

Annual Financial Statements - Common Financial Statement Errors & Findings

Listed below are the most common issues noted during MHDC's financial statement review process:

- The project's MHDC #, LIHTC #, and/or AHTC # are omitted from the face of the financial statements.
- Required supplemental schedules were omitted from the financial statements. Please use MHDC's required supplemental schedules.
- Financial Statements were not prepared using MHDC's Chart of Accounts. MHDC will not accept financial statement not prepared accordingly. Financial statements will be returned, and the property will be placed in noncompliance until the financial statements are corrected.
- The following accounts should not be netted – Rent and Vacancy; Interest Subsidy and Interest Expense; Insurance Claims and Operating and Maintenance Expense.
- Accrued interest was not included on the Balance Sheet and in the computation of surplus cash. Interest should be accrued when January's mortgage payment is paid in January instead of December. This amount should be booked regardless of materiality because of potential surplus cash implications. The interest portion of January's payment is for interest earned from December 1 to December 31st.
- Management fees should be paid in accordance with MHDC's policy. A refund of any overpaid management fees will be required.
- Tenant security deposits were under funded. The tenant security deposit cash account should be greater than, or equal to, the tenant security deposit liability account. An underfunded tenant security deposit cash account must be funded at the appropriate level.
- Amounts reported in the Schedule of Funds do not tie to the amounts reported on the Balance Sheet.

Surplus Cash Schedule (Not Required for Tax Credit Only Properties)

- Distributions of surplus cash must receive prior MHDC approval, and any partnership expenses paid from project operations are considered a distribution.
- The principal portion of the current month's mortgage payment should not be included in the current obligation calculation. Only the current interest portion is reported.
- To be consistent with HUD's definition of cash, as delineated by HUD's electronic AFS submission instructions, only Operating Cash (which includes petty cash), Short-term Investments, and Tenant Security Deposits are part of the Cash reported on Line 1 for your property's surplus cash calculation. Replacement Reserve reimbursements for the year under audit that have been approved and are paid out by January 31st can also be included as Cash.