

DATE: February 2007

TO: OWNERS, MANAGEMENT AGENTS AND  
CERTIFIED PUBLIC ACCOUNTANTS

FROM: Robert L. Odman  
Assistant Commissioner, Multifamily

CONTACT: Multifamily Management Accounting  
651-296-3376 or 651-296-3495

SUBJECT: **FINANCIAL STATEMENT REQUIREMENTS**

The Minnesota Housing Finance Agency (MHFA) Regulatory Agreement requires the mortgagor to furnish a set of financial statements within **ninety (90) days** following the end of each fiscal year. Financial statements must be in accordance with Generally Accepted Accounting Principles and must be accompanied by an opinion of an independent certified public accountant 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 legal documents to determine if financial statements must be audited or can be in the form of a review.

Note: Financial statements for MHFA-financed properties having a **HUD Risk Share Regulatory Agreement** are due to MHFA **sixty (60) days** following the end of each fiscal year.

The financial statements are reviewed by MHFA to determine the adequacy and accuracy of the monthly operating and status reports submitted to the Agency by the management agent and determine the allowable distribution, if any, to the partnership or nonprofit entity. To expedite this review, MHFA requires that the following statements, notes, and supplemental information be included in each audit or review:

#### **Statements**

1. Comparative Balance Sheet
2. Comparative Statement of Revenues and Expenses
3. Comparative Statement of Changes in Partnership Equity
4. Comparative Statement of Cash Flows

### **Notes**

1. Summary of significant accounting policies (to include basis of financial statements presentation).
2. Explanation of all receivables.
3. Explanation of notes or loans payable other than the mortgage note due to MHFA.
4. Explanation of amounts due to related parties.
5. Explanation of transactions between the partnership and any related parties.

### **Supplemental Information**

1. Comparative Schedule of Revenues and Expenses
2. Comparative Schedule of Accounts Payable
3. Comparative Schedule of Accrued Expenses
4. Comparative Schedule of Cash Balances
5. Statement of Changes in Fixed Asset Accounts
6. Reconciliation of MHFA Form 256B to the Audit
7. Report on Internal Controls
8. Schedule of Partners
9. Mortgagor's Certification

The above are the minimum requirements for information to be presented in financial statements submitted to MHFA. If, in the CPA's judgment, more information is necessary to present a clear picture of the development's financial position, such information should be included with the financial statements. Also, if the owner should desire that other information be presented, such information should be included.

**FINANCIAL STATEMENTS THAT DO NOT MEET THE MINIMUM REQUIREMENTS WILL NOT BE ACCEPTED BY MHFA.**

Attached are format examples and/or general guidance to assist in preparing the required statements and supplemental information. These represent the minimum amount of information necessary to satisfy the financial statement requirements of the Minnesota Housing Finance Agency Regulatory Agreement.

**Attachment A - General Information**  
**Attachment B - Statements**  
**Attachment C - Supplemental Information**

**Attachment A - General Information**

**Independent Auditor's Report**

As a minimum, two phrases must be included in the CPA's report.  
They are:

1. The financial statements "**present fairly**" the financial position of the entity being audited.
2. Whether the financial statements are in conformity with "**generally accepted accounting principles**" OR on a "**tax basis**".

**Illegal Activities**

If, during or in connection with an audit required by this audit guide, independent auditors become aware of illegal acts or indications of such acts, they should promptly report the information to the Minnesota Housing Finance Agency.

**Security Deposit Account**

The Minnesota Housing Finance Agency requires that tenant security deposit accounts be separate from all other accounts. Interest earned on this account, in excess of the increased liability to the tenants, should not be recognized as income to operations until the funds have been physically transferred to an operations account.

## **Attachment B - Statements**

### **Comparative Balance Sheet**

- \* If cash is presented in the same detail as required by the Schedule of Cash Balances (see Page C-3), the corresponding supplemental information may be omitted.

### **Comparative Statement of Revenues and Expenses**

- \* If this statement is presented in the same detail as required by the Comparative Schedule of Revenues and Expenses (see Page C-1), the corresponding supplemental information may be omitted.

The minimum detail required for this statement is as follows:

\*

	<u>12/31/20XX</u>	<u>12/31/20XX</u>
REVENUES		
Rental Income		
Interest Income		
Other Income	_____	_____
TOTAL REVENUES		
EXPENSES:		
Administrative		
Maintenance		
Utilities		
Taxes and Insurance		
Financial		
Partnership	_____	_____
TOTAL EXPENSES	_____	_____
INCOME (LOSS) BEFORE DEPRECIATION AND AMORTIZATION		
Depreciation and Amortization	_____	_____
NET INCOME (LOSS) FOR THE YEAR	=====	=====



## Comparative Statement of Changes in Partnership Equity

- \* If this statement incorporates the same detail required by the Schedule of Partners (see Page C-8), the schedule may be omitted from the supplemental information. An example is:

	General		Limited		
	Name of Partner A	Name of Partner B	Name of Partner C	Total of Under 25%	Total
Per Cent Owned	10	5	30	55	100
Equity (Deficit) 20XX					
Contributions (Withdrawals)					
Net Income (Loss)					
Equity (Deficit) 20XX					
Contributions (Withdrawals)					
Net Income (Loss)					
Equity (Deficit) 20XX					

### **Comparative Statement of Cash Flows**

	<u>12/31/ 20XX</u>	<u>12/31/ 20XX</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Rental receipts		
Interest receipts		
Other receipts		
Operating expenses paid	( )	( )
Interest on mortgage note paid	( )	( )
Real estate taxes paid	( )	( )
Property insurance paid	( )	( )
Miscellaneous expenses paid	( )	( )
Net security deposit transactions		
Net cash provided (used) by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash paid for capital improvements to property	( )	( )
Cash paid for purchase of equipment	( )	( )
Cash received from sale of equipment		
(Increase) decrease in real estate tax escrow		
(Increase) decrease in insurance escrow		
(Increase) decrease in replacement reserve		
(Increase) decrease in painting/decorating reserve		
(Increase) decrease in development cost escrow		
(Increase) decrease in residual receipts account		
Other investing activities		
Net cash provided (used) by investing activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long term borrowing		
Advances from partners		
Repayment of advances from partners	( )	( )
Minnesota Housing Finance Agency annual fee	( )	( )
Payment of principal on mortgage note	( )	( )
Distribution to partners	( )	( )
Other financing activities		
Net cash provided (used) by financing activities		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
<b>Cash and Cash Equivalents - Beginning of year</b>		
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>		

**B-3****C - Supplemental Information****Comparative Schedule of Revenues and Expenses \***

	<u>12/31/20XX</u>	<u>12/31/20XX</u>
REVENUES		
Tenant rents		
Housing assistance payments		
Commercial rent		
Tenant fees		
Other income		
Forfeited security deposits		
Interest income		
TOTAL REVENUES		
EXPENSES		
Advertising and marketing		
Management fee		
Legal		
Auditing		
Telephone		
On-site management payroll		
Other administration		
TOTAL ADMINISTRATIVE		
Elevator maintenance		
Exterminating		
Rubbish removal		
Other contract services		
Janitor supplies		
Maintenance supplies		
Grounds maintenance		
Snow removal		
Heating and air conditioning repair		
General repair services		
Painting and decorating materials		
Maintenance and janitorial payroll		
Other maintenance and operating expenses		
TOTAL MAINTENANCE		
Electricity		
Water and sewer		
Gas and oil		
TOTAL UTILITIES		
Insurance		
Real estate taxes		
Interest		
MHFA annual fee		
TOTAL TAXES, INSURANCE, AND FINANCIAL		
Other partnership expenses		
Income (loss) before amortization and depreciation		
Amortization and depreciation		
TOTAL EXPENSES		
NET INCOME (LOSS)		

\* This schedule may be omitted if the detail is included in the Comparative Statement of Revenues and Expenses.





**Comparative Schedule of Accounts Payable \***

	<u>12/31/20XX</u>	<u>12/31/20XX</u>
OPERATIONS		
Advertising and marketing		
Management fee		
Legal		
Auditing		
Telephone		
On-site management payroll		
Other administration		
Elevator maintenance		
Exterminating		
Rubbish removal		
Other contract services		
Janitor supplies		
Maintenance supplies		
Grounds maintenance		
Snow removal		
Heating and air conditioning repair		
General repair services		
Painting and decorating materials		
Maintenance and janitorial payroll		
Other maintenance and operating expenses		
Electricity		
Water and sewer		
Gas and oil		
Other (identify each)		
TOTAL OPERATIONS ACCOUNTS PAYABLE	<u>                    </u>	<u>                    </u>
	<u>                    </u>	<u>                    </u>
PARTNERSHIP		
Partnership management fee		
Legal		
Auditing		
Other (identify each)		
TOTAL PARTNERS ACCOUNTS PAYABLE	<u>                    </u>	<u>                    </u>
	<u>                    </u>	<u>                    </u>

\* Accounts payable must be individually listed by the chart of accounts presented in this example.

**Comparative Schedule of Accrued Expenses**

	<u>12/31/20XX</u>	<u>12/31/20XX</u>
Accrued real estate taxes		
Accrued interest - MHFA		
Accrued interest - other (identify each)		
Accrued payroll taxes		
Other accrued expenses (identify each)		
TOTAL ACCRUED EXPENSES	<u>                    </u>	<u>                    </u>
	<u>                    </u>	<u>                    </u>

**Comparative Schedule of Cash Balances \***

	<u>12/31/20XX</u>	<u>12/31/20XX</u>
OPERATING ACCOUNT		
Checking		
Savings		
Certificates of deposit		
Payroll account		
Petty cash		
Other (identify each)		
TOTAL OPERATING CASH	<u>                    </u>	<u>                    </u>
TENANT SECURITY DEPOSIT CASH		
Checking		
Savings		
Certificates of deposit		
Other (identify each)		
TOTAL TENANT SECURITY DEPOSIT CASH	<u>                    </u>	<u>                    </u>
PARTNERSHIP CASH		
Checking		
Savings		
Other (identify each)		
TOTAL PARTNERSHIP CASH	<u>                    </u>	<u>                    </u>

\* This schedule may be omitted if the detail is included in the Comparative Balance Sheet.

**Statement of Changes in Fixed Asset Accounts**

	<u>Balance</u> <u>12/31/20XX</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/20XX</u>
ASSET ACCOUNT				
Land				
Structure				
Improvements				
Equipment				
Furnishings				
TOTALS	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
DEPRECIATION				
Structure				
Improvements				
Equipment				
Furnishings				
TOTALS	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
NET BOOK VALUE				
Land				
Structure				
Improvements				
Equipment				
Furnishings				
TOTAL	<u>                    </u>			

**Reconciliation of MHFA Form 256B to the Audit**

	Balance 12/31/20XX 256B	Adjustments		Balance 12/31/20XX Audit
		<u>Debits</u>	<u>Credits</u>	
<b>REVENUES</b>				
Net rental collections				
Tenant fees				
Other income				
Forfeited security deposits				
Interest income				
TOTAL REVENUES	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
	<u>                    </u>			<u>                    </u>
<b>ADMINISTRATIVE EXPENSES</b>				
Advertising and marketing				
Management fee				
Legal				
Auditing				
Telephone				
On-site management staff				
Other administration				
TOTAL ADMINISTRATIVE	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
	<u>                    </u>			<u>                    </u>
<b>MAINTENANCE EXPENSES</b>				
Elevator maintenance				
Exterminating				
Rubbish removal				
Other contract services				
Janitor supplies				
Maintenance supplies				
Grounds maintenance				
Snow removal				
Heating & air conditioning				
repair				
General repair services				
Painting & decorating materials				
Maintenance & janitorial payroll				
Other maintenance expenses				
TOTAL MAINTENANCE	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
	<u>                    </u>			<u>                    </u>
<b>UTILITIES EXPENSES</b>				
Electricity				
Water and sewer				
Gas and oil				
TOTAL UTILITIES	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
	<u>                    </u>			<u>                    </u>
<b>OTHER OPERATING EXPENSES</b>				
Insurance				
Real estate taxes				
Replacement reserve				
Painting & decorating reserve				
Miscellaneous reserve				
TOTAL OPERATING	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
EXPENSES	<u>                    </u>			<u>                    </u>
NET OPERATING	<u>                    </u>			<u>                    </u>
INCOME	<u>                    </u>			<u>                    </u>

**Reconciliation of MHFA Form 256B to the Audit**

	Balance 12/31/20XX 256B	Adjustments		Balance 12/31/20XX Audit
		Debits	Credits	
FINANCING EXPENSES				
Debt service				
MHFA annual fee				
Other financing				
TOTAL FINANCIAL				
OTHER INCOME & EXPENSES				
+ Partnership contributions				
+ Net sec. dep. transactions				
+ Other				
+ Draws from reserves				
- Capital expenditures				
- Residual receipts				
- Partnership distribution				
NET INCOME (LOSS)				
BEFORE DEPRECIATION				

**Reconciliation of MHFA Form 256B to the Audit (example)**

	Balance 12/31/20XX 256B	Adjustments		Balance 12/31/20XX Audit
		Debits	Credits	
<b>REVENUES</b>				
Net rental collections	425,600	750 (4)	100 (3)	424,950
Tenant fees	200	200 (1a)		0
Other income	3,360		200 (1a)	3,560
Forfeited security deposits	300			300
Interest income	911		25,743 (7)	26,654
<b>TOTAL REVENUES</b>	<b>430,371</b>			<b>455,464</b>
<b>ADMINISTRATIVE EXPENSES</b>				
Advertising and marketing	474			474
Management fee	10,012	728 (5)	680 (6)	10,060
Legal	70			70
Auditing	2,500			2,500
Telephone	1,615	72 (5)		1,687
On-site management staff	9,700		3700 (1b)	6,000
Other administration	872		58 (6)	814
<b>TOTAL ADMINISTRATIVE</b>	<b>25,243</b>			<b>21,605</b>
<b>MAINTENANCE EXPENSES</b>				
Elevator maintenance	420			420
Exterminating	550	50 (5)		600
Rubbish removal	2,763			2,763
Other contract services	2,400		183 (6)	2,217
Janitor supplies	673			673
Maintenance supplies	830		220 (1c)	610
Grounds maintenance	924	220 (1c)		1,144
Snow removal	1,089			1,089
Heating & air conditioning repair	1,635			1,635
General repair services	6,883	2,600 (1d)		9,483
Painting & decorating materials	3,898	3,400 (1d)		7,298
Maintenance & janitorial payroll	6,000	3,700 (1d)		9,700
Other maintenance expenses	812			812
<b>TOTAL MAINTENANCE</b>	<b>28,877</b>			<b>38,444</b>
<b>UTILITIES EXPENSES</b>				
Electricity	4,865	405 (5)	385 (6)	4,885
Water and sewer	10,271	100 (5)	1,935 (1e)	8,335
			100 (6)	
Gas and oil	16,978	1,936 (1e)		18,914
<b>TOTAL UTILITIES</b>	<b>32,114</b>			<b>32,134</b>
<b>OTHER OPERATING EXPENSES</b>				
Insurance	6,420	610 (8)	676 (9)	6,354
Real estate taxes	21,399			21,399
Replacement reserve	3,100		3,100 (2)	0
Painting & decorating reserve	2,300		2,300 (2)	0
Miscellaneous reserve	0			0
<b>TOTAL OPERATING</b>	<b>119,453</b>			<b>119,936</b>
<b>EXPENSES</b>				
<b>NET OPERATING</b>	<b>310,918</b>			<b>335,528</b>
<b>INCOME</b>				

**Reconciliation of MHFA Form 256B to the Audit (example)**

	Balance 12/31/20XX 256B	Adjustments Debits	Credits	Balance 12/31/20XX Audit
<b>FINANCING EXPENSES</b>				
Debt service	161,821		5,726 (2)	156,095
MHFA annual fee	3,934			3,934
Other financing	0			0
<b>TOTAL FINANCIAL</b>	<b>165,755</b>			<b>160,029</b>
<b>OTHER INCOME &amp; EXPENSES</b>				
+ Partnership contributions	0			0
+ Net sec. dep. transactions	0			0
+ Other	0			0
+ Draws from reserves	5,830	5,830 (2)		0
- Capital expenditures	8,000		6,000 (1d)	2,000
- Residual receipts	19,272		19,272 (2)	0
- Partnership distribution	4,750		4,750 (2)	0
<b>NET INCOME (LOSS)</b>	<b>118,971</b>			<b>173,499</b>
<b>BEFORE DEPRECIATION</b>				

References for adjustments:

- |           |  |
|-----------|--|
| (1a - 1e) | Reclassifications                        |
| (2)       | Reclassification to the balance sheet    |
| (3)       | Record current year's tenant receivables |
| (4)       | Reverse prior year's subsidy receivable  |
| (5)       | Record current year's accounts payable   |
| (6)       | Reverse prior year's accounts payable    |
| (7)       | Record escrow interest income            |
| (8)       | Record current year's prepaid expenses   |
| (9)       | Reverse prior year's prepaid expenses    |

Issues to consider when preparing the reconciliation:

1. In the column entitled Balance 12/31/20XX 256B, copy the year-to-date amounts directly from the 256B submitted for the period ending on the last day of the fiscal year. If there is a discrepancy between the amount on the 256B and the amount determined by the auditor, a revised monthly report must be filed by the management agent or the auditor must make the correction in one of the adjustment columns on the reconciliation.
2. **Do not net adjustments.** An example is the two credit adjustments listed for 'Water and sewer'. It is not acceptable to add them together and show them as a credit of \$2,036 with references of (1e,6).
3. When reconciling the 256B to the audit, new accounts should not be created by the auditor.





### **Report on Internal Controls**

It is not intended that this report add to the overall scope of field work currently being accomplished by the auditors. The report should, as a minimum, address the following;

1. The scope of the auditor's work in obtaining an understanding of the internal control structure and in assessing control risk.
2. It is not intended that this report add to the overall scope of field work currently being accomplished by the auditors.
3. The report should follow the Statements on Accounting Standards (SAS No. 112) which require the auditor to communicate control deficiencies that are significant deficiencies or material weaknesses in internal control. SAS No. 112 was effective December 15, 2006.

### **Schedule of Partners \***

<u>General Partners **</u>	<u>Per Cent Owned</u>
<hr/>	<hr/>
<hr/>	<hr/>
<u>Limited Partners ***</u>	
<hr/>	<hr/>
<hr/>	<hr/>

\* This schedule may be omitted if the detail is included in the Comparative Statement of Changes in Partners Equity.

\*\* All general partners must be listed.

\*\*\* Only limited partners with 25% or more ownership must be listed.

### **Mortgagor's Certification**

We certify that we have examined the accompanying financial statements, notes, and supplemental information of the (partnership name) and, to the best of our knowledge and belief, the same are complete and accurate.

\_\_\_\_\_  
(Partnership Name)

BY \_\_\_\_\_  
General Partner

BY \_\_\_\_\_  
General Partner

DATE \_\_\_\_\_