



## **Comprehensive Grant Program (CGP) and Comprehensive Improvement Assistance Program (CIAP) Draw Down Provisions** **(Accounting Issue #9)**

### **Background:**

In providing guidance in accounting for transactions within grant programs, certain questions were raised by Public Housing Authorities (PHA)s over the treatment of proceeds from the Comprehensive Grant Program (CGP) or the Comprehensive Improvement Assistance Program (CIAP) when the PHA utilizes the draw down provision. The draw down provision of the CGP/CIAP grant program allows a PHA to draw down funds and subsequently transfer these funds to the PHA's Low Rent Program. The following was prepared in order to document the rules governing the draw down provisions and the proper accounting treatment under Generally Accepted Accounting Principles (GAAP).

### **Issues:**

What are the rules governing a PHA's ability to draw down CGP/CIAP funds and how should the draw down and subsequent transfer of CGP/CIAP modernization funds to the Low Rent program be accounted for under GAAP?

### **Analysis:**

#### **Draw Down provisions for CGP/CIAP Grants**

In reviewing the CFR for the CGP/CIAP programs, certain provisions were identified which establish guidelines whereby grant monies may be drawn down and transferred to the Low Rent program for use for either operating and/or capital needs. The following summarizes the provisions under the CFR and proper accounting treatment for these transactions.

#### **FY 1996 and Prior (For PHAs having 250 or more units)**

Per the Omnibus Consolidated Rescissions and Appropriations Act (OCRA) of 1996, (P.L. 104-134), enacted April 26, 1996, a PHA is permitted to allocate up to 10% of each

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annual CGP approved in FY 1996 and prior years to the Low Rent program of the PHA. CGP funds transferred to Operations (Low Rent) are considered obligated and expended at the point of draw down for CGP purposes. The PHA is not required to specify the actual Low Rent activities funded with such allocated funds. Such funds are included in the Low Rent budget as Other Income and can be used to fund any operating expenditure. A PHA may reallocate the unexpended CGP grant funds for up to 10% of the annual grant, for FY 1996 and prior years, by submitting an amended Annual Statement for those years. The PHA is not required to identify actual Low Rent operating activities funded from CGP funds on its Performance and Evaluation Report nor is it required to identify Low Rent operating needs on its Physical and Management Needs Assessments.

**FY 1997 to FY 1999 (for PHAs having 250 or more units)**

The transfer of modernization funds from the CGP program to the Low Rent Program is not allowed for FY' 97, 98 and 99 for PHAs having 250 or more units.

**FY 2000 and Beyond (For PHAs having 250 or more units)**

The Quality Housing and Work Responsibility Act of 1998 or (QWHRA) (PL 105-276), increases the flexibility for PHAs having 250 or more units. These size PHAs can now allocate 20% of the annual Capital Fund program to Low-Rent operations, but only if the public housing agency has plans for such use.

**The Comprehensive Grant Program Directive # 7485.3G**

In addition to the OCRA of 1996, CGP Directive # 7485.3G<sup>1</sup> allows PHAs to draw down CGP funds to fund Low Rent Program Replacement Reserves for eligible activities to be performed in future periods given the following:

1. Annual CGP funds are not needed for existing needs.
2. Physical improvements require more funds than will be received by the PHA under the current CGP program. The PHA is allowed to reserve these funds and future CGP funds until sufficient resources are available for the project.
3. In cases where management improvements exceeds the 20% cap, approval may be requested by the PHA in order to exceed the 20% cap and draw down additional funds for operations.

Funding of the replacement reserve can only be done after an ACC Amendment and only for the approved amount. There are no time limitations upon the use of the

replacement reserves or the accumulated interest earned on these reserves. Generally, these reserves are restricted for future capital projects. However, the PHA must use these reserves for emergency needs prior to requesting additional funding. These funds are not required to be used for natural or other disasters.

**Any fiscal year (For PHAs having less than 250 units)**

The QWHRA of 1998 (P.L.105-276), gives a PHA with less than 250 units full flexibility to allocate up to 100% of its annual CIAP grant for *any fiscal year* to its Low Rent program as long as the PHA: (1) is not troubled and (2) operates its public housing in a clean and safe and healthy condition as determined by HUD. Such funds are included in the Low Rent operating budget as Other Income and can be used for any Low Rent operating expenditure. However, PIH Notice 99-38, “*Comprehensive Improvement Assistance Program (CIAP): Federal Fiscal Year (FFY) 1999 Application Submission, Processing and Fund Reservation,*” states that:

***“.....because in prior years CIAP funds were obtained competitively based on representations of need, HUD expects PHA’s use of prior CIAP funds for operating purposes to be judicious; for example, to address emergency needs. Priority for the flexible use of capital funds should be given to [Low Rent] emergency or statutory needs and to address outstanding civil rights or other review findings.”***

Per HUD’s Department of Grants Management, the judicious treatment of these funds do not include the offsetting of disallowed costs (undistributed debits).

**Accounting for Capital Grants under GAAP**

When accounting for expenditure driven capital grants under the full accrual basis of accounting, GAAP dictates that; (1) for amounts disbursed for the acquisition and/or construction of capital assets, the offsetting credit be accounted for as an increase to contributed capital, and (2) for amounts disbursed for administrative expenses, an offsetting credit be accounted for as grant revenue (See Exhibits 1 & 2).

**Conclusion:**

Per the 1996 OCRA (P.L. 104-134) and CGP Directive # 7485.3G, the modernization funds are reported as Other Income within the Low Rent program at the time of draw down whether or not the funds have actually been expended. Current treatment under the CGP/CIAP programs dictates that the draw down be considered as expended for purposes of the grant.

However, the capital funds that are allocated to the Low Rent program should be treated as an operating transfer under GAAP. GASB Codification 1800, “*Classification and Terminology,*” defines operating transfers as:

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**“.....legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.”**

Intrinsically, the CGP / CIAP fund is legally authorized (P.L. 104-134) to transfer a portion of its “revenue” source (CGP / CIAP grant funds) to another fund (Low Rent program) through which the resources will be expended. Under the full accrual method, the operating transfer within the CGP/CIAP programs requires a debit to *Operating Transfers-out*. The Low-Rent program would record a corresponding credit to *Operating Transfers-in*.

*The following Exhibits outline the accounting entries under the full accrual method for CGP/CIAP funds utilized for capital acquisitions and incurred as Administrative costs:*

**Exhibit 1:** CGP/CIAP funds used in the acquisition and/or construction of a capitalized fixed asset:

	<u>DR</u>	<u>CR</u>
<b>Fixed Asset is acquired/constructed</b>		
Fixed Asset	XXX	
Accounts payable		XXX
Accounts Receivable – HUD projects	XXX	
Contributed Capital		XXX

**Exhibit 2:** CGP/CIAP funds utilized for project administrative costs:

	<u>DR</u>	<u>CR</u>
<b>Administrative costs are incurred (Soft Costs)</b>		
Administrative expenses	XXX	
Accounts payable		XXX
Accounts Receivable – HUD projects	XXX	
HUD PHA Grants (revenues)		XXX

*Exhibits 3 & 4 outline the accounting entries under the full accrual method for the draw down of CGP/CIAP funds:*

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**Exhibit 3:** CGP/CIAP Program transferred to the Low Rent Program for operating purposes.

	<u>DR</u>	<u>CR</u>
<b><i>Draw Down is initiated</i></b>		
<b>a) CGP/CIAP Program</b>		
Accounts Receivable – HUD projects	XXX	
HUD PHA Revenue		XXX
Operating Transfer Out (for amount to be allocated to the Low Rent Program)	XXX	
Due To Low Rent Program		XXX
<b>b) Low Rent program</b>		
Due From CGP/CIAP	XXX	
Operating Transfer In		XXX
<b><i>Funds are received from HUD</i></b>		
<b>a) CGP/CIAP</b>		
Cash	XXX	
Accounts Receivable – HUD projects		XXX
<b><i>Funds are transferred to the Low Rent Program</i></b>		
<b>a) CGP/CIAP</b>		
Due To Low Rent Program	XXX	
Cash		XXX
<b>b) Low Rent Program</b>		
Cash	XXX	
Due From CGP/CIAP		XXX

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**Exhibit 4:** CGP Program funds transferred to the Low Rent Program to fund replacement reserves per CGP Directive #7485.3G.

	<u>DR</u>	<u>CR</u>
<b><i>Draw Down is initiated</i></b>		
<b>a) CGP Program</b>		
Accounts Receivable – HUD projects	XXX	
HUD PHA Revenue		XXX
Operating Transfer Out (for amount to be allocated to the Low Rent Program)	XXX	
Due To Low Rent Program		XXX
<b>b) Low Rent program</b>		
Due From CGP	XXX	
Operating Transfer In		XXX

<b><i>Funds are received from HUD</i></b>		
<b>a) CGP</b>		
Cash restricted for development and modernization	XXX	
Accounts Receivable – HUD projects		XXX
<b><i>Funds are transferred to the Low Rent Program</i></b>		
<b>a) CGP</b>		
Due To Low Rent Program	XXX	
Cash restricted for development and modernization		XXX
<b>b) Low Rent Program</b>		
Cash restricted for development and modernization	XXX	
Due From CGP		XXX

<sup>1</sup> Comprehensive Grant Program Directive # 7485.3G, Section 2-7