

CHAPTER 6 - PHA FINANCIAL STATEMENTS

6-1. PURPOSE.

This Chapter provides guidance to PHAs in closing their books at the end of the fiscal year and in preparing year-end financial reports. HUD Handbooks RHA 7510.1, Low-Rent Housing Accounting Handbook and HM G 7511.1, Low-Rent Housing Accounting Guide, along with the other HUD development, management and financial manuals, should be consulted for a detailed description of accounts to be maintained and a detailed analysis of HUD accounting requirements. This Chapter addresses four basic areas:

- Specific actions/accounting entries to be performed by PHAs prior to year-end;
- Required year-end closing entries;
- Financial reporting requirements; and
- Preparation of various financial reports.

6-2. PHA YEAR-END FINANCIAL CLOSING (TO BE COMPLETED PRIOR TO CLOSING THE BOOKS).

a. Sometime during each fiscal year a Physical Inventory of Nonexpendable Equipment must be taken - (Low-Rent Housing Accounting Guide, HM G 7511.1 Chapter 9, Section 2, Paragraph 11) - and maintained for the auditors.

(1) The Property Record Cards and the Books of Account should be reconciled to the inventory.

(2) For equipment that cannot be accounted for:

(a) General Ledger

Debit: Account 6120, Gain or Loss
 From Disposition of Nonexpendable
 Equipment

Credit: Account 1400.4, Land, Structures,
 and Equipment.

(b) Property Ledger

- For projects in management;

Credit: Accounts 1465.1, 1475.1, 1475.2,
 1475.3 or 1475.7, as applicable.

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- For projects in development;

Debit: Account 1410.18, Equipment
Expended

Credit: Account 1475, Nondwelling
Equipment, in development cost
ledger.

- b. On the last day of business of the fiscal year, or shortly before, reimburse the Petty Cash Fund to the amount authorized.

Distribute Petty Cash Vouchers to the applicable Expense Accounts (1410.19, 4190, 4420).

- c. Reconcile Bank Statement.
- d. Take a trial balance of the Tenant Ledger Cards or Accounts.

- (1) Reconcile Account 1122, Accounts Receivable-Tenants, to the trial balance.

Make adjustments for minor differences by either:

Debit: Account 1122, Accounts Receivable
- Tenants

Credit: Account 3690, Other Income

or

Debit: Account 4590, Other General
Expense

Credit: Account 1122, Accounts
Receivable Tenants.

- (2) Write-off all uncollectible accounts insofar as the Operating Budget permits.

- (a) Board Resolution approving all write-offs is required

- (b) General Journal entry for write-off is:

Debit: Account 4570, Collection Losses

Credit: Account 1122, Accounts
Receivable Tenants.

- (3) For statement purposes only, all prepaid rents should be shown in Account 2240, Tenants Prepaid Rents.

No entry is to be recorded on the PHA Books.

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- e. Record any interest earned on savings accounts not previously recorded.

- (1) For PHA Interest:

Debit: Account 1162, Investments
General Fund and Security Deposit
Fund

Credit: Account 3610, Interest on
General Fund Investments.

- (2) For interest earned on the investment of the Security Deposits and payable to the tenants:

Debit: Account 1162, Investment General
Fund

Credit: Account 2114, Tenants
Security Deposits.

- f. Record Insurance Expense for Prepaid Insurance Policies.

- (1) Development Period

Debit: Account 1400.2, Development Cost
Account 1410.19, Administration
Expense Sundry

Credit: Account 1211, Prepaid
Insurance.

- (2) Initial Operating Period

Debit: Account 1400.2, Development Cost
Account 1425/4510, Initial
Operating Deficit-Insurance

Credit: Account 1211, Prepaid
Insurance.

- (3) Management

Debit: Account 4510, Insurance

Credit: Account 1211, Prepaid
Insurance.

- (4) Review Insurance Register for assurance that Account 1211, "Prepaid Insurance" and Account 1212, "Insurance-Deposits" are in agreement.

Reconcile any differences.

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- g. Take a trial balance of Account 1400.2, "Development Cost", and/or Account 1400.4, "Land, Structures, and Equipment". Reconcile Account 1400.2 or Account 1400.4, as applicable, to the trial balance.
- h. Review Contract Register for assurance that Account 1800, "Contracts - Uncompleted Contracts"; Account 1810, "Contracts Contract Awards - Contra"; and Account 2112, "Accounts Payable - Contract Retentions" are in agreement.

Reconcile any differences.

- i. Take a trial balance of the Tenants Security Deposits. Reconcile Account 2114, Tenants Security Deposits, to the trial balance.
- j. Accrue large payables.
- (1) Account 2135 - Accrued Liabilities Salaries and Wages.
- (2) Account 2134 - Accrued Liabilities Utilities.
- (3) Account 2111 - Accounts Payable Vendors and Contractors.

Goods and services must have been received and, therefore, a liability to pay exists.

- k. Accrue Interest Expense
- (1) HUD obligations - 360 day year.

(a) Development Notes and Bonds - HUD

Debit: Account, 1400.2, Development Cost
Account, 1420.1, Interest to HUD

or Account 5610, Interest on Notes and
Bonds Payable

Credit: Account 2131.1, Accrued
Liabilities Interest Payable-
Development Notes and Bonds -
HUD.

(b) Administrative Notes - HUD

Debit: Account 4580, Interest on
Administrative and Sundry Notes

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Credit: Account 2131.2, Accrued
Liabilities-Interest Payable -
Administrative Notes - HUD.

(2) Non-HUD Obligations - 360 day year.

(a) Notes - Non-HUD

Debit: Account 5610, Interest on Notes and
Bonds Payable, as applicable

Credit: Account 2132, Accrued
Liabilities -Interest Payable
- Notes - Non-HUD.

(b) Bonds - Non-HUD

Debit: Account 5610, Interest on Notes and
Bonds Payable, as applicable

Credit: Account 2133, Accrued
Liabilities -Interest Payable
- Bonds - Non- HUD.

1. Accrue PILOT - Refer to paragraph 6-7 of this Chapter
entitled PHA Preparation of Form HUD-52267,
Computation of Payments in Lieu of Taxes (PILOT).

Debit: Account 4520, Payments in Lieu of
Taxes

Credit: Account 2137, Payments in
Lieu of Taxes.

- m. Obtain Fiscal Agent Statement and reconcile the books
to them. Pick up interest earned on Debt Service and
Advance Amortization Fund investments.

Debit: Account 1172, Advance Amortization
Fund

Credit: Account 5230, Interest on
Debt Amortization Fund
Investments.

- (1) Include copy of reconciliation with year-end
financials.
- n. Prepare Trial Balance of the General and Subsidiary
(Income and Expense) Ledgers.
- o. Verify that all applicable costs have been closed to
Account 1400.4, Land, Structures and Equipment".

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- (1) For projects that have reached the end of initial
operating period during the year

Debit: Account 1400.4, Land, Structures,
and Equipment

Credit: Account 1400.3, Development
Cost -Contra.

- (2) For projects that have reached the End of Initial
Operating Period in a prior year, but have
incurred additional cost during the current year
that was charged to Account 1400.2

Debit: Account 1400.4, Land, Structures,
and Equipment

Credit: Account 1400.3, Development
Cost -Contra.

6-3. PHA YEAR-END CLOSING ENTRIES.

- a. Close the 7500 series of Memorandum Accounts, except
Account 7580 (remains open).

Reverse all balances recorded in these accounts.

- b. Close the 3000 (Income), 4000 (Expense), 5000 (Other
Income Credits and Charges Not Affecting Residual
Receipts) and 6000 (Surplus Credits and Charges)
series of Accounts into Account 2700 (Income and
Expense Clearing Account).

- (1) Refer to Form HUD-52596.
- (2) In the Books of Account, the following entries should be recorded:
- (a) Debit: Account 3000, Operating Income (Control), the various 3000 Subsidiary Accounts
- Credit: Account 2700, Income and Expense Clearing Account.
- (b) Credit: Account 4000, Operating Expense (Control), the various 4000 Subsidiary Accounts
- Debit: Account 2700, Income and Expense Clearing Account.

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- (c) Debit: Account 5210, Premiums on Bonds
Account 5220, Bond Purchase
Discount Account 5230, Interest
on Debt Amortization Fund Invest
ments. Account 5240, Interest on
Payments for Off Site Utilities
- Credit: Account 2700, Income and
Expense Clearing Account.
- (d) Credit: Account 5610, Interest on
Notes and Bonds Payable
Account 5640, Bond Redemption
Premiums
- Debit: Account 2700, Income and Expense
Clearing Account.
- (e) Debit or Credit: Account 6010, Prior Year
Adjustments Affecting
Residual Receipts or
Deficit;
- Account 6020, Prior Year
Adjustments- Not Affecting
Residual Receipts;
- Account 6110, Gain or Loss
from Disposition of Real
Property;

Account 6120, Gain or Loss
from Disposition of Non-
expendable Equipment as
applicable to close;

Debit or Credit: Account 2700, Income and
Expense Clearing Account, as
applicable.

(3) All of these entries may be combined in one
General Journal entry.

c. Make provision for Reserve or Reduction of Reserve.
Refer to Form HUD-52599 for computation of Residual
Receipts or Deficit.

(1) Provision for Reserves.

(a) Must have Residual Receipts.

(b) The provision cannot cause the balance of
Account 2820, "Reserved Surplus - Operating
Reserve-Locally Owned Projects", to exceed
the "Maximum Reserve

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Allowable", Form HUD-52564, page 2, part 1, Line
01 of next year's Operating Budget.

(c) Refer to Forms HUD-52596 and HUD-52599.

(d) Debit: Account 7010, Provision for Operating
Reserve - Locally Owned Projects

Credit: Account 2820, Reserved
Surplus -Operating Reserve
Locally Owned Projects and

Debit: Account 2810, Unreserved Surplus

Credit: Account 7010, Provision
for Operating Reserve-Locally
Owned Projects

(2) Reduction of Reserves

(a) Must have Deficit.

(b) Account 2820, Operating Reserve - Locally Owned
Projects, cannot be reduced below zero.

(c) Refer to Forms HUD-52596 and HUD-52599.

(d) Debit: Account 2820, Reserved Surplus
- Operating Reserve Locally Owned
Projects

Credit: Account 7010, Provision
for Reserve Locally Owned
Projects and

Debit: Account 7010, Provision for Reserve-
Locally Owned Project

Credit: Account 2810, Unreserved Surplus

d. Residual Receipts after Provision for Reserves.

(1) Account 2820, Reserved Surplus - Operating Reserves -
Locally Owned Projects, must be at the Maximum
Authorized (see step 2b. above).

(2) Debit: Account 2840, Cumulative HUD Annual
Contributions

Credit: Account 2118, Accounts Payable
- HUD.

e. Deficit after the Application of the Operating Reserve.

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(1) Account 2820, Reserved Surplus - Operating Reserves -
Locally Owned Projects, must have been reduced to
zero.

(2) In next year's year-end Financial Statements, this
deficit must be shown on line 650 of Form HUD-52599.

(3) If at all possible, this deficit should be reflected
on Line 820, page 2 of the next fiscal year's budget,
Form HUD-52564.

f. Close Account 2700, "Income and Expense Clearing Account",
and Account 7010, "Provision for Operating Reserves-Locally
Owned Projects", into Account 2810, "Unreserved Surplus."

g. Close Accounts 8020, "Contributions Earned - Operating
Subsidy-Current Year", and 8021, "Contributions Earned -
Operating Subsidy Prior Year(s) Adjustment", into Account
2840, "Cumulative HUD Annual Contributions".

Debit: Account 8020, Contribution Earned-

Operating Subsidy - Current Year
Account 8021, Contributions Earned
Operating Subsidy - Prior Year(s)
Adjustment

Credit: Account 2840, Cumulative
HUD Annual Contributions.

- h. Set up Annual Contributions for the amount of contribution reflected on Form HUD-52266, line 3.

Debit: Account 1176, HUD Annual Contributions
Receivable

Credit: Account 2840, Cumulative
HUD Annual Contributions.

6-4. REPORTING REQUIREMENTS.

Exhibit 6-1 provides a "Schedule and Distribution of Required Financial Reports" which includes (a) a description of financial reports to HUD, (b) the frequency of reporting, (c) the number of copies to be submitted, and (d) the office to which the report shall be submitted.

Specific instructions for submission of financial reports are referenced in Chapter 13, Handbook RHA 7510.1, Low-Rent Housing Accounting Handbook, with one noted Reporting Requirement exception. Report of Tenants Accounts Receivable, Form HUD-52295, shall be submitted semiannually and annually in accordance with paragraph 6-5 of this Chapter.

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6-5. PHA SUBMISSION OF FORM HUD-52295- REPORT OF TENANTS ACCOUNTS RECEIVABLE.

- a. Purpose.

This paragraph establishes PHA submission requirements of Form HUD-52295, which differ from the instructions contained in HUD Handbook RHA 7510.1, Low-Rent Housing Accounting Handbook.

- b. Submission Requirements.

- (1) A separate report shall be prepared for (a) PHA owned rental projects under the same contract and (b) Section 23 leased projects under the same contract, even though combined with other projects for collection purposes.

- (2) "Report of Tenants Accounts Receivable," Form HUD-52295, shall be submitted semi-annually and annually, unless otherwise requested by the HUD Field Office. More frequent reports and greater detail may be requested by the Field Office in cases where the PHA is experiencing a serious rent collection problem. The Field Office may choose to accept annual reports on a case-by-case basis, if it is determined that the PHA is not experiencing a rent collection problem. A PHA which believes its collection experience evidences satisfactory performance, may request a waiver of semi-annual reporting.
- (3) Other reports or summaries may be submitted in lieu of Form HUD-52295, provided prior approval is obtained from the Field Office and such other reports or summaries contain substantially the same information as that required in Form HUD-52295.

c. Documentation.

Any requests for waivers of semi-annual reporting and acceptability of reports other than the prescribed report format shall be documented by letter from the PHA to the Field Office. Requests for more frequent and/or increased reporting by the PHA shall also be documented by letter from the Field Office to the PHA.

6-6. PHA PREPARATION OF FORM HUD-52267 - COMPUTATION OF PAYMENTS IN LIEU OF TAXES (PILOT).

- a. Pilot payments are determined in accordance with the terms of the Cooperation Agreement(s) entered into by the PHA and the

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local governing body(ies). The amount payable is limited to the lesser of (a) 10 percent of shelter rent or (b) the amount prescribed by state law.

- b. Lines 1 through 7 represent the components of shelter rent and result in a calculation of "shelter rent charged" in determining PILOT.
- c. Lines 9 through 13 calculate "shelter rent collected" and are used in lieu of Lines 1 through 8 when this basis for calculating PILOT is specified in the Cooperation Agreement.
- d. Line 14 shows the approximate amount of full real property taxes that will assure compliance with the

provision of the Act which limits PILOT to the amount prescribed by state law.

- e. Lines 15 and 16 compare the amounts described above in order to determine the amount to be used in making PILOT payments.
- f. Detailed instructions for the preparation of Form HUD-52267 are on the reverse side of the Form and in HUD Handbook RHA 7510.1, Low-Rent Housing Accounting Handbook.

6-7. PHA PREPARATION OF FORM HUD-52295 - REPORT OF TENANTS ACCOUNTS RECEIVABLE.

Reserved.

6-8. PHA PREPARATION OF FORM HUD-52595 - BALANCE SHEET.

- a. All amounts on this report should be taken from the general ledger after all closing adjustments have been prepared and recorded.
- b. In each distribution of Annual Financial Statements include copies of all closing Journal Vouchers and copies of any other Journal Vouchers recorded during the fiscal year which affect Account numbers 2700, 2810, 6010, 8011, 8021 and 8114.
- c. In each distribution of Annual Financial Statements include a copy of the confirmation on fiscal agents Accounts.
- d. Detailed instructions for the preparation of Form HUD-52595 are on the reverse side of the Form and in HM G 7511.1, Low-Rent Housing Accounting Guide.

6-9. PHA PREPARATION OF FORM HUD-52596 - STATEMENT OF INCOME AND EXPENSE AND CHANGES IN ACCUMULATED SURPLUS OR DEFICIT FROM OPERATIONS.

- a. The amounts on Lines 1, 7 and 20 or 21 are taken from Lines 140, 570 and 770 of Form HUD-52599.

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- b. The amounts on lines 2, 3, 4, 5, 6, 9, 10, 11, 12, and 13 will come from the general ledger prior to closing.
- c. The amounts on Lines 17 and lines 25 or 29 are taken from Lines 24 and 28 or 32 of Form HUD-52596, prepared for the end of the previous fiscal year.

- d. Any adjustments to surplus furnished by the Office of Finance and Accounting (OFA) should be reflected on Lines 18 and 26 or 30.
- e. The amounts on Lines 24, 28 or 32 and Line 37 must agree with the amounts reported on Lines 87, 88, or 97 of Form HUD-52595 (dated 2-85).
- f. There are detailed instructions for the preparation of Form HUD-52596 in HM G 7511.1, Low-Rent Housing Accounting Guide.

6-10. PHA PREPARATION OF FORM HUD-52598 - ANALYSIS OF NONROUTINE EXPENDITURES.

- a. The totals in Part I must agree with the amounts on Lines 530, 540, 580, 590 and 600 of Form HUD-52599.
- b. The budget information for Part II is taken from the Operating Budget, Form HUD-52567 - Schedule of Nonroutine Expenditures.
- c. The actual cost information must come from PHA records which account for the cost of each item of nonroutine expenditures by individual item.

Note: A separate form must be prepared for each Section 23 Leased Project.

If an Annual Contributions Contract includes both Conventional and Section 23 Leased Projects, a separate form must be prepared for the Conventional Projects.

- d. There are detailed instructions for the preparation of Form HUD-52598 in HM G 7511.1, Low-Rent Housing Accounting Guide.

6-11. PHA PREPARATION OF FORM HUD 52599 - STATEMENT OF OPERATING RECEIPTS AND EXPENDITURES.

- a. Be sure to complete all items in the heading, especially the number of unit months of availability. Homeownership and/or Section 23 Leased Projects require a separate HUD-52599.

- b. Complete first two columns (Budget Amount and Budget PUM) by copying the amounts from the latest approved Operating Budget for the fiscal year for which the

report is being prepared.

- c. Using the income and expense ledgers as a source, enter the final balances of these accounts in the last column (actual amount). Be sure that actual amounts are used. Do not round these figures.
- d. The general ledger will be the source for all other amounts shown in the last column not obtained from c. above.
- e. Calculate PUM amounts for the third column (Actual PUM) by dividing the amounts used in the last column (c. and d. above) by the number of unit months availability.
- f. Section 23 Leased Projects - Stop at Line 680 and complete Form HUD-52981 before completing the remainder of this form.
- g. All Projects - Complete Form through Line 760. Insert the Maximum Operating Reserve from Line 01 or 02 of Form HUD-52564 for the subsequent fiscal year, on Line 800.
- h. Compare the amount recorded on the general ledger in Account 2820, prior to closing, and insert on Line 770 the lesser of the difference between the previous balance in Account 2820, 2821, or 2823 as applicable, and Line 800 or the amount on Line 760. Line 780 is then calculated. (If line 760 is a deficit, the reserve level can not be reduced to less than zero.)
- i. Lines 810 and 820 are taken from the trial balance of Tenants Accounts Receivable at the end of the reporting period.
- j. Detailed instructions for the preparation of Form HUD-52599 are on the reverse side of the Form and in HM G 7511.1, Low-Rent Housing Accounting Guide.

6-12. RECORDS RETENTION.

- a. PHAs are required to maintain certain project, application, tenant, personnel and financial records. Depending on the nature of the records, disposition may or may not be recommended.
- b. Exhibit 6-2 provides a suggested method of filing and recommended period for retention of various PHA records and reports. The suggested method of filing may not apply to all PHAs. PHAs may be subject to more stringent requirements as a result of state or other legal requirements. It has been prepared primarily for small PHAs.

