



State of North Carolina

Department of State Treasurer

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To: Public Housing Authority Officials and
Certified Public Accountants

From: T. Vance Holloman, Director
Fiscal Management Section

Subject: Principles used in preparing the illustrative financial statements for the City
of Dogwood Housing Authority under GASB 34 standards.

The illustrative financial statements for a public housing authority in North Carolina have been revised to comply with the reporting requirements of GASB Statement No. 34 and are published on the Audit Manual web page of the State and Local Government Finance Division section of the State Treasurer's web site, www.nctreasurer.com. Paragraph No. 138 of Statement No. 34 states that governments engaged in business-type activities only should present the fund financial statements required for enterprise funds. Prior to the implementation of Statement No. 34, the vast majority of public housing authorities (PHAs) in North Carolina accounted for and reported their activities in enterprise funds. For these PHAs, the basic financial statements will consist of:

- a. Management's Discussion and Analysis (MD&A) (GASB Statement 34, paragraphs 8-11, as appropriate)
- b. Enterprise fund financial statements (paragraphs 91 – 105), consisting of:
 - 1) Statement of net assets or balance sheet
 - 2) Statement of revenues, expenses, and changes in fund net assets
 - 3) Statement of cash flows (direct method)
- c. Notes to the financial statements (paragraphs 113 – 123)
- d. Required supplementary information other than the MD&A, if applicable (paragraphs 132 – 133).

The illustrative financial statements assume that all funds of the sample PHA are reported on the full accrual basis as enterprise funds. Those PHAs which still report their funds as governmental funds on the modified accrual basis should see the illustrative financial statements for the City of Dogwood and Carolina County for general guidance in preparing government-wide financial statements on the full accrual basis. Public housing authorities presenting their financial statements using governmental funds are advised to switch to enterprise fund accounting. The

staff of the LGC believes that converting to the enterprise fund model of accounting will actually save time in preparing future financial statements and will enhance comparability with other PHAs.

Prior to the implementation of GASB Statement No. 34 the vast majority of PHAs reported each different program as an individual enterprise fund in their financial reports. Cash loaned from one program to another was recorded and presented as a receivable of one program or fund and a liability of another. Individual budgets were adopted and reported for the various programs by fund and were used to help gauge the effectiveness of the various programs. The various titles of the different programs indicate that they were created to provide funds for specific goals and objectives. Accordingly, our illustrative statements treat each of the City of Dogwood Public Housing Authority's four programs as individual enterprise funds.

Since the financial statements are presented from a fund perspective, each of the individual funds must be tested to determine if the fund meets the criteria to be classified as a major fund. Each of the funds should be evaluated individually to see if its assets, liabilities, revenues or expenses are at least 10% of the respective category total for all the enterprise funds. If a PHA chooses to maintain both governmental and business-type funds, an additional 5% test must be met. See ¶75 and ¶76 of GASB 34. The staff of the LGC provides a Microsoft Excel work sheet to assist in determining the status of each fund. A copy of the spreadsheet is on our website at <http://www.treasurer.state.nc.us/DSTHome/StateAndLocalGov/GASB34/GASB34Tools.htm>.

The LGC staff has received multiple comments regarding the presentation of public housing authority basic financial statements in a single column approach. Questions 119 and 120 of the Guide to Implementation of GASB Statement 34 and Related Pronouncements (the second Statement 34 implementation guide) clearly indicate that combining the financial activities of multiple funds into one column is not an appropriate substitute for the fund level statements. Question 120 states:

“Q- If a multiple-enterprise fund BTA (business-type activity) combines its funds to provide for a single-column presentation, are underlying fund financial statements also required to be included in the basic financial statements?”

A- Yes. Part b of paragraph 138 requires the presentation of enterprise *fund* financial statements. The specific requirements for the content and form of enterprise fund financial statements are set forth in paragraphs 91 through 105 (“Required Financial Statements- Proprietary Funds”). Paragraph 96 refers to the major fund reporting requirements in paragraph 75 and further requires the presentation of a combined total column for enterprise funds. The required combined total columns may be presented on the same pages as the enterprise fund financial statements or on separate pages.”¹

The basic financial statements will show each major fund, the aggregate of the non-major funds in a single column and a total column. If there is more than one non-major fund, a schedule combining the non-major funds which ties to the non-major fund column of the basic financial statements will be included in the supplemental schedules.

¹ Guide to Implementation of GASB Statement 24 and Related Pronouncements, 2001, p. 29.

Presenting one column for all enterprise funds was appropriate for pre-GASB 34 statements when *fund type totals* were presented in one column. Now, housing authority governing boards and management can view the status of each major fund and, using the total column, still have one column for the authority as a whole. If a PHA actually had only one enterprise fund, a single column for that enterprise fund would be presented in the fund financial statements and a single budget to actual schedule would be presented as a supplemental schedule.

Our illustrative financial statements show the City of Dogwood Housing Authority with only one non-major fund. Notes to the preparer are inserted throughout the illustrative statements indicating where major adjustments may need to be made for individual circumstances. Illustrations of these variations can be found in the City of Dogwood or Carolina County illustrative financial statements which are available on our website.

Paragraphs 58 and 59 of GASB 34 provide guidance on the elimination of internal activities on the statement of net assets and the statement of activities. The staff of the LGC believes that eliminating the “grossing-up” effect of internal due to / due from balances is applicable to the fund level statements also. Many public housing authorities in North Carolina follow the practice allowed by HUD of using the primary fund as the paymaster for other funds and accounting for the transactions in a due to / due from format. The combining statement of net assets shows certain funds with interfund receivables. The Home Ownership Fund shows a credit amount on the same line. In the total column, these amounts net to -0-, eliminating the artificial increase in assets and liabilities that would occur if all fund amounts were added together.

For further information on these financial statements, please contact Mr. Ren Wiles at ren.wiles@nctreasurer.com, or at 919-807-2381.