

PENNSYLVANIA HOUSING FINANCE AGENCY

FINANCIAL REPORTING MANUAL for Agency Financed Properties and Tax Credit Only Properties (no Agency Financing)

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revised

Changes and revisions from the manual dated October, 2009.

The following list shows the major changes included in the revision of the Financial Reporting Manual:

Pages 10, 16, and 17 include the reporting requirements for ARRA (both TCAP and Exchange) and Housing and Redevelopment Program (HRA) funded properties.

Page 15 offers some additional guidance on completion of the Quarterly Operating Report.

Pages 43-45, and 48 have been updated to reflect more current terminology for some financial statement notes in our sample statements. Please note that the notes in our sample statements are not intended to be all inclusive nor is the exact language required. We recognize that each CPA firm will use the necessary and required language applicable for disclosure in their firm's format and as required by GAGAS, GAAS and GAAP.

Please note that the financial statement reporting requirements (format and supporting schedules) have not changed for 2010.

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A. Introduction

The following manual is intended to provide guidance on the financial reporting requirements for all properties funded by PHFA. Also, reporting requirements for PennHOMES properties that are eleven units or less and have no amortizing first mortgage are also included in the financial reporting manual.

The reporting requirements for properties that have received Low Income Housing Tax Credits only from the Agency are included on page 11 of this Manual. These properties have no mortgage financing provided by the Agency.

For the first time, the manual contains reporting requirements for the ARRA (both TCAP and Exchange) and Housing and Redevelopment Assistance Program (HRA) funded properties. This information can be found on pages 10, 16, and 17.

The budget and quarterly operating report forms are included in this Manual and are also available on line. (see below) In order to make it easier to complete these forms, the Agency has provided instructions, as well as a chart of accounts, explaining where the major income and expense items should appear on the forms.

The Agency has also provided a glossary of terms that are often used by Agency employees. Please call the Financial Analyst assigned to your property if you can think of any additional terms that you would like to see included in future updates.

In addition, the Agency has made minor revisions to the sample audited financial statements. The revisions were simply some updates to the more current terminology in some of the notes to the statements. **The actual reporting requirements and all the required supporting schedules have not changed from the prior manual.**

Also, the budget, quarterly operating reports, this entire manual, the PHFA Statement of Profit and Loss and the Computation of Surplus Cash are available on the Agency's website. The web address is www.phfa.org. Move your cursor to Multifamily Housing Professionals, click on Property Managers or CPA's and then click on the appropriate form or manual. The forms are written using Excel and include the logic required to calculate totals and variances.

Finally, special thanks are given to those staff, management agents, and CPA's who volunteered their time to proofread and provide input for appropriate sections of this manual. The Agency appreciated your time in helping make this manual as accurate as possible.

B. Legal Documents

The following legal documents should be reviewed to assist both the owner and management agent in understanding their duties and responsibilities in operating any PHFA-financed property.

1. Regulatory Agreement

The Regulatory Agreement defines the terms, conditions, and covenants that the owner agrees to be monitored by PHFA. The property's independent auditor must read this document to determine if the property is in compliance with PHFA rules and regulations. Although the contents of this document may vary, the following items are generally identified and defined in the agreement:

Agreement to be regulated: "Agency is unwilling to lend the aforesaid sum unless and until Owner shall, by agreeing to the terms, conditions and covenants set forth below, consent to hereby be regulated and restricted by Agency."

Excess Revenue: Excess Revenue is defined as the excess of earnings from the operation of the property at the end of the annual fiscal period after payment of the property's operating costs required by the Agency. Generally, a listing of appropriate operating costs is included with this description.

Management Agreement: PHFA requires that a professional management agent be hired to properly operate the property. The Management Agreement is the contract between the property owner, the management agent, and PHFA. **Prior approval by PHFA is required for all management agents. Also, no change in management agent may take place without the prior written approval of PHFA.**

Return on Equity: Distributions to owners are limited to a specified percent of owner's equity, the amount of equity being determined by PHFA at the final loan closing based on the Agency approved cost certification. Distributions are made on an annual basis and only after written prior approval by PHFA. The right to such distribution shall be cumulative commencing from the date of cost certification.

Rental Project Restrictions: The number of units restricted to be leased to individuals or families of various area median incomes as defined in the Regulatory Agreement.

Reserve Fund for Replacements: Funding of this account on a monthly basis is required by the Regulatory Agreement. Withdrawals from this fund require approval from PHFA and may only be made for appropriate items. (see appendix #4)

Residual Revenue Fund: Residual Revenue as defined in the Regulatory Agreement must be submitted to PHFA when requested.

Owner Distribution: The owner may not make any distributions without the prior written approval of PHFA.

Audit: The Management Agent is required to maintain the books and records of the property in a proper manner to allow for an audit. Annual financial statements prepared by a certified public accountant are to be submitted to PHFA within ninety days following the end of the property's fiscal year for all properties of 12 or more units.

Annual Budget: PHFA requires that a budget be submitted to PHFA not less than sixty (60) days prior to initial occupancy and not less than sixty (60) days prior to the beginning of each fiscal year of the property. The budget must be submitted in the format prescribed by PHFA.

Transfers of Ownership: No transfer of ownership of the property may take place without the prior written consent of PHFA.

2. **Management Agreement**

The Management Agreement is a contract between the property's owner and the management agent which must be approved by PHFA. The following categories are generally found in the Management Agreement of a PennHOMES property consisting of twelve (12) or more units:

Agent's Compensation: From the date of initial occupancy, the management fee will be an amount determined by multiplying the approved management fee factor by the amount of **gross income** (see page 23) for the preceding calendar month. The management fee factor should not be less than 5% nor exceed 10% and cannot be changed without prior approval from PHFA.

Subject to the Regulatory Agreement: The agent agrees to comply with all requirements of the Regulatory Agreement which is executed between the owner and PHFA. Nothing contained in the Management Agreement shall in any way be construed as limiting or affecting the rights of PHFA under the Regulatory Agreement.

Security Deposits: PHFA requires that a security deposit account be maintained for the property as per the Landlord-Tenant Act of 1951. This account **must** be segregated from other bank accounts and should always be sufficiently funded to cover the offsetting liability account.

Maintenance and Repair: Prior written approval is required from PHFA for any single expenditure exceeding a PHFA designated dollar amount (\$2,000 for 100 units or less and \$5,000 for more than 100 units). Recurring operating expenses and emergency repairs are excluded from this requirement.

Records and Reports: The Management Agreement requires that a quarterly operating report be submitted to PHFA by the fifteenth (15th) of each month for the preceding quarter in the format prescribed by PHFA. Selected additional financial information that must be submitted with the quarterly operating report will also be listed in this section of the Agreement.

Monthly Rental Amounts: The initial contract rents, utility allowances (if any), and gross rents will be recorded in this section.

Tax and Insurance Escrow: PHFA requires that a tax and insurance escrow account be maintained by PHFA for the life of the property.

Collection of Rents and Other Receipts: The Agent will collect, when due, all rents, charges and other amounts receivable on the owner's account in connection with the management and operation of the property. These receipts, except resident security deposits, shall be deposited in a custodial account separate from all other accounts and funds and shall be maintained with a financial institution whose deposits are insured by the Federal Deposit Insurance Corporation or any successor thereto and shall be used exclusively by the agent as funds of the property. **The agent must establish separate bank accounts for non-operating and operating activity.** Any expenses not underwritten to be paid from the property's operating account should only be paid from the non-operating checking account.

The above items are general guidance only. Each property has a unique Management Agreement that must be read to determine specific regulations for that development.

3. **Financial Spreadsheet**

The Property's Financial Spreadsheet indicates to the owner and the Management Agent how the property was underwritten. The approved operating budget of the Financial Spreadsheet should be used for guidance when preparing the first year budget. The development's staffing on the initial budget should be in accordance with the Financial Spreadsheet. Any changes in initial staffing may only be made upon the written approval of PHFA.

4. **Limited Partnership Agreement**

Partnership agreements are subordinate to the PHFA Regulatory Agreement and other PHFA legal documents. Any Partnership fees listed in this Agreement may only be paid from the property's operating account if they were originally budgeted as operating expenses on the final approved operating budget on the Property's Financial Spreadsheet. Fees not reflected on the approved budget are considered partnership expenses payable from approved return on equity.

5. **Building Loan Agreement**

The Building Loan Agreement indicates the amount of funds established at final loan closing for deposit into the tax and insurance escrow accounts. Also, the dollar amount of both the Development Contingency Fund and the Operating Reserve will be recorded in this Agreement.

It also states that the Borrower will assign to the Lender all rents, profits, income and charges it receives from the property's operations. As such, all net operating income generated from initial loan closing shall be disbursed in accordance with the terms and conditions of the Regulatory Agreement, the Support Mortgage Note, and other PHFA legal documents.

6. **Operating Deficit Fund Agreement**

The property's Owner is required to provide cash or an unconditional Letter of Credit to fund any operating deficit projected during the initial year of operations. These funds shall be held until sustaining occupancy and income, as defined below, has been achieved in two financial reporting years and additionally as determined by the Agency, in its sole discretion, upon review of future projected cash flow deficits as reflected in the property's Financial Spreadsheet in place at final loan closing and the current operating budget. The Fund may, at the Agency's sole discretion, be increased or extended at the end of each twelve (12) month financial reporting period based on a review of certified financial statements and a comparison to previously estimated operating deficits. One-half (1/2) of the undisbursed funds will revert to Owner after the achievement of the first sustaining Occupancy and Income Period. The balance of the undisbursed funds will revert to the owner after the achievement of the second Sustaining Occupancy and Income period and Agency review of projected cash flow deficits.

Sustaining Occupancy and Income shall be deemed to have been achieved when the rental income for a twelve (12) month period has paid the debt service pursuant to the Mortgages and Notes, all operating expenses (including real estate taxes at full assessment at the end of the applicable tax abatement period) and all required reserves for the period. This determination shall be made upon the review of the audited financial statements for the previous twelve (12) month fiscal period.

7. **Development Contingency Fund Agreement**

PHFA requires that the Owner establish a Development Contingency Fund (DCF) to cover any contingencies that may arise during construction and after completion of construction to provide a ready source of funds. The DCF may be held in the form of cash or an unconditional Letter of Credit. The DCF shall be held for two years after construction completion or the Agency's cost certification, whichever is later. Upon release of the DCF by the Agency, any cash deposit will be used to repay the loan to the Agency or the Letter of Credit will be returned to the Owner.

Please refer to your individual DCF Agreement for any other specific terms.

8. **Operating Deficit Reserve Agreement**

The property's owner is required to provide cash to cover ongoing operating deficits projected during the initial fifteen (15) years of operations. The amount of operating deficit reserve must include any operating deficit projected during the initial year of operations. The Agency will release funds from the reserve into the property's operating account based upon the schedule of projected deficits as reflected in the Financial Spreadsheet.

9. **Operating Reserve Agreement**

The property's Owner is required to provide cash or an unconditional Letter of Credit to fund any potential operating deficits. The minimum required reserve is an amount that is four months of projected operating expenses, reserve deposits, and amortizing debt service. The maximum reserve is nine months of projected operating expenses, reserve deposits, and amortizing debt service. These funds shall be held until achievement of two years of positive cash flow and satisfactory management and maintenance of the Project as determined by the Agency, in its sole discretion, or 15 years of Project operations, whichever is earlier. The Reserve may, at the Agency's sole discretion, be increased at the end of each twelve (12) month financial reporting period based on a review of certified financial statements and a comparison to previously estimated cash flow. If the Reserve is funded in cash, upon achievement of two years of positive cash flow and satisfactory management and maintenance of the Project as provided herein or 15 years of Project operations, whichever is earlier, any funds remaining in the Reserve will be applied to repayment of the outstanding Loan. If the Reserve is funded by posting a letter of credit, upon achievement of two years of positive cash flow and satisfactory management and maintenance of the Project as provided herein or 15 years of Project operations, whichever is earlier, the Letter of Credit will be returned to the Owner.

Please refer to your individual Operating Reserve Agreement for any other specific terms.

C. Financial Reports

1. a. Reporting Requirements and Due Dates

Commencing with initial occupancy, the owner or management agent is required to file reports with PHFA on the results of the operation and financial condition of the property. PHFA requires that the reports be submitted on a timely and accurate basis. **All Agency financed properties and all properties which received TCAP financing follow all reporting requirements listed below. Properties financed using Exchange or HRA funds, but with no PHFA or TCAP financing, are required to submit only Audited Financial Statements in PHFA's required format, unless Annual Budgets and/or Quarterly Operating Reports are specifically requested by the Agency**

Annual Operating Budget	Upcoming Fiscal Year	60 days prior to the start of the fiscal year
Quarterly Operating Report	Quarter Ended and Year-to-Date	15 days after the end of each quarter
Certified Audited Financial Statements	Fiscal Year Ending	90 days following the end of the fiscal year

b. Reporting Requirements for PennHOMES Properties with Eleven (11) Units or Less

PennHOMES properties with no amortizing first mortgage with eleven (11) units or less are permitted to follow a reduced scope of financial reporting. The reporting requirements are as follows:

1. A yearly budget and narrative is required to be submitted 60 days prior to the start of the property's fiscal year;
2. A fiscal Year-End Operating Report and year-end balance sheet must be submitted within 90 days following the end of the reporting year. Use the PHFA Quarterly Operating Report format as found in Appendix 2 of this manual to prepare the Operating Report. If the property reports on a cash basis versus an accrual basis, an itemized statement of all unpaid bills as of year-end must also be submitted;
3. Any additional year-end financial information that PHFA determines relevant.

If an audit is completed on the property, this may be submitted in lieu of the items in #2, above.

c. Reporting Requirements for Properties with Tax Credits Only (no Agency financing)

The agency requires submission of one copy of audited financial statements of non-portfolio properties with twenty (20) or more units that have received tax credits from the Agency but have no additional PHFA financing. If an audit is not available, a compilation or review should be prepared and sent to the Agency.

In addition to the required statements, the Agency requires that income and expenses be reported on an Agency prescribed form. This form can be found in Appendix 3 and on the Agency's website. Go to www.phfa.org, move your cursor to Multifamily Housing Professionals and then click on Property Managers or CPA's. The form is titled Statement of Profit and Loss-Tax Credit Only. The property name should include the legal name and any a/k/a name, if applicable. The number of units should include the total number of units, both tax credit and non tax credit. The financial information in Part I should come from the financial statements. Part II should be completed, if applicable, and will always include the signature of the preparer.

2. Annual Operating Budget

The Annual Operating Budget is a financial projection of the operations for the upcoming fiscal year. It reflects the best judgment of the owner and management agent concerning the anticipated expenditures to be incurred and income to be received. As a planning tool and financial control aid, the budget process involves: (1) establishing performance objectives; (2) comparing actual performance against established objectives; (3) determining reasons for deviations from objectives; and (4) taking corrective action to improve performance.

Sixty days prior to initial occupancy and the commencement of each fiscal year, the management agent is required to submit to the property's Financial Analyst an annual operating budget in the required PHFA format. The fiscal year ending date will be determined by the owner. The number of months to be included in the initial operating budget will be based on initial occupancy. The property's Financial Spreadsheet should be used as the basis for preparing the initial budget.

A sample of the required PHFA form is shown in Appendix 2 or at www.phfa.org. On the initial annual operating budget, only Column 3, New Annual Budget, should be completed. All subsequent budgets should be submitted with Columns 1 through 3 completed. Column 1, Prior Year Budget, reflects the PHFA approved operating budget for the current fiscal period. Column 2, Prior Year Actual, records the actual operations of the current fiscal period. Column 3, New Annual Budget, reflects the determination by the owner and management agent of the project operating income and expenses for the upcoming year. Budgets that are received that do not follow this PHFA-approved format will be returned for proper completion.

Since the Annual Operating Budget must be submitted before the close of the current year, expenditures for the last two or three months of operations must be estimated in order to complete Column 2 of the new budget. These estimates should be verified for reasonableness by comparing them to the prior year's actual experience during the same months. A comprehensive review of the current period expenditures should be made. Investigation of unusual variations between actual expenditures and budgeted expenses should disclose if adjustments are required in the new annual budget.

In addition to the budget form, the Agency also requires that a **budget narrative** be submitted, which **should include the following items**:

1. A schedule of the calculation of gross rental income. A rent roll should also be submitted for all non-Section 8 properties indicating the current rents paid by the tenants. This should also include any utility allowance, if applicable.
2. Four supplemental schedules are included with the new budget form, one each for Miscellaneous Administrative Expenses, Payroll, Reserve for Replacement withdrawals and Capital Improvements/Equipment. If any of these items are applicable to your budget, the supplemental schedule must be completed in order for the amounts to carry over and be included on your budget.
 - The Miscellaneous Administrative Expense schedule should include a detailed listing of the items included in this category. The total will automatically carry over to line 26 on the budget.
 - The Payroll Worksheet should be completed to include all employees for the property. If employees are paid on an hourly rate, include the number of hours, hourly rate, and the total (hours x rate) in the Salary/Total box. If the employee is paid a salary, simply include their total salary in the Salary/Total box. In the percentage box, include the amount of time the employee works at the property. The Total for Property box will then automatically calculate and the total payroll per category will carry over to the appropriate line item on the budget. You will need to enter amounts for Administrative Rent Free Unit, Payroll Taxes, Workers' Compensation, and Health Insurance and Employee Benefits directly on the budget as applicable.
 - The Reserve for Replacement withdrawals supplemental schedule should include the item, the account number where it is included on the budget, and the amount. The total will automatically carry over to Line 75 on the budget.
 - The Capital Improvement/Equipment supplemental schedule should include a description of the item and the amount. The total will automatically carry over to Line 81 on the budget.

3. An explanation of any variance of 10% or more from the prior year's actual amount.

The following section provides detailed instructions for the completion of the budget:

- | | |
|---------|--|
| Line 26 | A supplemental schedule is now included for Miscellaneous Administrative Expenses. The total will automatically carry over from the supplemental schedule. |
| Line 54 | This line item is now the Real Estate Tax Escrow deposits for the fiscal year. If the Agency does not hold the Escrow, this should be the estimated tax expense. |
| Line 55 | This line item is now the Insurance Escrow deposits for the fiscal year. If the Agency does not hold the Escrow, this should be the estimated insurance expense. |
| Line 59 | This line item is now the total Mortgage Interest and Principal for the fiscal year. |
| Line 74 | This line item is now the Reserve for Replacement deposits for the fiscal year. |
| Line 75 | This line item is now the estimated Reserve for Replacement withdrawals for the fiscal year. The amount will automatically carry over from the supplemental schedule. |
| Line 76 | This line item is now the Painting and Decorating Reserve deposits for the fiscal year, if applicable. |
| Line 77 | This line item is now the estimated Painting and Decorating Reserve withdrawals for the fiscal year, if applicable. |
| Line 78 | This line item is now estimated Operating Reserve withdrawals for the fiscal year, if applicable. |
| Line 79 | This line item is now estimated FSSP Escrow withdrawals for the fiscal year, if applicable. |
| Line 80 | This line item is now for Other Reserve withdrawals or Bond Refunding Assistance for the fiscal year, if applicable. |
| Line 81 | This line item is now the estimated Capital Improvements and Equipment Purchases for the fiscal year. The total amount will automatically carry over from the supplemental schedule. |

The budget is to be submitted to the owner for approval prior to submission to PHFA. When necessary, PHFA may consult the owner regarding budget content. All inquiries by PHFA, whether to the owner or management agent, should be

addressed as expeditiously as possible to ensure a timely completion of the budget review.

Any adjustments made by PHFA will be highlighted and reflected in Column 4 with a letter referencing the adjustment in Column 5. The referenced adjustments, if any, are on the bottom of the third page of the budget. The final PHFA adjusted budget will be returned via email. Included will be a budget confirmation that must be completed and returned to the Agency. The preferred method of confirmation is via email, however the confirmation may be returned via fax or regular mail. The approved annual operating budget (Column 4) must be used on all subsequent quarterly reports. No changes in budgeted figures are to be made without written approval by PHFA.

Should the management agent determine that the annual operating budget cannot be submitted by the required date, a letter requesting an extension should be addressed to the Financial Analyst assigned to the property.

The budget and narrative must be submitted via e-mail. The e-mail should be sent to the Financial Analyst currently assigned to the property. The e-mail address is the person's first initial and last name @phfa.org. If you are uncertain who is assigned to the property, please call 717/780-3819 for assistance. The e-mail should include the name and phone number of the person who prepared the budget so that they can be contacted with any questions. No signature page is required to be completed for initial submission via e-mail.

3. **Quarterly Operating Report**

The quarterly operating report (QOR) is a valuable analytical tool for both PHFA and the development. The purpose of the QOR is to report the ongoing cash flow of the development and analyze actual operating results versus the budget projections. The columns on the QOR are different than those of the budget. On the QOR, Column 1 is the approved annual budget for the fiscal year, Column 2 is the actual income and expense amounts for the quarter, Column 3 is the prorated quarterly amount (3/12) of Column 1, Column 4 is the actual income and expense amounts year-to-date, Column 5 is the budget amount year-to-date, and Column 6 is the actual amount over or (under) the budget year-to-date.

Proper completion of the QOR is important to both the Agency and the development. The approved Agency budget should be entered in Column 1. Column 3 will then calculate and fill in automatically. When the quarter number is entered in the top section, Column 5 will also calculate and fill in automatically. You will need to enter Column 2, Actual This Quarter, and Column 4, Actual To Date. Column 6 will then automatically calculate and fill in. For instructions on which items should be included on each line, please refer to Section D, Chart of Accounts. (pg 21)

One copy of the QOR is required to be submitted quarterly, via email, within 15 days of the end of the reporting quarter, beginning with the first quarter of initial occupancy of the development. **Submission via email is required by the Agency.** Generally included with the report should be the cash receipts journal, cash disbursements journal and, if computerized, the detail general ledger for the three months included in the report. Ultimately, the Financial Analyst assigned to the development will determine what back-up should accompany the QORs. A sample quarterly operating report can be found in Appendix 2 or at www.phfa.org.

In addition, QOR's must be submitted that follow the PHFA approved format. QOR's that do not follow the approved format will be returned to the Agent for proper completion. In addition, properties that exhibit exceptional financial performance may not be required to submit either the operating report or financial backup. The financial analyst assigned to the property will determine if these items are no longer required to be submitted. The management agent should continue to submit operating reports and financial back up unless advised otherwise by their financial analyst.

4. **Audited Annual Financial Statements**

The owner is required to submit to PHFA audited annual financial statements of the development for each fiscal year, or portion thereof, after initial occupancy. The financial statements and supporting schedules of the report should be prepared consistent with the formats contained in this section, and should be presented in accordance with accounting principles generally accepted in the United States of America. Two copies of the report must be submitted to the Manager of Financial

Operations of the Housing Management Division of PHFA within ninety days following the end of each property's fiscal year.

The requirements listed in this section apply to all properties financed by the Agency, **including TCAP, Exchange, and HRA properties**, with the following exceptions:

a. HUD-Insured Properties

For those properties that have a HUD-insured mortgage, electronic submission of financial information to REAC is required. The complete financial reporting requirements and instructions to be followed when completing the audit can be found at the following web address:

<http://www.hud.gov/reac/products/prodmf.html>

The Agency also requests that two copies of the audit be submitted to PHFA. These properties are not required to follow the audit guidance reflected in this financial reporting manual. Any questions on whether the property to be audited contains a HUD-insured first mortgage should be directed to the financial analyst assigned to the property.

b. PennHOMES Properties with Eleven (11) Units or Less

Properties funded from the PennHOMES Program which have no amortizing first mortgage and have eleven (11) or less units are not required to submit audited financial statements. Please refer to page 10 for the year-end reporting requirements for these properties. If the Owner is required to have audited financial statements prepared by another funding source, or chooses to have an audit prepared, two (2) copies of the audit should be submitted to the Agency in lieu of any other year-end reporting requirements.

The financial statements and schedules are to be audited by an independent certified public accountant with the purpose of expressing an opinion thereon. The certified public accountant is to be selected by the owner and should be acceptable to PHFA. The certified public accountant must not have a business relationship with the owner or management agent except for the performance of the audit.

The audit is to be performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. There are to be no limitations or restrictions placed by the owner or the management agent on the scope of the audit.

The affairs of the development should be conducted in such a manner as to allow for the issuance of an unqualified opinion. The opinion should state whether the basic financial statements present fairly the financial position of the development as of the audit date and the results of its operations and changes in partners' capital and cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America applied on a basis consistent with that of the preceding period. In addition, the opinion should state that the supplemental data has been subjected to the audit procedures applied in the audit of the basic financial statements and is fairly presented in all material respects in relationship to the financial statements taken as a whole.

A first year audit is required for all PHFA funded properties (**including TCAP, Exchange, and HRA**) that consist of 12 or more units. This audit is required as of the end of the fiscal year during which operations commence. An audit is always required unless a waiver has been granted by PHFA. A written request to waive the first year's audit may be considered when the property is only open for a short time and generates little or no income. In this instance, a request to waive the first year audit may be submitted to the Manager of Financial Operations, along with the reason for the waiver. No waiver will be granted if the property generates operating income for more than one month.

The audit is required to identify the property's **operating** cash flow and working capital. The Agency is primarily interested in funds necessary to maintain the ongoing operations of the property. Recognizing that the audit is generally a partnership audit, any non-operating partnership activity should be separately disclosed in the Balance Sheet, Statement of Profit and Loss, and Statement of Cash Flows. Examples of non-operating items that should be separately disclosed on the Balance Sheet are the following:

- ◆ General Partner accounts
- ◆ Accounts receivable – syndication proceeds
- ◆ Accounts receivable – operating subsidy
- ◆ Construction funds escrow
- ◆ Accounts payable – construction
- ◆ Accounts payable – developer's fee
- ◆ Accounts payable – General Partner or Limited Partner
- ◆ Advance – GP developer fee
- ◆ Advances to operating from owner
- ◆ Notes payable – GP

Any liability noted above should disclose the repayment source in the Notes to the Financial Statements.

Examples of items that should not be paid from operating funds and should not appear on the PHFA Profit and Loss Statement, other than under the category Corporate or Mortgagor Entity Expenses, are the following:

- ◆ Cost certification audit
- ◆ Bookkeeping charges or accounting fees, with the exception of the Agency authorized fees for properties constructed under the Section 8 Program
- ◆ Data processing fees
- ◆ Budgeted rent-up expenses reimbursed by PHFA
- ◆ Construction interest payable with construction funds
- ◆ Any other expenses reimbursed from a payout by PHFA
- ◆ Partnership checking account charges
- ◆ Interest income on the partnership bank accounts
- ◆ Partnership administrative/investor fee (This expense is permitted to be charged if budgeted on the property's Financial Spreadsheet. Contact the Financial Analyst currently in charge of the property if you are uncertain if this is allowable).
- ◆ Opening ceremony/dedication charges
- ◆ Expenses for the consultant who helped underwrite the property
- ◆ Payments to the mentor of the management agent
- ◆ Limited Partnership syndication fees
- ◆ Tax credit monitoring fees and consulting charges
- ◆ Partnership legal fees
- ◆ Interest Income Supportive Service Escrow
- ◆ Partner State Taxes
- ◆ Interest Income Operating Deficit Fund
- ◆ Interest Income Operating Deficit Reserve
- ◆ Interest Income Operating Reserve
- ◆ Interest Income Development Contingency Fund
- ◆ All charges associated with refinancing or re-syndicating the property including but not limited to:
 - ◆ Appraisals
 - ◆ Consulting fees
 - ◆ Financing fees
 - ◆ Property surveys
 - ◆ Engineering studies
 - ◆ Loan processing fees
 - ◆ Environmental studies
 - ◆ Rent comparability studies
 - ◆ Physical needs assessments
 - ◆ Depreciation analysis and studies

The above list is not meant to be all inclusive.

If any of the above items were paid from the property's operating account in error, a receivable should be booked at year-end indicating repayment will take place the following fiscal year from partnership funds.

All financial statements submitted to PHFA must contain the following, if applicable:

- a. Comparative Balance Sheets - The balance sheet must contain comparative information for both the current year and the preceding year. The property's operating and non-operating accounts must be separately disclosed on the balance sheet . (see pg 36 & 37)
- b. Comparative Statements of Profit and Loss - This will include information for the current year and the preceding year. All non-operating income or

expense items must appear under Corporate or Mortgagor Entity Expenses. The attached form on **page 38 and 39** includes the accounts that must be utilized in the audit. An explanation of the accounts can be found in PHFA's Chart of Accounts section of this manual. The form is available on the Internet at www.PHFA.org. under Multifamily Housing Professionals, then click on Property Managers or CPA's.

- c. Comparative Statement of Changes in Owner's Equity - This will include the beginning balance, additions, and deductions during the current operating year and the preceding year. (see **pg 40**)
- d. Comparative Statement of Cash Flows - The statement must reflect how funds were provided and applied for all cash and certain non-cash outlays to reflect the net increase or decrease in cash during the current year and the preceding year. **The statement must reflect cash activity from the property's operating sources separately from non-operating sources.** PHFA requires that the **direct method** be used when preparing this schedule. (see **pg 41 & 42**)
- e. Notes to the Financial Statements - This will include notes relative to the organization of the development and policy changes affecting the preparation of the financial statements and account balances, as well as significant accounting policies that have been followed in the preparation of the financial statements. Detailed disclosure of related party activity and loans and/or notes payable is important to PHFA for their analysis of the property's operations. Related party items must reveal a listing of identity-of-interest companies, owner and/or the management agent, conducting business with the development, along with a breakdown of services rendered and amounts received. Information on the loans or notes payable must include the date incurred, original amount, purpose, terms of repayment, creditor, and balance due. **All** mortgages should also include the maturity date. Where applicable, the appropriate section of the Partnership Agreement must be referenced. (see **pg 43 - 48**)
- f. Supporting Data - This will be in the form of explanatory comments or schedules as appropriate and includes the following:
 - 1. A detailed analysis of any *accounts or notes receivable* other than regular resident accounts. This analysis should include the date acquired, original amount, terms, name of borrower, and balance due. (see **pg 49**)
 - 2. A summary analysis of *delinquent tenant accounts receivable*, including the number of residents and amounts delinquent for 30 days, 31-60 days, 61-90 days, and over 90 days. (see **pg 49**)
 - 3. An analysis of all *reserve funds* noted on the property's balance sheet This may include such items as an operating deficit reserve, an operating deficit fund, a development contingency fund, etc.. This analysis should record the beginning balance, deposits, withdrawals, interest and ending balance. (see **pg 49**)

4. An analysis of all *escrow funds* maintained on the property that are listed on the balance sheet. This will include the tax escrow, insurance escrow and may include a supportive service escrow, incomplete items escrow and/or any other property related escrow accounts held by the Agency or the property. This analysis should record the beginning balance, deposits, withdrawals, and ending balance. (see pg 49)
 5. A schedule showing full details and explanations of any *changes in the fixed asset accounts* during the current year. **The schedule must reflect the amount of additions paid from the property's operating account separately from those paid from non-operating sources.** This schedule should be completed even if no changes were recorded. The schedule should also include full details on any fixed asset deletions for the year. (see pg 50)
 6. An itemized schedule of all operating payables including the vendor name, purpose and the amount. All amounts due to PHFA included in operating payables must be identified separately. This schedule is required for all properties financed by the Agency. (see pg 50)
 7. The *computation of surplus cash and return on equity* should be completed as per the format and instructions provided on **page 51**. This form is also available on the Agency website.
- g. Auditor's Reports – The statement must include a section containing reports on the following:
1. A report on the auditor's evaluation of the internal control over financial reporting of the mortgagor.
 2. A report on the compliance with PHFA rules and regulations as well as HUD or other regulatory agencies, where applicable.
- A combined report may be prepared that includes both items. (see pg 54)
- h. Name and Address of the Lead Auditor – The name, address, email address and phone number of the lead auditor should be provided to assist in the review of the audited financial statement. (see pg 57)
- i. Owner's Signed Representation Letter - Although the financial statements are prepared by the independent certified public accountant, they are the representations of the owner, and it is the owner's responsibility to examine the financial statements prior to their submission to PHFA. Therefore, PHFA requires a signed representation statement by the owner when owned by an individual, by the general partner(s) when owned by a partnership, or by two officers when owned by a corporation. (see pg 58)
- j. Management Agent's Signed Representation Letter - Since it is the Management Agent's responsibility to maintain the accounting records,

PHFA requires the Agent to sign a representation letter prior to submitting the financial statements to PHFA. (see pg 59)

The aforementioned statements and supporting data are essential to PHFA's analysis. Any financial statements that do **not** include the required information will be returned for proper completion. Any additional expense incurred for returned financial statements **may not** be paid from the property's operating account, but rather by the owners and/or management agent. **In addition, a copy of the Management Letter should also be submitted with the financial statements if prepared by the Auditor.**

D. Chart of Accounts

PHFA does not require a property to utilize any prescribed chart of accounts in their internal accounting system. However, when information is reported to PHFA, the following Chart of Accounts must be utilized. Although you may have additional accounts and more detail in your general ledger, you should combine them to correspond to the Agency's reporting format. The reporting formats included in this manual incorporate these accounts.

Please note that accounts marked with an (*) are not used for budget purposes.

INCOME ACCOUNTS

5120 RENTAL INCOME – For Budgets and Operating Reports, this account reflects the gross potential rent approved at 100% occupancy for all residential units (including non-revenue producing units such as model apartments or administrative rent-free units).

On the PHFA Statement of Profit and Loss, this line also represents 100% gross potential rental income with the exception of the Section 8 properties. For those properties, all Section 8 assistance payments received from government sources should be included in Account 5120, Tenant Assistance Payments. Normally, only the tenant paid rent would appear on this line.

*** 5121 TENANT ASSISTANCE PAYMENTS** – This account reflects the amount of housing assistance payments received by the property from government programs, including vacancy and debt service claims.

5140 STORES AND COMMERCIAL RENT – This account reflects gross rental revenue expectancy from stores, offices, or other commercial facilities.

5190 OTHER RENTAL INCOME – This account reflects income from rental subsidies (including TANF funds) which are included in gross potential rent. In addition, income from parking and garages is also included on this line.

5220 VACANCIES-APARTMENTS – This account reflects the rental revenue lost through vacancy of an apartment unit.

5240 VACANCIES-COMMERCIAL – This account reflects the rental revenue lost through vacancy of a store or other commercial units.

5250 RENTAL CONCESSIONS – This account reflects the amount provided as

rental concessions (i.e., free rent) in connection with the execution of leases of revenue producing units.

5300 SUPPORTIVE SERVICE INCOME – This account reflects revenue received from tenant reimbursement of program expenses.

5410 INTEREST INCOME - OPERATIONS – This account reflects any interest income earned by the operating account of the property. Income from restricted reserves and escrows (reserve for replacement, operating reserve, etc.) is not included.

* **5430 INTEREST INCOME – RESIDUAL RECEIPTS** – This account is used to record the interest earned on the residual receipts account.

* **5440 INTEREST INCOME – RESERVE FOR REPLACEMENT** – This account is used to record the interest earned on the reserve for replacement account.

* **5450 INTEREST INCOME – PAINTING AND DECORATING** – This account is used to record the interest earned on the painting and decorating reserve.

5510 GRANT INCOME – This account reflects any funds received from outside sources, which contributes to the operations of the property.

5910 SERVICE INCOME – This account reflects revenue received from the use of equipment (laundry, air conditioners) or vending.

5920 NSF AND LATE FEES – This accounts reflects funds received due to any charges assessed to the tenants for the processing of checks with insufficient funds and late payments of rents.

5990 MISCELLANEOUS INCOME – This account reflects any of the property's income not otherwise described in the above income accounts, including tenant damages.

EXPENSE ACCOUNTS

6210 ADVERTISING & RENTING EXPENSE – This account reflects the cost of advertising and marketing the rental property. It also reflects miscellaneous expenses related to the rent-up of vacant units which could include amounts paid to existing tenants to attract new tenants. Rent-up expenses reimbursed from construction funds should not be recorded in this account.

6310 OFFICE SALARIES – This account reflects salaries for office employees (other than the site manager) responsible for the front-line operation of the property regardless of whether the employee works on site or in the agent's office. Typical front-line responsibilities include taking applications; screening, certifying, and recertifying tenants; maintaining the property; and accounting for the property's income and expenses. The account should not include salaries paid to occupancy, maintenance and regional supervisors who carry out the agent's duties for supervising operations and on-site personnel (these salaries

are to be paid from the approved management fee). This account also does not include the property's share of payroll taxes or other employee benefits incurred by the property.

6311 OFFICE & TELEPHONE EXPENSE – This account reflects office and related expense items; examples include office supplies, postage, stationery, copying, internet charges, telephone and answering services.

NOTE: Expenses of the management agent are not to be considered property expenses. These expenses include, but are not limited to, all necessary office supplies, such as files, forms, letterhead stationery, etc., and all bookkeeping, clerical, and other necessary management overhead expenses, such as postage, transportation of managing agent personnel, telephone, etc.

6312 MODEL APARTMENT EXPENSE – This account reflects the rental value of an apartment, otherwise considered potentially rent-producing, but used as the property's office or as a model apartment.

6320 MANAGEMENT FEE – This account reflects the cost of management agent service contracted for by the property. The amount reported in this account is calculated by multiplying the approved management fee factor in the Management Agreement by the amount of gross income for the preceding calendar month exclusive. Gross income includes net rental income, which is defined as gross rent potential less vacancies and bad debt expense; service income; interest income, exclusive of interest income on reserves, escrows and tenant security deposits; and late fees. Rental subsidies included in gross rent potential are eligible for management fee.

6330 MANAGER SALARIES – This account reflects salaries paid to the property manager. It does not include the property's share of payroll taxes or other employee benefits or compensation given the site manager in lieu of salary payments.

6331 ADMINISTRATIVE RENT FREE UNIT – This account reflects the contract rent of any rent free unit provided to administrative personnel (including a resident manager, operating and maintenance personnel, security personnel, or superintendent) which would otherwise be considered revenue producing. Partial rent reductions given should be reflected in this account as well.

6340 LEGAL EXPENSE – This account reflects legal fees or services incurred on behalf of the property. For example, fees incurred for eviction procedures should be reflected in this account.

6350 AUDIT EXPENSE – This account reflects the auditing expense incurred by the property that is directly related to PHFA's requirement for audited financial statements.

6351 ADMINISTRATIVE FEE (SECTION 8 ONLY) – When applicable, PHFA will allow an administrative fee to be paid to the management agent to help defray the cost of record keeping. Presently, the administrative fee is equivalent to \$6.00 per subsidized unit per month up to a maximum annual amount of \$7,200. This is not an allowable expense for properties financed under the Agency's PennHOMES, TCAP, Exchange or HRA programs.

6370 BAD DEBTS – This account reflects the amount of tenant bad debts for the period under audit.

- 6390 MISC. ADMINISTRATIVE EXPENSES** – This account reflects administrative expense not otherwise classified in the 6200/6300 series. Examples include training, travel, membership dues and subscriptions.
- 6420 FUEL** – This account reflects the cost of fuel oil/coal charges billed to the property.
- 6450 ELECTRICITY** – This account reflects the cost of electricity charges billed to the property.
- 6451 WATER** – This account reflects the cost of water charges billed to the property.
- 6452 GAS** – This account reflects the cost of gas charges billed to the property.
- 6453 SEWER** – This account reflects the cost of sewer charges billed to the property.
- 6510 JANITOR/MAINTENANCE PAYROLL** – This account reflects the salaries of the property’s employees who perform services including but not limited to janitorial/cleaning, exterminating, grounds, repairs, and decorating. This account does not include the property’s share of payroll taxes or other employee benefits paid by the property.
- 6515 JANITOR/MAINTENANCE SUPPLIES** – This account reflects all cost of supplies charged to the property for janitorial/cleaning.
- 6520 OPERATING/MAINTENANCE CONTRACTS** – This account reflects the cost of contracts the owner or agent executes with third parties on behalf of the property for janitorial/cleaning, exterminating, repairs, fire safety equipment and swimming pool maintenance.
- 6525 RUBBISH REMOVAL** – This account reflects the cost of removing garbage and rubbish from the property. The account does not include salaries paid to janitors who collect trash.
- 6530 SECURITY PAYROLL/CONTRACT** – This account reflects the property’s expense attributable to security.
- 6541 REPAIRS MATERIAL** – This account reflects all costs of supplies charged to the property for repairs to buildings and equipment.
- 6545 ELEVATOR MAINTENANCE** – This account reflects the costs of maintaining the elevators. Such maintenance may be contract, based on a fixed amount per elevator per month or based on the performance of repairs only as needed.
- 6546 HEATING & AIR COND. MAINT.** – This account reflects the cost of repairing and maintaining heating or air conditioning equipment owned by the property, including maintenance contracts.
- 6548 GROUNDS MAINTENANCE/SNOW REMOVAL** – This account reflects the cost of grounds maintenance and removing of snow from the property’s sidewalks and parking areas.

- 6560 PAINTING AND DECORATING** – This account reflects the costs relating to the painting and decorating at the property.
- 6570 VEHICLE OPERATION & REPAIRS** – This account reflects the cost of operating and repairing the property’s motor vehicles and maintenance equipment. Motor vehicle insurance is included in this account.
- 6590 MISC. OPERATING & MAINT. EXP.** – This account reflects the cost of maintenance and repairs not otherwise classified in the 6500 account series.
- 6710 REAL ESTATE TAXES** – This account reflects payments made for real estate taxes of the property. This may represent a payment in lieu of taxes (only in certain jurisdictions), which is generally charged as a percentage of income.
- 6711 PAYROLL TAXES** – This account reflects the property’s share of FICA and State and Federal Unemployment taxes.
- 6720 PROPERTY & LIABILITY INS.** – This account reflects the cost of the property and liability insurance. This account also includes costs for flood, mine subsidence and boiler and machine insurance.
- 6721 FIDELITY BOND INSURANCE** – This account reflects the cost of bonding employees who handle funds.
- 6722 WORKERS’ COMPENSATION** – This account reflects the cost of workmen’s compensation insurance for the property’s employees.
- 6723 HEALTH INS. & EMPLOYEE BENEFITS** – This account reflects the cost of any health insurance, pension and other employee benefits charged to the property.
- 6729 MISC. TAXES & INS. LICENSES/PERMITS** – This account reflects any taxes, licenses, permit fees, or cost of insurance assessed to the property and not otherwise categorized in the 6700 series.
- 6820 MORTGAGE INTEREST** – This account reflects interest incurred on mortgage notes issued to construct or permanently finance the property. This account should not include interest incurred on notes which are payable only from surplus cash.
- * 6821 PHFA LATE FEES** – This account reflects fees billed by PHFA due to delinquent payments of mortgage principal and interest.
- 6830 OTHER INTEREST PAYMENTS** – This account reflects all the interest paid or accrued on bonds, any interest or discount on notes payable, and any other interest expense of the property other than mortgage interest.
- 6850 MORTGAGE INSURANCE PREMIUMS** – This account reflects payments to HUD for insurance on the mortgage.
- 6851 PHFA SERVICE FEES** – This account reflects fees payable to PHFA on a monthly basis for servicing the mortgage.
- 6855 PHFA SELF INSURANCE FEES** – This account reflects fees payable to PHFA on a monthly basis for mortgage insurance against default.
- 6860 OTHER SERVICE FEE** – This account reflects other allowable service fees charged to the property as determined at the time of loan underwriting (i.e., HUD Risk Sharing Service Fee).

- 6870 INVESTOR SERVICE FEE** – This account reflects investor service fee expense paid from the operating account of the property as determined at the time of loan underwriting.
- 6890 MISC. FINANCIAL EXPENSES** – This account reflects financial expenses not otherwise classified in the 6800 series including bank service charges.
- 6910 SUPPORTIVE SERVICE PAYROLL** – This account reflects payroll-related expenses related to special services such as nursing, food preparation, cleaning, recreation, etc., provided to the tenant.
- 6920 SUPPORTIVE SERVICE SUPPLIES** – This account reflects non-payroll expenses related to special services, such as nursing, drugs, food, cleaning supplies, recreational items, etc. provided to the tenant.

OWNER ACCOUNTS

- * **7100 INTEREST INCOME – ENTITY** – This account is used to record interest income earned on the general partner cash account. It is also used to record interest on owner funded restricted accounts such as operating deficit reserves, development contingency funds and supportive service escrows.
- * **7120 LEGAL EXPENSES – ENTITY** – This account is used to record legal expenses paid on behalf of the partners which are not expenses of the property's operations.
- * **7130 TAXES (Federal-State) ENTITY** – This account is used to record taxes paid on behalf of the partners which are not allowable operating expenses.
- * **7190 OTHER EXPENSES – ENTITY** – This account is used to record any other expenses paid on behalf of the partners (such as incentive management fees), which are not allowable operating expenses.

BALANCE SHEET ACCOUNTS

- 1310 REAL ESTATE TAX ESCROW** – This account reflects the cash balance on hand for future payments of real estate taxes.
- 1311 INSURANCE ESCROW** – This account reflects the cash balance on hand for future payments of insurance premiums.
- 1312 MORTGAGE INS. PREM. ESCROW** – This account reflects the cash balance on hand for future payments of mortgage insurance premiums to HUD.
- 1320 RESERVE FUND FOR REPLACEMENTS** – This account reflects cash and investments held by PHFA or the owner for major building and equipment improvements or replacements as set forth in the Regulatory Agreement.
- 1330 RESERVE FUND FOR PAINT. & DEC.** – This account reflects cash and investments held by the property for painting and decorating expenses as set forth in the Regulatory Agreement.

- 1331 OPERATING DEFICIT RESERVE** – This account reflects the cash balance available to cover the estimated operating deficits for the property. The funds are held by PHFA and released according to the terms of the Operating Deficit Reserve Agreement.
- 1333 FSSP ESCROW** – This account reflects the cash balance available for the property’s Family Supportive Services Program expenses which is under the direction and control of PHFA.
- 1390 OTHER ESCROWS/RESERVES** – This account reflects the cash balance available for other escrow and reserves that are otherwise not classified in the 1300 series.
- 1420 CAPITAL IMPROVEMENTS** – This account reflects any replacements or improvements made to the building (including fixed building equipment).
- 1460 PROJECT EQUIPMENT** – The cost of any furnishings and equipment not charged to the cost of the building is recorded in this account.
- 2320 MORTGAGE PAYABLE** – This account represents the mortgage amount due on mortgage notes. All principal payments are debited to this account. The principal amounts that are due and payable within one year should be segregated and shown as a current liability on the balance sheet.
- 2390 OTHER PAYMENTS** – This account includes all long-term liabilities not included in account 2320.

Glossary

Administrative Fees:	A fee payable to a management agent of a property for accounting and bookkeeping services, as allowed by PHFA or HUD. This fee is eligible only to properties constructed prior to 1987 as part of the Section 8 Housing Program. The maximum allowable fee for properties where PHFA is the Section 8 Contract Administrator as of the date of this manual is \$6 per subsidized unit per month up to a maximum of \$7,200 per year.
Cost Certification:	The process of finalizing the cost of constructing the rental property. During this process, the amounts of loan funding and equity contributions are also finalized. The cost certification also establishes the initial amount of owner's equity to be used to calculate owner return and the date from which return is eligible.
Debt Service:	The interest and principal due on a mortgage note. It does not include impounds or reserve fund contributions, but can include Mortgage Insurance Premium, Mortgage Service Fees, and late fees. Please note that the Agency's billing on the first of each month represents the debt service payment due for the current month.
Development Contingency Fund:	PHFA requires that the owner establish a Development Contingency Fund (DCF) to cover any contingencies that may arise during construction and after completion of construction to provide a ready source of funds. The DCF may be held in the form of cash or an unconditional Letter of Credit. The DCF shall be held for two years after construction completion or the Agency's cost certification, whichever is later. Upon release of the DCF by the Agency, any cash deposit will be used to repay the loan to the Agency or the Letter of Credit will be returned to the owner. Please refer to your individual DCF agreement for any other specific terms.
Family Supportive Services Program (FSSP):	PHFA program in which an escrow is established at initial loan closing to provide for future services to the residents and their families. One-half of the funding comes from Agency loan proceeds and one-half is provided by the owner.
Financial Spreadsheet (Form 1):	The loan underwriting document utilized by the Pennsylvania Housing Finance Agency. The operating budget establishes the expenses that can be paid from operating revenue.
Housing Assistance Payment (HAP):	Represents the difference between the gross rent and the tenant portion of the rent. HAP includes both revenue to the property and the utility allowance, where applicable.

HOMES:	A lending program of the Pennsylvania Housing Finance Agency which provided low interest deferred payment loans for the construction of multifamily housing. This program was subsequently replaced by the PennHOMES lending program.
HUD:	The United States Department of Housing and Urban Development. A Federal Agency established to provide a decent, safe, and sanitary home and suitable living environment for every American.
Identity-of-Interest:	This term applies to a management agent and other parties having business relationships with the property 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 property owner; or (2) any officer or director of the property owner; or (3) any person who directly or indirectly controls 10 percent or more the property owner's voting rights directly or indirectly owns 10 percent or more of the management agent. For purposes of this definition, the term <i>person</i> includes any individual, member of the 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.
Initial Occupancy:	The date at which the property receives its certificate of occupancy after which residents may move into the property.
Interim Income:	Income generated during a staged rent-up from the occupancy of the initial unit of the property until the final unit has been certified for occupancy.
Investor Service Fee:	The fees that are charged by the tax credit syndicator to monitor the property. The operating budget on the financial spreadsheet determines whether this fee may be paid with operating revenues. If not considered on the operating budget during underwriting, these fees must be paid from Agency approved return on equity. They may be accrued as a development expense.
Management Agreement:	An agreement between a property owner, a management agent and PHFA which specifies the duties and responsibilities of managing the property. The compensation of the management agent is also outlined in this agreement.
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 a HUD-Insured 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.

Operating Deficit Fund:	Cash account or letter of credit established at initial loan closing for the purpose of funding any operating loss projected during the initial year of operations. The fund shall be held until sustaining occupancy and income has been achieved in two financial reporting periods and, additionally, as determined by the Agency upon review of future projected cash flow deficits of the property as reflected in the Financial Spreadsheet at final loan closing and the current operating budget. One-half of the funds may be released after achievement of the first period of sustaining occupancy and income.
Operating Deficit Reserve:	Cash account established at initial loan closing for the purpose of funding projected operating deficits that have been projected on the financial spreadsheet.
Operating Report (QOR):	A report of the financial operations of a property which is submitted to PHFA, as required by the terms of the property's management agreement.
Operating Reserve Agreement:	Please refer to item number 9 on page 9 of this manual.
Painting & Decorating Reserve:	The Regulatory Agreement may require an owner to establish and maintain a reserve for painting and decorating. The reserve provides cash for the painting and decorating of individual apartment units within the property.
PennHOMES:	The current lending program of the Pennsylvania Housing Finance Agency that provides deferred principal payment loans for the construction of multifamily housing.
PHFA:	The Pennsylvania Housing Finance Agency, an agency of the Commonwealth of Pennsylvania established for the purpose of providing financing for the purchase and construction of single family and multifamily housing.
Regulatory Agreement:	The Regulatory Agreement lists the management and reporting requirements that the government body and the lender impose upon the owner in conjunction with the mortgage. The Regulatory Agreement also specifies what actions the lender and/or the government body may take if the owner does not carry out its obligations under the Regulatory Agreement so long as the mortgage is in effect.

Rent Up Period:	The length of time that it takes for a property to attain full occupancy after it initially opens. During this period it is not unusual for a property to incur one time, non-recurring expenses related to the initial renting of the units. Additional advertising, staff training, etc. are some examples of rent up expenses. Expenses related to rent-up should be budgeted as a development cost during the underwriting process so that these items are funded from loan proceeds or equity contributions and not from first year operations.
Reserve for Replacements:	The Regulatory Agreement requires the property to establish and maintain a reserve for replacements. The reserve provides cash for the replacement of equipment, appliances and major building items. The Financial Spreadsheet determines the initial required annual deposit.
Residual Receipts:	Any cash remaining at the end of an annual fiscal period after deducting from surplus cash the amount of owner distributions. See also Surplus Cash.
Return on Equity:	The amount of surplus cash that can be paid annually to an owner of a property, based upon a specific percentage of owner's equity.
Self-Insurance Fee:	A fee payable to PHFA for insurance to protect the Agency against any failure by the mortgagor to make payments on the mortgage loan. It amounts to one-quarter of one percent (0.25%) annually on the unpaid balance of the mortgage loan. This item is also referred to as Credit Enhancement Fee.
Surplus Cash:	The cash remaining after all necessary and reasonable expenses of the property have been paid or funds have been set aside for such payment and all reserve requirements have been met.
Sustaining Occupancy and Income:	The condition in which a property has achieved a sufficient level of occupancy to generate rental income in excess of operating expenses (positive cash flow) and accumulate surplus cash. Sustaining occupancy and income is evaluated over the period of the financial reporting year of the property.
Tax Credit Assistance Program (TCAP)	A multifamily funding program established through HUD by the American Recovery and Reinvestment Act (ARRA) of 2009. It provides supplemental funding to the sale of low income housing tax credits.
Tax Credit Exchange Program:	A multifamily funding program established through the US Treasury Dept. by the American Recovery and Reinvestment Act to provide funding in place of low income housing tax credits.

SAMPLE FINANCIAL STATEMENTS

CDE Associates
(A Limited Partnership)

PHFA Property No _____

Financial Statements
and Supplemental Information

Years Ended December 31, 2009 and 2008

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XYX and COMPANY
Certified Public Accountants

Independent Auditors' Report

To the partners of
CDE Associates
(A Limited Partnership)

We have audited the accompanying balance sheets of CDE Associates (A Limited Partnership) as of December 31, 2009 and 2008, and the related statements of profit and loss, changes in Partners' capital (deficiency) and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 audits provide 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 CDE Associates (A Limited Partnership) at December 31, 2009 and 2008, and the results of its operations, changes in Partners' capital, and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information is presented for the purposes of additional analysis and is not a required part of the basic financial statements of CDE Associates. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated _____, on our consideration of CDE Associates' (a Limited Partnership) internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

XYX and Company
Certified Public Accountants

(Date)

CDE ASSOCIATES
PHFA Project Number _____

Balance Sheets
December 31, 2009 and 2008

	<u>December 31,</u>	
<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash - Operations		
Cash - Partnership		
Accounts Receivable - Resident net of allowance for doubtful accounts (page 49)		
Accounts Receivable - HAP		
Accounts Receivable - Other (page 49)		
TOTAL CURRENT ASSETS		
DEPOSITS HELD IN TRUST		
Tenant Security Deposits		
TOTAL DEPOSITS HELD IN TRUST		
PREPAID EXPENSES		
Property & Liability Insurance		
Mortgage Insurance		
Real Estate Taxes		
Miscellaneous (Schedule)		
TOTAL PREPAID EXPENSES		
RESTRICTED DEPOSITS & FUNDED RESERVES (PG 49)		
Insurance Escrow		
Real Estate Escrow		
Reserve for Replacement		
Residual Receipts		
Other Restricted Escrow (s)		
TOTAL RESTRICTED DEPOSITS & RESERVES		
FIXED ASSETS (PG 50)		
Land		
Buildings		
Building Equipment		
Furniture		
Less Accumulated Depreciation		
TOTAL FIXED ASSETS		
OTHER ASSETS		
Deferred Financing Fees (net of accumulated amortization of \$ ____ and \$ ____) - (Note 2)		
TOTAL OTHER ASSETS		
TOTAL ASSETS		

(continued)

CDE ASSOCIATES
PHFA Project Number _____

Balance Sheets
December 31, 2009 and 2008

	<u>December 31,</u>	
<u>LIABILITIES & PARTNERS' CAPITAL</u>	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES		
Accounts Payable – Operations (page 50)		
Accounts Payable - Partnership (NOTE 4)		
Accrued Expenses		
Accrued Interest Payable - 1st Mortgage		
Accrued Interest Payable - 2nd Mortgage		
Operating Deficit Advance (NOTE 6)		
Loans Payable - Development (NOTE 5)		
Mortgage Payable - Current Portion (NOTE 3)		
TOTAL CURRENT LIABILITIES	_____	_____
DEPOSITS & PREPAYMENT LIABILITIES		
Tenant Security Deposits		
Prepaid Rent		
TOTAL DEPOSITS & PREPAYMENT LIABILITIES	_____	_____
LONG-TERM LIABILITIES		
Operating Deficit Advance (NOTE 6)		
Loans Payable - Development (NOTE 5)		
First Mortgage Payable (NOTE 3)		
Second Mortgage Payable (NOTE 3)		
Accrued Interest Payable (NOTE 3)		
TOTAL LONG TERM LIABILITIES	_____	_____
TOTAL LIABILITIES	_____	_____
PARTNERS' CAPITAL	_____	_____
TOTAL LIABILITIES AND PARTNERS' CAPITAL	_____	_____

See notes to financial statements

Statements of Profit and Loss

Comparative Statements of Profit and Loss

Page 1 of 2

PHFA – Housing Management Division

For the Years Ended: December 31, 2009 and 2008		Property #:	Property Name:	
Part I	Description of Account	Acct. #	2009	2008
Rental Income	Rental Income	5120		
	Tenant Assistance Payments	5121		
	Stores and Commercial Rent	5140		
	Other Rental Income	5190		
	Rent Concessions	5250		
	Total Rental Income			
Vacancies	Vacancies-Apartments	5220		
	Vacancies-Commercial	5240		
	Total Vacancy Loss			
	Net Rental Income			
Interest Income	Interest Income-Operations	5410		
	Interest Income-Residual Receipts	5430		
	Interest Income-Reserve for Replacement	5440		
	Interest Income-Painting and Decorating	5450		
	Total Interest Income			
Other Income	Supportive Service Income	5300		
	Grant Income	5510		
	Service Income	5910		
	NSF and Late Fees	5920		
	Miscellaneous Income	5990		
	Total Other Income			
	Total Property Income			
Administrative Expenses	Advertising and Renting Expense	6210		
	Office and Telephone Expense	6311		
	Model Apartment Expense	6312		
	Management Fee (%)	6320		
	Legal Expense	6340		
	Audit Expense	6350		
	Administrative Fee (Section 8 only)	6351		
	Bad Debts	6370		
	Miscellaneous Administrative Expenses	6390		
	Total Administrative Expenses			
Utility Expense	Fuel	6420		
	Electricity	6450		
	Water	6451		
	Gas	6452		
	Sewer	6453		
	Total Utility Expenses			

(continued)

Part I(cont'd)	Description of Account	Acct. #	2009	2008
Operating and Maintenance Expenses	Janitor/Maintenance Supplies	6515		
	Operating/Maintenance Contracts	6520		
	Rubbish Removal	6525		
	Security Payroll/Contract	6530		
	Repairs Material	6541		
	Elevator Maintenance	6545		
	Heating & Air Conditioning Maintenance	6546		
	Grounds Maintenance/Snow Removal	6548		
	Painting and Decorating	6560		
	Vehicle Operation and Repairs	6570		
	Misc. Operating & Maintenance Expenses	6590		
	Total Operating and Maintenance Expenses			
Payroll Expenses	Office Salaries	6310		
	Manager Salaries	6330		
	Administrative Rent Free Unit	6331		
	Janitor/Maintenance Payroll	6510		
	Payroll Taxes	6711		
	Workmen's Compensation	6722		
	Health Insurance and Employee Benefits	6723		
	Total Payroll Expenses			
Taxes and Insurance	Real Estate Taxes	6710		
	Property and Liability Insurance	6720		
	Fidelity Bond Insurance	6721		
	Misc. Taxes and Insurance/Licenses/Permits	6729		
	Total Taxes and Insurance Expenses			
Financial Expenses	Mortgage Interest	6820		
	PHFA Late Fees	6821		
	Other Interest Payments	6830		
	HUD Mortgage Insurance Premiums	6850		
	PHFA Service Fees	6851		
	PHFA Self Insurance Fees	6855		
	Other Service Fee	6860		
	Investor Service Fee	6870		
Miscellaneous Financial Expense	6890			
	Total Financial Expense			
Supportive Service Expenses	Supportive Service Payroll	6910		
	Supportive Service Supplies	6920		
	Total Supportive Service Expenses			
	Total Cost of Operations Before Depreciation			
	Profit (Loss) Before Depreciation			
	Depreciation (Total)-6600 Specifv	6600		
	Amortization	6610		
	Operating Profit or (Loss):			
Entity Expenses	Interest Income-(Entity)	7100		
	Legal Expenses-(Entity)	7120		
	Taxes (Federal-State-Entity)	7130		
	Other Expenses (Entity)	7190		
	Total Entity Expenses			
	Net Profit or (Loss):			

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.		

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

See notes to financial statements

CDE ASSOCIATES
PHFA Project Number _____

Statements of Partners' Equity
Years Ended December 31, 2009 and 2008

2009

	<u>General Partners</u>	<u>Limited Partners</u>	<u>Total</u>
Equity, 1/1/09			
Capital Contributions			
Distributions			
Net profit (Loss)	_____	_____	_____
Equity, 12/31/09	=====	=====	=====

2008

	<u>General Partners</u>	<u>Limited Partners</u>	<u>Total</u>
Equity, 1/1/08			
Capital Contributions			
Distributions			
Net profit (Loss)	_____	_____	_____
Equity, 12/31/08	=====	=====	=====

See notes to financial statements

CDE ASSOCIATES
PHFA Project Number _____

Statements of Cash Flows
Years Ended December 31, 2009 and 2008

:

	<u>2009</u>		<u>2008</u>	
	<u>Operating</u>	Non- <u>Operating</u>	<u>Operating</u>	Non- <u>Operating</u>
Cash flows from operating activities:				
Rental receipts				
Interest receipts				
Other receipts				
Administrative expenses paid				
Administrative salaries paid				
Management fees paid				
Utilities paid				
Operating & maint. expenses paid				
Operating & maint. payroll paid				
Real estate taxes paid				
Payroll taxes paid				
Property insurance paid				
Miscellaneous insurance paid				
Interest on mortgage note paid				
Mortgage service fee paid				
Misc. financial expenses paid				
Net cash provided by (used in) rental operating activities				
Tenant security and other deposits				
Net cash provided by (used in) operating activities				
Cash flows from investing activities:				
Additions to property & equipment				
Deposits to reserve for real estate taxes				
Withdrawals from escrow for real estate taxes				
Deposits to reserve for insurance				
Withdrawals from escrow for insurance				
Deposits to reserve for replacement				
Withdrawals from reserve for replacement				
Deposits to other restricted deposits				
Withdrawals from other restricted deposits				
Deposits to reserve for residual receipts				
Net cash provided by (used in) investing activities				

(continued)

CDE ASSOCIATES
PHFA Project Number _____

Statements of Cash Flows (Continued)
Years Ended December 31, 2009 and 2008

	2009	Non-	2008	Non-
	<u>Operating</u>	<u>Operating</u>	<u>Operating</u>	<u>Operating</u>
Cash flows from financing activities:				
Mortgage principal payments				
Support mortgage payment				
Proceeds from mortgage payable				
Proceeds from notes payable				
Reduction of long-term debt				
Contribution from partners				
Advances from partners				
Surplus cash distributions paid to partners				
Net cash provided by (used in) financing activities	_____	_____	_____	_____
Net increase (decrease) in cash and cash equivalents				
Cash and cash equivalents – beginning of year	_____	_____	_____	_____
Cash and cash equivalents – end of year	=====	=====	=====	=====
Reconciliation of net profit to net cash provided by operating activities:				
Net profit				
Adjustments to reconcile net profit to net cash provided by operating activities:				
Depreciation				
Changes in assets and liabilities:				
(Increase) Decrease in:				
Tenant accounts receivable				
Tenant security deposits				
Prepaid expenses				
Increase (Decrease)in:				
Accounts payable				
Accrued expenses				
Accrued mortgage interest payable				
Tenant security deposits	_____	_____	_____	_____
Net cash provided by (used in) operating activities	_____	_____	_____	_____

See notes to financial statements

Notes to Financial Statements
December 31, 2009 and 2008

NOTE 1: Organization and Nature of Operations

CDE Associates (the Partnership) was formed as a Pennsylvania limited partnership under the laws of the Commonwealth of Pennsylvania on _____. The purpose of the partnership is to develop and operate an affordable housing project consisting of ___ rental units in ___ structure(s) for moderate and lower income families.

Partnership income or loss are generally allocated _% to the general partner and _% to the limited partners. However, specific allocations are determined and governed by the limited partnership agreement.

By agreement, the Partnership is to be terminated _____.

NOTE 2: Significant Accounting Policies

Basis of Accounting

The financial statements of the Partnership are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Accounts Receivable and Bad Debts

Tenant receivables are reported net of allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection and a review of the current status of tenant accounts receivable. The allowance for bad debts as of December 31, 2009 and 2008 was \$_____ and \$___ respectively.

Rental Income

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Partnership and tenants of the property are operating leases.

Advertising Costs

Advertising costs are charged to operations when incurred.

Notes to Financial Statements (Continued)
December 31, 2009 and 2008

Rental Property

Rental property is recorded at cost and depreciated over their estimated useful lives using the straight line method for financial reporting purposes. Useful lives are estimated as follows:

Building and improvements	40 years
Furnishings and equipment	5 years

For tax purposes, accelerated methods are used to depreciate the cost of furnishings and equipment over five or seven years, while the building and improvements are depreciable over a 27 ½ year period.

Maintenance and repairs are charged to expenses when incurred. Upon retirement or other disposition, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income.

Impairment of Long-Lived Assets

The Partnership reviews its rental property for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. An impairment loss of \$_____ and \$_____ has been recognized for the years ended December 31, 2009 and 2008, respectively.

Income Taxes

The partnership has elected to be treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions, and tax credits are passed through and are reported by its owners on their respective income tax returns. The partnership's federal tax status as a pass-through entity is based on its legal status as a partnership. Accordingly, the Partnership is not required to take any positions in order to qualify as a pass-through entity. The Partnership is required to file and does file tax returns with the IRS and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Partnership has no other tax positions which must be considered for disclosure.

Notes to Financial Statements (Continued)
December 31, 2009 and 2008

Current Vulnerability Due to Certain Concentrations

The Partnership's sole asset is the rental property. The Partnership's operations are concentrated in the multifamily real estate market. In addition, the Partnership operates in a heavily regulated environment. The operations of the Partnership are subject to the administrative directives, rules and regulations of state, federal and local regulatory agencies, including but not limited to, HUD and PHFA. Such administrative directives, rules and regulations are subject to change by an act of Congress changes or an administrative change mandated by HUD or PHFA. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

Other Assets

Deferred financing costs are amortized over the term of the loan using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In June, 2009, the Financial Accounting standards Board (FASB) issued the Accounting Standards Codification (Codification). Effective July 1, 2009, the Codification is the single source of authoritative accounting principles recognized by the FASB to be applied to non-governmental entities in the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). The Codification is intended to reorganize, rather than change, existing GAAP. Accordingly, references to currently existing GAAP have been removed and have been replaced with plain English explanations of the Partnership's accounting policies. The adoption of the Codification did not have a material impact on the Partnership's financial position or results of operations.

CDE ASSOCIATES
PHFA Project Number _____

Notes to Financial Statements (Continued)
December 31, 2009 and 2008

NOTE 3: Long-Term Liabilities

Long-term liabilities consist of the following:

	<u>2009</u>	<u>2008</u>
Original first mortgage of \$_____ is payable to the Pennsylvania Housing Finance Agency in monthly installments of \$____ (including principal and interest) commencing (date) and continuing for ____ years thereafter, collateralized by land and building. The mortgage will mature on (month, day, year).		

0% second mortgage payable to Pennsylvania Housing Finance Agency with monthly installments of \$_____ (including principal and interest) commencing as per the terms of the Support Note, collateralized by land and building.

Please include the specific terms as per the Support Mortgage Note, e.g., if the property generates excess revenue prior to subordinate financing and return on equity, payment shall be made on the Support Mortgage Note.

\$_____ note payable to the Redevelopment Authority. Interest accrues at a 1% simple interest rate per year on the unpaid balance. Payments are deferred each year unless the cash flow meets the requirement in accordance with the Support Mortgage Note. Accrued interest for 2009 is \$_____. The mortgage will mature on (month, day, year).

Total long-term debt
Less current maturities
Total long-term debt (less current maturities)

Long-term liabilities maturing in the next five years consist of:

- 2010
- 2011
- 2012
- 2013
- 2014

Interest expense amounted to \$____ in 2009 and \$____ in 2008. Interest capitalized amounted to \$____ and \$____ in 2009 and 2008, respectively.

Notes to Financial Statements (Continued)
December 31, 2009 and 2008

NOTE 4: Related Party Transactions

Partner One and Partner Two, general partners of the Partnership, earned certain fees as described herein:

Development Fee - Partner One and Partner Two rendered services during the rehabilitation, formation and start-up phase of the property. Each general partner earned \$_____ throughout the process of which \$_____ was capitalized to the basis of the building and \$_____ was capitalized as offering costs. Of the total amount earned by the general partners, no amounts were due as of December 31, 2009. As of December 31, 2008, \$_____ and \$_____ were due to Partner One and Partner Two, respectively. The source of funds for payment of the development fee is syndication proceeds and not the property's operating account.

Construction Oversight Fee - Partner Two rendered services during the rehabilitation of the property amounting to \$_____ of which the total amount was capitalized to the basis of the building. Of the total \$_____ earned by Partner Two, \$_____ was due as of December 31, 2009. The source of funds for payment of construction oversight fee is partnership cash or syndication proceeds, but not the property's operating account.

Predevelopment Expenses - Partner One and Partner Two rendered services during the rehabilitating of the property. Each general partner earned \$_____ throughout the process of which the total amount was capitalized to the basis of the building. No amount was due as of December 31, 2009 and 2008 for the predevelopment expenses. The source of funds for payment of the predevelopment expenses is partnership cash or syndication proceeds, but not the property's operating account.

Partner Two, acting as the property's operating general partner, is to receive a management fee for the management of the day-to-day affairs in connection with the leasing, maintenance and onsite management of the building. The fee for this service is ___% of rental revenue received. Rental revenue is calculated as per the property's management agreement. Total management fees charged to operations at December 31, 2009 and 2008 totaled \$_____ and \$_____, respectively.

Partner One, general partner, earned \$_____ and \$_____ in administrative and accounting fees for the years ended December 31, 2009 and 2008, respectively. As of December 31, 2009 and 2008, \$_____ and \$_____ was due to Partner One for the services. These fees are payable from partnership cash and not from the property's operating account.

Notes to Financial Statements (Continued)
December 31, 2009 and 2008

Partnership Administration Fee - The partnership has entered into a Partnership Administrative Services agreement with the general partners for their services in managing the business of the partnership. The annual fee is equal to \$2500 per year as defined in the partnership agreement. This fee is payable from partnership cash and not from the operating cash account.

NOTE 5: Notes Payable Related Parties

As of December 31, 2009, CDE Associates Partnership advanced \$_____. These funds are payable upon sale or refinancing of the property and are noninterest bearing.

NOTE 6: Operating Deficit Obligation

Pursuant to Section ___ of the partnership agreement, the general partners are obligated to advance funds to cover operating deficits of the property up to a maximum of \$_____. During 2009, \$_____ in operating deficit advances were received from the general partners. As of December 31, 2009 and 2008, operating deficit advances liability amount to \$___ and \$_____, respectively. These advances are capital contributions to the property and are not payable from the property's operating cash account.

NOTE 7: Subsequent Events

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Partnership through _____ (the date the financial statements were available to be issued) and concluded that no subsequent events occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

Supporting Data Required by PHFA
December 31, 2009

Accounts and Notes Receivable
 (Other than from regular tenants)

Name	Original Date	Interest Rate	Terms	Original Amount	Balance Due
------	------------------	------------------	-------	--------------------	----------------

Delinquent Tenant Accounts Receivable

	Number of Tenants	Amount Past Due
Delinquent 30 days		
Delinquent 31-60 days		
Delinquent 61-90 days		
Delinquent over 90 days	_____	_____
Totals	=====	=====

Analysis of Required Reserve Funds and Escrows

(Source: Balance Sheet)

Fund Types	Reserve for <u>Replacement</u>	Insurance <u>Escrow</u>	Tax <u>Escrow</u>	Operating <u>Deficit Res.</u>	Other <u>(Specify)</u>
Balance 1/1/09					
Deposits					
Withdrawals					
Interest	_____	_____	_____	_____	_____
Balance 12/31/09	=====	=====	=====	=====	=====

CDE ASSOCIATES
PHFA Project Number _____

Supporting Data Required by PHFA (Continued)
December 31, 2009

Changes in Fixed Asset Accounts

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Misc. Fixed Assets</u>	<u>Total</u>
Balance , 1/1/09					
Operating Additions					
Non-Operating Additions	_____	_____	_____	_____	_____
Operating Deletions					
Balance, 12/31/09	=====	=====	=====	=====	=====

ACCUMULATED DEPRECIATION

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Misc. Fixed Assets</u>	<u>Total</u>
Balance, 1/1/09					
Additions					
Deletions	_____	_____	_____	_____	_____
Balance, 12/31/09	=====	=====	=====	=====	=====

Schedule of Additions to Misc. Fixed Assets

<u>Description</u>	<u>Amount</u>
3 office chairs	\$200
1 desk	1,000
TOTAL	<u><u>\$1,200</u></u>

Schedule of Additions to Building

<u>Description</u>	<u>Amount</u>
Roof Replacement	\$30,000
Windows	50,000
EIFS repairs	200,000
TOTAL	<u><u>\$280,000</u></u>

Schedule of Additions to Equipment

<u>Description</u>	<u>Amount</u>
Lawn Tractor	\$10,000
Refrigerators	10,000
Ranges	10,000
TOTAL	<u><u>\$30,000</u></u>

Schedule of Deletions to Fixed Assets

<u>Description</u>	<u>Amount</u>
Lawn Tractor	\$6,000

Itemization of Operating Payables

<u>Name</u>	<u>Purpose</u>	<u>Amount</u>
Partner Two	Management Fee	\$785
PHFA	Service Fee	300
PHFA	Late Fees	50
XYX and Company, CPA's	Audit Expense	2500
Home Depot	HVAC Maintenance	254
TOTAL		\$3,889

Supporting Data Required by PHFA (Continued)
December 31, 2009

PHFA's Computation of Surplus Cash and Return on Equity

SURPLUS CASH COMPUTATION

Add -

Line No. 1	Cash - Operations	_____
Line No. 2	Tenant Security Deposits	_____
Line No. 3	Accounts Receivable HAP	_____
Line No. 4	Accounts Receivable - Resident	_____
Line No. 5	Accounts Receivable - Other	_____
	Total Cash	_____

Less -

Line No. 6	Accounts Payable - Operations	_____
Line No. 7	Accrued Expenses	_____
Line No. 8	Delinquent Mortgage Principal Payments	_____
Line No. 9	Delinquent Mortgage Interest Payments	_____
Line No. 10	Delinquent Payments to Res. for Replacement	_____
Line No. 11	Delinquent Tax Escrow Payments	_____
Line No. 12	Delinquent Insurance Escrow Payments	_____
Line No. 13	Delinquent Service Fee	_____
Line No. 14	Delinquent Self Insurance Fee	_____
Line No. 15	Delinquent Late Fees	_____
Line No. 16	Prepaid Rents	_____
Line No. 17	Tenant Security Deposits	_____
Line No. 18	Other Liabilities	_____
	Total Current Obligations	_____

Surplus Cash (Deficit) End of Year _____

Refer to the Support Mortgage Note for the priority in disbursing surplus cash for repayment of the Support Mortgage Note and distribution of owners' return on equity.

RETURN ON EQUITY CALCULATION

a.	Distributions unpaid as of the end of the prior fiscal period	_____
b.	Annual distribution earned during the fiscal period (1)	_____
c.	Less: Distributions paid during the fiscal period (2)	_____
d.	Less: Unauthorized payments	_____
e.	Cumulative unpaid distributions as of the balance sheet date	_____

See page 52 for (1) and (2)
See page 53 for instructions on completion of the form.

Supporting Data Required by PHFA (Continued)
December 31, 2009

- (1) Calculation of Annual ROE Earned:

1st Year Properties

PHFA provides the pro-rated calculation in a letter to the Management Agent when the property is cost certified.

Properties with Equity adjusted for CPI

PHFA provides the yearly calculation in a letter to the Management Agent.

All Other Properties

Annual ROE amount remains constant, based upon initial equity.

If you are unsure which of the above applies to your property, please check the Regulatory Agreement or contact the Financial Analyst assigned to the property.

- (2) A management agent and/or owner must request in writing and receive prior written approval from PHFA to pay any return on equity. The request for return on equity should be submitted with the audited financial statements.

INSTRUCTIONS FOR PREPARATION OF THE PROJECT COMPUTATION OF SURPLUS CASH AND RETURN ON EQUITY

- Line No. 1 Cash from the property's operating account only should be shown on this line. Do not include cash from required reserves such as Reserve for Replacement or from any partnership bank accounts.
- Line No. 3 Include accounts receivable from tenant subsidies that remain unpaid as of the balance sheet date. Do not include amounts that have not been billed during the year under review.
- Line No. 6 Only include accounts payable which pertain to operations and exclude any partnership, development, or construction payables.
- Line No. 7 Only include accrued expenses which pertain to operations and exclude components of return on equity or partnership fees such as investor service fee.
- Lines No. 8-15 Any portion of the PHFA bills not **paid** by the fiscal year-end should be recorded as delinquent for purposes of this form.
- Line No. 9 Please include any mortgage interest unpaid as of the end of the fiscal year. Mortgage interest for the first month of the next fiscal year should not be included. Also, since the HOMES mortgage is a deferred loan, accrued interest should **not** be reflected on this line.

Please note that any **delinquent payments** owed to PHFA that are reported in Accounts Payable or Accrued Expenses on the balance sheet **must be** reflected in the respective delinquent line (**lines 8-15**) on PHFA's Computation of Surplus Cash.

XYX and Company
Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (No Material Weaknesses Identified, No Significant Deficiencies Identified, No Reportable Instances of Noncompliance or Other Matters Identified)¹

To the Partners
CDE Associates
Anytown, PA

We have audited the financial statements of CDE Associates as of and for the year ended December 31, 2009, and have issued our report thereon dated _____. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CDE Associates' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CDE Associates' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CDE Associates' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

¹ This report assumes there are no significant control deficiencies, material weaknesses and no reportable instances of noncompliance or other matters. Other situations will require modifications to this report. Sample reports may be viewed at <http://gaqc.aicpa.org/NR/rdonlyres/587B5830-EDD1-4B1D-A8B0-64FF66369146/0/IllustrativeAuditorsReportsUnderGASFINAL.pdf>

XYX and Company
Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CDE Associates' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of CDE Associates in a separate letter dated _____.²

This report is intended solely for the information and use of management, [*identify the body or individuals charged with governance*], others within the entity, and the Pennsylvania Housing Finance Agency and is not intended to be and should not be used by anyone other than these specified parties.

[*Signature*]

[*Date*]

XYX and Company
Certified Public Accountants

² Include, if applicable.

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2009**

1. Delinquent Mortgage and Escrow Payments
The partnership is one month in arrears in its primary mortgage and escrow payments to PHFA as of 12/31/09.

Reply:

The partnership made the payment the first week of January 2010. In addition, the partnership will make an additional payment in 2010 to become current on its payment schedule with PHFA.

2. Tenant security deposits are underfunded
The security deposit liability exceeds the security deposit escrow by \$5,330.

Reply:

The partnership will fund the difference immediately.

3. Unauthorized Distribution
Distributions of \$2,000 were made during the year without prior written PHFA approval.

Reply:

The partnership will establish procedures to send PHFA a letter of request for distribution with the audit report and will await PHFA's approval letter prior to disbursing funds. Also, the partners will repay the \$2,000 to the property's operating account in 2010.

4. Questionable Costs
The following costs are questioned as to whether they are allowable under the Management and Regulatory Agreements with PHFA:

Administrative Fees	\$ 750
Excess Management Fees	1,000
Travel expense incurred by owner	2,000

Reply:

Since these expenses are the responsibility of the management agent and/or owner, \$3,750 will be repaid to the property's operating account in 2010.

Additional Information
December 31, 2009

1. Name and address of lead auditor

Ms. CPA
Partner
XYX and Company, CPAs
Anywhere, USA
555-555-1111
mscpa@whatever.com

CDE ASSOCIATES
PHFA Project Number _____

December 31, 2009

Owners' Signed Representation Letter

We hereby certify that we have examined the accompanying financial statements and supplemental data of CDE Associates, and to the best of our knowledge and belief, the same is complete and accurate.

General Partners

Signature Date

Signature Date

CDE ASSOCIATES
PHFA Project Number _____

December 31, 2009

Management Agent's Signed Representation Letter

We hereby certify that we have examined the accompanying financial statements and supplemental data of CDE Associates, and to the best of our knowledge and belief, the same is complete and accurate.

Company

Signature Date

SAMPLE ANNUAL OPERATING BUDGET
and
SAMPLE QUARTERLY OPERATING REPORT

Statement of Profit and Loss-Tax Credit Only

Appendix 4

Reserve for Replacement Reimbursement Overview

The Management Agreement requires that prior approval be received from PHFA for any non-recurring, non-emergency expenditure costing \$2000 or more for any property containing 100 units or less. The threshold is \$5,000 for any property with more than 100 units. A request may be denied if prior approval is required and not obtained, so always remember to follow the appropriate guidelines for your property.

When requesting prior approval, three bids should be submitted to the property's Technical Services Representative. The management agent should indicate the preferred bid and the funding source with the submission. Once the bids have been reviewed, the Technical Services Rep will either approve or disapprove the request based on the information. If denied, you will be contacted and given a reason for the denial. If approved, the work request is transmitted to the Financial Analyst assigned to that particular development for funding review and approval. The Financial Analyst will issue a decision letter with the approved funding source.

Once work is completed, copies of the paid invoices should be forwarded to your technical services representative along with proof of payment. Once the work has been verified by the Technical Services Representative, the request is forwarded to the Financial Analyst for payment of the request.

PHFA strongly encourages that reserve for replacement work requests be submitted on regular intervals. PHFA gets a large number of reserve for replacement reimbursement requests near year-end since many properties only submit requests once a year. It does no one any good to wait until the end of the year to submit their requests since this slows down the review and approval process.

Finally, work requests should be submitted timely, but no later than one year from the date of completion. Any work requests submitted for reimbursement that are more than one year old will be denied Reserve for Replacement funding.