

Profit-Motivated – v2020-01
(Reports updated 02/2016)

ABC APARTMENTS
HUD PROJECT NUMBER 01-9876243
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Partners of
[ENTITY NAME]
[ENTITY CITY], [STATE]

Report on the Financial Statements

We have audited the accompanying financial statements of [ENTITY NAME], HUD Project No. [01-2345678], which comprise the balance sheet as of [Year End], and the related statements of income (loss) and expense, changes in partners' capital (deficiency) and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the [Project]'s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [Project]'s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of [ENTITY NAME] as of [Year End] and the results of its operations, changes in partners' capital / equity (deficiency), and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information shown on pages __ to __ is presented for purposes of additional analysis as required by the Uniform Financial Reporting Standards issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The above described supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the above described supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Information

The [identify accompanying other information] has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated (Date of report on the financial statements) on our consideration of [ENTITY NAME]'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering [ENTITY NAME]'s internal control over financial reporting and compliance.

[FIRM NAME]

[FIRM CITY], [STATE]

(Date of report on the financial statements)

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**BALANCE SHEET
DECEMBER 31, 20XX**

ASSETS

CURRENT ASSETS

Cash, cash equivalents and restricted deposits	\$ 1,291,127
Net Tenant Accounts Receivable	2,939
Accounts Receivable - HUD	24,790
Miscellaneous Prepaid Expenses	80,281
Total Current Assets	<u>1,399,137</u>

RESTRICTED DEPOSITS 1,199,355

PROPERTY AND EQUIPMENT

Land	3,606,982
Building and equipment	19,165,147
Accumulated Depreciation	<u>(11,428,977)</u>
Net Fixed Assets	11,343,152

TOTAL ASSETS \$ 13,941,644

The Accompanying Notes are an Integral Part of These Financial Statements.

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**BALANCE SHEET – CONTINUED
DECEMBER 31, 20XX**

LIABILITIES AND PARTNERS' EQUITY

CURRENT LIABILITIES

Accounts Payable - Operations	\$ 643,544
Accrued Liabilities	115,719
Accrued Interest Payable - First Mortgage (or Bonds)	30,247
Mortgage (or Bonds) Payable - First Mortgage (Bonds) (Short Term)	131,597
Other Loans and Notes Payable - Surplus Cash (Short Term)	267,032
Prepaid Revenue	38,997
Total Current Liabilities	<u>1,227,136</u>

Tenant/Patient Deposits Held In Trust (Contra) 83,820

LONG-TERM LIABILITIES

Mortgage (or Bonds) Payable - First Mortgage (or Bonds)	8,497,451
Other Loans and Notes Payable - Surplus Cash	2,185,359
Other Loans and Notes Payable	9,807
Accrued Interest Notes Payable (Surplus Cash) Long Term	199,000
Total Long Term Liabilities	<u>10,891,617</u>
Total Liabilities	<u>12,202,573</u>

OWNERS' EQUITY

Total Equity	1,739,071
TOTAL LIABILITIES AND EQUITY	<u><u>\$ 13,941,644</u></u>

The Accompanying Notes are an Integral Part of These Financial Statements.

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 20XX
DECEMBER 31, 20XX**

INCOME

Rental Income	\$ 4,395,408
Interest Income	691
Other	873,083
Total Income	<u>5,269,182</u>

EXPENSES

Administrative	737,162
Utilities	493,874
Operating and Maintenance	1,253,595
Taxes and insurance	341,009
Financial	614,972
Total Expenses	<u>3,440,612</u>

INCOME FROM OPERATIONS BEFORE

DEPRECIATION & AMORTIZATION	1,828,570
DEPRECIATION & AMORTIZATION	<u>927,845</u>

NET INCOME (LOSS)

\$ 900,725

The Accompanying Notes are an Integral Part of These Financial Statements.

ABC APARTMENTS
HUD PROJECT NUMBER 01234567

STATEMENTS OF CHANGES IN PARTNERS' CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 20XX

Balance at Beginning of Year	\$ 1,526,011
Net Income or Loss	900,725
Distributions	(687,665)
Balance at End of Year	<u>\$ 1,739,071</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

ABC APARTMENTS
HUD PROJECT NUMBER 01234567

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 20XX

CASH FLOWS FROM OPERATING ACTIVITIES

Rental Receipts	\$ 4,403,263
Interest Receipts	691
Other Operating Receipts	112,997
Total Receipts	4,516,951
Administrative	(173,758)
Management Fee	(167,751)
Utilities	(493,874)
Salaries and Wages	(585,878)
Operating and Maintenance	(758,077)
Real Estate Taxes	(276,985)
Property Insurance	(15,990)
Tenant Security Deposits	890
Interest on Mortgages	(365,759)
Mortgage Insurance Premium (MIP)	(40,545)
Total Disbursements	(2,877,727)

NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES 1,639,224

CASH FLOWS FROM INVESTING ACTIVITIES

Net Purchase of Fixed Assets	(1,977,329)
Other Investing Activities	746,163
NET CASH USED IN INVESTING ACTIVITIES	(1,231,166)

CASH FLOWS FROM FINANCING ACTIVITIES

Principal Payments - First Mortgage (or Bonds)	(126,382)
Principal Payments - Second Mortgage	(687,665)
Principal Payments on Loans or Notes Payable	(7,924)
Distributions	(687,665)
NET CASH USED IN FINANCING ACTIVITIES	(1,509,636)

NET INCREASE (DECREASE) IN CASH, RESTRICTED CASH AND EQUIVALENTS (1,101,578)

BEGINNING CASH, RESTRICTED CASH AND EQUIVALENTS 3,592,060

END OF PERIOD CASH, RESTRICTED CASH AND EQUIVALENTS **\$ 2,490,482**

The Accompanying Notes are an Integral Part of These Financial Statements.

ABC APARTMENTS
HUD PROJECT NUMBER 01234567

STATEMENTS OF CASH FLOWS – CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 20XX

RECONCILIATION OF NET LOSS TO NET CASH PROVIDED
BY OPERATING ACTIVITIES

Change in Total Net Assets from Operations	\$ 900,725
Adjustments to Reconcile Net Profit (Loss) to Net Cash Provided by (Used in) Operating Activities	
Depreciation Expenses	927,845
Amortization of debt issuance costs included in interest	10,095
Decrease (increase) in Tenant/Member Accounts Receivable	(17,882)
Decrease (increase) in Accounts Receivable - Other	(13,694)
Decrease (increase) in Prepaid Expenses	(15,990)
Increase (decrease) in Accounts Payable	371,608
Increase (decrease) in Accrued Liabilities	(2,291)
Increase (decrease) in Accrued Interest Payable	(427)
Increase (decrease) in Tenant Security Deposits held in trust	890
Increase (decrease) in Prepaid Revenue	17,098
Other adjustments to reconcile net profit (loss) to Net Cash provided by (used in) Operating Activities	(538,753)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,639,224

The Accompanying Notes are an Integral Part of These Financial Statements.

ABC APARTMENTS
HUD PROJECT NUMBER 01234567

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 20XX

NOTE 1 – NATURE OF BUSINESS:

The ABC Apartments (the "Company") is a single-member limited liability company formed on November 20, 1997 by its sole member, ABC Development Corporation, a not-for-profit corporation, to provide housing for low-income families within the City of Anywhere, Michigan. The Company consists of a 511-unit apartment complex commonly known as ABC Village Square Apts. On June 16, 2014, the Company obtained a first mortgage insured by the U.S. Department of Housing and Urban Development (HUD) under Section 207/223(f) of the National Housing Act, as amended, and paid off its existing MSHDA Tax-exempt Limited Obligation Multifamily Housing Revenue Bond.

The Company also signed a Regulatory Agreement with HUD executed in connection with the mortgage loan, which regulates distributions to the member among other requirements. As a limited dividend housing association, these distributions are limited in any one fiscal year to 23 percent of initial equity, increasing by 1 percent per year until the maximum of 25 percent is reached in August 2015. The Company's initial equity was \$6,399,596. The right to such distributions is cumulative and is based on the calculation of surplus cash.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are as follows:

Basis of Accounting - The Company maintains its accounting records and prepares its financial statements on an accrual basis, which is in accordance with accounting principles generally accepted in the United States of America.

Restricted Deposits - Escrowed - The funds held by the mortgagee represent escrows and restricted funds for taxes, insurance, MIP, and a replacement reserve. The taxes and insurance escrows and the replacement reserve consist of deposits by the Company to offset specific expenses and to replace structural elements and mechanical equipment upon consent of HUD. Future monthly required commitments for the funding of the replacement reserve are \$21,292.

Distributions - In accordance with the Regulatory Agreement executed in conjunction with the financing as described above, distributions of operating cash are limited to surplus cash available for distribution as described in the agreement and are only permitted after the end of a semiannual or annual fiscal period. Certain proceeds from the refinancing of the property were available to be distributed, are not considered operating cash, and are not subject to surplus cash restrictions. Distributions of \$319,157 were made during the year ended June 30, 2016 from entity cash.

Tenant Accounts Receivable - Tenant accounts receivable are stated at net rent amounts. Tenant accounts generally are collectible as long as the tenant is occupying the unit; thus, no allowance for bad debts has been established by management. When the tenant vacates the unit, any unpaid balance remaining after application of the security deposit and after procedures have been followed to recover outstanding amounts is charged to bad debt expense. Bad debt expense for the year ended June 30, 2016 was \$22,333.

Land, Buildings, Equipment, and Furniture - Land, buildings, equipment, and furniture are recorded at cost when purchased or appraised value if donated. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 30 years. Maintenance, repairs, and renewals that do not involve any substantial betterments are charged to expense when incurred. Expenditures that increase the useful life of the property are capitalized.

ABC APARTMENTS
HUD PROJECT NUMBER 01234567

NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 20XX

Restricted Deposits – Security Deposits Held in Trust - In accordance with the Regulatory Agreement with HUD, the Company is required to maintain a tenant security deposit trust account. The amount must at all times be equal to or exceed the aggregate of all outstanding obligations to tenants for refundable security deposits. The tenant security deposits fund consists of cash.

Deferred Revenue - Miscellaneous current liabilities include deferred laundry income of \$15,000 and deferred cable income of \$59,530 in accordance with the respective agreements. The laundry contract is for a period of 126 months, which started in July 2013. The cable contract is a 15-year service agreement, which began on September 30, 2007. Total revenue recognized for the year ended June 30, 2016 was \$13,923.

Deferred Financing Costs – Deferred financing costs of \$353,314 are included as a reduction in the mortgage liability. All costs are considered to be long-term. The amounts are being amortized over the 35-year term of the mortgage. Accumulated amortization for the year ended December 31, 2016 was \$20,190. Amortization expense of \$10,095 was included as a component of interest expense.

Prepaid Expenses - Prepaid expenses include prepaid general liability insurance, property insurance, and a mortgage insurance premium.

Rental Income - The Company records apartment rentals at gross potential rent as prescribed by HUD. Rental value of vacancies and other rental concessions are stated separately to present net rental income on the accrual basis. Units that are designated for occupancy by eligible low-income tenants under the Section 8 housing assistance payment contracts require tenants to contribute a portion of the contract rent based on formulas prescribed by the Department of Housing and Urban Development. Housing assistance payments are received for the balance of contract rent from HUD. The current contract expires on June 12, 2034.

Income Tax - No tax provisions have been recorded in the financial statements since income or loss of the Company is disregarded from an income tax basis because the Company is a single-member LLC.

Management Fee - The Company has a contract with a management agent, McKinley, Inc. Under the management agreement approved by HUD, the management agent earns a fee of 3.75 percent of residential income collected.

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

Impairment of Assets - The Company recognizes impairment of long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. No impairment of the Company's rental property has occurred.

Regulatory Agreement - A Regulatory Agreement with HUD was signed in connection with the mortgage note. There was a violations of this agreement were noted for the period ended June 30, 2016, see Finding 2016-001.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including September 27, 2016, which is the date the financial statements were available to be issued.

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 20XX**

Recent Accounting Pronouncements - In November 2016, the Financial Accounting Standards Board (FASB) published Accounting Standards Update (ASU) No. 2016-18, which changes the presentation and disclosure of cash, cash equivalents and restricted cash or restricted equivalents (Cash) in the statement of cash flows. The standard requires that change in all Cash when reconciling the beginning and ending cash balances shown on the statement of cash flows. The standard does not change the definitions of restricted cash or restricted cash equivalents. Previous U.S. GAAP allowed changes in restricted cash to be shown as investing activities.

In June 2018, FASB issued ASU 2018-08, to improve the scope and accounting guidance for contributions received and contributions made. The standard should be used to assist entities in 1) evaluating whether transactions should be accounted for as contributions or as other exchange guidance subject to other guidance. This standard establishes that Section 8 payments, although not a result of a reciprocal transaction, but is instead to they are to be considered as exchange transactions

NOTE 2 – CASH, RESTRICTED DEPOSITS AND EQUIVALENTS

The balance in cash, cash equivalents, restricted deposits and restricted deposit equivalents consists of the following:

Operating cash	\$1,291,127
Restricted deposits - security deposits	88,000
Restricted deposits - mortgage escrows	423,268
Restricted deposits – Reserve for replacements	688,087
	\$2,490,482
Total Cash, restricted cash and equivalents	<u>\$2,490,482</u>

NOTE 3 - LONG-TERM DEBT

The first mortgage note payable with NAME Mortgage LLC in the original amount of \$9,200,000 bears at an annual effective interest rate of 4.05 percent. The balance at June 30, 2016 was \$8,962,172. The mortgage is payable in monthly installments of \$41,012, including interest. Any remaining principal and interest is due and payable on July 1, 2049. The loan is collateralized by all assets of the Company and is guaranteed by HUD.

The balance of the above debt matures as follows:

2020	\$ 131,597
2021	137,027
2022	142,680
2023	148,567
2024	154,697
Thereafter	8,247,604
Unamortized Debt issuance costs	<u>(333,124)</u>
Total	<u>\$8,629,048</u>

ABC APARTMENTS
HUD PROJECT NUMBER 01234567

NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 20XX

NOTE 4 - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

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

NOTE 5 - UNUSUAL EVENT

During the period ended December 31, 2019, rental units were damaged due to a fire. The related insurance proceeds of approximately \$760,000 were received during the year ended December 31, 2019. The insurance proceeds have been reported in the statement of activities as miscellaneous other revenue. Total insurance proceeds of approximately \$970,000 were received for the period ended December 31, 2019 and were recorded as revenue during that period. Amounts capitalized during the year for repair and replacement costs approximated \$1,800,000 and have been placed in service at year end. The portion of the building that was damaged was fully depreciated and disposed of in the prior year. The remaining amount under contract to be paid is \$320,238 and accrued for in accounts payable.

NOTE 6 – MANAGEMENT FEE

The Project pays a management fee equal to 6.3% of gross revenues to ABC Management, Inc.

NOTE 7 – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

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

**SUPPLEMENTARY DATA
REQUIRED BY HUD**

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**BALANCE SHEET DATA
DECEMBER 31, 20XX**

ASSETS

CURRENT ASSETS

1120	Cash - Operations	\$ 1,291,127
1130	Tenant/Member Accounts Receivable (Coops)	2,939
1130N	Net Tenant Accounts Receivable	2,939
1135	Accounts Receivable - HUD	24,790
1200	Miscellaneous Prepaid Expenses	80,281
1100T	Total Current Assets	<u>1,399,137</u>

1191	Tenant/Patient Deposits Held in Trust	88,000
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RESTRICTED DEPOSITS

1310	Escrow Deposits	423,268
1320	Replacement Reserve	688,087
1300T	Total Deposits	<u>1,111,355</u>

PROPERTY AND EQUIPMENT

1410	Land	3,606,982
1420	Buildings	14,482,019
1440	Building Equipment (Portable)	745,466
1460	Furnishings	3,770,389
1465	Office Furniture and Equipment	67,052
1480	Motor Vehicles	100,221
1400T	Total Fixed Assets	22,772,129
1495	Accumulated Depreciation	11,428,977
1400N	Net Fixed Assets	<u>11,343,152</u>

1000T	TOTAL ASSETS	<u><u>\$ 13,941,644</u></u>
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**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**BALANCE SHEET DATA - CONTINUED
DECEMBER 31, 20XX**

LIABILITIES AND PARTNERS' DEFICIT

CURRENT LIABILITIES

2110	Accounts Payable - Operations	\$ 643,544
2120	Accrued Wages Payable	26,453
2123	Accrued Management Fee Payable	14,736
2131	Accrued Interest Payable - First Mortgage (or Bonds)	30,247
2170	Mortgage (or Bonds) Payable - First Mortgage (Bonds) (Short Term)	131,597
2173	Other Loans and Notes Payable - Surplus Cash (Short Term)	267,032
2190	Miscellaneous Current Liabilities	74,530
2210	Prepaid Revenue	38,997
2122T	Total Current Liabilities	<u>1,227,136</u>
2191	Tenant/Patient Deposits Held In Trust (Contra)	83,820

LONG-TERM LIABILITIES

2320	Mortgage (or Bonds) Payable - First Mortgage (or Bonds)	8,497,451
2323	Other Loans and Notes Payable - Surplus Cash	2,185,359
2324	Other Loans and Notes Payable	9,807
2330	Interest on Loans or Notes Payable (Long Term)	199,000
2300T	Total Long Term Liabilities	<u>10,891,617</u>
2000T	Total Liabilities	12,202,573

OWNERS' EQUITY

3130	Total Equity	1,739,071
2033T	TOTAL LIABILITIES AND EQUITY	<u><u>\$ 13,941,644</u></u>

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**PROFIT & LOSS DATA
FOR THE YEAR ENDED DECEMBER 31, 20XX**

REVENUE		
5120	Rent Revenue - Gross Potential	\$ 834,104
5121	Tenant Assistance Payments	3,731,690
5193	Special Claims Revenue	23,584
5100T	Total Rent Revenue	<u>4,589,378</u>
Vacancies		
5220	Apartments	193,970
5200T	Total Vacancies	<u>193,970</u>
5152N	Net Rental Revenue (Rent Revenue Less Vacancies)	4,395,408
Financial Revenue		
5440	Revenue from Investments - Replacement Reserve	165
5490	Revenue from Investments - Miscellaneous	526
5400T	Total Financial Revenue	<u>691</u>
Other Revenue		
5910	Laundry and Vending Revenue	14,094
5920	Tenant Charges	98,803
5990	Miscellaneous Revenue	760,186
5900T	Total Other Revenue	<u>873,083</u>
5000T	TOTAL REVENUE	<u>5,269,182</u>
EXPENSES		
Administrative Expenses		
6210	Advertising and Marketing	18,756
6250	Other Renting Expenses	15,739
6310	Office Salaries	86,321
6311	Office Expenses	129,244
6320	Management Fee	168,749
6330	Manager or Superintendent Salaries	238,795
6340	Legal Expense - Project	26,023
6370	Bad Debts	22,333
6390	Miscellaneous Administrative Expenses	31,202
6263T	Total Administrative Expenses	<u>737,162</u>

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**PROFIT & LOSS DATA – CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 20XX**

Utilities Expenses		
6450	Electricity	52,274
6451	Water	248,805
6452	Gas	192,795
6400T	Total Utilities Expense	493,874
Operating & Maintenance Expenses		
6510	Payroll	260,762
6515	Supplies	24,357
6520	Contracts	724,844
6525	Garbage and Trash Removal	34,744
6530	Security Payroll/Contract	32,168
6531	Security Rent Free Unit	157,945
6546	Heating/Cooling Repairs and Maintenance	1,970
6548	Snow Removal	12,078
6570	Vehicle and Maintenance Equipment Operation and Repairs	4,727
6500T	Total Operating and Maintenance Expenses	1,253,595
Taxes & Insurance		
6711	Payroll Taxes (Project's Share)	55,155
6720	Property & Liability Insurance (Hazard)	221,830
6722	Workmen's Compensation	10,483
6723	Health Insurance and Other Employee Benefits	53,541
6700T	Total Taxes and Insurance	341,009
Financial Expenses		
6820	Interest on Mortgage (or Bonds) Payable	375,427
6825	Interest on Other Mortgages	199,000
6850	Mortgage Insurance Premium/ Service Charge	40,545
6800T	Total Financial Expenses	614,972

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**PROFIT & LOSS DATA – CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 20XX**

Operating Results		
6000T	Total Cost of Operations before Depreciation	3,440,612
5060T	Profit (Loss) before Depreciation	1,828,570
6600	Accumulated Depreciation Expenses	927,845
5060N	Operating Profit or (Loss)	900,725

CHANGE IN NET ASSETS FROM OPERATIONS

3250	Change in Total Net Assets from Operations	\$ 900,725
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Part II

S1000-010	Total mortgage (or bond) principal payments required during the audit year [12 monthly payments]. This applies to all direct loans and HUD-held and fully insured mortgages.	\$ 126,382
S1000-020	Total of 12 monthly deposits in the audit year into the Replacement Reserve account, as required by the Regulatory Agreement even if payments may be temporarily suspended or reduced.	250,459

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**STATEMENTS OF CHANGES IN PARTNERS' CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 20XX**

S1100-010	Beginning of Year Balance	\$ 1,526,011
3250	Net Income or Loss	900,725
S1200-420	Distributions	(687,665)
3130	End of Year	<u>\$ 1,739,071</u>

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**STATEMENT OF CASH FLOWS DATA
FOR THE YEAR ENDED DECEMBER 31, 20XX**

CASH FLOWS FROM OPERATING ACTIVITIES		
S1200-010	Rental Receipts	\$ 4,403,263
S1200-020	Interest Receipts	691
S1200-030	Other Operating Receipts	112,997
S1200-040	Total Receipts	<u>4,516,951</u>
S1200-050	Administrative	(173,758)
S1200-070	Management Fee	(167,751)
S1200-090	Utilities	(493,874)
S1200-100	Salaries and Wages	(585,878)
S1200-110	Operating and Maintenance	(758,077)
S1200-120	Real Estate Taxes	(276,985)
S1200-140	Property Insurance	(15,990)
S1200-160	Tenant Security Deposits	890
S1200-180	Interest on Mortgages	(365,759)
S1200-210	Mortgage Insurance Premium (MIP)	(40,545)
S1200-230	Total Disbursements	<u>(2,877,727)</u>
S1200-240	NET CASH PROVIDED BY (USED IN) OPERATING	1,639,224
CASH FLOWS FROM INVESTING ACTIVITIES		
S1200-245	Net Deposits to the Mortgage Escrow account	426,839
S1200-250	Net Deposits to the Reserve for Replacement account	(111,615)
S1200-330	Net Purchase of Fixed Assets	(1,977,329)
S1200-340	Other Investing Activities	746,163
S1200-350	NET CASH USED IN INVESTING ACTIVITIES	<u>(915,942)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
S1200-360	Principal Payments - First Mortgage (or Bonds)	(126,382)
S1200-361	Principal Payments - Second Mortgage	(687,665)
S1200-370	Principal Payments on Loans or Notes Payable	(7,924)
S1200-420	Distributions	(687,665)
S1200-460	NET CASH USED IN FINANCING ACTIVITIES	<u>(1,509,636)</u>
S1200-470	NET INCREASE (DECREASE) IN CASH	(786,354)
S1200-480	BEGINNING OF PERIOD CASH	<u>2,077,481</u>
S1200T	END OF PERIOD CASH	<u><u>1,291,127</u></u>

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**STATEMENT OF CASH FLOWS DATA – CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 20XX**

RECONCILIATION OF NET LOSS TO NET CASH PROVIDED
BY OPERATING ACTIVITIES

3250	Change in Total Net Assets from Operations	\$ 900,725
Adjustments to Reconcile Net Profit (Loss) to Net Cash Provided by (Used in) Operating Activities		
6600	Depreciation Expenses	927,845
S1200-486	Amortization of debt issuance costs included in interest	10,095
S1200-490	Decrease (increase) in Tenant/Member Accounts Receivable	(17,882)
S1200-500	Decrease (increase) in Accounts Receivable - Other	(13,694)
S1200-520	Decrease (increase) in Prepaid Expenses	(15,990)
S1200-540	Increase (decrease) in Accounts Payable	371,608
S1200-560	Increase (decrease) in Accrued Liabilities	(2,291)
S1200-570	Increase (decrease) in Accrued Interest Payable	(427)
S1200-580	Increase (decrease) in Tenant Security Deposits held in trust	890
S1200-590	Increase (decrease) in Prepaid Revenue	17,098
S1200-600	Other adjustments to reconcile net profit (loss) to Net Cash provided by (used in) Operating Activities	(538,753)
S1200-610	NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,639,224

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**SCHEDULE OF RESERVE FOR REPLACEMENTS & RESIDUAL RECEIPTS
YEAR ENDED DECEMBER 31, 20XX**

SCHEDULE OF RESERVE FOR REPLACEMENTS

1320P	Balance at Beginning of Year	\$ 576,472
1320DT	Total Monthly Deposits	250,459
1320INT	Interest on Replacement Reserve Accounts	165
1320WT	Approved Withdrawals	139,009
1320	Balance at End of Year, Confirmed by Mortgagee	<u>\$ 688,087</u>
1320R	Deposits Suspended or Waived Indicator	<u>NO</u>

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**COMPUTATION OF SURPLUS CASH
YEAR ENDED DECEMBER 31, 20XX**

S1300-010	Cash	\$ 1,379,127
1135	Tenant subsidy due for period covered by financial statement	24,790
S1300-040	Total Cash	1,403,917
Current Obligations		
S1300-050	Accrued Mortgage (or Bond) Interest Payable	30,247
S1300-075	Accounts Payable - 3 days	643,544
S1300-100	Accrued Expenses [not escrowed]	41,189
2210	Prepaid Revenue	38,997
2191	Tenant Security Deposits Liability	83,820
S1300-110	Other Current Obligations	32,056
S1300-140	Total Current Obligations	869,853
S1300-150	Surplus Cash (Deficiency)	\$ 534,064
S1300-200	Amount Available for Distribution during next fiscal period	\$ 534,064

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**SCHEDULE OF FIXED ASSETS
DECEMBER 31, 20XX**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
1410 Land	\$ 3,606,982			\$ 3,606,982
1420 Buildings	12,479,162	2,002,857		14,482,019
1440 Building Equipment (Portable)	721,107	24,359		745,466
1450 Furniture for Project/Tenant Use				
1460 Furnishings	3,677,022	93,367		3,770,389
1465 Office Furniture and Equipment	67,052			67,052
1470 Maintenance Equipment				
1480 Motor Vehicles	67,096	33,125		100,221
1490 Miscellaneous Fixed Assets				
Total	<u>\$ 20,618,421</u>	<u>2,153,708</u>	<u> </u>	<u>22,772,129</u>
Depreciation	<u>\$ 10,501,132</u>	<u>927,845</u>	<u> </u>	<u>11,428,977</u>
Net Book Value			<u> </u>	<u>\$ 11,343,152</u>

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**MISCELLANEOUS DETAILS
DECEMBER 31, 20XX**

#2190	Misc. Current Liabilities	
	1. Deferred cable and laundry income	74,530
	Total	\$ 74,530
#5990	Other Revenue	
	1. Cable and Laundry Income	13,923
	2. Insurance proceeds	746,163
	3. Vending Income	100
	Total	\$ 760,186
#6390	Misc. Administrative Expenses	
	1. Telephone	22,238
	2. Bank fees	7,690
	3. Education and conferences	1,229
	4. Licenses and permits	45
	Total	\$ 31,202
S1200 -340	Other Investing Activities	
	1. Insurance proceeds from fire claim	746,163
	Total	\$ 746,163
	Other adjustments to reconcile net profit (loss) to Net Cash provided	
S1200 -600	by (used in) Operating Activities	
	1. Bad Debt	22,333
	2. Net insurance proceeds	(746,163)
	3. Deferred revenue	(13,923)
	4. Interest not paid in cash but in expense	199,000
	Total	\$ (538,753)
S1300 -110	Other Obligations	
	1. Principal payment due in January	10,764
	2. Reserve deposit due in January	21,292
	Total	\$ 32,056

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**MISCELLANEOUS DETAILS - CONTINUED
DECEMBER 31, 20XX**

#1420	Add. to Buildings		
1.	Building Remodel		1,964,521
2.	Smoke Detectors		29,860
3.	Security Systems		8,476
			<hr/>
	Total	\$	2,002,857
#1440	Add. to Bldg Equip. (Portable)		
1.	Dishwashers		5,830
2.	Air Conditioners		924
3.	Stoves		6,370
4.	Refrigerators		11,235
			<hr/>
	Total	\$	24,359
#1460	Add. to Furnishings		
1.	Carpet		77,381
2.	Chairs		212
3.	Equipment		15,774
			<hr/>
	Total	\$	93,367
#1480	Add. to Motor Vehicles		
1.	Truck		33,125
			<hr/>
	Total	\$	33,125

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Partners of
[ENTITY NAME]
[ENTITY CITY], [STATE]

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of [ENTITY NAME], which comprise the balance sheet as of [Year End], and the related statements of income (loss), changes in partners' capital (deficiency) and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated (Date of report on the financial statements).

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered [ENTITY NAME]'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of [ENTITY NAME]'s internal control. Accordingly, we do not express an opinion on the effectiveness of [ENTITY NAME]'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of [ENTITY NAME]'s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of [ENTITY NAME]'s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering [ENTITY NAME]'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

[FIRM NAME]

[FIRM CITY], [STATE]
(Date of report on the financial statements)

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR HUD PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE CONSOLIDATED AUDIT GUIDE FOR AUDITS OF HUD PROGRAMS

To the Partners of
 [ENTITY NAME]
 [ENTITY CITY], [STATE]

Report on Compliance for Each Major HUD Program

We have audited [ENTITY NAME]'s compliance with the compliance requirements described in the Consolidated Audit Guide for Audits of HUD Programs (the Guide) that could have a direct and material effect on each of [ENTITY NAME]'s major U.S. Department of Housing and Urban Development (HUD) programs for the year ended [Year End]. [ENTITY NAME]'s major HUD programs and the related direct and material compliance requirements are as follows:

[Name of Major HUD Programs]	Direct and Material Compliance Requirements
[Insert the name of the major HUD Program]	Include only those specific requirements that are applicable to the Project’s major HUD program: Federal financial reports, mortgage status, replacement reserve, residual receipts, distributions to owners, equity skimming, cash receipts, cash disbursements, tenant application, eligibility, and recertification, units leased to extremely low-income families, security deposits, management functions, unauthorized change of ownership/acquisition of liabilities, unauthorized loans of project funds, excess income, leased nursing homes, mark-to-market program (M2M), and Section 236 decoupling projects.
[Insert the name of the major HUD Program]	[List the direct and material compliance requirements tested.]

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its HUD programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of [ENTITY NAME]'s major HUD programs based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major HUD program occurred. An audit includes examining, on a test basis, evidence about [ENTITY NAME]'s compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major HUD program. However, our audit does not provide a legal determination of [ENTITY NAME]'s compliance.

Opinion on Each Major HUD Program

In our opinion, [ENTITY NAME] complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major HUD programs for the year ended [Year End].

Other Matters

We noted certain matters that we are required to report to the management of [ENTITY NAME] in a separate communication. These matters are described in our management letter dated (date of letter). [Only include this paragraph if Management Letter is present]

Report on Internal Control Over Compliance

Management of [ENTITY NAME] is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered [ENTITY NAME]'s internal control over compliance with the requirements that could have a direct and material effect on each major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major HUD program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of [ENTITY NAME]'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a compliance requirement of a HUD program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a

compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

[FIRM NAME]

[FIRM CITY], [STATE]

(Date of report on the financial statements)

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND RECOMMENDATIONS
DECEMBER 31, 20XX**

Our audit disclosed no findings that are required to be reported herein under the *Consolidated Audit Guide for Audits of HUD Programs*.

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS, QUESTIONED COSTS,
AND RECOMMENDATIONS
DECEMBER 31, 20XX**

No matters were reported for the year ended **Prior Year End**.

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**CERTIFICATE OF PARTNERS
DECEMBER 31, 20XX**

We hereby certify that we have examined the accompanying financial statements and supplemental data of Entity Name, HUD Project No. 123-98765 and, to the best of our knowledge and belief; the same are accurate and complete.

Signed: _____

Title: _____

Date: _____

Signed: _____

Title: _____

Date: _____

Telephone Number: 1-800-555-1234

Date: Signed Date

**ABC APARTMENTS
HUD PROJECT NUMBER 01234567**

**MANAGEMENT AGENT'S CERTIFICATION
DECEMBER 31, 20XX**

We hereby certify that we have examined the accompanying financial statements and supplemental data of Entity Name, HUD Project No. 123-98765 and, to the best of our knowledge and belief; the same are accurate and complete.

Management Company: _____

Signed: _____

Title: _____

Date: _____

Tax Identification Number: _____

Property Manager: _____