



ANNUAL AUDITED FINANCIAL STATEMENT

The New Hampshire Housing Regulatory Agreement requires that an annual audited financial statement be submitted within sixty (60) days following the close of the project's fiscal year.

FAILURE TO MEET THIS REQUIREMENT WILL CONSTITUTE A TECHNICAL DEFAULT UNDER THE REGULATORY AGREEMENT. In accordance with this requirement, the Authority has adopted the following audit requirements:

- All Financial Statements must be audited.
- All Financial Statements must be prepared in accordance with generally accepted accounting principles (on the accrual basis of accounting). If your property has FHA Risk Sharing, the audit must also be prepared in accordance with Government Auditing Standards.
- All Financial Statements must be prepared on a comparative basis with the prior year when applicable.
- ✓ All Financial Statements must include the following:
 - ✓ Auditor's Opinion
 - ✓ Comparative Balance Sheet
 - ✓ Comparative Statement of Income and Expenses
 - ✓ Comparative Statement of Changes in Financial Position
 - ✓ Notes to Financial Statements
 - ✓ NHH Supplemental Financial Schedules
 - Schedule of Rental Operations Expenses (Comparative basis, accrual)
 - Schedule of other Income and Expenses
 - Schedule of Receipts and Disbursements - Project Operating Account (Comparative basis, cash basis)
 - Schedule of Restricted Cash Reserves and Escrows
 - Schedule of Surplus Cash Calculation
 - Year-to-Date Compilation of Distributions
 - Mortgagor's Certification of Financial Statements
 - Auditor's Certification

In addition to the aforementioned general requirements, the following specific requirements must be followed:

A. Comparative Balance Sheet

1. Assets

- 1) Cash and Cash in Banks - All restricted deposits and funded reserves such as the Replacement Reserve Account, Tenant Security Deposit Account, etc., must be segregated and shown separately on the Balance Sheet. Cash and Cash in Banks should only represent operating cash.
- 2) Restricted Deposits and Funded Reserves - All restricted deposits and funded reserves must be listed separately under this caption.
- 3) Receivables - Trade receivables and rent receivables must be further broken down between tenant receivables and NHH Housing Assistance Payments receivables. If an allowance for doubtful accounts has been determined, then it should be reflected as an offset to receivables.
- 4) Fixed Assets - The minimum balance sheet disclosure is land, buildings, landscaping and site improvements, and appliances, furniture and equipment.

2. Liabilities

- 1) Current Liabilities - Accounts payable and accrued interest payables must be shown separately.
- 2) Other Liabilities - NHH mortgage payable must be listed separately from other loans.

3. Minority Interest

The balance sheet should separately disclose amounts payable to or receivable from partners or shareholders or members of their immediate families or companies in which these individuals have a 10% or greater ownership interest.

B. Comparative Statement of Income and Expenses

The annual audit for projects completing their first year of operation will cover both a period of time when the project was still in the construction stage and a period of time when the project was "rented up" and operating. All construction related expenses incurred by the project must be segregated from operation expenses. This same rule applies to income as well. In addition, rental income must be shown separately for residential, commercial and other rental income. Interest income on non-restricted accounts must be segregated from interest income on restricted deposits and funded reserves.

The line by line categories of expenses on the Comparative Statement of Income and Expenses should relate to the NHH Schedule of Rental Operations Expenses as illustrated in the attached sample. Certain line by line categories may be combined in the audited financial statement; however, the specific line by line categories of expenses must be followed on the NHH Schedule of Rental Operations Expenses. For example, utilities may be combined in the Statement of Income and Expenses in the audited statement but must be segregated into electricity, fuel, water and sewer and other utility expenses on the NHH Schedule of Rental Operations Expenses.

C. Comparative Statement of Changes in Financial Position

The form of this statement must show the change in unrestricted cash and, thus, tie out to the operating cash balance as shown on the balance sheet. All additions and/or deletions in the restricted deposits and funded reserves must be shown in the body of the statement.

D. Notes to Financial Statements

Although the degree of disclosure in notes to Financial Statements is dictated by the accounting profession, the Authority requires full disclosure as to the following categories:

- a. Business Operation
- b. Significant Accounting Policies
- c. Mortgage Loans
- d. Rent Supplement (HAP Contract)
- e. Reserves and Escrows

E. NHH Supplemental Financial Schedules

These schedules are now required to be included in all annual audited financial statements. The schedules are to be prepared by the project's auditors.

1. Schedule of Rental Operations Expense and Schedule of Other Income and Expenses.

Schedule of Rental Operations Expenses is strictly for expenses necessary for the day-to-day operation of the project. Schedule of Other Income and expenses if for other income and expenses of the mortgagor. These should be handled by a separate bank account and not flow through the Project Operating Account.

2. Schedules of Receipts and Disbursements - Project Operating Account.

Unlike the Schedule of Rental Operations Expenses, this schedule is prepared on a cash basis. Again, this schedule should only show receipts and disbursements relative to the day-to-day operation of the project. Other income and expenses of the mortgagor should not flow through the Project Operating Account.

3. Schedule of Restricted Cash Reserves and Escrows.

List Tax and Insurance Escrows, Replacement Reserve, Project Completion Escrow and Working Capital Reserve (if applicable).

4. Schedule of Surplus Cash Calculation

Distributions (return on equity) can only be taken from Surplus Cash available.

5. Year-To-Date Compilation of Distributions.

This statement must show a year-to-date accounting of distributions taken.

No release of return on equity, Contingency Reserve, or other escrowed funds will be authorized by the Authority until all of the above requirements are met. When requesting a return on equity (distribution) please submit a **Notification of Intent to Make Distributions**. You will later receive an initialed copy of the form indicating approval of the return on equity.

NHH SUPPLEMENTAL FINANCIAL STATEMENTS

INSTRUCTIONS

NOTE: All schedules are to be prepared on the accrual basis except the Schedule of Receipts and Disbursements - Project Operating Account.

SCHEDULE OF RENTAL OPERATIONS EXPENSES

Administrative:

Management Fee - The cost of property management services as approved by the Owner and NHH. Include on-site manager's salary and the costs of performing front-line management tasks regardless of whether staff work out of the agent's office or at the project site. Rental office telephone (when used specifically for the project), postage, photocopying of HUD/Authority required forms and HUD/NHH approved computer expenses are allowable project expenses. Management Fees must be completely separate from any other fees paid to related parties or for supervision and for consulting.

Supportive Services Fee - The cost of management oversight for any approved supportive services program.

Marketing Expense: All advertising fees, etc. associated with marketing.

Audit Expense: The fee charged to produce the year end Audited Financial Statement.

Legal: Include all legal fees associated with the rental operation of the project. (Do not include expenses associated with the partnership)

Other Administrative Expenses: Miscellaneous project related, administrative expenses not categorized above.

Utilities:

Electricity: Include direct charges and equipment rental if applicable.

Fuel: The cost of oil, gas or propane.

Water and Sewer: Combine if billed separately.

Other Utility Expenses: The cost of emergency fire alarm and ambulance call systems or any additional utility related expenses.

Maintenance:

Custodial Payroll: Include not only salary, but taxes, workmen's compensation and benefits.

Custodial Supplies: The cost of detergents, deodorizers, waxes, paper products, brooms, mops, equipment rental, etc.

Exterminating: The cost of either supplies or contract services.

Trash Removal: Dumpster Contract, etc.

Snow Removal: The cost of plowing roads, sanding and removal of snow from site when necessary.

Painting and Decorating: The cost of interior painting or decorating whether contracted, supplies or additional payroll.

Grounds/Landscaping: All costs associated with grounds care such as fertilizing, seeding, lawn mowing, including outside labor and equipment and rental.

HVAC Repairs/Maintenance: Expenses for heating, ventilating and air-conditioning systems, including routine service and contract repairs.

Elevator Repairs: The cost of service contract and non-routine repairs.

Repairs Materials: Expenditures for parts and supplies related to electrical, plumbing and general building maintenance.

Repairs Contract: Contract maintenance expenses for plumbing, electrical, etc.

Other: Miscellaneous expenses related to maintenance not categorized above.

Depreciation and Amortization: Combine.

Interest - NHH Mortgage Note: The interest portion of the permanent debt service on the NHH Mortgage Note.

Interest - Other Notes: The interest portion of the debt service on other notes. Please identify what the loan was for.

General Expenditures:

Real Estate Taxes: Property tax assessments paid during the reporting period.

Insurance: The expense of property hazard, liability and rent loss coverage.

SCHEDULE OF OTHER INCOME AND EXPENSES

Income and expenses related to the partnership and not necessary and/or related to the day-to-day operation of the project.

Income and expenses related to the partnership should be handled by a separate bank account. Expenses of this nature ARE NOT to be paid out of the Project Operating Account. These types of income and expenses would include, but not be limited to, syndication proceeds and costs, the cost of preparation of partners' tax returns, IRA audits and Letter of Credit fees to meet requirements of the Contingency Reserve. If partnership expenses are listed on either the NHH Schedule of Rental Operations Expenses or Schedule of Receipts and Disbursements - Project Operating Account, the Authority must assume that these expenses were paid with rental income and will consider these unauthorized distributions of project cash.

**SCHEDULE OF RECEIPTS AND
DISBURSEMENTS - PROJECT OPERATING ACCOUNT (Cash Basis)**

Income:

Tenant Paid Rent: Self-explanatory.

Hap Rent Subsidy Payments: Self-explanatory.

Service Income: Income from laundry machines, candy and soda machines, etc.

Interest Income: Interest earned in project savings and checking accounts. **Do not include** interest earned on Security Deposits, Replacement Reserve or other restricted accounts.

Commercial Income: Income derived from commercial space, parking space, etc.

Other Income: Income from sources not included above. Identify source.

Expenses:

Administrative: Combine all administrative expenses listed on Schedule of Rental Operations Expenses (convert to cash basis vs accrual).

Utilities: Combine all utility expenses listed on Schedule of Rental Operations Expenses (convert to cash basis vs accrual).

Maintenance: Combine all maintenance expenses listed in Schedule of Rental Operations Expenses (convert to cash basis vs. accrual).

Interest - NHH Mortgage Note: The interest portion of the permanent debt service on the NHH Mortgage Note.

Interest - Other Notes: The interest portion of the debt service on other notes.

General: Combine General Expenditures listed on Schedule of Rental Operations Expenses (convert to cash basis vs. accrual).

Other: Other expenses not included above.

Amortization of Mortgage: The principal portion of the permanent debt service on the NHH Mortgage Note.

Other Receipts:

Tenant Security Deposits: Security deposits received from tenants during the reporting period.

Ownership Advance: Amounts contributed to Project Operating Account by Owner(s) to fund legitimate operating expenses.

Transfers form Restricted Cash Reserves and Escrows: Amounts drawn from escrow accounts held by NHH to pay tax and insurance bills or for replacement items.

Other: Other receipts not included above. Please describe source.

Other Disbursements or Transfers:

Transfers to Restricted Cash Reserves and Escrows: Amounts deposited into Tenant Security Deposit Account.

Partners' Distributions (from previous year): Return on equity earned during previous year(s) and taken during current reporting period.

Other: Other disbursements or transfers not listed above. Include the principal portion of debt service on Other Notes which have been approved by NHH. Include Capital Purchases not funded by the Replacement Reserve.

SCHEDULE OF RESTRICTED CASH RESERVES AND ESCROWS

All restricted deposits and funded reserves must be listed separately on this schedule. Show all deposits and withdrawals from each account including interest earned, as well as the balance for each account at the beginning and end of the reporting period.

SCHEDULE OF SURPLUS CASH CALCULATION

The purpose of the Schedule is to determine the annual required excess/surplus cash generated from operations during a particular fiscal year. The Schedule accurately reflects the intent of the calculation and to coincide with NHH underwriting standards. The calculation of surplus cash is as follows:

“Surplus Cash” means the reported net income (loss) (or other equivalent term) for a Fiscal Year adjusted as follows:

- i. Add back depreciation and any amortization expense
- ii. Deduct required principal repayments during the Fiscal Year on all Authority-approved debt with scheduled payments (i.e., debt payments contingent upon cash flow or cash balance are excluded)
- iii. Deduct required payments to the established Reserve Fund for Replacements
- iv. Deduct any interest income on restricted cash reserves and escrows
- v. Deduct/Add any other items specifically approved by the Authority

Number “(v)” in the above calculation recognizes the need for flexibility in order to achieve the intended outcome. Some examples of these Authority approved items are:

- a) Add interest expense that flows through the Income Statement but which will not be paid from project operations (i.e. deferred interest that accrues)
- b) Add any prior year distributions **that flow thru the Income Statement as expenses** (i.e. Management Incentive Fees, Asset Management Fees, etc.)
- c) At times, the Reserve Fund for Replacement account will be drawn upon and the proceeds used to fix or repair the property. If these repairs are accounted for on the Income Statement as expenses then it will be necessary to add back in the expenses funded from the Reserve in order to avoid double counting the funds (since deposits to the Reserve have already been included in the calculation).

The format should follow the attached illustration and the statement shall include no less detail than that shown on the illustration.

YEAR-TO-DATE COMPILATION OF OWNER'S FEE/DISTRIBUTIONS

Year:

Year in which the Distribution was earned.

Maximum Allowable Distribution:

The maximum return on equity allowed each year is constant and is derived by multiplying the rate of return times the Owner's Initial Equity as derived from Cost Certification or as established by the Authority.

Distribution Received:

This will show the amount authorized from the previous year which was received during the reporting period.

Balance:

The cumulative balance of allowable distributions that have not been received to date.

MORTGAGOR'S CERTIFICATION OF FINANCIAL STATEMENTS

The NHH requires that in addition to the CPA's certification, the Mortgagor must certify the financial statements when the project is owned by an individual. When the project is owned by a partnership, two (2) partners must certify the statements and when the project is owned by a corporation, two (2) officers must certify the statements. The following language should be used for the owner's certification:

"I/we hereby certify that I/we examined the accompanying financial statements and supplemental data of (mortgagor's name:) _____ and to the best of my/our knowledge and belief, the same is complete and accurate".

Name

Name

Title

Title

SCHEDULE OF RENTAL OPERATIONS EXPENSES
For the Year Ended December 20

Expenses:

Administrative

Management Fee	\$	\$
Marketing		
Audit Expense		
Legal		
Other Administrative Expense		
<u>Total Administrative Expense</u>	_____	_____

Utilities

Electricity		
Fuel		
Water and Sewer		
Other Utility Expense		
<u>Total Utility Expense</u>	_____	_____

Maintenance

Custodial Payroll		
Custodial Supplies		
Exterminating		
Trash Removal		
Snow Removal		
Painting and Decorating		
Grounds/Landscaping		
HVAC Repairs/Maintenance		
Elevator Repairs and Contract		
Repairs (Materials)		
Repairs (Contract)		
Other Maintenance		
<u>Total Maintenance Expense</u>	_____	_____

Depreciation and Amortization

Interest – Mortgage Notes

General Expenses

Real Estate Taxes		
Insurance		
<u>Total General Expense</u>	_____	_____

Total Rental Operations Expenses \$ _____

SCHEDULE OF OTHER OPERATING INCOME AND EXPENSES
FOR THE YEAR ENDING DECEMBER 31, 20

INCOME:

TOTAL INCOME:

EXPENSES:

TOTAL EXPENSES:

**SCHEDULE OF RECEIPTS AND DISBURSEMENTS - PROJECT
OPERATING ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 20**

SOURCE OF FUNDS

Rental Operations

Income

Tenant Paid Rent	\$ _____	_____
HAP Rent Subsidy	_____	_____
<u>Total Rental Income</u>	_____	_____
Service Income	_____	_____
Interest Income		
Commercial Income		
Other Income		

Total Rental Operations Receipts

Expenses

Administrative	_____	_____
Utilities	_____	_____
Maintenance		
Interest – NHH Mortgage Notes	_____	_____
Interest - Other Notes	_____	_____
General	_____	_____
Other	_____	_____

Total Rental Operations Disbursements

Cash Provided by Rental Operations Before

Amortization of Mortgage

Amortization of Mortgages

Cash provided by Rental Operations after

Debt Service

OTHER RECEIPTS

Transfer from Tenant Security Deposit Account	_____	_____
Ownership Advances	_____	_____
Transfer from Restricted Cash Reserves and Escrows	_____	_____
Other	_____	_____

OTHER DISBURSEMENTS OR TRANSFERS

Transfers to Restricted Cash Reserves and Escrows	_____	_____
Transfer to Tenant Security Deposit Account		
Payment of Partners Distributions	_____	_____
Other	_____	_____

SCHEDULE OF RECEIPTS AND DISBURSEMENTS
PROJECT OPERATING ACCOUNT
For the Year Ended December 20

Net Increase or (decrease) in Project Account Cash	_____	_____
Project Account Cash Balance at Beginning of Year	_____	_____
Project Account Cash Balance at End of Year	\$ _____	\$ _____
<u>Composition of Project Account Cash</u>		
<u>Balance at End of Year</u>		
<u>Petty Cash</u>	_____	_____
<u>Unrestricted Reserve (if applicable)</u>		
Decorating Reserve	_____	_____
Operating Reserve	_____	_____
Other Reserves	_____	_____
<u>Total Unrestricted Reserves</u>	_____	_____
<u>Total Project Account Cash</u>		
<u>at End of Year</u>	\$ _____	_____

SCHEDULE OF RESTRICTED CASH RESERVES AND ESCROWS
For the Year Ended December 31, 20

<u>Description of Fund</u>	<u>Deposits</u>			<u>Withdrawals</u>	
	<u>Balance Beginning of Year</u>	<u>Transfers From Operations Account</u>	<u>Net Interest Earned</u>	<u>Transfers to Operations Account</u>	<u>Balance End of Year</u>
<u>Restricted Accounts:</u>					
Tax Reserve	_____	_____	_____	_____	_____
Insurance Reserve	_____	_____	_____	_____	_____
Replacement Reserve	_____	_____	_____	_____	_____
Operating Reserve	_____	_____	_____	_____	_____
Other Reserve	_____	_____	_____	_____	_____
 TOTAL RESTRICTED CASH RESERVES AND ESCROWS	 \$ _____	 \$ _____	 \$ _____	 \$ _____	 \$ _____

SCHEDULE OF SURPLUS CASH CALCULATION

Project:

For the Year Ended (Fill in year ended)

Net Income/(Loss)	\$ _____
Add Depreciation and Amortization	\$ _____
Deduct Required Principal Repayments	\$ _____
Deduct Required Payments to Replacement Reserve	\$ _____
Deduct Interest Income on Restricted Cash Reserves and Escrows	\$ _____
Add/Deduct any NHH approved items (Detailed list required)	\$ _____
Surplus Cash	\$ _____

Distribution of Surplus Cash:

YEAR-TO-DATE COMPILATION OF OWNERS'S FEE/DISTRIBUTIONS

<u>YEAR</u>	<u>MAXIMUM ALLOWABLE DISTRIBUTION</u>	<u>DISTRIBUTION RECEIVED</u>	<u>BALANCE</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Mortgagor's Certification

Project Name _____

For the Year Ended _____

"I/we hereby certify that I/we examined the accompanying financial statements and supplemental data of (mortgagor's name:) _____ and to the best of my/our knowledge and belief, the same is complete and accurate".

Signature _____

Title _____

Date _____

Notification of Intent to Make Distributions

Project : _____

For the Year Ended: _____, 2____.

We have completed the Statement of Surplus Cash Calculation for the above project and Total Adjusted Surplus Cash in the amount of \$ _____. We therefore intend to make a distribution in the amount of \$ _____.

Signature _____

Title _____