

# FINANCIAL REPORTING UNDER THE NEW OPERATING FUND RULE

## **Reporting Brief 5: Financial Reporting for Capital Fund Financing Proceeds/Expenditures**

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The following illustrations demonstrate methods by which projects may record Capital Fund Financing Program (CFFP) proceeds and expenditures on the new Financial Data Schedule (FDS) under asset management.<sup>1</sup>

### **Key Information**

For purposes of illustration, it is assumed that two projects within the same public housing agency (PHA) borrow from a bank to fund modernization. Other key information include:

- Total Loan Amount: \$ 1,000,000
- Project A: \$400,000
- Project B: \$600,000
- Terms: 15 Years
- Interest rate: 5%, compounded annually
- Annual Principal & Interest Due;
- Project A: \$57,805.38
- Project B: \$38,536.92
- Annual Capital Grant Funding: \$96,342 (annual debt servicing; Projects A & B)

The amortization schedules for the two projects (AMPs) are shown in the tables below.

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<sup>1</sup> See proposed FDS template, posted December 28, 2007, on asset management website at: <http://www.hud.gov/offices/pih/programs/ph/am/fds.cfm>.

### Amortization Schedule for AMP 1

Year	Debt Servicing Payment	Interest Expense	Reduction to Loan Principal	Outstanding Balance
				\$400,000.00
1	\$ 38,536.92	\$20,000.00	\$ 18,536.92	\$381,463.08
2	\$ 38,536.92	\$19,073.15	\$ 19,463.77	\$361,999.31
3	\$ 38,536.92	\$18,099.97	\$ 20,436.95	\$341,562.36
4	\$ 38,536.92	\$17,078.12	\$ 21,458.80	\$320,103.56
5	\$ 38,536.92	\$16,005.18	\$ 22,531.74	\$297,571.82
6	\$ 38,536.92	\$14,878.59	\$ 23,658.33	\$273,913.49
7	\$ 38,536.92	\$13,695.67	\$ 24,841.25	\$249,072.24
8	\$ 38,536.92	\$12,453.61	\$ 26,083.31	\$222,988.93
9	\$ 38,536.92	\$11,149.45	\$ 27,387.47	\$195,601.46
10	\$ 38,536.92	\$9,780.07	\$ 28,756.85	\$166,844.61
11	\$ 38,536.92	\$8,342.23	\$ 30,194.69	\$136,649.92
12	\$ 38,536.92	\$6,832.50	\$ 31,704.42	\$104,945.50
13	\$ 38,536.92	\$5,247.27	\$ 33,289.65	\$71,655.85
14	\$ 38,536.92	\$3,582.79	\$ 34,954.13	\$36,701.73
15	\$ 38,536.81	\$1,835.09	\$ 36,701.72	\$0.00

### Amortization Schedule for AMP 2

Year	Debt Servicing Payment	Interest Expense	Reduction to Loan Principal	Outstanding Balance
				\$600,000.00
1	\$ 57,805.38	\$30,000.00	\$ 27,805.38	\$572,194.62
2	\$ 57,805.38	\$28,609.73	\$ 29,195.65	\$542,998.97
3	\$ 57,805.38	\$27,149.95	\$ 30,655.43	\$512,343.54
4	\$ 57,805.38	\$25,617.18	\$ 32,188.20	\$480,155.34
5	\$ 57,805.38	\$24,007.77	\$ 33,797.61	\$446,357.72
6	\$ 57,805.38	\$22,317.89	\$ 35,487.49	\$410,870.23
7	\$ 57,805.38	\$20,543.51	\$ 37,261.87	\$373,608.36
8	\$ 57,805.38	\$18,680.42	\$ 39,124.96	\$334,483.40
9	\$ 57,805.38	\$16,724.17	\$ 41,081.21	\$293,402.19
10	\$ 57,805.38	\$14,670.11	\$ 43,135.27	\$250,266.92
11	\$ 57,805.38	\$12,513.35	\$ 45,292.03	\$204,974.88
12	\$ 57,805.38	\$10,248.74	\$ 47,556.64	\$157,418.25
13	\$ 57,805.38	\$7,870.91	\$ 49,934.47	\$107,483.78
14	\$ 57,805.38	\$5,374.19	\$ 52,431.19	\$55,052.59
15	\$ 57,805.22	\$2,752.63	\$ 55,052.59	\$0.00

## **Relevant Transactions**

To account for the loan, entries to affect the AMP balance sheet are recorded to reflect cash received for subsequent debt servicing and liabilities for current and long term portions of the debt.

### **Year 1 of the Loan**

1. To account for grants received by the PHA for building modernization, the Projects book \$38,536.92 and \$57,805.38 grant proceeds on the balance sheets of project 1 and 2, respectively (i.e. cash-restricted). The offsetting credits are reflected as Capital Grants, a revenue reported on the income statements.
2. The PHA should book Construction in Progress on the balance sheets of project 1 and 2 as the modernization continues.
3. The PHA should book \$20,000 and \$30,000 in interest expenses under Capital Fund columns of the income statement of each project, respectively. The PHA should also book \$18,536.92 and \$27,805.38 in principal payments for the loan under Capital Fund column of each projects income statement, respectively.
4. The project balance sheet will be adjusted annually to reclassify the portion of the loan principal due within one year from non-current to a current liability.
5. In addition to the normal accounting entries, the PHA should report the required annual loan principal payment on the new FDS memo account line 11020 – Required Annual Debt Principal Payment.

### **Year 2 of the Loan**

1. To account for grants received by the PHA for building modernization, the PHA should book \$38,536.92 and \$57,805.38 for the received grant on the balance sheets of Projects 1 and 2, respectively. Meanwhile, the projects would reflect matching entries under Capital Fund columns of projects 1 and 2 to recognize the Capital Grant as revenue on the income statements.
2. The PHA should book Construction in Progress on the balance sheets of Project 1 and 2 as the modernization continues.
3. The projects will reflect \$19,073.15 and \$28,609.73 interest expenses under Capital Fund columns within the income statements of project 1 and 2, respectively. The projects should also book \$19,463.77 and \$29,195.65 in principal payments for the loans under the Capital Fund columns of each project's income statement.

4. When appropriate, the PHA might need to reclassify the portion of the loan principal due within one year from non-current liability to current liabilities on each project's balance sheet.
5. In addition to the normal accounting entries, the PHA should report the required annual loan principal payment on the new FDS memo account line 11020 – Required Annual Debt Principal Payment.
6. When the modernization work is completed, the PHA should transfer the relevant balances in the Construction in Progress accounts to the corresponding capital asset accounts on the balance sheets of each project.