Bad Debt Expense and Financial Data Schedule Reporting:

As a result of Office of Management and Budget (OMB) issuance of 2 CFR Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards", uncertainty has arisen as to the applicability of reporting bad debt expense on the Financial Data Schedule (FDS). The uncertainty seems to be related to Section 200.426, as follows:

> *Bad debts (debts which have been determined to be uncollectable), including losses (whether actual or estimated) arising from uncollectable accounts and other claims, are unallowable. Related collection costs, and related legal costs, arising from such debts after they have been determined to be uncollectable are also unallowable. See also § 200.428*

Consequently, some Public Housing Agencies (PHAs) are considering adjusting or reducing the FDS tenant rental revenue account (FDS line 70300 / 70400) by the amount of the bad debt expense to satisfy the regulation. Generally Accepted Accounting Principles (GAAP) requires that revenues be reported net of discounts and allowances with the discount or allowance amount parenthetically disclosed on the face of the statement or in a note to the financial statements. Alternatively, revenues may be reported gross with the related discounts and allowances reported directly beneath the revenue amount[1].

However, reducing tenant rental revenue for bad debt expense ultimately results in bad debt expense being erroneously charged to the Federal award and results in non-compliance with 2 CFR Part 200 since tenant rental revenue reported in the FDS is a component of the operating subsidy calculation. To avoid impacting the Federal Program with the effects of bad debts, HUD established the account "Bad debt - tenant rents" (FDS line 96400) for FDS reporting purposes.

The FDS, required by 2 CFR Part 5, is a GAAP-based financial report submitted electronically to HUD and is Supplemental Information to the PHA's financial statements. The FDS must agree and tie to the PHA's basic financial statements. Using the allowance method to determine uncollectible tenant accounts receivable (bad debt expense) is acceptable reporting under GAAP and should not be confused with determining allowable costs under a Federal grant. Accordingly, PHAs should continue to report bad debt expense on their FDS (FDS Line 96400) and in their basic financial statements without change.

The cost principles contained in 2 CFR Part 200 relate to allowable costs charged to Federal awards, work performed for cost reimbursable type contracts and the pricing of fixed-price contracts and subcontracts where costs are used in determining price and are not associate with financial reporting.

Reporting bad debt Expense on a non-Federal entity's financial statements does not constitute charging a Federal award. As stated in Section 200.400(d), "*the application of these cost principles should require no significant changes in the internal accounting policies and practices of the non-Federal entity. However, the accounting practices of the non-Federal entity must be consistent with these cost principles and support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to the*

[1] GASB Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, paragraph 100, footnote 41.

Federal award." Accordingly, in order to arrive at allowable costs for a cost reimbursable type contract or forward pricing of a potential contract, the non-Federal entity's financial statements are adjusted for unallowable costs.

Accordingly, the Uniform Guidance established in 2 CFR Part 200 does not require significant adjustment to the reporting model established in the current FDS. PHAs should continue to report bad debt expense in FDS Line 96400 – Bad Debts Tenant Rents.