



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

OFFICE OF PUBLIC AND INDIAN HOUSING

APR 25 2008

Dear Executive Director:

Subject: Accounting for the Retroactive Funding and Payments

This letter provides guidance on how to account for Housing Choice Voucher (HCV) and other related program retroactive payments. For the purpose of this discussion, retroactive payments are payments made by the Department to a PHA after the funding period has closed. These amounts are usually immaterial when considered in relation to the total program funds received during that fiscal period.

For financial reporting purposes, the following must be considered when determining whether to record a retroactive payment as revenue or as a prior period transaction. Please note that prior period adjustments are not the same as prior year adjustments. The first constitutes a correction of an error at the financial reporting level, whereas the second constitutes an adjustment for programmatic reporting purposes. The following guidance may be helpful:

Determination of Revenue

[Governmental Accounting Standards Board 33 (GASB 33)]

Paragraphs 21 through 25 of GASB 33 define the revenue recognition standards. Revenue Recognition for Non Exchange Transactions is the authoritative literature that addresses when a PHA should recognize revenue within its financial records. PHAs should recognize revenue when all applicable eligibility requirements are met. GASB 33 provides that when a revenue transaction is both measurable and available it should be reported as revenue in that reporting period. Because in most cases the retroactive payment is not measurable or available at the close of the PHA's fiscal year, it should be accounted for in the reporting period in which the PHA is notified of the amount by HUD.

Prior Period Adjustment

[Financial Accounting Standards Board 16 (FASB 16)]

Paragraphs 1, 11, 13, and 14 of FASB 16 define the elements that would comprise a prior period adjustment. If the amount was measurable and available but the PHA did not recognize it as revenue in that period, the PHA would reflect this as either a prior period adjustment or as revenue, if the amount is determined to be immaterial. Prior period adjustments are excluded in the determination of net income for the current period and are limited to those material adjustments that meet all four of the following criteria:

Can be specifically identified with and directly related to the business activities of particular prior periods; Are not attributable to economic events occurring subsequent to the date of the financial statements for the prior period; Depend primarily on determinations by persons other than management; and Were not susceptible to reasonable estimation prior to such determination.

Example:

On February 26, 2008, PHAs were notified by letter of the Department's decision to allocate the remaining funds under the FY 2007 \$100 Million set-aside (a retroactive payment.) That letter also advised that the PHA did not need to take any action to receive these funds and that the Financial Management Center (FMC) would provide a separate funding notification identifying the amount and terms of the funding. These funds were obligated and disbursed to the PHAs in March 2008.

Based on this set of facts, even though these funds are associated with the 2007 appropriation, the funds were not measurable and available in calendar year 2007 and as such do not meet the criteria for revenue recognition for that time period. Alternatively, this means that the revenue recognition should occur in February or March 2008. These funds would definitely, meet the criteria for revenue recognition for a PHA with a fiscal year ending March 31, 2008. In this instance, the PHA should record these supplemental funds as revenue in the reporting period in which they received these funds. These funds would not be considered a prior period adjustment because the amount would not have met criteria (d), above.

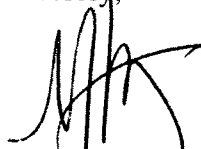
For REAC FASS-PH reporting purposes the amount should be included on line item *706_010 Housing Assistance Payment (HAP) Revenue* for submission by PHAs with fiscal years ending March 31, 2008, and later. These amounts are therefore associated with the PHA's HAP equity account and the PHA's Net Restricted Asset account. This is consistent with the funding letter that restricted these funds to be used for HAP costs only.

Please note that these funds were appropriated by the Department under the 2007 Revised Continuing Appropriations Resolution and for programmatic purposes. These funds may be used to cover calendar year 2007 and later HAP program expenses. From a programmatic view these additional funds will be included in a PHA's 2007 HAP Equity / Net Restricted Asset balance when calculated by HUD for funding and compliance needs at calendar year end 2007. The language is not considered inconsistent because the above paragraphs relate to financial reporting in accordance with Generally Accepted Accounting Principles (GAAP), while this paragraph relates to programmatic reporting and eligible uses of these funds.

Please share this information with your accounting staff, fee accountant, and auditor. Further guidance on the proper accounting treatment of the quarterly settlement process for the HCV administrative fees is forthcoming.

If you have any questions, please contact your assigned financial analyst at the FMC by email, or send your questions to PIH.Financial.Management.Division@hud.gov. Thank you for your continued participation in the Department's programs.

Sincerely,

A handwritten signature in black ink, appearing to read 'Miguel A. Fontáñez', written over a circular stamp or seal.

Miguel A. Fontáñez
Director
Financial Management Division
Office of Housing Voucher Program