

Date: October 2018
To: Owners; Management Agents; Certified Public Accountants
From: Gayle Rusco, Manager, Asset Management Division
Contact: Steve O'Brien at 651.297.4065
Subject: Guidelines for Minnesota Housing Audits

Effective with the calendar year ending December 31, 2013, the Minnesota Housing Finance Agency ("Minnesota Housing") revised submission requirements of annual audits. Minnesota Housing's 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 Generally Accepted Accounting Principles (GAAP), which are the auditing standards generally accepted in the United States of America. In addition, financial statements must be 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 the Housing Assistance Payment Contract (if applicable) and/or refer to the table at the end of this document to determine the type of engagement required, the submission deadline and other details for your development.

Full Audit (General Requirements)

Under the Regulatory Agreement, a yearly audit **is required** for all developments that have an amortizing first mortgage with Minnesota Housing. Note that in some circumstances, and at its sole discretion, Minnesota Housing may temporarily allow a review by a CPA in lieu of an audit **if** the development is not in the HUD Risk-sharing Program or is not HUD-insured. Minnesota Housing reviews the financial statements 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. Financial (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 [Statement of Operations])
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 judgment of Minnesota Housing’s credit risk department more information is necessary to present a clearer picture of the development’s financial position, such information must be included. The owner may include any additional financial information if so desired.

Compilation/Review

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

This requirement applies to developments with Housing Assistance Payment (HAP) contracts administered by Minnesota Housing. The federal regulations governing Section 8 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 a Section 8 subsidy, but Minnesota Housing does not hold a first mortgage on the project and the initial HAP contract has not expired, **at a minimum**, the following financial reports must be delivered to Minnesota Housing within 90 days of the entity’s fiscal year end:

An independent CPA compilation or an independent CPA review of the entity’s fiscal year-end financial statements, in accordance with Generally Accepted Accounting Principles (GAAP). Required composition of the financial reports include:

1. (Comparative) Balance Sheet
2. (Comparative) Statement of Operations
3. (Comparative) Statement of Cash Flows
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** should refer to current guidance from HUD.

Financial Statements must be submitted electronically using Box.com; hard copies are no longer accepted. All submitted audits and compilations must be signed and dated by the general partner or the controlling party. Minnesota Housing will not accept items that do not meet the minimum requirements.

Please refer to the revised “**Appendix to Guidelines for Minnesota Housing Audits**” for sample formats and general guidance to assist in preparing the required statements and supplemental information. The document can be accessed on our website at: www.mnhousing.gov. Under “Multifamily Rental Partners,” click “Management, Compliance & Servicing.”

AUDIT DETAILS					
Program	Type of Assistance	Guideline to Follow	Due (*)	Type of Engagement	# of Copies
HRS (a)	Varies	Minnesota Housing	60 days	Full audit	2
HUD Insured	Section 236	Minnesota 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	Minnesota Housing	90 days	Compilation/Review	1
501(c)(3) Bonds (c)		Minnesota Housing	90 days	Full audit	1
GO Bonds (c)		Minnesota 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	Minnesota Housing	90 days	Full audit	1
Housing Infrastructure Bonds (HIB) (c)	Varies	Minnesota Housing	90 days	Full audit	1
HOME (HARP)	Varies	Minnesota Housing	90 days	Full audit	1
Other First Mortgages	Varies	Minnesota Housing	90 days	Full audit	1
Other Deferred Loans	Varies			Contact assigned housing management 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. Refer to details above in the Compilation/Review section.

(c) For 501(c)(3) bonds, Housing Infrastructure Bonds (HIB) and publicly-owned housing funded by the issuance of state General Obligation (GO) bonds. With Minnesota Housing’s authorization, can be a compilation after the first two years of operations.

(d) Deferred loan funded developments serving Long-term Homeless households.

(e) ARRA (TCAP and 1602). Minnesota Housing funded developments **and** developments funded through suballocator entities must submit full audits. Minnesota Housing will determine cash flows, and audit letters will be sent to the suballocator who is responsible for the payment of annual asset management fees.