

FREQUENTLY ASKED QUESTIONS (FAQ)
Financial Reporting Under the New Operating Fund Rule
June 27, 2008

Phase-in of Management Fees

- 1. In accordance with Supplemental Guidance on Phase-in Fees, dated 5/28/08 (see <http://www.hud.gov/offices/pih/programs/ph/am/accounting.cfm>), PHAs are permitted to establish phase-in management fees through 2011. These phased-in amounts must be included with the PHA's Annual Plan. How does a PHA establish the initial baseline amount for these phased-in fees?**

The baseline amount is equal to the allocated overhead in the year prior to adoption of (phase-in) fees. At the time that a PHA prepares its Annual Plan, it must estimate its current overhead costs (Annual Plans must be submitted to HUD 75 days prior to the end of the fiscal year). For instance, a PHA with a June 30, 2008 fiscal year-end date must submit its Annual Plan by April 15 for the reporting period beginning on July 1, 2008. Since the information in support of phase-in fees is represented by pre-audited data, the PHA should amend its Annual Plan once audited data is available if there is a significant difference in estimated vs. audited overhead costs in the baseline.

Allocated Overhead

- 2. As an additional transition provision, HUD allows PHAs to allocate overhead through 2011 (see also above-referenced document on phase-in fees). Under the allocated overhead model, how will the PHA report the COCC?**

Under the allocated overhead model, the PHA will not report a COCC. Rather, the PHA will maintain an overhead allocation system. The amount of the allocated overhead will appear as an expense to each project and each program, depending on the PHA's allocation method. As is current practice, PHAs shall maintain documentation of both their overhead costs and their methods of allocation. Allocated overhead is considered "program income" and, unlike earned management fees, is not de-federalized.

- 3. Under the allocated overhead method, would “front-line” tasks that are performed centrally, such as central rent collection or waiting list, be included in the overhead allocation?**

No. Under the allocated overhead method, centralized front-line costs should be separated from overhead costs and charged accordingly. For example, if a PHA has one employee that administers the public housing waiting list, that employee should not be included as part of the allocated overhead. Rather, the costs of the employee administering the central waiting list should be charged as a front-line expense to each project based on a reasonable pro-ration method.

- 4. Can a PHA use Management Improvements under the Capital Fund to pay for central office costs?**

Except in the case of certain pre-2007 Capital Fund grants (see question number 10 below), Management Improvements should be used to support the operation of projects. To the extent that a PHA needs Capital Funds to support central office costs, the PHA should use the Transfer to Operations and the associated allocated overhead method (see PIH Notice 2008-16).

- 5. Under the allocated overhead model, how should a PHA report public housing assets that are not readily assigned to projects?**

Under the Allocated Overhead model, a PHA may find it has assets that are not readily assignable to projects, e.g., a vehicle for the executive director that was purchased with public housing operating funds. Such assets should be assigned to the Other Project column. (Under the fee-for-service model, this vehicle would have been assigned to the Central Office Cost Center, or COCC; however, under the Allocated Overhead model, the PHA does not maintain a COCC.)

- 6. My housing authority has 3 projects with a total of 251 units. We prepare separate financial statements for each project. We are exploring the option of using the “Allocated Overhead” in lieu of “Phased-in Management Fees.” Our understanding of this option is we will not have a COCC and will not use the Management Fees either. Do we still need to allocate our balance sheet by Projects? If so, what happens if we decide at a later time to establish a COCC and implement fee-for-service? Will we still be allowed six months of working capital for the COCC?**

A PHA has the option of using allocated overhead in lieu of management fees through 2011 (beyond if you use section 226 of Title II of Division K of

the 2008 Appropriations Act). In that case, although you would be allocating overhead, you would still prepare project level budgets and financial statements, including project-level balance sheets. Items not truly project specific (e.g., vehicle for executive director) would be placed in the “Other Project” column.

A PHA could decide at any time to switch from allocated overhead to fee-for-service (PHAs are advised to consult with their auditors before making any change during a reporting year). At that time, it would still be eligible for six months of working capital for the COCC.

Mixed-Finance Transactions

7. How should we treat PHA-owned land and related lease payments in connection with a Mixed-Finance Project?

With respect to the assignment of land leased to a mixed-finance project, the preferred method is to include the land and lease revenue within the mixed-finance project. Under this method, it is recommended that the Notes Receivable and associated interest realized from the developer be reported within the project’s balance sheet as well.

8. How do we treat sales proceeds from the disposition of a public housing project?

Where a PHA disposes (full or partial disposition) of a project asset, the sales proceeds are recognized in the affected project. Once duly recognized, the PHA may then (1) retain the sales proceeds in the respective project as a restricted asset until such time as it is used for its authorized purpose (as detailed in the SAC approval for the disposition), (2) transfer it to the Other Project column on the FDS, again as a restricted asset until such time as it is needed for its authorized purpose, or (3) transfer to the COCC as a restricted asset until such time as it is needed for its authorized purposes. Residual restricted asset (net sales proceeds) typically represents that which remains after disposition costs and debt (if applicable) have been paid.

9. What is the proper reporting treatment of HOPE VI proceeds loaned to a mixed-finance project?

A PHA may obtain HOPE VI proceeds, which in turn it loans to a mixed-finance project (non-component unit). When this occurs, the loan receivable is reported as an asset of the PHA. The PHA reports this loan receivable, which generates interest revenue to the PHA. Until the entire HOPE VI grant is closed, receipt of any interest payments from a

particular mixed-finance Project (developer) is reported (restricted) within the HOPE VI Program. The loan receivable is reported there as well.

Closure of a particular loan to a project may occur only after all phases of the HOPE VI funding are completed. At that point, the loan receivable and any interest revenue from the project are reported outside of the HOPE VI program. However, the loan receivable, and likely the interest revenue remain restricted in terms of use. In this situation, a PHA may report the loan receivable, and any debt servicing payment, within the mixed-finance project category (affecting the balance sheet and income statement, respectively). Under this scenario, any land lease revenue is reported within this mixed-finance project as well.

Capital Fund Reporting

10. Can a PHA use pre-2007 Capital Fund Grants for Management Improvements to support the Central Office Cost Center (COCC) if those amounts were previously contained in approved plans?

While generally Capital Fund grants may not support the COCC under fee-for-service, PHAs may use pre-2007 Capital Fund Management Improvements to pay for COCC activities if the work items were included in a previously approved Annual Plan.

For year-end reporting on the Financial Data Schedule (FDS), the PHA has two options for reporting this activity: record the activity under the Other Project Column or the COCC. For illustration, assume a PHA spent \$10,000 on computer equipment for the COCC with 2006 Capital Fund Management Improvements.

Option 1: Other Project Column

The PHA would recognize the grant revenue of \$10,000 in the Other Project column, and report a corresponding purchase of equipment per line item 11640. The PHA could also subsequently transfer the equipment to the COCC and record it as a restricted (program) asset.

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| 11. 11640 | 12. Furniture & Equipment- Administrative Purchases |
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Option 2: COCC

Under this option, the PHA would recognize the revenue in the Capital Fund column of the COCC and report a corresponding purchase of equipment per line item 11640; however, the asset would need to be recorded as a restricted (program) asset. The PHA may not desire to include restricted assets within its COCC.

Cash Management

11. Is pooling of cash acceptable under asset management, whereby one central bank account is administered but each Project and Fund is separately identified?

Yes. A PHA can maintain one centralized bank account; however, subsidiary ledgers must be maintained to reflect claims on pooled cash, which should reflect the true cash attributable to a given project, federal program or fund, at any point in time (i.e. no intra-fund borrowings).

12. Can a PHA also use a centralized bank account that includes non-federal activity (for example, in the case of a PHA that is part of a city and wanted to use a city-wide bank account)?

Yes, a PHA could use a centralized bank account that included non-federal activity; however, the PHA must execute the required General Depository Agreement (GDA) with the bank, form HUD-51999. Thus, if a PHA chooses to use a joint account, all non-federal funds will be subject to the terms/conditions of the GDA. Please see Notice PIH 96-33 for more background on specific cash management requirements. If you choose to use a joint account, all non-federal funds will be subject to the terms/conditions in the GDA.

13. Can PHA cash deposit balance in excess of FDIC insured limits be collateralized through a pooling of securities which represent collateral of multiple depositors, including but not limited to a PHA's funds in excess of \$100,000?

No. The required GDA specifies that deposits in excess of \$100,000 must be collateralized by separate and identifiable US Government or Agency securities. The GDS is required under the ACC.

14. Must this collateral be at the federal agency or federal fund level?

The GDA makes no specific distinction among the federal funds (i.e. public housing program, Section 8, Capital Grant Program). However, Paragraph 8 clearly states HUD is the 3rd party beneficiary of this Agreement. It is therefore reasonably clear that HUD wants funds collateralized with specific and identifiable collateral with respect to HUD's 3rd party beneficial interest.

Audit Considerations

15. Does the COCC get audited since, technically, it's not a federal program?

With A-133 audits, the auditor must opine as to the material representation of the top-level financial statements. The auditor does not audit, per-se, the COCC, but must consider financial activities affecting PHA, or entity wide financial reporting. Hence, the COCC is not exempt from an auditor's responsibility with respect to providing reasonable assurance that financial reports are free of material misstatements. In essence, the auditor issues an "in relation to" opinion with respect to supplemental reporting, which rolls up into the entity wide financial reports. Ultimately, the COCC represents a cost center which is eliminated on the PHA entity wide financial report.