

U.S. Department of Housing and Urban Development

Special Attention of: Transmittal Handbook No.: 4370.2 REV-1
Directors of Housing; CHG-1
Directors of Multifamily Issued: January 23, 1996
Housing Division;
Asset Management Branch Chiefs;
Owners and Management Agents
Contract Administrators

1. This transmits Change 1 to HUD Handbook 4370.2 REV-1, Financial Operations and Accounting Procedures for Insured Multifamily Projects.

2. Explanation of Materials Transmitted:

This revised policy authorizes management agents to hold funds in a centralized account, up to or exceeding \$100,000 in institutions under the control of, and whose deposits are insured by, the Federal Deposit Insurance Corporation, National Credit Union Association, or other U. S. government insurance corporations under certain strict conditions.

3. Effective Date: Upon receipt.

4. Filing Instructions:

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Assistant Secretary for Housing-
Federal Housing Commissioner

H: Distribution: W-3-1

OFFICE OF HOUSING

Special Attention of: Regional Administrators,

Transmittal for Handbook No:
4370.2 REV-1

Regional Housing Commissioners, Directors
of Regional Housing, Field Office Managers,
Directors of Housing Development Division, Directors of Housing Management
Division, Loan Management Branch Chiefs and Assisted Housing Management
Branch Chiefs. Issued: 5/22/92

1. This transmits the revised Financial Operations and Accounting Procedures for Insured Multifamily Projects Handbook 4370.2 Revision 1.
2. Explanation of Materials Transmitted:

This Handbook is a complete revision of Handbook 4370.2, dated 6/23/87. A major revision was necessary to reflect changes which have taken place in audit standards, definitions, nomenclature, related tax laws, and cross referencing to other appropriate HUD issuances. This Handbook serves as a reference to owners of HUD insured multifamily projects and to HUD loan management personnel for preparing monthly and annual financial statements. Since this is a major revision, no asterisks are used to identify the changes.

3. Significant Changes:

- o Revises the Handbook for completeness and uniformity of financial information for the proper servicing of a mortgage loan.
- o Incorporates Generally Accepted Accounting Principles (GAAP) when appropriate.
- o Defines internal control procedures with emphasis on the separation of duties, project budgets, and cash receipts, adherence to prescribed management procedures, operational efficiency, protection of assets, and maintenance of accurate and reliable accounting information.
- o Revises accounting and auditing nomenclature to incorporate AICPA standards, Government Auditing Standards and industry standards for HUD Multi-Family Projects.
- o Updates sample formats and instructions for financial statement reporting to incorporate the most recent HUD revisions.

HMHO: Distribution : W-3-1, W-2,(H), W-3(A)(H)(OGC)(ZAS), R-1, R-2, R-3-1, R-3-2, R-3-3, R-6, R-6-2, R-7, R-7-2. SPECIAL DISTRIBUTION TO: Field Offices, State Agencies and owner's and Agents

- o Includes necessary cross-references to HUD and external documents, including revision of existing references.
- o Updates the names of offices, position titles, functional names and other references pertaining to Loan Management as appropriate.
- o Revises terminology for the Balance Sheet, Statement of Income, and Statement of Changes in Financial Position. Incorporates revision by FASB, #95 as it relates to the Statement of Cash Flows.
- o Revises the account structure to conform to HUD's latest financial needs.

- o Updates Chart of Accounts and simplifies descriptions of accounts.
- o Revises and simplifies definitions of accounting/auditing terms including cash basis, accrual basis and tax basis accounting.
- o Incorporates the current wording of the auditor's opinion as required by the AICPA and HUD.
- o Clarifies procedures for accounting for delinquent tenants accounts receivable (bad debts).
- o Provides accounting guidance for replacement reserve transactions.
- o Provides a glossary and listing of acronyms.
- o Provides administrative guidance and program interpretation to various portions of IG Handbook 2000.4 dated 10/91.

4. Cross References:

This Handbook contains a Foreword which cross references applicable handbooks and guidance relating to reviewing multifamily financial statements and supplemental data.

5. Cancellations:

The Financial Operations and Accounting Procedures for Insured Multifamily Projects, dated April 1, 81 and change 1 dated June 23, 1987 are rescinded.

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Handbook

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U.S. Department of Housing and Urban Development
Office of Housing

Departmental Staff
and Program
Participants

May 1992

Financial Operations
and Accounting
Procedures for
Insured Multifamily
Projects

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FOREWORD

This handbook replaces earlier versions of Handbook 4370.2, Financial Operations and Accounting Procedures for Insured Multifamily Projects. Additional information related to multifamily projects can be found in the following Handbooks:

- o IG 2000.4 Consolidated Audit Guide for Audits of HUD Programs
- o HUD 4080.1 Compliance Handbook for Housing
- o HUD 4350.1 Insured Project Servicing
- o HUD 4350.3 Occupancy Requirements for Subsidized Multifamily Housing
- o HUD 4355.1 Flexible Subsidy
- o HUD 4370.1 Reviewing Annual and Monthly Financial Reports
- o HUD 4370.3 Uniform System of Accounts Using Computer and Manual Systems
- o HUD 4470.1 Mortgage Credit Analysis for Project Mortgage Insurance, Section 207
- o HUD 4381.5 Management Documents, Agents & Fees
- o Users Manual on Multifamily Information Processing System (MIPS) Loan Management Module

 CHAPTER 1. INTRODUCTION

1-1. PURPOSE

This handbook replaces earlier instructions to mortgagors entitled Handbook of FHA Requirements Governing Financial Operations and Accounting Procedures for Insured Multifamily Projects. This chapter provides an overview of the objectives of the handbook as the principal guide for financial and accounting operations for HUD-held and HUD-insured multifamily projects. The handbook incorporates accounting standards and principles promulgated by the General Accounting Office (GAO), appropriate AICPA Generally Accepted Accounting Principles (GAAP), Office of Management and Budget (OMB), and HUD.

1-2. SCOPE

The handbook applies to multifamily rental projects under a charter or regulatory agreement permitting HUD to exercise control over project administration and operation. This handbook applies to insured, co-insured, and HUD-held projects. It does not apply to cooperatives, condominiums, or certain Section 608 projects outside HUD control, even though the project may be encumbered by a mortgage insured or held by HUD.

The primary users of this handbook are accountants, mortgagors, management agents and their employees. It has been prepared in the interest of providing complete and uniform financial information related to maintaining operations of the following HUD projects:

- o 202 Direct Loans for Housing for the Elderly or Handicapped
- o 207M Mobile Home Courts
- o 207 Multifamily Rental Housing, Pre-War Legislation and Formerly HUD-held mortgages sold with insurance)
- o 207/223(c) Formerly HUD-owned Projects
- o 213S Sales and Investor Cooperatives
- o 213M Management Cooperatives

- o 213(i) Consumer Cooperatives
- o 220 Urban Renewal/Declining Area Rental Housing

- o 221(d)(3) Market Rate, Moderate Income Families
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- o 241 Supplemental Loans (Capital Improvement/Equity Takeout
- o 242 Hospitals
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1-3. HUD CONTROL

Prior to 1961, project control was implemented mainly through the issuance of preferred stock to the FHA under provisions of a corporate charter. Since 1961, however, FHA/HUD has exercised control through provisions of a Regulatory Agreement including:

- A. The regulatory agreement provides that the project owner shall not, without prior written approval of HUD:
1. Convey, transfer, or encumber any of the mortgaged property, or permit conveyance, transfer, or encumbrance of such property.
 2. Assign, transfer, dispose of, or encumber any personal property of the project, including rent, or pay out funds, except for reasonable operating expenses and necessary repairs, from any project source other than "surplus cash."

3. Convey, assign, or transfer any beneficial interest in any trust holding title to the property, or the interest of any general partner owning the property, or any right to manage or receive the rents and profits thereof, unless the transferees or assignees assume the obligations of the Regulatory Agreement through a written instrument satisfactory to the Secretary.

4. Remodel, add to, reconstruct, or demolish any part of the mortgaged property, or subtract from any real or personal property of the project.
 5. Except for natural persons, engage in any other business or activity, including the operation of any other rental project, or incur any liability or obligation not in connection with the project.
 6. Permit use of the project for any purpose except the use originally intended, or permit commercial use to a greater extent than originally approved by the Secretary.
- B. The regulatory agreement sets forth specific requirements on the establishment and maintenance of various funds (i.e. security deposits, residual receipts, replacement reserves).
 - C. The regulatory agreement defines the requirements necessary for tenant application, eligibility and recertification.
 - D. The regulatory agreement establishes the requirements of the project management and administration including maintenance of accounting records in accordance with HUD's guidance.
 - E. The regulatory agreement sets forth provisions for non-discrimination.

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NOTE: Owners, sponsors, management, and independent public accountants shall refer to the Regulatory Agreement and to other controlling documents for specific provisions, requirements, and restrictions applicable to the specific project.

1-4. LEGISLATIVE AUTHORITY

- A. Sections 207, 213, 220, 221, 223, 231, 232, 233, 236, 241, 242, and Title XI of the National Housing Act as Amended, Section 8 of the U.S. Housing Act of 1937, and Section 202 of the Housing Act of 1959. Provisions of these acts include the following:
 1. HUD insures mortgages made by private lending institutions to build or rehabilitate multifamily rental or cooperative housing a) for

moderate income or displaced families (Section 221); b) suited to the needs of the elderly or handicapped (Section 231); and c) to accommodate 20 or more patients requiring skilled nursing care and related medical services (Section 232); d) for the treatment of persons who require medical care furnished only, or most effectively, by hospitals (Section 242); e) for group practice medical facilities to relieve overburdened hospitals and nursing homes (Title XI); f) experimental housing projects (Section 233); and g) by private or public developers that contain at least five dwelling units (Section 207).

2. HUD provides direct long term loans to eligible, private or not-for-profit sponsors to finance rental or cooperative housing facilities for occupancy by elderly or handicapped persons (Section 202).
3. HUD insures mortgages to purchase or refinance existing projects originally financed with or without Federal mortgage insurance (Section 223).

4. The Secretary is authorized to make periodic interest reduction payments on behalf of the owner of a project designed for lower income families (Section 236).
5. HUD insures loans made by private lending institutions to pay for improvements to apartment projects, nursing homes, hospitals, or group practice facilities that carry HUD-insured mortgages (Section 241).
6. Public Housing Agencies (PHAs) and HUD administer a program to assist very low-income families in obtaining decent safe and sanitary housing by selecting landlords to lease properties that meet certain safety and sanitation standards (Section 8). The various assistance programs authorized under this Section include Lower Income Rental Assistance, Existing Housing Voucher, Certificate Programs, New Construction, Substantial Rehabilitation, Special Allocations (Loan Management Set Aside), Farmer's Home

(515), and Section 202/8 programs. Of these, this handbook applies only to projects whose mortgages are insured or held by HUD.

- B. Sections 2 and 4 of the Inspector General Act of 1978. The HUD Inspector General (IG) has the statutory responsibility to conduct, supervise, and coordinate audits and investigations relating to HUD's programs and operations. The IG also provides leadership and recommends policies designed to promote the economy, efficiency, and effectiveness and to prevent fraud and abuse.
- C. Section 42, Internal Revenue Code of 1986, as amended, Low Income Housing Tax Credits. This section authorizes tax credits for low income housing meeting certain criteria. Current and prospective owners may not receive excessive profits or subsidies or create undue mortgage insurance risks by combining

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Low Income Housing Tax Credits (LIHTC) with other HUD programs. HUD requires a pre-commitment review of all cases that use LIHTCs.

- D. Section 416 and 421 of the Housing and Community Development Act of 1987, Misuse and diversion of Funds. These sections impose specific sanctions and penalties for the misuse and diversion of funds and for the violation of regulatory agreements and other applicable regulations. Penalties may include 1) a fine of up to \$250,000 or imprisonment for up to five (5) years, or both, or 2) requesting the U.S. Attorney General to recover any assets or income of the violator.
- E. Section 108 of the HUD Reform Act of 1989. The Secretary may impose a monetary penalty on any mortgagor of a multifamily property who has agreed to use non-project funds to pay project liabilities or make cash contributions to the project for payments due under the mortgage but who fails to fulfill that agreement. A monetary penalty may also be imposed for any violation of the regulatory agreement, including failure to maintain books and accounts of the project in accordance with requirements prescribed by the Secretary.

CHAPTER 2. FINANCIAL OPERATIONS AND ACCOUNTING

2-1. INTRODUCTION

This chapter provides a description of the financial operations and accounting requirements of a HUD-insured multifamily project including: maintenance of books and accounts, completeness and accuracy of books and accounts; auditable paper trail, invoices, etc.; treatment of specific transactions such as surplus cash and residual receipts; distribution to owners; cash controls and use of management agreements.

2-2. OBJECTIVES OF THE HUD-PRESCRIBED ACCOUNTING SYSTEM

General objectives of the HUD accounting system include:

- o Execution of all transactions in accordance with project management and where required, HUD's general or specific authorization.
- o Reporting on all financial transactions using HUD guidelines and Generally Accepted Accounting Principles (GAAP).
- o Safeguarding project assets.
- o Providing timely, accurate and complete information for management decision making.
- o Assisting with compliance with HUD specified accounting procedures, such as treatment of Low Income Housing Tax Credits.

2-3. MAINTENANCE OF BOOKS AND ACCOUNTS

- A. Both the Regulatory Agreement and the certificate executed by the mortgagor, at the time the mortgage is insured, contain provisions that accounts of mortgaged property operations be kept in accordance with the requirements of the Secretary and in such form as to

permit a speedy and effective audit. Further, the mortgagor or owner agrees that:

"The mortgaged property, equipment, buildings,

plans, offices, apparatus, devices, books, contracts, records, documents, and other papers relating thereto shall at all times be maintained in reasonable condition for proper audit and shall be subject to examination and inspection at any reasonable time by the Secretary or his duly authorized agents. Owners shall keep copies of all written contracts or other instruments which affect the mortgaged property, all or any of which may be subject to inspection and examination by the Secretary or his duly authorized agents."

- B. Books and accounts must be complete and accurate. The books of original entry must be kept current at all times, and postings must be made at least monthly to ledger accounts. Standard journal entries may be established for recurring items and posted monthly.
- C. In establishing a financial accounting system, auditing problems can be avoided by keeping operating funds separate from other project funds. Particularly when occupancy occurs prior to final closing, care must be taken to segregate construction and operating funds. Accounting of any construction expenses shall be in accordance with HUD Handbook 4470.1, Mortgage Credit Analysis for Project Mortgage Insurance, Section 207.
- D. In the first annual financial statement, whenever construction costs remain unpaid after final endorsement, two Statements of Cash Flows are required. One shall apply to project construction cost transactions during the first annual statement period. The second shall apply strictly to project rental operations from the day following the cost certification cut-off date to the end of the fiscal year.

2-4. PRESCRIBED ACCOUNTS

In order to ensure that books are complete and reporting is uniform, prescribed accounts must be maintained as outlined and described in Chapter 4. While various items of income and expense must be classified under the proper accounts, no single project will likely have use for all accounts. This will especially be true of smaller projects. In addition, some accounts will be applicable only to nursing homes and health care facilities. However, any accounts required should be placed

in the groupings and order shown in the Chart of Accounts, Chapter 4. If additional accounts not otherwise covered in the chart are needed for recording transactions, they should be set up and classified in accordance with accepted accounting principles. The chart should be followed, however, as far as it applies.

Note: It is important for consistency to exist in the categorization of accounts. Consistency allows HUD field offices to directly input data received from the financial statements into their computer system without any interpretation of the accounts. Therefore, the chart of accounts has a direct relationship to the MIPS system.

2-5. MINIMUM NUMBER OF BANK ACCOUNTS

Under terms of the regulatory agreement, each Project must maintain in Federally insured banks, the following minimum number of bank accounts:

- o Regular Operating Account
- o Replacement Reserve (Held by the mortgagee, except for Section 202s)
- o Tenant Security Deposit Account (Only if security deposits are received)
- o Residual Receipts Account (Held by mortgagee, except for Section 202)

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2-6. REGULAR OPERATING ACCOUNT

- A. The Regular Operating account is a general operating account for the project which is used for depositing rental receipts and other receivables not specifically designated for the Security Deposits Account. The account also is used to pay operating expenses of general administration including mortgage payments, management fees, utilities and maintenance. The Regulatory Agreement states that the funds must be maintained in a separate account. However,
- * this paragraph suspends the operation and effect of this Regulatory Agreement provision by authorizing the management agent to hold funds in a centralized account, up to or exceeding \$100,000, in institutions under the control of, and whose deposits are insured by, the Federal Deposit Insurance Corporation, National Credit Union Association, or other U. S. government insurance corporations under the following conditions:
- * 1. Managing agents must determine that the financial institution has a rating consistent at all times with current minimally acceptable ratings as established and published by Government National Mortgage Association (GNMA).
- * 2. The managing agent must monitor the institution's ratings no less than on a quarterly basis, and change institutions when necessary. The managing agent must document the ratings of the institution where the funds are deposited and maintain the

documentation in the administrative record for three years, including the current year.

- * 3. In the event that the managing agent fails to follow these procedures and the bank fails, the owner/managing agent will be expected to make up losses sustained by the various project accounts held by the failed bank.

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- * 4. Deposits to and disbursements from the centralized account must clearly be traceable to each project. The actual cash position of each and every project in the centralized account must be easily identifiable at all times without exception.
- * 5. The managing agent must allow a project owner to require, at any time, that the particular owner's funds be kept isolated and separate from the funds of other projects held by the agent; that is, at all times an owner is to have the prerogative of not participating in the centralized account arrangement or of withdrawing from such an arrangement.

NOTE: The above language is not deemed a modification of the Regulatory Agreement. Therefore, HUD reserves the right to invoke this Regulatory Agreement provision and make it operational in the future through notice or handbook change, if it is determined that such a policy is necessary or desirable.

- * B. Subsidiary Centralized Accounts. Many businesses find it convenient to maintain separate, subsidiary accounts for payroll. Separate payroll accounts usually facilitate auditing and recordkeeping, particularly where frequent deposits are made to the special escrows required for payroll withholding taxes. The Department has decided to allow the establishment of separate, subsidiary payroll accounts within the centralized account arrangement.

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- * C. Special Fees. Establishing a centralized account eliminates some staff resource requirements for managing agents. For example, separate checks do not need to be maintained for each project. Fewer checks need to be issued because one vendor, mortgagee, or trade account can be paid with one check that covers invoices for several projects. By increasing productivity and efficiency and by reducing overhead expenses, managing agents are able to achieve higher profit margins when they use a centralized account. For this reason, the Department generally discourages increasing a managing agent's fee when the rationale for the fee increase is a centralized account. Where a managing agent has adopted certain investment strategies requiring a great deal of staff time in order to optimize interest earned on funds held in centralized accounts, at the discretion of the local HUD Office, the managing agent could be permitted a cash management fee not to exceed 1% per year based on the average of funds invested.

- * D. Section 8 Deposits. Section 8 receipts may be deposited directly into centralized accounts (without passing through a project's separate bank account) provided the amounts of the Section 8 funds are clearly identified as belonging to each project at all times.
- E. All disbursements from the Regular Operating Account (including checks, wire transfers and computer generated disbursements) must be supported by approved invoices/bills or other supporting documentation. The request for project funds should only be used to make mortgage payments, make required deposits to the Reserve for Replacements, pay reasonable expenses necessary for the operation and maintenance of the project, pay distributions of surplus cash permitted and repay owner advances authorized by HUD.

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- F. An independent public accountant (IPA) audits the books and records of the mortgagor to furnish an opinion on the annual financial statements. As part of the IPA's audit, the accountant will confirm, directly with the bank the current balance in the Regular Operating account, perform a reconciliation between the amount shown on the books and the amount reported by the bank, as well as examine supporting documentation authorizing the disbursements of funds from the account.

2-7. REPLACEMENT RESERVE

- A. The Replacement Reserve account provides cash for the replacement of capital items. Generally, those items are major capital investments such as heating, ventilation, air conditioning, re-plumbing, roofing, sprinkler systems, etc. The reserve is not intended to pay for routine maintenance costs. The regulatory agreement establishes the requirements for the Replacement Reserve account.
- B. The regulatory agreement states that the reserve must be maintained in a separate account with the mortgagee or in a safe and responsible depository designated by the mortgagee. Certain Section 8 projects are required to have replacement reserves invested in interest bearing Federally insured securities or accounts.
- C. The amount and frequency of deposits to the Replacement Reserve account is regulated by the regulatory agreement. The reserve is funded from two sources, a lump sum deposit made at the time of loan closing and monthly deposits made as part of the monthly mortgage payments.

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- D. All requests, by the owner, for withdrawals from the Replacement Reserve account must be in writing and supported by invoices showing what was purchased and the cost of the purchase. The request must list the items for which the withdrawal is requested, the number of each item and the dollar amount requested for each

item.

- E. An independent public accountant (IPA) audits the books and records of the mortgagor to furnish an opinion on the annual financial statements. As part of the IPA's audit, the accountant will confirm, directly with the mortgagee (or bank, in the case of Section 202 projects), the current balance in the Replacement Reserve account, perform a reconciliation between the amount shown on the books and the amount reported by the mortgagee or bank, as well as examine supporting documentation authorizing the releases of funds from the reserve.

2-8. SURPLUS CASH AND RESIDUAL RECEIPTS. Appendix 2, Form HUD-93486 Computation of Surplus Cash Distributions and Residual Receipts. contains a worksheet to be used for the Computation of Surplus Cash, Distributions and Residual Receipts. The purpose of this worksheet

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is to identify any available cash to be distributed to project owners or transferred to the Residual Receipts account.

- A. Basically, surplus cash is the cash remaining after all necessary and reasonable expenses of the project have been paid or funds have been set-aside for such payment. Specifically, the regulatory agreement defines surplus cash as any cash remaining after:
 - 1. The payment of all sums due under the terms of any mortgage, all amounts required for funded reserve accounts, and all obligations of the project, and
 - 2. The segregation of an amount equal to the aggregate of all special funds required to be maintained by the project and the segregation of all tenant security deposits held.
- B. Surplus cash is computed as of the end of an annual period. However, surplus cash may be calculated semiannually if the project's regulatory agreement permits. Surplus cash is determined by subtracting certain accounts payable from available unrestricted cash and like items.
- C. On profit-motivated projects (PM), all surplus cash is available for distribution to project owners. On most non-profit (NP) projects, on which distributions are not permitted, the regulatory agreement requires that all surplus cash available as of the end of an annual fiscal period be deposited in the Residual Receipts account. On limited dividend (LD) projects, the regulatory agreement provides that surplus cash be used first to pay distributions (up to the amount specified in the project's regulatory agreement), and that any remaining surplus cash be deposited in the Residual Receipts account. The Regulatory Agreement and any subsidy contracts should be reviewed in order to test cash restrictions for each particular project.

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- D. The regulatory agreement provides that any deposit due the residual receipts fund be deposited with the mortgagee within 60 days after the end of the fiscal year in which the receipts were generated.
- E. Funds may be released from the residual receipts funds only with prior written approval from HUD. HUD has the authority to approve, modify, or reject the owner's proposed usage for residual receipts.

For certain Section 8 assisted projects, when a project's Section 8 contract is terminated or expires and is not renewed, HUD may request the project owner or managing agent to return to HUD the funds remaining in the Residual Receipts account. These amounts may represent a loss contingency as defined by FASB No. 5 Accounting for Contingencies. It is reasonably possible (i.e., the chance of the future event or events occurring is more than remote but less than likely) that HUD will request any balance of residual receipts to be transferred back to HUD.

- F. An independent public accountant (IPA) audits the books and records of the mortgagor to render an opinion on the annual financial statements. As part of the IPA's audit, the accountant will confirm, directly with the mortgagee or bank, the current balance in the Residual Receipts account, perform a reconciliation between the amount shown on the books and the amount reported by the mortgagee or bank, as well as examine supporting documentation authorizing the releases of funds from these accounts.
- G. The amount transferred to the residual receipts account should be debited to that account and credited to the General Operating account. The notes to the financial statements should include a discussion of residual receipts account activity and a disclosure that use of residual receipts account funds is contingent upon HUD's prior written approval. In addition, any funds transferred to

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or from the residual receipts account must be separately displayed in the Statement of Cash Flows.

2-9. SECURITY DEPOSIT ACCOUNT

- A. In instances where the Regulatory Agreement allows the receipt of security deposits from project tenants, a separate bank account should be established to maintain these funds. In addition, individual states have specific regulations governing the handling of tenant security deposits and these regulations should be complied with. There shall be one Security Deposit Account per project. Funds in the single Security Deposit Account must not be commingled with any other funds, e.g., security deposit funds of other projects, operating accounts, managing agent accounts, etc. In cases where the funds in the project's Security Deposit bank account exceed the amount that may be insured by the federal government (\$100,000/bank), the project may open another bank account for the excess amounts.

- B. All disbursements from the Security Deposit account must be supported by approved invoices/bills or other documentation. Disbursements must be only for refunds to tenants and for payment of appropriate expenses incurred by the tenant.
- C. An independent public accountant (IPA) examines the books and records of the mortgagor to render an opinion on the annual financial statements. As part of the IPA's audit, the accountant will confirm, directly with the bank, the current balance in the Security Deposit account, perform a reconciliation between the amount shown on the books and the amount reported by the bank, as well as examine supporting documentation authorizing the releases of funds from these accounts.

2-10. DISTRIBUTIONS TO OWNERS

A distribution is any withdrawal or taking of cash or any assets of the project other than for the payment of reasonable expenses necessary to

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the operation and maintenance of the project. The regulatory agreement for the project defines distributions and the circumstances under which distributions may be made from surplus cash.

Form HUD-93486 provides the basis for calculating surplus cash. The term distributions includes, for example, supervisory fees paid to general partners and any salaries or other fees paid to the sponsor or mortgagor, unless those salaries or fees have been approved by HUD as essential to the operation of a project (e.g., a management fee approved by HUD and paid on an Owner-Managed project).

Money taken from syndication proceeds to pay for such expenses, for example, are not considered distributions. Payments of residual receipts notes may or may not be considered distributions. The classification of these payments depends on the financial condition of the project and decisions made by the HUD Office.

Exhibit 2-1 presents guidelines for distribution allowances by project type. These are general guidelines for owner distributions and should be verified in the project regulatory agreement.

- A. Surplus cash distributions may not be paid from borrowed funds, prior to the completion of the project or when a project is in default or under a forbearance agreement. If the owner takes distributions when the project is in default or when the project is in a non-surplus cash position, the owner is subject to criminal and/or civil penalties. (See Appendix 1 - Criminal Statutes for a listing of civil and criminal statutes).

The first year's distribution may not be paid until all required cost certification submissions have been made. Distributions are earned beginning with the day following the cut-off date for cost certification. Distributions to owners are not permitted on non-profit (NP) projects. On limited dividend (LD) or profit-motivated (PM) projects, the regulatory agreement provides that

distributions can be paid without prior HUD approval only:

- o if paid from surplus cash,
- o if paid as of and after the end of an annual or, if specified in the regulatory agreement, semiannual fiscal period.

In effect, surplus cash generated at the end of one fiscal period is not available for distribution until the next fiscal period. Stated differently, distributions paid out early in fiscal year 1991, for example, may not exceed surplus cash available as of the end of fiscal year 1990.

- B. All distributions must be computed as of the end of the period and only as permitted by the law of the applicable jurisdiction. If the owner elects to collect distributions semi-annually, if permitted by the regulatory agreement, then the owner must also compute surplus cash as of the end of each semi-annual fiscal period. These computations are audited and the Form(s) HUD-93486 are included in the annual report. Restrictions on distributions depend on the type of project (i.e., limited dividend or profit motivated). The restrictions placed on distributions are discussed in more detail in the project's regulatory agreement.
- C. On projects owned by profit-motivated (PM) entities, distributions may be paid up to the amount of surplus cash available. For projects owned by limited dividend (LD) mortgagors, distributions are subject to an additional restriction. In any one year, distributions may not exceed the amount earned that year plus any distributions unpaid from previous years. It should be noted that limited dividend mortgagors are subject to both this limitation and the surplus cash limitation. See Exhibit 2-1 for more specific information.
- D. Some regulatory agreements permit distributions to be paid out of surplus cash available as of the end of a semi-annual period. Before determining whether surplus cash is available for

distribution, the project books must be tentatively closed in accordance with the distribution period stated in the regulatory agreement or Corporate Charter. If an owner paid distributions following the end of the first six months of the fiscal year covered by the annual statement, a surplus cash computation reported as of the end of that semi-annual period must be submitted with the annual statement. This computation would be in addition to the computation required as of the end of the fiscal year.

- E. On limited distribution projects, the right to distribution is cumulative. Authorized distributions for which surplus cash is not available must be shown as a liability of the project on the

audited Statement of Financial Position (Balance Sheet) under Account No. 2140, Dividends or Distributions Payable - Current.

NOTE 1: The above statements reflect the normal policy on distributions. An owner may have agreed to waive payment of distributions and to use all surplus cash to repay flexible subsidy grants/loans. Nearly all flexible subsidy contracts contain such clauses. Even if the project did not receive Flexible Subsidy, the owner may still have agreed to waive payment of distributions in return for HUD's approval of other forms of mortgage relief (e.g., provisional workout, modification, partial payment of claim, etc.).

NOTE 2: If this is the case, the notes to the financial statements should so disclose. The IPA should note any waivers in the notes to the annual audit report.

- F. Distributions may be made only if owners have been in compliance with all provisions of the Regulatory Agreement, including the requirement for the project to be in good repair and condition.
- G. Form HUD-93486, Computation of Surplus Cash, Distributions and Residual Receipts, shall be used to compute distributions to owners.

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Exhibit 2-1

Distributions Earned by Type of Project

Type of Project	Annual Distribution Earned
1. Section 8 - New Construction projects whose notification of selection was issued before 11/5/79 and Section 8 Substantial Rehabilitation projects whose notification of selection was issued before 2/20/80.	Surplus Cash
2. Section 8 - New Construction projects whose notification of selection was issued on or after 11/5/79 and Section 8 Substantial Rehabilitation projects whose notification of selection was issued on or after 2/20/80.	
a. Non-profit	No distribution permitted
b. Small projects (under 50 units) and partially assisted projects (i.e., projects with more than 50 units and less than 20% assistance).	Surplus Cash
c. Elderly projects	6% of initial equity investment
d. Non-elderly	10% of initial equity investment

3. Other projects.
- | | |
|--------------------------|---------------------------------|
| a. Profit-motivated (PM) | Surplus Cash |
| b. Limited dividend (LD) | 6% of initial equity investment |
| c. Non-profit (NP) | No distribution permitted |

Note: (1) Above represents general rules. Always check the amount specified in the regulatory agreement.

(2) Owners may have waived their rights to accrue or pay distributions in return for subsidies or mortgage relief. Be sure to check subsidy and mortgage relief contracts for such clauses.

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2-11. REPAYMENT OF OWNER ADVANCES

- A. Advances made for reasonable and necessary operating expenses may be paid from surplus cash at the end of the annual or semi-annual period. Such repayment is not considered an owner distribution. It is considered a repayment of advances. Repayment of owner advances when the project is in a non-surplus cash position will subject the owner to criminal and civil monetary penalties. (See Appendix 1, Criminal Statutes.)
- B. To encourage owners to make advances to projects in critical situations, the Department may approve on a case-by-case basis requests to make advances and for repayment of such advances on a monthly basis. Repayments under this paragraph are not considered owner distributions.
1. Approval for scheduled repayment can be made for short-term operating advances made on behalf of the welfare of the tenants (e.g., necessary emergency repairs, security measures), or to avoid a claim by the lender for insurance benefits, or default by the mortgagor under the mortgage, or in the payment of a project operating expense (e.g., taxes, utility bills).
 2. Prior HUD approval is required for an owner to receive repayment on a monthly basis.
 3. The scheduled repayment may not be made if it would cause a default or, if the project is already in default, the repayment may not be made if it would have an adverse effect on an existing workout agreement.
- C. Periodically, project owners are required by HUD to make additional equity contributions to sustain the project. Such contributions are not repaid unless the agreement stipulates otherwise.

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NOTE: While owner advances appear on the Statement of Financial Position in the Liabilities Section, (could be long

term or short term), additional infusions of capital are reflected as Owner's Equity (i.e., 3000 series in the Chart of Accounts).

2-12. CASH MANAGEMENT CONTROLS

A. GENERAL

1. All cash receipts (including those collected by management agents) must be deposited in the name of the project in a bank or banks whose deposits are federally insured. When the \$100,000 insurance limit would be exceeded, the owner/managing agent shall follow the banking procedures described in paragraph 2-6 of this Handbook 4370.2. Such funds shall be withdrawn only in accordance with the provisions for project expenses or for distributions of surplus cash. Any owner receiving funds of the project, other than by such distribution of surplus cash, shall immediately deposit such funds in the project bank account.
2. Any funds collected as security deposits must be kept separate and apart from all other project funds in an account maintained in the name of the project. The balance of the account must not at any time be less than the aggregate of all outstanding obligations under the account for security deposits.
3. As insurance against loss, the owner or his designated agent must obtain a fidelity bond in an amount at least equal to

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potential collections for two months. Blanket coverage should extend to all employees handling cash.

4. Numbered rent receipts shall be used and reconciled to actual collections.
5. The person making up deposits shall not handle the accounts receivable or the general ledger.
6. Disbursement checks shall be identified with all relevant account numbers and amounts applicable to each account when one check is for more than one invoice/bill.
7. The person preparing the payroll shall not handle the related pay checks.
8. Unissued checks should be locked up and access to checks should be restricted to a limited number of authorized personnel.

A. RECEIPT CONTROLS

1. Collections and all other funds held within an office, whether

pending regular deposit or in imprest funds, shall be completely controlled under proper safeguards, preferably in a fire-resistant combination safe or safe-cabinet.

2. An adequate recording system shall be employed to note all checks received and deposited.
3. Insofar as is possible, all collections shall be promptly deposited on the day received.
4. Bank statements shall be reconciled promptly to the formal accounting records by persons other than those recording or handling cash, or preparing and signing checks.

B. DISBURSEMENT CONTROLS.

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1. A request for a check must have supporting documentation (i.e., invoice itemizing amount requested with an authorized signature) in order for approval to be obtained to make the disbursement.
2. Checks must be approved by an individual authorized to approve checks.
3. The authorized check signer shall review supporting documentation before signing the check.
4. Supporting vouchers shall be marked canceled to prevent resubmission.
5. A monthly reconciliation shall be performed to ensure that all checks disbursed are accounted for (i.e., cashed, outstanding, or void).
6. Invoices should be marked "paid" and the check number and date should be posted to the invoice. Supporting vouchers shall also be marked "paid" to prevent resubmission.

2-13. MANAGEMENT AGREEMENTS

- A. The management agreement is a contract which establishes the rights and obligations between the management agent, the project owner and any identity-of-interest or independent fee manager. The agreement also establishes the management fee and conditions for payment of the management fee. It is the mortgagor's responsibility to ensure that the management agent performs his duties in accordance with the management agreement.
- B. The management agreement shall state that it is subject to termination:
 1. For failure to comply with the provisions of the Management Certification or for other good

cause upon written HUD request 30 days in advance. Upon such request, owners shall immediately arrange to terminate the agreement within a period of not more than 30 days and shall immediately make arrangements satisfactory to HUD for continuing proper management of the project.

2. In the event of a default under the mortgage note or regulatory agreement, immediately upon HUD's issuance of a Notice of Termination to the owner or administrator. The agreement must also contain a clause acknowledging the following:
3. HUD's and the lender's rights and requirements will prevail in the event the management agent conflicts with HUD's or the lender's requirements or restricts HUD's or the lender's rights; and
4. The management agent must turn over to the owner all of the project's cash, trust accounts, investments, and records within thirty days after the date the management agreement is terminated.
- C. HUD requires a written management agreement in cases where a qualified management agent, on behalf of the project, handles record keeping, collection of rents, payment of bills and mortgage payments, etc. The terms of the agreement shall be complete as to the extent of the agent's duties and the amount of his fee.

2-14. EXCESS RENTAL COLLECTIONS

- A. Rental collected in excess of basic rental charges from tenants in a Section 236 project must be remitted monthly to NO. Excess rent is the amount by which the rent collected on a dwelling unit exceeds the approved basic rental for that unit.

- B. Rentals collected in excess of basic rental charges from tenants in a Section 221(d)(3) BMIR project must be accounted for separately and made available for deposit to the Residual Receipts Account with the mortgagee.

2-15. DISPOSITION OF EXCESS RENTAL COLLECTIONS

- A. In a Section 236 project, the total of all excess rents collected from units charged in excess of the basic monthly rent shall be remitted monthly to:

Excess Rental Income
P.O. Box 360333M
Pittsburgh, PA 15250.

Forms HUD-93104, Monthly Report of Excess Income and Accrued Unpaid Excess Income and HUD-93104A, Schedule for Calculating Excess Income and Report of Excess Income Delinquencies, are included in Appendix 3 and are to be used for this purpose.

NOTE: Form HUD-93104 is designed to calculate the following two amounts: 1) amount of funds collected from tenants which are in excess of the basic rent due and 2) to track accrued unpaid excess rent over the basic which has not been paid by tenants who do not qualify for the basic rent. Form HUD-93104A, should be used to assist with the completion of Form HUD-93104. Note, however, that only Form HUD-93104 is required to be submitted to HUD. Form HUD-93104A should be attached to the project file copy of the HUD-93104. Also note that Form HUD-93104 must be submitted even if no funds are due HUD.

Refer to Handbook 4350.5, Occupancy Requirements of Subsidized Multifamily Housing for additional information and procedures for completing and submitting Form HUD-93104.

B. In a limited distribution BMIR project, excess rental collections:

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1. Shall not be distributed to stockholders,
2. Shall not be used to pay authorized dividends or distributions, and
3. Shall not be used to meet operating expenses at the time project income is distributed to owners or stockholders.

C. As part of the IPA's audit of the financial statements, the IPA should confirm the transfer of these excess rentals for Section 236 projects with the Excess Rental Income Office in Pittsburgh, PA For Section 221 projects, the IPA's audit of the Residual Receipts Account Balances shall include a test for any excess rental collections and confirmation of the Residual Receipts Account Balance with the mortgagee.

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CHAPTER 3. FINANCIAL REPORTS AND SUPPORTING DATA

3-1. INTRODUCTION

This chapter discusses the submission of reviewed financial statements and the IPA's report on those statements, the report on the internal control structure, the report on the compliance with applicable laws and regulations and the supplemental data reports required by HUD.

The mortgagor is responsible for submitting the annual financial statements as required by HUD and the IPA audits the reports and furnishes an opinion on the financial statements. The owners are expected to maintain books and records in accordance with Generally Accepted Accounting Principles (GAAP) and the auditor must thoroughly review these records using Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards (GAS). The IPA must also use the audit guide: IG 2000.4, Consolidated Audit Guide for Audits of HUD Programs.

GAAP are broad rules adopted by the accounting profession as guides in measuring, recording, and reporting the financial activities of a business. GAAS refer to the ten auditing standards that have been approved and adopted by the members of the AICPA. GAAS are divided into three groups (1) general standards (2) standards of field work (3) standards of reporting. GAS (which are issued by the U.S. General Accounting Office (GAO) are standards for audits of government organizations, programs, activities and functions of government funds received by contractors, nonprofit organizations, and other nongovernmental organizations.

The purpose of an audit is to have the IPA render a professional opinion on the reliability of the financial statements as an accurate reflection of the project's condition and performance.

Project owners should use competitive bidding processes when procuring the services of an IPA. These processes could vary depending upon the size and the needs of the project from a simple telephone bidding (of at least three auditors) to a

comprehensive invitation for bids (IFB)/request for proposal (RFP) process.

Once an auditor's proposal is accepted, the proposal in effect becomes a contract between the auditor and the mortgagor. The auditor's proposal/engagement letter should include the following:

- o objective of the audit
- o a description of the work to be done and the approach, including that the performance of the audit will be in accordance with GAS and IG Handbook 2000.4
- o auditor's proposed staffing plan for the audit
- o discussion of professional time and fees (in IFBs/RFPs, cost issues are separately bound and reviewed)
- o the auditor, or audit firm's qualifications
- o Finally, the engagement letter must allow for duly authorized agents of the Secretary to examine the IPA's working papers supporting the audit report.

Projects which have audits performed using OMB Circular A-133, Audits of Institutions of Higher Education and Other Non-Profit Institutions should ensure that those audits comply with the guidelines defined in this handbook.

In addition, the project owners should consider the following IPA issues relating to the preparation of the audited statements:

- A. Independent Public Accountants (IPAs) that perform bookkeeping services for a project, are prohibited from performing audits of the project.
- B. To the extent permitted by GAS or GAAS, IPAs may rely on physical inspections of projects made by HUD or mortgagees.
- C. The mortgagor's records include prior year IPA audits, HUD Management Reviews, HUD/Mortgagee physical

inspection reports and HUD-OIG audits. This information should be provided to IPAs and should be stated in the IPA engagement letter.

- D. When conducting compliance tests for Affirmative Fair Housing Market Action Plans, in addition to verifying that such a plan exists, if required by the Regulatory Agreement, IPAs should sample some items, (e.g., advertising expenses) to verify compliance.

- E. Tests that the IPA might make regarding the adequacy of Reserve Fund balances should normally be limited to testing that involves the nature of a "going concern" basis of the mortgagor.

3-2. AUTHORITY

HUD Regulations, regulatory agreements, and other documents through which the Secretary exercises control over the mortgagor, require the submission of various financial reports and supporting data. Such reports shall be prepared at an interim date or as of the end of the annual accounting period to supply HUD and project management with a full disclosure of the results of operation, as well as the financial condition of the project.

- A. From the Regulatory Agreement, the requirement for an annual report states: "Within 60 days following the end of each fiscal year, the Secretary shall be furnished with a complete annual financial report based upon an audit of the books and records of the mortgagor, prepared in accordance with the requirements of the Secretary, certified to by an officer or responsible 'Owner' and, when required by the Secretary, prepared and certified by a Certified Public Accountant, or other person acceptable to the Secretary".

In other words, the mortgagor is responsible for preparing the required financial statements and certifying that the statements are accurate. However,

an Independent Public Accountant examines the financial statements to express an opinion.

- B. The Regulatory Agreement also contains an option to require monthly occupancy reports: "At the request of the Secretary, his agents, employees, or attorneys, the Owners shall furnish monthly occupancy reports and shall give specific answers to questions upon which information is desired from time to time relative to the revenue, assets, liabilities, contracts, operation, and condition of the property and the status of the insured mortgage."
- C. Under certain circumstances, special operating (revenue) statements must be submitted.

1. When occupancy occurs during the construction period, an operating (revenue) statement is required covering the period from the date of first occupancy to the cutoff date for inclusion of interest. At the option of the mortgagor, the statement may cover the period from the date of first occupancy to the last day of the month in which the final Inspection Report was signed. If this election is made, interest, taxes, insurance, and mortgage insurance premiums will also be cut off (i.e. treated as capital costs) as of the month-end date used for the statement.
2. In the rare instance when more than three months intervene between the cost certification cutoff date and the first principal payment as originally scheduled, an income statement is required, covering all operating revenue and expenses during the period, for an advanced amortization determination. This requirement does not apply to investor-sponsor or nonprofit mortgagors, or to any project wherein the mortgage does not exceed \$200,000.

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- 3-3. REQUIREMENTS OF FINANCIAL REPORTS. The following requirements pertain to all controlled projects except cooperative housing:
- A. Financial reports shall be based on data obtained from separate books and records established for and relating solely to the project. Particular care must be taken in cases where an individual person owns and operates additional projects. In other words, each project's books must be separate and distinct. There are instances where other projects have similar officers or identity of interest management firms managing the property.
 - B. Reports must cover the project's entire fiscal period under review. A financial report is required even if any fiscal period is less than a full year.
 - C. The Annual Financial Statements must be prepared on an accrual basis, after making all year-end adjustments. Since the report is based on an examination of books and records of and related to the mortgagor, or entity, the mortgagor shall advise the mortgagee, at least 30 days prior to the end of the mortgagor's fiscal year, that

a statement reporting the escrow, and various reserve fund balances is required as of the date on which the fiscal year ends. As part of the annual audit, the IPA will ask the mortgagee to confirm the amounts of all funds under its control and that they are Federally insured as to principal.

- D. The Report shall be audited by an Independent Public Accountant (IPA) who is a Certified Public Accountant (CPA) or a licensed or registered public accountant having no business relationship with the mortgagor except for the performance of audit, systems work and tax preparation. IPAs who are not Certified Public Accountants must have been licensed or registered by a regulatory authority of a State or other political subdivision of the United States on or before 12/31/70. In states that do not regulate the use of the title "public

accountant," only Certified Public Accountants may be used to make these audits.

3-4. PREPARATION OF FINANCIAL REPORTS

TYPES OF REPORTS AND REPORT CONTENT: The financial statements, except for cooperative housing projects, must contain the following reports, as applicable:

- A. A Statement of Financial Position (Balance Sheet including a Statement of Changes in Owners/Partners Equity. (Appendix 4). The Balance Sheet shows the financial position of an entity at a specified point in time.

The Balance Sheet must reflect all prepaid and deferred items. For nonprofit elderly housing projects only, if founders' fees, life membership contracts or similar funds are received, the Balance Sheet must show:

1. In appropriately titled Fund (Asset) accounts, the aggregate of such cash on hand at the end of the fiscal year, and
2. In appropriately titled Deferred Income (Liability) accounts, any portions of such cash received but not earned at the end of the fiscal year. If there are differences in the conditions under which the funds were received, a separate account shall be established for each class. For example, separate accounts are

required if certain classes of funds are refundable, either in whole or in part, while others are not.

- B. A Statement of Income for the year under review. (Appendix 5). The Statement measures the results of operations for the year under review. This must conform to the following requirements:

1. It must be submitted on Form HUD-92410.

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2. It must show Gross Potential Income less vacancies to arrive at a Net Rental Income.
3. Any apartments or commercial space occupied but not producing revenue must be shown as an expense under the applicable expense classification, and a supporting schedule must be submitted listing the names of such occupants and their connection with the project. If no such revenue applies, it shall be so indicated on the statement.

For Section 221 and Section 236 nonprofit projects only:

4. If gross potential unit rental revenue reported differs from that shown on the Form HUD-92458, Rental Schedule and Information on Rental Project (see Appendix 6), then in effect, a detailed statement accounting for the difference must be attached.
5. Any expenses reported for salaries or other compensation to supervisory or administrative employees, officers, directors, or stockholders must be supported by a schedule showing duties, salary paid, and date of prior written HUD approval.
6. A full explanation is required concerning any receipts from charges for facilities or services, other than reimbursement for breakage or damage by tenants.

For nonprofit elderly housing projects only:

7. Receipts from donations, subsidy payments, portions of founders' fees, life membership contracts, and similar funds earned during the

current year, etc., shall be reported and fully identified.

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- C. A Statement of Retained Earning (Appendix 8). This shall include an explanation of changes in the account other than net income or loss for the operating period.
- D. A Statement of Shareholders' Equity or Partners' Capital (Appendix 9). This shall include a full explanation of origins, additions, and deductions during the operating period. This statement could also be shown as part of the Statement of Financial Position (Balance Sheet).
- E. Statement of Cash Flows, (Appendix 10) shall include funds provided and applied for all cash and certain non-cash expenses (e.g. depreciation) to reflect net increase/decrease in cash during the operating period. The statement shall include no less detail than that shown in Appendix 10 and may include footnotes, if applicable. It shall be prepared using the Direct Method and shall include all receipts, i.e., rental revenue, concessions, commercial property, advances by owner, releases from the Reserve for Replacements, etc. It shall also include all disbursements, whether by check or in cash. In addition, a schedule of funds in the bank must be attached showing each depository by name, account title, and balance, including funds held in the Reserve Fund for Replacements and the Residual Receipts Accounts whether these accounts are maintained by a mortgagee or by the mortgagor.
- F. Notes to Financial Statement includes notes relative to the mortgagor organization and policy changes affecting the preparation of financial statements and account balances, as well as significant accounting policies that have been followed in the preparation of the financial statement by the mortgagor's accountant. In addition, the notes should indicate the type of project and basis for computation of distributions shown.
- G. Supporting Data, in the form of explanatory comments or appropriate schedules. See Appendix 11 Supporting Data for samples of the reports required by HUD. This must include the following:

1. Accounts and Notes Receivable. A complete, detailed analysis shall be included of any accounts or notes receivable other than regular tenant accounts, including date acquired, original amount, terms, name of borrower and balance due.
2. Delinquent Tenant Accounts Receivable. A summary analysis shall be made of delinquent tenant accounts, including the number of tenants and amounts delinquent for 30 days, 30-60 days, 60-90 days, and over 90 days.
3. Mortgagor Escrow Deposits. A breakdown shall be made of the items making up the total amount on deposit with the mortgagee in anticipation of future disbursements for mortgage insurance premiums, taxes, property insurance, etc. This amount shall be confirmed in writing by the mortgagee.
4. Tenant Deposits. A complete, detailed analysis shall be included of funds maintained in any regular tenant accounts such as security/pet deposits.
5. Reserve Funds. An analysis shall be made of all required reserve funds, including:
 - a. A statement as to the amount required. If more than one fund is required to be established, a separate statement must be submitted for each fund.
 - b. A statement as to the form in which these funds are provided. If funds are in cash, the names of the depository of each fund are required, if invested in securities, full details are required.

- c. A statement of any withdrawals during the year, including the purpose of and authority for such withdrawals.

6. Change in Fixed Asset Accounts. A schedule shall be included, showing full details and explanations of any Changes in Fixed Asset Accounts.
7. Accounts Payable. A list shall be included of accounts payable, other than trade creditors, segregated by those payable within 30 days, 30-60 days, and more than 60 days, with detailed analysis of the latter group, to include date incurred, original amount, purpose, terms, creditor, and balance due. Accrued expenses shall be shown separately from accounts payable.
8. Accrued Taxes Payable. A statement shall be attached supporting any accrued taxes shown, including each type of tax, basis for the accrual, and date due.
9. Notes Payable (Other than Mortgage). Details shall be included of loans or notes payable, other than the insured mortgage, including date incurred, original amount, purpose, terms, creditor, and balance due.
10. Stock Actively Reports - Initial Submission. In the initial report (the first report submitted on the project), full details shall be included concerning the issuance of all stock and/or investments, including names of stockholders or individuals interested, proportionate interest of each and whatever consideration is received by corporate or noncorporate projects (considerations shall be itemized to show amount of cash, land, services, etc.). Initially, a list shall be furnished consisting of officers, directors, and individuals having a financial

interest in the project. Thereafter, details shall be furnished of any changes in these positions occurring during the year. If no changes have occurred, it should be so noted.

11. Distributions to Owners or Stockholders. If any dividends were paid or if other distributions were made to owners or stockholders (including purchase or redemption of any stock of the corporation), the amount declared on each class

of stock shall be shown along with the period for which it was declared, the date of declaration, and the date of payment. For limited distribution mortgagors, a statement is required as to both the cumulative and the current (fiscal year) amount of return on equity earned.

12. Unauthorized Distribution of Project Revenue. If any unauthorized distribution of project revenue is revealed during the audit, a separate schedule must be prepared detailing the amounts involved, date of distribution and any other relevant information.
13. Comments on Statement of Position (Balance Sheet) Items. Comments on and explanations of all other Balance Sheet items not fully explained by the title of the account shall be a part of the report.
14. Residual Receipts. For all projects required to make deposits to a residual receipts fund, a computation shall be included showing the amount of any such receipts at the end of the fiscal year and the date of their deposit to the fund. An analysis of this fund and the computation are required regardless of whether or not residual receipts have actually been generated.

15. Donations, Subsidy Payments, Founders Fees, etc. for Non-Profit Elderly Housing Only. In the initial report (the first report submitted on the project) for nonprofit elderly housing only, full details shall be reported concerning any and all donations as well as subsidy payments, founders' fees, life membership contracts or similar funds, etc., including original amounts and purposes for which expended. In subsequent reports, full details must be given concerning such amounts received, due, and expended during the year.
16. Compensation of Partners or Officers. If a project is owned by a corporation or partnership, a statement detailing the Compensation of Officers or Partners is required. If no compensation was paid, a

statement to that effect will suffice.

17. Listing of Identity of Interest Companies and Activity. A listing of identity-of-interest (as defined below) companies doing business with the mortgagor and/or management agent of the project, along with a breakdown of services rendered and amounts received, shall be required if the payments for services performed for the project totalled \$1,000 during the operating period.

HUD assumes an identity of interest to exist between the project staff and the lender/vendor when (1) the project staff member, or (2) any officer, owner, or director of the project, or (3) any person who directly or indirectly controls 10 percent or more of the project's voting rights is also (1) an officer, owner, or director of the lender/vendor, or (2) a person who directly or indirectly controls 10 percent or more of the lender/vendor's voting rights, or (3) directly or indirectly owns 10 percent or more of the lender/vendor. A vendor is any individual or

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establishment that provides goods or services of any kind to the project for compensation or remuneration.

3-5. TYPES OF SUBMISSION

This paragraph highlights report submission requirements for projects operating under the following situations.

- A. The Partial-Year Financial Statement, covering the period from cost certification cut-off through the end of the fiscal year established by the mortgagor, shall contain the same statements and supporting data required in the annual financial report. Partial-year financial statements also may be required as a result of a Transfer of Physical Assets (TPA) which occurs before the end of the current fiscal period as described in HUD Handbook 4350.1, Insured Project Servicing Handbook.
- B. The Statement Covering the Period of Occupancy During Construction must show gross rents received, excluding security deposits and actual operating expenses incurred during the period. In certain cases,

accrued expenses may be included.

1. Additional allowable operating expenses for this purpose may include:

- a. advertising expense,
- b. rental commissions customary for the type of project, if any,
- c. a reasonable management fee (excluding salaries paid to officers of sponsor or mortgagor), and
- d. electricity, gas, water and operating salaries (maintenance, cleaners, gardeners, elevator operators, etc.) to the extent they are not included in

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construction costs on Form HUD-92330 or Form HUD-92330A.

2. Disallowable Expenses include the following Occupancy costs:

- a. Depreciation
- b. Interest
- c. Taxes
- d. Property Insurance Premiums
- e. Mortgage Insurance Premiums (MIPs)

3. If this statement shows an excess of revenue over operating expenses, as defined, the excess shall be treated as a recovery of construction costs (line 15 of Form HUD-92330), except in nonprofit-mortgagor cases.

- a. A copy of the statement, signed by the mortgagor, must be attached to Form HUD-92330.
- b. In nonprofit-mortgagor cases, net income shall not be treated as a recovery of cost, but transferred at final closing to a residual receipts account

for future project needs. The operating (revenue) statement, however, must be reviewed to determine if any expense items shown in the statement were paid from Allowance to Make a Project Operational (AMPO) funds or otherwise included in cost certification items. If so, the net income reflected in the statement shall be adjusted accordingly; and a requirement made that such adjusted net income be

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transferred to the residual receipts accounts.

4. If operating expense exceeds revenue, no entry is made on Form HUD-92330. In this case, the recognized excess of expense over revenue may be carried over as a reduction of net income.
 - a. The statement shall also include information on net income or loss, cash flows, accounts receivable, and accounts payable. It shall be accompanied by a certification of the accountant.
- C. The Statement Covering the Period Between Cost Certification Cutoff Date and First Scheduled Principal Payment. Although rarely needed, the income statement covering the period between the cost certification cutoff date and the first scheduled principal payment requires special preparation.
 1. When final closing is scheduled after the close of the accountability period, the statement shall be submitted at or before final closing. When final closing is scheduled prior to the expiration of the accountability period, the mortgagor must agree in writing:
 - a. To furnish within 30 days after its expiration an income and expense statement for the required period.
 - b. To apply immediately such portion of the net operation revenue as the Secretary may require as a mandatory prepayment to the mortgage.

2. All rents received, exclusive of security deposits, shall be included as revenue. All expenses for operation, including taxes, insurance, mortgage insurance premium, interest and reasonable management fees (but not officers' salaries or

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depreciation), may be deducted in determining net income for this purpose. If the income statement submitted at cost certification reveals an excess of expense over income, to the extent recognized by the Secretary, such excess may be carried forward as "Unrecovered Expense--Prior Period" to the operating (revenue) statement required by this paragraph.

3. The amount and the handling of the prepayment of the mortgage required under this paragraph are subject to the following:
- a. In no case shall the required payment exceed the amount that would have been due in cumulative principal payments if the first payment had been scheduled on the first of the month following the month in which the accounting period started.
 - b. Prepayment is required only to the extent that the amount of the net income permits payment of one or more full monthly principal payments as scheduled.
 - c. If the circumstances are such that the operating (revenue) statement is submitted before final endorsement, the mortgagee and mortgagor may elect to have the mortgage endorsed for less than the face amount by a sum equal to that which would have been required as a mandatory prepayment.
4. The statement shall also include information on net income or loss, cash flows, accounts receivable, and accounts payable. It shall be accompanied by a certification of the mortgagor, as well as an accountant.
-

3-6. REPORTS TO BE ISSUED BY IPA'S

- A. Financial Statement Audit. An independent public accountant shall examine the books and records of the mortgagor and shall furnish an opinion on the annual financial statements in accordance with GAAS and GAS. The independent accountant shall justify any material departure from the "unqualified opinion" language as illustrated in Appendix 12.
- B. Internal Control Structure. In accordance with GAAS and GAS, an independent public accountant shall obtain an understanding of the project's internal control structure and shall furnish a written report on their understanding of the entity's internal control structure and the assessment of control risk made as part of a financial statement audit. This report on the internal control structure shall disclose all internal control weaknesses considered to be reportable conditions, including material weaknesses, as defined by Government Auditing Standards, published by the Comptroller General of the United States. This report may be included in either the auditor's report on the financial audit or a separate report. The independent accountant shall justify any material departure from the language as illustrated in Appendix 13.
- C. Compliance with applicable laws and regulations. In accordance with GAAS, independent public accountants shall prepare a written report on their tests of compliance with applicable laws and regulations in accordance with IG Handbook 2000.4. This report, which may be included in either the report of the financial audit or a separate report shall include all material instances of noncompliance. The independent accountant shall justify any material departure from the language as illustrated in Appendix 14.

The following additional reports, which may be included in either the report of the financial audit or issued as separate reports, are recommended by GAAS, required by GAS, and are also to be prepared and submitted. Samples of these reports

are included in Appendix 15.

- D. Auditor's Schedule of Findings and Questioned Costs. When the auditor identifies a finding, the following information should be provided to HUD officials to permit timely and proper corrective action to be taken. The auditor should attempt to identify:

- o condition (the nature of the problem)
- o criteria (what the owner/management agent should be doing)
- o effect (what happened as a result of the problem)
- o cause (why the problem exists)

The findings reported by an auditor may serve as a basis for HUD to perform additional reviews.

The auditor's "Schedule of Findings and Questioned Costs" should be attached to the auditor's report on compliance.

- E. Auditor's Comments on Audit Resolution Matters. This report identifies whether a project owner has taken corrective actions on findings from the prior audit report. The auditor should provide the project name, prior audit report number, a brief description of the findings and the status of the corrective action plan. This report also includes findings contained in program review reports, and state agency reports.

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3-7. MORTGAGOR'S CERTIFICATION.

- A. The annual financial report shall include: (1) a certification by the mortgagor, when the project is owned by an individual; (2) by two or more partners (including at least two general partners if there are two or more general partners), when it is owned by a limited partnership; (3) by two officers one of which must be the president of the corporation, when it is owned by a corporation; (4) all joint venturers or partners, when the project is a general partnership; or (5) trustee and appropriate beneficiaries, when it is owned by a trust.

- B. The following language shall be used:

"I/we hereby certify that I/we have examined the accompanying financial statements and supplemental data of (mortgagor's name) and, to the best of my/our

knowledge and belief, the same is complete and accurate."

- C. The report also shall include the Employer Identification Number (EIN) assigned to the project by the Internal Revenue Service when the project is owned by a partnership or a corporation or any entity having an EIN. The EIN must be entered below the partner or corporate signatures.

3-8. MANAGING AGENT'S CERTIFICATION.

In instances where there is a management agent for the project, a certification of the financial statements is required which shall identify the individual, as well as the company responsible for management. The Managing Agent's Certification should take the form of the Mortgagor's Certification. Note: This certification is not the Management Certification required for management of the project as described in HUD Handbook 44381.5, Management Documents, Agents, and Fees.

CHAPTER 4. HUD CHART OF ACCOUNTS

4-1. INTRODUCTION

This chapter lists and defines the prescribed uniform system of accounts used by owners of all HUD-insured, HUD-held, cooperative and Section 202 direct loan projects. To assure that project accounting transactions are properly recorded and classified, project bookkeepers must familiarize themselves with the account definitions contained in this chapter. Cooperative projects must use the same accounts as other rental projects, as well as the special asset and member equity accounts defined specifically for Cooperative projects.

4-2. ORGANIZATION OF THE CHART OF ACCOUNTS

The HUD Chart of Accounts uses account categories prescribed by generally accepted accounting principles.

- A. The HUD Chart of Accounts is organized to provide complete and comprehensive project records. Since the project's annual financial statements are prepared on an accrual basis, HUD encourages owners/managing agents to keep project books and records on an accrual basis. Owners/managing agents are responsible for making any necessary year-end adjusting entries before the annual project audit using the accounts prescribed in the HUD Chart of Accounts.
- B. Additional accounts not included in the HUD Chart of Accounts should be established as needed, following generally accepted accounting principles and classified under the appropriate groupings in the HUD Chart of Accounts.
- C. An explanation of the Chart of Accounts appears in the Manual of Accounts.

4-3. CHART OF ACCOUNTS

A. 1000 ASSET ACCOUNTS.

1100 CURRENT ASSETS:

- 1110 Petty Cash
- 1120 Cash in Bank
- 1130 Tenant/Member Accounts Receivable

(Coops)
1140 Accounts Receivable (Other)
1150 Notes Receivable
1160 Accrued Receivables
1170 Investments (Short Term)
1190 Miscellaneous Current Assets
1191 Tenant Security Deposits - Held in Trust

1200 PREPAID EXPENSES:
1210 Fuel Inventory
1220 Gasoline and Oil Inventory
1230 Supplies Inventory
1240 Prepaid Property & Liability
Insurance
1250 Prepaid Mortgage Insurance
1260 Prepaid Advertising
1270 Prepaid Taxes

1290 MISCELLANEOUS PREPAID EXPENSES

1300 FUNDED RESERVES:
1310 Mortgagee Escrow Deposits
1320 Cash, Replacement Reserve
1321 Securities, Replacement Reserve
1330 Cash, Painting Reserve
1331 Securities, Painting Reserve
1340 Cash, Residual Receipts Reserve
1341 Securities, Residual Receipts Reserve
1350 Cash, General Reserves
1360 Securities, General Reserves
1365 General Operating Reserve (Coops)
1370 Apartment Rehabilitation Deposits,
(Coops)
1380 Project Improvement Account

1400 FIXED ASSETS:
1410 Land
1420 Buildings
1430 Building Equipment (Fixed)
1440 Building Equipment (Portable)
1450 Furniture for Project/Tenant Use
1460 Furnishings
1470 Maintenance Equipment
1480 Motor Vehicles
1490 Miscellaneous Fixed Assets

1500 INVESTMENTS

1600 DEPOSITS RECEIVABLE

1700 SUSPENSE ACCOUNTS

1800 ORGANIZATION EXPENSES

1900 OTHER ASSETS

B. 2000 LIABILITY ACCOUNTS

2100 CURRENT LIABILITIES:

2110 Accounts Payable

2112 Accounts Payable - Project Improvement
Items

2115 Accounts Payable - HUD

2120 Accrued Wages and Payroll Taxes Payable

2130 Accrued Interest Payable

2140 Dividends or Distributions Payable

2150 Accrued Property Taxes

2160 Notes Payable (Short Term)

2190 Miscellaneous Current Liabilities

2191 Tenant Security Deposits Held in Trust
(Contra)

2200 PREPAID REVENUES:

2210 Prepaid Rent

2220 Prepaid Rent Revenue

2230 Apartment Rehabilitation Deposits
(Coops)

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2290 Miscellaneous Prepaid Revenues

2300 LONG TERM LIABILITIES:

2310 Notes Payable (Long-Term)

2311 Notes Payable - Surplus Cash

2320 Mortgage Payable

2330 Bonds Payable

2340 Flexible Subsidy Loan Payable

2350 Capital Improvement Loan Payable

2360 Operating Loss Loan Payable

2390 Miscellaneous Long Term Liabilities

C. 3000 MEMBERS EQUITY (NET WORTH)

3100 OWNER EQUITY

3105 Certificates Subscribed (Coops)

3110 Capital Stock - Preferred

3120 Capital Stock - Common

3130 Owner Equity or Certificates Held in
Treasury (Coops)

3140 Certificates of Initial Capital Value Issued
and Outstanding (Coops)

3200 EARNINGS

3210 Retained Earnings or Surplus or
Deficiency from Operations (Coops)
3215 Amortized Mortgage (Coops)
3220 Replacement Reserve (Coops)
3230 Painting Reserve
3235 General Operating Reserve (Coops)
3241 Paid-in Surplus (Coops)
3250 Profit or Loss (Net Income or Loss)

D. 4000 VALUATION ACCOUNTS

4100 ACCUMULATED DEPRECIATION

4120 Reserve for Depreciation - Building
4130 Reserve for Depreciation - Building
Equipment - Fixed
4140 Reserve for Depreciation - Building
Equipment - Portable

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4150 Reserve for Depreciation - Furniture for
Project and Tenant Use
4160 Reserve for Depreciation - Furnishings
4170 Reserve for Depreciation - Maintenance
Equipment
4180 Reserve for Depreciation - Motor
Vehicles
4190 Reserve for Depreciation - Miscellaneous
Fixed Assets

4200 OTHER RESERVES:

4210 Reserve for Collection Losses

E. 5000 REVENUE ACCOUNTS.

5100 RENT REVENUE - GROSS POTENTIAL:

5120 Rent Revenue - Apartments or Member
Carrying Charges (Coops)
5121 Tenant Assistance Payments
5130 Rent Revenue - Furniture and Equipment
5140 Rent Revenue - Stores and Commercial
5170 Garage and Parking Spaces
5180 Flexible Subsidy Revenue
5190 Rent Revenue Miscellaneous

5200 VACANCIES: (See 6370 Also)

5220 Apartments

5230 Furniture and Equipment
5240 Stores and Commercial
5270 Garage and Parking Space
5290 Miscellaneous

5300 ELDERLY AND CONGREGATE SERVICES
REVENUE

5400 FINANCIAL REVENUE:

5410 Interest Revenue - Project Operations
5420 Interest Reduction Payments (Section 236
only)
5430 Revenue from Investments - Residual
Receipts

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5440 Revenue from Investments - Replacement
Reserve
5490 Revenue from Investments
- Miscellaneous

5900 OTHER REVENUE:

5910 Laundry and Vending Revenue
5920 NSF and Late Charges
5930 Damages and Cleaning Fees
5940 Forfeited Tenant Security Deposits
5990 Other Revenue (specify)

F. 6000 PROJECT EXPENSE ACCOUNTS

6200/6300 ADMINISTRATIVE EXPENSES.

6210 Advertising
6235 Apartment Resale Expense (Coops)
6250 Other Renting Expenses
6310 Office Salaries
6311 Office Supplies
6312 Office or Model Apartment Rent
6320 Management Fee
6330 Manager or Superintendent Salaries
6331 Manager or Superintendent Rent Free
Unit
6340 Legal Expense - Project
6350 Audit Expense
6351 Bookkeeping Fees/Accounting Services
6360 Telephone and Answering Service
6370 Bad Debts
6390 Miscellaneous Administrative Expenses
(specify)

6400 UTILITIES EXPENSES:

6420 Fuel Oil/Coal
6450 Electricity
6451 Water
6452 Gas
6453 Sewer

6500 OPERATING & MAINTENANCE EXPENSE:
6510 Janitor and Cleaning Payroll

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6515 Janitor and Cleaning Supplies
6517 Janitor and Cleaning Contract
6519 Exterminating Payroll/Contract
6520 Exterminating Supplies
6525 Garbage and Trash Removal
6530 Security Payroll/Contract
6535 Grounds Payroll
6536 Grounds Supplies
6537 Grounds Contract
6540 Repairs Payroll
6541 Repairs Material
6542 Repairs Contract
6545 Elevator Maintenance/Contract
6546 Heating/Cooling Repairs and
Maintenance
6547 Swim Pool Maintenance/Contract
6548 Snow Removal
6560 Decorating Payroll/Contract
6561 Decorating Supplies
6570 Vehicle and Maintenance Equipment
Operation and Repairs
6590 Miscellaneous Operating and Maintenance
Expenses

6600 DEPRECIATION EXPENSES

6620 Depreciation - Buildings
6630 Depreciation - Fixed Building Equipment
6640 Depreciation - Building Equipment
- Portable
6650 Depreciation - Furniture for Project and
Tenant Use
6660 Depreciation - Furnishings
6670 Depreciation - Maintenance Equipment
6680 Depreciation - Motor Vehicle
6690 Depreciation - Miscellaneous

6700 TAXES & INSURANCE

6710 Real Estate Taxes
6711 Payroll Taxes (Project's Share)
6719 Miscellaneous Taxes, Licenses, and

Permits
6720 Property & Liability Insurance (Hazard)

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6721 Fidelity Bond Insurance
6722 Workmen's Compensation
6723 Health Insurance and Other Employee
Benefits
6729 Other Insurance

6800 FINANCIAL EXPENSES:

6810 Interest on Bonds Payable
6820 Interest on Mortgage Payable
6830 Interest on Notes Payable (Long Term)
6840 Interest on Notes Payable (Short Term)
6850 Mortgage Insurance Premium/Serv Chg
6890 Miscellaneous Financial Expenses

6900 ELDERLY AND CONGREGATE SERVICES
EXPENSES:

6930 Dietary Salaries
6932 Food
6933 Dietary Supplies
6940 Registered Nurses Payroll
6941 Licensed Practical Nurses Payroll
6942 Other Nursing Salaries
6950 Housekeeping Salaries
6951 Housekeeping Supplies
6952 Other Housekeeping
6960 Drugs and Pharmaceuticals
6961 Medical Salaries
6962 Other Medical
6970 Laundry and Linen
6980 Recreation and Rehabilitation
6990 Other Service Expenses

G. 7000 CORPORATE, MORTGAGOR, OR
COOPERATIVE EXPENSES:

7110 Officer's Salaries
7120 Legal Expenses
7130 Federal Income Tax
7131 State Income Tax
7132 Other Taxes (Entity)
7190 Other Expense

4-4. MANUAL OF ACCOUNTS

1000 ASSET ACCOUNTS:

1100 CURRENT ASSETS:

- 1110 Petty Cash. This account represents the established size of the imprest fund used to make small cash payments for items such as postage and small amounts of supplies. The account is debited with the amount of the disbursement establishing or increasing the size of the fund. As cash is used, agents place receipts for the amount withdrawn in the cash drawer. Disbursements made to replenish the petty cash fund are debited directly to the appropriate project expense accounts at the time the reimbursement check is recorded in the Cash Disbursements Journal. At all times, total petty cash on hand plus the receipts for the bills paid must equal the amount of the established fund.
- 1120 Cash in Bank. This account reflects the balance of cash in the project's bank account(s). Debits to the account are posted at least monthly from the Cash Receipts Journal and credits are posted at least monthly from the Cash Disbursements Journal.
- 1130 Tenant/Member Accounts Receivable (Coops). This account reflects the total rents receivable from tenants. The account balance is supported by the Tenant Accounts Receivable subsidiary ledger. The account is debited by journal entry at the end of each month for the total rent roll from the following month. The off-setting credit is made to the rental revenue accounts in the 5000 series. Agents must make an additional credit for Section 236 projects to Account 2115, Accounts Payable - HUD for any rents due from tenants in excess of the basic

monthly rent. Credits to the Tenant Accounts Receivable accounts come from the Cash

Receipts Journal or from journal entries which record concessions to tenants in lieu of rent (see Account 6250).

- 1140 Accounts Receivable - Other. This account represents amounts due the project other than tenant rents receivable and accrued revenue. It is a controlling account supported by a subsidiary ledger. When there are other accounts receivable, agents should record each type separately in accounts numbered 1141 to 1149. For example, Accounts Receivable - Rent Supplement may be numbered Account 1143; Accounts Receivable, Section 8 Assistance Payment, Account 1144; Fire Loss Draft Receivable, Account 1145, etc.
- 1150 Notes Receivable. This account records notes receivable as they are acquired through debits to the General Journal. Credits to the account come from the Cash Receipts Journal when payment is received. When there are several types of notes receivable, agent should record each type separately in accounts numbered from 1151 to 1159.
- 1160 Accrued Receivables. This account reflects any accrued revenue, other than from rent. The account is established by year end journal entry debiting the account for income earned but not received. The offsetting credit is to the appropriate revenue account. After the books are closed, the adjusting entry is reversed. Agents may subdivide the account into accounts 1161, 1162, etc., as necessary.
- 1170 Investments (Short Term). This account records the amount of project funds invested in short term investments other than those in the Funded Reserves (1300) accounts. When the

project has more than one type of short-term investment, agents should record each type separately in accounts numbered 1171 to 1179. The account is credited when the project disposes of any of the investments.

- 1190 Miscellaneous Current Assets. This account records current assets not otherwise described

above. If necessary, agents may subdivide this account into specific current asset accounts numbered from 1192 to 1199.

- 1191 Tenant Securely Deposits - Held in Trust. This account records tenant security deposits held by the project, in the name of the project and in a separate bank account. Agents may use deposits to pay for tenant damages and delinquent rents when a tenant vacates. Total funds in the account must at all times equal or exceed the corresponding liability account, 2191 Tenant Security Deposits - Held in Trust.

1200 PREPAID EXPENSES:

- 1210 through 1230, Inventory Accounts. Agents record inventory accounts only when the amount on hand at year-end is significant when compared to the total expense for the fiscal year. For example, if stored heating fuel at the end of the fiscal year represents 20% of the total fuel expense for the year, agents should debit by a journal entry the value of the fuel on hand to Fuel Inventory (Account 1210) with an offsetting credit to Fuel Expense (Account 6420). Agents reverse the adjusting entry at the beginning of the next accounting period.
- 1240 Prepaid Property and Liability Insurance. This account records the unexpired portion of prepaid insurance policies. The account is debited from the Cash Disbursement Journal when an insurance policy is purchased or when

monthly payments are made on the policy with the mortgage payment. At the close of the accounting period, agents make an adjusting journal entry crediting the cost of the expired insurance and debiting Account 6720, Property and Liability Insurance expense.

- 1250 Prepaid Mortgage Insurance. This account reflects the balance of the mortgage insurance premium (MIP) paid to HUD that is applicable to the following fiscal period. At the close of the accounting period, the account is debited for any prepaid mortgage insurance with an offsetting credit to Account 6850, Mortgage

Insurance Premium. The entry is reversed at the beginning of the next accounting period.

- 1260 Prepaid Advertising. This account reflects the cost of any unused advertising. Similar to the inventory accounts, the unused cost is recorded only when the amount at year-end is significant. The account is established by an adjusting journal entry debiting any unused advertising and crediting Account 6210, Advertising Expense. The entry is reversed at the beginning of the following accounting period.
- 1270 Prepaid Taxes. This account reflects tax payments that apply to future fiscal periods. The account is established by an adjusting journal entry debiting the taxes paid for future periods and crediting Account 6710, Real Estate Taxes. The entry is reversed at the beginning of the following accounting period.
- 1290 Miscellaneous Prepaid Expenses. This account records expenses, other than insurance and taxes, that are paid in advance. The cost of the asset is distributed through journal entry over the usage period.

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1300 FUNDED RESERVES:

- 1310 Mortgagee Escrow Deposits. When used, this clearing account transfers monthly payments of taxes, insurance and replacement reserve escrows to the appropriate expense, prepaid expense or funded reserve account.
- 1320 Cash Replacement Reserve. This records the monthly payments to the mortgagee, or, for Section 202 Projects, funds deposited in special bank accounts, as required by the Regulatory Agreement.
- 1321 Securities - Replacement Reserve. This account records replacement reserve funds that are invested. Section 202 projects deposit replacement reserve funds in a special bank account(s). Credits to the account come from the Cash Receipts Journal supported by HUD-approved releases from the Replacement Reserve account. Interest earned on the

account is credited to Account 5440, Income from Investments - Replacement Reserve.

- 1330 Cash - Painting Reserve. This account records all deposits made by the project to the painting reserve. This account is used to pay costs related to painting the project's exterior and common space. Costs related to painting individual tenant units are charged to Accounts 6560 and 6561, Decorating Payroll and Supplies.
- 1331 Securities - Painting Reserve. The balance of the account reflects the total funds held or invested in securities for the painting reserve account.
- 1340 Cash - Residual Receipts Reserve. This account records any required deposits to the Residual Receipts Fund held by the mortgagee

or, in the case of Section 202 projects, in a separate Residual Receipts Account. Mortgagors credit the account for disbursements from the fund in amounts authorized by HUD. Interest earned on the account is credited to Account 5430, Revenue from Investments - Residual Receipts.

- 1341 Securities - Residual Receipts Reserve. The balance of this account reflects total funds held or invested in securities by the mortgagee using funds from the Residual Receipt Account or, in the case of Section 202 projects, funds held in separately identified investments.
- 1350 Cash - General Reserves. This account records amounts paid in by the mortgagor for general purposes. Credits to the account come from disbursements for debt service or other accounts paid from the fund.
- 1360 Securities - General Reserves. These accounts record funds which are held or invested in securities for general purpose as required by the Certificate of Incorporation.
- 1365 General Operating Reserve (GOR). This account records monthly deposits made to a special escrow account under the control of the

cooperative mortgagor entity. The amount of the required monthly deposit varies by both the GOR account balance and the total amount of monthly member carrying charges. See Paragraph 3 of the cooperative regulatory agreement to determine: (1) what percentage of monthly carrying charges the cooperative must deposit to the account; and (2) conditions for withdrawal from the account. The account provides for contingencies that a cooperative would otherwise meet only through a special assessment to its members. For example, cooperatives may make disbursements from the

account to repurchase stock of withdrawing members or to meet short-term operating deficits because of delinquent receivables from cooperative members. The account is reimbursed (debited) when the cooperative resells the unit or when the cooperative collects the delinquent member carrying charges. Also see Account 3235, General Operating Reserve (contra) and Account 3241, Paid-in Surplus for recording amounts paid by members in excess of the initial capital value of their membership.

- 1370 Apartment Rehabilitation Deposits. This account records deposits received from tenants who rent units owned by the cooperative. The offsetting credit is to Account 2230.
- 1380 Project Improvement Account. Owners must establish this account for all projects receiving Flexible Subsidy assistance. HUD may also require owners to establish this account as a condition for approving a workout agreement or transfer of physical assets. The restricted asset account is debited when funds are deposited and is credited when funds are transferred from the account. Sources of funds include owner contributions, releases from reserves, Flexible Subsidy payments, retroactive mortgage relief, etc. When Flexible Subsidy assistance is deposited to the Project Improvement Account, the offsetting credit is to Flexible Subsidy Loan Payable (2340), or Capital Improvement Loan Payable (2350), or an Owner's Equity Account (3100).

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1400 FIXED ASSETS:

- 1410 Land. The purchase price of the land plus the cost of improvements to the land are charged to this account. Costs of excavating for basements and expenses applicable to the buildings are not included. The balance of the account represents the total outlay necessary to obtain the land and to make the improvements to it. In some instances, it may be desirable to charge depreciation on certain land improvements. These are charged to a separate account beginning with Account 1411. This also requires setting up additional accounts in both depreciation reserves and depreciation expenses. Agents should assign these additional accounts numbers 4110 and 6610, respectively.
- 1420 Buildings. The total cost of the buildings, exclusive of building equipment, furniture, and furnishings, is charged to this account. Agents should also charge improvements to the buildings to this account. Credits are made when the building is disposed of. The balance represents the original cost of the buildings plus enhancements.
- 1430 Building Equipment - Fixed. The balance of this account represents the installed cost of all fixed building equipment in use. When necessary, this account may be subdivided for different groups of assets. For example, Account 1432 may be titled "Building Equipment Fixed - Plumbing Fixtures" and include items such as kitchen sinks, garbage disposals, and bath tubs. Account 1433 may be titled "Building Equipment Fixed - Utility Systems" and include project assets such as heating or cooling units and hot water heaters. When this account is subdivided, agents should establish additional depreciation reserve and expense accounts for each sub-group.

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- 1440 Building Equipment - Portable. The balance of this account represents the total cost of the portable equipment in use. Costs include any transportation or installation charges. Assets in this account include items such as stoves, refrigerators and fire extinguishers. The account is credited as equipment is withdrawn from project use.
- 1450 Furniture - For Project and Tenant Use. The net cost of all equipment and furniture purchased by the project for use in the project office, lobbies, halls, lawns, and sun decks, plus the freight and drayage on the furniture, is charged to this account. The cost of furniture purchased from project funds for rental to tenants is charged to Account 1451. The account is credited as furniture is withdrawn for project or tenant use.
- 1460 Furnishings. The cost of furnishings (window shades, venetian blinds shower curtains, hall carpets, etc.) not charged to the cost of the building is recorded in this account. Credits to the account are made when furnishings are withdrawn from use. The balance of the account represents the cost of the furnishings in use.
- 1470 Maintenance Equipment. The balance of this account represents the cost of project maintenance equipment in use. The account includes items such as janitor's tools, vacuum cleaners, lawn mowers or snow blowing equipment. The cost of equipment is credited when the asset is withdrawn from use.
- 1480 Motor Vehicles. The cost of buses, trucks, passenger cars, etc., is recorded in this account. Each vehicle is shown separately and given an account number in the 1480 group. Equipment withdrawn from use is credited to this account.
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The balance represents the cost of each vehicle in use.

- 1490 Miscellaneous Fixed Assets. Agents may record

fixed assets for which no other provision is made in this account. If necessary, agents should subdivide this account into specific fixed asset accounts in the 1490 group.

1500 INVESTMENTS:

This account records long-term investments (those expected to be held for more than one year) other than those included in the Fund Reserves (1300) Series. The account is credited when the project disposes of the investment.

1600 DEPOSITS RECEIVABLE:

This account reflects the amount of security and other deposits which are due from tenants, but not received. The account is credited when deposits are collected.

1700 SUSPENSE ACCOUNTS:

This account reflects charges for items that are temporarily left unadjusted, such as bad checks from tenants. When the item (check) is cleared, the account is credited.

1800 ORGANIZATION EXPENSES:

This account reflects the cost of organizing or forming the mortgagor entity. These costs may include filing fees, attorney's fees and other recording costs. The account is credited through general journal entries amortizing the original organization costs.

1900 OTHER ASSETS:

This account records non-current assets that are not otherwise classified above. Agents should give a descriptive title to any asset included in the 1900 Series.

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2000 LIABILITY ACCOUNTS:

2100 CURRENT LIABILITIES:

2110 Accounts Payable. This account reflects the total of unpaid bills other than bills to be paid from the Project Improvement Account. (See Accounts 1380 and 2112). The account is a controlling account supported by an Accounts Payable subsidiary ledger or by the file of unpaid vouchers. The account is credited by

journal entry for the total of the bills invoiced for payment. Debits to the account come from the Cash Disbursements Journal. After posting, the total of the accounts payable ledger or unpaid vouchers in the voucher file should equal the balance of this controlling account.

- 2112 Accounts Payable - Project Improvement Items. This account reflects the total of bills vouchered for work items under the Flexible Subsidy Program to be paid from funds transferred from the Project Improvement Account (1380) to the project bank account (1120). Credits to the account come from work items included on Lines 1a through d of Part II, Section C of the Management Improvement and Operating (MIO) Plan, Form HUD-9835B.
- 2115 Accounts Payable - HUD. Used only for Section 236 projects, this account reflects any amount due HUD for rents collected in excess of the allowable basic rents. The account is credited monthly from the Rent Roll and is debited monthly from the Cash Disbursements Journal when a check for the amount of excess rents is sent to HUD. The amount due HUD for the reporting month is shown on Line 6 of the Form HUD-93104, Monthly Report of Excess Income. When no payment is due HUD for the reporting month (i.e., when Line 7 of

the HUD-93104 is a positive amount), the balance in the account is debited with an offsetting credit to Account 5190, Rental Income Miscellaneous.

- 2120 Accrued Wages and Payroll Taxes Payable. This account records by Journal entry the gross amount of payroll and payroll taxes that has been accrued, but not paid, at the end of the accounting period. If necessary, agents may subdivide the account to accrue for the different types of accrued taxes payable (e.g., Account 2121, Federal Withholding Taxes Payable; Account 2122, FICA Taxes Payable; etc.). This entry is reversed at the beginning of the next following accounting period.
- 2130 Accrued Interest Payable. This account records

by adjusting journal entry, interest accrued but unpaid on the mortgage and other interest-bearing obligations at the end of the accounting period. For Section 236 projects, agents should include only the mortgagor's portion of the interest liability on the mortgage. At the beginning of the following accounting period the entry is reversed.

- 2140 Dividends or Distributions Payable. This account is used by profit-motivated and limited dividend mortgagor entities. The account records, through journal entry, dividends or distributions declared by the owner but not yet paid. The offsetting debit is to Account 3210, Retained Earnings. The amount of the dividend or distribution paid during the present period should agree with total(s) from Line 4, "Amount Available for Distribution During the Next Fiscal Period," of the Form HUD-93486, Computation of Surplus Cash, Distributions and Residual Receipts, prepared for the prior period (or periods, where the distribution may

be made semiannually). The account is debited when the dividend or distribution is paid.

- 2150 Accrued Property Taxes. This account records by journal entry the accrual of property taxes incurred and payable in the subsequent year. If necessary, the account may be subdivided to include different types of property taxes accrued (e.g., local real estate, county real estate, personal property taxes, etc.). The entry is reversed at the beginning of the next accounting period.
- 2160 Notes Payable (Short-Term). This account records liabilities on notes due within one year. The account is credited when a cash loan is secured by a short-term note. When a note is secured to cancel another project payable, the account is credited through journal entry. The account is debited from the Cash Disbursements Journal when payment is made on the note.
- 2190 Miscellaneous Current Liabilities. This account records current liabilities not otherwise

described above. If necessary, owners may subdivide this account into specific current liability accounts numbered from 2192 to 2199.

- 2191 Tenant Securely Deposits - Held in Trust (Contra). This account records the offsetting liability resulting from transactions recorded in Account 1191.

2200 PREPAID INCOMES:

- 2210 Prepaid Rents. This account records rents received from tenants (including commercial tenants) that apply to future accounting periods. When the rent is received in advance, this account is credited and Cash (1120) is debited. As the rent becomes due, agents make a

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journal entry debiting this account and crediting Tenant Accounts Receivable (1130).

- 2220 Prepaid Interest Revenue. This account records by journal entry all interest revenue received but not earned at the close of the accounting period. A corresponding debit is made to the Interest Revenue (5400 Series) account. The entry is reversed at the beginning of the next accounting period.
- 2230 Apartment Rehabilitation Deposits. Cooperatives establish this account contra to Account 1370. The balance reflects the cooperative's obligation to refund the deposit if rehabilitation of the rented unit is unnecessary.
- 2290 Miscellaneous Prepaid Revenues. This account records any prepaid revenue other than rents or interest. Agent should establish specific accounts in the 2290 Series to record any miscellaneous prepaid incomes.

2300 LONG-TERM LIABILITIES:

- 2310 Notes Payable (Long-Term). This account reflects amounts on notes due more than one year from the date of the balance sheet. The amount due within one year is recorded in Account 2160. The account is credited when long-term notes are issued and is debited as

principal payments are made on the notes.
Interest paid on the note is charged to Account
6830, Interest on Notes Payable (Long-Term).

- 2311 Notes Payable - Surplus Cash. This account records project obligations (1) payable only from available surplus cash, and (2) in accordance with the terms of the note. The account is credited when the note is issued and debited when payments are made on the note from available surplus cash.

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- 2320 Mortgage Payable. This account reflects the unpaid principal balance of the mortgage. The account is debited by the amount of regular amortization payments made on the mortgage. Interest payments on the mortgage are charged to Account 6820, interest on Mortgage Payable.
- 2330 Bonds Payable. When the project is permanently financed through bond issue, the par value of the bonds is charged to this account. The account is debited as payments are made on the bonds or if the bonds are canceled, Interest paid on the bonds is charged to Account 6810, Interest on Bonds Payable.
- 2340 Flexible Subsidy Loan Payable. This account reflects the total amount of the unpaid balance of flexible subsidy Operating Assistance loans. Credits to the account are made when the proceeds of a loan is received and an agreement has been executed. The balance in the account is decreased (debited) for the amount of the principal paid each time a payment is made.
- 2350 Capital Improvement Loan Payable. This account balance represents the unpaid balance of a capital improvement loan. Funds from this account are used to repair or replace major systems in low and moderate income multi-family buildings. The balance is reduced by the amount of principal paid with each loan payment made.
- 2360 Operating Loss Loan Payable. This account represents the unpaid balance of a loan obtained to sustain operations due to a prior year operating loss. The use of the proceeds from this type of loan is restricted to expenditures for operating expenses. The account

balance is decreased by the amount of the principal paid with each loan payment.

2390 Miscellaneous Long-Term Liabilities. This account records long-term liabilities not

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otherwise described above. If necessary, agents should subdivide the account into specific long-term liability accounts numbered from 2391 through

3000 EQUITY ACCOUNTS:

3100 OWNER EQUITY:

- 3105 Certificates Subscribed. This account reflects the par or assigned value of subscribed membership certificates or capital stock. Charges (debits) are made to the account when the cooperative issues membership certificates or stock to new members. The offsetting credit is to Account 3140, Certificate of Initial Capital Value Issued and Outstanding.
- 3110 Capital Stock - Preferred. This account normally is used by mortgagors controlled by HUD through a Corporate Charter rather than through a Regulatory Agreement.
- 3120 Capital Stock - Common. The class of capital stock which has all the residual interests in the corporation with no limitations nor preferences in distribution of retained earnings or ultimate distribution of assets. In Cooperatives with only one class of shares, it is the same as the Capital Stock (Account 3110).
- 3130 Owner Equity or Certificate Held in Treasury. These control accounts reflect the total amount of capital invested in the project by its owners. Subsidiary accounts are normally maintained for each class of stock or owner. The accounts are credited as additional capital is contributed to the project by the owner(s). Cooperatives debit this account when the outgoing member's unit is resold.

3140 Certificate of Initial Value Issued and Outstanding. This account reflects the initial value of all subscribed and outstanding membership certificates or stock. The account is credited when the cooperative issues subscribed certificates or stock to new members. The account is debited when certificates are returned to the Treasury (Account 3130) pending resale of the units.

3200 EARNINGS:

3210 Retained Earnings or Surplus or Deficiency from Operations (Coops). This control account reflects the accumulated earnings of a mortgagor entity that are not distributed to owners. The account is debited when dividends or distributions are declared and for any net loss from operation of the project. The account is credited with any net income from operations of the project.

In the case of cooperatives, this account records by Journal entry the surplus (debit) or deficiency (credit) from the cooperative's operation during the reporting year. The appropriate offsetting debit or credit comes from Account 3250, Profit or Loss. The balance of this account represents the cooperative's surplus or deficiency from operations since the initial occupancy of the cooperative. This account also records by journal entry any patronage refunds the cooperative makes to members.

3215 - 3235 RESERVE ACCOUNTS:

These accounts record appropriations of retained earnings for general or specific purposes. These accounts record through journal entry the monthly payments made to principal and the funded reserve accounts. The offsetting debit is to Account 3241, Paid-in Surplus.

3215 Amortized Mortgage. For cooperatives, this account records amounts paid for mortgage amortization.

Credit entries are made to this account with offsetting debit entries to Paid-in Surplus Account 3241.

- 3220 Replacement Reserve. This account is used to accrue funds for planned replacement of major capital items such as heating units, roofs, etc. Credit entries are made to this account with offsetting debit entries to the Paid-in Surplus Account 3241.
- 3230 Painting Reserve. This account is used to accrue funds for planned painting services. Credit entries are made to this account with offsetting debit entries to the Paid-in Surplus Account 3241.
- 3235 General Operating Reserve. This account is used to maintain a fund for general operating expenses. Credit entries are made to this account with offsetting debit entries to the Paid-in Surplus Account 3241.
- 3241 Paid-in Surplus. This account records amounts paid by member in excess of the initial value of their membership certificate or stock. Entries to this account separate paid-in surplus from member carrying charges (Account 5120). The account is credited by the total amount of monthly principal and reserve payments. The offsetting debit is to Account 5120, Member Carrying Charges, thereby reducing the cooperative's operating income by the amount of member capital contributions.
- 3250 Income or Loss. All project revenue (5000 Series) and expense (6000 and 7000 Series) are transferred to this account when the project's books are closed. After audit, this account is closed to Retained Earnings (3210) or Owner's Equity (3130).

4000 VALUATION ACCOUNTS:

4100 ACCUMULATED DEPRECIATION - (4120 - 4190):

These accounts reflect the accumulated depreciation on the fixed assets currently in use by the project. The accounts are credited at the end of the accounting period by the amount of depreciation charged against operations (6600 Series) and based on the estimated useful life of the asset being depreciated. When the asset is withdrawn from project use, the account is debited

through journal entry.

4200 RESERVE FOR COLLECTION LOSSES:

This account records the amount of tenant accounts receivable that agents estimate are uncollectible. This Allowance is increased (and an expense recorded) when full collection becomes doubtful. A journal entry is made crediting this account and debiting Bad Debt Expense (Account 6370) for the estimated amount of uncollectible Tenant Accounts Receivable. The Allowance is decreased when the receivables are formally written off. When all collection efforts have failed, the amount of the debt is "written off" by journal entry debiting this account and crediting Account 1130, Tenant Accounts Receivable.

5000 REVENUE ACCOUNTS:

Unless otherwise noted, the balance of all revenue accounts are closed to Account 3250, Profit and Loss at the end of the accounting period.

5100 RENT REVENUE - GROSS POTENTIAL:

5120 Rent Revenue - Apartments or Member Carrying Charges (Coop). Except for Section 236 and 221(d)(3) BMIR projects, this account records gross rent potential less tenant assistance payments for all residential units (including non-revenue producing units). For section 236 and 221(d)(3) BMIR projects, the

account records basic rental charges due for tenants as shown on the latest Form HUD-92458, Rental Schedule, less tenant assistance payments. See Account 5190 for treatment of rents due or collected from tenants paying amounts greater than the basic rental charge. Offsetting debits to this account are Account 1130, Tenant Accounts Receivable, Account 5220, Vacancies - Apartments, and Account 6331, Manager or Superintendent Rent Free Unit.

5121 Tenant Assistance Payments. This account records tenant assistance payments received or earned by the project. Tenant assistance

payment programs include the Rent Supplement, Rental Assistance Payment (RAP), and Section 8 programs, including vacancy and debt service special claims.

- 5130 Rent Revenue - Furniture and Equipment. This account records the gross rent revenue expectancy from furniture and equipment when the project provides furnished apartments.
- 5140 Rent Revenue - Stores and Commercial. This account records gross rental revenue expectancy from stores, offices, rented basement space or other commercial facilities.
- 5170 Garage and Parking Spaces. This account records the gross potential rental revenue from all garage and parking spaces.
- 5180 Flexible Subsidy Revenue. This account reflects the amount of Project Improvement Funds transferred from the Project Improvement Account (1380) to reduce mortgage or escrow deficiencies, to cover operating deficits or to meet working capital needs. These amounts are reported on form HUD-9823 A Requisition for Advance of Flexible Subsidy Funds. The

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offsetting debit is to the relevant asset or expense account. At the close of the accounting period, agents must adjust the account by journal entry for any project expenses or releases awarded to pay accounts payable from prior fiscal periods.

- 5190 Rent Revenue - Miscellaneous. This account records gross rental revenue expectancy not otherwise described above. For Section 221(d)(3) BMIR projects, this account records rental collections due from over-income limit tenants in excess of the basic rental charge. For Section 236 projects, this account records excess rents collected from tenants when no payment is due HUD for the reporting month. Also see definition of Account 2115, Accounts Payable - HUD.
- 5200 Vacancies. These accounts (5220-5290) record rental revenue lost through vacancy of an apartment unit or

otherwise revenue-producing space or equipment. Agents normally debit the accounts monthly. At the end of the accounting period, the balance of these accounts are closed to Account 3250 Net Income or Loss.

5300 Elderly and Congregate Services Revenue. These accounts (5300-5390) are used primarily by projects designed for the elderly. The accounts record revenues received other than rents for services provided to tenants (e.g., meal services, housekeeping and nursing care services). Service-related expenses are charged to the 6900 services accounts. A schedule shall be attached to the Statement of Income summarizing these accounts.

5400 FINANCIAL REVENUE:

5410 Interest Revenue - Project Operations. This account is used to record interest earned on funds in project operating accounts. This account will be credited for

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the interest amount and the appropriate interest generating asset account will be debited.

5420 Interest Reduction Payments. This account is used to record interest reduction payments made to the mortgagee by HUD on behalf of the project owner under Section 236 of the National Housing Act. This revenue account will be credited for the amount of the payment and the appropriate interest expense account will be debited.

5430 Revenue from Investments - Residual Receipts. This account records interest earned from residual receipts investments. The account will be credited for the interest amount and the appropriate interest generating asset account will be debited.

5490 Revenue from Investments - Miscellaneous. This account records interest earned from other miscellaneous investments. The account will be credited for the interest amount and the appropriate interest generating asset account will be debited.

5900 OTHER REVENUE:

5910 Laundry and Vending Revenue. This account records project revenues received from laundry and vending

machines owned or leased by the project.

- 5920 NSF and Late Charges. This account records charges assessed to tenants for rent checks returned for insufficient funds and for late payment of rents.
- 5930 Damages and Cleaning Fees. This account records charges collected from tenants for damages to apartment units and for fees paid by tenants for cleaning of an apartment unit (other than regular housekeeping services).
- 5940 Forfeited Tenant Security Deposits. This account records any security deposits forfeited by tenants moving out of the project. The account is credited only when

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the tenant security deposit is deposited to the project operating account.

- 5990 Other Revenue. This account records project revenues not otherwise described in the above revenue accounts. If necessary, agents should subdivide the account into specific revenue accounts numbered 5991 through 5999.

6000 PROJECT EXPENSE ACCOUNTS:

All project expense accounts are closed to Account 3250, Profit and Loss, at the end of the accounting period. Unless otherwise noted, all debits to the expense accounts are made from the Cash Disbursements Journal.

6200 AND 6300 ADMINISTRATIVE EXPENSES:

- 6210 Advertising. This account records the cost of advertising the rental property. The cost of any unused advertising, if significant, is transferred by journal entry to Account 1260, Prepaid Advertising, at the end of the accounting period.
- 6235 Apartment Resale Expense. This account records repair costs required following the sale of a cooperative unit less any portion of the seller's equity that was applied against repair costs.
- 6250 Other Renting Expenses. This account records miscellaneous expenses related to the rent-up of vacant units. For example, charges to this account may include reasonable payments to

third parties for referring new tenants to the project or the cost of new locks after a tenant moves out. Agents may also charge this account for any allowance given tenants in lieu of rent (e.g., providing a new tenant a week's free rent in exchange for cleaning and painting the unit).

- 6310 Office Salaries. This account records salaries paid to office employees (other than the resident manager) responsible for the front-line operation of the project regardless of whether the employee works on site or in the agent's office. Front-line responsibilities include for example, taking applications, verifying income and processing maintenance requests. The account does not include salaries paid to occupancy, maintenance and regional supervisors who carry out the agent's responsibility for overseeing for supervising project operations and personnel. These salaries are paid from the management fee. This account also does not include the project's share of payroll taxes (Account 6711) or other employee benefits (Account 6723) paid by the project.
- 6311 Office Supplies. This account records office expense items such as supplies, postage, stationery and copying.
- 6312 Office or Model Apartment Rent. This account records the rental value of an apartment, otherwise considered potentially rent-producing, but used as the project office or as a model apartment. The account is normally debited by journal entry.
- 6320 Management Fee. This account records the cost of management agent service contracted for by the project. This account does not include charges for bookkeeping or accounting services paid directly by the project to either the management agent or another third party (see account 6351).
- 6330 Manager or Superintendent Salaries. This account records salaries paid to a resident manager or superintendent. It does not include the project's share of payroll taxes or other employee benefits or compensation given a resident manager or superintendent in lieu of

salary payments.

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- 6331 Manager's or Superintendent's Rent Free Unit. This account records the contract rent of any rent free unit provided a resident manager or superintendent which would otherwise be considered revenue producing.
- 6340 Legal Expense. This account records legal fees or services incurred on behalf of the project (as distinguished from the mortgagor entity). For example, agents charge legal fees for eviction procedures to this account.
- 6350 Audit Expense - Project. This account records the auditing expenses incurred by the project that are directly related to HUD requirements for reviewed financial statements and reports. This account also includes the auditor's charge for preparing the mortgagor entity's Federal, State and Local tax returns. This account does not include the cost of routine maintenance or review of the project's books and records (see account 6351).
- 6351 Bookkeeping Fees/Accounting Services. This account records the cost of bookkeeping fees or accounting or computing services not included in the management fee but paid to either the agent or a third party.
- 6360 Telephone and Answering Service Expenses. This account records the cost of telephone or answering services provided on behalf of the project.
- 6370 Bad Debts Expense. This account records by journal entry the amount of tenant accounts receivable the agent estimates uncollectible at the end of the accounting period. The offsetting credit is to Account 4220, Allowance for Vacancy and Doubtful Tenant Accounts.

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6390 Miscellaneous Administrative Expenses. This account records administrative expenses not otherwise classified in the 6300 Series. If necessary, agents should subdivide the account into specific accounts numbered 6391 through 6399.

6420-6453 UTILITIES EXPENSE:

These accounts record the costs of utility charges billed the project. If the amount of fuel oil at year end is significant compared to the total fuel oil expense for the year, agents should credit the account by journal entry for the value of the fuel oil and debit Account 1210, Fuel Inventory.

6500 OPERATING AND MAINTENANCE EXPENSES:

6510 Janitor and Cleaning Payroll. This account records the salaries of janitors employed by the project. Agents should also include any compensation given in lieu of salary (such as a rent-free or reduced-rate rental unit) in Account 6510. This account should not include the project's share or payroll taxes (FICA and Unemployment) or other employee benefits paid to the project.

6515 Janitor and Cleaning Supplies. This account records all costs of janitor supplies charged to the project.

6517 Janitor and Cleaning Contract. This account records the cost of janitor or cleaning contracts the owner or agent executes with third parties on behalf of the project.

6519 Exterminating Payroll Contract. This account records the charges to a project for labor or costs associated with an exterminating contract executed with a third party by the owner or agent.

6520 Exterminating Supplies. This account records the costs charged to the project for materials used in exterminating.

- 6525 Garbage and Trash Removal. This account records the cost of removing garbage and rubbish from the project. The account does not include salaries paid to janitors who collect the trash.
- 6530 Securely Payroll/Contract. This account records the project's payroll cost attributable to the protection of the project or the costs of a protection contract that the owner or agent executes on behalf of the project.
- 6535 Grounds Payroll. This account records the salaries of project employees whose primary responsibility is caring for project grounds. Project payroll costs related to permanent improvement to project grounds is capitalized and not charged to this account. This account does not include the project's share of payroll taxes or other employee benefits paid by the project.
- 6536 Grounds Supplies. This account records the cost of equipment and supplies used in maintaining projects grounds. Charges to this account include the costs of shovels, rakes, seed, sod and shrubbery.
- 6537 Grounds Contract. This account records charges to the project for grounds service contracts executed by the owner or agent.
- 6540 Repairs Payroll. This account records the salaries of project employees who repair project owned equipment or other assets. This account does not include the project's share of payroll taxes or other employee benefits paid by the project.

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- 6541 Repairs Material. This account records the costs charged to the project for material used in repairs.
- 6542 Repairs Contract. This account records the cost of contract repairs to project assets. Agents should capitalize repairs of significant amounts which extend the useful life of the asset.

- 6545 Elevator Maintenance/Contract. This account records the cost of maintaining or repairing elevators by project employees or charges to the project for an elevator maintenance contract executed by the owner or agent.
- 6546 Heating/Cooling Repairs and Maintenance. This account records the cost of repairing and maintaining heating or air conditioning equipment owned by the project. Agents should capitalize repairs of significant amounts which extend the useful life of the equipment.
- 6547 Swim Pool Maintenance/Contract. This account records the costs of maintaining and operating the swimming pool by project employees or the charges to the project for any swimming pool contract executed by the owner or agent.
- 6548 Snow Removal. This account records the cost of removing snow from project sidewalks and parking areas.
- 6560 Decorating Payroll/Contract. This account records the salaries of project employees whose responsibility is decorating rental units, common space or the building's exterior.
- 6561 Decorating Supplies. This account records the cost of project labor and supplies in decorating rental units, common space or the building's exterior or charges to the project for any

- decorating contract executed by the owner or agent.
- 6570 Vehicle and Maintenance Equipment Operation and Repairs. This account records the cost of operating and repairing project motor vehicles and maintenance equipment. Motor vehicle insurance is not included in this account but is charged to Account 6720, Property and Liability Insurance (Hazard).
- 6590 Miscellaneous Operating and Maintenance Expenses. This account records the cost of maintenance and repairs not otherwise classified in the 6400 and 6500 account Series. If necessary, agents should subdivide the

account into specific accounts numbered 6591 through 6599.

6600-6690 DEPRECIATION:

HUD does not prescribe the method of depreciation for fixed assets of the project. The method of depreciation, however, must conform to GAAP.

These accounts represent depreciation charged for the fixed asset accounts during the accounting period. Agents make the corresponding credit to accounts in the 4100 Series, Accumulated Depreciation.

6700 TAXES AND INSURANCE:

6710 Real Estate Taxes. This account records payments made for real estate taxes of the project. At the end of project fiscal year, the account is credited by journal entry for any taxes paid but due in the following year. The corresponding debit is to Account 1270, Prepaid Taxes.

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6711 Payroll Taxes (Project's Share). This account records the project's share of FICA and State and Federal Unemployment taxes.

6719 Miscellaneous Taxes, Licenses and Permits. This account records any taxes, licenses or permit fees assessed the project and not otherwise categorized in the 6700 Series.

6720 Property and Liability Insurance (Hazard). This account records the cost of project property and liability insurance. The account is debited through journal entry when funds are not escrowed by a mortgagee or when Section 202 projects deposit funds in a special escrow account.

6721 Fidelity Bond Insurance. This account records the cost of bonding project employees who handle cash.

6722 Workmen's Compensation. This account records the cost of workmen's compensation

insurance for project employees. The account is debited through journal entry.

6723 Health Insurance and Other Employee Benefits. This account records the cost of any health insurance and other employee benefits paid and charged to the project.

6729 Other Insurance. This account records the cost of insurance not otherwise classified in the 6700 Series.

6800 FINANCIAL EXPENSES:

6810 Interest on Bonds Payable. This account records interest paid or accrued on bonds issued to construct or permanently finance the project.

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6820 Interest on Mortgage Payable. This account records interest paid or accrued on a mortgage issued to construct or permanently finance the project. The account is debited through journal entry.

6830 Interest on Notes Payable. These accounts
and record interest and discounts paid on short
6840 term (6830) and long term (6840) notes.

6850 Mortgage Insurance Premium/Service Charges. This account records payments to the mortgagee for insurance on the mortgage. In the case of HUD-held mortgages, the payment is in the form a service charge. At the close of the accounting period, agent credits the account for any premiums paid but due the following year. The offsetting debit is to Account 1250, Prepaid Mortgage Insurance.

6890 Miscellaneous Financing Expenses. This account records financial expenses not otherwise classified in the 6800 Series. If necessary, agents should subdivide the account into specific financial expense accounts numbered 6891 through 6899.

6900 ELDERLY AND CONGREGATE SERVICE EXPENSES:

Accounts in this Series are use primarily by

projects designed for the elderly. The accounts record expenses directly related to special services provided the tenant (e.g., nursing expenses, drugs, food, etc.). See Section 4-3 for a detailed listing of service expenses in the 6900 Series. A schedule of accounts in this series shall be attached to the Statement of Income summarizing these expense accounts.

7000 CORPORATE OR MORTGAGOR EXPENSES:

These accounts record expenses applicable to the mortgagor entities distinguished from expenses necessary and reasonable to the operation of the project. In addition, these accounts record expenses for community shared facilities. Owners and agents may charge expenses included in the 7000 Series against project operations only with the prior written approval of HUD.

- 7110 Officers' Salaries. This account records salaries paid to officers for performing corporate duties. It should also include the value of any services given in an officer in lieu of a salary.
- 7120 Legal Expenses (Entity). This account records legal expenses related solely to the corporation or mortgagor entity.
- 7130 through 7132 - Taxes. These accounts record federal and state income tax and other corporate/entity taxes through expense of the mortgagor entity for the tax year.
- 7190 Other Expenses (Entity). This account records mortgagor entity expense items not otherwise classified in the 7100 Series. The account includes fees for preparation of federal, state and local income tax returns for individuals or limited partners, fees paid to partners other than from available surplus cash and office rent and supplies used exclusively for mortgagor entity purposes.
- 7700 Trustee. This account records expenses paid to an independent third party to manage the affairs of the long term debt and protect both the interests of the lender and the borrower.
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CRIMINAL STATUTES

1. Section 1715z-19, Title - 12. U.S.C., "Equity Skimming Penalty", provides, among other things, whoever willfully uses or authorizes the use of any part of the rents, assets, proceeds, income or other funds derived from the property during a period when the mortgage note is in default or the project is in a non-surplus cash position, for any purpose other than to meet actual or necessary expenses, shall be fined not more than \$250,000 or imprisoned not more than 5 years, or both.
2. Section 1001, Title 18, U.S.C., "Fraud and False Statements", provides, among other things, that whoever knowingly and willingly makes or uses a document or writing containing any false, fictitious, or fraudulent statement or entry, in any matter within the jurisdiction of any department or agency of the United States, shall be fined not more than \$10,000 or imprisoned for not more than five years, or both.
3. Section 1010, Title 18, of the U.S.C., "H.U.D. Transactions", makes it a criminal offense to make a willful false statement or misrepresentation to any Department or Agency of the United States as to any matter within its jurisdiction.
4. Section 1010, Title 18, U.S.C., "H.U.D. Transactions", provides, in part: "Whoever, for the purposes of ... influencing in any way the action of such administration makes, passes, utters or publishes any statement knowing the same to be false ... shall be fined not more than \$5,000 or imprisonment of not more than two years, or both.
5. Section 1012, Title 18, U.S.C., "Department of Housing and Urban Department Transactions", provides in part: "Whoever, with intent to defraud, makes false entry in any book of the Department of Housing and Urban Development, makes any false report or statement to or for such Department ... or whoever receives any compensation ... with intent to defraud such Department or with intent unlawfully to defeat its purposes shall be fined not more than \$1,000 or imprisoned not more than 1 year, or both."

CIVIL STATUTES

1. Section 1715z-4a, Title 12, U.S.C., "Double Damages Remedy for Unauthorized Use of Multifamily Housing Projects Assets and Income," provides for a double damages civil remedy for the use of assets or income in violation of any Regulatory Agreement or any applicable HUD regulations.

2. Section 1735f-15, Title 12, U.S.C., "Civil Money Penalties Against Multifamily Mortgagors", provides, among other things, civil money penalties in addition to any other civil remedy or criminal penalty to be paid by the mortgagor through personal funds for (1) violation of agreement with HUD to use non-project funds for certain specified needs of a project (e.g., payments to the replacement reserve account) as condition of receiving transfers of physical assets, flexible subsidy loan, capital improvement loan, modification of mortgage terms or workout agreement. The penalties can be as much as the amount of loss the Secretary would experience at foreclosure sale or sale after foreclosure and (2) certain specific violations of the regulatory agreement, the penalties can be as much as \$25,000 for each occurrence.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT HOUSING - FEDERAL HOUSING COMMISSIONER OFFICE OF MULTIFAMILY HOUSING MANAGEMENT AND OCCUPANCY			
COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS AND RESIDUAL RECEIPTS			
PROJECT NAME		FISCAL PERIOD ENDED ____ / ____ / ____	PROJECT NUMBER
PART A - COMPUTE SURPLUS CASH			
CASH	1. Cash (Accounts 1110, 1120, 1191, 1192)	\$	
	2. Tenant subsidy vouchers due for period covered by financial statement	\$	
	3. Other (describe)	\$	
	(a) Total Cash (Add Lines 1, 2, and 3)		\$
CURRENT OBLIGATIONS	4. Accrued mortgage interest payable	\$	
	5. Delinquent mortgage principal payments	\$	
	6. Delinquent deposits to reserve for replacements	\$	
	7. Accounts payable (due within 30 days)	\$	
	8. Loans and notes payable -- (due within 30 days)	\$	
	9. Deficient Tax Insurance or MIP Escrow Deposits	\$	
	10. Accrued expenses (not escrowed)	\$	
	11. Prepaid Rents (Account 2210)	\$	
	12. Tenant security deposits liability (Account 2191)	\$	
	13. Other (Describe)	\$	
	(b) Less Total Current Obligations (Add Lines 4 through 13)		\$
	(c) Surplus Cash (Deficiency) (Line (a) minus Line (b))		\$
	PART B - COMPUTE DISTRIBUTIONS TO OWNERS AND REQUIRED DEPOSIT TO RESIDUAL RECEIPTS		
LIMITED DIVIDEND PROJECTS	1. Surplus Cash	\$	
	2a. Annual Distribution Earned During Fiscal Period Covered by the Statement	\$	
	2b. Distribution Accrued and Unpaid as of the End of the Prior Fiscal Period	\$	
	2c. Distributions Paid During Fiscal Period Covered by Statement	\$	
	3. Amount to be Carried on Balance Sheet as Distribution Earned but Unpaid (Line 2a plus 2b minus 2c)	\$	
	4. Amount Available for Distribution During Next Fiscal Period	\$	
5. Deposit Due Residual Receipts (Must be deposited with Mortgagee within 60 days after Fiscal Period ends)		\$	
PREPARED BY		REVIEWED BY	
LOAN TECHNICIAN		LOAN SERVICER	
DATE		DATE	

(See Reverse for Instructions)

HUD-93486 (12-80)

INSTRUCTIONS FOR PREPARATION OF FORM HUD-93486,
COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS AND RESIDUAL RECEIPTS

PART A

LINE 1. Do not include escrow deposits or HUD required reserves. Do not include funds in Project Improvement Accounts required on Flexible Subsidy or other projects.

LINE 2. Include amounts receivable on tenant subsidy vouchers only if the amounts were earned during the period covered by the financial statement. Do not include Section 8 vouchers submitted for the first month of the next fiscal year. Keep in mind that rent supplement and RAP vouchers are submitted on the 20th of the month they are earned while Section 8 vouchers are submitted on the 20th of the month before they are earned.

LINE 3. Include amounts related to replacement reserve draws for items which have:

- Been paid from project funds, and
- Approved by HUD prior to the end of the fiscal year, but
- For which reimbursement has not been received from the mortgagee.

LINE 4. For projects current under the mortgage, include the interest payment due the first of the next month (*Account 2130*). Remember interest is paid in arrears; interest for the month of December is payable January 1. For projects in default under the mortgage, include delinquent interest payments shown on the Form HUD-92426, Notice of Default; use the Form HUD-92426 for the month following the last month covered by the financial statement. For HUD-held projects, include delinquent interest shown on the Form HUD-92771, Notice of Mortgage Payment Due; use the HUD-92771 for the month following the last month covered by financial statements.

LINE 5. Include principal delinquent under the mortgage. This should be the difference between the unpaid balance shown on the amortization schedule and the amount shown in account 2320 as of the Balance Sheet date.

LINE 6. Include any delinquent deposits to the reserve for replacement account (*Account 1320*). Be sure to include any lump-sum deposits required by special workout agreements or subsidy contracts.

LINE 7. Exclude accounts payable related to replacement reserve draws which were:

- Approved by HUD prior to the end of the fiscal year, but
- Which have not yet been released by the mortgagee and deposited in the project account.

Include any excess income payments on Section 236 projects which should have been sent to HUD and were not as of the end of the fiscal year; excess income is calculated monthly on Form HUD-93104.

Line 9. Include any deficiency reported in the mortgage escrow deposits schedule of the Supplemental Data to the financial statement. Note that replacement reserve deposits are not included; delinquent replacement reserve deposits are included in Line 6.

PART B

LINE 1. If the amount on Line 13(c) of Part A was zero or negative, enter zero. If the amount on Line 13(c) of Part A was positive, enter that amount here.

USE ONLY ON LIMITED-DIVIDEND PROJECTS
LINE 2a. Enter zero if mortgagor agreed not to accrue distributions for the fiscal period covered by the financial statement. On limited dividend projects, the annual distribution earned is calculated by multiplying the distribution rate cited in the regulatory agreement by the initial owner's equity account. The owner equity figure is determined at the time of cost certification and should not be confused with the Owner's Equity Account reported annually on the project Balance Sheet. The annual distribution permitted is computed by multiplying the distribution rate cited in the regulatory agreement by the difference between the HUD-approved mortgage amount (*Line 10*) and the replacement cost (*Line 6*) of Form HUD-2580, Maximum Insurable Mortgage.

NOTE: IF DISTRIBUTION IS PAID FOR A SEMI-ANNUAL PERIOD, DIVIDE ANNUAL DISTRIBUTION BY 2

LINE 2b. Enter zero if mortgagor agreed to waive distributions that have accrued prior to period covered by the statement. On other limited-dividend projects, enter the amounts shown on previous year's balance sheet or Line 3 of last year's computation of surplus cash.

LINE 2c. Enter amount shown as distributions paid in the Statement of Changes in Owner's Equity or the Statement of Receipts and Disbursements. Distributions are defined in paragraph 2-10 of Handbook 4370.1 REV-1.

LINE 3. Enter Line 2(a) plus Line 2(b) less Line 2(c).

LINE 4. For non-profit projects enter zero. For limited-dividend projects, enter lesser of Line 1 or Line 3. For profit-motivated projects, enter the amount on Line 1.

LINE 5. For non-profit projects, enter the amount on Line 1. For profit-motivated projects, enter zero. For limited-dividend projects, enter Line 1 less Line 4.

HUD-93486 (12-80)

Monthly Report of Excess Income

U.S. Department of Housing
and Urban Development
Office of Housing
Federal Housing Commissioner

Section 236 Projects

OMB Approval No. 2502-0086 (exp 7/31/93)

Public reporting burden for this collection of information is estimated to average 0.5 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Reports Management Officer, Office of Information Policies and Systems, U.S. Department of Housing and Urban Development, Washington, D.C. 20410-3600 and to the Office of Management and Budget, Paperwork Reduction Project (2502-0086), Washington, D.C. 20503. Do not send this completed form to either of the above addresses.

Privacy Act Statement: The Department of Housing and Urban Development (HUD) is authorized to collect this information by Section 236 of the National Housing Act of 1937, as amended, and the Employer Identification Number (EIN) by the Housing and Community Development Act of 1987, 42 U.S.C. 3543. The information concerning the monthly reporting of excess income is being collected by HUD to: (1) ensure project owners comply with the program requirements to accumulate, safeguard and pay HUD all rental charges collected in excess of the basic rental charges; (2) recover and enforce collection actions through repayment plans and/or offset of future subsidy billings in accordance with 24 CFR 17, administrative claims, and assess civil money penalties pursuant to Section 416 of the 1987 Housing and Community Development Act, as well as; (3) automate financial reporting needs. The EIN is used as a unique identifier for closer monitoring of owners and agents. HUD may disclose this information to Federal, State and local agencies when relevant to civil, criminal, or regulatory investigations and prosecutions. It will not be otherwise disclosed or released outside of HUD, except as required and permitted by law. Failure to provide the information could affect your future participation in HUD programs.

Important: Follow the instructions on the back to prepare this form.

Submit this form by the 10th of the month following the month covered by this report.

Mail this report to: Excess Rental Income P.O. Box 360333M Pittsburgh, PA 15250	Project Name & Address :	FHA Project No:	
		Reporting Period: (mm/yyyy)	
		Complete this block only if item 8 shows a payment due HUD Check No: Amount :	
Project Owner's Name, Address & Phone No:		Management Agent's Name, Address & Phone No:	
Employer ID No.:		Employer ID No.:	

Item Description	Column A	Column B
1. Balance carried forward from the previous month		
2. Total rents collected from HUD and tenants during the current month		
3. Adjustments to Basic Rents for revenue-producing units occupied a partial month		
4. Total Basic Rents for revenue-producing units occupied one or more days during the month		
5. Subtotal: (add lines 2 and 3 in column A; add lines 1 and 4 in column B)		
6. Total due and payable to HUD		
7. Balance to be carried forward to next month		

Certification: I certify that the information on this form and form HUD-93104-A is true and complete.

Type the Name & Phone No. of the Person Preparing this Report (include area code) :	Name of Reviewing Mortgage Officer & Phone No.:
Title :	Title :
Signature & Date :	Signature & Date :
X	X

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012, 31 U.S.C. 3729, 3802)

Previous editions are obsolete.

form HUD-93104 (4/92)

Instructions for Preparing form HUD- 93104, Monthly Report of Excess Income .

Purpose: This report is designed to calculate the amount of funds collected from tenants that is in excess of the basic rent due. It is also used to track accrued unpaid excess rent (over basic rent) that has not been paid by tenants who do not qualify for basic rent, and who may be delinquent in whole or in part in paying excess rent due.

Header Data. Complete all boxes

Project Name & Address. Enter the name and mailing address of the project

FHA/Non-Insured Project Number. Enter the 8-digit FHA or State Agency non-insured project number. Sample entries are:

<u>FHA-Insured Projects</u>	<u>State Agency Non-Insured Projects</u>
121-44026	121-001NI

Failure to provide the correct project number could result in assessment of both late charges and interest penalties due to collections not being properly applied.

Check Number and Amount. Enter the check number and the amount remitted when excess income is remitted. This information is needed for correct collection credit.

Reporting Period. Enter the month and year of this report. (June 1990 is to be entered as 6/90.) Correct information ensures correct collection credit.

Project Owner / Management Agent (Name & Address). Enter the information for the entities responsible for the project.

Employer Identification Number (EIN). The EIN means the taxpayer ID number of the individual, trust, estate, partnership, association, company, or corporation assigned pursuant to section 6011(b) of the Internal Revenue Code of 1986, or corresponding provisions of prior law, or pursuant to section 6109 of the Code. The number has 9-digits separated by a hyphen as follows:

00-0000000.

Line Entries

Line 1. Enter the amount shown in line 7, column B of the previous month's excess income report.

Line 2.

- If you completed column 6 of form HUD-93104-A, enter the sum total of column 6 from the totals of all pages;
- Otherwise, enter the sum total of column 4 from the totals of all pages of the HUD-93104-A form.

Line 3. Enter the sum total of column 7 from the totals of all pages of the HUD-93104-A form.

Line 4. Enter the sum total of column 3 from the totals of all pages of the HUD-93104-A form.

Line 5. Subtotals:

Column a. Add items 2 and 3 of column A and enter the answer.

Column b. Add items 1 and 4 of column B and enter the answer.

Line 6. Total:

a. If 5A is less than or equal to 5B, enter zero.

b. If 5A is greater than 5B:

(1) Subtract 5B from 5A;

(2) Enter the answer in block 6A.

c. If you have not given all 1983 HURRA rent rebates due tenants paying greater than basic rent, you may reduce the above amount by the amount of any rent rebate computed with a Section 236 Rent Rebate Worksheet (See Paragraph 3-40b of Handbook 4350.3.)

d. Send a check make payable to HUD for the net amount calculated in b.(2) or c above. Enter the check number and amount in the areas so indicated.

Line 7.

• If item 5B is less than or equal to item 5A, enter zero;

• Otherwise, subtract item 5A from item 5B and enter the answer. (Carry forward this amount to line 1 of next month's report.)

Name and Phone Number of the Person Preparing the Report. Enter the name and telephone number of the individual who prepared the report. If HUD or the State Agency has questions on the report, this individual will be contacted as the individual most familiar with the report.

Distribution.

- Send the original form HUD-93104 and any required remittance to the following: (Do not send the form HUD-93104-A.)

Excess Rental Income
P O Box 360333M
Pittsburgh, PA 15250

- For projects financed by a State Agency, send a copy of the form HUD-93104 to the State Agency. For all other projects, send one copy of the form HUD-93104 to the local HUD Field Office.
- Retain one copy of the form HUD-93104 in your files. (Attach the form HUD-93104-A to this copy of the form HUD-93104.)

Section 236 Projects

**U.S. Department of Housing
and Urban Development
Office of Housing
Federal Housing Commissioner**



OMB Approval No. 2502-0088 (exp. 7/31/93)

Important! Use this form with form IIUD-93104. Follow the instructions on the back.

FHA Project No.:

Reporting Period: (mm/yyyy)

[illegible]

Previous editions are obsolete

Page () of () pages

form HUD-93104-A (4/92)

Public reporting burden for this collection of information is estimated to average 0.5 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Reports Management Officer, Office of Information Policies and Systems, U.S. Department of Housing and Urban Development, Washington, D.C. 20410-3600 and to the Office of Management and Budget, Paperwork Reduction Project (2502-0086), Washington, D.C. 20503. Do not send this completed form to either of the above addressees.

Instructions for completing form HUD-93104-A, Schedule for Calculating Excess Income.

Important: The form HUD-93104 will be accurate only if this form is accurately prepared.

Column 1. Unit Number. Enter the unit number for every unit in the project.

Column 2. Tenant Name. Make sure the entries are in unit number order. This will mean that for units that had more than one tenant family in the month, they will be listed together.

- If the unit was occupied the whole month or part of the month covered by the report, enter the name of the tenant. If the tenant name will not fit, enter last name and first initial.
- If the unit was occupied by more than one household during the month, enter the names on separate lines. List the most recent tenant name first.
- If the unit was vacant the entire month, enter "vacant."
- If a unit is a HUD-approved, non-income producing unit, enter the words "non-income producing."

Column 3. Basic Rent.

- For HUD-approved non-income producing units, enter "0."
- For each revenue-producing unit that was occupied for part or all of the entire month, enter the basic rent shown on the Rental Schedule, form HUD-92458. If more than one tenant lived in the unit during the month, fill in column 3 for the first tenant only.
 - Use the amount on the rent schedule, even if you are charging more or less than that amount.
 - Do not prorate the basic rent for units occupied a partial month. (This is done in column 7.)
- For revenue-producing units vacant the entire month, enter zero.

Column 4. Collections This Month:

- For revenue-producing units vacant the entire month and for HUD-approved non-income units, enter zero.
- For all others, enter the total amount actually collected during the month covered by the report. Include amounts collected from HUD and amounts collected from the tenant. If more than one tenant lived in the unit during the month, fill in column 4 for each tenant listed.
 - If the tenant assistance payment was *not* received by the end of the reporting month, enter on this line only the rent collected from the tenant.
 - Include:
 - past due amounts included;
 - tenant security deposits applied to rents; and
 - Section 8 special claims for unpaid rents and vacancy loss.
 - Do not include:
 - late charges;
 - charges for bounced checks;
 - Section 8 special claims for tenant damage or debt service;
 - Charges in addition to rent - e.g., cable TV, parking, etc.

c. Special Instructions for 1983 HURRA Rent Rebates (See Paragraphs 3-40B and 3-21 of Handbook 4350.3.)

- Include 1983 HURRA rent credits that were applied during the month covered by the report.
- Do not include HUD reimbursements that are paid as cash refunds to tenants.

Column 5. Amount of Tax Surcharges Collected. If more than one tenant lived in the unit during the month, fill in column 5 for only the first tenant listed. Complete this column only if:

- The community has given the project a full tax abatement for basic rent units;
and
- Real estate taxes are not included in the project's basic rent potential;
and

c. The community assesses a tax surcharge on units for which more than basic rent is collected.

Example #1. A community agrees to full tax abatement on units for which no more than basic rent is collected but requires a 30% surcharge on units for which more than basic rent is collected. If basic rent is \$200 and rent collected is \$300, the surcharge is \$30 (30% of the \$100 difference). \$30 is shown in column 5.

Example #2. A community agrees to a partial abatement of taxes. The basic rent includes \$15/unit/month for taxes. No tax surcharge is shown in column 5 because all taxes are included in the HUD-approved basic rent.

Column 6. Collections Less Tax Surcharges. Complete this column only if tax surcharges are collected from tenants paying more than basic rent. If more than one tenant lived in the unit during the month, fill in column 6 for only the first tenant listed. Subtract column 5 from the total of column 4 for the unit (see the example under Column 7).

Column 7. Adjustments.

- For units vacant the entire month and for HUD-approved, non-income units, enter zero.
- For a revenue-producing unit that was vacant for only a portion of the month, enter the prorated amount of the basic rent for the days the unit was vacant. To make this computation:
 - Divide the Basic Rent by 30 days.
 - Multiply the result by the number of days the unit was vacant (i.e. 30 - number of days occupied).

Example: For the reporting month of July, tax surcharge for the unit is \$15 and the basic rent is \$300. Matthew Doddlers, whose tenant rent was \$300, moved out of Unit 101 on July 4. Judy Jones moved in July 10 and her tenant was \$330.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
101 Jones, J.		300	242	15	267	40
101 Doddlers, M.			40			

c. For revenue producing units occupied the full month, enter zero.

Page Total (bottom of page). Total all columns used.

Grand Total (bottom of page). When there are several sheets (page 2, form HUD-93104-A) listing the required information, total each sheet as noted above. On the final sheet, enter grand totals for the sum of all pages.

Computation for HUD Reimbursement of Rent Rebates Required by 1983 HURRA

Important: This computation is to be used to support requests for HUD reimbursement of Rent Rebates only for those tenants paying more than basic rent.

List the tenants' names, the unit numbers, the period covered by the rebate, and the total rebate due each tenant. Include the total rebate due the tenant even if the rebate will be distributed through several rent credits.

- Total the rebates due all tenants.
- Before applying Rent Rebates (as permitted by paragraph 3-40b(1)(a)) subtract any Excess Income due HUD. Subtract line 5, column A from line 5, column B on form HUD-93104.
- Subtract the result from the total rebates due all tenants to determine the...
- Total Reimbursement Requested from Excess Income Fund.

Distribution: Attach the form HUD-93104-A to the project file copy of the form HUD-93104

form HUD-93104-A

APPENDIX 4

_____, Ltd.
(STATEMENT OF FINANCIAL POSITION)
As of _____

CURRENT ASSETS

ASSETS

1110	Petty Cash	\$ _____
1120	Cash	\$ _____
1130	Tenant/Member Accounts Receivable	\$ _____
1140	Accounts Receivable	\$ _____
	Less 4220 Reserve for Collection Losses	\$ _____
	Net Collectible Receivables	\$ _____
1150	Notes Receivable - Other	\$ _____
1151	Notes Receivable - Stockholders, Officers	\$ _____
	Less 4230 Reserve for Doubtful Notes Receivable	\$ _____
	Net Collectible Receivables	\$ _____
1160	Accrued Receivables	\$ _____
1170	Investments (Short-term)	\$ _____
1190	Miscellaneous Current Assets	\$ _____
1210	Fuel Inventory	\$ _____
1230	Supplies Inventory	\$ _____
1240	Prepaid Property and Liability Insurance	\$ _____
1250	Prepaid Mortgage Insurance	\$ _____
1290	Miscellaneous	\$ _____
	Total Current Assets	\$ _____

DEPOSITS HELD IN TRUST

1191	Tenant Security Deposits	\$ _____
1192	Other Deposits	\$ _____
	Total Deposits Held in Trust	\$ _____

RESTRICTED DEPOSITS AND FUNDED RESERVES

1310	Mortgage Escrow Deposits (Schedule)	\$ _____
1320	Replacements Reserve	\$ _____
1330	Painting Reserve	\$ _____
1365	General Operating Fund	\$ _____
1370	Apartment Rehabilitation Deposits	\$ _____
	Total Deposits	\$ _____

APPENDIX 4

_____, Ltd.
(STATEMENT OF FINANCIAL POSITION)
As of _____

PREPAID EXPENSES

ASSETS

1240	Prepaid Property and Liability Insurance	\$ _____
1250	Prepaid Mortgage Insurance	\$ _____
1290	Miscellaneous Prepaid Expenses	\$ _____
	Total Current Assets	\$ _____

FIXED ASSETS

1410	Land	\$ _____
1420	Building	\$ _____
1430	Building Equipment - Fixed	\$ _____
1440	Building Equipment - Portable	\$ _____
1450	Furniture	\$ _____
1460	Furnishings	\$ _____
	Total Deposits Held in Trust	\$ _____
	Less Accumulated Depreciation	\$ _____

OTHER ASSETS (Schedule)	\$ _____
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TOTAL ASSETS	\$ _____
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5/92 2

4370.2 REV-1

APPENDIX 4

_____, Ltd.
 (STATEMENT OF FINANCIAL POSITION)
 As of _____

CURRENT LIABILITIES

LIABILITIES

2110	Accounts Payable	\$ _____
2115	Account Payable - HUD	\$ _____
2120	Accrued Wages and Payroll Taxes Payable	\$ _____
2130	Accrued Interest Payable	\$ _____
2150	Accrued Property Taxes	\$ _____
2160	Notes Payable (Short-term)	\$ _____
2190	Miscellaneous Current Liabilities	\$ _____
2320	Mortgage Payable (Current)	\$ _____
2210	Rent Deferred Credits	\$ _____
2220	Prepaid Interest Income	\$ _____
2230	Payable to Other Projects	\$ _____
	Total Current Liabilities	\$ _____

DEPOSITS LIABILITIES

2191	Tenant Security Deposits	\$ _____
2192	Other Deposits	\$ _____
	Total Deposits Held in Trust	\$ _____

LONG TERM LIABILITIES

2310	Notes Payable	\$ _____
2320	Mortgage Payable	\$ _____

Less Current Portion
Total Long Term Liabilities

\$ _____
\$ _____

OTHER LIABILITIES (Schedule)

TOTAL LIABILITIES

\$ _____

PARTNERS' EQUITY

3130 Partners' Equity

TOTAL LIABILITIES AND PARTNER'S EQUITY

Statement of
Profit and LossU.S. Department of Housing
and Urban Development
Office of Housing
Federal Housing Commissioner

OMB Approval No. 2502-0052 (Exp. 8/31/92)

Public Reporting Burden for this collection of information is estimated to average 1.0 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Reports Management Officer, Office of Information Policies and Systems, U.S. Department of Housing and Urban Development, Washington, D.C. 20410-3600 and to the Office of Management and Budget, Paperwork Reduction Project (2502-0052), Washington, D.C. 20503. Do not send this completed form to either of these addressees.

For Month/Period
Beginning:

Ending:

Project Number:

Project Name:

Part I	Description of Account	Acct. No.	Amount*
Rental Income 5100	Apartments or Member Carrying Charges (Coops)	5120	\$
	Tenant Assistance Payments	5121	\$
	Furniture and Equipment	5130	\$
	Stores and Commercial	5140	\$
	Garage and Parking Spaces	5170	\$
	Flexible Subsidy Income	5180	\$
	Miscellaneous (specify)	5190	\$
	Total Rent Revenue Potential at 100% Occupancy		\$
Vacancies 5200	Apartments	5220	()
	Furniture and Equipment	5230	()
	Stores and Commercial	5240	()
	Garage and Parking Spaces	5270	()
	Miscellaneous (specify)	5290	()
	Total Vacancies		()
	Net Rental Revenue Rent Revenue Less Vacancies		\$
	Elderly and Congregate Services Income—5300		
	Total Service Income (Schedule Attached)	5300	\$
Financial Revenue 5400	Interest Income—Project Operations	5410	\$
	Income from Investments—Residual Receipts	5430	\$
	Income from Investments—Reserve for Replacement	5440	\$
	Income from Investments—Miscellaneous	5490	\$
	Total Financial Revenue		\$
Other Revenue 5900	Laundry and Vending	5910	\$
	NSF and Late Charges	5920	\$
	Damages and Cleaning Fees	5930	\$
	Forfeited Tenant Security Deposits	5940	\$
	Other Revenue (specify)	5990	\$
	Total Other Revenue		\$
	Total Revenue		\$
Administrative Expenses 6200/6300	Advertising	6210	\$
	Other Administrative Expense	6250	\$
	Office Salaries	6310	\$
	Office Supplies	6311	\$
	Office or Model Apartment Rent	6312	\$
	Management	6320	\$
	Manager or Superintendent Salaries	6330	\$
	Manager or Superintendent Rent Free Unit	6331	\$
	Legal Expenses (Project)	6340	\$
	Auditing Expenses (Project)	6350	\$
	Bookkeeping Fees/Accounting Services	6351	\$
	Telephone and Answering Service	6360	\$
	Bad Debts	6370	\$
	Miscellaneous Administrative Expenses (specify)	6390	\$
Total Administrative Expenses		\$	
Utilities Expense 6400	Fuel Oil/Coal	6420	\$
	Electricity (Light and Misc. Power)	6450	\$
	Water	6451	\$
	Gas	6452	\$
	Sewer	6453	\$
	Total Utilities Expense		\$

* All amounts must be rounded to the nearest dollar; \$.50 and over, round up—\$.49 and below, round down.

Page 1 of 2

form HUD-92410 (7/91)
ref Handbook 4370.2

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Operating and Maintenance Expenses 6500	Janitor and Cleaning Payroll	6510	\$	
	Janitor and Cleaning Supplies	6515	\$	
	Janitor and Cleaning Contract	6517	\$	
	Exterminating Payroll/Contract	6519	\$	
	Exterminating Supplies	6520	\$	
	Garbage and Trash Removal	6525	\$	
	Security Payroll/Contract	6530	\$	
	Grounds Payroll	6535	\$	
	Grounds Supplies	6536	\$	
	Grounds Contract	6537	\$	
	Repairs Payroll	6540	\$	
	Repairs Material	6541	\$	
	Repairs Contract	6542	\$	
	Elevator Maintenance/Contract	6545	\$	
	Heating/Cooling Repairs and Maintenance	6546	\$	
	Swimming Pool Maintenance/Contract	6547	\$	
	Snow Removal	6548	\$	
	Decorating Payroll/Contract	6560	\$	
	Decorating Supplies	6561	\$	
	Other	6570	\$	
Miscellaneous Operating and Maintenance Expenses	6590	\$		
Total Operating and Maintenance Expenses			\$	
Taxes and Insurance 6700	Real Estate Taxes	6710	\$	
	Payroll Taxes (FICA)	6711	\$	
	Miscellaneous Taxes, Licenses and Permits	6719	\$	
	Property and Liability Insurance (Hazard)	6720	\$	
	Fidelity Bond Insurance	6721	\$	
	Workmen's Compensation	6722	\$	
	Health Insurance and Other Employee Benefits	6723	\$	
	Other Insurance (specify)	6729	\$	
	Total Taxes and Insurance			\$
Financial Expenses 6800	Interest on Bonds Payable	6810	\$	
	Interest on Mortgage Payable	6820	\$	
	Interest on Notes Payable (Long-Term)	6830	\$	
	Interest on Notes Payable (Short-Term)	6840	\$	
	Mortgage Insurance Premium/Service Charge	6850	\$	
	Miscellaneous Financial Expenses	6890	\$	
	Total Financial Expenses			\$
Elderly & Congregate Service Expenses 6900	Total Service Expenses—Schedule Attached	6900		\$
	Total Cost of Operations Before Depreciation			\$
	Profit (Loss) Before Depreciation			\$
	Depreciation (Total)—6600 (specify)	6600		\$
	Operating Profit or (Loss)			\$
Corporate or Mortgagor Entity Expenses 7100	Officer Salaries	7110	\$	
	Legal Expenses (Entity)	7120	\$	
	Taxes (Federal-State-Entity)	7130-32	\$	
	Other Expenses (Entity)	7190	\$	
	Total Corporate Expenses			\$
	Net Profit or (Loss)			\$

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

Miscellaneous or other income and expense sub-account groups. If miscellaneous or other income and/or expense sub-accounts (5190, 6290, 6490, 6690, 6390, 6590, 6729, 6890, and 7190) exceed the Account Groupings by 10% or more, attach a separate schedule describing or explaining the miscellaneous income or expense.

Part II

1. Total principal payments required under the mortgage, even if payments under a Workout Agreement are less or more than those required under the mortgage.	\$
2. Replacement Reserve deposits required by the Regulatory Agreement or Amendments thereto, even if payments may be temporarily suspended or waived.	\$
3. Replacement or Painting Reserve releases which are included as expense items on this Profit and Loss statement.	\$
4. Project Improvement Reserve Releases under the Flexible Subsidy Program that are included as expense items on this Profit and Loss Statement.	\$

Rent Schedule Low Rent Housing

**U.S. Department of Housing
and Urban Development
Office of Housing
Federal Housing Commissioner**



OMB No. 2502-0012

Project Name		FHA Project Number	When Rents Will Be Effective	(Month Year)

Part A - Apartment Rents

Show the actual rents you intend to charge, even if the total of these rents is less than the Maximum Allowable Monthly Rent Potential.

Col. 1 Unit Type (Include Non-revenue Producing Units)	Col. 2 Number of Units	Contract Rents		Col. 5 Utility Allowances (Effective Date: __ / __ / __)	Col. 6 Gross Rent (Col. 3 + Col. 5)	Market Rents (Sec. 236 Projects Only)	
		Col. 3 Rent Per Unit	Col. 4 Monthly Contract Rent Potential (Col. 2 x Col. 3)			Col. 7. Rent Per Unit	Col. 8 Monthly Market Rent Potential (Col. 2 x Col. 7)
Total Units		Monthly Contract Rent Potential (Add Col. 4)	*			Monthly Market Rent Potential (Add Col. 8)	*
		Yearly Contract Rent Potential (Col. 4 Sum x 12)	*			Yearly Market Rent Potential (Col. 8 Sum x 12)	*

* These amounts may not exceed the Maximum Allowable Monthly Rent Potential approved on the last Rent Computation Worksheet or requested on the Worksheet you are now submitting. Market Rent Potential applies only on Section 236 Projects.

[illegible]

Previous Editions are Obsolete

Instructions

All project owners must submit the form HUD-92458 when requesting an adjustment to project rents. HUD establishes and approves rental charges and utility allowances on the Form. The owner is responsible for notifying tenants of the approved rents.

General. For projects with fully-insured or HUD-held mortgages, the owner/agent submits this Form to the HUD Field Office. For projects with insured mortgages, the owner/agent submits this Form to the lender.

Public reporting burden for this collection of information is estimated to average 20 min. per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggesting for reducing this burden, to the Reports Management Officer, Office of Information Policies and Systems, U.S. Department of Housing and Urban Development, Washington, D.C. 20410-3600 and to the Office of Management and Budget, Paperwork Reduction Project (2502-0012), Washington, D.C. 20503.

Part A. If the monthly rent potential you are proposing is less than or equal to the Maximum Allowable Monthly Rent Potential approved by HUD/lender on your original Rent Formula or on your most recent Rent Computation Worksheet, Complete all of Part A according to the instructions below. If the monthly rent potential you are requesting exceeds the Maximum Allowable Monthly Rent Potential approved by HUD/lender on your original Rent Formula or on your most recent Rent Computation Worksheet, complete only Columns 1 and 2 according to the instructions below. Show your proposed rents and monthly rent potential in the cover letter transmitting your rent increase request.

Column 1. Show each type of unit for which rents will vary. Show the number of bedrooms and bathrooms and other features that cause rents to vary (e.g., 2 BDM, 1 B, DA, KETTE, vs 2 BDM, 2 B, DR, K). Use the following symbols:

BDM	- Bedroom	LR	- Living Room
B	- Bath	DR	- Dining Room
K	- Kitchen	DA	- Dining Alcove
KETTE	- Kitchenette		

Column 2. Show the number of units for each unit type. Include non-revenue producing units.

Column 3. For unsubsidized projects, show the rent you intend to charge for each unit type. For subsidized projects, show the contract rent (as defined in HUD Handbook 4350.3) for each unit type.

Column 4. For each line, multiply the contract rent in Column 3 by the number of units in Column 4. Add monthly contract rent potentials for each unit size to compute the total monthly contract rent potential. Multiply the monthly total by 12 to compute the annual contract rent potential.

Columns 5 and 6. Complete the Columns only if the project has a subsidy contract with HUD and some utilities are not included in the rent. In Column 5, show the utility allowance for each unit type. Compute the gross rent for each unit type by adding the contract rent in Column 3 and the utility allowance in Column 5. Show this amount in Column 6.

Columns 7 and 8. Columns 7 and 8. Complete these Columns only if the project is receiving Section 236 Interest Reduction Payments. In Column 7, show the market rent for each unit type. In Column 8, for each line multiply the market rent in Column 7 by the number of units in Column 2. Add the monthly market rent potentials for each unit size to compute the total monthly market rent potential. Multiply the monthly total by 12 to compute the annual market rent potential.

Parts B, C, D and E. Complete these Parts according to the instructions on the Rent Schedule.

Part F. Do not complete this Part. The HUD Field Office/lender will complete this Part.

Parts G and H. Complete these Parts according to the instructions on the Rent Schedule.

Part I. Do not complete this Part. The HUD Field Office/lender will complete this part.

Part G - Information on Mortgagor Entity

Name of Entity _____

Type of Entity

- ☐ Individual ☐ General Partnership ☐ Joint Tenancy/Tenants in Common ☐ Other (specify) _____
- ☐ Corporation ☐ Limited Partnership ☐ Trust

List all Principals Comprising Mortgagor Entity: provide name, title and Social Security Number or Employer Identification Number (EIN) of each principal. Use extra sheets, if needed. If mortgagor is a:

- corporation, list: (1) all officers; (2) all directors; and (3) each stockholder having a 10% or more interest.
- partnership, list: (1) all general partners; and (2) limited partners having a 25% or more interest in the partnership.
- trust, list: (1) all managers, directors or trustees and (2) each beneficiary having at least a 10% beneficial interest in the trust.

Name and Title	Social Security or EIN Number
Name and Title	Social Security or EIN Number
Name and Title	Social Security or EIN Number
Name and Title	Social Security or EIN Number
Name and Title	Social Security or EIN Number
Name and Title	Social Security or EIN Number
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Name and Title	Social Security or EIN Number
Name and Title	Social Security or EIN Number

Part H - Owner Certification

I certify that all of the information on this form is accurate. I also understand that 18 U.S.C. 1001 provides, among other things, that whoever knowingly and willingly makes or uses a document or writing containing any false, fictitious, or fraudulent statement or entry, in any matter within the jurisdiction of any department or agency of the United States, shall be fined not more than \$10,000, or imprisoned for not more than five years, or both.

Name and Title	Authorized Official's Signature and Date
----------------	--

Part I - HUD/Lender Approval

Loan Servicer's Signature and Date

Branch Chief/Lender Official Signature and Date

**Budget Worksheet
Income and Expense
Projections**U.S. Department of Housing
and Urban Development
Office of Housing
Federal Housing Commissioner

OMB Approval No. 2502-0324 (exp. 3/31/92)

Public reporting burden for this collection of information is estimated to average 2.0 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Reports Management Officer, Office of Information Policies and Systems, U.S. Department of Housing and Urban Development, Washington, D.C. 20410-3600 and to the Office of Management and Budget, Paperwork Reduction Project (2502-0324), Washington, D.C. 20503. Do not send this completed form to either of the above addressees.

Project Number :

Name of Project :

Description of Account	Acct. No.	HUD-92410 audited last FY	Current FY	(no. of mos.)	Budget from () to ()
Rental Income					
5100 Apartments or Member-Carrying Charges (Coops)	5120				
Tenant Assistance Payments	5121				
Furniture and Equipment	5130				
Stores and Commercial	5140				
Garage and Parking Spaces	5170				
Flexible Subsidy Income	5180				
Miscellaneous (specify)	5190				
Total Rent Revenue Potential at 100% Occupancy					
Vacancies					
5200 Apartments	5220				
Furniture and Equipment	5230				
Stores and Commercial	5240				
Garage and Parking Spaces	5270				
Miscellaneous (specify)	5290				
Total Vacancies					
Net Rental Revenue (Rent Revenue less Vacancies)					
Elderly & Congregate Svcs. Income	5300				
Total Service Income (schedule attached)					
Financial Revenue					
5400 Interest Income-Project Operations	5410				
Income from Investments-Residual Receipts	5430				
Income from Investments-Reserve for Replacement	5440				
Income from Investments-Miscellaneous	5490				
Total Financial Revenue					
Other Revenue					
5900 Laundry and Vending	5910				
NSF and Late Charges	5920				
Damages and Cleaning Fees	5930				
Forfeited Tenant Security Deposits	5940				
Other Revenue (specify)	5990				
Total Other Revenue					
Total Revenue					
Administrative Expenses					
6200/6300 Advertising	6210				
Other Renting Expense	6250				
Office Salaries	6310				
Office Supplies	6311				
Office or Model Apartment Rent	6312				
Management Fee	6320				
Manager or Superintendent Salaries	6330				
Manager or Superintendent Rent Free Unit	6331				
Legal Expenses (Project)	6340				
Auditing Expenses (Project)	6350				
Bookkeeping Fees/Accounting Services	6351				
Telephone and Answering Services	6360				
Miscellaneous Administrative Expenses (specify)	6390				
Total Administrative Expenses					
Sub Total Expenses (carry forward to page 2)					

Description of Account		Acct No	HUD-92410 audited last FY	Current FY	(no. of mos)	Budget from () to ()
Sub Total Expenses (carried forward from page 1)						
Utilities 6400	Fuel Oil/Coal	6420				
	Electricity	6450				
	Water	6451				
	Gas	6452				
	Sewer	6453				
	Total Utilities Expense					
Operating & Maintenance Expenses 6500	Janitor and Cleaning Payroll	6510				
	Janitor and Cleaning Supplies	6515				
	Janitor and Cleaning Contract	6517				
	Exterminating Payroll/Contract	6519				
	Exterminating Supplies	6520				
	Garbage and Trash Removal	6525				
	Security Payroll/Contract	6530				
	Grounds Payroll	6535				
	Grounds Supplies	6536				
	Grounds Contract	6537				
	Repairs Payroll	6540				
	Repairs Material	6541				
	Repairs Contract	6542				
	Elevator Maintenance/Contract	6545				
	Heating/Cooling Repairs and Maintenance	6546				
	Swimming Pool Maintenance/Contract	6547				
	Snow Removal	6548				
	Decorating Payroll/Contract	6560				
	Decorating Supplies	6561				
	Vehicle & Maint: Equip. Operation and Repairs	6570				
	Miscellaneous Operating & Maintenance Expenses	6590				
	Total Operating & Maintenance Expenses					
Taxes and Insurance 6700	Real Estate Taxes	6710				
	Payroll Taxes (FICA)	6711				
	Miscellaneous Taxes, Licenses and Permits	6719				
	Property and Liability Insurance (Hazard)	6720				
	Fidelity Bond Insurance	6721				
	Workmen's Compensation	6722				
	Health Insurance & Other Employee Benefits	6723				
	Other Insurance (specify)	6729				
	Total Taxes & Insurance					
Financial Expenses 6800	Interest on Bonds Payable	6810				
	Interest on Mortgage Payable	6820				
	Interest on Notes Payable (Long-Term) *	6830				
	Interest on Notes Payable (Short-Term) *	6840				
	Mortgage Insurance Premium/Service Charge	6850				
	Miscellaneous Financial Expenses	6890				
	Total Financial Expenses					
Elderly & Congregate Srvc. Expenses 6900		6900				
Total Service Expenses (schedule attached)						
Reserve for Replacements Dep. Req.						
Painting Reserve						
Principal Payments Req.						
Debt Service (Sec. 241 & other approved loans)						
Debt Service Reserve (202)						
General Operating Reserve						
Total Cost of Operations						
Less Total Revenue						
Excess (Deficiency) Income Over Expenses						

I hereby certify that the information contained on pages 1 and 2 is complete, and correct to the best of my knowledge.

X

STATEMENT OF RETAINED EARNINGS
_____, Ltd.

For Year Ended _____ 19 ____

Beginning of Year		\$ _____
Add:		
Net Income	\$ _____	
Contributions		\$ _____
Other	\$ _____	
Deduct:		
Distributions	\$ _____	\$ _____
End of Year		\$ _____

(Sample)

STATEMENT OF CHANGES IN PARTNERS' EQUITY

ABC Partnership
075 44001

For Year Ended _____ 19 ____

Beginning of Year \$ _____

Add:

Net Income \$ _____

Contributions \$ _____

Other \$ _____

Deduct:

Distributions \$ _____

End of Year \$ _____

See notes to the financial statements

(Sample Company)
HUD PROJECT NO. XXX.XXXXX

STATEMENT OF CASH FLOWS
Years Ended December 31, 1990 and 1989

	1990	1989
Cash flows from operating:		
Rental receipts	\$xxx,xxx	\$xxx,xxx
Interest receipts	x,xxx	x,xxx
Other receipts	x,xxx	x,xxx
	xxx,xxx	xxx,xxx
Administrative	(xx,xxx)	(xx,xxx)
Management fees	(xx,xxx)	(x,xxx)
Utilities	(xx,xxx)	(xx,xxx)
Salaries and wages	(xx,xxx)	(xx,xxx)
Operating and maintenance	(xx,xxx)	(xx,xxx)
Real estate taxes and escrow deposits	(xx,xxx)	(xx,xxx)
Property insurance	(x,xxx)	(x,xxx)
Miscellaneous taxes and insurance	(x,xxx)	(x,xxx)
Tenant security and other deposits	(xxx)	(xxx)
Interest on mortgage	(xxx,xxx)	(xxx,xxx)
	(xxx,xxx)	(xxx,xxx)
Net cash provided by (used in) operating activities	(x,xxx)	(x,xxx)
Cash flows from investing activities:		
Deposits into reserve for replacement	(x,xxx)	(xx,xxx)
Net deposits to residual receipts reserve	(x,xxx)	(xxx,xx)
Net cash used in investing activities	(x,xxx)	(x,xxx)
Cash flows from financing activities:		
Mortgage principal payments	(x,xxx)	(x,xxx)
Net cash used in financing activities	(x,xxx)	(x,xxx)
Net increase (decrease) in cash and cash and cash equivalents	(xx,xxx)	(xxx,xx)

APPENDIX 10

(Sample Company)
HUD PROJECT NO. XXX-XXXXX

STATEMENT OF CASH FLOWS

Years Ended December 31, 1990 and 1989

	1990	1989
Cash and cash equivalents:		
Beginning of period	\$xxx,xxx	\$xxx,xxx
End of period	x,xxx	x,xxx
Cash flows from operating activities:		
Net loss	\$(xxx,xxx)	\$(xxx,xxx)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	\$(xx,xxx)	\$(xx,xxx)
Decrease (increase) in prepaid insurance	(xx,xxx)	(xx,xxx)
Decrease in prepaid mortgage payments	(xx,xxx)	(xx,xxx)
Decrease (increase) in cash restricted for tenant security deposits	(xx,xxx)	(xx,xxx)
Decrease (increase) in accounts receivable - other	(x,xxx)	(x,xxx)
Decrease (increase) in tax and insurance escrow	(xxx)	(xxx)
Increase in accounts payable	(xxx)	(xxx)
Decrease in accrued liabilities	(x,xxx)	(xx,xxx)
Increase in excess liabilities	(x,xxx)	(xxx,xx)
Increase (decrease) in tenants security deposits	(x,xxx)	(x,xxx)
Increase in deferred revenue	(xxx,xxx)	(xxx,xxx)
Net cash provided by (used in) operating activities	(x,xxx)	(xx,xxx)

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FHA PROJECT NO.: 123-45678-ABC
 PROJECT NAME: WEST OAKDALE APARTMENTS
 AS OF DECEMBER 31,1991

NOTE 2 - ACCOUNTS RECEIVABLE

	Number of Tenants	Amount Due
Tenants:		
December	3	\$110
October	1	95
September	1	65

TOTAL		\$270

Other:		
XYZ Agency, Inc.		\$634
Other		115

TOTAL		\$749

NOTE 3 - MORTGAGE ESCROW DEPOSITS

Estimated amount required for future payment of:

City and County taxes	\$1,434
Amount on deposit in excess of estimated payments	4,279

TOTAL CONFIRMED BY MORTGAGEE	\$5,713

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NOTES TO THE FINANCIAL STATEMENTS
 FHA PROJECT NO.: 123-45678-ABC
 PROJECT NAME: WEST OAKDALE APARTMENTS
 AS OF DECEMBER 31,1991

NOTE 4 - RESERVE FOR REPLACEMENTS (INCLUDING PAINTING RESERVE)

In accordance with the provisions of the regulatory agreement, restricted cash is held by Department of Housing and Urban Development to be used for replacement of property and exterior painting with the approval of HUD as follow:

Reserve for Replacements:

Balance, December 31, 1990		\$5,152		
Monthly Deposits:				
\$215.69 X 12	\$2,588			
Extra	340	2,928	\$8,080	

Withdrawals:

February 8, 1991:				
Carpets - capitalized	1,428			
Door - expenses	33	1,461		
May 6, 1991:				
Drapes - capitalized	318			
Disposal - expenses	21	339	(1,800)	\$6,280

Painting Reserve:

Balance, December 31, 1990	4,946			
Monthly Deposits (\$138 X 11)	1,518	6,464		
Transferred to HUD		(6,464)		
Monthly Deposits (138 X 1)			138	6,602

BALANCE, DECEMBER 31, 1991, CONFIRMED BY MORTGAGEE \$12,882

5/92

2

4370.2 REV-1

APPENDIX 11

NOTES TO THE FINANCIAL STATEMENTS

FHA PROJECT NO.: 123-45678-ABC
PROJECT NAME: WEST OAKDALE APARTMENTS
AS OF DECEMBER 31, 1991

NOTE 4 - RESERVE FOR REPLACEMENTS (INCLUDING PAINTING RESERVE)
(CONTINUED)

The following information pertains to Reserve for Replacement reimbursement requests that were authorized:

Amount of Request	Purpose of Request	Account Charged	Fiscal Year Affected
\$354 (1)	Refrigerator	1430	December 31, 1991
823 (2)	Carpets and Drapes	1460	December 31, 1991

(1) Form HUD 9250 - approved October 17, 1991

(2) Form HUD 9250 - approved December 13, 1991

NOTE 5 - MORTGAGE PAYABLE - DEPARTMENT OF HOUSING AND URBAN
DEVELOPMENT

The Project has obtained a mortgage loan insured by FHA under the interest reduction provisions of Section 236 of the National Housing Act. The Section 206 program is a federally assisted program designed to provide housing for families with low and moderate incomes. The annual payments of principal and interest for 1992 total \$58,874, less interest and MIP subsidy of \$37,714, for net annual payments of \$21,160. The annual MIP premium for 1992 will be \$3,781. The January, 1992 mortgage payment consists of the following:

Independent Auditor's Report - Unqualified Opinion

To the Partners
ABC Partnership
Anytown, U.S.A.

We have audited the accompanying balance sheet of ABC Partnership, HUD Project No. 0xx-44007LD (a limited partnership), as of (date), and the related statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ABC Partnership at (date), and the results of its operations and its cash flows and its analysis of net worth for the year then ended in conform with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supporting information included in the report (shown on pages XX to XY) are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the ABC Partnership. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Anytown, U.S.A.
(date)

XYZ and Company
Certified Public Accountants

Note: Comparative financial statements are encouraged. Guidance is provided at AU 508.74-83.

AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE

To the Partners
ABC Partnership
Anytown, U.S.A.

We have audited the financial statements of (the Entity) as of and for the year ended June 30, 199X, and have issued our report thereon dated date of report . We have also audited the Entity's compliance with requirements applicable to its major HUD-assisted programs and have issued our report thereon dated date of report .

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audits for the year ended June 30, 199X, we considered the (Entity's) internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the (Entity's) basic financial statements and on its compliance with requirements applicable to major programs and not to provide assurance on the internal control structure.

In connection therewith, we have also obtained an understanding of those internal accounting control and administrative control procedures comprehended in the U.S. Department of Housing and Urban Development (HUD) Consolidated Audit Guide for HUD Programs issued October 1991. Our study included tests of compliance with such procedures.

The management of the Project is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles and that Federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

APPENDIX 13

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories (identify internal control structure categories).

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation and we assessed control risk.

We performed tests of controls to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance. Our procedures were less in scope than would be necessary to render an opinion on internal control structure policy and procedures. Thus, we do not express our opinion on those policies and procedures.

We noted certain matters involving the internal control structure and its operations that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the organization's ability to administer Federal financial assistance programs in accordance with applicable laws and regulations.

(Include paragraph to describe the reportable conditions noted.)

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the (Entity) in a separate communication dated September 8, 199X.

This report is for the information of the mortgagor, management, and the Department of Housing and Urban Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Anytown, U.S.A.
(Date)

XYZ and Company
Certified Public Accountants

AUDITOR'S REPORT ON COMPLIANCE

We have audited the financial statements of (Entity) as of and for the year ended June 30, 199X and have issued our report thereon dated (date of report). In addition, we have audited the (Entity's) compliance with the common and specific program requirements that are applicable to each of its major HUD-assisted programs, for the year(s) ended June 30, 199X. The management of the (Entity) is responsible for compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the (Entity's) compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings and questioned costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the (Entity) complied, in all material respects, with the requirements described above that are applicable to its major HUD-assisted programs for the year ended June 30, 199X.

(Signature)

(Date)

AUDITOR'S MANAGEMENT LETTER OR SCHEDULE OF FINDINGS AND
QUESTIONED COSTS

(May be Attached to Auditor's Report on Compliance)

When the auditor identifies a finding, this schedule must include the following information for each finding, where applicable (a) the size and corresponding dollar value of the population; (b) the size and dollar value of the sample tested; and (c) the size and dollar value of the instances of noncompliance.

The Government Auditing Standards state that well-developed findings generally consist of the following attributes:

- o Statement of condition - the nature of the deficiencies, e.g., a regulation not being followed, a control procedure not followed or one which is inadequate.
- o Criteria - what the auditee should be doing, e.g., the specific regulation, a prudent management practice, or an internal control procedure.
- o Effect - what happened as a result of the condition; this should be monetized in all possible instances and described as thoroughly as possible.
- o Cause - why the condition exists, e.g., the auditee was unaware of the regulation or internal control was not a high priority of the auditee.
- o Recommendation - what the auditee should do to correct the condition, normally address the cause, e.g., develop procedures to implement regulation or follow established procedures.

The auditor should attempt to identify the condition, criteria, effect, and cause to provide sufficient information to HUD officials to permit timely and proper corrective action. These findings may also serve as a basis for HUD to conduct additional work. In addition, as part of the finding, the auditor is required to make a recommendation for corrective action to the auditee. As part of this report, the auditor is required to include the auditee's summary comments on the findings and recommendations in the report. In addition, the auditee is responsible for developing a separate corrective action plan (see Example G) based on the auditor's findings and recommendations and including the plan when submitting the auditor's report. If corrective action is not necessary, a statement by the auditor describing the reason it is not should accompany the audit report.

AUDITOR'S COMMENTS ON AUDIT RESOLUTION MATTERS

The Project has not taken corrective action on findings from prior audit report, number and title:

Finding No. 1 The required documentation with regard to eligibility was not obtained for tenants receiving rent supplements.

 Status The Project has not obtained the required documentation from third-party sources nor has the Project reimbursed the appropriate programs for the amount of the recommended disallowance, \$15,350.

Findings, No. 2

 Status

-- This includes all prior audits, program review reports and state agency reports.

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Appendix 15

AUDITEE'S RESPONSE OR CORRECTIVE ACTION PLAN

Name and Number of Project _____
Auditor/Audit Firm _____
Audit Period _____

The following is a recommended format to be followed by auditees for submitting a corrective action plan:

Section I - Internal Control Structure Review

A. Comments on Findings and Recommendations

The auditee should provide a statement of concurrence or nonconcurrence with the findings and recommendations. If the auditee does not agree with a finding, specific information should be provided by the auditee to support its position. If the information is voluminous, an appendix may be attached to the submission.

B. Actions Taken or Planned

The auditee should detail actions taken or planned to correct deficiencies identified in the report. Appropriate documentation should be submitted for actions taken. For planned actions, auditees should provide projected dates for completion of major tasks. Officials responsible for completing the proposed actions

should also be identified. If the auditee believes a corrective action is not required, a statement describing the reasons should be included.

C. Status of Corrective Action or Prior Findings

The auditee must comment on all prior findings whether or not corrective action has been completed. The auditee should provide a report on the status of corrective actions taken on prior findings that remain open. An update should be included on dates for completion of major tasks and responsible officials for any actions not completed. In addition, documentation should be submitted for any actions the auditee considers completed.

Section 11 - Compliance Review

A. Comments on Findings and Recommendations

(See Section I.A. above.)

B. Actions Taken or Planned

GLOSSARY

ACCOUNTING:

The activity of providing quantitative information, primarily financial in nature, that is intended to be useful in making economic decisions; the process of measuring recording, summarizing and reporting the assets, liabilities and owner's equity of an enterprise and the changes in them.

ACCOUNTING PERIOD:

A length of time established as a period for which accounting activity will be recorded, summarized, and reported. Accounting periods provide the divisions required for comparative financial analysis. Normally, they are established monthly and quarterly for interim statements and annually for completed audited statements and disclosures.

ACCOUNTS PAYABLE:

All amounts owed for goods, properties or services which were purchased on credit and have been received. See definition of accrued liabilities, below.

ACCOUNTS RECEIVABLE:

All amounts owed to an entity for facilities or services that were provided during the current or prior accounting period(s). (Rent that is due or overdue, including government Rent Supplement amounts, is a common example of an account receivable).

ACCRUAL BASIS OF ACCOUNTING:

The method of accounting in which income is recognized when earned (regardless of when cash has been received) and expenses are recognized when incurred (regardless of when cash has been paid).

ACCRUALS:

Entries made at the end of an accounting period which are due entirely to the use of the accrual basis of accounting; e.g., to record expenses incurred but not paid.

ACCRUED LIABILITIES:

Amounts computed by an entity as owed to outsiders for goods or services received but not invoiced. Examples include utilities and wages where the service period does not coincide with the financial statement period of the project.

GLOSSARY

AMORTIZATION:

- (1) The portion of a mortgage payment which represents a payment of principal.
- (2) The spreading of the cost of certain assets over more than one accounting period.

ASSETS:

Economic resources used by the business entity and expected to benefit future operations.

AUDITING:

The examination of financial statements and their underlying data to determine whether the statements are fairly and consistently stated in accordance with generally accepted accounting principles. Auditing is done by CPAs, others licensed by the state to do such work, or authorized by government agencies,

BALANCE SHEET:

The basic financial statement which presents the assets, the liabilities and owner's equity of an entity at a point in time. The total of the assets must equal (balance) the total of the liabilities and owner's equity.

BOOKKEEPING:

The process of recording transactions in an entity's books of accounts.

CAPITAL:

The dollar balance of the amount of ownership interest of the owners of an entity. Also referred to as Owner's Equity.

CAPITALIZE:

To set up an expenditure as an asset or to increase the recorded value of an asset so that the expenditure can be charged off as depreciation expense during future accounting periods. It is the opposite of "expensing" an expenditure.

CASH:

Currency, checks and other negotiable instruments acceptable for direct deposit by a bank, and checking account balances.

CASH BASIS OF ACCOUNTING:

The method of accounting in which income and expenses are recorded and reported in the accounting period in which cash is actually received or disbursed, regardless of when the related goods or services were received or provided.

CERTIFIED PUBLIC ACCOUNTANT (CPA):

A person who is licensed by the state to offer professional auditing and accounting services to the public; license is granted upon successful completion of an examination and satisfying other requirements of the state.

CHART OF ACCOUNTS:

A list, by number and title, of all of a development's accounts, grouped according to type of account. The Chart of Accounts prescribed by HUD for cooperatives is in Chapter 6 of this Handbook.

CONSISTENCY:

A convention in accounting that once an accounting method (such as depreciation) has been adopted it should not be changed without full disclosure and an explanation of the impact of the change on published financial statements.

CONTRA ACCOUNT:

An account established to record offsetting liabilities or reductions in value to another account(s). Examples of contra accounts include Accumulated Depreciation of Buildings and Equipment, Allowances for Doubtful Accounts Receivable, and the liabilities applicable to security deposit accounts. The manner in which contra accounts are to be reported on financial statements varies, but usually are shown separately as subtractions from the account(s) to which they are contra.

CURRENT ASSETS:

Cash and other assets that are reasonably expected to be realized in cash or used up during the normal operating period of a business, typically one year.

CURRENT LIABILITIES:

Obligations due to be paid or settled within the normal operating period of a business, typically one year.

GLOSSARY

DEBT SERVICE:

The interest and principal due on a mortgage note. Does not include impounds or reserve fund contributions, but can include Mortgage

Insurance Premium.

DEFAULT:

There are two types of defaults: (1) fiscal and (2) covenant.

- (1) A monetary default exists when the owner fails to make any payment due under the mortgage.
- (2) A covenant default exists when the owner fails to perform any other covenant under the provisions of the mortgage or of the regulatory agreement, which is incorporated into the mortgage. A lender becomes eligible for insurance benefits on the basis of a covenant default only after the lender has accelerated the debt and the owner has failed to pay the full amount due, thus converting the covenant default to a monetary default.

DEPRECIATION:

The process of distributing the cost of fixed assets over a period of years, in a systematic and rational manner.

DIRECT METHOD (for Statement of Cash Flows):

Refer to Financial Accounting Standards Board (FASB) Statement No. 95.

DISBURSEMENT:

Any outlay of funds, either in cash or by check.

EXPENDITURE:

An outflow of assets or increase in liability in connection with the acquisition of assets or expenses; includes both expenses and purchases of fixed assets.

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GLOSSARY

EXPENSE:

The outflow of assets or increases in liabilities that takes place in connection with the products or services provided during an accounting period.

EXPENSED:

The process of having charged an expenditure against operations, such expenditure having been considered to benefit a current accounting period (as opposed to a future accounting period). It is the opposite of "capitalizing" an expenditure.

FINANCIAL POSITION:

The assets, liabilities and owner's equity of an entity and the relationship among them as displayed by the Statement of Position or Balance Sheet, the Statement of Retained Earnings and the Statement of Cash Flows.

FISCAL YEAR:

The twelve month period which an entity chooses as the period for reporting the annual report of its financial operations; normally runs to the end of a month. Often used in contrast to the Calendar Year ending December 31st.

FUND ASSETS:

Assets such as buildings, land and equipment that are necessary to the operations of the business and have a useful life of more than one year.

FUND:

(1) An amount restricted for a specified purpose, such as for replacement of fixed assets (Reserve Fund for Replacements). (2) A separate set of accounts for a subdivision of a governmental or other nonprofit entity.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP):

General understandings governing accounting measurements and standards of presentation derived from long-standing experience and conventions in the profession. Some of these principles are written and some are unwritten.

GENERALLY ACCEPTED AUDITING STANDARDS (GAAS):

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GAAS refer to the ten auditing standards that have been approved and adopted by the members of the American Institute of Certified Public Accountants (AICPA).

GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (GAS or GAGAS):

GAS are standards for audits of government organizations, programs, activities and functions of government funds received by contractors non-profit organizations and other nongovernmental organizations. GAS are issued by the U.S. General Accounting Office (GAO).

IDENTITY-OF-INTEREST:

This term applies to a management agent and other parties having

business relationships with the project owner or any officer, director or partner of the mortgagor. Such a relationship should be construed to exist when the owner and the management agent are not the same person but (1) the project owner; or (2) any officer or director of the project owner or (3) any person who directly or indirectly controls 10 percent or more of the project owner's voting rights or directly or indirectly owns 10 percent or more of the project owner; is also (1) an officer or director of the management agent; or (2) a person who directly or indirectly controls 10 percent or more of the management agent's voting rights or directly or indirectly owns 10 percent or more of the management agent. For purposes of this definition, the term "person" includes any individual, member of Board of Directors, partnership, corporation, or other business entity. Any ownership, control or interest held or possessed by a person's spouse, parent, child, grandchild, brother or sister is attributed to that person.

IMMATERIAL:

Judged by an accountant or auditor as insignificant to an informed reader of financial statements; said of minor items which are erroneous, omitted, or inconsistent.

IMPREST FUND:

An account that is used by a project management agent as the operating account for a project. The management agent should not commingle (mix together) funds for more than one project without prior HUD approval.

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IMPOUND ACCOUNT:

Amounts held by a mortgagee (or mortgagee's agent) which belong to the mortgagor but are collected to ensure future payment of items such as property taxes and insurance.

INCOME (PROJECT):

The excess of annual revenues over project expenses.

INCOME (TENANT):

The gross annual income of the tenant from all sources before taxes and withholdings, after giving effect to exclusions allowed by the Housing Commissioner.

INCOME STATEMENT:

See Statement of Income

INVOICE:

A document (commonly called a "bill") that states the price and an itemized description of goods and/or services bought. Not to be confused with vendors' "statements," which summarize transactions periodically (usually monthly).

LIABILITY:

The economic obligation to convey assets (usually cash) or to render services in the future; claims against an entity by outside parties resulting from past or current transactions and requiring future settlement.

LIQUID ASSETS:

Cash and other short-term assets that are expected to be converted to cash within a short period of time generally not longer than one year. These are the first items presented on asset side of balance sheet.

LONG-TERM INVESTMENTS:

Certificates of deposit, stocks, bonds, notes receivable, etc., that are intended to be held for more than one year.

LONG-TERM LIABILITIES:

Obligations that are expected to be liquidated over a period exceeding one year.

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MATERIALITY:

The concept of whether an amount or event would, if known, influence the judgment of an informed reader of a financial statement; a test of the significance of an item.

MORTGAGE:

A loan made for the purpose of purchasing, building or rehabilitating real property, and secured by that property.

MORTGAGE NOTE:

Sets forth the amount the owner owes the lender and the manner in which the debt is to be satisfied. The note establishes the payment terms, conditions under which prepayments may be made, and the lender's rights in the event of default.

MORTGAGEE (INVESTING/HOLDING):

The institution which holds a particular mortgage. The mortgagee may be a bank, savings and loan association, FNMA, GNMA, insurance company, etc. The mortgagee often engages another institution for the loan servicing function (example: FNMA services GNMA loans).

MORTGAGEE'S CERTIFICATE:

The lender executes the Mortgagee's Certificate at the loan closing. In executing the Certificate, the lender identifies all fees and escrow deposits collected in conjunction with the mortgage transaction and agrees to collect, hold and administer the reserve for replacements and any required mortgage escrows in accordance with HUD's requirements.

MORTGAGE INSURANCE PREMIUM (MIP):

A payment made to HUD for insurance to protect the lender against any failure by the mortgagor to make payments on the mortgage loan. Paid by the mortgagor through the lender, it amounts to one-half of one percent (0.5%) annually of the unpaid balance of the mortgage loan. In Section 236 projects, an "interest reduction payment." (IRP) also is used to pay the MIP.

MORTGAGOR:

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An individual, corporation, or partnership that borrows money from the lending institution (the mortgagee) in exchange for a mortgage on his/her property).

MULTIFAMILY INFORMATION PROCESSING SYSTEM (MIPS):

An automated system used to monitor the receipt and review of annual and monthly financial statements.

NET INCOME:

Revenues of a period minus the expenses of that period. If expenses exceed revenues it is called Net Loss.

OWNER'S EQUITY:

The dollar balance of the amount of ownership interest of the owners of an entity.

PREPAID EXPENSES:

Assets consisting of remaining portions of amounts which have been paid for in advance for short term future expenses. Example: unexpired insurance.

PROJECT:

The mortgaged property and all its other assets used in or owned by the business conducted on said mortgaged property, which is providing housing and other such activities.

PRORATE:

To divide or apportion an amount according to the number of days or months during the period. Can relate to the amount of rent owed by a resident for occupying a unit for only a part of a month.

PURCHASE ORDER:

A form used by a purchaser to record the details of an order for goods, services, equipment, etc. It authorizes delivery and billing by a vendor or supplier.

REGULATORY AGREEMENT:

The regulatory agreement lists the management and reporting requirements that HUD and the lender impose upon the owner in return for their insuring the mortgage. The regulatory agreement also

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specifies what actions the lender and/or HUD may take if the owner does not carry out its obligations under the regulatory agreement so long as the mortgage insurance is in effect.

RESERVE:

- (1) An accounting term for a formal segregation (appropriation) of owner's equity or for a valuation deduction from an asset account.
- (2) Technically incorrect but common in HUD informal parlance: a fund of cash or cash equivalents retained for a specific purpose such as painting, replacements, or general contingencies. The correct term is "Cash (or Securities) - Reserve or "Reserve Fund for..."

RESERVE FOR REPLACEMENTS:

The regulatory agreement requires an owner to establish and maintain a reserve for replacements. The reserve provides cash for the replacement of capital items (e.g. appliances). The reserve is funded from two sources (1) a lump sum deposit made at the time of loan closing and (2) monthly deposits made as part of the monthly mortgage payments.

RESIDUAL RECEIPTS:

Any cash remaining at the end of a semi-annual or annual fiscal period after deducting from surplus cash the amount of all distributions. See also SURPLUS CASH.

REVENUE:

The inflow of assets to an entity as a result of the rendering of services or delivering of goods.

STATEMENT OF CASH FLOWS:

The statement that shows the sources and uses of cash over a specific reporting period in conjunction with the Income Statement and Balance Sheet.

STATEMENT OF INCOME:

A statement that shows the revenues and expenses of an enterprise over a specific time period, and the resultant net income or net loss (e.g., Form HUD-92410).

SURPLUS CASH:

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The cash remaining after all necessary and reasonable expenses of the project have been paid or funds have been set aside for such payment and all reserve requirements have been met.

TAX BASIS OF ACCOUNTING:

The basis of accounting allowed for tax purposes. For example, a beneficiary of a homeowner's insurance policy may omit insurance proceeds as income; however, using the accrual basis of accounting, the proceeds would have to be included in the income.

TRANSACTION:

Any event that changes assets, and/or liabilities and/or owner's equity.

VENDOR:

Anyone who sells goods or services (store, wholesaler, supplier, utility company, service company, etc.).

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ACRONYMS

BMIR:	Below Market Interest Rate
CPA:	Certified Public Accountant
EIN:	Employer Identification Number
GAAP:	Generally Accepted Accounting Principals
GAAS:	Generally Accepted Auditing Standards
GAGAS:	Generally Accepted Government Auditing Standards
GAS:	Generally Accepted Government Auditing Standards
GAO:	General Accounting Office
IG:	Inspector General
IPA:	Independent Public Accountant
LD:	Limited Dividend
MIO:	Management Improvement and Operating Plan
MIP:	Mortgage Insurance Premium
MIPS:	Multifamily Information Processing System
NP:	Non-Profit
OMB:	Office of Management and Budget
PBE:	Personal Benefit Expenses
PM:	Profit Motivated
RAP:	Rental Assistance Payment

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