**Dogwood Public Housing Authority**

**Notes to the Financial Statements**

**For the Fiscal Year Ended September 30, 2016**

**I. Summary of Significant Accounting Policies**

The accounting policies of the Dogwood Public Housing Authority conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies.

A. Reporting Entity

The Dogwood Public Housing Authority is a public body and a body corporate and politic created under the authority of Chapter 157 of the General Statutes of North Carolina. The Authority was created for the purpose of providing safe and sanitary housing for the low-income citizens of the City of Dogwood.

The Authority is reported as a related organization in the notes to the City of Dogwood’s financial statements because the governing board’s five-member Board of Commissioners of the Authority are appointed to two-year terms by the mayor of the City of Dogwood and the City of Dogwood has the ability to remove the appointed board members for cause. However, the Authority is not a component unit of the financial reporting entity of the City of Dogwood since it designates its own management, approves its own budget, and maintains its own accounting system. In addition, the City provides no financial support to the Authority and is not obligated for the Authority’s debts or entitled to any surpluses of the Authority. The City is not financially accountable for the Authority since it cannot impose its will on the Authority and there is no potential for the Authority to provide financial benefit to, or impose financial burdens on, the City of Dogwood.

B. Description of a Public Housing Authority

Funding for public housing authorities is received from the United States Department of Housing and Urban Development (HUD) and from participants in public housing programs.

The Dogwood Public Housing Authority has 180 units in management. It is also administering a Modernization Program for 30 units.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  | | --- | --- | | Management | Units | | Owned Housing ST X-1, 2 | 160 | | HAPs Program ST X-3 | 20 | | Total | 180 | | |  |  | | --- | --- | | Modernization | Units | | Project ST X-1 | 30 | | Total | 30 | |

C. Basis of Presentation – Fund Accounting

The accounts of the Dogwood Public Housing Authority are organized and operated on a fund basis. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts recording its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses.

The Authority accounts for its operations as enterprise funds. An enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Dogwood Public Housing Authority reports the following major funds:

*The Low Rent Public Housing Program* allows low-income tenants to pay monthly rents, which are determined by their need for assistance. HUD pays operating subsidies to the housing authority to enable the authority to maintain the low-income character of the neighborhood while providing adequate services and maintaining adequate reserves.

*The Housing Choice Voucher Program* provides rental supplements to the owners of existing private housing who rent to qualifying individuals. The Authority processes all applicants for the Section 8 Housing Assistance Payments Program, places approved applicants in housing, and pays the owner of the private housing a monthly rental supplement. Under the conditions of an annual contributions contract, HUD reimburses the Authority for the rental supplements and the administrative cost of managing the program, up to a per unit limit established in the annual contributions contract.

*The Capital Fund Program* accounts for the modernization and improvement of existing housing units owned by the Authority.

The Dogwood Public Housing Authority reports the following non-major fund:

*The Home Ownership Program* provides low-income tenants with the opportunity to purchase a home of their own. The tenant accumulates equity by renting and maintaining the unit. The tenant may purchase the home by applying this equity to the purchase of the home and by obtaining financing for the balance of the purchase price. The Authority administers this program. Operating subsidies are paid to the Authority and debt service payments are made by HUD under the terms of the annual contribution contract.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, and all liabilities associated with the operation of this fund are included on the statement of net position. Net position is the result of deducting all the liabilities and deferred inflows of resources from all the assets and deferred outflows of resources. Total net position is segregated into three components: 1) net investment in capital assets, 2) restricted, and 3) unrestricted. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

All funds of the Authority are maintained on the modified accrual basis during the year; however, the financial statements for the Authority have been reported on the accrual basis. Under this basis, revenues are recorded when earned and expenses are recorded when incurred. In converting from the modified accrual basis to the full accrual basis, the changes required may include adjustments for unpaid interest, depreciation, prepaid tenant rents, payments of principal on outstanding debt, and capital outlay.

E. Budgetary Data

The Authority maintains budgetary controls over all funds, as required by North Carolina General Statute 159-42 (c-d) and the terms of the Authority’s annual contributions contract with HUD. An annual budget is adopted for all enterprise funds, except the Low Rent Housing Modernization Project Fund, which is a capital project fund. A multi-year budget is adopted for that fund. Expenditures may not legally exceed appropriations at the departmental level for the enterprise funds or at the object level for the capital project sub-fund. The management of the Authority may transfer appropriations within a fund up to $1,000 without Board approval, except that all increases in appropriation to administration and capital expenditures must be approved by the Board. The budget was prepared on the modified accrual basis of accounting. The budget presented in these statements is the budget ordinance as amended through September 30, 2016.

F. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, and Net Position

*Deposits and Investments*

All deposits of the Authority are made in board-designated official depositories and are secured as required by HUD regulations. The Authority may designate as an official depository any bank or savings and loan association whose principal office is located in North Carolina. Also, the Authority may establish time deposit accounts such as NOW and Super NOW accounts, money accounts, and certificates of deposit.

Section 401(e) of the federal annual contribution contract authorizes the Authority to invest excess funds in instruments issued by or guaranteed by the federal government. The Authority practices this policy for all invested funds, regardless of source. Investments with a maturity of more than one year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices. Money market investments that have a maturity at the time of purchase of one year or less are carried at amortized cost.

As required by the annual contributions contract, the Authority prepares cash forecasts for each program to determine the amount of funds available for investment and to maximize investment earnings. During the fiscal year and at year-end, all cash was held in the form of interest bearing accounts. The deposits and certificates of deposit with an original maturity of three months or less are considered cash and cash equivalents for the Statement of Cash Flows.

*Inter-Program Receivables and Payables*

Inter-program receivables/payables are all classified as either current assets or current liabilities. They are the result of the Public Housing Authority being used as a common paymaster for shared costs of the Authority. Cash settlements are made monthly, and all inter-program balances are reconciled. Any amounts for these inter-program receivables and payables are only shown in the “Internal Activities” row on the Statement of Net Position in each fund column. These amounts offset each other and do not appear in the total column for the Authority.

*Due from the United States Department of Housing and Urban Development*

The amount due from HUD as of September 30, 2016 consisted of operating subsidy payments earned as of September 30th but not received as of that date.

*Inventories*

Inventories are recorded at cost, cost being determined on the first-in, first-out basis. The consumption method is used to account for inventories. Under the consumption method, inventories are recorded as expenditures when purchased and inventory on hand at year-end is recorded as an asset.

*Prepaid Items*

Payments made to vendors for services that will benefit periods beyond the fiscal year-end are recorded as prepaid.

*Capital Assets*

Donated capital assets received prior to September 30, 2015 are stated at their estimated fair value on the date donated. This included site acquisition and improvement, structures, and equipment. Donated capital assets received after October 1, 2015 are recorded at amortized cost, the price is adjusted for transportation costs, but would not otherwise be adjusted for transaction costs. Other capital assets are recorded at historical cost at the date of acquisition. This includes site acquisition and improvement, structures, and equipment. Other capital assets are recorded at historical cost at the date of acquisition. Minimum capitalization costs are as follows: land $10,000, buildings, improvements, furniture and equipment $5,000, and vehicles $10,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized. Capital assets are depreciated on a straight-line basis over the following estimated useful life in years:

Buildings 30 years

Improvements 15 – 30 years

Furniture, fixtures and equipment 3 – 10 years

Automobiles and vehicles 5 years

**Note to Preparer**:

GASB 72 requires that donations of specific capital assets during fiscal years beginning after June 15, 2015, be measured at acquisition value (market-based entry price). For more information on the acquisition value requirements for certain donated capital assets please refer to Paragraph 79 of GASB Statement No. 72.

*Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority has both deferred outflows and inflows of resources resulting from changes in unamortized components of pension expense.

*Unearned Revenue*

Unearned revenue consists of rental payments made by tenants in advance of their due date and rental supplements to be paid to owners of private dwellings during the first month of the next fiscal year.

*Home Ownership Funds Held for Tenants*

This account represents the liability of the Authority for home equity and non-routine maintenance accounts held for tenants of the Home Ownership Program housing units. Home equity accounts will be refunded to the tenant when they purchase the housing unit or their lease is terminated. Non-routine maintenance accounts are refunded to tenants if the unit is purchased, but are held by the Authority if the lease is terminated.

*Accrued Vacation Pay*

The Dogwood Public Housing Authority allows its full time employees to accumulate up to thirty days earned vacation leave, with such leave being fully vested when earned. An expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The current portion of accumulated vacation pay and salary related payments are not considered to be material.

Employees can accumulate an unlimited amount of sick leave. Sick leave does not vest but the unused sick leave accumulated at the time of retirement may be used in the determination of the length of service for retirement benefits purposes. Since the Authority has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

*Long-Term Debt*

Long-term debt consists of the following:

1. A $450,000 project loan with Dogwood Bank authorized in 2015, the proceeds of which were used to construct housing units for the Home Ownership Fund.

2. A $1,000,000 2004 project note to modernize the Low Rent Housing Program housing project.

*Operating Revenues*

Subsidies received from the Department of Housing and Urban Development or other grantor agencies for operating purposes, are recorded as operating revenues. Those that are received for capital purposes are recorded as a capital contribution.

*Net Position*

Net position is classified into three parts; net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either externally imposed (as by creditors, grantors, contributors, or laws or regulations of other governments) or imposed by the law.

*Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees’ Retirement System (LGERS) and additions to/deductions from LGERS’ fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. Dogwood Housing Authority’s employer contributions are recognized when due and the Authority has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

**II. Stewardship, Compliance, and Accountability**

A. Material Violations of Finance-Related Legal and Contractual Provisions

Noncompliance with North Carolina Statutes

**Note to preparer**: Significant instances of noncompliance with the fiscal and budgetary requirements of the General Statutes should be disclosed in this section along with a corrective action plan. Items such as failure to adopt a budget complying with NC General Statute 159-42(c), a performance bond less than $50,000 for the Finance Officer, and material instances of budgetary noncompliance in any funds based on the legal level of budgetary control should be disclosed. Immaterial instances of noncompliance can be disclosed in the management letter.

Contractual Violations

**Note to preparer**: Any material violations of various contractual agreements should be disclosed. A corrective action plan should be included for each violation.

B. Deficit Net Position of Individual Funds

**Note to preparer**: Any individual funds with deficits in fund balances or net position should be disclosed along with a corrective action plan.

C. Excess of Expenditures over Budget

Budgeted amount Actual expenditure Overspent

Low Rent Public Housing Program

Administration $89,500 $92,549 $3,049

Home Ownership Fund

Ordinary Maintenance $2,000 $2,106 $106

Administration $65,700 $65,920 $220

**Note to preparer**: Any material excess expenditure(s) over appropriation(s) should be disclosed, along with a corrective action plan for any material variances.

**III. Detailed Notes on All Funds**

A. Assets

*Deposits*

The Authority’s deposits are either insured or are collateralized using the dedicated method. Under the dedicated method of collateralization, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Authority’s agent in the Authority’s name. At the year-end, the Authority’s deposits had a carrying amount of $ 345,720 and a bank balance of $346,725. Of the bank balance $250,000 was covered by federal depository insurance and $97,725 was covered by collateral held under the dedicated method. The Authority has $100 cash on hand at September 30, 2016.

*Investments*

The Authority invests in accordance with HUD regulations and North Carolina Statutes. As of September 30, 2016, the Authority had the following investments and maturities:



All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1 debt securities are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

Interest rate risk – Interest rate risk is the risk that changes in interest rates will reduce the fair value of the investment. The Authority manages interest rate risk by holding investments with maturities of less than one year.

Custodial risk – The Authority has no policy on custodial credit risk.

**Note to preparer**: The unit should disclose whether or not their Board has adopted a formal policy for any of the different deposit and investments risks it encounters. In addition, the unit may include whether its management follows any internal practices to avoid applicable risks. Please see GASB Statement No. 40 and Memorandum #1056 for additional information. See Note III.A.1 of Carolina County for an example for a formal policy and Note III.A.1 of Carolina County Board of Education for an example when the Board has not formally adopted a policy, and management does not have an internal policy.

*Due from U.S. Department of HUD*

The following amounts were due from HUD at September 30, 2016:

*Changes in Capital Assets*

The capital assets of the Authority at September 30, 2016 consisted of the following:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Description | Balance at 9/30/2014 | Increases | Decreases | Balance at  9/30/2015 |
| **Capital assets not being depreciated:** |  |  |  |  |
| Land | $ 150,000 | $ 50,000 | - | $ 200,000 |
| Construction in progress | 175,000 | 225,000 | - | 400,000 |
| Total capital assets not being depreciated | 325,000 | 275,000 | - | 600,000 |
| **Capital assets being depreciated:** |  |  |  |  |
| Buildings & Improvements | 5,795,000 | 200,000 | - | 5,995,000 |
| Leasehold Improvements | 1,310,000 | 40,000 | - | 1,350,000 |
| Furniture and Equipment | 320,187 | 30,000 | 10,000 | 340,187 |
| Total capital assets being depreciated | 7,425,187 | 270,000 | 10,000 | 7,685,187 |
| **Less accumulated depreciation for:** |  |  |  |  |
| Buildings & Improvements | (1,836,049) | (173,060) | 5,183 | (2,014,292) |
| Leasehold Improvements | (397,919) | (55,675) | - | (453,594) |
| Furniture & Equipment | (85,006) | (29,295) | - | (114,301) |
| Total accumulated depreciation | (2,318,974) | (258,030) | 5,183 | (2,582,187) |
| Total capital assets being depreciated, net | 5,106,213 | 11,970 | 4,817 | 5,103,000 |
| **Total capital assets, net** | $5,431,213 | 286,970 | 15,183 | $5,703,000 |

B. Liabilities

*Pension Plan Obligation*

*Local Governmental Employees’ Retirement System*

*Plan Description*. The Authority is a participating employer in the statewide Local Governmental Employees’ Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees’ Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State’s CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

*Benefits Provided*. LGERS provides retirement benefits. Retirement benefits are determined as 1.85% of the member’s average final compensation times the member’s years of creditable service. A member’s average final compensation is calculated as the average of a member’s four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Authority employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Authority’s contractually required contribution rate for the year ended September 30, 2016, was 7.50% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Authority were $21,544 for the year ended September 30, 2016.

*Refunds of Contributions* – Authority employees, who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By State law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual’s right to employer contributions or any other benefit provided by LGERS.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At September 30, 2016, the Authority reported a liability of $106,329 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Authority’s proportion of the net pension liability was based on a projection of the Authority’s long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2016, the Authority’s proportion was 0.00501%, which was a decrease of 0.00063% from its proportion measured as of June 30, 2015.

For the year ended September 30, 2016, the Authority recognized pension expense of $30,603. At September 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:



$ 6,000 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:



*Actuarial Assumptions.* The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:



The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies’ return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:



The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

*Discount rate.* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Authority’s proportionate share of the net pension asset to changes in the discount rate*. The following presents the Authority’s proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Authority’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:



*Pension plan fiduciary net position.* Detailed information about the pension plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

**Note to preparer:** For units that offer a **defined contribution** retirement plan, please consider the following note.

The Authority contributes to the Name of Retirement Plan (Plan) for its employees through a defined contribution plan that is administered through [name of firm administering plan]. Benefit terms, including contribution requirements, for the Plan are established and may be amended by the board. The Plan is available to all full-time employees with six months of continuous service. Employees who work at least 32 hours a week are considered full-time. The Authority matches employee contributions up to 3% of employee compensation and all amounts are vested immediately. During the fiscal year ending September 30, 2016, the Authority’s contributions totaled $\_\_\_\_\_\_ and employee contributions totaled $\_\_\_\_\_\_. In the 2016 fiscal year end, the Authority recognized pension expense of $\_\_\_\_\_\_. The financial statements for the plan are available by contacting [name of firm administering plan] at ###-###-#### or by writing to [address of firm administering plan].

Units whose fiscal year began after June 15, 2016 must implement GASB Statement 73. Units whose fiscal year began before June 15, 2016 may choose to early implement GASB Statement 73. Units implementing GASB Statement 73 should consider the following additional disclosures.

There are no assets accumulated in a trust that meet the criteria outlined in GASB Statement 73. The Authority made all required contributions to the plan and there were no forfeitures.

*Other Postemployment Benefits*

**Note to preparer**: If the Housing Authority offers postemployment benefits other than pension benefits to retirees, please see the City of Dogwood Other Postemployment Benefit note. If Other Postemployment Benefits are offered, RSI should be included.

*Long-Term Debt*

On April 1, 2015, the Authority received a loan of $450,000 at 5.0% from Dogwood Bank to construct housing units for the Home Ownership Program. Payments of $43,353 for principal and accrued interest are due April 1, 2017 and each April 1st thereafter. The note will be fully retired in fifteen years or by April 1, 2031. The assets of the Authority are pledged as collateral against the outstanding debt.



On October 1, 2004, a permanent project note in the amount of $1,000,000 was sold to HUD to modernize the Low Rent Housing Program housing project. The note bears interest at the rate of 6% annually, and is to be fully retired on October 1, 2024. Payments of $87,185 for principal and accrued interest are due each October 1st. The assets of the Authority are pledged as collateral against the outstanding debt.



*Changes in Long-Term Liabilities*

*Conduit Debt*

Mortgage revenue bonds related to the original acquisition and later modernization of the public housing developments were issued this fiscal year. These bonds were secured by a deed of trust, security agreement, and assignment of revenues from the project. This obligation does not constitute a debt or pledge of the faith and credit of the Authority and accordingly, has not been reported in the accompanying financial statements.

HUD no longer provides the Authority with debt service information because the Authority has no obligation for this debt. The original amount issued was a total of $7,440,000.

C. Segment Information

**Note to preparer**: Be alert if a proprietary fund has revenue-backed debt. Segment information is only required for enterprise funds with revenue-backed debt outstanding if the fund is not presented as major or when the segment does not encompass the entire fund. In disclosing segment information, present the type of goods or services; a condensed statement of net position; a condensed statement of revenues, expenses, and changes in net position; and a condensed statement of cash flows. See paragraph 122 of GASB Statement 34 for more details.

D. Related Party Transactions

**Note to preparer**: Disclose significant transactions with elected officials, employees, discretely presented component units, and related organizations. Disclosures should include the nature of the relationship, a description and the dollar amount of any transaction, the amount(s) due to or from the related parties, and any other significant details.

E. Interfund Balances and Activity

Balances due to/from other funds at September 30, 2016, consist of the following:

|  |  |
| --- | --- |
| Due from the Home Ownership Fund for the allocation of costs to: |  |
| Low Rent Housing Fund | $ 400 |
| Section 8 Housing Assistance Payments Fund | 40 |
| Total | $ 440 |

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Note to preparer**: All interfund balances are considered essential to fair presentation at the basic financial statement level and should be included in the notes to the financial statements. For interfund balances, amounts due from other funds by individual major fund, non-major governmental funds in the aggregate, non-major enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type; the purpose for those balances; and any amounts that are not expected to be repaid within one year should be disclosed in the notes. The staff of the State and Local Government Division prefers that internal balances be listed by individual fund names.

F. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Authority has worker’s compensation coverage up to statutory limits and employee health coverage up to a $1 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims in excess of $250,000 for worker’s compensation, up to $5 million limit and reinsured for annual employee health claims in excess of $150,000.

In accordance with G.S. 159-42, the Authority’s finance officer is individually bonded for $50,000. The Authority also has a blanket bond for the remaining employees who have access to inventories in the amount of $100,000.

The Authority carries commercial insurance against all other risks of loss, including property and general liability insurance. There have been no significant reductions in insurance coverage in the prior year, and settled claims from these risks have not exceeded commercial insurance coverage in any of the last three fiscal years.

G. Claims and Judgments

At September 30, 2016, the Authority was a defendant to various lawsuits; however, no provision was made in the audited financial statements for any contingent liabilities. In the opinion of management and the Authority attorney, the ultimate outcome of these legal matters will not have a materially adverse effect on the Authority’s financial position.

**H**. **Implementation of New Governmental Accounting Standards Board Statement**

The Authority implemented Governmental Accounting Standards Board (GASB) statement 72, *Fair Value Measurement and Application*, in the fiscal year ending September 30, 2016. The statement requires the Authority to categorize investments within the fair value hierarchy and disclose the valuation techniques used to measure fair value.

Supplementary Information

This section contains additional information required by generally accepted accounting principles, the US Dept of Housing and Urban Development, and/or is included to demonstrate compliance with North Carolina General Statutes.



Note to preparer: The illustrative financial statements show only one non-major fund. If there are two or more non-major funds, then a combining balance sheet or combining statement of net position should be inserted following this page. A combining statement of revenues, expenses, and changes in fund net position, as well as a combining statement of cash flows for the individual non-major funds should also be inserted.

A budget to actual statement should be included for all funds which adopt a budget. These statements demonstrate compliance with NC General Statutes 159-42(c) and (d).

Financial Data Schedule

The Financial Data Schedule (FDS), a Department of Housing and Urban Development required document, should be inserted at this point. The staff of the Local Government Commission will look for this document as evidence of compliance with federal guidelines. The data in the schedule will typically be used only to resolve differences noted during other review procedures.

Note to preparer: The preparer should refer to the Real Estate Assessment Center (REAC) website (<https://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/reac>) for the most current version of the FDS and guidance on the correct classification of financial data.

Single Audit Section

**Note to preparer:** More detailed information and examples of the reports, schedules, and other Single Audit information can be found on the State Treasurer’s website, <https://www.nctreasurer.com/slg/lfm/audit_acct/single_audit/Pages/default.aspx> .