



Multifamily Housing Program Annual Financial Statement and Audit Guide

December 2010



South Dakota Housing Development Authority

Annual Financial Statement and Audit Guide

Fifth Edition, 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.

South Dakota Housing Development Authority

PO Box 1237

Pierre, SD 57501

Phone: 605.773.3181

Fax: 605.773.5154

Table of Contents

ACCOUNTING	3
THE AUDIT AND THE AUDITOR	3
SUPPORTING DOCUMENTATION	4
A. Cost Certification	4
B. Construction Contract	4
C. Building Loan Agreement	4
D. Mortgage and Mortgage Note	4
E. Regulatory Agreement	4
F. Escrow Balances	4
G. HAP Contract	4
H. Working Capital Escrow Agreement	5
I. Resident Files	5
J. Partnership Agreement	5
K. Management Agreement	5
L. Amendments to Agreements	5
M. Miscellaneous Agreements	5
BANK ACCOUNTS	5
<i>Operating Receipts and Expense Account</i>	5
<i>Security Deposit Account</i>	6
<i>Syndication/Partnership Contributions</i>	7
<i>Entity Expense</i>	7
<i>Return on Equity – Dividend Distribution</i>	7
CONTENTS OF THE ANNUAL AUDIT REPORT	8
A. BALANCE SHEET	8
B. STATEMENT OF PROFIT AND LOSS	8
C. STATEMENT OF CASH FLOWS	8
D. STATEMENT OF CHANGES IN EQUITY	8
<i>Supporting Schedules</i>	8
E. SCHEDULE OF CASH OPERATING RECEIPTS AND DISBURSEMENTS	8
F. SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS SYNDICATION/PARTNERSHIP CONTRIBUTIONS	8
G. OTHER SUPPORTING SCHEDULES	9
H. SUPPORTING DATA	9
I. AUDITOR’S CERTIFICATION	10
J. MORTGAGOR’S CERTIFICATION	10

OTHER REPORTS	10
A. Report on Compliance with Contractual Agreements	10
B. Report on Internal Control	10
SYSTEM, CHART, AND MANUAL OF ACCOUNTS	11
SAMPLE FINANCIAL STATEMENT FORMS	11
CONTRACT BETWEEN A MULTIFAMILY DEVELOPMENT AND INDEPENDENT PUBLIC ACCOUNTANT	12
(Sample) BALANCE SHEET AS OF _____	17
STATEMENT OF PROFIT AND LOSS	19
SCHEDULE OF CASH OPERATING RECEIPTS AND DISBURSEMENTS	22
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS SYNDICATION/PARTNERSHIP CONTRIBUTIONS	23
COMPUTATION OF SURPLUS CASH AND RESIDUAL RECEIPTS *	24
COMPUTATION OF AUTHORIZED MANAGEMENT FEE YEAR END SETTLEMENT	25
SCHEDULE OF BANK ACCOUNTS	26
SCHEDULE OF TENANT SECURITY DEPOSITS HELD IN TRUST	27
SCHEDULE OF CHANGES IN FIXED ASSETS	28
SDHDA REDEFINED EQUITY PROGRAM*	29
ADMINISTRATIVE RULES	29
COMPUTATION OF DIVIDEND	35
FIDELITY BOND REQUIREMENTS	37

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 depository 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)
4. A Schedule of Tenant Security Deposits. (Page 27)
5. A Schedule of Changes in Fixed Assets. (Page 28)
6. A Computation of Dividend (except for nonprofits). (Page 36)
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.

SYSTEM, CHART, AND MANUAL OF ACCOUNTS

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 in 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

	Cost	Accumulated Depreciation	Net Book Value
1410 Land	\$ _____	\$ _____	\$ _____
1420 Buildings	\$ _____	\$ _____	\$ _____
1440 Building Equipment –Portable	\$ _____	\$ _____	\$ _____
1460 Furnishings	\$ _____	\$ _____	\$ _____
Total Fixed Assets			\$ _____

1500 Other Assets

1510 Investments-Operations	\$ _____
Total Other Assets	\$ _____

Total Assets \$ _____

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 **\$ _____**

6263 Total Administrative 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 Expenses-Project	_____
6350 Audit Expense	_____
6351 Bookkeeping Fees\Accounting Services	_____
6370 Bad Debts	_____
6390 Miscellaneous Administrative Expenses	_____

Total Administrative Expenses \$ _____

6400 Total Utilities Expense

6420 Fuel Oil\Coal	_____
6450 Electricity	_____
6451 Water	_____
6452 Gas	_____
6453 Sewer	_____

Total Utilities Expense \$ _____

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., Operation & Repairs	_____
6590 Miscellaneous Operating & Maintenance Expenses	_____

Total Operating & Maintenance Expenses \$ _____

6600 Total Depreciation & Amortization Expenses

6600 Depreciation Expense	_____
6610 Amortization Expense	_____

Total Depreciation & Amortization Expenses \$ _____

6700 Total Taxes and Insurance

6710 Real Estate Taxes	_____
6711 Payroll Taxes (Project's Share)	_____
6720 Property & Liability Insurance (Hazard)	_____
6721 Fidelity Bond Insurance	_____

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

Revenues

Net Rental Revenue \$ _____

Total Financial Revenue \$ _____

Other Revenue (Detail) \$ _____

Total Revenue \$ _____

Expenditures

Administrative \$ _____

Utility \$ _____

Operating & Maintenance \$ _____

Taxes & Insurance \$ _____

Maintenance and Repairs \$ _____

Financial \$ _____

Total Expenditures \$ _____

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__	\$ _____
 <u>Syndication Payments</u>	
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

Account Type	Bank	Account Name	Account Number	Amount
Operating				\$
Investment Funds				\$
Security Deposit				\$
Other				\$
Total Cash on Hand				\$
Excluding partnership funds				\$
Partnership Accounts				

SCHEDULE OF TENANT SECURITY DEPOSITS HELD IN TRUST

Development Number _____
 Development Name _____
 For Year Ending _____

Security Deposits Held in Trust

Beginning Balance \$ _____

Deposits:

Tenant Security Deposits \$ _____
 Interest Earned \$ _____

Disbursements:

Security Deposits Returned \$ _____
 Interest Paid to Residents \$ _____
 Deposits Forfeited to Project \$ _____
 Other (Detail) \$ _____

Security Deposits Held In Trust (Cash in Bank) *\$ _____

Security Deposit Liability (Contra)

Beginning Balance \$ _____
 Deposits received \$ _____
 Interest earned \$ _____
 Tenant deposits receivable \$ _____
 Deposits returned \$(_____)
 Interest paid to residents \$(_____)

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

Balance Date __ 20__	Additions	Deductions	Balance Date __ 20__

Accumulated Depreciation

Balance Date __ 20__	Additions	Deductions	Balance Date __ 20__

Direct Write-offs

<u>Item</u>	<u>Amount</u>

Budgeted

<u>Beginning Budget</u>	<u>Fixed Asset Purchases</u>	<u>Direct Write-offs</u>	<u>Budget Remaining</u>

*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.

SDHDA REDEFINED EQUITY PROGRAM* **ADMINISTRATIVE RULES**

Effective May 3, 1992

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

Source:

General Authority: 11-11-30, 11-11-180.

Law Implemented: SDCL 11-11-158.

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.

APPENDIX
TO
CHAPTER 24:09:06

SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY
REDETERMINATION OF EQUITY
INSTRUCTIONS FOR CALCULATION

- (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) Reserves 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

1	Mortgage Loan Balance	\$
	Reserves:	
	Residual Receipts	\$
	DCE	\$
	Replacements	\$
	Painting	\$
2	Total Reserves	\$
3	Reserves as percentage of Mortgage Loan Balance (min 20%	%
	Repairs and Replacements in next year	\$
4	Total	\$
5	Operating Cash (audited financial statement)	\$
6	Less: Accounts Payable	-\$
7	Monthly Operating Expense	-\$
8	Total Operating Cash Available	\$
9	SDHDA Initial Fee	\$
10	Reserves-Repairs-Negative Cash-Initial Fee	\$
11	Reserves as percentage of Mortgage Loan Balance (min 20%)	%
	Surplus Cash Available:	
12	Operating Cash	\$
13	Rent Subsidy Receivable	\$
14	DCE Interest	\$
15	Residual Receipt Interest	\$
	<i>Subtotal</i>	\$
16	Less: Accounts Payable	-\$
17	Accrued Interest Payable	-\$
	Surplus Cash	\$
	Allowable Distribution:	
18	Surplus Cash	\$
19	Plus Debt Service	\$
20	<i>Net Operating Income Before Debt Service</i>	\$
21	Dividend by the Capitalization Rate	%
22	Re-determined Property Value	\$
23	Less: Mortgage Loan Balance	-\$
24	<i>Redefined Equity Amount</i>	\$
25	Times 10% Distribution	\$
26	Unpaid Dividend Distribution Allowed from Prior Years	\$
27	<i>Total Potential Distribution</i>	\$

28	Surplus Cash	\$
29	<i>Allowable Distribution</i>	\$
	Residual Receipt Transfer	
30	Surplus Cash	
31	Less: Allowable Distribution	-\$
32	DCE Interest	-\$
33	Residual Receipt Interest	-\$
34	<i>Transfer to (from) Residual Receipts</i>	-\$
35	Reserves-Repairs-Negative Cash-Fee-Transfer	
36	Reserves as percentage of Mortgage Loan Balance	%

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 \$(_____)

6. Total allowable current year distribution per SDCL 11-11-157.
(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

Account

Number

1100	Current Assets
1120	Cash Operations
1125	Cash – Entity
1130	Tenant/Member Accounts Receivable (Coop)
1131	Allowance for Doubtful Accounts
1140	Accounts and Notes Receivable – Operations
1170	Short Term Investments-Operations
1175	Short Term Investments – Entity
1190	Miscellaneous Current Assets
1191	Tenant/Patient Deposit held in Trust Bank Account in Name of the Development (Contra 2191)
1300	Restricted Deposits and Funded Reserves
1310	Escrow Deposits
1320	Reserve for Replacement
1340	Residual Receipts Reserve
1330	Other Revenue
1370	Deposits to Coops
1400	Fixed Assets
1410	Land
1420	Buildings
1440	Building Equipment Portable
1460	Furnishings
1465	Office Furniture and Equipment
1470	Miscellaneous Equipment
1500	Other Assets
1510	Investments-Operations
2100	Current Liabilities
2110	Amounts Payable-Operation
2111	Accounts Payable-Construction/Development
2116	Accounts Payable-Section 8 & Other
2120	Accrued Wages Payable
2130	Accrued Interest Payable-Section 236
2160	Notes Payable –Short Term

2170	Mortgage (or Bonds) Payable
2190	Miscellaneous Current Liabilities
2191	Tenant\Patient Deposit Held in Trust (Contract)
2210	Prepaid Revenue
2300	Long Term Liabilities
2310	Notes Payable – Long Term
2320	Mortgage Payable – 1 st Mortgage
3100	Owner Equity
3130	Owner Equity or Owner Net Assets
3162	Paid-in Surplus
3163	Retained Earnings (Corporations)
3164	Other Equity – (Corporations)
5100	Total Rent Revenue (GPI @ 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
5152	Net Rental Revenue (Rent Revenue Less Vacancies)
5200	Total Vacancies
5220	Apartments
5240	Stores & Commercial
5250	Rental Concessions
5270	Garage & Parking Spaces
5290	Miscellaneous
5400	Total Financial Revenue
5410	Financial Revenue-Project Operations
5430	Revenue from Investments-Residual Receipts
5440	Revenue from Investments-Replacement Reserves
5490	Revenue from Investments-Miscellaneous
5900	Total Other Revenue
5910	Laundry & Vending Revenue
5920	Tenant Charges
5945	Interest Reduction Payments Revenue
5990	Miscellaneous Revenue

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

6722 Workmen's Compensation
6723 Health Insurance & Other Benefits
6790 Miscellaneous Taxes, Licenses, Permits & Insurance

6800 Total Financial Expenses

6820 Interest on Mortgage (or Bonds) 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

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

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 use 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.

- 1190 This account reflects current assets not otherwise described above, including utility deposits.
- 1191 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.
- 1310 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.
- 1320 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.
- 1330 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.
- 1340 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.
- 1410 This account reflects the purchase price of the land plus the cost of Improvements to the land are charged to this account.
- 1420 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.
- 1440 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.
- 1460 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.

- 5190 This account reflects gross rental revenue expectancy not otherwise described above.
- 5192 This account reflects the amount of insurance claims proceeds in connection with lost rental revenue.
- 5193 This account reflects the amount of revenue collected from special claims including vacancy, damages, and debt service.
- 5220 This account reflects the rental revenue lost through vacancy of an apartment unit.
- 5240 This account reflects the rental revenue lost through vacancy of a store or other commercial units.
- 5250 This account reflects the amount provided as rental concessions (i.e., free rent) in connection with the execution of leases of revenue producing units.
- 5270 This account reflects the rental revenue lost through vacancy of a garage or parking spaces.
- 5290 This account reflects the rental revenue lost through vacancy of any revenue producing space or equipment not otherwise described above.
- 5410 This account is used to record interest and other investment income earned in connection with project operations.
- 5430 This account reflects interest and other investment income earned from residual receipts investments.
- 5440 This account reflects interest and other investment income earned from replacement reserve investments.
- 5490 This account reflects interest and other investment income earned in connection with project operations.
- 5910 This account reflects project revenues received from laundry and vending machines owned or leased by the project.
- 5920 This account reflects charges assessed to tenants for rent checks returned for insufficient funds, late payment of rents, breaking the lease,

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.