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Equal Opportunity Housing and Equal Opportunity Employment

Date: April 2016
To: Owners, Management Agents and Certified Public Accountants
From: Gayle Rusco, Manager; Asset Management Division
Contact: Steve O'Brien: 651-297-4065
Subject: **Minnesota Housing Audit Procedures**

Effective with the Calendar Year ending December 31, 2013 Minnesota Housing revised submission of annual audits. The Minnesota Housing Regulatory Agreement requires the mortgagor to furnish a set of financial statements following the end of each fiscal year. The financial statements must be prepared in accordance with auditing standards generally accepted in the United States of America and accompanied by an opinion of an independent certified public accountant (CPA) licensed to practice in the State of Minnesota.

Neither the owner nor the management agent may place any limitation on the scope of the CPA's examination of the financial statements. Please review the Regulatory Agreement and Housing Assistance Payment Contract (if applicable) and/or refer to the following table to determine the type of engagement required, the submission deadline, and other details for your development.

Program	Type of Assistance	Guideline to Follow	Due(*)	Type of Engagement	# of Copies
HRS(a)	Varies	MN Housing	60 days	Full audit	2
HUD Insured	Section 236	MN Housing	90 days	Full audit	1
HUD Insured	Section 8	HUD	90 days	Full audit	1
Prepaid Mortgages (b) TCA HAP Contracts	Section 8 TCA	MN Housing	90 days	Compilation/Review	1
501 ©(3) Bonds (c)		MN Housing	90 days	Full audit	1
G.O. Bonds (c)		MN Housing	90 days	Full audit	1
Deferred loans with LTH(d)	Varies	Varies	90 days	Report using Agency LPPT financial reporting tool.	n/a
ARRA (e)	Varies	MN Housing	90 days	Full audit	1
Housing Infrastructure Bonds (HIB) (c)	Varies	MN Housing	90 days	Full audit	1
HOME (HARP)	Varies	MN Housing	90 days	Full audit	1
Other First Mortgages	Varies	MN Housing	90 days	Full audit	1
Other Deferred Loans	Varies			Call assigned housing mgmt. officer	1

- (*) Number of days audits, compilations or reviews are due after development's fiscal year-end.
- (a) HUD Risk Sharing Program.
- (b) Section 8 properties for which Minnesota Housing's mortgage has been satisfied. See details below under "Compilation/Review".
- (c) For 501 (c) (3) bonds, Housing Infrastructure Bonds (HIB) and publicly owned housing funded by the issuance of state General Obligation Bonds (G.O. Bonds). Can be a compilation after the first 2 years of operations upon Minnesota Housing's authorization.
- (d) Deferred loan funded developments serving Long- Term Homeless households.

- (e) ARRA (TCAP and 1602). Both Minnesota Housing (MH) funded developments and developments funded through sub allocator entities must submit full audits. MH will determine cash flow and audit letters will go to the sub allocator who is responsible for the payment of annual asset management fees.

Audit

A yearly audit **is required** for all developments that have an amortizing first mortgage with Minnesota Housing under the Regulatory Agreement. However, in some circumstances and at its sole discretion, Minnesota Housing may temporarily allow a review by a Certified Public Accountant in lieu of an audit **if** the development is not in the HUD Risk-Sharing Program or is not HUD insured. The financial statements are reviewed by Minnesota Housing to determine the adequacy and accuracy of the monthly operating reports submitted to Minnesota Housing by the management agent and to calculate the allowable distribution, if any, to the owner. To expedite this review, Minnesota Housing requires that the following statements, notes and supplemental information be included in each of the following reports:

- A. Comparative Statements
 - 1. Balance Sheets
 - 2. Statement of Operations
 - 3. Statement of Cash Flows
 - 4. Statement of Partners' Capital

- B. Notes to financial statements
 - 1. Description of organization
 - 2. Summary of significant accounting policies (to include basis of presentation of financial statements)
 - 3. Explanation of partners' or members' capital contributions
 - 4. Explanation and breakdown of all mortgages and loans payable (including current maturities and accrued interests)
 - 5. Explanation of transactions with affiliates and all related parties
 - 6. Summary

- C. Supplemental Information
 - 1. (Comparative) Schedule of Revenues and Expenses
 - 2. (Comparative) Schedule of Cash Balances
 - 3. (Comparative) Schedule of Accounts Payable
 - 4. (Comparative) Schedule of Non-Tenant Receivables
 - 5. (Comparative) Schedule of Accrued Expenses
 - 6. Statement of Changes in Fixed Asset Accounts
 - 7. Schedule of Restricted Escrow Deposits and Reserves
 - 8. Reconciliation of Approved and Paid Distributions
 - 9. Net Operating Income Computation (if not reflected on A-2)
 - 10. **Computation of Surplus Cash, Distribution and Residual Receipts**—Report on Internal Control
 - 11. Schedule of Partners
 - 12. Mortgagor Certification

The above information is the minimum requirement to be presented in the financial statements submitted to Minnesota Housing. If, in the CPA's judgment, more information is necessary to present a clearer picture of the development's financial position, such information should be included. Also, should the owner desire that other information be presented, such information should be included as well.

Compilation/Review

The following guidance does not alter non-profit and government owners' responsibilities to obtain single audits when required by 2 CFR Part 200 Subpart F, formerly referred to as A-133 audits.

This requirement applies to developments with HAP contracts administered by Minnesota Housing. The federal regulations governing Section 8 Housing Assistance Payments (HAP) contracts, specifically 24 CFR § 880.601(d) and 24 CFR part 5, subpart H, require owners of project-based Section 8 properties to submit financial information and occupancy statements to the contract administrator.

If a development receives Section 8 subsidy, but MHFA does not hold a first mortgage on the project, and the initial HAP contract has not expired, at a minimum, the following financial reports are to be delivered to MHFA within 90 days of the entity's fiscal year end:

An independent CPA compilation or an independent CPA review of the entities fiscal year -end financial statements, in accordance with Generally Accepted Accounting Principles (GAAP):

Required composition of the financial reports:

1. (Comparative) Balance Sheet
2. (Comparative) Statement of Operations
3. (Comparative) Statement of Cash flow
4. Notes to Financial Statements
5. Mortgagor Certification

Owners of small multifamily housing projects **that do not have an amortizing first mortgage with Minnesota Housing** and are receiving less than \$500,000 in Annual Federal Subsidy, refer to Notice H 2013-23 issued August 8, 2013 for additional guidance from HUD.

Financial Statements may be submitted electronically, but Minnesota Housing's preference is to receive bound copies from the Auditing Firm. All submitted audits and compilations must be signed & dated by the General Partner/Chairman. Those that do not meet the minimum requirements will not be accepted by Minnesota Housing.

Please refer to the revised "**Appendix to Audit Guide**" for sample formats and general guidance to assist in preparing the required statements and supplemental information. This document can be accessed on our website at: www.mnhousing.gov. Under "**Multifamily Rental Partners**", click on "**Management, Compliance & Servicing**".