GOVERNING REGULATIONS AND GUIDANCE


BACKGROUND

Under the Consolidated and Further Continuing Appropriations Act of 2012, the U.S. Department of Housing and Urban Development (HUD) is authorized to implement the Rental Assistance Demonstration (RAD) program. RAD allows public housing agencies (PHAs) to convert projects currently funded under the Public Housing program to one of the following long-term, project-based Section 8 rental assistance programs: project-based vouchers (PBV) or project-based rental assistance (PBRA). With HUD approval of a PHA’s RAD application, HUD issues a Commitment to Enter into a Housing Assistance Payments Contract (CHAP). The CHAP describes the milestones the PHA must meet before HUD will issue a Housing Assistance Payments (HAP) contract for the project. The HAP contract is an agreement to provide project-based Section 8 rental assistance to the project. Once the PHA meets all the milestones in the CHAP, HUD will execute a HAP contract for PBV or PBRA as well as a RAD Use Agreement for the project. The project will be removed from the Public Housing program by releasing the project from the Declaration of Trust and removing it from the Public Housing Annual Contributions Contract (ACC).

Projects converting to RAD will experience a series of reporting changes based on the phase of the conversion and the timing of the reporting requirements. When a PHA converts a project from public housing to PBV or PBRA, different financial reporting requirements in the Financial Assessment Subsystem – Public Housing (FASS-PH) will apply to the RAD project. The timing and nature of the reporting changes will be based on Issuance of the CHAP and HAP contract, which can
happen at any time during a year\(^1\). The purpose of this Accounting Brief is to explain these reporting changes and how the PHA should report a project undergoing a RAD conversion. Specifically:

1. When the CHAP is issued, HUD will cease scoring projects undergoing conversion through the Public Housing Assessment System (PHAS). *(Page 3)*
2. When the HAP contract is issued, the project will be transferred from the PHA’s Public Housing program to another program administered by the PHA or a third party entity. *(Page 11)*
3. The project will continue to receive public housing funds through the end of the calendar year in which the HAP contract is issued. The PHA must transfer this funding to the new project. *(Page 13)*
4. Following the RAD conversion, the PHA will follow the financial reporting and funding rules for the new program. *(Page 15)*
5. If only a portion of a project will convert through RAD, special considerations apply. *(Page 17)*

**Current Public Housing Program Reporting**

This section provides an overview of the Financial Data Schedule (FDS) structure. The remainder of this Accounting Brief will describe the changes to FDS reporting as a result of RAD.

**Single Project FDS**

In the FASS-PH online system, each public housing project (e.g. PH001000003), must submit a *Single Project Balance Sheet Summary* and a *Single Project Revenue and Expense Summary*. Each project receives a FASS indicator score out of a potential 25 points. A weighted average score from all projects determines the overall FASS score. A sample *Single Project Revenue and Expense Summary* is shown below.

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\(^1\) While the examples in this guidance use quarter end dates for the award of the CHAP and HAP contract for ease of understanding, a CHAP can be awarded at any time during a year, while a HAP contract can only begin on the first day of a month.
Project FDS
Project information is then consolidated into a Project Balance Sheet Summary and a Project Revenue and Expense Summary, with columns for each single public housing project (from the “Total Project” column on the Single Project FDS) and a column for “Other Projects.” A sample Project Revenue and Expense Summary is shown below.

![Project Revenue and Expense Summary](image)

Entity Wide FDS
Finally, the PHA must submit an Entity Wide Balance Sheet Summary and an Entity Wide Revenue and Expense Summary, with columns for each PHA program. The “Project Total” column summarizes project information from the Public Housing program (from the “Total” column on the Project FDS). A sample Entity Wide Revenue and Expense Summary is shown below.

![Entity Wide Revenue and Expense Summary](image)

CHAP Issuance – RAD Conversion Year Indicator
Projects undergoing RAD conversion will not be scored under PHAS, as written in Section 1.5.1 of the RAD Notice:

Public Housing Assessment System (PHAS). After issuance of a CHAP, the Converting Project shall not be issued PHAS scores beginning with the fiscal year in which the CHAP was issued and continuing through subsequent fiscal years until conversion to Section 8. For a project with a CHAP to be excluded from PHAS indicator scores, immediately after the issuance of the CHAP the PHA must submit an
application in the PIC Inventory Removals Module, as either “RAD Conversion PBV” or “RAD Conversion PBRA,” for all units covered by the CHAP (see Section 1.12.B). In order to be excluded from PHAS scoring, the PHA must submit the application in PIC by the fiscal year end for the project.

After issuance of the CHAP and submission of the application in PIC, but prior to conversion, all projects with a CHAP remain subject to the four PHAS assessments but will not be issued scores for the assessments. “Subject to the four PHAS assessments” means that the PHA must timely submit the required financial data schedule for each project with a CHAP and that the project will be subject to a physical inspection, a management assessment based on the financial submission, and a Capital Fund Program assessment. However, these scores will not be issued. If a PHA has at least one project without a CHAP or has any project with a CHAP for which the application has not been submitted in PIC by the fiscal year end, the PHA will receive a PHAS score and designation for that fiscal year. If HUD revokes the CHAP, HUD reserves the right to issue the PHAS scores (or reassess and rescore all PHAS indicators, in its sole discretion) and issue the PHAS designation for all fiscal years for the projects under the CHAP.

Accordingly, projects undergoing conversion will not receive a PHAS score beginning in the fiscal year in which HUD issues the CHAP.

**RAD Conversion Year Indicator**

As described above, HUD will issue a CHAP. The issuance of a CHAP allows for a project to convert as long as all the milestones and requirements in CHAP are met. During this conversion process the project will remain in the Public Housing program until HUD issues a HAP contract and the Declaration of Trust has been released. Therefore converting projects and the associated units will remain in the Public Housing Information Center (PIC) and will be reflected in the FASS-PH system, until HUD issues the HAP contract and the unit status in PIC is properly marked as “Removed from Inventory” or another similar status.

A new field called the “RAD Conversion Year Indicator” (RAD indicator) was added in the FASS-PH system to identify public housing projects that are converting through RAD. In FASS-PH, the RAD indicator will be displayed for each project, except the “Other Project,” on the “Income Statement – Project Program Listing” page. The RAD indicator will be automatically populated as “Yes” or “No” based on data contained in PIC, beginning in the fiscal year in which the CHAP is issued. The FASS-PH system will not include projects with RAD indicators marked “Yes” in the PHAS scoring calculation.

In order to prevent the RAD project from being scored, the PHA must identify the units covered by a CHAP by submitting an application in the Inventory Removals module of PIC. Unit classifications will be either “RAD Conversion PBV” or “RAD Conversion PBRA.” It is imperative that the application be submitted within 30 days of the CHAP award date. (Instructions for such submissions are available at: https://portal.hud.gov/hudportal/HUD?src=/RAD/Awardee_Materials). It is imperative that PIC be properly updated, as it is the “RAD Conversion PBV” and the “RAD Conversion PBRA” status which determines if the RAD indicator in FASS-PH is marked as “Yes” or “No.” If PIC is not updated, the RAD indicator in FASS-PH will be marked as “No” and the project will be assessed under PHAS.
Therefore, before entering data into the FDS, a PHA with a project converting through RAD should first confirm that the RAD indicator for that project is marked “Yes.” If the RAD indicator is not marked “Yes,” the PHA will need to confirm that it submitted an application in the Inventory Removals module in PIC and work with HUD to ensure that PIC is properly updated before entering data for any projects or programs. To correct the RAD indicator once the units have been properly updated in PIC, the PHA will need to delete the FASS-PH submission, which will result in the loss of any data entered, and create a new submission; therefore, PHAs should make sure to check that RAD indicator is marked “Yes” before entering FDS data.

A screen shot of the RAD indicator in the FASS-PH system is provided below.

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**HAP Issuance – Financial Reporting**

Once a HAP contract is issued, the PHA must transfer the project from the Public Housing program to the new PBV or PBRA program. Normally, the effective date of a HAP contract will be the first day of the month following closing.\(^2\) (Closing refers to the process during which the project is released from the Public Housing Declaration of Trust (DOT) and Public Housing ACC, the new HAP contract and RAD Use Agreement are executed, and any debt and/or equity financing agreement is entered. In some cases, referred to as a “Delayed Conversion,” financing closing occurs first and the execution of the HAP contract and release from public housing DOT and ACC occurs only at construction completion.). For example, if the PHA went to closing on May 5, 2014, the HAP contract will begin on June 1, 2014, and the project will remain as public housing until May 31, 2014. The owner of the project after issuance of a HAP contract may not be the PHA. Instead, the owner of the project may be a separate legal entity other than the PHA, which can be referred to by different titles, such as wholly-owned affiliate, single asset entity, nonprofit, etc. How or if the project will continue to be reported on the FDS after the issuance of the HAP contract is dependent

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\(^2\) PHAs can also request that the HAP be effective the start of the second month following closing.
upon who legally owns the project (the PHA or another separate legal entity) and how much control or dependencies the PHA retains over the project if now owned by a separate legal entity.

The determination of the correct financial reporting requirements is unique to each conversion. It is recommended that the PHA heavily involve their auditor when determining and applying the financial reporting (component unit reporting) requirements. GASB Statement No. 14 “The Financial Reporting Entity” and No. 61 “The Financial Reporting Entity: Omnibus” provides the proper reporting guidance. However, regardless of the specific conversion, there are only four possibilities (columns) for reporting the project on the FDS:

- Business Activity
- Multifamily Program
- Component Unit (Blended or Discrete)
- Not Reported on the FDS

When the project requires third party financing for modernization as part of the conversion (low income housing tax credits, loans, etc.), normally the PHA disposes of the property to a separate legal entity. If no third party financing is needed, PHAs are not normally required to dispose of the property to a separate legal entity and can retain ownership of the property outright.

Component Unit Reporting

As mentioned above, some PHAs that convert under RAD will dispose of all or a portion of their public housing project to a legally separate entity. For example, many conversions to PBRA will likely result in the project being owned by single asset entity (a legally separate entity from the PHA with its own tax identification number (TIN)). Under GAAP as promulgated by GASB, special financial statement reporting requirements may apply to these legally separate entities. These reporting requirements are commonly referred to as component unit reporting.

As it relates to PHAs, component units are legally separate organizations for which the PHA and its Board of Commissioners are financially accountable or the nature and significance of their relationship with the PHA are such that exclusion would cause the PHA’s financial statements to be misleading. If it is determined that a legally separate organization does in fact meet the requirement of being a component unit of the PHA, the PHA will need to report the operations of the component unit (project), despite its separate legal status, in its financial statements.

Under GASB there are two types of component units: discretely-presented and blended.

- Discretely-presented component unit – A discrete presentation entails reporting component unit financial data in one or more columns separate (outside) from the basic financial data of the PHA and include certain note disclosures. Under this method, the financial information of the component unit is reported in conjunction with that of the PHA; however, it is not included in the financial data totals of the actual PHA. This presentation typically includes a total for the PHA with a separate total for the combined component units.

- Blended component unit – Some component units, despite being legally separate from the PHA, are so intertwined with the PHA that they are, in substance, the same as the PHA and should be

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3 GASB Statement No. 14 par graph 20 defines financial accountability.
reported as part of the PHA. That is, the component unit’s account balances and transactions should be reported in a manner similar to the account balances and transactions of the PHA itself. Under this method, the financial information of the component unit is included in the financial data totals of the PHA.

As a reminder, the FASS-PH system was updated to include both types of component units (discretely-presented and blended) for reporting purposes effective for PHAs with a December 31, 2013 fiscal year end or after. Previously, the FASS-PH system required PHAs to report both discretely-presented and blended component units in the same column. This system update now requires PHA’s to submit their component unit data under program “6.1 Component Unit – Discretely Presented” and/or “6.2 Component Unit – Blended” respectively.

Not all disposals of the property to a legally separate organization will require component unit reporting requirements. This means that, while in the year of disposition, the PHA would need to report the disposal of the asset (property) and the transfer of funds through the end of the calendar year in its financial statements. There would be no further reporting requirements in the PHA’s financial statement in subsequent years. For this accounting brief, this type of disposal is referred to as being sold to an “independent third party.”

**Use of Proceeds from Disposition of Property**

The use of the proceeds related to the disposition of a property under PBRA will be determined as part of the approval / conversion process. Unless HUD restricts the use of the proceeds from a disposition of a project under RAD, the proceeds may be used to support the general mission of the PHA. If HUD places no restriction on the use of the proceeds, the proceeds should be reported as unrestricted cash and investments in either the COCC or business activity column on the FDS. If HUD restricts all or some of the use of the proceeds, the portion that is restricted should be reported as restricted cash and investments in the appropriate program. For example if HUD restricted $100,000 of the proceeds to be used for security upgrades at projects that are remaining public housing, $100,000 would be reported as restricted cash in the public housing program, while the remaining proceeds would be reported as unrestricted in the COCC or business activity column.

**Typical Reporting Scenarios**

- **PBV** – PBV is part of the Housing Choice Voucher (HCV) program under HUD’s Office of Public and Indian Housing (PIH). The PBV program operates similarly to the current HCV program, with one notable exception. Vouchers are project specific and not transferable to another location. There are three parties involved in the PBV program: 1) HUD; 2) the PHA that administers the HAP contract (HCV program); and 3) the owner of the project. HUD will provide funding to the PHA administering the HAP contract through an ACC. The PHA will then enter into a HAP contract with the owner of the project. In a number of PBV conversions, both the HCV and Public Housing programs are administered by the same PHA. Because a PHA cannot enter into a contact with itself, if the PHA that will administer the HAP contract is the same PHA that currently owns the project, HUD will normally require the project to be disposed of to another separate legal entity.

Normally in this case, the PHA will establish a wholly-owned affiliate organization to own the project. The affiliate will be a separate legal entity, such as a nonprofit subsidiary, that
is controlled by the PHA (i.e., the PHA will control the affiliate, which owns the project). The PHA will then enter into a HAP contract with the wholly-owned affiliate. For financial statement reporting, the wholly-owned affiliate will normally be treated as a blended component unit defined under GAAP.

Alternately, HUD has allowed some PHAs to continue to own the project but required the PHAs to create a new legal entity to serve as the management agent of the property. Under this method, the PHA will enter into a HAP contract with the management agent and the PHA will continue to own the property outright. For FDS reporting, the project would be reported as a business activity.

In some cases, another PHA will be administering the HCV program and the owner of the “converted” project will either remain the initial PHA or another entity to which the PHA disposed the project.

- **PBRA** – PBRA is a program under HUD’s Office of Housing (Multifamily). There are two parties involved in the PBRA program: 1) HUD and 2) the owner of the project. HUD will enter a HAP contract with the owner of the project.

PHAs that have elected to convert to PBRA and maintain ownership of the property under the PHA’s tax identification number (TIN) will report the property under the applicable Multifamily program on the FDS. However, it is likely that most PHAs adopting PBRA disposed of their property to a separate legal entity (a single asset entity) as part of the conversion process. In these cases, the PHA will need to determine if the property is considered a component unit and therefore may continue to be reported in the PHA’s financial statements as mentioned above.

Depending on the type of ownership and PHA’s control of the new project after conversion, several possibilities exist for reflecting the project on the PHA’s FDS.
The following table reflects the FDS column in which the project will be reported once the HAP contract has been issued for many of the usual conversions.

**Table 1. FDS Column Used in Reporting the Project After issuance of a HAP Contract**

<table>
<thead>
<tr>
<th>FDS Column Used in Reporting of Project</th>
<th>Business Activities</th>
<th>Multifamily Program</th>
<th>Component Unit</th>
<th>Removal from FDS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Typical Structure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• PHA converts project to PBV</td>
<td>• PHA converts project to PBRA</td>
<td>• PHA converts project to PBV or PBRA</td>
<td>• PHA converts project to PBV or PBRA</td>
</tr>
<tr>
<td></td>
<td>• PHA continues to own project</td>
<td>• PHA continues to own the project under its own TIN</td>
<td>• PHA disposes of the project to a legally separate organization; however, the PHA remains financially accountable for this legally separate organization or has a significant relationship with this legally separate organization (see component unit reporting above)</td>
<td>• PHA disposes of the project to an independent third party with which PHA has no relationship (does not meet component unit reporting requirements)</td>
</tr>
<tr>
<td></td>
<td>• A different PHA administers HAP contract or the PHA has created a separate legal entity to manage the property</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other Notes</strong></td>
<td><strong>The project must also be reported in FASS-Multifamily System (i.e., the project will be reported as part of the PHA’s FASS-PH submission and in the FASS-Multifamily System)</strong></td>
<td><strong>For FDS Reporting, the PHA will report the project in FDS column 6.1 Component Unit – Discretely Presented or FDS column 6.2 Component Unit – Blended</strong></td>
<td><strong>Projects converting to PBRA must also be reported in the FASS-Multifamily System</strong></td>
<td></td>
</tr>
</tbody>
</table>

The flow chart below outlines the process for determining where to report the project on the FDS following issuance of the HAP contract.

The project converts to PBV or PBRA assistance?

PBV

Will the PHA administer the HAP contract?

Yes

Normally the project will not be owned by the PHA.*

• Blended Component Unit: The project will normally be owned and fully controlled by a wholly-owned affiliate of the PHA; therefore, the project will be reflected in the Blended Component Unit column of the FDS.

• Discretely-Presented Component Unit: The project will be owned by a separate legal organization which the PHA is financially accountable for or has a significant relationship with; therefore, the project will be reflected in the Discretely-Presented Component Unit column of the FDS.

• Not on FDS: The project will be sold to a totally independent third party with no relationship with the PHA; therefore, the project will no longer be reflected on the PHA’s FDS.

No

Will the project still be owned by the PHA?

Yes

Business Activity: The project will be reflected in the Business Activity column of the FDS.

PBRA

Will the project still be owned by the PHA and have the same TIN?

Yes

Multifamily: The project will be reflected in the appropriate Multifamily column of the FDS.

No

• Blended Component Unit: The project will be owned by a separate legal organization but whose relationship meets the blending criteria of component unit reporting; therefore, the project will be reflected in the Blended Component Unit column of the FDS.

• Discretely-Presented Component Unit: The project will be owned by a separate legal organization which the PHA is financially accountable for or has a significant relationship with; therefore, the project will be reflected in the Discretely-Presented Component Unit column of the FDS.

• Not on FDS: The project will be sold to a totally independent third party with no relationship with the PHA; therefore, the project will no longer be reflected on the PHA’s FDS.

Note: If the PHA does not still own the project, the PHA should speak with its auditor about proper GAAP presentation (i.e. Blended Component Unit, Discretely-Presented Component Unit, Not on the FDS).

* If the PHA is allowed to both own the project and administer the respective HCV program, which administers the PBV vouchers, the project will be reported as a business activity on the PHA’s FDS.
When the HAP contract is issued, the project will be moved from the Public Housing program to the appropriate new program, as identified above. The corresponding changes to the FDS submitted in FASS-PH are described below.

**Revenue and Expense Summary and Balance Sheet**

Because the Revenue and Expense Summary reflects the PHA's financial performance over a period of time, the PHA will report any revenues earned and expenses incurred by the project prior to issuance of the HAP contract in the Public Housing program; and any revenues earned and expenses incurred by the project after issuance of the HAP contract in the appropriate new program (Business Activities, Multifamily, or Component Unit, or, if the PHA disposes of the project to an independent third party, the PHA will no longer report the project’s revenues and expenses).

### Example:

For a PHA with a 12/31 fiscal year, HUD issues the HAP Contract for a project on 10/1/2014. The PHA is converting the whole project to PBRA and will dispose of the property to a separate entity which will be reported as a discretely-presented component unit. On the Revenue and Expense Summary for the fiscal year 1/1/2014 to 12/31/2014, the PHA will report any revenues and expenses for the project:

- Between 1/1/2014 and 9/30/2014 (9-month period) in the individual project’s column in the Public Housing program, and
- Between 10/1/2014 and 12/31/2014 (3-month period) in the discretely-presented component unit column.

The PHA must also determine the project’s equity at the time HUD issues the HAP contract and transfer or expense this amount from the Public Housing program. The transfer or expense will be reported as a negative number, assuming the project had positive equity. (This will ensure the project's Balance Sheet is zeroed out, as described below.) The PHA will use one of the following FDS line items to transfer or expense the equity out of the project:

- **11040 Prior Period Adjustments, Equity Transfers and Correction of Errors** – If the PHA is transferring the project to another program within the PHA (Business Activities or Multifamily).
- **10080 Special Items (Net Gain/Loss)**4 – If the PHA is disposing of the project to another entity (blended component unit, discretely-presented component unit or independent third party).

In the case of the property being transferred to another program, the receiving program will also use FDS line 11040 to show the “receipt” of the equity transfer. For a component unit (blended or discrete), FDS line 10080 would be used to show the receipt of the equity from the project. For financial statement reporting, some accountants or auditors may believe that this transaction does not meet the definition of a Special Item (FDS line 10080) and may classify the expense in another expense line in the basic financial statements; however, for FDS reporting, FDS line 10080 should be used to reflect the disposition of the asset to a component unit or independent third party.

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4 While HUD’s preference is for PHAs to use FDS line 10080 when reporting the disposition of the program to a blended component unit, the use of FDS line 11040 would also be acceptable FDS reporting.
Transfers to another program within the PHA or the use of the special item line to a blended component unit will need to be eliminated in the elimination column of the *Entity Wide Revenue and Expense Summary*, so that revenues and expenses for the fiscal year are not overstated. ("Transfers" to a discretely-presented component unit or an independent third party will not need to be eliminated.)

**Example (continued):**
The individual project column’s *Revenue and Expense Summary* reflects the following for the project converting through RAD between 1/1/2014 and 9/30/2014:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$2,236,390</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$2,902,184</td>
</tr>
<tr>
<td>Excess (Deficiency) of Total Revenue Over (Under) Total Expenses</td>
<td>($665,794)</td>
</tr>
<tr>
<td>Beginning Equity (as of 1/1/2014)</td>
<td>$6,136,837</td>
</tr>
<tr>
<td><strong>Equity as of 9/30/2014 – amount to be transferred or expensed</strong></td>
<td><strong>$5,471,043</strong></td>
</tr>
</tbody>
</table>

Therefore, the PHA must enter ($5,471,043) in line 10080 *Special Items (Net Gain/Loss)*. This will bring the equity for the project as of 9/30/2014 to $0.

Because the *Balance Sheet* reflects the PHA’s financial position at a point in time, the PHA must remove all assets, liabilities and equity/net position from the converting project’s column of financial statements at the time the HAP contract is issued. The PHA will remove each asset and liability account with the remaining net position charged to the income statement, as described above. This will bring the project’s assets, liabilities and equity/net position in the Public Housing program to zero.

**Example (continued):**
For the PHA with the 12/31 fiscal year, HUD issues the HAP contract for the project on 10/1/2014. The PHA is converting the project to PBRA and will dispose of the project to a separate entity. Depending on the point in time, the individual project’s column on the *Balance Sheet* will reflect:

<table>
<thead>
<tr>
<th>Description</th>
<th>As of 9/30/2014</th>
<th>As of 10/1/2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>$5,806,050</td>
<td>$0</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$335,007</td>
<td>$0</td>
</tr>
<tr>
<td>Total Equity/Net Assets</td>
<td>$5,471,043</td>
<td>$0</td>
</tr>
<tr>
<td>Total Liabilities and Equity/Net Assets</td>
<td>$5,806,050</td>
<td>$0</td>
</tr>
</tbody>
</table>

This transfer from the Public Housing program to the discretely-presented component unit was accomplished by entering ($5,471,043) in line 10080 *Special Items (Net Gain/Loss)* of the *Revenue and Expense Summary* in the project column and $5,471,403 in line 10080 in the discretely-presented component unit column, as described above.
Due to timing and record keeping, it is likely that the amount to be transferred will change throughout the process. For example, on the HAP contract date, not all the invoices from vendors (i.e., utility bills) or the final amount of cash proceeds from the cancellation of insurance may be known or received. Regardless of the amount and timing of the transfer, the accounting would be the same.

**Unit Month Status Reporting**

The PHA will simply report unit months available and leased for the project prior to issuance of the HAP contract under the public housing project; and unit months available and leased for the project after issuance of the HAP contract in the appropriate new program. If all the units in the project did not convert, the status of remaining ACC units will continue to be reported under the public housing project as usual. The following line items on the FDS would be impacted:

- 11190 Unit Months Available
- 11210 Number of Unit Months Leased.

**HAP ISSUANCE – FUNDING**

**Operating and Capital Funds**

Projects undergoing RAD conversion will be funded with Operating and Capital Funds for the entire calendar year in which the HAP contract is issued, as written in the RAD Notice:

“For the remainder of the first Calendar Year in which a HAP Contract is effective (the “year of conversion”), Operating Funds and Capital Funds will be obligated to the PHA for the Covered Project at the level of public housing subsidy which that project is eligible to receive regardless of the initial contract rent amount (OCAF). For example, a closing on December 10 will result in a HAP Contract that is effective on January 1 or February 1, as selected by the Project Owner. For the remainder of the Calendar Year which includes the January 1 or February 1 date, subsidy is paid from public housing funds obligated to the PHA regardless of the RAD HAP Contract rent amount or OCAF. Following conversion, the public housing units that are included in the RAD conversion will be removed from the Public Housing Information Center (PIC). This action will not impact public housing subsidy for the Covered Project for the balance of the Calendar Year.”

Accordingly, when the HAP contract is issued, the PHA will report Operating and Capital Fund revenue for the project in the Revenue and Expense Summary in the Public Housing program for the entire calendar year, which will likely not be the same as the PHA’s fiscal year. The Operating and Capital Fund revenue received for the project after issuance of the HAP contract in the initial calendar year of conversion will then be transferred or expensed to the appropriate new program or third party entity. The PHA will use one of the following FDS line items to transfer or expense the Operating and Capital Fund revenue:

- **10094 Transfers between Project and Program - Out** – if the PHA transferred the project to another program within the PHA (Business Activities or Multifamily).
- **97300 Housing Assistance Payments** – if the PHA disposed of the project to another entity (blended component unit, discretely-presented component unit or independent third party).

5 While HUD’s preference is for PHAs to use FDS line 97300 and 70800 when reporting the flow of funds between the PH program and the blended component unit, the use of FDS line 10093 and 10094 would also be acceptable FDS reporting.
In the case of the property being transferred to another program, the receiving program will use FDS line 10093 (Transfers between Project and Program – In) to show the “receipt” of the funds. For a component unit (blended or discrete), FDS line 70800 (Other Government Grants) would be used to show the revenue.

Unless these transfers / payments were to a discretely-presented component unit or an independent third party, these transfers/ payments will need to be eliminated in the elimination column of the Entity Wide Revenue and Expense Summary (including to a blended component unit), so that revenues and expenses for the fiscal year are not overstated.

For Single Audit reporting, the Operating Funds and Capital Funds as related to the Schedule of Expenditures of Federal Awards will be reported under CFDA # 14.850 (Low Rent Public Housing) and CFDA # 14.872 (Capital Fund Program) respectively. The use of these funds to support the converted project remains an eligible use of the funds.

**Example (continued):**
For the PHA with the 12/31 fiscal year, HUD issues the HAP contract for the project on 10/1/2014. The PHA is converting the project to PBRA and will dispose of the project to a separate entity which will be reported as a discretely-presented component unit. On the Revenue and Expense Summary for the fiscal year 1/1/2014 to 12/31/2014, the PHA will report Operating and Capital Funds as follows:

- Revenue in the Public Housing program for the entire fiscal year 1/1/2014 to 12/31/2014 (12-month period), and
- 97300 Housing Assistance Payments in the Public Housing program and 70800 Other Government Grants in the discretely-presented component unit column for 10/1/2014 to 12/31/2014 (3-month period) – the remainder of the calendar year after the HAP contract is issued.

The SEFA would show expenditures for Low Rent and Capital Fund programs for the entire year.

As discussed above, from the effective date of the HAP contract through the balance of the calendar year, the projects will continue to be funded through the public housing program accounts (the Operating Fund and the Capital Fund). In the calendar year of conversion⁶, the property is due all the public housing funds. Specifically related to a project converting under PBV, the Public Housing funds can only be used to pay for HAP costs. Under current rules, the administering PHA will not receive an administrative fee for the converting units during the calendar year of conversion. Payment of the administrative fee will begin with the subsequent calendar year, when funding for the units begins to flow through the administering agency’s ACC. During this period (effective date of HAP contact to the end of the CY) HAP payments and voucher leased information to the property

⁶As part of the initial conversion, the PHA administering the HCV program will normally receive notification from HUD (a new increment letter). This new increment notification confirms that these units are now part of the PHAs portfolio. However, unlike most new increments no funding will have been added for these vouchers, since these vouchers will be funded through the public housing account until the end of the calendar year.
supported from the funding in public housing LOCCS module should **not** be reported in the Voucher Management System (VMS).

**HUD Housing Assistance Payments**

Then, beginning the next calendar year, the project will receive HAP funding through either PBV or PBRA programs and should account for this revenue following the usual HCV or PBRA program accounting rules.

**POST-CONVERSION – FINANCIAL REPORTING & FUNDING**

The information above describes the financial reporting and funding rules for RAD projects through the end of the PHA’s fiscal year and calendar year in which the HAP contract is issued. Subsequent to this period, the RAD project will follow the financial reporting and funding rules for the HCV or PBRA program.

**Funding**

Once converted and beginning with a new calendar year, PHAs will receive HAP funding through either the HCV or PBRA program. PHAs will report these amounts as revenue in the appropriate new program (Business Activities, Multifamily, or Component Unit, HCV, or, if the PHA disposes of the project to an independent third party, the PHA will no longer report revenues).

**PBRA Financial Reporting**

If the project is also a component unit of the PHA, the operations of the project will also be reflected in the PHA’s submission as either a blended or discretely-presented component unit. A PHA with no remaining interest (i.e., is not a component unit or program of the PHA) will not report project operations in the PHA’s financial statements. In FASS-PH, financial data for programs and component units are entered in aggregate into the program or component unit column. For example, if the PHA has two blended component units, the information for both component units would be reported in the blended component unit column in the FDS.

In addition, projects using the PBRA option of conversion will need to report each project separately in the FASS-Multifamily system. This reporting is in addition to any reporting, if any, of the projects in the PHA’s financial statements. At a minimum, the PBRA project will need to submit owner-certified financial statements in FASS-Multifamily system for each of their projects. PBRA projects with more than $500,000 ($750,000 for a project required to file under the revised Single Audit requirements) of Section 8 subsidy will be required to also submit audited statement of the project. Waivers of the audited submission requirements are available to the project if the project is included in the audited submission requirements of the PHA and shares the same TIN as the PHA. HUD's Office of Housing can provide further guidance on financial reporting in the FASS Multifamily system.

If the project has a unique TIN and yet is considered a component unit of the PHA, the project will file separately in the FASS-Multifamily system as described in the previous paragraph. However, PHAs will also be required to include the project as a component unit under the guidelines discussed previously.

Projects sharing the same TIN as the PHA will submit owner-certified financial statements in FASS-Multifamily for each project within 90 days after year end. If the project has in excess of $500,000
($750,000 for a project required to file under the revised Single Audit requirements) of Federal
awards including any related HUD - guaranteed mortgage, the PHA will also be required to file
audited financial statements within nine months of year end. However, these projects may apply
for a waiver of to file a separate audit in FASS-Multifamily once the PHA’s audited statements,
including the multifamily projects, are received in the FASS-PH system. Such a waiver request must
be submitted through the FASS Multifamily system.

More information of filing requirements can be found in the “Submission and Review Requirements
and REMS Data Dependencies for Annual Financial Submissions” memo dated June 5, 2002.

PBV Funding and Financial Reporting
As discussed previously, if the PHA that will administer the HAP contract is the same PHA that
owns the project, conversion of the project to PBV through RAD will normally require the
establishment of a wholly-owned affiliate organization to own the project. The affiliate will be a
separate legal entity that is controlled by the PHA and will normally be reported as a blended
component unit.

At the start of the next calendar year, the PHA’s HCV program directly will start receiving additional
HAP and administrative fees to support the project based vouchers\(^7\). No special reporting is
required as a result. The PHA’s HCV program will report the funds earned just like it would for the
rest of its portfolio of vouchers. The HAP funds and administrative fees earned will be reported in
line 70600 (HUD PHA Operating Grants) in the PHA’s HCV program with all other HAP and
administrative fees earned. HAP expenses, including the housing assistance payments to the
wholly-owned affiliate organization will be reported in FDS line 97300 (Housing Assistance
Payments) even though the wholly-owned affiliate organization will likely be reported as a blended
component unit. The wholly-owned affiliate organization (blended component unit) should report
the HAP funds received on FDS line 70800 (Other Government Grants). These funds should be
eliminated using the elimination column.

This same FDS reporting should be used when the PHA continues to own the project but the
PHA was required to create a new legal entity to serve as the management agent of the property;
with the only difference being that the project will be reported in the business activity column
instead of the blended component unit column on the FDS.

The same accounts and overall flow of funds will be used in the case where a different PHA now
administers the HCV program but the project is being reported by the PHA which converted its
project. The only difference would be that the HAP and administrative fees from HUD would be

\(^7\) Following the year of conversion (i.e., starting January 1), coinciding with when HUD provides a new increment
of HAP funding to the Section 8 ACC, PHAs administering the vouchers will begin submitting monthly data in VMS.
VMS reporting will be used to reconcile PHAs’ disbursements for all HAP funds received, including those received
for RAD PBV contracts. In accordance with HUD Notice PIH 2011–67, HUD will compare the PHA’s actual costs to
funds disbursed for the quarter to determine if there is an over- or underpayment for the period under review.
Administrative Fee disbursements will be reconciled in the same quarterly manner and will be based on PHAs’
leasing reported in the VMS compared to administrative fee disbursements for the same time period.
reported in line 70600 (HUD PHA Operating Grants) in the other PHA’s HCV program and the funds would not be eliminated as the transactions are likely between two totally unrelated third parties.

**Partial Conversions of Projects**

Through RAD, PHAs may apply to convert only a portion of a public housing project to PBV or PBRA. (For example, a project may include multiple buildings, and the PHA may convert one or several of the buildings.) For the fiscal year in which the CHAP is issued, the PHA will follow the same procedures described above for full conversions – the entire project will continue to be reflected in its own column of the Public Housing program in FASS-PH, and the RAD indicator for the project will be marked “Yes” so the entire project will not be scored through PHAS.

Then, once the HAP contract is issued, the PHA will transfer the buildings converted through RAD from the Public Housing program to the appropriate new program (i.e., Business Activities, Multifamily, Component Unit, or an independent third party), as described previously. The buildings remaining as public housing will continue to be reported as an individual project in the Public Housing program. For the fiscal year in which the HAP contract is issued, the RAD indicator will continue to be marked “Yes” so the project will not be scored through PHAS.

Following the year of conversion, the RAD indicator for the project will be reset to “No” and will be scored as usual. When a PHA creates a submission after conversion, the PHA should review the RAD indicator in FASS-PH to be sure the RAD indicator is marked as “No.”

**Example:**

A PHA has a project with 100 units, which are divided between two buildings – a 60 unit building which will remain public housing, and a 40 unit building which will convert to PBRA through RAD with the PHA maintaining ownership and sharing the same TIN. The PHA has a 9/30 fiscal year and HUD issues the HAP for partial conversion of the project on 7/1/2014. For the PHA’s fiscal year 10/1/2013 to 9/30/2014, the project should be reflected on the FDS as follows:

- The entire 100 unit project will be reflected in its own column of the Public Housing program for the nine months of the fiscal year the project was public housing (10/1/2013 to 6/30/2014). However, the RAD indicator will be marked “Yes” and the project will not be scored.
- The 60 unit building that is remaining public housing will continue to be reported in the same public housing project for the remaining three months of the fiscal year (7/1/2014 to 9/30/2014).
- In the Public Housing program, unit months available and unit months leased will reflect the 100 units from 10/1/2013 to 6/30/2014 and the 60 units from 7/1/2014 to 9/30/2014.
- The 40 unit building that is converting to PBRA through RAD will be reported in the Multifamily program for the three months of the fiscal year following the HAP (7/1/2014 to 9/30/2014).
- The Equity transfer for the 40 unit building will occur at the time of HAP issuance.
- Following the year of the conversion (fiscal year end 09/30/2015), the RAD indicator will be reset to “No.”
**SUMMARY**

The table below identifies the accounting transactions after issuance of a HAP contract.

<table>
<thead>
<tr>
<th>FDS Column Project is Reported</th>
<th>Business Activity</th>
<th>Multifamily</th>
<th>Blended Component Unit</th>
<th>Discretely-Presented Component Unit</th>
<th>Not on FDS (i.e., Transferred to Independent Third Party)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Removal of Project from Declaration of Trust and ACC (Issuance of HAP)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>What FDS line item should be used in the PH project column when transferring the project out of the Public Housing program?</td>
<td>Line 11040 Prior Period Adjustments, Equity Transfers and Correction of Errors</td>
<td>Line 11040 Prior Period Adjustments, Equity Transfers and Correction of Errors</td>
<td>Line 10080 Special Items (Net Gain/Loss)</td>
<td>Line 10080 Special Items (Net Gain/Loss)</td>
<td>Line 10080 Special Items (Net Gain/Loss)</td>
</tr>
<tr>
<td>What FDS line item should be used in the new applicable program when receiving the project?</td>
<td>Line 11040 Prior Period Adjustments, Equity Transfers and Correction of Errors</td>
<td>Line 11040 Prior Period Adjustments, Equity Transfers and Correction of Errors</td>
<td>Line 10080 Special Items (Net Gain/Loss)</td>
<td>Line 10080 Special Items (Net Gain/Loss)</td>
<td>N/A</td>
</tr>
<tr>
<td>Do entries need to be eliminated via the elimination column?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Operating and Capital Fund Revenue for the Remainder of the Calendar Year</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>What FDS line item should be used to show the ongoing transfer of Operating and Capital Fund Revenue from the Public Housing Program for project operations until the end of the CY?</td>
<td>Line 10094 Transfers btw Project and Program - Out</td>
<td>Line 10094 Transfers btw Project and Program - Out</td>
<td>Line 97300 Housing Assistance Payments</td>
<td>Line 97300 Housing Assistance Payments</td>
<td>Line 97300 Housing Assistance Payments</td>
</tr>
<tr>
<td>What FDS line item should be used to show the ongoing receipt Operating and Capital Fund Revenue in the new applicable program for project operations until the end of the CY?</td>
<td>Line 10093 Transfers btw Project and Program - In</td>
<td>Line 10093 Transfers btw Project and Program - In</td>
<td>Line 70800 Other Government Grants</td>
<td>Line 70800 Other Government Grants</td>
<td>N/A</td>
</tr>
<tr>
<td>Do entries need to be eliminated via the elimination column?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>
Example: 12/31 PHA

A PHA with a 12/31 fiscal year has a CHAP issued on 9/30/2013 and a HAP contract issued on 10/1/2014 for its project PH001000003. The project will be converting from public housing to PBRA, and the PHA will dispose of the project to a separate entity which will be reported as a discretely-presented component unit.

The PHA’s financial reporting and funding for this project will follow the timeline below:

Financial Reporting:
1. Prior to RAD, on the PHA’s FDS for FYEs 12/31/2012 and before, the project was reflected in its own column (PH001000003) of the Public Housing program.

2. HUD issued the CHAP for the project on 9/30/2013, which is during the PHA’s FYE 12/31/2013. However, until the HAP contract is issued, the project is still public housing and remains on the PHA’s ACC. Therefore, on the PHA’s FYE 12/31/2013 FDS, the project will continue to be reflected in its own column of the Public Housing program for the entire fiscal year (1/1/2013 to 12/31/2013). However, the project’s RAD indicator will be automatically populated as “Yes,” so the project will not be scored through PHAS for this entire year.

3. HUD then issued the HAP contract for the project on 10/1/2014, which is during the PHA’s FYE 12/31/2014. At this time, the project is no longer public housing and is removed from the PHA’s ACC. Therefore, on the PHA’s FYE 12/31/2014 FDS, the project must be reflected in:
   • The individual project’s column of the Public Housing program for twelve months:
     - Nine months of the fiscal year when the project was public housing (1/1/2014 to 9/30/2014) and
     - Three months of the fiscal year when the project was a discretely-presented component unit but was funded through Operating and Capital Funds (10/1/2014 to 12/31/2014). This will allow the PHA to reflect the continued receipt and transfer of the
aforementioned funds for the remainder of the calendar year (see additional information on funding below).

- The discretely-presented component unit column for the three months of the fiscal year the project was PBRA (10/1/2014 to 12/31/2014).

4. On the PHA’s FDS for FYEs 12/31/2015 and after, the project will be reflected in the discretely-presented component unit column.

**Funding:**

1. Prior to RAD, for calendar years 12/31/2012 and before, the project was funded through the Operating and Capital Funds. This was reflected as revenue on the PHA’s FDS for FYEs 12/31/2012 and before, in the project’s own column (PH001000003) of the Public Housing program.

2. HUD issued the CHAP for the project on 9/30/2013, which is during calendar year 12/31/2013. Again, until the HAP contract is issued, the project is still public housing and remains on the PHA’s ACC. Therefore, the project will continue to be funded through the Operating and Capital Funds for the entire calendar year (1/1/2013 to 12/31/2013). On the PHA’s FYE 12/31/2013 FDS, this will be reflected as revenue in the project’s own column of the Public Housing program for the entire fiscal year (1/1/2013 to 12/31/2013).

3. HUD then issued the HAP contract for the project on 10/1/2014, which is during calendar year 12/31/2014. At this time, the project is no longer public housing and is removed from the PHA’s ACC. However, the project will continue to be funded through the Operating and Capital Funds for the entire calendar year (1/1/2014 to 12/31/2014). On the PHA’s FYE 12/31/2014 FDS, this will be reflected as:
   - Operating and Capital Fund Revenue (70600 HUD PHA Operating Grants) in the Public Housing program for the entire fiscal year (1/1/2014 to 12/31/2014).
   - 97300 Housing Assistance Payments in the Public Housing program to reflect the transfer of funds to the discretely-presented component unit for the three months of the fiscal year the project was PBRA (10/1/2014 to 12/31/2014).
   - 70800 Other Government Grants in the discretely-presented component unit column to reflect the transfer of funds from the Public Housing program for the three months of the fiscal year the project was PBRA (10/1/2014 to 12/31/2014).
   - No elimination entries will be needed for the transfer of HAP to the project.

4. After RAD, for calendar years 12/31/2015 and after, the project will be funded through HAP funding from the PBRA contract. This will be reflected as revenue on the PHA’s FDS for FYEs 12/31/2015 and after, in the discretely-presented component unit column.
COMPREHENSIVE EXAMPLE #2

In the example below, the PHA's fiscal year and the calendar year do not align.

Example: 3/31 PHA

A PHA with a 3/31 fiscal year has a CHAP issued 6/30/2013 and a HAP contract issued 7/1/2014 for its project PH002000001. The project will be converting from public housing to PBV, and the PHA will administer the HAP contract. The project is now owned by wholly-owned affiliate, which will be reported as a blended component unit on the PHA’s FDS.

The PHA’s financial reporting and funding for this project will follow the timeline below:

Financial Reporting:

1. Prior to RAD, on the PHA’s FDS for FYEs 3/31/2013 and before, the project was reflected in its own column (PH002000001) of the Public Housing program.

2. HUD issued the CHAP for the project on 6/30/2013, which is during the PHA’s FYE 3/31/2014. However, until the HAP contract is issued, the project is still public housing and remains on the PHA’s ACC. Therefore, on the PHA’s FYE 3/31/2014 FDS, the project must be reflected in its own column of the Public Housing program for the entire fiscal year (4/1/2013 to 3/31/2014). However, the project’s RAD indicator will be automatically populated as “Yes,” so the project will not be scored through PHAS for this entire year.

3. HUD then issued the HAP contract for the project on 7/1/2014, which is during the PHA’s FYE 3/31/2015. At this time, the project is no longer public housing and is removed from the PHA’s ACC. Therefore, on the PHA’s FYE 3/31/2015 FDS, the project must be reflected in:
   • The individual project’s own column of the Public Housing program for nine months:
     o Three months of the fiscal year when the project was public housing (4/1/2014 to 6/30/2014) and
     o Six months of the fiscal year when the project was a blended component unit but was funded through Operating and Capital Funds (7/1/2014 to 12/31/2014). This will allow
the PHA to reflect the continued receipt and transfer of the aforementioned funds for the remainder of the calendar year (see additional information on funding below).

- The blended component unit column for the nine months of the fiscal year the project was PBV (7/1/2014 to 3/31/2015).

4. After RAD, on the PHA’s FDS for FYEs 3/31/2016 and after, the project will be reflected in the blended component unit column.

**Funding:**

1. Prior to RAD, on the PHA’s FDS for FYEs 3/31/2013 and before, the project was funded through the Operating and Capital Funds on a calendar year basis. This was reflected as revenue on the PHA’s FDS for FYEs 3/31/2013 and before, in the project’s own column (PH002000001) of the Public Housing program.

2. HUD issued the CHAP for the project on 6/30/2013, which is during the PHA’s FYE 3/31/2014 and calendar year 12/31/2013. Again, until the HAP contract is issued, the project is still public housing and remains on the PHA’s ACC. Therefore, the project will continue to be funded through the Operating and Capital Funds. On the PHA’s FYE 3/31/2014 FDS, this will be reflected as revenue in the project’s own column of the Public Housing program for the entire fiscal year (4/1/2013 to 3/31/2014).

3. HUD then issued the HAP contract for the project on 7/1/2014, which is during the PHA’s FYE 3/31/2015 and calendar year 12/31/2014. At this time, the project is no longer public housing and is removed from the PHA’s ACC. However, the project will continue to be funded through the Operating and Capital Funds until the end of the calendar year on 12/31/2014. Then, the project will be funded through HCV funding at the beginning of the next calendar year. On the PHA’s FYE 3/31/2015 FDS, this will be reflected as:
   - Operating and Capital Fund Revenue in the Public Housing program through the end of the calendar year, which is nine months of the PHA’s fiscal year (4/1/2014 to 12/31/2014).
   - 97300 Housing Assistance Payments in the Public Housing program to reflect the transfer of funds to the blended component unit for the six months of the fiscal year the project was PBV but was still funded through the PHA’s Operating and Capital Funds (7/1/2014 to 12/31/2014).
   - 70800 Other Government Grants in the blended component unit column to reflect the transfer of funds from the Public Housing program for the six months of the fiscal year the project was PBV but was still funded through the Operating and Capital Funds (7/1/2014 to 12/31/2014).
   - Elimination entries will be needed.

4. After RAD, for calendar years 12/31/2015 and after, the project (blended component unit) will be funded through HAP funding from the PHAs HCV program, which will need to be eliminated.