

Annual Financial Statements – Frequently Asked Questions

Q: When are financial statements submission required?

A: Financial Statements are due 90 days after fiscal year-end, and are required to be entered in the Asset Management Reporting System (AMRS) and a copy of the final signed audit must be uploaded. MHDC does not accept "DRAFT" copies of the financial statements.

Q: Have new accounts been added to the MHDC Chart of Accounts since 2008?

A: No new accounts have been added.

Q: Are there any new financial statement requirements planned for year-end?

A: The Missouri legislative staff asked that MHDC collect more detailed information on the allocation of Low Income Housing Tax Credits. Properties with 13+ units must submit a *Schedule of Eligible and Allocated Federal and State Tax Credits* as part of the annual audited, reviewed, or compiled financial statements.

Q: What if we do not have our tax return prepared yet to determine the amount of tax credits earned to report on the Schedule of Eligible and Allocated Federal and State Tax Credits?

A: MHDC realizes that not all properties will have their tax returns finalized by the time of audit submission, but MHDC needs to know the amount of credits earned for the period covered under the financial statement.

Q: On the Schedule of Eligible and Allocated Federal and State Tax Credits, do I need to provide projected credits for each subsequent year?

A: No, MHDC does not want properties to report the projected eligible credits for future years. The idea of the table is to fill in the eligible credits through the year covered by the financial statements until the credits have expired. The Eligible column should be left blank in future years.

Q: Can I incorporate this information within the footnotes of the financial statements, or do I have to prepare it as a supplemental schedule?

A: MHDC's preference is to include this information as a supplemental schedule. MHDC believes this approach would be easiest for both the CPAs preparing the statements and MHDC staff reviewing the information.

Q: Do I need to provide total columns on the Schedule of Eligible and Allocated Federal and State Tax Credits?

A: No, total columns are unnecessary.

Q: How do I determine if I need to submit my financial statements on-line or mail a financial statement hard copy to MHDC?

A: All financial statements must be filed in AMRS at amrs.mhdc.com MHDC requires entry of the financial statements, and a PDF of the final financial statements must be uploaded

and submitted for MHDC to review. There is no need to mail a copy of the financial statements to MHDC.

Q: How is Gross Potential Rent (GPR) determined?

A: This account includes MHDC approved rents charged at 100% occupancy. The amount can be calculated by taking the total of the last approved rents per unit times the twelve months. Approved rents for newer properties can be found in the Regulatory Agreement, Land Use Restriction Agreement, HUD Rent Schedule Low Rent Housing Form HUD-92458, or MHDC's most recent Schedule II if a rent increase has been approved since the property's inception. Rents should NOT be netted.

To calculate GPR for a property with 56 one-bedroom units where rent = \$450 per unit:

\$450	Current rent
X 56	number of 1BR units
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25,200	Rental revenue per month
X 12	months in period
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\$302,400	Gross potential rent (GPR)

To calculate Net Rental Revenue:

\$302,400	Gross potential rent (GPR)
(15,000)	Apartment vacancy ①
(5,000)	Rental concessions ②
(3,000)	Loss to lease ③
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\$279,400	Net rental revenue

NOTES

- ① Defined as GPR lost through vacancy of an apartment unit.
- ② Defined as the amount of rental concessions (i.e. free rent, discounts) allowed in connection with tenant leases.
- ③ Defined as GPR lost due to the time of the expiration of tenant leases (i.e., rent increase effective date = Jan 1, 202x, tenant lease expires Apr 1, 202x = 3months of rents lost to lease.

Q: How does MHDC determine if interest should be accrued at year-end, and How does MHDC determine accrued interest?

A: Interest should be accrued if 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. The amount to be accrued is determined based on the property's amortization schedule and monthly billing statement (i.e. January's Mortgage Statement would show how January's payment was to be allocated between principal and interest.) Billing statements are usually received 10 days prior to the payment due date.

Q: When will Owner's Equity calculations be sent out?

A: MHDC will email Owner's Equity calculations by January 31st for the preceding calendar year.

Q: Does MHDC have a preferred format for Annual Financial Statements?

A: Yes, MHDC prefers that all properties prepare their financial statements using the MHDC chart of accounts. This format is essential for MHDC to maintain AMRS benchmarking database, and it will allow MHDC to review the financial statements more effectively. In addition, there is an Excel file available on the website that contains tabs for each of the MHDC required schedules.

Q: How will I know whether I am required to file Annual Financial Statements?

A: Financial statement submission depends on the number of units your development has. Developments with 24 or more units must file audited financial statements that follow Generally Accepted Auditing Standards and Government Auditing Standards (only if HUD or RD assistance is received). Developments with 13 – 23 units may file reviewed or compiled financial statements that follow the Statement on Standards for Accounting and Review Services. Developments with 12 units or less do not need to file financial statements unless they received HOME financing. Internal financial statements are acceptable in this case.

Q: What types of audits require the Schedule of Audit Findings, Compliance and Internal Control Comments, and Prior Audit Findings Resolution Comments to be performed?

A: Any property that is required to file a financial statement to HUD, Rural Development, and/or receives MHDC Home funds in excess of \$500,000 must prepare its audit under the Government Auditing Standards. Government Auditing Standards require the auditor to report on Internal Control, submit a Schedule of Questioned Costs, and report on prior year findings. Properties that do not receive federal funds may prepare their financial statements under normal Generally Accepted Auditing Standards.

Q: What schedules are required under Reviewed or Compiled Financial Statements?

A: The same statements required for an audit are required for a review or compilation. The biggest difference to note is the auditor's level of responsibility. The following schedules are required under the scope of reviewed or compiled financial statements: Accountant's Report, Balance Sheet, Statement of Income and Expense, Statement of Retained Earnings /Owner's Equity, Statement of Cash Flows, Notes to the Financial Statements (including Notes Payable and Change in Fixed Assets), Schedule of Funds, Mortgage Escrow Deposits, Schedule of Reserve Funds, Surplus Cash Distribution, Residual Receipts Calculation, Equity Distribution Calculation, Mortgagor's Certification, and Managing Agent's Certification. Please note the Surplus Cash Distribution, Residual Receipts Calculation, and Equity Distribution Calculations are **not** required for Tax Credit Only properties.

Q: What is the difference between reviewed or compiled financial statements?

A: Reviewed financial statements are less in scope than an audit. Your CPA is not required to evaluate internal control and no specific tests are required. Instead inquiries are made of management, and your financial statements are analyzed. Knowing the extra costs involved in an audit, a review will provide some of the assurances of an audit, since a qualified,

independent outsider has analyzed your financial statements.

Compiled Financial Statements are less in scope than an audit or a review. The CPA has done no testing or analysis of the financials, but having the firm involved enhances internal controls. In compiled financial statement engagement, your monthly bank account reconciliation will be read. The transactions will be assembled using generally accepted accounting standards, although they are not tested. Compiled statements are often sufficient to meet your needs, since the cost of a compilation is very low in comparison to that of audited or reviewed financial statements.

Q: What will happen if I do not file my financial statement within 90 days of my fiscal year-end?

A: Failure to submit annual financial statements will result in your property being placed in Non-Compliance. MHDC will not process any requests from a non-compliant development (replacement reserve withdrawal, rent increases, Surplus Cash, etc.) until the issue is resolved.

Q: What does "Non-Compliance Status" mean?

A: Non-Compliance Status occurs when a project fails to submit any information as prescribed under the Regulatory Agreement or to respond to any MHDC inquiry within the allotted time frame. Lack of response to MHDC's request is a direct violation of the Regulatory Agreement. MHDC will not process any future requests (replacement reserve withdrawal, rent increases, surplus cash, etc.) from a project until the non-compliance issue is resolved. Once the non-compliance issue is resolved, the project is put on a 90 day waiting list before their request can be processed.

Q: Are Fidelity Bond premiums considered an eligible project operating expense?

A: Fidelity Bond policies are required for each Management Company to insure against employee fraud and embezzlement. Fidelity Bond premiums of \$500 are allowed as an eligible operating expense. Premiums in excess of \$500 will not be eligible and should be reported as a non-operating item on the income statement.

Q: What are some acceptable methods to segregate cash when the operating cash account has exceeded \$250,000?

A: Option 1 - Divide into different accounts (different banks)

Option 2 – Provide documentation of the financial institution's rating. The financial institution must have a rating consistent at all times with current minimally acceptable ratings as established and published by Government National Mortgage Association (GNMA)

Option 3 - Buy treasuries (need to be cognizant of the change in market value over the years and prepare for that)

Option 4 - Purchase surety bonds to insure the money held in the (1) account

Option 5 - The Federal Home Loan Bank out of Des Moines, Iowa can provide a letter of credit

Note: MHDC does not endorse any one option over the other.

Q: Can partnership tax preparation expenses be combined with the annual audit expense, and be charged to operations?

A: Yes - MHDC allows partnership tax preparation expenses and the fee to prepare the mortgagor's K-1 to be combined with annual audit expense, and be charged to operations on the annual financial statements.

Q: Can financial statements be prepared using "other comprehensive basis of accounting" (OCBOA)?

A: No - CPA's may not prepare financial statements using OCBOA (i.e. cash basis and tax basis.) All financial statements must be prepared using MHDC guidelines and "Generally Accepted Accounting Principles" (GAAP). GAAP financial statements match revenues with expenses.

Q: Do losses due to flooding, fire, storm damage, or other disaster need to be reported to MHDC?

A: Yes - MHDC must be listed as a loss payee on the insurance check(s) and be notified in writing that the project experienced a loss and filed a claim, regardless of amount of the loss. The details of the loss and claims against insurance proceeds must be entered in AMRS, and full disclosure included in the Financial Statement Notes. MHDC must be notified when repairs are complete so an inspection can be scheduled based on the extent of the repairs.

Q: What should the project do when they receive an insurance claim check, and how should the insurance claim be reported for accounting purposes?

A: All insurance checks must include MHDC as an additional loss payee, and be sent to the STL office with the owner's endorsement. MHDC will forward deposit the payment into an insurance claim account and process payment requests through AMRS. Any remaining proceeds from an insurance claim will be moved to the property's replacement reserve account upon completion of work and MHDC's inspection.

The project is responsible for the appropriate accounting of insurance proceeds and related transactions. For assets previously capitalized, GAAP requires writing off the net book value of the damaged asset, and recognizing a gain or loss on disposal depending on whether the insurance proceeds are greater or less than the net book value. The fixed assets that are purchased with the insurance proceeds are capitalized as fixed assets and depreciated accordingly. The gain or loss should be recorded below net operating income/(loss). In the event insurance proceeds are received on an asset that was originally expensed, the proceeds would hit (credit) other income, and expense (debit) when the replacement item is incurred. For presentation purposes, these items should not be "netted" on the same P&L line, and appropriate footnote disclosure or supplemental schedule is required to discuss the nature of the loss.

Q: What is the difference between Operating Deficit Reserves and Operating Reserves?

A: Operating Deficit Reserves fund shortfalls during the lease up period, and Operating Reserves fund shortfalls through the life of the loan or until depleted.

Q: Do audited financial statements need to be submitted at Cost Certification?

A: If a project cost certifies prior to July 1, audited financial statements must be submitted with the cost certification and again at year-end. If a project cost certifies after July 1, unaudited financial statements will be accepted with the cost certification and audited financial statements will be required to be submitted at year-end.

Q: Why do Tax Credit Only properties need to submit financial statements?

A: MHDC has found that many of our Tax Credit properties are being required by their equity syndicators to submit financial statements. Section 7(c) of the Land Use Restriction Agreement (LURA) gives MHDC the authority to request this information as it states "the owner shall submit any other information, documents, or certifications requested by the Authority which the Authority shall deem reasonably necessary to substantiate the owner's continuing compliance with the provisions of the agreement."

Q: Will I receive notification that my property's financial statements are reviewed?

A: Yes, all developments will receive a letter from MHDC notifying them that their financial statements have been reviewed. In some instances, MHDC will require additional support to be submitted and accounts to be refunded before the financial review process can be closed.

Q: How do I enter my Annual Financial Statements On-line?

A: Annual Financial Statements are to be filed electronically in MHDC's Asset Management Reporting System at amrs.mhdc.com.

Q: How do I access MHDC's Asset Management Reporting System?

A: Each management company is now required to designate a System Administrator, who will be responsible to determining staff permissions, and maintaining current contact information. MHDC no longer issues passwords.

Q: How does the system know where to send a password when one is requested?

A: AMRS will send a system-generated email to the System Administrator to set up user permissions. At a minimum, all contact information must include a contact name and e-mail address.

Q: Does MHDC require a CPA to enter the annual financial statement data?

A: No. The system is designed so that an owner or management company representative can enter the information online.

Q: Do I still need to submit a hard copy of the financial statement to the MHDC St. Louis Office?

A: MHDC does not require HUD submitted properties to file electronically with MHDC, unless the property files their financial statement with HUD under the REAC system. If the property wants to file electronically, arrangements can be made by contacting the MHDC St. Louis Office at 314-877-1350. MHDC does require an upload of the financial statements for

MHDC to review.

Q: What is meant by uploading a financial statement?

A: An electronic copy of financial statements that have been keyed into AMRS must be provided as the final step before submission. MHDC prefers a PDF is submitted.

Q: Does the uploaded financial statement still need to include the same supplemental schedules that have been required by MHDC in previous years?

A: Yes. All requirements remain the same as previous years. Please visit our website for an Excel file called "MHDC AFS Templates" that contains all of the schedules and financial statement formats required by MHDC.

Q: How long will it take to submit a financial statement electronically?

A: Depending on the financial complexity of the property, submission may take from 30 minutes to and 1½ hours.

Surplus Cash - Frequently Asked Questions

Q: When can projects submit their requests to distribute surplus cash, and how should requests be submitted?

A: AMRS allows the property to submit their request to distribute surplus cash with the submission of their annual financial statement. If the property is in a surplus cash position, the system will ask the property at the end of their financial statement submission if they would like to request approval to distribute surplus cash. If the property answers "Yes" a Surplus Cash request form will appear for the property to complete. An answer of "No" will submit only the financial statements to MHDC. The property may submit their request in the Owner Distribution module through December 1. All requests will be processed on a first come first serve basis AFTER the financial statements have been reviewed and closed. Surplus cash may not be distributed without MHDC's written approval! Surplus Cash distribution requests will only be accepted for properties that are required to submit financial statements, and must have their surplus cash approved by MHDC because the property falls under HUD's "Old Reg" rules.

Q: How are general partnership loans treated (loans to cover temporary cash flow needs of the property)?

A: General Partnership loans are allowed, but not to be included in the calculation of surplus cash. GP loans are paid only if there is surplus cash at the end of the year. A property should make sure that all the operating expenses are appropriately covered before repaying the GP loan.

Q: When are Deferred Developer fees payable?

A: Generally, deferred developer fees are allowed, but the payment terms in the Note and the Regulatory Agreement should be reviewed for property-specific terms.

Q: How does a property know if MHDC or HUD is to approve surplus cash for a HUD insured project?

A: MHDC will approve surplus cash for any HUD insured property when MHDC is the mortgagee and is considered an "Old Reg" property by HUD. "Old Reg" projects are those that have a new construction date of 11/4/79, or earlier, or that have a substantial rehabilitation date of 2/27/80, or earlier. "Old or New Reg" projects can be determined by checking the subsidy status screen in REMS. Surplus Cash for "New Reg" projects must be approved by HUD.

Q: How do projects determine what amount to report on Line 9 of the Surplus Cash Computation, and does supporting documentation need to be provided?

A: Line 9 of the Surplus Cash Computation is one of the few items that is actually not a Balance Sheet entry.

For example, if the taxes were due December 31 and they were in the amount of \$10,000 and the mortgage company had only escrowed \$9,000, they would then have a deficiency in the escrow of \$1,000. This \$1,000 could then be entered on Line 9 of the Surplus Cash Computation.

The calculation to support the Deficient Tax Insurance or MIP Escrow Deposits amount on Line 9 of the Computation of Surplus Cash, Distributions, and Residual Receipts form is a required disclosure in the notes to financial statements or other supplementary data section. Escrow deficiencies on line 9 will need to be funded properly and returned to MHDC for deposit in your escrow account.