



**Capital Programs:
Operating Vs. Capital Revenues
(Accounting Brief # 12)**

PURPOSE

The purpose of this brief is to clarify operating and capital revenue reporting for grant programs using full accrual after Government Accounting Standards Board (GASB) Statement No. 33, “*Accounting and Financial Reporting for Non-exchange Transactions*”, has been implemented. For housing authorities with fiscal years ending on or after 9/30/01, grant revenues can be classified as operating and/or capital revenues for FDS purposes. In subsidy programs, the subsidy revenue is always reported as operating revenue. Failure to properly record these revenues could affect a housing authority’s score on the Net Income ratio. For a more detailed discussion on the calculation of this ratio, please see the *Financial Indicators Methodology & Analysis Guide* at http://www.hud.gov/offices/react/products/fass/fass_pdf/analysisguide091203.pdf.

BACKGROUND

One of the many effects of GASB 33, is a change in the way that governmental entities report revenues as they relate to capitalized and non-capitalized costs. Capitalized costs are used for the acquisition and construction of capital assets and should be reported on FDS line 706.1. Non-capitalized costs should be reported on FDS line 706. Prior to GASB 33 implementation, capitalized costs were reported as Contributed Capital on FDS line 504. Under GASB 33, current and future monies are now reported as capital grants on FDS line 706.1. Amounts previously reported as Contributed Capital will continue to be reported on FDS line 504 until the housing authority implements GASB Statement No. 34, “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.*”

REPORTING 706 and 706.1 in GRANT PROGRAMS

The value of FDS line 706 (Operating Revenue) should equal the Housing Authority’s non-capitalized costs. Non-capitalized costs can be calculated by adding total expenses (FDS line 900) less depreciation expense (FDS line 974) plus Operating Transfers Out (FDS line 1002) to the Low Rent program (as allowed by the draw down provision). The value of FDS line 706.1 (Capital Revenues) should equal Fixed Assets acquired in the current year with grant revenue.

CONCLUSION

Grant revenues can be classified as operating and/or capital revenues. Operating revenues should be reported on FDS line 706. Capital revenues should be reported on FDS line 706.1. Failure to properly record amounts reported on FDS lines 706 and 706.1 could result in rejection of the PHA’s submission. Please contact your FASS PHA analyst or manager if you have additional questions.

