Conversion Manual and Accounting Guide for the State of Connecticut State Sponsored Housing Portfolio

Connecticut Housing Finance Authority
www.chfa.org

Department of Housing
www.ct.gov/doh

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EXECUTIVE SUMMARY

The Conversion Manual and Accounting Guide for the Connecticut State Sponsored Housing Portfolio (the “SSHP” or “Manual”) was prepared by the Connecticut Housing Finance Authority and the State of Connecticut Department of Housing with assistance from CohnReznick LLP. The purpose of the Manual is to assist Owners/sponsors in converting their financial reporting systems to Accounting Principles Generally Accepted in the United States of America (“GAAP” or “Generally Accepted Accounting Principles”) from the DECD-Regulatory basis of accounting.

The purpose of this guide is to:

- Identify the main differences between the DECD-regulatory basis of accounting and GAAP
- Explain the Owner/sponsors’ responsibilities in the conversion process
- Provide general information and guidance on accounting in accordance with GAAP
- Explain the GAAP conversion strategy and preferred accounting options under GAAP
- Provide conversion entries for key financial statement items
- Provide answers to common questions

This manual is to be utilized in conjunction with the State of Connecticut Budget and Reporting Workbook (“Workbook”). In addition, the guidance enclosed will aid in preparing the annual audited financial statements on the GAAP basis of accounting.

This manual does not address the requirements of the State Single Audit Act.

SECTION I - INTRODUCTION

SCOPE

The Manual is to provide guidance to projects built under programs identified in Chapter 128 of the Connecticut General Statutes ("SSHP"), including:

- Moderate Rental Housing (CGS Chapter 128; Sec.8-69,et al)
- Housing for Elderly Persons (CGS Chapter 128; Section 8-112, et al)
- Congregate Housing for the Elderly (CGS Chapter 128; Section 8-119d, et al)
- Housing for Low Income Persons (CGS Chapter 128; Section 8-119bb, et al)

The "Owner/sponsor" of a state sponsored housing project means a housing authority, non-profit agency, housing agency, municipality, for profit, or any other entity administering a state sponsored housing project. This manual is optional for limited equity cooperatives/mutual housing.

The Manual does <u>not</u> apply to:

- Federal public housing
- CHFA multi-family housing projects
- Homeless housing programs

NOTE*: *The Manual is intended to be used in conjunction with the Workbook. Any questions concerning specific program requirements should be directed to your asset manager.

PURPOSE

Assistance Agreements and Regulatory Agreements governing these SSHP's provide that the Owner/sponsor maintains complete and accurate books and records. These books and records should be set up in accordance with the Manual. The Manual is provided to assist Owners/sponsors in setting up and maintaining a proper accounting system that will allow for the accumulation of accurate accounting data and timely reporting of financial information for SSHP.

Financial reporting for SSHP is required to be in accordance with GAAP. GAAP is the standard framework of guidelines for recording and summarizing financial results and the preparation of financial statements on the accrual basis of accounting.

The Manual provides guidance for certain transactions in accordance with GAAP and also includes guidance for converting from the former DECD/DOH-regulatory basis of accounting to GAAP.

The Manual also provides a mapping from the former DECD Chart of Accounts to the new State of Connecticut Report Groupings ("Report Groupings") used in the Workbook.

In an effort to provide consistency in financial reporting, the new Report Groupings were developed to be more consistent with Federal program reporting, yet flexible enough for each individual Owner/sponsor.

Each Owner/sponsor may select to change their chart of accounts to mirror the Report Groupings. However, if changing the chart of accounts creates other difficulties, the Owner/sponsor may choose to keep their current chart of accounts and map them to the Report Groupings for reporting purposes. If you have SSHP programs only, the State encourages a full conversion of your chart of accounts to the Report Groupings.

Each account included in the Report Groupings is not required for all projects. The Owners/sponsors should decide the appropriate level of detail needed consistent with State requirements.

Some of the accounting procedures and methods defined may not be necessary for a specific project. Others may need to be modified to meet the individual circumstances of a particular project and/or the Owner/sponsor. All modifications must conform to GAAP and the Workbook.

Activity should be recorded as accurately as possible utilizing the Report Groupings that the Owner/sponsor believes most properly reflects the transaction. Each program is governed by particular program regulations, policies and requirements that will be used to determine if a particular item or cost is permissible. The Manual is not intended to take the place of specific program requirements and instructions. Any program requirements, regulations, policies, etc. particular to an individual State Assisted Program should be followed. Any questions concerning specific program requirements should be directed to your asset manager.

OWNER/SPONSOR RESPONSIBILITIES

Each Owner/sponsor will be required to:

- Provide an effective system of internal controls to safeguard cash and other assets;
- Provide budgetary control over their programs;
- Provide timely, accurate, and complete financial information for management decision making;
- Provide the financial data needed to prepare the Workbook and any other required reports;
- Permit a timely and effective audit.

EFFECTIVE DATE

The Manual is effective December 15, 2016 and supersedes the "Accounting Manual for DECD Financed Housing – Administration Funds and Other Programs" dated August 1, 2006 and all the revisions to it.

Project reporting to the State is required to be in accordance with GAAP for projects with **year ends on or after December 31, 2017**.

SUBSEQUENT MODIFICATIONS

It is anticipated that the Manual will need changes as a result of changes in GAAP, experience with its use, revisions in the program regulations and input from Owner/sponsor users. Therefore, periodically, revisions will be made to update portions of the Manual. All updates will be made available to Owner/sponsors. The Manual, as well as all updates will be posted on the websites of the Connecticut Housing Finance Authority ("CHFA") and the State of Connecticut Department of Housing ("DOH") or its successors. Owner/sponsor accountants and program staff administering SSHP covered by the Manual are encouraged to furnish the CHFA and DOH (the "State") with any suggestions for changes to the Manual based on their experience with its use.

RESPONSIBILITY

The Manual has been prepared by personnel of the State. Program staff at the State will be available to provide assistance in the understanding of this Manual and should be contacted for any questions regarding interpretation and modification. Any comments or suggestions that you have may be directed to:

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SECTION II - FINANCIAL REPORTING

ACCOUNTING AND REPORTING STANDARDS

Accounting and financial reporting can be divided into three categories:

- Governmental (housing authorities and municipalities)
- Not-for-profit
- For-profit

The Governmental Accounting Standards Board ("GASB") has jurisdiction over state and local governmental accounting and reporting.

The Financial Accounting Standards Board ("FASB") has jurisdiction over for-profit and not-for-profit accounting and reporting.

FINANCIAL REPORTING REQUIREMENTS

Budget and interim financial reporting to the State must be provided in the AFS Workbook in a format as required by the oversight agency.

The Workbook is the means by which the results of financial operations and the statement of position are presented by the Owner/sponsor to the State throughout the year.

All interim financial reporting and budget submissions deadlines are required as outlined in applicable regulatory agreements, assistance agreements or contract awards.

Annual audited financial statements should be presented in accordance with GAAP and incorporate the State Annual Financial Statement Workbook as a supplement including the following:

- Financial input sheet
- Statement of Operations (HM 6-50)
- Computation of Surplus Cash (HM 6-51)
- Computation of Net Operating Income (HM 6-52)
- Computation of Net Congregate Program Cost

The annual financial statements must be audited in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*. Audited financial statement filing deadlines are incorporated in individual regulatory agreements, assistance agreements or contract awards.

All financial reports should accurately reflect the results of financial transactions, disclose all essential financial data for the period covered, and contain such other information as bears directly on the financial operations and conditions pertinent to the project or SSHP. Financial data in each report shall be taken directly from accounting records and must have adequate supporting documentation.

SECTION III - INTERNAL CONTROL

RESPONSIBILITY

The Owner/sponsor is responsible for designing, implementing and maintaining an effective system of internal controls that will:

- Safeguard the assets of the organization
- Ensure the accuracy and reliability of accounting data
- Promote operational effectiveness and efficiency
- Encourage adherence to program compliance with applicable laws and regulations
- Evaluate and monitor the internal control system
- Take prompt action on audit findings
- Safeguard protected personally identifiable information

BEST PRACTICE STANDARDS

Best practice documents that may be utilized include:

- "Standards for Internal Control in the Federal Government" issued by the Comptroller of the United States ("Green Book") http://www.gao.gov/greenbook/overview
- "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") http://coso.org/guidance.htm
- Office of Management and Budget's 2 CFR Part 200 Appendix XI Compliance Supplement Part VI – Internal Controls https://www.whitehouse.gov/sites/default/files/omb/assets/OMB/circulars/a133_compliance/2016/2016_compliance_supplement.pdf

None of these are required to be used by Organizations; however, there are concepts and examples that may be of use to Organizations as they review and enhance internal controls.

FUNDAMENTALS

It is important that each Owner/sponsor observe the following fundamental requirements in establishing an effective system of internal control:

- Develop an organizational plan, which provides for definite placement of responsibility and for specific lines of responsibility
- Ensure division of duties between authorization and record keeping so that the activity of one employee acts as a check on those of another. In cases where there is only one employee, the Board Members or an outside fee accountant should perform necessary functions to provide adequate internal controls, such as performing bank reconciliations
- Develop forms, documents, and procedures that facilitate control and provide for proper approvals
- Document compliance with policies and procedures

The extent to which the above requirements may be expected to exist is related to the size of the organization. The complete separation of functions and the existence of an internal accounting function may not be feasible in an organization with a small number of employees. However, even a small organization may design an effective internal control system by the proper plan of organization and division of duties. For example, no individual should be completely responsible for initiating an order, approving the payment, and signing the check for the same transaction. If one person does have authority to approve an order and to approve the invoice, then another authorized official should sign the check.

SECTION IV - APPLICATION OF ACCRUAL ACCOUNTING

The objective of GAAP accounting is to recognize expenses when they occur and to recognize revenue when it is earned, measurable, and collectible, regardless of whether cash was paid or received. The following method of accounting for goods and services received and unpaid at the end of the reporting period is recommended for use by the Owner/sponsor.

The accrual accounting to be observed by Owner/sponsor in their periodic reports requires that all significant unpaid tenant rents, prepaid expenses, accounts payable and accrued expenses be included on the balance sheet and operating statement at fiscal year end.

ACCOUNTS RECEIVABLE

Accounts receivable are balances in which cash is due to an Owner/sponsor and has not been received. Tenant rent should be recorded when the rent becomes due (the 1st of the month). Therefore, any tenant rents that have been billed but not yet received will be recorded as a tenant receivable as a current asset on the balance sheet. Any rental payments received in advance are deferred until earned and recorded as a current liability on the balance sheet.

Grant receivables should be recorded when earned (governmental and for-profit entities) or when a promise to give is made (not-for-profit entities). Any grant receivable will be recorded as a current asset on the balance sheet.

Management is responsible for reviewing the outstanding receivables and determining whether the receivables can be collected. An allowance for doubtful accounts is required for any receivable that is not considered collectable.

PREPAID EXPENSES

Prepaid expenses are future expenses that have been paid in advance. An expense must be recorded in the accounting period in which the goods were acquired or the services were performed. An expense paid prior to the receipt of goods or prior to the delivery of services is considered a prepaid expense. A prepaid expense should be recorded as a current asset on the balance sheet. A common example is insurance premiums paid in advance.

ACCOUNTS PAYABLE

Accounts payable represents money owed by the project to a vendor/creditor. This represents goods or services ordered or contracted but not yet paid. Accounts payable generally consist of vendor payments related to office supplies, telephone/computer charges and repairs and maintenance for which an invoice has been received. Accounts payable appears as a current liability on the balance sheet.

ACCRUED EXPENSES

Accrued expenses are similar to accounts payable in that they represent goods or services ordered or contracted but not yet paid. Generally, accrued expenses are those that have not yet been invoiced and processed and/or are incurred automatically with the passage of time. Taxes, payroll, and utilities are common examples. Accrued expenses appear as a current liability on the balance sheet.

Accruals are recorded through the use of a formal journal entry to be posted to the general ledger and subsequently reversed when payment is made subject to an appropriate review and approval process. Accruals must be consistently handled to avoid having thirteen (13) months of expenses included in one year and only eleven (11) months of expenses included in the second year, especially in the Congregate Subsidy program where the Congregate Subsidy is closed out at the end of the year based on audited figures and may result in an overpayment in one year and an underpayment in the next year.

DEPRECIATION

Depreciation is the charging of the cost of an asset used in an entity’s operations to expense over the estimated useful life of the asset. Depreciation expense allocates the asset's cost, less salvage value, over the asset's estimated useful life using an acceptable depreciation method.

SECTION V - STATE REPORT GROUPINGS

BACKGROUND AND PURPOSE

The new Report Groupings were developed for the purpose of providing more consistent reporting for all housing programs throughout the State. As most housing programs follow a version of HUD's chart of accounts, the goal was to do the same for the State Sponsored Housing Portfolio. However, the State also recognizes the difficulties involved in changing a chart of accounts and the differences in state and federal programs.

Therefore, the Report Groupings were developed rather than a new chart of accounts. The Report Groupings allow each Owner/sponsor to maintain their existing chart of accounts, if they choose, and map it to the Report Groupings. The Report Groupings will correspond to the report lines in the Workbook. The new Report Groupings were developed based upon the HUD Multi-Family Chart of Accounts to be more consistent with Federal program reporting but modified to address state program needs.

This system was developed to provide flexibility for each individual Owner/sponsor. Each Owner/sponsor may select to change their chart of accounts to mirror the Report Groupings. However, if changing the chart of accounts creates other difficulties, the Owner/sponsor may choose to keep their current chart of accounts and then map them to the Report Groupings.

Each account included in the Report Groupings may not be applicable for all projects. The Owners/sponsors should decide the appropriate level of detail needed consistent with State requirements.

State Housing Program Number	State Reporting Group	Account Name
		Asset Accounts
Cash		
1117	1110	Petty Cash Fund
1111, 1118	1120	Cash - Operations
1112	1121	Construction Cash Account
1113	1123	Reserve Cash - Saving and Investments
Accounts Receivable		
1122	1130	Tenant Accounts Receivable
1123	1130.1	Vacated Tenant Accounts Receivable
1123.1	1131	Allowance for Doubtful Accounts
1124.1	1132	RAP Subsidy Receivable
1124.2	1133	ERAP Subsidy Receivable
1124.3	1134	RSC Subsidy Receivable
1125	1135	Accounts Receivable - HUD (Housing Assistance Payments)
1124	1136	Congregate Subsidy Receivable
1126	1137	Construction/Rehab Grants Receivable
1129	1140	Accounts Receivable - Operations
1145	1160	Accounts Receivable - Interest
1113	1170	Short Term Investments - Operations
Deferred Charges and Prepaid Expenses		
1269	1180	Inventory
1269.1	1185	Allowance for Obsolete Inventory
1190	1190	Miscellaneous Current Assets
1155	1150	Advances to Revolving Fund
1156	1200	Miscellaneous Prepaid Expenses
1211	1201	Prepaid Insurance
Restricted Deposits		
1114	1191	Tenant Deposits Held in Trust
1115	1310	Escrow Deposits
1119	1320	Replacement Reserve
1115, 1116	1330	Other Reserves

State Housing Program Number	State Reporting Group	Account Name
		Asset Accounts
Fixed Assets		
1405	1405	Construction in Progress
1410	1410	Land
1440	1420	Buildings
optional	1440	Building Equipment
optional	1450	Furniture for Project/Tenant Use
optional	1460	Furnishings
1430	1465	Office Furniture and Equipment
optional	1470	Maintenance Equipment
optional	1480	Motor Vehicles
optional	1490	Miscellaneous Fixed Assets
1495	1495	Accumulated Depreciation
Other Assets		
1510	1510	Investments - Operations
1520	1520	Intangible Assets
1525	1525	Cash Restricted for Long-term Investment
1590	1590	Miscellaneous Other Assets
1595	1595	Net Pension Asset
1596	1596	Net Other Post-Enployment Benefits
		Deferred Outflow of Resources
Deferred Outflow of Resources		
1600	1600	Deferred Outflow of Resources - Pension
1610	1610	Deferred Outflow of Resources - OPEB

State Housing Program Number	State Reporting Group	Account Name
Liability Accounts		
Current Liabilities		
2105	2105	Bank Overdraft - Operations
2110, 2136	2110	Accounts Payable - Operations
2112	2111	Accounts Payable - Construction/ Development
2119	2116	Accounts Payable - State
2135	2120	Accrued Wages Payable
2135.1	2120.1	Accrued Compensated Absences
2139, 2117	2121	Payroll Taxes Payable
2123	2123	Accrued Management Fee Payable
2131	2131	Accrued Interest Payable - First Mortgage
2131.1	2132	Accrued Interest Payable - Second Mortgage
2131.2	2134	Accrued Interest Payable - Other Loans and Notes
2131.3	2136	Accrued Interest Payable - Capital Improvements
2137	2150	Accrued Property Taxes
2160	2160	Notes Payable (Short-term)
2170	2170	Mortgage Payable - First Mortgage (Short Term)
2172	2172	Mortgage Payable - Second Mortgage (Short Term)
2174	2174	Other Loans and Notes (Short Term)
2176	2176	Capital Improvement Loan Payable (Short Term)
2190	2190	Miscellaneous Current Liabilities
Trust Deposits and Deferred Credits		
2116	2191	Tenant Deposits Held In Trust (Contra)
2240	2210	Prepaid Revenue
2220	2220	Deferred Revenue
Long Term Liabilities		
2310	2310	Notes Payable (Long-Term)
2313	2320	Mortgage Payable - First Mortgage
2313.1	2322	Mortgage Payable - Second Mortgage
2324	2324	Other Loans and Notes Payable
2314	2326	Capital Improvement Loan Payable
2390	2390	Miscellaneous Long Term Liabilities
2395	2395	Net Pension Liability
2396	2396	Net OPEB Obligation

State Housing Program Number	State Reporting Group	Account Name
Deferred Inflow of Resources		
Deferred Inflow of Resources		
2400	2400	Deferred Inflow of Resources - Pension
2410	2410	Deferred Inflow of Resources - OPEB
Equity Accounts		
Equity Accounts		
		For Profit (Partnerships)
2831	3131	General Partner Capital
2832	3132	Limited Partner Capital
		For Profit (Corporations)
2861	3161	Common Stock
2862	3162	Paid-in Surplus
2863	3163	Retained Earnings
2864	3164	Other Equity
2866	3166	Sponsor equity
		Not-For-Profit
2910	3200	Unrestricted Net Assets / Without Donor Restrictions
2920	3210	Temporarily Restricted Net Assets / With Donor Restrictions
2930	3220	Permanently Restricted Net Assets
		Governmental (GASB)
2900	3300	Net Investment in Capital Assets
2910	3310	Unrestricted Net Position
2920	3320	Restricted Net Position

State Housing Program Number	State Reporting Group	Account Name
	Revenue Accounts	
Net Rental Income		
3100	5120	Rent Revenue - Base, Net of Tenant Assistance Payments
3100.1	5120.1	Rental Income - Excess of Base
3102	5121	Tenant Assistance Payments (HAP)
3102.1	5121.1	Tenant Assistance Payments (RAP)
3102.2	5121.2	Tenant Assistance Payments (ERAP)
3102.3	5121.3	Tenant Assistance Payments (Congregate)
3300	5140	Rent Revenue - Stores and Commercial
3103	5170	Garage and Parking Spaces
3120	5190	Miscellaneous Rent Revenue
3104	5193	Special Claims Revenue
3210	5220	Vacancy - Apartments
3240	5240	Vacancy - Stores and Commercial
3250	5250	Vacancy - Rental Concessions
3270	5270	Vacancy - Garage and Parking Space
3290	5290	Vacancy - Miscellaneous
Financial Income		
3610	5410	Financial Revenue - Project Operations
3640	5440	Revenue from Investments - Replacement Reserve
3690	5490	Revenue from Investments - Miscellaneous
Other Revenue		
3510	5910	Laundry and Vending Revenue
3512	5943	Sales & Services to Tenants
3120	5920	Tenant Charges
5970	5970	Donations
5980	5280	Grant Income - Capital Grant - Unrestricted
5981	5281	Grant Income - Capital Grant - Temporarily Restricted
3620.1	5990	Gain on Sale of Fixed Assets
3620	5990	Miscellaneous Revenue

State Housing Program Number	State Reporting Group	Account Name
		Expense Accounts
Administrative		
4103	6203	Conventions and Meetings
4104	6204	Management Consultants
4110	6210	Advertising and Marketing
4111	6235	Apartment Resale Expenses (Coops)
4150	6250	Other Renting Expenses
4120	6310	Office Salaries
4121	6310.1	RSC Salaries - State Funded Only
4151	6315	Office Supplies/Expense
4152	6312	Office or Model Apartment Rent
4132	6320	Management Fee
4133	6330	Manager or Superintendent Salaries
4160	6331	Administrative Rent Free Unit
4130, 4130.1	6340	Legal Expense - Project
4150	6350	Audit Expense
4161	6360	Telephone & Answering Service
4131	6351	Bookkeeping Fees/Accounting Services
4820	6370	Bad Debts
4716	6380	State Service Charge - Administrative
4159, 4153	6390	Miscellaneous Administrative Expenses
Utilities		
4340	6420	Fuel Oil/Coal
4320	6450	Electricity
4310	6451	Water
4330	6452	Gas
4360	6453	Sewer
4350	6454	Cable Television

State Housing Program Number	State Reporting Group	Account Name
Expense Accounts		
Operating and Maintenance		
4410, 4410.1*	6511	Janitor and Cleaning Payroll
4410, 4410.1*	6535	Grounds Payroll
4410, 4410.1*	6540	Repairs Payroll
4420*	6516	Janior and Cleaning Supplies
4420*	6522	Exterminating Supplies
4420*	6536	Grounds Supplies
4420*	6561	Decorating Supplies
4430*	6517	Janitor and Cleaning Contracts
4430*	6519	Exterminating Contracts
4430*	6525	Garbage and Trash Removal
4430*	6530	Security Payroll/Contract
4430*	6537	Grounds Contracts
4430*	6542	Repairs Contracts
4430*	6545	Elevator Maintenance Contract
4430*	6547	Swimming Pool Maintenance Contract
4430*	6548	Snow Removal
4430*	6560	Decorating (Painting) Contract/Payroll
4440*	6521	Operating & Maintenance Rent Free Unit
4440*	6531	Security Rent Free Unit
4440*	6541	Repairs Material
4440*	6546	Heating/Cooling Repairs and Maintenance
4440*	6570	Vehicle and Maintenance Equipment Operation and Repairs
4440*	6590	Miscellaneous Operating and Maintenance Expenses
* Choose the category that best represents the entity's expense classifications.		
Taxes and Insurance		
4715	6710	Real Estate Taxes
4161	6711	Payroll Taxes (Project's Share)
4712	6719	Miscellaneous Taxes, Licenses, Permits and Insurance
4711	6720	Property & Liability Insurance (Hazard)
4711.1	6721	Fidelity Bond Insurance
4711.2	6722	Workmen's Compensation
4160	6723	Health Insurance and Other Employee Benefits
4161	6724	Pension Expense
4162	6725	Other Post-Employment Benefits Expense
4163	6729	Other Insurance

State Housing Program Number	State Reporting Group	Account Name
Expense Accounts		
Financial Expenses		
4717	6820	Interest on Mortgage Payable
4717.1	6830	Interest on Notes Payable (Long Term)
4717.2	6840	Interest on Notes Payable (Short Term)
4790	6890	Miscellaneous Financial Expenses
Other Expenses		
6600	6600	Depreciation Expense
6610	6610	Amortization Expense
6620	6620	Loss on Disposal of Fixed Assets
6630	6630	Impairment Loss

State Housing Program Number	State Reporting Group	Account Name
Congregate Housing Subsidy Program		
7000	**7000**	**CONGREGATE INCOME**
7010	**7010**	Tenant's Contribution - Congregate Services
7011	**7011**	Other Income/Meals
7020	**7020**	Tenant's Contribution - Assisted Living Services
7030	**7030**	State Grant Income
7030.1	**7030.1**	State Subsidy - Core (Budget Purposes Only)
7030.2	**7030.2**	State Subsidy - Expanded Core (Budget Purposes Only)
7030.3	**7030.3**	State Subsidy - ALSA (Budget Purposes Only)
8000	**8000**	**CONGREGATE CORE SERVICE EXPENSE**
8100	**8100**	**HOUSE MANAGEMENT**
8101	**8101**	Bookkeeping
8102	**8102**	Housing Management Salaries
8103	**8103**	Attendants Wages
8104	**8104**	Overtime/Vacation Overlap
8105	**8105**	Fringe Benefits
8106	**8106**	Payroll Taxes
8107	**8107**	Insurance - Workers Compensation
8108	**8108**	Outside Security Services
8200	**8200**	**HOUSEKEEPING**
8201	**8201**	Chore Service Wages
8202	**8202**	Cleaning of Common Areas
8203	**8203**	Laundry (Non-Tenant)
8204	**8204**	Cleaning Supplies
8300	**8300**	**MEAL EXPENSE**
8301	**8301**	Good Costs
8302	**8302**	Meal Services
8303	**8303**	Supplies/Utensils
8304	**8304**	Utilities
8400	**8400**	**SOCIAL SERVICES**
8401	**8401**	Social Service Salary
8402	**8402**	Supplies

State Housing Program Number	State Reporting Group	Account Name
Congregate Housing Subsidy Program		
9001-9003	**9001-9003**	**EXPANDED CORE SERVICES**
9001	9001	Resident Services Coordinator
9002	9002	Wellness/Preventive Program
9003	9003	Emergency Transportation
9004-9005	**9004-9005**	**ASSISTED LIVING SERVICES**
9004	9004	Assisted Living
9005	9005	Initial Assessment Eligibility

SECTION VI - GAAP ACCOUNTING

CONSTRUCTION/REHABILITATION

This section describes the appropriate GAAP accounting method utilized during the construction and rehabilitation phase of a project. Technical terminology within each section is described at the end of each section under "Definitions", as well as in the glossary.

A project may receive a loan and/or a grant to fund the construction or rehabilitation of a project. **This section of the Manual applies only during the construction/rehab phase of a project.**

A **loan** represents funds that are borrowed and are expected to be paid back with interest. A loan is provided to an entity (the "Borrower") by a Lender. The loan agreement usually contains a mortgage that identifies the property as security for the loan. A **grant** is awarded to an entity with no expectation of repayment, or a conditional expectation of payment.

LOAN FUNDS

The accounting guidance for loan proceeds is the same for government entities, not-for-profit entities and for-profit entities.

When a loan agreement is authorized by the State, no transaction is recorded. (Legal documents require prior State approval of non-State loans.)

When loan proceeds are received from the Lender, a long term liability should be recorded to reflect the outstanding loan balance. Construction loans are considered long term until they are converted to permanent loans and payments begin. (See Long-Term Debt section for further guidance regarding accounting for repayments of the loan.)

Costs related to the construction/rehabilitation funded by loan proceeds are recorded when incurred as Construction in Progress. Therefore, when the project receives contractor or other construction invoices, the invoices should be accrued as Accounts Payable and Construction in Progress.

Illustration – Owner A plans to rehabilitate a project. The project budget is as follows:

Rehabilitation loan	$ 500,000
Rehabilitation grant	1,000,000
Owner/sponsor fund	750,000
Total sources	$ 2,250,000

On January 1, 20XX, the loan and grant agreements were authorized by the State. The loan is payable in monthly installments of principal and interest at 3% for 40 years commencing on the first day of the month following the completion of construction. Construction began on February 1, 20XX. The building was placed in service on May 1, 20XX and payments began on the loan on June 1, 20XX. (See "Fixed Assets" section for transferring costs from Construction in Progress to fixed asset accounts once construction is complete and to record corresponding depreciation expense.)

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1112	1121	Construction Cash Account	$ 500,000	
2313	2320	Mortgage Payable - First Mortgage		$ 500,000
		To record loan proceeds received		
1405	1405	Construction in Progress	$ 500,000	
2112	2111	Accounts Payable - Construction/Development		$ 500,000
		To record costs funded with loan proceeds		
2112	2111	Accounts Payable - Construction/Development	$ 500,000	
1112	1121	Construction Cash Account		$ 500,000
		To record payment of construction invoices funded with loan proceeds		

GRANT FUNDS

The method for properly recording grant funds varies depending upon whether the project is a government entity that follows GASB or a not-for-profit or for-profit entity that follows FASB. Housing authority funds should follow accounting guidance for revenue recognition under GASB. For profit and not-for-profit entities should follow accounting guidance for revenue recognition under FASB.

Government Entity:

A government entity recognizes revenue when the related costs are incurred. At the end of the year, any grant income recognized on the Statement of Revenues, Expenses and Changes in Net Position (income statement) should close to equity.

Construction/rehabilitation grants are considered capital grants and should be reported separately as a non-operating source of revenue. This activity should be recorded in SHP account #5980 “Grant Income – Capital Grant - Unrestricted”.

Costs related to the construction/rehabilitation funded by grant proceeds are recorded when incurred as Construction in Progress. Therefore, when the project receives contractor or other construction invoices, the invoices should be recorded as Accounts Payable and Construction in Progress.

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1405	1405	Construction in Progress	$ 1,000,000	
2112	2111	Accounts Payable - Construction/Development		$ 1,000,000
		To record costs incurred, funded with grant proceeds		
1126	1137	Construction/Rehab Grants Receivable	$ 1,000,000	
5980	5280	Grant income - Capital Grant - Unrestricted		$ 1,000,000
		To record grant receivable for funds requisitioned		
1112	1121	Construction Cash Account	$ 1,000,000	
1126	1137	Construction/Rehab Grants Receivable		$ 1,000,000
		To record receipt of grant funds		
2112	2111	Accounts Payable - Construction/Development	$ 1,000,000	
1112	1121	Construction Cash Account		$ 1,000,000
		To record payment of construction invoices funded with grant proceeds		

Not-For-Profit Entity:

The recognition of grant revenue in a not-for-profit entity is based upon whether the grant is considered a conditional promise to give, an unconditional promise to give or an exchange transaction.

A construction or rehabilitation grant is considered an unconditional promise to give. A not-for-profit entity is required to record an unconditional promise to give when the promise is made. The granting authority generally limits the use of the funds to the construction or rehabilitation of a specific project. This limitation is considered a donor-imposed restriction. A donor-imposed restriction is temporary if it can be fulfilled by the passage of time or the actions of the not-for-profit entity (constructing or rehabilitating the project).

When the grant is authorized, the total amount of the grant should be recorded as an unconditional promise to give and temporarily restricted grant income.

Costs related to the construction/rehabilitation funded by grant proceeds are recorded when incurred as Construction in Progress. Therefore, when the project receives contractor or other construction invoices, the invoices should be accrued as Accounts Payable and Construction in Progress.

As construction/rehab costs are incurred, net assets are released from restriction and the amount of the outstanding invoices should be requisitioned. When the requisition is funded, the grant receivable should be reduced by the amount of grant funds received.

Income received with a donor restriction should be recognized on the Statement of Activities (income statement) as temporarily restricted grant income unless the costs are incurred (and the restriction is released) in the same accounting period. Any remaining temporarily restricted grant income at the end of the year should be closed into temporarily restricted net assets and separately stated as a component of net assets in the Statement of Financial Position (balance sheet).

At the end of the year, any grant income recognized on the Statement of Activities should close to equity.

GAAP ACCOUNTING METHOD				
State Housing Program #	**State Reporting Group**	**Account Name**	**Debit**	**Credit**
1126	1137	Construction/Rehab Grants Receivable	$ 1,000,000	
5981	5281	Grant Income - Capital Grant - Temporarily Restricted		$ 1,000,000
		To record an unconditional promise to give for a construction/rehab grant		
1405	1405	Construction in Progress	$ 1,000,000	
2112	2111	Accounts Payable - Construction/Development		$ 1,000,000
5981	5281	Grant Income - Capital Grant - Temporarily Restricted	$ 1,000,000	
5980	5280	Grant income - Capital Grant - Unrestricted		$ 1,000,000
		To record costs funded with grant proceeds and release the donor-imposed restriction		
1112	1121	Construction Cash Account	$ 1,000,000	
1126	1137	Construction/Rehab Grants Receivable		$ 1,000,000
		To record receipt of grant funds		
2112	2111	Accounts Payable - Construction/Development	$ 1,000,000	
1112	1121	Construction Cash Account		$ 1,000,000
		To record payment of construction invoices funded with grant proceeds		

Management should adopt an appropriate policy if it chooses to show restricted contributions whose restrictions are met in the same reporting period as unrestricted contributions. The policy must be consistently followed for all contributions and the policy must be disclosed in the footnotes to the financial statements.

For-Profit Entity:

A for-profit entity recognizes revenue when the related costs are incurred.

Costs related to the construction/rehabilitation funded by grant proceeds are recorded when incurred as Construction in Progress. Therefore, when the project receives contractor or other construction invoices, the invoices should be accrued as Accounts Payable and Construction in Progress.

Grant funds may be advanced to a project or require requisitions to be done on a reimbursement basis.

If the grant agreement requires a project to requisition grant funds on a reimbursement basis, the project should record a grant receivable and grant revenue for the amount of the outstanding invoices at the time the requisition is submitted.

GAAP ACCOUNTING METHOD				
State Housing Program #	**State Reporting Group**	**Account Name**	**Debit**	**Credit**
1405	1405	Construction in Progress	$ 1,000,000	
2112	2111	Accounts Payable - Construction/Development		$ 1,000,000
		To record costs funded with grant proceeds		
1126	1137	Construction/Rehab Grants Receivable	$ 1,000,000	
5980	5280	Grant income - Capital Grant - Unrestricted		$ 1,000,000
		To record grant receivable for funds requisitioned		
1112	1121	Construction Cash Account	$ 1,000,000	
1126	1137	Construction/Rehab Grants Receivable		$ 1,000,000
		To record receipt of grant funds		
2112	2111	Accounts Payable - Construction/Development	$ 1,000,000	
1112	1121	Construction Cash Account		$ 1,000,000
		To record payment of construction invoices funded with grant proceeds		

If the grant agreement allows for funds to be advanced prior to costs incurred, the advanced funds should be recorded as Deferred Revenue. When the costs are incurred, the amount of the costs incurred should be adjusted from Deferred Revenue to recognize Grant Income. At the end of the year, any grant income recognized on the income statement should close to equity.

GAAP ACCOUNTING METHOD				
State Housing Program #	**State Reporting Group**	**Account Name**	**Debit**	**Credit**
1112	1121	Construction Cash Account	$ 1,000,000	
2220	2220	Deferred Revenue		$ 1,000,000
		to record grant funds received prior to costs incurred		
1405	1405	Construction in Progress	$ 1,000,000	
2112	2111	Accounts Payable - Construction/Development		$ 1,000,000
		To record construction costs incurred		
2112	2111	Accounts Payable - Construction/Development	$ 1,000,000	
1112	1121	Construction Cash		$ 1,000,000
		to record payment of construction invoices funded with grant proceeds		
2220	2220	Deferred Revenue	$ 1,000,000	
3710	5280	Grant income - capital grant - unrestricted		$ 1,000,000
		To recognize grant funds as revenue when costs are incurred		

DEFINITIONS

Conditional Promise to Give – A promise to give that depends on the occurrence of a specified future and uncertain event to bind the promisor. (FASB ASC 958-605)

Construction in Progress – Construction in progress is a category of fixed assets that includes the cost of construction work which is not yet completed. Construction in Progress may include hard costs (site work, construction/rehab, engineering, etc.), soft costs (legal, accounting, environmental, etc.) and interim costs (interest, insurance, real estate taxes). Construction in Progress is not depreciated until the asset is placed in service and reclassified to the appropriate fixed asset category. (FASB ASC 360-10)

Exchange Transaction - Reciprocal transfers in which each party receives and sacrifices approximately equal value. In an exchange transaction, the potential public benefits are secondary to the potential proprietary benefits to the resource provider. (FASB ASC 958-605-20)

Promise to Give – A promise to give is a written or oral agreement to contribute cash or other assets to another entity. (FASB ASC 958-605)

Unconditional Promise to Give – A promise to give that depends only on passage of time or demand by the promisee for performance. (FASB ASC 958-605)

FIXED ASSETS

The purpose of this section is to provide guidance on recording fixed assets in accordance with GAAP. The guidance will focus on the creation and adoption of a capitalization policy, the development and maintenance of a fixed asset detailed schedule, the assignment of estimated useful lives to fixed assets, proper recording of depreciation expense, impairment considerations and finally the disposal of fixed assets.

Capitalization policy

A fixed asset is an item with a useful life greater than one year, and which exceeds an entity's minimum capitalization threshold. Each entity/organization should create and follow a set capitalization policy which establishes the minimum capitalization limit. An appropriate capitalization threshold may be $2,500 per asset/unit. This is only a benchmark, and may not be an appropriate amount for all organizations. For example, for profit entities may already have a capitalization policy for audited entities of $5,000 to coincide with the Internal Revenue Service Tangible Property Regulations. Whereas, other organizations may determine a smaller threshold should be applied.


Management should determine an appropriate capitalization threshold and formally adopt their capitalization policy.

Creation/Maintenance of fixed asset detailed listing

A detailed list of all the fixed assets of the entity must be maintained to properly account for and support all the assets of the entity. This fixed asset listing must include the following information:

1. Asset description
2. Asset cost
3. Salvage value
4. Placed in service date
5. Beginning accumulated depreciation as of XX/XX/XX (as of Conversion date)
6. Current depreciation expense (Current year expense)
7. Ending accumulated depreciation XX/XX/XX (as of Current year end)
8. Net book value

See below for an example fixed asset detail listing (subsidiary ledger):

Asset Type	STATE REPORT GROUP #	Description	ACQUISITION DATE	USEFUL LIFE	Total Cost	Salvage Value	Total Cost or Depreciable Basis	Accum Depr 1/1/2015	Depreciation 12/31/2015	Accum Depr 12/31/2015	Net Book Value 12/31/2015
Land	1410	Land	1/1/2015	N/A	$ 100,000.00	$ -	$ 100,000.00	$ -	$ -	$ -	$ 100,000.00
									$ -	$ -	
Buildings	1420	Building	1/1/2015	40	$ 11,000,000.00	$ -	$ 11,000,000.00	$ -	$ 275,000.00	$ 275,000.00	$ 10,725,000.00
Equipment	1465	Computer	1/1/2015	5	$ 3,500.00	$ -	$ 3,500.00	$ -	$ 700.00	$ 700.00	$ 2,800.00
Grand Total					$ 11,103,500.00	$ -	$ 11,103,500.00	$ -	$ 275,700.00	$ 275,700.00	$ 10,827,800.00

Once a fixed asset has been identified, in addition to being recorded in the subsidiary ledger, it must be recorded on the balance sheet of the entity as one of the following items:

Land
Buildings
Building Equipment (Portable)
Furniture for Project/Tenant Use
Furnishings
Office Furniture and Equipment
Maintenance Equipment
Motor Vehicles
Miscellaneous Fixed Assets

Fixed asset cost and salvage value

A fixed asset must be recorded at cost. Salvage value is the expected value of the asset at the end of its useful life. In most instances, salvage value will be zero.

Illustration – To record the purchase of a new fixed asset addition with a cost of $3,500 and zero salvage value:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1430	1465	Office Furniture and Equipment	$ 3,500	
1111	1120	Cash - Operations		$ 3,500
		To record purchase of new asset		

Depreciation expense

Once the fixed asset addition is placed in service, annual depreciation must be recorded. To properly record depreciation expense, first an estimated useful life must be assigned to the asset. A sample of appropriate estimated useful lives, taken from the U.S. Department of Housing and Urban Development "HUD Flyer Accounting for Fixed Assets" June 1999, Volume 1 Issue 2 is as follows:

Category	Estimated Useful Life
Buildings	**20 to 40 years**
Building improvements	**10 to 40 years**
Furniture and fixtures	**5 to 10 years**
Equipment	**3 to 10 years**

For some more specific items, the following may be suggested lives:

Category	Estimated Useful Life
Tools	**5 years**
Appliances	**5 to 7 years**
Furniture	**5 to 10 years**
Computers	**3 to 5 years**
Roofs	**10 years**
Leasehold improvements	**15 years or the life of the lease**

Please note these estimated useful lives above are only guidelines, and it may be determined that a different useful life is more appropriate.

Land, and permanent improvements to land, are not depreciated. Construction in Progress is also not depreciated. Depreciation of Construction in Progress only begins once the asset is transferred to a completed fixed asset (building, equipment, etc.), which occurs at the placed in service date.

Management Estimate: Management is responsible for determining the appropriate estimated useful life of each asset.

Depreciation expense is recorded annually based on the estimated useful life of the asset. To record depreciation expense the following journal entries should be made:

Illustration – To record depreciation expense on the new asset that has a cost of $3,500 and an estimated useful life of 5 years, with zero salvage value. Therefore, annual depreciation expense is $700 per year.

GAAP ACCOUNTING METHOD				
State Housing Program #	**State Reporting Group**	**Account Name**	**Debit**	**Credit**
6600	6600	Depreciation Expense	$ 700	
1495	1495	Accumulated Depreciation		$ 700
		To record depreciation expense		

The net book value of the fixed asset is the cost less accumulated depreciation.

Office Furniture and Equipment	$3,500
Accumulated Depreciation	(700)
Net Book Value	$2,200

Construction in Progress

The Construction in Progress account is utilized to capture all costs of a project while in the construction phase prior to being placed in service. A transfer from the Construction in Progress account must be made to fixed asset accounts (building, improvements, etc.) once construction is complete, and placed in service.

Illustration – A building project has been completed and $11,000,000 of Construction in Progress has been placed in service. Below is the journal entry to record the Construction in Progress as a new building:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1440	1420	Buildings	$ 11,000,000	
1405	1405	Contruction in Progress		$ 11,000,000
		To capitalize construction in progress that is placed in service		

Impairment

In accordance with GAAP, management must review fixed assets annually to determine if any of the assets are impaired. Impairment is when the carrying value of a long-lived asset (asset group) exceeds its fair value and is not expected to recover. Asset impairment happens when triggering events occur. These triggering events are defined in the FASB Codification Section 350-20-35-3C(a) through (g). Management must evaluate impairment annually; however triggering events are not common. Examples of triggering events are included in the definition section.

If a triggering event occurs, management must determine whether the asset fair value is recoverable. If management determines the fixed asset is impaired, then a valuation of the asset must occur to determine the amount of write down of the asset. The following is the illustration of how to record the write down of an asset due to impairment.

Illustration – A fire occurred in a multi-family residential property which destroyed 15 of 30 units. The total cost of the building is $1,000,000 with accumulated depreciation of $400,000 for a net book value of $600,000. After review, management determined ½ of the building should be written off as an impaired asset. For this example, let's assume there is no plan to rebuild in the near future, and no insurance proceeds. Therefore, leaving a net book value recorded of $300,000 and the impairment loss to be recognized is $300,000.

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
6630	6630	Impairment Loss	$ 300,000	
1495	1495	Accumulated Depreciation	$ 200,000	
1440	1420	Buildings		$ 500,000
		To record impairment loss on building		

Disposal of fixed assets

A disposal of fixed assets occurs when an asset is sold or is no longer in use. When assets are disposed, both the cost and accumulated depreciation associated with that asset is removed from the balance sheet. In addition, a gain or loss on the sale of the asset may be recorded depending on the sale price and/or remaining salvage value. This gain or loss would be recognized on the income statement. One item to note is depreciation expense and accumulated depreciation must be recorded through the date of the disposal of the asset, and then the asset should be removed from the general ledger.

The following are two different examples of disposals of fixed assets.

Illustration – An entity sold an asset in the current year for $1,000. The asset was recorded on the general ledger with a cost of $3,500 and accumulated depreciation of $1,500, and zero salvage value. Therefore, the net book value at the time of sale was $2,000. A loss on disposal of the asset must be recorded for $1,000.

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1111	1120	Cash - Operations	$ 1,000	
1495	1495	Accumulated Depreciation	$ 1,500	
6620	6620	Loss on Disposal of Fixed Assets	$ 1,000	
1430	1465	Office Furniture and Equipment		$ 3,500
		To record the disposal of an asset		

Illustration – An entity sold an asset in the current year for $2,500. The asset was recorded on the general ledger with a cost of $3,500 and accumulated depreciation of $1,500, and zero salvage value. Therefore, the net book value at the time of sale was $2,000. A gain on disposal of the asset must be recorded for $500.

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1111	1120	Cash - Operations	$ 2,500	
1495	1495	Accumulated Depreciation	$ 1,500	
1430	1465	Office Furniture and Equipment		$ 3,500
3620.1	5990	Gain on Sale of Fixed Assets		$ 500
		To record the disposal of an asset		

DEFINITIONS

Fixed Asset (Long-lived assets) – Fixed assets, also known as long-lived assets, include property and equipment and other assets held for investment or used in a company's operations that have an estimated useful life more than one year. Under generally accepted accounting principles, a fixed asset should be stated at cost, and include all costs necessary to bring the asset to its working condition. The cost of a fixed asset should include the asset's purchase price, sales tax, freight, installation costs, and direct and indirect costs (including interest), if applicable. It generally should not include routine repairs and maintenance costs. (FASB ASC 360-10-30-1).

Depreciation - Depreciation is the charging of the cost of an asset used in a company's operations to expense over the estimated useful life of the asset. Depreciation expense allocates the asset's cost, less salvage value, over the asset's estimated useful life using an acceptable depreciation method. (FASB ASC 360-10-35-4)

Estimated Useful Life - An asset's estimated useful life is the period over which it is expected to contribute directly or indirectly to future cash flows. It is an estimate of how long the fixed asset is expected to last.

Salvage Value - Salvage value is the remaining asset value at the end of an asset's useful life. Some assets have value at the end of their useful life that can be realized through sale or trade-in. Therefore, the asset value that is depreciated is the acquisition cost less the salvage value of the asset. (FASB ASC 360-10-35-4)

Depreciation Methods - Generally accepted accounting principles recognize the following as acceptable methods to calculating depreciation expense:

- a. *Straight-line method* allocates cost less salvage value evenly over the asset's estimated useful life.
- b. *Accelerated methods* allocate cost over the asset's useful life so that the depreciation expense is larger in the earlier years and decreases year after year. There are a number of acceptable accelerated depreciation methods, including the following:
  - (1) *Sum-of-the-years' Digits*. Under this method, depreciation is determined by multiplying the asset's cost less salvage value by a fraction in which the sum-of-the-years' digits is the denominator and the number of years remaining in the asset's life is the numerator.
  - (2) *Declining Balance*. Under this method, a depreciation rate that is a multiple of the straight-line depreciation rate is applied to the asset's *net depreciable value*. The salvage value of an asset is ignored under this methodology; however the asset should not be depreciated below the salvage value. Under the double declining balance method, the depreciation rate would be twice the straight-line rate in the first year. Since the depreciation rate is applied to the asset's net depreciable value (i.e., cost less accumulated depreciation), and ignores salvage value, the declining balance methods do not depreciate to zero. Therefore, some companies adopt a policy of using a declining balance method until it drops below what straight-line would have been and then switch to the straight-line method.

- (3) *Units-of-production.* Under this method, depreciation is calculated based on an asset's total estimated production capability during its estimated useful life and is based on the following formula:

$$\frac{\text{Cost less salvage value}}{\text{Estimated units}} = \text{Depreciation per unit}$$

Impairment - Sometimes changes in operating conditions raise doubts about a company's ability to fully recover the carrying value of a particular asset. When it is determined that the carrying value will not be fully recovered, the asset is considered impaired. Accounting for impaired assets differs depending on whether the company intends to continue to use the asset or dispose of it. (FASB ASC 360-10-45-9 and 45-10)

When it is determined that the fair value of an asset is less than the carrying value of an asset, a test of recoverability must be performed. One option to test the recoverability of an asset is to review the undiscounted future cash flows. (FASB ASC 360-10-35-18 and 35-19)

Impairment losses related to long-lived assets (and subsequent gains related to assets held for disposal) should be reported as a component of income from continuing operations before income taxes. (FASB ASC 360-10-45-4)

If an impairment loss related to assets that are to be held and used has been recognized, the following disclosures should be made in financial statements: (FASB ASC 360-10-50-2)

- Description of the impaired assets and the facts and circumstances leading to the impairment
- If not separately presented on the face of the statement, the amount of the impairment loss and the caption in the income statement (or statement of activities) that includes that loss
- The method(s) for determining fair value (whether based on a quoted market price, prices for similar assets, or another valuation technique)
- Business segments affected, if applicable

Triggering event – an event that occurs which causes management to further review if an asset is impaired. Examples of triggering events are:

- A significant decrease in the market price of a long-lived asset (asset group)
- A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition
- A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group) including an adverse action or assessment by a regulator
- An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group)
- A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group)
- A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life

LONG TERM DEBT

The purpose of this section is to provide guidance on the appropriate recording of long-term debt transactions in accordance with GAAP.

When an entity has an obligation to pay a lender or other organization a sum of money in the future, they have a debt obligation. When those payments are due in more than one year, the debt is considered long-term debt. Under generally accepted accounting principles, the long-term debt obligation is not recognized on the balance sheet until the transaction has been executed, and the funds have been received by the borrower. The treatment of long-term debt transactions is the same for governmental entities, not-for-profit entities and for-profit entities.

Once the funds are received by the borrower, the entire amount of the obligation is recorded. The loan should be recorded as follows:

Illustration – To record a mortgage payable of $10,000,000:

GAAP ACCOUNTING METHOD				
State Housing Program #	**State Reporting Group**	**Account Name**	**Debit**	**Credit**
1111	1120	Cash - Operations	$ 10,000,000	
2313	2320	Mortgage Payable - First Mortgage		$ 10,000,000
		To record the mortgage payable upon receipt of funds		

In the example above, the entire $10,000,000 is deemed to be long-term (due in more than one year). During the construction phase of a project, the loan funds should be classified as long-term.

At the time of permanent loan closing, management should obtain from the lender an amortization schedule which provides periodic (monthly/quarterly) payments of principal and interest on the loan through the life of the loan.

The portion of the debt obligation that is due within one year from a measurement date should be recorded as the **current portion**. For financial reporting purposes, the current portion is required to be separately stated as a current liability. Management may choose to record the current portion monthly or adjust at year end. To reclassify the current portion of the debt obligation, the following journal entry would be made:

Illustration – The mortgage has a total payable balance of $10,000,000, and $300,000 of the principal balance is due within one year from the measurement date. In addition, a monthly mortgage payment is $5,000, of which $3,000 is to pay down the principal balance and $2,000 is the interest payment.

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
2313	2320	Mortgage Payable - First Mortgage	$ 300,000	
2170	2170	Mortgage Payable - First Mortgage (Short Term)		$ 300,000
		To reclassify the current portion of the mortgage balance		

When payments are made against the debt obligation, the payments must be split between the principal portion and the interest portion. The principal portion of the debt payment reduces the liability on the balance sheet and the interest portion is recorded as interest expense.

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
2313	2320	Mortgage Payable - First Mortgage	$ 3,000	
4717	6820	Interest on Mortgage Payable	$ 2,000	
1111	1120	Cash - Operations		$ 5,000
		To record the monthly debt payment		

Accrued interest should be recorded for the interest expense attributable to the period prior to the measurement date. For example, the interest payment due January 1 for the previous month of December should be recorded as accrued interest as of December 31st.

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
4717	6820	Interest on Mortgage Payable	$ 2,000	
2131	2131	Accrued Interest Payable - First Mortgage		$ 2,000
		To record accrued interest		

Mortgage payment in the final year of amortization

In the year the final mortgage payment is due, the mortgage payments are recorded as described above. The principal portion will reduce the mortgage liability balance to zero as of the last payment, and the interest expense will be recorded to the income statement. There is not a formal close out process upon close out and final payment of the mortgage.

Deferred loans/recoverable grants

A deferred loan/recoverable grant is a loan/grant in which the principal and interest payments are not due until the occurrence of specific events outlined in the loan document ("Event"). The deferred loans would remain on the balance sheet as long-term debt until the occurrence of an Event. If an Event causes the deferred loan to become due and payable, at that point, the loan balance would be adjusted depending on the terms and events that have occurred.

Disclosure requirements

Mortgage notes payable – The notes to the financial statements must include disclosure regarding the interest rates, maturity dates, pledged assets and restrictive covenants for each mortgage loan. In addition, the aggregate amount of principal payments required for each of the five years following the date of the latest statement of financial position presented is also required to be disclosed.

DEFINITIONS

Measurement Date – For purposes of this manual, measurement date is the date at which the financial information is measured and reported. Examples of potential measurement dates are month end (1/31/XX), quarter end (3/31/XX), year-end dates (12/31/XX).

CONGREGATE PROGRAMS

The purpose of this section is to provide guidance on the appropriate recording of the congregate programs in accordance with GAAP.

Under GAAP, the receipt of funds in advance of incurring the related expenses will be reflected as deferred revenue, and as expenses are incurred the grant revenue will be recognized as income. If funds have not been requisitioned in advance then the accumulation of expenses less tenant income will quantify the monthly receivable and related grant income. To the extent that actual expenses exceed the approved budget the excess expenses are deemed ineligible for reimbursement under the grant and must be funded by the Owner/sponsor.

Illustration – The State has authorized $246,000 of subsidies and actual expenditures for the year were $231,000 as follows:

	Budget Data	Expenditures
• Rent Subsidy	$ 50,000	49,000
• ALSA	40,000	38,000
• Core Services	130,000	120,000
• Expanded Core Services	26,000	24,000
	$ 246,000	$ 231,000

The Owner/sponsor requisitions 3 months of the total subsidy ($61,500) in month 1 and receives the funds in month 2:

The funds that are requisitioned are not recognized as income until they are earned, the receivable is recognized when the funds are requisitioned and when the funds are received the receivable is offset as follows:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1124	1136	Congregate Subsidy Receivable	$ 61,500	
2220	2220	Deferred Revenue		$ 61,500
		To record requisition of funds from the state		
1111	1120	Cash - Operations	$ 61,500	
1124	1136	Congregate Subsidy Receivable		$ 61,500
		To record receipt of Congregate Services Subsidy from the State		

Recognition of grant income is measured by the costs incurred in excess of tenant income. The maximum grant income cannot exceed the approved budgetary grant amount. While in theory the grant income should equal the expenses not funded by the tenants, actual costs are not incurred ratably over the year due to seasonal costs, and actual costs may differ from budget over the course of the year.

Management must monitor budget versus actual variances and must cap the grant revenue at the budgeted amounts. Costs incurred in excess of budget are considered ineligible costs unless approved by the State and must be funded by the Owner/sponsor. Unexpended grant funds must be reimbursed to the State.

Continuing with the example, the Owner/sponsor records the monthly rent roll and the expenses incurred for month 1. If the subsidiary ledgers are not interfaced with the general ledger, manual journal entries will be required to record these transactions as follows:

Monthly revenue from the rent roll:

GAAP ACCOUNTING METHOD				
State Housing Program #	**State Reporting Group**	**Account Name**	**Debit**	**Credit**
2220	2220	Deferred Revenue	$ 4,000	
1122	1130	Tenant Accounts Receivable	$ 19,000	
3102.3	5121.3	Tenant Assistance Payments (Congregate)		$ 4,000
3100	5120	Rental Income - Base, Net of Tenant Assistance Payments		$ 12,000
7010	7010	Tenant's Contribution - Congregate Services		$ 7,000
		To record rent roll for tenants for the month of July, including tenants receiving rent subsidy of $4,000 under the rental assistance component.		

Account 2220 - Deferred Revenue represents the difference between the base rent and what the tenant is paying toward base rent. The subsidy was requisitioned and received for the quarter. As a result, the monthly subsidy earned is recognized as revenue by reducing the deferred revenue.

Account 7010 – Tenant's Contributions – Congregate Services includes the tenant portion of Core services.

Account 7020 – Tenant's Contributions - ALSA and Account 2113 - ALSA Escrow-DSS Tenants, **are no longer required** as the ALSA provider is now responsible for collecting the tenant portion.

Monthly expenses for services for the first month were:

GAAP ACCOUNTING METHOD				
State Housing Program #	**State Reporting Group**	**Account Name**	**Debit**	**Credit**
8000	8000	Congregate Core Services	$ 17,000	
9000	9000	Expanded Core Services (9001 - 9003)	$ 2,000	
9000	9000	Assisted Living Services (9004 - 9005)	$ 3,200	
2110	2110	Accounts Payable - Operations		$ 22,200
		To record total accrual based expenses for the month of July. ***Note: This entry would be made using the budgetary line item expense accounts, not summaries of the 8000 and 9000.***		
2110	2110	Accounts Payable - Operations	$ 22,200	
1111	1120	Cash - Operations		$ 22,200
		To record total cash disbursements for the month of July		

Grant recognition should be recorded monthly. In our example above, tenant revenue earned for congregate core services in July was $7,000, and the related expense for the month for congregate services was $17,000 resulting in recognition of $10,000 of State Subsidy – Congregate Core Services. Additionally Congregate Expanded Services and Assisted Living Services for the month were $2,000 and $3,200 respectively, resulting in the recognition of State Subsidy income in the same amounts.

Monthly grant recognition:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
2220	2220	Deferred Revenue	$ 15,200	
7030.1	7030.1	State Subsidy - Core (Budget Purposes Only)		$ 10,000
7030.2	7030.2	State Subsidy - Expanded Core (Budget Purposes Only)		$ 2,000
7030.3	7030.3	State Subsidy - ALSA (Budget Purposes Only)		$ 3,200
		To record grant revenue to the extent of expenses incurred in month 1 for core and expanded services		

Annually the congregate services income and expense accounts are closed out and unexpended funds are reclassified out of deferred revenue and recorded as a payable to State as follows:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
7030.2	7030.2	State Subsidy - Expanded Core (Budget Purposes Only)	$ 24,000	
7030.3	7030.3	State Subsidy - ALSA (Budget Purposes Only)	$ 38,000	
7030.1	7030.1	State Subsidy - Core (Budget Purposes Only)	$ 120,000	
8000	8000	Congregate Core Services		$ 120,000
9000	9000	Expanded Core Services (9001 - 9003)		$ 24,000
9000	9000	Assisted Living Services (9004 - 9005)		$ 38,000
		To close congregate services income and expense accounts at fiscal year end. This entry would be made to the actual budgetary line item accounts rather than the summary accounts used in this sample.		
2220	2220	Deferred Revenue	$ 14,000	
2119	2116	Accounts Payable - State		$ 14,000
		To record payable to the State for unusused portion of Congreate Services Subsidy Program		

DEFINITIONS

ALSA - Assisted Living Services Agency

Congregate Subsidy Receivable - This account will be debited for the amount of the Congregate Grant requisitioned from the State.

Deferred Revenue - The credit balance of this account represents unearned grant revenue.

Other income – State Subsidy – Expanded Core and ALSA Services - The credit balance of this account represents earned grant revenue.

Other income – State Subsidy – Congregate Core Services - The credit balance of this account represents earned grant revenue.

Sundry Accounts Payable - The credit balance of this account represents all accounts payable not allocable to other specific accounts provided in the 2100 group, this would include any amount payable to the State resulting from the close out of an assistance agreement or other contract.

RESIDENT SERVICE COORDINATOR

The purpose of this section is to provide guidance on the appropriate recording of the resident service coordinator programs in accordance with GAAP.

Under GAAP, the receipt of funds in advance of incurring the related expenses will be reflected as deferred revenue. As expenses are incurred the grant revenue will be recognized as income. If funds have not been requisitioned in advance then the accumulation of expenses less tenant income will quantify the monthly receivable and related grant income.

Illustration – The Owner/sponsor enters into an Assistance Agreement with the State for a Resident Services Coordinator ("RSC") Program in the Elderly housing project for $18,000. RSC salary costs will be recorded as expense in account 4121 RSC Salaries. We recommend that the requisition for the funds be submitted as prescribed under the assistance agreement and that the full grant amount be recognized at the beginning of the grant cycle as follows:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1124.3	1134	RSC Subsidy Receivable	$ 18,000	
2220	2220	Deferred Revenue		$ 18,000
		To record approved RSC management plan from the State for RSC grant funds		

The receivable is reduced as funds are received from the State:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1111	1120	Cash - Operations	$ 18,000	
1124.3	1134	RSC Subsidy Receivable		$ 18,000
		To record RSC funds advanced by the State		

The RSC expenses will no longer be recorded in account 1508 Program Costs. Expenses should be recorded in account 4121 RSC Salaries and grant revenue will now be recognized monthly. The Owner/sponsor incurs $1,500 in RSC salary in July:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
4121	6310.1	RSC Salaries - State Funded Only	$ 1,500	
1111	1120	Cash - Operations		$ 1,500
		To record RSC expenses paid by the Owner/sponsor for the month of July		
2220	2220	Deferred Revenue	$ 1,500	
3620	5990	Miscellaneous Revenue		$ 1,500
		To record grant revenue earned in July		

The close out of the program will now look at the unearned portion of the grant reflected in the deferred revenue account at the end of the grant year. In the illustration above, costs incurred equaled 1/12th of the grant total which would leave a $0 balance in deferred revenue at the end of the year. Under this situation, there would be no additional closing entry.

Change the facts in the illustration above, the Owner/sponsor incurs $1,000 in RSC salary in July, and throughout the remainder of the year the expenses stay at $1,000 per month. The monthly entry would be:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
4121	6310.1	RSC Salaries - State Funded Only	$ 1,000	
1111	1120	Cash - Operations		$ 1,000
		To record RSC expenses paid by the Owner/sponsor for the month of July		
2220	2220	Deferred Revenue	$ 1,000	
3620	5990	Miscellaneous Revenue		$ 1,000
		To record grant revenue earned in July		

For the twelve months the Owner/sponsor would recognize $12,000 of the grant revenue, leaving a balance of $6,000 in deferred revenue at the end of the grant period. To close out the grant period the Owner/sponsor would reclassify the balance in deferred revenue to SHP account #2119 Accounts Payable - State as this balance would be due back to the State.

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
2220	2220	Deferred Revenue	$ 6,000	
2119	2116	Accounts Payable - State		$ 6,000
		To reclass unearned amounts as due to the State		

At the grant year end, any unearned grant should be reclassified as "due to the state". If funds were not received during the year then the unearned portion should reduce the outstanding receivable.

If RSC expenses are greater than the total funding approved under the management plan, the Owner/sponsor should contact the State as soon as a projected deficit is identified and inquire as to whether any additional funding is available for the year. Monitoring the deferred revenue account monthly compared to anticipated expenses for the rest of the year will assist the Owner/sponsor with this analysis. To the extent additional funding is subsequently awarded, a receivable would be recognized based on the actual costs incurred less amounts received to date. If no additional funding is available then any debit balance in the deferred revenue account will be an indicator that revenue was recognized in excess of available grant funds and grant revenue should be reduced accordingly. These amounts must be funded by the Owner/sponsor.

RENTAL ASSISTANCE PAYMENTS

The purpose of this section is to provide guidance on the appropriate recording of the rental assistance payments in accordance with GAAP.

Under GAAP, the receipt of funds in advance of incurring the related expenses will be reflected as deferred revenue. As expenses are incurred, the grant revenue will be recognized as income. If funds have not been requisitioned in advance then the base rent less tenant rent equals the monthly receivable and related grant income.

Illustration – The Owner/sponsor enters into an Assistance Agreement with State for an Elderly Rental Assistance Program ("ERAP") for $12,000. It should be noted that the State Rental Assistance Payments ("SRAP") and Housing Choice Vouchers ("HCV") are billed monthly and should be recognized as a receivable and income when billed as part of recording the monthly rent roll. We recommend that the requisition for the funds for the ERAP be submitted as prescribed under the assistance agreement and that the full grant amount recognized at the beginning of the grant cycle. SHP account #1125 Housing Assistance Payments Receivable can be used for all housing assistance program receivables or set up separate accounts for each source. The entries to record the approved grant and subsequent payment from the State are as follows:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1124.2	1133	ERAP Subsidy Receivable	$ 12,000	
2220	2220	Deferred Revenue		$ 12,000
		To record the approved grant from the State for the ERAP grant fund		
1111	1120	Cash - Operations	$ 12,000	
1124.2	1133	ERAP Subsidy Receivable		$ 12,000
		To record receipt of ERAP funds from the State		

The ERAP "cost" will no longer be recorded in account 1507 "Program Costs". As part of the monthly rent roll the portion of the base rent paid through the ERAP program will be recorded as income in SHP account #3102 Tenant Assistance Payments as follows:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
2220	2220	Deferred Revenue	$ 1,000	
1122	1130	Tenant Accounts Receivable	$ 20,000	
3100	5120	Rent Revenue - Base, Net of Tenant Assistance Payments		$ 17,000
3100.1	5120.1	Rental Income - Excess of Base		$ 3,000
3102.2	3102.2	Tenant Assistance Payments (ERAP)		$ 1,000
		To record dwelling rent roll for the month of July.		

Note: Account 1122/1130 should be debited for the portion of rent due from the tenants. Account 2220/2220 should be debited for the Elderly Rental Assistance (ERAP) due on behalf of the tenants.

At the end of the grant year, any balance remaining in the deferred revenue account represents funds received from the State in excess of ERAP funds earned and should be reclassified to SHP account #2119 “Accounts Payable – State”. In the illustration below, a balance of $750 remained in SHP account #2220 “Deferred Revenue” at the end of the grant year and is owed back to the State. These amounts must be funded by the Owner/sponsor.

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
2220	2220	Deferred Revenue	$ 750	
2119	2116	Accounts Payable - State		$ 750
		To record unexpended ERAP funds at the end of the grant year as an accounts payable due back to the State		

DEFINITIONS

Rental Assistance Payments Receivable - This account shall be debited monthly with the amount of rent subsidy receivable from the State.

Rental Revenue – Base, net of Tenant Assistance Payments - The credit balance of this account represents the base rental income from the approved Management Plan, which would be received from tenants portion. This represents gross potential rental income net of tenant assistance payments, regardless of vacated units.

In the case of Owners/sponsors receiving Section 8 Subsidies, the monthly total credited to this account should be equal to the contract rent, (Column 5. HUD - 52670A - Schedule of Housing Assistance Payments).

In charging rents to tenants, there shall be no variation from the established rent schedule, as indicated in the budget and approved by the State.

PENSION

The purpose of this section is to provide guidance on possible allocation methodologies and bases to use in allocating the net pension asset/net pension liability ("NPA/NPL"), and correlating deferred inflows/deferred outflows and expenses related to GASB 67 and GASB 68. It is not to explain in detail how to account for or report the net pension assets and liabilities and related expenses, but rather to provide some basic guidance at the entity level on how the NPA/NPL should be allocated. For further guidance regarding GASB 67 and GASB 68, please see the actual GASB statements and Question and Answer documents regarding the GASB statements.

With the implementation of GASB 67 – Financial Reporting for Pension Plans, and GASB 68 – Accounting and Financial Reporting for Pensions, government entities are now required to report on their financial statements the net pension asset/net pension liability. This can be an extremely complex area in governmental accounting. There are distinct differences in the accounting and reporting for pension plans which hold their assets in a trust versus those that are not held in trust (also referred to as pay as you go). In addition, there are differences in the accounting and reporting for the different types of plans – defined benefit plans versus defined contribution plans, and single-employer plans versus agent multiple-employer plans versus cost-sharing multiple employer plans.

The net pension liability is calculated as the total pension liability less the amount of the pension plan's fiduciary net position. A net pension asset is reported when the amount of the pension plan's fiduciary net position exceeds the total pension liability. An actuarial valuation of the total pension liability is required to be performed at least every two years.

Management must provide the actuary with accurate demographic data and other information as inputs into the valuation of the pension plan as well as the calculation of the NPA/NPL. Demographic data includes name, date of birth, date of hire, pensionable salaries, and contributions, among others. Management must take responsibility for the accuracy and completeness of the data provided. Management must also take responsibility for the assumptions the actuary is using in the valuation and calculation of the NPA/NPL. These assumptions include, but are not limited to – discount rate, long-term assumed investment rate of return, and mortality assumptions.

In an instance where the entity participates in a multi-employer or cost sharing plan, the entity should report its proportionate share of the pension plan information in their financial statements. This information would normally be obtained from a separately issued audit on the schedules of pension amounts by employer.

Allocations

The NPA/NPL, pension expense and deferred inflows and outflows related to pensions should be allocated across the projects of an entity based on which projects contribute to the pension plan. For example, if there are a total of ten projects within a reporting entity, but only four of the projects contribute to the pension plan, then the liability, expenses, etc. of the plan should be allocated only to those four projects contributing to the plan. Based on the guidance provided by GASB, the allocation method among the projects should be reasonable and documented. Sample allocation methodologies are provided below.

Proposed methodology #1 – Pensionable salaries

One allocation methodology is to allocate the pension elements by percent of pensionable payroll. This would include only the payroll elements on which the contributions to the pension plan are based.

Illustration – For example, an entity has four projects that contribute to the pension plan. The net pension liability in total is $1,000,000. Pensionable salaries in total for all four projects are $5,000,000 and include annual base salary only, excluding overtime and fringe benefits. See below for example of allocation based on these criteria.

Example - Allocation based on pensionable salaries

		Project 1	Project 2	Project 3	Project 4	Total
Pensionable salaries by project		$ 1,200,000	$ 3,000,000	$ 500,000	$ 300,000	$ 5,000,000
Total pensionable salaries		$ 5,000,000	$ 5,000,000	$ 5,000,000	$ 5,000,000	
Allocation %		24%	60%	10%	6%	100%
Ending net pension liability	$ 1,000,000	$ 240,000	$ 600,000	$ 100,000	$ 60,000	$ 1,000,000

The pensionable salaries for each fund divided by total pensionable salaries produces the allocation percentage which then would be applied to the NPL as well as pension expense, deferred inflows, deferred outflows, etc.

Proposed methodology #2 – Covered payroll

Another allocation methodology that may be appropriate is to allocate the pension elements by percent of covered or total payroll. This would include the total payroll for those participants in the pension plan.

Illustration – For example, an entity has four projects that contribute to the pension plan. The net pension liability in total is $1,000,000. Covered payroll in total for all four projects is $7,000,000. See below for example of allocation based on these criteria.

Example - Allocation based on covered payroll

		Project 1	Project 2	Project 3	Project 4	Total
Covered payroll by project		$ 1,350,000	$ 3,750,000	$ 1,000,000	$ 900,000	$ 7,000,000
Total covered payroll		$ 7,000,000	$ 7,000,000	$ 7,000,000	$ 7,000,000	
Allocation %		19%	54%	14%	13%	100%
Ending net pension liability	$ 1,000,000	$ 192,857	$ 535,714	$ 142,857	$ 128,571	$ 1,000,000

The covered payroll for each project divided by total covered payroll produces the allocation percentage which then would be applied to the NPL as well as pension expense, deferred inflows, deferred outflows, etc.

Management must review the information available, and determine an appropriate allocation methodology when allocating amongst various funds. The two allocation methodologies above are only examples of potential methods for allocation, and there may be other reasonable methods determined by management for allocation. Management should document their selected allocation methodology, along with inputs and support for the allocation.

DEFINITIONS

Covered Payroll – Covered payroll represents the total compensation of employees that are provided with pensions through the pension plan.

Deferred Inflow of Resources – An acquisition of net position by an entity that is applicable to a future reporting period (similar to unearned revenue).

Deferred Outflow of Resources – A consumption of net position by an entity that is applicable to a future reporting period (similar to prepaid expenses).

Net Pension Asset – The amount by which the pension plan's net position exceeds the net pension liability.

Net Pension Liability - The amount by which the total pension liability exceeds the pension plan's net position.

Pensionable Payroll – Payroll, including all elements of compensation paid to active employees on which contributions to a pension plan are based.

OTHER POST-EMPLOYMENT BENEFITS ("OPEB")

The purpose of this section is to provide guidance on possible allocation methodologies and bases to use in allocating the other post-employment benefit obligation, and correlating deferred inflows/deferred outflows and expenses related to GASB 74 and GASB 75. This section is not to explain in detail how to account for or report the OPEB obligation and related deferred inflows, deferred outflows and expenses, but rather to provide some basic guidance at the entity level on how the OPEB obligation and related expenses should be allocated. For further guidance regarding GASB 74 and GASB 75, please see the actual GASB statements and Question and Answer documents related to the statements.

Similar to the new pension standards GASB 67 and GASB 68, the accounting and reporting for other post-employment benefits will be revised upon implementation of new GASB statements 74 and 75.

GASB Statement No. 74: Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans is effective for fiscal years beginning after June 15, 2016. The provisions in this statement require additional footnote disclosures and required supplementary information and schedules. GASB Statement No. 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions is effective for fiscal years beginning after June 15, 2017. This statement will require audits to record a prior period adjustment to the OPEB liability on their financial statements. This can be an extremely complex area in governmental accounting. There are distinct differences in the accounting and reporting for OPEB plans which hold their assets in a trust versus those that are not held in trust (also referred to as pay as you go). In addition, there are differences in the accounting and reporting for the different types of plans – defined benefit plans versus defined contribution plans, and single-employer plans versus agent multiple-employer plans versus cost-sharing multiple employer plans.

The net OPEB obligation is calculated as the total OPEB liability less the amount of the OPEB plan's fiduciary net position. An actuarial valuation of the total OPEB liability is required to be performed at least every two years.

Management must provide the actuary with accurate demographic data and other information as inputs into the valuation of the OPEB plan as well as the calculation of the net OPEB obligation. Management must take responsibility for the accuracy and completeness of the data provided. Management must also take responsibility for the assumptions the actuary is using in the valuation and calculation of the net OPEB obligation. These assumptions include, but are not limited to – discount rate, long-term assumed investment rate of return, healthcare inflation rate.

In an instance where the entity participates in a multi-employer or cost sharing plan, the entity should report its proportionate share of the OPEB plan information in their financial statements. This information would normally be obtained from a separately issued audit on the schedules of OPEB amounts by employer.

Allocation methodology

The net OPEB liability, OPEB expense and deferred inflows and outflows related to OPEB should be allocated across projects of an entity based on which projects contribute to the OPEB plan. For example, if there are a total of ten projects within a reporting entity, but only four of the projects contribute to the OPEB plan, then the liability, expenses, etc. of the plan should be allocated only to those four projects contributing to the plan. The allocation method among the projects should be reasonable and documented. Management may utilize any appropriate base to allocate the OPEB obligation and related expenses. A sample allocation methodology is provided below.

Proposed methodology – Allocation by number of employees in the healthcare plan

A proposed allocation methodology is to allocate based on the number of employees in the healthcare plan of the project over total number of employees in the healthcare plan.

Illustration – For example, an entity has four projects that contribute to the OPEB plan. The net OPEB obligation in total is $2,000,000. The total number of employees included in the healthcare plan of these four projects is 50 employees. See below for example of allocation based on these criteria.

Example - Allocation based on # of employees in the healthcare plan

		Project 1	Project 2	Project 3	Project 4	Total
# of employees by project in the plan		13	27	7	3	50
Total employees in the plan		50	50	50	50	
	Allocation %	26%	54%	14%	6%	100%
Ending net OPEB Obligation	$ 2,000,000	$ 520,000	$ 1,080,000	$ 280,000	$ 120,000	$2,000,000

The total number of employees for each project in the healthcare plan divided by total employees in the healthcare plan produces the allocation percentage which then would be applied to the net OPEB obligation as well as OPEB expense, deferred inflows, deferred outflows, etc.

Management must review the information available, and determine an appropriate allocation methodology and base when allocating amongst various projects. The allocation methodology above is only an example of a potential method for allocation, and there may be other appropriate bases determined by management for the allocation. Management should document their selected allocation methodology, along with inputs and support for the allocation.

DEFINITIONS

Deferred Inflow of Resources – an acquisition of net position by an entity that is applicable to a future reporting period. (Similar to unearned revenue)

Deferred Outflow of Resources – a consumption of net position by an entity that is applicable to a future reporting period. (Similar to prepaid expenses)

Net OPEB Obligation - the amount by which the total OPEB liability exceeds the OPEB plan's net position.

GENERAL STORES / INVENTORY

The purpose of this section is to provide guidance on the proper use of the general stores/inventory accounts, and the accounting for inventory in accordance with GAAP.

Inventory consists of goods or supplies held by an entity for future consumption or sale. The accounting for inventory under GAAP is the same for governmental entities, not-for-profit entities and for-profit entities. Inventory should be recorded on the balance sheet as a current asset and valued at cost in SHP account #1269 – "Inventory". For purposes of this manual, inventory should only be recorded if the entity has an existing inventory in which the goods or supplies are housed and awaiting future use. If the entity does not have a warehouse of goods, supplies and materials, then such costs should be recorded as expenses on the income statement.

For those entities that warehouse inventory, management should determine an appropriate materiality threshold to report inventory on the balance sheet versus expensing the cost at time of purchase. The recommendation provided is that the inventory threshold should match the capitalization policy threshold, and de minimus amounts be expensed. In addition, management should formally adopt an inventory policy and threshold, to be included within the purchasing or capitalization policy. (See Fixed Asset section for more information regarding capitalization policies and thresholds.)

Some items that may be included in inventory include stoves, refrigerators, appliances, other significant items stored for future use. Once inventory is placed in use, inventory would be expensed on the income statement. Below is an illustration of the inventory journal entries, both when initially purchased and when used.

Illustration – To record the purchase of new inventory with a cost of $4,000:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1269	1180	Inventory	$ 4,000	
1111	1120	Cash - Operations		$ 4,000
		To record purchase of new inventory		
4440	6541	Repairs Material	$ 4,000	
1269	1180	Inventory		$ 4,000
		To record the use of inventory		

If the value of inventory falls below cost due to damage, deterioration, or obsolescence, a loss on inventory should be recognized. The loss should be recognized in the allowance for obsolete inventory account. The illustration below shows the recording of a $1,000 allowance for obsolete inventory.

GAAP ACCOUNTING METHOD				
State Housing Program #	**State Reporting Group**	**Account Name**	**Debit**	**Credit**
4440	6541	Repairs Material	$ 1,000	
1269.1	1185	Allowance for Obsolete Inventory		$ 1,000
		To record an allowance on inventory		

Once management determines the cost of the inventory is not recoverable, and the inventory should be written off, the following entry should be recorded:

GAAP ACCOUNTING METHOD				
State Housing Program #	**State Reporting Group**	**Account Name**	**Debit**	**Credit**
1269.1	1185	Allowance for Obsolete Inventory	$ 1,000	
1269	1180	Inventory		$ 1,000
		To record the write off of obsolete inventory		

DEFINITIONS

Allowance for Obsolete Inventory - An estimate made by management of inventory that may be damaged, expired or otherwise unusable. The estimate should be reviewed on a regular (monthly) basis and adjusted through State Report Group #1185.

Inventory - Goods or supplies held by an entity for future consumption or sale.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The purpose of this section is to provide guidance on the proper recording of an allowance for doubtful accounts against accounts receivable in accordance with GAAP.

Accounts receivable are balances in which cash is due to an Owner/sponsor and has not been received. Tenant rent should be recorded when the rent becomes due (the 1st of the month). Therefore, any tenant rents that have been billed but not yet received will be recorded as a tenant accounts receivable as a current asset on the balance sheet. Any rental payments received in advance are deferred until earned and recorded as a current liability on the balance sheet.

Management is responsible for reviewing the outstanding rent and accounts receivable and determining whether the rents and receivables can be collected. An allowance for doubtful accounts is required for any rent or accounts receivables that are not considered collectable.

Management should adopt a formal policy outlining their method for calculating the allowance for doubtful accounts based on an aging report. This policy should be reviewed and updated based on changes in receivables as they arise. An example of the allowance calculation could be to calculate a 50% allowance on all balances greater than 60 days, and 75% allowance on all balances greater than 90 days.

Once a formal policy has been adopted, management should review and adjust the allowance for doubtful accounts as deemed appropriate by the Owner/sponsor (i.e.: monthly, quarterly). This is the measurement date. The recording of an allowance does not mean the receivable has been written off and collection efforts end. On the contrary, management should move forward with collection efforts. At the time management has determined it is probable that they will not collect on the receivable, (i.e.: the tenant has vacated the property), the receivable may be written off and the recorded allowance may be reversed.

Below is an illustration on how to record an allowance for doubtful accounts against tenant receivables that may be uncollectible.

Illustration – Management has reviewed the total tenant accounts receivable balance of $10,000 and has determined a $2,500 allowance for doubtful accounts should be recorded.

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
4820	6370	Bad Debt Expense	$ 2,500	
1123.1	1131	Allowance for Doubtful Accounts		$ 2,500
		To record an allowance for doubtful accounts		

If a tenant pays the rent on an account previously considered uncollectible, then the allowance for doubtful accounts would be adjusted. For example, management had previously determined a tenant receivable balance of $2,500 was uncollectible and recorded an allowance for that specific tenant. If the tenant paid the receivable balance, then management should reevaluate the allowance based on the new reduced delinquent balance at the next measurement date.

In another example, four tenants are evicted with a total receivable balances of $2,000. Management decides to write off these balances as of the end of the reporting period as not collectible, and collection efforts will cease. Below is the journal entry for this transaction:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1123.1	1131	Allowance for Doubtful Accounts	$ 2,000	
1123	1130	Tenant Accounts Receivable		$ 2,000
		To record an allowance on inventory		

GAAP requires the allowance method to write off accounts receivable. Generally, the direct write off method is not allowed under GAAP. Management should not simply credit the accounts receivable and debit bad debt expense in the same reporting period. The direct write off approach violates the matching principle. Instead, management should create an allowance for doubtful accounts for the receivable and debit bad debt expense as shown above. However, there is an exception that states the direct write off method is allowed only in instances where the results would not be materially different from that of the allowance method.

If a former tenant pays the receivable balance that was previously written off entirely, there would be recognition of income for the amount collected.

Illustration – A former tenant with a receivable balance pays in full $2,000, which was previously written off.

GAAP ACCOUNTING METHOD				
State Housing Program #	**State Reporting Group**	**Account Name**	**Debit**	**Credit**
1111	1120	Cash - Operations	$ 2,000	
3120	5190	Miscellaneous Rent Revenue		$ 2,000
		To record collection of the tenant receivable on former tenant balance previously written off		

DEFINITIONS

Allowance for Doubtful Accounts – An estimate made by management of accounts receivable that may be uncollectable. The estimate should be reviewed on a regular (monthly/quarterly) basis and adjusted.

Direct Write-off Method – The direct write off method is a direct charge of bad debts to expense in the period when the receivable and revenue have also been recorded.

VII. GLOSSERY

Accounts Payable – Operations - Accounts payable represents money owed by the project to a vendor/creditor. This represents goods or services ordered or contracted but not yet paid. Accounts payable generally consist of vendor payments related to office supplies, telephone/computer charges and repairs and maintenance for which an invoice has been received. Accounts payable generally appears as a current liability on the balance sheet.. However, certain payables may be due in more than twelve months. These long term payables are reported as a long term liability.

Accounts Payable – Construction/Development - Accounts payable represents money owed by the project to a contractor or other vendor related to the construction/rehabilitation of the project. This represents goods or services provided/contracted but not yet paid. Accounts payable appears as a current liability on the balance sheet.

Accrued Expenses - Accrued expenses are similar to accounts payable in that they represent goods or serviced provided/contracted but not yet paid. Generally, accrued expenses are those that have not yet been invoiced and processed and/or are incurred automatically with the passage of time. Rent, taxes, payroll, management fees and utilities are common examples. Accrued expenses appear as a current liability on the balance sheet.

Accounts Receivable Interest - Interest accrued on escrow and investment accounts.

Accounts and Notes Receivable – Operations – Any advances or loans made with project funds that have not been repaid.

Accumulated Depreciation – The total amount of depreciation recorded during the life of an asset.

Allowance for Doubtful Accounts – An estimate made by management of accounts receivables that may be uncollectable. The estimate should be reviewed on a regular (monthly) basis.

Allowance for Obsolete Inventory - An estimate made by management of inventory that may be damaged, expired or otherwise unusable. The estimate should be reviewed on a regular (monthly) basis.

Bank Overdraft – Operations – The amount by which the project has withdrawn more money from the operating account than is available. This balance is reflected as a current liability on the balance sheet.

Buildings – Permanent or temporary structures enclosed with exterior walls and a roof and is not intended to be transportable or moveable. A building is recorded as an asset on the balance sheet.. This generally includes the purchase price and cost of rehabilitation or total costs of construction.

Building Equipment (Portable) – Equipment in a building that may be moved.. This generally includes the cost of acquiring appliances.

Capital Improvement Loan Payable – Represents the outstanding balance of any loan or note (promise to pay) that was used to repair the building. Any amount due within twelve months is recorded as a current liability.. The remaining balance due is reported as a long term liability.

Cash – Operations – Operating cash represents all monies received from or expended for the management and operation of the project.. If a project has more than one bank account, each bank account shall be designated as a separate sub-account.

Cash Restricted for Long-term Investment – Funds set aside to pay for future projects or developments or to be otherwise invested in the project are recorded.

Conditional promise to give – A promise to give that depends on the occurrence of a specified future and uncertain event to bind the promisor.

Congregate Accounts Receivable – Congregate program funds due from the state.

Construction Cash Account - All cash received from or funded by state grants or loans for the construction or rehabilitation of a project should be maintained in a separate cash account.

Construction in Progress – Costs of construction or rehabilitation work related to a project that is not yet complete. These costs are generally capitalized during the construction phase.

Construction / Rehab Grants Receivable – Development or rehabilitation grant funds due from the state.

Covered Payroll – Covered payroll represents the total compensation of employees that are provided with pensions through the pension plan.

Deferred Inflow of Resources – An acquisition of net position by a government that is applicable to a future reporting period. (similar to unearned revenue).

Deferred Outflow of Resources – A consumption of net position by a government that is applicable to a future reporting period.(similar to prepaid expenses).

Deferred Revenue – Grant funds received for which costs have not yet been incurred.

Depreciation - Depreciation is the charging of the cost of an asset used in a company's operations to expense over the estimated useful life of the asset. Depreciation expense allocates the asset's cost, less salvage value, over the asset's estimated useful life using an acceptable depreciation method.

Estimated Useful Life - An asset's estimated useful life is the period over which it is expected to contribute directly or indirectly to future cash flows. It is an estimate of how long the fixed asset is expected to last.

Exchange Transaction - Reciprocal transfers in which each party receives and sacrifices approximately equal value. In an exchange transaction, the potential public benefits are secondary to the potential proprietary benefits to the resource provider.

Financial Income – All interest/dividends or other investment income earned on project funds.

Fixed Asset (Long-lived assets) – Fixed assets, also known as long-lived assets, include property and equipment and other assets held for investment or used in a company's operations that have an estimated useful life more than one year. Under generally accepted accounting principles, a fixed asset should be stated at cost, and include all costs necessary to bring the asset to its working condition. The cost of a fixed asset should include the asset's purchase price, sales tax, freight, installation costs, and direct and indirect costs (including interest), if applicable. It generally should not include routine repairs and maintenance costs.

For-Profit Entity – A business entity designed to provide goods or services at a profit with specific ownership interests that is required to follow accounting standards issued by the Financial Accounting Standards Board.

Furnishings – The cost of certain decorative items including window treatments, carpeting, etc.

Garage and Parking Spaces – Total rent billed for parking.

Government Entity – A housing authority, municipality or other unit of government which is required to follow accounting standards issued by the Government Accounting Standards Board ("GASB").

Grant Income – Capital Grant – Grant proceeds from the State to fund construction or rehabilitation activities.

Impairment - Sometimes changes in operating conditions raise doubts about a company's ability to fully recover the carrying value of a particular asset. When it is determined that the carrying value will not be fully recovered, the asset is considered impaired. Accounting for impaired assets differs depending on whether the company intends to continue to use the asset or dispose of it. (FASB ASC 360-10-45-9 and 45-10).

Intangible Assets – Any asset owned by the property that is not physical in nature and that has a useful life greater than one year.

Inventory - Goods or supplies held by an entity for future consumption or sale.

Investments – Operations - Project funds held in debt or equity securities.

Land – The value of the real estate excluding the building and equipment reported as an asset on the balance sheet.. This generally includes the purchase price of the land and any improvements made (i.e. parking, landscaping).

Maintenance Equipment – The cost of all equipment used to maintain the property including janitor's tools, lawnmowers, snow blowing equipment, etc.

Miscellaneous Current Assets – Any asset not specifically identified in another report group which is reasonably expected to be converted into cash within one year.

Miscellaneous Current Liabilities – Any liability not specifically identified in another report group which is required to be paid within one year.

Miscellaneous Fixed Assets - Any fixed asset not specifically identified in another report group.

Miscellaneous Long Term Liabilities – Any liability not specifically identified in another fixed asset report group which is not expected to be paid within one year.

Miscellaneous Other Assets - Any asset not specifically identified in another report group.

Miscellaneous Prepaid Expenses – Any expense that has been paid in advance. An expense must be recorded in the accounting period in which the goods were acquired or the services were performed. An expense paid prior to the receipt of goods or prior to the delivery of services is considered a prepaid expense. A prepaid expense should be deferred and recorded as an asset on the balance sheet.

Miscellaneous Rent Revenue – Total rent billed from any other source not included in another report group.

Mortgages Payable – Represents the outstanding balance of a loan (promise to pay) that is secured by a lien on the property (mortgage). Any amount due within twelve months is recorded as a current liability.. The remaining balance due is reported as a long term liability.

Motor Vehicles – The cost of all trucks and cars used by the property.

Net Investment in Capital Assets – An equity account that consists of that portion of a government's cumulative surpluses that have been used to purchase fixed assets.

Net Pension Asset – The amount by which the pension plan's net position exceeds the net pension liability..

Net Pension Liability - The amount by which the total pension liability exceeds the pension plan's net position.

Notes Payable – Represents the outstanding balance of a loan (promise to pay). Any amount due within twelve months is recorded as a current liability.. The remaining balance due is reported as a long term liability.

Not-for-Profit Entity - A entity that possesses certain characteristics that distinguish it from a business entity: a. receives contributions from others who do not expect goods or services returned in proportionate measure b. an operating purpose other than to provide goods or services at a profit; c. absence of ownership interests. A not-for-profit entity is required to follow accounting standards issued by the Financial Accounting Standards Board ("FASB").

Office Furniture and Equipment – The net cost of all equipment and furniture for use in the project office and common space.

Other Loans and Notes Payable – Represents the outstanding balance of any loan or note (promise to pay) not specifically identified in another report group. Any amount due within twelve months is recorded as a current liability.. The remaining balance due is reported as a long term liability..

Other Reserves – Any funds set aside for a specific purpose.

Partner's Capital (General/Limited) – An equity account that consists of contributions made by or distributions made to a partner and any cumulative net income or loss from the partnership.

Pensionable Payroll – Payroll, including all elements of compensation paid to active employees on which contributions to a pension plan are based.

Permanently Restricted Net Assets – An equity account that consists of assets/gifts with donor-imposed restrictions that do not expire.

Prepaid Revenue – Tenant rents received prior to the date they are due.

Promise to Give – A promise to give is a written or oral agreement to contribute cash or other assets to another entity.

Rent Revenue – Base, net of Tenant Assistance Payments – Total rent billed that includes all units (includes vacant units) at their base (or contract) rents, net of tenant assistance payments.

Rent Revenue – Excess of Base – Total rent billed that exceeds the base (or contract) rent is recorded.

Rent Revenue – Stores and Commercial – Total rent billed to a non-residential commercial tenant including vacant units.

Rental Assistance Accounts Receivable - Rent subsidy due from the State.

Rental Concessions – Reductions in total rent due to an agreement with a tenant to persuade the tenant to sign a lease..

Replacement Reserve – Funds set aside to fund future repairs to the building.

Retained Earnings – An equity account that consists of cumulative net earnings not distributed to shareholders in a corporation..

Salvage Value - Salvage value is the remaining asset value at the end of an asset's useful life. Some assets have value at the end of their useful life that can be realized through sale or trade-in. Therefore, the asset value that is depreciated is the acquisition cost less the salvage value of the asset.

Short Term Investments – Operations – Project funds held in highly liquid investments with a maturity of three months or less.

Special Claims Revenue – Rent received for a special claim including vacancies during rent up.

Tenant Assistance Payments – Total rent billed to the State for all existing residents and vacant units.

Temporarily Restricted Net Assets – An equity account that consists of assets/gifts with a donor-imposed restriction that can be fulfilled by the passage of time or the actions of the not-for-profit entity.

Tenant Accounts Receivable – Tenant rents billed but not yet received from current tenants that are deemed collectible.

Tenant Deposits Held In Trust – A sum of money (security deposit) paid by the tenant and held in trust by the Owner/sponsor to ensure that rent will be paid and the tenant unit is properly maintained. The security deposits must be held in a bank account separate from project operating funds and can only be used to fund unpaid rents or damages beyond normal wear and tear. Interest on the security deposit is paid to the tenant annually and the unused security deposit is required to be returned to the tenant upon move out. In accordance with Connecticut General Statutes Section 47-21a, all security deposits held shall, at all times, equal or exceed the total amount of security deposits due to tenants as aggregated in the contra liability account of all its outstanding obligations.

Unconditional Promise to Give – A promise to give that depends only on passage of time or demand by the promise for performance.

Unrestricted Net Assets – An equity account that consists of cumulative net earnings of a not-for-profit Owner/sponsor that does not have any external restrictions from a donor regarding their use or function.

Vacancy – Apartments – The amount of rental income not collected for an unoccupied unit.

Vacancy - Garage and Parking – The amount of rental income not collected for an unoccupied parking space.

Vacancy - Miscellaneous – Any vacancies from another source not included in another report group.

Vacancy - Stores and Commercial – The amount of rental income not collected for an unoccupied non-residential commercial unit.

Vacated Tenants Accounts Receivable – The amount of accounts receivable from vacated tenants.

GAAP

CONVERSION

GUIDANCE

EXHIBIT A – CONVERSION - CONSTRUCTION/REHABILITATION

Completed Projects

For entities that have completed construction/rehabilitation in prior years:

The equity balance in former account #2820 “Rehabilitation Funds Authorized” should be reclassified to report groupings #3131/3132 (“Partner’s Capital”), #3163 (“Retained Earnings”), #3200 (“Unrestricted Net Assets/Without Donor Restrictions”).

In Progress Projects

For entities that have been engaged in construction/rehabilitation activities during the prior year and/or the current year:

See illustration on next page.

LOAN FUNDS*:*

Management must review the balance held in SHP account #1126 “Rehabilitation Funds Receivable” as of the end of the prior year. Any outstanding receivable related to loan proceeds needs to be reversed against former account #2820 “Rehabilitation Funds Authorized” in the current year. Any loan proceeds received as of the end of the prior year needs to be reclassified from former account #2820 “Rehabilitation Funds Authorized” to report grouping #2320 “Mortgage Payable – First Mortgage”.

Former account #1126 “Rehabilitation Funds Receivable” and #2820 “Rehabilitation Funds Authorized” should be zero as these accounts no longer exist.

Illustration – A loan for $250,000 was authorized by the State in the prior year. As of the end of the prior year, $100,000 had been received.

GAAP ACCOUNTING METHOD				
State Housing Program #	**State Reporting Group**	**Account Name**	**Debit**	**Credit**
2820	n/a	Rehabilitation Funds Authorized	$ 150,000	
1126	1137	Rehabilitation Funds Receivable		$ 150,000
		Prior Period Adjustment - to reverse loan funds authorized but not yet received		
2820	n/a	Rehabilitation Funds Authorized	$ 100,000	
2313	2320	Mortgage Payable - First Mortgage		$ 100,000
		To record costs funded with loan proceeds		

<u>GRANT FUNDS:</u>

Government Entity

Management must review any outstanding receivable related to grant proceeds for grant funds authorized but not yet earned (related costs not yet incurred). This balance should be reversed against equity in the current year. In addition, any grant funds received in excess of costs incurred needs to be reclassified as deferred revenue. The remaining balance should be reclassified to report grouping #1137 "Construction/Rehab Grants Receivable". Former account #1126 "Rehabilitation Funds Receivable" should be zero as this account no longer exists. The remaining balance in report grouping #1137 "Construction/Rehab Grants Receivable" should only consist of grant funds requisitioned but not yet received for costs incurred. The remaining equity balance which should total the amount of costs incurred should be reclassified (or mapped) from former account #2820 "Rehabilitation Funds Authorized" to report grouping #3300 "Net Investment in Capital Assets". The entry to equity will be considered a prior period adjustment as a result of a change in accounting method.

Construction/rehab costs that have been incurred should be reflected in report grouping #1405 "Construction in Progress". Former account #1505 "Incompleted Contracts" and #1503 "Rehabilitation Program Expenditures" should be zero as these accounts no longer exist. Account group #2112 "Accounts Payable – Construction / Development" should reflect total costs incurred and invoiced by the contractor.

Illustration – A grant for $1,000,000 was authorized by the State in the prior year. The project entered into a construction contract for $1,000,000. As of the end of the prior year $650,000 in costs had been incurred and requisitioned of which $300,000 had been received from the State. The following is an illustration of this journal entry:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
2820	3300	Rehabilitation Funds Authorized / Net Investment in Capital Assets	$ 350,000	
1126	1137	Rehabilitation Funds Receivable		$ 350,000
		Prior Period Adjustment - to adjust receivable balance and equity for costs not yet incurred		
1126	1137	Construction/Rehab Grants Receivable	$ 350,000	
1126	1137	Rehabilitation Funds Receivable		$ 350,000
		To reclassify (or map) costs incurred and requisitioned from the State but not yet received from account #1126 (which no longer exists) to report group #1137.		
1405	1405	Construction in Progress	$ 650,000	
1503	1405	Rehabilitation Program Expenditures		$ 650,000
		To reclassify (or map) costs incurred as account #1503 no longer exists		
2820	3300	Rehabilitation Funds Authorized	$ 650,000	
3300	3300	Net Investment in Capital Assets		$ 650,000
		to properly record grant income that should have been recognized in the prior year		

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
2111	2111	Contract Awards	$ 350,000	
1505	n/a	Incompleted Contracts		$ 350,000
		To reverse amount of "incompleted contracts" for costs not yet incurred		

***Not-For-Profit Entity*:**

Management must review the amount in former account #2820 "Rehabilitation Funds Authorized" and identify that portion that is unrestricted and that portion which is temporarily restricted. The entry to equity will be considered a prior period adjustment as a result of a change in accounting method.

Construction/rehab costs that have been incurred should be reflected in report grouping #1405 "Construction in Progress". Former account #1505 "Incompleted Contracts" and #1503 "Rehabilitation Program Expenditures" should be zero as these accounts no longer exist. Account group #2112 "Accounts Payable – Construction / Development" should reflect total costs incurred and invoiced by the contractor.

Illustration – A grant for $1,000,000 was authorized by the State in the prior year. The project entered into a construction contract for $1,000,000. As of the end of the prior year $650,000 in costs had been incurred and requisitioned of which $300,000 had been received from the State. The following is an illustration of this journal entry:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
2820	3300	Rehabilitation Funds Authorized	$ 1,000,000	
2910	3200	Unrestricted Net Assets / Without Donor Restrictions		$ 650,000
2920	3210	Temporarily Restricted Net Assets / With Donor Restrictions		$ 350,000
		To reclassify equity		

The $1,000,000 was temporarily restricted. However costs totaling $650,000 have been incurred thereby releasing the restriction. Therefore, $650,000 should be reflected as unrestricted net assets in account #3200 and $350,000 should be reflected as temporarily restricted net assets in account #3210.

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1405	1405	Construction in Progress	$ 650,000	
1503	1405	Rehabilitation Program Expenditures		$ 650,000
		To reclassify (or map) costs incurred as account #1503 no longer exists		
2111	2111	Contract Awards	$ 350,000	
1505	n/a	Incompleted Contracts		$ 350,000
		To reverse amount of "incompleted contracts" for costs not yet incurred		

Disclosure requirements:

Temporarily restricted net assets - Disclosure about the nature and amounts of the restriction must be provided either in the notes or on the face of the statement of financial position.

If the Owner/sponsor chooses to show restricted contributions whose restrictions are met in the same reporting period as unrestricted contributions, the policy must be consistently followed for all contributions and the policy must be disclosed in the notes.

For Profit Entity:

Management must review any outstanding receivable related to grant proceeds for grant funds authorized but not yet earned (related costs not yet incurred). This balance should be reversed against equity in the current year. In addition, any grant funds received in excess of costs incurred needs to be reclassified as deferred revenue. The remaining balance should be reclassified to report grouping #1137 "Construction/Rehab Grant Receivable". Former account #1126 "Rehabilitation Funds Receivable" should be zero as this account no longer exists. The remaining balance in report grouping #1137 "Construction/Rehab Grants Receivable" should only consist of grant funds requisitioned but not yet received for costs incurred. The remaining equity balance which should total the amount of costs incurred should be reclassified (or mapped) from former account #2820 "Rehabilitation Funds Authorized" to report grouping #3163 "Retained Earnings".

Construction/rehab costs that have been incurred should be reflected in report grouping #1405 "Construction in Progress". Former account #1505 "Incomplete contracts" and #1503 "Rehabilitation Program Expenditures" should be zero as these accounts no longer exist. Report grouping #2112 Accounts Payable – Construction/ Development" should reflect total costs incurred and invoiced by the contractor. The entry to equity will be considered a prior period adjustment as a result of a change in accounting method.

Illustration – A grant for $1,000,000 was authorized by the State in the prior year. The project entered into a construction contract for $1,000,000. At of the end of the prior year $650,000 in costs had been incurred and requisitioned of which $300,000 had been received from the State. The following is an illustration of this journal entry:

GAAP ACCOUNTING METHOD				
State Housing Program #	**State Reporting Group**	**Account Name**	**Debit**	**Credit**
2820	n/a	Rehabilitation Funds Authorized	$ 350,000	
1126	1137	Rehabilitation Funds Receivable		$ 350,000
		Prior Period Adjustment - to adjust receivable balance and equity for costs not yet incurred		
1126	1137	Construction/Rehab Grants Receivable	$ 350,000	
1126	1137	Rehabilitation Funds Receivable		$ 350,000
		To reclassify (or map) costs incurred and requisitioned from the State but not yet received from account #1126 (which no longer exists) to report group #1137.		
1405	1405	Construction in Progress	$ 650,000	
1503	1405	Rehabilitation Program Expenditures		$ 650,000
		To reclassify (or map) costs incurred as account #1503 no longer exists		

GAAP ACCOUNTING METHOD				
State Housing Program #	**State Reporting Group**	**Account Name**	**Debit**	**Credit**
2820	n/a	Rehabilitation Funds Authorized	$ 650,000	
2863	3163	Retained Earnings		$ 650,000
		To properly record grant income that should have been recognized in the prior year		
2111	2111	Contract Awards	$ 350,000	
1505	n/a	Incompleted Contracts		$ 350,000
		To reverse amount of "incompleted contracts" for costs not yet incurred		

Illustration – Below is an illustration of the journal entries as they would be recorded under the DECD accounting manual guidance compared to how they should be recorded under GAAP.

Contract No : XXXXXX	
State Loan	500,000
State Grant	1,000,000
Owner/sponsor funds	750,000
	2,250,000

$1 million in grant funds has been requisitioned of which development costs of $300,000 have been incurred and invoiced.

CURRENT DECD ACCOUNTING METHOD				GAAP ACCOUNTING METHOD				
	Account Name	**Debit**	**Credit**			**Account Name**	**Debit**	**Credit**
						NOT FOR PROFIT:		
1126	Rehabilitation Funds Receivable	1,500,000		1126	1137	Construction/Rehab Grants Receivable	1,000,000	
2820	Rehabilitation Funs Authorized		1,500,000	5981	5281	Grant income - Capital Grant - Temporarily Restricted		1,000,000
	To record rehabilitation funds authorized and due from					*To record unconditional promse to give.*		
						FOR PROFIT AND GOVERNMENTAL:		
1505	Incompeted Contracts	2,250,000				No Entry		
2111	Contract Awards		2,250,000					
	To record construction contract							

CURRENT DECD ACCOUNTING METHOD						GAAP ACCOUNTING METHOD		
	Account Name	Debit	Credit			Account Name	Debit	Credit
						FOR PROFIT AND GOVERNMENTAL:		
	No entry			1126	1137	Construction/Rehab Grant Receivable	1,000,000	
				2220	2220	Deferred revenue (unexpended portion)		700,000
				5980	5280	Grant income - Capital Grant - Unrestricted		300,000
						To record grant requisition		
						NOT FOR PROFIT:		
						No Entry		
						ALL:		
1111	Cash - Checking	1,500,000		1112	1121	Construction Cash Account	1,000,000	
1126	Rehabilitation Funds Receivable		1,500,000	1126	1137	Construction/Rehab Grant Receivable		1,000,000
	To record Rehabilitation funds advanced from the State					*To record receipt of grant funds*		
						ALL:		
				1112	1121	Construction Cash Account	500,000	
				2313	2320	Mortgage payable - First Mortgage		500,000
						To record receipt of loan funds		
1121	Construction Cash Account	750,000		1112	1121	Construction Cash Account	750,000	
2830.4	R/E Appropriated for RM&R		750,000	2900	3300	Net Investment in Capital Assets		750,000
	To record Owner/Sponsor funds					*To record Owner/Sponsor funds*		
						ALL:		
1503	Rehabilitation Program Expenditure	2,250,000		1405	1405	Construction in Progress	2,250,000	
1111	Cash - checking		2,250,000	2112	2111	Accounts Payable - Construction/ Development		2,250,000
	To record Rehabilitation Fund expenditures paid with State and Owner/sponor funds					*To record invoices received*		
2111	Contract Awards	2,250,000		2112	2111	Accounts Payable - Construction/ Development	2,250,000	
1505	Incompleted Contracts		2,250,000	1112	1121	Construction Cash Account		2,250,000
	To record completion of construction contract					*To record payment of invoices*		
						NOT FOR PROFIT:		
				2920	3210	Temporarily restricted net assets	1,000,000	
				2910	3200	Unrestricted net assets		1,000,000
						To release net assets from restriction for grant funds expended		
						FOR PROFIT AND GOVERNMENTAL:		
				2220	2220	Deferred Revenue	700,000	
				5980	5280	Grant income - Capital Grant - Unrestricted		700,000
						To recognize revenue received as costs are incurred		

CURRENT DECD ACCOUNTING METHOD						GAAP ACCOUNTING METHOD		
	Account Name	Debit	Credit			Account Name	Debit	Credit
2820	Rehabilitation Funds Authorized	1,500,000		1410	1410	Land	-	
2830.4	R/E Appropriated for RM&R	500,000		1440	1420	Buildings	2,000,000	
1503	Rehabilitation program expenditures		2,000,000	1405	1405	Construction in progress		2,000,000
	To closeout accounts related to the Rehabilitation Fund expenditures based on the closeout of the State Rehabilitation Project. In this example, the Owner/sponsor was required to use $750,000 of their Reserve funds toward this project. (Note: If there were any funds due to or from the State ased on the closeout, a Sundry Accounts Receivable or Payable amount would be recorded in this closeout entry.					*To close out construction and place the building in service*		
1440	Capital Improvements - State Rehab. Grants/Loans	1,500,000						
2314	Indebtedness to the St. of Ct. - rehab		500,000					
2821	Capital grant by the State of Connecticut - rehabilitation		1,000,000					
	To capitalize the State funded cost of the State Rehabilitation Grant Program.							

EXHIBIT B – CONVERSION - FIXED ASSETS

Management must compile a list of all fixed assets currently owned by the entity/project using the best available information. An example of a fixed asset detailed listing (subsidiary ledger) is provided on page 30.

Management must review each asset individually to determine the original cost of each asset. In addition, management must assign each asset a useful life utilizing the guidance on page 31.

Then management must calculate accumulated depreciation from original placed in service date through conversion date.

Management must also determine whether any assets are impaired. Each asset will be recorded in the general ledger at net book value less salvage value and impairment write down, if any.

Conversion for land costs:

In the initial conversion year, land should be recorded at historical cost. Obtaining historical cost information may be difficult as the land may have been donated or conveyed to the entity, and the original agreements may not be available. Management should first determine all parcels of land they have and search for the initial purchase agreements, if available. If these documents are not available, the entity may utilize the town records of the assessed value to determine if it is reasonable in relation to the initial occupancy date of the land. Some records do have historical land assessments. Management should work with their fee accountants and auditors to determine if their methodology for recording land is appropriate. The initial recording of land in the conversion year would be a prior period adjustment which is an adjustment to retained earnings. See below:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1410	1410	Land	$ 100,000	
2900	3300	Net Investment in Capital Assets		$ 100,000
		To record land in conversion year		

Conversion when net book value of an asset is zero:

Any assets that are currently in use, but are determined to be fully depreciated, should be recorded in the general ledger as an asset and accumulated depreciation, and maintained on the fixed asset listing.

Illustration – A building in use by an entity, built in 1970, is over 40 years old with a cost of $11,000,000. The useful lives of buildings are typically estimated at 40 years. Therefore, as of the date of the conversion, the building would be fully depreciated and should be recorded in the general ledger as follows:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1440	1420	Buildings	$ 11,000,000	
1495	1495	Accumulated Depreciation		$ 11,000,000
		To record the building as a fixed asset		

Conversion when asset has not been fully depreciated as of conversion date:

For those assets that are determined to not be fully depreciated as of the date of the conversion, the difference between the cost and accumulated depreciation will be an entry to retained earnings. This entry to retained earnings will be considered a prior period adjustment as a result of a change in accounting method. The following is an illustration of this journal entry:

Illustration – Management has determined the following fixed assets should be recorded in the general ledger as follows:

1. Land of $100,000 – no depreciation necessary
2. Building of $11,000,000
3. Accumulated depreciation on the building of $300,000
4. Net invested in capital assets $10,800,000 (retained earnings account)

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1410	1410	Land	$ 100,000	
1440	1420	Buildings	$ 11,000,000	
1495	1495	Accumulated Depreciation		$ 300,000
2900	3300	Net Investment in Capital Assets		$ 10,800,000
		To record fixed assets at net book value for the first year of recording in general ledger		

Conversion for completed state funded rehabilitation projects or grant funded projects:

For costs that were initially funded by state grant monies for rehabilitation of properties and completed projects which utilized small cities grant funding to fund projects, the conversion steps would be as follows:

1. Determine the total amount of the project costs. This may require locating prior funding reports and documents.
2. Determine the placed in service date of the rehabbed property
3. Assign an estimated useful life to the completed project – follow the guidelines for building improvements for those applicable costs.
4. Follow the guidance for recording the asset as either a) one with a net book value of zero (if asset is older) or b) an asset that has not been fully depreciated as of the conversion date.

Note that these steps are for a fixed asset that was not recorded as a fixed asset originally in the general ledger.

Conversion for furniture/equipment/other assets not fully depreciated:

Furniture, equipment, vehicles and all other assets currently in use by the entity as of the conversion date must be reviewed and recorded as fixed assets. As with buildings and improvements, management must assign estimated useful lives to all assets. See example of conversion entry for these assets when not fully depreciated

Illustration – Management has determined the following fixed assets should be recorded in the general ledger and fixed asset detail listing as follows:

1. Office equipment of $25,000
2. Accumulated depreciation on the office equipment of $10,000
3. Net invested in capital assets $15,000 (retained earnings account)

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1430	1465	Office Furniture and Equipment	$ 25,000	
1495	1495	Accumulated Depreciation		$ 10,000
2900	3300	Net Investment in Capital Assets		$ 15,000
		To record fixed assets at net book value for the first year of recording in general ledger		

Conversion for costs that were previously included in development costs:

Costs that were previously included on the balance sheet within the development cost account should be reviewed in the conversion year to determine the classification of fixed assets. The development cost line should be segregated between land, building, and furniture and fixtures, if any. Then management must assign estimated useful lives to each of the assets and calculated accumulated depreciation as of the conversion date. As the asset cost has already been recorded on the balance sheet, only the adjustment to beginning accumulated depreciation would be considered a prior period adjustment. Management should ensure these fixed assets are captured in the fixed asset detailed listing.

Illustration – The total amount in the development cost account on the balance sheet is $11,103,500. Management has determined the split as follows: Building - $11,000,000; Land - $100,000; Furniture and Equipment - $3,500. Management has calculated accumulated depreciation as of the conversion date to equal $275,700. In the conversion year only, the journal entry is as follows:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1410	1410	Land	$ 100,000	
1440	1420	Buildings	$ 11,000,000	
1430	1465	Office Furniture and Equipment	$ 3,500	
1405	1405	Construction in Progress		$ 11,103,500
		To reclass development costs to fixed assets		
2900	3300	Net Investment in Capital Assets	$ 275,700	
1495	1495	Accumulated Depreciation		$ 275,700
		To record beginning accumulated depreciation as a prior period adjustment as of the date of conversion		

Conversion when asset has impairment consideration:

Management must review each asset for impairment as of the date of conversion. If it is determined that an asset's fair value is less than the net book value, then the impairment write down of the asset should be recorded in the conversion year. The asset would be recorded at net book value less impaired value, with the offset to net invested in capital assets in the conversion year only. The impairment loss would not be recognized in the income statement in the conversion year. See below for illustration:

Illustration – Management has determined the fair value of a building is $100,000 as of the conversion date. The building cost is $700,000 and accumulated depreciation is $300,000, therefore net book value is $400,000. As the net book value ($400,000) is greater than the fair value ($100,000), the asset should be written down by $300,000, leaving a net book value on the general ledger of $100,000. In the conversion year only, the journal entry is as follows:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
1440	1420	Buildings	$ 400,000	
1495	1495	Accumulated Depreciation		$ 300,000
2900	3300	Net Investment in Capital Assets		$ 100,000
		To record the disposal of an asset		

Conversion entries to retained earnings accounts:

In addition to recording fixed assets at net book value on the general ledger, there are several journal entries to be made, as part of the conversion, to adjust the retained earnings accounts that have been utilized in the past. SHP account #2830.4 "Retained Earnings Appropriated for Repairs, Maintenance and Replacements" and SHP account #2813 "Valuation of Fixed Assets" are accounts that are no longer included in the CHFA/SSHP chart of accounts as they are not in accordance with GAAP. These accounts were classifications of retained earnings accounts and therefore reclassifications must be made in the year of conversion if these accounts were utilized.

Illustration – The total amount in the SHP account #2830.4 "Retained Earnings Appropriated for Repairs, Maintenance and Replacements" is $100,000 and SHP account #2813 "Valuation of Fixed Assets" is $300,000. In the conversion year only, the journal entry is as follows:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
2813	n/a	Valuation of Fixed Assets	$ 300,000	
2830.4	n/a	Retained Earnings Appropriated for Repairs, Maintenance and Replacements	$ 100,000	
2900	3300	Net Investment in Capital Assets		$ 400,000
		To reclass retained earnings accounts in year of conversion for appropriations previously recorded		

Illustration – Below is an illustration of the journal entries as they would be recorded under the DECD accounting manual guidance compared to how they should be recorded under GAAP. The example includes the following facts:

1. New asset of $3,500
2. Transfer of construction in progress to building of $11,000,000
3. Current depreciation expense of $275,700

	CURRENT DECD ACCOUNTING METHOD						GAAP ACCOUNTING METHOD		
	Account	**Debit**	**Credit**				**Account**	**Debit**	**Credit**
2830.4	Retained Earnings Appropriated for Repairs, Maintenance and Replacements	3,500					No Entry		
1111	Cash – Checking		3,500						
	To record the purchase of a new asset								
1430	Furniture and Equipment	3,500			1430	1465	Office Furniture and Equipment	3,500	
2813	Valuation of Fixed Assets		3,500		1111	1120	Cash		3,500
	To record purchase of new asset						*This would apply to building or any other fixed asset purchase.*		
1440	Capital Improvements - State Rehabilitation Grants/Loans	11,000,000					No Entry		
2821	Capital Grant by the State of CT-Rehabilitation		11,000,000						
	To capitalize the State Grant costs								
1405	Development Costs	11,000,000			1440	1420	Buildings	11,000,000	
1505	Incompleted Contracts		11,000,000		1405	1405	Construction in Progress		11,000,000
	To record development costs at close out of grant						*To record building costs or to capitalize construction in progress that is placed in service*		
	No Entry				6600	6600	Depreciation Expense	275,700	
					1495	1495	Accumulated depreciation		275,700
	To record depreciation expense						*To record depreciation expense*		

EXHIBIT C - CONVERSION - LONG TERM DEBT

The one major difference in the accounting for long-term debt under the DECD reporting model versus GAAP is in how debt principal payments are recorded. Under the DECD reporting model, the principal payments were recorded on the income statement as an expense. In addition, another journal entry was made to debit Account #2313.1 "Debt Retirement – Mortgage Loan" account and a credit to separate equity account, Account #2825 "Mortgage Loan Liquidation". To convert the accounting for long-term debt from the current DECD accounting methodology to GAAP, there is a first year conversion entry to eliminate the charges to the liability and equity accounts for those principal payments previously recorded as expense. Account #2825 "Mortgage Loan Liquidation" has been eliminated as part of the conversion along with account #2313.1 "Debt Retirement – Mortgage Loan". Both accounts should be zero after the conversion entries are made. The adjustment to the equity account is not a prior period adjustment, but rather a reclassification entry. Both the liability and the equity accounts require reclassification journal entries.

Illustration – The mortgage has a total payable balance of $10,000,000, and $4,000,000 was paid through the date of conversion and previously written off to expense.

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
2313	2320	Mortgage Payable - First Mortgage	$ 4,000,000	
2313.1	n/a	Debt Retirement - Mortgage Loan		$ 4,000,000
		To record initial conversion entry to reclass debt retirement account to the mortgage payable account		
2825	n/a	Mortgage Loan Liquidation	$ 4,000,000	
2900	3300	Net Investment in Capital Assets		$ 4,000,000
		To record initial conversion entry to relcas the equity accounts related to debt		

The same concept above applies to the conversion of debt payments on rehabilitation loans. Both account #2826 "Rehabilitation Loan Liquidation" and account #2314.1 "Debt Retirement – Rehabilitation Loan" have been eliminated and balances should be zero after conversion entries are made.

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
2826	n/a	Rehabilitation Loan Liquidation	$ 4,000,000	
2900	3300	Net Investment in Capital Assets		$ 4,000,000
		To reclassify the current portion of the mortgage balance		
2314	2326	Capital Improvement Loan	$ 4,000,000	
2314.1	n/a	Debt Retirement - Rehabilitation Loan		$ 4,000,000
		to record initial conversion entry to reclass debt retirement account to the capital improvement loan account		

Principal payment on long-term debt of $3,000 and interest payment of $2,000. Total mortgage = $10,000,000. To illustrate:

Total mortgage balance	10,000,000
Total balance paid to date	(4,000,000)
Remaining debt balance	6,000,000
Principal payment on long-term debt	3,000
Interest payment on long-term debt	2,000
	5,000

CURRENT DECD ACCOUNTING METHOD				GAAP ACCOUNTING METHOD				
	Account	**Debit**	**Credit**			**Account**	**Debit**	**Credit**
1111	Cash	10,000,000		1111	1120	Cash - Operations	10,000,000	
2313	Indebtedness to the State of Connecticut - Mortgage		10,000,000	2313	2320	Mortgage Payable - First Mortgage		10,000,000
	To record reciept of initlal mortgage					*To record reciept of initlal mortgage*		
4717	Interest Expense	2,000		4717	6820	Interest on Mortgage Payable	2,000	
4910	Principal Payment - Mortgage Loan	3,000		2131	2131	Accrued Interest Payable - First Mortgage		2,000
2131	Accrued Interest and Principal – Mortgage		5,000					
	To record accrued principal and interest due.					*To record accrued interest.*		
2131	Accrued Interest and Principal – Mortgage	5,000		2313	2320	Mortgage Payable - First Mortgage	3,000	
1111	Cash		5,000	2131	2131	Accrued Interest Payable - First Mortgage	2,000	
				1111	1120	Cash - Operations		5,000
	To record debt service payment					*To record debt service payment*		
2313.1	Debt Retirement - Mortgage Loan	3,000				No Entry		
2825	Mortgage Loan Liquidation		3,000					
	To record principal amounts paid on Mortgage loan.							

EXHIBIT D – CONVERSION - CONGREGATE PROGRAMS

The primary difference between the DECD accounting method for congregate programs and GAAP is the recognition of revenue. Under GAAP, revenue is recognized as costs are incurred, whereas under the DECD accounting method the State Subsidy was recognized as a component of equity when authorized, adjusted at the close of the grant to the actual grant amount earned but never reflected as a component of revenue.

Conversion from the DECD accounting method to GAAP will require a restatement of the opening balances if there are any programs at the beginning of the year that have not been closed. The conversion will affect the following accounts:

• 1124 Unissued State Subsidy – Congregate	Asset
• 1124 Congregate Subsidy Receivable (re-named account)	Asset
• 1504 Net Program Cost – Congregate	Asset
• 1509 RAP Congregage Cost – Congregate	Asset
• 2119 Sundry Accounts Payable	Liability
• 2220 Deferred Revenue	Liability
• 2811 State Subsidy Authorized – Congregate	Equity

The conversion to GAAP is evaluated as of the beginning of the year. If you have balances in account #1504 "Net Program Cost" and/or #2811 "State Subsidy Authorized – Congregate" as of the beginning of the year, you will need to calculate your grant revenue earned under each open contract year as of the beginning of your current fiscal year end.

Illustration – Congregate Service Assistance Agreement for July 1, 2016 – June 30, 2017 provides for $130,000 of assistance. At December 31, 2016 $55,000 was reflected in #1504 "Net Program Cost – Congregate" and $7,000 was reflected in #1509 "DECD Rental Subsidy (RAP for Congregate Program)". The Owner/Sponsor has a December 31, 2017 year end and will need to convert the opening balances as of December 31, 2016. For an entity that requisitioned 100% of the grant and received 50% of the grant prior to December 31, 2016, the balance sheet would reflect the following:

o 1124 Unissued State Subsidy – Congregate	$ 65,000
o 1504 Net Program Cost – Congregate	$ 55,000
o 1509 RAP for Congregate Program	$ 7,000
o 2811 State Subsidy Authorized – Congregate	$(130,000)

To restate the opening balances the Owner/sponsor would need to calculate the revenue earned for the first six months of the contract and recognize that income in the opening equity balance along with either deferred revenue (to the extent that cash received under the grant exceeded expenditures) or a receivable (to the extent grant expenditures exceeded receipts). The entry in this example would recognize deferred revenue as follows:

Cash received under the Assistance Agreement	$ 65,000
Congregate expenditures for the first six months	
($55,000 + $7,000)	62,000
Deferred revenue (cash in excess of expenditures)	$ 3,000

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
2811	2811	State Subsidy Authorized - Congregate	$ 130,000	
1124	1124	Unissued State Subsidy - Congregate		$ 65,000
1504	1504	Net Program Cost - Congregate		$ 55,000
1509	1509	RAP for Congregate Program		$ 7,000
2220	2220	Deferred Revenue		$ 3,000
		To close out authorization of subsidy included in equity as of the beginning of the year.		

Reporting Congregate Services in the new State Workbook for entities with year ends other than June 30th.

For Owner/sponsors with a fiscal year other than June 30th, the detail reporting for congregate services will be completed for each Assistance Agreement that had expenditures during the year. In the example above, the December 31st year end reporting entity would reflect revenue and expenditures from 1/1/2017 – 6/30/2017 separately from expenditures for the period 7/1/2017 – 12/31/2017 to facilitate recognition of income for each period. The Administration fund operating statement for congregate services remains substantially the same. The one significant addition is the inclusion of the State Subsidy revenue accounts for Core, Expanded Core and ALSA. Additionally, the statement of operations requires the total revenue and total expenses per the congregate operating statement to be input as totals in accounts #5300 “Elderly & Congregate Services Income” and #6900 “Elderly & Congregate Services Expense”.

The Owner/sponsor should evaluate the operating deficit. To the extent revenues exceed expenditures at any point of measurement, this is an indication that revenue has not been properly recognized based on costs incurred and again should be further reviewed.

Illustration – Below is an illustration of the journal entries as they would be recorded under the DECD accounting manual guidance compared to how they should be recorded under GAAP. The example includes the facts illustrated in our previous example:

CURRENT DECD ACCOUNTING METHOD						GAAP ACCOUNTING METHOD		
	Account	Debit	Credit			Account	Debit	Credit
1124	Unissued State Subsidy - Congregate	246,000						
2811	State Subsidy Authorized - Congregate		246,000			No Entry		
	To record Congregate Subsidy Program No. 2017-000-003-033-000-1A authorized for fiscal year ended June 30, 2017, which includes the Core Service, Expanded Core Services and Assisted Living Services from the Congregate Services Management Plan and the Rental Subsidy from the Operations Management Plan.							
				1124	1136	Congregate Subsidy Receivable (re-named account)	246,000	
	No Entry			2220	2220	Deferred Revenue		246,000
						To record requisition of funds from the state		
1111	Cash - Checking	246,000		1111	1120	Cash - Operations	246,000	
1124	Unissued State Subsidy - Congregate		246,000	1124	1136	Congregate Subsidy Receivable (re-named account)		246,000
	to record receipt of Congregate Services Subsidy funds from DECD					*To record receipt of Congregate Services Subsidy funds from the State*		
1509	DECD Rental Subsidy	4,000		2220	2220	Deferred Revenue	4,000	
1122	Tenant Account Receivable	21,500		1122	1130	Tenant Account Receivable	19,000	
2113	ALSA Escrow - DSS & DECD participants		500			*(ALSA provider is responsible for collecting the tenant portion)*		
				3102.3	5121.3	Tenant Assistance Payments (Congregate)		4,000
3100	Rental Income - Base		16,000	3100	5120	Rental Revenue - Base, Net of Tenant Asssitance Payments		12,000
7010	Tenant Contribution - Congregate Services		7,000	7010	7010	Tenant's Contribution - Congregate Services		7,000
7020	Tenant Contribution - Assisted Living		2,000			*(ALSA provider is responsible for collecting the tenant portion)*		
	To record Rent Roll for tenants on the DECD and DSS ALSA program for the month of July based on the information taken from the Congregate Housing Worksheet					*To record Rent Roll for the month of July.*		

CURRENT DECD ACCOUNTING METHOD					GAAP ACCOUNTING METHOD				
	Account	Debit	Credit				Account	Debit	Credit
8000	Congregate Core Services	20,000			8000	8000	Congregate Core Services	20,000	
9000	Expanded Core Services/ Assisted Living Services	8,000			9000	9000	Expanded Core Services (9001-9003)	6,000	
2113	ALSA Escrow - DSS & DECD participants	500			9000	9000	Assisted Living Services (9004-9005)	2,000	
1111	Cash - Checking		28,500		2110	2110	Accounts Payable - Operations		28,000
	To record total cash disbursements for the month of July. Note: This entry would be made using the budgetary line item expense accounts, not summaries of the 8000 and 9000 accounts and could be made with payable also.						*To record total* accrual based expenses *for the month of July. Note: This entry would be made using the budgetary line item expense accounts, not summaries of the 8000 and 9000 accounts and could be made with payable also.*		
	No Entry				2110	2110	Accounts Payable - Operations	28,000	
					1111	1120	Cash - Operations		28,000
							To record total cash disbursements for the month of July.		
	No Entry				7030.1	7030.1	State Subsidy - Congregate Core Services		20,000
					7030.2	7030.2	State Subsidy - Expanded Core Services		6,000
					7030.3	7030.3	State Subsidy - ALSA		2,000
					2220	2220	Deferred Revenue	28,000	
							To record grant revenue to the extent of expenses incurred in month 1 for Core services, expanded services and ALSA		
1504	Net Program Cost - Congregate	119,000			1504	n/a	not required as program cost will no longer be accumulated on th		
7000	Tenant Contribution - Congregate Services (Accts 7010 and 7011)	25,000			7030.2	7030.2	State Subsidy - Expanded Core	24,000	
7020	Tenant Contribution - ALSA	38,000			7030.3	7030.3	State Subsidy - ALSA	38,000	
					7030.1	7030.1	State Subsidy - Congregate Core Services	120,000	
8000	Congregate Core Service Expenses (Accts 8101-8402)		120,000		8000	8000	Congregate Core Service Expenses (Accts 8101-8402)		120,000
9000	Expanded Core Services (Accts 9001-9003)		24,000		9000	9000	Expanded Core Services (Accts 9001-9003)		24,000
9000	Alsa Expenses (Accts 9004-		38,000		9000	9000	Alsa Expenses (Accts 9004-		38,000
	To close Congregate Services Income and Expense accounts at fiscal year end. This entry would be made to the actual Budgetary line item accounts rather than the summary accounts used in this sample.						*To close Congregate Services Income and Expense accounts at fiscal year end. This entry would be made to the actual Budgetary line item accounts rather than the summary accounts used in this sample.*		
2811	State Subsidy Authorized - Congregate	246,000							
1128	Accounts Receivable - Ineligible Program Costs	8,000							
1504	Net Program Cost - Congregate		119,000						
1509	DECD Rental Subsidy		49,000		2220	2220	Deferred Revenue	XXXXX	
2119	Sundry Accounts Payable - DECD		86,000		2119	2116	Accounts Payable - State		XXXXX
	To close Accounts 1504, 1509 and 2811 for fiscal year ended June 30, 2002 and record payable to DECD for unused portion of Congregate Services Subsidy Program and costs disallowed by DECD.						*To record payable to State for unused portion of Congregate Services Subsidy Program - note the close out of the authorized grant is no longer required.*		
	The total of accounts 1504 and 1509 will represent the cumulative total of State Subsidy earned. Acct. 2119-Sundry Accounts Payable represents the unused State Subsidy amounts and any disallowed costs due to DECD. This entry will be made by DECD when closing out the Congregate Subsidy Assistance Agreement.								

EXHIBIT E - CONVERSION - RESIDENT SERVICE COORDINATOR

Similar to the Congregate Program accounting, the primary difference between the DECD accounting method and GAAP is the recognition of revenue. Under GAAP, revenue is recognized as costs are incurred, under the DECD accounting method the State Subsidy was recognized as a component of equity when authorized, adjusted at the close of the grant to the actual grant amount earned but never reflected as a component of revenue.

Conversion from the DECD accounting method to GAAP will require a restatement of the opening balances if there are any programs at the beginning of the year that have not been closed. The conversion will affect the following accounts:

1508	RSC Program Costs	Asset
1127	RSC Grant Receivable	Asset
2119	Sundry Accounts Payable – DECD	Liability
2220	Deferred Revenue	Liability
2828.1	RSC Grant Unissued	Equity
2828	RSC Grant Authorized	Equity

The conversion to GAAP is evaluated as of the beginning of the year. If you have balances in account #1508 “Net Program Cost”, #2828 “RSC Grant Authorized” and/or #2828.1 “RSC Grant Unissued” as of the beginning of the year, grant revenue earned under each open contract year will need to be recalculated as of the beginning of the current fiscal year end to recognize the prior period adjustment.

Illustration – RSC Grant for July 1, 2016 – June 30, 2017 provides for $18,000 of assistance, at December 31, 2016 $8,000 was reflected in #1508 “RSC Program Costs” and $9,000 was received. Under the DECD accounting method the full $18,000 grant would have been recorded as #2828 “RSC Grant Authorized”, #2828.1 “RSC Grant Unissued” would reflect $9,000 ($18,000 authorized less $9,000 received) and $8,000 of costs incurred would be recognized as #1508 “RSC Program Costs” as of December 31, 2016. Under GAAP, the grant is no longer tracked in the equity accounts. This will now be recorded through the grant receivable and deferred revenue accounts. Because grant revenue is recognized in an amount equal to the program expenses, the prior period adjustment does not have a net effect on opening equity.

GAAP ACCOUNTING METHOD				
State Housing Program #	**State Reporting Group**	**Account Name**	**Debit**	**Credit**
2820	n/a	RSC Grant Authorized	$ 18,000	
2220	2220	Deferred Revenue		$ 18,000
		To restate opening balance and transfer grant authorized to deferred revenue		
1127	1134	RSC Grant Receivable	$ 9,000	
2828.1	n/a	RSC Grant Unissued		$ 9,000
		To restate opening balance and recognize remaining receivable at beginning of the year		
2220	2220	Deferred Revenue	$ 8,000	
1508	n/a	RSC Expenses - Elderly Program Only		$ 8,000
		To restate opening balance and recognize grant revenue recognized as of the beginning of the year to the extent of the program costs incurred		

Illustration – Below is an illustration of the journal entries as they would be recorded under the DECD accounting manual guidance compared to how they should be recorded under GAAP. The example includes the facts illustrated in our previous example:

	CURRENT DECD ACCOUNTING METHOD					GAAP ACCOUNTING METHOD		
	Account	**Debit**	**Credit**			**Account**	**Debit**	**Credit**
2828.1	RSC Grant Unissued	18,000						
2828	RSC Grant Authorized		18,000			No Entry		
	To record RSC funds authorized and due from DECD based on the signed Assistance Agreement							
	No Entry			1124.3	1134	RSC Subsidy Receivable	18,000	
				2220	2220	Deferred Revenue		18,000
						To record requisition from the state for RSC grant funds		
1111	Cash Checking	18,000		1111	1120	Cash - Operations	18,000	
2828.1	RSC Grant Unissued		18,000	1124.3	1134	RSC Subsidy Receivable		18,000
	To record RSC funds advanced by DECD.					To record RSC funds advanced by the State.		
1508	RSC Expenses - Elderly Program Only	1,500		4121	6310.1	RSC Salaries - State Funded Only	1,500	
1111	Cash Checking		1,500	1111	1120	Cash - Operations		1,500
	To record RSC expenses paid by the Local Owner/sponsor for the month of July					*To record RSC expenses paid by the Local Owner/sponsor for the month of July(Note costs in excess of the grant remain in account 8401)*		
	No Entry			2220	2220	Deferred Revenue	1,500	
				3620	5990	Miscellaneous Revenue		1,500
						To record grant revenue earned in July		
2828	RSC Grant Authorized	18,000						
1508	RSC Expenses - Elderly Only		17,000			No Entry		
2119	Sundry Accounts Payable - DECD		1,000					
	To closeout accounts related to the Resident Services Coordinator Program based on the closeout of the DECD							
	(Note: If there were any funds due from DECD based on the closeout, a Sundry Accounts Receivable be recorded in this closeout entry instead of the Sundry Accounts Payable.							
				2220	2220	Deferred Revenue	XXX	
				2119	2116	Accounts Payable - State		XXX
	No Entry					*At the grant year any unearned grant should be reclassified as "due to the state". If funds were not received during the year then the unearned portion should reduce the outstanding receivable.*		

EXHIBIT F – CONVERSION - RENTAL ASSISTANCE PROGRAM

Under GAAP, revenue is recognized as costs are incurred. Under the DECD accounting method the State Subsidy was recognized as a component of equity when authorized, adjusted at the close of the grant to the actual grant amount earned but never reflected as a component of revenue. The conversion of the ERAP program from the DECD accounting method to GAAP will require a restatement of the opening balances if there are any programs at the beginning of the year that have not been closed. This conversion follows the same process used for the Resident Services Coordinator program conversion. The conversion will affect the following accounts:

1507	ERAP Program Costs	Asset
1125	ERAP Grant Receivable	Asset
2119	Sundry Accounts Payable – State	Liability
2220	Deferred Revenue	Liability
2827.1	ERAP Grant Unissued	Equity
2827	ERAP Grant Authorized	Equity

The conversion to GAAP is evaluated as of the beginning of the year. If there is a balance in accounts #1507 “Net Program Cost”, #2827 “ERAP Grant Authorized” and/or #2827.1 “ERAP Grant Unissued” as of the beginning of the year, grant revenue will need to be calculated for the amount earned under each open contract year as of the beginning of the current fiscal year end to recognize the prior period adjustment.

Illustration – ERAP Grant for July 1, 2016 – June 30, 2017 provides for $12,000 of assistance, at December 31, 2016 $7,000 was reflected in #1507 “ERAP Program Costs” and $6,000 was received. Under the DECD accounting method the full $12,000 grant would have been recorded as #2827 “ERAP Grant Authorized”, $6,000 would be recorded as “ERAP Grant Unissued” ($12,000 authorized less $6,000 received) and $7,000 of costs incurred would be recorded as #1506 “ERAP Program Costs” as of December 31, 2016. Under GAAP the grant is no longer tracked in the equity accounts, this will now be recorded through the grant receivable and deferred revenue accounts. Because grant revenue is recognized in an amount equal to the account #1507 “ERAP Program Costs” as of the beginning of the year, the prior period adjustment does not have a net effect on opening equity.

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
2827	n/a	ERAP Grant Authorized	$ 12,000	
2220	2220	Deferred Revenue		$ 12,000
		To restate opening balance and transfer grant authorized to deferred revenue		
1125	1133	ERAP Grant Receivable	$ 6,000	
2827.1	n/a	ERAP Grant Unissued		$ 6,000
		To restate opening balance and recognize remaining receivable at beginning of the year		
2220	2220	Deferred Revenue	$ 7,000	
1507	n/a	ERAP Expenses - Elderly Program Only		$ 7,000
		To restate opening balance and recognize grant revenue recognized as of the beginning of the year to the extent of the program costs incurred		

Illustration – Below is an illustration of the journal entries as they would be recorded under the DECD accounting manual guidance compared to how they should be recorded under GAAP. The example includes the facts illustrated in our previous example:

CURRENT DECD ACCOUNTING METHOD							GAAP ACCOUNTING METHOD		
	Account Name	**Debit**	**Credit**				**Account Name**	**Debit**	**Credit**
2827.1	RAP Grant Unissued-Elderly Program	12,000							
2827	RAP Grant Authorized - Elderly Program		12,000				No Entry		
	To record RAP Grant-Elderly Program Only authorized and due from DECD based on the signed Assistance Agreement.								
					1124.2	1133	ERAP Subsidy Receivable	12,000	
	No Entry				2220	2220	Deferred Revenue		12,000
							(to record requisition from the state for ERAP grant funds)		
1111	Cash - Checking	12,000			1111	1120	Cash - Operating	12,000	
2827.1	RAP Grant Unissued - Elderly Program		12,000		1124.2	1133	ERAP Subsidy Receivable		12,000
	To record receipt of RAP funds from DECD.						*To record receipt of ERAP funds from the State.*		
1507	RAP Subsidy Payments - Elderly Program	1,000			2220	2220	Deferred Revenue	1,000	
1122	Tenant's Accounts Receivable	20,000			1122	1130	Tenant Accounts Receivable	20,000	
3100	Rental Income - Base		18,000		3100	5120	Rent Revenue - Base, Net of Tenant Assistance Payments		17,000
3100.1	Rental Income - Excess of Base		3,000		3100.1	5120.1	Rental Income - Excess of Base		3,000
					3102.2	5121.2	Elderly Tenant Assistance Payments (ERAP)		1,000
	To record Dwelling Rent Roll for the month of July. Account 1122 should be debited for the portion of rent due from the tenants. Account 1507 should be debited for the Rental Assistance (RAP) due on behalf of the tenants of the RAP program as evidenced by the Tenant Rent Roll.						*To record Dwelling Rent Roll for the month of July. Account 1122 should be debited for the portion of rent due from the tenants. Account 2220 should be debited for the Rental Assistance (ERAP) due on behalf of the tenants of the RAP program as evidenced by the Tenant Rent Roll.*		
2827	RAP Grant Authorized - Elderly Program	12,000							
1507	RAP Subsidy Payments - Elderly Program		10,000				No Entry		
2119	Sundry Accounts Payable - DECD		2,000						
	To closeout RAP accounts and record payable to DECD for any unused RAP funds.								

EXHIBIT G – CONVERSION - GENERAL STORES / INVENTORY

The conversion guidance for inventory from the former DECD manual to the current reporting is not a GAAP conversion. The inventory that was recorded on the balance sheet in general stores/inventory accounts will have to be reviewed by management to determine the substance of the account balance. If the items recorded in the inventory account are de minimus amounts for supplies, and not inventory that is included in a warehouse at the entity, then those amounts would be recorded as expenses as of the conversion date. This adjustment may not be recorded as a prior period adjustment to equity, dependent upon the dollar amount of the adjustment.

Illustration – Management has reviewed the account balance in the general stores/inventory account, and has determined the entire balance of $1,500 is not inventory based on guidance above. Therefore, the entire balance must be recorded as an expense with the following journal entry:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
4440	6541	Repairs Material	$ 1,500	
1269	1180	Inventory		$ 1,500
		To remove inventory balance from the balance sheet and record as an expense		

Management should note that this could have an impact to the profit and loss statement in the year of conversion. If the balance is material, the adjustment may be recorded as a prior period adjustment. See illustration below:

Illustration – Management has reviewed the account balance in the general stores/inventory account, and has determined the entire balance of $50,000 is not inventory based on guidance above. Therefore, the entire balance must be recorded as a prior period adjustment to remove the inventory with the following journal entry:

GAAP ACCOUNTING METHOD				
State Housing Program #	State Reporting Group	Account Name	Debit	Credit
2910	3310	Unrestricted Net Position	$ 50,000	
1269	1180	Inventory		$ 50,000
		To remove inventory balance from the balance sheet and record as a prior period adjustment		

EXHIBIT H - CONVERSION – ALLOWANCE FOR DOUBTFUL ACCOUNTS

The conversion guidance for the allowance for doubtful accounts from the former DECD manual to the current reporting is not a GAAP conversion. This manual is to provide guidance regarding the adoption of a policy to calculate and record the allowance for doubtful accounts. In addition, to provide clarification that management must review the accounts receivable balances and document their calculations and methodology.

Management must review the accounts receivable balances periodically (monthly/quarterly) and adjust the allowance for doubtful accounts as deemed appropriate based on their policy. The allowance for doubtful accounts should never exceed the tenant accounts receivable balance. In the conversion year, the adjustment to the allowance would be an adjustment to bad debt expense or potentially miscellaneous rent revenue for a credit balance. The adjustment may not be considered a prior period adjustment that affects equity if the adjustment is insignificant. However, if the adjustment is a material amount, it may be considered a prior period adjustment.

SECTION IX – CLOSING COMMENTS

Management should work together with their fee accountants and auditors in implementing the conversion entries to ensure proper recording of these entries as well as ongoing compliance with GAAP accounting and financial reporting.