



Rural Development

February 7, 2019

Joel C. Baxley
Administrator

Rural Housing Service
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Room 5014-S
Washington, D.C. 20250

Telephone: (202) 692-0268

TO: State Directors
Rural Development

FROM: Joel C. Baxley /s/ *Joel C. Baxley*
Administrator
Rural Housing Service

SUBJECT: Multi-Family Housing Financial Reporting Requirements
for Fiscal Year 2018

This Unnumbered Letter (UL) is issued to provide guidance for borrowers electing to submit their Fiscal Year 2018 annual financial reports during the requirements published in the Federal Register on November 24, 2017.

The new rule was in effective for borrowers with fiscal year beginning January 1, 2018 and thereafter. The reporting change will continue to be OPTIONAL for Fiscal Year 2018 reporting and will be MANDATORY for Fiscal Year 2019.

For profit and limited profit borrowers must state the method of reporting the year end actuals. There are two options for reporting for FY 18. Option 1 will be based on the type of property and number of units. Option 2 is based on the borrower ID and amount of federal financial assistance received by the borrower.

Through this rule change, the Agency has removed the requirement for an engagement that examines records using Agreed Upon Procedures (AUP) established by the Agency as part of the annual financial reporting requirements outlined in 7 CFR Part 3560.308. The Agency will allow borrowers to not submit AUPs for the Fiscal Year 2018 reporting cycle by submitting a statement similar to the following with the yearend reports.

EXPIRATION DATE:
February 29, 2020

FILING INSTRUCTIONS:
Housing Programs

Pursuit to the Final Rule 7 CFR Part 3560 to reduce MFH Program financial reporting requirements an engagement that examines records using agreed upon procedures has been eliminated. Accept this as our request to eliminate this engagement for year-end financial reporting of FY2018 per 7 CFR Part 3560.308.

Option 1 Units at the property

**FY 2018
Year End Financial Reporting Requirements
For Profit and Limited Profit Entity**

Type of Property	Forms RD 3560-7 and 3560-10	Borrower Certification Of Performance Standards	Agreed-Upon Procedures and Determinations	Audited Financial Statements (In accordance with Yellow Book Standards)
Rural Development project (1-15 units)	Yes	Yes	No	No
Rural Development project (16-23 units)	Yes	Yes	Eliminated with approval	No
Rural Development project (24 + units)	Yes	Yes	Eliminated with approval	Yes*

Option 2 Borrower Identification Number / Federal Financial Assistance

The determination as to the need of an audit is based on **all** RD projects associated with the borrower identification number and the total amount of federal financial assistance the borrower received at all properties.

← Just to be clear, if there are 5 projects and each one is <500K, an individual audit is not required. However, if they are under one borrower ID, and the total of all projects is >500k, then each project is audited as a major program?

**Combined
Year End
For Profit**

Total Borrower Federal Financial Assistance*	Forms RD 3560-7 and 3560-10	Borrower Certification Of Performance Standards	Audit Guide
RD Borrower with less than \$500,000 in Federal financial assistance	Yes	Yes	No
RD Borrower with \$500,000 or greater in Federal financial assistance	Yes	Yes	Yes**

ABC Apartments, LP
RHS Project No. 00-000-000000000-00-0

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 Multi Family Housing Borrower Balance Sheet – Form RD 3560-1016-17

 Multiple Family Housing Project Budget – Form RD 3560-718-23

 Supporting Documentation to Forms RD 3560-10 and 3560-724

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In general, there is no issue with the overall issue with the supplemental data. However, we do have a few issues with the forms 3560-10 and 7. This will be discussed later.

Additional Comments/Questions:

- In a previous example version of the planned Audit Guide, there was a comment that group project-based testing as outlined in the HUD Audit Guide was not allowed. Does this comment mean that each project is to be tested on a stand-alone basis, or does it mean that group testing can be used, just not the type of group testing described in the HUD Audit Guide?**

Independent Auditor's Report

To the Partners of
ABC Apartments, LP
New York, New York

USDA Rural Development
Servicing Office
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of ABC Apartments, LP RHS Project No. 00-000-000000000-00-0 (Partnership), which comprise the balance sheets as of December 30, 20X2 and 20X1, and the related statements of income (loss), changes in partners' capital (deficit), and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 Partnership'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 Partnership'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 Partnership as of December 31, 20X2 and 20X1, and the results of its operations, changes in partners' capital (deficit), and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis as required by the *United States Department of Agriculture Rural Development*.

Such 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. The information has been subjected to the auditing procedures applied in the audits 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Certain data mentioned here in 3560-10 cannot be included in the AU-C 725 opinion.

Reports Issued in Accordance with *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March XX, 20X3 on our consideration of Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Partnership's internal control over financial reporting and compliance.

ABC Firm, LLC
Indianapolis, Indiana
March XX, 20X3

ABC Apartments, LP
RHS Project No. 00-000-000000000-00-0

**Statements of Cash Flows
For the Years Ended December 31, 20X2 and 20X1**

	<u>20X2</u>	<u>20X1</u>
Reconciliation of Net Income to Net Cash Provided by Operating Activities		
Net Income	\$ -	\$ -
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation expense	-	-
Decrease (increase) in assets		
Prepaid expenses	-	-
Tenant deposits held in trust	-	-
Increase (decrease) in liabilities		
Accounts payable - operations	-	-
Accrued mortgage interest	-	-
Accrued real estate taxes	-	-
Tenant deposits held in trust	-	-
Net Cash Provided By Operating Activities	<u>-</u>	<u>-</u>
Cash Flow From Investing Activities		
Net withdrawals from the reserve for taxes and insurance	-	-
Purchase of fixed assets	-	-
Net Cash Used In Investing Activities	<u>-</u>	<u>-</u>
Cash Flow from Financing Activities		
Principal payments		
Payments on deferred revenue		
Proceeds on deferred revenue		
Distributions		
Net Cash Used In Financing Activities		
Increase (Decrease) in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents, Beginning of Year	<u>-</u>	<u>-</u>
Cash and Cash Equivalents, End of Year	<u>\$ -</u>	<u>\$ -</u>
Supplemental Disclosure		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>

Please be aware that beginning in 2019, these amounts will no longer be included as investing activities. They will now be included in the total cash line in the cash flow.

The accompanying notes are an integral part of the financial statements.

ABC Apartments, LP RHS
Project No. 00-000-000000000-00-0

Warning:
Section 1001 of Title 18, United States Code provides: "Whoever, in any manner within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statement or represents, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined under this title or imprisoned not more than five years, or both."

I HAVE READ THE ABOVE WARNING STATEMENT AND I HEREBY CERTIFY THE FOREGOING INFORMATION IS COMPLETE AND ACCURATE TO THE BEST OF MY KNOWLEDGE.

Date

(Signature of Borrower or Borrower Representative)

(Title)

Who is required to complete the certification? If this is the CPA, then have we not already giving this opinion in our IRT opinion on supplemental data?

PART II - THIRD PARTY REPRESENTATION

We have compared the borrower's records to the accompanying balance sheet and statement of actual budget and income on Form RD 3560-7. The accompanying Forms are a fair presentation of the borrower's records taken as a whole.

We certify that no identity of interest exists between us and any individual or organization doing business with the project or borrower.

Date

(Signature)

(Name and Title)

(Address)

In lieu of the above representation and signature, a compilation, review or audit opinion completed, dated and signed by a person or firm qualified by license or certification is attached.

See Independent Auditors report

ABC Apartments, LP RHS
Project No. 00-000-000000000-00-0

PART II – OPERATING AND MAINTENANCE EXPENSE SCHEDULE				
	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
1 MAINTENANCE AND REPAIRS PAYROLL	\$ -	\$ -	\$ -	
2 MAINTENANCE AND REPAIRS SUPPLY	-	-	-	
3 MAINTENANCE AND REPAIRS CONTRACT	-	-	-	
4 PAINTING	-	-	-	
5 SNOW REMOVAL	-	-	-	
6 ELEVATOR MAINTENANCE/CONTRACT	-	-	-	
7 GROUNDS	-	-	-	
8 SERVICES	-	-	-	
9 ANNUAL CAPITAL BUDGET (From Part V - Operations)	-	-	-	
10 OTHER OPERATING EXPENSE (Itemize)	-	-	-	
11 SUB-TOTAL MAINT. & OPERATING (1 thru 10)	-	-	-	
12 ELECTRICITY	-	-	-	
13 WATER	-	-	-	
14 SEWER	-	-	-	
15 FUEL (Oil/Coal/Gas)	-	-	-	
16 GARBAGE & TRASH REMOVAL	-	-	-	
17 OTHER UTILITIES	-	-	-	
18 SUB-TOTAL UTILITIES (12 thru 17)	-	-	-	
19 SITE MANAGEMENT PAYROLL	-	-	-	
20 MANAGEMENT FEE	-	-	-	
21 PROJECT AUDITING EXPENSE	-	-	-	
22 PROJECT BOOKKEEPING/ACCOUNTING	-	-	-	
23 LEGAL EXPENSE	-	-	-	
24 ADVERTISING	-	-	-	
25 TELEPHONE & ANSWERING SERVICE	-	-	-	
26 OFFICE SUPPLIES	-	-	-	
27 OFFICE FURNITURE & EQUIPMENT	-	-	-	
28 TRAINING EXPENSE	-	-	-	
29 HEALTH INS. & OTHER EMP. BENEFITS	-	-	-	
30 PAYROLL TAXES	-	-	-	
31 WORKERS' COMPENSATION	-	-	-	
32 OTHER ADMINISTRATIVE EXPENSE (Itemize)	-	-	-	
33 SUB-TOTAL ADMINISTRATIVE (19 thru 32)	-	-	-	
34 REAL ESTATE TAXES	-	-	-	
35 SPECIAL ASSESSMENTS	-	-	-	
36 OTHER TAXES, LICENSES & PERMITS	-	-	-	
37 PROPERTY & LIABILITY INSURANCE	-	-	-	
38 FIDELITY COVERAGE INSURANCE	-	-	-	
39 OTHER INSURANCE	-	-	-	
40 SUB-TOTAL TAXES & INSURANCE (34 thru 39)	-	-	-	
41 TOTAL OHM EXPENSES (11 + 18 + 33 + 40)	\$ -	\$ -	\$ -	

See Independent Auditors report

ABC Apartments, LP RHS
Project No. 00-000-000000000-00-0

PART III - ACCOUNT BUDGETING STATUS				
	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
RESERVE ACCOUNT:				
1 BEGINNING BALANCE	\$ -	\$ -	\$ -	
2 TRANSFER TO RESERVE	-	-	-	
TRANSFER FROM RESERVE				
3 OPERATING DEFICIT	-	-	-	
4 ANNUAL CAPITAL BUDGET (Part V - Reserve)	-	-	-	
5 BUILDING & EQUIPMENT REPAIR	-	-	-	
6 OTHER NON-OPERATING EXPENSES	-	-	-	
7 TOTAL (3 thru 6)	-	-	-	
8 ENDING BALANCE [(1+2)-7]	-	-	-	
GENERAL OPERATING ACCOUNT:*				
BEGINNING BALANCE		-		
ENDING BALANCE		-		
REAL ESTATE TAX AND INSURANCE ESCROW ACCOUNT:*				
BEGINNING BALANCE		-		
ENDING BALANCE		-		
TENANT SECURITY DEPOSIT ACCOUNT:*				
BEGINNING BALANCE		-		
ENDING BALANCE		-		
(* Complete upon submission of actual expenses.)				
NUMBER OF APPLICANTS ON THE WAITING LIST	-	RESERVE ACCT. REQ. BALANCE	-	
NUMBER OF APPLICANTS NEEDING RA	-	AMOUNT AHEAD/BEHIND	-	

See Independent Auditors report

ABC Apartments, LP RHS
Project No. 00-000-000000000-00-0

PART IV - RENT SCHEDULE AND UTILITY ALLOWANCE									
A. CURRENT APPROVED RENTS/UTILITY ALLOWANCE									
UNIT DESCRIPTION			RENTAL RATES			POTENTIAL INCOME FROM EACH RATE			UTILITY ALLOWANCE
BR SIZE	UNIT TYPE	NUMBER	BASIC	NOTE RATE	HUD	BASIC	NOTE RATE	HUD	
		-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
		-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	
CURRENT RENT TOTALS						\$ -	\$ -	\$ -	
						BASIC	NOTE	HUD	
B. PROPOSED RENTS - Effective Date / /									
UNIT DESCRIPTION			RENTAL RATES			POTENTIAL INCOME FROM EACH RATE			
BR SIZE	UNIT TYPE	NUMBER	BASIC	NOTE RATE	HUD	BASIC	NOTE RATE	HUD	
		-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
		-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	
PROPOSED RENT TOTALS						\$ -	\$ -	\$ -	
						BASIC	NOTE	HUD	
C. PROPOSED UTILITY ALLOWANCE - Effective Date / /									
MONTHLY DOLLAR ALLOWANCES									
BR SIZE	UNIT TYPE	NUMBER	ELECTRIC	GAS	WATER	SEWER	TRASH	OTHER	TOTAL
			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
			-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-

The CPAs will not be able to give an IRT opinion on any of the utility allowance, rent schedule or budget data. It would be better to either exclude this or to disclaim any opinion on this data.

See Independent Auditors report

ABC Apartments, LP RHS
Project No. 00-000-000000000-00-0

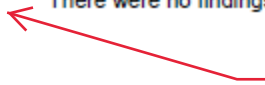
**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 20X2**

For the Year Ended December 31, 20X2:

There were no findings or questioned costs for the year ended December 31, 20X2.

For the Year Ended December 31, 20X1:

There were no findings or questioned costs for the year ended December 31, 20X1.



Do you intend to have a schedule
of prior audit findings?