

FINANCIAL REPORTING UNDER THE NEW OPERATING FUND RULE

Reporting Brief 3: Mixed-Finance Reporting of Non-Component Units

The following brief clarifies the reporting of a mixed-finance transaction¹ where the project is not a component unit of the PHA (i.e., the PHA has no ownership interest in the mixed-finance project but simply makes an annual payment to the mixed-finance developer in exchange for certain public housing units).²

Key Information

- AMP Number: AA001000009
- Number of units in project: 125
- Number of public housing (ACC) units: 75
- Operating Subsidy earned: \$79,752
- Annual transfer payment to mixed-finance developer: \$51,444 (based on Regulatory and Operating Agreement with developer/PHA)
- Difference in “allowable” management fee for local market and the management fee paid by developer to third-party management company for ACC units: \$6,791 (see Supplemental Calculation, page 5)
- Bookkeeping Fee: \$7.50 PUM
- Occupancy Rate for ACC units: 96 %
- Investment Revenue: \$735
- Fiscal Year End Date: 6-30-08

Operating Statement Discussion

Table A shows the limited Income Statement transactions that would be recorded on the FDS for this mixed-finance AMP.³ As shown, the total revenue to the project is \$80,487, which includes the operating subsidy earned by the project (account no. 70600) and the

¹ The FDS reporting environment will recognize (“flag”) any mixed finance AMPs.

² See proposed FDS template, posted December 28, 2007 on asset management website at: <http://www.hud.gov/offices/pih/programs/ph/am/fds.cfm>.

³ Table A reflects the FDS for reporting at 6-30-08 and beyond. Account numbers and definitions remain subject to (minor) changes.

interest income from the AMP's reserves (account no. 71100). For a non-component mixed-finance AMP, the rental income from the project is not recorded in the AMP column.

Revenues for this AMP are reported as follows:

- **HUD PHA Operating Grants** of \$79,752 reflects the operating subsidy earned for this project during the reporting period (as per HUD Form 52723, Operating Fund Calculation of Operating Subsidy).
- **Investment revenue-Unrestricted** of \$735 represents interest earnings on cash and investments for this AMP.

Expenses for this AMP are reported as follows:

- **Management fees.** This entry represents only the fees paid to the COCC. Here, the PHA records the difference between the reasonable fee established for this market and the actual fee paid to the company managing the project. (It was assumed that the allowable PUM was \$42.94 PUM but the contract amount with the management company was only \$35.08 PUM, resulting in a difference of \$7.86 PUM. With 75 ACC units at 96% occupancy, the management fee retained by the COCC would be \$6,791.)
- **Bookkeeping Fee.** Again, the COCC may retain the difference between the allowable bookkeeping fee and the fee charged to the project by the management agent. In this case, it was assumed that the management company did not charge a separate bookkeeping fee, allowing the COCC to retain the entire allowable amount of \$6,480 ($\$7.50 \times 72 \text{ occupied units} \times 12 \text{ months}$).
- **Asset Management Fee.** This entry represents the asset management fee the COCC earns for this project ($\$10 \text{ PUM} \times 75 \text{ ACC units} \times 12$). The fee is subject to prior year excess cash. The fee is earned on all ACC units, subject to available excess cash at prior year end.
- **Subsidy Payment.** This subsidy payment to the mixed-finance developer is entered on account no. 96200, Other General Expenses. This represents the amount agreed upon in the Regulatory and Operating Agreement between the PHA and the mixed-finance owner.

Accordingly, the excess revenue over expenses for this AMP is \$6,774. These proceeds become a part of the AMP's balance sheet, which may be retained within this particular mixed finance AMP, or transferred to another AMP.

Table A: AMP Income Statement⁴		
Account #		
	<i>Revenues:</i>	
70600	HUD PHA Operating Grants	79,752
71100	Investment revenue-Unrestricted	735
70000	Total Revenue:	80,487
	<i>Expenses:</i>	
91300	Management Fee	6,791
91310	Bookkeeping Fee	6,480
91000	Total Administrative	13,271
92000	Asset Management Fee	9,000
96200	Other General Expense	51,444
96900	Total Operating Expense:	73,715
97000	Excess Revenue over Operating expense	6772
10000	Excess (Deficiency) of Revenue over (under) expense	6,772

Here, \$6,772 represents net income realized during the reporting period. It may be considered substantially (+/- GAAP) a cumulative component of unrestricted cash and/or investments; which contributes (per year end balance) to “excess cash” determination (See Determination of Excess Cash, below). The excess cash may then be transferred to another project, or used to pay the asset management fee in the subsequent reporting period.

Balance Sheet Discussion

Table B shows the limited Balance Sheet transactions that would be recorded on the FDS for this mixed-finance AMP.

Table B: Balance Sheet		
Account #		
	<i>Assets</i>	
111	Cash-unrestricted	8,010
131	Investments-unrestricted	10,375

⁴ For ease of illustration, the Income Statement reflects only the relevant account line items and columns (for example, not shown is the Capital Fund column for the AMP or the “total” AMP column.)

	Total Assets:	18,385
	<i>Liabilities:</i>	0
300	Total Liabilities	0
512.1	Unrestricted Net Assets	18,385
600	Total Liabilities and Net Assets:	18,385

- **Cash-unrestricted** of \$8,010 represents cash maintained that is not invested. It is made up substantially of the \$6,774 Excess Revenue over Operating Expense generated through operations during the reporting period.
- **Investments-unrestricted** of \$10,375 represents funds maintained in investment accounts in accordance with PHA cash management policy, and approved by HUD with respect to investment type (e.g., Certificates of Deposit, State Bonds, T-Bills etc.).
- **Unrestricted Net Assets** of \$18,385 represents Assets minus Liabilities at year-end. Since no liabilities are reported, Net Assets equals assets. Net assets within a governmental entity generally resemble the owner/stockholder equity section of commercial-type entity balance sheets (i.e. assets minus liabilities).

Cash and Investments are classified above as Unrestricted since no externally (e.g., HUD) imposed restrictions apply.

The PHA may elect to establish liabilities to fund eligible operating fund costs. These may be funded through transfers or expense charged to an AMP(S). Here, \$ 18,385 excess cash is available and fungible for transfer to another AMP(s).

Accrued pension & OPEB liabilities are typically allocated based on ACC units. However, this PHA elected to exclude privately owned mixed finance AMPs since they employ no PHA employees. The PHA may elect to transfer part of the excess reserves to fund these liabilities during a reporting period.

Determination of Excess Cash

The excess cash formula for a mixed-finance AMP excludes consideration of the one month of operating expenses (FDS Line item 96900 Total Operating Expense divided by 12). In other words, excess cash is determined through the balance sheet approach only, whereby cash and applicable cash equivalents are netted against current liabilities. (See also Table 6.1 Calculation of Excess Cash, per Supplement to Handbook 7475.1 for specific account listing.)

Generally, the balance sheet factors current assets against current liabilities. It excludes restricted cash and investments, unless these are specific to fund current liabilities. In the above balance sheet example, Excess Cash is determined as:

$$\$18,385 - \$0 = \$18,385$$

It becomes \$18,385, which, again is fungible, and may be paid out to other project(s).

The following current assets and total current liabilities per the balance sheet are used to determine Excess Cash. The AMP level balance sheet values feed into the Supplemental Schedule of Excess Cash, a self populating data schedule. This illustration again relates only to mixed-finance non-component units, as no consideration is given in the Excess Cash calculation to one month of operating expenses.

Line Item No.	Description	AA001000009
111	Cash-unrestricted	\$ 8,010
114	Cash-tenant security deposits	\$0
115	Cash - Restricted for payment of current liability	\$0
120	Total receivables, net of allowance for doubtful accounts	\$0
131	Investments – unrestricted	\$ 10,375
144	Inter program - due from	\$0
310	Total Current Liabilities	\$0
96900	Total Operating Expenses	Not Applicable
Excess Cash		\$ 18,385

Supplemental Calculation for Certain Financial Statement Accounts

- **Management Fee** of \$ 6,791 is determined based on occupied units. For this example, it is assumed that the allowable management fee for this office was \$42.94 PUM. Thus, the total allowable would be: \$42.94 Allowed X 75 ACC units X 12 months X 96 percent Occupancy = \$37,100. The amount actually paid to the Developer/Managing Agent was:

$$\$35.08 \times 75 \text{ ACC units} \times 12 \text{ months} \times 96 \text{ percent Occupancy} = \$30,309.$$

Thus, the difference of \$6,791 was retained by the COCC

- **Bookkeeping Fee** of \$ 6,480, earned on occupied units, is determined as follows:

$$\$7.50 \times 75 \text{ ACC units} \times 12 \text{ months} \times 96 \text{ percent Occupancy} = \$6,480$$

- **Asset Management Fee** of \$ 9,000, based on all ACC units, is determined as follows:

$$\$10 \times 75 \text{ ACC units} \times 12 \text{ months} = \$9,000 \text{ (earned on all ACC units)}$$

- **Other General Expenses** of \$ 51,444 is the amount agreed upon by PHA and Developer. Amount may be the same, less or greater than operating subsidy determined per HUD 52723.