Profit-Motivated – v2017-1

(Reports updated 02/2016)

**ABC APARTMENTS**

**HUD PROJECT NUMBER 012-34567**

**FINANCIAL STATEMENTS**

**AND SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 20XX**

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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)

BALANCE SHEET

**DECEMBER 31, 20XX**

|  |  |  |  |
| --- | --- | --- | --- |
| **ASSETS** | |  | . |
|  |  |  | . |
| CURRENT ASSETS | |  | . |
|  | Cash - Operations | $ | 1,291,127 |
|  | Tenant/Member Accounts Receivable (Coops) |  | 2,939 |
|  | Net Tenant Accounts Receivable |  | 2,939 |
|  | Accounts Receivable - HUD |  | 24,790 |
|  | Miscellaneous Prepaid Expenses |  | 80,281 |
|  | Total Current Assets |  | 1,399,137 |
|  |  |  | . |
|  | Tenant/Patient Deposits Held in Trust |  | 88,000 |
|  |  |  | . |
| RESTRICTED DEPOSITS | |  | . |
|  | Escrow Deposits |  | 423,268 |
|  | Replacement Reserve |  | 688,087 |
|  | Total Deposits |  | 1,111,355 |
|  |  |  | . |
| PROPERTY AND EQUIPMENT | |  | . |
|  | Land |  | 3,606,982 |
|  | Buildings |  | 14,482,019 |
|  | Building Equipment (Portable) |  | 745,466 |
|  | Furnishings |  | 3,770,389 |
|  | Office Furniture and Equipment |  | 67,052 |
|  | Motor Vehicles |  | 100,221 |
|  | Total Fixed Assets |  | 22,772,129 |
|  | Accumulated Depreciation |  | 11,428,977 |
|  | Net Fixed Assets |  | 11,343,152 |
|  |  |  | . |
|  |  |  | . |
|  | TOTAL ASSETS | $ | 13,941,644 |
|  |  |  | . |

BALANCE SHEET – CONTINUED

DECEMBER 31, 20XX

|  |  |  |  |
| --- | --- | --- | --- |
| **LIABILITIES AND PARTNERS' EQUITY** | |  | . |
|  |  |  | . |
| CURRENT LIABILTIES | |  | . |
|  | Accounts Payable - Operations | $ | 643,544 |
|  | Accrued Wages Payable |  | 26,453 |
|  | Accrued Management Fee Payable |  | 14,736 |
|  | 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 |
|  | Miscellaneous Current Liabilities |  | 74,530 |
|  | Prepaid Revenue |  | 38,997 |
|  | Total Current Liabilities |  | 1,227,136 |
|  |  |  | . |
|  | 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 |  | 10,891,617 |
|  | Total Liabilities |  | 12,202,573 |
|  |  |  | . |
|  |  |  | . |
| OWNERS' EQUITY | |  | . |
|  | Total Equity |  | 1,739,071 |
|  | TOTAL LIABILITIES AND EQUITY | $ | 13,941,644 |
|  |  |  | . |
|  |  |  | . |

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 |  | 5,269,182 |
|  |  |  | . |
| **EXPENSES** | |  | . |
|  | Administrative |  | 737,162 |
|  | Utilities |  | 493,874 |
|  | Operating and Maintenance |  | 1,253,595 |
|  | Taxes and insurance |  | 341,009 |
|  | Financial |  | 614,972 |
|  | Total Expenses |  | 3,440,612 |
|  |  |  | . |
| INCOME FROM OPERATIONS BEFORE | |  | . |
| DEPRECIATION & AMORTIZATION | |  | 1,828,570 |
| DEPRECIATION & AMORTIZATION | |  | 927,845 |
|  |  |  | . |
| **NET INCOME (LOSS)** | | $ | 900,725 |
|  |  |  | . |

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 | $ | 1,739,071 |
|  |  | . |

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 Deposits to the Mortgage Escrow account |  | 426,839 |
|  | Net Deposits to the Reserve for Replacement account |  | (111,615) |
|  | Net Purchase of Fixed Assets |  | (1,977,329) |
|  | Other Investing Activities |  | 746,163 |
|  | NET CASH USED IN INVESTING ACTIVITIES |  | (915,942) |
|  |  |  | . |
| **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 |  | (786,354) |
|  | Beginning of Period Cash |  | 2,077,481 |
|  | END OF PERIOD CASH | $ | 1,291,127 |
|  |  |  | . |

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 |
|  |  |  | . |

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.

**Deposits ‑ Funded** ‑ 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

**DECEMBER 31, 20XX**

**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.

NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 20XX**

**Recent Accounting Pronouncement** ‑ In April 2015, the Financial Accounting Services Board (FASB) published Accounting Standards Update (ASU) No. 2015‑03, which changes the presentation and disclosure of debt issuance costs in the financial statements by requiring these amounts to be presented as a direct deduction from the carrying amount of the related debt. Previous U.S. GAAP required debt issuance costs to be reported as an asset. The new guidance does not change the subsequent accounting for debt issuance costs and these amounts will continue to be amortized over the term of the related debt. However, amortization of debt issuance costs will now be required to be reported as a component of interest expense. The Company reclassified the debt issuance costs of $333,124 as a contra-account to the mortgage liability.

Note 2 - 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:

|  |  |  |
| --- | --- | --- |
| 2017 |  | $ 131,597 |
| 2018 |  | 137,027 |
| 2019 |  | 142,680 |
| 2020 |  | 148,567 |
| 2021 |  | 154,697 |
| Thereafter |  | 8,247,604 |
| Unamortized Debt issuance costs |  | (333,124) |
|  | Total | $8,629,048 |

NOTES TO FINANCIAL STATEMENTS – CONTINUED

**DECEMBER 31, 20XX**

Note 3 - 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 4 - Unusual Event

During the period ended December 31, 2015, rental units were damaged due to a fire. The related insurance proceeds of approximately $760,000 were received during the year ended December 31, 2016. 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, 2016 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

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 |  | 1,399,137 |
|  |  |  | . |
| 1191 | Tenant/Patient Deposits Held in Trust |  | 88,000 |
|  |  |  | . |
| RESTRICTED DEPOSITS | |  | . |
| 1310 | Escrow Deposits |  | 423,268 |
| 1320 | Replacement Reserve |  | 688,087 |
| 1300T | Total Deposits |  | 1,111,355 |
|  |  |  | . |
| 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 |  | 11,343,152 |
|  |  |  | . |
|  |  |  | . |
| 1000T | TOTAL ASSETS | $ | 13,941,644 |
|  |  |  | . |

BALANCE SHEET DATA - CONTINUED

**DECEMBER 31, 20XX**

|  |  |  |  |
| --- | --- | --- | --- |
| LIABILITIES AND PARTNERS' DEFICIT | |  | . |
|  |  |  | . |
| CURRENT LIABILTIES | |  | . |
| 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 |  | 1,227,136 |
|  |  |  | . |
| 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 |
| 2332 | Accrued Interest Notes Payable (Surplus Cash) Longer Term |  | 10,891,617 |
| 2300T | Total Long Term Liabilities |  | 10,891,617 |
|  |  |  | 2,185,359 |
| 2000T | Total Liabilities |  | 12,202,573 |
|  |  |  | . |
| OWNERS' EQUITY | |  | . |
| 3130 | Total Equity |  | 1,739,071 |
| 2033T | TOTAL LIABILITIES AND EQUITY | $ | 13,941,644 |

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 |  | 4,589,378 |
|  |  |  | . |
| Vacancies | |  | . |
| 5220 | Apartments |  | 193,970 |
| 5200T | Total Vacancies |  | 193,970 |
| 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 |  | 691 |
|  |  |  | . |
| Other Revenue | |  | . |
| 5910 | Laundry and Vending Revenue |  | 14,094 |
| 5920 | Tenant Charges |  | 98,803 |
| 5990 | Miscellaneous Revenue |  | 760,186 |
| 5900T | Total Other Revenue |  | 873,083 |
|  |  |  | . |
| 5000T | TOTAL REVENUE |  | 5,269,182 |
|  |  |  | . |
| 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 |  | 737,162 |
|  |  |  | . |

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 |
|  |  |  | . |
|  |  |  | . |

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 |
|  |  |  | . |
|  |  |  | . |
| 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 |
|  |  |  | . |

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 |  | $ | 1,739,071 |
|  |  |  |  | . |
|  |  |  |  | . |

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 |  | 4,516,951 |
|  |  |  | . |
| 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 |  | (2,877,727) |
|  |  |  | . |
| 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 |  | (915,942) |
|  |  |  | . |
| 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 |  | (1,509,636) |
|  |  |  | . |
| S1200-470 | NET INCREASE (DECREASE) IN CASH |  | (786,354) |
| S1200-480 | Beginning of Period Cash |  | 2,077,481 |
| S1200T | END OF PERIOD CASH |  | 1,291,127 |
|  |  |  | . |

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 |
|  |  |  | . |

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 | $ | 688,087 |
| 1320R | Deposits Suspended or Waived Indicator |  | NO |
|  |  |  | . |
|  |  |  | . |

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 |
|  |  |  | . |
|  |  |  | . |
|  |  |  | . |

SCHEDULE OF FIXED ASSETS

**DECEMBER 31, 20XX**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Beginning** |  |  |  |  |  | **Ending** |
|  |  | **Balance** |  | **Additions** |  | **Deletions** |  | **Balance** |
|  |  |  |  |  |  |  |  |  |
| 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 | $ | 20,618,421 |  | 2,153,708 |  |  |  | 22,772,129 |
| Depreciation | $ | 10,501,132 |  | 927,845 |  |  |  | 11,428,977 |
| Net Book Value |  |  |  |  |  |  | $ | 11,343,152 |

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |

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 |
|  |  |  |  |
| S1200 -600 | Other adjustments to reconcile net profit (loss) to Net Cash provided 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- 030 | Other Cash |  | . |
| 1. | Principal payment due in January |  | 10,764 |
| 2. | Reserve deposit due in January |  | 21,292 |
|  | Total | $ | 32,056 |
|  |  |  |  |
| S1300 -110 | Other Obligations |  | . |
| 1. | Principal payment due in January |  | 10,764 |
| 2. | Reserve deposit due in January |  | 21,292 |
|  | Total | $ | 32,056 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | 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 |
|  | | 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 |
|  | | Total | | | | $ | | 24,359 |
| #1460 | | Add. to Furnishings | | | |  | | . |
| 1. | | Carpet | | | |  | | 77,381 |
| 2. | | Chairs | | | |  | | 212 |
| 3. | | Equipment | | | |  | | 15,774 |
|  | | Total | | | | $ | | 93,367 |
| #1480 | | Add. to Motor Vehicles | | | |  | | . |
| 1. | | Truck | | | |  | | 33,125 |
|  | | 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)

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.*

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.

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

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: