Office of Native American Programs
Office of Public & Indian Housing

No. 2002-12
Date: July 09, 2002

PROGRAM GUIDANCE

PROGRAM: Indian Housing Block Grant (IHBG)

FOR: All Tribal Government Leaders and Tribally Designated Housing Entities (TDHE)

FROM: Ted Key, Acting Deputy Assistant Secretary, PN

TOPIC: Accounting for Program Income Under the Indian Housing Block Grant

Purpose: This guidance is in response to the Office of Inspector General's (OIG) Nationwide Audit of the Implementation of the Native American Housing Assistance and Self-Determination Act (NAHASDA) of 1996. The audit recommended that we remind Indian Housing Block Grant (IHBG) recipients of requirements regarding expenditure of program income. In addition, this guidance expands upon the listing of frequently asked questions (FAQ) regarding accounting for program income under the IHBG Program addressed in NAHASDA Guidance 2001-03T**.**

Background: Funds generated from the use or disbursement of IHBG funds are regulated by 24 CFR 1000.62. Guidance on accounting for program income was developed by a Workgroup consisting of four tribal/tribally designated housing entities (TDHEs) and three HUD representatives appointed by the Co-Chairs of the NAHASDA Negotiated Rulemaking Committee. This guidance titled, "Program Income Notice PIH 2000-18(TDHEs)", was issued on May 30, 2000, and extended by PIH 2002-16 (TDHEs) issued June 10, 2002. Further clarification of the Notice was issued in NAHASDA Guidance 2001-03T in question and answer format. In FY 2001, the OIG conducted a nationwide audit of the implementation of NAHASDA. The OIG recommended that we remind IHBG recipients of requirements regarding expenditure of program income. In addition, we have received a number of new questions regarding program income that were not addressed in NAHSADA Guidance 2001-03T.

General Information Related to the OIG Audit:

- In the absence of an accounting system to allocate income attributable to the 1937 Act and the IHBG Program, all income (net costs paid for by income and subject to $25,000 exclusion) would be program income and must be used for NAHASDA eligible affordable housing in accordance with section 202 of NAHASDA.

For example, a tribe has a housing Project funded under the 1937 Act Low-Rent Program that generates $10,000 per year of income. The tribe uses some income generated by the project and some IHBG funds to pay for operations and maintenance. The tribe does not have an accounting system in place to allocate income attributable to the 1937 and NAHASDA Programs in accordance with “Program Income Notice PIH 2000-18(TDHEs)” extended by PIH 2002-16 (TDHEs). Therefore, the tribe must treat all of the $10,000 generated from the Project as program income. If the tribe knew how much costs were being paid with the income being generated, the tribe could deduct these costs from the income generated but could not deduct costs paid with IHBG funds. In addition, if all of the sources of program income total less than $25,000 per year, then the income would not be program income.

- Program income must be expended prior to requesting additional IHBG funds. In accordance with §1000.26(5), Section 85.21 “Payments” of the “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments” applies to the IHBG Program. Section 85.21(f) requires that grantees and subgrantees disburse program income, rebates, refunds, contract settlements, audit recoveries and interest earned on such funds before requesting additional cash payments.

Additional FAQs:

<u>Q.1: Does the $25,000 exclusion apply to a calendar, federal fiscal, tribal fiscal or tribal program year?</u>

A.1: The $25,000 exclusion at §1000.62(b) may apply to either a calendar, federal fiscal, tribal fiscal or tribal program year. Tribes should make this determination based on their existing accounting systems.

<u>Q.2: When do you recognize income realized from the disbursement of IHBG funds as program income?</u>

A.2: You recognize income as program income when you receive the income and the income is available for obligation or expenditure and when the total net income exceeds $25,000 annually. An exception applies to income from 1937 low-rent units assisted with IHBG funds. In this case, the tribe/TDHE may decide to perform the necessary calculations on a monthly or an annual basis.

For example, IHBG funds are invested in a Certificate of Deposit (CD) that matures in 6 months. Since income would not be available without penalty until the 6-month maturity date, the interest accrued is not program income until the 6-month maturity date, assuming at least $25,000 of income has been realized annually. Once the CD has matured, the interest realized would have to be dispensed prior to draw down of additional IHBG funds.

However, a tribe/TDHE could decide to accumulate income from 1937 Act Low Rent units and not be in violation of the OMB requirement to expend program income funds prior to additional draw down of IHBG funds provided the tribe/TDHE performs the necessary calculations and reconciles their accounts annually. You may have the income available to expend in any month, but you will only have to perform the calculations to determine what is program income annually to show that those funds are available for disbursement.

Q.3: What affect do tenant account receivables have on program income?

A.3: None. Program income is accounted for on a cash basis. The determination as to when program income has to be expended is based on when it is actually received (cash basis) as opposed to when it was accrued.

Q.4: When should pre-paid expenses, deferred charges and deferred credits be considered in program income calculations.

A.4: Prepaid expenses, deferred charges and deferred credits should not be considered in program income calculations until they are reflected as either income or expenses on the recipients operating statements.

Q.5: Do I need to amend my Indian Housing Plan (IHP) if I realize more program income than I estimated on my IHP?

A.5: You would need to amend your IHP only if you plan to undertake new affordable housing activities that were not included in the IHP. Then you would amend your most active or recent IHP. Otherwise, if you plan to use the additional program income that you realized on activities that are already included in your IHP, then you would only need to report the difference in your Annual Performance Report.

Q.6: When should income be reported as program income on the Federal Cash Transactions Report (HUD 272-I)?

A.6: Disbursed program income should be reported on the HUD 272-I for the grant whose activity was funded by the program income and in the quarter in which funds are disbursed. Disbursed program income should be reflected on Line 9.g., "Federal share of program income."

Accumulated program income should be reported on the HUD 272-I for the grant most likely to require the next disbursement of funds. Accumulated program income should be reflected on Line 9.a., "Cash on hand at beginning of reporting period." If the program income is not ultimately expended on activities associated with that IHBG grant, then you would report a prior period adjustment, record the program income cash-on-hand on the HUD 272-I for the appropriate grant, and note the reason for the adjustment. An exception applies to income from 1937 low-rent units assisted with IHBG funds. In this case, the quarter in which the tribe/TDHE reports will depend upon the tribe/TDHE's decision to perform the necessary calculations on a monthly or an annual basis.

For example, FY 1999 IHBG grant funds are invested in a CD that will earn $30,000 in your second quarter. You would report $25,000 cash-on-hand on your second quarter FY 2000 HUD 272-I. You will need to draw down $25,000 in your second quarter for an activity associated with your FY 2000 grant. You would report a $25,000 expenditure of program income also on your second quarter FY 2000 HUD 272-I. You anticipate you will need to draw down $10,000 in your third quarter for an activity associated with your FY 2001 grant. You would report $5,000 cash-on-hand on your second quarter FY 2001 HUD 272-I. You would wait until the reporting quarter in which you actually expend the $5,000 of program income on hand to decide whether or not an amendment is necessary to your second quarter FY 2001 HUD 272-I.

Q.7: When performing the calculations for 1937 Act Low Rent units, is income net of costs?

A.7: Yes. When performing the calculations for 1937 Act Low Rent units, income is net of costs unless those costs have been paid with IHBG funds.

Q.8: Can old Mutual Help Occupancy Agreements (MHOA) be changed so that administrative fees are greater than operating costs? If so, does the excess income become program income?

A.8: Yes. An old MHOA can be changed so that administrative fees are greater than operating costs provided that both the homebuyer and the housing authority concur. In addition, the difference between the administrative fee and the operating costs would be program income provided that the $25,000 exclusion does not apply.

Q.9: Are equity accounts for a NAHASDA funded Mutual Help like program, program income?

A.9: Equity accounts held in trust on behalf of the homebuyer are not program income until the time of conveyance when the funds can be used by the tribe/TDHE. However, periodic payments made by the homebuyer to the recipient such as mortgage payments would be program income when received by the tribe/TDHE provided the $25,000 exclusion does not apply.

Q.10: Is income generated by 1937 Act and/or IHBG funds that is not program income subject to any Federal requirements?

A.10: No. Income generated by 1937 Act and/or IHBG funds that is not program income is not subject to any Federal requirements and is not required to be used for affordable housing activities in accordance to Section 202 of NAHASDA.

Q.11: If income is used to pay for activities that later you learn is not program income, could you reimburse yourself with IHBG funds to cover those expenses?

A.11: Yes. You could reimburse yourself with IHBG funds provided that the costs reimbursed are for eligible activities under the IHBG Program.

Q.12: If I expend income that I think may not be program income and later realize it is program income, do I need to reimburse the IHBG Program?

A.12: You would not need to reimburse the IHBG Program if you expended the income in accordance with NAHASDA and all the other applicable Federal requirements. However, if you incurred ineligible activities costs, then you would need to reimburse the IHBG Program with non-IHBG funds.

INQUIRIES

Should you have any questions regarding this guidance, please contact your Area Office of Native American Programs.