

FREQUENTLY ASKED QUESTIONS (FAQ)
Financial Reporting Under the New Operating Fund Rule
Release 2.0
December 29, 2006 (deleted old question # 88, March 11, 2008)

On September 6, 2006, the Department issued two companion documents providing guidance related to financial reporting under the final rule on the Operating Fund Program:

1. PIH Notice 2006-33, Changes in Financial Management and Reporting Requirements for Public Housing Agencies Under the New Operating Fund Rule (24 CR 990). This notice included a “Supplement” to HUD Handbook 7485.1, REV., CHG-1, Financial Management Handbook; and

2. Federal Register Notice 71 FR 52710, Public Housing Operating Fund Program; Guidance on Implementation of Asset Management.

This document is the second release of certain technical clarifications and/or responses to questions raised in regard to these two notices. It is anticipated that one or more additional FAQs will be issued on this subject matter, which the Department will post on its public housing asset management web site at:

www.hud.gov/offices/pih/programs/ph/am/

Separately, the Department will soon publish its response to the public comments received on the above notices. At that time, the Department will issue revised notices and Supplement. This document addresses technical and not policy issues.

ASSIGNING BALANCE SHEET ITEMS

1. After allocating cash/investments, could the COCC have negative working capital? What about unfunded liabilities?

The COCC should never begin with negative equity. If there is not enough equity for the COCC to receive its working capital, it will book a receivable from each project. Also, if there are legacy costs that are assigned to the COCC, the COCC should also book a receivable for that legacy cost or receive funds set aside for that purpose.

2. When is the assignment of balance sheet items to be done? Is it to be in line with the filing of the initial FDS under asset management?

The assignment of balance sheet items between the COCC and projects is to occur at the end of the first year of project-based budgeting/accounting, to be reflected with the initial FDS filed under asset management.

AUDITING

3. The Department recommends that PHAs work closely with their auditors to ensure that assets and liabilities are allocated along appropriate organizational lines. Could such action cause an issue of audit independence?

The auditor’s function generally includes a requirement that it concur with the allocation method by which a PHA allocates such financial statement items among AMPs. To this extent, the auditor should understand the allocation method, and attest that it is reasonable.

4. PHAs are instructed to record within the COCC the reimbursement of auditing fees as income. Shouldn’t this instead be a reimbursement of an expense, not income? An outside vendor, and not

the COCC, is providing the audit service. That would be like the COCC paying the entire phone bill and getting reimbursed by the properties and showing that as income.

After reevaluating the audit cost instructions in the initial guide, the Department now believes that a reasonable cost of the audit should be reported directly at each AMP, COCC, and any other program or business activity covered by the audit. In effect, the cost of the audit is reasonably allocated to each cost center. There will be no fee associated with this transaction and, therefore, there will be no need for any elimination. The COCC portion of audit expense is a direct cost to the COCC and, therefore, must be paid through non-program income, i.e. fee for service. These instructions will be reflected in the revised Supplement.

5. What does it mean that auditors will only give an "in relation to" opinion? Does this mean that the data on the supplemental AMP schedules cannot be relied on for accuracy?

It means the auditor renders an opinion on the PHA entity-level financial statements, which are in relation to AMP-level financial data. AMP financial statements tie to entity-wide audited financial information at the PHA level.

CAPITAL FUND

6. In what instances can the Operating or Capital Fund pay for an equipment of the central office?
Revised guidance will be included with the updated Supplement.

7. The Supplement reads: "When a PHA transfers funds from the Capital Fund to the Operating Fund, these funds lose their Capital Fund Program identity and are then governed by all Operating Fund rules." Please explain what HUD means.

Upon transfer to operations (BLI 1406) from the Capital Fund program, these funds are now governed by the Operating Fund program and the funds can be spent only on Operating Fund eligible activities, which are project specific. Note that simply allocating funds to the 1406 BLI (transfers to operations) by itself does not implement the transfer: not until a PHA draws down the funds from 1406 is the transfer accomplished and the funds considered obligated and expended for purposes of meeting the 2 year obligation and 4 year expenditure requirements of Section 9(j) of the United States Housing Act of 1937. Once in operations, the funds stay in operations.

8. An architect designs plans for an improvement project for AMP 1. The expense for this service is considered a front-line cost and charged directly to the Capital Fund Program of AMP 1. The architect also assists the PHA in the preparation of the Annual Plan. As these costs are directly related to the planning and reporting functions, they are considered COCC expenses and are recovered through the Capital Fund Program management fee. Will the effect of this policy discourage professional planning assistance to the PHAs or encourage false billings?

An architect should readily be able to separate work that is performed related to general planning and work that is specific to the preparation of construction drawings for a particular project, etc. False billing risk is generally an issue of supporting documentation, audit procedures, and/or HUD management reviews to determine questionable expenditures.

- 9. PIH Notice 2006-33 indicates that current requirements and restrictions for the Replacement Housing Factor Funds, Emergency Grants and Natural Disaster Grants are unchanged at this time, unless otherwise noted elsewhere in the Notice. When will the Department provide further guidance on how and if these funds are affected by asset management?**

The impact of asset management on these other programs will be reviewed over the next year. The Department will issue further guidance in the future to the extent changes are required.

- 10. Can a PHA use the 1430 account for payments to an in-house architect for work on the AMPs if the in-house architect is better and cheaper than a contracted one?**

Yes. Specialized services may be charged to the AMP as a front-line cost obtained through the COCC as long as the cost is reasonable and is supported by actual timesheets.

- 11. Can an in-house architect be viewed as a specialized force account effort by a PHA?**

Yes. Architectural services performed for a specific AMP can be charged as a front-line cost to the AMP for actual, documented work performed. However, services unrelated to the actual construction process of an AMP will be recovered through management fees of the COCC.

- 12. Although PIH Notice 2006-33 indicates that construction supervisory and inspection costs are considered front line costs, the sample in the Stop-Loss Submission Kit shows the mod inspector as a COCC cost. Is the mod inspector a COCC cost or front line? Moreover, does the mod coordinator qualify possibly as a construction supervisor? Do answers differ for stop-loss and non-stop-loss agencies?**

The Stop Loss Kit was prepared prior to the issuance of the supplement. Construction supervisory costs are not funded through the Capital Fund management fee. Construction supervisory costs include costs related to the direct on-site supervision of construction activities incurred. These costs are directly related to the construction phase of the project and are considered a front line cost. Actual, documented on-site inspection costs are also considered an allowable front-line cost. In many cases, the mod coordinator acts in several capacities. These capacities may include actual, documented on-site inspections (front-line cost), procuring of contracts (COCC cost), and tracking and reporting of CF program activities (COCC cost). Front-line costs must be documented by timesheets supporting the actual activity charged to the AMP.

- 13. Can Clerk of the Works who are COCC employees be charged as a fee-for-service to the Capital Fund Program?**

No. PHAs must charge actual, documented costs for construction supervisory and related front-line expenses.

- 14. Page 36 section 7.8 of the Supplement references table 7.2. Should the reference instead be 7.1?**

Yes. The correct reference will be included in the updated Supplement.

- 15. In the Supplement, it states that PHAs may exercise fungibility but are required to reflect these changes on their Annual Plan submissions. What does this mean?**

The Asset Management Notice does not change the current requirements for PHAs to reflect fungibility in their PHA plans. It means simply that, while PHAs have fungibility across AMPs, the PHA may also need to notify the public of any material change in the Plan. PHAs continue to be required to update their plans and may be required to go through public consultation if the proposed changes are significant/substantial deviations from the original plan.

- 16. Will the Department continue to require Performance & Evaluation (P&E) reports on the Capital Fund? Will these reports also be modified?**

Yes. The Department will continue to require P&E reports, which will be modified to fit the new BLI accounts, when modified.

17. Will the FDS require Capital Fund data by grant years?

During the pilot training held in October, the Department showed multiple columns within each AMP for different Capital Fund program years. The Department has decided to do away with these multiple columns and only have a PHA report under one Capital Fund column at each AMP. The primary reason for this change is the fact that PHAs have the ability move work items between Capital Fund program years (it is common practice to move work items that have been completed from a recent grant to an older grant in order to meet obligation/expenditure deadlines). As such, the Department will not track Capital Fund grants by grant source year on the FDS at this time (such tracking will occur in E-LOCCS).

18. Performing a Physical Needs Assessment is covered by the CFP management fee. Are A&E fees to help with this work a 1410 or 1430 expense?

The referenced budget line items will be phased out with the implementation of the new FDS line items. Meanwhile, A & E is fundable through the management fee to the extent that it supports the annual planning process and/or other eligible administrative fee activities.

19. Does the 3-6% fee schedule for mixed-finance projects also include HOPE VI projects?

Yes.

20. What is the purpose of the supplemental Capital Fund column under the COCC?

This supplemental Capital Fund column will be used in only two instances: (1) when there is a debt payment under the Capital Fund Financing Program associated with an improvement to a COCC non-equipment asset and (2) when the Capital Fund is used to purchase land for, or make improvements to, a non-equipment COCC asset.

21. What is the purpose of the new FDS Capital Fund memo accounts shown in the Supplement?

Because previously the Department intended to use the FDS also to track Capital Fund grants by program year, the FDS presented at the pilot training included many Capital Fund memo accounts. With one exception, these memo accounts are now limited to capturing those Capital Fund transactions not previously reported on the FDS. In doing so, the total of the Capital Fund column will match the total transactions under the Capital Fund for that year. The one exception is a memo account relating to Management Improvement expenditures that are also administrative costs, which relates to small PHAs applying for stop-loss. (Only when there is an entry in this Management Improvement memo account will the total amount of all items shown in the Capital Fund column not match the PHA's Capital Fund transactions for that fiscal year.)

22. When will HUD be issuing guidance on converting Capital Fund Budget Line item (BLI) accounts to FDS accounts?

The Department is currently reviewing this process. Action is expected in 2007

23. How do you eliminate the Capital Fund management fee if it is capitalized?

The Capital Fund management fee is an administrative expense of running the Capital Fund and therefore is never associated with a capitalized item. As such, the Capital Fund management fee is expensed and eliminated just like any other fee.

24. Can a PHA still use the Capital Fund to undertake Vacancy Reduction efforts?

PHAs can use a portion of their operating fund (including Capital Funds transferred to operations through LOCCS BLI 1406) to do routine work that results in vacancy reduction. In some instances vacancy reduction can be billed as an eligible item to the Capital Fund grant itself separate and apart from any

operating budget expenditures. In this instance the PHA must be engaged in a systematic/wide spread effort that affects a large number of vacant units in order to reduce vacancies in those units. However, reporting of these expenditures must occur at the AMP level.

25. When a PHA uses the Capital Fund Financing Program, it is accelerating the amount of capital improvement activities. However, the PHA only gets the 10% management fee on the annual grant, not the amount that was leveraged. Can a PHA charge a management fee on the amount leveraged?

No. The management fee a PHA can charge is based on the annual Capital Fund grant. Actual, documented front-line costs, such as construction supervisory costs, can be charged as a front-line cost to the AMP and are therefore fully reimbursed.

26. The Supplement contains different draw down procedures for 2007 and future years for the Capital Fund. Are these procedures considered final?

These draw down procedures are under review and will be addressed after consideration of all public comments.

27. Will PHAs be able to charge a 10% management fee in the context of emergency/natural disaster grants?

The Department will determine how much of a management fee is appropriate in the context of emergency /natural disaster grants on a case-by-case basis.

28. Can a PHA charge salaries of staff involved in the administration of the Capital Fund to BLI 1430?

Yes. Salaries directly related to construction oversight (as opposed to general planning) can be charged as a front-line cost under BLI 1430. These costs must be documented (time sheets, etc.). Additional costs not supported by actual time incurred at the AMP must be paid for out of the 10% management fee charged by the COCC. Salaries related to direct administration of the Capital Fund program are to be paid from management fees.

29. Are all Capital Fund salaries now to be paid from the management fee (BLI 1410, Administration)?

No. As stated above, salaries directly related to construction oversight (as opposed to general planning) can be charged as a front-line cost under BLI 1430. Additional costs not supported by actual time incurred at the AMP (general planning costs) must be paid for out of the 10% management fee charged by the COCC.

30. When do these new fee-for-service rules become effective?

A PHA must adopt project-based budgeting/accounting for fiscal years beginning July 1, 2007, and thereafter. While the PHA will use a fee-for-service in its first year, reasonableness of fees will not be enforced. Therefore, in the first year of project-based budgeting/accounting, any COCC that cannot manage under these fees may (1) use other non-program income (including any initial working capital of the COCC) to offset any COCC deficit or (2) maintain an allocation system to apportion overhead to appropriate programs/projects. Consequently, if a PHA feels that its COCC costs will exceed the permitted fees in the first year of project-based budgeting / accounting, it should continue to maintain allocation systems in that first year (in order to determine the appropriate overhead to allocate to each program/project).

Under the Capital Fund program, a PHA must continue to charge actual costs for any Capital Fund 2006 and prior-year grants. For 2007 Capital Fund grants and onward, a PHA can begin charging actual costs until the beginning of its first fiscal year under project-based budgeting/accounting, at which point it will convert to fee-for-service (the 10% management fee). For example, assume that a July PHA receives its 2007 Capital Fund grant in April of 2007. In April, it begins charging actual costs for Administration. In July, it would switch to a fee-for-service (i.e., management fee) for the administration of its 2007 Capital

Fund grant up to the remaining amount (10% of the grant minus what was previously drawn-down under 1410).

A PHA cannot begin fee-for-service prior to its requisite initial compliance year of project-based budgeting/accounting.

CASH FLOW AND FUNGIBILITY BETWEEN PROJECTS

31. The Supplement states that, with Departmental approval, certain proceeds may be transferred to the COCC but may still be governed by other restrictions. What does this mean?

This simply means the COCC/PHA may be subject to local laws and regulations, as well as internal governance, such as boards and tenant associations.

32. As long as a project has the requisite cash flow at the beginning of the year (based on year-end financials), can the PHA take its asset management fee, even if, during the year, the project's cash flow drops below the minimum?

Yes.

33. Has HUD considered a sliding scale (in terms of minimum amounts for fungibility) based on PHA size?

The Department will consider such a suggestion in reissuing the Supplement.

CENTRAL OFFICE COST CENTER

34. The Supplement shows gross rent potential, vacancy loss and subsidy loss as memo accounts. Will PHAs be required to include these items on their financial statements?

For FDS reporting, gross potential and vacancy loss data are required and will be reported as memo account information. However, PHAs, based on their interpretation of GAAP, will have the option of showing these line items on the face of their financial statements. The Department prefers showing these line items on the face of the financial statements, as this will facilitate the same purpose as that provided within the multifamily industry.

35. Am I correct in understanding that a COCC budget is not required for non-stop-loss PHAs but is required for stop-loss agencies?

Yes. Since the COCC uses fee income and other non-federal funding for its support, HUD does not mandate a budget process. However, from a good financial management perspective, HUD believes that most PHAs will prepare an operating budget for the COCC.

36. Assume that there are not enough funds to establish the allowable working capital for the COCC and the PHA must establish a receivable. Will this receivable need to be eliminated on the FDS?

Yes.

37. Why does the Department capture financial data through the FDS on the COCC if such activity is free from federal review?

HUD captures data on the COCC because the COCC is a financial activity and GAPP requires reporting of PHA financial activity at the entity-wide level, which includes the COCC.

38. In the first year of project-based budgeting/accounting, a PHA's overhead costs are permitted to exceed the allowable fees. How should those excess amounts be recorded on each project's financial statements?

The PHA should record the actual amount of overhead allocated (the amount necessary to cover costs) under the management fee line item.

39. Assume that a PHA operates a central waiting list. Thus, it will prorate the costs of that unit to each project on a reasonable basis. Do these prorated costs appear on the financial statements of the COCC?

No. For purposes of the FDS, a prorated cost does not appear on the COCC financial statement.

40. The Supplement states that a PHA's central office cost center will operate off of fees and other allowable charge-backs (as well as other revenue sources outside the public housing program). Does this mean that non-stop-loss agencies can budget local contributions?

Yes. A PHA should budget for all its revenue streams regardless of its source. Fee income is non-program income to PHAs and is considered local revenue. Therefore, its use is also subject only to state or local requirements imposed on individual PHAs.

41. Does the Department require a separate bank account for the COCC?

At this time, the COCC and AMPs are not required to maintain separate bank accounts. While HUD encourages separate bank accounts, ultimately this is a PHA decision. PHAs are only required to determine and report cash and investments balances by individual AMP and COCC for FDS reporting. For those PHAs that will use one or a limited number of bank accounts, the PHA must have internal controls that ensure that improper use of the AMP's cash and investment does not occur (does not violate the rules of fungibility) within any given month.

CENTRALIZED PROPERTY MANAGEMENT SERVICES

42. Table 7.2 of the Supplement lists central work order staff as a fee expense. However, Section 7.10 indicates that central work orders are a front-line expense, provided a PHA can demonstrate that the costs are reasonable and necessary. Please clarify.

Central work order processing is an eligible activity to be charged to a project provided the costs are reasonable and necessary. We will correct the reference in Table 7.2 in the revised document.

43. A PHA performs certain specialized maintenance services centrally. How must the PHA charge these costs to a project?

This issue is under review and will be included with the updated Supplement.

44. Page 38 of the Supplement states: "The Department recognizes that, from time to time, there are certain front-line administrative services required by AMPs that may be more cost-effective to perform centrally. In these cases, the PHA may prorate the costs using a reasonable methodology. The methods used by the PHA to prorate centrally provided front-line costs should be in writing. PHAs may update the proration rate throughout the year as circumstances warrant. At a minimum, at the end of the PHA's fiscal year, the PHA will need to adjust to actual costs." Please explain the concluding sentence.

Assume a PHA maintains a central waiting list. Assume further that the PHA estimates that the cost of that central waiting list is \$4 PUM. A PHA might bill this estimated amount to each project in the first quarter, adjusting the charge in future quarters based on more recent information. Actual costs, however, may not be fully determinable until after year-end, at which point the PHA would reconcile actual costs with rates charged during that reporting period. Thus, if actual costs were just \$3.50 PUM, the PHA would adjust the costs charged to each project accordingly.

45. The Supplement states, that, when charging actual costs, the PHA cannot charge a project for the cost of a centralized supervisor. Can an AMP expense an onsite maintenance supervisor?

Yes. An on-site supervisor, when necessary given the unique needs of a project, is an eligible front-line expense. For example, some projects are large enough, or have such special maintenance needs, that they require an on-site maintenance supervisor, which would be a front-line cost. The cost of a supervisor of a central cleaning unit, however, could not be charged as a front-line cost.

46. Section 7.10 of the Supplement indicates that centralized rent collections may be a front-line expense; however, it indicates that general tenant accounting duties are a COCC expense. Please distinguish the central rent collection activities from general tenant accounting duties.

Rent collection consists of the initial process of collecting rents, including management of receipts (depositing rent collections) and efforts to collect any delinquent rents and charges. The tenant accounting function includes recording of transactions associated with the relationship between the PHA and the tenants, i.e. collection of rent revenue, maintaining tenant accounts receivable ledgers, and initiating accounting adjustments.

47. The Supplement states that, with the exception of a central waiting list, a project may not pay for the cost of a supervisor overseeing a front-line task that is performed centrally. However, the Supplement contains several additional examples where supervisory costs can be pro-rated to the AMPs (resident services, security, and waiting/list/screening/leasing/ occupancy). Is this a misprint?

In the revised Supplement, we will clarify that these are additional exceptions.

FINANCIAL DATA SCHEDULE/CHART OF ACCOUNTS

48. Should there be a FDS line added to revenue to account for non-HUD sources used for construction (e.g., tax credit proceeds used for modernization purposes)?

No. An Other Revenue account exists which may facilitate the example above, absent a more applicable account, to be determined by the PHA and its accountants and auditors.

49. When will HUD be issuing its OMB A-133 Compliance Supplement?

The A-133 Compliance Supplement will be updated prior to the completion of the first year of project-based budgeting/accounting.

50. The Department will modify its system of electronic filing/submission of year-end PHA financial statements to match these new reporting requirements consistent with the above schedules. When will this be done for the stop-loss agencies?

The Department will not modify the FDS for stop-loss agencies. The FDS will be modified in keeping with the first required submissions under asset management, i.e., for PHAs with fiscal years ending June 30, 2008. Agencies applying for stop-loss must, at year-end, continue to submit in accordance with existing FDS formats.

51. Are the changes being suggested in the FDS the same as required in HUD's multi-family programs?

The goal is to have the FDS mirror multifamily accounting as much as practical. The changes may include accounts similar to that of multifamily, including certain expense accounts, but with some differences including accounts used to facilitate certain transactions with the COCC, and equity accounts which remain governmental in nature.

52. Page 7 the Supplement states that the COCC column will be used by PHAs to account for the revenue and expenses of the COCC and other non-restricted business activities of the PHA. A footnote on that page says PHAs are required to report the COCC information in this column but have the discretion to also combine any other business activity whose proceeds are not restricted to

that business or other third party entities into the COCC column. Explain the difference between the text and the footnote.

Footnote 10 simply expands on the first bullet on page 7. The COCC column bullet states the column will be used to report other ‘non-restricted’ business activities of the PHA.

The Note 10 goes on to stipulate that PHAs have the discretion to also combine any other business activity with the COCC column. COCC activities typically include fees for service and certain allowable direct charges to AMPs, e.g., specialized services at cost or market rate to AMP. Other non-program revenues may be reported as well, e.g. specialized service to non-AMP customer.

53. Page 16 of the Supplement under chart of accounts says anticipated changes are listed in Chapter 4. Should this reference instead be to Chapter 3?

Yes. This item will be corrected in the revised Supplement.

FIVE-YEAR AND ANNUAL PLANS

54. Page 9 of the Supplement states that the AMP will be the central component of the Annual Plan process in the future. What are the Department’s future plans for the Agency Plan under asset management?

Just as is indicated, PHAs will plan their expenditures on a project (AMP) basis. Additionally, the Department is considering various methods of streamlining the Annual Plan. Further clarification is forthcoming.

LEGACY COSTS

55. Page 22 of the Supplement says that legacy liabilities should be liquidated to fully cover the liability at the initial balance sheet date. Does this conflict with the policy on vacation?

The complete sentence reads: “Legacy liabilities, to the extent possible, should be liquidated or have cash and investments set aside at the AMP, COCC, or other program where the liability was initially allocated to fully cover the liability at the initial balance sheet date.”

The vacation legacy liability section is only highlighting that the COCC may book a receivable from the AMP if the AMP does not have enough cash to transfer on the initial balance sheet date and is consistent with the balance sheet allocation guidance.

56. How would an AMP pay for a new lawsuit?

If there are not enough funds in the project’s unrestricted net assets, the project would likely receive a transfer from another project(s).

57. How does one handle the accounting for the legacy costs of someone who transfers from being employed at one AMP to another AMP?

Legacy costs are the result of largely unfunded obligations (e.g., post retirement benefits) that resulted prior to asset management. These costs will be reasonably allocated at the inception of asset management.

Employees who transfer between AMPs will carry with them any accrued benefits (i.e. vacation, accrued pension benefits). The receiving AMP will book the accrued obligation, as well as an asset. The AMP transferring the employee will transfer the obligation but will also be required to transfer any asset accumulated to fund the obligation.

58. Can a PHA assign a legacy cost to a specific project(s) if it believes those projects are more deserving of those costs?

Yes. The Department's intention is to have the PHA record costs at the organizational unit where they are incurred. The limitation is to remember that the related funding should accompany the liability. Also, the Department will allow only one recovery of legacy-related costs from the AMPs. If monies set-aside are collected from the AMPs and paid to the COCC, such amounts may not be recovered again from the AMPs.

59. Can a PHA book a liability directly to a project and not run it through the COCC?

Yes. The Department's guidance was intended to be broad and was not meant to be overly prescriptive. However, the intention of the guidance was to ensure that each AMP, program and the COCC was charged its share of the costs incurred on a reasonable basis. Recording amounts at the AMP should not be used as a method to avoid funding COCC costs other than through management fees, except in the case of FASB 5 liabilities or in the amortization of OPEB liabilities pertaining to prior periods. In those cases, the COCC, the AMP, and other programs would bear the share of those costs. In cases of FASB liabilities, the PHA may attempt to record the cost at the location causing the liability. Related funding may result in recording receivables and payables.

60. What is the reason behind not funding accrued legacy costs that transfer to the COCC at the conversion date?

The lack of funds to pay unfunded legacy costs is the primary reason. Legacy Liabilities typically consist of significantly unfunded portions of the obligation. Prior to GASB 45 Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions, OPEB expense was typically recognized and paid as the obligation became due. Pension funds must now be incrementally funded, in terms of previously and presently incurred benefit obligations. Annual OPEB expense will fund the current portion, and a prior component of the OPEB. COCC current (normal cost) portion must be funded through non-program income, while the prior or legacy portion is funded through program income, necessitating the allocation of COCC Legacy obligations among AMPs.

61. After assignment of employee to appropriate organizational unit, yearly cost of employee will be paid either as direct cost for the AMPs, other programs, or by fees paid to COCC. Does this mean that balance sheet liabilities are established for OPEB at the AMP level upon initial asset management (based on employee assignment to respective AMP)? If so, doesn't the ARC or annual OPEB expense get charged to the AMP?

The ARC or annual OPEB expense is charged to the AMPs, while the liability is off-balance sheet (footnote disclosure) at the entity-wide level of the PHA. This is true given the assumption that the PHA is making annual required contributions to prior legacy obligations. These contributions are made through the annual OPEB expense charged at the AMP level. They include the normal (current) cost component, and prorated amortization of unfunded prior legacy costs. In effect, AMPs fund the COCC for the legacy portion of the COCC liability, since the legacy portion is payable from program income.

62. Also, what about accrued sick leave?

Sick Leave is not specifically mentioned. However, this account is generally similar to vacation, while certain differences may exist, with respect to accrual, "use or lose policies", etc.

63. Page 19 of the Supplement states that the liability for post employment benefits other than pensions will be charged to the COCC for all employees. This would actually remove the liability from the property level. Wouldn't this distort the balance sheets of both the properties and the COCC? Depending on the materiality level, will auditors not have difficulty if they are supposed to make sure the financial information is in accordance with GAAP?

Liabilities other than pensions existing prior to the establishment of asset management are reported as a liability of the COCC. This is because the liability is not readily identifiable to a particular AMP. However, OPEB are payable from program income. Therefore, the COCC may charge AMPs to fund this

liability. Allocation of such costs among AMPs is allowable provided the allocation is reasonable and documented.

64. The Supplement states that a “subsequent transfer of an employee to another AMP, COCC or other program should 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 AMP or other program where the employee transferred. The transferring agency must record a payable for the amount if cash or other liquid assets are unavailable.” Does this mean that for that you could fund the liability transferred to the COCC? Why the difference?
Since the liability did not result and accrue from the COCC, but from another AMP or program, that AMP or program must provide the resources to offset its liability. This offset would be in the form of cash, investments, or a receivable (if no funds are available at the AMP) from the AMP to the COCC. There is no policy difference. Program income will provide the resources for any vacation liability prior to asset management – from that point forward, any new vacation liability must be satisfied from the resources of the AMP, program, or COCC that gave rise to the new liability.

65. The footnote on page 17 of the Supplement indicates that cash and investments have been "set aside". What does set aside mean? If I have cash and investments of \$1,000,000 sitting in reserves and accrued liabilities of \$10,000, does that mean I have cash and investments set aside?
Funds provided by the AMP(s) and other programs to the initial balance sheet allocation to offset legacy liabilities should be designated/marked through an internal PHA action. This designation does not meet the GAAP definition of a restriction but should internally restrict these funds to be earmarked to specifically satisfy these liabilities as they come due.

66. Page 19 of the Supplement states that amounts recognized for OPEB costs should be paid annually, if possible. This will prevent the recording and maintenance of receivable and payable balances between the AMPs and COCC for an extended period of time. It seems that this is contrary to the accrued vacation stance.
The OPEB costs (pension liability) referenced in the question must be funded annually at the PHA level (as per FASB Statement #158: Employer's Accounting for Defined Benefit Pension and Other Post Retirement Plans). The Annual Required Contribution (ARC) may be directly funded by respective AMPs; however, if direct funding (cash) is not immediately available, a payable from the AMP to the COCC is established for an AMP's share of the ARC. The COCC must fund the PHA-wide ARC, while maintaining perhaps a receivable from AMP(s). This is true to the extent that an AMP does not directly fund its share of the annual required contribution.

Vacation liabilities incurred initially at a particular AMP may also result in AMP level payables to the extent that funds (cash) are not immediately available to follow, say, a transferred employee.

MANAGEMENT FEES, BOOKKEEPING FEES, AND ASSET MANAGEMENT FEES

67. Will the Department index property management fees annually for inflation?

The Department intends to update/publish on an annual basis the 80th percentile of management fees paid in each multifamily office.

68. Can a non-stop-loss PHA charge whatever they want in its first year of asset management and then implement the HUD cost reasonableness rules in 2008?

PHAs are not bound by any specific management fee schedules in the first year of project-based budgeting / accounting; however, as is currently the case, PHAs must still operate with economy and

efficiency. A stop-loss PHA is not bound to the fee schedule but would not have its losses stopped if the fees do not support the COCC

69. It is correct that an allocated cost is not a fee-for-service and, therefore, is not to be shown in the COCC?

Under Section 7.10, Assignment of Cost of the Supplement, the Department has defined certain elements of cost that can be treated as front-line costs to AMPs even though they are being allocated. These costs should be completely allocated to an AMP or AMPs, as appropriate, and are not considered costs elements of the COCC.

70. Can I start this fee-for-service in section 8 now?

PHAs may begin the use of a fee-for-service methodology in their Housing Choice Program at the beginning of their first year of project based budgeting and accounting for their public housing program.

71. Prior to getting its fees down to reasonable levels, how does a PHA segregate that portion of fees that are reasonable and those that are not (in terms of making non-Federal)?

If a PHA can segregate accordingly, it can limit the Federal portion to that amount that is over the allowable fee.

72. If the COCC charges an asset management fee but should not have (because one project does not have cash flow), what is meant that the COCC may need to pay it back?

It means that the PHA would have to forfeit or return to the AMP any fee assessed by the COCC that was not based on the program requirements.

73. As long as I have cash flow at the beginning of the year (based on year-end financials), can I take my asset management fee, even if during the year I drop below the minimum amount?

Yes, the determination of the amount of asset management fee the COCC can earn from an AMP is based on the prior year's excess cash flow. Consequently, the payment of the asset management fee in the subsequent year for the previous year is not impacted by the current year's cash flow.

74. The Department may revise both the schedule of fees and the classification/ assignment of costs between central office and projects. Shouldn't the Department be "required" to revise schedules annually?

It depends on whether changes are warranted. The changes in the amount of fees will depend on inflationary /deflationary factors. If inflation/deflation is stable, no change would be needed. With regard to classification/assignment of costs, changes may be needed as circumstances change. For example, the Department currently allows security/protective service costs to be a pro-rated front-line cost, but may in the future require that they be provided site specific.

75. The Supplement states that, generally, HUD will consider \$7.50 a reasonable bookkeeping fee and \$10 for the asset management fee. What is meant by "generally"?

Additional guidance will be included in the updated Supplement.

76. Chapter 7 of the Supplement notes that a PHA must compute the actual amount of fee revenue every month to determine the exact amount to be paid. This implies that a PHA may not estimate monthly revenue and then settle up with its AMPS at a later time.

The COCC must base its management and bookkeeping fee revenue on the actual monthly status of each units and may not charge AMPs based on an estimated status with a yearly or even quarterly settlement.

77. A property that is demolished or disposed is entitled to transition funding. The Supplement states that the property management fee cannot be paid to the COCC after the action is completed. What

happens to the transition funding? In the private realm, wouldn't proceeds go to the owner, which in the public housing world, is the COCC?

Transition funding (referred to in the Final Rule as the asset repositioning fee) is provided to supplement the AMP(s) for the costs associated with administration and management of demolition or disposition, tenant relocation, and minimum protection and service associated with such efforts and is an add-on to the operating subsidy of a project (AMP). As such, these amounts may only be provided to the AMP and not the COCC. If funding exists after the demolition/disposition is fully completed, these funds must remain as program income.

78. Can a small PHA with more than one AMP elect not to convert to asset management?

No. If a small PHA has established two or more AMPs, it has elected to adopt asset management; however, as discussed in Chapter 9 of the Supplement, it is not required to establish a separate COCC.

79. Table 9.1 of the Supplement shows the 80th percentile of administrative costs in FHA housing by field office. Does that table include all FHA properties or only non-profit and unlimited dividend properties?

It includes non-profit and unlimited dividend (i.e., it excludes limited dividend).

80. Since PHAs will not assign balance sheet items until the end of the first year of project-based budgeting /accounting, will PHAs be able to earn the asset management fee in that first year?

Yes, for the first year of project-based budgeting and accounting, PHAs can earn an asset management fee without regard to excess cash.

81. Federal Register Vol. 71, No 172, Part VII, Assignment of Assets to the COCC and Determination of Initial Working Capital refers to Asset Management Fees to the COCC upon initial balance sheet allocation. If funds are not available, a receivable may be established. Specifically, 6 months of management, bookkeeping, and asset management fees, in advance from AMPs to COCC via a receivable or cash, to the extent available. How can asset management fees be determined, if the project has no Surplus Cash yet?

There are two issues with regard to asset management fees. How the maximum amount is determined and whether they can be paid. The maximum amount is determined by the number of ACC units irrespective of whether the units are leased, times the maximum fee per unit amount of \$10. Whether they can be paid is based on whether an AMP (project) has excess cash as determined under Section IV. Excess Cash in the Federal Register Notice issued on September 6, 2006. However, for the purpose of establishing the COCC's initial working capital, a PHA will be allowed to earn the maximum amount of asset management fees allowed without regard to whether an AMP has excess cash flow. So for example if a PHA has 250 units in one AMP, 250 in another and 250 in a third, for the purposes of establishing the initial working capital of the COCC, the PHA would calculate its asset management fee as 750 units x 6 months x \$10 = \$45,000. If one or more of the AMPs is not able to pay its share of the asset management fee the COCC may book an accounts receivable for the unpaid amount.

MIXED-FINANCE PROJECTS

82. The Supplement states: "The COCC will not earn a property management fee for a mixed finance project unless the COCC is managing the day-to-day activity (i.e., is the management company) of the respective project, except as noted in the above section. Where the COCC is managing the day-to-day activity, the reasonableness of the fee is determined as above." Where does the excess of the HUD allowed fee and the negotiated amount go? Why the distinction between privately managed normal public housing differ from mixed-finance sites?

The entity that manages the day-to-day operations of the mixed-finance project typically earns a property management fee. This can be the PHA or a separate management agent. When the PHA is the

management agent, the PHA's COCC will be allowed to earn the property management fee up to the ceiling established by the Department. However, if the PHA decides to hire out a separate management agent, the PHA can negotiate a management fee with separate management agent and retain the difference between the HUD-allowed amount and the fee paid to the separate management agent.

The only distinction between privately managed public housing that is not mixed-finance and mixed-finance sites would be that the former has only public housing units and the latter would include both public housing and other affordable housing. Supplement language will be revised to improve clarity.

- 83. The Supplement states, "The mixed finance project as reported under an AMP column may still pay an asset management fee to the COCC if the project generates excess cash. In the computation of excess cash for a mixed finance project, there will be no component for operating expenses. In other words, line 8 in the Table 6.1: Calculation of Excess Cash FDS Line Items, will not be included in a mixed finance project's determination of excess cash. This asset management fee is independent of any agreement and restrictions between the PHA and the third party owner." Can you please explain what this means?**

In a mixed finance project, a certain percentage of units are set-aside for public housing. These units are eligible to receive operating subsidy and other grant revenue. These units are included in a PHA's count of ACC units. Since the PHA includes these mixed finance units in its housing portfolio, these become part of the PHA portfolio of decent, safe and affordable housing. As part of its asset management function the PHA must assure that the ACC units meet program requirements. Thus, the PHA can charge the mixed finance project an asset management fee on the project's ACC units contingent upon excess cash as defined in the Supplement.

The Department is further analyzing asset management fees for mixed finance projects that are privately managed and reserves the right to adjust this fee at a future period based on comments received from the industry.

PROGRAM INCOME

- 84. Assume that a PHA receives income from a rooftop lease on one of its projects. Is this income considered program income and, if so, can it be used to fund the COCC? If not, what can it be used to fund? Can we sell the lease (revenue streams) and fund the COCC?**

A rooftop lease on a public housing project is considered program income because the income is generated from a program asset (not an asset of the COCC). Therefore, its proceeds can only be used to support projects, not the COCC. Similarly, the revenue from the sale of the revenue stream would go to AMP.

- 85. How does a PHA handle program income? Why is it not allowed to fund the COCC? If it cannot, what can it fund?**

Project-level program income is intended to pay for project level operating expenses and, generally, benefit the resident. Program income is recorded at the AMP and funds the COCC only through allowable fees.

PROJECT-BASED BUDGETING

- 86. When calculating proration subsidy loss, should a PHA include the figure on the HUD Form 52723, or should a PHA calculate proration after grossing up the gross potential subsidy?**

For purposes of FDS reporting, proration is based on grossed-up potential subsidy.

87. Are PHAs required to prepare monthly (or quarterly) financial statements?

While the final rule does not dictate the timeframe for preparation of internal financial reports, monthly financial statements are the norm in multifamily housing and, therefore, likely to be a requirement to demonstrate full conversion to asset management.

88. For troubled PHAs, will they still be required to have budgets approved within 90 days of the start of the fiscal year?

Yes.

89. Table 4.1 of the Supplement, item 7, indicates that budgets should include capital expenses.

Generally, capital expenses over the cap level established by the PHA are capitalized and not included as an expense of operation. How should these capital items be handled in the budget?

PHAs have much flexibility in determining their operating budgets. A PHA would normally produce two budgets each year - an operating budget and a capital budget. All revenue (including Capital Fund transfers to Operations and Management Improvements) and expense associated the operations of the AMP should be shown on the operating budget. A budget does not normally capture all GAAP items, such as depreciation expense, but is more reflective of a cash flow position. Typically, an operating budget would not budget for capital items. However, Table 4.1 of the Supplement reflects that some PHAs budget for small amounts of capital items (i.e. a copier or desk) in their operating budgets. Major capital purchases or projects should be budgeted on the Capital Project budget. Both budgets should cover the full resources and uses of the AMP.

90. For gross potential rent, should a PHA exclude vacant units under asset repositioning?

Yes. A PHA should exclude vacant units under asset repositioning (even though that figure will not match the number of units reported in PIC).

91. When calculating average rent (for lost rent on vacant units), which reporting period do you use? The average rent for the reporting period?

Yes. PHAs should use the average rent for the FDS reporting period.

92. The Operating Fund rule requires compliance with project-based budgeting/accounting for Resident Management Corporations (RMCs). Does this requirement only apply to direct-funded RMCs?

Yes. This language only refers to direct-funded RMCs. Other RMCs operate like a cost center within a PHA. It is the PHA, in these latter circumstances, that is responsible for financial reporting.

93. Gross potential rent will be based on all units under the ACC, regardless of status, multiplied by the average tenant rent for the project. (p.16) How are approved vacancies taken into account?

Approved vacancies are part of the ACC, and part of gross potential rent calculation.

94. Must a copy of the actual Board resolution approving the budget (Form 52574) be filed with the field office?

The PHA Board Resolution needs to be filed with the HUD field office. This form will be revised to include reference to project-based budgets.

95. Page 14 of the Supplement, table 4.1, item 6, says to use an estimate of the projected proration percentage. Will HUD provide this estimate?

The Department will begin to publish estimated proration percentages based on various funding scenarios.

While the Department cannot predict funding levels, PHAs can use these tables for budget preparation purposes.

RESIDENT PROGRAMS

96. My PHA receives a grant from the State for various resident services programs. Can I charge this grant a management fee?

The PHA should refer to guidance applicable to the specific grant on whether it may charge a management fee. HUD is not the applicable cognizant agency. HUD's program rules on asset management do not affect the administration of State or local grants. Again, the PHA should consult with its financial officer and/or auditor regarding the regulations applicable to the state grant and related administration.

SECTION 8 HOUSING CHOICE VOUCHER PROGRAM

97. Can a PHA use either (a) 20% of the Section 8 Admin Fee or (b) \$12 PUM (whichever is higher), and also charge a \$7.50 PUM bookkeeping fee for Section 8 overhead? Please clarify.

Yes, in the Housing Choice Voucher program the Department has currently established a safe harbor fee amount of either 20% of a PHA's annual administrative fee amount, or a flat \$12 per unit leased, whichever is higher, plus a \$7.50 per unit leased bookkeeping fee.

STOP LOSS

98. In CY 2007 or 2008, must agencies that gain under the new formula also apply to HUD to demonstrate a successful conversion to asset management?

No. The final rule requires all PHAs to demonstrate a successful conversion to asset management by 2011. The Department does not anticipate any requirement on the part of agencies who are not applying for stop-loss to demonstrate a successful conversion to asset management in 2007 or 2008; however, all PHAs with a fiscal year end of June 30, 2008, and after must comply with the appropriate project-based accounting, budget, and management provisions found in PIH Notice 2006-33.