Session 1: Introduction

Table of Contents

Welcome [slide 3]

Course Objectives [slide 3]

The focus of this training is on the proper financial reporting and accounting requirements related to the Public Housing program, with an emphasis on Financial Data Schedule (FDS) reporting requirements.

The PHA's FASS submission is a key report for HUD. These submissions are used to inform policy makers, provide inputs into funding formulas, help assess financial health and compliance and identify possible instance of waste fraud and abuse. Data from the FDS is used to meet these objectives. Therefore, this training was created to help ensure that PHAs report their FDS correctly to HUD. This training will:

- Describe the annual financial reporting requirements, submission process, and related filing timeframes.
- Provide an overview of the different FASS reporting models and HUD guidance concerning these reporting models.
- Provide guidance on how to report activities associated with the two major Public Housing programs (Operating Fund and Capital Fund).
- Describe the proper reporting of the COCC and use of the FDS Elimination Column.
- Provide guidance on how to correctly report mixed finance projects on the FDS.
- Provide information on the Financial Condition Indicator and the Management Operations Indicator scoring process under the Interim PHAS Rule.

Training Instructors [slide 3]

Mr. Chris Kubacki, CPA (Training Sessions – Newark, NJ)
Senior Manager, Phineas Consulting

Chris Kubacki is a Senior Manager with Phineas Consulting, LLC and has over 10 years of specialized experience in the public housing industry, including the implementation of public housing's conversion to asset management and REAC's year-end financial reporting requirements. For the past several years, Mr. Kubacki has provided consulting support on various projects for HUD's Real Estate Assessment Center including the Financial Assessment Sub-system for public housing (FASS-PH) and the Housing Choice Voucher program area.

Mr. Kubacki has trained extensively on several topics that are pertinent to both Public Housing and the Housing Choice Voucher programs including: 1) Accounting and year-end financial reporting requirements for the Public Housing and Housing Choice Voucher programs; 2) Public housing requirements under asset management and fee-for-service, and 3) the Operating Fund formula.

Prior to joining Phineas Consulting, Mr. Kubacki was employed by the U.S. Department of Housing and Urban Development (HUD). At HUD, he served as the Director of the Financial Management Division (Public Housing Operating Fund) and as the Director of the Financial Assessment of Public Housing Agencies (FASS-PH). In addition, Mr. Kubacki worked for ten years at the U.S. Census Bureau where he specialized in business process reengineering and financial analysis of state and local governments.

Raymond G. Adair (Training Sessions – Newark, NJ)

Vice President of Finance & Senior Associate for Nan McKay and Associates (NMA)

Mr. Raymond Adair, MBA, CGFM, is the Vice President of Finance and a Senior Associate for NMA. He has been with the company for 18 years. Mr. Adair is considered one of the public housing industry's leading experts in the areas of financial management and accounting for HUD's Public Housing and Housing Choice Voucher programs.

Over the years, Mr. Adair has trained hundreds of housing authority staff, executives, and commissioners in the proper application of HUD's fiscal requirements for the Housing Choice Voucher and Public Housing Programs, as well as the proper application of governmental GAAP. He has also provided technical assistance, conducted fiscal reviews, and accounting and policy reviews for various housing authorities around the country. In addition, he has extensive knowledge of HUD's fiscal requirements for various grant programs, HUD's online systems (VMS and FASS-PHA), the use of fee-for-service, and the preparation of indirect cost allocation plans.

Mr. Adair assisted HUD in the development of accounting and financial reporting requirements for asset management under the new Operating Fund Rule and trained the HUD Headquarters and Financial Management staff on HCV financial management and reporting. Mr. Adair served on the working group committee that provided HUD with technical assistance in regulation development, and he helped author HUD's handbook supplement "Changes in Financial

Management and Reporting Requirements for Public Housing Agencies under the New Operating Fund Rule". He has also served as the Project Manager under a contract with HUD to review stop-loss applications for compliance with asset management under the Operating Fund Rule. In addition, Mr. Adair provided technical assistance under a contract with HUD for the implementation of asset management to various Public Housing Agencies (large and small).

Ronald Urlaub, CPA
President, Urlaub & Company

Ronald Urlaub, CPA, is the President of Urlaub & Co., PLLC., an accounting firm located in Ada, Oklahoma. The firm specializes in providing accounting services for housing agencies as well as other governmental and nonprofit entities. Over the last 18 years, services provided by Urlaub & Co., PLLC, include performing financial audits and attestation services, fraud investigations, development of accounting policies and procedures for PHAs, establishing quality control programs, and assisting PHAs in their conversion to the asset management model.

Mr. Urlaub graduated from East Central University in 1988. He is a frequent lecturer and trainer for numerous groups at the state, regional and national level, including the American Institute of Certified Public Accountants (AICPA), the Affordable Housing Association of Certified Public Accountants (AHACPA), state CPA societies, and State Auditor Offices. He has participated in several HUD contracts, including the development of the *Changes in Financial Management and Reporting Handbook* released by HUD, performed Stop Loss submission reviews, and served as an instructor for HUD's sponsored asset management training seminars. Mr. Urlaub is a member of the AICPA, the Oklahoma Society of Certified Public Accountants, the Association of Government Accountants (AGA) and the AHACPA.

Agenda [slide 4]

Time	Session	Topics Covered
8:00 – 8:30	Training Registration	
8:30 – 8:45	Session 1 – Introduction	Session 1 will welcome participants and introduce the speaker(s) and topics.
8:45 – 9:15	Session 2 – Financial Reporting Models and Reporting Requirements	Session 2 explains the general financial reporting requirements of HUD and provides an overview of the different FASS reporting models. • Overview of FASS-PH reporting requirements. • Discussion of the different Financial Data Schedule (FDS) reporting models that can be used by PHAs.
9:15 – 10:30	Session 3 – Public Housing Operating Fund	Session 3 discusses how to properly report the Public Housing Operating Fund program. This session covers the following topics: • Project requirements and the reporting for the different type of projects, including mixed finance projects. • Reporting of key FDS line items, such as cash, maintenance contracts, operating transfers, and memo accounts.
10:30 – 10:45	Break	
10:45 – 12:00	Session 4 – Public Housing Capital Fund and ARRA Reporting	Session 4 discusses how to properly report the Public Housing Capital Fund program and ARRA grants on the FDS. This session covers the following topics: • Capital funds activity including hard costs vs. soft costs, CFP management fees, specific BLI accounts, CFFP reporting, and equity transfers/beginning equity. • Accounting for ARRA funds.
12:00 – 1:00	Lunch	
1:00 – 1:45	Session 4 – Public Housing Capital Fund and ARRA Reporting	Continued
1:45 –2:15	Session 5 –Excess Cash and Operating Reserves	Session 5 provides information on the calculation of Excess Cash and Operating Reserves. • Understanding of HUD’s calculation of Excess Cash and Operating Reserves, and the applicability and financial management of these items. • Eligible uses of operating subsidy and reserves.
2:15 – 2:30	Break	
2:30 – 3:45	Session 6 – Central Office Cost Center (COCC) and	Session 6 discusses when to use and how to properly report transactions in the COCC and Elimination columns. Topics to be covered include:

Time	Session	Topics Covered
	Elimination Column Reporting	• COCC income and expenses, reporting fee revenue, COCC expenses, and allocated vs. frontline costs. • Allocated Overhead (COCC cost pool) and other allowed allocation methods. • Understanding fee reasonableness. • Properly eliminating entries.
3:45 – 4:30	Session 7 – Interim Public Housing Assessment System (PHAS), with an emphasis on Financial and Management	Session 7 provides information on Interim PHAS, with an emphasis on FASS and MASS scoring. • Understanding FASS and MASS ratios, including the calculation of project and PHA-wide scores. • Common FDS reporting errors that affect scoring.
4:30 – 4:45	Session 8 – Course Conclusion	Session 8 provides time for an open discussion and for training evaluations.

*Participant learning exercise will be conducted as part of the various sessions.

Ground Rules [slide 5]

- Please turn off cell phones.
- Please ask questions and add to the overall learning objectives.
- If you need to leave in the middle of a discussion, please do so quietly.
- Take your materials with you at the end of the day.

Acronyms

AcSEC	Accounting Standards Executive Committee
A/E	Architect and Engineering
AICPA	American Institute of Certified Public Accountants
AMP	Asset Management Grouping
ARC	Annual Required Contribution
ARRA	American Recovery and Reinvestment Act of 2009
BLI	Budget Line Item
CFDA	Catalog of Federal Domestic Assistance
ABA	Annual Budget Authority
CFP	Capital Fund Program
CFFP	Capital Fund Financing Program
CFR	Code of Federal Regulations
COCC	Central Office Cost Center
DCF	Data Collection Form
DHAP	Disaster Housing Assistance Program
DVP	Disaster Voucher Program
FASS-PH	Financial Assessment Subsystem – Public Housing
FASB	Financial Accounting Standards Board
FDS	Financial Data Schedule
FMC	Financial Management Center
FSS	Family Self Sufficiency
FYE	Fiscal Year End
GAAFR	Governmental Accounting, Auditing, and Financial Reporting (‘The Blue Book’)
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
HAP	Housing Assistance Payment
HCV	Housing Choice Voucher
HUDCAPS	HUD Central Accounting and Program System
IPA	Independent Public Accountant
KDHAP	Katrina Disaster Housing Assistance Program
LOCCS	Line of Credit Control System
MD&A	Management’s Discussion & Analysis
MF	Mixed Finance
MTW	Moving-to-Work

NASS	iNtegrated Assessment Subsystem
NCGAS	National Council on Governmental Accounting Statement
NRA	Net Restricted Assets
OMB	Office of Management and Budget
PHA	Public Housing Agency
PIC	Public and Indian Housing Information Center
PIH	Public and Indian Housing
REAC	Real Estate Assessment Center
R&O	Regulatory & Operating Agreement
SAC	Special Application Center
SFAS	Statement of Financial Accounting Standards
TFAE	Total Federal Awards Expended
UFRS	Uniform Financial Reporting Standards Rule
URA	Unrestricted Net Asset
VASH	HUD Veterans Affairs Supportive Housing Program
VMS	Voucher Management System

Session 2: Financial Reporting Models and Reporting Requirements

Table of Contents

I. OVERVIEW [Slide 2]

This session will cover the following topics:

- Discuss the financial reporting requirements under the Uniform Financial Reporting Standards (UFRS) rule.
- Provide a brief introduction to the FASS-PH System.
- Discuss the different reporting models that were created as a result of the Operating Fund Final Rule and Congressional appropriations. This session will provide information on the applicability of each reporting model to a PHA and the FDS reporting requirements associated with each model.

II. FASS REPORTING REQUIREMENTS

Uniform Financial Reporting Standards [slides 4 & 5]

The Uniform Financial Reporting Standards (UFRS) regulation for HUD Housing Programs (24 CFR Part 5 Subpart H) requires all PHAs to submit financial information electronically to HUD on a schedule based on the reporting entity's fiscal year end (FYE). As shown in *Table 2.1*, the UFRS regulation states that:

- PHAs must submit their data electronically.
- Annual financial information to be reported to HUD must be prepared in accordance with Generally Accepted Accounting Principles (GAAP).
- The submission date for unaudited statements would be no later than two months after the end of the PHA's fiscal year[1].
- The submission date for audited statements would be no later than nine months after the end of the PHA's fiscal year.

Table 2.1 Uniform Financial Reporting Standards

Seq	24 CFR § 5.801 Uniform Financial Reporting Standards	Requirement	Clarification and Other Comments
1	Applicability	PHAs and other entities that administer the Public Housing and/or Housing Choice Voucher (HCV) programs.	This regulation is applicable to all PHAs that administer the Public Housing and HCV programs (i.e., Section 8 only, Combined, and Low Rent only PHAs), including those PHAs that are non-profits, part of non-profits, or part of another government (e.g., department of a city). Based on recent Moving to Work (MTW) Agreements, all MTW agencies are required to submit to FASS-PH.
2	Submission of Financial Information	Prepared in accordance with GAAP as further defined by HUD in supplementary guidance.	• PHAs considered to be governmental will report using GAAP as prescribed by GASB. • PHAs considered non-profit entities will report using GAAP as prescribed by FASB. • HUD will provide additional reporting guidance when GAAP is unclear or provides insufficient guidance as it relates to HUD programs.

[1] The regulation states that an unaudited submission is due to HUD 60 days after a PHA's FYE. However, FASS-PH is currently programmed in months and hence, the unaudited submission due date is 2 months.

Table 2.1 Uniform Financial Reporting Standards

Seq	24 CFR § 5.801 Uniform Financial Reporting Standards	Requirement	Clarification and Other Comments
		Submitted electronically to HUD through the internet, or in another electronic format designated by HUD, or in a non-electronic format that HUD may allow.	Financial data must be submitted through the FASS-PH system.
		Submitted in such form and substance as prescribed by HUD.	Entity-wide via the financial data schedule.
3	Reporting Compliance Dates	PHA with fiscal years ending September 30, 1999 and later.	
4	Annual Financial Report Filing Dates	Unaudited financial statements are due 60 days after the PHA's FYE.	
		Audited financial statements are due no later than 9 months after the PHA's FYE.	
5	Responsibility for Submission of Financial Report	The responsibility for submission of the financial report due to HUD under this section rests with the PHA.	The PHA is responsible for timely submission and not the fee accountant or auditor.

Various regulations and notices provide information about possible monetary penalties and other sanctions for non-compliance with the UFRS rule.

Submission Due Dates [slide 6]

The UFRS rule and FASS-PH operating guidelines require two financial submissions: 1) an unaudited submission due two months after the PHA’s FYE and 2) an audited submission due nine months after the PHA’s FYE (if the PHA completes or is required to have an audit performed).

Table 2.2 below shows the unaudited and audited submission due dates based on a PHA's FYE.

Table 2.2 Financial Reporting Schedule Due Date

Fiscal Year End (FYE)	06/30	09/30	12/31	03/31
Unaudited (due 2 months after FYE)	08/31	11/30	02/28	05/31
Audited (due 9 months after FYE)	03/31	06/30	09/30	12/31

The submission process was changed for the Asset Management Transition Year (Federal Register Notice: FR-5227-N-01). This notice affected the due dates and submission process of all PHAs, specifically:

- FASS submissions for 6/30/2008, 9/30/2008, and 12/31/2008 were submitted to HUD using the FDS Excel Tool.
- Starting with the 3/31/2009 PHAs and thereafter, PHAs were required to report again using the FASS system (and not the FDS Excel Tool). However, PHAs that submitted to FASS on or before September 14, 2009 had the option of submitting using the FDS Excel Tool.
- Any 6/30/2008 and later submission must now be submitted using the FASS-PH system.

From time to time, HUD will extend the submission due dates. If and when this occurs, HUD will update its website accordingly. At this time submissions are due as required under the UFRS rule.

- Unaudited submissions are due two months after the PHA's FYE.
- Audited submissions are due nine months after the PHA's FYE (if the PHA completes or is required to have an audit performed).

Extensions and Waivers from FASS-PH Submission Schedule [slides 7 & 8]

PHAs that need extra time in order to provide their submission by the due date may request additional time from HUD through an extension or waiver. **Both extensions and waivers must be requested before the submission due date.**

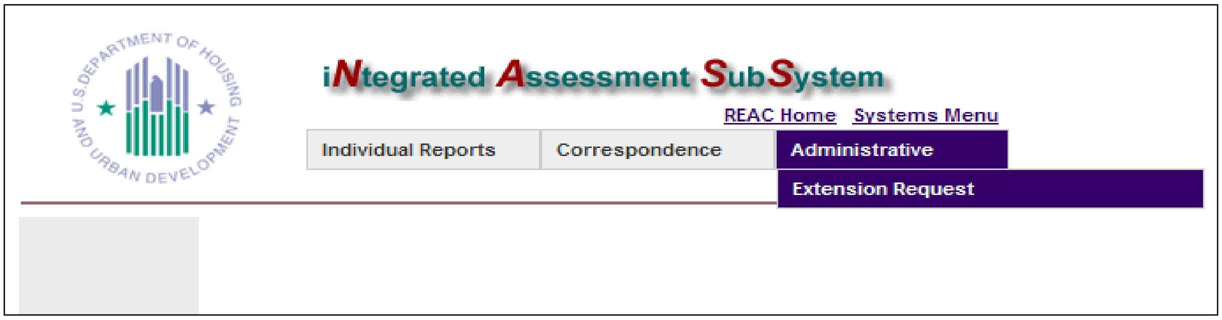
Extension Request [slide 7]

An extension request is used to request additional time by the PHA for its **unaudited** submission. The PHA's request, along with HUD's decision to grant an extension, is performed electronically on-line through the Administrative link in the Integrated Assessment Subsystem (NASS). If the PHA has an unusual circumstance that will cause the PHA to be unable to submit within the allotted deadline, the PHA must complete an Extension Request.

To receive an extension, a PHA must ensure that REAC receives the PHA's extension request 15 days before the submission due date. The request must include an objectively verifiable justification as to why the PHA cannot submit the information by the submission due date. The requirement for the PHA to request an extension at least 15 days prior to the submission due date can be found in 24 CFR §922.60(b).

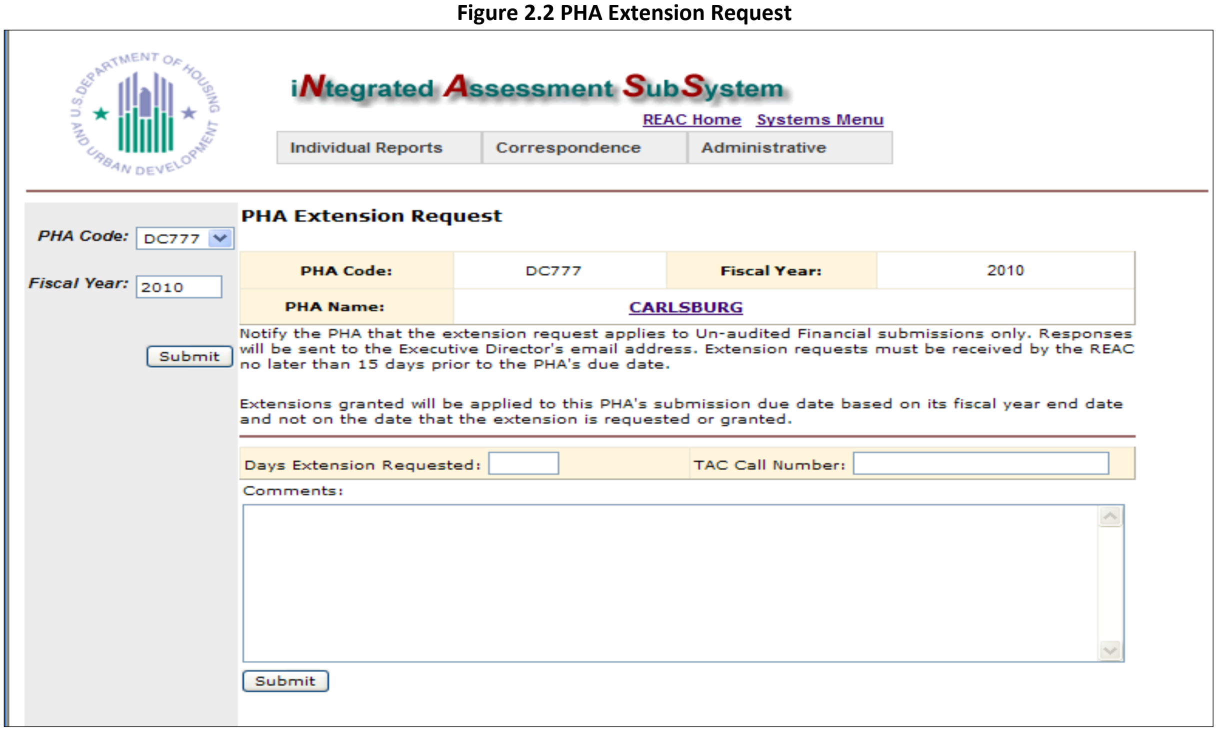
Figure 2.1 shows a screenshot of the extension request form that can be found in the NASS System. Once in NASS, select the "Administrative" Tab and a drop down selection will show: "Extension Request".

Figure 2.1 Integrated Assessment Subsystem (NASS)



Once the Extension Request is selected, enter the PHA Code and Fiscal Year. The following screen shot in *Figure 2.2* will display. The PHA should complete the form and select "Submit" in order to submit the PHA's extension request to HUD. After the extension request has been submitted, the PHA should call their FASS-PH analyst or manager informing them that the request was made. HUD will respond (grant or deny the request) electronically using this same area of NASS. PHAs should check the website, to determine the status of their extension request. If the PHA is granted an extension, the extension begins on the submission due date.

Figure 2.2 PHA Extension Request



Waiver Request [slide 8]

A waiver request is used to request additional time for an **audited** submission. PIH Notice 2009-41, *Processing Requests for Regulatory Waivers*, provides detailed instructions and guidance on how to request a waiver. To initiate the request, the PHA request is submitted to its local HUD Field Office for approval via hard copy. In the request, the PHA must provide the regulatory citation that is requested to be waived and provide a justification for the need for a waiver. The PHA request must include an objectively verifiable justification as to why the PHA cannot submit the information by the submission due date. A PHA should submit its written request for a waiver 30 days prior to the submission due date as required by 24 CFR §922.60(c). HUD will send its *written* determination of the waiver request to the PHA, and if appropriate, establish a new submission due date for the audited financial information.

PIH Notice 2009-41 can be accessed using the following link:
http://www.hud.gov/offices/reac/products/PDFs/waiver_v8_for_pvcs.pdf

III. THE FASS-PH SYSTEM

Introduction to the FASS-PH System [slides 10 & 11]

FASS-PH is responsible for assessing the financial condition of approximately 4,100 PHAs that receive HUD funds. In addition to evaluating financial health, FASS-PH conducts various analyses to aid in the improvement of PHAs' financial health, the accuracy of the funding formulas, and provides guidance in identifying possible instances of waste, fraud, and/or abuse. These functions assist HUD in distinguishing between PHAs that are financially healthy and compliant with HUD's regulations from those that present a higher degree of financial risk to the Department.

The mission of FASS-PH is to:

- Collect financial data from PHAs;
- Review, analyze, and assess the financial data collected;
- Provide technical assistance and accounting guidance;
- Develop and maintain the FASS-PH reporting system; and
- Provide analysis and information for policy and decision-making purposes.

The FASS-PH system is a secure on-line system that allows PHAs to input and submit their required financial information electronically to HUD. This system meets the following three requirements of the UFRS rule:

1. Prepared in accordance with GAAP as further defined by HUD in supplementary guidance;
2. Submitted electronically to HUD through the internet; and
3. Submitted in such form and substance as prescribed by HUD.

The FASS-PH system also allows the PHA to generate a series of reports on its financial information. The latest *Public Housing Agency and Auditor User Guide* can be found at: http://www.hud.gov/offices/reac/products/fass/pha_doc.cfm and contains detailed instructions on the requirements and process of submitting financial information to the FASS-PH system.

Additional HUD Resources for FDS reporting [slides 12-14]

1. FASS-PH. Specific FASS-PH FDS reporting requirements are provided on PIH's REAC website. This site contains other related information such as a system user guide, financial indicator methodology and analysis guides, GAAP flyers, accounting briefs and frequently asked questions. The screenshot to this webpage is provided in *Figure 2.3*.

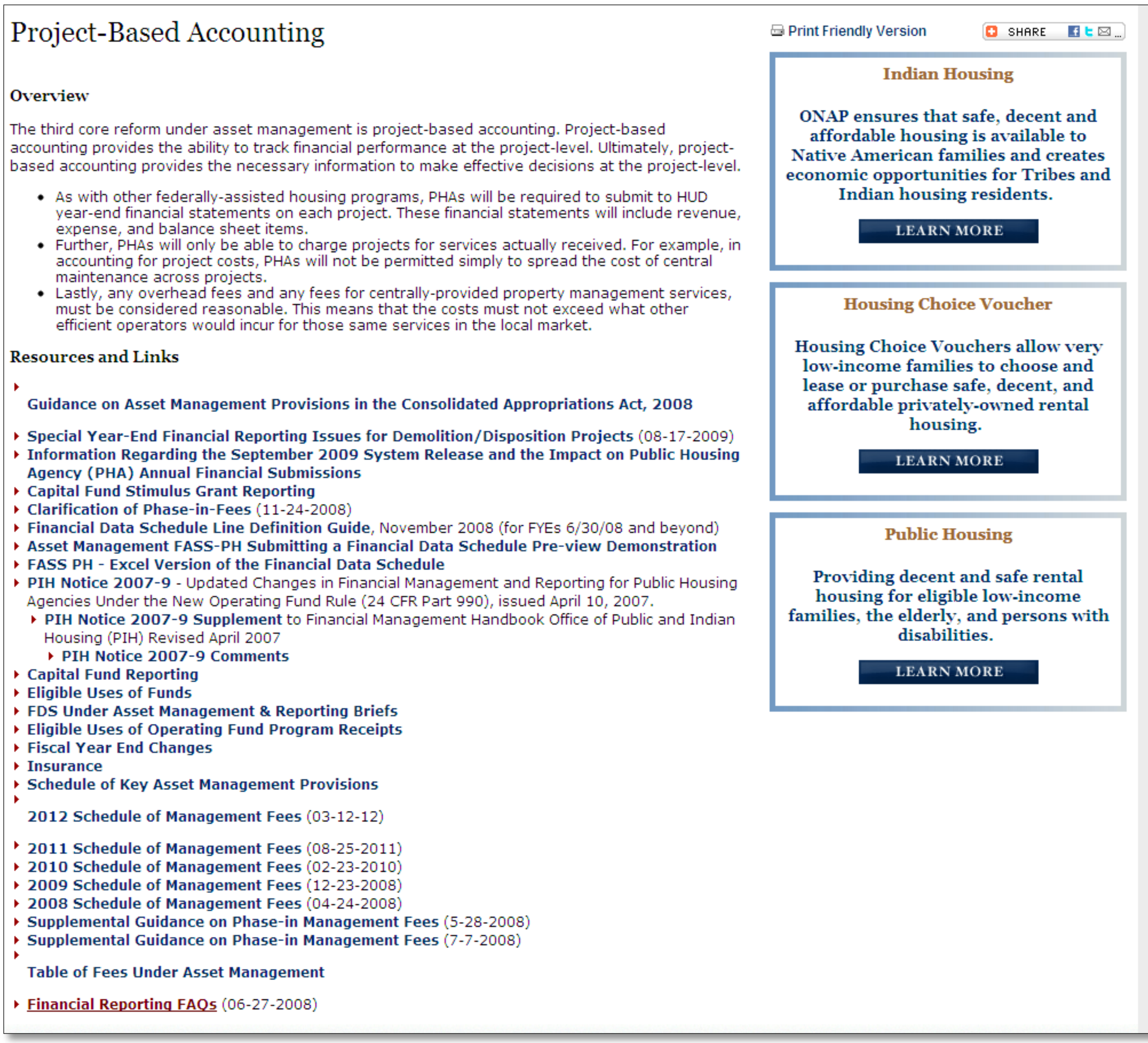
   This website can be found at: http://portal.hud.gov/hudportal/HUD/program_offices/public_indian_housing/reac/products/prodpha.

Figure 2.3 FASS-PH Website

2. Asset Management. HUD also has dedicated websites to provide additional asset management guidance. The asset management websites contain the most recent asset management guidance available. With respect to asset management, the Project-Based Accounting website contains useful links such as schedules of management fees, answers to frequently asked questions (FAQs), and a link to the Financial Management Handbook. The screenshot to this webpage is shown in *Figure 2.4.*

   This website can be found at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/am/accounting.

Figure 2.4 Project-Based Accounting Website



Project-Based Accounting

Print Friendly Version SHARE

Overview

The third core reform under asset management is project-based accounting. Project-based accounting provides the ability to track financial performance at the project-level. Ultimately, project-based accounting provides the necessary information to make effective decisions at the project-level.

- As with other federally-assisted housing programs, PHAs will be required to submit to HUD year-end financial statements on each project. These financial statements will include revenue, expense, and balance sheet items.
- Further, PHAs will only be able to charge projects for services actually received. For example, in accounting for project costs, PHAs will not be permitted simply to spread the cost of central maintenance across projects.
- Lastly, any overhead fees and any fees for centrally-provided property management services, must be considered reasonable. This means that the costs must not exceed what other efficient operators would incur for those same services in the local market.

Resources and Links

- Guidance on Asset Management Provisions in the Consolidated Appropriations Act, 2008
- Special Year-End Financial Reporting Issues for Demolition/Disposition Projects (08-17-2009)
- Information Regarding the September 2009 System Release and the Impact on Public Housing Agency (PHA) Annual Financial Submissions
- Capital Fund Stimulus Grant Reporting
- Clarification of Phase-in-Fees (11-24-2008)
- Financial Data Schedule Line Definition Guide, November 2008 (for FYEs 6/30/08 and beyond)
- Asset Management FASS-PH Submitting a Financial Data Schedule Pre-view Demonstration
- FASS PH - Excel Version of the Financial Data Schedule
- PIH Notice 2007-9 - Updated Changes in Financial Management and Reporting for Public Housing Agencies Under the New Operating Fund Rule (24 CFR Part 990), issued April 10, 2007.
  - PIH Notice 2007-9 Supplement to Financial Management Handbook Office of Public and Indian Housing (PIH) Revised April 2007
    - PIH Notice 2007-9 Comments
- Capital Fund Reporting
- Eligible Uses of Funds
- FDS Under Asset Management & Reporting Briefs
- Eligible Uses of Operating Fund Program Receipts
- Fiscal Year End Changes
- Insurance
- Schedule of Key Asset Management Provisions
- 2012 Schedule of Management Fees (03-12-12)
- 2011 Schedule of Management Fees (08-25-2011)
- 2010 Schedule of Management Fees (02-23-2010)
- 2009 Schedule of Management Fees (12-23-2008)
- 2008 Schedule of Management Fees (04-24-2008)
- Supplemental Guidance on Phase-in Management Fees (5-28-2008)
- Supplemental Guidance on Phase-in Management Fees (7-7-2008)
- Table of Fees Under Asset Management
- Financial Reporting FAQs (06-27-2008)

Indian Housing

ONAP ensures that safe, decent and affordable housing is available to Native American families and creates economic opportunities for Tribes and Indian housing residents.

LEARN MORE

Housing Choice Voucher

Housing Choice Vouchers allow very low-income families to choose and lease or purchase safe, decent, and affordable privately-owned rental housing.

LEARN MORE

Public Housing

Providing decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities.

LEARN MORE

3. Housing Choice Voucher Program. Additional financial and accounting related information, including information on the Voucher Management System (VMS) related to the HCV program and other PIH voucher programs (i.e., Disaster Voucher program (DVP)).

   This website can be found at:
   http://portal.hud.gov/hudportal/HUD/program_offices/public_indian_housing/centers/fmc

4. Public and Indian Housing One-Stop Tool (POST) for PHAs. This website provides in one place, commonly used links to PIH systems, tools, training, opportunities, program requirements, and commonly used external websites.

   This website can be found at:
   http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/post

IV. FINANCIAL REPORTING MODELS

Basis of Reporting Models – Overview [slide 16]

On October 24, 2005, HUD published the *Revision to the Public Housing Operating Fund Program; Final Rule* (The Final Rule). The Final Rule amended 24 CFR Part 990 governing the Operating Fund formula. The revisions to 24 CFR 990 also established, for public housing, the same asset management and property management norms that are consistent within the broader multifamily housing industry. That is, in the multifamily industry, many of the property management services that are associated with the day-to-day operation of the property (including marketing, intake, routine and preventive maintenance, landscaping and security) are performed by site-based staff or third party vendors. The changes to 24 CFR 990 seeks to convert PHAs and HUD from an **agency-centric model** to an **asset-management model** or project-level model.

The Final Rule, subsequent Congressional mandates, and HUD guidance resulted in the establishment of the following four reporting models. The instructions to PHAs on how to complete the FDS template are based on these four reporting models.

- Model 1. PHAs under Asset Management with Central Office Cost Center (COCC).
- Model 2. PHAs under Asset Management with Allocated Overhead and no COCC.
- Model 3. PHAs not under Asset Management.
- Model 4. Small PHAs under Alternate Asset Management.

The first three reporting models have their origins in the Operating Fund Rule and the 2008 Consolidated Appropriations Act. The last model, Model 4: Small PHAs under Asset Management, was developed through HUD guidance, specifically the *Supplement to HUD Handbook 7451.1 REV, Financial Management Handbook* issued April 2007.

Four Reporting Models under Asset Management [slide 17]

The reporting models that are applicable to a PHA are determined by the following factors:

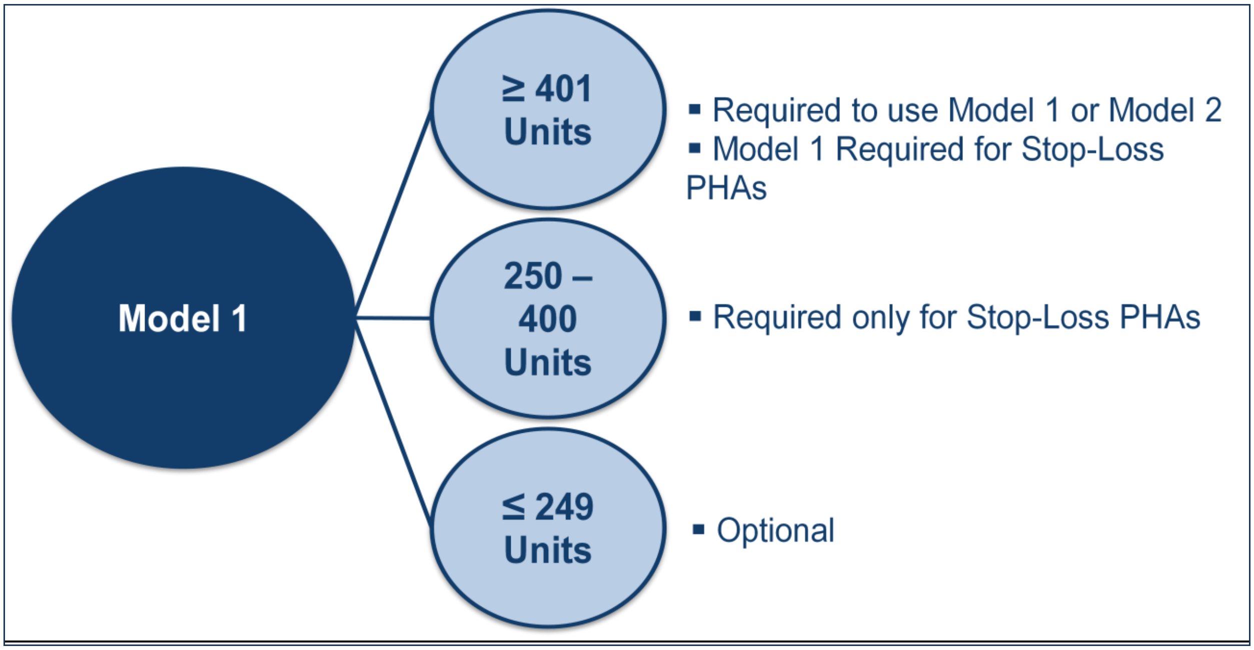
- *PHA size.* The number of public housing units that the PHA administers: 1) 401 or more units; 2) 250 to 400 units; or 3) 249 or less units.
- *Stop Loss.* For PHAs between 250 to 400 units, if the PHA has applied for Stop Loss, the PHA must demonstrate compliance with asset management and hence must adopt a COCC and fee-for-service approach. Similarly, PHAs with less than 249 units are permitted to use Model 4 only if they have applied for Stop Loss.
- *PHA Board Decision.* The PHA Board and management will choose the asset management reporting model to be used within certain regulatory constraints.

The sections below provide the following information for each Reporting Model:

1. Description. A description of each reporting model.
2. Applicability. The reporting model's applicability to the three PHA size categories: 1) 401 or more units; 2) 250 to 400 units; and 3) 249 or less units.
3. FDS Reporting Requirements. Reporting requirements on the FDS template.

Appendix 2-1, at the end of this session, provides summary information (i.e., a description of each model, its applicability, and the FDS reporting requirements information) for all four Asset Management Reporting Models.

Model 1: PHAs under Asset Management with COCC [slides 18 & 19]



Description. Under Model 1, the PHA has implemented asset management, is using a fee-for-service approach, has established a COCC, and, therefore, will use an elimination column.

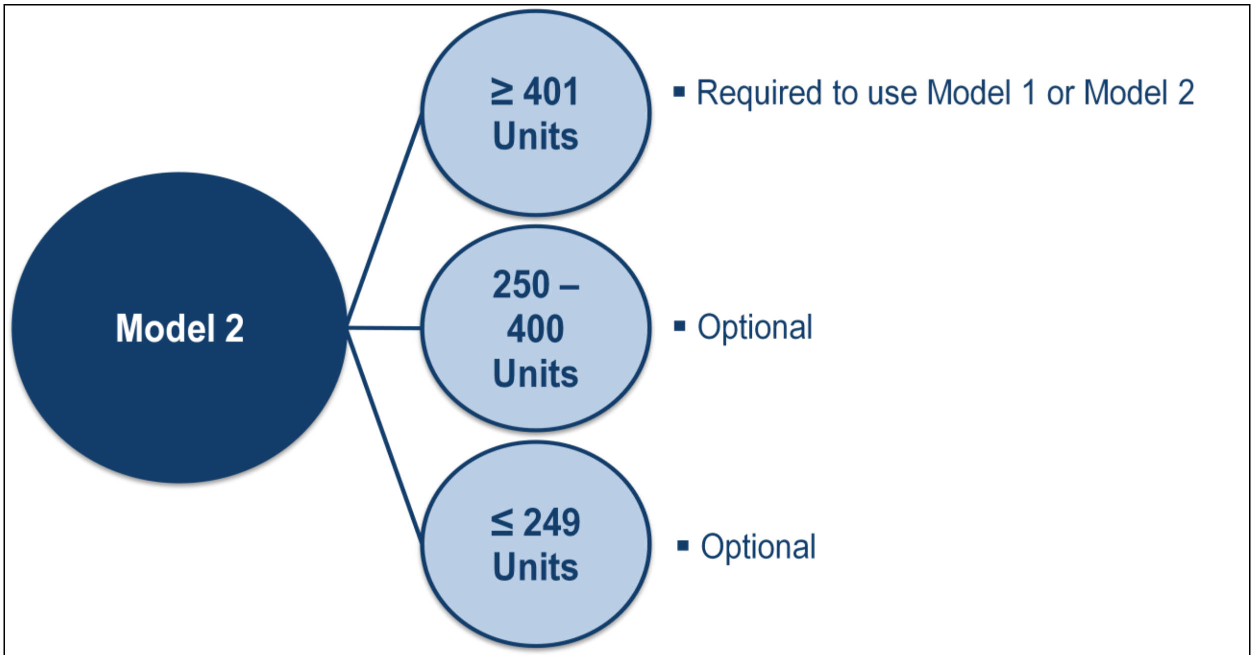
Applicability. Model 1 applicability is provided below for the following PHA size categories:

- PHAs with 401 or more units are required to use Model 1 or Model 2.
- PHAs with 250 or more units are required to use Model 1 if the PHA applied for Stop Loss.
- Model 1 is optional for PHAs with 249 or less units.

FDS Reporting Requirements. PHAs using Model 1 must report on the FDS as follows:

1. PHA Information Screen – Asset Management. Select “Asset Management with COCC Elimination”.
2. Should have entries for COCC and Elimination columns.
3. Do not report on FDS Line “Allocated Overhead” (FDS Line 91810).
4. Must have established projects as required under asset management guidance (i.e., multiple projects).

Model 2: PHAs under Asset Management with Allocated Overhead [slides 20 & 21]



Description. Under Model 2, the PHA has implemented asset management and is not using a fee-for service approach. The PHA has opted not to establish a COCC but instead has chosen to use its Capital Funds to support core central operations OR has elected to use allocated overhead as allowed for under the phase-in fee approach in lieu of creating a fee-for-service structure until 2011.

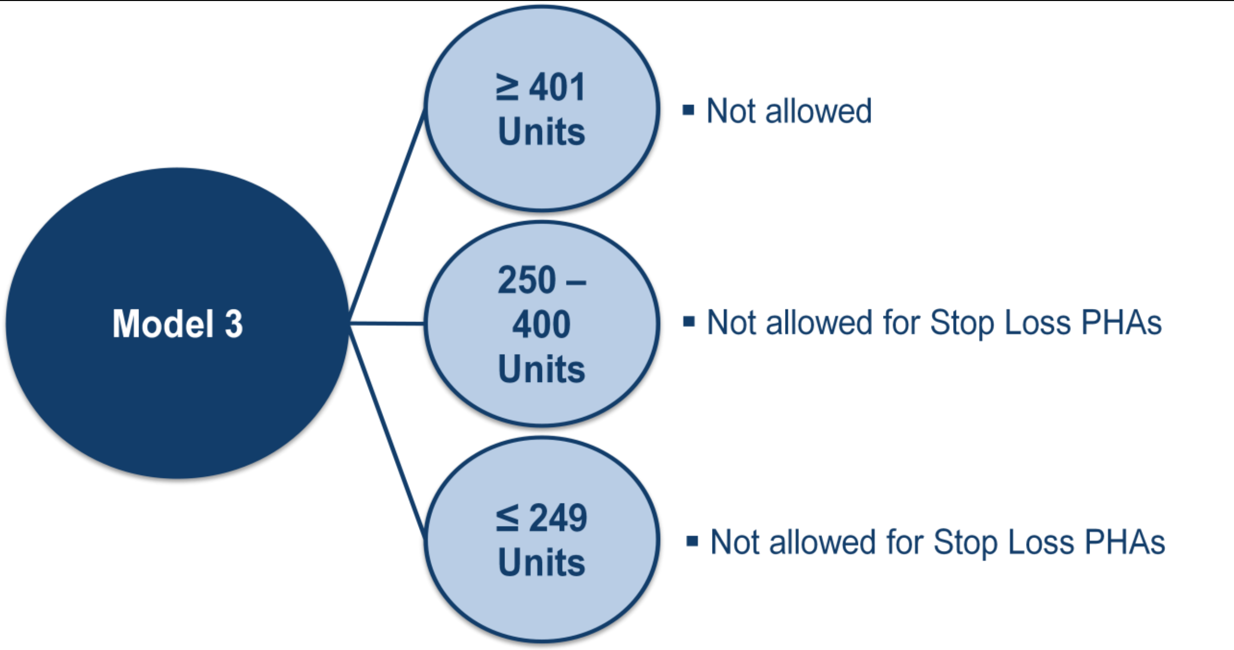
Applicability. Model 2 applicability is provided below for the following PHA size categories:

- PHAs with 401 or more units are required to use Model 1 or Model 2.
- Model 2 is optional for PHAs with 250 to 400 units but cannot be used if the PHA is applying for Stop Loss.
- Model 2 is optional for PHAs with 249 or less units.

FDS Reporting Requirements. PHAs using Model 2 must report on the FDS as follows:

1. PHA Information Screen – Asset Management. Select:
    a. "Asset Management without COCC/Elimination" if the PHA does not need to eliminate intra-entity transactions OR
    b. "Asset Management with Elimination" if there are intra-entity transactions.
2. Should not have entries for COCC column.
3. Should only have intra-entity transactions if selected "Asset Management with Elimination" on the PHA Information Screen.
4. Should report overhead allocations on FDS Line 91810 Allocated Overhead.
5. Must have established projects as required under asset management guidance (i.e., multiple projects).

Model 3: PHAs not under Asset Management [slides 22 & 23]



Description. Under Model 3, the PHA has not implemented asset management and, therefore, will not have established a COCC. The PHA continues to allocate overhead without distinguishing direct costs vs. indirect costs. This model is typically used by PHAs with 400 or less units that did not apply for Stop Loss.

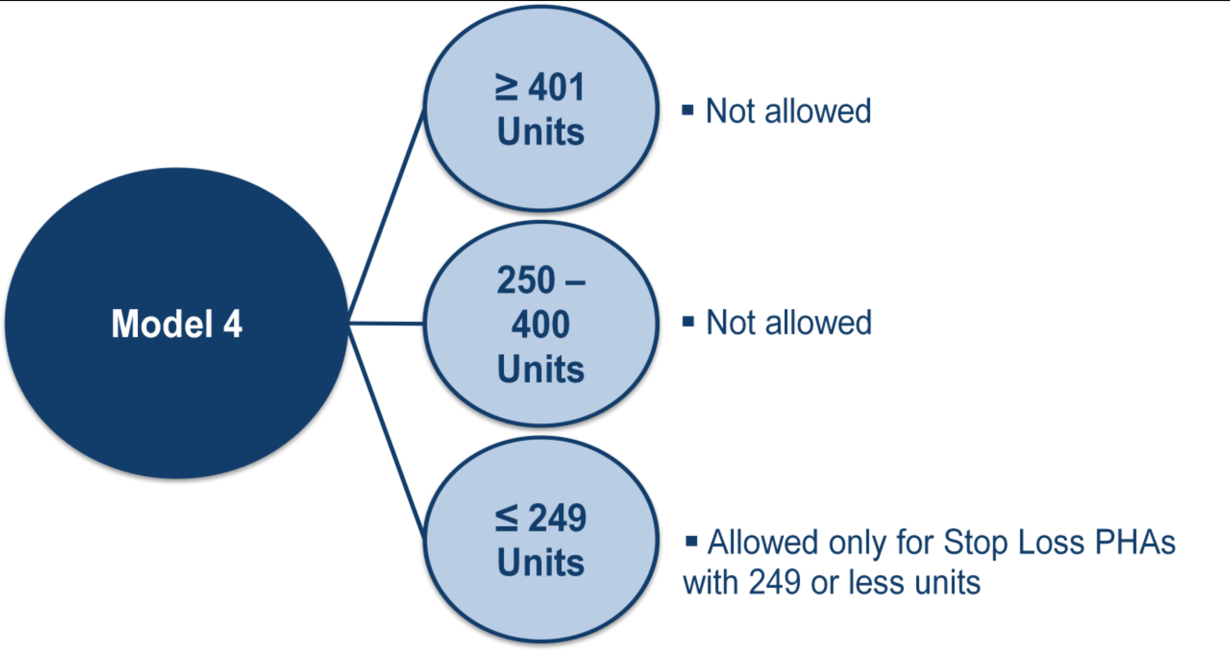
Applicability. Model 3 applicability is provided below for the following PHA size categories:

- PHAs with 401 or more units are subject to asset management and cannot use Model 3.
- PHAs with 250 to 400 units can use Model 3 if the PHA did not apply for Stop Loss.
- PHAs with 249 or less units can use Model 3 if the PHA did not apply for Stop Loss.

FDS Reporting Requirements. PHAs using Model 3 must report on the FDS as follows:

1. PHA Information Screen – Asset Management. Select:
   a. "Non-Asset Management with Elimination Only" if the PHA needs to eliminate intra-entity transactions OR
   b. "Non-Asset Management" if there are no intra-entity transactions.
2. Should not have entries for COCC column.
3. Should only have intra-entity transactions if selected "Non-Asset Management with Elimination Only" on the PHA Information Screen.
4. Should not use FDS Line 91810 Allocated Overhead.
5. Will typically report only one project.

Model 4: Small PHAs under Alternate Asset Management [slides 24 & 25]



Description. Model 4 is used by Small PHAs (i.e. less than 249 units) to qualify under Stop Loss. Under this model, the PHA will not establish a COCC or have allocated overhead. However, the PHA's administrative costs must be reasonable as compared to the HUD established limits.

Applicability. Model 4 applicability is provided below for the following PHA size categories:

- PHAs with 401 or more units are required to convert to asset management. Hence, these PHAs are not allowed to use Model 4.
- PHAs with 250 to 400 units are not allowed to use Model 4.
- PHAs with 249 or less units can use Model 4 if they apply for Stop Loss.

FDS Reporting Requirements. PHAs using Model 4 must report on the FDS as follows:

1. PHA Information Screen – Asset Management. Select:
   a. "Asset Management without COCC/Elimination" if the PHA does not need to eliminate intra-entity transactions OR
   b. "Asset Management with Elimination" if there are intra-entity transactions.
2. Should not have entries for COCC column.
3. Should only have intra-entity transactions if selected "Asset Management with Elimination" on the PHA Information Screen.
4. Must have established projects as required under asset management guidance (i.e., multiple projects).

Report Model Summary

Appendix 2-2 provides an illustration of the FDS Reporting Template**s** for the four financial reporting models. *Table 2.3* below provides a summary of the four reporting models and their applicability by the three PHA size categories. PHAs with 401 or more units are only permitted to use Models 1 or 2. For PHAs with 250 to 400 units, which model the PHA uses is dependent on whether the PHA has applied for Stop Loss. PHAs with 249 or less units are the only PHAs allowed to use Model 4, the alternate asset management method.

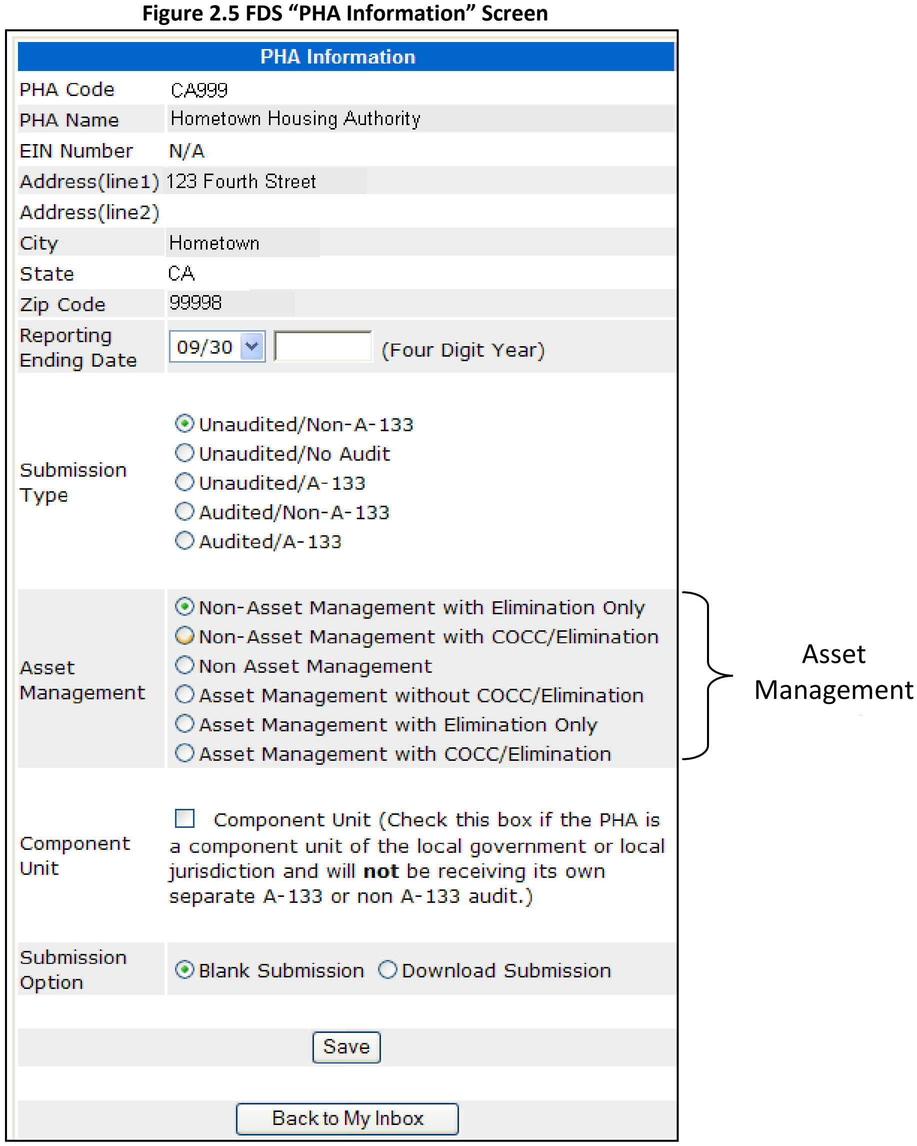
Table 2.3 Asset Management Reporting Models and PHA Size Categories

<table>
<tr><th rowspan="2">Reporting Model</th><th colspan="3">PHA Size Category</th></tr>
<tr><th>401 or More Units</th><th>250 to 400 Units</th><th>249 or Less Units</th></tr>
<tr><td>Model 1: PHAs under Asset Management with COCC.</td><td rowspan="2">- Required to use Model 1 or 2.
- Model 1 required for Stop-Loss PHAs.</td><td>Required only for Stop Loss PHAs</td><td>Optional</td></tr>
<tr><td>Model 2: PHAs under Asset Management with Allocated Overhead, and no COCC</td><td>Optional</td><td>Optional</td></tr>
<tr><td>Model 3: PHAs not under Asset Management.</td><td>Not Allowed</td><td>Not Allowed for Stop Loss PHAs</td><td>Not Allowed for Stop Loss PHAs</td></tr>
<tr><td>Model 4: Small PHAs under Alternate Asset Management Method.</td><td>Not Allowed</td><td>Not Allowed</td><td>Allowed only for Stop Loss PHAs with 249 or less units.</td></tr>
</table>

Reporting Models and FDS "PHA Information" Screen [slides 26 & 27]

The FDS template has also been revised to gather information on the reporting models used by a PHA, the four asset management reporting models and the non-asset management reporting models. Specifically, the PHA is required to identify the reporting model used on the "PHA Information" screen of the FDS. *Figure 2.5* on the next page provides a screen shot of the FDS "PHA Information" screen and the six (6) reporting types that the PHA can select.

Figure 2.5 FDS "PHA Information" Screen



PHA Information	
PHA Code	CA999
PHA Name	Hometown Housing Authority
EIN Number	N/A
Address(line1)	123 Fourth Street
Address(line2)	
City	Hometown
State	CA
Zip Code	99998
Reporting Ending Date	09/30 (Four Digit Year)
Submission Type	Unaudited/Non-A-133 Unaudited/No Audit Unaudited/A-133 Audited/Non-A-133 Audited/A-133
Asset Management	Non-Asset Management with Elimination Only Non-Asset Management with COCC/Elimination Non Asset Management Asset Management without COCC/Elimination Asset Management with Elimination Only Asset Management with COCC/Elimination
Component Unit	Component Unit (Check this box if the PHA is a component unit of the local government or local jurisdiction and will **not** be receiving its own separate A-133 or non A-133 audit.)
Submission Option	Blank Submission Download Submission
Save	
Back to My Inbox	

Appendix 2-3 provides a description of the six reporting types shown on the "PHA Information" screen.

Table 2.4 provides a crosswalk of the four Asset Management Reporting Models to the six reporting types shown on the FDS "PHA Information" screen. For example, PHAs using *Model 3: PHAs Not under Asset Management* should only select the FDS reporting type of: 1) Non-

Asset Management with Elimination Only (if the PHA needs to eliminate intra-entity transactions); or 2) Non-Asset Management if there are no intra-entity transactions.

Table 2.4 Asset Management Reporting Models and FDS Reporting Types

FDS Reporting Types	**Model 1** PHAs under Asset Management with COCC	**Model 2** PHAs under Asset Management with Allocated Overhead and no COCC	**Model 3** PHAs not under Asset Management	**Model 4** Small PHAs under Alternate Asset Management Method
1. Non-Asset Mgmt with Elimination Only			●	
2. Non-Asset Mgmt with COCC/Elimination				
3. Non-Asset Management			●	
4. Asset Mgmt without COCC/Elimination		●		●
5. Asset Mgmt with Elimination		●		●
6. Asset Mgmt with COCC/Elimination	●			

Cost Reasonableness [slide 28]

All PHAs reporting under asset management (i.e., PHAs with 401 or more units or PHAs with 400 or less units applying for stop loss) must comply with cost reasonableness. The cost reasonableness schedule was initially published in the *Supplement to HUD Handbook 7475.1 Rev., CHG-1, Financial Management Handbook* (Table 1.1). HUD posted revised Supplemental Guidance on Phase-in Management Fees on its website in July 2008. This guidance moved the requirement to comply with cost reasonableness to 2011. *Table 2.5* below provides information by PHA FYE and the submission in which the PHA must meet the cost reasonableness standard.

Table 2.5 Schedule for Financial Management and Reporting Compliance

PHA Fiscal Year End	Per Financial Management Handbook		Current HUD Guidance
	Project-based Budgets and Project-based Accounting	Cost Reasonableness	Cost Reasonableness
June	07/01/2007 through 06/30/2008 and after	07/01/2008 through 06/30/2009 and after	07/01/2010 through 06/30/2011 and after
September	10/01/2007 through 09/30/2008 and after	10/01/2008 through 09/30/2009 and after	10/01/2010 through 09/30/2011 and after
December	01/01/2008 through 12/31/2008 and after	01/01/2009 through 12/31/2009 and after	01/01/2011 through 12/31/2011 and after
March	04/01/2008 through 03/31/2009 and after	04/01/2009 through 03/31/2010 and after	04/01/2011 through 03/31/2012 and after

Learning Activity 2.1 – Reporting Models and Requirements [slide 29]

V. AUTHORITATIVE LANGUAGE - FINANCIAL REPORTING MODELS

(Provided for Informational Purposes Only)

The FDS template for June 30, 2008 and later submissions was revised to reflect the change to asset management and the need to accommodate the reporting requirements of the public housing program at the project level. The FDS was further modified to reflect the four asset management models that were created as a result of changes to HUD regulations, additional HUD guidance, and Congressional actions. This section provides an overview of the authoritative language that resulted in the establishment of the four distinct reporting models under asset management.

- Model 1. PHAs under Asset Management with Central Office Cost Center (COCC).
- Model 2. PHAs under Asset Management with Allocated Overhead and no COCC.
- Model 3. PHAs not under Asset Management.
- Model 4. Small PHAs under Alternate Asset Management.

The first three reporting models have their origins in the Operating Fund Rule and the 2008 Consolidated Appropriations Act. The last model, Model 4: Small PHAs under Asset Management, was developed through HUD guidance, specifically the *Supplement to HUD Handbook 7451.1 REV, Financial Management Handbook* issued April 2007.

The following sections discuss the basis of the first three reporting models as promulgated through regulation, other HUD guidance, and subsequent Congressional actions.

Basis of Reporting Model – Regulation

The Final Rule exempted certain PHAs from the requirements of asset management based on the number of public housing units that are administered by the PHA. Specifically, 24 CFR §990.260 and §990.280 specified that the requirements of asset management (including project-based budgeting and accounting) are applicable to those PHAs managing 250 or more public housing units. PHAs managing less than 250 public housing units are exempt from asset management and the respective reporting requirements.

Below are the specific regulatory provisions for 24 CFR §990.260 and §990.280:

> 24 CFR §990.260:
>
> - PHAs that own and operate 250 or more dwelling rental units under title I of the 1937 Act, including units managed by a third-party entity (for example, a resident management corporation) but excluding section 8 units, are required to operate using an asset management model consistent with this subpart.
> - (b) PHAs that own and operate fewer than 250 dwelling rental units may treat their entire portfolio as a single project. However, if a PHA selects this option, it will not receive the add-on for the asset management fee described in §990.190(f).

> 24 CFR §990.280:
>
> - (b)(4) Project-specific operating expenses shall include, but are not limited to, direct administrative costs, utilities costs, maintenance costs, tenant services, protective services, general expenses, non-routine or capital expenses, and other PHA or HUD-identified costs which are project-specific for management purposes. Project-specific operating costs also shall include a property management fee charged to each project that is used to fund operations of the central office. Amounts that can be charged to each project for the property management fee must be reasonable.

Basis of Reporting Model – Appropriation

Starting with the 2008 Consolidated Appropriations, Congress provided additional guidance on asset management which: 1) further distinguished whether PHAs were subject to asset management and 2) re-affirmed that PHAs could use Capital Funds to fund those costs typically associated with central office operations. Both of these Congressional provisions are also effective for 2009 and after.

Section 225. Specifically, Section 225 of the 2008 Consolidated Appropriations increased the threshold of exemption from asset management from PHAs administering 250 units to PHAs administering up to 400 units. Exception: This provision is not applicable to PHAs that apply for "stop loss" (i.e., request that HUD discontinue the reduction of the PHA's operating subsidy as specified under the new Operating Fund formula). To be eligible for stop loss, a PHA must implement asset management.

> Section 225 (2008 Consolidated Appropriations Act, P.L. 110-161):
>
> - Public housing agencies that own and operate 400 or fewer public housing units may elect to be exempt from any asset management requirement imposed by the Secretary of Housing and Urban Development in connection with the operating fund rule: Provided, that an agency seeking a discontinuance of a reduction of subsidy under the operating fund formula shall not be exempt from asset management requirements.

Section 226. Under previous asset management guidance, a PHA can transfer Capital Fund Program (CFP) grant funds to operations to pay for direct project costs such as maintenance or residence services, but not to enable the COCC to charge a management fee higher than otherwise allowed. Section 226 of the 2008 Consolidated Appropriations Act clarified that PHAs implementing asset management may continue to use their Capital Funds to fund those costs typically associated with central office operations, within the 20 percent limit on operations (100 percent for PHAs with fewer than 250 units). That is, in lieu of using a fee-for-service approach and establishing a COCC, the PHA may continue to fund its central office by allocating overhead costs to the PHA's projects. These overhead allocations must continue to demonstrate reasonable costs.

Section 226 (2008 Consolidated Appropriations Act, P.L. 110-161):

- With respect to the use of amounts provided in this Act and in future Acts for the operation, capital improvement and management of public housing as authorized by sections 9(d) and 9(e) of the United States Housing Act of 1937 (42 U.S.C. 1437g(d) and (e)), the Secretary shall not impose any requirement or guideline relating to asset management that restricts or limits in any way the use of capital funds for central office costs pursuant to section 9(g)(1) or 9(g)(2) of the United States Housing Act of 1937 (42 U.S.C. 1437g(g)(1),(2)): Provided, however, that a public housing agency may not use capital funds authorized under section 9(d) for activities that are eligible under section 9(e) for assistance with amounts from the operating fund in excess of the amounts permitted under sections 9(g)(1) or 9(g)(2).

Note: Section 9(g) of the Housing Act of 1937 permits PHAs to spend 20 percent of the Capital Fund Program grant to operate public housing (100 percent for PHAs with fewer than 250 units).

CFP funds can only be used to support public housing activities. However expenses in a COCC are associated with Public Housing, Housing Choice Voucher, and all other programs administered by the PHA. Therefore, PHAs that use CFP for operations are not able to establish a COCC but should instead maintain an overhead allocation system and can only charge actual costs, subject to the reasonable and necessary standards of OMB Circular A-87. PHAs allocating and reporting those costs typically associated with central office operations must report on the FDS using FDS Line 91810 Allocated Overhead.

PIH Notice 2008-16 and Other Reporting Guidance

HUD's guidance on the implementation of the two asset management provisions in the Consolidated Appropriations Act (Sections 225 & 226) is summarized in PIH Notice 2008-16 *(Guidance on Asset Management Provisions in the Consolidated Appropriations Act, 2008)* dated March 25, 2008. The following are additional PHA reporting requirements that are discussed in this notice:

1. Reasonable Costs. PHAs that utilize Section 226 must maintain overhead allocations to demonstrate reasonable costs and must not use fee-for-service for their Public Housing Program.

2. FDS Reporting. Use FDS Line 91810 Allocated Overhead to report these overhead allocations.

3. Email HUD. Prior to utilizing Section 226, PHAs must notify HUD by email of its intent to switch to the cost-allocation method for overhead. The email address is: REAC_OpSub@hud.gov

4. COCC Fee Costs. If the PHA has over 400 public housing units, the amount reported in the allocated overhead line are the same "Fee" costs that would be reported in a COCC.

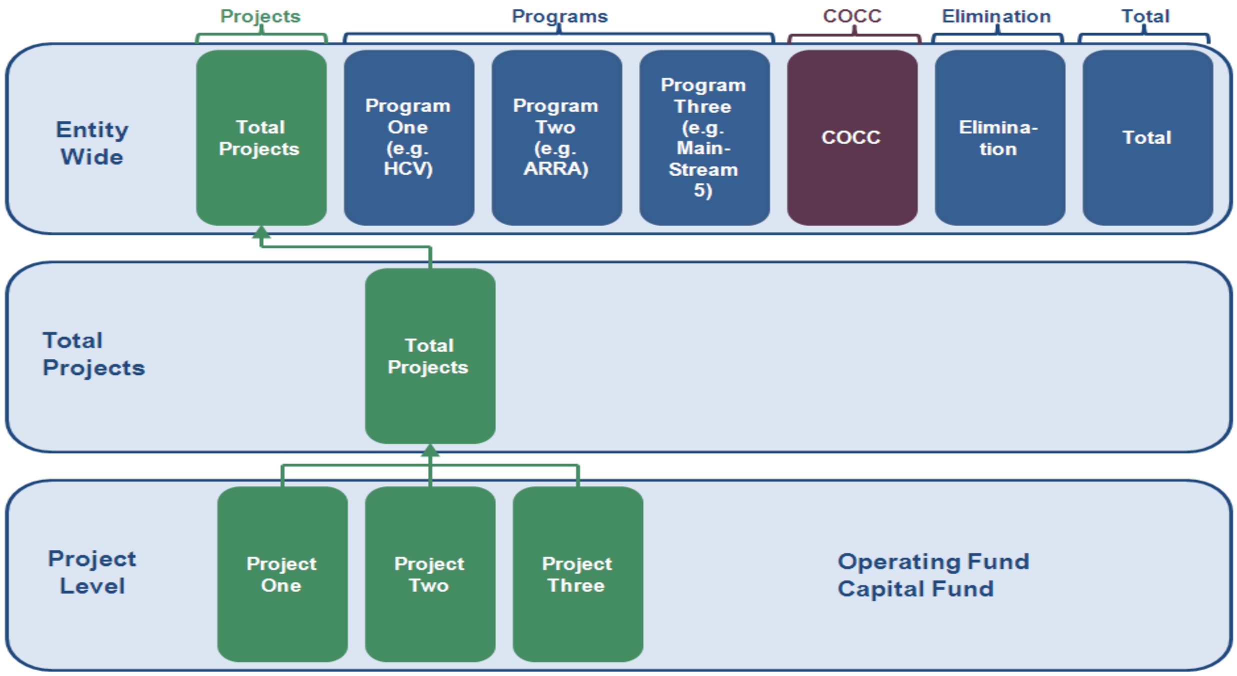
Appendix 2-1: Summary – Asset Management Reporting Models

Reporting Model	401 or More Units	250-400 Units	249 or Less Units
Model 1: PHAs under Asset Management with COCC. Under this model, the PHA has implemented asset management, is using a fee-for-service approach, and has established a COCC.	• Required to use Model 1 or Model 2. • Model 1 required for Stop-Loss PHAs.	• Required only for Stop Loss PHAs.	• Optional
	FDS Reporting Requirements 1. PHA Information Screen – Asset Management. Select "Asset Management with COCC/ Elimination". 2. Should have entries for COCC and Elimination columns. 3. Do not report on FDS Line "Allocated Overhead" (FDS Line 91810). 4. Must have established projects as required under asset management guidance (i.e., multiple projects).		
Model 2: PHAs under Asset Management with Allocated Overhead and no COCC. Under this model, the PHA has implemented asset management and is not using a fee-for service approach. The PHA has opted not to establish a COCC but instead has chosen to use its Capital Funds to fund core central operations OR has elected to use allocated overhead as allowed under the phase-in fee approach until 2011.	• Required to use Model 1 or Model 2.	• Optional	• Optional
	FDS Reporting Requirements 1. PHA Information Screen – Asset Management. Select: 1) "Asset Management without COCC/Elimination" if the PHA does not need to eliminate intra-entity transactions OR 2) "Asset Management with Elimination" if there are intra-entity transactions. 2. Should not have entries for COCC column. 3. Should only have intra-entity transactions if selected "Asset Management with Elimination" on the PHA Information Screen. 4. Should report overhead allocations on FDS Line "Allocated Overhead" (FDS Line 91810). 5. Must have established projects as required under asset management guidance (i.e., multiple projects). Other Requirements Must notify HUD's Financial Management Division of intent to switch to cost-allocation method for overhead.		

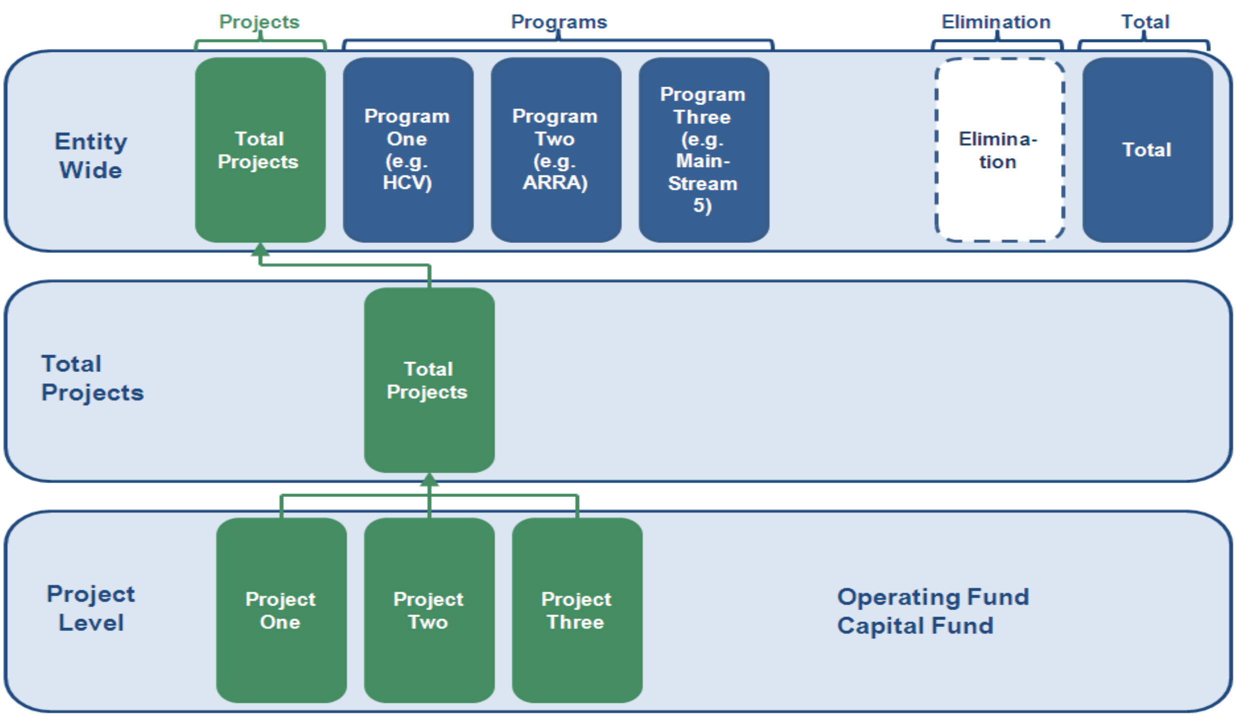
Reporting Model	401 or More Units	250-400 Units	249 or Less Units
Model 3: PHAs not under Asset Management. Under this model, the PHA has not implemented asset management and therefore will not have established a COCC. This model is typically used by PHAs with less than 400 units that did not apply for Stop Loss.	• Not Allowed	• Not allowed for Stop Loss PHAs	• Not allowed for Stop Loss PHAs
	FDS Reporting Requirements 1. PHA Information Screen – Asset Management. Select: 1) “Non-Asset Management with Elimination Only” if the PHA needs to eliminate intra-entity transactions OR, 2) “Non-Asset Management” if there is no intra-entity transactions. 2. Should not have entries for COCC column. 3. Should only have intra-entity transactions if selected “Non-Asset Management with Elimination Only” on the PHA Information Screen. 4. Should not use FDS Line “Allocated Overhead” (FDS Line 91810). 5. Will typically report only one project.		
Model 4: Small PHAs under Alternate Asset Management Method. This model is typically used by Small PHAs (i.e. less than 249 units) to qualify under Stop Loss. Under this model, the PHA will not establish a COCC or have allocated overhead. However, the PHA’s administrative costs must be reasonable as compared to the HUD established limits.	• Not Allowed.	• Not Allowed	• Allowed only for Stop Loss PHAs with 249 or less units.
	FDS Reporting Requirements 1. PHA Information Screen – Asset Management. Select: 1) “Asset Management without COCC/Elimination” if the PHA does not need to eliminate intra-entity transactions OR 2) “Asset Management with Elimination” if there are intra-entity transactions. 2. Should not have entries for COCC column. 3. Should only have intra-entity transactions if selected “Asset Management with Elimination” on the PHA Information Screen. 4. Should not use FDS Line “Allocated Overhead” (FDS Line 91810). 5. Must have established projects as required under asset management guidance (i.e., multiple projects).		

Appendix 2-2: FDS Templates – Asset Management Reporting Models

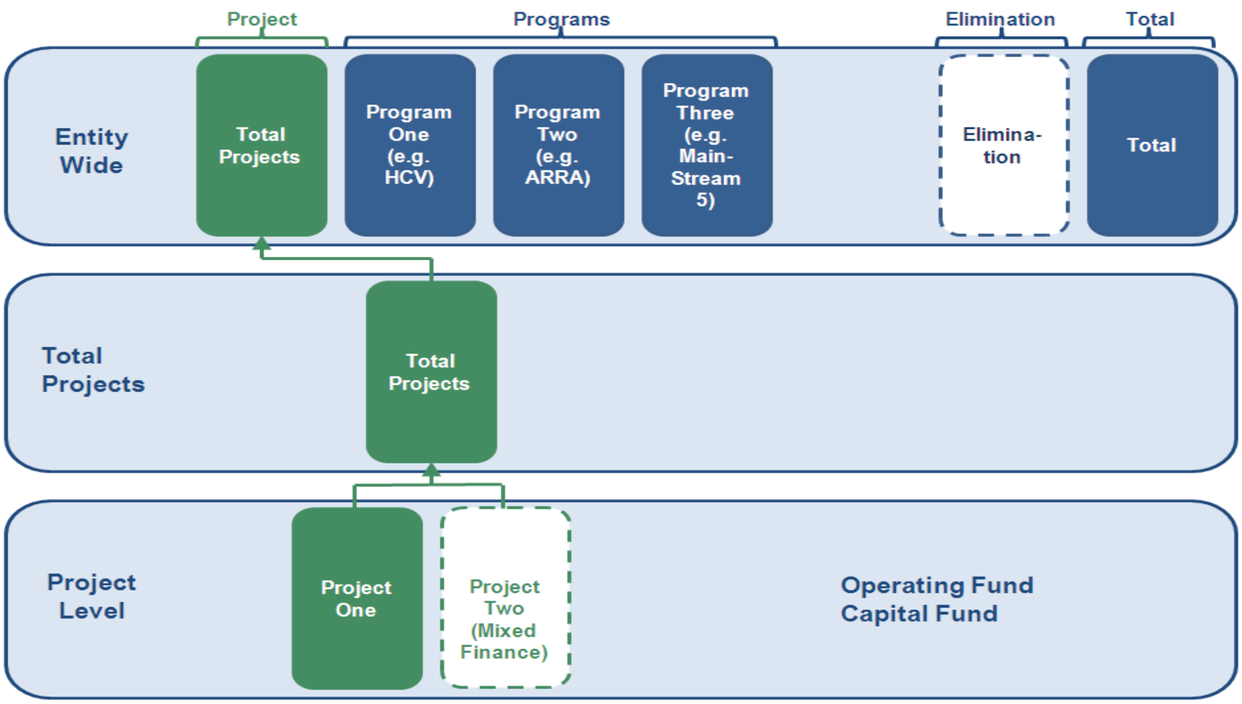
FDS Template – Model 1: PHAs under Asset Management with COCC



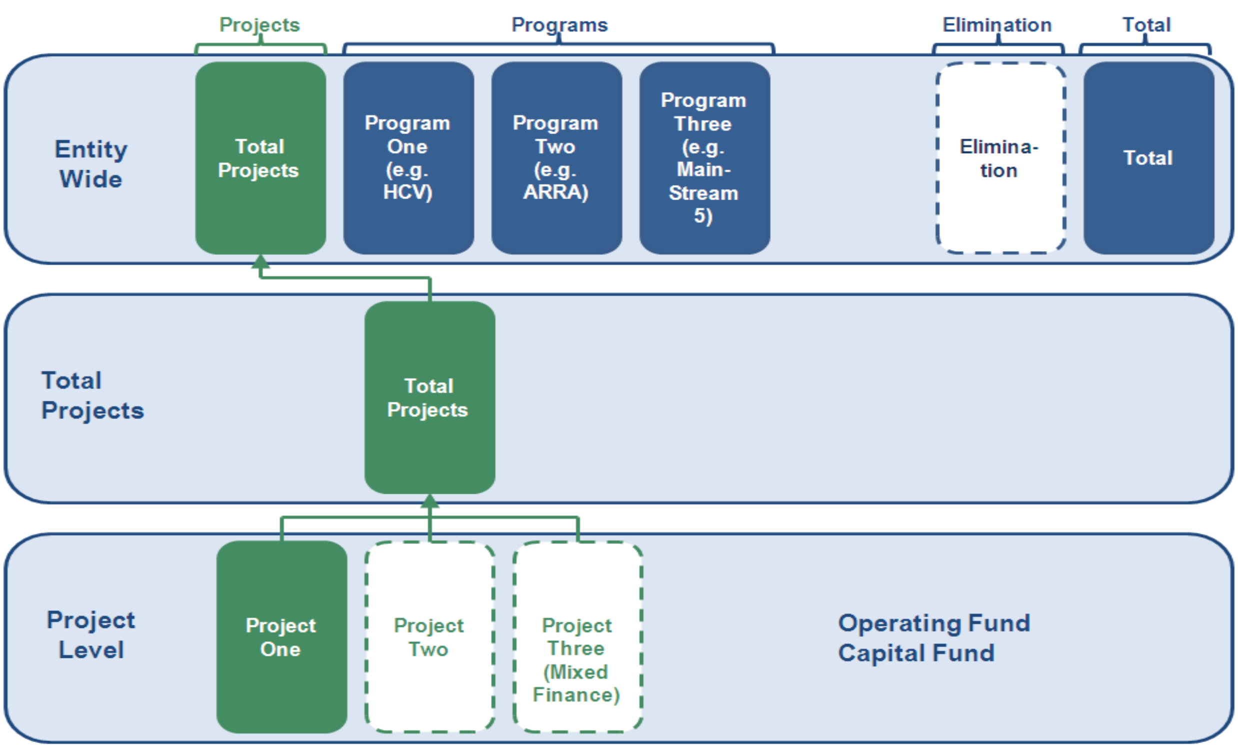
FDS Template – Model 2: PHAs under Asset Management with Allocated Overhead and no COCC



FDS Template – Model 3: PHAs not under Asset Management



FDS Template – Model 4: Small PHAs under Alternate Asset Management



Appendix 2-3: Asset Management Types

Source: http://www.hud.gov/offices/reac/products/fass/fass_pdf/mtw-reporting.pdf

The implementation of the Public Housing Operating Fund Final Rule triggered significant changes to FDS reporting, including the addition of a central office cost center (COCC), project level financial reporting and a stand-alone section for intra-entity elimination. An explanation of the Asset Management types is detailed below.

1. Non-Asset Management with Elimination Only. This asset management type applies to PHAs that did not implement asset management and do not have a COCC, but do have the need to eliminate intra-entity transactions.

2. Non-Asset Management with COCC/Elimination. This asset management type applies to PHAs that did not implement asset management, but have implemented a COCC (for non-public housing business activities) and, therefore, has a need to eliminate intra-entity transactions.

3. Non-Asset Management. This asset management type applies to PHAs that did not implement asset management and do not have a COCC or the need to eliminate intra-entity transactions. Generally, this reporting type will be utilized by PHAs with less than 400 units.

4. Asset Management without COCC/Elimination. This asset management type applies to PHAs that implement asset management and do not have a COCC or the need to eliminate intra-entity transactions. This asset management type is available for use by PHAs using the Allocated Overhead method of reporting and the Alternate Asset Management method of reporting.

5. Asset Management with Elimination. This asset management type applies to PHAs that implement asset management, do not have a COCC, but still have the need to eliminate intra-entity transactions. This asset management type is available for use by PHAs using the Allocated Overhead method of reporting under the Alternate Asset Management method of reporting.

6. Asset Management with COCC/Elimination. This asset management type is for PHAs implementing all aspects of asset management. These PHAs use a Fee-for-Service approach and have implemented a Central Office Cost Center (COCC). Most PHAs that implement asset management will use this asset management type. PHAs that implement the Allocated Overhead reporting method may not use this asset management type.

Session 3: Public Housing Operating Fund

Table of Contents

I. OVERVIEW [slide 2]

This session will cover the following topics:

- Provide an overview of HUD's guidance on the establishment of projects as part of the implementation of asset management.
- Discuss the different project types and the Financial Data Schedule (FDS) reporting requirements for each project type, including mixed finance projects.
- Provide an overview of Low Rent reporting in the FDS.
- Discuss those FDS Low Rent transactions that are common PHA reporting errors.

II. PROJECTS

Project Overview [slide 4]

One of the overriding goals of the Operating Fund Final Rule was to provide a greater focus on each project. The older project numbering system in PIC was based on developments and did not necessarily reflect an appropriate project for management purposes. Thus, as part of the implementation of asset management, HUD instructed PHAs to establish new projects (initially referred to as Asset Management Projects or AMPs) that would promote efficient and effective management.

The new projects were to reflect each PHAs portfolio's distinct building groupings based on a variety of factors such as geographic location, size, building type, and resident characteristics, as determined by the PHA for effective project management. In 2007 these new project groupings were submitted by the PHA, approved by HUD, and recorded in PIC.

Guidance on Establishment of Projects [slides 5 & 6]

Guidance on the establishment of projects was issued and clarified through Appropriations, HUD regulations, notices, and web-postings. In general:

- All PHAs that have a public housing inventory, regardless of whether they receive operating subsidy funding, were required to establish projects in PIC.
- MTW agencies were also required to create projects.
- PHAs that own and operate fewer than 250 dwelling rental units were permitted to treat their entire portfolio as a single project. Current appropriation language has increased this limit to 400 units.
- PHAs were allowed to group up to 250 scattered site dwelling units into a single project.

Additional and more specific guidance on the establishment of projects was issued for Small PHAs, mixed finance projects, projects that are subject to demolition/disposition, the treatment of the Central Office Cost Center (COCC) and other administrative buildings, and subsequent changes to project configuration. Below are highlights of the major guidance for the aforementioned categories.

1. <u>Small PHAs</u>.
    - If a PHA with fewer than 400 units created more than one project, HUD will expect multiple projects to be reported on the FDS.
    - PHAs with fewer than 250 units that were a decliner (i.e., had their operating subsidy reduced under the new Operating Fund formula) and applied for Stop-Loss, had to group buildings into projects. This measure is intended to result in effective management as described in PIH Notice 2006-10. The requirements for small PHAs are similar to the requirements for those PHAs that needed to convert to asset management. Therefore, PHAs with fewer than 250 units may have multiple projects.

2. Mixed-Finance Projects. Mixed finance projects are projects where buildings and units are subject to a Regulatory and Operating Agreement (R&O) and have an ownership structure that normally includes a private entity.
    - Mixed-finance projects require a separate project number from regular Low Rent public housing projects and buildings. Each mixed finance project should consist only of buildings associated with the distinct mixed finance agreement and ownership arrangement.
    - Frequently, mixed finance projects are built in phases, often as a result of the availability of tax credits and other outside funding source. If each phase of a mixed finance project is a separate legal entity, then each phase should have a separate project number.
    - In the case where a PHA has fewer than 400 units, the PHA should still create and report the mixed finance project as a separate project. The establishment of the mixed-finance project in PIC will not be interpreted by HUD that the PHA has elected to convert to asset management.

3. Demolition and Disposition.
    - Buildings that have been or will be demolished or disposed will appear in PIC appropriately marked and should be assigned to a project the same way that other buildings are assigned to a project.
    - Buildings that have been or are going to be demolished or disposed should be assigned to that site (i.e., partial demolitions).

4. COCC and Administrative Buildings. PHAs were to designate administrative buildings and central maintenance facilities associated with the Central Office Cost Center (COCC) to a project number ending in "9999".
    - Administrative and maintenance buildings that primarily serve only a project where they are located were to be folded under the same project number as the residential buildings they serve.
    - The one exception is for PHAs of fewer than 400 units that do not convert to asset management. For these PHAs, there is no "central office cost center" since all public housing buildings are considered part of one project. In these cases, the administrative buildings would be assigned the same project number as the consolidated project.

5. Changes to Project Configuration. The public housing inventory is relatively stable and, with help from their local field office, PHAs have planned and discussed the initial projects. Thus, changes to projects are expected to be infrequent. However, HUD recognizes that PHAs may need to change the assignment of buildings to projects and therefore, have allowed for changes in project building groupings.
    - Requests to change project building groupings will only be approved by HUD when there is a sound asset management or property management reason as provided in PIH Notice 2006-10.
    - The request to change the assignment of buildings should be entered in PIC six months before the beginning of the next upcoming fiscal year.

- The effective date for the change in the assignment of buildings to new project numbers will be the beginning of the PHA's next fiscal year. The conversion process is described in PIH Notice 2007-28.

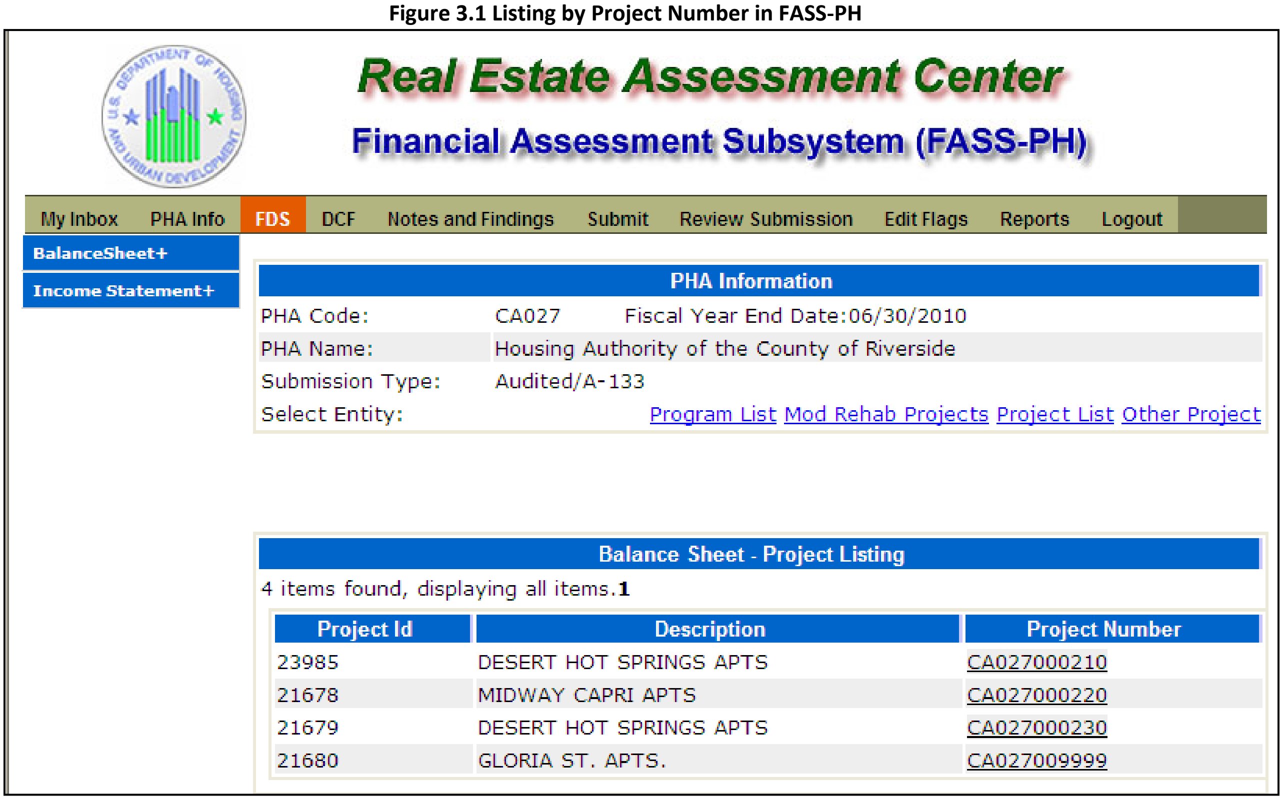
FDS and Project Reporting [slides 7 & 8]

Beginning with PHAs with Fiscal Year End June 30, 2008 and thereafter, PHAs must submit year-end financial information by projects, specifically:

- All projects that were active during a fiscal year (i.e., had financial activity) must be reported at year-end on the FDS.
- For FDS reporting purposes, a project consists of activity related to the Public Housing Operating Fund and Capital Fund. For each project, the reporting requires one balance sheet that combines the financial activity of both the Low Rent and Capital Fund programs and two income statements (one for the Low Rent and one for the Capital Fund program), which comprise the project's income statement.
- Entity-wide financial information is still required to be submitted to FASS-PH.

Projects that have been established in PIC are reflected in the FASS-PH system. The PHA is able to create and submit a FDS for each project. At this time, the projects available in FASS-PH are based on the current status in PIC and not based on the status during the PHA's fiscal year. *Figure 3.1* below shows a project listing from the FASS-PH system.

Figure 3.1 Listing by Project Number in FASS-PH



The sections below describe the typical activities that are reported on the FDS for the following project types: 1) Conventional; 2) Other Project; 3) Demolition/Disposition; 4) New; and 5) Mixed-Finance.

Conventional Projects [slide 9]

Conventional projects form the basis and foundation of project-level FDS reporting. Conventional projects are by far the most common type of project that will be reported by PHAs. A conventional project simply refers to a project that is under management and is funded through the Operating and Capital Funds. Conventional projects will typically show the following financial activity on the FDS:

- Tenant Rental Revenue;
- Operating Subsidy and Capital Grant Revenue;
- Interest Income and Other Revenue;
- Administrative and Maintenance Expenses;
- Tenant and Protective Services (if applicable);
- Utility Expenses;
- Insurance Expense and PILOT Payments;
- Cash and Investments;
- Account Receivables;
- Fixed Assets; and
- Liabilities and Equity.

Demolition / Disposition Projects [slide 10]

When a PHA receives approval from HUD for a demolition or disposition (demo/dispo) action, the units will be recorded in PIC as “approved for demolition” or “approved for disposition”. Once units are demolished or disposed, these demo/dispo units are recorded in PIC as “removed from inventory”. A project will be marked “terminated” in PIC only after the land has been disposed and the Field Office has released the Declaration of Trust (DOT) for all land at the project.

Note: A project is <u>not</u> terminated in PIC if the buildings have been demolished but the land continues to be covered under a DOT. Once the project is terminated, the project will not be available in the FDS for financial reporting.

PHAs should report demo/dispo projects in the FDS based on the following guidance, depending on whether the project is active (has a non-terminated PIC project number) or has been terminated in PIC.

- *Active Project*. If the demo/disposition project was active (i.e., had financial activity or held assets) during the fiscal year, the project should be reported at year-end on the FDS within that project’s respective FDS column. For example, if the PHA received net proceeds from a disposition of public housing property during the year or is receiving an asset repositioning fee, unless the project has already been terminated in PIC, the PHA should record the proceeds on the FDS within that project's respective FDS column.

- *Terminated Project*. However, if a project was demolished or disposed and is now terminated in PIC, but the PHA continues to receive asset repositioning fee or holds the proceeds from the sale of the disposition, the PHA would record these fees or proceeds in the "Other Project" column, as the terminated project will not be available in the FASS-PH system.

- *Use of Proceeds from Disposition*. If approval has been obtained to use the disposition proceeds for activities outside of the original project, the PHA should (when ready to expend the funds) transfer the proceeds to the other project or program using FDS Line 11040 (Prior Period Adjustment, Equity Transfers and Correction of Errors) where the use has been permitted. Any retained sales proceeds should generally be reflected as "restricted" assets since the proceeds may only be used for those activities that are specifically approved by the Special Application Center (SAC).

New Projects [slide 11]

New projects refer to new buildings that are constructed or purchased by the PHA. Most of these new projects are completed through the mixed finance process. For FDS reporting, the process for reporting new projects is very similar to that for reporting of a demo/dispositions project.

If PIC has assigned a project number that is available in the FDS, the PHA should report the financial activity associated with the new project under that project code. If the project number for the new project is not available in the FDS, the PHA should report the information in the "Other Project" column.

If financial activity has been reported in the Other Project column in previous years, and now the FDS recognizes the new project number, the PHA should transfer the associated equity using FDS Line 11040 (Prior Period Adjustment, Equity Transfers and Correction of Errors) from the "Other Project" column to the newly recognized project. All current year and future financial activity would be reported under this new project number.

Other Projects [slide 12]

Each PHA has an "Other Project" column available in the FDS. The PHA should use the "Other Project" column to account for those activities that are directly supported by either the Capital Fund or Operating Fund Program but are not necessarily related to a recognized project in PIC. Except for the occasional use to recognize financial activity associated with new projects and demolition/disposition project, the Department expects the use of this project column to be limited. Homeownership activity that is not related to a project and a terminated project in PIC that is continuing to receive asset repositioning fees are examples of the proper use of the "Other Project" column.

"9999" Projects [slide 13]

PHAs designated administrative buildings and central maintenance facilities associated with the Central Office Cost Center with a project number ending in "9999." Administrative and maintenance buildings that primarily serve only the project where the administrative or maintenance building is located should have been included under the same project number as the residential buildings that it serves.

The "9999"project numbers will appear in the FASS system, however normally these projects will not be used by the PHA when reporting, as the building and any associated activity (depreciation or modernization) will be reported in the PHA's COCC.

Mixed Finance Projects [slides 15-18]

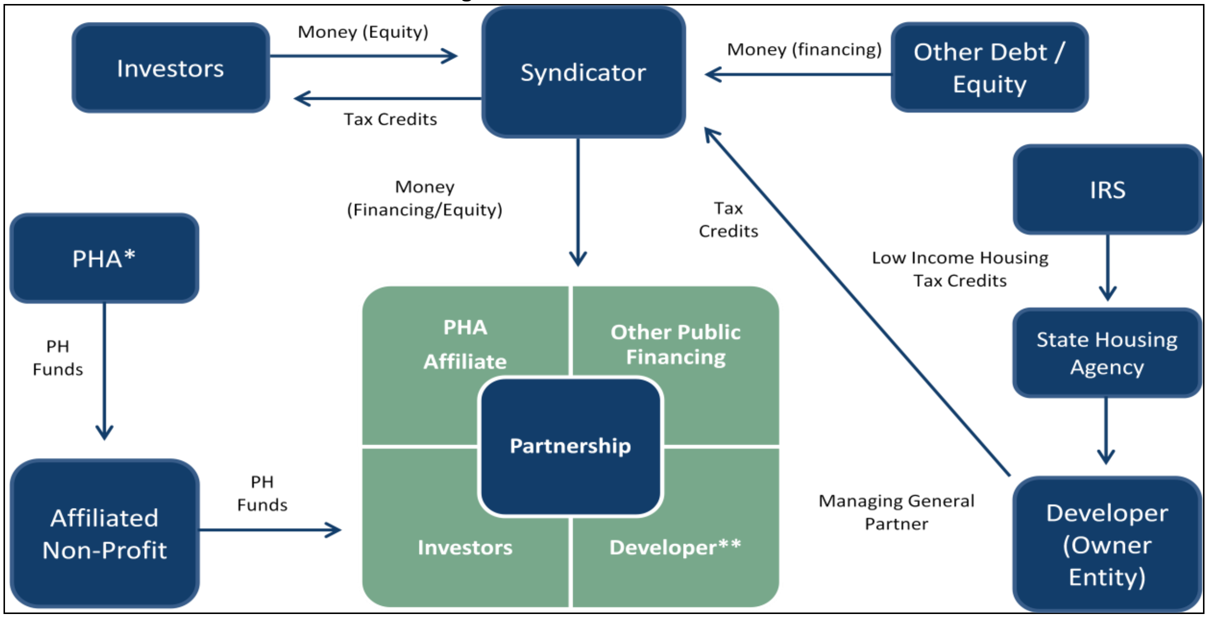
Mixed finance in public housing refers to a PHA development or modernization strategy that allows the PHA and its partners to access public, private, and non-profit funds to develop and modernize low income housing developments. These new communities are built for residents with a wide range of incomes and are designed to fit into the surrounding community. Due to the nature of the funding sources, the development will usually have different family income mixes and compliance requirements associated with the units.

Because of the complexity of the deals, it can take a PHA as long as 4 to 5 years to place a mixed finance development into operation. The first phase of the process includes strategic planning, where a PHA has to develop relationships with banks and procure development partners; and pre-development activities, which include demolition, site preparation, relocation etc. This first phase can take 6 to 18 months. The actual development and construction can last 18 to 24 months. Another 2 to 12 months are required to ensure occupancy and establish operations.

With most mixed finance developments there are several parties involved in the project. *Figure 3.2* illustrates the role of each party in a mixed finance deal.

- PHA - An entity, whose role is to provide low income housing primarily through HUD, funded programs.
- Developer - Generally a non-governmental entity contracted to develop and possibly operate a mixed finance development.
- PHA Affiliate - An entity formed by the PHA.
- The Syndicator - An entity that connects private investors seeking a return on investments with developers seeking cash for a qualified LIHTC project.
- The Investor - A limited partner typically with an incentive to use tax credits as his return on investment.

Figure 3.2 Mixed Finance Model



* PHA to include Affiliated Non Profit. **Developer is Managing General Partner and Owner Entity

Note: The roles, responsibilities and the authority of the involved parties will vary based on the specific language in the base legal documents of each development. Therefore, each mixed-finance development deal is unique.

Mixed Finance – FDS Reporting Models [slides 19-27]

When a PHA has ACC units in a mixed finance development, the PHA will need to establish a project in PIC and report this project as part of its public housing program on the FDS. This public housing project will only report the financial transactions associated with the ACC units, which for most projects constitutes operating subsidy revenue and a payment to the mixed finance development. The PHA may also have to report the activity of the mixed finance development on its FDS. The rules that determine if and how the mixed finance development needs to be reported on the FDS are governed by GASB. Due to the complexity of the mixed finance deal and the GASB standards that must be applied, the decision of if and how to report the mixed finance development is typically made in conjunction with the PHA's auditor.

The mixed finance development is normally owned by a separate legal entity other than the PHA. In accounting terms, the determination to include a legally separate entity into the PHA's financial statements is commonly referred to as "component unit reporting". Meaning, if the mixed finance development must be reported in the PHA's financial statements, the development is a component unit of the PHA. In addition, there are two types of component units: 1) discretely presented component units and 2) blended component units, which results in the following four possible FDS reporting methods.

- Reporting Method #1 – No component unit.
- Reporting Method #2 – Discretely presented component unit.
- Reporting Method #3 – Blended component unit (Business Activity).
- Reporting Method #4 – Blended component unit (Project).

Each FDS reporting method for a mixed finance development is discussed below.

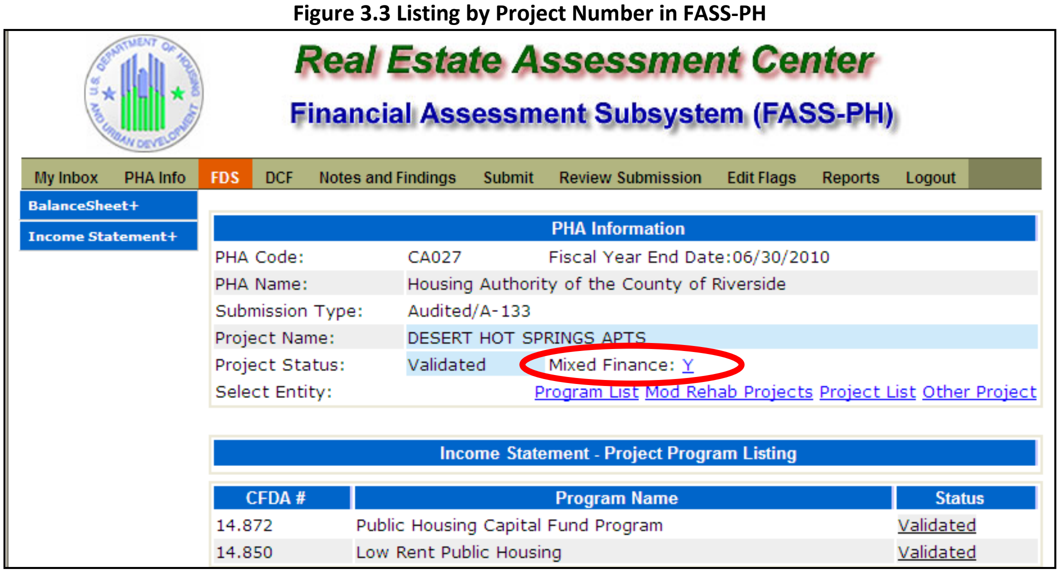
1. Reporting Method #1 - No Component Unit [slides 20 & 21]. Under this method, the determination has been made that the mixed finance development should not be reported as part of the PHA's financial statements. The PHA would simply report a mixed finance project as part of its public housing program. The project would report only limited financial activity, basically operating subsidy revenue and a payment to the mixed finance development. The revenue and expense for this project are mainly associated with the flow of operating subsidy to the third party that owns/manages the property. The financial information will reflect only the activity related to the units under ACC. The balance sheet activity of the project would be minimal, consisting of cash and investments and possibly notes/loans receivables. No elimination entries will be reported by the PHA.

Table 3.1 No Component Unit

Financial Data Schedule (FDS)							Financial Statements
FDS Line Item	Description	Total Projects	COCC	Housing Choice Voucher	Elimination	Total	Total
Balance Sheet							
190	Total Assets	$ 10,100,000	$ 500,000	$ 10,000,000	$ (500,000)	$ 20,100,000	$ 20,100,000
300	Total Liabilities	$ 500,000	$ 100,000	$ 200,000	$ (500,000)	$ 300,000	$ 300,000
513	Total Equity/Net Assets	$ 9,600,000	$ 400,000	$ 8,000,000	$ -	$ 18,000,000	$ 18,000,000
Income Statement							
70000	Total Revenue	$ 5,800,000	$ 1,000,000	$ 3,000,000	$ (800,000)	$ 9,000,000	$ 9,000,000
90000	Total Expenses	$ 4,700,000	$ 900,000	$ 2,500,000	$ (800,000)	$ 7,300,000	$ 7,300,000
10000	Net Income	$ 1,100,000	$ 100,000	$ 500,000	$ -	$ 1,700,000	$ 1,700,000

The PHA should make sure that the mixed finance indicator is marked "Yes". *Figure 3.3* below shows the FDS mixed finance indicator.

Figure 3.3 Listing by Project Number in FASS-PH



2. <u>Reporting Method #2 - Discretely Presented Component Unit [slides 22 & 23]</u>. Under this method, the determination has been made that the mixed finance development should be reported as a discretely presented component unit as part of the PHA's financial statements. Under this reporting method, the PHA would report a mixed finance project as part of its public housing program, similar to Reporting Method #1. Again, the PHA should make sure that the mixed finance indicator is marked "Yes".

   In addition, the PHA will need to create a FDS column called "component unit". In the component unit column, the PHA would report the balance sheet and income statement of the mixed finance development (ACC and non-ACC units).

Table 3.2 Discretely Presented Component Unit

Financial Data Schedule (FDS)								Financial Statements	
FDS Line Item	Description	Total Projects	COCC	Housing Choice Voucher	Component Unit	Elimination	Total	Total	Component Unit
Balance Sheet									
190	Total Assets	$ 10,100,000	$ 500,000	$ 10,000,000	$ 200,000	$ (500,000)	$ 20,300,000	$ 20,100,000	$ 200,000
300	Total Liabilities	$ 500,000	$ 100,000	$ 200,000	$ 50,000	$ (500,000)	$ 350,000	$ 300,000	$ 50,000
513	Total Equity/Net Assets	$ 9,600,000	$ 400,000	$ 8,000,000	$ 150,000	$ -	$ 18,150,000	$ 18,000,000	$ 150,000
Income Statement									
70000	Total Revenue	$ 5,800,000	$ 1,000,000	$ 3,000,000	$ 2,000,000	$ (800,000)	$ 11,000,000	$ 9,000,000	$ 2,000,000
90000	Total Expenses	$ 4,700,000	$ 900,000	$ 2,500,000	$ 1,500,000	$ (800,000)	$ 8,800,000	$ 7,300,000	$ 1,500,000
10000	Net Income	$ 1,100,000	$ 100,000	$ 500,000	$ 500,000	$ -	$ 2,200,000	$ 1,700,000	$ 500,000

3. Reporting Method #3 - Blended Component Unit (Business Activity) [slides 24 & 25]. Under this method, the determination has been made that the mixed finance development should be reported as a blended component unit and, specifically, as a business activity of the PHA. Under this reporting method, the PHA would report a mixed finance project as part of its public housing program, same as under Reporting Methods #1 and #2. Again, the PHA should make sure that the mixed finance indicator is marked "Yes".

   Similar to Reporting Method #2, the PHA would need to create another FDS column. However, instead of using the FDS column called "component unit", the PHA would use the "business activity" column. In the business activity column, the PHA would report the balance sheet and income statement of the mixed finance development. The PHA would need to eliminate all activity between the project and business activity.

Table 3.3 Blended Component Unit (Business Activity)

Financial Data Schedule (FDS)								Financial Statements
FDS Line Item	Description	Total Projects	COCC	Housing Choice Voucher	Business Unit	Elimination	Total	Total
Balance Sheet								
190	Total Assets	$ 10,100,000	$ 500,000	$ 10,000,000	$ 200,000	$ (500,000)	$ 20,300,000	$ 20,300,000
300	Total Liabilities	$ 500,000	$ 100,000	$ 200,000	$ 50,000	$ (500,000)	$ 350,000	$ 350,000
513	Total Equity/Net Assets	$ 9,600,000	$ 400,000	$ 8,000,000	$ 150,000	$ -	$ 18,150,000	$ 18,150,000
Income Statement								
70000	Total Revenue	$ 5,800,000	$ 1,000,000	$ 3,000,000	$ 2,000,000	$ (1,600,000)	$ 10,200,000	$ 10,200,000
90000	Total Expenses	$ 4,700,000	$ 900,000	$ 2,500,000	$ 1,500,000	$ (1,600,000)	$ 8,000,000	$ 8,000,000
10000	Net Income	$ 1,100,000	$ 100,000	$ 500,000	$ 500,000	$ -	$ 2,200,000	$ 2,200,000

4. Reporting Method #4 - Blended Component Unit (Project) [slides 26 & 27]. When the mixed finance development is determined to be a blended component unit and all of the units in that project are ACC units, the PHA should report the development as a "typical conventional project" under the public housing program. This reporting method is normally associated with the modernization of an ACC project where the funding was provided through low income tax credits. The PHA will report all revenue and expenses for all units and will have a "full" balance sheet activity. No elimination entries will be recorded. The mixed finance indicator should be marked "No".

Table 3.4 Blended Component Unit (Project)

Financial Data Schedule (FDS)							Financial Statements
FDS Line Item	Description	Total Projects	COCC	Housing Choice Voucher	Elimination	Total	Total
Balance Sheet							
190	Total Assets	$ 10,200,000	$ 500,000	$ 10,000,000	$ (500,000)	$ 20,200,000	$ 20,200,000
300	Total Liabilities	$ 550,000	$ 100,000	$ 200,000	$ (500,000)	$ 350,000	$ 350,000
513	Total Equity/Net Assets	$ 9,650,000	$ 400,000	$ 8,000,000	$ -	$ 18,050,000	$ 18,050,000
Income Statement							
70000	Total Revenue	$ 7,000,000	$ 1,000,000	$ 3,000,000	$ (800,000)	$ 10,200,000	$ 10,200,000
90000	Total Expenses	$ 5,500,000	$ 900,000	$ 2,500,000	$ (800,000)	$ 8,100,000	$ 8,100,000
10000	Net Income	$ 1,500,000	$ 100,000	$ 500,000	$ -	$ 2,100,000	$ 2,100,000

III. PUBLIC HOUSING CASH AND INVESTMENTS

Overview

As part of the conversion to asset management, new line items were required to be established in the FDS. These new line items were required to properly account for fee transactions, make project level reporting more consistent with multifamily housing, and allow for proper reporting as required by new GASB standards. The *Financial Data Schedule Line Definition Guide* was updated on May 2012 and contains all the FDS line items and their definition. The Guide can be found on HUD's website at:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/reac/products/fass/pha_doc

Most PHAs have already reported under the new FDS and are therefore, familiar with the new line items and level of detail required. Therefore, the remaining portion of this section will focus only on those line items that continue to be common PHA reporting errors.

Cash and Investment Balances [slides 29-33]

PHAs are allowed to use one bank account and pool their cash for investment purposes. While allowed by HUD, the reporting of cash and investments along with the associated investment income on the FDS should be reported in the cash and investment lines by the respective project or program that have a claim to those assets.

1. Cash and Investments - Unrestricted (FDS lines 111 and 131). These FDS lines represent cash and investments that are available for use to support any activity of the program or project. For FDS reporting, unrestricted cash and investments should include all balances that are not further defined under FDS lines 112 through 115, 132, and 135 as restricted.

   It is understood that cash and investment balances in federal programs, as well as in many of the state and local programs, are limited in their use to support only that program for which the funds were provided.

   Therefore, for FDS reporting, unrestricted cash and investments represent cash, cash equivalents and investments available to support the general operations of the program without other third party restrictions or further limitations imposed by the providing government/source itself. Cash and investments-unrestricted specifically includes:
   - Balances associated with public housing operating subsidy and other public housing program income (i.e., dwelling rental income, non-dwelling rent, and unrestricted interest income);
   - Balances associated with HCV administrative fees (both Pre-2004 and Post-2003);
   - Balances associated with HCV program port-in housing assistance payments and administrative fees;
   - Balance associated with fee income earned by the COCC;

- Balances set aside for self insurance that can be accessed by PHA management or not restricted to be set aside by HUD or a third party; and
- Balances that have been reserved/encumbered/designated by the PHA Board or PHA management.

2. Cash - Restricted - Modernization and Development (FDS line 112). This FDS line represents cash and cash equivalents that are only allowed to be expended for certain, specified modernization and development activities. The restriction on the use of the funds has been specified by the source of the monies, not by the PHA. Generally, this account includes proceeds from the sale of property that had been acquired with grant and development funds, insurance recoveries received in advance of contractor bills, unspent bond proceeds, loans and other advances, and CFP drawdowns designated for future capital activities. PHAs report the cash associated with these activities only where no current liabilities are reported. The portion of cash related to a payment of current liability should be reported in FDS Line 115.

3. Cash and Investment - Other Restricted (FDS lines 113 and 132). These FDS lines represent cash and investments that are only to be expended for specified, restricted purposes. The restriction on the use of the funds has been imposed by the source of the monies. Generally, these accounts include funds associated with the following programs:
    - Housing assistance payment equity account of the Housing Choice Voucher Program;
    - A PHA's Family Self Sufficiency (FSS) escrow account that will be used for payment of contracts not due within 12 months of the Balance Sheet date;
    - Homeownership program funds that are limited in use as per the agreement with HUD and are reported in the Public Housing or Housing Choice Voucher programs; and
    - All monies contractually and/or legally unavailable for use in day-to-day operations of the program.

4. Cash and Investments - Restricted for Payment of Current Liability (FDS lines 115 and 135). These FDS line items represent restricted cash and investments that are only to be expended for specified restricted purposes but will be used in the next fiscal year and are supported by a reported current liability/deferred revenue. The restriction on the use of the funds has been imposed by the source of the monies, not the PHA. Examples of cash and investments - restricted for payment of current liability include such items as:
    - Balances associated with advances of grant and subsidy funds not yet earned;
    - Debt service payments;
    - Balances in the PHA's Family Self Sufficiency (FSS) escrow account that will be used for payment of contracts due within 12 months of the Balance Sheet date; and
    - Cash restricted for modernization and development up to the amount of any associated and reported current liability.

PHAs should report in FDS Lines 112, 113, and 132 the portion of restricted cash and investment that will not be used:

- In the next fiscal year;
- For payment of the reported current liability; or
- To offset deferred revenue.

Learning Activity 3.1 – Cash and Investment Reporting [slide 34]

IV. PUBLIC HOUSING REVENUES AND EXPENSES

Net Tenant Rental Revenue [slide 36]

This account is used by PHAs to report net revenue related to tenants dwelling rent. Dwelling rent also includes credit amount for which the participant is entitled to a utility allowance payment. If the rent calculation, after deducting the utility allowance, results in a utility reimbursement due to the tenant (i.e., negative rent), the amounts of such utility reimbursement are included as a debit to this account.

For some projects, this calculation will result in a negative number. PHAs should report this "negative" rent in the account. Rental revenue received from fraud recovery should be reported on FDS Line 71400 (Fraud Recovery).

Specific Administrative Expense Lines [slides 37 & 38]

PHAs now must report in ten (10) administrative expense line items. PHAs are required to report in these categories if the project has administrative expense. The following are the most common reporting errors associated with administrative fee expenses.

- FDS Line 91200 (Auditing Fees). This line should only include the fee paid for the periodic audit of the PHA's books of account for the project. The line item should not be used to record costs associated with consultants, fee accountants or a cost of a financial review.

- FDS Line 91810 (Allocated Overhead). This line is required to be used by any PHA with over 400 public housing units that has not established a COCC (i.e., not using fee-for-service). While the amount reported in this line item is determined by the magnitude of the PHA's activity, the activity that must be accounted for on this line item is determined by HUD. This line item along with other allowed allocations will be discussed in the COCC section of this course.

Maintenance Contracts [slide 39]

PHAs now must report in twelve (12) maintenance contract line items. Similar to the expanded FDS accounts under administration, PHAs are required to report in these categories if the project has maintenance contract expense. A project will use these line items to record both contract expenses associated with a third-party vendor and frontline service expenses for centralized maintenance charged to the project under a fee-for-service methodology.

Other General Expense [slides 40-42]

This account is used by PHAs to represent the cost of all items of general expense. These expenses are typically not part of routine administrative expenses and would not be appropriately recorded in FDS Line 91900 (Other [Administrative Expense]). Examples include:

- Payments to developers for mixed financing transactions and ongoing subsidy payments as required under a regulatory and operation agreement for mixed finance projects.

- Administrative fees expensed to receiving PHAs as part of the portability provision of the HCV program.
- Amount of energy savings earned by the COCC as a result of a HUD-approved energy performance contract. The COCC would record a revenue for this amount and the transaction would be eliminated.
- Expenses arising from personal injury and damages to property and the loss of cash and/or securities resulting from robbery or theft that is not considered fraud related.
- Unaccountable differences in inventories of materials, supplies, and expendable equipment.
- Fiscal agent fees and fees paid to collection agents other than attorneys incurred in connection with the collection of amounts due from tenants, but not chargeable to tenants.
- Fines and penalties imposed by the federal, state or local government. Caution should be exercised in expensing fines and penalties to federal awards as these items are typically considered to be ineligible. This category was added in order to accommodate the recording of fines and penalties expense to an appropriate funding source.
- Costs of FASB 5 Contingency claim.

Extraordinary Maintenance [slide 43]

By definition, an extraordinary item is an item that is beyond what is usual or ordinary. This item was previously used to classify costs that were not anticipated or expected to occur throughout the year.

FDS line 97100 (Extraordinary Maintenance) represents all maintenance costs that are unforeseen and highly unusual in nature (e.g., labor, materials and supplies, contract work, and expendable equipment as it relates to that item). These costs include repairs, replacements (but not replacements of nonexpendable equipment), and rehabilitation of such substantial work. These costs represent items that were not anticipated prior to the start of the fiscal year and do not meet the GAAP definition of being capitalized. An example would include the repair of a ruptured water main.

A PHA may not find it necessary to use this account in a particular year, since an adequate preventive routine maintenance program and proper design and construction may preclude the need to undertake extraordinary maintenance projects. When extraordinary maintenance work is undertaken, it is likely that the PHA will find it necessary to have work performed by contract or by employing a special labor crew, in order not to neglect routine maintenance functions. However, if any of the normal maintenance staff of the PHA are detailed to an extraordinary maintenance job, the wages and benefits of such employees, while so engaged, shall be included in the amounts on this line.

FDS line 97100 (Extraordinary Maintenance) also represents the gross salaries and benefits earned by architectural and engineering employees who are employed for the sole purpose of preparing plans and specifications for an extraordinary maintenance job, but does not represent any part of the time of the regular technical and non-technical administrative staff of the PHA.

V. PUBLIC HOUSING TRANSFERS AND DUE TO/FROM

Operating Transfers [slides 45-50]

The FDS has four (4) types/sets of operating transfers:

1. Operating Transfers;
2. Inter-Project Excess Cash Transfers;
3. Transfers between Programs and Projects; and
4. Other Operating Transfers: From/To Primary Government and From/To Component Unit.

The PHA should use the correct transfer line when reporting. These lines are specific in meaning and erroneous reporting may cause the Department to initially determine that the PHA is not in compliance with financial management regulations. The following provides instructions on the proper use of each operating transfers.

1. Operating Transfers.
The following FDS line items are normally used to report transfers of Capital Fund grant revenue to the Low Rent column of the project income statement to support the operating expense of the project.

- FDS Line 10010 – Operating Transfer In
- FDS Line 10020 – Operating Transfer Out

These line items should **not** be used to report transfers of fixed assets (hard costs) from the Capital Fund column to the Low Rent column of the project. The transfer of fixed assets should be reported under FDS Line 11040 (Prior Period Adjustments, Equity Transfer, and Correction of Errors). A more detailed explanation and examples are provided under *Session 4: Capital Fund & ARRA Reporting*. *Table 3.5* below provides an example on the use of operating fund transfers.

Table 3.5 Operating Fund Transfers

Project - Income Statement				
FDS Line Item		Project Total	Low Rent	Capital Fund
70600	HUD PHA Operating Grants	$200,000		$200,000
70610	Capital Grants			
10010	Operating Transfer In	$200,000	$200,000	
10020	Operating Transfer Out	($200,000)		($200,000)

In addition these accounts are used to report operating transfers between programs, including the COCC. For example, if the COCC transferred funds to support another program, such as the HCV program, these accounts would also be used. *Table 3.6* below provides an example on the use of these line items in such a situation.

Table 3.6 Transfers from COCC

Project - Income Statement				
FDS Line Item		**Project Total**	**Low Rent**	**Capital Fund**
10010	Operating Transfer In	$100,000	$100,000	
10020	Operating Transfer Out	($100,000)		($100,000)

2. Inter-Project Excess Cash Transfers. The following FDS line items should only be used by the projects and represent a transfer from one project to another.

- FDS Line 10091 – Inter-Project Excess Cash Transfer In
- FDS Line 10092 – Inter-Project Excess Cash Transfer Out

The PHA must have multiple projects in order to even consider using these line items. Additionally, these FDS lines represent an excess cash transfer as determined by the Operating Fund Final Rule. Therefore, these line items are not applicable to non-asset management PHAs. The sum (i.e. Project Totals) of these total *transfers in* amounts must equal the total *transfer out* amounts. *Table 3.7* below provides an example on the use of these line items.

Table 3.7 Inter-Project Transfers

Project - Income Statement					
FDS Line Item		**Project Total**	**Project 1**	**Project 2**	**Project 3**
10091	Inter-Project Excess Cash Transfer In	$100,000	$75,000	$25,000	
10092	Inter-Project Excess Cash Transfer Out	($100,000)			($100,000)

3. Transfers between Programs and Projects In/Out. The following FDS line items should only be used when funds are transferred out or received by a project from another program, including the COCC.

- FDS Line 10093 − Transfers between Program and Project - In
- FDS Line 10094 − Transfers between Project and Program - Out

The sum of these total transfers in amounts must equal the total transfer out amounts. Management fees, including asset management fees paid to the COCC from the projects, are **not** reported on FDS Line 10091 (Inter-Project Excess Cash Transfer In) or FDS Line 10092 (Inter-Project Excess Cash Transfer Out), but instead are reported as fee expense on FDS Line 91300 (Management Fee), FDS Line 91310 (Book-keeping Fee), and/or FDS Line 92000 (Asset Management Fee).

Table 3.8 shows the correct reporting when the PHA elects to use pre-2004 administrative fees to support two of its projects.

Table 3.8 Using pre-2004 Administrative Fees

Project - Income Statement					
FDS Line Item		Project Total	Project 1	Project 2	HCV
10093	Transfers between Program and Project - In	$75,000	$50,000	$25,000	
10094	Transfers between Project and Program - Out	($75,000)			($75,000)

4. Other Operating Transfers. The FDS continues to have the following two other operating transfer line items.
- FDS Line 10030 − Operating Transfers from/to Primary Government
- FDS Line 10040 − Operating Transfers from/to Component Unit

These line items are different in that there is not a pair (i.e., transfer in and a corresponding transfer out). Instead, the system allows the line items to be reported with a positive amount, which corresponds to a *transfer in* or a negative amount, which corresponds to a *transfer out*.

Inter-Program - Due From / Due To [slides 51 & 52]

FDS Line 144 (Inter-Program - Due From) and FDS Line 347 (Inter-Program - Due To) represent amounts due from or due to other projects, programs and funds.
- FDS Line 144 (Inter-Program - Due From) represents inter-program transactions resulting in a decrease of expendable resources of the transferring PHA program and funds that are expected to be repaid "within a reasonable time".

- FDS Line 347 (Inter-Program - Due To) represents inter-program transactions resulting in an increase of expendable resources of the receiving PHA program but the fund are expected to be repaid "within a reasonable time".

The expectation is that the receiving program has the intent and ability to repay the inter-program balance. "Reasonable time" is a matter of professional judgment, but typically should not exceed the PHA's annual operating cycle. Transactions between funds may be classified as: 1) loans and advances; 2) quasi-external transactions; and 3) reimbursements.

Some PHAs in their day-to-day operations maintain and use a centralized revolving fund/ working capital account (including the use of one program's cash that is subsequently reimbursed by other programs) for more efficient cash management. During the year, FDS line 144 and FDS line 347 are used by the revolving fund/working capital account and the individual program funds to: 1) account for amounts due from other program funds for expenditures; 2) account for expenses the revolving fund/working capital account has made on behalf of the individual program funds; or 3) show a claim on cash held by the revolving funds/working capital account on behalf of the individual program funds.

However, for year-end reporting, the cash and investment balances that are maintained in a revolving or working capital account must be reconciled, settled, and disaggregated at fiscal year end and reported on the FDS.

PHAs are reminded that HUD Handbook 7475.1: *"Changes in Financial Management and Reporting Requirements for Public Housing Agencies"* and the Operating Fund final rule requires projects, COCC, and other programs to report actual program cash and investment balances instead of using "due to" or "due from" line items at fiscal year-end.

Inter-program - due to and due from should be reported where the program has incurred expenses through the use of a centralized revolving fund/working capital account but does not have the cash and investments to reimburse the account at year-end. Inter-program due to and due from should also be reported for loans made to another program or project that exist at year-end where there is an intent that these loans be repaid. Otherwise, the transaction should be reclassified as a transfer in and transfer out.

Finally PHAs are cautioned that funds are normally not fungible between different federal programs regardless of the nature of the transfer or receivable. Inappropriate use of funds, even a temporary loan, are ineligible costs resulting in non-compliance.

VI. PUBLIC HOUSING MEMO ACCOUNTS

Unit Months [slides 54-57]

FDS Line 11190 (Unit Months Available). For each Public Housing project, the PHA is to report the total number of months each ACC unit was under ACC in the PHA's fiscal year *reduced* by the number of months each ACC unit was in any of the following ten (10) IMS/PIC unit status categories/subcategories during the fiscal year:

- Vacant – Undergoing Modernization
- Vacant – Court Litigation
- Vacant – Natural Disaster
- Vacant – Casualty Loss
- Vacant – Market Conditions
- Non-Dwelling - Special Use: Anti-Drug/Crime
- Non-Dwelling - Special Use: Self Sufficiency Activities
- Non-Dwelling - Special Use: Other Resident Activities
- Non-Dwelling - Special Use: Other Moving to Work (applies only for an MTW PHA)
- Demolition/Disposition – Approved (applies only to vacant units)

PHAs may reduce the unit months available (UMA) for these ten (10) IMS/PIC categories/subcategories only if HUD approved the vacancy or the special use. For unit months available associated with demolition/disposition approved units, PHAs may reduce the unit months available only when the units are vacant.

FDS Line 11210 (Number of Unit Months Leased). This FDS line represents the total number of dwelling unit months under lease by tenants and other program participants during the reporting period.

For Public Housing projects the number of months reported must be on the same basis (i.e., the first day of the month or the last day of the month) that is used when reporting units leased on the *Form HUD-52723 – Calculation of Operating Subsidy*. Units leased include only those units categorized in PIC as occupied by:

- Low income families (assisted tenants),
- PHA employees,
- Police officers, and
- Non-assisted tenants over income.

Reporting Unit Months for Mixed Finance Projects. For those PHAs that have mixed finance projects, the PHA will report the number of designated ACC units (public housing units) in the respective mixed finance project. Accordingly, mixed finance ACC units that receive HUD funding (i.e., Operating Subsidy) will be reported in the project column of the FDS. If the mixed finance development is also reported on the FDS (e.g., as a component unit), the mixed finance development (component unit) would report unit months available and unit months leased for all units in the development (ACC and non-ACC).

Reporting Unit Months in Accordance with PIH Notice 2011-07. For both FDS Line 11190 (Unit Months Available) and FDS Line 11210 (Number of Unit Months Leased), PHAs should refer to PIH Notice 2011-07, *Guidance on IMS/PIC Development Sub-Module Reporting and Validation* (and any subsequent notices that supplement or supersede PIH Notice 2011-07) for guidance on the use of public housing units and the reporting of these units in IMS/PIC.

Low Rent Income Statement – Capital Activity Memo Accounts [slides 58 & 59]

There are six memo accounts located at the bottom of the project's Low Rent income statement that relate to capital transactions. These FDS line items are required to be completed if the project incurred capital costs that were funded with non-capital fund related monies (i.e., CFP grant, ARAA, CFFP). These memo accounts are intended to provide additional information on the use of Low Rent Public program funds for non-operating expenses (capitalized expenditures) incurred during the reporting period. Normally, these costs are funded from reserves, program income, ESCOs, and insurance proceeds. The following is a list of the six capital activity memo accounts in the Low Rent column:

- FDS Line 11610 – Land Purchases
- FDS Line 11620 – Building Purchases
- FDS Line 11630 – Furniture and Equipment - Dwelling Purchases
- FDS Line 11640 – Furniture and Equipment - Administrative Purchases
- FDS Line 11650 – Leasehold Improvement Purchases
- FDS Line 11660 – Infrastructure Purchases

Learning Activity 3.2 – Public Housing Operating Fund Reporting [slide 60]

Session 4: Capital Fund Program and ARRA Reporting

Table of Contents

I. OVERVIEW [Slide 2]

This session will cover the following topics:

- Financial Data Schedule (FDS) reporting requirements for the CFP Program.
- Reporting of soft and hard costs associated with the CFP Program.
- Use of the memorandum accounts for the CFP Program.
- Reporting the Capital Fund Financing Program.
- Accounting for ARRA funds.

II. CAPITAL FUND PROGRAM REPORTING

Background

The Public Housing Capital Fund Program (CFP) provides funds for capital and management activities of public housing agencies (PHAs), including the modernization and development of public housing. The amount each PHA receives annually in Capital Funds is based on a funding formula and disbursed through HUD's electronic Line of Credit Control System (eLOCCS) system based on budget line items (BLIs). Under the Capital Fund Plan and in eLOCCS, PHAs are required to report their CFP grant funds by activity according to the BLIs.

General Financial Data Schedule (FDS) Reporting [slide 4]

On the FDS, PHAs are required to report CFP activities in accordance with generally accepted accounting principles (GAAP). PHAs that administer the CFP are typically governmental in nature and report their financial statements using the proprietary fund model under the full accrual basis of accounting. Accounting Brief #15 titled "Capital Fund Program Reporting" was issued in August 2011. This brief outlines the proper reporting of CFP activities on the Financial Data Schedule. This brief can be viewed at the following web address: http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/reac/products/fass/pha_briefs

CFP activity is normally associated with the PHA's projects and as such must be reported on the FDS at the individual project level. For FDS reporting, each project has:

- One balance sheet that combines the financial activity of both the Low Rent Public Housing Program and the Capital Fund Program; and
- Two income statements – one statement that reports the Low Rent Public Housing financial activity and another statement that reports the CFP's financial activity.

Capital Fund Reporting on the FDS under Asset Management [slide 5]

This section covers the reporting of Capital Funds used for "hard" and "soft" costs on the FDS. The proper FDS reporting of other common activities funded through the Capital Fund program are also detailed in this session and examples are provided for each activity.

Recognition of Revenue (Hard and Soft Costs) [slides 5 & 6]

PHAs are required to distinguish Capital Fund revenue between "hard" and "soft" costs on the FDS. *Hard* costs typically include items such as purchases of equipment and modernization work. *Soft* costs are considered a use of the Capital Fund that either support a project's operation or do not meet the PHA's capitalization threshold policy (e.g., a purchase of a single computer under the PHA's capitalization threshold policy).

- Amounts drawn down for hard costs (capital expenditures) are reported on FDS Line 70610 (Capital Grants).
- Amounts drawn down for soft costs (expenses) are reported on FDS Line 70600 (HUD PHA Operating Grants).

These basic reporting requirements have not changed under the asset management model. What has changed under asset management is that Capital Fund activities are now reported at the project level (there is no longer a separate Capital Fund program column on the FDS, with its own CFDA number for PHA submissions with a FYE date of 06/30/2008 and after).

Hard Costs and Memo Accounts [slides 7-10]
CFP amounts normally reported as hard costs include amounts drawn down from the following Budget Line Item (BLI) accounts:

- BLI 1440 – Site Acquisition
- BLI 1450 – Site Improvement
- BLI 1460 – Dwelling Structures
- BLI 1465.1 – Dwelling Equipment – Nonexpendable
- BLI 1470 – Non-Dwelling Structures
- BLI 1475 – Non-Dwelling Equipment

The PHA's capitalization policy will have the **final determination** on how these BLI costs are reported on the FDS. Amounts below the PHA's capitalization threshold are considered soft costs for FDS reporting and grant funds earned to support these costs are reported on FDS Line 70600 (HUD PHA Operating Grants).

Architect and Engineering Fees. Other CFP activities such as architect and engineering (A/E) fees, a construction supervisor's salary and other expenses directly related to a capital project are normally capitalized by the PHA. When capitalized, these activities would be recognized as "hard" costs and should also be reported on FDS Line 70610 (Capital Grants).

Capital Fund Income Statement: Memo Accounts. On the FDS, there are eight (8) memo accounts located at the bottom of the project's Capital Fund income statement that relate to transactions associated with capital activity or specific Capital Fund activity. These memo accounts are intended to provide additional information on the use of CFP grant awards for non-operating expenses (balance sheet only) such as capital expenditures, debt service payments, and RHF fund expenditures. These accounts should also be used to provide detail information on ARRA activity that has been accounted for at the project via an equity transfer in.

1. FDS Line 11610 − Land Purchases
2. FDS Line 11620 − Building Purchases (includes costs related to Construction in Progress)
3. FDS Line 11630 − Furniture and Equipment - Dwelling Purchases
4. FDS Line 11640 − Furniture and Equipment - Administrative Purchases
5. FDS Line 11650 − Leasehold Improvement Purchases
6. FDS Line 11660 − Infrastructure Purchases
7. FDS Line 13510 − CFFP Debt Service Payments (includes principal and interest)
8. FDS Line 13901 − Replacement Housing Factor Funds (any capitalized costs associated with the use of these funds should also be reported in memo accounts 11610 through 11660 above.)

Reporting of Hard Costs [slide 11]

To report CFP funds used for hard costs, the project's Capital Fund income statement would report grant revenue in FDS Line 70610 (Capital Grants) and increase the affected project's fixed assets accounts on the balance sheet accordingly. The memo accounts in the Capital Fund column would also be completed to show how the CFP funds were used. In the CFP column, the sum of the memorandum accounts (FDS lines 11610-11660) plus any CFFP debt principal payments reported on FDS Line 11020 (Required Annual Debt Principal Payments) should normally match the amount reported on FDS Line 70610 (Capital Grants).

Table 4.1 below show how a PHA would report a Project's Income Statement and Balance Sheet to reflect the use of Capital Funds for hard costs. In this example, the PHA purchased $25,000 of equipment associated with the project's units and incurred modernization (capital) costs of $175,000.

Table 4.1 Reporting the Use of Capital Funds for Hard Costs

Project - Income Statement				
FDS Line Item		Project Total	Low Rent	Capital Fund
70600	HUD PHA Operating Grants	$0		
70610	Capital Grants	$200,000		$200,000
11620	Building Purchases	$175,000		$175,000
11630	Furniture & Equipment - Dwelling Purchases	$25,000		$25,000

Project – Balance Sheet		
FDS Line Item		Project Total
162	Buildings	$175,000
163	Furniture, Equipment & Machinery - Dwelling	$25,000

(Note: for discussion and training purposes, the balance sheet entries above only represent the increase to the accounts not the balance of the accounts that would normally be reported on a balance sheet.)

Note: Depreciation reporting is governed by GAAP and is not further discussed except that HUD allows PHAs to report depreciation expense in either the Low Rent or Capital Fund column of the project's income statement.

Reporting of Soft Costs [slides 12-14]

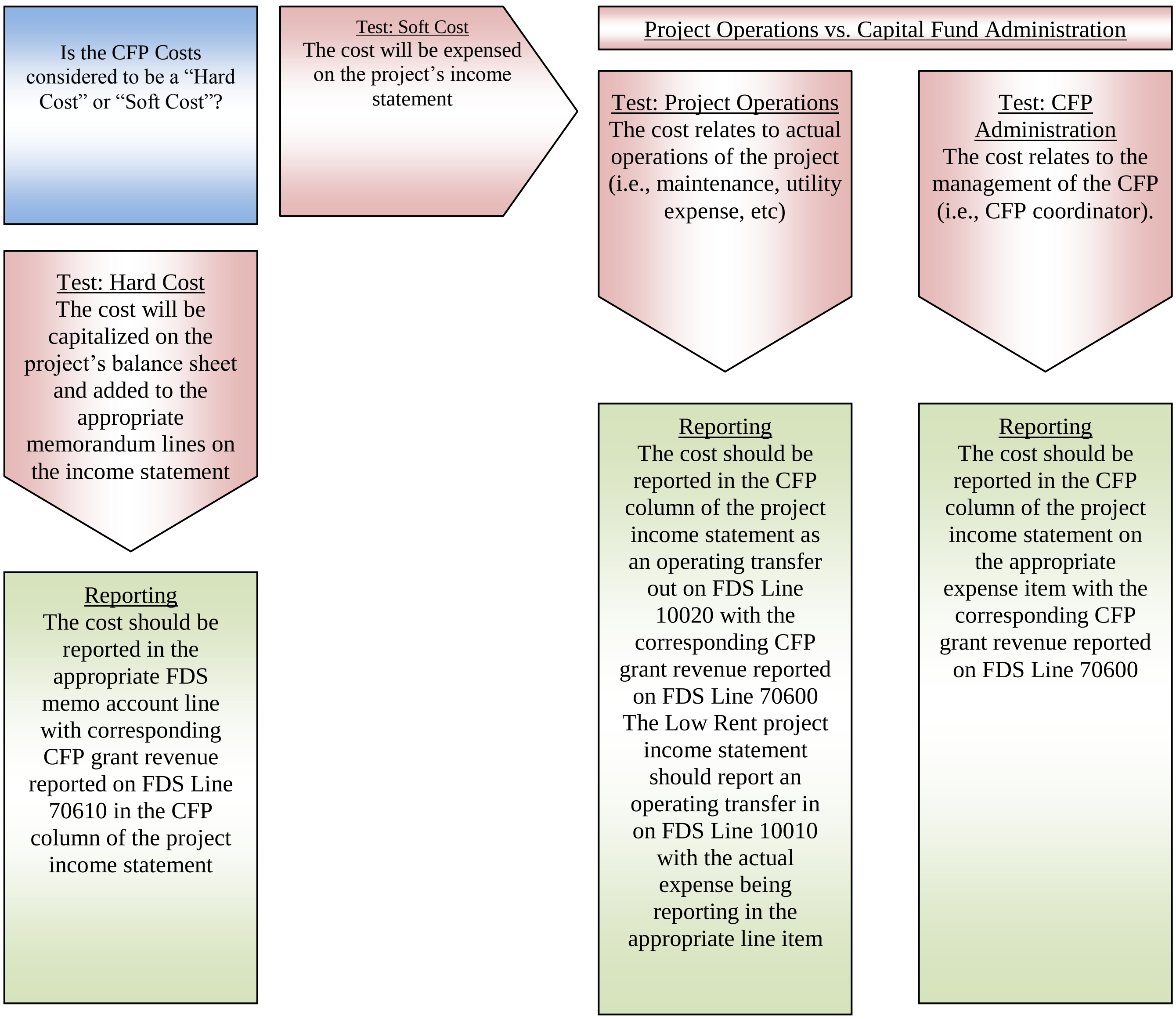
Soft costs are transactions that are expensed on the project's income statement. Capital Fund revenue that supports a soft cost is normally reported on FDS Line 70600 (HUD PHA Operating Grants) in the project's Capital Fund income statement column with a corresponding Operating Transfer Out. However, there are a few types of soft costs that are reported as an expense in the CFP column of the project and are an exception to the general rule.

Typical soft costs include transactions such as: 1) Transfers to the Operating Fund for Operations (BLI 1406); 2) Management improvements that are expensed (BLI 1408); and 3) management fees (BLI 1410).

The reporting of CFP soft costs should be divided between operating costs of the project or operating costs directly associated with the Capital Fund Program.

The following flowchart provides the user an outline to the proper reporting of hard and soft costs related to the Capital Fund Program. The flowchart in *Figure 4.1* focuses on the proper GAAP treatment of CFP costs reported on the Financial Data Schedule**.**

Figure 4.1 Capital Fund Program – Cost Reporting Flowchart



Reporting of Beginning Equity [slide 15]

Under the project-based asset management model, each project has one balance sheet for which both Low Rent and Capital Fund program activities of the project are reported. Even though the project has only one balance sheet (combined for both Low Rent and Capital Fund activities), PHAs should still provide separate beginning equity amounts for the Low Rent and Capital Fund programs. Additionally, as fixed assets are put into service, the transaction should be reported through an equity transfer from the Capital Fund Column to the Low Rent Column using FDS Line 11040 (Prior Period Adjustments, Equity Transfer, and Correction of Errors) on the respective income statement. This reporting requirement is consistent with PHA's past reporting practice in FASS-PH.

The example below in *Table 4.2* illustrates how a PHA should report beginning equity at the project level for each program and an equity transfer for assets purchased with CFP funds that were put into service. In this example, total beginning equity for the project is $850,000 of which $700,000 relates to the Low Rent Program and the remaining $150,000 relates to the Capital Fund Program. This example also shows the transfer of $100,000 of capital assets funded by the CFP program to the Low Rent Program and assumes that these assets were placed into service.

Table 4.2 Transfer of Capital Funds to the Low Rent Program

Project - Income Statement				
FDS Line Item		Project Total	Low Rent	Capital Fund
11030	Beginning Equity	$850,000	$700,000	$150,000
11040	Prior Period Adjustments, Equity Transfer, and Correction of Errors	$0	$100,000	($100,000)

Reporting of Certain BLI Capital Fund Activities

PHAs are required to report the use of their CFP grant funds by activity according to the budget line items (BLI). Therefore, it is not surprising that most financial reporting of Capital Fund activity is also driven by the BLI accounts. The following section provides examples on how to report the most common Capital Fund activities.

1. Transfers to the Operating Fund for Operations (BLI 1406);
2. Management Improvement (BLI 1408);
3. Administration/Capital Fund Management Fee (BLI 1410); and
4. CFP Audit Costs (BLI 1411).

1. Transfers to the Operating Fund (BLI 1406) [slides 16 & 17]

Funds used for operations (BLI 1406) are recognized as revenue when drawn down by the PHA, regardless of when these funds are actually spent. The PHA would reflect amounts associated with BLI 1406 (Operations) on the FDS as follows:

- The project's Capital Fund Income Statement would report grant revenue in FDS Line 70600 (HUD PHA Operating Grants) and would also report the same amount in FDS Line 10020 (Operating Transfer Out).
- The project's Low Rent Income Statement would report the same amount on FDS Line FDS Line 10010 (Operating Transfer In) with a corresponding increase in the project's cash balance reported on FDS Line 111 (Cash – Unrestricted).

The Total Project Income Statement column, which combines Operating and Capital Fund activity, is not affected by these transactions since the transfers (in/out) offset each other. Once transferred to "Operations", the "expenses" are not differentiated within the Low Rent column from other expenses funded directly through the Operating Fund and other program income.

Table 4.3 below shows how a PHA would report a Project's Income Statement and Balance Sheet relating to the use of Capital Funds for Operations. In this example, the project drew down $200,000 of its CFP grant to support the project's operations.

Table 4.3 Reporting the Use of Capital Funds for Operations

Project - Income Statement				
FDS Line Item		Project Total	Low Rent	Capital Fund
70600	HUD PHA Operating Grants	$200,000		$200,000
70610	Capital Grants			
10010	Operating Transfer In	$200,000	$200,000	
10020	Operating Transfer Out	($200,000)		($200,000)

Project - Balance Sheet		
FDS Line Item		Project Total
111	Cash - Unrestricted	$200,000

(Note: for discussion and training purposes, the balance sheet entry above only represents the increase to the accounts not the balance of the accounts that would normally be reported on a balance sheet.)

Note: Under current law, PHAs with less than 250 public housing units that are not troubled can transfer up to 100% of their CFP for management improvements. PHAs with 250 or more public housing units are only allowed to transfer up to 20% of their CFP funds for management improvements.

2. Management Improvements (BLI 1408) [slides 18 & 19]

Similar to the treatment of BLI 1406 (Operating Transfers), to report the use of Capital Funds for BLI 1408 Management Improvements, the PHA would expense amounts spent on Management Improvements that are soft costs within the Low Rent column of the project incurring the expense. The PHA would reflect amounts associated with BLI 1408 (Management Improvements) for soft cost on the FDS as follows:

- The project's Capital Fund Income Statement would report grant revenue in FDS Line 70600 (HUD PHA Operating Grants) and would report the same amount in FDS Line 10020 (Operating Transfer Out).
- The project's Low Rent Income statement would report the same amount on FDS Line 10010 (Operating Transfer In) with a corresponding expense. The FDS expense line(s) used to show the expense is dependent upon the nature of the expense.

Once transferred to the Low Rent column, the "expenses" are not differentiated from other expenses funded directly by the Operating Fund. However, in order to draw down the funds the PHA must have an eligible expense.

To the extent that Management Improvements are capitalized, these amounts would be treated as hard costs. The project's Capital Fund income statement would report grant revenue in FDS Line 70610 (Capital Grants) and increase the affected project's fixed assets accounts on the balance sheet accordingly. The memo accounts in the Capital Fund column would also be completed to show how the CFP funds were used.

Note: Under current regulations, PHAs can use 20% of their CFP for management improvements. Unlike BLI 1406 (Transfer to Operations), PHAs must have an eligible expense prior to drawing down the CFP funds from eLOCCS.

3. Administration / Capital Fund Management Fee (BLI 1410) [slides 20-22]

BLI 1410 is used to account for eligible administrative costs of the Capital Fund program. For those PHAs that use fee-for service, this BLI is also used to pay for the Capital Fund management fee. This BLI account is limited to 10 percent of the total grant award. Regardless of the use (i.e., administrative expense or CFP management fee) this activity is recorded **only** in the project's Capital Fund Income Statement column.

<u>CFP Management Fee</u>
Where BLI 1410 is used to support a payment of a Capital Fund management fee, the project's Capital Fund Income Statement would report grant revenue in FDS Line 70600 (HUD PHA Operating Grants) and would report the same amount in FDS Line 91300 (Management Fees).

Table 4.4 below shows how a PHA would report a project's Income Statement relating to the use of Capital Funds for a management fee. In this example, the PHA's COCC charged the projects a $100,000 in Capital Fund management fee.

Table 4.4 Reporting the Use of Capital Funds for a Management Fee

Project - Income Statement				
FDS Line Item		Project Total	Low Rent	Capital Fund
70600	HUD PHA Operating Grants	$100,000		$100,000
70610	Capital Grants			
91300	Management Fees	$100,000		$100,000

The PHA's COCC would report corresponding management fee revenue in FDS Line 70710 (Management Fee). The fee revenue and expense would be eliminated in the Elimination column of the FDS. The decision to charge a CFP management fee and how to allocate the CFP revenue and fee expense to and from which project is determined by the PHA.

Administration

When BLI 1410 is used to support administration costs, the project's Capital Fund Income Statement would report grant revenue in FDS Line 70600 (HUD PHA Operating Grants) with matching expenses normally reported in the administrative salary and benefits lines of the FDS.

Table 4.5 below shows how a PHA would report a Project's Income Statement relating to the use of Capital Funds for administration. In this example, the PHA incurred $100,000 in administrative costs directly related to the Capital Fund: 1) $70,000 in Salary Expense and 2) $30,000 in Employee Benefits.

Table 4.5 Reporting the Use of Capital Funds for Administration

Project - Income Statement				
FDS Line Item		Project Total	Low Rent	Capital Fund
70600	HUD PHA Operating Grants	$100,000		$100,000
70610	Capital Grants			
91100	Administrative Salaries	$70,000		$70,000
91500	Employee Benefit contributions - Administrative	$30,000		$30,000

Note: CFP for CFP management fees/administration are currently limited by regulation to 10 percent of the Capital Fund award.

4. CFP Audit Costs [slide 23]

Audit cost (BLI 1411) associated with the Capital Fund program are eligible costs of the Capital Fund. When Capital Funds are used to pay for CFP audit costs, the project's Capital Fund Income Statement would report grant revenue in FDS Line 70600 (HUD PHA Operating Grants) and would report the same amount in FDS Line 91200 (Audit Costs). HUD allows the PHA to determine the amount of CFP audit costs reported at any given project to be determined by a "reasonable" allocation based on the overall audit cost, the size of the CFP program, project size and any other determining factors.

Table 4.6 shows how a PHA would report a Project's Income Statement relating to the use of Capital Funds for CFP audit costs. In this example, the PHA incurred $2,000 of cost associated with the CPA's audit that was related to the Capital Fund program.

Table 4.6 Reporting the Use of Capital Funds for CFP Audit Costs

Project - Income Statement				
FDS Line Item		Project Total	Low Rent	Capital Fund
70600	HUD PHA Operating Grants	$2,000		$2,000
70610	Capital Grants			
91200	Auditing Fees	$2,000		$2,000

Reporting Other Capital Fund Activities

This section provides information on the proper reporting of other Capital Fund activities that are not separately captured through the BLI line items. These activities are:

- Force Account Labor;
- Modernization Coordinators;
- PHA Modernization Inspectors and Construction Supervisors; and
- Replacement Housing Factor Fund (RHF)

Force Account Labor [slide 24]

In the context of the Capital Fund, *force account labor* refers to the use of PHA employees to perform capital and modernization type work on the PHA's projects.

- Capitalized Force Account Labor. To the extent that force account labor is used to support capital works, the cost of such labor is capitalized and becomes an asset on the balance sheet of the project. Force account labor results in a debit (an increase) to a fixed asset account for the respective amount. From an FDS reporting standpoint, force account labor would be reported in the same way as other hard costs.

- Non-Capitalized Force Account Labor. To the extent that force account labor is used to support capital works/extraordinary maintenance that does not meet a PHA's capitalization threshold policy, the costs of such labor is an expense and is reported similar to any other soft costs (i.e., maintenance expense). HUD PHA grant revenue in the Capital Fund column of the project would be reported with an offsetting Operating Transfer Out. The project's Low Rent income statement would report the same amount on FDS Line 10010 (Operating Transfer In) with a corresponding expense. The FDS expense line(s) used to show the expense is dependent upon the nature of the expense.

Modernization Coordinators [slide 25]

If the agency employs a "Modernization Coordinator", i.e., an individual(s) responsible for the overall Capital Fund program coordination, including the preparation of Capital Fund plans and program reports, this position is funded through the Capital Fund management fee. In other words, the costs of the modernization coordinator would not appear on the Income Statement of the project but on the Income Statement of the COCC.

Non-asset management PHAs would report the Modernization Coordinator's salary and benefits as a direct expense to the Capital Fund program. *(See discussion of BLI 1410 Administration).*

PHA Modernization Inspectors and Construction Supervisors [slide 26]

In contrast to the Modernization Coordinator, a PHA can charge to each project (i.e., a capitalized cost) the cost of modernization inspectors/construction supervisors. The memo section of the FDS will reflect the capitalized cost of the modernization inspector's documented inspection work that is associated with the modernization of a project. The modernization inspector contributes to the capitalized cost of the modernization work that is underway.

Typically, the documented cost associated with this inspector is capitalized to a work in progress (i.e., building) account.

Replacement Housing Factor Funds (RHF) [slide 27]

Uses of RHF funds are reported the same as any other Capital Fund transaction, except that the PHA must also report in FDS Line 13901 (Replacement Housing Factor Funds) the total amount of RHF funds used.

Learning Activity 4.1 – Capital Fund Reporting [slide 28]

III. CAPITAL FUND FINANCING PROGRAM (CFFP) REPORTING

Financial Reporting for Capital Fund Financing Program (CFFP) [slide 30]

Under the Capital Fund Financing Program (CFFP), a PHA may borrow private capital to make improvements and pledge, subject to the availability of appropriations, a portion of its future annual Capital Funds to make debt service payments from either a bond or conventional bank loan transaction. The loans or bonds are obligations of the PHA. Under this program HUD does not guarantee or ensure these loans or bonds.

The CFFP is not affected programmatically by the changes introduced in the Operating Fund Final Rule. PHA debt incurred through this program is still a legal liability of the PHA. The only change is that the accounting and reporting for these financing activities will now be recorded at the project level in the FDS, specifically:

- Individual project balance sheets will list project debt as a liability.
- The grant revenue associated with the principal and interest payments will also be recorded at the projects.
- There may be cases where the liability related to the CFFP may need to be allocated between projects due to the financing arrangement. In such situations, the Capital Fund Program revenue will also be recorded at the project based on a prorated amount of the debt service.

Relevant CFFP Transactions [slides 31-33]

This section discusses the relevant transactions associated with the CFFP program and the proper reporting of each transaction on the FDS.

1. <u>CFFP Proceeds.</u> When the bond / loan proceeds are received, the projects would report the cash received on FDS Line 112 (Cash - Restricted - Modernization and Development). The projects would also show a liability for these amounts.
    - The current portion of the liability would be reported on FDS Line 343-010 (Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds – CFFP).
    - The remaining, long-term portion would be reported on FDS Line 351-010 (Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue – CFFP).

2. <u>Expenses</u>. During the construction/modernization phase the PHA would book Construction in Progress/Expenses on the project’s books as the modernization work begins and until completion. In addition, the PHA would use the memo accounts (FDS Lines 11610 through FDS Lines 11660) to provide an accounting of the related increases in capital assets.

3. <u>Payment of Debt</u>. As the debt becomes payable, the PHA would report interest expense on FDS Line 96710 (Interest on mortgage (or bonds) payable) under the Capital Fund columns in the income statement of each project. The same interest expense amount should be booked in FDS Line 70600 (HUD PHA operating grants). The PHA would

also report revenue in FDS Line 70610 (Capital Grants) for the principal payments under the Capital Fund column of each project.

The interest expense associated with the CFP grant revenue is considered a "soft" cost, while principal payments associated with capital grant is considered a "hard" cost. In addition, the PHA would use memo accounts: FDS Line 11020 (Required annual debt principal payments) and FDS Line 13510 (CFFP debt service payments), to report debt payment amounts under the project's Capital Fund column on the project's income statement.

Table 4.7 illustrates the method by which a project would report CFP funds for a debt service payment on the FDS.

Table 4.7 Reporting CFP funds for Debt Service Payments

Project - Income Statement				
FDS Line Item		Project Total	Low Rent	Capital Fund
70600	HUD PHA Operating Grants	$20,000		$20,000
70610	Capital Grants	$70,000		$70,000
96710	Interest on Mortgage (or Bonds) Payable	$20,000		$20,000
11020	Required Annual Debt Principal Payments	$70,000		$70,000
13510	CFFP Debt Service Payments	$90,000		$90,000

4. Balance Sheet. The project's balance sheet will be adjusted annually to reduce the outstanding principal and to reclassify a portion of the non-current liability to a current liability.

Learning Activity 4.2 – Capital Fund Financing Program Reporting [slide 34]

IV. AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) REPORTING

On February 17, 2009, the President signed the American Recovery and Reinvestment Act (ARRA) (P.L. 111-5). ARRA provided $4 billion in stimulus funds for PHAs under the Capital Fund Program, of which $3 billion was awarded by formula and $1 billion was awarded through competitive applications.

Catalog of Federal Domestic Assistance (CFDA) Numbers [slide 36]

Because of the special reporting and operating requirements, HUD obtained separate CFDA numbers for both the formula and competitive portions of the Capital Fund stimulus grants. The CFDA numbers are as follows:

- CFDA # 14.884: Competitive Capital Fund Stimulus Grant
- CFDA # 14.885: Formula Capital Fund Stimulus Grant

Regardless of the number of competitive grants awarded to a PHA, the PHA was required to aggregate and report all competitive grant activity in the *Competitive Capital Fund Stimulus Grant* column on the FDS.

ARRA Reporting [slides 37-39]

The revenue and expenses associated with CFP stimulus activity are to be reported in the appropriate FDS lines within the respective stimulus grant column.

1. <u>Revenue</u>. PHAs shall recognize revenue during the fiscal year within the respective Stimulus Fund column, i.e., either CFDA #14.884 or #14.885, using the same revenue recognition criteria normally used for the Capital Fund program. Those revenues intended for capitalized hard costs are reported as revenue in FDS Line 70610 (Capital Grants), while funds not capitalized are reported as revenue in FDS Line 70600 (HUD PHA Operating Grants).

2. <u>Expenses – Operating Expenses</u>. Due to the unique nature and purpose of the stimulus funding, soft costs incurred as a result of receiving this funding are not considered representative of ordinary operating costs incurred at the project level. HUD determined that the accounting for soft costs resulting from the stimulus grants should be reported in the Stimulus column and should not be reflected as an operating cost of the project. PHAs should report any funds spent for "Administration" or "Management Fee" as an Operating Expense within the respective Stimulus Fund column, as well as any work performed that is below the PHA's capitalization threshold.

For example, a PHA with a $5,000 capitalization threshold would reflect a contract for $3,000 in sidewalk improvements as an operating expense. The associated revenue for this sidewalk improvement would also be recognized in FDS Line 70600 (HUD PHA Operating Grants). Such "soft" revenue and the expense ($3,000 sidewalk improvement) are reported within the Stimulus Fund.

Table 4.8 below shows an example of ARRA reporting and includes a $300 management fee charged by the COCC.

Table 4.8 Reporting ARRA Funds

Competitive Capital Fund Stimulus Grant - Income Statement		
FDS Line Item		**14.884**
70600	HUD PHA Operating Grants	$3,300
70610	Capital Grants	
91300	Management Fees	$300
94300	Ordinary Maintenance and Operations Contracts	$3,000

Capitalized Work [slides 40 & 41]

Capitalized work will be shown as an equity transfer (FDS Line 11040) in the Capital Fund Column of the respective project where the work was performed and will be reported in the appropriate balance sheet account such as construction in progress, buildings, etc. A PHA may choose to make these equity transfers throughout the year, as work progresses or at year-end. When the equity transfer is reported for capitalized work, the PHA should make an appropriate entry in the Project's Capital Fund memo accounts.

Table 4.9 below provides an example of how to report capitalized work associated with ARRA funds.

Table 4.9 Reporting Capitalized Work – ARRA Funds

Formula Capital Fund Stimulus Grant - Income Statement		
FDS Line Item		**14.885**
70600	HUD PHA Operating Grants	
70610	Capital Grants	$500,000
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	($500,000)

Project - Income Statement				
FDS Line Item		**Project Total**	**Low Rent**	**Capital Fund**
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	$500,000		$500,000
11620	Building Purchases	$450,000		$450,000
11630	Furniture & Equipment - Dwelling Purchases	$50,000		$50,000

Project - Balance Sheet		
FDS Line Item		**Project Total**
162	Buildings	$350,000
163	Furniture, Equipment & Machinery - Dwellings	$50,000
167	Construction in Progress	$100,000

*(**Note:** For discussion and training purposes, the balance sheet entries above only represent the increase to the accounts and not the balance of the accounts that would normally be reported on a balance sheet.)*

As the work progresses, PHAs using the equity transfer line, will transfer from the Stimulus Fund, the "work in progress" or finished asset and the corresponding equity (derived from Stimulus Fund Capital Grant Revenue) to the project(s) so that at year-end, there is no capital asset or corresponding equity balance on the balance sheet of the Capital Fund Stimulus column(s).

In essence, the ARRA columns of the FDS (year-end) should not accumulate an equity balance in the year-end balance sheet. FDS Line 70610 (Capital Grants) plus FDS Line 11040 (Prior Period Adjustments, Equity Transfer, and Correction of Errors) should match. Each equity transfer-in at the project level should be reported as a separate line item (FDS Lines 11040-070 to 11040-110) and not be netted against other equity transfers in reported for the project. At the PHA's year end, only soft costs (expenses) will remain in the Stimulus program(s). Deferred Revenue or Accounts Receivable may still be present on the Stimulus program's balance sheet as a result of timing differences.

Compliance and Eligible Use of ARRA Funds

There are numerous requirements around the use of the ARRA funds. PHAs should review the Office of Capital Improvements Recovery Act Information web site at http://www.hud.gov/offices/pih/programs/ph/capfund/ocir.cfm for additional guidance and clarification.

Learning Activity 4.3 – CFP & ARRA Fund Financing Program Reporting [slide 42]

Session 5: Operating Reserves and Excess Cash

Table of Contents

I. OVERVIEW [slide 2]

This session will cover the following topics:

- Discuss the definition and calculation of operating reserves.
- Discuss the eligible uses of operating subsidy and reserves.
- Discuss the definition and calculation of excess cash.
- Discuss the eligible uses of excess cash as provided under the Operating Fund final rule (24 CFR 990).

II. OPERATING RESERVES

Definition of Operating Reserves [slides 4 & 5]

Operating reserves is defined as the amount of current assets that are available after liquidating any liability that is due within the next year (current liability). For most PHAs, operating reserves is the accumulation of funds that includes but is not limited to:

- Unspent operating subsidy, including asset repositioning fees;
- Unspent tenant rent;
- Other miscellaneous revenue, including program income that has expanded uses (e.g., non-rental income from vending machines, cell tower leases, energy savings from energy performance contracts); and
- Unrestricted, unspent insurance proceeds (i.e., when insurance proceeds are in excess of the actual cost to repair the property or the PHA received written HUD approval to retain the insurance proceeds in lieu of repairing the units and the property is approved by HUD for demolition or disposition).

The PHA's operating reserves is calculated from the projects in the Financial Data Schedule (FDS) and exclude information reported under the Central Office Cost Center (COCC) and any other programs.

Calculation of Operating Reserves [slide 6]

Table 5.1 shows the actual operating reserves calculation based on the FDS lines reported in the FASS-PH system.

Table 5.1 Formula for Operating Reserves Calculation

Seq	FDS Line	Description	Type
1	111	Cash - Unrestricted	CA
2	114	Cash - Tenant Security Deposits	CA
3	120	Total Receivables	CA
4	131	Investments - Unrestricted	CA
5	142	Prepaid Expenses and Other Assets	CA
6	144	Inter Program Due From	CA
7	145	Assets Held for Sale	CA
8		*Total (1+2+3+4+5+6+7)*	
9	310	Total Current Liabilities	CL
10	343	Current Portion of Long-term Debt - Capital Projects	CL
11		*Total (9 - 10)*	
12		*Total Operating Reserves (8-11)*	

CA = Current Assets; CL = Current Liabilities

Authority Governing Operating Subsidy and Reserves [slides 8 & 9]

Prior to passage of the Quality Housing and Work Responsibility Act (QHWRA) in 1998, the US Housing Act of 1937 did make a distinction between operating activities and assistance from modernization and development activities. QHWRA provided a clearer distinction of what funds can be used for modernization and development activities. Specifically, the Operating Fund program in Section 9(e) of the 1937 Act as amended by QHWRA, stipulates that operating funds is used for the management and operations of public housing units. Section 9(d) established the Capital Fund program for purposes of modernization and development activities.

Eligible uses of Operating Funds are provided under Section 9(e), 9(g) and 9(l) of the 1937 Act, as amended and section 2 of the Annual Contributions Contract (7/95) (ACC) for Public Housing Agencies (PHAs) who administer the Low-Rent Public Housing Program. The eligible use authority for Operating Funds extends to Operating Reserve balances.

A provision in the FY 2012 HUD Appropriations Act permitted PHAs to use a portion of operating reserves above the minimum reserves level for capital improvements, excluding large modernization projects. PIH Notice 2012-2 *(Guidance on Public Housing Operating Funds, issued in January 2012)* provides further guidance on the use of PHA's operating reserves.

Distinction between Operations and Development [slides 10 & 11]

The distinction between operations and development is also reflected in the definitions in Section 3(c) of the 1937 Act, as amended:

- Operation is defined as:
  - Any or all undertakings appropriate for the management, operation, services, maintenance, security (including the cost of security personnel), or financing in connection with a low-income housing project.
  - The term also means the financing of tenant programs and services for families residing in low-income housing projects, particularly where there is maximum feasible participation of the tenants in the development and operation of such tenant program and services. [Source: Section 3(c)(2)]

- Development is defined as:
  - Any or all undertakings necessary for planning, land acquisition, demolition, construction or equipment, in connection with a low-income housing project.
  - Construction activity in connection with a low-income housing project and is confined to the reconstruction, remodeling, or repair of existing buildings. [Source: Section 3(c)(1)]

Development and Modernization Activities [slide 12]

Development and modernization activities within the public housing program are often broadly and collectively referred to as "capital activities" for which only Capital Funds may be used. The Capital Fund was established by Section 9(d) of the 1937 Act for purposes of capital and management activities. While Section 9(g) (2) of the 1937 Act allows for certain exceptions, PHAs are generally not permitted to use operating funds for "capital activities". PHAs in the following categories are generally able to use their operating subsidy and reserves for development and modernization activities:

- PHAs with less than 250 public housing units;
- PHAs that participate in the Moving to Work (MTW) program; or
- PHAs that have other sources of non-rental income that have expanded uses.

Use of Operating Funds for Maintenance [slides 13 & 14]

In conformance with the statute, the Operating Fund regulations at 24 CFR 990 reiterate that the Operating Fund was established for the purposes of the operation and management of public housing. Additionally, all maintenance activities specifically listed in Section 9(e) of the 1937 Act are eligible Operating Fund activities. Maintenance activities include: 1) Routine and Preventive maintenance, and 2) Extraordinary maintenance (with limitations).

PHAs may use Operating Funds for unforeseeable and unpreventable emergencies that include damage to the physical structure of the PHA's housing stock such as damage as a result of a natural occurrence such as a windstorm or flood. Although damages caused by unforeseen emergencies may eventually be covered under a warranty, with insurance proceeds, or through disaster funds, PHAs may use Operating Funds to cover the expenses incurred prior to receipt of the warranty, insurance or disaster proceeds. After receipt of the warranty, insurance or disaster proceeds, the PHA must reimburse their operating account for any expenses that were initially covered with Operating Funds up to the amount received.

<u>Limitations on the Use of Operating Funds for Extraordinary Maintenance Expense:</u>

- Extraordinary maintenance is an allowable use of operating subsidy as long as the PHA does not go beyond the simple repair and replacement of equipment.
- If the works entails structural improvements or equipment upgrades (i.e., the work should be capitalized), the work is no longer eligible to be considered extraordinary maintenance and instead must be treated as a capital activity and subject to the statutory limitation.

Use of Operating Reserves for Capital Improvements for CY 2012 [slide 15]

Notice PIH-2011-55: *Public Housing Operating Subsidy Calculations for Calendar Year 2012* described HUD recommended minimum operating reserve levels. The HUD recommended minimum operating reserve level for PHAs with 250 or more units is four (4) months of formula expenses or $100,000, whichever is greater. The FY 2012 Appropriations language permitted PHAs to use excess operating reserves in FY 2012 for capital improvements. The Department permitted PHAs to use operating reserves above the HUD recommended minimum operating reserve levels for capital improvements excluding large modernization projects. In the Notice, HUD defined a large modernization project to be a project where the total project costs are more than 80% of the applicable Total Development Cost (TDC) limits. Any PHA that wishes to use operating funds for a large modernization project must do so through an Operating Fund Financing Program (OFFP).

PHAs are not required to request approval prior to using operating reserves above the HUD recommended minimum level of operating reserves for capital improvements. PHAs that do not hold operating reserves above the HUD recommended minimum operating reserve level may not use this expanded authority. All operating reserves used for capital improvements under the 2012 Appropriation language are required to be obligated by September 30, 2012.

HUD provided PHAs their minimum operating reserve levels in the CY 2012 eligibility determination letter. However, PHAs should continue to track the amount of reserves above the operating reserve minimum level. When making this calculation, the PHA should refer to the calculation of operating reserves in Notice PIH 2011-55. **Note:** The methodology to calculate operating reserves is based on data calculated with full accrual accounting. Therefore, PHAs must use accrual accounting when calculating their reserves.

Alternate Financing Options [slide 16]

The Operating Fund Financing Program (OFFP), PHA Mortgage Transactions (PMT), and Energy Performance Contracts (EPCs) allow PHAs to leverage their operating funds to perform modernization or developments activities. These financing options are consistent with the 1937 Act, as these programs allows PHAs to utilize Operating Funds to pay debt service on financing used to modernize or develop housing units with HUD approval.

Note: Normally all debt issuance by a PHA (OFFP, PMT, EPC, and CFFP) is required to be approved by HUD.

III. EXCESS CASH

Definition of Excess Cash [slide 18]

The Operating Fund final rule establishes certain limitations, as well as certain freedoms, on the use of project income depending on whether a project generates "excess cash". *Excess cash* represents non-restricted liquid or near liquid assets available after near term liabilities and normal project operation expenses are considered. Excess cash is calculated using a balance sheet approach.

Calculation of Excess Cash [slides 19 & 20]

Excess cash is calculated using PHA-reported data from the FDS. Excess cash represents the sum of certain current asset accounts less the sum of all current liability accounts, less one month worth of operating expenses for the project. The determination of one-month of operating expenses is calculated by dividing FDS line 96900 (Total Operating Expenses) by 12. The result of this calculation is defined as the excess cash of the project. The calculation of excess cash is made at the project level and the rule of excess cash is applied at the project level.

Table 5.2 below shows the current FDS line items that will be used to determine excess cash.

Table 5.2 Formula for Excess Cash Calculation

Seq	FDS Line	FDS Description	Type
1	111	Cash - Unrestricted	CA
2	114	Cash - Tenant Security Deposits	CA
3	115	Cash - Restricted for Payment of Current Liabilities	CA
4	120	Total Receivables, Net of Allowances for Doubtful Accounts	CA
5	131	Investments - Unrestricted	CA
6	144	Inter Program Due From	CA
7		*Total (1+2+3+4+5+6)*	
8	310	Total Current Liabilities (Sum of FDS Lines 311-348)	CL
9	96900	Total Operating Expenses ÷ 12 months	
10		*Total (8+9)*	
11		*Total Excess Cash (7-10)*	

CA = Current Assets; CL = Current Liabilities

Allowable Uses and Restrictions [slide 21]

The amount of cash and investments that can be transferred between projects or paid as asset management fees to the COCC is limited. This limitation is referred to as "excess cash" and is similar to the "surplus cash" rules in multifamily programs. If the project has excess cash available, the project may:

- Retain these funds for future use;
- Transfer these funds to other projects;
- Pay an asset management fee to the COCC;
- Use these funds for other HUD-approved eligible purposes, including:
    - Financing costs for the modernization or development of new units (to the extent allowed under program rules);
    - Payment of PHA-wide lawsuits and legal issues incurred prior to asset management that cannot be charged to specific projects with any degree of accuracy or fairness; and
    - Payment of accrued pension liabilities, retirement benefits liabilities and other "legacy costs" incurred prior to adoption of asset management.

<u>The following uses of excess cash are not permitted:</u>

- The COCC may not be loaned or transferred excess cash except through asset management fees; and
- Proceeds from asset disposals of a project, for example, the sale of a project's maintenance vehicle are considered to be assets of the project's public housing program and not of the COCC.

With HUD approval, certain proceeds may be transferred to the COCC but these proceeds may still be governed by other restrictions.

Excess Cash Considerations [slides 22 & 23]

The following items are presented for consideration by PHAs for strategic planning:

1. If a PHA fails to submit a required FDS or the FDS is not accepted, excess cash will remain at the project and will be unavailable for the uses described above.

2. Excess cash available can be calculated as soon as the PHA closes its books for the year and is able to make the calculation. At that time, the excess cash may be used. However, the final amount of excess cash available is based on the approved audited submission. For example, a December 31, 2011, FYE PHA may be able to calculate excess cash on February 15, 2012. This amount can be used to pay an asset management fee in 2012. However, if the audit adjusts these numbers later in the year, the PHA may have more or less excess cash for the year. If the PHA has already transferred excess cash over the amount as calculated using the audited numbers, the receiving project or COCC (i.e., asset management fee) must return that money back to the originating project immediately.

3. Projects may not transfer excess cash or loan funds at any time during a given fiscal year based on projections or “expected” excess cash calculations for that same year.

4. If the PHA is not required to file an audited submission, then the final amount is based on the approved unaudited submission.

5. The working capital component of the excess cash calculation is eliminated on Mixed Finance projects that are managed by a separate owner or entity. The calculation for such projects will be limited to the assets and liabilities described above. HUD assumes that sufficient working capital exists at the project.

6. PHAs that choose to use Capital Fund Program funds for operations will have ordinary expenses associated with the use of these funds calculated as part of that project’s operating expenses.

7. HUD understands that PHAs may transfer Capital Fund Program funds to operations in order to create excess cash. While permissible, HUD cautions PHAs that the use of Capital Fund Program funds should be in the best interest of the project.

8. Cash and other resources can be transferred to projects from the COCC without any restrictions. PHAs are encouraged to develop their own minimum working capital levels for each project based on the individual current and projected need, including any management restrictions.

Learning Activity 5.1 – Operating Reserves and Excess Cash [slide 24]

Session 6: COCC and Elimination Column Reporting

Table of Contents

I. OVERVIEW [slide 2]

This session will cover the following topics:

- Provide an overview of the COCC.
- Describe COCC fees and corresponding expenses to the projects and other programs.
- Describe the difference between front-line expenses, fee expenses and allocated overhead expenses.
- Discuss the reporting requirements under allocated overhead.
- Discuss reasonableness of fee expenses and allocated overhead.
- Describe when elimination entries are appropriate and how to record the entry, and
- Clarify accounting for fixed assets and legacy costs (provided for informational purposes but not covered in the training).

II. CENTRAL OFFICE COST CENTER AND ALLOCATED OVERHEAD

Overview of Reporting Models [slide 4]

Implementation of HUD's asset management model generally requires PHAs with over 400 public housing units to create a Central Office Cost Center (COCC). However, those PHAs that are using CFP funds for central office costs as provided for in Section 226 of the 2008 Consolidated Appropriations Act[1] may not establish a COCC and must use allocated overhead. PHAs with 250 or more units of public housing that applied for Stop Loss were required to establish a COCC and for those with 249 or less public housing units the establishment of a COCC is optional. The following sections will explain the use of both the COCC and allocated overhead methods.

Central Office Cost Center [slide 5]

The COCC is a business unit within the PHA. The COCC business unit can be thought of as the managing division of the PHA which oversees its various functions (i.e., projects and programs). As a business unit, the COCC earns fees for performing various services such as property management and the administration of the PHA's programs (federal and non-federal). A key characteristic of the COCC is that fee income earned by the COCC is no longer federal program income, providing PHAs with greater flexibility. The establishment of a COCC also simplifies PHA administrative requirements related to the accounting of overhead costs.

Expenses of the COCC, known as fee expenses, will be accounted for in this "business unit" and recovered through the charging of reasonable fees. Unspent fees are defederalized, while unrecovered fee expenses must be absorbed by the COCC's equity balance (see chapter 7 in the *Supplement to HUD Handbook 74751.1 REV., CHG-1, Financial Management Handbook*).

Central Office Cost Center Fee Revenue [slides 6 -14]

The COCC will generate the majority of revenue from fee revenue. Typical revenue sources include:

- Management fees,
- Bookkeeping fees,
- Asset Management fees, and
- Front-line service fees.

The sections below provide a description of the various fees that can be earned by the COCC.

1. COCC Management Fees [slides 7-9]

FDS Line 70710 (Management Fees) is used to accumulate the various sources of management fees earned by the COCC in return for the provision of management and general oversight

[1] The Section 226 provision in the 2008 Appropriations Act allowing PHAs to use CFP funds for central office costs has been renewed in subsequent appropriations act but may be referenced under a different section number.

services to the projects, other HUD programs, and non-federal programs. Management fees earned from the Public Housing, Housing Choice Voucher and Capital Fund programs will normally make up the bulk of this line item, but other programs can also be charged a reasonable management fee. This COCC fee revenue is recorded in the operations column of the COCC, including the CFP management fee. Depending on the program, HUD has provided guidance on how to calculate the fee, what constitutes a reasonable fee, and how a PHA earns the fee.

The individual projects and programs will record the management fee as an expense on FDS line 91300 (Management fees). For each project, the Public Housing management fee is reported in the Low Rent column of the project's income statement and the Capital Fund management fee is reported in the Capital Fund column of the project's income statement. Typically, management fee revenue recorded in the COCC income statement on FDS line 70710 (Management fee) will equal the sum of FDS line 91300 (Management fee expense) on the project and program income statements. The management fee activity will ultimately be eliminated through the Elimination Column of the FDS to accommodate the top level financial statement reporting required by GAAP.

Note: Management fees earned from the management of non-PHA owned projects and programs should be reported on FDS line 70750 (Other Fees).

2. COCC Bookkeeping Fees [slide 10]

Bookkeeping fees represent fees charged by the COCC to the projects and programs for the provision of accounting services. The COCC will report this revenue on FDS line 70730 (Bookkeeping fees). The individual projects and programs will record the charge as an expense on FDS line 91310 (Bookkeeping fees). Similar to the management fee, the COCC fee revenue and project/program fee expense will be eliminated.

3. COCC Asset Management Fees [slides 11 & 12]

This FDS line item represents asset management fees earned for providing strategic planning activities to the projects. Strategic planning activities include the following:

- Development activities;
- Capital planning; and
- Financing activities.

The individual projects will record the charge as an expense on FDS line 92000 (Asset management fee) of the project's Operating Fund column. Asset management fees can only be charged when the project has generated excess cash as calculated using the project's prior year's audited financial data schedule (or unaudited submission if the PHA was not required to file an audited submission). The excess cash calculation is mainly a balance sheet calculation. Asset management fees are limited to $10 per month per ACC unit or the amount of excess cash calculated from the previous year. Asset management fees cannot be accrued as accounts receivable if an individual project is unable to generate excess cash. The COCC will report this revenue on FDS line 70720 (Asset management fees).

4. COCC Front-line Service Fees [slides 13 & 14]

Front-line service fees represent fees charged by the COCC for centrally provided services at a reasonable market rate. Typically, these fees relate to the provision of certain centralized maintenance and inspection services. However, other activities such as IT support and legal services can also generate fee income. The COCC front-line service fees should not be confused with the allocation of certain prorated front-line costs identified in Section 7.10 in the *Supplement to HUD Handbook 74751.1 REV., CHG-1, Financial Management Handbook* and discussed later in this chapter.

The individual projects and programs will record the charge as an expense in a specific FDS line item as if the work was completed by a third party contractor. For example, the COCC maintains a centralized plumbing service that charges an hourly rate to the individual projects for the services provided:

- The COCC will record the revenue in FDS line item 70740 (Front-line service fee).
- The individual projects and programs will record the cost in FDS line 94300-080 (Plumbing contracts).

COCC Non-Fee Revenue [slide 15]

The COCC may also have revenue that is not earned through fees. Possible COCC non-fee revenue includes income generated from the COCC's assets, provided that the non-fee revenue are not federal assets or purchased with federal program funds. Examples include interest earned on cash and investments and rental income from leasing office space and equipment. FDS lines 70800 through 72000 would be used to record these other revenue items.

COCC and the Capital Fund [slide 16]

Except for Capital Fund management fees, those PHAs that have established a COCC may not use, Capital Fund Program funds to directly support the COCC (with certain limited exceptions). The Capital Fund Program management fee covers costs associated with the COCC's oversight and management of the Capital Fund Program. However, for financial reporting purposes, the management fee is treated as fee revenue similar to other types of management fees and is reported in the operations column of the COCC income statement.

For financial reporting to the REAC, the FDS provides for two income statement columns, an operations column and a Capital Fund column. The Capital Fund column of the COCC income statement will only be used for limited activities. Recognition of Capital Fund grant revenue as either hard costs or soft costs and the reporting of expense is the same for both the COCC and project. (The project reporting of Capital Funds is discussed in Session 4 of this training.) The following are eligible activities or uses of Capital Funds by the COCC.

1. <u>Pre-2007 Capital Funds</u>. Pre-2007 (FFY 2006 and prior) Capital Funds that were approved for use on what is now considered a COCC expense are still eligible uses of Capital Funds. The restriction on the use of Capital Funds to fund COCC expense, other than through the Capital Fund Management Fee became effective for CFP grants awarded in 2008 (FFY 2007 CFP grants) and subsequent years. Most PHAs no longer have any have any pre-2007 Capital Funds.

2. CFFP Debt Service Payments. CFFP funding for debt service payments related to the COCC are still eligible costs and can be funded through the CFFP program.

3. Capital Fund Declaration of Trust. The costs to develop or modernize an existing ACC non-dwelling structure under a 20 year Capital Fund Declaration of Trust (for both COCC and project structures) remain an eligible Capital Fund cost. Where the non-dwelling structure is assigned to the COCC, any proceeds (office rent charges, community room rentals, etc.) collected from this structure or through the disposal of this structure would be considered program income.

4. Non-Dwelling Equipment. CFP funds for non-dwelling equipment may only be used to support the projects. In addition, the CFP funds may not be used to support front-line service needs that continue to be centralized, except for designated administrative functions. For example, a PHA could not use CFP funds to pay for a vehicle (non-dwelling equipment) of the COCC. The COCC could, however, pay for a vehicle with proceeds from CFP management fees.

Non-COCC Revenue [slide 17]

The COCC is not entitled to revenues earned by the projects or from assets owned by the projects. For example, laundry facilities located within the projects or rental income earned from cell towers on project buildings would not be allocated to the COCC. Furthermore, only with HUD approval may proceeds from the disposal of project assets be allocated to the COCC. In addition, projects may not loan money or transfer excess cash to the COCC, unless the funds are for payment of asset management fees. Projects undergoing demolition or disposition receive a "special" Operating Subsidy called asset repositioning fee to supplement administration and management costs. This supplemental amount remains at the project level and is not allocated to the COCC.

Detailed guidance and information on the rules surrounding reasonable fees, excess cash, and other related topics can be found on HUD's asset management website at: http://www.hud.gov/offices/pih/programs/ph/am/ and in the *Supplement to HUD Handbook 7475.1 REV., CHG-1, Financial Managements Handbook* located at: http://www.hud.gov/offices/pih/publications/notices/07/pih2007-9suppl.pdf

Asset Management Conversion with Allocated Overhead (no COCC) [slide 18]

PHAs with over 400 public housing units that convert to asset management and elect to use CFP funds for central office costs may not establish a COCC and will not have fee income or fee expense. These PHAs will establish a cost allocation plan and allocate central office expenses to the various programs (federal and non-federal) administered based on the plan.

Use of FDS Line 91810 (Allocated Overhead)

To accommodate the reporting of allocated overhead, the FDS line item 91810 (Allocated Overhead) is required to be used. It is important not to confuse the concept of front-line allocated expense with allocated overhead. Front-line allocated expenses are direct costs of projects and programs which are allowed by HUD to be allocated to the projects and programs incurring the cost. These front-line allocated expenses are discussed in more detail in the next section. Overhead costs or indirect costs are those costs that cannot be directly associated with a project or program; and, if a project or program were removed, these costs would not necessarily be eliminated. Since these costs are not associated with a specific project or program, an indirect cost allocation plan must be established. The plan sets forth how overhead costs will be allocated to projects and programs.

III. REPORTING COCC (FEE) EXPENSES AND PROJECT/PROGRAM EXPENSE (ALLOCATED OVERHEAD)

Overview [slide 20]

Expenses that are easily identifiable to a project, program or to the COCC (direct costs) do not pose a challenge to FDS reporting. These expenses are simply reported on the appropriate FDS line items under the project, program, or COCC in which the expense occurred. The complexity in reporting occurs for those expenses that are not easily identified to a project, program or COCC. In these instances, the costs must be spread to these entities in some reasonable fashion. Expenses that are not easily identifiable or are shared across programs or entities, but must be distributed, are typically referred to as ***overhead cost, fee expenses and /or indirect costs***.

Overhead/Indirect Costs [slide 21]

All PHAs incur some level of overhead/indirect costs. As touched on earlier, these indirect costs are typically assigned to a PHA's programs or projects through some reasonable allocation process because the particular expense cannot be easily traced to a program or project, or the expense is shared by many activities and programs. An example of an indirect cost that would typically be allocated is the salary of an executive director (ED). Because the ED provides oversight and guidance (provides a service and benefit) to all the PHA's activities, a portion of the salary should be charged to all the activities of the PHA. However, the salary expense cannot be readily identified to the different activities. Therefore, the salary is charged to the various programs and projects based on some common cost driver (allocation methodology), such as units or direct labor costs. As discussed earlier, the method of how indirect costs will be allocated to programs and projects is outlined in an indirect cost allocation plan.

Most PHAs have historically not separated direct vs. indirect costs in their general ledger. Indirect costs have been typically reported to the same expense account as used to report a direct cost. For example, using the Executive Director's salary cost, the portion of the Executive Director's salary (an indirect cost) charged to a project would be reported on FDS line 91100 (Administrative Salaries) along with any other direct administrative salaries associated with the project such as the site manager. Under this methodology, the level of indirect costs charged to projects and programs cannot be easily determined because direct and indirect costs are comingled in the same general ledger account.

Separation of Front-Line Expenses (direct costs) vs. Allocated Overhead [slides 22-23]

PHAs that are reporting under Non-Asset Management (reporting Model 3) and small PHAs using the Alternate Asset Management Model (reporting Model 4) can continue to allocate and report their indirect and overhead costs based on a reasonable method as allowed under OMB Circular A-87. PHAs using Model 3 or 4 are not required to separate front-line expenses (direct costs) vs. indirect expenses. PHAs using these Models can continue to report both types of costs in a single general ledger account such as administrative salaries. For PHAs using reporting Model 3 or 4, the concept of fee and front-line expenses do not apply.

PHAs using reporting Model 1 (COCC) or 2 (Allocated Overhead) are required to separate front-line expenses (direct costs) from indirect costs. How PHAs meet this requirement is dependent on whether the PHA is reporting under Model 1 or 2. PHAs using Model 1 will have established a COCC and will be charging reasonable fees to projects and programs to recover their overhead costs. PHAs using Model 2 <u>will not</u> have a COCC and will be using a cost allocation methodology to recover their indirect costs. The sections which follow provide guidelines on how PHAs should make a determination about whether costs are classified as front-line expenses vs. fee expenses (indirect costs) and how they must be report to HUD.

Fee and Front-line Expenses [slides 24-38]

PHAs that have created a COCC (reporting Model 1) or are reporting using the allocated overhead line (reporting Model 2) must change their accounting and reporting structure to properly report expense as these PHAs are required to group and report costs in a manner prescribed by HUD. PHAs reporting under Model 1 or Model 2 must understand the concept of what is considered a fee or allocated overhead expense (if using the allocation methodology) vs. a front-line expense (direct cost) and the various expense reporting methodologies.

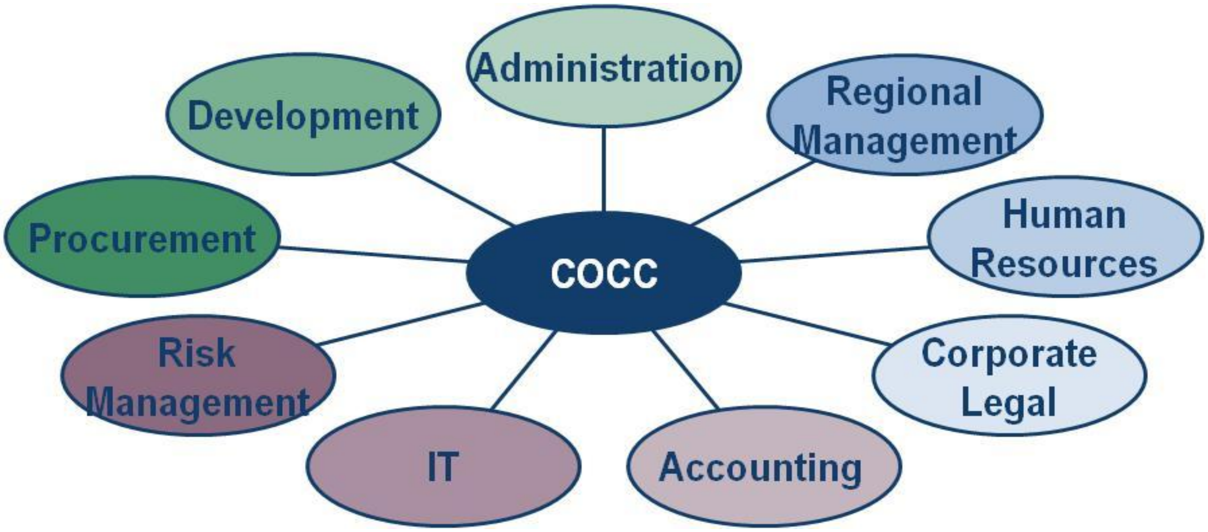
The following three (3) steps outline the general methodology needed to properly group and report expenses under reporting Model 1 (COCC) or Model 2 (Allocated Overhead).

<u>Step 1 – Classification of Costs [slides 25-27]</u>. The first step that must be made in order to correctly report the expense is determining if the expense is classified by HUD as a front-line expense (a direct cost) or a fee expense (indirect cost). ***Front-line expenses*** are expenses that are necessary in order to provide the basic program function. For example, a front-line expense for a public housing project would include such items as administrative costs for application intake, waiting list, and rent collection functions. Maintenance costs, utilities, and insurance would also be considered front-line costs of a project. ***Fee expenses*** are costs that are normally associated with overhead and include costs such as PHA senior management (e.g., Executive Director) or support functions such as accounting and human resources.

HUD has provided strict guidance on the classifications of expense between front-line and fee expenses related to both the public housing and HCV program. This guidance can be found in Chapter 7 of the *Supplement to HUD Handbook 7475.2 REV., CHG-1, Financial Management Handbook*. While HUD has prescribed the classification of the expense, the magnitude (or amount) of the expense is determined by the PHA and is constrained based on the available financial resources to incur those expenses and OMB Circular A-87. In addition, for both front-line and fee expenses as discussed earlier, the concept of reasonableness also applies and will constrain the amount that can be charged.

Figure 6.1 provides an overview of the type of activities that are normally associated with fee expenses. Appendix 6-1 at the end of this session provides Table 7.1 and 7.2 from the *Supplement to HUD Handbook 7475.2 REV., CHG-1, Financial Management Handbook*. These tables show the Department's classification between fee and front-line expenses for both the Public Housing and Housing Choice Voucher programs.

Figure 6.1 Activities Associated with Fee Expenses



Capital Fund: Fee vs. Front-line Expenses. In addition, activities funded by the Capital Fund are also classified as either fee expense or front-line expense. *Figure 6.2* lists activities normally associated with the Capital Fund program and their respective classification.

Figure 6.2 Activities Associated with the Capital Fund Program

Fee Expenses	Front-Line Expenses
• General capital planning • Preparation of the Annual Plan and other reports • Processing of e-LOCCS • Drawing of funding, budgeting, and accounting • Procurement of construction and other miscellaneous contracts • Architectural, engineering and other like costs that are not directly related to a project or substantiated by time sheets	• Architectural and engineering fees related directly to a specific construction project • Project equipment purchases • Force account activities directly related to a specific construction project • Physical Needs Assessment • Construction supervisory and inspection costs incurred during construction are considered front-line costs of the project. These expenses consist of documented costs incurred during the construction phase of the project. Only actual, documented costs pertaining to construction supervision activities, can be charged directly to the project

Step 2 – Fee Expenses [slide 28]. For those expenses that are classified as fee expenses, the PHA will pool these costs. If the PHA has created a COCC, these expenses will be reported as expenses of the COCC and can be recovered to the extent that the COCC can charge enough in reasonable fees. The programs and projects will show a fee expense(s) for the charge, and the COCC will record revenue.

If the PHA has opted to use allocated overhead, the costs will need to be aggregated into an expense cost pool, which will be allocated to the projects and other programs based on some reasonable allocation method as prescribed in an Indirect Cost Allocation Plan. These indirect costs will be reported at the program and project level using FDS line item 91810 (Allocated Overhead).

Note: The Department does not prescribe the cost driver/allocation method used in determining the expenses to be reported at the individual projects and programs. The most common cost drivers used in formal indirect cost allocation plans are either direct labor or modified total direct costs (e.g., deducting pass through costs). For more information on the development of a cost allocation plan see "*A Guide For State, Local and Indian Tribal Governments – Cost Principles and Procedures For Developing Cost Allocation Plans and Indirect Costs Rates For Agreements with the Federal Government*", a publication of the U.S. Department of Health and Human Services.

<u>**Step 3 – Front-line Expenses [slide 29]**</u>**.** For those expenses that have been classified as front-line expenses, the PHA must further classify these costs into one of three categories.

1. Direct Program/Project Expense;
2. Centrally Provided Front-line Service: Allocated; or
3. Centrally Provided Front-line Service: Fee-for-Service

Direct Program/Project Expenses [slide 30]

These expenses are clearly identified with the program or project. Examples include such items as administrative or maintenance staff that works solely in a project or program; utility bills; or PILOT payments specific to the project. These expenses are reported as expenses of the project or program in which they were incurred.

Centrally Provided Front-line Service: Allocated [slides 31-35]

These are expenses that have been classified by HUD as front-line expense but are being provided centrally and are associated with the following discrete set of functions.

- Protective and Security Services;
- Resident Assistances and Services;
- Intake Activity, such as wait list, screening, leasing, and occupancy;
- Rent Collection; and
- Work Order Processing

These <u>centrally provided front-line allocated costs</u> will be reported as a direct expense of the project or program based on some reasonable allocation method.

- Where the PHA has established a COCC, these expenses will <u>not</u> be reported in the COCC as these expenses are not considered overhead costs.
- These allocated costs will <u>not</u> be reported in the allocated overhead line.
- These costs will be pooled separately from other indirect (overhead) costs and allocated out to projects and programs that use the services. These costs will be reported in the same FDS line items used by the project or programs for its direct expense.

Prorated Front-line Administrative Costs (Allocated) Example [slides 33-35]

The following tables provide an example of a centrally provided front-line service that is allocated. In this example, a PHA maintains a centralized work order system for three individual projects. The cost of providing this service centrally is as follows:

Table 6.1 Prorated Front-line Administrative Costs (Allocated)

Expense Type	Cost
Work Order Clerk Salary	$26,000
Employee Benefits	$6,800
Office Expense	$750
Total Expense	$33,550

Table 6.2 shows that the PHA is using the number of tenant generated work orders as the allocation basis to distribute costs between the projects.

Table 6.2 Tenant Generated Work Orders

Project #	Work Orders	Percent
1	1,345	25%
2	1,489	27%
3	2,569	48%
Total	5,403	100%

Table 6.3 shows the actual costs for providing the allowed centralized service that will be charged to the corresponding FDS line item in the Operating Fund column of the projects.

Table 6.3 Centralized Service Costs

FDS Line	FDS Description	Cost	Proj #1	Proj #2	Proj #3
91100	Administrative Salaries	$26,000	$6,500	$7,020	$12,480
91500	Employee Benefit Admin	$6,800	$1,700	$1,836	$3,264
91600	Office Expenses	$750	$188	$202	$360
	Total:	$33,550	$8,388	$9,058	$16,104

Centrally Provided Front-line Service: Fee-for-Services [slides 36-38]

These are expenses that have been classified by HUD as front-line expenses but are provided centrally through the COCC and are not on HUD's list of discrete functions that can be allocated. PHAs choosing to centralize these services must use a fee-for-service approach to charge the projects and programs that utilize the services. The fees that are charged for these centralized services must not exceed prevailing market rates for comparable services. Examples in this category include activities such as centralized maintenance, legal services, IT support (other than help desk support which is considered a fee expense) and unit inspections.

The project or program will report an expense (normally using FDS contract expense lines) equal to the amount charged by the COCC for providing these services. The COCC provided "contract" services reported by the project or program and the front-line service fee revenue reported by the COCC will be eliminated in the elimination column.

Costs associated with centrally provided front-line fee-for service activities are to be fully reported in the COCC. Specifically, the following costs should be reported as a COCC expense.

1. Direct Labor. Salary and benefits of the staff performing the centralized work.
2. Down-time. Salary and benefits associated with vacation, sick, holidays, training, meetings, and travel time from project-to-project for the staff performing the work.
3. Supervision and Overhead. These activities are COCC costs and are not charged to the project. Instead, these costs are implicitly included (i.e., recovered) based on the reasonable market rate.
4. Material and Inventory.
    - COCC cash and assets are used to cover the cost of administering, maintaining, and stocking a centralized warehouse.
    - Material and Inventory **used** for that specific work item can be charged 100% (with no mark up) to the project.
5. Equipment purchases. Equipment and associated maintenance for providing this service is the responsibility of the COCC.

If the PHA is using allocated overhead (Reporting Model 2), the *actual costs* for the activity will be reported as a project or program expense in which the cost is associated as if the cost was classified as a centrally provided front-line service: allocated activity.

- Actual cost is defined as actual time incurred completing the work at that employee's hourly rate plus any material and equipment used to complete the task.
- The hourly rate is based on that employee's actual salary, fringe benefit load, and non-chargeable time associated with the PHA's leave policy.
- The project or program will report these expenses as salary and benefits just like these are direct expenses.
- Expenses beyond these amounts are to be reported in the allocated overhead line (FDS line item 91810) and would include such items as inventory purchased and not used (i.e., central warehouse), the salary and benefits of maintenance management, employee down-time beyond the PHA's leave policy.

IV. FEE REASONABLENESS

Overview [slide 40]

A fundamental concept of the asset management model is the reasonableness of project costs including overhead costs. For those PHAs using fee-for-service, fee reasonableness is determined by comparing the amount of fees charged to the project to the amount the HUD allows to be charged to a project. The allowable fees, as explained already, are established by HUD. HUD also provides guidelines on the amount or rate of the different fees. As long as the PHA does not exceed the amount established under HUD guidelines, the fee is deemed to be reasonable. Fees above these guidelines and not approved by HUD are considered ineligible costs. With the issuance of the 2011 Compliance Supplement in March 2011, auditors are now required to determine if the fees charged to the projects by the COCC are reasonable.

The sections below provide information on the guidelines for reasonableness and the amount that the COCC can earn on each fee that can be charged to the projects.

Management Fees [slides 41- 43]

The Operating Fund Final Rule (24 CFR 990) allows PHAs to charge each project a "reasonable" *property management fee* to fund the operation of the central office as compensation for overseeing the operations of the project.

Reasonableness.
A PHA may charge a reasonable management fee based on one of the following criteria.

- PIH issued management fee schedule (The 80th percentile property management fee paid by all unlimited dividend, limited dividend, and non-profit Federal Housing Administration (FHA) properties, by HUD Field Office, excluding such programs as cooperatives and nursing homes).
- The property management fee schedules set for each HUD Multifamily Field Office.
- Other compelling local data from the market, as approved by HUD.

Amount Earned
The property management fee is calculated as a per-unit-month (PUM) fee. Management fees are to be earned monthly for each occupied unit or approved vacancy/special use unit, as per 24 CFR §990.140 and §990.145, respectively. PHAs ***will not*** earn a property management fee on units defined as "limited vacancies" pursuant to 24 CFR §990.150. New units that come on line during the PHA's fiscal year begin to earn the property management fee in the month the unit first becomes occupied. Once initially leased, new units are eligible to earn the property management fees for HUD approved vacancies as described in 24 CFR §990.145.

Bookkeeping Fee [slides 41- 43]

The PHA may also charge a "reasonable" *bookkeeping fee* for the property accounting function. The bookkeeping fee was included to recover costs associated with salaries of appropriate accounting staff; the establishment, maintenance and control of accounting systems; and/or contracts for accounting services. A higher bookkeeping fee for PHAs reflects higher centralized information technology and human resource costs present in public housing.

<u>Reasonableness</u>
HUD will consider $7.50 PUM to be a reasonable fee.

<u>Amount Earned</u>
Similar to management fees, the bookkeeping fee is earned for each occupied unit and HUD-approved vacancy/special use unit. PHAs ***will not*** earn a bookkeeping fee on units defined as "limited vacancies" pursuant to §990.150. New units that come on line during the PHA's fiscal year begin to earn the bookkeeping fee in the month the units first become occupied. Once initially leased, new units are also eligible to earn the bookkeeping fee for HUD-approved vacancies as described in §990.145.

In the example provided under *Table 6.4*, Project 1 and Project 7 have been charged both management fees and bookkeeping fees above the safe harbor amounts. **Note:** This example assumes that monthly data was used (not annual), because PHAs are required to provide timely and accurate monthly financial statements under asset management.

Table 6.4 Audit Test – Management and Bookkeeping Fees

#	Description	Project 1 175 Units	Project 3 160 Units	Project 7 150 Units
Actual Fee Expense				
1	Public Housing Management Fee	$9,625	$8,800	$8,800
2	Book-keeping Fee	$1,313	$1,200	$1,200
Safe Harbor				
3	Units Leased	165	156	148
4	Units Undergoing Modernization	5	4	2
5	Approved Non-Dwelling (Police Substation)	0	0	0
6	Total Unit Base	170	160	150
7	Maximum Management Fee Rate - $55.00	$9,350	$8,800	$8,250
8	Maximum Book-keeping Fee Rate - $7.50	$1,275	$1,200	$1,125
Result of Test				
9	Public Housing Management Fee	($275)	$0	($550)
10	Public Housing Book-keeping Fee	($38)	$0	($75)
11	Ineligible Costs (Sample Projects - 1 Month)	($313)	$0	($625)

Asset Management Fees [slides 44-45]

Under the Final Rule, the COCC may also charge each project a "reasonable" *asset management fee*. The asset management fee is charged for those costs of ownership that would be residual if all property management functions were contracted to a third-party. In such instances, the owner would still need to perform such tasks as approving the annual budget for the project, ratifying any recommendations for rent increases, and overseeing the performance of the property manager.

<u>Reasonableness</u>
HUD will consider an asset management fee charged to each property of $10 per unit per month as reasonable. The asset management fee is subject to the availability of excess cash. Therefore, only if the project has sufficient funds in its reserves, can the COCC charge the project an asset management fee.

<u>Amount Earned</u>
The asset management fee is calculated as a PUM fee and earned for all units under ACC (including mixed finance ACC units), regardless of occupancy status. In other words, asset management fees are to be earned based on the total number of units under the ACC for each project. New units that come on line during the PHA's fiscal year begin to earn the asset management fee in the month the units first become occupied. The COCC is eligible to earn the asset management fee on an ACC unit until the unit becomes vacant after a HUD-approved demolition or disposition plan.

Table 6.5 provides an example of how the auditor would test for the reasonableness of a PHA's asset management fees.

Table 6.5 Audit Test – Asset Management Fees

#	Description	Project 1 175 Units	Project 3 160 Units	Project 7 150 Units
Actual Fee Expense				
1	Asset Management Fee (annual)	$21,960	$19,700	$18,000
Safe Harbor				
2	Unit Months under ACC (PHA Fiscal Year)	2,100	1,920	1,800
3	Total Unit Base	2,100	1,920	1,800
4	Maximum Asset Management Fee Rate - $10.00	$21,000	$19,200[2]	$18,000
5	Excess Cash - Prior Year	($75,395)[1]	$21,000	$13,035[3]
6	Lessor of 4 or 5, if negative then zero	$0	$19,200	$13,035
Result of Test				
7	Public Housing Asset Management Fee	($21,960)	($500)	($4,965)
8	Ineligible Costs (Sample Projects - Annual)	($21,960)	($500)	($4,965)

In the above example, Project 1, Project 3 and Project 7 have been charged asset management fees above the safe harbor amounts. This example assumes that in the case of Projects 3 and 7, that no excess cash was transferred to other projects.

---

[1] Project 1 should not have been charged any asset management fees because the project's excess cash calculation from last year was negative.

[2] Project 3 only had 1,920 unit months and at a maximum rate of $10.00 per unit, should have been charged a maximum fee of $19,200 but was charged $19,700.

[3] Project 7 only had excess of $13,035, which means that the project could only be charged an asset management fee up to that amount, even though the project has 1,800 unit months.

Fees Charged for Centralized Services [slides 46-49]

From time to time, it may be beneficial for a PHA to provide certain project management services centrally. A PHA may choose to centralize various front-line expense activities. Every time a project uses one of these centralized, front-line functions, the COCC would charge the project a fee for the service provided, just like if the project hired a third-party contractor to perform the task.

<u>Reasonableness</u>
PHAs that elect the fee for service approach for centralized services must adhere to the following guidelines:

- Fees must not exceed the market rate for the work received.
- PHAs must use the fee for service approach for centrally provided maintenance and certain other front-line functions.
- Consistent with the Final Rule, centrally provided front-line services must be in the best interest of the projects.
- PHAs must maintain documentation for the fees charged to the projects. For example, acceptable documentation may include multiple quotes from external contractors that establish a price for the same work the PHA has chosen to provide centrally using the fee for service approach.

<u>Documentation of Market Rates</u>
Documentation is required for a PHA that elects to centralize a portion of its functions. This documentation provides support that the project is not being overcharged for services performed. For example, a typical UPCS inspection rate is approximately $20 - $25 per unit. A PHA obtains bids for inspection services that quote $400 per unit. The problem is the quoted inspection service does not relate to a UPCS inspection. Instead, this is an inspection process used by a potential homebuyer to obtain a home mortgage. In this case, the market study obtained does not represent the similar service of the required UPCS inspection service.

Allocated Overhead [slides 50 & 51]

Those PHAs with over 400 public housing units that convert to asset management and elect to use Capital Fund Program funds for central office costs may not establish a COCC and will not have fee income or fee expense. These PHAs will establish an indirect cost allocation plan and allocate central office expenses to the various programs (federal and non-federal) administered based on the plan.

To accommodate the reporting of allocated overhead, the FDS line 91810 (Allocated Overhead), will be used. **Section III – Step 2** already addressed the cost HUD requires to be pooled and allocated under this methodology.

Reasonableness

For those PHAs that elect to use the allocated overhead model as part of the conversion to asset management, cost reasonableness also applies. Reasonableness is tested by comparing the total allocated overhead expense (FDS Line Item 91810) charged to a project or program, to the total fees that could be charged to a project or program under a fee-for-service method. The amount of allocated overhead in excess of the reasonable fees that could be charged is deemed an unallowable expense.

Table 6.6 is an example of a comparison of the reasonableness of allocated overhead to the fees allowed.

Table 6.6 Allocated Overhead and Ineligible Costs

#	Description	Project 1	Project 2
Actual Expense			
1	Allocated Overhead (FDS Line 91810)	$264,780	$212,484
Safe Harbor			
2	Total Unit Base for Mgmt & Book-keeping Fees	2,350	1,800
3	Total Units for Asset Management Fee	2,400	1,800
4	Maximum Management Fee Rate - $55.00	$21,000	$19,200
5	Maximum Book-keeping Fee Rate - $7.50	$17,625	$13,500
6	Maximum Asset Management Fee Rate - $10.00	$24,000	$18,000
7	Maximum CFP Management Fee (10%)	$38,000	$32,000
8	Total Maximum Fee	$208,875	$162,500
Result of Test			
9	Maximum Fee minus Allocated Overhead	($55,905)	($49,984)
10	Percent Difference	-26.8%	-30.8%
11	Ineligible Costs (Sample Projects - Annual)	($55,905)	($49,984)

In this example, both Project 1 and Project 2 have been charged an unreasonable amount of overhead as compared to the fees that would be allowed under fee-for-service. These amounts would be considered an ineligible cost of the project. The PHA would need to find a non-federal source of funding to cover these costs.

V. ELIMINATION ENTRIES

Overview [slide 53]

To avoid “double counting”, inter-fund/ intra-entity transaction eliminating entries are recorded on the FDS. Such entries were previously required under GASB Statement No. 34 but are now more heavily emphasized because of the existence of fee-for-service transactions between a PHA’s COCC and the PHA’s projects/programs. Outside the scope of fee-for service, similar relationships and financial activities may exist between PHA-managed programs that result in entries requiring elimination.

In order to accommodate the needed elimination entries, HUD has created an elimination column. Elimination entries are made to remove the inter-fund/intra-entity loans from the balance sheet and inter-fund/intra-entity revenues and expenses associated with the PHA’s COCC and operating transfers from the income statement. After the posting of the elimination entries through the use of the elimination column in the FDS, the FDS totals should agree to the general purpose financial statements.

Proper FDS Reporting in the Elimination Column [slide 54]

When entering amounts to be eliminated in the FDS, the PHA should be cognizant of the following two points.

- Elimination Entries Decrease Account Balances. Elimination entries should *decrease* the account balance. For most line items this will require the PHA to enter a negative amount in the respective FDS line item in the elimination column. The only exception to this general rule is for FDS line items that are entered into the FDS program or project as a negative value (e.g., operating transfer out). For these line items, the account would be reduced by entering a positive value in the elimination column. If the PHA does not correctly enter the proper sign (+ or -), not only is the amount not eliminated but in fact the account balance is increased.

- Eliminate Only InterFund/Intra-Entity Activity. Normally, only inter program loans (i.e., Due to/Due from) should be eliminated from the balance sheet. Cash balances, accounts receivables and payables, and fixed assets are not normally eliminated. Similarly, only internal revenue and expense transactions should be eliminated from the income statement, such as transactions associated with fee income between the projects/programs and COCC and operating transfers. Grant revenue, interest income, salary and benefits expense, and depreciation expense are not normally eliminated. Required elimination entries can be further complicated if the PHA is reporting blended component units. PHAs should consult their auditor, when determining the correct presentation and needed elimination for blended component units.

FDS Lines Normally Eliminated [slide 55]

Table 6.7 lists those line items that normally will need to be eliminated.

Table 6.7 Items to Eliminate

Entity Wide Balance Sheet Summary	
FDS Line	**FDS Description**
144	Inter Program - Due From
347	Inter Program - Due To

Entity Wide Revenue and Expense Summary	
FDS Line	**FDS Description**
70710	Management Fee
70720	Asset Management Fee
70730	Book-keeping Fee
70740	Front-line Service Fee
91300	Management Fee
91310	Book-keeping Fee
92000	Asset Management Fee
94300	Ordinary Maintenance and Operations Contracts
10010	Operating Transfer In
10020	Operating Transfer Out'
10091	Inter Project Excess Cash Transfer In
10092	Inter Project Excess Cash Transfer Out
10093	Transfers between Program and Project - In
10094	Transfers between Program and Project - Out

** 94300 is a total line. The FDS includes numerous maintenance contract detail line items. Also, while 94300 is shown on the table above, other expense line items would be appropriate depending on the front-line fee-for-services provided by the COCC.*

Examples of Eliminations [slides 56-62]

The section below provides three examples on the proper reporting of elimination entries, with respect to the:

- Balance Sheet;
- Fee-for-Service; and
- Operating Transfers

Example 1: Balance Sheet

The following is an example of a balance sheet elimination entry. Project 1 loans Project 2 $100,000. This loan is captured by each project as follows:

Table 6.8 Project – Balance Sheet Elimination Entry

Project Balance Sheet Summary				
FDS Line Item		Project 1	Project 2	Total
144	Inter Program - Due From	$100,000		$100,000
150	Total Current Assets	$100,000		$100,000
347	Inter Program - Due To		$100,000	$100,000
310	Total Current Liabilities		$100,000	$100,000

The PHA will eliminate the amount from the PHA's entity wide balance sheet as follows:

Table 6.9 PHA Entity-wide - Balance Sheet Elimination Entry

Entity Wide Balance Sheet Summary						
FDS Line Item		Project Total	COCC	Subtotal	ELIM	Total
144	Inter Program - Due From	$100,000		$100,000	($100,000)	$0
150	Total Current Assets	$100,000		$100,000	($100,000)	$0
347	Inter Program - Due To	$100,000		$100,000	($100,000)	$0
310	Total Current Liabilities	$100,000		$100,000	($100,000)	$0

Example 2: Fee-for -Service

The following is an example of elimination entries needed for fee-for-service transactions. The COCC provides Project 1 and Project 2 with centralized services such as property management, accounting, and plumbing services. Project 1 required the services of both the centralized maintenance staff and a third-party contractor to repair broken pipes in four of their units. The expenses related to the centralized services provided by the COCC and the third-party contractor is captured by each project as follows:

Table 6.10 Project Revenue & Expense Summary – Fee-for-Service Elimination Entry

Project Revenue and Expense Summary				
FDS Line Item		Project 1	Project 2	Total
91300	Management Fee	$35,000	$20,000	$55,000
91310	Book-keeping Fee	$25,000	$10,000	$35,000
92000	Asset Management Fee	$10,000	$5,000	$15,000
94300-080	Plumbing Contracts	$45,000	$0	$45,000

In the example above, Project 1 has incurred $45,000 in total expenses related to the broken pipes. Of this amount, $25,000 of the total cost is attributable to services provided by centralized maintenance. The remaining $20,000 is the amount the project was charged by the outside contractor.

The PHA will eliminate the amount from the PHA's entity wide income statement. The revenues recognized by the COCC and the eliminating entries are shown below:

Table 6.11 PHA Entity-wide Revenue & Expense Summary – Fee-for-Service Elimination Entry

Entity Wide Revenue and Expense Summary						
FDS Line Item		Project Total	COCC	Subtotal	ELIM	Total
70710	Management Fee		$55,000	$55,000	($55,000)	$0
70720	Asset Management Fee		$35,000	$35,000	($35,000)	$0
70730	Book-keeping Fee		$15,000	$15,000	($15,000)	$0
70740	Front-line Service Fee		$25,000	$25,000	($25,000)	$0
91300	Management Fee	$55,000		$55,000	($55,000)	$0
91310	Book-keeping Fee	$35,000		$35,000	($35,000)	$0
92000	Asset Management Fee	$15,000		$15,000	($15,000)	$0
94300-080	Plumbing Contracts	$45,000		$45,000	($25,000)	$20,000

Notice that the full amount of the revenues/expenses relating to the centralized services is eliminated from the revenue expense summary. Only the outside contractor costs are left after elimination.

Example 3: Operating Transfer

The following is an example of elimination entries needed for operating transfers. In this example Project 1 transferred $30,000 from the Capital Fund to the Operating Fund (i.e., Low Rent). This transfer is captured as follows:

Table 6.12 Project Revenue & Expense Summary – Operating Transfer Elimination Entry

Project Revenue and Expense Summary				
FDS Line Item		Total	Low Rent	Capital Fund
10010	Operating Transfer In	$30,000	$30,000	$0
10020	Operating Transfer Out	($30,000)		($30,000)

Notice that the PHA enters a positive amount when reporting *transfers in* and a negative amount when reporting *transfers out*.

The eliminating entry required to remove the transfer is shown below:

Table 6.13 PHA Entity-wide Revenue & Expense Summary – Operating Transfer Elimination Entry

Entity Wide Revenue and Expense Summary						
FDS Line Item		Project Total	COCC	Subtotal	ELIM	Total
10010	Operating Transfer In	$30,000		$30,000	($30,000)	$0
10020	Operating Transfer Out	($30,000)		($30,000)	$30,000	$0

To eliminate the *transfer in* the PHA enters in a negative amount. To eliminate the *transfer out* the PHA enters a positive amount.

Learning Activity 6.1 – COCC and Elimination Column Reporting [slide 63]

VI. ACCOUNTING FOR SPECIAL ITEMS
(Informational only)

Overview

This section discusses the accounting and reporting for fixed assets of the COCC and certain categories of liabilities referred to as legacy costs, which include items such as vacation, pensions and other post-employment benefits (OPEBs), and legal liabilities.

Accounting for Fixed Assets of the COCC

Fixed assets are accounted for on the balance sheet of the COCC, similar to the PHA's balance sheet for other projects and programs. However, the fixed assets reported on the COCC's balance sheet were normally acquired using one of three following methods:

- Originally assigned to the COCC from the initial allocation of the Public Housing program or other programs assets;
- Acquired and funded by COCC's operations; or
- Associated with costs for modernization of an existing ACC non-dwelling structure that is under a 20-year Capital Fund Declaration of Trust funded by the Capital Fund Program.

For FDS reporting, the PHA is not required to differentiate the fixed assets and resulting equity (FDS line 508.1 – Invest in Capital Assets, Net of Related Debt). Internally the PHA must keep track of how these assets were acquired, since revenue or proceeds generated from the sale of any asset acquired through program funds are considered program income and are not defederalized.

For example, if the COCC rents an office building to the projects that was previously acquired from program funds, the rental income of the asset is considered program income and should be distributed back to the projects. FDS line 10093 (Transfers between programs and projects in) and FDS line 10094 (Transfers between programs and projects out) would be used to account for these transactions.

Proceeds may be used by the COCC only in accordance with the requirements from the Special Applications Center (SAC) related to the approved disposition of an asset. As stated in the example, the building was a program asset assigned to the COCC, which means HUD funded the building's acquisition and can control the use of any sales proceeds. Proceeds are, therefore, recorded in a cash restricted account of the COCC or in the "Other Project" Column, unless HUD removes that restriction.

PIH Notice 2008-17 provides guidance on the disposition of excess equipment and non-dwelling real property under asset management.

Accounting for Legacy Costs

Legacy costs represent costs or liabilities incurred, which, in many cases, the PHA was not required to have funded prior to 2008 (the year of asset management conversion). Such costs may include vacation, pension and other post-employment benefits (OPEB), lead-based paint or asbestos cleanup, or other liabilities related to legal actions. HUD generally believes that all liabilities should be accounted for and paid by the project, COCC, or program where they were incurred. The legacy portions of these amounts are generally expected to be paid from program income. The accounting treatment for these costs is well documented in GAAP. Specific legacy costs associated with employee vacation, pension and other post-employment benefits, and other liabilities are discussed below.

Vacation Liabilities

PHAs may allow employees to accumulate unused vacation to be paid or taken at a later date. Funding of these amounts has usually been limited to the amount paid during any year. These vacation liabilities were recorded when PHAs converted to GAAP (i.e., compensated absences). Since vacation liabilities generally relate only to current employees, these liabilities should be paid using program income from the project(s), program(s), or through the fees paid to the COCC where the employee is associated. Vacation liabilities incurred must be recorded and paid as a payroll expense and associated liability by the respective project, COCC or other program where the expense was incurred.

Vacation liabilities should follow the employee. Accordingly, the subsequent transfer of an employee to another project, COCC or other program would also result in the transfer of the previously incurred liability. The offset to this transfer would be cash or other liquid assets. If such assets are unavailable, a receivable should be recorded from the project or other program where the employee transferred. The project, program, or COCC would record a payable for the amount due if cash or other liquid assets are unavailable.

Note: While this section speaks solely to vacation liabilities, this methodology would apply to similar employment agreements for other benefits (e.g., sick leave balances that are paid to the employee if not used).

Pension and Other Post-Employment Benefits (OPEBs)

Pension and OPEB costs represent liabilities related to both current employees and retirees for pension, retiree medical and other related expenses. The guidelines for the recognition of expenses and liabilities are governed by GAAP. PHAs must account for and contribute to the plan in accordance with guidelines established in the plan document and reasonable actuarial assumptions. Contributions become assets of the plan and reduce the liability of the PHA. Liabilities associated with pensions were recorded on the books when PHAs converted to GAAP. The yearly cost for each employee is paid as direct costs of the projects, programs or COCC.

In 2008, PHAs were required to account for OPEB liabilities based on the implementation schedule issued under GASB Statement No. 45, *Accounting and Financial Reporting by*

Employers for Postemployment Benefits Other Than Pensions. The PHA's actuary determined the annual OPEB expense in the financial statements.

The GASB determined that the annual OPEB expense or the annual required contribution (ARC) should consist of two components:

- The normal cost for the year; and
- A component for amortization of the unfunded actuarial liability over a period not to exceed 30 years.

The costs for these liabilities for current employees are charged to the respective project, program, or COCC in which the employee works. The portion of the liability that is associated with pre- asset management employees should be allocated to the projects/programs on some reasonable basis.

Amounts recognized for OPEB costs should be paid annually if possible, as this will prevent the reporting of unfunded liabilities. These payments to the plan are normally limited to the ARC amount as determined by the plan's actuary under the plan's rules and as disclosed in the PHA's annual financial statements. Liabilities related to the PHA's pension plan would be treated in a similar manner as OPEBs. HUD encourages PHAs to actually fund pension or OPEB liabilities.

Legal Liabilities

Other liabilities resulting from lawsuits, legal actions and other FASB-5 related liabilities must be considered on a case-by-case basis. Liabilities for asbestos, lead-based paint or other similar issues in excess of insurance proceeds should be recognized as a liability and expensed in accordance with prevailing GAAP. HUD recognizes that such liabilities are normally liabilities of the PHA as a whole. Liabilities for these items will normally be recorded with the program or project that gave rise to the liability.

Costs related to these liabilities may be recovered from the projects, other programs or the COCC if allowed. The recovery of these costs must be based on a method that results in a reasonable allocation among the projects and other contributing programs. Once the appropriate allocation has been determined, the PHA may transfer COCC cash or other liquid assets without regard to excess cash rules.

Appendix 6-1: Front Line and Fee Costs

Table 7.1: Front-Line Costs and Fee Costs under the HCV Program

Fee Expenses[29]	Front-Line Expenses
• A share of the personnel costs (indirect personnel) for permanent and part-time staff assigned to the COCC. Indirect personnel costs include gross salary, federal and state payroll taxes and all employee benefits. • Establishment, maintenance, and control of an accounting system adequate to carry out accounting supervision responsibilities over the HCV Program. • General maintenance of HCV books and records (general ledger, accounts payable and receivable, payroll, etc.). • Supervision by COCC management staff of overall HCV Program operations. • Procurement of supplies, equipment and contract services for HCV Program activities. • Preparation of monitoring reports for internal staff and external reporting to HUD, other governmental agencies and other interested parties. • Preparation, approval, and distribution of HCV Program disbursements other than HAP. • COCC staff training, and ongoing certifications related to HCV Program activities. • Travel of COCC staff for training, or supervision related to HVC Program activities. • Attendance of COCC staff at meetings (including travel), with landlords, tenants, HUD, or other interested parties regarding HCV planning, budgeting, and review of general HCV Program activities. • Work with auditors for audit preparation and review. • Indirect cost allocations imposed on the HCV Program by a higher level of local government. • Hiring, supervision, and termination of front-line HCV staff. • Preparation and submission of HCV Program budgets, financial reports and year-end financial reports to HUD and other interested parties. • Monitoring and reporting on abandoned property as required by states. • Investment and reporting on HCV proceeds. • Storage of HCV records and adherence to federal and or state records retention requirements. • Development and oversight of office furniture, equipment and vehicle replacement plans. • Insurance costs for fidelity or crime and dishonesty coverage for COCC employees based on a reasonable allocation method. • The costs of board member stipends and non-training travel. • The costs of board member training that exceed HUD standards.	• Actual costs for direct personnel permanent and part-time staff, assigned directly to the HCV Program. Direct personnel costs include gross salary, federal and state payroll taxes and employee benefits. • Travel and training for personnel assigned directly to the HCV Program. • Preparation, approval, and distribution of HCV Program HAP disbursements. • Legal fees directly rated to the operation and management of the HCV Program, including tenant and landlord enforcement actions, and other HCV Program related matters. • The cost of obtaining and receiving background reports on tenants, verification of landlord ownership and other checks related to tenant and landlord selection and participation in the program. • All bank charges related to the HCV Program. • Costs of telephone, including basic services, directory listings, and long distance charges related to direct delivery of the HCV Program. • All advertising costs related specifically to the operations of the HCV Program to include but not limited to advertising for applicants, landlords and employees in newspapers, newsletters, radio, cable TV, and telephone books. • Postage and delivery costs for HAP checks, disbursements and other mailings required to support the activities of the HCV Program. • HCV office furniture, equipment, computers and vehicles. • Service agreements and warranties to support HCV office furniture, equipment, computers, and vehicles. • Insurance costs related to auto coverage for HCV vehicles and other equipment and assets of the HCV Program. • Insurance costs for fidelity or crime and dishonesty coverage for front-line (direct cost) employees based on a reasonable allocation method. • Direct costs of collection activities related to fraud recovery. (Regulations allow the direct costs of fraud recovery to be offset against fraud collections, but indirect costs may not be offset against fraud collections. Indirect costs of fraud collection activities must be born by the HCV management fee.) • Costs of preparing and maintaining tenant and landlord files and processing tenant applications, determining eligibility, tenant rent, tenant certifications, tenant re-certifications and unit inspections. • Public relations expenses related to maintaining positive relationships between the local community, landlords and tenants. • Professional service contracts related to direct services performed for the HCV Program. • Board member training and related expenses up to a limited amount as provided by HUD[30].

[29] Fees include management and bookkeeping fees
[30] Board training and related expenses must be reasonable and approved by the Board before being incurred. Training expenses incurred by COCC staff are management fee expenses and may not be charged to programs.

Table 7.2: Front-Line Costs and Fee Costs under the Operating Fund Program

Fee Expenses[31]	Front-Line Expenses
• Actual personnel costs for individuals assigned to the following positions: – Executive Director and support staff; – Human resource staff; – Regional managers; – Corporate legal staff; – Finance, accounting and payroll staff; – Information Technology staff including "help desk"; – Risk management staff; – Centralized procurement staff; and – Quality control staff, including quality control inspections. • Purchase and maintenance of COCC arrangements, equipment, furniture, and services necessary to sustain the COCC. • Establishment, maintenance, and control of an accounting system adequate to carry out accounting and bookkeeping services for the AMPs. • Office expense including office supplies, computer expense, bank charges, telephone, postage, utilities, fax and office rent related to the general maintenance and support of the COCC. • The cost of insurance related to COCC buildings, equipment and personnel to include property, auto, liability, errors and omissions and casualty. • Work with auditors for audit preparation and review of audit costs associated with the COCC. • Central servers and software that support the COCC (not projects). • The costs of Board member stipends and non-training travel • The costs of Board member training that exceed HUD standards. • The cost of a central warehouse, unless, with HUD approval, the PHA can demonstrate that the costs of maintaining this warehouse operation, if included with the cost of the goods purchased, are less than what the project would otherwise incur if the goods were obtained by on-site staff.	• Actual personnel costs for individuals (permanent and part-time) assigned directly to AMP sites, including project managers, site-based maintenance staff, and temporary help. • All repair and maintenance costs for the AMP, including: – Centralized maintenance provided under a fee-for-service arrangement, provided costs are reasonable and necessary; – Maintenance supplies; – Contract repairs including but not limited to heating and air conditioning, painting, roofing, elevators, and other systems located on a project; – Make ready expenses, including painting and repairs, cleaning, flooring replacements, and appliance replacements; – Preventive maintenance expenses, including occupied units' repairs and maintenance, as well as common area systems repairs and maintenance; – Maintenance contracts for elevators, boilers and other project systems; and – Other related maintenance expenses such as snow removal, lawn care, Section 504 compliance, pest control and landscaping. • Utility costs. • Costs related to maintaining a site-based office, including telephone, office supplies, computer expense, postage, copier expense, cell phones, office utilities, office equipment and furniture, equipment service agreements, software license agreements, office equipment and computer repairs and other related office expenses. (If the cost of software license agreements and equipment maintenance service agreements cannot be identified to specific AMP equipment, the cost may be allocated to AMPs using a reasonable allocation methodology.) • Advertising costs such as an AMP specific procurement action, solicitation for employees and other project specific advertising actions. • PILOT. • All costs of insurance for the AMP, including property liability and casualty, auto, as well as fidelity or crime and dishonesty coverage for onsite employees. (If the cost of insurance cannot be identified to the AMP, the cost may be prorated to each AMP using a reasonable allocation methodology.) • Professional service contracts for audits, energy audits, rehabilitation, and inspection contracts and other professional service contracts specific to a project. • Property management fees, bookkeeping fees, and asset management fees. • Subject to 24 CFR part 85, the HUD Litigation Handbook 1530.1 REV-5, PIH Notice 2006-9, legal fees must be directly related to the operation and management of the AMP, including tenant lease enforcement actions, landlord-tenant disputes, and other AMP-related legal matters. Without HUD approval, legal fees may not be

[31] Fees include property management, bookkeeping and asset management fees.

Fee Expenses[31]	Front-Line Expenses
	incurred to represent any officer or employee of PHA, in her/his individual capacity, in connection with potential civil liability or criminal conduct issues related to PHA operations. AMPs cannot be charged retainers. Any charges to a project conducted by COCC legal staff must be based on services received by the project and documented by time records. • Audit costs (if the cost of agency's overall audit is not identified to the AMP level, the cost may be prorated using a reasonable proration methodology). • Vehicle expense (maintenance, gasoline and repairs) for site-based vehicles. • Staff recruiting and background check costs such as advertising, employment agency fees, drug testing costs and other direct costs to recruit project staff. • Family self-sufficiency staff and program costs. • Board member training and related expenses up to a limited amount as provided by HUD[32].

[32] Board Training and Related Expenses. Board training and related expenses must be reasonable, included in a project's budget, and approved by the Board before being incurred. Training expenses related to Board training may be prorated to projects using a reasonable methodology. Training expenses incurred by COCC staff are management fee expenses and may not be charged to projects.

Session 7: Interim Public Housing Assessment System (PHAS), Emphasis on Financial and Management Indicators

Table of Contents

I. OVERVIEW [slide 2]

This session will cover the following topics:

- Discuss the financial indicator scoring methodology used in determining the FASS score.
- Discuss the management operations indicator scoring methodology used in determining the MASS score.
- Provide material on other key aspects of the Interim PHAS rule (provided for informational purpose but not be covered in the training session).

II. INTERIM PHAS SCORING METHODOLOGY

PHAS Indicators [slide 4]

On February 23, 2011, HUD published the Interim PHAS Rule in the Federal Register. The Interim Rule, which became effective March 25, 2011, makes changes to the Public Housing Assessment System (PHAS) scoring methodology codified in 24 CFR Part 902. The Interim PHAS Rule replaces the PHAS scoring methodology under Transition Year 2 announced in the Notice published in the Federal Register on January 12, 2010 (75 FR 1632), as extended by the Notice published in the Federal Register on July 23, 2010 (75-FR-43197). Public Housing Authorities (PHAs) with fiscal years ending March 31, 2011 are the first group to be assessed under the Interim Rule.

Some of the global changes from the PHAS Transition Year 2 to the Interim PHAS Rule are listed below:

- The Resident Service and Satisfaction Indicator was removed.
- Substandard Performers are not designated as Troubled PHAs.
- Interim PHAS scores – assess only the public housing program. Financial assessments are no longer based on an entity-wide assessment.
- Mixed-finance projects will not receive financial or management scores; they will receive a physical score.

The *Financial Indicator Methodology & Analysis Guide* (the Guide), provides an overview of the changes to the four PHAS indicators (Physical Condition, Financial Condition, Management Operations, and Capital Fund program) under Interim PHAS. The Guide can be found at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/reac/products/fass/pha_doc

Table 7.1 summarizes how PHAs are scored under Interim PHAS on the basis of the following four indicators and associated point values. Each indicator is separately evaluated and scored with physical condition worth a maximum of 40 points, the financial condition and management operations each worth a maximum of 25 points, and the Capital Fund Program indicator worth a maximum of 10 points for an overall available score of 100 points.

Table 7.1 Changes in Indicators under Interim PHAS Rule

	Interim PHAS Rule	Transition Year 2
PHAS Indicator	**Maximum Points**	**Maximum Points**
1. Physical Condition	40 points	~~30 points~~
2. Financial Condition	25 points	~~30 points~~
3. Management Operations	25 points	~~30 points~~
4. Capital Fund Program ~~(previously Resident Service and Satisfaction)~~	10 points	10 points
Overall PHAS Score =	***100 Points***	***100 Points***

III. FINANCIAL CONDITION INDICATOR (FASS) SCORING METHODOLOGY

FASS Scoring Overview [slides 6 & 7]

Under the Interim PHAS Rule, the financial condition of each PHA is evaluated to determine whether the PHA has sufficient financial resources and is managing those resources effectively to support the provision of decent, safe, and sanitary housing in the PHA's public housing projects.

As part of the conversion to asset management, PHAs were required to account for activities by projects. With regards to FASS, PHAs with FYE of 6/30/2008 and later were required to report to the FASS-PH system on a project level as well as on an entity-wide basis. That is, Low Rent and Capital Fund (CFP) activities are reported at the project level, and all other program and activities (entity-wide) are reported separately from the projects in their own columns on the Financial Data Schedule (FDS).

Figure 7.1 below shows the six FASS sub-indicators that were available under the Prior PHAS (Transition Year 2) and the three new FASS sub-indicators under Interim PHAS and their respective point distribution.

Figure 7.1 Changes to FASS Scoring

Prior PHAS		Interim PHAS	
Current Ratio	9.0	Quick Ratio	12.0
Months Exp. Fund Balance (MEFB)	9.0	Months Exp. Net Assets (MENAR)	11.0
Tenant Rec. Outstanding (TRO)	4.5	Debt Service Coverage (DSCR)	2.0
Occupancy Loss (OL)	4.5		
Net Income (NI)	1.5		
Expense Management (EM)	1.5		
TOTAL POINTS	*30.0*	*TOTAL POINTS*	*25.0*

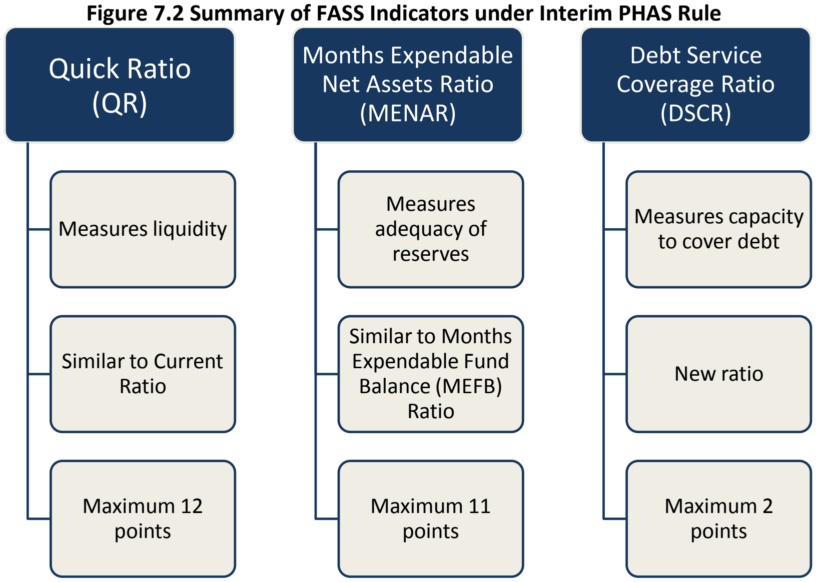
New Financial Condition Sub-Indicators [slide 8]

There are three Financial Condition sub-indicators used to assess the financial condition of a project. These sub-indicators are discussed below.

1. Quick Ratio (QR). A measure of liquidity; measures the PHA's ability to cover its current obligations.
2. Months Expendable Net Assets Ratio (MENAR). A measure of viability; measures the PHA's ability to operate using its net available unrestricted resources without relying on additional funding.
3. Debt Service Coverage Ratio (DSCR). A measure of a PHA's capability to meet its long-term obligations.

The Quick Ratio and MENAR are similar to the Current Ratio and Months Expendable Fund Balance (MEFB) ratio that were found under the prior PHAS. The Debt Service Coverage Ratio is a new sub-indicator. *Figure 7.2* below summarizes the area of measurement of each sub-indicator, whether the sub-indicator existed under prior PHAS, and the maximum number of points that are available for each sub-indicator.

Figure 7.2 Summary of FASS Indicators under Interim PHAS Rule



Under Interim PHAS, a PHA's Financial Condition Indicator score (the score) is assessed as follows:

- The Financial Condition sub-indicators are calculated for each public housing project. Each project will receive its own score based on the combination of the Capital Fund and Low Rent program for that respective project. In addition, the PHA will also receive an overall financial condition score. **Note:** While other activities, such as the Housing Choice Voucher program, are reported in separate columns in the FDS, these other activities will not be included in the financial condition assessment for the PHA under Interim PHAS.

- Each project will be scored individually under the Financial Condition Indicator based on the three (3) new sub-indicators. Mixed finance projects are not scored.

- A PHA will receive a weighted average Financial Condition Indicator Score based on the weighted average score for each project. The weighted average score is based on the number of units associated with each project.

Consequently, the PHA-wide Financial Condition Indicator score is derived only from project data (i.e., the Low Rent and Capital Fund programs), and is an average that reflects the weighted, individual performance of the PHA's projects.

FASS Financial Condition Sub-Indicators [slides 9-18]

The section below provides more detail information on each sub-indicator such as: 1) the area of measurement; 2) the calculation methodology; 3) how the sub-indicator values are translated into a sub-indicator score; and 4) common FDS reporting errors. Page 7-9 provides information on the type of projects that are scored and not scored under the FASS Financial Condition Indicator. Page 7-11 provides an example on the calculation of a project and PHA-wide financial score.

FASS Sub-Indicator: Quick Ratio [slides 9-11]

1. Area of Measurement. The Quick Ratio (QR) is a liquidity measure of the project's ability to cover its current obligations. The QR is measured by using the project's available, unrestricted current assets (except inventory and assets held for sale) divided by the project's current liabilities. The QR is designed to indicate if a project could meet all current obligations if the obligations became immediately due and payable. A project should generally have available current resources equal to or greater than their current obligations in order to be considered financially solvent.

The maximum point value for this sub-indicator is 12.0 points. A project with a QR value of less than one will be considered financially unacceptable and will receive zero points for this sub-indicator. If the value for the QR is equal to, or greater than one, the project is evaluated and assigned a score up to a maximum of 12.0 points based on its financial condition.

2. Calculation. The calculation methodology and the FDS line items included in the calculation are as follows:

$$\textbf{Calculation Methodology} = \frac{Cash + Cash\ Equivalents + Current\ Receivables}{Current\ Liabilities}$$

$$\textbf{FDS Detail Line Item Calculation} = \frac{111+114+115+120+131+135+142+144}{310-343.010}$$

3. Translating the Sub-Indicator Value into Scores. Under the QR sub-indicator, a PHA's projects are evaluated and assigned a score based on their financial condition. When the QR calculates to a value between 1.0 and 2.0, the number of points that will be assigned for this ratio can be calculated as follows: 7.2 + ((QR-1) × 4.80).

QR Value	Score
< 1.0	0.0 points
= 1.0	7.2 points
1.0 < but < 2.0	7.2 < points < 12.0
≥ 2.0	12.0 points

4. FDS Reporting. The following is a list of common reporting errors associated with the Quick Ratio sub-indicator that PHAs should review prior to submitting the FDS.

- Ensure that the long-term portion of accrued compensated absences, FSS escrow liabilities, and any long-term debt is properly reported as non-current versus long-term on the FDS.
- Ensure that cash and investments are properly reported between unrestricted and restricted; paying special attention to any restricted cash and investments that will be used for payment of a current liability.
- For PHAs with multiple project and that have excess cash, the PHA should consider transferring excess cash to those projects whose quick ratio calculates to less than 2.0.

FASS Sub-Indicator: Months Expendable Net Assets Ratio [slides 12-15]

1. Area of Measurement. The Months Expendable Net Assets Ratio (MENAR) measures the viability of a project. The MENAR measures the ability of a project to operate using primarily its net available, unrestricted resources without reliance on additional funding. This sub-indicator compares the net available unrestricted resources to the average monthly operating expenses. The result of this calculation shows how many months of operating expenses can be covered with currently available, unrestricted resources. Net available, unrestricted resources include unrestricted current resources available to the project after subtracting the amount needed by the project to pay current obligations.

The maximum point value for this sub-indicator is 11.0 points. A project with a MENAR value of less than one will be considered financially unacceptable and will receive zero points for this sub-indicator. If the value for the MENAR is equal to, or greater than one, the project is evaluated and assigned a score up to a maximum of 11.0 points based on its financial condition.

2. Calculation. The calculation methodology and the detail FDS line items included in the calculation are as follows:

$$\textbf{Calculation Methodology} = \frac{Unrestricted\ Resources}{Average\ Monthly\ Operating\ and\ Other\ Expenses}$$

$$\textbf{FDS Detail Line Item Calculation} = \frac{((111+114+115+120+131+135+142+144)-310)}{((96900+97100+97200+97800) \div 12)}$$

The denominator (FDS lines 96900, 97100, 97200, and 97800) is derived from the “Low Rent Column” of the project only and does not include any amounts reported in the “Capital Fund” column for those line items.

3. Translating the Sub-Indicator Value into Scores. Under the MENAR sub-indicator, the projects are evaluated and assigned a score based on their financial condition. When the MENAR calculates to a value > 1.0 but < 4.0, the number of points that will be assigned for this ratio can be calculated as follows: 6.6 + ((MENAR – 1) × 1.466667).

MENAR Value	Score
< 1.0	0.0 points
= 1.0	6.6 points
1.0 < but < 4.0	6.6 < points < 11.0
≥ 4.0	11.0 points

4. FDS Reporting. The following is a list of common reporting errors associated with the MENAR sub-indicator that PHAs should review prior to submitting the FDS.

- See common reporting errors associated with the Quick Ratio sub-indicator.
- Ensure that Capital Fund Management fees or other CFP Administration expenses (BLI 1410) are reported in the CFP column of the project.
- Ensure that CFFP debt transactions are reported in the CFP column of the project.

FASS Sub-Indicator: Debt Service Coverage Ratio [slides 16-18]

1. Area of measurement. The Debt Service Coverage Ratio (DSCR) is a measure of a project's ability to meet its regular debt obligations. The DSCR is calculated by dividing adjusted operating income by a project's annual debt service. The DSCR indicates whether the project has generated enough income from its operations to meet its annual interest and principal payment on long-term debt service obligations. The DSCR ratio excludes debt associated with the Capital Fund Financing Program (CFFP).

The maximum point value for this sub-indicator is 2.0 points. A project with a DSCR value of less than one will be considered financially unacceptable and will receive zero points for this sub-indicator. If the value for the DSCR is equal to, or greater than 1.25, the project is evaluated and assigned a score up to a maximum of 2.0 points based on its financial condition.

2. Calculation. The calculation methodology and the detail FDS line items included in the calculation are as follows:

Calculation Methodology = $\frac{Adjusted\ Operating\ Income}{Annual\ Debt\ Service\ excluding\ CFFP\ Debt}$

Detail FDS Line Item Calculation = $\frac{(97000+96700)}{(96710+96720+11020)}$

Both the line items used for the numerator and denominator (FDS lines 97000, 96700, 96720, and 11020) are derived from the "Low Rent Column" of the project only and do not include any amounts reported in the "Capital Fund Column" for those line items. Debt activity related to

CFFP should be reported in the "Capital Fund Column" of the FDS and not in the "Low Rent Column".

3. Translating the Sub-Indicator Value into Scores. Under the DSCR sub-indicator, a PHA's projects are evaluated and assigned a score based on their financial condition.

DSCR Value	Score
< 1.0	0.0 points
1.0 ≤ but < 1.25	1.0 points
≥ 1.25	2.0 points
No Debt Service	2.0 points

4. FDS Reporting. The following is a list of common reporting errors associated with the DSCR sub-indicator that PHAs should review prior to submitting the FDS.

- Ensure that CFFP Debt transactions are reported in the CFP column of the project.

Projects Assessed [slides 19-21]

PIC contains a comprehensive list of each PHA's projects and the project's status: 1) In Management; 2) In Development; and 3) Terminated. Under the Interim PHAS Financial Condition Indicator and Management Operations Indicator, projects shown as "In Management" status should be the only projects that are scored.

Projects that are "In Management" status in PIC are available for selection in the FASS-PH system. Projects that are shown as "In Development" and "Terminated" in PIC are not available for selection in the FASS-PH system. PHAs input the financial data for these projects by entering the data in the "Other Project" column of the FDS.

The following project types are not scored under the Interim PHAS Financial Condition Indicator.

1. <u>Business Rule: FDS Line 513 Total Equity/Net Assets = Zero (0)</u>. Currently all projects reflected as under management in PIC are available in the FASS-PH system and must be "validated" but due to timing and for other reasons some of these projects may not have actual activity (meaning there is no financial activity to be reported for the project by the PHA). Therefore projects with FDS line 513 and other specific FDS line items equaling zero will not be scored.

2. <u>Project in Development</u>. Active projects that are not yet in management status are termed "In Development". Projects whose status is "In Development" are not scored. Projects indentified as "In Development" within PIC are not available for selection in the FASS-PH system.

3. <u>Mixed Finance Projects</u>. The Interim PHAS rule states that mixed finance projects are not scored under the Financial Condition Indicator. While PIC does have an identifier for mixed finance projects, this information is not captured by the FASS-PH system due to

the current unreliability of this PIC indicator. Instead, PHAs are asked to identify in the FASS-PH system whether the project is a mixed finance project.
Specifically, under PHA project, Income statement screen, the PHA is asked to indicate with a "Y" for yes or "N" for no if the project is a mixed finance project. **Note:** This screen is only displayed if the PHA has more than one (1) project.

4. Other Project. Under asset management, the FDS was programmed to allow each PHA to populate and submit an "Other Project" column if needed. PHAs typically select the "Other Project" designation for the following three (3) reasons:
    - Projects that are shown as "Terminated" in PIC but still show financial activities. Currently, projects whose status is "Terminated" in PIC are not automatically available in the FASS-PH system.
    - Projects that are in the *development* phase but for whatever reason are not currently captured in PIC.
    - Activities not specifically associated with a project (e.g., homeownership program).

5. "9999" Projects. Finally, for PHAs that have a COCC, these PHAs were allowed to create a project that ends in "9999" to reflect the land and buildings of the COCC. These projects are also not scored.

Table 7.2 below provides a summary of the business rules associated with the different project types in the FASS-PH system and whether the project is subject to scoring under the Financial Condition Indicator.

Table 7.2 Project Types in FASS-PH System and Implications for Scoring

			Financial Condition Indicator	
ID	**Project Type**	**Description**	**Project Scored**	**Not Scored**
1	In Management	Is the only project type that is scored under FASS. These projects are contained in PIC and are available for selection in the FASS-PH System	●	
2	In Development	Active projects that are not yet in management status are termed "in development". These projects are contained in PIC but the "in development" projects are not available for selection in the FASS-PH System.		●
3	Mixed Finance Project	Self-identified by PHA based on "Y" for yes response on Project Statement screen. Screen is only displayed if the PHA has more than (1) project available.		●

			Financial Condition Indicator	
ID	Project Type	Description	Project Scored	Not Scored
4	Other Project	PHAs have the option to add an "other project" column. "Other Projects" are coded with a project code of "999999999" and are typically used to identify projects that are: 1) Terminated; 2) In development phase but not displayed in PIC; and 3) associated with activities that are not project-specific (e.g., homeownership program).		●
5	"9999" Project	PHA created projects that reflect land and buildings of the Public Housing program that are used by the COCC (i.e., administrative offices, central warehouses) and are not reflected in any of the other PHA's projects.		●

Project and PHA-Wide Financial Score [slides 22 & 23]

A PHA's financial condition indicator score will be calculated based on the unaudited submission and then, if needed, adjusted by the results of the audit. The first step in calculating a PHA's financial condition indicator scores for either the unaudited or audited submission is to calculate the FASS Indicator score for each project. *Table 7.3* illustrates how a PHA financial score is generated for an example PHA with four projects. Each project score is the sum of the three FASS sub-indicators: QR, MENAR, and DSCR.

Table 7.3 Example PHA Project Scores

	Mixed	QR		MENAR		DSCR		Project
Project	Finance	Value	Score	Value	Score	Value	Score	Score
Project 1	No	6.65	12.00	2.31	8.57	N/A	2.00	22.57
Project 2	No	1.22	8.26	1.23	6.95	Negative	0.00	15.21
Project 3	No	3.75	12.00	1.55	7.43	N/A	2.00	21.43
Project 4	Yes	Excluded (Mixed Finance Project)						N/A

A PHA's financial condition score is based on a unit weighted average project score, excluding mixed finance projects. *Table 7.4* shows the actual calculation from the projects' scores to a PHA-wide score. The number of units (column 3) for each project is determined by dividing the number of unit months available as reported in FDS line 11190 (Unit Months Available) by twelve for each project. Each project score is multiplied by the number of units in the project. This product is known as the weighted value. The weighted value for each project is then summed and divided by the total number of units for all projects, resulting in the unit weighted FASS score. The number of units for each project is determined by dividing the number of unit months available as reported in FDS line 11190 by twelve for each project.

Table 7.4 Calculation of PHA Score

1	2	3	4	5
Project	Unit Months Available (FDS 11190)	Units (Column 2 ÷ 12 months)	Project Score (from Table 7.3)	Weighted Value (Column 3 × Column 4)
Project 1	1,800	150	22.57	3,385.50
Project 2	2,400	200	15.21	3,042.00
Project 3	1,200	100	21.43	2,143.00
	PHA Totals	450		8,570.50

PHA-wide FASS Score

$$\frac{\text{PHA Total Weighted Value}}{\text{Total Units}} = \frac{8{,}570.50}{450} = 19.05$$

For this example, the PHA unit weighted average FASS score is **19.05**. For the unaudited submission, the PHA unit weighted FASS score is the Financial Condition Indicator score. For the audited submission the unit weighted FASS score is then adjusted by the results of the audit (i.e., audit adjustments) and other score adjustments, such as the significant change penalty.

Financial Condition Indicator – Score Adjustments [slide 24]

This section provides information on audit and other adjustments that can be made to a PHA's Financial Condition Indicator score.

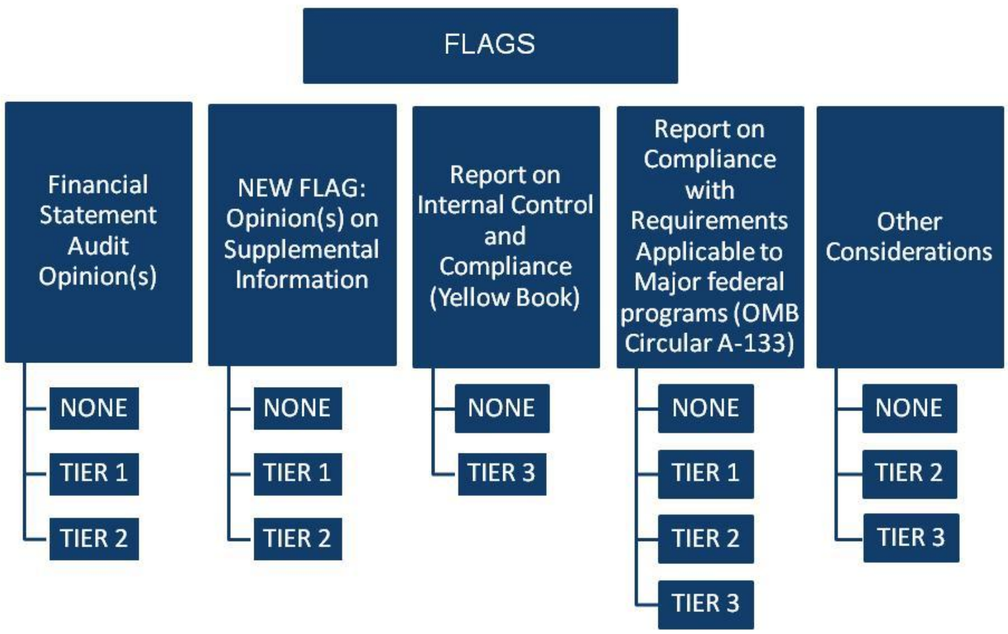
Audit Flags and Tier Classifications [slides 25-27]

For those PHAs that are required to submit audited information, the PHA's financial condition score can reflect two types of adjustment. The first type of adjustment is based on the results of the audit as communicated in the different auditor reports (e.g., auditor's opinion on the financial statements, reports on internal control and compliance, audit findings, etc.). These audit reports alert the Department to internal control deficiencies or instances of noncompliance with laws and regulations. The second type of adjustment addresses significant differences between the unaudited and audited financial information reported in FASS-PH.

Audit Adjustments. If the auditor's opinions on the financial statements, major federal programs, or other audit reports are anything other than unqualified, points may be deducted from the PHA's audited financial score. Audit adjustments will be applied automatically against the PHA's financial conditional score relative to the seriousness of the audit qualification. If the audit deficiencies have no effect on the financial components of the public housing projects or the overall financial condition of the PHA as it relates to the PHAS assessment, the audited score will not be adjusted. If the audit deficiencies have an impact on the PHA's or projects' financial condition, the PHA audited score will be adjusted to reflect the seriousness of the reported findings. These audit deficiencies are also referred to as audit flags and are mainly collected on the Data Collection Form (DCF) portion of the audited submission.

Figure 7.3 below shows the different types of audit flags and the available tiers under each flag type.

Figure 7.3 Types of Audit Flags and Tier Classifications



If the DCF indicates that the auditor's opinion will be anything other than unqualified, points can be deducted from the financial condition score. The point deductions have been established using a three-tier system. The tier system gives consideration to the seriousness of the audit qualification and limits the deducted points to a reasonable portion of the PHA's total score.

Figure 7.4 below lists the three tiers and provides the points that would be deducted for each type of qualification:

Figure 7.4 Points Deducted under each Tier

Tier	PHA Points Deducted
Tier 1	Any Tier 1 finding assesses a 100 percent deduction of the PHA's financial condition indicator score.
Tier 2	Any Tier 2 finding assesses a point deduction equal to 10 percent of the unadjusted financial condition indicator score.
Tier 3	Each Tier 3 finding assesses a 0.5 point deduction per occurrence, to a maximum of 4 points of the financial condition indicator score.

Significant Change Penalty. HUD views the transmission of significantly inaccurate unaudited financial data as a serious condition. A significant change penalty will be assessed for significant difference between the unaudited and audited submissions. A significant difference is considered to be an overall financial condition score decrease of three or more points from the unaudited to audited submission. A significant change penalty is considered a Tier 2 audit flag.

Appendix 7-1: *Audit Flags and Penalties with Data Collection Form Line Items* provide a listing of the individual audit flags, associated DCF line item, and tier classification.

Timely Submissions and Scores [slide 28]

Late points are assessed against the PHA's score if the PHA fails to submit its unaudited submission on time. The unaudited submission is due two months after the PHA's FYE, starting on the 16th day after the submission due date and each 15 day period thereafter, one (1) late point will be assessed (deducted from the PHA's score) up to a maximum of five (5) late points. While the submission is considered late, zero (0) late points will be deducted from the PHA's score for an unaudited submission received between 1 and 15 days late.

A PHA will receive a Late Presumptive Failure (a Tier 1 classification (0 score)) for an unaudited submission not received after 90 days of the due date. A PHA's audited submission, if applicable, is due nine months after a PHA's FYE. The PHA will receive a Late Presumptive Failure (a Tier 1 classification (0 score)) for an audited submission not submitted by the due date.

Point deductions for late submissions are considered a PHAS deduction/penalty. Note that the PHAs due date is altered by any approved extension or waiver.

IV. MANAGEMENT OPERATIONS INDICATOR (MASS) SCORING METHODOLOGY

MASS Scoring Overview [slides 30 & 31]

Under the Interim PHAS Rule, HUD has removed the management operations certification as a scored element. The Interim Rule no longer requires a PHA to submit and self-certify management indicators using the form HUD-50072. Therefore, a PHA does not need to submit MASS data with board approval to attain a MASS score for its PHAS assessment. Instead, during the Interim Rule period, a PHA's MASS score will be created by using data submitted in a PHA's unaudited and audited financial statements.

Figure 7.5 below shows the six MASS sub-indicators that were available under the Prior PHAS (Transition Year 2) and the three new MASS sub-indicators under Interim PHAS and their respective point distribution.

Figure 7.5 Changes in MASS Scoring

Prior PHAS		Interim PHAS	
Vacant Unit Turnaround Time	4.0	Occupancy	16.0
Capital Fund	7.0	Tenants Account Receivable	5.0
Work Orders	4.0	Account Payable	4.0
Annual Inspections	4.0		
Security	4.0		
Economic Self-Sufficiency	7.0		
Total Points	*30.0*	*Total Points*	*25.0*

New Management Operations Sub-Indicators [slide 32]

There are three Management Operations sub-indicators that the Department is now using to assess a PHA's management performance. Two of the three new MASS sub-indicators were previously FASS indicators. These sub-indicators are discussed below.

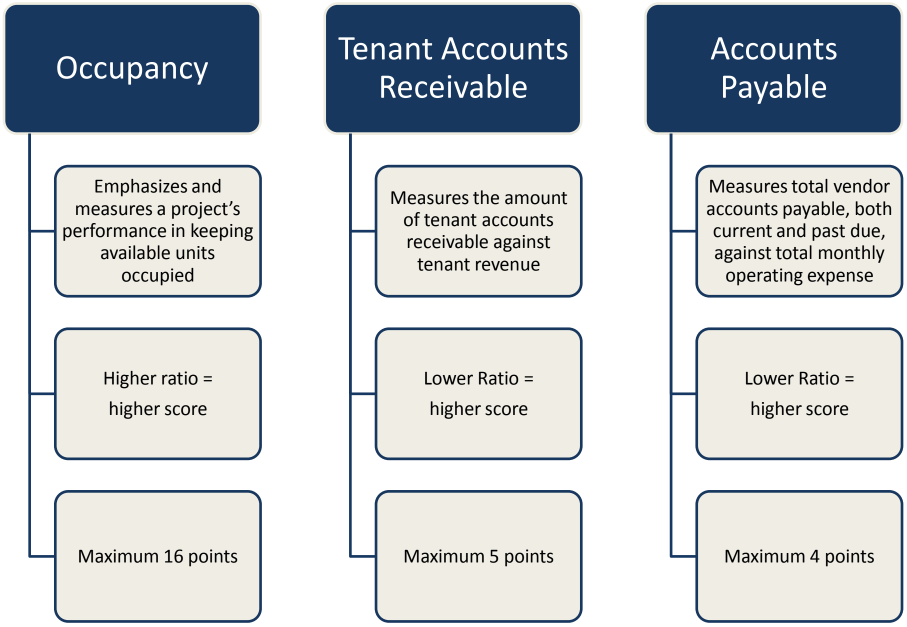
1. <u>Occupancy</u>. Measures the project's occupancy rate for the fiscal year; represents a project's performance in keeping available units occupied.

2. <u>Tenant Accounts Receivable</u>. Measures a PHA's collection efforts; represents the amount of tenant accounts receivable against tenant revenue.

3. <u>Accounts Payable</u>. Measures the dollar amount that a project owes to vendors at the end of the fiscal year as compared to the average monthly operating expenses

Figure 7.6 summarizes the area of measurement of each sub-indicator, how to interpret the ratio for each sub-indicator, and the maximum number of points that are available for each sub-indicator.

Figure 7.6 MASS indicators under Interim PHAS



Under Interim PHAS, a PHA's Management Operations indicator score (the score) is assessed as follows:

- Currently any onsite management review will not be scored for the management operations indicator.
- Late Penalty points and Late Presumptive Failure (LPF) do not apply to the MASS Indicator score.
- The overall management operations indicator has been reduced from 40 points to 25 points.
- Threshold score for MASS indicator score must be at least 15 points, or 60% of maximum number of points (25).

MASS Management Operations Sub-Indicators [slides 33-38]

The section below provides more detail information on each Management Operations sub-indicator such as: 1) the area of measurement; 2) the calculation methodology; 3) how the sub-indicator values are translated into a sub-indicator score; and 4) common FDS reporting errors.

MASS Sub-Indicator: Occupancy [slides 33 & 34]

1. Area of Measurement. Measures the project's occupancy rate for the fiscal year. The occupancy calculation emphasizes a project's performance in keeping available units occupied. This sub-indicator compares the unit months leased to the unit months available for each public housing project.

2. Calculation. The calculation methodology and the detail FDS line items included in the calculation are as follows:

$$\textbf{Calculation Methodology} = \frac{\textit{Unit Months Leased}}{\textit{Unit Months Available}}$$

$$\textbf{FDS Detail Line Item Calculation} = \frac{11210}{11190}$$

3. Translating the Sub-Indicator Value into Scores. The higher the ratio the higher the score. A project with an occupancy score of less than 90% will receive zero (0) points. A project with an occupancy score between 90% and 97% will receive between 1 and 12 points. A project with an occupancy score greater than or equal to 98% will receive the maximum sixteen (16) points.

Occupancy Value	Score
≥ 98%	16 points
98% > but ≥ 96%	12 points
96% > but ≥ 94%	8 points
94% > but ≥ 92%	4 points
< 92% but ≥ 90%	1 points
< 90%	0 points

4. FDS Reporting. The following is a list of common reporting errors associated with the Occupancy sub-indicator that PHAs should review prior to submitting the FDS.

- Units leased should be tracked monthly and supported by underlying data, such as the rent roll or rental register.
- Track, document, and report the number of HUD approved vacancy unit months.
- The following HUD approved vacancy/special use units pursuant to 24 CFR §990.145 are exempted from the occupancy calculation by reducing the number of unit months available on FDS line 11190.
  - **Units Undergoing Modernization**. Includes vacancies resulting from project modernization or unit modernization that meet one of the following conditions– (1) the modernization contract has been awarded or force account has started and the unit must be vacant to perform the work and the construction is on schedule per the approved PHA Annual Plan; (2) the units must be vacant to perform the work and treatment of the vacant unit is included in a HUD approved PHA Annual Plan, but the time period for placing the vacant unit under construction has not expired.
  - **Special Use Units**. Units approved and used for resident services, resident organization offices and related activities, such as self-sufficiency and anti-crime initiatives.
  - **Litigation**. Units which are vacant due to court orders or settlement agreements that are legally enforceable; and units that are vacant as approved by HUD to meet regulatory and statutory requirements to avoid potential litigation.

- **Disasters.** Units which are vacant due to a federally declared, state-declared, or other declared disaster.
- **Casualty loss.** Units which are damaged and remain vacant due to delays in settling insurance claims.
- **Changing market conditions.** Units which are vacant due to changing market conditions after a PHA takes aggressive marketing and outreach measures to rent these units. To be eligible, the units must be approved by HUD. Examples include an area that has experienced a population loss that results in a lack of demand for the units.

The example below shows how to calculate a PHA's occupancy score, while excluding from the calculation the HUD approved vacancy categories. The PHA has 100 public housing units under ACC. Based on the following facts, calculate the PHA's occupancy score:

Occupancy	Unit Months
Base Units Available (100 units * 12 months)	1,200
Units occupied	1,090
Vacant units under CFP repair	42
Vacant units being turned	66
Police unit (1 unit)	12

Based on the table above, the PHA's occupancy rate was 95.1% resulting in an occupancy score of **8 points** out of 16 possible points [1,090 ÷ [(1,200 base units available) – 42 vacant unit months – 12 special unit months].

MASS Sub-Indicator: Tenant Accounts Receivable (TAR) [slides 35 & 36]

1. Area of Measurement. This sub-indicator measures the tenant accounts receivable against tenant revenue. The sub-indicator measures a PHA's collection efforts.

2. Calculation. The calculation methodology and the detail FDS line items included in the calculation are as follows:

$$\textbf{Calculation Methodology} = \frac{Accounts\ Receivable\ Tenants}{Total\ Tenant\ Revenue}$$

$$\textbf{FDS Detail Line Item Calculation} = \frac{126}{70500}$$

3. Translating the Sub-Indicator Value into Scores. The lower the ratio the higher the score. A project with a tenant accounts receivable score greater than 2.5% will receive zero (0) points. A project with a tenant accounts receivable score between 1.5% and 2.5% will receive two (2) points. A project with an occupancy score less than 1.5% will receive the maximum five (5) points.

Tenant Accounts Receivable Value	Score
< 1.5%	5 points
≥ 1.5% but < 2.5%	2 points
≥ 2.5%	0 points

4. FDS Reporting. The following is a list of common reporting errors associated with the TAR sub-indicator that PHAs should review prior to submitting the FDS

- Write off non-collectable tenant accounts receivable in accordance with the PHA's policy ***before*** the end of the fiscal year.
- Separate any fraud receivable balance accrued from tenants that have committed fraud and owe additional rent from prior periods (retroactive adjustments) from tenant accounts receivable balances.
- Report additional tenant income such as misc. charges, late fees, excess utilities on FDS line 70400 (Tenant revenue – other), not on FDS line 71500 (Other Revenue).

MASS Sub-Indicator: Accounts Payable [slides 37 & 38]

1. Area of Measurement. This sub-indicator measures the amount that a project owes to vendors at the end of the fiscal year as compared to the average monthly operating expenses.

2. Calculation. The calculation methodology and the detail FDS line items included in the calculation are as follows:

$$\textbf{Calculation Methodology} = \frac{(Current\ Accounts\ Payable + Past\ Due\ Accounts\ Payable)}{(Total\ Operating\ Expenses \div 12)}$$

$$\textbf{FDS Detail Line Item Calculation} = \frac{(312+313)}{(96900 \div 12)}$$

3. Translating the Sub-Indicator Value into Scores. The lower the ratio the higher the score. A project with an accounts payable score greater than or equal to 1.5 will receive zero (0) points. A project with an accounts payable score between 1.5 and 0.75 will receive two (2) points. A project with an accounts payable score less than 0.75 will receive the maximum four (4) points.

Accounts Payable Value	Score
< 0.75	4 points
≥ 0.75 but < 1.5	2 points
≥ 1.5	0 points

4. FDS Reporting. The following is a list of common reporting errors associated with the Accounts Payable sub-indicator that PHAs should review prior to submitting the FDS.

- Make sure that all CFP liabilities that can be paid have been paid by the end of the fiscal year.
- Ensure that accounts payable lines (FDS line 312 and 313) do not contain accrual transactions that are to be reported in FDS lines 321-325 and 346. Commonly misreported items include, accrued employee benefits and payroll, construction premiums, and utilities.

Physical Condition and Neighborhood Environment [slides 39 & 40]

Before calculating the overall weighted average MASS score, adjustments will first be made to individual project scores based on the physical condition and neighborhood environment (PCNE) adjustment factor.

The Interim Rule made changes to the PCNE. In the prior regulation, the adjustment allowed for a total of 3 points. The Interim Rule provides for an adjustment of 2 points:

- 1 point for poor physical condition of the project, and
- 1 point for the economic condition of the major census tract (i.e., neighborhood environment) in which a project is located.

The physical condition adjustment in the Interim Rule applies to projects at least 28 years old; in prior PHAS, the adjustment applied to properties at least 10 years old.

The neighborhood environment adjustment in the Interim Rule applies to projects located in census tracts where at least 40 percent of the families are living below the poverty rate. In prior PHAS, the neighborhood environment adjustment applied where 51 percent of the families in the immediately surrounding area live below the poverty rate. *Figure 7.8* summarizes the changes under Interim PHAS Rule that affect the PCNE adjustments:

Figure 7.8 Changes to PCNE Adjustments under Interim PHAS Rule

Prior PHAS		Interim PHAS	
Max Points	3 points	Max Points	2 points
Category under	PASS	Category under	MASS
Physical Condition	10 years	Physical Condition	28 years
Neighborhood Environment	51%	Neighborhood Environment	40%
Via PHA Certification		Via Data from PIC	

Project and PHA-Wide Management Score [slides 41 & 42]

Table 7.5 below shows how to calculate MASS project scores taking into consideration any PCNE points. The score for each project shown under the MASS score column reflects the sum of the individual three scores (occupancy, tenant accounts receivable, and accounts payable) as discussed previously. Next, the age and census tract of the project are taken into consideration to determine if the project should be provided additional points under PCNE. In the example below, Project #1 was eligible for 2 points under PCNE and was given a project score of 25, the maximum score possible. Project #2 received two points for PCNE, while project #3 qualified for 1 PCNE point based on the census tract.

Table 7.5 Calculating PCNE Points at the Project Level

MASS Project Scores					
			PCNE		
Project	Mixed Finance	MASS Score	PC	NE	Project Score
Project 1	No	24.00	1	1	**25.00**
Project 2	No	16.50	1	1	**18.50**
Project 3	No	22.68	0	1	**23.68**
Project 4	Yes	Excluded (Mixed Finance Project)			N/A

Table 7.6 shows the actual calculation from the project's scores to a PHA-wide MASS score. A PHA's MASS score is based on a weighted average of each project's score, including any PCNE adjustment. To determine the score, each project's MASS score adjusted for PCNE, is multiplied by the respective number of units in the project. This product is known as the weighted value. The weighted value for each project is then summed and divided by the total number of units for all projects, resulting in the unit weighted MASS score. Similar to FASS, mixed finance projects are excluded from the calculation of a PHA's MASS score. For this example, the PHA-wide MASS score is 21.82.

Table 7.6 Calculating MASS Score with PCNE Adjustments

Calculation of PHA-wide Management Score			
1	2	3	4
Project	**Units**	**Project Score** (from Table 7.5)	**Weighted Value** (Col 2 × Col 3)
Project 1	150	25.00	3,750.00
Project 2	200	18.50	3,700.00
Project 3	100	23.68	2,368.00
PHA Totals	450		9,818.00
PHA Unit Weighted MASS Score (PHA Total Weighted Value / Total Units)			21.82

PHA-wide MASS Score

$$\frac{\text{Weighted Value}}{\text{Total \# of Units}} = \frac{9{,}818.00}{450} = 21.82$$

Learning Activity 7.1 – Interim PHAS [slide 43]

V. CHANGES UNDER INTERIM PHAS SCORING

(Provided for informational purposes only)

Issuance of Interim PHAS Rule

On February 23, 2011, HUD published the Interim PHAS Rule in the Federal Register. Public Housing Authorities (PHAs) with fiscal years ending March 31, 2011 are the first group to be assessed under the Interim Rule.

The *Financial Indicator Methodology & Analysis Guide* (the Guide) provides an overview of the changes to the four PHAS indicators (Physical Condition, Financial Condition, Management Operations, and Capital Fund program) under Interim PHAS. *Table 7.7* summarizes how PHAs are scored under Interim PHAS on the basis of the following four indicators and associated point values:

The Financial Indicator Methodology & Analysis Guide is available at the following link:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/reac/products/fass/pha_doc

Table 7.7 Changes in Indicators under Interim PHAS Rule

PHAS Indicator	Interim PHAS Rule Maximum Points	Transition Year 2 Maximum Points
1. Physical Condition	40 points	~~30 points~~
2. Financial Condition	25 points	~~30 points~~
3. Management Operations	25 points	~~30 points~~
4. Capital Fund Program ~~(previously Resident Service and Satisfaction)~~	10 points	10 points
Overall PHAS Score =	***100 Points***	***100 Points***

A full reading of the Interim PHAS Rule is available at the following link:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/reac/products/prodphasintrule

The Financial Condition Indicator Scoring Notice is available at the following link:
http://www.hud.gov/offices/reac/products/phas/fass-scoring.pdf

Description of Changes under Interim PHAS Rule

The Interim PHAS scoring methodology reflects the conversion by PHAs to asset management and includes project-based budgeting, accounting, management and project-based performance evaluation. That is, under Interim PHAS, the performance of each individual *project* is assessed to determine the PHA's overall performance and designation.

The changes from the Prior PHAS indicators and scoring process to the Interim PHAS indicators and scoring process are summarized in *Table 7.8* below.

Table 7.8 Summary of Global Changes under Interim PHAS Rule

ID	Current Indicator	Description of Changes
1	Physical Condition	Modified: • Inspection protocols remain largely unchanged. • The frequency of inspection is determined by the project score or overall PHAS score depending on the size of the PHA. • Mixed finance properties are inspected and scored. • Physical Condition and Neighborhood Environment (PCNE) adjustment was moved to the Management Operations Indicator. • PASS represents 40 points of the PHAS score, instead of 30.
2	Financial Condition	Modified: • PHAs are scored on the financial condition of each project. A PHA's FASS score consists of the weighted average of the individual project scores. • PHAs will continue to submit a Financial Data Schedule (FDS) that contains financial information for all projects, programs, and business activities. • For purposes of PHAS, each project is assessed only on the basis of the public housing program and not entity-wide (i.e., all programs). • The Financial Condition sub-indicators have been reduced from six sub-indicators to three sub-indicators. • Mixed-finance projects are not scored. • FASS represents 25 points of the PHAS score, instead of 30.
3	Management Operations	Modified: • The Management Operations sub-indicators have been reduced from six to three. Two of the sub-indicators were FASS sub-indicators under Prior PHAS: 1) Tenant accounts receivable and 2) Occupancy rate. The third indicator, Accounts Payable, is new. • The three Management sub-indicators will be calculated based on data contained in the FDS at the project level similar to the Financial Condition Indicator. • Mixed-finance projects are not scored. • The Physical Condition and Neighborhood Environment adjustment is 2 rather than 3 points. The data for this adjustment will come from PIC. When applicable, the points will be added to the project score. • MASS represents 25 points of the PHAS score, instead of 30.
4	Resident Satisfaction	Eliminated: • The resident service and satisfaction indicator and the resident survey have been eliminated.

ID	Current Indicator	Description of Changes
5	Capital Fund Program Indicator does not exist	Added: • HUD added a new 10 point Capital Fund Program indicator. • The Capital Fund Indicator has two 5-point sub-indicators. • The timeliness of fund obligation sub-indicator is a scoring threshold. Failure to meet this sub-indicator results in 0 points for the indicator. • The occupancy rate computation measures the adjusted occupancy at the PHA level. If the timeliness of fund obligation is scored, the PHA can receive 0, 2 or 5 points for this occupancy measure.
6	PHA Designation	Modified: • Added a *Capital Fund Program Troubled Performer* designation for a PHA that receives less than 50 percent of the points for the Capital Fund indicator. • To be a *High Performer* or *Standard Performer*, a PHA must achieve at least 50 percent of the points under the Capital Fund program indicator. • Added a *Substandard Performer* designation for PHAs that have an overall PHAS score of at least 60 but less than 60 percent of the total points in one or more of Physical (24), Financial (15), or Management Operations (15) indicators. • A PHA will be designated troubled if the PHA receives an overall PHAS score of less than 60.
7	Assessment Frequency	Modified: • Small PHAs (less than 250 public housing units) will be assessed under PHAS based on their overall PHAS score. • PHAs with 250 or more public housing units will be assessed on an annual basis. • For the Physical Condition Indicator, there is a 3-2-1 inspection schedule. For small PHAs (less than 250 public housing units), the inspection schedule is determined by the overall PHAS score. For the large PHAs, the inspection schedule is determined by the project score. • In the baseline year (03/31/2011 to 12/31/2011), every PHA will receive an overall PHAS score based on assessments in all four of the PHAS indicators.

PHAS Designation

After the score is calculated for each project under the Physical, Financial, and Management Indicators, a weighted average (by number of units) indicator score is calculated and summed with the Capital Fund Program Indicator score to determine the PHA's overall PHAS score and performance designation. Section 902.11 of the Interim PHAS Rule provides for the following performance designations.

1. *High Performer.* A PHA is designated as a High Performer if all of the following conditions are met:
    - PHA achieves a score of at least 60 percent of the points available under the Physical (24), Financial (15), and Management Operations (15) indicators;
    - PHA achieves at least 50 percent (5 points) under the Capital indicator; and
    - PHA achieves an overall PHAS score of 90.

2. *Standard Performer.* A PHA that is not a high performer is designated as a standard performer if:
    - The PHA's overall PHAS score is at least 60; and
    - The PHA does not have a score of less than 60 percent of the total points available for the Physical, Financial and Management Operations indicators and less than 50 percent of the total points for the Capital Fund indicator.

3. *Substandard Performer.* A PHA is designated as a substandard performer if:
    - The PHA's overall PHAS score is at least 60 percent of the total points available; and
    - The PHA achieves a score of less than 60 percent under one or more of the Physical, Financial, or Management Operations indicators. The PHA would be designated as substandard physical, substandard financial or substandard management, respectively.

4. *Troubled Performer.* A PHA will be designated as troubled if a PHA achieves an overall PHAS score of less than 60.

5. *Capital Fund Troubled Performer.* A PHA will be designated as troubled if the PHA receives less than 50 percent of the points under the Capital Fund program indicator.

Designations and Assessments

The designations and assessments will be based on individual project scores. Small PHAs designated as High Performer will receive a PHAS assessment every three (3) years. Small PHAs designated as Troubled Performer will receive a PHAS assessment every year. *Table 7.9* below summarizes the designations and assessments for small PHAs:

Table 7.9 Assessment of Small PHAs (less than 250 public housing units)

	High Performer	Standard Performer	Substandard Performer	Troubled Performer	Capital Fund Program Troubled
Receives PHAS assessment:	Every 3 Years	Every 2 Years	Every 2 Years	Every Year	Every Year

Large PHAs designated as High Performer will receive a PHAS assessment every three (3) years. Large PHAs designated as Troubled Performer will receive a PHAS assessment every year. *Table 7.10* below summarizes the designations and assessments for large PHAs:

Table 7.10 Assessment of Large PHAs (more than 250 public housing units)

	High Performer	Standard Performer	Substandard Performer	Troubled Performer	Capital Fund Program Troubled
Receives PHAS assessment:	Every 3 Years	Every 2 Years	Every 2 Years	Every Year	Every Year
PASS inspections (Based on individual project scores)	**≥90**	**80 to 89**	**≤79**	-	-
	Every 3 Years*	Every 2 Years*	Every 2 Years*	Every Year**	Every Year**

** Based on individual project scores, the projects will be inspected according to the 3-2-1 rule*
*** Based on PHAS score designations, ALL projects in the PHA will be inspected every year*

The Interim Rule provides increased incentive for projects that perform well on the physical inspection. Projects in PHAs with 250 or more dwelling units that score 90 or higher on their physical inspection will be inspected every 3 years under the Interim Rule, while projects that receive at least 80 points but less than 90 points will be inspected every 2 years. All other projects will receive a physical condition inspection every year. All projects that are in overall troubled and Capital Fund-troubled PHAs will receive a physical condition inspection every year.

Appendix 7-1: Audit Flags and Penalties with Data Collection Form Line Items

Audit Flags	DCF Element #	Categories	Tier Classification
Financial Statement Audit Opinions(s)	G3000-010 Details: (G3000-210, G3000-220)	1. Unqualified Opinion	None
		2. Qualified Opinions (Low Rent & Capital Fund Only)	Tier 2
		3. Adverse Opinion(s)	Tier 1
		4. Disclaimer of Opinion(s)	Tier 1
Opinion(s) on Supplemental Information (Statement of Auditing Standard (SAS) 117 "in relation to" type of opinion)*	G3100-040	1. Fairly Stated	None
		2. Fairly Stated except for:	Tier 2
		3. No Opinion	Tier 1
		4. Incomplete or Missing	Tier 1
Report on Internal Control and Compliance and Other Matters Noted in Audit of Financial Statement performed in accordance with GAS (Low Rent and Capital Fund only)		1. Control Deficiencies	Tier 3
	G3000-030	† Significant Deficiencies (G3000-230, G3000-240)	
	G3000-040	† Material Weaknesses (G3000-250, G3000-260)	
	G3000-050	2. Material Noncompliance (G3000-270, G3000-280)	Tier 3
	G3000-060	3. Fraud (G3000-290, G3000-300)	Tier 3
	G3000-070	4. Illegal Acts (G3000-310, G3000-320)	Tier 3
	G3000-080	5. Abuse (G3000-330, G3000-340)	Tier 3
Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control over Compliance with OMB Circular A-133 (Opinion on Compliance with each Major Federal Program Requirements)	G4200-050	1. Unqualified opinion(s) on compliance with Low Rent program and Capital Fund program major federal requirements	None
		2. Qualified opinion(s) on compliance with Low Rent Programs and Capital Fund program major federal requirements (regardless of cause)	Tier 2
		3. Adverse opinion(s) on compliance with Low Rent program and Capital Fund program major federal requirements (regardless of cause)	Tier 1
		4. Disclaimer of opinions(s) on compliance with Low Rent Program and Capital Fund program major federal requirements (regardless of cause)	Tier 1
Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control over Compliance with OMB Circular A-133 (Internal Controls and Compliance)	G4200-100/ G4200-110	1. Control Deficiencies: Significant deficiencies in internal controls over compliance with Low Rent programs and Capital Fund program requirements Material weakness in internal controls over compliance with Low Rent program and Capital Fund program requirements	Tier 3
	G4200-120	2. Material noncompliance with Low Rent program and Capital Fund program requirements	Tier 3
Other Considerations:		1. Significant change penalty deduction applies only if the significant change(s) relate to the Low Rent or Capital Fund programs	Tier 2
	G3000-020	2. Going Concern	Tier 1
	G3100-050/ G3100-060	3. Management Discussion and Analysis and other supplemental information omitted	Tier 2
	G3000-005	4. Financial statements using basis other than GAAP	Tier 1

Note: The Significant Change penalty (number 1 under "Other Considerations") will be assessed for significant score changes (i.e., a decrease of three or more points) between the unaudited and audited submission.

Session 8 – Conclusion

Table of Contents

Questions and Answers [slide 2]

Course Evaluations [slide 2]