Multifamily Housing Program Annual Financial Statement and Audit Guide

December 2010
This Annual Financial Statement and Audit Guide replaces the revised Fourth Edition printed in January 1992. The purpose of this Audit Guide is to provide Owners and Auditors assistance in dealing with financial statements and yearly audits.

Financial monitoring by South Dakota Housing Development Authority (SDHDA) will be administered through the Rental Housing Management division.
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SYSTEM, CHART, AND MANUAL OF ACCOUNTS

SAMPLE FINANCIAL STATEMENT FORMS
The SDHDA “Regulatory Agreement” provides that the Owner/Management Agent’s books and accounts of mortgaged property operations be kept in accordance with the requirements of the South Dakota Housing Development Authority (SDHDA).

Proper maintenance of books and accounts kept in accordance with SDHDA requirements permits your Auditor to issue an effective audit report. Also, it is essential to the proper servicing of your mortgage loan by SDHDA.

In establishing a financial accounting system, the operating, syndication, and security deposit funds must be individually segregated.

In order to ensure that records are complete and reporting is uniform, SDHDA’s Chart of Accounts must be maintained as outlined and described in this guide.

THE AUDIT AND THE AUDITOR

Pursuant to the Regulatory Agreement, the Owner/Mortgagor is required to submit the Development’s annual financial statements to SDHDA within 75 days after year end. These statements must be part of an audit report which is certified by an independent Certified Public Accountant (CPA). It is the responsibility of the Owner/Mortgagor to secure the services of a CPA to perform this audit. The selected CPA must be licensed to practice within the State of South Dakota and must be in good standing with the appropriate regulatory organizations.

Prior to the commencement of the annual audit, SDHDA will deliver a Contract Between a Multifamily Development and an Independent Public Accountant for Audit Services to the Owner/Mortgagor of the Development. This contract will set forth certain terms and procedures with respect to the audit and will also establish the fixed amount to be paid to the CPA. The contract must be signed by both the Owner/Mortgagor and the CPA and returned to SDHDA for approval. Mail a signed original along with the auditor’s peer review and letter of comments to SDHDA.

Copies of the approved contract will then be sent to the Owner and the CPA.

The audit report shall set forth the financial condition of the Development as of the end of the calendar year, the result of operations for the period and all other financial information as required in the Audit Guide.

A separate audit report should be submitted for each Development owned. Do not bind more than one report under the same cover.

All audit reports must be prepared in accordance with Generally Accepted Accounting Principles and Generally Accepted Auditing Standards, and should include adequate footnote disclosure. If the Owner or Management Agent wants the financial statements to be prepared on any accounting basis other than accrual, the CPA must first receive written authorization from SDHDA’s Director of Finance and Administration.
Any inquiries concerning treatment of special items or additional information will be given prompt attention by the South Dakota Housing Development Authority. SDHDA should be notified immediately if a scope limitation is placed upon the Auditor during the course of the audit. If, for any reason, a condition would present itself so that an unqualified opinion cannot be issued, SDHDA must be notified immediately.

SDHDA encourages the use of SDHDA annual year end confirmations by the CPA. Confirmations must be requested in writing by the Owner/Mortgagor. The request should include the CPA’s name and mailing address and should be sent to:

Director of Finance and Administration  
South Dakota Housing Development Authority  
P.O. Box 1237  
Pierre, South Dakota 57501-1237

**SUPPORTING DOCUMENTATION**

Certain documentary evidence is initially available to the auditor. This supporting documentation will be made available for each Development by the Owner or Management Agent and should be considered within the scope of the audit. A listing and brief description of some of these items is provided below. Note that some of these documents relate only to the construction phase of the Development.

A. **Cost Certification** – a cost certification is required for each Development upon completion. This certification will detail those capitalized costs and expenses that were incurred during construction. An opening balance sheet is also required as a part of this certification.

B. **Construction Contract** – the construction contract details the provisions of the work to be performed and the dollar amounts established for the contract.

C. **Building Loan Agreement** – sets forth the provisions agreed upon the lender (SDHDA) and the Mortgagor.

D. **Mortgage and Mortgage Note** – sets for the terms, covenants and provisions of the Development loan.

E. **Regulatory Agreement** – the Regulatory Agreement sets for the requirements of the Multifamily Development and establishes the guidelines under which the Development must operate.

F. **Escrow Balances** – escrowed funds are maintained by SDHDA. Monthly status reports for escrows are transmitted to Owner/Management Agents. Confirmation of these amounts at year end should be made by written request to SDHDA by the CPA or ownership.

G. **HAP Contract** – The Housing Assistance Payments (HAP) Contract sets forth the provisions for which rental assistance payments are received on behalf of the Development. This agreement is with the Department of Housing and Urban Development and SDHDA.
H. **Working Capital Escrow Agreement** – most Development owners are required to provide a decreasing letter of credit for the first three years of operation. The escrow can be used by SDHDA to cover contingencies during construction and during the first three years of operation.

I. **Resident Files** – resident files are required and should be established at the time of occupancy. Minimally, each file should include:

1. Preliminary application (if applicable)
2. Original application for Tenant Eligibility and Recertification (50059) and most recent 3 years of 50059’s (older 50059’s can be retained in dead file)
3. Income verification from all sources
4. Evidence of security deposit collection
5. Current owner – occupant lease (original and all subsequent updated versions)
6. Current and all previous annual apartment inspection reports and move-in and move-out inspections
7. Any related correspondence
8. Any other HUD documentation as required under 4350.3 Handbook along with all subsequent handbook updates, as amended, and as required by changes in HUD regulations and notices.

As well as establishing active resident files, the Management Agent must maintain an inactive resident file. The inactive file should contain all inactive applicant and resident information. The inactive files must be retained by the Owner/Management Agent for three years from date tenant moves out.

J. **Partnership Agreement** – the partnership agreement between the partners of the Development is an integral part of supporting documentation for a certified audit.

K. **Management Agreement** – the Owner, with the consent of SDHDA, enters into a management agreement with a Management Agent responsible for operating the Development. Among other things, this agreement establishes the percentage of fee compensation the Agent shall receive for services rendered. Also, the Agreement sets forth expenditure limitations for the Management Agent. Expenditures above this limitation require approval of the Owner and SDHDA. The agreement details the Management Agent’s duties and responsibilities with respect to the Development’s proper operation.

L. **Amendments to Agreements** – the Regulatory Agreement, the Partnership Agreement and the Management Agreement may have subsequent amendments changing the terms or requirements of the original agreements.

M. **Miscellaneous Agreements** – any contracts which materially or legally affect the operation of the Development, such as elevator contracts, UCC filings, maintenance contracts, bookkeeping service contracts, management subcontracts or other types of service contracts.

**BANK ACCOUNTS**

**OPERATING RECEIPTS AND EXPENSE ACCOUNT**

The Owner/Mortgagor shall establish and maintain, or cause to be established and maintained, an Operating Receipts and Expense Account with a depository approved by SDHDA pursuant to the
Management Agreement. All rents and other Development operating receipts shall be deposited in the name of the Owner/Mortgagor and the Development in an institution whose deposits are insured by an agency of the United States Government. Thereafter, on a monthly basis, the Owner/Mortgagor shall pay, or cause to be paid, Development expenses in a timely manner out of the Operating Receipts and Expense Account or escrow accounts held by SDHDA. These expenses must be paid in the following order unless otherwise directed by SDHDA, at its sole option, in writing:

A. the fee of the Development’s Management Agent as set forth in the Management Agreement between the Owner/Mortgagor and said Management Agent; and

B. all of the real estate tax and insurance premium escrow payments required of the Owner/Mortgagor, which payments shall be deemed to be part of the operating expenses of the Development for the purpose of the Regulatory Agreement unless escrowed and paid directly by SDHDA; and

C. all remittances, if any, due to the Secretary of the Department of HUD as required by the HAP Contract; and

D. all remaining operating expenses of the Development (which specifically exclude the Mortgage Loan principal, interest, and annual fee payments) including, but not limited to, taxes other than those for which escrow payment is required under the Mortgage, maintenance, fuel, management, water and sewage, administration, electricity, legal, audit, and all other current expenses approved by SDHDA, unless other funds for payment are set aside or deferment of payment has been approved by SDHDA; and

E. all of the amortized principal, interest, and annual fee payment required to be paid to SDHDA by the Mortgage Note; and

F. all amounts required to be deposited with SDHDA or its designated depository in the Replacement Cost Reserve Account, as defined by the Regulatory Agreement; and

G. the payment of limited dividend payments, pursuant to the terms of Section 10 of the Regulatory Agreement.

SECURITY DEPOSIT ACCOUNT

Per HUD regulations, the owner must place the security deposits in a segregated, interest bearing account. The balance of this account must at all times be equal to the total amount collected from the families then in occupancy, plus any accrued interest. Interest earned on the account must be recorded on both the asset and contra side of the Schedule of Tenant Security Deposits.

Effective January 1, 1989, all SDHDA – financed developments in the following two categories were required to pay interest to tenants for security deposits:

1. NEW CONSTRUCTION developments with an AHAP Contract date on or after November 5, 1979; and
2. SUBSTANTIAL REHABILITATION developments with an AHAP Contract date on or after February 10, 1980.

The interest accrued for each tenant must equal the amount earned on the tenant’s deposit during the period in which the deposit is held beginning January 1, 1989, or from the date of move – in until the
date of move – out. The actual earnings in the security deposit accounts should be calculated on a regular basis and the accrued liability reported annually.

SYNDICATION/PARTNERSHIP CONTRIBUTIONS

Proceeds from partnership contributions must be segregated from the Operating Account if these receipts are to be paid out to the General Partner/Management Agent within the syndication process. Partnership contributions for normal operating capital may be deposited in the Operating Account. This procedure will allow for a more accurate detailed accounting of operating and syndication receipts and disbursements.

It is the responsibility of the CPA performing the audit to provide clear documentation or written assurance indicating that Development (operating) and partnership (non-operating) funds have not been commingled. Partnership funds must flow through a bank account separate from both the Development’s Operating Receipts and Expense Account and the Security Deposit Trust Account. Transactions of such separate partnership accounts will continue to be accounted for in the annual audit report.

ENTITY EXPENSE

These expenses are items that cannot be paid out of normal operating funds and must be paid from partnerships/syndication proceeds. Examples of such expenses are: developer’s fees, management fees (other than that allowed by the “Management Agreement”), rent up fees, advances by the general partners above the equity requirements and any other expenses allowed by the partnership agreement that may not be disbursed from the Operating Account. Excess cash resulting from syndication transactions must be placed in a restricted bank account, as previously noted.

RETURN ON EQUITY – DIVIDEND DISTRIBUTION

All Developments, other than nonprofit sponsors are allowed an annual return based upon the original equity approved for the Development. This equity amount may be found on line 7, Schedule B of the original MF 302 Financial Analysis Form. Until 1990, the maximum current year distribution was 6%. An additional 2% of the original equity has been and continues to be paid upon approval by SDHDA for dividends in arrears. Prior to 1990, SDCL 11-11-157 limited the maximum distribution of dividends in any one year to 8% and the maximum distribution of dividends in any one year to 8% of original equity.

Effective for the 1990 audit year, a change in the South Dakota Codified Law and Amendment to the Regulatory Agreement allowed an increase in the annual rate of return for some eligible developments. The maximum rate increased to 8% and the maximum distribution of dividends in any one year also increased to 10% of the original equity.

Two percent (2%) of the potential annual dividend is payable from earnings on the Development Cost Escrow (DCE) and the other 6% is payable from the Development’s operating receipts. In addition, another Amendment to the Regulatory Agreement, first implemented during the 1989 audit year, allows any shortfall difference between the DCE interest earned and the 2% of initial equity amount to be paid from the Residual Receipts Fund. Further background and eligibility information regarding these contractual changes may be found in SDHDA’s September 12, 1990, Memorandum No. 90-09-04 MF 23.

Section 10 (a) through (e) of the Regulatory Agreement allows for the dividend to be distributed after receiving written approval from SDHDA or if SDHDA has been in receipt of the annual audit report for not less than twenty days prior to such distribution. All other obligations of the Regulatory Agreement must be met prior to distribution.
All distributions are subject to adjustment based on SDHDA’s review and final approval of the audit.

For those properties that qualified under the Redefined Equity Program per Administrative Rule that have reserves totaling at least 20% of the mortgage loan balance, is current with its previous distributions, is well maintained, and sustains a 95% or greater occupancy rate may qualify for the Redefined Equity Program. Refer to the Administrative Rules and calculation beginning on page 29. If at any time a property does not meet these criteria, they will no longer qualify for Redefined Equity and will be required to submit the traditional Computation of Dividend.

CONTENTS OF THE ANNUAL AUDIT REPORT

If the auditor is a continuing auditor, comparative financial statements for current and prior year should be provided. The annual audit report must contain the following:

A. **BALANCE SHEET** The Balance Sheet must reflect all prepaid and deferred items. (See sample on page 17.)

B. **STATEMENT OF PROFIT AND LOSS** Must include the following requirements: (See sample on page 19.)

   1. It must show Total Rent Income less Rent Adjustments to arrive at Net Rental Income.
   2. Rent Adjustments must detail, by separate line item, any changes to Total Rent Income. Any amounts for Other Rent Receivables and Payables must be supported by a Schedule.
   3. Any explanation for any receipts from charges for facilities or services rendered.

Any expenses for which there is no line item shall be included under the miscellaneous category and shall be detailed on the Schedule of Miscellaneous Expense.

C. **STATEMENT OF CASH FLOWS** must be prepared in accordance with Generally Accepted Accounting Principles.

D. **STATEMENT OF CHANGES IN EQUITY** shall be included in this report. This shall include an explanation of origins, additions and deductions during the operating period.

**SUPPORTING SCHEDULES**

E. **SCHEDULE OF CASH OPERATING RECEIPTS AND DISBURSEMENTS** must be presented in the same format shown in this Guide. This Schedule should include all receipts and disbursements other than syndication/partnership items and should balance to operating cash on hand at year end. It should also conform, by category, with the Cash Flow Report or contain sufficient detail to clarify any variances or discrepancies between categorical amounts.

F. **SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS SYNDICATION/PARTNERSHIP CONTRIBUTIONS** Developments which are syndicated receive and pay out these funds to general partners for services rendered and to certain creditors of the Development. In certain cases, these
receipts and disbursements are held outside of the partnership, in other cases, these proceeds and
disbursements are accounted for within the partnership accounting records. When non-operating
receipts are received, they must be segregated from operating cash by establishing a separate
restricted cash account. The balance shown on the Schedule of Cash Receipts and Disbursements
Syndication/Partnership Contributions should balance with the amount of cash on hand in the
restricted account. In no case should operating receipts be allowed to be used for
syndication/partnership expense (see Entity Expenses).

G. OTHER SUPPORTING SCHEDULES Other supporting schedules must include:
   1. A Computation of Surplus Cash and Residual Receipts. (Page 24)
   2. A Computation of Authorized Management Fee – to be calculated on cash gross collections.
      (Page 25)
   3. A Schedule of Bank Accounts listing each depositary by name, account title, account number,
      and balance. This Schedule should include all bank accounts, in which there was development
      activity during the year, not just those with year end balances. (Page 26)
   5. A Schedule of Changes in Fixed Assets. (Page 28)
   7. A Schedule of Accounts and/or Notes Receivable disclosing the original amount, terms,
      borrower’s name and current balance due for each receivable.
   8. A Schedule of Accounts and/or Notes Payable, including expense account number.
   9. A Schedule of Miscellaneous Expenses including the purpose, amount and date of payment.
      Each miscellaneous expenditure must be explained in narrative form on the Schedule or
      separately in the “Notes to the Financial Statements.”
   10. A Schedule of Bad Debts Expense.

H. SUPPORTING DATA providing explanatory comments or appropriate schedules. This must
include:
   1. A summary analysis of delinquent tenant accounts, including the number of tenants and
      amounts delinquent for 30 days, 31 to 60 days, 60 to 90 days, and over 90 days.
   2. Details to support any accrued taxes shown, including each type of tax, basis for the accrual,
      and the date due.
   3. Details of any loans or notes payable, other than the first mortgage, including date incurred,
      original amount, purpose, terms creditor and balance due.
   4. Full details concerning the issuance of all stock and/or investments, including names of stock
      holders or individuals interested in development ownership and the proportionate interest of
      each. A list shall be furnished consisting of officers, directors, and individuals having financial
      interest in the development.
   5. Disclosure of any distributions paid to owners, stockholders or partners during the year,
      including the amount of distribution, the date of SDHDA’s release approval and the date of
      payment.
   6. Comments on and explanations of all other Balance Sheet items, not fully explained by the title
      of the accounts.
   7. A footnote that a fidelity bond is in effect and in an adequate amount as required by the Fidelity
      Bond Requirement (example of form on page 26) and that the bond premium has currently been
      paid at the Management Agent’s own expense.
8. A footnote for commercial space, garage, and parking rents disclosing the tenant of the commercial space and rent amount, and disclosing the number of garage and parking spaces and their rent amounts.

9. A footnote of related party transactions involving the mortgagor and/or management agent of the project, along with a breakdown of services rendered and amounts received, shall be required if the payments for services performed for the project totaled $200 or more during the operating period.

I. **AUDITOR’S CERTIFICATION** The annual audit report shall include an opinion by the CPA performing the audit. The following language shall be used:

“In our opinion, the statements referred to above present fairly the financial position of (name of development) as of (date), the results of its operations and its cash flows for the year(s) then ended, in conformity with generally accepted accounting principles and with the South Dakota Housing Development Authority requirements.”

J. **MORTGAGOR’S CERTIFICATION** The annual audit report shall also include a certification signed by the Owner/Mortgagor. When the development is owned by a partnership, the general partner shall sign, and when it is owned by a corporation, two officers shall sign. The following language shall be used:

“We hereby certify that we have examined the foregoing audit report of (name of development) and, to the best of our knowledge and belief, the same is a true statement of the financial condition as of (date of report)."

**OTHER REPORTS**

The CPA shall include a Report on Compliance with Contractual Agreements and a Report on Internal Control with the audit report.

A. **Report on Compliance with Contractual Agreements** – All contractual agreements should be reviewed in conjunction with the examination of the financial statements. A negative assurance letter indicating that nothing caused the CPA to believe the Development was not in compliance with all contractual terms will satisfy this requirement. The following example should be used in the opinion paragraph of the letter:

“In connection with our examination, nothing came to our attention that caused us to believe that (name of Development) was not in compliance with any of the terms, covenants, provisions or conditions of any contractual agreements it is a party to. However, it should be noted that our examination was not directed primarily toward obtaining knowledge of such compliance.”

B. **Report on Internal Control** – The study and evaluation of the internal accounting system should be made to the extent necessary in order to comply with generally accepted auditing standards. The current standard report as required by the American Institute of Certified Public Accountants will satisfy this requirement.
This uniform system of accounts is based primarily on the HUD chart of accounts, with some variance within certain specified accounts, and is prescribed for all SDHDA financed Developments. It employs standard accounts and a uniform method of subdividing expenses to provide comparable records relative to the operation of Developments.

The scope of this system is extensive enough so that no single Development will likely require the use of all accounts. However, all accounts used are intended to be numbered in the grouping and order outlined by the Chart of Accounts. This permits comparisons of operating and maintenance expenses between time periods and Developments. If unsure which account to use contact SDHDA. Of special concern are the payroll accounts, shown under each major operating function. Do not prorate payrolls to reflect the various duties performed by a particular employee, but rather charge the payroll to an account which describes the principal duty performed. For example, if, after performing regular janitorial duties, the employee mows the lawn, makes minor repairs, or cleans apartment units, the wages should be charged to Payroll (6510) and note the split in the notes section. Retain a narrative job description on file as reference for the payroll entry. Although the above method does not completely detail expenses as would a proration of payroll, it simplifies bookkeeping and provides sufficient accuracy for management purposes.

SAMPLE FINANCIAL STATEMENT FORMS

The sample financial statement forms follow. Note - the Audit Contract and Fidelity Bond Forms are sent out each year with the budget memo.
CONTRACT BETWEEN A MULTIFAMILY DEVELOPMENT 
AND INDEPENDENT PUBLIC ACCOUNTANT 

FOR AUDIT SERVICES 

THIS AGREEMENT, entered into as of the _______ day of _____________________ by and between _________________________________________________ hereinafter referred to as the "Owner") of the _______________________________________________, multifamily development, (hereinafter referred to as the "Development"), and ________________________________________________, Certified Public Accountants, of _______________________________________________, offices at _______________________________________________ (hereinafter referred to as the "Auditor"), 

WITNESSETH: 

WHEREAS, the Owner of said Development obtained a mortgage loan from the South Dakota Housing Development Authority, hereinafter referred to as "SDHDA", for construction of the Development; and 

WHEREAS, pursuant to said mortgage loan, SDHDA has the right to audit the books and records of the Development pertinent to its operations with respect to such mortgage loan; and 

WHEREAS, SDHDA has authorized the Development to procure such an audit by an Independent Certified Public Accountant, subject to SDHDA approval of the specific contract for audit entered into between the Owner and the Auditor: and 

WHEREAS, the Owner desires the Auditor to conduct and perform such an audit; 

NOW, THEREFORE, the Owner and the Auditor do mutually agree as follows:
1. The Auditor shall audit the accounts and records of the Development as of December 31, 2010, in accordance with generally accepted auditing standards and the auditing and reporting requirements of SDHDA's Annual Financial Statement and Audit Guide including any subsequent revisions and amendments. The audit performed shall be sufficient in scope to enable the Auditor to express an opinion in the audit report on the financial statements of the Development. SDHDA is not requiring the Auditor to test tenant eligibility and annual recertifications. These recertifications are tested in connection with SDHDA’s annual audit in accordance with OMB Circular A-133.

2. The Owner and Management Agent shall make available to the Auditor all books, records, minutes, files and other documents of the Development necessary for the satisfactory completion of the audit.

3. If the Auditor ascertains that the Development's books and records are not in a sufficiently satisfactory condition for performing an audit, the Auditor shall disclose this deficiency to the Owner and to SDHDA. Notification to SDHDA shall be by written communication addressed to the Director of Finance, South Dakota Housing Development Authority, P.O. Box 1237, Pierre, South Dakota, 57501-1237. The Auditor shall await further instructions from SDHDA before continuing the audit.

4. The Auditor shall in addition to the financial statements and the Auditor's report required by SDHDA, prepare and include in the audit report the following:
   a. Report on Compliance with Contractual Agreements
   b. Report on Internal Control
   c. 
   d. 

5. The Owner/Mortgagor shall, not later than March 15, 2011, deliver two signed copies of the completed audit report to SDHDA.

6. SDHDA may, before or during the conduct of the audit, request changes in the scope of the services of the Auditor to be performed under this contract. Such changes, including any increase or decrease in the amount of the Auditor’s compensation and any change in the time limitation for submission of the Auditor's report, which are mutually agreed upon and approved by SDHDA and the Auditor, shall be incorporated into written amendments to this contract.

7. The Development and Owner agree to pay as compensation for the services and reports mentioned in paragraphs 1 and 4, a lump sum fee of $___________*, inclusive of all costs, sales taxes and expenses for preparing the annual financial statement, for preparing the partnership tax return, for reporting subject matter described by paragraph 4 herein, and for responding to the
Owner's and SDHDA's comments relative to the annual audit. The cost for preparing the annual financial statement is $__________ and the cost for preparing the partnership tax return is $__________. Except for the provisions of paragraph 6 above, if final audit billing exceeds the lump sum fee amount, the excess amount is not an allowable development expense. This fee is a fixed amount (not an estimate) and is based on the following:

a. Partner (Principal):$__________ per hour; estimated man-days _____ $____________.
b. Senior (Manager):$__________ per hour; estimated man-days _____ $____________.
c. Semi-Senior $__________ per hour; estimated man-days _____ $____________.
d. Junior $__________ per hour; estimated man-days _____ $____________.
e. Sales Tax $__________.
f. Other (describe) $__________.

TOTAL $____________

Based on the above information, _____ man-days will be required to perform the audit.

* Such lump sum fee shall be payable by the Development's Operating account and the Owner, as approved in this contract by SDHDA.

8. The Auditor must be a Certified Public Accountant and must be registered in the State of South Dakota.

9. The Auditor must submit to SDHDA a copy of its most recent peer review, letter of comments, and response.

10. The Auditor certifies that its principal officer(s) or member(s) do not now have and have not had during any period covered by this audit any interest, direct or indirect, in the Development or any of its members or officials including the following:

a. Family relationship with any Development member or official;

b. Employment by or services as a member or official of SDHDA during the period covered by the audit.

11. The Auditor certifies that the fee for this contract does not include accounting or bookkeeping services for the Owner and/or Management Agent during the period covered by the audit except as follows:
12. The Auditor warrants that he/she has not employed any person to solicit or secure this contract upon any agreement for a commission, percentage, brokerage, or contingent fee. Breach of this warranty shall give SDHDA and/or the Owner the right to terminate this contract.

13. For a period of three years from the date of the Audit Report, the Auditor shall make its work papers, records and other evidence of audit available to SDHDA during normal working hours upon written request of SDHDA.

14. SDHDA’s approval of this contract shall be evidenced by the signature of the Director of Finance at the end hereof.

15. It is agreed by the Parties that SDHDA shall be a third party beneficiary to this contract.

IN WITNESS WHEREOF, the Owner and the Auditor have executed this agreement the day and year first above written.

_____________________________________________________
(Name of Independent Public Accountant)

BY __________________________________________________
(Date)

_____________________________________________________
(Name of Development)

BY __________________________________________________
(Owner) (Date)
FOR SDHDA USE AND APPROVAL

SDHDA hereby approves the audit fee costs of $____________
to be paid as follows:

From Development's Operating Account $____________

By the Owner $____________

SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY

By __________________________________________________

Todd Hight, Director of Finance and Administration (Date)
## (Sample) BALANCE SHEET AS OF ______________

### Assets

#### 1100 Current Assets
- 1120 Cash-Operations
- 1130 Tenant/Member Accounts Receivable (Coop)
- 1131 Allowance for Doubtful Accounts
- 1140 Accounts and Notes Receivable–Operations
- 1170 Short-term Investments-Operations
- 1190 Miscellaneous Current Assets
- 1191 Tenant/Patient Deposits Held in Trust

**Total Current Assets**

#### 1300 Restricted Deposits and Funded Reserves
- 1310 Escrow Deposits
- 1320 Reserve for Replacements
- 1330 Other Reserve (DCE)
- 1340 Residual Receipts Reserve

**Total Restricted Deposits and Funded Reserves**

#### 1400 Fixed Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
<th>Accumulated Depreciation</th>
<th>Net Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1410 Land</td>
<td>$____</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1420 Buildings</td>
<td>$____</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1440 Building Equipment –Portable</td>
<td>$____</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1460 Furnishings</td>
<td>$____</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total Fixed Assets**

#### 1500 Other Assets
- 1510 Investments-Operations

**Total Other Assets**

**Total Assets**

$________
### Liabilities

#### 2100 Current Liabilities
- 2110 Accounts Payable-Operations $__________
- 2111 Accounts Payable-Construction\Development $__________
- 2116 Accounts Payable-Section 8 & Other $__________
- 2120 Accrued Wages Payable $__________
- 2130 Accrued Interest Payable-Section 2236 $__________
- 2160 Notes Payable-Short Term $__________
- 2190 Miscellaneous Current Liabilities $__________
- 2191 Tenant\Patient Deposits Held in Trust (Contract) $__________
- 2210 Prepaid Revenue $__________

Total Current Liabilities $__________

#### 2300 Long -Term Liabilities
- 2310 Notes Payable-Long Term $__________
- 2320 Mortgage Payable-1st Mortgage $__________

Total Long-Term Liabilities $__________

Total Liabilities $__________

### Owner Equity

#### 3100 Owners’ Equity
- 3162 Paid-in Surplus (Corporations) $__________
- 3163 Retained Earnings (Corporation) $__________
- 3164 Other Equity – (Corporations) $__________

Total Owners’ Equity $__________

Total Liabilities and Owner Equity $__________
### STATEMENT OF PROFIT AND LOSS

#### 5100 Total Rent Income (GPI @100% Occupancy)
- 5120 Rent Revenue –Gross Potential $__________
- 5140 Rent Revenue-Stores & Commercial
- 5170 Rent Revenue-Garage & Parking
- 5190 Miscellaneous Rent Revenue
- 5192 Rent Revenue/Insurance
- 5193 Special Claims Revenue
  **Total Rent Income** $__________

#### 5200 Total Vacancies
- 5220 Apartment $__________
- 5240 Stores and Commercial
- 5250 Rental Concessions
- 5270 Garage or Parking Space Vacancies
- 5290 Miscellaneous
  - Deferred Income Adjustment
  - Tenant Utility Reimbursements
  - Other Rent Receivables (Payables)
  **Total Vacancies** $__________

#### 5152 Net Rental Revenue (Rent Income Less Vacancies) $__________

#### 5400 Total Finance Revenue
- 5410 Financial Revenue-Project Operations $__________
- 5430 Revenue from Investments-Residual Receipts
- 5440 Revenue from Investments-Replacement Reserves
- 5490 Revenue from Investments-Miscellaneous
  **Total Financial Revenue** $__________

#### 5900 Total Other Revenue
- 5910 Laundry & Vending Revenue $__________
- 5920 Tenant Charges
- 5945 Interest Reduction Payments Revenue
- 5990 Miscellaneous Revenue
  **Total Other Revenue** $__________

**Total Revenue** $__________
### 6200 Total Administrative Expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6203 Conventions &amp; Meetings</td>
<td>$__________</td>
</tr>
<tr>
<td>6210 Advertising &amp; Marketing</td>
<td>___________</td>
</tr>
<tr>
<td>6250 Other Renting Expenses</td>
<td>___________</td>
</tr>
<tr>
<td>6311 Office Expenses</td>
<td>___________</td>
</tr>
<tr>
<td>6320 Management Fee</td>
<td>___________</td>
</tr>
<tr>
<td>6330 Manager or Superintendent Salaries</td>
<td>___________</td>
</tr>
<tr>
<td>6331 Administrative Rent Free Unit</td>
<td>___________</td>
</tr>
<tr>
<td>6340 Legal Expenses-Project</td>
<td>___________</td>
</tr>
<tr>
<td>6350 Audit Expense</td>
<td>___________</td>
</tr>
<tr>
<td>6351 Bookkeeping Fees\Accounting Services</td>
<td>___________</td>
</tr>
<tr>
<td>6370 Bad Debts</td>
<td>___________</td>
</tr>
<tr>
<td>6390 Miscellaneous Administrative Expenses</td>
<td>___________</td>
</tr>
</tbody>
</table>

**Total Administrative Expenses** $__________

### 6400 Total Utilities Expense

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6420 Fuel Oil\Coal</td>
<td>___________</td>
</tr>
<tr>
<td>6450 Electricity</td>
<td>___________</td>
</tr>
<tr>
<td>6451 Water</td>
<td>___________</td>
</tr>
<tr>
<td>6452 Gas</td>
<td>___________</td>
</tr>
<tr>
<td>6453 Sewer</td>
<td>___________</td>
</tr>
</tbody>
</table>

**Total Utilities Expense** $__________

### 6500 Total Operating & Maintenance Expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6510 Payroll</td>
<td>___________</td>
</tr>
<tr>
<td>6515 Supplies</td>
<td>___________</td>
</tr>
<tr>
<td>6520 Contracts</td>
<td>___________</td>
</tr>
<tr>
<td>6525 Garbage &amp; Trash Removal</td>
<td>___________</td>
</tr>
<tr>
<td>6530 Security Payroll\Contracts</td>
<td>___________</td>
</tr>
<tr>
<td>6546 Heating\Cooling Repairs &amp; Maintenance</td>
<td>___________</td>
</tr>
<tr>
<td>6548 Snow Removal</td>
<td>___________</td>
</tr>
<tr>
<td>6570 Vehicle &amp; Maintenance Equip., Operation &amp; Repairs</td>
<td>___________</td>
</tr>
<tr>
<td>6590 Miscellaneous Operating &amp; Maintenance Expenses</td>
<td>___________</td>
</tr>
</tbody>
</table>

**Total Operating & Maintenance Expenses** $__________

### 6600 Total Depreciation & Amortization Expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6600 Depreciation Expense</td>
<td>___________</td>
</tr>
<tr>
<td>6610 Amortization Expense</td>
<td>___________</td>
</tr>
</tbody>
</table>

**Total Depreciation & Amortization Expenses** $__________

### 6700 Total Taxes and Insurance

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6710 Real Estate Taxes</td>
<td>___________</td>
</tr>
<tr>
<td>6711 Payroll Taxes (Project's Share)</td>
<td>___________</td>
</tr>
<tr>
<td>6720 Property &amp; Liability Insurance (Hazard)</td>
<td>___________</td>
</tr>
<tr>
<td>6721 Fidelity Bond Insurance</td>
<td>___________</td>
</tr>
</tbody>
</table>

---

December 2010
6722 Workman’s Compensation
6723 Health Insurance & Other Benefits
6790 Miscellaneous Taxes, Licenses, Permits & Insurance

Total Taxes & Insurance $____________

6800 Total Financial Expenses
6820 Interest on Mortgage (or Bond) Payable
6830 Interest on Notes Payable (Long Term)
6840 Interest on Notes Payable (Short Term)
6850 Mortgage Insurance Premium/Service Charge
6890 Miscellaneous Financial Expenses

Total Financial Expenses $____________

Total Cost of Operations $____________
Operating Profit (Loss) $____________

7100 Net Entity Expenses
7105 Entity Revenue
7110 Officer’s Salaries
7120 Legal Expenses
7141 Interest on Notes Payable
7142 Interest on Mortgage Payable
7190 Other Expenses

Total Net Entity Expenses $____________

Net Profit or Loss $____________
### SCHEDULE OF CASH OPERATING RECEIPTS AND DISBURSEMENTS

| Development Number                  | ____________________ |
| Development Name                    | ____________________ |
| For Year Ending                     | ____________________ |

**SOURCE OF FUNDS**

**Operating**

<table>
<thead>
<tr>
<th>Revenues</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Rental Revenue</td>
<td>$______</td>
</tr>
<tr>
<td>Total Financial Revenue</td>
<td>$______</td>
</tr>
<tr>
<td>Other Revenue (Detail)</td>
<td>$______</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$______</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditures</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative</td>
<td>$______</td>
</tr>
<tr>
<td>Utility</td>
<td>$______</td>
</tr>
<tr>
<td>Operating &amp; Maintenance</td>
<td>$______</td>
</tr>
<tr>
<td>Taxes &amp; Insurance</td>
<td>$______</td>
</tr>
<tr>
<td>Maintenance and Repairs</td>
<td>$______</td>
</tr>
<tr>
<td>Financial</td>
<td>$______</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>$______</td>
</tr>
</tbody>
</table>

- Cash provided by operations before debt service $______
- **Amortization of mortgage**
- Cash provided by operations after debt service $______

**Other**

| Tenant security deposits received             | $______ |
| Ownership advances                            | $______ |
| Source adjustments                             | $______ |
| Mortgage escrow and reserve Decreases         | $______ |
| **Total Other**                                | $______ |

**TOTAL SOURCE OF FUNDS** $______

**APPLICATION OF FUNDS**

| SDHDA Administrative Fee                      | $______ |
| Tenant security deposits – refunded           | $______ |
| Reserve for replacements – funded             | $______ |
| Increase in taxes and insurance escrow        | $______ |
| Disbursements not shown above (Detail)        | $______ |
| Dividend Distribution for prior year          | $______ |
| **Total Application of Funds**                | $______ |

**INCREASE IN CASH** $______

**UNRESTRICTED CASH AT BEGINNING OF YEAR** $______

**UNRESTRICTED CASH AT END OF YEAR** $______
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
SYNDICATION/PARTNERSHIP CONTRIBUTIONS

Syndication (Partnership) Proceeds

Partnership Cash Account at Beginning
Of year (See 20__ Audit Report, page ___) $________

Additions to Partnership Cash Account:
1. “Development” Cash Received from SDHDA draws or per letters as listed below
   A. 
   B. 
   C. Final Partnership Construction Cash Available $________
2. Limited Partner’s Capital Contributions
   Per Audit $________

Total Non-Operations Funds Available 20___ $________

Syndication Payments
Payment of construction advances from General Partner per Audit $(________)
Payment of construction costs per Audit $(________)
Payment of developer’s fee per Audit $(________)
Payment of other non-operations fees $(________)
Total Non-Operations Funds Disbursed $(________)

Net Syndication Cash at year end receipts and disbursements $________
COMPUTATION OF SURPLUS CASH AND RESIDUAL RECEIPTS *

Development Number ____________________________
Development Name ____________________________
For Year Ending ____________________________

Add: Cash
Cash on hand and in Banks
(Accts. 1120 & 1191) $___________
All accounts receivable $___________
(Accts. 1130, 1135, 1140 & 1160)
Other (Describe) $___________
Total Cash $___________

Less: Current Obligations
Mortgage interest payable 1st of next month (Acct. 2131) $___________
Delinquent Mortgage payments (Acct. 2190) $___________
Accounts payable (due within 30 days) $___________
(Accts. 2105, 2110, 2111, 2116, 2120, 2123)
Loans & notes payable-operating expenses (due within 30 days) (Acct. 2160) $___________
Prepaid income (Acct. 2210) $___________
Tenants security deposits (Acct. 2191) $___________
Other (Describe) (Acct. 2190) Ex: Operating advances from Reserve accounts $___________
Total Current Obligations $___________
Surplus Cash (deficiency) $___________
Distribution allowed per regulatory Agreement and SDCL 11-11-157 $___________

Required Deposit To Residual Receipts Fund $___________

*This computation must be used for all traditional distribution properties. If the property is eligible for a redefined equity distribution, the redefined equity calculation must also be included with the audit.
COMPUTATION OF AUTHORIZED MANAGEMENT FEE YEAR END SETTLEMENT

Development Number  _____________________
Development Name  _____________________
For Year Ending  _____________________

Gross Cash Collections
(as defined in Management Agreement)
(Acct. No. 5120, 5121, 5140, 5192, 5193, 5920)  $__________

Adjusted 20___ Gross Cash Collections    $__________

Authorized Management fee (%)            X ___________%

Current Year Management Compensation    $__________

Adjust for:

Fees Payable to (Receivable from) Agent at end of Previous Year $__________

Total Authorized Compensation $__________

Less:

Cash Management Fees Paid during current year $__________

*Underpayment – due to Management Agent from Development
(Overpayment) – due to Development from Management Agent $__________

• Any overpayment in the amount of $500 or more, must be reimbursed back to the property’s operating
account prior to final approval of the current year audit and underpayment of management fees must be
paid within 30 days of the final audit approval by SDHDA.
## SCHEDULE OF BANK ACCOUNTS

<table>
<thead>
<tr>
<th>Account Type</th>
<th>Bank</th>
<th>Account Name</th>
<th>Account Number</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating</td>
<td></td>
<td></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Investment Funds</td>
<td></td>
<td></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Security Deposit</td>
<td></td>
<td></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Total Cash on Hand</td>
<td></td>
<td></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Excluding partnership funds</td>
<td></td>
<td></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Partnership Accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## SCHEDULE OF TENANT SECURITY DEPOSITS HELD IN TRUST

| Development Number | ________________ |
| Development Name   | ________________ |
| For Year Ending    | ________________ |

### Security Deposits Held in Trust

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Balance</td>
<td>$_________</td>
</tr>
</tbody>
</table>

#### Deposits:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenant Security Deposits</td>
<td>$_________</td>
</tr>
<tr>
<td>Interest Earned</td>
<td>$_________</td>
</tr>
</tbody>
</table>

#### Disbursements:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security Deposits Returned</td>
<td>$_________</td>
</tr>
<tr>
<td>Interest Paid to Residents</td>
<td>$_________</td>
</tr>
<tr>
<td>Deposits Forfeited to Project</td>
<td>$_________</td>
</tr>
<tr>
<td>Other (Detail)</td>
<td>$_________</td>
</tr>
</tbody>
</table>

### Security Deposits Held In Trust (Cash in Bank)

* $_________

### Security Deposit Liability (Contra)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Balance</td>
<td>$_________</td>
</tr>
<tr>
<td>Deposits received</td>
<td>$_________</td>
</tr>
<tr>
<td>Interest earned</td>
<td>$_________</td>
</tr>
<tr>
<td>Tenant deposits receivable</td>
<td>$_________</td>
</tr>
<tr>
<td>Deposits returned</td>
<td>$(_________)</td>
</tr>
<tr>
<td>Interest paid to residents</td>
<td>$(_________)</td>
</tr>
</tbody>
</table>

### Ending Balance Current Year

$_________

Refer to Security Deposit Account on page 6 to determine whether or not interest is required to be paid.
# SCHEDULE OF CHANGES IN FIXED ASSETS

**Development Number**  ___________________________

**Development Name**  ___________________________

**For Year Ending**  ___________________________

## Assets

<table>
<thead>
<tr>
<th>Balance Date __ 20__</th>
<th>Additions</th>
<th>Deductions</th>
<th>Balance Date __ 20__</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Accumulated Depreciation

<table>
<thead>
<tr>
<th>Balance Date __ 20__</th>
<th>Additions</th>
<th>Deductions</th>
<th>Balance Date __ 20__</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
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<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Direct Write-offs

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Budgeted

<table>
<thead>
<tr>
<th>Beginning Budget</th>
<th>Fixed Asset Purchases</th>
<th>Direct Write-offs</th>
<th>Budget Remaining</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Provide detail for amounts in excess of $100.00*

Any items budgeted as Capital Improvements (Buildings, land, etc.) expensed out rather than depreciated during the year must be detailed in the audit as to what was expensed out and expense category.
20:09:06:06.3. Subsequent determination of equity for certain rental housing developments that are federally subsidized or regulated. For rental housing developments that are federally subsidized or regulated and that meet the criteria in this section, the amount of equity is the excess of the value of the project over the then current principal amount of the authority’s loan, calculated according to the instructions for calculation in the appendix at the end of this chapter. The criteria are as follows:

1. The development has reserves of at least 20 percent of the mortgage loan balance after all calculations are completed;

2. All needed maintenance, as determined by the authority through inspection, has either been performed or is scheduled to be performed;

3. During the next 12-month period, the development will require no major repairs or replacements, as determined by the authority through inspection, the payment of which would reduce the reserve accounts below 20 percent of the mortgage loan balance:

4. The operating expenses are paid in full;

5. The development has operating account balances equal to or greater than one month’s total operating expenses;

6. The development has sustained an average occupancy by rent-paying tenants of 95 percent or more for the previous 24 months;

7. The mortgage has not been delinquent during the previous 24 months;

8. The owner agrees to maintain the development as Section 8 assisted housing for not less than 20 years following the initial redetermination of equity;

9. The owner agrees to pay the fee established by subdivision 20:09:06:27(5); and

10. The owner agrees to execute any documents that the authority considers necessary for subsequent determination of equity.

- Reference SDHDA Memorandum 92-04-18
20:09:06:27. Fees and charges. The maximum fees and charges which may be levied for the purposes of providing authority mortgage loans for multifamily rental developments are as follows:

(5) The first time the owner’s equity is redefined according to 20:09:06:06.03, the authority may charge a one-time fee of up to five percent of the sum of the balances of the residual receipts and the painting and replacement reserve accounts for the applicable development.
(1) Development Mortgage Loan Balance as of December 31 (per audit) of the year preceding calculation.

(2) Reserve Balances as of December 31 (per audit) of the year preceding calculation.

(3) Total Reserve Balances divided by Mortgage Loan Balance. Must be at least 20% to continue.

(4) Total of major repairs and replacements, as determined by the Authority.

(5) Operating cash from the audited financial statements.

(6) Accounts payable from the audited financial statements. Amounts payable within the next 30 days.

(7) Total operating expense from the audited financials, less depreciation; amortization; and debt service, divided by 12.

(8) Development operating cash available.

(9) One-time fee based on 5% of the sum of the Residual Receipts and the Replacements and Painting Escrow balances (per audit) of the year preceding calculation.

(10) Reserve balance after deducting Repairs (4), Negative Cash (8), and SDHDA Initial Fee (9).

(11) Reserve balance after deducting amounts in (10) above. Must be at least 20% to continue.

(12) Operating cash from the audited financial statements.

(13) Rent subsidy receivable from the audited financial statements.

(14) Development Cost Escrow interest receivable from the audited financial statements.

(15) Residual Receipt interest earned during the year from the audited financials.

(16) Accounts payable from the audited financials, due within 30 days.

(17) Accrued Interest Payable on the Mortgage Loan.

(18) Surplus Cash equals the sum of (12) through (17) above.

(19) Debt Service on the Mortgage Loan for the year.

(20) Net Operating Income before Debt Service on the Mortgage Loan.

(21) The Capitalization Rate for the Development as determined by the Authority. 8.3% for Sioux Falls and Rapid City, 8.8% for all other areas.

(22) (20) divided by (21)

(23) Development Mortgage Loan Balance as of December 31 (per audit) of the year preceding calculation.

(24) The remainder of (22) less (23).

(25) Line (24) times the Distribution Rate of 10%.

(26) Carryover of unpaid Dividend Distributions from prior years, from audited financial statements.

(27) The sum of lines (25) and (26).

(28) Surplus Cash from (18).

(29) Distribution is limited to surplus cash of the Development for the year. Amount is the lesser of (27) and (28) above.

(30) Surplus Cash from (18).
(31) Allowable Distribution from (29).
(32) Development Cost Escrow interest receivable from the audited financial statements.
(33) Residual Receipt interest earned during the year from the audited financials.
(34) The sum of lines (30) through (33).
(35) Reserve balances (2) after deducting Repairs (4), Negative Cash (8), SDHDA Initial Fee (9), and Transfer to (from) Residual Receipts (34).
(36) Reserve balance after deducting amounts in (35) above. Must be at least 20% to qualify for Equity Redetermination. If Reserve Balance falls below 20%, Distribution will be 10% of Original Equity Amount of Development.
Calculations (Amounts as of December 31) Refer to Instructions for Calculating

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mortgage Loan Balance</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>Reserves:</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>Residual Receipts</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>DCE</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>Replacements</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>Painting</td>
<td>$</td>
</tr>
<tr>
<td>2</td>
<td><strong>Total Reserves</strong></td>
<td>$</td>
</tr>
<tr>
<td>3</td>
<td>Reserves as percentage of Mortgage Loan Balance (min 20%)</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>Repairs and Replacements in next year</td>
<td>$</td>
</tr>
<tr>
<td>4</td>
<td><strong>Total</strong></td>
<td>$</td>
</tr>
<tr>
<td>5</td>
<td>Operating Cash (audited financial statement)</td>
<td>$</td>
</tr>
<tr>
<td>6</td>
<td>Less: Accounts Payable</td>
<td>-$</td>
</tr>
<tr>
<td>7</td>
<td>Monthly Operating Expense</td>
<td>-$</td>
</tr>
<tr>
<td>8</td>
<td><strong>Total Operating Cash Available</strong></td>
<td>$</td>
</tr>
<tr>
<td>9</td>
<td>SDHDA Initial Fee</td>
<td>$</td>
</tr>
<tr>
<td>10</td>
<td>Reserves-Repairs-Negative Cash-Initial Fee</td>
<td>$</td>
</tr>
<tr>
<td>11</td>
<td>Reserves as percentage of Mortgage Loan Balance (min 20%)</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td><strong>Surplus Cash Available:</strong></td>
<td>$</td>
</tr>
<tr>
<td>12</td>
<td>Operating Cash</td>
<td>$</td>
</tr>
<tr>
<td>13</td>
<td>Rent Subsidy Receivable</td>
<td>$</td>
</tr>
<tr>
<td>14</td>
<td>DCE Interest</td>
<td>$</td>
</tr>
<tr>
<td>15</td>
<td>Residual Receipt Interest</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td><strong>Subtotal</strong></td>
<td>$</td>
</tr>
<tr>
<td>16</td>
<td>Less: Accounts Payable</td>
<td>-$</td>
</tr>
<tr>
<td>17</td>
<td>Accrued Interest Payable</td>
<td>-$</td>
</tr>
<tr>
<td></td>
<td><strong>Surplus Cash</strong></td>
<td>$</td>
</tr>
<tr>
<td>18</td>
<td>Allowable Distribution:</td>
<td>$</td>
</tr>
<tr>
<td>19</td>
<td>Surplus Cash</td>
<td>$</td>
</tr>
<tr>
<td>20</td>
<td>Plus Debt Service</td>
<td>$</td>
</tr>
<tr>
<td>21</td>
<td><strong>Net Operating Income Before Debt Service</strong></td>
<td>$</td>
</tr>
<tr>
<td>22</td>
<td>Dividend by the Capitalization Rate</td>
<td>%</td>
</tr>
<tr>
<td>23</td>
<td>Re-determined Property Value</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>Less: Mortgage Loan Balance</td>
<td>-$</td>
</tr>
<tr>
<td>24</td>
<td><strong>Redefined Equity Amount</strong></td>
<td>$</td>
</tr>
<tr>
<td>25</td>
<td>Times 10% Distribution</td>
<td>$</td>
</tr>
<tr>
<td>26</td>
<td>Unpaid Dividend Distribution Allowed from Prior Years</td>
<td>$</td>
</tr>
<tr>
<td>27</td>
<td><strong>Total Potential Distribution</strong></td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>-------------------------------------------------</td>
<td>---</td>
</tr>
<tr>
<td>28</td>
<td>Surplus Cash</td>
<td>$</td>
</tr>
<tr>
<td>29</td>
<td>Allowable Distribution</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>Residual Receipt Transfer</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Surplus Cash</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Less: Allowable Distribution</td>
<td>-$</td>
</tr>
<tr>
<td>32</td>
<td>DCE Interest</td>
<td>-$</td>
</tr>
<tr>
<td>33</td>
<td>Residual Receipt Interest</td>
<td>-$</td>
</tr>
<tr>
<td>34</td>
<td>Transfer to (from) Residual Receipts</td>
<td>-$</td>
</tr>
<tr>
<td>35</td>
<td>Reserves-Repairs-Negative Cash-Fee-Transfer</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>Reserves as percentage of Mortgage Loan Balance</td>
<td>%</td>
</tr>
</tbody>
</table>
COMPUTATION OF DIVIDEND
(for profit entities only—for traditional distribution)

1. Surplus Cash per computation of Surplus cash (enter zero, if deficiency) $_________

2. Dividend Distribution allowed from operating funds-current year
   Equity amount $ x 6% - 8% $_________
   (depending on type of development—refer to any amendment to property’s Regulatory Agreement)

3. Dividend Distribution allowed from DCE Investment-current year
4. (provided DCE account is applicable)
   a or b + d, whichever is lesser: __________
      a. Amount equal to 2% of equity $_________
      b. Amount of interest received on DCE during past year
      c. Difference, if a exceeds b (________)
      d. Shortfall from Residual Receipts (for eligible developments, subject To SDHDA approval) __________

5. Unpaid dividend distribution allowed from prior years
   a or b whichever is lesser: $_________
      a. Amount equal to 2% of equity $_________
      b. Cumulative amount of unpaid dividend, provide detail by year __________

Sources:
   i. from DCE $_________
   ii. from operation __________
      c. difference, if b exceeds a $(________)

   (Line 2 plus line 3 plus line 4) $_________

7. Amount surplus cash exceeds total distribution.
   (Line 1 less line 5) (Amount total distribution exceeds Surplus cash) (line 5 less line 1) $_________

8. Residual Receipts balance at year end. (Use of Residual Receipts funds for the distribution must be approved in writing by SDHDA) $_________

9. Funds available for distribution. (Line 1 plus 7) $_________
10. Amount available funds exceed total distribution.
   (Line 8 less line 5) (Amount total distribution Exceed surplus cash)
   (Line 5 less line 8) $__________

11. Distribution allowable and payable at year
    End. (Line 5 or line 8, whichever is lesser) $__________

12. Unpaid dividend distribution allowable and not payable at year end.
    (Sum line 3c, line 4c and Line 9, if negative) $(__________)
FIDELITY BOND REQUIREMENTS

PURSUANT TO SECTION 1401 of the Management Agreement, the Agent shall furnish, at his/her own expense, a fidelity bond (dual obligee) naming the Development and SDHDA as obligees to protect the Development and SDHDA against misapplication of funds of the Development by the Agent and his/her employees. The terms and conditions of the bond and the surety thereon shall be subject to the approval of the Owner and SDHDA and shall be in an amount not less than the total number of units in the Development multiplied by $500. The bond shall be provided without a deductible amount.

FIDELITY BOND CERTIFICATION

The undersigned hereby certifies to the South Dakota Housing Development Authority (SDHDA) that the Fidelity Bond Policy Number ____________________ in the amount of $____________________ issued to _____________________________________, Owner, in connection with SDHDA Development SD99-_______________ meets the minimum fidelity bond requirements as established by SDHDA. The next renewal date for the policy is ___________________________, 20_____.

I further certify that I do _____ do not _____ carry Insurance Agents Errors and Omission insurance.

Dated this ________ day of ___________________, 20_____.

For: __________________________________________

Insurance Agency

Signed By: ________________________________

Its: ______________________________________

Address of Agency: ________________________________

_____________________________________

_____________________________________

_____________________________________
### Chart of Accounts

<table>
<thead>
<tr>
<th>Account Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1100</td>
<td>Current Assets</td>
</tr>
<tr>
<td>1120</td>
<td>Cash Operations</td>
</tr>
<tr>
<td>1125</td>
<td>Cash – Entity</td>
</tr>
<tr>
<td>1130</td>
<td>Tenant/Member Accounts Receivable (Coop)</td>
</tr>
<tr>
<td>1131</td>
<td>Allowance for Doubtful Accounts</td>
</tr>
<tr>
<td>1140</td>
<td>Accounts and Notes Receivable – Operations</td>
</tr>
<tr>
<td>1170</td>
<td>Short Term Investments-Operations</td>
</tr>
<tr>
<td>1175</td>
<td>Short Term Investments – Entity</td>
</tr>
<tr>
<td>1190</td>
<td>Miscellaneous Current Assets</td>
</tr>
<tr>
<td>1191</td>
<td>Tenant/Patient Deposit held in Trust Bank Account in Name of the Development (Contra 2191)</td>
</tr>
<tr>
<td>1300</td>
<td>Restricted Deposits and Funded Reserves</td>
</tr>
<tr>
<td>1310</td>
<td>Escrow Deposits</td>
</tr>
<tr>
<td>1320</td>
<td>Reserve for Replacement</td>
</tr>
<tr>
<td>1340</td>
<td>Residual Receipts Reserve</td>
</tr>
<tr>
<td>1330</td>
<td>Other Revenue</td>
</tr>
<tr>
<td>1370</td>
<td>Deposits to Coops</td>
</tr>
<tr>
<td>1400</td>
<td>Fixed Assets</td>
</tr>
<tr>
<td>1410</td>
<td>Land</td>
</tr>
<tr>
<td>1420</td>
<td>Buildings</td>
</tr>
<tr>
<td>1440</td>
<td>Building Equipment Portable</td>
</tr>
<tr>
<td>1460</td>
<td>Furnishings</td>
</tr>
<tr>
<td>1465</td>
<td>Office Furniture and Equipment</td>
</tr>
<tr>
<td>1470</td>
<td>Miscellaneous Equipment</td>
</tr>
<tr>
<td>1500</td>
<td>Other Assets</td>
</tr>
<tr>
<td>1510</td>
<td>Investments-Operations</td>
</tr>
<tr>
<td>2100</td>
<td>Current Liabilities</td>
</tr>
<tr>
<td>2110</td>
<td>Amounts Payable-Operation</td>
</tr>
<tr>
<td>2111</td>
<td>Accounts Payable-Construction/Development</td>
</tr>
<tr>
<td>2116</td>
<td>Accounts Payable-Section 8 &amp; Other</td>
</tr>
<tr>
<td>2120</td>
<td>Accrued Wages Payable</td>
</tr>
<tr>
<td>2130</td>
<td>Accrued Interest Payable-Section 236</td>
</tr>
<tr>
<td>2160</td>
<td>Notes Payable –Short Term</td>
</tr>
<tr>
<td>Code</td>
<td>Description</td>
</tr>
<tr>
<td>------</td>
<td>-------------</td>
</tr>
<tr>
<td>2170</td>
<td>Mortgage (or Bonds) Payable</td>
</tr>
<tr>
<td>2190</td>
<td>Miscellaneous Current Liabilities</td>
</tr>
<tr>
<td>2191</td>
<td>Tenant/Patient Deposit Held in Trust (Contract)</td>
</tr>
<tr>
<td>2210</td>
<td>Prepaid Revenue</td>
</tr>
<tr>
<td>2300</td>
<td><strong>Long Term Liabilities</strong></td>
</tr>
<tr>
<td>2310</td>
<td>Notes Payable – Long Term</td>
</tr>
<tr>
<td>2320</td>
<td>Mortgage Payable – 1st Mortgage</td>
</tr>
<tr>
<td>3100</td>
<td><strong>Owner Equity</strong></td>
</tr>
<tr>
<td>3130</td>
<td>Owner Equity or Owner Net Assets</td>
</tr>
<tr>
<td>3162</td>
<td>Paid-in Surplus</td>
</tr>
<tr>
<td>3163</td>
<td>Retained Earnings (Corporations)</td>
</tr>
<tr>
<td>3164</td>
<td>Other Equity – (Corporations)</td>
</tr>
<tr>
<td>5100</td>
<td><strong>Total Rent Revenue (GPI @ Occupancy)</strong></td>
</tr>
<tr>
<td>5120</td>
<td>Rent Revenue – Gross Potential</td>
</tr>
<tr>
<td>5140</td>
<td>Rent Revenue – Stores &amp; Commercial</td>
</tr>
<tr>
<td>5170</td>
<td>Rent Revenue – Garage &amp; Parking</td>
</tr>
<tr>
<td>5190</td>
<td>Miscellaneous Rent Revenue</td>
</tr>
<tr>
<td>5192</td>
<td>Rent Revenue/Insurance</td>
</tr>
<tr>
<td>5193</td>
<td>Special Claims Revenue</td>
</tr>
<tr>
<td>5152</td>
<td><strong>Net Rental Revenue (Rent Revenue Less Vacancies)</strong></td>
</tr>
<tr>
<td>5200</td>
<td><strong>Total Vacancies</strong></td>
</tr>
<tr>
<td>5220</td>
<td>Apartments</td>
</tr>
<tr>
<td>5240</td>
<td>Stores &amp; Commercial</td>
</tr>
<tr>
<td>5250</td>
<td>Rental Concessions</td>
</tr>
<tr>
<td>5270</td>
<td>Garage &amp; Parking Spaces</td>
</tr>
<tr>
<td>5290</td>
<td>Miscellaneous</td>
</tr>
<tr>
<td>5400</td>
<td><strong>Total Financial Revenue</strong></td>
</tr>
<tr>
<td>5410</td>
<td>Financial Revenue-Project Operations</td>
</tr>
<tr>
<td>5430</td>
<td>Revenue from Investments-Residual Receipts</td>
</tr>
<tr>
<td>5440</td>
<td>Revenue from Investments-Replacement Reserves</td>
</tr>
<tr>
<td>5490</td>
<td>Revenue from Investments-Miscellaneous</td>
</tr>
<tr>
<td>5900</td>
<td><strong>Total Other Revenue</strong></td>
</tr>
<tr>
<td>5910</td>
<td>Laundry &amp; Vending Revenue</td>
</tr>
<tr>
<td>5920</td>
<td>Tenant Charges</td>
</tr>
<tr>
<td>5945</td>
<td>Interest Reduction Payments Revenue</td>
</tr>
<tr>
<td>5990</td>
<td>Miscellaneous Revenue</td>
</tr>
</tbody>
</table>
6263 **Total Administration Expenses**
6203 Conventions & Meetings
6210 Advertising & Marketing
6250 Other Renting Expenses
6311 Office Expenses
6320 Management Fee
6330 Manager or Superintendent Salaries
6331 Administrative Rent Free Unit
6340 Legal Expense-Project
6350 Audit Expense
6351 Bookkeeping Fees/Accounting Services
6370 Bad Debts
6390 Miscellaneous Administrative Expenses

6400 **Total Utilities Expense**
6420 Fuel Oil/Coal
6450 Electricity
6451 Water
6452 Gas
6453 Sewer

6500 **Total Operating & Maintenance Expenses**
6510 Payroll
6515 Supplies
6520 Contracts
6525 Garbage & Trash Removal
6530 Security Payroll/Contracts
6546 Heating/Cooling Repairs & Maintenance
6548 Snow Removal
6570 Vehicle & Maintenance Equip. Operations & Repairs
6590 Miscellaneous Operating & Maintenance Expenses

6611 **Total Depreciation & Amortization Expenses**
6600 Depreciation Expense
6610 Amortization Expense

6700 **Total Taxes & Insurance**
6710 Real Estate Taxes
6711 Payroll Taxes (Project’s Share)
6720 Property & Liability Insurance (Hazard)
6721 Fidelity Bond Insurance
Account Descriptions

1120 This account reflects the consolidation of unrestricted cash and cash equivalent accounts available to fund project operating costs for reporting purposes. This account includes cash maintained on-site in a petty cash fund. (At all times, total petty cash on hand plus the receipts for the bills paid must equal the amount of the established fund).

1130 This account reflects the total rents receivable from tenants/shareholders. In subsidized properties, this account should only reflect the portion of the rent for which the tenant/shareholder is responsible.

1131 This account reflects the amount of tenant accounts receivable that management estimates as being uncollectible. This account is also used to record amounts of Medicare/Medicaid billings that Nursing Homes estimate will not be paid.

1140 This account reflects all short term receivables due to the project other than rent and HUD receivables, including security deposits. Notes receivable to project (or accounts receivable not related to routine operations) could be an indication of an unauthorized distribution of project assets.

1170 This account reflects non-restricted investments that can be converted to cash within one year. These funds are available to pay for project operating costs.
This account reflects current assets not otherwise described above, including utility deposits.

This account reflects the cash balances of bank accounts and investments held on behalf of rental tenants in trust for security and other deposits, as well as on behalf of nursing home patients. These deposits/patient personal funds must be held in the name of the project in a separate bank account. Agents may use deposits to pay for tenant damages and delinquent rents when a tenant vacates. Please consult HUD Handbook 4350.3, paragraphs 4-8, 9, and 10, and applicable state or local law for regulations regarding collection and disposition of security deposits.

This account reflects the cash balance on hand for future payments of insurance, real estate taxes, mortgage insurance premiums and any other funding as required under the Regulatory Agreement.

This account reflects cash and investments held by mortgagee or mortgagor (as required) for replacements as set forth in the Regulatory Agreement. This account may include amounts that are reported in separately established painting reserve accounts.

This account reflects cash and investments held by the mortgagee or mortgagor for which HUD approval is required for withdrawals. This account may include debt service reserves and/or FEMA funds.

This account reflects any required deposits to the Residual Receipts Fund held by the mortgagee or, in the case of Section 202 projects, in a separate Residual Receipts account (refer to the Regulatory Agreement for specific requirements). Releases are subject to HUD approval.

This account reflects the purchase price of the land plus the cost of Improvements to the land are charged to this account.

This account reflects the total cost of the buildings, including fixed building equipment, furniture, and furnishings, is charged to this account. Agents should also charge improvements to the buildings to this account. The balance represents the original cost of the buildings plus enhancements.

The balance of this account represents the total cost of the portable equipment in use by the project. Costs include any transportation or installation charges. Assets in this account include items such as stoves, refrigerators and fire extinguishers.

This account reflects the cost of furnishings (window shades, venetian blinds shower curtains, hall carpets, etc.) not charged to the cost of the
building is recorded in this account. The balance of the account represents the cost of the furnishings in use.

1465 This account reflects the cost of furniture and equipment owned and used on-site by the project.

1470 This account reflects the cost of project maintenance equipment in use.

1510 This account reflects long-term investments (those expected to be held for more than one year) other than those included in the Funded Reserves (1300) Series.

2110 This account reflects the total of unpaid bills from trade creditors. This account does not include bills to be paid from the project improvement fund (See accounts 1381 and 2112), or those amounts payable in connection with construction or development costs (See account 2111).

2111 This account reflects construction or other development costs payable from construction, development, or syndicated/equity funds.

2116 This account reflects any amount due HUD or other federal or state agency, in connection with the Section 8 or other loan program.

2120 This account reflects the gross amount of payroll that has been accrued, but not paid, at the end of the accounting period.

2130 Used only for Section 236 projects, this account reflects interest accrued but unpaid on the mortgage obligation at the end of the accounting period. Agents should include only the mortgagor's portion of the interest liability on the mortgage. If Interest Reduction Payments (IRP) are in excess of interest due under the mortgage note, the excess should be reported in account 1165.

2160 This account reflects the current portion on notes payable. This account also reflects owner advances that have received prior repayment approval from HUD.

2170 This account reflects the current portion on mortgage payable for a first mortgage or bond obligation.

2190 This account reflects current liabilities not otherwise described above.

2191 This account represents the liabilities associated with security and other deposits that are held on behalf of rental tenants and nursing home patients. These deposits/patient personal funds must be held in the name of the project in a separate bank account. Agents may use deposits to pay
for tenant damages and delinquent rents when a tenant vacates. Please consult HUD Handbook 4350.3, paragraphs 4-8, 9, and 10, and applicable state or local law for regulations regarding collection and disposition of security deposits.

2210 This account reflects rents received from tenants (including commercial tenants) and certain contracts, that apply to future accounting periods.

2310 This account reflects amounts of notes due in more than one year from the date of the balance sheet, net of the current portion. The amount due within one year is recorded in account 2160.

2320 This account reflects the unpaid principal balances of the mortgages or bonds, net of the current portion, that are payable from project operations. The amount due within one year is recorded in account 2170.

3130 This account reflects the total amount of capital invested in the project by its owners.

3162 This account reflects the portion of equity for entities that are profit-motivated/limited distribution Corporations that is classified as Paid-in Surplus.

3163 This account reflects the portion of equity for entities that are profit motivated/limited distribution Corporations that is classified as Retained Earnings.

3164 This account reflects the portion of equity for entities that are profit-motivated/limited distribution Corporations that does not fall into the other categories.

5120 This account reflects the rent/carrying charges approved at 100% occupancy, less tenant/shareholder assistance payments, for all residential units (including non-revenue producing units). Potential rent could be market, contract, or Section 8. For section 236 and 221(d) (3) BMIR projects, this account reflects basis rental/carrying charges due for tenants/shareholders, less tenant/shareholder assistance payments. See account 5191 for treatment of rents due or collected from tenants paying amounts greater than the basic rental/carrying charge.

5140 This account reflects gross rental revenue expectancy from stores, offices, or other commercial facilities.

5170 This account reflects the gross potential rental revenue from all garage and parking spaces.
<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5190</td>
<td>This account reflects gross rental revenue expectancy not otherwise described above.</td>
</tr>
<tr>
<td>5192</td>
<td>This account reflects the amount of insurance claims proceeds in connection with lost rental revenue.</td>
</tr>
<tr>
<td>5193</td>
<td>This account reflects the amount of revenue collected from special claims including vacancy, damages, and debt service.</td>
</tr>
<tr>
<td>5220</td>
<td>This account reflects the rental revenue lost through vacancy of an apartment unit.</td>
</tr>
<tr>
<td>5240</td>
<td>This account reflects the rental revenue lost through vacancy of a store or other commercial units.</td>
</tr>
<tr>
<td>5250</td>
<td>This account reflects the amount provided as rental concessions (i.e., free rent) in connection with the execution of leases of revenue producing units.</td>
</tr>
<tr>
<td>5270</td>
<td>This account reflects the rental revenue lost through vacancy of a garage or parking spaces.</td>
</tr>
<tr>
<td>5290</td>
<td>This account reflects the rental revenue lost through vacancy of any revenue producing space or equipment not otherwise described above.</td>
</tr>
<tr>
<td>5410</td>
<td>This account is used to record interest and other investment income earned in connection with project operations.</td>
</tr>
<tr>
<td>5430</td>
<td>This account reflects interest and other investment income earned from residual receipts investments.</td>
</tr>
<tr>
<td>5440</td>
<td>This account reflects interest and other investment income earned from replacement reserve investments.</td>
</tr>
<tr>
<td>5490</td>
<td>This account reflects interest and other investment income earned in connection with project operations.</td>
</tr>
<tr>
<td>5910</td>
<td>This account reflects project revenues received from laundry and vending machines owned or leased by the project.</td>
</tr>
<tr>
<td>5920</td>
<td>This account reflects charges assessed to tenants for rent checks returned for insufficient funds, late payment of rents, breaking the lease,</td>
</tr>
</tbody>
</table>
and all other extraneous fees that have to do with lease/tenant. This account also includes damage payments received from HUD and forfeited security deposits.

5945 This account only applies to Section 236 projects and recognizes Interest Reduction Payments (IRP) that have been received by the owner over and above interest due on the mortgage note.

5990 This account reflects project revenues not otherwise described in the above revenue accounts; it may also include revenue from non-commercial rental space. Miscellaneous revenue needs to be explained in the notes section of the audit.

6203 Expenses related to attendance/participation in professional conventions and meetings.

6210 This account reflects the cost of advertising and marketing the rental property, both during initial rent-up and after the project reaches normal occupancy levels.

6250 This account reflects miscellaneous expenses related to the rent-up of vacant units. Example – welcome basket, gift card, etc..

6311 This account reflects office and related expense items; examples include office supplies, postage, stationery, copying, Internet charges, telephone and answering services, criminal background checks/sex offender checks directly related to the development and HUD's Section 8 requirements.

6320 This account reflects the cost of management agent service contracted for by the project. This account does not include charges for bookkeeping or accounting services performed by either the management agent or another party. The amount reported in this account is sometimes a pure percentage of allowable revenue collected.

6330 This account reflects salaries paid to a resident manager or superintendent. It does not include the project's share of payroll taxes or other employee benefits or compensation given a resident manager or superintendent in lieu of salary payments.

6331 This account reflects the contract rent of any rent free unit provided to administrative personnel (including a resident manager or superintendent) which would otherwise be considered revenue producing. Partial rent
reductions given should be reflected in this account as well. This account is not to be used for rent free units provided or rent reductions given to either maintenance or security personnel (see accounts 6521 and 631).

6340 This account reflects legal fees or services incurred on behalf of the project. For example, fees incurred for eviction procedures should be reflected in this account. In contrast, legal fees or services related to the mortgagor entity should be reflected in account 7120.

6350 This account reflects the auditing expense incurred by the project that is directly related to HUD’s requirement for audited financial statements. This account also includes the auditor’s charge for preparing Schedule K-1 for the mortgagor entity’s Federal income tax return. Amounts incurred for the cost of routine maintenance or review of the project’s books and records should not be included in this account (see account 6351).

6351 This account reflects the cost of bookkeeping fees or accounting or computing services not included in the management fee but paid to either the management agent or another party. TRACS software fees (must be prorated if multiple properties use the software).

6370 This account reflects the amount of tenant bad debts for the period under audit.

6390 This account reflects administrative expenses not otherwise classified in the 6200/6300 series. Examples include Neighborhood Networks, bank charges, investment fees, training, travel, membership dues and subscriptions. All miscellaneous administrative expenses must be detailed in the notes section of the audit.

6420 This account reflects the cost of fuel oil/coal charges billed to the project.

6450 This account reflects the cost of electricity charges billed to the project.

6451 This account reflects the cost of water charges billed to the project.

6452 This account reflects the cost of gas charges billed to the project.

6453 This account reflects the cost of sewer charges billed to the project.

6510 This account reflects the salaries of project employees who perform services including but not limited to janitorial/cleaning, exterminating,
grounds, repairs, and decorating. This account does not include the project’s share of payroll taxes (FICA and Unemployment) or other employee benefits paid by the project. Supporting detail is not required for this account unless requested by HUD.

6515 This account reflects all costs of supplies charged to the project for janitorial/cleaning, exterminating, grounds, repairs, appliance parts, plumbing, electrical and decorating.

6520 This account reflects the cost of contracts the owner or agent executes with third parties on behalf of the project for janitorial/cleaning, exterminating, grounds, repairs (plumbing, appliance and electrical), security/protection, elevator maintenance, swimming pool maintenance, and decorating.

6525 This account reflects the cost of removing garbage and rubbish from the project. The account does not include salaries paid to janitors who collect the trash.

6530 This account reflects the project’s payroll cost attributable to the protection contract that the owner or agent executes on behalf of the project.

6546 This account reflects the cost of repairing and maintaining heating or air conditioning equipment owned by the project.

6548 This account reflects the cost of removing snow from project sidewalks and parking areas.

6570 This account reflects the cost of operating and repairing project motor vehicles and maintenance equipment. Motor vehicle insurance is not included in this account but is charged to account 6720, Property and Liability Insurance (Hazard).

6590 This account reflects the cost of maintenance and repairs not otherwise classified in the 6500 account Series.

6600 HUD does not prescribe the method of depreciation for fixed assets of the project. The method of depreciation, however, must conform to GAAP. This account represents depreciation charged during the accounting period.

6610 This account reflects amortization expense related to organizational costs, including loan fees, organization expenses, and like expenses.
6710 This account reflects payments made for real estate taxes of the project. This may represent a payment in lieu of taxes (only in certain jurisdictions), which is generally charged as a percentage of income.

6711 This account reflects the project's share of FICA and State and Federal Unemployment taxes.

6720 This account reflects the cost of project property and liability insurance.

6721 This account reflects the cost of bonding project employees who handle funds. Only non-profits are allowed this expense, otherwise it is a management agent/owner overhead expense.

6722 This account reflects the cost of workmen's compensation insurance for project employees.

6723 This account reflects the cost of any health insurance and other employee benefits charged to the project.

6790 This account reflects any taxes, licenses, permit fees, or cost of insurance assessed to the project and not otherwise categorized in the 6700 Series.

6820 This account reflects interest incurred on the first mortgage (or bonds) used to construct, permanently finance or refinance the project. This account also includes the 1% owner portion of interest for Section 236 projects; excess Interest Reduction Payments (IRP) should be recorded in account 5945. This account should not include interest incurred on notes which are payable only from surplus cash.

6830 This account reflects interest and discounts incurred on long term project operating notes. This account should not include interest incurred on notes which are payable only from surplus cash (refer to account 7142).

6840 This account reflects interest and discounts incurred on short term project operating notes. This account should not include interest incurred on notes which are payable only from surplus cash (refer to account 7142).

6850 This account reflects payments to the mortgagee for insurance on the mortgage. In the case of HUD-held mortgages, the payment is in the form of a service charge, as reflected on HUD Form-2771.
6890 This account reflects financial expenses not otherwise classified in the 6800 series. This account also includes fees paid to a bond trustee.

7105 This account reflects revenue for the mortgagor entity, including interest income.

7110 This account reflects amortization expense related to organizational costs, including loan fees, organization expenses, and like expenses.

7120 This account reflects legal expenses related solely to the corporation or mortgagor entity.

7141 This account reflects interest incurred on notes which are payable only from surplus cash.

7142 This account reflects interest incurred on mortgages which are payable only from surplus cash or other entity funds.

7190 This account records mortgagor entity expense items not otherwise classified in the 7100 Series. The account includes fees for preparation of federal, state and local income tax returns for individuals or limited partners; supervisory, asset management, and other similar fees for services performed by partners or other identities of interest; office rent and supplies used exclusively for mortgagor entity purposes.