



Financial Reporting of Public Housing Operating Subsidy
ACCOUNTING BRIEF #29

GOVERNING REGULATIONS AND GUIDANCE

1. PIH Notice 2025-20 “Operating Fund Federal Financial Report (SF-425) Submission Process” (July 9, 2025)
2. Select Citations: 24 CFR 990 – The Public Housing Operating Fund Program (specifically, § 990.210 “Payment of Operating Subsidy”)
3. Select Citations: 2 CFR 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (specifically, § 200.1 “Definitions – Period of Performance and Program Income”; § 200.302 “Financial management”; § 200.305 “Federal payment”; § 200.308 “Financial Reporting; § 200.344 “Closeout”; and § 200.346 “Collection of Amounts Due”)

BACKGROUND & PURPOSE

HUD issued PIH Notice 2025-20, “*Operating Fund Federal Financial Report (SF-425) Submission Process*,” on July 9, 2025. The notice establishes annual SF-425 reporting requirements for Public Housing Operating Fund grants and provides guidance on the financial management and reporting of operating subsidy and program income.

Key provisions of PIH Notice 2025-20 relevant to this accounting brief include:

1. **Section 4 (Changes and Additions to this Notice):** Establishes the implementation timeline, beginning with the 2026 Operating Subsidy grant (effective January 1, 2026).
2. **Section 5 (Reporting and Record Management Requirements):** Requires annual submission of the SF-425 per § 200.308 and reinforces compliance with the period of performance. HUD’s enforcement of the Office of Management and Budget (OMB) period of performance requirement is significant, as it impacts the timing of operating subsidy revenue recognition for both the PHA’s financial statements and HUD’s Financial Data Schedule (FDS) submissions.
3. **Section 7 (Types of Funds):** Provides guidance on the classification of revenue sources associated with the Public Housing Operating Fund, distinguishing between program income and non-program income.
4. **Section 8 (Order of Expenditure):** Requires PHAs to expend program income prior to the use of operating subsidy grants.

Additionally, 24 CFR 990.210 (*Payment of Operating Subsidy*) allows PHAs to continue drawing down all operating subsidy funds from eLOCCS as they become available. PIH Notice 2025-20 does not change or restrict this practice. Accordingly, the timing of cash drawdowns does not determine the timing of “revenue recognition” for financial reporting purposes.

The purpose of this accounting brief is to:

1. Outline the accounting and reporting treatment of operating subsidy under the updated requirements, including its presentation in the PHA’s financial statements and FDS submissions; and
2. Provide supporting background and rationale for these accounting and reporting guidance.

ACCOUNTING AND REPORTING OF OPERATING SUBSIDY

This section provides the accounting and reporting of operating subsidy in the PHA’s financial statements and the FDS¹.

Prior Reporting (2025 Operating Subsidy Grants and Prior Years)

Historically, most PHAs draw down their monthly operating subsidy from eLOCCS as these funds became available, regardless of immediate cash needs. Operating subsidy is recognized as revenue upon drawdown, with any unspent funds recorded as unrestricted cash and subsequently included in a PHA’s operating reserves (unrestricted net position) until expended.

The following example illustrates the accounting treatment for 2025 Operating Subsidy grants and prior-year grants.

Entry 1: Receipt of Operating Subsidy for 2025 Operating Subsidy Grant and Prior.

FDS Account & Description	Debit	Credit
111: Cash - Unrestricted (increase in cash)	\$50,000	
70600: HUD PHA operating grants (increase in grant revenue)		\$50,000

Current Reporting (2026 Operating Subsidy Grants and Post -2026²)

With the issuance of PIH Notice 2025-20, “*Operating Fund Federal Financial Report (SF-425) Submission Process*,” the accounting and reporting of operating subsidy changes beginning with the 2026 Operating Subsidy grant (i.e., effective January 1, 2026).

Because the notice enforces the grant’s period of performance, requiring any unspent or unobligated operating subsidy to be returned to HUD – the notice introduces an additional eligibility requirement under the Governmental Accounting Standards Board (GASB). Specifically, operating subsidy cannot be recorded as revenue until eligible expenses are incurred. This

¹ Most PHAs are required to prepare their financial statements and FDS using accrual accounting in accordance with GASB standards. However, SF-425 reporting will not always align with the financial statement and FDS reporting due to differences in definitions and timing. For example, certain SF-425 line items are reported on a cash basis. While reporting between the SF-425 and PHA’s FDS / financial statements may not align, the differences should be reconcilable.

² This guidance assumes the PHA fully drew down its 2025 operating subsidy in 2025; accordingly, any subsequent drawdowns relate to the 2026 grant.

requirement applies even though HUD continues to allow PHAs to draw down up to 100 percent of the operating subsidy grant. Accordingly, for accounting and reporting purposes, operating subsidy should be treated as an expenditure-driven grant.

The following example illustrates the accounting entries³ when operating subsidy is drawn down and later used to pay an eligible cost (e.g., vendor payment for plumbing services), after program income has been fully expended.

Accounting Entry 2. Draw-down of Operating Subsidy with No Associated Eligible Costs.

FDS Account & Description	Debit	Credit
111: Cash - Unrestricted (increase in cash)	\$50,000	
342-010: Unearned Revenue – Operating Subsidy (increase in unearned revenue)		\$50,000

Accounting Entry 3. Recognition (increase) of Expense and Decrease in Cash as the invoice is paid.

FDS Account & Description	Debit	Credit
94300-080: Ordinary Maintenance - Plumbing Contracts (increase in expense)	\$40,000	
111: Cash - Unrestricted (decrease in cash)		\$40,000

Accounting Entry 4. Reduction of Unearned Revenue and Recognition of Operating Subsidy as Revenue.

FDS Account & Description	Debit	Credit
342-010: Unearned Revenue – Operating Subsidy (decrease in unearned revenue)	\$40,000	
70600: HUD PHA operating grants (increase in grant revenue)		\$40,000

Accrual of Operating Subsidy Revenue. Operating subsidy revenue should be recorded when an eligible expense is incurred and the subsidy is available, even if funds have not yet been drawn in the reporting period. In such cases, the PHA should record revenue with a corresponding accounts receivable.

For example, for a PHA with a June 30, 2026 fiscal year-end, if maintenance work is completed and invoiced in June but the related funds are not drawn until July, the revenue should still be recognized in June and up to the amount of operating subsidy available as of June 30.

Year of Implementation. PHAs should consider their agency's fiscal year-end in their 2026 reporting, as the applicable accounting treatment may change during the fiscal year.

For a PHA with a June 30 fiscal year-end, the first six months of operating subsidy (July–December) relate to the 2025 grant and should be recognized as 100 percent revenue under prior guidance.

³ PHAs accounting systems vary, so the timing and method of entries to record operating subsidy as revenue versus unearned revenue will differ. However, in all cases, operating subsidy remains unearned until the eligible expense criteria are met.

The remaining six months (January–June) relate to the 2026 grant and, to the extent no eligible costs have been incurred, should be reported as unearned revenue until such costs are applied.

Return of Operating Subsidy at the End of the Period of Performance

The following example illustrates the accounting entry required when the period of performance has ended and a portion of the operating subsidy is returned to HUD.

Accounting Entry 5. Return of Operating Subsidy.

FDS Account & Description	Debit	Credit
342-010: Unearned Revenue – Operating Subsidy (decrease in unearned revenue)	\$10,000	
111: Cash - Unrestricted (decrease in cash)		\$10,000

Note: PHAs may reclassify the unearned revenue to a payable prior to returning the funds.

Schedule of Expenditures of Federal Awards

Historically, most PHAs have reported 100 percent of their operating subsidy as expended on the Schedule of Expenditures of Federal Awards Expended (SEFA). Beginning with the 2026 Operating Subsidy grant, reported expenditures should include only amounts that meet the expenditure criteria. Specifically, SEFA should include:

- Operating subsidy from 2025 (and prior years) drawn down during the PHA's 2026 fiscal year (and subsequent years); and
- 2026 and future Operating Subsidy funds that have been expended (i.e., eligible costs have been incurred and applied to the grant).

ADDITIONAL GUIDANCE AND CONTEXT ON REPORTING OF OPERATING SUBSIDY

In determining the appropriate revenue recognition for operating subsidy, relevant GASB standards were reviewed. HUD also consulted with GASB to validate HUD's preliminary accounting and reporting conclusions and to consider related factors, including applicable regulations, PIH Notices, and Annual Contributions Contract (ACC) provisions requiring unspent operating subsidy to be placed in operating reserves.

Revenue Recognition and Unrestricted Cash

The following provides additional context and clarification regarding the proper application of revenue recognition:

1. **Drawdowns vs. revenue recognition:** The ability of a PHA to draw down operating funds evenly throughout the year (i.e., 1/12 per month) is a funding mechanism and does not determine when revenue is recognized.
2. **Criteria for revenue recognition:** Because unspent or unobligated operating subsidy must be returned to HUD at the end of the period of performance, revenue cannot be recognized until eligible expenses are incurred.
3. **Expectation of future use:** The expectation that operating subsidy will be fully expended before the end of the period of performance—or even shortly after the PHA's reporting period—does not justify early recognition of unspent operating subsidy as revenue.

4. **Timing of drawdowns:** Recognizing operating subsidy as revenue based solely on when funds are drawn down or made available by HUD improperly accelerates revenue recognition.
5. **Proper recognition point:** Operating subsidy should be recognized as revenue when the funds is both available in eLOCCS and applied to an eligible cost. If eligible costs have been incurred but funds have not yet been drawn down, the amount should be recognized as grant revenue with a corresponding accounts receivable.
6. **Operating reserves under the ACC:** HUD's allowance for PHAs to place unspent operating subsidy into operating reserves, as permitted under the ACC:
 - Does not affect the timing of revenue recognition under GASB standards for financial statement and FDS reporting purposes; and
 - Does not constitute an eligible use of funds for purposes of revenue recognition, even though the practice to draw down operating subsidy and place any used funds into operating reserves is permitted by HUD.
7. **GASB vs. HUD reserve requirements:** GASB reporting standards do not govern how HUD determines operating reserve levels. These considerations are separate and mutually exclusive. Operating reserves are not defined by GASB and are not presented as a line item in GASB financial statements.
8. **Classification of cash:** Regardless of whether operating subsidy is recognized as revenue or recorded as unearned revenue, the associated cash should be reported as unrestricted, as there are no restrictions on its use other than that it must be used for eligible purposes under the Operating Fund program⁴.

Unearned Revenue – Current vs. Non-Current Liability

The following provides additional context and clarification regarding the classification of unearned revenue:

1. **GASB framework:** GASB Statement No. 62, paragraph 34, defines current liabilities but does not specifically address unearned revenue, as it primarily focuses on obligations requiring direct cash payment (e.g., payments to vendors).
2. **Classification of liability:** GASB requires that all liabilities, including unearned revenue, be classified as either current or non-current.
3. **Period of performance:** The period of performance for unearned grant revenue is generally not determinative when distinguishing between current and non-current classification (see item 4 below).
4. **Management's Expected Use of Funds:** Conceptually, the classification of liabilities differs depending on whether the liability will result in a direct cash payment or represents unearned revenue:

⁴ As of the date of this accounting brief the FASS-PH Financial Data Schedule Line Definition Guide has not been updated to reflect this guidance and results in a definitional conflict between FDS line 111 and FDS line 115. FDS Line 111 (Cash – Unrestricted) instructs PHAs to report cash balances associated with public housing operating subsidy under this line item. In contrast, FDS Line 115 (Cash – Restricted for Payment of Current Liabilities) directs PHA to report cash related to advances of grant or subsidy funds that have not yet been earned under FDS line 115. For FDS reporting purposes, PHAs should report unspent operating subsidy cash, regardless of whether it is recognized as revenue or recorded as unearned revenue under FDS Line 111 (Cash – Unrestricted).

- For liabilities involving cash payments, there is typically an underlying agreement (e.g., purchase orders, service contracts, employment agreements) that establishes the timing of payment and supports classification as current or non-current.
 - For unearned operating subsidy, classification depends on the PHA's expected timing of use—specifically, when eligible costs will be incurred and the criteria for revenue recognition will be met.
 - This expected timing of the use of funds is an estimate but should align with the PHA's policies and SF-425 reporting. For example, a PHA should not classify unearned revenue as non-current in its financial statements while simultaneously applying a policy of using the oldest grant funds first and reporting those funds as expended.
 - PHAs and auditors should evaluate the procedures related to the use of the individual operating grants to determine the proper classification of the unearned revenue balance.
5. **Unearned revenue as a non-current liability:** Unearned operating subsidy may be classified as non-current if the PHA intends to use current grant funds first and defer use of older grants, in both policy and practice, in the coming year.⁵
- For example, at the end of the PHA's fiscal year, the PHA has \$100,000 in unspent subsidy from its 2026 grant. If the PHA decides that it will use its 2027 grant first and will not need to spend the remaining 2026 grant in the coming year, then the PHA should report the \$100,000 as a non-current liability.
- However, as the end of the period of performance approaches, it is likely that older unspent funds will be used, necessitating reclassification to a current liability. For FDS reporting purposes non-current unearned operating subsidy should be reported on FDS Line 353 (Non-current Liabilities – Other)
- The cash associated with non-current unearned revenue should still be reported as a current asset. A footnote disclosure may be necessary to inform users that the PHA does not intend to use these funds in the near term and that they are associated with non-current unearned revenue. Material amounts would require disclosure.
 - Non-current unearned revenue generally requires footnote disclosure.
6. **Not analogous to debt:** Unearned revenue should not be treated the same way debt is treated when deciding whether unearned revenue is current or long-term.
- Long-term debt (i.e., Capital Fund Financing Program, Energy Performance Contracts, Mortgage debt) involve formal agreements with fixed repayment schedules, which clearly determine current versus long-term classification and do not rely on estimates.
 - If a PHA voluntarily makes additional principal payments, it may—but is not required to—reclassify portions of long-term debt as current.
 - Subsequent events disclosure may be required in such circumstances.

⁵ While permitted, a policy that will defer the use of older operating subsidy first (i.e., using 2027 operating subsidy prior to using all the PHA's 2026 operating subsidy) will likely result in more complicated accounting as the PHA will have multiple open operating subsidy grants for which to account for and report.