payable - HUD PHA programs		\$200,000

The following illustrates the journal entry to reclassify the respective cash pertaining to HAP equity from Cash - restricted (FDS line 113) to Cash - restricted for payment of current liability (FDS line 115).

FDS Line Item		Debit	Credit
115	Cash - restricted for payment of current liability	\$200,000	
113	Cash - restricted		\$200,000

The following illustrates the journal entry for the remittance of cash back to HUD and increases the PHA’s HUD-held program reserves.

FDS Line Item		Debit	Credit
331	Accounts Payable - HUD PHA programs	\$200,000	
115	Cash - restricted for payment of current liability		\$200,000

The extraordinary item reported on FDS line 10070 also needs to be recorded on FDS line 11180-090 in the HAP equity detail line items. A comment should be included on FDS line 11180-091.

FDS Line Item		Debit	Credit
11180-090	Other Expenses	\$200,000	

While HUD recommends that the PHA use Extraordinary item, net gain/loss (FDS line 10070) to report the payment to HUD, the classification of an accounting transaction as an extraordinary item is a matter of professional accounting judgment. If the PHA believes the cost should be reported as an operating expense, the PHA should also use Other general expense (FDS line 96200). Any amount reported on FDS line 96200 will automatically flow into the Administrative Fee Equity memo account. Therefore, the PHA will then be required to record the necessary adjustments to both the Administrative fee and HAP equity balances (FDS lines 11170 and 11180) though the use of Administrative fee equity – other revenue (FDS line 11170-050) and HAP equity – other expenses (FDS line 11180—090). Regardless of what line item the PHA uses to report the amount

of NRA returned to HUD, the PHA should also provide a comment under the PHA comment link in the FASS submission identifying and explaining the amount sent back to HUD.

The following illustrates the journal entry to set-up an accounts payable and to record an expense for the payment of NRA to HUD using the other general expense line item.

FDS Line Item		Debit	Credit
96200	Other general expenses	\$200,000	
331	Accounts Payable - HUD PHA programs		\$200,000

The journal entry to reclassify cash and to reflect the remittance of the funds back to HUD is the same as in the previous illustrative journal entries.

Other general expenses (FDS line 96200) will automatically flow into and reduces the Administrative fee equity account (FDS line 11070). Therefore, using this method the PHA will need to reclassify the amount from Administrative fee equity to HAP equity. The following journal entry illustrates this transaction. A comment should be entered in FDS line 11180-091 and 11170-051 respectively.

FDS Line Item		Debit	Credit
11180-090	Other Expenses	\$200,000	
11170-050	Other Revenue		\$200,000

II. Revenue Recognition Requirements – Voluntary Nonexchange Transaction

The majority of PHAs follow accounting as prescribed by the Governmental Accounting Standards Board (GASB)⁴. *GASB Statement No. 33: Accounting and Financial Reporting for Nonexchange Transactions* provides the authoritative guidance on how revenue is recognized with respect to HAP and administrative fees. When determining how to recognize revenue, GASB Statement No. 33 requires that the non-exchange transaction or event be categorized into one of four categories of non-exchange transactions. The revenue recognition criteria are different under each category. The four categories of nonexchange transaction are shown below:

- Derived tax revenues
- Imposed non-exchange revenues
- Government-mandated non-exchange transactions
- Voluntary nonexchange transactions

It is HUD's guidance that the funds the PHAs receive from HUD to fund the HCV program are considered voluntary non-exchange transactions. GASB Statement No. 33 defines a **voluntary nonexchange transaction** as a transaction in which a government gives or receives value without directly receiving or giving something of equal value in return and that these transactions (typically resulting from legislative or contractual agreements) are entered into willingly by two parties.

Revenue recognition criteria for voluntary non-exchange transactions differ under GASB Statement No. 33 based on the eligibility requirements that are typically contained in legislative or contractual agreements and depending on whether the PHA is using the accrual or modified accrual basis of accounting. Regardless of the basis of accounting used, PHAs will recognize revenue when all revenue recognition criteria have been met.

The sections below discuss the revenue recognition criteria associated with PHAs using the accrual basis and modified accrual basis of accounting.

Revenue Recognition for Non-exchange Transactions – Accrual Basis of Accounting

PHAs that treat the HCV program as an enterprise fund use the accrual basis of accounting. A PHA using the accrual basis of accounting should recognize revenue under a voluntary non-exchange transaction when all of the following conditions are met:

1. **Measurable.** Simply stated, the recipient must know the amount of the transaction or can reasonably estimate the amount. For PHAs, this condition is not normally problematic as HUD provides funding letters and schedules to PHAs as well as PIH Notices that provide for the calculation of HAP and administrative fees.
2. **Probable of collection.** In order for revenue to be recognized, the amount of revenue must likely be collected. Probable is defined as "the future event or events are likely to occur." For HUD funding, the likelihood of collection of funds owed to the PHA by HUD is normally considered probable.
3. **All eligibility requirements are met.** All eligibility requirements that are found in the legislative or contractual agreements governing the funds must be met. The eligibility

⁴ PHAs that are organized as a non-profit organization will follow accounting as prescribed by the Financial Accounting Standard Board (FASB) and would not recognize revenue as prescribed by GASB.

requirements may specify eligible recipients, when funding can be or must be used by or, provisions for reimbursements and/or contingencies.

- a. Required characteristics of recipients. The recipient must have the characteristics specified by the provider. In the case of the HCV program, PHAs are deemed to meet this requirement since HUD has engaged in a contract (the HCV Annual Contribution Contract (ACC)) with the PHA for the administration of the program.
- b. Time requirements. Time requirements specify the period or periods when resources are required to be used or when use may begin. Time requirements exist for both HAP and administrative fee funds. For HAP funding, time requirements are normally related to Appropriation language that does not allow the funds to be used until January 1st of each calendar year for HAP expenses starting January 1st and after. This requirement means that current year HAP funding may not be used to fund prior year HAP deficits. Current HAP funding may only be used prospectively.

In addition, increments on the HCV ACC funding exhibits have both a beginning date of term and an ending date of term. Revenue will not be available for that increment before the beginning date of the term. Similarly, renewal funding may be available after the end of term for an increment, but renewal funding will also have a new beginning date of term and a new ending date of term, i.e., a time requirement.

Administrative fees have a time requirement that relate to the requirement that administrative fees are partially earned⁵ on the number of vouchers that are under HAP contract as of the first day of each month.

- c. Reimbursements. This is a requirement that the receiver of funding must actually incur an eligible expense to receive the funding (reimbursed). This has not been an eligibility requirement of the HCV program since 2005 when the program was converted from a cost reimbursement program for HAP funding to a formula/budget-based program.
 - d. Contingencies. This is a requirement that funds will be given based on a contingency, which is usually a fund matching requirement of some sort. In the case of the HCV program, there is no such requirement.
4. Legal enforceable claim exists. The last consideration in the recognition of revenue is determining if the grantee has an enforceable legal claim to resources based on specifications of enabling legislation or contractual requirements. If a determination has been made that the grantee does not have an enforceable legal claim, then revenue should not be recognized. For example, a local government generally cannot force the state or federal government to pay promised resources and is not likely to bring legal action against the state or federal government; therefore, there is no legal claim and revenue should not be recognized. Accordingly, PHAs are not normally considered to have a legal enforceable claim to undisbursed HAP funds held by HUD (for example, program reserves).

Revenue Recognition for Non-exchange Transactions & Purpose Restrictions

In addition to the revenue recognition criteria for voluntary non-exchange transactions discussed above, ***purpose restrictions*** limit how funding may be used once it is received. For example, the statute for the HCV program limits the use of HAP funds received to only the payment of HAP and

⁵ The amount of fee earned is also based on an established fee rate and proration if applicable.

HAP – related expenses (i.e., funding FSS escrow accounts, utility reimbursements and home ownership mortgage payments). Purpose restrictions do not impact when revenue for voluntary non-exchange transactions are recognized by the PHA. Purpose restrictions on HAP funds result in excess disbursements becoming restricted for payment of future HAP and HAP-related expenses. In proprietary funds, the excess HAP funding becomes a component of Restricted Net Assets on the Statement of Net Assets and reflects the amounts disbursed by HUD to the PHA in excess of HAP and HAP-related expenses. In summary, normally for the HCV program, the only relevant eligibility requirement for HAP and administrative fee funding is the time requirement and the enforceable legal claim requirement.

Revenue Recognition for Non-exchange Transactions – Modified Accrual Basis of Accounting

PHAs accounting for the HCV program in a special revenue fund use the modified accrual basis of accounting. Revenue recognition for a PHA using modified accrual includes all of the requirements discussed under the accrual basis of accounting. In addition, for PHAs using modified accrual, the funds also must be available. *Available* is defined by GASB Statement No. 33 as collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

III. Revenue Recognition under Cash Management for the HCV Program

This section discusses the impact of the cash management requirements on how revenue should be recognized for the HCV program for both Housing Assistance Payments and Administrative Fees. Examples are provided that illustrate the proper journal entries associated with HAP revenue and administrative fees under cash management.

Housing Assistance Payment – Revenue Recognition under Cash Management

Since 2005, PHAs have recognized all ABA as HAP revenues when all eligibility and revenue recognition criteria have been met. However, under cash management, PHAs will recognize HAP revenue based on “need” limited to their program reserves. For most PHAs, “need” will normally equal HUD HAP disbursements. HUD, through analysis of VMS data and other information (i.e., NRA balance, a PHA request for program reserves), will determine the amount of HAP disbursements the PHA will need to pay immediate HAP expenses, avoiding an accumulation of NRA. The disbursement of HAP funds by HUD to the PHA satisfies all the requirements under GASB No. 33 in order to recognize revenue (i.e., measureable, probable of collection, all eligibility requirements, and an enforceable legal claim). The disbursement of HAP by HUD to the PHA will result in the following journal entry.

FDS Line Item		Debit	Credit
113	Cash - Other Restricted	\$200,000	
70600-010	HUD PHA Operating Grants - HAP		\$200,000

Any unspent HAP funds will continue to flow into NRA and should not be reported as deferred revenue or as a payable back to HUD.

Where HUD disbursements and NRA balances are less than what is needed by the PHA to make immediate HAP payments, the PHA will be able to access their program reserves for eligible HAP needs by contacting their Financial Management Center analyst. Most PHAs will simply continue to recognize this transaction as revenue when the funds are disbursed by HUD. However, if the request for funding is made near the end of the reporting period, the PHA will need to reflect this amount in the reporting period when the request was made (and not in the following period), even if the funds were not disbursed. The following illustrates the journal entry when the PHA requested additional HAP funds but the funds were not received by the PHA in the reporting period.

FDS Line Item		Debit	Credit
122	Accounts Receivable - HUD Other Projects	\$25,000	
70600-010	HUD PHA Operating Grants - HAP		\$25,000

It is HUD’s guidance that a request by the PHA for additional HAP disbursements from the PHA’s program reserve for immediate HAP expenses meets the definition of a legal enforceable claim and therefore is subject to revenue recognition in the reporting period, up to the amount of the PHA’s program reserves.

All other program reserves do not meet the conditions of revenue recognition under GASB No. 33. While the law and supporting HUD notices and guidance support that program reserves will be available to the PHA, the PHA does not have a legal enforceable claim as defined by the GASB 33. Specifically, a PHA generally cannot force the federal government to pay promised resources (i.e., program reserves) and is not likely to take legal action against HUD; therefore, there is no legal claim and revenue should not be recognized. In addition, program reserves may not meet the requirement of being probable of collection, especially if the HUD formula amount is greater than actual HAP expenses or where Congress reduces program reserves through Appropriation law (i.e., offsets).

Administrative Fees – Revenue Recognition under Cash Management

The requirements of cash management do not affect revenue recognition of administrative fees. Revenue recognition for administrative fees is also considered a voluntary nonexchange transaction with the same eligibility and revenue recognition criteria as HUD HAP funding. Since 2008, a PHA earns administrative fees for each voucher that is under HAP contract as of the first day of each month. The amount of administrative fees a PHA will earn during a year is based on three items:

1. The number of vouchers that are under HAP contract as of the first day of each month;
2. An established fee rate; and
3. If applicable, less any proration.

HUD normally provides administrative fees on the first day of each month based on an estimate of the vouchers under HAP contract on the first day of the month for each PHA. This estimate is based on older data contained in the Voucher Management System (VMS). However, the amount of administrative fees disbursed by HUD will likely not be the amount that should be recognized in the PHA's year-end financial statements.

Another factor impacting revenue recognition of administrative fees is whether HUD has applied a proration factor. Proration factors are applied by HUD when it is anticipated that funding available for the payment of administrative fees during a calendar year will not be sufficient to cover a PHA's eligibility. In years in which HUD pro-rates funding, PHAs will typically recognize the pro-rated fee amount. Stated differently, PHAs typically are not able to establish that the amounts not received due to proration are available, measurable, and probable of collection, and therefore these amounts are not subject to recognition.

The requirement that PHAs earn administrative fees based on the number of vouchers that are under HAP contract on the first day of the month triggers a time requirement as described under GASB No. 33. Illustrative Examples 3 and 4 provide a further discussion of this time requirement for revenue recognition of administrative fees.

Illustrative Example 3

The table below illustrates the funding and proper journal entries to record monthly administrative fees. The latest validated VMS data shows that the PHA had 500 HAP contracts under lease on the first day of the month at a fee rate of \$60 per voucher. Based on this information, HUD disbursed \$30,000 in administrative fees to the PHA. However, the PHA's management information system shows that the actual number of HAP contracts under lease was 550 vouchers. At a fee rate of \$60 per voucher, the PHA actually earned \$33,000 in administrative fees. The table below summarizes this information.

HAP Contracts Under Lease on First Day of the Month		Fee Rate	Amount Disbursed	Amount Earned
Older VMS Data used in Estimate	500	\$60	\$30,000	
Actual	550	\$60		\$33,000

Note: For this example, no proration was assumed.

Based on the above information, the PHA would recognize \$33,000 in administrative fee revenue, with \$30,000 received in cash. The journal entry below provides the correct accounting.

FDS Line Item		Debit	Credit
111	Cash – Unrestricted	\$30,000	
122	Accounts Receivable - HUD Other Projects	\$3,000	
70600-020	HUD PHA Operating Grants - Administrative Fees		\$33,000

Illustrative Example 4

The table below illustrates the funding and proper journal entry to record monthly administrative fees when HUD provides more funds than the PHA earned. In this example, the latest validated VMS data shows that the PHA had 550 HAP contracts under lease on the first day of the month at a fee rate of \$60 per voucher. Based on this information, HUD disbursed \$33,000 in administrative fees to the PHA. However, the PHA knows that the actual number of HAP contracts under lease was only 500 vouchers. At a fee rate of \$60 per actual leased voucher, the PHA actually earned \$30,000 in administrative fees. The table below summarizes this information.

HAP Contracts Under Lease on First Day of the Month		Fee Rate	Amount Disbursed	Amount Earned
Older VMS Data used in Estimate	550	\$60	\$33,000	
Actual	500	\$60		\$30,000

Note: No proration was assumed.

Based on the above information, the PHA would recognize \$30,000 in administrative fee revenue; however, the PHA received \$33,000 in cash. This results in the PHA needing to book deferred revenue. The journal entry below provides the correct accounting.

FDS Line Item		Debit	Credit
111	Cash - Unrestricted	\$30,000	
113	Cash - Other Restricted	\$3,000	
70600-020	HUD PHA Operating Grants - Administrative Fees		\$30,000
342	Deferred Revenue		\$3,000

The PHA cannot recognize all \$33,000 of disbursed funds as revenue because of the time requirement. The PHA is not eligible to use the additional \$3,000 in disbursed funds because the funds have not been earned.

It is common practice that PHAs will continue to recognize administrative fee revenue based on actual monthly HUD disbursements and then reconcile to actual administrative fees earned periodically or at year-end less any applicable proration. For financial statement reporting, the PHA will need to make an adjusting/reconciling entry based on a comparison of the funds disbursed versus the amount the PHA was eligible to receive at the end of the reporting period based on actual voucher usage. Normally, this entry is an estimate based on the best available data at the time (for example, the final proration factor may not be available). The reconciliation can result in the PHA booking the following types of journal entries:

- Accounts receivable from HUD if the PHA earned more in fees than the PHA was paid by HUD.
- Deferred revenue if the PHA received more in fees from HUD than the PHA earned. In this case, PHAs will not book accounts payable to HUD. Excess administrative fees received will be booked as deferred revenue. HUD will “recapture” these overpayments to the PHA by reducing future administrative fee advances.

Clarification of Reporting Requirements of UNA Balances in the Voucher Management System (VMS)

PHAs administering the HCV program must report monthly activity in the Voucher Management System (VMS). One of the data items required to be reported is the unrestricted net asset (UNA) balance of the HCV program. UNA is also reported on the financial data schedule (FDS) in the FASS-PH system. While the Department has provided guidance on the reporting of UNA in the VMS User Guide and in PIH notices, some PHAs are still misreporting UNA in their VMS submissions.

Regardless of the system (VMS or FASS-PH) in which UNA is being reported, the PHA should report its UNA amount as defined by GAAP – “the difference between the HCV program’s asset and liabilities that do not meet the definition of restricted net assets or invested in capital assets net of related debt.” In essence, HUD is requesting information on net liquid or near liquid resources that can be readily used for the administration of the program, as this definition does not include net assets related to fixed assets.

Specifically, for PHAs reporting under accrual, their UNA balance as reported in VMS should be the same as the balance reported in the financial data schedule on Unrestricted net assets (FDS line 512.1). Administrative fee equity (FDS line 11170) may not be the same as UNA, as FDS line 11170 also includes Invested in capital assets, net of related debt (FDS line 508.1).