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Use of the Elimination Column and Reporting of Elimination Entries on the FDS

ACCOUNTING BRIEF #14

GOVERNING REGULATIONS AND GUIDANCE

1. 24 CFR Part 5 Subpart H, Uniform Financial Reporting Standards (UFRS) requires Public Housing Agencies (PHAs) to submit their annual financial data electronically to HUD in accordance with Generally Accepted Accounting Principles (GAAP).

2. GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, requires some amounts reported as interfund activity and balances in the funds (programs) be eliminated or reclassified.

BACKGROUND

In June 1999, GASB Statement No. 34 was issued to address various deficiencies of governmental financial reporting. GASB 34 requires that governmental entities present in its general purpose external financial statements, fund financial statements and government wide financial statements. The objective of GASB 34 is to enhance the understandability and usefulness of the general purpose external financial reports of state and local government entities. GASB 34 was developed to make financial reports more understandable and more useful for oversight bodies, investors, and citizens.

GASB 34 further requires that internal activity within the governmental entity reported in individual fund (program) financial statements as interfund activity are eliminated in the preparation of the government-wide financial statements (GASB 34 paragraphs 58 through 61). This elimination requirement is needed to prevent the "grossing up" of income and expense within the government wide financial statements.

The adoption of asset management in the public housing program and the use of fee-for-service results in greater internal activity between programs in the PHA. To prevent this internal fee activity from misstating the financial position of the PHA at the government wide (i.e., PHA wide) financial statement level, this fee-for-service activity as well as other internal activity must normally be eliminated.

The Elimination column in the Financial Data Schedule (FDS) is the mechanism used to avoid the "double counting" or "grossing-up" of inter-fund/intra-entity transactions through the use of elimination entries. Elimination entries are required under GASB 34 but as noted earlier, the need for elimination entries are now more prevalent due to the existence of fee-for-service transactions between a PHA's central office cost center (COCC) and the PHA's projects/programs. Outside the scope of fee-for-service, similar relationships and financial activities may also exist between PHA-managed programs that result in entries that require elimination.

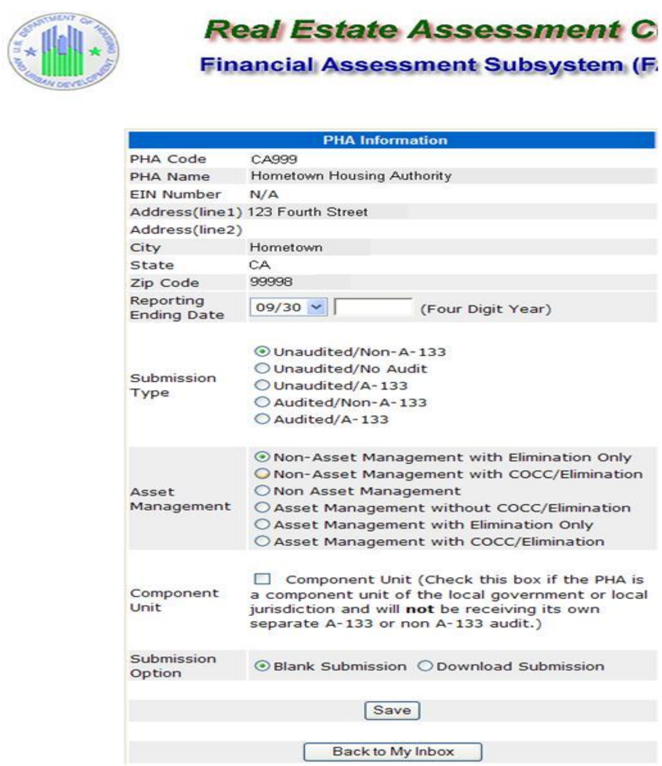
Elimination entries are typically recorded to remove the inter-fund/intra-entity loans from the balance sheet and inter-fund/intra-entity revenues and expenses associated with the PHA's COCC and operating transfers from the income statement. After posting the elimination entries through the use of the elimination column in the FDS, the FDS totals should agree with the government-wide financial statements.

This accounting brief provides information on the following topics:

1. The asset management reporting types applicable to PHAs using the Elimination column in the FDS;
2. The proper use of FDS lines for Interprogram Due To/Due From;
3. The proper reporting of elimination entries in the Elimination column;
4. The FDS line items typically associated with elimination entries;
5. Examples illustrating the proper reporting of elimination entries for balance sheet, fee-for-service, and operating transfers transactions; and.
6. Guidance on the reporting of elimination entries for component units.

ASSET MANAGEMENT REPORTING TYPES AND USE OF ELIMINATION COLUMN

The FDS template accommodates various reporting models used by PHAs (asset management or non-asset management). On the "PHA Information" tab of the FDS, the PHA is required to identify the reporting model used for the FDS submission. Below is a screen shot of the FDS "PHA Information" screen and the six (6) reporting types that the PHA can select.


Real Estate Assessment C
Financial Assessment Subsystem (F

PHA Information

PHA Code	CA999
PHA Name	Hometown Housing Authority
EIN Number	N/A
Address(line1)	123 Fourth Street
Address(line2)	
City	Hometown
State	CA
Zip Code	99998
Reporting Ending Date	09/30 (Four Digit Year)
Submission Type	Unaudited/Non-A-133 Unaudited/No Audit Unaudited/A-133 Audited/Non-A-133 Audited/A-133
Asset Management	Non-Asset Management with Elimination Only Non-Asset Management with COCC/Elimination Non Asset Management Asset Management without COCC/Elimination Asset Management with Elimination Only Asset Management with COCC/Elimination
Component Unit	Component Unit (Check this box if the PHA is a component unit of the local government or local jurisdiction and will **not** be receiving its own separate A-133 or non A-133 audit.)
Submission Option	Blank Submission Download Submission

Save

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Asset Management Reporting Types

PHAs that will need to eliminate interfund transactions in their FDS must select the proper Asset Management type with elimination in order for an elimination column to be available to the PHA in the FASS-PH submission template. The following is a list and description of the asset management types that provide for an elimination column in the FDS.

1. **Asset Management with COCC/Elimination.** This asset management type is for PHAs implementing all aspects of asset management. These PHAs implemented a Fee-for-Service approach and uses a COCC. PHAs that implement the Allocated Overhead reporting method may not use this asset management type.

2. **Asset Management with Elimination.** This asset management type applies to PHAs that implement asset management without a COCC but still have the need to eliminate intra-entity transactions. This reporting type is normally used by PHAs using the Allocated Overhead method of reporting.

3. **Non-Asset Management with COCC/Elimination.** This asset management type applies to PHAs that do not implement asset management, but have implemented a COCC (for non-public housing business activities) and therefore must eliminate intra-entity transactions.

4. **Non-Asset Management with Elimination Only.** This asset management type applies to PHAs that have not implemented asset management and therefore do not use a COCC but are required to eliminate other intra-entity transactions.

The table below is intended to provide the PHA a listing of common elimination entries needed based on the asset management type selected for FDS reporting. The list is not meant to be all inclusive as there may need to be additional elimination entries required by GAAP.

Elimination Entries by Asset Management Type				
Typical Elimination Activity	Asset Management with COCC/Elimination	Asset Management with Elimination	Non-Asset Management with COCC/Elimination	Non-Asset Management with Elimination Only
1. Operating Transfers between CFP and Operating Fund of an Individual Project	●	●		●
2. Interprogram Due-From and Due-To Balances (including interfund loans)	●	●	●	●
3. Charging of Management, Bookkeeping, and Asset Management Fees	●		●	
4. Charging of Centralized Service Fees	●		●	
5. Inter Project Excess Cash Transfers	●	●		
6. Transfers between Programs and Projects	●	●		
7. Transfers between Programs	●	●	●	●

Interprogram Due To/Due From Activities

Due To/Due From relationships should not be reported under accrual accounting simply from the result of a PHA using a common checking or working capital account. Because of the basic nature of most Federal and state programs, resources from one program cannot be used to support the costs of another program. For example, a PHA is not allowed to use its Low Rent program's cash and investments to pay for costs related to the HCV program, even on a short-term temporary basis. Low Rent program resources are constrained by law and regulation to support public housing activities. Therefore, HUD views Due To's and Due From's reported in a PHA's Federal programs as possible indicators of non-compliance.

HUD allows PHAs to use a common checking or working capital account. However, for FDS reporting the cash balance must be reconciled for any timing differences related to the processing of billing and accounting. That is, the cash balances reported in the FDS under each program should reflect the actual share of cash of that program as if no common checking or working capital account existed. If this results in a program(s) having a negative cash balance, the PHA would then report a Due To/ Due From transaction for this amount (negative amount). The use of a Due To/Due From between Federal programs signifies to HUD that in fact one program has in fact used resources to cover the costs of another program, which could represent ineligible expenditures.

Use of the Elimination Column in the FDS

There are two guiding principles when entering amounts to be eliminated in the FDS: 1) Elimination entries will result in a *decrease* to the account balance; and 2) typically only interfund/intra-entity fund activities are eliminated. These two points are discussed below.

- <u>Elimination Entries Decrease Account Balances</u>. Elimination entries should *decrease* the account balance. For most line items this will require the PHA to enter a negative amount in the respective FDS line item in the elimination column. The only exception to this general rule is for FDS line items that are entered into the FDS program or project as a negative value (e.g., operating transfer out). For these line items, the account would be reduced by entering a positive value in the elimination column. If the PHA does not correctly enter the proper sign (+ or -) not only is the amount not eliminated but in fact the account balance is increased.

- <u>Eliminate Only InterFund/Intra-Entity Activity</u>. Normally only inter program loans (i.e., Due To/Due From) should be eliminated from the balance sheet. Cash balances, accounts receivables and payables, and fixed assets are not normally eliminated. Similarly only internal revenue and expense transactions should be eliminated from the income statement, such as, transactions associated with fee income between the projects/programs and COCC and operating transfers. Grant revenue, interest income, salary and benefits expense, and depreciation expense are not normally eliminated.

FDS Line Items Normally Eliminated

The following table lists those line items that will normally need to be eliminated.

Entity Wide Balance Sheet Summary	
FDS Line Number	FDS Line Description
144	Inter Program - Due From
347	Inter Program - Due To

Entity Wide Revenue and Expense Summary	
FDS Line Number	FDS Line Description
70710	Management Fee
70720	Asset Management Fee
70730	Book Keeping Fee
70740	Front Line Service Fee
91300	Management Fee
91310	Book-keeping Fee
92000	Asset Management Fee
94300	Ordinary Maintenance and Operations Contracts
10010	Operating Transfer In
10020	Operating transfer Out
10091	Inter Project Excess Cash Transfer In
10092	Inter Project Excess Cash Transfer Out
10093	Transfers between Program and Project - In
10094	Transfers between Project and Program - Out

<u>FDS Line 94300 – Ordinary Maintenance and Operations Contracts</u>. The FDS includes numerous maintenance contract detail line items. Line 94300 is a total of these maintenance contract detail line items (94300-010 to 94300-120). When using Line 94300, the following should be noted:

1. The only expense that should be eliminated on Line 94300, is that portion which represents fee-for-service conducted internally by the PHA, not services provided by an outside contractor/vendor.
2. While only FDS Line 94300 is shown on the table above, this account contains a detail link and eliminations, as applicable, should relate to the actual sub-account within Line 94300.
3. Other expense line items are appropriate for eliminations depending on whether the transaction represent front-line fee-for-services provided by the COCC.

Examples of Proper Reporting of Elimination Entries

This section provides examples showing the proper reporting of elimination entries with respect to balance sheet, fee-for-service and operating transfer activities.

Example 1: Balance Sheet

In this example, the cash balance of the central office cost center (COCC) is used to help support the PHA's State and Local program. The State/Local program is a program whose funding is not provided to the PHA until after an expense is incurred and paid. Therefore, the COCC initially funds the cost of the State/Local program and is reimbursed when the State/Local program receives the cash normally in the next quarter. Funds of the COCC are considered defederalized, which makes this an eligible expense.

a) In this example, the State/Local program has incurred expenses of $100,000 and therefore has an account payable of $100,000. The COCC has $400,000 of unrestricted cash and no current liabilities. The following table summarizes the COCC and State/Local program's balance sheet.

Entity Wide Balance Sheet Summary				
FDS Line Item		COCC	State/ Local	Total
111	Cash - Unrestricted	$400,000	$0	$400,000
124	Accounts Receivable - Other Gov.	$0	$100,000	$100,000
144	Inter Program - Due From	$0	$0	$0
150	Total Current Assets	$400,000	$100,000	$500,000
312	Accounts Payable <= 90 Days	$0	$100,000	$100,000
347	Inter Program - Due To	$0	$0	$0
310	Total Current Liabilities	$0	$100,000	$100,000

b) The COCC has now paid these costs of $100,000 for the State/Local Fund as indicated in the following balance sheet summary. This payment requires the PHA to also record a Due To/Due From between the COCC and State/Local program. The table below shows the results of these transactions on the balance sheet.

Entity Wide Balance Sheet Summary				
FDS Line Item		COCC	State/ Local	Total
111	Cash - Unrestricted	$300,000	$0	$300,000
124	Accounts Receivable - Other Gov.	$0	$100,000	$100,000
144	Inter Program - Due From	$100,000	$0	$100,000
150	Total Current Assets	$400,000	$100,000	$500,000
312	Accounts Payable <= 90 Days	$0	$0	$0
347	Inter Program - Due To	$0	$100,000	$100,000
310	Total Current Liabilities	$0	$100,000	$100,000

c) The PHA will eliminate the Due To/Due From amount from the PHA's entity wide balance sheet using the elimination column in the FDS. The table below shows this elimination activity.

Entity Wide Balance Sheet Summary						
FDS Line Item		COCC	State/ Local	Subtotal	ELIM	Total
111	Cash - Unrestricted	$300,000	$0	$300,000	$0	$300,000
124	Accounts Receivable - Other Gov.	$0	$100,000	$100,000	$0	$100,000
144	Inter Program - Due From	$100,000	$0	$100,000	($100,000)	$0
150	Total Current Assets	$400,000	$100,000	$500,000	($100,000)	$400,000
312	Accounts Payable <= 90 Days	$0	$0	$0	$0	$0
347	Inter Program - Due To	$0	$100,000	$100,000	($100,000)	$0
310	Total Current Liabilities	$0	$100,000	$100,000	($100,000)	$0

Example 2: Fee-for -Service

The following is an example of elimination entries needed for fee-for-service transactions. The COCC provides Project 1 and Project 2 with centralized services such as property management, accounting and plumbing services.

a) Both Project 1 and Project 2 were charged the usual public housing fees by the COCC (management, bookkeeping, etc). Project 1 also required the services of both the centralized maintenance staff and a third-party contractor to repair broken pipes in four of their units. The expenses related to the centralized services provided by the COCC and the third-party contractor is captured by each project as follows:

Project Revenue and Expense Summary				
FDS Line Item		Project 1	Project 2	Total
91300	Management Fee	$35,000	$20,000	$55,000
91310	Bookkeeping Fee	$25,000	$10,000	$35,000
92000	Asset Management Fee	$10,000	$5,000	$15,000
94300-080	Plumbing Contracts	$45,000	$0	$45,000

b) In the example above, Project 1 has incurred $45,000 in total expenses related to the broken pipes (plumbing contracts). Of this amount, $25,000 of the total cost is attributable to services provided by centralized maintenance in a fee-for-service arrangement. The remaining $20,000 is the amount the project was charged by the outside contractor.

The revenues recognized by the COCC and the eliminating entries are shown below.

Entity Wide Revenue and Expense Summary						
FDS Line Item		Project Total	COCC	Subtotal	ELIM	Total
70710	Management Fee	$0	$55,000	$55,000	($55,000)	$0
70720	Asset Management Fee	$0	$15,000	$15,000	($15,000)	$0
70730	Book Keeping Fee	$0	$35,000	$35,000	($35,000)	$0
70740	Front Line Service Fee	$0	$25,000	$25,000	($25,000)	$0
91300	Management Fee	$55,000	$0	$55,000	($55,000)	$0
91310	Book-keeping Fee	$35,000	$0	$35,000	($35,000)	$0
92000	Asset Management Fee	$15,000	$0	$15,000	($15,000)	$0
94300-080	Plumbing Contracts	$45,000	$0	$25,000	($25,000)	$20,000

Notice that the full amount of the revenues/expenses relating to the centralized services (fee-for-service arrangement) is eliminated from the revenue expense summary. Only the outside contractor costs are left after elimination.

<u>Example 3: Operating Transfer</u>

The following is an example of elimination entries needed for operating transfers.

a) In this example Project 1 transferred $30,000 from the Capital Fund to the Operating Fund (i.e., Low Rent). This transfer is captured as follows:

Project - Income Statement				
FDS Line Item		Total	Low Rent	Capital Fund
10010	Operating Transfer In	$30,000	$30,000	$0
10020	Operating Transfer Out	($30,000)	$0	($30,000)

Notice that the PHA enters a positive amount when reporting *transfers in* and a negative amount when reporting *transfers out*.

b) The eliminating entry required to remove the transfer is shown below.

Entity Wide Revenue and Expense Summary						
FDS Line Item		Project Total	COCC	Subtotal	ELIM	Total
10010	Operating Transfer In	$30,000	$0	$30,000	($30,000)	$0
10020	Operating Transfer Out	($30,000)	$0	($30,000)	$30,000	$0

To eliminate the *transfer in* the PHA enters a negative amount in the elimination column. To eliminate the *transfer out* the PHA enters a positive amount in the elimination column.

Elimination Entries and Component Units

GASB 34 paragraph 61 provides guidance on how to handle elimination entries with respect to component units. Proper GASB reporting requires that the flow of resources between the primary government and blended component unit are reclassified as internal activity in the financial statements and are therefore eliminated. For FDS reporting, the blended component unit can be thought of as just another program or project of the PHA. For discreetly presented component units, any resource flow between the primary government and the discreetly presented component units should be reported as an external transaction; that is, as revenue and expenses, receivables and payables (and therefore, would not be eliminated).