

FINANCIAL REPORTING UNDER THE NEW OPERATING FUND RULE

Reporting Brief 1: The Treatment of Certain Capital Fund Proceeds in Operating Budgets

The following brief discusses how public housing agencies (PHAs) should treat four types of Capital Fund proceeds in project Operating Budgets, specifically: Management Fees, Transfer to Operations, Management Improvements, and Construction Supervisory costs. The discussion is limited to these Capital Fund transactions only (i.e., it is not a complete operating budget discussion).

Overview

PHAs are required to prepare Operating Budgets for each AMP; however, budgeting methods and the format of project budgets are generally the discretion of the PHA. HUD requires only that project budgets be easily reconcilable to the FDS. PHAs are not required at this time to include with these Operating Budgets capital activities that are funded through the Capital Fund program. However, activities funded from the Capital Fund that are of an operating nature should be included in project operating budgets.

Guidance

Capital Fund Management Fees

The Capital Fund Management Fee is generally not expected to appear in a project's operating budget, although, at year-end, the PHA would record the Capital Fund Management Fee in the Capital Fund column of the AMP (based on the PHA's reasonable allocation of Capital Fund Management Fees across AMPs).

Transfer to Operations

Transfers to Operations from the Capital Fund should be included in a project's operating budget as a funding source. For purposes of budgeting, the PHA could include the transfer at the "top" of the operating budget (with other revenue sources) or at the bottom of the operating budget (similar to how it is handled on the FDS).

Capital Fund transfers lose their identity once transferred. In other words, if a PHA transferred \$30,000 to a project from the Capital Fund, the operating budget would show the amount of the transfer but the PHA would not identify the specific expenses associated with those transferred funds (indistinguishable from other operating expenses).

Management Improvements

Management Improvements that are funded through the Capital Fund represent additional funding to the operations of a project. As such, for budgeting purposes, they are treated the same as transfers to operations, per above.

Construction Supervisory Costs

A PHA's construction supervisory costs (i.e., the direct oversight of third-party contractors performing capital work) are a capitalized cost of administering the Capital Fund program and, as such, should not be included in the Operating Budget for an AMP.