Questions & Answers
Accounting for Program Income
under NAHASDA

Q.1: Can I deduct costs necessary for the generation of program income from gross income to determine program income?

A.1: Yes; you may use the gross income to pay the costs necessary for generating the income and then deduct these costs from gross income to determine program income. You may deduct these costs only if you are using the income to pay these costs.

Q.2: Is the first $25,000 of income from the use of IHBG funds subject to any Federal requirements?

A.2: If the recipient's and all its subrecipients' income from the use of IHBG funds once costs are netted out as addressed Q.1 is equal to or less than $25,000 in the program year, then this income is not subject to any Federal requirements including NAHASDA requirements. If a recipient and all its subrecipients receive more than $25,000 of net income then the entire amount of this income including the first $25,000 is program income and subject to NAHASDA and all the other applicable Federal requirements.

Q.3: How does the $25,000 exclusion apply if a tribally designated housing entity (TDHE) is a recipient for more than one tribe?

A.3: The $25,000 exclusion applies to income to the recipient's program that it and all of its subrecipients receive during a program year. Where a TDHE is the recipient for more than one tribe, the exclusion is applied to each IHBG program. If the recipient has a separate program for each tribe, that is the TDHE has a separate Indian Housing Plan and separate grant agreement for each tribe, the exclusion applies to each separate program. If the recipient has one program for all tribes it represents and hence has one Indian Housing Plan and one grant agreement for all the tribes, the exclusion applies to the single program.

Q.4: Do all equipment sales generate program income?

A.4: All proceeds from sale of equipment bought with IHBG funds are program income (see §1000.26(a)(8)). However, in accordance with §85.32(c)(4), when acquiring replacement equipment, the recipient may use the equipment to be replaced as a trade-in or sell the equipment and use the proceeds to offset the cost of the replacement property. In addition, should program income received by the recipient and all of their subrecipients in a single year, including proceeds from sale of equipment, be less than or equal to $25,000, then the $25,000 exclusion as addressed in Q.2 applies.

Q.5: Are all reserves from 1937 Act programs as of October 1, 1997, considered IHBG funds and subject to all IHBG requirements?

A.5: Yes, under Section 210 of NAHASDA, these funds are now considered IHBG funds and subject to all NAHASDA requirements including program income requirements. Therefore, income generated from the use of these funds is the same as income generated from the use of IHBG funds.

Q.6: If no IHBG funds were ever used for 1937 Act units, is income generated by those units subject to program income requirements?

A.6: If no IHBG funds were used for 1937 Act units, then the income generated from the operation of those units is not program income and therefore is not subject to program income requirements.

Q.7: Are recipients required to use income generated from the use of 1937 Act units prior to requesting additional IHBG funds?

A.7: No, provided the income generated from the use of 1937 Act units is not program income as addressed in Q.8, Q.9, Q.11 and Q.12 below. If income generated from the use of 1937 Act units is program income, the program income must be disbursed before requesting additional IHBG funds from LOCCS as addressed in Q.14 below.

Q.8: If IHBG funds are used to operate 1937 Act low-rent units, is income generated by those units subject to program income requirements?

A:8: When 1937 Act units are assisted with IHBG funds, the income from the units is program income if it is attributable to the IHBG assistance. For rental units, the amount of income attributable to IHBG assistance for operations should be calculated on a project basis as follows:

Program Income from a 1937 Act project	=	Total yearly income from the 1937 Act project	-	46% of the Tribe's AEL during the last year of 1937 Act programs times the number of units in the project

For example, let's assume a recipient receives $9,600 in rental income during its program year from four 1937 Act low-rent units in a project. The recipient finds on its Formula Response Form that in the last year of the 1937 Act program its AEL was $400 per month per unit or $4,800 per year per unit. Calculating 46% of $4,800 gives us $2208 per year per unit. Multiplying the 46% of AEL times 4 units gives us $8832 per project per year. We would then subtract this amount, $8,832, from the total yearly income from the rental units in a project which in our example is $9,600 and find that the 1937 Act project generated $768 per year of program income.

Q.9: If IHBG funds are used to rehabilitate 1937 Act low-rent units, is income generated by those units subject to program income requirements?

A.9: When 1937 Act units are assisted with IHBG funds, the income from the units is program income if it is attributable to the IHBG assistance. For a rental unit, the amount of income attributable to IHBG rehabilitation assistance is either all of the income or none of the income, depending on the total amount of IHBG funds spent for rehabilitating the unit. If the total IHBG funds spent for rehabilitating the 1937 Act rental unit is less than 40% of Dwelling Construction and Equipment Cost (DC&E) effective the date of the enactment of NAHASDA for the specific type and size of unit, then no program income is generated. If the total IHBG funds spent for rehabilitating the 1937 Act rental unit is equal to or greater than 40% of the DC&E amount, then all income from the unit is program income.

For example, let's assume that 40% of the DC&E for a specific unit type and size for the recipient effective on 10/1/1997 is $25,000. Last program year the recipient spent $15,000 of IHBG funds for rehabilitation of such a 1937 Act low-rent unit. This program year with recipient spent an additional $15,000 of IHBG funds to complete the work. Because the total amount of IHBG funds for rehabilitation of the unit, $30,000, will exceed 40% of the DC&E, $25,000, all future rental income, beginning the program year or month after the expenditure for rehabilitation which brings the total IHBG expenditures to $25,000 is program income.

Q.10: Will a 1937 Act unit continue to be eligible for funding under the Formula Current Assisted Stock (FCAS) component of the IHBG formula if IHBG funds were spent on that unit for rehabilitation greater than or equal to 40% of the DC&E as addressed in Q.9.?

A.10: Yes, the unit would still be eligible as FCAS. The 40% threshold is only a concept for accounting for program income and will have no affect in determining what is eligible FCAS under the IHBG formula.

Q.11: If IHBG funds are used to operate 1937 Act Mutual Help units, is income generated by those units subject to program income requirements?

A.11: There should never be a need to use IHBG funds to operate 1937 Act Mutual Help units and no net income should ever be generated from the operation of Mutual Help units. Each homebuyer is required to pay an administrative charge to cover operating expenses and the administrative charge is required to be used to pay operating expenses. If there is income remaining after paying operating costs, the administration charge should be reduced.

Q.12: If IHBG funds are used to rehabilitate 1937 Act Mutual Help units, is income generated by those units subject to program income requirements?

A.12: When IHBG assistance is used for rehabilitating a 1937 Act Mutual Help unit, the same calculation noted above in the answer to Q.9. for the 1937 Act low-rent units would apply. However, the recipient would not realize the program income until the time of conveyance.

For example, if IHBG funds are used to rehabilitate a Mutual Help unit and the cost meets or exceeds 40% of the DC&E for the specific type and size of unit, the Proceeds of Sale to the recipient at conveyance would be considered program income. If the cost of rehabilitation is less than 40% of DC&E, the Proceeds of Sale at the time of conveyance would not be considered program income and can be used in accordance with Answer 42A in the revision to the Transition Notice published in the Federal Register on April 1, 1999 (64 FR 15778).

Q.13: Is the use of program income subject to any requirements?

A.13: Program income generated by the use of IHBG funds must be used for affordable housing activities in accordance with section 202 of NAHASDA. This means that the use of program income is subject to all applicable requirements governing the use of IHBG funds including, but not limited to, labor standards requirements (§1000.16), environmental review requirements (§1000.18), and administrative requirements (§1000.26).

Q.14: Does program income have to be obligated within a specific time period?

A.14: No, the performance measure which states that within 2 years of grant award, no less than 90% of the grant must be obligated (§1000.524(a)) does not apply to program income. However, recipients must substantially disburse program income for eligible activities before additional IHBG funds are drawn down from the U.S. Treasury.

Q.15: Are insurance proceeds from a NAHASDA unit (e.g., from a house owned by the recipient that was destroyed by a fire) considered program income?

A.15: No, insurance proceeds are not considered program income. However, the insurance proceeds from a NAHASDA unit are considered applicable credits to the IHBG program in accordance with OMB Circular A-87, Section C.4 and must be treated like IHBG funds and used in accordance with NAHASDA requirements. Insurance proceeds from a NAHASDA unit are considered applicable credits regardless of which funds (IHBG or non-IHBG) were used to purchase the insurance.

Q.16: When do the requirements for program income become effective?

A.16: The requirements for program income are set forth in the regulation and were effective on April 13, 1998 (the effective date of the regulations). The program income notice clarifies when program income is generated from the operation of 1937 Act units because the units are assisted with IHBG funds and the income is attributable to the IHBG assistance. Any recipient who may have held income from 1937 Act units that were assisted with IHBG funds until the publication of the notice enabled it to determine how much, if any, of that income is program income, should now be calculating, using, and disbursing this program income in accordance with the notice.