

PENNSYLVANIA HOUSING FINANCE AGENCY

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

Housing Management Division
211 North Front Street
P.O. Box 8029
Harrisburg, PA 17105-8029
717-780-3819

April 2018
Revised

Update language in Schedule K. Appendix 2 – Reserve for Replacement Reimbursement
Overview

TABLE OF CONTENTS

A.	INTRODUCTION	4
B.	LEGAL DOCUMENTS	5
C.	FINANCIAL REPORTING REQUIREMENTS AND DUE DATES	11
D.	ANNUAL OPERATING BUDGET	13
E.	QUARTERLY OPERATING REPORTS	19
F.	AUDITED FINANCIAL STATEMENTS	20
G.	FINANCIAL STATEMENT ENTRY	26
H.	CHART OF ACCOUNTS	35
I.	GLOSSARY	42
J	Appendix 1 PHFA Supporting Data for Audited Financial Statements	
K	Appendix 2 Reserve for Replacement Reimbursement Overview	

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.

Instructions for completing annual operating budgets and quarterly operating reports 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 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.

The budget workbook, quarterly operating report, 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 Financial Operations Information and Forms. 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 #2)

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** 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 (\$5,000 for 100 units or less and \$10,000 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 Reporting Requirements and Due Dates

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, including properties which received TCAP financing only, follow all reporting requirements listed below. In addition, properties with HRA financing only or PHARE financing only may be required to follow all reporting requirements, depending upon the loan documents executed for the property. Properties financed using Exchange 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.**

Rent Schedule	Upcoming Fiscal Year	30 days following PHFA publishing the annual Penn HOMES rents
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 rent schedule is required to be submitted 30 days after the Agency notifies the property the HOMES rent limits were released.
2. An annual budget is required to be submitted 60 days prior to the start of the property's fiscal year;
3. 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 on the Agency's website 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;
4. 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 and entered on the Agency's website. Instructions for this process can be found 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. Select Financial Operations Information and Forms. Scroll down to Instructions for Financial Statement Entry.

D. 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 (60) days prior to both 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.

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, Current Year Budget, reflects the PHFA approved operating budget for the current fiscal period. Column 2, Current Year Projection, records the current actual operations to date, plus a projection for the remaining months, 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.

When completing the budget workbook, the Name of Development and PHFA No. only need to be entered on the Budget form. This information will automatically fill in on each schedule (tab) of the workbook. All schedules (tabs) of the workbook must be completed. When entering amounts to the Budget form, you will notice as you enter your Current Year Projection amounts to column 2, all of the account number boxes will turn to a red color. After entering the New Annual Budget amounts in column 3, only those account number boxes where the line has a +/-10% variance over the Current Year Projection will remain red. Line items of the budget that have +/-10% variances will require explanations for the variances on the Variances tab. The account numbers for these particular line items will be displayed in red, as explained above. Once explanations for the variances are provided on the Variances tab (additional information on this tab can be found on pages 2 through 3 of these instructions), the account numbers on the Budget form will change to green to signal that explanations for the variances were provided.

Since the Annual Operating Budget must be submitted before the close of the current year, income and expenditures for the remaining months of operations must be estimated in order to complete Column 2 of the budget. These estimates should be verified for reasonableness by comparing them to the prior year's actual

expenditures during the same months. A comprehensive review of the current period expenditures should be made. Investigation of unusual variations between actual expenditures and budgeted expenditures should disclose if adjustments are required in the New Annual Budget.

In addition to the Budget form, the Agency also requires that the following tabs in the budget workbook be completed:

- The Payroll Worksheet schedule must be completed to include all employees for the property. If employees are paid 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 schedule must include the item, the account number where it is included on the budget (please select an account number from the dropdown list), and the amount. The total will automatically carry over to line 75 on the budget. Please be sure that all amounts included on this schedule are also included on the Budget form on the lines of their corresponding account numbers. Please note that the Agency will not budget for any Reserve for Replacement withdrawals within a property's first five (5) years of operations.
- The Capital Improvements / Equipment schedule must include a description of the item and the amount. The total will automatically carry over to line 81 on the budget. If the capital improvement is to be funded from the Reserve for Replacement, the item must also be included on the Reserve for Replacement Withdrawals schedule. Please choose the Capital Improvements / Equipment Purchases (account number 1420) option from the dropdown list on that schedule.
- The Miscellaneous Administrative Expense schedule must include a detailed listing of the items included in this category. The total will automatically carry over to line 26 on the budget.
- The Variances schedule should be completed for any line item that has a red box in the Explanation column. These items have a +/-10% variance between the Current Year Projection and the New Annual Budget amounts. Once an explanation is entered, the red in the box will disappear. In addition, please provide an explanation for any line item that has a New Annual Budget amount

but no Current Year Projection amount (+100% variance). A red explanation box will not be generated for this kind of variance, but the account should still have an explanation entered. Explanations are not required for the first year of operation, as there is no Current Year Projection for any budget line item. Explanations can be entered for any line item if desired. Budgets submitted with unexplained +/-10% variances will not be accepted by the Agency and will be returned for proper completion.

- A Rent Schedule must be completed for all properties. The rent schedule should be submitted to the Agency 30 days after PHFA publishes the PennHOMES rent limits. The Agency will notify all Owner/Agents, via email, when the HOMES limits are published. After the rent schedule is approved the Owner/Agent will be notified and provided a copy of the approved rent schedule. The following is a timeline of the new rent schedule and budget process:

New Process:

1	HUD releases HOME Income and Rent Limits.
2	PHFA finalizes and publishes the PennHOMES and PennHOMES with Tax Credit Charts.
3	PHFA notifies Owner/Agent that their rental schedule is due to their Housing Management Representative (HMR) within 30 days.
4	Owner/Agent completes the rental schedule and submits it to their HMR for approval.
5	HMR reviews and approves the rental schedule. The approved schedule along with an approval email is returned to the Owner/Agent.
6	Owner/Agent submits Annual Operating Budget to PHFA by the established due date ensuring Line 1- Rental Income agrees to the PHFA approved rent schedule.

Additional Rent tabs are provided in case extra lines are needed. The totals on the additional tabs will carry over to the first Rent tab. Please fill in all applicable boxes on the schedule. If listing unit numbers individually, please provide this information in the first column. Provide the number of bedrooms and number of units. Be sure to enter the Current Tenant Paid Rent per Unit, the New Tenant Paid Rent per Unit, and select from the dropdown list the month in which the new rent amount will be effective (1=Jan., 2=Feb., etc.). Enter the Utility Allowance and Rental Assistance, if applicable. If O (Other) is chosen as the Rental Assistance Source, an explanation of the source is required in the box found in the bottom right-hand corner of the Rent Schedule. The Maximum Allowable Housing Expense amount should come from the most recent rent chart for the applicable program. Please note: If Total Housing Expense for a unit is greater than the Maximum Allowable Housing Expense the Total Housing Expense cell will turn red. Any cells highlighted red on the rent schedule could indicate the unit is out of compliance. The Targeted Rent Level and the Unit Type should be selected from the dropdown list (see explanation of Target rent levels below*). All other columns will automatically calculate. The amount calculated in the Grand Total cell (highlighted yellow)

on the rent schedule should be entered into Line 1- Rental Income of the Annual Operating Budget. The approved Grand Total amount and the amount entered on Line 1 should always match. Any rent changes after the rent schedule approval and before the budget submission should not be included when the annual budget is submitted. These rent changes will be reevaluated during your annual management review. **Please note: Section 8 properties** do not need to provide a breakdown between the Tenant Paid Rent and Rental Assistance. Units with all of the same characteristics (the same rent amounts, number of bedrooms, etc.) can be grouped together on one line with the rent amount entered under New Tenant Paid Rent and January (1) selected as the effective month. **Please note:** properties with PHFA numbers having prefixes of **N** or **O** must list each unit on a separate line of the Rent Schedule.

- *Target Rent Level dropdown box options:**
- 20%: Units income and rent restricted at or below 20% AMI.
 - 20%/40%: 20% units income and rent restricted at or below 40% AMI
 - 20%/50%: 20% units income and rent restricted at or below 50% AMI
 - 20%/60%: 20% units income and rent restricted at or below 60% AMI
 - 40%: Units income and rent restricted at or below 40% AMI
 - 50%: Units income and rent restricted at or below 50% AMI
 - 60%/50%: Units income restricted at or below 60% AMI, but rent restricted at or below 50% AMI
 - 60%: Units income and rent restricted at or below 60% AMI
 - 80%: Units income and rent restricted at or below 80% AMI
 - MR: Market Rate

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

Line 1 This line item is the gross Rental Income amount for the fiscal year. The amount entered on this line is required to match the amount that was approved Grand Total Rents – highlighted yellow by PHFA during the rent schedule review.

Line 21 This line will automatically calculate to be the maximum allowable Management Fee amount. The calculation is based on the Management Agent Fee percentage entered in column D on line 21. If the Management Fee is not based on a percentage of income, instead, calculate the correct dollar amount and then calculate a percentage of total income based on that amount.

- Line 26 A schedule is included for Miscellaneous Administrative Expenses. The total will automatically carry over from the supplemental schedule.
- Line 54 This line item is 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 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 the total Mortgage Interest and Principal for the fiscal year.
- Line 74 This line item is the Reserve for Replacement deposits for the fiscal year.
- Line 75 This line item is 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 the Painting and Decorating Reserve deposits for the fiscal year, if applicable.
- Line 77 This line item is the estimated Painting and Decorating Reserve withdrawals for the fiscal year, if applicable.
- Line 78 This line item is estimated Operating Reserve withdrawals for the fiscal year, if applicable.
- Line 79 This line item is estimated FSSP Escrow withdrawals for the fiscal year, if applicable.
- Line 80 This line item is for Other Reserve withdrawals for the fiscal year, if applicable.
- Line 81 This line item is 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.

The budget workbook file 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 he or she can be contacted with any questions. No signature page is required to be completed for initial submission via e-mail.

PHFA will review the operating budget submitted for each property. Any adjustments made by PHFA will be highlighted and reflected in Column 4 with a letter referencing the adjustment in Column 5. Columns 4 and 5 are hidden columns that will be shown on the returned, reviewed budget. The referenced adjustments, if any, are on the bottom of the third page of the Budget form. The final PHFA adjusted budget will be returned via e-mail. After receipt of the final adjusted budget, a budget confirmation must be e-mailed to the Agency. Properties with Section 8 financing from PHFA must complete and sign the Section 8 Property – Budget Confirmation form. This form is provided as an attachment to the final budget e-mail. A PDF file copy of the signed form must be e-mailed to the Financial Analyst assigned to the property. All other properties must send an e-mail response confirming receipt and review of the finalized budget. The e-mail must include the following language: “I/We are confirming that I/we have received and reviewed the budget year Annual Operating Budget for property name, PHFA# _____ from Pennsylvania Housing Finance Agency on date.” Please include your name and title in the e-mail. The e-mail should be sent to the Financial Analyst assigned to the property. The approved annual operating budget (Column 4) must be used on all quarterly operating reports for the upcoming reporting year. 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.

E. 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 H, Chart of Accounts.

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.

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.

F. 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. An electronic PDF copy of the report must be submitted to the Housing Management Division of PHFA within ninety days following the end of each property's fiscal year. In addition, a PHFA Statement of Profit and Loss and a Balance Sheet must be entered via the PHFA website. See Section G. for instructions on website submission.

The requirements listed in this section apply to all properties financed by the Agency, **including TCAP, Exchange, HRA and PHARE 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 Agency also requires that an electronic PDF copy of the audit be submitted to PHFA, along with entry of the Statement of Profit and Loss and Balance Sheet to the Agency's website. 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 Section C. 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, an electronic PDF copy 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, HRA and PHARE**) 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 sheets.
- 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 Mortgage Entity Expenses. 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.
- 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.
- 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.

- f. Supporting Data – Please see Appendix 1 to this manual for examples of the required formats. This data 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.
 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.
 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.
 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.
 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.
 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.
 7. The *computation of surplus cash and return on equity* should be completed as per the format and instructions provided. 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.

- 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.
- 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.
- 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.

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.

G. FINANCIAL STATEMENT ENTRY

PHFA has recently added a function to the Multifamily Housing Website, <https://multifamily.phfa.org/>, that will allow users to enter financial statements online. Below is a breakdown of what the new requirements mean for both Tax Credit Only and PHFA Portfolio properties.

PHFA Portfolio Loans – Required Statements

1. Profit and Loss
2. Balance Sheet

Tax Credit Only – Required Statements

1. Profit and Loss

Important Items:

- All statements may be viewed in the website at any time. After submission, no edits can be made. The website will save all the statement entries from previous years.
- If a hardcopy is needed, the statement can be printed or the PDF can be saved.
- The person entering this information will be required to enter their name which will certify the information they have entered is correct. An email address will also be required to be entered. This address will receive a confirmation that the submission was successful.
- Guidelines for the entry of Profit and Loss Accounts and Balance Sheet Accounts are located at the end of this document.
- After the Balance Sheet and/or Profit and Loss are completed, you will be required to attach a PDF copy of the current year audit. This is required to include signed Owner and Agent Certifications.
- The property's Financial Analyst will be notified immediately, via email, after the statements are submitted.
- All website log-in questions should be directed to Frank Bobak at 717-780-3879 or FBobak@phfa.org
- All questions regarding statement entry should be directed to the Financial Analyst assigned to the specific property. If you are not certain which Financial Analyst is assigned to the property, please contact the Housing Management Division at 717-780-3819

Profit and Loss Website -- <https://multifamily.phfa.org/>



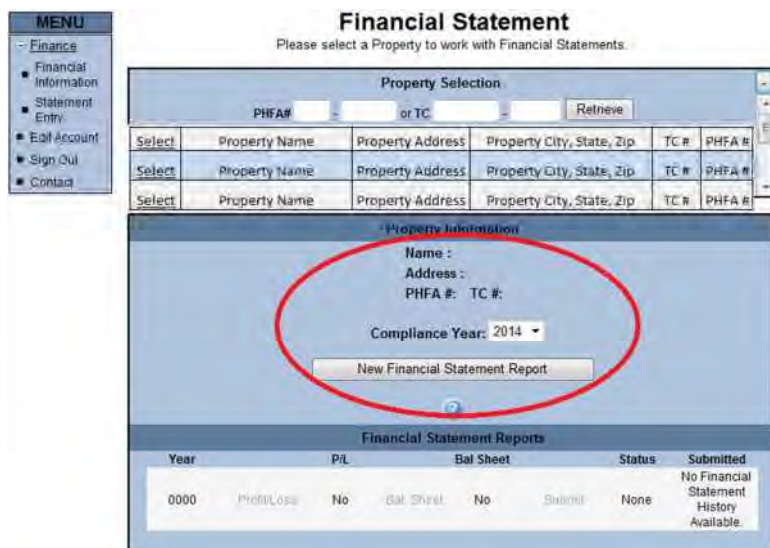
- The log in information is the same that is used to access the property's General Ledger balances.



- Click the "Statement Entry" link to access the entry system



- A listing of the available projects will be shown. Click “select” on the particular project that is needed.
 - If a property is not listed, and it should be, contact the PHFA Housing Management Division at 717-780-3819.
- You will also be able to search by PHFA # or TC # with the **Retrieve** button at the top of the screen.



- After selecting the property, the property information will appear (circled area).
- The “compliance year” is prefilled to show the current year – 1 year. This year should be the same year of the financial statement you are working from.
- **After a year is selected, click on “New Financial Statement Report”.**

Year	P/L	Bal Sheet	Status	Submitted
2014	Profit/Loss	Bal. Sheet	Submit	Saved Only

- Tax Credit only projects will be required to complete the Profit and Loss only. Projects with PHFA funding will be required to complete both the Profit and Loss and the Balance Sheet.
- Click on the “Profit/Loss “ link to begin entering the statement.

Profit and Loss Statement:

- The Profit and Loss statement mirror’s PHFA’s Profit and Loss statement.

		(Per Unit)	
Rental Income			
Rent Revenue-Gross Potential	5120	0	0
Tenant Assistance Payments	5121	0	0
Stores and Commercial Rent	5140	0	0
Other Rental Income	5190	0	0
Rent Concessions	5250	0	0
Total Rental Income		0	0
Vacancies			
(Per Unit)			
Vacancies-Apartments	5220	0	0
Vacancies-Commercial	5240	0	0
Total Vacancy Loss		0	0
Net Rental Income		0	0
Interest Income			
(Per Unit)			
Interest Income-Operations	5410	0	0
Interest Income-Residual Receipts	5430	0	0
Interest Income-Reserve for Replacement	5440	0	0
Interest Income-Painting & Decorating	5450	0	0
Total Interest Income		0	0
Other Income			
(Per Unit)			
Supportive Services Income	5300	0	0
Grant Income	5510	0	0
Service Income	5910	0	0
NSF and Late Fees	5920	0	0
Miscellaneous Income	5990	0	0
Total Other Income		0	0
Total Property Income		0	0

[Next Tab](#)

- Use the “tab” button on the keyboard to move from one entry field to the other.
- In addition to the tabs above the Profit and Loss statement, the blue “next tab” to tab through each different page.

Save Print Return

Income Admin & Utility Operation & Payroll Expenses Net Profit or Loss

		(Per Unit)	
Total Cost of Operations before Depreciation		0	0
Profit(Loss) before Depreciation		0	0
Depreciation(Total) - 6600 Specify 6600	0		0
Amortization 6610	0		0
Operating Profit or (Loss)		0	0
Equity Expenses		(Per Unit)	
Interest Income-(Entity) 7100	0		0
Legal Expenses(Entity) 7120	0		0
Taxes(Federal-State-Entity) 7130	0		0
Other Expenses(Entity) 7190	0		0
Total Entity Expense		0	0
Net Profit or (Loss)		0	0

Save

- After completing the statement, the Net Profit or (Loss) amount will be required to match the amount calculated by the website. Until the amounts match, the statement will not be able to be saved. If there is an issue, you will receive the following error message.

PHFA# : _____ Profit and Loss Units: 21

Reporting Year: 2014 Property Name : _____

Save Print Return

Profit & Loss data cannot be saved because validation has failed, view highlighted fields for more information.

- After clicking save, if the statement is correct, you will receive the following message. At this point, the Profit and Loss is saved. Hit “return” to return to the property’s main page.

Save Print Return

Profit and Loss data was saved successfully. To submit the data to PHFA, please return to the previous page and click [submit].

Income Admin & Utility Operation & Payroll Expenses Net Profit or Loss

Compliance Year: 2014 ▾

New Financial Statement Report

?

Financial Statement Reports

Year	P/L	Bal Sheet	Status	Submitted
2014	<u>Profit/Loss</u>	X	<u>Submit</u>	Saved Only

- If the Profit and Loss was saved, an “X” will appear under the P/L.

TAX CREDIT ONLY PROPERTIES – Click “Submit”. Please see the section title Submission Screen on Page 8.

PHFA PORTFOLIO PROPERTIES

- The balance sheet is required to be completed before submission. Any attempt to submit will result in an error message until both statements are completed and have “X” under each column.
- Click on the Balance Sheet to begin entering the statement.

Current Assets		
Operating Cash		1
General Partner Cash		0
Receivables-HAP		0
Receivables-Tenant		0
Receivables-Other Operating		0
Receivables-Entity		0
Inventory Assets		0
Total Current Assets		1
Tenant Security Deposits		0
Prepaid Expenses		
Insurance		0
Taxes		0
Other		0
Total Prepaid Expenses		0
Restricted Deposits and Reserves		
Insurance Escrow		0
Reserve for Replacement		0
Tax Escrow		0
Residual Revenue		0
Painting and Decorating Reserve		0
Other Escrow/Reserve	* Must Select *	0
Other Escrow/Reserve	* Must Select *	0
Other Escrow/Reserve	* Must Select *	0
Other Escrow/Reserve	* Must Select *	0
Other Escrow/Reserve		0
Other Escrow/Reserve		0
Total Restricted Deposits and Reserves		0
Fixed Assets		

- The balance sheet functions the same as the Profit and Loss statement.
- Some items to note:
 - All escrow accounts should be labeled. There are several choices provided in the drop down boxes. If a particular escrow account is not listed, please describe the escrow in the last 2 free form boxes. If a number is entered on those lines, a description is required.
 - All Loans should be entered on the liabilities tab. A description is needed for any loan amount that is entered in the “Other Loan” section.

Total Long-Term Liabilities	0
Total Liabilities	500000
Partners Equity (Deficit)	500000
Total Liabilities and Partners' Equity (Must equal total Assets)	1000000

- Partners Equity is a required entry field. When completed, click on “save”. The system will verify if the balance sheet reconciles (Entered equity amount + Total Liabilities = Total Assets).
- If there is something incorrect an error message will appear. The system will highlight, in red, any issues.
- Click the return button, after successfully saving, to submit both statements to PHFA.
- After returning to the main screen, click “submit” to submit the financial statements.

Submission Page

- After clicking “Submit” you will be directed to a new page. This page has several different required fields:
 - **Certification Statement** - certifies the information entered is correct.
 - **File Upload** – The current year audit (PDF) should be attached and should include signed Owner and Agent certifications. **This file must be a PDF file (.pdf)**
 - **Name** - Name of the individual who entered the statements.
 - **Email address** – Enter the address to which the confirmation email should be sent. This email will confirm a successful submission.
 - **Please Note:** The file submission process takes an estimated 15-30 seconds. **Do not hit submit multiple times.**

- MENU**
- Finance
 - Financial Information
 - Statement Entry
 - Edit Account
 - Sign Out
 - Contact

PHFA# : Submit Financial Statement to PHFA
Reporting Year : 2014 Property Name :

The financial information entered into the PHFA Financial Reporting Entry system above has been taken from financial information included in the financial statements (as audited, reviewed or compiled by a Certified Public Accountant) for the above named partnership for the reporting period noted above. We certify that the information has been verified with the financial statements. This information is for the use of PHFA in its oversight role of the partnership and is not to be used for any other purpose.

Attach Statement as PDF

File :

Name of person submitting the statement:

Confirmation eMail address:

- After clicking “Submit”, the status will change to “submitted”. The user name and the date of submission will show under the “submitted” column. This information will be viewable in future years.

Financial Statement Reports								
Year	P/L	Bal Sheet	Status	Submitted	Submitted By			
2014	Profit/Loss	X	Bal. Sheet	X	Submit	Submitted	8/3/2015	kurt l
2013	Profit/Loss	X	Bal. Sheet	X	Submit	Submitted	7/31/2015	Kurt Living

Guidelines for Profit and Loss and Balance Sheet Accounts

For any questions pertaining to Profit and Loss accounts please reference the "Chart of Accounts" document which can be found in the Agency’s Financial Reporting Manual.

For any questions pertaining to the Balance Sheet entry, please see below:

ASSETS:

Receivables – Entity – This account should be used to record receivables for non-operating items related to construction of the property or owner-related funds. **Examples:** Syndication Proceeds Receivable, Capital Contributions Receivable, General Partner or Limited Partner Expense Reimbursements.

Other Escrow/Reserves – These two accounts should be utilized when any Escrow and/or reserve account does not fit into the nine prefilled reserve/escrow account options available. **Examples:** Improvement Reserve, Working Capital Reserve Account, Construction Escrow.

Other Assets – This section should be utilized for any account that did not fit into any other asset category. If a property has more “other assets” than space provided, the accounts should be combined into one account line. Please ensure a proper description is given. **Examples:** Financing Fees, Compliance Monitoring Fee, Amortizable Assets.

LIABILITIES:

Accrued Interest on Mortgage Loan – This account should be used to record only the interest accrued on the primary amortizing mortgage loan, if applicable. Please Note: amortizing mortgage loans financed by PHFA do not have an amount for accrued interest due at the year-end, unless the loan is delinquent, because the interest for the current month is billed and payable as of the first day on the month.

Primary Mortgage Loan (amortizing) – This account should be utilized if the project has a primary amortizing mortgage. This account is NOT to be used for PHFA support mortgage loans (see below).

PHFA Support Note – This line is for PHFA support notes. These loans do not amortize and are paid from Surplus Cash. PHFA loans are the only loans that should be placed here.

Other – These six lines should be utilized when the project has liability accounts that do not fit into the other categories provided. All liabilities in this section should represent items that are payable from **surplus cash**. A detailed description should be given anytime these lines are used. These lines could include additional loans. **Examples:** support loans (other than PHFA), developer loans for construction of the property, general partner administrative fees, incentive management fees.

Owner Advances – Surplus Cash – Advances to the property by the owner which are due from surplus cash.

Accrued Interest on Other Loans – This account should be used to record interest accrued on loans which are payable from surplus cash, such as support mortgage loans and developer fee loans.

Please note – Any free form description that is entered will carry over to the following year. The description can be updated when needed.

H. 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.
HRA:	A multifamily funding program established through the Pennsylvania Department of Community and Economic Development to provide funding for housing redevelopment assistance.
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.
PHARE:	A multifamily funding program established through the Pennsylvania Department of Community and Economic Development to provide funding for multifamily housing in areas impacted by Marcellus shale exploration.

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.

J. Appendix 1

PHFA Supporting Data for Audited Financial Statements

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 Replacement	Insurance Escrow	Tax Escrow	Operating Deficit	Other Res.
Balance 1/1/xx					
Deposits					
Withdrawals					
Interest	_____	_____	_____	_____	_____
Balance 12/31/xx	_____	_____	_____	_____	_____

Changes in Fixed Asset Accounts

	Land	Buildings	Equipment	Misc. Fixed Assets	Total
Balance , 1/1/xx					
Operating Additions					
Non-Operating Additions	_____	_____	_____	_____	_____
Operating Deletions					
Balance, 12/31/xx	_____	_____	_____	_____	_____

ACCUMULATED DEPRECIATION

	Land	Buildings	Equipment	Misc. Fixed Assets	Total
Balance, 1/1/xx					
Additions					
Deletions	_____	_____	_____	_____	_____
Balance, 12/31/xx	_____	_____	_____	_____	_____

Schedule of Additions to Misc. Fixed Assets

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

Schedule of Additions to Building

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

Schedule of Additions to Equipment

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

Schedule of Deletions to Fixed Assets

Description	Amount
Lawn Tractor	\$6,000

Itemization of Operating Payables

Name	Purpose	Amount
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

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	_____

- (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.

K. Appendix 2

Reserve for Replacement Reimbursement Overview

The Management Agreement requires that prior approval be received from PHFA for any nonrecurring, non-emergency expenditure regardless of funding source (Operating income/Reserve Funding) costing \$5,000 or more for any property containing 100 units or less. The threshold is \$10,000 for any property with more than 100 units.

Reserve funds are for use on repairs and replacement of depreciable physical property that are components of the facility in a permanent affixed manner, except for refrigerators, ranges, washers, dryers, and ground keeping equipment. Furniture, computer equipment, and annual maintenance/service contracts are **not** reserve fund items.

Funding request are not to be submitted within the first five years of operation as the facility is new and needs for reserve funds should not be imminent.

A request may be denied if prior approval is required and not obtained or the agency determines denial is in the best financial interest of the property.

When requesting prior approval, three bids shall be submitted to the property's Technical Services Representative. The management agent shall indicate the preferred bidder and the funding source with the submission. Once the bids have been reviewed, the Technical Services Representative will approve or disapprove the request based on the information provided, need for repair/replacement and account standing.

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. If denied, you will receive a decision letter with denial reason.

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, (site visit maybe required) the request is forwarded to the Financial Analyst for payment of the request.

PHFA highly recommends that reserve for replacement work requests be submitted **quarterly**. PHFA gets a large number of reserve for replacement reimbursement requests near year-end. Please plan fourth quarter submissions judiciously since many properties submit their largest requests at year end. Due to this factor, PHFA's approval process and payment prior to the end of the calendar year may not be possible.

Any work requests submitted for reimbursement that are more than one year old will be **denied** Reserve for Replacement funding.