



**DELAWARE STATE HOUSING AUTHORITY**

**AUDIT GUIDE**

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## I. INTRODUCTION TO DSHA

Delaware State Housing Authority (DSHA) was created in 1968 as a public body corporate and politic of the State of Delaware. DSHA became the Division of Housing and Community Development under the Department of Community Affairs by Executive Order in 1983. In recognition of the essential link between housing and the State's overall development, the Delaware State Housing Authority and Delaware Development Office (DDO) merged on July 1, 1987. In 1997, DSHA was separated from DDO and the Director of Housing was given cabinet-level status, and serves as an advisor to the Governor.

The DSHA is a state housing finance and tax credit agency responsible for the financing of low-to-moderate income housing developments through the Housing Development Fund (HDF) and HOME Programs. DSHA is also responsible for the administration and allocation of Low Income Housing Tax Credits (LIHTC) for the State of Delaware.

Audited financial statements are one of the primary tools used by DSHA to assure the State of Delaware that DSHA's fiduciary responsibilities have been met in administering and financing housing programs, and that the integrity of DSHA's multifamily portfolio is sound.

This guide is a resource and procedural tool for auditors, owners, and management companies of housing developments participating in DSHA's multifamily housing programs. This guide has been developed so that all audits received by DSHA are in a consistent format. This guide is not a substitute for existing federal and state laws and regulations, nor does it replace the auditor's judgment of audit work. Suggested formats contained herein may not cover all circumstances or conditions encountered in an audit. The auditor should use professional judgment to add supplemental information and to determine the extent of testing necessary to support the opinion in the financial statements. All applicable compliance requirements in this Audit Guide must be addressed by the auditor. Any deviations from DSHA's audit guide must have prior written approval from DSHA. The auditor should contact DSHA if technical assistance is needed.

The Housing Authority, with a staff of over 100, is divided administratively into seven interdependent sections which are described on DSHA's website at the following link:

<http://www.destatehousing.com/DirectorsOffice/divisions.php>

## **II. DSHA ORGANIZATIONAL RELATIONSHIPS**

DSHA has formed several partnerships with federal agencies, lending institutions and other for-profit and non-profit entities which affect monitoring and regulatory requirements with which these agencies are affiliated. Often there is more than one type of funding or agency involved with DSHA's loans. Generally speaking, the most stringent requirement for each program are used for financial reporting and compliance purposes.

It is important that auditors determine the type of financing and the relationship to DSHA's loan or grant that the development or program has with any other agency involved in the financing. Some basic information on the various partnerships and DSHA financing programs follow:

**U.S. Department of Housing and Urban Development (HUD)** - DSHA has partnered with HUD on HUD-insured programs and several other HUD programs.

DSHA has several HUD-insured loans in its portfolio under the Section 8 New Construction Program. DSHA is the primary mortgagee on Section 8 New Construction loans financed by DSHA's Multifamily Mortgage Revenue Bond Program. DSHA serves as the contract administrator and approves rent, monitors eligibility and authorizes reserve and residual receipt releases. These developments should also follow the HUD audit guide. The servicing of the loan, in many cases, is handled by DSHA. DSHA performs management reviews, physical inspections and monitors the financial performance of these developments.

DSHA also has several deferred loans in its portfolio under the Section 202/811 Programs where HUD is the contract administrator. DSHA's deferred loans were funded through the Housing Development Fund (HDF). These developments should also follow the HUD audit guide. DSHA performs physical inspections and monitors financial performance on these properties.

**Internal Revenue Service - Section 42 Low Income Housing Tax Credit** - DSHA is the housing Tax Credit agency for Delaware and allocates Tax Credits under Section 42 of the Internal Revenue Code. After Tax Credits have been allocated to a development, DSHA also monitors the development for compliance. Noncompliance matters are reported directly to the IRS. In many cases, DSHA provides financing for Tax Credit properties through the HDF or HOME Programs and is mostly in a secondary position. DSHA monitors financial performance on these properties as well.

**Rural Development (RD) of the United States Department of Agriculture** - RD provides construction and permanent financing for the Section 515 Rural Rental Housing Program. Many of the DSHA-allocated Tax Credits have been awarded to Section 515 properties. DSHA has also begun to partner with RD on financing Section 515 properties and shortly will begin financial monitoring of those RD projects with DSHA funding.

**Housing Development Fund (HDF)** - The HDF is the State of Delaware's primary financing resource to support the development of affordable housing statewide. The HDF is a very flexible revolving fund that allows interest rates and loan repayments to be tailored to each project. The HDF is used for construction and permanent financing for multifamily rental housing; construction financing for single-family housing; deferred mortgages for homeless facilities, transitional shelters, and group homes; second mortgages for first-time homeowners and grants funds for housing programs, security deposits and emergency home repairs. Any financing by the HDF requires financial monitoring and reporting by DSHA.

**HOME Program** - The HOME Program is a formula-based federal housing block grant program, which provides states and local governments with the flexibility to fund a wide range of affordable housing activities. The HOME Program addresses diverse local housing needs through moderate and substantial rehabilitation, new construction, tenant-based rental assistance and other related activities. In Delaware, DSHA, New Castle County Community Development and Housing, and the City of Wilmington Real Estate and Housing receive funding through the HOME Program. Many of DSHA's Tax Credit properties are funded in part with HOME funds and require compliance and financial monitoring.

**Housing Trust Fund (HTF)** – The HTF is a National affordable housing production program that will complement existing Federal, State, and local efforts to increase and preserve the supply of decent, safe, and sanitary affordable housing for extremely low-income (ELI) and very low-income households (VLI), including homeless families. Funding for the HTF comes from an assessment on loans made by Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal National Mortgage Association (Fannie Mae). For Fiscal Year 2020, Delaware will receive \$3 million. Several LIHTC and smaller permanent supportive housing developments have been supported with HTF and require compliance and financial monitoring.

### **III. REFERENCE MATERIAL**

The following documents should be obtained by the Mortgagor/Grantee, as applicable, for the auditor prior to starting the audit in order to perform the audit:

1. Regulatory Agreement
2. Partnership Agreement (distributions, capital contributions, reserve requirements etc.)
3. Closing Binder, copies of recorded mortgage(s), modification agreements, notes, workout agreements and other agreements
4. Grant Agreement
5. Verification of escrow balances, principal and interest paid, etc.
6. Management Agreement
7. Utility allowance and approved rent information
8. Any notices of default or other regulatory non-compliance, copies of latest compliance, management review, physical inspection reports issued by DSHA and/or other mortgagees, the management agent or owners response and any other supplemental information.
9. Any applicable HUD, RD or DSHA handbook or compliance manuals, and contracts.
10. Section 42 of the Internal Revenue Code
11. Delaware Landlord Tenant Code
12. Prior Year(s) Audited Financial Statements
13. Monthly Operating Statements (Cash Basis - Unaudited)
14. Fidelity Bond and Certificate of Insurance(s)
15. Current Rent Schedule
16. Copies of Letters of Credits, if applicable

#### **IV. SUBMISSION INFORMATION**

1. DSHA requires financial statements be prepared in accordance with Generally Accepted Accounting Principles (GAAP), or a special purpose framework as approved by DSHA. and audited in accordance with Generally Accepted Auditing Standards (GAAS) by a CPA.” .
2. **The CPA must have no business relationship with the Mortgagor/Grantee except for the performance of the audit, accounting systems work, and tax preparation.** An individual who performs manual or automated bookkeeping services, and/or maintains the official accounting records may not perform the audit of the mortgagor/grantee. Where Government Auditing Standards apply, the auditor must meet the auditor qualifications of Government Auditing Standards, including the qualifications relating to independence and continuing professional education. Additionally, the audit organization must meet the quality control standards of Government Auditing Standards.
3. DSHA recommends that the mortgagor/grantee develop a process to regularly evaluate the adequacy of their auditor’s performance
4. Submissions are required at the end of each fiscal period. Please check the regulatory agreement for the specific time period. Requests for extensions may be granted; however, extensions must be in writing and specify the extenuating circumstance(s).
5. DSHA urges all project owners/agents to contact their auditor in advance in order to arrange for timely preparation and submission of the audit. Failure to furnish the audited financial statements in the stipulated format is a violation of the regulatory documents governing the loan and places it in technical default.
6. The audit engagement letter or arrangements for audit between the auditor and mortgagor/grantee must allow duly authorized staff of DSHA to examine the auditor’s working papers supporting the audit report at DSHA’s request.
7. DSHA currently requires (1) one fully executed electronic copy of the completed audited financial statements, including the signed mortgagor/grantee and management agent certifications, be submitted.
8. Each audit must include copies of the internal control communication letter the auditor issues at the conclusion of the audits as required by the following generally accepted auditing standard, Communication of Significant Deficiencies and/or Material Weaknesses (AU-C Section 265).
9. **HUD Electronic Submissions** – HUD projects have a reporting requirement to both the Federal government and DSHA. HUD has issued final rules requiring all organizations, both for-profit and non-profit, to submit their financial information electronically. For those owners that are subject to DSHA’s Audit Guide, audits must be submitted in both an electronic and paper version. Those audits should include all the requirements noted in this Audit Guide.

## **V. AUDIT SCOPE AND COVERAGE**

Organizations should consult their Loan, Grant or Regulatory agreements to determine the applicable audit requirements from this section of the DSHA audit guide.

The primary purpose of the audit is to report to the mortgagor/grantee and DSHA on the financial operations of the development. Should the auditor, during the course of the review, have concerns about the solvency of the mortgagor, such concerns and an evaluation of the extent of the credit risk should be reported in the audit report. The auditor must also report on any failure to comply with DSHA's and other regulatory requirements identified in accordance with AU-C Section 250 *Consideration of Laws and Regulations in an Audit of Financial Statements* and include such matters in the *Auditor's Communication with Those Charged with Governance* (AU-C Section 260).

### 1. Minimum Audit Requirements

- Audit Threshold – See Section V
  - Generally Accepted Auditing Standards - The auditor should report in accordance with Generally Accepted Auditing Standards whether the financial statements present fairly, in all material respects, the financial position of the project as of the audit date and the changes in financial position and cash flows in conformity with generally accepted accounting principles (GAAP) for the period then ended. Also, the auditor must report on the Supplemental Information presented, in relation to the basic financial statements taken as a whole.
  - Government Auditing Standards - Internal control and compliance reporting are required and must adhere to Generally Accepted Government Auditing Standards (GAS). In accordance with GAS, the auditors should also report on their consideration of the project's internal control over financial reporting and on their tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters.
2. Uniform Guidance Audit Requirements - All non-profit entities with federal expenditures of \$750,000 or more must complete an audit in accordance with the Uniform Guidance (2 CFR Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards). However, non-profit entities with less than \$750,000 federal expenditures must complete all reports and all supplemental information as noted in Section VII and Section VIII of this guide (see Quick Reference Checklist Schedules and Reports in Section XI) are required for DSHA properties/programs.
3. Other Organizations: - All other entities receiving funding from DSHA must complete an audit in accordance with the HUD Consolidated Audit Guide. This audit shall include reporting on the following:
- Independent Auditor's Report on Financial Statements and Supplementary Information;
  - Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards;
  - Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major HUD Program and on Internal Control Over Compliance Based on an Audit in Accordance with the HUD Consolidated Audit Guide;
  - Schedule of Findings, Questioned Costs, and Recommendation;
  - Management Letter;
  - Schedule of the Status of Prior Audit Findings, Questioned Costs, and Recommendations,
  - Corrective Action Plan;
  - DSHA also requires additional supplemental information as described in Section VIII of this guide.



#### 4. Other Guidance

- In addition to the internal control requirements of the Uniform Guidance and/or the HUD Consolidated Audit Guide, DSHA requires the auditor to perform tests and report on the mortgagor/grantee's compliance with the regulatory agreements, housing management agreement, partnership agreements and DSHA, HUD, RD or other lender regulations and procedures applicable to the mortgagor/grantee's operation of the development or program in order to comply with Government Auditing Standards and Generally Accepted Auditing Standards as required by AU-C Section 250, as applicable.
- The auditor must also report on any failure to comply with DSHA's and other regulatory requirements identified in accordance with AU-C Section 250 *Consideration of Laws and Regulations in an Audit of Financial Statements* and include such matters in the *Auditor's Communication with Those Charged with Governance* (AU-C Section 260).
- Some activities financed by DSHA are within a larger organization as a program or are a project in a separate legal entity that is required to be consolidated. In these cases, the following applies:
  - Use agreed-upon procedures to address specific compliance concerns for small programs or projects.
  - Auditors must apply the procedures in the DSHA audit checklist to the Project/ Program.
  - The presentation of project/program level financial statements (Statement of Net Position/ Balance Sheet, DSHA Statement of Profit and Loss, and Statement of Cash Flows) as supplementary information, with an opinion in relation to the consolidated financial statements.
  - Project/program level reporting as set forth in Paragraph 2 of Section V as supplementary information with an opinion in relation to the consolidated financial statements
- Non-profits that own only one affordable housing rental unit may request a waiver from the non-profit requirements (unless they are subject to the requirement from other programs) and submit a "Review" that includes agreed upon procedures for eligibility and income, balance sheet, DSHA Statement of Profit and Loss, and a limited assurance letter. DSHA reserves the right to require a full audit at any time at DSHA's discretion.
- Exit Conference - At the conclusion of the audit, an exit conference is to be held with the mortgagor/grantee to discuss the audit findings and obtain comments from the mortgagor/grantee on: 1) the accuracy and completeness of the facts presented and whether they agree with the audit conclusions; and 2) any action the mortgagor/grantee plans to take or reasons for not taking action. A Corrective Action Plan, if applicable, should be submitted by the Mortgagor/Grantee with the financial statements.

## **VI. INTERNAL CONTROL AND COMPLIANCE REPORTING**

Internal control and compliance reporting is required and should adhere with Generally Accepted - Government Auditing Standards (GAS).

- In addition to the internal control requirements of Uniform Guidance and/or the HUD Consolidated Audit Guide, DSHA requires the auditor to perform tests and report on the mortgagor/grantee's compliance with the regulatory agreements, housing management agreement, partnership agreements and DSHA, HUD, RD or other lender regulations and procedures applicable to the mortgagor/grantee's operation of the development or program in order to comply with Government Auditing Standards and Generally Accepted Auditing Standards as required by AU-C Section 250, as applicable.

## **VII. DSHA AUDIT REQUIREMENTS\***

The audited financial statements delivered to DSHA should conform to the contents of this Audit Guide and should include all schedules and reports. In addition, the financial statements should be in **comparative fiscal years**. The following are required of all audits submitted to DSHA:

1. Balance Sheet
2. Statement of Cash Flow
3. Statement of Owner/Partner's Equity
4. Statement of Profit and Loss (*must use DSHA form and must be completed for all properties financed by DSHA*) \*\*
5. Notes to Financial Statements
6. Supplemental Information (see Section VIII of this guide)
7. Surplus Cash Computation and Distributions
8. Mortgagor/Grantee's Certification with Original Signature and Date
9. Management Agent's Certification with Original Signature and Date
10. Auditor's Report on Compliance and Internal Controls - All Applicable Laws, Program Regulations, and Requirements
11. Auditor's Report on Audited Financial Statements and Supplemental Information
12. Management's Corrective Action Plan
13. Schedule of Current Status of Prior Year Findings, Questioned Costs and Recommendations
14. Communication of Significant Deficiencies and/or Material Weaknesses (AU-C Section 265) and/or report
15. DSHA's Compliance and Internal Control Questionnaire

*\*See Attachment Audit Schedules and Reports*

*\*\* Must use DSHA – Statement of Profit and Loss*

## **VIII. DSHA SUPPLEMENTAL REQUIREMENTS AND GENERAL INFORMATION**

1. **Supplemental Information**. Additional supplemental information in the form of explanatory comments or appropriate schedules must include the following:
  - a. A summary of all long-term debt, including a summary of any applicable Tax Credit allocation and equity pay-ins. Include all lenders, general partners, investors, syndicators, and the management company. The summary should include name of lender(s) and/or note holder(s), original debt amount, current balance(s), term(s) of loan(s) or note(s), lien position, name of insurer, if applicable. The syndication pay-in summary should include the schedule of payment dates, amounts, payor and payee.
  - b. Accounts Payable (Trade Creditors) - The list should be included of accounts payable, segregated by those payable within 30 days, 31 - 60 days, and more than 60 days. The list should segregate those incurred by the development from those incurred by the mortgagor/grantee entity. A summary of accounts payable which are at least 30 days past due including date incurred, original amount, purpose, terms, creditor and balance due is required. Accrued expenses should be shown separately from accounts payable.
  - c. Accrued Expenses - A schedule of accrued expenses should be included. A summary of accrued expenses including include date incurred, original amount, purpose, terms, creditor and balance due is required.
  - d. Delinquent Accounts Receivables – A summary listing number of tenants past due, amount and 30, 60 or over 90 days.
  - e. Accounts and Notes Receivables – A detailed schedule shall be made of any accounts or notes receivable other than regular tenants accounts including date acquired, original amount, terms name of borrower or vendor and balance due.
  - f. Schedule of Letters of Credit – A schedule of all outstanding Letters of Credits. The summary should include the purpose, original amount, current amount, expiration date, issuer and beneficiary.
  - g. Escrows and Reserves accounts – A detailed schedule of all escrows and reserve accounts including the type of account, balance of account, deposits and withdrawals and any other activity, schedule of payments to fund the reserve, and name of lender (where account is held) is required. These include Reserves for Replacements, Operating Deficit Reserves, Builder/Contractor Reserves, Rental Reserves, Tax and Insurance Escrows and any other reserves or escrows required by any loan agreement, partnership agreement or regulatory agreement. If reserves are held in the form of a letter of credit or a form other than cash, provide a description of the form of security and/or collateral.
  - h. Unauthorized Distribution of Development Revenue - If any unauthorized distribution of development revenue is revealed during the audit, a separate schedule must be prepared detailing the amounts involved, date of distributions, and any other relevant information. For LIHTC allocations made from 2017 forward, maximum accumulated distributions cannot exceed five (5) years.
  - i. Declaration of Ownership - In the project's first annual financial statement, full details should be included concerning the issuance of all stock and/or investments including names of stockholders or investors, proportionate interest of each and whatever consideration is received by corporate or non-corporate developments (considerations should be itemized to show amount of cash, land, services, etc.). Initially, a list should be furnished by the mortgagor/grantee entity consisting of officers, directors and individuals having financial interest in the development. Thereafter, details should be furnished of any changes in these positions occurring during the year as required by the Regulatory Agreement and/or other loan/grant documents. If no changes have occurred, it should be so noted.

- j. Community Housing Development Organizations (CHDO) - A schedule detailing all income and expenses should be included as part of the report for non-profit entities in receipt of DSHA's CHDO operating grant funds.
  - k. Other - Comments on, and explanations of, all other Balance Sheet items not fully explained by the title of the account should be a part of the report.
  - l. Comparison of budget to actual - A schedule comparing budgeted figures submitted by the mortgagor/grantee to DSHA at the fiscal year start to actual expenditures at fiscal year end is required. Any discrepancies or significant increases/decreases on the budget should be so noted.
  - m. Fidelity bond/certificate of insurance - Provide copies of current certificates of coverages that are in force.
  - n. Identification of Engagement Auditor - A statement specifying the name, mailing address, telephone and fax numbers of the lead auditor on the engagement letter must be included in the statement. This contact should be the individual to whom questions on the report can be addressed.
2. **Computation of Surplus Cash and Distributions** - The form should be completed and attached to the financial statements. This form should reconcile with the Balance Sheet.
3. **Mortgagor/Grantee Certification**. The report must include a certification signed by an authorized official of the mortgagor/grantee entity as to the completeness and accuracy of the financial statements and supplemental information and that no funds from operations of the development were used to pay for construction or mortgagor expenses.
4. **Management Agent Certification**. The report must include a certification signed by an authorized official of the management agent as to the completeness and accuracy of the financial statements and supplemental information.
5. **Schedule of Current Status of Prior Year Findings, Questioned Costs and Recommendations**. An updated report on any findings or concerns from prior years should be included in the financial statements.
6. **Auditor's Management Letter or Letter to Those Charged with Governance**. Any letters prepared by the auditors recommending management corrections and/or changes to the internal control methods or other management recommendations must be included with the financial statements or *auditor must note that no recommendations or corrections were made*.
7. **DSHA's Compliance and Internal Control Questionnaire**. The questionnaire will guide the auditor in his/her review of compliance and internal control matters which are of particular interest to DSHA. The questionnaire has been designed so that "No" answers are indicative of an adverse condition which must be described in the audit report. The auditor should also cite alternative conditions which mitigate weaknesses as disclosed by the questionnaire. The Questionnaire should be part of the auditor's work papers.

## Definitions

- Distribution - Any withdrawal or taking of cash or other assets of the development, excluding payment for reasonable expenses necessary and essential to the operation and maintenance of the development (including repayment of owner advances), but including cash or assets segregated for subsequent withdrawal. Distributions are subject to the terms of the Regulatory Agreement or other governing documents. Distribution earnings (return on equity investment) commence upon the final closing of the loan, unless otherwise specified in the regulatory documents. The amount of equity investment and the maximum allowable return thereon are determined at final closing.

Distributions may not be made: 1) from borrowed funds, 2) prior to final closing of the mortgage loan/grant, 3) when the development is not in good repair or condition based on DSHA's or other regulatory entity's physical inspection or management and marketing review, 4) when the development is in a non-surplus cash position as defined hereunder, 5) when restricted by a modification agreement, or 6) when there is any default under the Regulatory Agreement, Deed of Trust, Note and/or other regulatory documents.

- Essential, Necessary and Reasonable Expenses - Limited to those obligations specifically incurred directly for the operations and maintenance of the development. The auditor will have to make a judgment as to the propriety of development disbursements. However, some expenditures, such as for expenses incurred by the partnership, the fee for the preparation of a partner's, shareholder's or individual's federal, state or local income tax returns, or the payment for advice to an owner on the tax consequences of foreclosure, clearly are not expenses essential, necessary and reasonable to the operations of the development and, therefore, do not qualify as distributions from development income. Also not allowed as a development expense is the cost of a fidelity bond (other than for on-site staff) or letter of credit required of the agent or mortgagor/grantee. The fee for preparation of the federal, state or local income tax returns of the partnership or corporation is an expense necessary and reasonable to the operations of the development.
- Surplus Cash - Cash remaining as of the last day of the fiscal year of the development after all reasonable expenses necessary and essential to the operation of the development have been paid or funds have been set aside for such payment and all reserve requirements have been met. For LIHTC allocations made after 2017 forward, maximum accumulated distributions cannot exceed five (5) years. Note: For limited partnerships or limited liability companies, partnership cash and obligations must be excluded from the calculation.
- Tenant Eligibility - Each program contains specific eligibility requirements based on income, family size and similar criteria. The criteria, for the most part, is contained on the application forms for tenant eligibility maintained at the development and/or management agent's office. The auditor should also have access to the applicable HUD, RD, and/or DSHA handbooks and directives. Any tenant eligibility questions that cannot be resolved through these resources should be directed to DSHA.

**IX. AUDIT INTERNAL CONTROL/COMPLIANCE CHECKLIST**  
**(Shall be maintained with Auditor's workpapers and should not appear in the audit)**

Development Name  
 DSHA/HUD/RD Number  
 Fiscal Year End

Please answer the questions below. All answers should be based upon a review of procedures and/or actual test transactions. Any question answered "no" may indicate of an adverse condition which should be described in the audit report.

		Yes, No or N/A	Working Paper Reference
1.	<b><u>Mortgage Status</u></b>		
A.	Are payments on the mortgage(s) current? First Lien Second Lien Third Lien Fourth Lien Fifth Lien	_____	_____
B.	Has the mortgagor/grantee complied with the terms and conditions of the mortgage, modification, Regulatory, forbearance and/or workout agreement?	_____	_____
C.	If the workout agreement, Regulatory Agreement or subsequent correspondence requires periodic deposits of surplus cash, were such deposits made within sixty days after the end of the specified period?	_____	_____
2.	<b><u>Books and Records</u></b>		
A.	Are a completed set of books and records maintained in a satisfactory manner?	_____	_____
B.	Does the mortgagor/grantee make frequent postings (at least monthly) to the ledger accounts?	_____	_____
3.	<b><u>Cash Activities</u></b>		
A.	Are the cash receipts deposited in an account in the name of the development/program?	_____	_____
B.	Are all account balances fully federally insured?	_____	_____
C.	Are security deposits kept in an account separate and apart from all other funds of the development?	_____	_____
D.	Are security deposits kept in an interest bearing account and is the interest returned to the tenant or applied to a tenant balance?	_____	_____

**Examination Item Reference (cont.)**

		Yes, No. or N/A	Working Paper Reference
E.	Does the balance in the security deposit account equal or exceed the liability? Note: The liability difference should include the accrued interest payable.	_____	_____
F.	Does the owner and/or the management agent have a fidelity bond in an amount at least equal to potential collections for two months which provides coverage for all employees handling cash?	_____	_____
G.	Did cash disbursements exclude payments for items listed below:		
	(1) Legal expenses incurred in the sale of partnership interest or in connection with permanent closing?	_____	_____
	(2) The fee for the preparation of a partner's , shareholder's or individual's federal, state or local income tax returns?	_____	_____
	(3) Expenses for advice to an owner on tax consequences of foreclosure?	_____	_____
	(4) Reimbursement to the owners or affiliates for prior advances, capital expenditures and/or development acquisition costs while the mortgage/grant is in default, under modification, forbearance or provisional workout arrangements?	_____	_____
	(5) Were all disbursements from the operating account(s) made exclusively for operation or obligations of the development?	_____	_____
	(6) Were letter of credit fees paid for out of operations or obligations of the development?	_____	_____
H.	Were distributions made to, or on behalf of, the owners limited to those authorized by the Regulatory Agreement or the distributions in accordance with prior written approval of DSHA while the development was in a surplus cash position?	_____	_____
	(1) Developments operating under a modification or forbearance agreement and/or a provisional workout arrangement are not in a "surplus cash" position for distributions.	_____	_____



**Examination Item Reference (cont.)**

		Yes, No or N/A	Working Paper Reference
I.	Were residual receipts deposited with the mortgagee within thirty days after mortgagee request for such deposit? (HUD Section 8/202/236 projects only)	_____	_____
J.	Were excess rental collections in Section 236 developments remitted to HUD each month?	_____	_____
K.	Does the mortgagor/grantee have a formal rent collection policy and is it posted?	_____	_____
L.	Is the collection policy uniformly enforced?	_____	_____
M.	Do tenants' accounts receivables consist exclusively of amounts due from those other than employees?	_____	_____
N.	Is there a formal procedure to write-off bad debts?	_____	_____
O.	Have write-offs of tenant's accounts been less than one percent of the gross rent?	_____	_____
P.	Are accounts receivables other than tenants' receivables composed exclusively of amounts due from unrelated persons or firms?	_____	_____
Q.	Were there indications that payments for services, supplies or materials were substantially in excess of amounts normally paid for such services, etc?	_____	_____
R.	Were accounts payable remitted in a timely manner so as to not incur late charges/penalties?	_____	_____
S.	Has the mortgagee made the required deposits to the mortgage escrow accounts as required by the loan documents?	_____	_____
4.	<b><u>Management Compensation</u></b>		
A.	Was compensation to the management agent limited to the amounts prescribed in the Management Agreement?	_____	_____
B.	Were development expenses paid in accordance with the management agreement (no expenses that management agent are required to pay charged to the development)?	_____	_____

**Examination Item Reference (cont.)**

		Yes, No or N/A	Working Paper Reference
5.	<b><u>Rents and Occupancy</u></b>		
A.	On nonsubsidized tax credit developments, is the gross potential rental income from apartments equal to or less than that shown on the most recent rent schedule?	_____	_____
B.	On subsidized developments, are dwelling unit rents the same as those approved by DSHA/ HUD/RD on the most recent rent schedule?	_____	_____
6.	<b><u>RD/HUD Subsidy Payments (Section 8/515 developments only)</u></b>		
A.	Were the amounts requested from DSHA/HUD/RD adequately supported by the accounting records?	_____	_____
B.	Were subsidy receipts recorded in the proper accounts?	_____	_____
C.	Utility allowance payments were paid to residents within five days of receipt from DSHA/HUD/RD and in an amount equal to the corresponding utility allowance subsidy amounts received?	_____	_____



## Computation of Surplus Cash and Distributions

<i>PROPERTY NAME:</i>		<i>FISCAL PERIOD ENDING:</i>		<i>DSHA/HDF NUMBER:</i>	
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**Use the "Tab" key to navigate form fields. Do not use the "enter" key.**

<b>PART A. – COMPUTE SURPLUS CASH</b>		
<b>Section I - Cash</b>		
1.	Cash	\$0
2.	Tenant Subsidy Vouchers due for Period Covered by Financial Statements	\$0
3.	Other (Describe)	\$0
<b>A</b>	<b>Part A. Section I. Total (Cash) (Lines 1-3)</b>	<b>\$ 0</b>
<b>Section II- Current Obligations</b>		
4.	Accrued Mortgage Interest Payables	\$0
5.	Delinquent Mortgage Principal Payments	\$0
6.	Delinquent Deposits to Reserve for Replacements	\$0
7.	Account2 Payables (due within 30 days)	\$0
8.	Loans and Notes Payables (due within 30 days)	\$0
9.	Deficient Tax Insurance/Mortgage Insurance Escrow	\$0
10.	Accrued Expenses (not escrowed)	\$0
11.	Prepaid Rents	\$0
12.	Tenant Security Deposits Liability	\$0
13.	Other (Describe)	\$0
<b>B</b>	<b>Part A. Section II. Total (Current Obligations/Liabilities) (Lines 4-13)</b>	<b>\$ 0</b>
<b>C</b>	<b>Surplus Cash (Deficiency)</b>	
	<b>Line A Minus Line B</b>	<b>\$0</b>
<b>PART B. – COMPUTE OWNERS DISTRIBUTIONS &amp; REQUIRED HDF LOAN BALANCE REDUCTION</b>		
1.	Surplus Cash	\$0
2.	a. Beginning Balance: Accrued Distributions from Prior Year(s) Unpaid	\$0
	Annual Distribution Earned During Fiscal Period Covered	\$0
	Annual Distribution Paid During Audit Year Against Audit Year	\$0
	Annual Distribution Paid During Audit Year Against Prior Year(s)	\$0
	b. Ending Balance: Distributions Unpaid from Audit and Prior Year(s) at Audit Year End (Amount Carried on Balance Sheet)	\$0
3.	Amount available for distribution (lesser of Line 1. or 2b.)	\$0
4.	Amount due DSHA to be applied to DSHA Permanent Loan or deposited in to residual receipts (Line 1. Minus 3.)	\$0

*Prepared by:*

*Reviewed by::*

*Date:*

*Date:*



## Instructions for Computation of Surplus Cash and Distributions

### PART A - COMPUTE SURPLUS CASH

- Line 1. Cash - Do not include escrow deposits or DSHA required reserves. Include petty cash, cash in bank, tenant security deposits, and other deposits (i.e., pet deposits).
- Line 2. Tenant Subsidy Vouchers - Section 8 Certificate/Voucher subsidies earned but not yet received from the local Public Housing Authority during the period covered by this financial statement.
- Line 3. Other - Include amounts related to replacement reserve draws for which have: (1) been paid from project funds; (2) approved by DSHA prior to the end of the fiscal year, but which reimbursement has not been received from the mortgagee.
- Line 4. Accrued Mortgage Interest Payables - For projects current under the mortgage, include the interest payment due the first of the next month. 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.
- Line 5. Delinquent Mortgage Principal Payments - Include principal delinquent under the mortgage. This should be the difference between the unpaid balance shown on the amortization schedule and mortgage payable on the balance sheet.
- Line 6. Delinquent Deposits to Replacement Reserves - Include any delinquent deposits to the reserve for replacement account.
- Line 7. Accounts Payable - All payables due within 30 days, excluding payables related to replacement reserve draws which were: approved by DSHA prior to the end of the fiscal year, but which have not yet been released by DSHA and deposited in the project account.
- Line 8. Loans and Notes Payable - Include loans or notes due within 30 days. Short term notes from any subsidiary or parent company, must have documented legally binding notes ***and must be actually due.***
- Line 9. Deficient Insurance Tax Escrow or Mortgage Insurance Escrow - Include any deficiency reported in the mortgage escrow deposits.
- Line 10. Accrued Expenses (not escrowed) - Expenses that have been accrued but not paid. (i.e., wages, payroll taxes).
- Line 11. Prepaid Rents - Rents received from tenants (including commercial tenants) that apply to future accounting periods.
- Line 12. Tenant Security Deposits Liability - This account records the off-setting liability resulting from transactions recorded in tenant security deposits held in trust.
- Line 13. Other Obligations due but not paid (can be accrued).

**PART B - COMPUTE DISTRIBUTIONS TO OWNERS & REQUIRED HDF LOAN BALANCE  
REDUCTION**

Line 1. Surplus Cash from Part A. If the amount on line (C) is zero or negative, enter zero. If the amount was positive, enter that amount here.

Line 2.a. Beginning Balance: Accrued Distribution from Prior Year(s) Unpaid - Enter beginning balance, if any, the accrued distribution from prior year(s) unpaid. It is essential that auditor references all partnership agreements, loan agreements, council resolutions for distribution amounts prior to completing this line item. Note, some partnership agreements do not allow for accrued distributions. Reference prior year ending balance, as adjusted by DSHA if applicable.

Annual Distribution Earned During Audit Year - Enter zero if mortgagor agreed to waive distributions for audit year or enter amount determined in regulatory, partnership or loan documents.

Annual Distribution Paid During Audit Year Against Audit Year - Enter the total amount of distribution paid during the audit year against amount of distribution earned during audit year.

Annual Distribution Paid During Audit Year Against Prior Year(s) – Enter total amount of distribution paid during the audit year against accrued distributions from prior year(s).

NOTE: For LIHTC allocations made from 2017 forward, maximum accumulated distributions cannot exceed five (5) years.

Line 2. b. Ending Balance: Distributions Unpaid from Audit Year and Prior Year(s) at Audit Year End – Total amount of distributions earned but unpaid during audit and prior year(s).

Line 3. For non-profits enter zero. For limited partner projects, enter the lesser of Line 1 or Line 2b.

Line 4. If there is any excess (Line 1 minus Line 3), this amount should be paid to DSHA as per the regulatory agreement to reduce the accrued interest and/or principal amount of the HDF loan or if non-profit or HUD Assisted property applied to residual receipts and/or the operating reserve escrow accounts.

## SCHEDULES AND REPORTS REQUIRED CHART

AUDIT REQUIREMENTS	SUBSIDIZED/ASSISTED PORTFOLIO (1)	HDF/HOME CONVENTIONAL PORTFOLIO (2)	NON-PROFITS RECEIVING FEDERAL EXPENDITURES LESS THAN \$500,000
Mortgagor's Certification (with original signature and date)	√	√	√
Management Agent Certification (with original signature and date)	√	√	√
Independent Auditor's Report	√	√	√
Balance Sheet	√	√	√
Income Statement	√	√	√
Statement of Cash Flows	√	√	√
Statement of Changes in Owners/Partners Equity	√	√	√
DSHA Form - Statement of Profit and Loss	√	√	√
Notes to Financial Statement	√	√	√
Supplemental Information	√	√	√
Summary of Long Term Debt	√	√	√
Summary of Tax Credit Allocation, if applicable	√	√	√
Accounts Payable (Trade Creditors)	√	√	√
Accounts Payable (Other Than Trade Creditors)	√	√	√
Accrued Expenses	√	√	√
Delinquent Tenant Accounts Receivable	√	√	√
Accounts Receivable and Notes Receivable	√	√	√
Schedule of Letters of Credit	√	√	√
Schedule of Escrow Balances	√	√	√
Schedule of Reserve Balances	√	√	√
Unauthorized Distribution of Development Revenue	√	√	√
Declaration/Compensation of Ownership	√	√	√
Identity of Interest	√	√	√
Community Housing Development Organizations, if applicable	√	√	√
Statement of Surplus Cash/Residual Receipts and or Distributions	√	√	√
Comparison of budget to actual	√	√	√
Fidelity bond/certificate of insurance	√	√	√
Indentification of Engagement of Auditor	√	√	√
Audit Compliance and Internal Control Questionaire	√	√	√
Independent Auditor's Report on Internal Controls	√	√	√
Independent Auditor's Reports on Compliance	√	√	√
Schedule of Findings and Questioned Costs	√	√	√
Auditors Comments on Audit Resolution Matters Relating to HUD Programs	√	√	√
Corrective Action Plan	√	√	√
Report on Prior Year(s) Audit Findngs or Going Conern Issues -Resolution and/or Current Status	√	√	√
Management Letter and/or indication no management letter was issued	√	√	√
<b>Type of Statement</b>			
GAAP Audited Financial	√	√	√
GAAP,GAS Audited Financial	√	√	√

(1) Subsidized/Assisted includes all HUD-Insured properties, Rural Development Section 514, 515 or 516 Properties, DSHA Tax-Exempt Bond Financed Properties, and All Section 8 properties (Insured and and Uninsured)

(2) HDF/HOME/Conventional includes any property financed with Housing Development Fund, HOME funds or other conventional financing.

## DSHA Statement of Profit and Loss

**Project Name:**

**Project Number:**

**Year Ending:**

Part I	Description of Account	Amount*	
RENTAL INCOME 5100	Rent Revenue - Gross Potential	5120	
	Tenant Assistance Payments	5121	
	Rent Revenue - Stores and Commercial	5140	
	Garage and Parking Space	5170	
	Flexible Subsidy Revenue	5180	
	Miscellaneous Rent Revenue	5190	
	Excess Rent	5191	
	Rent Revenue - Insurance	5192	
	Special Claims Revenue	5193	
	Retained Excess Income	5194	
	Lease Revenue (Nursing Homes)	5195	
	<b>Total Rent Revenue</b>		
VACANCIES 5200	Apartments	5220	
	Stores and Commercial	5240	
	Rental Concessions	5250	
	Garage and Parking Space	5270	
	Miscellaneous	5290	
<b>Total Vacancies</b>			\$0
<b>Net Rent Revenue (Rent Revenue less Vacancies)</b>			\$0
FINANCIAL REVENUE 5400	Nursing Homes / Assisted Living / Board & Care / Other Elderly Care / Coop / and Other Revenue	5300	
	Members Group Life Insurance Expense (Coops)	5320	
	Financial Revenue - Project Operations	5410	
	Revenue from Investments - Residual Receipts	5430	
	Revenue from Investments - Replacement Reserve	5440	
	Expiration of Gift Donor Restrictions (Non-Profits)	5460	
Gifts (Non-Profits)	5470		
Revenue from Investments - Miscellaneous	5490		
<b>Total Financial Revenue</b>			\$0
OTHER REVENUE  5900	Laundry and Vending Revenue	5910	
	Tenant Charges (NSF and Late Charges)	5920	
	Damages and Cleaning Fees	5930	
	Forfeited Tenant Security Deposits	5940	
	Interest Reduction Payments Revenue	5945	
	Miscellaneous Revenue (Specify)	5990	
<b>Total Other Revenue</b>			\$0
<b>Total Revenue</b>			\$0
ADMINISTRATIVE EXPENSES 6200 6300	Conventions and Meetings	6203	
	Management Consultants	6204	
	Advertising and Marketing	6210	
	Other Renting Expenses	6250	
	Office Salaries	6310	
	Office Expenses	6311	
	Office or Model Apartment Rent	6312	
	Management Fee	6320	
	Manager or Superintendent Salaries	6330	
	Administrative Rent Free Unit	6331	
	Legal Expenses - Project	6340	
	Auditing Expense - Project	6350	
	Bookkeeping Fees / Accounting Services	6351	
	Telephone and Answering Services	6360	
	Bad Debt Expense	6370	
	Miscellaneous Administrative Expenses (Specify) Contrib.	6390	
	<b>Total Administrative Expenses</b>		
UTILITIES EXPENSE 6400	Fuel Oil / Coal	6420	
	Electricity (Lights and misc. power)	6450	
	Water	6451	
	Gas	6452	
	Sewer	6453	
<b>Total Utilities Expense</b>			\$0

The Accompanying Notes are an Integral Part of the Financial Statements

OPERATING AND MAINTENANCE  6500	Janitor and Cleaning Payroll	6510	
	Janitorial Supplies	6515	
	Janitorial Cleaning Contracts	6517	
	Exterminating Contract/Payroll	6519	
	Exterminating Supplies	6520	
	Operating and Maintenance Rent Free Unit	6521	
	Garbage and Trash Removal	6525	
	Security Payroll / Contract	6530	
	Security Rent Free Unit	6531	
	Grounds Payroll	6535	
	Grounds Supplies	6536	
	Grounds Contract	6537	
	Repairs Payroll	6540	
	Repairs Material	6541	
	Repairs Contracts	6542	
	Elevator Maintenance	6545	
	Heating / Cooling / Repairs and Maintenance	6546	
	Swimming Pool Maintenance/Contract	6547	
	Snow Removal	6548	
	Decorating Payroll/Contract	6560	
Decorating Supplies	6561		
Vehicle and Maintenance Equipment Operation	6570		
Miscellaneous Operating and Maintenance Expense	6590		
<b>Total Operating and Maintenance Expense</b>			\$0
TAXES AND INSURANCE 6700	Real Estate Taxes	6710	
	Payroll Taxes (FICA)(Project's Share)	6711	
	Property and Liability Insurance (Hazard)	6720	
	Fidelity Bond Insurance	6721	
	Workmen's Compensation	6722	
	Health Insurance and other Employee Benefits	6723	
	Miscellaneous Taxes, Licenses, Permits and Insurance	6790	
	<b>Total Taxes and Insurance</b>		
<b>Total Operating Expenses</b>			\$0
<b>Net Operating Income</b>			
FINANCIAL EXPENSES 6800	Interest on Bonds Payable	6819	
	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	
	<b>Total Financial Expenses</b>		
	Nursing Homes / Assisted Living / Board & Care / Other Elderly Care / Coop / and Other Expenses	6900	
<b>Total Cost of Operations Before Depreciation</b>			\$0
<b>Profit (Loss) Before Depreciation</b>			
DEPRECIATION 6600	Depreciation Expenses	6600	
	Amortization Expense	6610	
<b>Operating Profit or (Loss)</b>			\$0
CORPORATE OR MORTGAGOR ENTITY EXPENSES 7100	Entity Revenue	7105	
	Officers Salaries	7110	
	Legal Expenses	7120	
	Federal, State, And Other Income Taxes	7130	
	Interest Income	7140	
	Interest on Notes Payable	7141	
	Interest on Mortgage Payable	7142	
	Other Expense	7190	
<b>Net Entity Expenses</b>			\$0
<b>Profit or Loss (Net Income or Loss)</b>			\$0
<b>Part II*</b>			
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.			

\* Part II - Must be completed for all financial statements