

**HOUSING AUTHORITY OF THE  
COUNTY OF BUTTE**



**Request For Proposal  
21022-QSP**

**Audit Services**

**November 23, 2021**

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HOUSING AUTHORITY of the County of Butte

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**REQUEST FOR PROPOSAL  
21022-QSP  
HOUSING AUTHORITY OF THE COUNTY OF AUDIT SERVICES**

**I. INTRODUCTION**

The Housing Authority of the County of Butte (HACB) is inviting proposals from independent public accounting firms (Offeror) to perform a financial and compliance audit of HACB and its component units for the fiscal years ending September 30, 2022, with additional options for fiscal years ending 2023, 2024, 2025, 2026, at the sole discretion of HACB. Additional required reports and filings are listed under Section III. Scope of Work.

The audit shall be conducted in accordance with Generally Accepted Auditing Standards, as well as Generally Accepted Government Auditing Standards (Yellow Book) issued by the United States Government Accountability Office. The audit and financial statements shall meet the requirements of 2 CFR Part 200 and applicable Compliance Supplements, as well as the Single Audit Act, as amended. The auditors are to prepare the financial statements in accordance with Generally Accepted Accounting Principles and finalize all reports within federal and state reporting timetables for submissions. This includes electronically reviewing the Financial Data Schedule via the U.S. Department of Housing and Urban Development (HUD) Real Estate Assessment Center (REAC) website.

Proposals which addresses the Proposal Requirements described in the Scope of Work section will be accepted by email.

**PROPOSALS WILL BE ACCEPTED UNTIL 4:00 PM (PST)**

**Tuesday, January 31, 2022**

**Proposals shall be submitted to:** [sherib@butte-housing.com](mailto:sherib@butte-housing.com)

**II. GENERAL INFORMATION**

- 1** HACB is a public housing authority established under the State of California Health and Safety Code. The mission of HACB is to assist low and moderate income residents of Butte County to secure and maintain affordable housing. The HACB Board of Commissioners is composed of seven commissioners appointed by the Butte County Board of Supervisors. The HACB Executive Director is the principal Administrator and corporate Secretary of the HACB.
- 2** HACB is responsible for the development of low-income rental projects, management of publicly owned or assisted housing projects, operations of rental subsidy programs and rehabilitation of existing housing stock. HACB serves all of Butte County, California in addition to 87 units of HUD Section 8 Housing Choice Vouchers (HCV) available for lease up in Glenn County, California.

- 3 In addition to the Primary Government, HACB has two affiliated 501(c)(3) non-profit component units to be included in this audit: Banyard Management and Butte County Affordable Housing Agency (BCAHDC), both entities are the managing general partner (MGP) in Low Income Housing Tax Credit (LIHTC) limited partnerships. BCAHDC is MGP in 1200 Park Avenue L.P.; Walker Commons, L.P.; Chico Harvest Park L.P.; and DHI-DFI Gridley Springs I, L.P. Banyard Management is the MGP in Chico Commons, L.P. Additionally, HACB is the sole managing member 1200 Park Avenue LLC which is the administrative general partner in 1200 Park Avenue L.P.
- 4 HACB own the limited partner interests in Chico Commons, L.P. and Walker Commons, L.P., In FY 2021 HACB will also own the limited partner interests in 1200 Park Avenue, L.P.
- 5 Attachment 1 contains a list of all federal, state, and local programs currently administered by HACB.
- 6 Regulations pertaining to federally assisted programs are promulgated by HUD and U.S. Department of Agriculture (USDA). Regulations pertaining to the state assisted programs are promulgated by the California Department of Housing and Community Development (HCD); California State Water Control Board; and the California Tax Credit Allocation Committee (CTCAC). The HACB also owns units to be re-financed with a Bond issuance in late 2020. The six bond financed properties will be subject to regulatory, indenture, and continuing disclose agreements.
- 7 HACB's fiscal year begins October 1<sup>st</sup> and ends September 30<sup>th</sup>. The last audit was performed for the fiscal year ending September 30, 2020. Audit for 2021 in progress.
- 8 HACB utilizes an MRI Software legacy product, HAB Housing Management Software (HMS), for both housing and finance purposes.
- 9 Each federally and state assisted program has its own separate books of account using fund accounting.
- 10 HACB maintains property records for all departments and conducts a physical inventory of maintenance materials each year and a physical inventory of assets every other year.
- 11 For fiscal year 2021, gross pay is expected to be \$2.5 million for 36 full time and 3 part time employees. The annual operating budget is anticipated to be approximately \$25 million, \$15.8 million of which is budgeted for Section 8 HCV housing assistance payments.
- 12 There are three main checking accounts are utilized: the Revolving Fund; the USDA Farm Labor Housing operating account; and the Cafeteria Plan account. The Revolving Fund, aka Operating Account, has the most annual activity to include 1,900 checks and ACH accounts payable transactions; approximately 936 direct deposit payroll transactions per year (representing 50 separate pay runs); and approximately 7,000 HCV landlord direct deposit transactions. In addition, there are several special purpose bank accounts to include HCV FSS Escrow; USDA FLH Security Deposits, USDA FLH Tax and Insurance Account; USDA FLH Reserves Accounts; USDA FLH Construction Account; BCAHDC checking; BCAHDC savings; and Banyard Savings. Several money market and Certificate of Deposit investments are held by Financial Northeastern Company. Bond Reserves will be held by The Bank of New York Mellon Trust Company, N.A. The HACB also has two Section 115 Trust accounts, one for Other Post Employment Benefits and one for the CalPERS unfunded pension liability payments. In addition, third party property

managers maintain several banking accounts on behalf of each of the properties that they manage properties.

- 13 HACB properties are exempt from property taxes. Payments in Lieu of Taxes are made to the County of Butte for HUD Public Housing and USDA Farm Labor Housing properties.
- 14 Interfund activity will be reconciled by HACB accounting staff.
- 15 HACB has been a low risk auditee with no findings or questioned costs for the past twenty years.
- 16 HACB has been exempt for HUD Asset Management by Congressional Appropriations language since 2008, with Board approval. It is anticipated to be exempt from Asset Management in 2022. There is no internal service fund, aka Central Office Cost Center. HACB uses a Cost Allocation Plan to allocate overhead costs and a Space Allocation Plan to allocate office space costs.

### **III. SCOPE OF WORK**

#### **1 Requirements**

The Offeror shall furnish all qualified personnel, facilities, equipment and supplies to conduct an organization-wide financial and compliance audit in accordance with appropriate standards on behalf of HACB and its component units.

#### **2 Scope of Work**

- a Conduct a survey of the financial and compliance activities of the HACB, analyze data gathered and develop an audit work plan which will provide the audit coverage required by 2 CFR Part 200 and the applicable Compliance Supplement(s).
- b Conduct the audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. The audit and financial statements shall meet the requirements of federal Single Audit Act as prescribed by 2 CFR Part 200, Audits of States, Local Governments and Nonprofit Organizations, GASB-34 Basic Financial Statement's and Managements Discussion and Analysis for State and Local Governments and the U.S. Department of Housing and Urban Development's (HUD) Public and Indian Housing Compliance Supplement. The financial statements are to be prepared by the auditor in accordance with Generally Accepted Accounting Principles (GAAP) and the HUD timetable for submission. This includes access to electronically approve Financial Data Schedules (FDS) via the internet as required by the HUD REAC.
- c Form SF-SAC - The auditor will also be required to prepare and electronically submit, by the due date of June 30th each year, to the Bureau of Census a Data Collection Form (Form SF SAC) along with the audited financial statements and comply with all the requirements.
- d Complete Supplemental Reporting Requirements for USDA Rural Development (USDA) for the Gridley Farm Labor Housing project to include preparation of a separate annual report, see Attachment 2. – Separate Report due 90 days after fiscal year end. Report must also include HCD required supplemental reporting.
- e Complete Supplemental Reporting Requirements for California Housing Community Development (HCD) for the Gridley Springs II Property to includes preparation of a separate annual report, see Attachment 3. – Separate report due 90 days after fiscal year end.

- f Prepare Debt Service Ratio Covenant Certificate.
- g Audit HUD Form 53001 Actual Modernization Cost Certificate to close at least one HUD Capital Fund Grant per year.
- h Review and certify HUD FDS using REAC system.
- i Complete Internal Revenue Service Form 990 and California Franchise Tax Board Form 199 for BCAHDC and Banyard Management, as applicable.
- j Complete Internal Revenue Service Form 990 (or 990N) and California Franchise Tax Board Form 199 (or 199N) for Banyard Management, as applicable.
- k Complete Attorney General's Registry of Charitable Trusts Form RRF-1 for BCAHDC and Banyard Management.

### 3 Audit Period

The audit periods shall be for the fiscal period beginning October 1, 2021 and ending September 30, 2022 with options for fiscal years 2023, 2024, 2025, 2026.

## IV. REPORTS

### 1 Single Audit Report and Required Supplementary Information

- a The Offeror shall prepare reports in accordance with all applicable accounting standards, including but not limited to 2 CFR Part 200 and the *Government Auditing Standards*.
- b Report must include the HUD Financial Data Schedule and SAS-119 opinion.
- c Required Supplementary information includes financial statements for each component unit, BCAHDC and Banyard Management.
- d The audit report and management letter outlining recommendations for operational improvement shall be submitted in draft form to the HACB Finance Director. The Finance Director shall notify the audit firm of any objections or approval of the draft audit report within 10 business day of receipt.
- e One (1) electronic copy and (1) bound copy of each completed audit report shall be submitted to the Finance Director by May 30<sup>th</sup> each year. It is anticipated that financial records will be closed and ready for audit by November 30<sup>th</sup> of each year. The Single Audit Act and REAC stipulate a submission due date of nine (9) months after the fiscal year end. The Bond Trustee will require a copy the audit report by June 30<sup>th</sup> each year.

### 2 SF-SAC the auditor shall complete for submission to the Federal Audit Clearinghouse.

### 3 USDA-RD Agreed Upon Procedures Report with supplemental information for Gridley Farm Labor Housing. Review and certify USDA RD Form 3560-7 and RD Form 3560-10. Complete USDA and HCD Supplemental Reporting Requirements, see Attachment 2. Provide the required reports by the third week in December each year. Annual Year End Report is due to USDA ninety (90) days after the fiscal year end, or **December 30th**.

### 4 HCD Program Audit Report with supplemental information for Gridley Springs II. Complete HCD Supplementation Reporting, see Attachment 3. Annual Year End Report is due to HCD ninety (90) days after the fiscal year end, or **December 30th**.

### 5 Internal Revenue Service Form 990; California Franchise Tax Board Form 199; and Attorney General's Registry of Charitable Trusts Form RRF-1 for BCAHDC.

- 6 **Internal Revenue Service Form 990; California Franchise Tax Board Form 199; and Attorney General's Registry of Charitable Trusts Form RRF-1** for Banyard Management. Historically, a 990N and 199N have been filed.
- 7 **Debt Service Ratio Covenant Certificate** for 2020A Bond properties. Tentatively due to Trustee by April 1st each year.

All reports rendered to HACB are their exclusive property and subject to their use and control. Any other reports may be requested by HACB and required by HUD's Uniform Financial Reporting Standards (UFRS) for Public Housing Authorities.

## **V. WORKPAPERS**

The Offeror shall summarize all audit findings, observations, conclusions, and recommendations in a workpaper file that without further oral explanation will support the financial statements reported on. The audit workpapers shall be made available for review by HUD and the U.S. General Accounting Office during the audit and for a period of three years after the audit has been accepted by HUD REAC.

All workpapers prepared in connection with the contracted services will remain the property of the successful Offeror. The work papers must be retained for a period of five years and be made available to HACB upon request.

## **VI. ENTRANCE AND EXIT CONFERENCES**

Entrance and Exit Conferences shall be held with HACB and must be coordinated with the HACB Finance Director.

## **VII. PROPOSAL FORMAT AND REQUIREMENTS**

To facilitate the review process and obtain the maximum degree of comparison, proposals should include the following information presented in the order and format shown. Below standard proposal formats are acceptable provided the following information is included:

### **1. SECTION I – TECHNICAL PROPOSAL**

- a. Title page: Include the proposal subject, the proposing firm's name, address, phone and fax numbers, email address, and contact person, date of the proposal, Federal I.D., number of the firm and firm's license number with the State Board of Accountancy.
- b. Transmittal Letter: A one- or two-page summary stating the Offeror's understanding of the work to be done and making a positive commitment to perform the work within the time required.
- c. A Table of Contents with page numbers.
- d. Profile of the Offeror:
  - i. Include location of office(s), number of partners, managers, supervisors, senior and other professional staff.
  - ii. Identify personnel and how experienced and credentialed they are with respect to auditing Housing Authorities or local governments.
  - iii. Statements whether the firm has met all CPA licensing and continued education requirements.
  - iv. Statement of independence with respect to HACB.

- v. Provide the results of the firm's last peer review.
  - vi. Copy of Quality Assurance audit done by PIH/REAC QASS division or "none" statement.
  - vii. PIH/REAC rejection rate of your audits, or a "not applicable" statement.
  - viii. Describe the range of activities performed by your firm, including capability of auditing computerized systems.
  - ix. If applicable, identify all major subcontractors necessary to conduct the project.
  - x. Provide references including at least three Housing Authority, local government or non-profit clients (with phone numbers and contact persons). The clients listed should be those served by members of the proposed audit team and/or local office who will be serving HACB.
- e. Technical Approach: A clear description of the approach and methodology for implementing the scope of work.
  - f. Audit organization and management: This subsection should show the project team proposed for the work identified - Identification of person assigned to individual task(s) and, if applicable, the function and responsibilities for major subcontractors.
  - g. Audit Schedule: This subsection shall include the period of performance, proposed duration of the project in months and a milestone chart. Time for preparation and submission of reports should be included in the schedule. Please state estimated number of field days required to complete the audit.
  - h. Outline the level of support your firm will require of the HACB staff.
  - i. HUD Mandatory Clauses Table 5.1 included as Attachment 4
  - j. HUD-5369-B, Attachment 5 is included for your reference.
  - k. Completed form HUD-5369-B, Attachment 5.
  - l. Sample Contract and IRS W-9, to be completed if awarded, are included for your reference as Attachments 6 and 7.
  - m. Additional data: since the preceding sections are to contain data that is specifically requested, any additional information considered essential to the project should be included in this section. If there is no additional information present, state "None".

## 2. SECTION II – COST PROPOSAL

Include detailed itemized cost statement showing various classes of staff hours at appropriate rates, delineated by task. Also, include an itemized listing of all other expenses or fees that are anticipated. **Please split the total cost by the following separate deliverables:**

- HACB Single Audit, SF-SAC, and REAC submission
- USDA-RD Agreed Upon Procedures Report for Gridley Farm Labor Housing
- HCD program audit report for Gridley Springs II
- BCAHDC – tax returns and state non-profit filing
- Banyard Management – tax returns and state non-profit filing



## VIII. EVALUATION PROCEDURES

Evaluation Committee – Proposals received will be evaluated by an Evaluation Committee and will make a recommendation to the Executive Director.

Review of Proposals – The Evaluation Committee will use a three-step method.

**Step 1.** Proposals must meet certain mandatory criteria to qualify for further evaluation. Any “no” answer to the first two questions will disqualify the proposal. A “yes” answer to the third question will require a written explanation and may disqualify the proposal.

Is the firm properly licensed ☐ yes ☐ no

Is the firm independent ☐ yes ☐ no

Has disciplinary action been taken  
or pending against the firm ☐ yes ☐ no

**Step 2.** Proposals will be scored using the following criteria. Points for each question will range from 0-20 for a maximum of 100 points. Proposals should address each question.

- **Responsiveness of the proposal in clearly stating an understanding of the work to be performed. (0-40)**

Audit coverage (0-20)

Reasonableness of the overall time estimates as well as the time estimates for each major section of the work to be performed. (0-20)

- **Qualifications and experience of firm. (0-30)**

Size and structure of firm and ability to maintain continuity of the project (0-10)

Experience of firm in auditing programs financed by federal, state, county and local governments (0-10)

Experience of firm in auditing housing authorities and related enterprises (0-10)

- **Qualifications and experience of staff to be assigned. Education, position in the firm and years and types of experience will be considered. (0-20)**

Qualifications of audit team, including housing authority experience (0-15).

Supervision to be exercised over the audit teams by firm’s management (0-5)

- **Cost Factor – Cost of Audit (0-10)**

The score based on the cost of the proposal will be calculated by using the following formula:

$$\frac{\text{Lowest Cost of All Bids} \times 10 \text{ points}}{\text{Cost Proposed by this firm}}$$

## **IX. AWARD BASIS**

HACB reserves the right to accept or reject any and all proposals, to waive any irregularities in any proposal process, and to make an award of contract in any manner in which HACB, acting in the sole and exclusive exercise of its discretion, deems to be in HACB's best interest. Negotiations may be conducted with Offerors. The award of the contract will not necessarily be made to the firm offering the lowest price.

## **X. OTHER TERMS AND CONDITIONS**

### **1. INDEPENDENT CONTRACTOR**

The successful Offeror and its agents, Directors and employees shall act at all times in an independent capacity during the term of the agreement and in the performance of the services to be rendered, and shall not act as, and shall not be, and shall not in any manner be considered to be agents, Directors or employees of HACB.

### **2. EQUAL OPPORTUNITY**

HACB emphasizes that all respondents will receive full consideration without regard to race, color, religion, sex, national origin, sex, disability, age or sexual orientation. Minority and women-owned firms are especially encouraged to respond to this RFP.

### **3. LIMITATIONS**

HACB reserves the right to reject any and all Proposals and to waive any informality in the solicitation process.

### **4. WITHDRAWAL OF RFP**

Proposals may be withdrawn before the RFP submittal deadline by submitting a written request to the Contact Person. Re-submittal before the RFP submittal deadline can be made; however, they may not be re-submitted after the deadline.

### **5. RFP COSTS**

All costs incurred in the preparation and presentation of the RFP shall be completely absorbed by the responding party to the RFP. All documents submitted as part of the RFP will become property of the HACB. Requests for specific material to be returned will be considered. Any material submitted that is confidential must be clearly marked as such.

### **6. INSURANCE**

The successful Offeror shall furnish proof of insurance to the HACB in the type and amount specified below before beginning work:

- a. Errors and Omission coverage in the amount of \$1,000,000 single limit.
- b. Workers' Compensation as required by law.

### **7. INDEMNITY**

To the fullest extent permitted by law, THE VENDOR, I shall indemnify, defend, and hold harmless the BUTTE COUNTY AFFORDABLE HOUSING DEVELOPMENT CORPORATION and THE HOUSING AUTHORITY OF THE COUNTY OF BUTTE, and its agents, affiliates, employees, managers, officers, other contractors, heirs and assigns (hereinafter "Indemnified Parties") from and against any and all liability, claims, damage, costs, expenses, awards, fines, judgments, and attorneys' fees (including, without limitation, expert witness fees and other litigation expenses) of every nature arising out of or in connection with THE VENDOR, performance of work hereunder, or

work of its agents, employees, subcontractors and/or independent contractors, or their failure to comply with any of its obligations contained in the agreement, except to the extent the claims arise from active negligence of Indemnified Parties. Such obligation shall not be construed to negate, abridge, or reduce other rights or obligations of indemnity that would otherwise exist as to PARTIES. The indemnification obligations of THE VENDOR, under this Agreement shall not be limited by the amounts or types of insurance (or the deductibles or self-insured retention amounts of such insurance) which THE VENDOR, is required to carry under this Agreement. Indemnified Parties' right to indemnification from, under this section shall be independent of Indemnified Parties' rights under the insurance to be provided by THE VENDOR, under this Agreement. THE VENDOR, duty to defend the Indemnified Parties is entirely separate from, independent of, and free-standing from, duty to indemnify the Indemnified Parties, including, without limitation, the defense of the Indemnified Parties against claims for which the Indemnified Parties (or any of them) may be strictly liable and applies whether the issue of THE VENDOR, liability, breach of this Agreement or other obligation, or THE VENDOR, responsibility has been determined and whether the Indemnified Parties (or any of them) have paid any sums or incurred any detriment, arising out of or resulting directly or indirectly from THE VENDOR, performance of the Work. Such defense obligation shall arise immediately upon presentation of a claim by any Person which arises out of or is connected to the Work performed by THE VENDOR, or any of its Agents and written notice of such claim being tendered to THE VENDOR."

## **8. RFP COSTS**

All costs incurred in the preparation and presentation of the RFP shall be completely absorbed by the responding party to the RFP. All documents submitted as part of the RFP will become property of the HACB. Requests for specific material to be returned will be considered. Any material submitted that is confidential must be clearly marked as such.

## **XI. CONTRACTUAL DEVELOPMENT**

If a proposal is accepted, HACB intends to enter into a contractual agreement with the selected Offeror. Contract discussion and negotiation will follow the award selection. Offeror's must be amenable to inclusion, in a contract, of any information provided whether herein or in response to this RFP or developed subsequently during the selection process.

## **XII. TECHNICAL DIRECTION**

Any technical questions concerning the request for proposal should be submitted in writing to HACB Procurement and Contract Specialist:

Email: [SheriB@Butte-Housing.com](mailto:SheriB@Butte-Housing.com)

Such questions must be received by the date and time stipulated in the calendar of events. If necessary, written responses to these questions will be emailed to all firms holding RFP's no later than January 13, 2022.

The Procurement and Contract Specialist is responsible for guiding the technical aspects of the project and for general surveillance of the work performed. The Procurement and Contract Specialist is authorized to fill in details or otherwise to complete the general description of the work set forth herein.

The Procurement and Contract Specialist is not authorized to make any commitments of any

changes which constitute work not within the general scope of this contract, total estimated cost or extension of the contract period of performance.

### **XIII. IMPORTANT DATES**

November 23, 2021	RFP Issue Date
January 11, 2022	Deadline for questions
January 13, 2022	HACB addendum, if needed
January 31, 2022	Proposals Due
February 15, 2022	Contract Award
September 30, 2022	HACB fiscal year end
December 1, 2022	USDA and HCD Financial Statements available for Audit.
December 23, 2022	USDA and HCD program audits due, agency deadline December 30 <sup>th</sup>
February 1, 2023	Entity Wide Draft Financial Statements available, pending GASB 68 actuarial report from CalPERS
June 1, 2023	Final Audit report due
June 15, 2023	HUD REAC FDS and Federal Audit Clearinghouse submissions, deadline June 30 <sup>th</sup> .

## ATTACHMENT 1

### PROGRAMS AND PROPERTIES ADMINISTERED BY HACB

1. **Farmworker Housing** - 121 units of Farm Labor Housing, under both USDA Rural Development Rental Assistance and HCD Joe Serna Jr. Farmworker Housing program regulations. Subject to an ongoing USDA-RD Workout Plan - this property has undergone rehabilitation using USDA Grants and Loans. Units are managed by means of third party property manager.
2. **Public Housing** - 345 units of HUD Low Income Public Housing; units are managed by HACB.
3. **Section 8 Assistance** - 2,236 units of HUD Section 8 Housing Choice Vouchers (HCV), which includes 194 units of HUD Section 8 Veterans Affairs Supportive Housing (HUD-VASH). In addition, HACB administers 116 Emergency Housing Vouchers (EHV's). The Section 8 Family Self Sufficiency Grant (FSS) is administered to benefit the HUD HCV program participants.
4. **Homeless Programs** - HACB administers one increment of HUD Homeless Programs assistance (CoC);
5. **Other Owned** - 24-unit apartment complex, Gridley Springs II, subject to California Department of Housing and Community Development RHCP and Low-Income Housing Tax Credit program regulation. These units are managed by a third party.
6. **Other Owned** - 9 "Demonstration" units, unregulated, managed by HACB.
7. **Other Owned** - 146 rental units in six properties are encumbered under the 2020A Multi-Family Housing Revenue Bond trust indenture. The units are managed by third party.
8. **Other** - HACB contracts with the City of Chico, and Butte County Departments of Behavioral Health, to administer and process housing assistance payments for several small "boutique" programs. Activity subject to annual funding.
9. **Other** - HACB contracts with Butte County Department of Employment Services to perform unit inspections, billed at a per unit price.
10. **HACB** has two 501(c)(3) non-profit instrumentalities, one a single-asset entity (Banyard Management), and the other a multiple asset entity (Butte County Affordable Housing Development Corporation), each entity designed to participate in Low-Income-Housing-Tax-Credit Partnerships as Managing General Partner (MGP). BCAHDC currently is MGP to nine (9) partnerships, five (5) involving properties currently under construction. BCAHDC has entered into an additional eleven (11) development memorandums where BCAHDC would act as MGP.

**U. S. Department of Agriculture**

**Rural Development**

**Audit Program**

**Issued: December 2016**

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UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL DEVELOPMENT  
WASHINGTON, D.C.

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RURAL DEVELOPMENT  
Rural Housing Service  
Rural Business Service

**AUDIT PROGRAM**

Audits of Recipients of  
Rural Development Grants,  
Loans and Loan Guarantees

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The attached Audit Program provides important guidance for independent public accountants in conducting financial statement audits of recipients of Rural Development grants, loans, and loan guarantees, **except for those audits required to be performed in accordance with Office of Management and Budget 2 CFR part 200, Subpart F.**

*This Audit Program may not be changed, altered, revised, or modified without the concurrence of Rural Development.*

APPROVED BY

**ROGER  
GLENDENNING**

ROGER GLENDENNING  
Chief Financial Officer  
Rural Development

Digitally signed by ROGER GLENDENNING  
DN: c=US, o=U.S. Government,  
ou=Department of Agriculture, cn=ROGER  
GLENDENNING,  
0.9.2342.19200300.100.1.1=12001000001784  
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Date

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ATTACHMENT VI - RURAL MICROENTREPRENEUR ASSISTANCE PROGRAM

ATTACHMENT VII - OFFICE OF INSPECTOR GENERAL ADDRESSES



## **Rural Development Audit Program**

### **A. PURPOSE**

The following Audit Program provides information for independent, public, Federal, state or local government audit organizations in conducting financial statement audits of recipients of Rural Development loans, grants, and loan guarantees. This Audit Program includes audit-related compliance requirements for Rural Development's Rural Rental Housing Program, Community Facilities Program; Business and Industry Guaranteed Loan Program, Intermediary Relending Program, and Rural Economic Development Loan and Grant Program. RD requires an audit that consists of two components: a financial statement audit of the entity and a compliance audit of the entity's major RD programs. The audit must be performed in accordance with generally accepted auditing standards (GAAS) and generally accepted government auditing standards (GAGAS). The compliance audit is to be conducted in accordance with the audit related compliance requirements for the specific programs listed in this guide, which requires that the auditor perform procedures that enable the auditor to determine whether the entity has complied with laws, regulations, and the provisions of contracts and or agreements applicable to its RD programs.

**Auditors conducting financial statement audits in accordance with the requirements of 2 CFR part 200, Subpart F and Appendix XI, should refer to those requirements as it pertains to audits of state and local governments, non-profit organizations, and Indian tribes that expend \$ 750,000 or more in Federal funds in a fiscal year. This Audit Program is not intended to address audit requirements that are required under the Single Audit Act Amendments of 1996 and 2 CFR part 200, Subpart F and Appendix XI.**

**This audit program does not create compliance requirements. Without this supplement auditors would need to research applicable compliance requirements for each program under audit to determine which compliance requirements are important to the Federal government and could have a direct and material effect on a program. Providing these compliance requirements is a more efficient and cost-effective approach to performing these audits. Also, this audit program is used to communicate to auditors' new or updated information necessary to conduct their work.**

The suggested audit procedures provided in this Audit Program are the minimum necessary for uniform and consistent coverage. The use of these guides is mandatory for the programs listed but these guides are not intended to be a complete manual of audit procedures for the compliance audit. These guides are not intended to cover all situations that may exist or replace the auditor's judgement of audit work required to meet GAAS and GAGAS. They are meant to supplement those standards with information and requirements specific to RD. The auditor should use professional judgement to tailor these procedures so that the audit objectives are met.

## **B. ABBREVIATIONS**

AICPA	American Institute of Certified Public Accountants
CFDA	Catalog or Federal Domestic Assistance
CFR	Code of Federal Regulations
CF	Community Facilities
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
IRP	Intermediary Relending Program
OIG	Office of Inspector General
OMB	Office of Management and Budget
RD	Rural Development
RUS	Rural Utilities Service
SAS	AICPA's Statements on Auditing Standards

## **C. BACKGROUND**

Rural Development requires its borrowers to provide annual audited financial statements performed in accordance with GAGAS and GAAS.

These financial statement audits are the responsibility of the auditee's management. The financial statements should be prepared in conformance with GAAP unless state statutes or other funding sources require otherwise.

To the extent practicable, the financial statements should be presented on a comparative basis for the current and preceding year. An entity submitting its initial audit report to Rural Development may submit single year financial statements.

## **D. PERTINENT REGULATIONS**

**7 CFR Part 1942, Subpart A** - Community Facilities Loans

**7 CFR Part 1942, Subpart C** - Fire and Rescue Loans

**7 CFR Part 3570, Subpart B** - Community Facilities Grants Program

**7 CFR Part 3575, Subpart A** - Community Programs Guaranteed Loans

**7 CFR Part 4274, Subpart D** - Intermediary Relending Program (IRP)

**7 CFR Part 1951, Subpart R** - Rural Development Loan Servicing (for the IRP program)

**7 CFR Part 1980, Subpart E** - Business and Industrial (B&I) Loan Program

**7 CFR Part 4279, Subpart A** - General (for B&I Loans)

**7 CFR Part 4279, Subpart B** - Business and Industry Loans

**7 CFR Part 4280, Subpart D** – Rural Microentrepreneur Assistance Program

**7 CFR Part 1942, Subpart G** - Rural Business Enterprise Grants and Television Demonstration Grants

**7 CFR Part 3560.308**, - “Annual Financial Reports” (Reinvention of the Sections 514, 515, 516, and 521 Multi-Family Housing Programs)

## **E. STANDARDS FOR CONDUCTING AUDITS**

The Comptroller General of the United States has published GAGAS, which contains standards for audits of government organizations, programs, activities, and functions. These standards are to be followed by Federal, state, and independent certified public accountants when auditing entities receiving financial assistance provided by Rural Development.

The AICPA Statements on Auditing Standards (SAS) have been incorporated into GAGAS for financial audits, and must be followed. This audit program is not intended to provide guidance regarding adherence to the SAS.

The latest version of the Government Auditing Standards is the 2011 Revision and is available at <http://www.gao.gov/yellowbook>. The 2011 revision is effective for financial audits and attestation engagements for periods ending on or after December 15, 2012 and

for performance audits beginning on or after December 15, 2011. GAGAS covers ethical principles, types of GAGAS audits, general standards for independence, professional judgement, competence, and quality control and assurance, GAGAS requirements for performing and reporting financial audits, field work standards, and reporting standards for performance audits. Auditors are required to obtain, review, and comply with all of these standards.

## **F. REPORT DISTRIBUTION**

The auditee is required to file the audit report package with the applicable RD management office, either electronically or by hard copy, according to the specific program requirements. Normally the management office that is responsible for monitoring the auditee's performance, state office or National office, should receive the report package.

The report package is not to be submitted to the Office of Inspector General (OIG) unless it is specifically requested by OIG. If the auditor is required by GAGAS or these compliance requirements to report fraud directly, the report on fraud is to be sent to OIG's single audit coordinator. The current single audit coordinator is Marbie Baugh and her address is:

**[marbie.baugh@oig.usda.gov](mailto:marbie.baugh@oig.usda.gov)**

Hardcopies can be mailed to the following address:

Office of Inspector General – Audits  
Attn: National Single Audit Coordinator  
401 W. Peachtree Street NW  
Suite 2328  
Atlanta, GA 30308

If the report package was requested by OIG send it to the specific OIG office that requested it. The addresses for all OIG offices are shown in attachment VII.

ATTACHMENT I  
Rural Rental Housing Loans  
Farm Labor Housing Loans (Off-Farm)  
10.415

## **I. PROGRAM OBJECTIVES**

The objective of the Rural Rental Housing (RRH) Loan Program and the Farm Labor Housing Program (Off-Farm) is to provide loans to construct, rehabilitate, and repair housing suited for very low, low and moderate income individuals and farm laborers living in rural areas. Additionally loans are provided to provide housing for senior citizens living independently or living in congregate care facilities, and handicapped individuals living in rural areas.

## **II. PROGRAM PROCEDURES**

Loans are provided to state and local public agencies, individuals, trusts, associations, partnerships, consumer cooperatives, limited liability corporations, and profit and nonprofit corporations upon approval of an application to construct or rehabilitate rural rental housing. Loan funds can only be used for authorized purposes within the prescribed loan limits and use limitations. Most borrowers are required to contribute a certain percentage of the development costs and initial operating capital.

After the rental facilities become operational, borrowers have ongoing management and reporting responsibilities. In this regard, borrowers are responsible for complying with applicable Agency regulations and conditions of their Loan Agreement which include, but are not limited to, the following:

- (a) Providing for proper and efficient management of the RRH project;
- (b) Renting only to eligible tenants;
- (c) Verifying and certifying tenant income and/or employment;
- (d) Entering into lease agreements with tenants;
- (e) Properly computing rental charges and obtaining Agency approval for any changes in basic or market rental rates;
- (f) Providing for proper maintenance of the property to protect the Agency's security interests;
- (g) Limiting returns on investments and any advances/paybacks of operating funds;
- (h) Properly accounting for project operations and maintaining required accounts;
- (i) Providing accurate monthly and/or annual reports to the Agency; and
- (j) Promptly computing and remitting loan repayments to reflect interest credits, averages and rental assistance.

### III. COMPLIANCE REQUIREMENTS AND AUDIT PROCEDURES

Entities receiving RRH loans and Labor Housing loans (Off-Farm) are subject to the audit requirements contained in 7 CFR Part 3560.308(a) and (b), Reinvention of the Sections 514, 515, 516, and 521 Multi-Family Housing Programs.

The Multifamily Housing financial reporting requirements changed for project fiscal year ending December 31, 2007. The financial reporting procedures are located in the Multi-Family Housing Asset Management Handbook, HB-2-3560, Chapter 4, Section 5, "Reporting and Financial Examinations", including applicable Attachments. The Rural Development website to obtain HB-2-3560, Chapter 4, Section 5 is:

<http://www.rurdev.usda.gov/SupportDocuments/3560-2chapter04.pdf>

The following is a summary of the financial reporting requirements:

Year End Financial Reporting Requirements				
Type of Property	Forms RD 3560-7 and 3560-10?	Borrower Certification Of Performance Standards?	Agreed-Upon Procedures and Determinations *	Audited Financial Statements? (In accordance with Yellow Book Standards)
Rural Development project (1-15 units)	Yes	Yes	No	No
Rural Development project (16-23 units)	Yes	Yes	Yes	No
Rural Development project (24 + units)	Yes	Yes	Yes	Yes*
State and local governments, Indian tribes and Nonprofit Organizations (subject to OMB Circular A-133)	Yes	Yes	No	No**
*Must be completed by a CPA				
**This Audit is in Accordance with OMB Circular A-133 and submitted to the Agency as part of the Financial Reporting Requirements.				

All financial reports must include a Borrower Certification of Performance Standards. Borrowers will be required to use the certification included in the Handbook.

The Borrower must self-certify that:

- Required accounts are properly maintained and tracked separately;
- Payments from operating accounts are disclosed and accurately represented;

- Reserve amount is current (i.e., contributions are on schedule and the balance accounts for contributions less authorized withdrawals), and there are no encumbrances;
- Tenant security deposit accounts are fully funded and are maintained in separate accounts;
- Payment of owner return was consistent with the terms of the applicable loan agreement or loan resolution;
- Borrower/grantee has maintained proper insurance in accordance with the requirements of 7 CFR 3560.105; and
- All financial records are adequate and suitable for examination.
- There have been no changes in project ownership other than those approved by the Agency and identified in certification. Non-Profit organizations must certify that the Board is active and maintains oversight of the property.
- The real estate taxes are paid in accordance with state and/or local requirements. There are currently no delinquent taxes.

### Agreed-Upon Procedures and Determinations

Borrowers with 16 or more units in their housing project must submit an agreed-upon procedures report completed by a CPA according to the agreed-upon procedures and determinations established by the Agency in the Handbook. The Handbook includes an example Engagement Letter which will be used by a CPA with the borrower. The Handbook also includes an example Agreed-Upon Procedures Report to be used by all CPAs performing these procedures.

The financial reporting requirements include three agreed upon procedures. Guidance on testing criteria and procedures, sampling methodology, and the standard reporting requirements and format are included in the Handbook.

### Project Financial Audit

Borrowers with 24 or more units in their housing project must base their annual financial reports on a financial audit in accordance with generally accepted government auditing standards or GAGAS, as set forth in “Government Auditing Standards”, established by the Comptroller General of the United States, and any subsequent revisions (this publication is commonly referred to as the “Yellow Book” or “Government Accounting Office Standards”). The Handbook provides an example of the Combined Financial Audit and Agreed Upon Procedures Engagement Letter. The Handbook also includes an example of a Combined Audit & Agreed Upon Procedures Report.

An audit should consist of the following items at a minimum:

- Independent Auditor’s Report
- Financial Statements
  - Balance Sheets
  - Statements of Operations

- Statements of Changes in Partner's Equity (Deficit)
- Statements of Cash Flows
- Notes to the Financial Statements
- Supplemental Information
  - Multiple Family Housing Borrower Balance Sheet – Form RD 3560-10
  - Multiple Family Housing Project Budget/Utility Allowance – Form RD 3560-7
  - Supplemental Information
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- Audit Findings on Compliance
- Independent Accountants Report on Applying Agreed-Upon Procedures
- Schedule of Agreed-Upon Procedures

### Other Financial Reports

The requirements below are in addition to the requirements outlined above.

Standards for state and local governments, Indian tribes and Nonprofit Organizations. Some of these organizations must submit audits in accordance with 7 CFR Part 3052 (OMB Circular A-133 requirement). For guidance meeting these requirements, the auditor may refer to the AICPA Audit and Accounting Guide for Audits of State and Local Governmental Units. The term "Federal financial assistance" is defined in 7 CFR 3052.105, but such federal assistance does not include rental subsidies (i.e., Rental Assistance). Circular A-133 requires reporting by non-Federal entities with loan balances in excess of \$500,000 where the Federal Government imposes continuing compliance requirements (7 CFR 3052.205(b)(2)). RRH and Farm Labor Housing (Off-Farm) loan programs have continuing compliance requirements.

Organizations subject to A-133 must submit the A-133 single audit and the borrower's certified performance standards, Budget Actuals and the Balance Sheet. Agreed-Upon Procedures are not required with this audit.

These financial reporting requirements are effective for audits ending December 31, 2007, and thereafter.

Questions concerning RRH audit requirements should be directed to the Rural Development office in the state where the property is located and serviced.



ATTACHMENT II  
Community Facilities Loans and Grants  
10.766

## **I. PROGRAM OBJECTIVES**

As authorized by Section 306 of the Consolidated Farm and Rural Development Act of 1972, as amended (7 U.S.C. 1926), Rural Development's Community Facilities (CF) Program provides direct and guaranteed loan and grant assistance to assist eligible public bodies, not-for-profit applicants, and federally recognized Indian tribes in providing essential community facilities and services to eligible rural areas. These funds are made available when financing is not available from other sources at reasonable rates and terms. CF loans and grants are administered at the state and local levels through the USDA Rural Development mission area.

## **II. PROGRAM PROCEDURES**

CF is authorized to provide direct and guaranteed loan and grant assistance to eligible applicants for essential community facilities in rural areas with populations up to 20,000. Eligible applicants include:

- (a) Public bodies, such as municipalities, districts, county authorities, or other Political subdivisions of a state, territory, or commonwealth;
- (b) Non-profit organizations; and
- (c) Federally-recognized Indian Tribes.

The Agency allocates grant funds on a graduated basis. Eligible applicants located in the smallest communities with lowest populations and lowest median household incomes generally receive a higher percentage of grant funds. The total amount of grant funds, including CF funds or any other Federal grant funds provided for a facility, generally shall not exceed 75 percent of the cost of developing the facility, unless authorized and funded by another Federal statute. However, the Food, Conservation, and Energy Act of 2008 limits the non-Federal financial support for Tribal College Grants to only 5 percent of the total cost of the facility financed.

The purpose of CF guaranteed loan assistance is to improve, develop, or finance essential community facilities in rural areas. The purpose is achieved through bolstering the existing private credit structure through the guarantee of quality loans which will provide lasting community benefits. Guaranteed loans are loans made by a commercial lender and guaranteed by Rural Development. The processing of the loan and requirements placed on the organization receiving the loan are the lender's responsibility.

In 7 CFR Part 3052, USDA implemented the provisions of the latest revision to Office of Management and Budget (OMB) Circular No. A-133, "Audits of States, Local

Governments, and Nonprofit Organizations”. Subparagraph 7502 (a) (2) (A) of the Single Audit Act Amendments of 1996 (31 USC 7501, et seq.) overruled the provisions of 7 CFR 1942.17 (q) (4) by exempting some entities from applicable audit requirements contained in Federal program regulations.

### **III. COMPLIANCE REQUIREMENTS AND AUDIT PROCEDURES**

Entities receiving CF direct and guaranteed loan and grant assistance are subject to the audit requirements contained in 7 CFR Part 3052.200. In addition CF audit-related guidance is also provided in RD Administrative Notice number 4680 (1942-A) “OMB Circular A-133, Audit Reporting Requirements, Community Facilities Direct and Guaranteed Loan Borrowers and Grant Recipients”. RD AN No. 4680 (1942-A) may be accessed via the Rural Development website at: [http://www.rurdev.usda.gov/rd-an\\_list.html](http://www.rurdev.usda.gov/rd-an_list.html)

#### **A. Activities Allowed or Unallowed**

##### **Compliance Requirement**

Loan funds may be used to: (1) construct, enlarge, extend or otherwise improve essential community facilities; (2) to construct or relocate public buildings, roads, bridges, fences, and utilities necessary for the successful operation of authorized facilities; (3) to relocate private buildings, roads, bridges, fences, and utilities necessary for the successful operations of authorized facilities and (4) to pay certain other expenses when such costs are a necessary part of the financed facilities (7 CFR Part 1942-A, 1942.17(d)(1)).

Loan funds may not be used to finance: (1) on-site utility systems or business and industrial buildings in connection with industrial parks; (2) facilities used for recreational purposes (this restriction does not apply to guaranteed loans); (3) community antenna services; (4) electric generation or transmission facilities and telephone systems; (5) facilities which are not modest in size, design, or cost; (6) loan or grant finders’ fees; (7) packagers’ fees; (8) new combined sanitary and storm water sewer facilities (7 CFR Part 1942-A, 1942.17(d)(2)); (9) projects located in coastal barrier resources systems that do not qualify for an exception (7 CFR Part 3575-A, 3575.25); and (10) projects located in a mudslide hazard area.

During the disbursement of Federal assistance, the Agency must concur in all expenditures before they are made. The borrower must also monitor the use of funds in accordance with program regulations (7 CFR Part 1942-A, 1942.17(p)).

##### **Suggested Audit Procedures**

- Test the borrower’s financial records to ascertain that loan funds were only used for eligible purposes.
- The auditor must ascertain the purpose of the loan/grant funds.

- The auditor must refer to the Project Summary in the case file to determine the project type (7 CFR 1942-A, Part 1942.17(d), 7 CFR 3575-A, Part 3575.24 and 3570-B, 3570.61(b)). The Project Summary is prepared by the USDA Rural Development representative.
- The auditor should refer to the section in the regulation pertaining to activities allowed and unallowed. Unallowed activities are contained in 7 CFR 1942-A, Part 1942.17(d)(2), 7 CFR 3575-A, Part 3575.25, and 7 CFR 3570-B, Part 3570.63.
- Review the current “Balance Sheet” (Form RD 442-3) to determine if Form RD 442-3 is in material agreement with the entity’s accounting records.
- Ascertain whether the borrower obtained prior Agency concurrence for expenditures.
- Review the “Letter of Conditions” (7 CFR 1942-A, Part 1942.5(a) (1)), “Letter of Intent to Meet Conditions” (Form RD 1942-46), and additional documentation in the case file that supports the Agency’s approval of expenditures.
- Review the Project Summary for appropriate signatures by the Rural Development staff and approval officials. Regulation reference (7 CFR 1942-A, Part 1942.5(a)).
- Test the grantee’s financial management system to ensure its adequacy to meet financial reporting requirements.
- Review the borrower’s accounting and auditing procedures for grants. Reference (7 CFR Part 3570-B, “Community Facilities Grant Program.”)
- Based on the audit, ascertain whether the borrower’s financial management system is designed to ensure the proper use of loan funds.
- Review the borrower’s accounting and auditing procedures for loans. Reference (7 CFR Part 1942-A, 1942.17(q).)

## **B. Eligibility**

The auditor is not expected to test for eligibility.

## **C. Matching, Level of Effort, Earmarking**

### **Compliance Requirement**

Borrowers may be required to provide funds from other sources as specified in the Letter of Conditions, Grant Agreement, or Loan Note Guarantee issued by Rural Development. (7 CFR 1942-A, Part 1942.5(a)(1)(i), RD Instruction 3570-B, §3570.71(f) and 7 CFR 3575-A,

Part 3575.64).

### **Suggested Audit Procedures**

- Examine the Grant Agreement, Loan Note Guarantee, and Letter of Conditions to ascertain the amount of funds to be provided by the recipient.
- Test the financial records to determine if matching fund requirements were met.
- The auditor must ascertain the amount and source of funds. Determine whether the funds were from state or other nonfederal sources.

*Up to 75 percent of eligible project costs may be financed by CF grant funds, with the exception of Tribal College Grants, which may receive up to 95 percent grant funds. In either case, the remaining amount may come from CF direct or guaranteed loan funds, or from another source.*

- Test to determine if there was a Conditional Commitment of Guarantee.

## **D. Reporting Requirements**

### **Compliance Requirement**

The following financial or management reports must be submitted periodically to Rural Development:

- (1) Annual audited financial statements within 150 days of the entity's fiscal year end date (7 CFR 1942-A, Part 1942.17(q)(4)(i)(B)(1));
- (2) Form RD 442-2, "Statement of Budget, Income and Equity" (7 CFR 1942-A, Part 1942.17(q)(5), and OMB No. 0575-0015). This report covers financial operations relating to the borrower's CF project; or
- (3) Form RD 442-3, "Balance Sheet" (7 CFR 1942-A, Part 1942.17(q)(5) and OMB No 0575-0015). This report presents the financial status of the borrower's CF project.

### **Suggested Audit Procedure**

- Review Forms RD 442-2 and 442-3, and determine whether the information presented is in agreement with the borrower's financial records.
- Review prior period audited financial statements and findings to ascertain whether material deficiencies or significant changes in financial condition exist.

## **E. Special Tests and Provisions**

### **Compliance Requirement**

A Loan Resolution, Form RD 1942-47 “Loan Resolution, Public Bodies,” will be adopted by public bodies. The following sections of the Loan Resolution restrict the financial operations of the borrower: Section 6 (sale, transfer, and lease of facility); Section 7 (contracts, agreements, and liabilities); Section 8 (depositories); Section 10 (revenues); and Section 12 (books and records) (7 CFR 1942-A, Part 1942.5).

### **Suggested Audit Procedures**

- Review the Loan Resolution and applicable regulations.
- Review and test the financial and related records to determine compliance with the restrictions placed on CF borrowers by the Loan Resolution.

Note: The financial requirements are contained in the Letter of Conditions, applicable Loan Resolution, Grant Agreement, and Loan Note Guarantee.

### **Compliance Requirement**

A Loan Resolution will be adopted by not-for-profit organizations “Loan Resolution Security Agreement” Form RD 1942-9. The following sections of the Loan Resolution restrict the financial operations of the borrower: Section 4 (protection and disposition of funds); Section 5c (revenues); Section 5e (books and records); Section 5h (contracts, agreements, and liabilities); and Section 5i (sale, transfer, or lease of facility) (7 CFR 1942-A, Part 1942.5).

### **Suggested Audit Procedures**

- Review the Loan Resolution and applicable regulations.
- Review and test the financial and related records to determine compliance with the restrictions placed on CF borrowers by the Loan Resolution.

### **Compliance Requirement**

Section 319 of Public Law (P.L.) 101-121, the Department of Interior and Related Agencies Appropriations Act, prohibits applicants and recipients of Federal contracts, grants, and loans from using appropriated funds for lobbying the Federal Government in connection with a specific award. Section 319 also requires each individual who requests or receives a Federal contract, grant, loan, or a Federal commitment to guarantee a loan, to disclose the expenditure of any funds, other than appropriated funds, for lobbying activities.

RD Instruction 1940-Q, "Restrictions on Lobbying", requires that recipients of assistance exceeding certain financial thresholds provide certifications concerning lobbying activities, and submit disclosure statements if nonappropriated funds have been used for certain purposes.

**Suggested Audit Procedures**

- The auditor will test for compliance with the provisions of Section 319 of P.L. 101-121, by verifying that the required certifications and disclosure statements have been prepared.
- The auditor must check to ensure certifications and disclosure statements are signed and dated by the appropriate officials.

ATTACHMENT III  
Business and Industry Guaranteed Loans  
10.768

**I. PROGRAM OBJECTIVES**

The objective of the Business and Industry (B&I) Guaranteed Loan Program is to improve, develop, or finance business, industry, and employment to improve the economic and environmental climate in rural communities.

**II. PROGRAM PROCEDURES**

Loans by private sector lenders to businesses guaranteed by Rural Development guaranteed loans can be sold in the secondary market. The lender is responsible for loan origination, including underwriting and subsequent loan servicing. The program is administered through the Rural Development State Director who is the point of contact for all processing and servicing activities. Loans must improve the economic and/or environmental climate of rural communities by bolstering the existing private credit structure through loan guarantees that will provide lasting community benefits.

**III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES**

**A. Types of Services Allowed or Unallowed**

**Compliance Requirements**

Loans may be used for:

- (1) business and industrial acquisitions, construction, repair, and modernization;
- (2) purchasing and developing land, easements, buildings, rights-of-way, and facilities;
- (3) purchasing equipment, leasehold improvements, machinery and supplies;
- (4) pollution control and abatement;
- (5) transportation services incidental to industrial development;
- (6) startup costs and working capital;
- (7) interest subject to certain provisions;
- (8) feasibility studies;
- (9) debt refinancing;

(10) reasonable professional fees and Agency guarantee fees and charges (7 CFR Part 4279.113); and

(11) renewable energy projects.

### **Compliance Requirements**

Loans may not be used for items detailed in 7 CFR Part 4279.114.

### **Suggested Audit Procedure**

- Test the borrower's financial records to ascertain that loan funds were only used for eligible loan purposes.

### **B. Eligibility**

The auditor is not expected to test for borrower eligibility.

### **C. Matching, Level of Effort, and/or Earmarking Requirements**

- Test to verify if the lender has maintained the appropriate level of ownership of guaranteed loan (i.e., 5 percent).

### **D. Reporting Requirements**

### **Compliance Requirements**

The following financial reports must be submitted periodically for this program:

Annual financial statements prepared by an accountant in accordance with GAAP will be required (7 CFR Part 4279.137(a)).

The Agency will generally require audited financial statements if loan security concerns warrant, and the proposed guaranteed loan will exceed \$3 million (7 CFR Part 4279.137(b)).

### **Suggested Audit Procedures**

- Ascertain whether the borrower complied with any special financial reporting requirements, as contained in the loan closing documents or subsequent loan covenant modifications.
- Test the accuracy of the financial reports to the borrower's financial records.
- Ascertain whether the borrower submitted audited financial statements.



- Ascertain whether the lender has adhered to all conditions in the Loan Agreement and Conditional Commitment, and verify that the lender has submitted a certification to Rural Development that these have been met prior to issuance of the Loan Note Guarantee.

## **E. Special Tests and Provisions**

### **Compliance Requirements**

All fees and charges by the lender and others should be similar to those reasonably and customarily charged borrowers in similar circumstances in the ordinary course of business (7 CFR Part 4279.120).

A minimum of 10 percent tangible balance sheet equity will be required for existing businesses at loan closing. A minimum of 20 percent tangible balance sheet equity will be required for new businesses at loan closing (7 CFR Part 4279.131(d)). For energy projects, the equity requirement is 25-40 percent.

Interest rates negotiated between the borrower and lender must not be more than those rates customarily charged borrowers in similar circumstances in the ordinary course of business (7 CFR Part 4279.125).

The lender is responsible for seeing that the borrower has proper and adequate collateral to protect the interest of the lender and Rural Development (7 CFR Part 4279.131(b)).

The loan agreement between the lender and borrower may impose other financial and program requirements (7 CFR Part 4279.161 (b)(11)(xii)).

### **Suggested Audit Procedures**

- Test lender records to determine whether the lender's fees and other professional fees charged to guaranteed borrowers were reasonable and customary. If packaging services were provided by the lender, ascertain from the lender records whether the fees charged guaranteed borrowers were comparable to fees charged on lender nonguaranteed loans.
- Ascertain whether the interest rate negotiated between the lender and borrower on guaranteed loans was comparable to the rate customarily charged borrowers in similar circumstances on lender nonguaranteed loans, adjustments are proper, and appropriate approvals were obtained.
- Through visual inspection or record of collateral, test whether collateral pledged as security for the loan is being maintained by the borrower.
- Ascertain whether the required appraisal reports were prepared by an independent appraiser and were obtained in a timely manner.

- Test loans (loan and lender’s agreements) relating to the following requirements for compliance:
  1. Prohibition against assuming liabilities or obligations of others.
  2. Restriction on dividend payments.
  3. Limitation on purchase or sale of equipment and fixed assets.
  4. Limitation on compensation of officers and owners.
  5. Minimum working capital requirements.
  6. Maximum debt to net worth ratio.
  7. Restrictions concerning consolidations, mergers or other circumstances.
  8. Limitations on selling the business without concurrence of the lender and Rural Development.

### **Compliance Requirement**

Section 319 of Public Law (P.L.) 101-121, the Department of Interior and Related Agencies Appropriations Act, prohibits applicants and recipients of Federal contracts, grants, and loans from using appropriated funds for lobbying the Federal government in connection with a specific award. Section 319 also requires each individual who requests or receives a Federal contract, grant, loan, or a Federal commitment to guarantee a loan to disclose the expenditure of any funds, other than appropriated funds, for lobbying activities.

RD Instruction 1940-Q, “Restrictions on Lobbying”, requires that recipients of assistance exceeding certain financial thresholds provide certifications concerning lobbying activities, and submit disclosure statements if nonappropriated funds have been used for certain purposes.

### **Suggested Audit Procedures**

- The auditor will test for compliance with the provisions of section 319 of P.L. 101-121, by verifying that the required certifications and disclosure statements have been prepared.
- The auditor must check to ensure certifications and disclosure statements are signed and dated by the appropriate officials.

ATTACHMENT IV  
Intermediary Relending Program  
10.767

## **I. PROGRAM OBJECTIVES**

The objective of Rural Development's Intermediary Relending Program (IRP) is to alleviate poverty and increase economic activity and employment in rural communities. In particular, IRP targets disadvantaged and remote communities through financing, primarily towards smaller and emerging businesses, in partnership with other public and private resources, and in accordance with state and regional strategy based on identified community needs.

## **II. PROGRAM PROCEDURES**

Loans are made to intermediaries that establish or recapitalize Revolving Loan Fund programs for the purpose of providing loans to ultimate recipients for business facilities and community development. The intermediary is responsible for determining eligibility, credit quality, and loan documentation for the ultimate recipient's loan. Loans must improve community facilities and employment opportunities and increase economic activity in rural areas by financing business facilities and community development.

## **III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES**

### **A. Types of Services Allowed or Unallowed**

#### **Compliance Requirements**

Loans may be used for:

- (1) business and industrial acquisitions;
- (2) business construction, conversion, enlargement, repair, modernization, or development;
- (3) purchasing and developing land, easements, right-of-ways, buildings, facilities, leases, or materials;
- (4) purchasing equipment, leasehold improvements, machinery, and supplies;
- (5) pollution control and abatement;
- (6) transportation services;
- (7) startup operating costs and working capital;

- (8) interest (including interest on interim financing) during the period before the facility becomes income producing, but not to exceed 3 years;
- (9) feasibility studies;
- (10) debt refinancing;
- (11) reasonable fees and charges;
- (12) hotels, motels, tourist homes, bed and breakfast establishments, convention centers, and other tourist and recreational facilities except as prohibited by 7 CFR Part 4274.319;
- (13) educational institutions; and
- (14) revolving lines of credit.

### **Compliance Requirements**

Loans may not be used for:

- (1) payment for administrative costs or expenses for the intermediary;
- (2) assistance in excess of what is needed to accomplish the purpose of the ultimate recipient's project;
- (3) distribution or payment to the owner, partners, shareholders, or beneficiaries of the ultimate recipient or members of their families;
- (4) charitable institutions that would not have revenue from sales or fees to support the operation and repay the loan;
- (5) assistance to government employees, military personnel, or principals or employees of the intermediary or organizations for which such persons are directors or officers or in which they have ownership of 20 percent or more;
- (6) to an ultimate recipient that has an application pending with a loan outstanding from another intermediary involving an IRP revolving fund;
- (7) agricultural production;
- (8) transfer of ownership unless the loan will keep the business from closing or prevent the loss of employment opportunities in the area, or provide expanded job opportunities;

- (9) community antenna television services or facilities;
- (10) any illegal activity;
- (11) any project in violation of either a Federal, state, or local environmental protection law or regulation or an enforceable land use restriction unless the assistance given will result in curing or removing the violation;
- (12) lending and investment institutions and insurance companies; or
- (13) golf courses, race tracks, or gambling facilities.

The auditor is not expected to test for types of services eligible or ineligible. (7 CFR Part 4274.319).

## **B. Eligibility**

The auditor is not expected to test for borrower eligibility.

## **C. Matching, Level of Effort, and/or Earmarking Requirements**

There are no matching level or effort, and/or earmarking requirements.

## **D. Reporting Requirements**

### **Compliance Requirements**

The following financial reports must be submitted periodically for this program:

- (1) Annual audited financial statements prepared by an independent certified public accountant in accordance with GAGAS (CFR Part 4274.338(b)(4)(i)(A)).
- (2) Quarterly and semiannual reports (7 CFR Part 4274.338(b)(4)(ii)(A)).
- (3) Annual proposed budget for the following year (7 CFR Part 4274.338(b)(4)(iii)).
- (4) Other reports as the Agency may require from time to time (7 CFR Part 4274.338(b)(4)(iv)).

### **Suggested Audit Procedures**

- Ascertain whether the borrower complied with any special financial reporting requirements, as contained with the loan closing documents or subsequent loan covenant modifications.
- Test the accuracy of the financial reports to the borrower's financial records.

- Ascertain whether the borrower submitted audited financial statements, as required.

## **E. Special Test and Provisions**

### **Compliance Requirements**

Loans made by the Agency shall bear interest at a fixed rate of 1 percent per annum over the 30-year term of the loan.

Interest rates charged by intermediaries to ultimate recipients on loans from the IRP revolving fund shall be negotiated by the intermediary and ultimate recipient. The rate must be within limits established by the intermediary's workplan approved by the Agency (7 CFR Part 4274.325(b)).

Security for all loans to intermediaries must be such that the repayment of the loan is reasonably assured when considered along with the intermediary's financial condition, workplan, and management ability. It is the responsibility of the intermediary to make loans to ultimate recipients in such a manner that will protect the interests of the intermediary and the Federal Government (7 CFR Part 4274.326(a)).

### **Suggested Audit Procedures**

- Test intermediary records to determine whether the interest rate charged is the lowest rate sufficient to cover the loan's proportional share of the IRP revolving fund's debt service costs, reserve for bad debts, and administrative costs.
- Test other banks or financial institutions to determine if better interest rates and terms are available (7 CFR Part 4274.325(b)).
- Test to determine if all reserves and other cash in the IRP revolving loan fund not immediately needed for loans to ultimate recipients or other authorized uses will be deposited in accounts in banks or other financial institutions. These accounts should be fully covered by the Federal Deposit Insurance Corporation or fully collateralized with U.S. Government obligations, and must be interest-bearing. Any interest earned thereon remains a part of the IRP revolving fund (7 CFR Part 4274.332(b)(5)).
- Ascertain whether the intermediary maintains a separate ledger and segregated bookkeeping and bank accounts for IRP funds as required in 7 CFR Part 4274.332(b).
- Ascertain whether the Agency's IRP loan funds are placed in the intermediary's IRP revolving fund and used by the intermediary to provide direct loans to eligible ultimate recipients (7 CFR Part 4274.314(a)).

**Compliance Requirement**

Section 319 of Public Law (P.L.) 101-121, the Department of Interior and Related Agencies Appropriations Act, prohibits applicants and recipients of Federal contracts, grants, and loans from using appropriated funds for lobbying the Federal government in connection with a specific award. Section 319 also requires each individual who requests or receives a Federal contract, grant, loan, or a Federal commitment to guarantee a loan to disclose the expenditure of any funds, other than appropriated funds, for lobbying activities.

RD Instruction 1940-Q, "Restrictions on Lobbying", requires that recipients of assistance exceeding certain financial thresholds provide certifications concerning lobbying activities, and submit disclosure statements if nonappropriated funds have been used for certain purposes.

**Suggested Audit Procedures**

- The auditor will test for compliance with the provisions of section 319 of P.L. 101-121, by verifying that the required certifications and disclosure statements have been prepared. The auditor must check to ensure certifications and disclosure statements are signed and dated by the appropriate officials.

ATTACHMENT V  
Rural Economic Development Loans and Grants  
10.854

**I. PROGRAM OBJECTIVES**

The purpose of the Rural Economic Development Loan and Grant (REDLG) Program is to promote rural economic development and job creation projects through electric and telecommunication utilities financed by the Rural Development's Utilities Programs.

**II. PROGRAM PROCEDURES**

Loans and grants are made to electric and telecommunications borrowers to assist in financing a wide range of business and community development projects in rural areas. The program is authorized under the Rural Electrification Act of 1936, as amended, Title III, U.S.C. 930-940c. The program is administered by the Rural Business-Cooperative Service.

**III. COMPLIANCE REQUIREMENTS AND AUDIT PROCEDURES**

Utilities Programs borrowers receiving REDLG loans and grants are subject to the audit procedures and requirements contained in 7 CFR Part 1773, *Policy on Audits of RUS Borrowers*.



ATTACHMENT VI  
Rural Microentrepreneur Assistance Program  
10.870

## **I. PROGRAM OBJECTIVES**

The objective of Rural Development's Rural Microentrepreneur Assistance Program (RMAP) is to alleviate poverty and increase economic activity and employment in rural communities. In particular, RMAP targets disadvantaged and remote communities through financing, primarily towards rural microentrepreneurs and micro enterprises, in partnership with other public and private resources, and in accordance with state and regional strategy based on identified community needs.

## **II. PROGRAM PROCEDURES**

Loans are made to Microenterprise Development Organizations (MDO) that establish or recapitalize a Revolving Loan Fund (RLF) program for the purpose of providing loans to ultimate recipients for start up and growing microenterprises. Grants are made in conjunction with the loans to provide training and technical assistance to the rural micro-borrower. The MDO is responsible for determining eligibility, credit quality, and loan documentation for the ultimate recipient's loan.

## **III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES**

### **A. Types of Services Allowed or Unallowed**

#### **Compliance Requirements**

Loans may be used for:

- (1) Working Capital;
- (2) The purchase of furniture, fixtures, supplies, inventory or equipment
- (3) The purchase or lease of real estate that is already improved and will be used for the subject business
- (4) Business acquisitions
- (5) Debt refinancing

## **Compliance Requirements**

Loans may not be used for:

1. Construction costs
2. Any amount in excess of that needed by a microborrower to accomplish the immediate business goal.
3. Assistance that will cause a conflict of interest or the appearance of a conflict of interest including but not limited to:
  - a. Financial assistance to principals, directors, officers, or employees of the microlender, or their close relatives as defined
  - b. Financial assistance to any entity the result of which would appear to benefit the microlender or its principals, directors, or employees, or their close relatives, as defined, in any way other than the normal repayment of debt.
4. Distribution or payment to a microborrower when such will use any portion of the microloan for other than the purpose for which it was intended.
5. Distribution or payment to a charitable institution not gaining revenue from sales or fees to support the operation and repay the microloan. However, if a charitable institution has a subsidiary or affiliate such as a day care center, coffee house, or other income earning business, a microloan could be made to the business, as if it were any other small business. Such subsidiaries or affiliates must be governed under a separate tax ID.
6. Microloans to a fraternal organization.
7. Any microloan to an applicant that has an RMAP funded microloan application pending with another microlender or that has an RMAP-funded microloan outstanding with another microlender that would cause the applicant to owe a combined amount of more than \$50,000 to one or more microlenders under this program. Microlenders should check for credit report references to other inquiries to ensure that the prospective microborrower has not applied for, or entered into a loan agreement for, other program funding from one or more other RMAP microlenders.
8. Assistance to USDA Rural Development (Agency) employees, or their close relatives, as defined.
9. Any illegal activity.
10. Any project that is in violation of either a Federal, State, or local environmental protection law, regulation, or enforceable land use restriction unless the microloan will result in curing or removing the violation.

11. Microloans to lending and investment institutions and insurance companies.
12. Golf courses, race tracks, or gambling facilities.
13. Any lobbying activities as described in 7 CFR part 3018.
14. Lines of credit.
15. Subordinated liens.
16. Use of an Agency funded loan to pay debt service on a previous Agency loan.

The auditor is not expected to test for types of services eligible or ineligible. (7 CFR Part 4274.319).

## **B. Eligibility**

The auditor is not expected to test for borrower eligibility.

## **C. Matching, Level of Effort, and/or Earmarking Requirements**

There are no matching level or effort, and/or earmarking requirements.

## **D. Reporting Requirements**

### **Compliance Requirements**

The following financial reports must be submitted periodically for this program:

- (1) Annual audited financial statements prepared by an independent certified public accountant in accordance with GAGAS (CFR Part 4274.338(b)(4)(i)(A)).
- (2) Quarterly and semiannual reports (7 CFR Part 4274.338(b)(4)(ii)(A)).
- (3) Annual proposed budget for the following year (7 CFR Part 4274.338(b)(4)(iii)).
- (4) Other reports as the Agency may require from time to time (7 CFR Part 4274.338(b)(4)(iv)).

### **Suggested Audit Procedures**

- Ascertain whether the borrower complied with any special financial reporting requirements, as contained with the loan closing documents or subsequent loan covenant modifications.

- Test the accuracy of the financial reports to the borrower's financial records.
- Ascertain whether the borrower submitted audited financial statements, as required.

## **E. Special Test and Provisions**

### **Compliance Requirements**

Initial Loans made by the Agency shall bear interest at a fixed rate of 2 percent per annum over the 20-year term of the loan. After the fifth year of an MDO's continuous and satisfactory participation in this program, each new loan made to the MDO will bear an interest rate of 1percent.

Interest rates charged by MDO's to ultimate recipients on loans from the IRLF shall be negotiated by the MDO and ultimate recipient. The rate must be within limits established by the Agency (7 CFR Part 4280.322(b)).

Security for all loans to intermediaries must be such that the repayment of the loan is reasonably assured when considered along with the MDO's financial condition, workplan, and management ability. It is the responsibility of the intermediary to make loans to ultimate recipients in such a manner that will protect the interests of the MDO and the Federal Government (7 CFR Part 4280.322).

### **Suggested Audit Procedures**

- Test intermediary records to determine whether the interest rate charged is the lowest rate sufficient to cover the loan's proportional share of the MDO revolving fund's debt service costs, reserve for bad debts, and administrative costs.
- Test to determine if all reserves and other cash in the IRP revolving loan fund not immediately needed for loans to ultimate recipients or other authorized uses will be deposited in accounts in banks or other financial institutions. These accounts should be fully covered by the Federal Deposit Insurance Corporation or fully collateralized with U.S. Government obligations, and must be interest-bearing. Any interest earned thereon remains a part of the Revolving Loan Fund (7 CFR Part 4280.311(e)).
- Ascertain whether the MDO maintains a separate ledger and segregated bookkeeping and bank accounts for IRP funds as required in 7 CFR Part 4280.311(e).
- Ascertain whether the Agency's RMAP loan funds are placed in the intermediary's revolving fund and used by the intermediary to provide direct loans to eligible ultimate recipients (7 CFR Part 4280.322).

**Compliance Requirement**

Section 319 of Public Law (P.L.) 101-121, the Department of Interior and Related Agencies Appropriations Act, prohibits applicants and recipients of Federal contracts, grants, and loans from using appropriated funds for lobbying the Federal government in connection with a specific award. Section 319 also requires each individual who requests or receives a Federal contract, grant, loan, or a Federal commitment to guarantee a loan to disclose the expenditure of any funds, other than appropriated funds, for lobbying activities.

RD Instruction 1940-Q, "Restrictions on Lobbying", requires that recipients of assistance exceeding certain financial thresholds provide certifications concerning lobbying activities, and submit disclosure statements if nonappropriated funds have been used for certain purposes.

**Suggested Audit Procedures**

- The auditor will test for compliance with the provisions of section 319 of P.L. 101-121, by verifying that the required certifications and disclosure statements have been prepared. The auditor must check to ensure certifications and disclosure statements are signed and dated by the appropriate officials.

## ATTACHMENT VII

### Office of Inspector General (OIG) Addresses

1. Eastern Region/Audit  
5601 Sunnyside Avenue, STOP 5300  
Suite 2-2230  
Beltsville, Maryland 20705-5300  
(301) 504-2100

States Served: Alabama, Arkansas, Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, West Virginia, Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, Florida, Georgia, Kentucky, Mississippi, North Carolina, Puerto Rico, Illinois, Indiana, Michigan, New Mexico, Ohio, Oklahoma, Texas, Louisiana, Virgin Islands, Wisconsin, South Carolina, and Tennessee, and Vermont.

2. Midwest Region/Audit  
8930 Ward parkway, Room 3016  
Kansas City, MO 54114  
(816) 926-7367

States Served: Colorado, Iowa, Kansas, Missouri, Montana, Minnesota, Nebraska, North Dakota, South Dakota, Utah, and Wyoming.

3. Western Region/Audit  
1333 Broadway, Suite 400  
Oakland, CA 94612  
(510) 208-6800

States Served: Arkansas, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Territory of Guam, and Trust Territories of Pacific, and Washington

# Audited Financial Statements Handbook For Multifamily Rental Housing

**CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT  
CALIFORNIA HOUSING FINANCE AGENCY**

**LAST REVISED: APRIL 2018**



## Foreword

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Audited financial statements are one of the primary tools used by both the California Department of Housing and Community Development (HCD) and the California Housing Finance Agency (CalHFA) to meet their fiduciary responsibilities in overseeing housing programs, bond requirements, and assuring the integrity of their respective multifamily housing portfolios. The areas of noncompliance and internal control weaknesses noted in these statements will be addressed by the respective HCD or CalHFA Asset Management staff as appropriate.

This Audited Financial Statements Handbook For Multifamily Rental Housing (Audit Handbook) is the result of a joint effort by HCD and CalHFA to coordinate their audit requirements. The Audit Handbook and has been managed and developed by George Rodine and Michael Frost (HCD) and Janet Louie (CalHFA) since its initial publication in 2013. The Audit Handbook and submission requirements detailed herein are for HCD and CalHFA purposes only and the Independent Certified Public Accountant (auditor) must be aware of and file appropriate audit submissions as may be required by other governmental agencies, investors, etc. in their formats. **Audits are required to be submitted to both HCD and CalHFA for jointly funded projects and to the respective department for individually funded projects.**

The Audit Handbook is neither intended to be a complete manual of procedures, nor is it intended to supplant the auditor's judgment of audit work required. Suggested formats contained herein may not cover all circumstances or conditions encountered in an audit. The auditor must use professional judgment to add supplementary information and to determine the extent of testing necessary to support the opinion in the financial statements. All applicable compliance requirements in this Audit Handbook must be addressed by the auditor.

The auditor may contact the respective HCD or CalHFA Asset Management staff if technical assistance is needed pertaining to particular HCD or CalHFA programs, regulations or operations.

HCD and CalHFA require auditors use the current HUD Chart of Accounts in the presentation of the audit supplementary information as the HCD and CalHFA databases utilize these HUD accounts.

HCD and CalHFA staff continue to be receptive to suggestions and appreciate the help provided by the accounting profession.

The Audit Handbook is posted at HCD's and CalHFA's respective websites at:

- [www.hcd.ca.gov/grants-funding/already-have-funding/all-rental-projects.shtml](http://www.hcd.ca.gov/grants-funding/already-have-funding/all-rental-projects.shtml)
- [www.calhfa.ca.gov/multifamily/asset/](http://www.calhfa.ca.gov/multifamily/asset/)



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# Introduction

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## Regulatory Agreement

Each owner participating in various HCD or CalHFA programs is required to sign an HCD or CalHFA Regulatory Agreement(s) (or in some instances an FHA Regulatory Agreement with CalHFA amendments, addendums or modifications) as well as other documents relating to the financing and affordability of the project. The contents of the agreements from one project to another may vary due to statute and regulatory changes, specific HCD or CalHFA program requirements and/or special project conditions or requirements. The auditor must obtain a copy of the applicable HCD or CalHFA Regulatory Agreement(s) and other agreements including but not limited to the promissory note(s), deed(s) of trust and other relevant regulatory information. Once obtained, the auditor is to review the terms and conditions, and document findings of material non-compliance in the accompanying information of the audited financial statements. Financing arrangements may involve another agency's requirements that interact with HCD or CalHFA. Instances of noncompliant financing arrangements must be disclosed.

## Programs

### HCD programs covered under this Audit Handbook:

- Affordable Housing and Sustainable Communities (AHSC) Program
- California Housing Rehabilitation Program - Rental Component (CHRP-R)
- California Natural Disaster Assistance Program - Rental Component (CALDAP-R)
- Deferred Payment Rehabilitation Loan Program (DPRLP) - Rental
- Families Moving to Work Program (FMTW)
- Family Housing Demonstration Program (FHDP)
- HOME Investment Partnership Program (HOME) - CHDO
- Joe Serna, Jr. Farmworker Housing Grant Program (JSJFWHG)
- Mobilehome Park Resident Ownership Program (MPROP)
- Multifamily Housing Program (MHP)
- Multifamily Housing Program – Downtown Rebound Program (DRP)
- Multifamily Housing Program – Governor's Homeless Initiative (GHI)
- Multifamily Housing Program – Homeless Youth (HYMHP)
- Multifamily Housing Program – Supportive Housing (SHMHP)
- Rental Housing Construction Program (RHCP-Bond)
- Rental Housing Construction Program (RHCP-Original)

## Introduction (Cont.)

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- Special User Housing Rehabilitation Program (SUHRP)
- State Earthquake Rehabilitation Assistance Program (SERA)
- Transit Oriented Development Housing Program (TOD)
- New or Restructured Programs/Projects that require project audits
- Veteran Housing and Homeless Prevention Program (VHHP)

### **CalHFA programs covered under this Audit Handbook:**

- 80/20 projects with or without Special Needs
- Section 8 projects with CalHFA as Housing Assistance Payment (HAP) contract administration
- Section 8 projects with a CalHFA loan with Performance-Based Contract Administrator (PBCA) as HAP contract administration
- Rental Housing Construction Program (RHCP)
- Mental Health Services Act Housing Program (MHSA)

## Owner's Responsibilities

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### **Accounting Records**

The owner must provide HCD or CalHFA, as applicable, with required reports, financial statements, projections and analyses. Records must be maintained at all times in reasonable condition for proper audit. The books and records must be posted on a regular basis and consist of appropriate journal entries to a general ledger necessary to reflect project financial condition without substantial corrections or adjustments.

### **Audited Financial Statements**

HCD and CalHFA require the owner to submit a signed electronic copy of the audited financial statements within 90 days of the project's fiscal year ending date. The submitted copy must include a signed certification by the owner regarding the completeness and accuracy of the financial statements and a signed certification by the management agent, if applicable, regarding the management of the project. The Financial Statements including the notes and supplementary information are to be audited in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (Yellow Book) in addition to Generally Accepted Auditing Standards (GAAS) developed by the Auditing Standards Board of the American Institute of Certified Public Accountants. Applicable Government auditing standards include the General Standards, and the Field Work and Reporting Standards for Financial Audits. The Financial Statements are also to be audited in accordance with the requirements of this Audit Handbook.

## Owner's Responsibilities (Cont.)

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The Financial Statements must include supplementary information and reports which HCD or CalHFA requires for general analysis of operations and for assurance of compliance with the applicable HCD or CalHFA Regulatory Agreement(s), HUD 4350.5, HUD IG 2000.04 and Office of Management and Budget (OMB) Circular A-133, as applicable.

**The audit must include the supplementary information as described in the Notes to the Financial Statements and the Supplementary Information in this Audit Handbook.** Two separate sample financial statements are provided: [APPENDIX B](#) must be used for projects with no HCD funding and either CalHFA administered HUD Section 8 or HUD Section 8 with a requirement to submit Audits to HUD/REAC as part of the Financial Assessment SubSystem. [APPENDIX A](#) is for all other projects. Projects having both HCD funding and either CalHFA administered HUD Section 8 or HUD Section 8 with a requirement to submit Audits to HUD/REAC as part of the Financial Assessment SubSystem must submit [APPENDIX A](#) **plus** the [CalHFA Surplus Cash Computation \(see page B-25\)](#). Although the auditor expresses an opinion on the financial statements, the statements themselves are the owner's responsibility. It is also the owner's responsibility to maintain adequate books and records and examine the audit prior to sending to HCD and/or CalHFA.

From the accounting records, an opinion must be provided regarding: the financial statements including the notes and supplementary information (in all material respects); the financial position; and the results of the operations and cash flows for the years then ended. The opinion must state if the financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The cost of operations of the project includes the expenses incurred in maintaining the accounting records. Although the owner may engage an auditor to perform services outside the audit, the owner or the owner's representative must perform the management functions and make management decisions. The owner must certify to the completeness and accuracy of the financial statements. The management agent, if applicable, must certify to the owner (see pages A-27 to A-28, B-27 to B-28).

### Delegation of Responsibility to Agent

The owner may delegate the responsibility for the maintenance of the project accounting records to the management agent. Under these circumstances, the management agent must fulfill these responsibilities as required by the Regulatory Agreement(s). Additional audit fees resulting from the failure to maintain accounting records in accordance with HCD or CalHFA requirements may not be charged to the project. The management agent may be required to provide, at his/ her own expense, additional accounting services to have these records put in an auditable condition.

The responsibility for obtaining the audit and engaging the services of an auditor may not be delegated. Although the management agent may provide the names of auditors who may be interested in the professional engagement, the actual contractual relationship must be between the owner and the auditor.

## Owner's Responsibilities (Cont.)

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### The First Audit

#### **Projects whose funding sources include equity from low-income housing tax credits**

The first audit is required within 90 days after the end of the fiscal year of the permanent loan closing. For HCD construction loans, the first audit is due 90 days after the end of the fiscal year of the project's first year of operations. In addition, if the project was in operation during a prior year, the audit for the prior year may also be required.

#### **Projects whose funding does not include equity from low-income housing tax credits**

If the permanent loan closing date was less than six months prior to the end of the fiscal year, the first audit may either include only those few months of operations, or may include those months along with the first full year of operations after permanent loan closing, as long as the audit does not exceed 18 months of operations. Thus, if the project does not have funding from low-income housing tax credits, and if the permanent loan closing date is August 1, the owner who maintains accounting records on a calendar year basis would have the audit performed either as of the partial operating year of five months or as of the end of the next fiscal year covering 17 months.

### Separate Financial Statements

Where the entity that owns the project has other programs and projects, only the separate operations of the HCD or CalHFA financed project are required to be shown as a separate financial statement including the project specific Notes to the Financial Statements and the Supplementary Information. For example, there may be a non-profit organization that provides other services or owns other projects. Such an organization may obtain an organization-wide audit but will nevertheless be required to prepare separate financial statements for the HCD or CalHFA financed project.

### Distributions and Residual Receipts

HCD or CalHFA review of audited financial statements may result in authorization to make cash distributions and/or Residual Receipts payments. The Owner must remain cognizant of these and other regulatory or contractual requirements.

## Engagement Of The Auditor

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The owner must engage the services of an auditor, satisfactory to HCD or CalHFA, well in advance of the end of the project fiscal year. Although prior experience in performing HCD or CalHFA or similar type audits is advantageous, any independent accountant licensed in California may be selected to perform the audit.

The owner must select an auditor that is qualified to perform and complete the audit in a professional and timely manner. Failure to perform the audit in accordance with HCD or CalHFA requirements may result in additional expense to the owner.

## Engagement of the Auditor (Cont.)

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The auditor must not be responsible for the preparation or the maintenance of the project's basic accounting, financial records or for creation of a trial balance. The auditor must adhere to the American Institute of Certified Public Accountants (AICPA) and Yellow Book Independence Standards.

### Audit Fee

Professional service costs including the audit may include the preparation of tax returns for the project itself, i.e., partnership or corporation returns where the project is the principal asset of the entity, but may not include the determining of alternative treatments of complex accounting issues. The tax advice costs to the owner must not be charged to the project. HCD or CalHFA may require a review of the auditor selection process.

## Independent Auditor's Responsibilities

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### Performance Standards and Requirements

Financial Statements including the notes and supplementary information are to be audited in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (Yellow Book) in addition to Generally Accepted Auditing Standards (GAAS) developed by the Auditing Standards Board of the AICPA. Applicable Government auditing standards include the General Standards, and the Field Work and Reporting Standards for Financial Audits. The Financial Statements are also to be audited in accordance with the requirements of this Audit Handbook. The Financial Statements must include supplementary information and reports which HCD or CalHFA requires for general analysis of operations and for assurance of compliance with the applicable HCD or CalHFA Regulatory Agreement(s), HUD 4350.5, HUD IG 2000.04 and OMB Circular A-133, as applicable.

The auditor must establish an understanding with the client regarding the services to be performed for each engagement, be qualified, and have current knowledge of the applicable auditing standards. The auditor must have an appropriate quality control system in place and undergo an external quality review within the last three years.

### Upon completion of the audit, the auditor is to:

1. Provide an opinion on whether the basic financial statements including notes and the supplementary information present fairly in all material respects, the financial position of the project.
2. Report on project compliance with laws, regulations and agreements and internal control over financial reporting. Auditors must be alert to situations or transactions in non-compliance with the Regulatory Agreement(s) or indications of waste, fraud, abuse, illegal expenditures and acts.

## Independent Auditor's Responsibilities (Cont.)

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3. Provide a schedule of audit findings as deemed appropriate (including resolutions of prior period findings), comments and recommendations.

The auditor must notify HCD or CalHFA, as applicable, immediately if a scope limitation is placed upon the auditor in the course of performing the audit.

If the audited entity is a non-profit subject to the requirements of OMB Circular A-133, local government or other governmental organization, audits must be performed in accordance with the Single Audit Act of 1986, the OMB Circular A-133, Government Auditing Standards as well as their amendments and revisions that are periodically updated.

### Examination of Tenant Files

The auditor should exercise professional judgment when determining the number of tenant files to examine. The auditor's responsibility is limited to matters that would have a material effect on the project's financial position such as:

- Household income and rent limits being applied in accordance with the Regulatory Agreement(s).
- Household occupancy requirements being met in accordance with the Regulatory Agreement(s).
- Annual owner physical unit inspections being conducted.
- Findings of non-compliance must include owner's plan for remedy.

For projects with CalHFA-administered HUD Section 8 contracts, refer to HUD audit guide IG 2000.4 and HUD Handbook 4350.3 for the requirements of the tenant files sampling attributes. The auditor should consider that HCD or CalHFA staff, as applicable, periodically review these files and report any non-compliance. If during the limited tests performed, the auditor becomes aware of a condition that requires attention, this condition must be reported to the owner. Any material noncompliance or condition that in the opinion of the auditor should be improved must be included in the report; otherwise no discussion of tenant files examination is necessary.

### Basic Financial Statements

The basic financial statements must be presented in comparative format. The statement of cash flows must be prepared in the direct method. If the statements are not on a basis consistent with those of the prior year this must be explained fully in the Opinion and/ or the Notes to the Financial Statements. The auditor must use the format that provides basic financial statements that comply with GAAP and is applicable to the entity being presented. The AICPA has published audit and accounting guides for non-profit and governmental organizations. Where an event has occurred that affects the financial or structural status of the project or any owner entity, disclosure of the event is required.

Included in this Audit Handbook are two sample audited financial statements, together with supplementary information. The basic financial statements and supplementary information submitted to HCD and CalHFA should be comparable in format and content to what is shown in the Sample Project financial statements.

*APPENDIX A* is for all projects except those that do not have HCD funding and do not have either CalHFA administered HUD Section 8 or HUD Section 8 with a requirement to submit Audits to HUD/REAC as part of the Financial Assessment SubSystem. Projects having both HCD funding and either CalHFA administered HUD Section 8 or HUD Section 8 with a requirement to submit Audits to HUD/REAC as part of the Financial Assessment SubSystem must submit *APPENDIX A* plus the *CalHFA Surplus Cash Computation as shown on page B-25*. As shown in the *APPENDIX A* Supplementary Information, the Schedules of Operating Revenues and Expenses must be in comparative format and must use the current HUD chart of accounts (see pages A-20 to A-22) – refer to *HUD's Account Definitions*.

*APPENDIX B* must be used for projects with no HCD funding and either CalHFA administered HUD Section 8 or HUD Section 8 with a requirement to submit Audits to HUD/REAC as part of the Financial Assessment SubSystem. As shown in the *APPENDIX B* Supplementary information, the Schedules of Operations must be in comparative format and must use the current HUD chart of accounts (see pages B-17 to B-20) – refer to *HUD's Account Definitions*.

The following financial statement notes and supplementary information are required:

1. Summary of Organization – include owner name and entity type, number of units, year project was constructed and nature of the agreements with HCD or CalHFA and others. **For projects with tax credits, the Audit must report the earliest project placed in service date (month, day and year) as well as the tax credit allocation date (rent floor date) as typically shown on Internal Revenue Service Form 8609. For tax credit projects that were placed in service prior to 2009, the month and year the earliest project was placed in service is sufficient.**
2. Significant Accounting Policies
  - a. Accounting Method
  - b. Cash and Concentrations of Credit Risk – the cash funds and separate bank accounts must be identified. The general operating account, unrestricted cash and other accounts are to be shown separately from restricted accounts. The amounts shown must agree to the totals shown on the Balance Sheet in the basic financial statements and, if applicable, the surplus cash computation.
  - c. Accounts/Tenant Receivable – current amounts receivable (within 30 days), and amounts in excess of 30 days must be stated separately.



- d. Capitalization Policy – report whether the project has a capitalization policy in place.
- e. Other Assets – if the project has other assets and the nature is not readily determinable, as shown in the basic financial statement, a schedule is required.
- f. Tenant and Other Income Recognition – the detail of gross potential rent, including amounts received or receivable from tenants, subsidy payments, employee/manager apartments, vacancy loss and concessions must all be reported (see page A-20). Commercial income must be shown in Account #5140. Detail of revenue must be provided when the “Miscellaneous” HUD Operating Revenue Accounts total \$2,500 or greater.

**RHCP-Original Projects:** RHCP and market unit revenues and expenses must be shown separately in the supplementary information.

**MHSA Projects:** projects containing MHSA and market units must show the income from each separately in the supplementary information.

- g. Accounts Payable – current amounts payable (within 30 days), and amounts in excess of 30 days must be stated separately.
- h. Other Payables – if other amounts are payable and the nature is not readily determinable, as shown in the basic financial statement, a schedule is required.
- i. Operating Expenses – detail of expenditures must be provided when the “Miscellaneous” HUD Operating Expense Accounts total \$2,500 or greater.

Property Management Fee: must comply with [HUD’s allowed per unit per month amount](#) and/or if applicable, the approved operating budget. Use HUD Account #6320, which reflects the cost of the management agent service contracted by the project and must not include partnership fees or similar fees paid to an owner entity.

Supportive Services Costs: **if any supportive services costs including service coordinator salary and benefits are paid from project income, use HUD Account #6990 (see page A-21).** For most HCD and CalHFA funded projects, per Regulations supportive services costs other than service coordinator salary and benefits are not an eligible expense and must be paid by another funding source other than the project’s operating income. Typically, such costs are paid by third party services agencies or by the owner. Projects regulated by the HCD 2017 Uniform Multifamily Regulations (UMRs) may include all supportive services costs as operating expenses as described in §8301(t), 8301(u) and 8314(e). Supportive services costs must be reported in HUD Account #6990 as shown on page A-22.

RHCP-Original Projects: a statement of expenses by assisted and non-assisted units is required within the supplementary information to enable HCD or CalHFA staff, as applicable, to determine the amount of supplementary annuity funds required. The project must establish an expense allocation method at project inception and continue this allocation throughout the term of the Regulatory Agreement.

MHSA Projects: a statement of expenses by MHSA vs. market units is required to determine the amount of Cost Operating Subsidy Revenue (COSR) funds required to be funded for the MHSA COSR units.

- j. HUD Account #7190 – detail of expenditures must be provided for this account regardless of the amount.
  - k. Subsequent Events – describe any material events that have occurred through the date the financial statements were available to be issued.
3. Related Party Transactions including Fees – all related party transactions including fees such as deferred developer fee, asset management fee and similar fees must be broken out in a schedule showing the following:
- › Name of the fee and the legal agreement requiring the fee.
  - › Fee amount, method of calculation and HUD Account # charged. Note: HUD Account #7190 must include fees for asset management, supervisory and other similar fees for services performed by partners or other identities of interest.
  - › Description of the Identities of Interest.

Some HCD Regulatory Agreement(s) limit the amount of the deferred developer fee payable from project cash flow on a priority basis prior to determining Net Cash Flow payments to HCD. Any amount not permitted as a priority payment must be paid from the owner's allowable distribution. **Limited deferred developer fees allowed to be paid on a priority basis must be separated and detailed in the Related Party Transactions footnotes (see pages A-13 to A-14, footnote 3).**

4. Restricted Accounts – Reserves, Impounds and Tenant Security Deposits
- a. Restricted Funds including all Reserve Accounts – all required restricted accounts must be identified including the agency requiring the account, the name of the legal agreement(s) requiring the account and the amount required. For each restricted account, a schedule must be included showing the following:
    - » Beginning and ending balances
    - » Deposits
    - » Withdrawals – describe amounts capitalized or expensed. If withdrawals relate to the prior year capital purchases, footnote the applicable year and amounts.
    - » Interest earned
  - b. Impound Accounts – for each impound account, a schedule similar to the Restricted Funds schedule must be included. Per HCD and CalHFA Regulations, impound activity may not be included in the HCD and CalHFA Distribution of Operating Cash Flow/Surplus Cash computation.

- c. Tenant Security Deposits – applicable law or regulation may provide different handling and security deposit accountability. The auditor must disclose security deposits on hand and the treatment of interest earned.
5. Property, Equipment and Improvements – a schedule identifying the changes in each fixed asset category must be included. Retired fixed assets must also be identified.
6. Deferred Costs and Amortization
7. Mortgages/Notes Payable – interest rate, interest expense amount, maturity date, applicable mandatory payment amount, and beginning/ending principal and interest balance must be reported for each loan.
8. Ground Lease – for projects having a ground lease, the Notes to the Financial Statements must include a summary of the lease terms and conditions including the name of the lessor, identity of interests, and whether the annual lease payment is an eligible operating expense or to be paid out of owner's allowable distribution. If the lease payment is an authorized operating expense indicate the HUD Account charged.
9. HCD and CalHFA – Distribution of Operating Cash Flow/Surplus Cash – refer to the applicable HCD or CalHFA Regulatory Agreement(s) of the project to determine the distribution of Operating Cash Flow/Surplus Cash. A computation must be included that details the Operating Cash Flow/Surplus Cash as described in the Regulatory Agreement(s). An adjustment must be made to this computation when withdrawals from the Replacement Reserve Account are greater than the amount Capitalized, which indicates some of the withdrawals were included in operating expenses (see pages A-24 to A-25). Timing difference exceptions related to Replacement Reserve withdrawals and capital purchases will be considered by HCD and CalHFA if clearly noted. When withdrawals from the Replacement Reserve Account are less than the amount Capitalized, no adjustment to Other Activity within the Operating Cash Flow/Surplus Cash is allowed. Impound activity may not be included in the HCD and CalHFA Distribution of Operating Cash Flow/Surplus Cash computation. Residual receipt payments should not be submitted to HCD and CalHFA until invoiced.
10. CalHFA administered Section 8 project only – Surplus Cash Computation – accumulated limited distributions and earned surplus, where applicable, requires a statement to list the amount of allowable limited distributions and the amount of prior period unpaid limited distributions, if any (see page B-25). Entity fees and expenses that are not part of project expenses, such as developer fees, incentive management fees, asset management fees, and partnership management fees are to be considered as distributions to owner. The CalHFA Regulatory Agreement may require surplus cash remaining after payment of a limited distribution, to remit the balance to CalHFA to be applied first to the reserve fund for operations (maximum balance to equal 5% of annual gross potential rent at fiscal year-end). Any remaining balance is earned surplus. Pre-80, small or partially assisted project's earned surplus account balance is owned and controlled by CalHFA. A Post 80 project's earned surplus account balance is owned and

controlled by HUD. Any earned surplus or residual receipt must be remitted to CalHFA within 90 days of the project's fiscal year end. The calculation must be disclosed in the financial statements and the surplus cash format is posted on the CalHFA website at: [www.calhfa.ca.gov/multifamily/asset/forms/index.htm](http://www.calhfa.ca.gov/multifamily/asset/forms/index.htm)

# APPENDIX A: Sample Financial Statement for HCD or CalHFA Projects

## **CA PROPERTY APARTMENTS, L.P. (A California Limited Partnership)**

HCD Contract Numbers: 01-FWHG-1111 & 03-MHP-9999  
and  
CalHFA Project Number: #03333N

### **Financial Statements and Independent Auditor's Report For Years Ended December 31, 20YY and 20XX**

With accompanying information required by  
the California Department of Housing and Community Development  
and the California Housing Finance Agency

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# Independent Auditor's Report

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The Partners of  
CA Property Apartments  
City, California

## Report on the Financial Statements

We have audited the accompanying financial statements of CA Property Apartments, L.P., a California limited partnership, HCD Contract Numbers 01-FWHG-1111 and 03-MHP-9999 and CalHFA Project No. #03333N, which comprise the balance sheets as of December 31, 20YY and 20XX, and the related statements of operations, changes in partners' capital, and cash flows for the years then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements of the *Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Independent Auditor's Report (Cont.)

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### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CA Property Apartments, L.P., as of December 31, 20YY and 20XX, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages A-20 through A-26, as required by the California Department of Housing and Community Development and the California Housing Finance Agency, is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards and the requirements of the *Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency*, we have also issued a report dated February 1, 20ZZ on our consideration of CA Property Apartments, L.P.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and the requirements of the *Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency*, in considering CA Property Apartments, L.P.'s internal control over financial reporting and compliance.

February 13, 20ZZ

Certified Public Accountants

City, California  
Date



## CA Property Apartments, L.P.

**Balance Sheets**  
**For The Years Ended December 31, 20YY and 20XX**

<b>ASSETS</b>	<b>20YY</b>	<b>20XX</b>
Investment in real estate:		
Land	\$2,084,544	\$2,084,544
Building and improvements	17,762,845	17,759,796
Furniture, fixtures and equipment	460,441	457,743
Less: accumulated depreciation	(3,002,266)	(2,507,374)
Net investment in real estate	17,305,564	17,794,709
Other assets:		
Cash	142,900	102,419
Rent receivable	-	305
Restricted deposits (Note 3):		
Replacement reserve	111,072	90,429
Operating reserve	180,806	179,996
CalHFA impound deposits	22,107	25,383
Tenant security deposits	69,373	69,262
Prepaid expenses	8,037	8,906
Deferred costs – net (Note 4)	84,815	92,083
Total assets	\$17,924,674	\$18,363,492
<b>Liabilities And Partners' Capital</b>		
Liabilities:		
Notes payable (Note 6)	\$11,662,176	\$11,791,927
Accounts payable and accrued expenses	10,479	11,028
Related-party payable (Note 5)	353,452	404,027
Deferred revenue	43	19
Tenant security deposits	67,092	65,723
Interest payable (Note 6)	1,294,492	1,088,804
Total liabilities	13,387,734	13,361,528
Partners' capital	4,661,379	5,126,403
Syndication costs	(124,439)	(124,439)
Total partners' capital	4,536,940	5,001,964
Total liabilities and partners' capital	\$17,924,674	\$18,363,492

The accompanying notes are an integral part of these financial statements

CA Property Apartments, L.P.

**Statements of Operations**  
**For The Years Ended December 31, 20YY and 20XX**

	<b>20YY</b>	<b>20XX</b>
Income:		
Gross potential rent	\$812,075	\$795,725
Less: vacancies and concessions	(12,570)	(14,934)
	799,505	780,791
Interest income	1,511	1,856
Other income:		
Laundry and vending income	6,662	9,755
Other tenant charges	3,990	4,531
Miscellaneous	395	610
Total income	812,063	797,543
Operating expenses:		
Administrative	126,466	142,584
Utilities	88,306	85,089
Operating and maintenance	112,149	133,333
Taxes and insurance	56,484	68,940
Supportive services costs	5,991	6,001
Total operating expenses	389,396	435,947
Net operating income	422,667	361,596
Financial, partnership and other expenses:		
Depreciation	494,892	492,494
Amortization	7,268	7,268
Interest (Note 6)	345,312	348,083
Asset management fee (Note 5)	12,000	12,000
Partnership management fee (Note 5)	22,294	22,073
Density Bonus Program monitoring fee (County monitoring Fee)	5,925	5,925
Total financial, partnership and other expenses	887,691	887,843
Net loss	\$(465,024)	\$(526,247)

The accompanying notes are an integral part of these financial statements

CA Property Apartments, L.P.

**Statements Of Changes In Partners' Capital  
For The Years Ended December 31, 20YY and 20XX**

	<b>General Partner<sup>a</sup></b>	<b>Administrative Limited Partner<sup>b</sup></b>	<b>Investor Limited Partner<sup>c</sup></b>	<b>Syndication Costs</b>	<b>Total</b>
Partnership interest	0.01%	0.00%	99.99%	-	100.00%
Balance, December 31, 20WW	\$805,541	-	\$4,847,109	\$(124,439)	\$5,528,211
Net Loss for 20YY	(103)	-	(526,144)	-	(526,247)
Balance, December 31, 20YY	805,438	-	4,320,965	(124,439)	5,001,964
Net Loss for 20XX	(91)	-	(464,933)	-	(465,024)
Balance, December 31, 20XX	\$805,347	-	\$3,856,032	\$(124,439)	\$4,536,940

<sup>a</sup> GP Development Corporation<sup>b</sup> Tax Credit Investor, Inc.<sup>c</sup> ABC Tax Credit Fund

The accompanying notes are an integral part of these financial statements

CA Property Apartments, L.P.

**Statements of Cash Flows**  
**For The Years Ended December 31, 20YY and 20XX**

	<b>20YY</b>	<b>20XX</b>
Cash Flow from operating activities:		
Rental receipts	\$801,092	\$783,782
Interest receipts	1,511	1,856
Other receipts	11,047	14,896
Total receipts	813,650	800,534
Administrative	(75,867)	(89,330)
Management fee	(49,824)	(48,372)
Utilities	(88,306)	(85,089)
Operating and maintenance	(110,995)	(124,943)
Taxes and insurance	(42,014)	(49,209)
Property insurance	(16,944)	(24,202)
Miscellaneous taxes and insurance	(800)	(800)
Supportive services costs	(5,991)	(6,001)
Interest	(139,624)	(142,382)
Asset management fee	(12,000)	(12,000)
Total disbursements	(542,365)	(582,328)
Net cash provided by operating activities	271,285	218,206
Cash flows from investing activities:		
Purchase of property and equipment	(5,747)	(25,737)
Net (increase) decrease in restricted deposits for reserves	(21,453)	1,892
Net cash used in investing activities	(27,200)	(23,845)
Cash flows from financing activities:		
Payment of developer fee	(73,853)	(8,817)
Payment of notes payable	(129,751)	(126,992)
Net cash used in financing activities	(203,604)	(135,809)
Net increase in cash	40,481	58,552
Cash, beginning of year	102,419	43,867
Cash, end of year	\$142,900	\$102,419

The accompanying notes are an integral part of these financial statements

CA Property Apartments, L.P.

**Statements Of Cash Flows**  
**For The Years Ended December 31, 20YY and 20XX**

	<b>20YY</b>	<b>20XX</b>
Cash flows from operating activities		
Net Loss	\$(465,024)	\$(526,247)
Reconciliation of net loss to net cash provided by operating activities:		
Depreciation	494,892	492,494
Amortization	7,268	7,268
(Increase) decrease in assets:		
Rent receivable	305	(166)
Impound deposits	3,276	6,655
Tenant security deposits – net	1,258	3,171
Prepaid expenses	869	6,390
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(549)	881
Related-party payable	23,278	22,073
Deferred revenue	24	(14)
Interest payable	205,688	205,701
Net cash provided by operating activities	<u>\$271,285</u>	<u>\$218,206</u>

The accompanying notes are an integral part of these financial statements

## Notes to Financial Statements

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CA Property Apartments, L.P.  
HCD Contract Numbers: 01-FWHG-1111 & 03-MHP-9999 and  
CalHFA Project Number: #03333N

### **Notes To Financial Statements For The Years Ended December 31, 20YY and 20XX**

#### **Note 1 – Organization And Nature Of Activities**

CA Property Apartments, L.P. (the Partnership) was formed in 20QQ to develop, own and operate an 80-unit apartment complex, for low- and moderate-income households in a City, California, and operates under the name of CA Property Apartments (the Project). The property was placed in service on September 4, 2010 and received a tax credit allocation (rent floor) on March 1, 2008.

The Project participates in the low-income housing tax credit program under Section 42 of the Internal Revenue Code. Various agreements dictate the maximum income levels of new tenants and also provide rent restrictions through 2066.

#### **Note 2 – Summary Of Significant Accounting Policies**

##### **Accounting Method**

The Partnership uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

##### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

##### **Revenue Recognition**

Rental income is shown at its maximum gross potential. Vacancy loss is shown as a reduction in rental income. Rental units occupied by employees are included in rental income and as an expense of operations.

##### **Cash**

Cash is defined as cash in demand deposit accounts as well as cash on hand. Not included as cash are funds restricted as to their use, regardless of liquidity, such as tenant security deposits, replacement reserve, operating reserve, and CalHFA impound accounts. The Partnership occasionally maintains cash on deposit at a bank in excess of the Federal

## Notes to Financial Statements (Cont.)

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Deposit Insurance Corporation limit. The Partnership has not experienced any losses in such accounts.

### Accounts Receivable

Management has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the result that would have been obtained had the allowance method been followed.

### Property and Equipment/Investment in Real Estate and Deferred Costs

Property and equipment is stated at cost of acquisition or construction. The costs of maintenance and repairs are charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets

Deferred costs are incurred in order to obtain permanent financing and tax credits for the Project. Deferred costs are stated at cost and amortized on a straight-line basis over the term of the mortgage and 10-year tax credit period.

The useful lives of the assets are estimated as follows:

Building and improvements	10 to 40 years
Furniture, fixtures and equipment	5 to 10 years
Permanent loan coats	30 years
Tax credit cost	10 years

The Partnership reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property, including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 20YY and 20XX.

### Income Taxes

No provision for federal and state income taxes is included in the financial statements. The income or loss of the Partnership is reported by the partners on their income tax returns. The Partnership believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Partnership's federal and state income tax returns for the years 20UU through 20XX are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

## Notes to Financial Statements (Cont.)

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### **Allocation of Partnership Income/Loss and Tax Credits**

The Partnership expects to generate low-income housing credits, which will be allocated in the same manner as the income or loss of the Partnership. Because the limited partner's losses are limited to its investment, the limited partner's equity will not be reduced below zero unless future capital contributions will be made in an amount sufficient to absorb the losses. All remaining losses are allocated to the general partner. Any subsequent income allocable to the limited partner is allocated to the general partner first until the general partner's share of that income offsets the losses not previously recognized by the limited partner.

### **Compensated Absences**

Compensated absences are not accrued. Accounting principles generally accepted in the United States of America require that compensated absences be accrued. However, the effect of not accruing compensated absences is not materially different from the result that would have been obtained had compensated absences been accrued.

### **Subsequent Events**

Management has evaluated subsequent events through February 3, 20ZZ, the date on which the financial statements were available to be issued.

## **Note 3 – Restricted Funds**

### **Replacement Reserve**

The Partnership is required to maintain a reserve for replacement and repair of property and equipment in accordance with the lenders' regulatory agreements. The reserve is held by the California Housing Finance Agency and is required to be funded in an annual amount of \$27,960. The balance is held by CalHFA and expenditures are subject to the supervision and approval by CalHFA.

### **Operating Reserve**

The Partnership is required to maintain an operating reserve to fund any shortfall that exists when operating expenses exceed operating income in accordance with the lenders' regulatory agreements. The reserve is held by the California Housing Finance Agency and was funded from capital contributions from Limited Partners in the amount of \$175,000. The balance is held by CalHFA and expenditures are subject to the supervision and approval by CalHFA.

### **Impounds**

The Partnership is required to make monthly deposits to impound accounts to cover insurance premiums and property taxes in accordance with the CalHFA regulatory agreement. The balance is held by CalHFA and expenditures are subject to the supervision and approval by CalHFA.



## Notes to Financial Statements (Cont.)

### Tenant Security Deposits

The Partnership is required to hold security deposits in a separate bank account in the name of the Project.

### Note 4 – Deferred Costs

Deferred costs are summarized as follows

	20YY	20XX
Tax credit costs	\$45,480	\$45,480
Permanent loan costs	81,625	81,625
	127,105	127,105
Less: accumulated amortization	(42,290)	(35,022)
Total deferred costs	\$84,815	\$92,083

### Note 5 – Related Party Transactions

All payroll-related costs are paid by The GP Group Corporation and allocated to the Partnership based on actual results. Related-party transactions include the following fees and charges:

Payable/Paid to Description	Payable at Dec. 31, 20YY	20YY Expense (Payment)	Payable at Dec. 31, 20XX	20XX Expense (Payment)
<b>The GP Group Corporation</b>				
Property management fee (HUD Account # 6320) <sup>1</sup>	-	\$49,824	-	\$48,372
		(49,824)		(48,372)
Bookkeeping fee <sup>1</sup>	-	8,616	-	8,616
		(8,616)		(8,616)
Operating advances	984		-	
<b>The GP Development Corporation</b>				
Partnership management fee (HUD Account # 7190) <sup>2</sup>	128,040	22,294	105,746	22,073
Deferred development fee <sup>3</sup>	212,428	-	286,281	-
		(73,853)		(8,817)
<b>ABC Tax Credit Fund</b>				
Asset management fee(HUD Account # 7190) <sup>4</sup>	12,000	12,000	12,000	12,000
		(12,000)		(12,000)
Total	\$353,452		\$404,027	

## Notes to Financial Statements (Cont.)

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- <sup>1</sup> The Partnership entered into a management agreement with MA Management, an affiliate of The GP Group Corporation. The agreement provides for management and bookkeeping fees equal to the approved annual operating budget.
- <sup>2</sup> The Partnership shall pay a partnership management fee to the general partner, in an amount not to exceed \$25,000 per year. This partnership fee is not permitted as a priority payment and must be paid from the owner's allowable distribution. The term of the agreement shall terminate on December 19, 2069.
- <sup>3</sup> The Partnership shall pay the developer a development fee in an amount equal to \$2,000,000, which includes any fees paid to third parties that are treated as a development fee. Per the HCD MHP Regulatory Agreement, only a portion can be paid on a priority basis from operating cash flow/surplus cash. Of the \$212,428 Deferred Development Fee payable at December 31, 20YY, \$90,000 can be paid on a priority basis. The remaining amount must be paid from the owner's allowable distribution.
- <sup>4</sup> The Partnership shall pay an asset management fee to the Investor Limited Partner, in the amount of \$12,000 per year, which shall be payable out of operating cash flow/surplus cash.

## Notes to Financial Statements (Cont.)

### Note 6 – Notes Payables

Notes payable are secured by the property unless otherwise noted and summarized as follows:

	20YY		20XX	
	Interest Payable	Principal	Interest Payable	Principal
California Housing Finance Agency loan, in the original amount of \$1,985,000, bears simple interest at 5.5% per annum, with monthly payments of principal and interest in the amount of \$11,271, to be repaid in full by 2036. Interest expense was \$101,330 and \$103,141 for 20YY and 20XX, respectively.	\$8,372	\$1,826,728	\$8,527	\$1,860,491
Rural Community Assistance Corporation (RCAC) loan, in the original amount of \$2,300,000, bears simple interest at 1% per annum, with monthly payments of principal and interest in the amount of \$9,548, to be repaid in full by 2029. Interest expense was \$18,506 and \$19,466 for 20YY and 20XX, respectively.	1,505	1,806,603	1,585	1,902,591
Department of Housing and Community Development- Multifamily Housing Program loan (MHP loan), in the amount of \$4,655,357, accrues simple interest at 3% per annum, requires an annual payment of .42% of the outstanding principal balance for a period 29 years, at which time annual loan payments are required equal to the lesser of the accrued interest for the previous 12 month period or such amount determined by HCD. Annual payments can also be made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2061. Interest expense was \$139,661 for both 20YY and 20XX.	640,705	4,655,357	520,597	4,655,357

## Notes to Financial Statements (Cont.)

	20YY		20XX	
	Interest Payable	Principal	Interest Payable	Principal
Department of Housing and Community Development (Serna loan), bears simple interest at 3% per annum. Annual payments are made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2044. Interest expense was \$45,000 for both 20YY and 20XX.	328,192	1,500,000	283,192	1,500,000
County Community Development Commission HOME loan (CCDC HOME first loan), bears simple interest at 3% per annum. Annual payments are made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2034. Interest expense was \$4,062 for both 20YY and 20XX.	30,450	135,400	26,388	135,400
County Community Development Commission (CCDC HOME second loan), bears simple interest at 3% per annum. Annual payments are made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2035. Interest expense was \$1,490 for both 20YY and 20XX.	8,942	49,668	7,452	49,668
County Community Development Commission (CCDC first loan), bears simple interest at 3% per annum. Annual payments are made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2058. Interest expense was \$15,000 for both 20YY and 20XX.	128,959	500,000	113,959	500,000

## Notes to Financial Statements (Cont.)

	20YY		20XX	
	Interest Payable	Principal	Interest Payable	Principal
County Community Development Commission (CCDC second loan), bears simple interest at 3% per annum. Annual payments are made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2033. Interest expense was \$10,500 for both 20YY and 20XX.	92,026	350,000	81,526	350,000
County Community Development Commission (CCDC CDBG loan), bears simple interest at 3% per annum. Annual payments are made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2061. Interest expense was \$9,763 for both 20YY and 20XX.	55,341	325,420	45,578	325,420
Affordable Housing Program loan, with JP Bank bears no interest. No annual payments are required and the total principal is to be repaid in full in 2036.	-	513,000	-	513,000
<b>Total</b>	<b>\$1,294,492</b>	<b>\$11,662,176</b>	<b>\$1,088,804</b>	<b>\$11,791,927</b>

Principal payments on notes payable for the next five years are subject to changes in net cash flow and are estimated as follows:

20ZZ	\$132,619
20AA	135,605
20BB	138,714
20CC	141,953
20DD	145,329

### Note 7 – Commitments, Contingencies And Other Matters

#### Indemnification Agreement

The GP Group Corporation, the general partner, agreed to indemnify the limited partner in the event of a reduction in projected tax benefits exceeding five percent.

## Notes to Financial Statements (Cont.)

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### Option Agreement

For entering into an indemnification agreement with the limited partner, the Partnership is granting GP Group Corporation an option to purchase the Project. The initial term of the option shall commence on the first day of the year following the end of the credit period and shall expire on the last day of the compliance period for the low-income housing tax credits for the Project. The additional term of the option shall commence on the first day after the end of the compliance period and shall expire on the last day of the eighteenth month after the end of the compliance period. The purchase price of the Project shall be the greater of the then fair market value of the Project or the assumption of the outstanding debt secured by deeds of trust on mortgages on the Project plus any other obligations of the owner and reimbursement of the limited partner's income taxes attributable to the purchase.

### Note 8 – Distribution Of Operating Cash Flow/Surplus Cash

Operating Cash Flow/Surplus Cash, as defined by the Regulatory Agreements and Partnership Agreement, is distributable as follows (note: restricted accounts have been fully funded for the current year as required):

1. To payment of the report year asset management fee (note: per the MHP HCD Regulatory Agreement, the sum of the asset management fee, partnership management fee and other similar fees paid on a priority basis from cash flow may not exceed \$12,000 per year).
2. To payment of unpaid deferred development fee limited by the MHP HCD Regulatory Agreement as a priority basis payment (prior to distributions).
3. 50% of the remaining excess cash to the owner as a distribution.
4. 50% of the remaining excess cash to be distributed for the debt service of the following loans:
  - a. 62% to debt service of the **HCD MHP** loan;
  - b. 20% to debt service of the **HCD Serna** loan;
  - c. 3% to debt service of the CCDC HOME first loan;
  - d. 1% to debt service of the CCDC HOME second loan;
  - e. 6% to debt service of the CCDC first loan;
  - f. 4% to debt service of the CCDC second loan; and
  - g. 4% to debt service of the CCDC CDBG loan.

## Notes to Financial Statements (Cont.)

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5. The remaining excess cash to be distributed as follows per the partnership agreement:
- a. To payment of remaining accrued and unpaid asset management fee;
  - b. To payment of remaining accrued and unpaid partnership management fee;
  - c. To payment of any operating loans; and
  - d. To prepay either the HCD or MHP loans at the discretion of the general partner.
  - e. Thereafter, to the partners in proportion to their respective percentage interests in the Partnership.

# Supplementary Information

CA Property Apartments, L.P.

## Schedules of Operating Revenues For the Years Ended December 31, 20YY and 20XX

Schedule of Operating Revenues		20YY	20XX
<b>Rent Revenue</b>			
5120	Rent Revenue- Gross Potential	\$789,911	\$770,926
5121	Tenant Assistance Payments	22,164	24,799
5140	Rent Revenue- Stores & Commercial	-	-
5170	Rent Revenue- Garage & Parking	-	-
5180	Flexible Subsidy Revenue	-	-
5190	Misc. Rent Revenue <i>(if over \$2,500, detail required)</i>	-	-
5100T	Total Rent Revenue	\$812,075	\$795,725
<b>Vacancies</b>			
5220	Apartments	\$12,570	\$14,934
5240	Stores & Commercial	-	-
5250	Rental Concessions	-	-
5270	Garage & Parking Spaces	-	-
5290	Misc. <i>(if over \$2,500, detail required)</i>	-	-
5200T	Total Vacancies	\$12,570	\$14,934
5152N	Net Rental Revenue (Rent Revenue Less Vacancies)	\$799,505	\$780,791
<b>Financial Revenue</b>			
5410	Financial Revenue- Project Operations	\$111	\$140
5430	Revenue from Investments- Residual Receipts	-	-
5440	Revenue from Investments- Replacement Reserves	450	537
5490	Revenue from Investments- Misc. <i>(if over \$2,500, detail required)</i>	950	1,179
5400T	Total Financial Revenue	\$1,511	\$1,856
<b>Other Revenue</b>			
5910	Laundry & Vending Revenue	\$6,662	\$9,755
5920	Tenant Charges	3,990	4,531
5990	Misc. Revenue <i>(if over \$2,500, detail required)</i>	395	610
5900T	Total Other Revenue	\$11,047	\$14,896
5000T	Total Revenue	\$812,063	\$797,543



## Supplementary Information (Cont.)

CA Property Apartments, L.P.

**Schedules of Operating Expenses**  
**For the Years Ended December 31, 20YY and 20XX**

<b>Schedule of Operating Revenues</b>		<b>20YY</b>	<b>20XX</b>
<b>Administrative Expenses</b>			
6203	Conventions & Meetings	-	-
6204	Management Consultants	-	-
6210	Advertising & Marketing	-	-
6250	Other Renting Expenses	-	-
6310	Office Salaries	\$8,738	\$10,714
6311	Office Expenses	3,787	9,582
6312	Office or Model Apartment Rent	-	-
6320	Management Fee	49,824	48,372
6330	Manager or Superintendent Salaries	32,753	43,474
6331	Administrative Rent Free Unit	13,848	13,428
6340	Legal Expense - Project	-	7
6350	Audit Expense	8,900	7,900
6351	Bookkeeping Fees/Accounting Services	8,616	8,616
6370	Bad Debts	-	491
6390	Misc. Administrative Expenses <i>(if over \$2,500, detail required)</i>	-	-
6263T	Total Administrative Expenses	\$126,466	\$142,584
<b>Utilities Expenses</b>			
6450	Electricity	\$10,560	\$10,988
6451	Water	30,159	28,306
6452	Gas	1,955	2,627
6453	Sewer	45,632	43,168
6400T	Total Utilities Expense	\$88,306	\$85,089
<b>Operating And Maintenance Expenses</b>			
6510	Payroll	\$28,285	\$42,000
6515	Supplies	12,602	9,661
6520	Contracts	38,394	48,275
6521	Operating & Maintenance Rent Free Unit	-	-
6525	Garbage & Trash Removal	31,182	29,583
6530	Security Payroll/ Contracts	1,203	2,746
6531	Security Rent Free Unit	-	-
6546	Heating/Cooling Repairs & Maintenance	-	-
6548	Snow Removal	-	-
6570	Vehicle & Maintenance Equip. Operation & Repairs	-	-
6580	Lease Expense	-	-
6590	Misc. Op. & Maintenance Expenses <i>(if over \$2,500, detail required)</i>	483	1,068
6500T	Total Operating & Maintenance Expenses	\$112,149	\$133,333

## Supplementary Information (Cont.)

CA Property Apartments, L.P.

**Schedules of Operating Expenses**  
**For the Years Ended December 31, 20YY and 20XX**

<b>Schedule of Operating Expenses</b>		<b>20YY</b>	<b>20XX</b>
<b>Taxes &amp; Insurance</b>			
6710	Real Estate Taxes	\$978	\$409
6711	Payroll Taxes (Project's share)	7,128	12,028
6720	Property & Liability Insurance (Hazard)	16,944	24,202
6722	Workmen's Compensation	7,072	6,894
6723	Health Insurance & Other Benefits	23,562	24,607
6790	Misc. Taxes, Licenses, Permits & Ins. <i>(if over \$2,500, detail required)</i>	800	800
6700T	Total Taxes & Insurance	\$56,484	\$68,940
<b>Financial Expenses</b> <i>(not all expense accounts are shown)</i>			
6820	Interest on Mortgage (or Bonds) Payable	\$101,330	\$103,141
6825	Interest on Other Mortgages	38,058	39,018
6890	Misc. Financial Expenses <i>(if over \$2,500, detail required)</i>		
	6890-010 Description: County Density Bonus Monitoring Fee		
	6890-020 Amount:	5,925	5,925
6800T	Total Financial Expenses	\$145,313	\$148,084
6990	<b>Supportive Services (SS) Costs</b> <i>(For most HCD &amp; CalHFA funded projects, SS coordinator salary &amp; benefits is the only eligible expense. Projects regulated by the HCD 2017 UMRs are eligible for additional SS costs subject to §8301(t)-(u) and 8314(e). SS costs must be reported using the descriptions below. SS costs that do not fit within the descriptions below must be reported with clear descriptions.)</i>		
	6990-010 Description: SS Staff Supervisors Salaries		
	6990-020 Amount:	-	-
	6990-010 Description: On-site SS Coordinator Salaries & Benefits		
	6990-020 Amount:	\$5,991	\$6,001
	6990-010 Description: On-site Other SS Staff Salaries		
	6990-020 Amount:	-	-
	6990-010 Description: SS Administrative Overhead		
	6990-020 Amount:	-	-
6900T	Total Supportive Services Costs	\$5,991	\$6,001
6000	<b>Total Cost of Operations before Depreciation</b>	<b>\$534,709</b>	<b>\$584,031</b>
5060T	<b>Operating Profit (Loss) before Depreciation</b>	<b>\$277,354</b>	<b>\$213,512</b>
<b>Depreciation &amp; Amortization Expenses</b>			
6600	Depreciation Expense	\$494,892	\$492,494
6610	Amortization Expense	7,268	7,268
5060N	<b>Operating Profit (Loss)</b>	<b>\$(224,806)</b>	<b>\$(286,250)</b>
<b>Net Entity Expenses</b> <i>(not all expense accounts are shown)</i>			
7142	Interest on Mortgage Payable	\$205,924	\$205,924
7190	Other Expenses <i>(detail always required for this account)</i>		
	7190-010 Description: Asset Management Fee		
	7190-020 Amount:	12,000	12,000
	7190-010 Description: Partnership Management Fee		
	7190-020 Amount:	22,294	22,073
7100T	Total Net Entity Expenses	\$240,218	\$239,997
3250	<b>Change in Total Net Assets from Operations (Net Loss)</b>	<b>\$(465,024)</b>	<b>\$(526,247)</b>

## Supplementary Information (Cont.)

### Cash on Hand and in Banks

Unrestricted accounts:	
Petty cash	\$200
Checking accounts – operations	142,700
Total	<u>\$142,900</u>
Restricted accounts:	
Mortgage impound accounts	\$22,107
Replacement reserve	111,072
Operating reserve	180,806
Tenant Security Deposits	69,373
Total	<u>\$383,358</u>

Tenant security deposits are maintained in a separate account and interest earned on these deposits is credited to a liability account to be refunded or applied for the benefit of tenants. Interest earned during 20YY was \$112.

### Mortgage Impound Accounts

	Property Tax	Hazard/Liability Insurance	Total
Balance, December 31, 20XX	\$15,506	\$9,877	\$25,383
Monthly deposits:			
Ten months at \$3,600	36,000	-	36,000
Two months at \$3,810	7,620	-	7,620
Ten months at \$1,315	-	13,150	13,150
Two months at \$1,167	-	2,334	2,334
Interest earned	140	-	140
Payments for insurance and taxes	(46,610)	(12,182)	(58,792)
Refund	-	(3,728)	(3,728)
Escrow adjustments	1,279	(1,279)	-
Balance, December 31, 20YY	<u>\$13,935</u>	<u>\$8,172</u>	<u>\$22,107</u>

## Supplementary Information (Cont.)

### Reserves for Replacements and Operating Expenses

In accordance with the provisions of the regulatory agreement, restricted cash is held by CalHFA to be used for replacements of property or other reserve requirements with the approval of CalHFA as follows:

	Replacement Reserve	Operating Reserve
Balance, December 31, 20XX	\$90,429	\$179,996
Monthly deposits:		
Twelve months at \$2,330 per month	27,960	-
Interest earned	450	810
Withdrawals (amount capitalized)	(5,747)	-
Withdrawals (amount included in operating expenses)	(2,020)	-
Balance, December 31, 20YY	\$111,072	\$180,806

### Property, Equipment and Improvements

Following are the details of property, equipment and improvements:

Property, Equipment & Improvements at Cost	Land	Building & Improvements	Furniture & Equipment	Total
Balance, December 31, 20XX	\$2,084,544	\$17,759,796	\$457,743	\$20,302,083
Additions		3,049	2,698	5,747
Balance, December 31, 20YY	\$2,084,544	\$17,762,845	\$460,441	\$20,307,830

### Accounts Payable and Accrued Expenses

Accounts payables are payable to vendors and are being paid on a current basis.

Detail follows:

Accounts payable – trade	\$10,479
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### Gross Potential Rents

Tenant rental payments	\$763,493
Housing assistance payments	22,164
Employee quarters shown as an expense	13,848
Vacancy loss and concessions	12,570
Total gross potential rents	\$812,075

### Management Fee

A property management fee of \$49,824 was incurred during 20YY for the property management services provided by GP Group Corporation.

## Supplementary Information (Cont.)

CA Property Apartments, L.P.

### Computation Of Operating Cash Flow/Surplus Cash For The Year Ended December 31, 20YY

#### Operating Cash Flow/Surplus Cash Computation - per HCD/CalHFA Regulatory Agreements

Operating Cash Flow/Surplus Cash will be distributed according to the HCD method.

Operating Income	
Total income <i>(see page A-20)</i>	\$812,063
Interest earned on restricted reserve accounts <i>(see page A-24)</i>	(1,260)
Adjusted operating income	<u>\$810,803</u>
Operating expenses - excludes financial expenses <i>(see page A-22)</i>	<u>(389,396)</u>
Adjusted net income	<u>\$421,407</u>
Other activity	
Mandatory debt service	
CalHFA <i>(see page A-15)</i>	(135,247)
RCAC <i>(see page A-15)</i>	(114,575)
HCD <i>(see page A-15)</i>	(19,553)
Density bonus fee paid to the County of Sonoma <i>(see page A-22)</i>	(5,925)
Replacement reserve deposits <i>(see page A-24)</i>	(27,960)
Other reserve deposits per Regulatory Agreement	-
Replacement reserve withdrawals (expensed) <i>(see page A-24)</i>	2,020
Total other activity	<u>\$(301,240)</u>
<b>Operating cash flow/surplus cash</b>	<b><u>\$120,167</u></b>
Distribution of operating cash flow/surplus cash	
Pay off of the deferred developer fee amount permitted by HCD to be paid on a priority basis	\$(90,000)
Asset management fee <i>(see page A-22)</i>	(12,000)
<b>Total cash available for distributions (net cash flow)</b>	<b><u>\$18,167</u></b>
<b>Distributions and loan payments – <u>Do not submit payments until invoiced by HCD/CalHFA</u></b>	
50% to be distributed to owner	\$9,083
<b>50% split and paid as follows per Regulatory Agreement:</b>	
62% to HCD MHP loan	\$5,632
20% to HCD Serna loan	1,817
3% to CCDC Home first loan	272
1% to CCDC Home second loan	91
6% to CCDC first loan	546
4% to CCDC second loan	363
4% to CCDC CDBG loan	363
Total distributions to lenders	<u>\$9,084</u>
<b>Total distributions to owner and lenders</b>	<b><u>\$18,167</u></b>

Note: Timing difference exceptions related to Replacement Reserve withdrawals and capital purchases may be approved by HCD and CalHFA. Details of timing differences, including the applicable years and amounts, must be clearly described in the Audit.

## Supplementary Information (Cont.)

CA Property Apartments, L.P.

### Computation Of Operating Cash Flow/Surplus Cash For The Year Ended December 31, 20YY

#### **Hypothetical Example**

The following hypothetical example of Operating Cash Flow/Surplus Cash assumes the Deferred Developer Fee that can be paid on a priority basis as set forth in the HCD Regulatory Agreement, has been paid off.

<b>Operating cash flow/surplus cash from above</b>	<b>\$120,167</b>
Distribution of operating cash flow/surplus cash	
Asset management fee (see page A-22)	(12,000)
<b>Total cash available for distributions (net cash flow)</b>	<b>\$108,167</b>
<b>Distributions and loan payments – Do not submit payments until invoiced by HCD/CalHFA</b>	
50% to be distributed to owner	\$54,083
<b>50% split and paid as follows per Regulatory Agreement:</b>	
62% to HCD MHP loan	\$33,532
20% to HCD Serna loan	10,817
3% to CCDC Home first loan	1,623
1% to CCDC Home second loan	541
6% to CCDC first loan	3,245
4% to CCDC second loan	2,163
4% to CCDC CDBG loan	2,163
Total distributions to lenders	\$54,084
<b>Total distributions to owner and lenders</b>	<b>\$108,167</b>

CA Property Apartments, L.P.

**Management Agent Certification  
For The Year Ended December 31, 20YY**

*Audits submitted to HCD and CalHFA must be signed and dated*

I hereby certify that I have examined the accompanying financial statements and supplementary information of CA Property Apartments, L.P, as of and for the year ended December 31, 20YY, and to the best of my knowledge and belief, the same is complete and accurate.

*Sign Name*

The GP Group Corporation  
Sign Name, President

2/15/20ZZ

Date

## Other (Cont.)

CA Property Apartments, L.P.

**Certification of Officers  
For The Year Ended December 31, 20YY**

*Audits submitted to HCD and CalHFA must be signed and dated*

We, as officers of The GP Group Corporation, a California nonprofit public benefit corporation, hereby certify that we have examined the accompanying financial statements and supplementary data of CA Property Apartments, L.P. as of and for the year ended December 31, 20YY and to the best of our knowledge and belief, these financial statements and data are complete and accurate.

<i>Sign Name</i>	President	2/15/20ZZ
_____	_____	_____
Name	Title	Date

<i>Sign Name</i>	CFO	2/15/20ZZ
_____	_____	_____
Name	Title	Date

Employer Identification Number: 99-0000000



## Other (Cont.)

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CA Property Apartments, L.P.

### **Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards**

The Partners of  
CA Property Apartments  
City, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of CA Property Apartments, L.P., which comprise the balance sheet as of December 31, 20YY, and the related statements of operations, changes in partners' capital and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 13, 20ZZ.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered CA Property Apartments, L.P.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CA Property Apartments, L.P.'s internal control. Accordingly, we do not express an opinion on the effectiveness of CA Property Apartments, L.P.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Other (Cont.)

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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether CA Property Apartments, L.P.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CA Property Apartments, L.P.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CA Property Apartments, L.P.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Certified Public Accountants

City, California  
Date

## Other (Cont.)

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CA Property Apartments, L.P.

HCD Contract Numbers 01-FWHG-1111 and 03-MHP-9999 and  
CalHFA Project No. #03333N

### **Summary of Audit Findings and Recommendations For the Year Ended December 31, 20YY**

#### **Status of Prior Year Findings and Recommendations:**

There were no findings and recommendations reported in the December 31, 20XX financial statements.

#### **Findings and Recommendations:**

1. Finding: During the audit of tenant files, the auditor noted two (2) instances where Sample Apartments did not perform background checks on potential tenants as required by the Department of HUD.

Recommendation: We recommend background checks be performed on all potential tenants and retained as a part of the tenant file.

Management Response: The management policy is to complete background checks, prior to move-in, on all applicants. Any missing background checks may have been in files of very long-term residents, move-ins prior to HUD requirement.

**APPENDIX B:**  
**Sample Financial Statement for**  
**CalHFA-administered Section 8**  
**Projects**  
**or**  
**Section 8 Projects required to submit**  
**Audited Financial Statements to**  
**HUD/REAC as part of the Financial**  
**Assessment SubSystem**

**SAMPLE APARTMENTS COMPANY**

**(A Limited Partnership)**

CalHFA Project #11-111-N

**Financial Statements For**  
**Years Ended December 31, 20YY and 20XX**

**and**

**Independent Auditor's Report**

## Appendix B: Table of Contents

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# Independent Auditor's Report

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The Partners of  
Sample Apartments Company  
City, California

## Report on the Financial Statements

We have audited the accompanying financial statements of Sample Apartments Company, a California limited partnership, CalHFA Project #11-111-N, which comprise the balance sheets as of December 31, 20YY and 20XX, and the related statements of operations, changes in partners' capital and cash flows for the years then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the requirements of the *Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Independent Auditor's Report (Cont.)

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### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Apartments Company, L.P. as of December 31, 20YY and 20XX, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages B-15 through B-27 as required by the California Housing Finance Agency (CalHFA) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the financial statements as a whole.

### Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards and the requirements of the *Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency*, we have also issued a report dated February 15, 20ZZ on our consideration of Sample Apartments Company, L.P.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and the requirements of the *Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency* in considering Sample Apartments Company, L.P.'s internal control over financial reporting and compliance.

Certified Public Accountants

City, California  
February 15, 20ZZ

## Sample Apartments

**Balance Sheets**  
**For The Years Ended December 31, 20YY and 20XX**

<b>Assets</b>	<b>20YY</b>	<b>20XX</b>
Current assets:		
Cash on hand and in banks	\$4,237	\$36,393
Prepaid insurance	7,337	7,406
Accounts receivable- Tenant	4	-
Accounts receivable- CalHFA	482	-
Accrued interest	629	1,255
Restricted funds (Note 2)		
Tenant security deposits	26,043	25,965
Tax impound account	8,227	11,417
Insurance impound account	10,307	8,756
Earthquake insurance impound	3,142	5,274
Reserve for replacements (Note 2)	69,426	99,258
Reserve fund for operations (Note 2)	20,270	19,289
Total current assets	<u>\$150,104</u>	<u>\$215,013</u>
Property, equipment and improvements at cost less accumulated depreciation	\$209,194	\$235,588
Other assets:		
Deferred development costs, net (Note 1)	940	1,037
TOTAL ASSETS	<u><u>\$360,238</u></u>	<u><u>\$451,638</u></u>
 <b>Liabilities And Partners' Capital</b>		
Current liabilities:		
Current portion of mortgage loan payable	\$56,119	\$51,626
Accounts payable	1,760	19,818
Prepaid rent	33	-
Accrued interest- security deposits (Note 1)	2,764	2,493
Tenant security deposits	18,079	18,089
Total current liabilities	<u>\$78,755</u>	<u>\$92,026</u>
Mortgage loan payable , net of current portion (Note 3)	\$815,848	\$871,967
Partners' capital	\$(534,365)	\$(512,355)
TOTAL LIABILITIES AND PARTNERS' CAPITAL	<u><u>\$360,238</u></u>	<u><u>\$451,638</u></u>



## Sample Apartments

**Statement of Operations**  
**For The Years Ended December 31, 20YY and 20XX**

	<b>20YY</b>	<b>20XX</b>
Income:		
Gross potential tenant rent - residential	\$453,401	\$456,557
Less: vacancies	(2,409)	(4,120)
Net rental income	450,992	452,437
Interest income	5,540	6,688
Other income	4,268	3,607
Total income	\$460,800	\$462,732
Expenses:		
Administrative	122,070	116,373
Utilities	43,070	40,331
Operating and maintenance	140,812	114,746
Taxes and insurance	54,752	54,499
Financial expenses	76,396	79,961
Total operating expenses	\$437,100	\$405,910
Net operating income	\$23,700	\$56,822
Other expenses:		
Depreciation and amortization	26,491	26,142
State minimum tax	800	800
Surplus Cash due to CalHFA	13,793	-
Partnership management fee	-	-
Loss on retirement of fixed assets	-	-
Total other expenses	\$41,084	\$26,942
Net income (loss)	\$(17,384)	\$29,880

## Sample Apartments

**Statement of Changes in Partners' Capital**  
**For The Years Ended December 31, 20YY and 20XX**

	Balance 12/31/20XX	Net Loss for 20YY	Distributions in 20YY	Balance 12/31/20YY
<b>General Partners</b>				
Placer Trust "A" (4.97%)	\$(35,227)	\$(820)	\$(229)	\$(36,276)
A Corporation (.01%)	(49)	(17)	(1)	(67)
ABCD, Inc. (.01%)	(48)	(16)	(1)	(65)
<b>Limited Partners</b>				
Associated Group (.01%)	(48)	(16)	(1)	(65)
California Home Group (95%)	(476,983)	(16,515)	(4,394)	(497,892)
Total	\$(512,355)	\$(17,384)	\$(4,626)	\$(534,365)

## Sample Apartments

**Statement of Cash Flows**  
**For The Years Ended December 31, 20YY and 20XX**

	20YY	20XX
Cash flows from operating activities:		
Rental receipts	\$450,125	\$452,080
Interest receipts	2,496	2,418
Other receipts	4,268	3,607
Administrative expenses paid	(24,840)	(18,739)
Management fees paid	(35,376)	(35,376)
Utilities paid	(44,051)	(41,071)
Salaries and wages paid	(92,222)	(76,288)
Operating and maintenance expenses paid	(128,088)	(94,621)
Payroll taxes, workers' compensation and employee benefit	(18,482)	(16,429)
Real property taxes	(17,789)	(18,829)
Impound deposits made	(14,500)	(15,211)
Miscellaneous taxes and insurance paid	(1,138)	(1,369)
Interest on mortgage note paid	(75,399)	(79,533)
Tenant security deposits (net)	183	(778)
Net cash provided by operating activities	<u>\$5,187</u>	<u>\$59,861</u>
Cash flows from investing activities:		
Surplus Cash due to CalHFA	\$(13,793)	-
Deposits to reserve for replacement	(18,876)	\$(18,876)
Withdrawals from replacement reserve	52,378	2,183
Net cash provided (used) by investing activities	<u>\$19,709</u>	<u>\$(16,693)</u>
Cash flows from financing activities:		
Mortgage principal payments	\$(51,626)	\$(47,492)
Cash distributions paid to partners	(4,626)	(4,626)
Entity expense	(800)	(800)
Net cash provided (used) by financing activities	<u>\$(57,052)</u>	<u>\$(52,918)</u>
Net increase (decrease) in cash	\$(32,156)	\$(9,750)
Cash - beginning of period	36,393	46,143
Cash - end of period	<u>\$4,237</u>	<u>\$36,393</u>

## Sample Apartments

**Statement of Cash Flows - (Continued)**  
**For The Years Ended December 31, 20YY and 20XX**

	<b>20YY</b>	<b>20XX</b>
Reconciliation of net loss to net cash provided by operating activities:		
Net income (loss)	\$(17,384)	\$29,880
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	\$26,394	\$26,045
Amortization	97	97
State minimum tax	800	800
Surplus cash due to CalHFA	13,793	-
Interest earned on reserve for replacement	(3,670)	(4,622)
Interest earned on operating reserve		
Decrease (increase) in:	(742)	(740)
Accounts receivable	(486)	47
Accrued interest	626	352
Prepaid insurance	69	(369)
Impound accounts	3,771	2,205
Operating reserve	(239)	-
Tenant security deposits (net)	183	(1,578)
Increase (decrease) in:		
Accounts payable	(18,058)	7,744
Prepaid rent	33	-
Net cash provided by operating activities	<u>\$5,187</u>	<u>\$59,861</u>

## Notes to Financial Statements

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Sample Apartments

CalHFA #11-111-N

### **Notes To Financial Statements For The Years Ended December 31, 20YY and 20XX**

#### **Note 1 – Summary Of Significant Accounting Policies**

##### **Organization and Regulatory Agreement**

The Sample Apartments Company is a limited partnership organized to develop, own and manage a 67-unit two-story apartment complex, located at 1450 Street Name, Anytown, California with construction and permanent mortgage loan financing insured by the California Housing Finance Agency (CalHFA). The 67 units are comprised of 44 one-bedroom units and 23 two-bedroom units. The project is intended for rental to senior citizens of low or moderate income and has entered into an agreement with the United States Department of Housing and Urban Development to provide housing assistance payments pursuant to Section 8 of the United States Housing Act of 1937, as amended. At December 31, 20YY, 65 units were subsidized by Section 8. Such projects are regulated by CalHFA as to rent charges and operating methods. The Regulatory Agreement limits annual distributions of net operating receipts to 6% of the owner's equity (\$77,100) to be paid only when surplus cash exists at the end of the year. Undistributed amounts are accumulated for future distributions. The property was placed in service on September 4, 2010 and received a tax credit allocation (rent floor) on March 1, 2008.

The partnership began June 10, 19xx, when it acquired all of the assets and liabilities of Sample Apartments Company Apartments in the development stage. The conversion was approved by all parties involved including CalHFA who has provided the construction and permanent loan of \$1,xxx,xxx.

##### **Financial Statement Presentation**

The accompanying financial statements are presented on the accrual basis of accounting. For purposes of the financial statements, cash is defined as unrestricted cash balances.

##### **Amortization of Title and Recording Costs**

Title and recording costs are being amortized over the term of the mortgage loan (480 months).

##### **Depreciation**

The cost of buildings and improvements is being depreciated by accelerated methods over estimated useful lives, which range from three to 33 1/3 years for the various components of cost.

## Notes to Financial Statements (Cont.)

### Income Taxation

The partnership is not subject to income taxation as the income or loss of the partnership is required to be reported by the respective partners on their income tax returns. However, the partnership is subject to the State of California minimum franchise tax, which amounted to \$800 in both 20YY and 20XX.

### Interest on Security Deposit Liabilities

Security deposit liabilities at December 31, 20YY include accrued interest payable to the tenants on their deposits from the date of receipt to December 31, 20YY in the amount of \$2,764.

### Employee Apartments

The fair market value of employee rental allowances is included in the accompanying financial statements as part of gross rental income and payroll expenses.

### Accounts Receivable

It is the practice of Sample Apartments Company to expense uncollectible only after exhausting all efforts to collect the amount due. No allowance for doubtful accounts is used and management believes all amounts will be collected in full.

## Note 2- Restricted Funds

### Accrued Interest

Accrued interest represents the amount of interest earned but not yet received at December 31, 20YY on the following restricted accounts:

Tax and insurance impounds	\$120
Reserve for replacement	415
Reserve fund for operations	94
Total accrued interest	<u>\$629</u>

### Tenant Security Deposits

Tenant security deposits are maintained in a separate account and interest earned on the deposits is credited to a liability account to be refunded or applied for the benefit of tenants. Interest earned during 20YY was \$78. The activity in the account for 20YY was as follows:

Balance, December 31, 20XX	\$25,965
Interest earned	78
Balance, December 31, 20YY	<u>\$26,043</u>

## Notes to Financial Statements (Cont.)

### Impounds

As required by the Regulatory Agreement with CalHFA the Partnership is to make monthly impound deposits to cover insurance premiums, property taxes and to maintain a reserve for replacement. These restricted funds are held by CalHFA and expenditures are subject to supervision and approval by that agency.

The account activity during 20YY was as follows:

	<b>Insurance</b>	<b>Earthquake Insurance</b>	<b>Taxes</b>	<b>Total</b>
Balance, December 31, 20XX	\$8,756	\$5,274	\$11,417	\$25,447
Additions	14,060	3,060	21,420	38,540
Interest received	-	-	1,050	1,050
Deductions-				
Hazard insurance	(12,509)	-	-	(12,509)
Earthquake insurance	-	(5,192)	-	(5,192)
Real property taxes	-	-	-	-
Balance, December 31, 20YY			(25,660)	(25,660)
	<u>\$10,307</u>	<u>\$3,142</u>	<u>\$8,227</u>	<u>\$21,676</u>

### Replacement Reserve

The Replacement Reserve may be used for replacement of assets or excess operating costs with CalHFA's approval. Activity in the account during 20YY was as follows:

Balance, December 31, 20XX	\$99,258
Additions	18,876
Interest received	3,670
Withdrawals	(52,139)
Transfer	(239)
Balance, December 31, 20YY	<u>\$69,426</u>

### Reserve Fund for Operations

Restricted funds include reserve fund for operations of \$20,270 at December 31, 20YY, which has been designated by CalHFA as a reserve needed to fund future extraordinary operating expenses. The activity in the account for 20YY was as follows:

Balance, December 31, 20XX	\$19,289
Interest received	742
Transfer	239
Balance, December 31, 20YY	<u>\$20,270</u>

## Notes to Financial Statements (Cont.)

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### Note 3 - Mortgage Loan Payable

The partnership has a mortgage loan payable to the California Housing Finance Agency with an original balance of \$1,xxx,xxx. The note bears interest at 7.375% and has a 40-year term. Monthly payments of principal and interest are \$10,585. Amortization of the note began April 1, 19xx and the note is due April 1, 20KK. The apartment complex is pledged as collateral.

Principal amounts maturing over the next five years and thereafter are as follows:

20ZZ	\$56,119
20AA	61,004
20BB	66,314
20CC	72,085
20DD	78,360
20EE-20JJ	508,783
20KK	<u>31,302</u>
<b>Total</b>	<b>\$871,967</b>

### Note 4 – Related Party Transactions

The partnership employs AM Management Company, an affiliate of A Corporation (a general partner) as its management agency for the project. The management fees paid to them are subject to the regulations and approval of the California Housing Finance Agency (CalHFA). The total cost of management fees incurred during 20YY was \$35,376. AM Management Company also allocates certain personnel and supply costs to the project, the amount of which is not material.

The partnership employs Any Landscape Company, which is a related party to A Corporation, one of the general partners, to perform grounds maintenance for a monthly contract amount plus reimbursement for materials and labor costs for additional services provided. The total payments made to Any Landscape during 20YY were \$20,992.

### Note 5 – Commingled Funds

There were no commingled funds during the year.



## Notes to Financial Statements (Cont.)

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### Note 6 - Book To Tax Reconciliation

Depreciation methods used in preparing the financial statements differ from those required for the partnership tax return. These differences in depreciation expense result in the difference between the net loss reported in the financial statements and net loss reported in the partnership tax return. These differences are summarized as follows:

	<b>Financial Statements</b>	<b>Tax Return</b>	<b>Difference</b>
Depreciation expense	\$26,394	\$14,673	\$11,721
Net Loss per financial statements			(17,384)
Net Loss per tax return			<u><u>\$(5,663)</u></u>

# Supplementary Information

Sample Apartments

## Balance Sheet Data December 31, 20YY

Account No.		20YY
<b>Current Assets</b>		
1120	Cash - Operations	\$4,237
1130	Tenant/Member Accounts Receivable (Coop)	4
1135	Account Receivable - HUD	482
1160	Accounts Receivable - Interest	629
1200	Prepaid Expenses	7,337
1100T	Total Current Assets	<u>\$12,689</u>
<b>Deposits Held in Trust - Funded</b>		
1191	Tenant/Patient Deposits Held in Trust	\$26,043
<b>Restricted Deposits and Funded Reserves</b>		
1310	Escrow Deposits	\$21,676
1320	Replacement Reserve	69,426
1330	Other Reserves	20,270
1300T	Total Deposits	<u>\$111,372</u>
<b>Rental Property</b>		
1410	Land	\$183,324
1420	Buildings	1,602,686
1440	Building Equipment - Portable	223,689
1450	Furniture for Project/Tenant Use	-
1465	Office Furniture and Equipment	18,152
1470	Maintenance Equipment	8,548
1480	Motor Vehicles	-
1490	Miscellaneous Fixed Assets	45,521
1495	Accumulated Depreciation	(1,872,726)
1400N	Net Fixed Assets	<u>\$209,194</u>
<b>Other Assets</b>		
1515	Investments - Entity	<u>\$940</u>
1500T	Miscellaneous Other Assets	<u>\$940</u>
1000T	<b>Total Assets</b>	<u><u>\$360,238</u></u>

## Supplementary Information (Cont.)

Sample Apartments

**Balance Sheet Data - Continued**  
**December 31, 20YY**

<b>Account No.</b>	<b>Liabilities And Partners' Equity (Deficit)</b>	<b>20YY</b>
	<b>Current Liabilities</b>	
2110	Accounts Payable - Operations	\$1,760
2170	Mortgage(or Bonds) Payable- First Mortgage(Bonds) (Short Term)	56,119
2210	Prepaid Revenue	33
2122T	Total Current Liabilities	<u>\$57,912</u>
	<b>Deposits Liability</b>	
2191	Tenant/Patient Deposits Held in Trust(Contra)	\$20,843
	<b>Long-Term Liabilities</b>	
2310	Notes Payable(Long Term)	<u>\$815,848</u>
2300T	Total Long Term Liabilities	<u>\$815,848</u>
2000T	<b>Total Liabilities</b>	<u><u>\$894,603</u></u>
3130	<b>Total Net Assets</b>	<u>\$(534,365)</u>
2033T	<b>Total Liabilities and Equity/Net Assets</b>	<u><u>\$360,238</u></u>

## Supplementary Information (Cont.)

Sample Apartments

**Statement of Operations**  
**For the Years Ended December 31, 20YY and 20XX**

Acct. #	Schedule of Operations	20YY	20XX
	<b>Rent Revenue</b>		
5120	Rent Revenue- Gross Potential	\$453,401	\$456,557
5121	Tenant Assistance Payments	-	-
5140	Rent Revenue- Stores and Commercial	-	-
5170	Garage and Parking Spaces	-	-
5180	Flexible Subsidy Revenue	-	-
5190	Miscellaneous Rent Revenue <i>(if over \$2,500, detail required)</i>	-	-
5100T	Total Rent Revenue	\$453,401	\$456,557
	<b>Vacancies</b>		
5220	Apartments	\$2,409	\$4,120
5240	Stores and Commercial	-	-
5250	Rental Concessions	-	-
5270	Garage and Parking Spaces	-	-
5290	Miscellaneous <i>(if over \$2,500, detail required)</i>	-	-
5200T	Total Vacancies	\$2,409	\$4,120
5152	Net Rental Revenue (Rent Revenue Less Vacancies)	\$450,992	\$452,437
	<b>Financial Revenue</b>		
5410	Financial Revenue- Project Operations	\$5,540	\$6,688
5430	Revenue from Investments- Residual Receipts	-	-
5440	Revenue from Investments- Replacement Reserves	-	-
5490	Revenue from Investments- Miscellaneous <i>(if over \$2,500, detail required)</i>	-	-
5400T	Total Financial Revenue	\$5,540	\$6,688
	<b>Other Revenue</b>		
5910	Laundry and Vending Revenue	-	-
5920	Tenant Charges	-	-
5990	Miscellaneous Revenue <i>(if over \$2,500, detail required)</i>	\$4,268	\$3,607
	5990-010 Description: Cable TV		
	5990-020 Amount: \$4,268		
5900T	Total Other Revenue	\$4,268	\$3,607
5000T	<b>Total Revenue</b>	\$460,800	\$462,732

## Supplementary Information (Cont.)

Sample Apartments

**Statement of Operations - Continued**  
**For the Years Ended December 31, 20YY and 20XX**

Acct. #	Schedule of Operations	20YY	20XX
	<b>Administrative Expenses</b>		
6203	Conventions and Meetings	-	-
6204	Management Consultants	-	-
6210	Advertising and Marketing	\$1,665	\$1,501
6250	Other Renting Expenses	4,770	5,528
6310	Office Salaries	10,736	10,107
6311	Office Expenses	8,016	5,802
6312	Office or Model Apartment Rent	-	-
6320	Management Fee	35,376	35,376
6330	Manager or Superintendent Salaries	36,256	26,126
6331	Administrative Rent Free Unit	14,448	14,448
6340	Legal Expense - Project	-	-
6350	Audit Expense	4,700	4,600
6351	Bookkeeping Fees/Accounting Services	-	-
6370	Bad Debts	414	404
	Miscellaneous Administrative Expenses <i>(if over \$2,500, detail required)</i>	5,689	1,308
6390	6390-010 Description: Cable TV	-	-
6390	6390-020 Description: Amount: \$5,689		
6263T	Total Administrative Expenses	\$122,070	\$105,200
	<b>Utilities Expense</b>		
6450	Electricity	\$20,240	20,296
6451	Water	22,830	20,035
6452	Gas	-	-
6453	Sewer	-	-
6400T	Total Utilities Expense	\$43,070	\$40,331
	<b>Operating And Maintenance Expenses</b>		
6510	Payroll	\$30,782	25,607
6515	Supplies	20,936	11,752
6520	Contracts	60,428	62,522
6521	Operating and Maintenance Rent Free Unit	-	-
6525	Garbage and Trash Removal	14,567	14,433
6530	Security Payroll/ Contract	2,344	2,121
6531	Security Rent Free Unit	-	-
6546	Heating/Cooling Repairs and Maintenance	-	-
6548	Snow Removal	-	-
6570	Vehicle and Maintenance Equip. Operation and Repairs	1,233	902
6580	Lease Expense	-	-
6590	Misc. Op. and Maintenance Expenses <i>(if over \$2,500, detail required)</i>	10,522	10,635
	6590-010 Description: Repair and Maintenance		
	6590-020 Amount:\$10,522		
6500T	Total Operating and Maintenance Expenses	\$140,812	\$127,972

## Supplementary Information (Cont.)

Sample Apartments

**Statement of Operations - Continued**  
**For the Years Ended December 31, 20YY and 20XX**

Acct. #	Schedule of Operations	20YY	20XX
	<b>Taxes &amp; Insurance</b>		
6710	Real Estate Taxes	\$21,560	\$21,034
6711	Payroll Taxes (Project's share)	10,856	10,274
6720	Property & Liability Insurance (Hazard)	14,569	14,842
6721	Fidelity Bond Insurance	-	-
6722	Workmen's Compensation	-	-
6723	Health Insurance and Other Employee Benefits	7,626	6,155
6790	Misc. Taxes, Licenses, Permits & Insurance <i>(if over \$2,500, detail required)</i>	141	141
6700T	Total Taxes and Insurance	\$54,752	\$52,446
	<b>Financial Expenses</b>		
6820	Interest on First Mortgage (or Bonds) Payable	\$75,399	\$79,533
6830	Interest on Notes Payable (Long Term)	-	-
6840	Interest on Notes Payable (Short Term)	997	428
6890	Miscellaneous Financial Expenses (if over \$2,500, detail required)	-	-
6800T	Total Financial Expenses	76,396	79,961
6890	Miscellaneous Financial Expenses <i>(if over \$2,500, detail required)</i>	-	-
6800T	Total Financial Expenses	\$76,396	\$76,396
6000	Total Cost of Operations before Depreciation	<b>\$437,100</b>	<b>\$405,910</b>
5060	Profit (Loss) before Depreciation	<b>\$23,700</b>	<b>\$56,822</b>
	<b>Depreciation &amp; Amortization Expenses</b>		
6600	Depreciation Expense	\$26,394	\$26,045
6610	Amortization Expense	97	97
<b>5060N</b>	<b>Operating Profit (Loss)</b>	<b>\$(2,791)</b>	<b>\$30,680</b>
	<b>Net Entity Expenses <i>(not all expense accounts are shown)</i></b>		
7105	Entity Revenue	-	-
7110	Officer's Salaries	-	-
7120	Legal Expenses	-	-
7130	Federal, State, and Other Income Taxes	\$800	800
7141	Interest on Notes Payable	-	-
7142	Interest on Mortgage Payable	-	-
7190	Other Expenses <i>(detail always required for this account)</i>	13,793	-
	7190-010 Description: Surplus Cash due to CalHFA		
	7190-020 Amount: \$13,793		
7100T	Total Net Entity Expenses	\$14,593	\$800
<b>3250</b>	<b>Change in Total Net Assets from Operations</b>	<b>\$(17,384)</b>	<b>\$29,880</b>

## Supplementary Information (Cont.)

Sample Apartments

### Statement of Operations - Continued For the Years Ended December 31, 20YY and 20XX

<b>Acct. #</b>	<b>Schedule of Operations</b>	<b>20YY</b>	<b>20XX</b>
S1000-10	Total first mortgage (or bond) principal payments required during the audit period (usually 12 months). This applies to all direct loans and CalHFA-held and fully insured mortgages. Any CalHFA approved second mortgages should be included in the figures.	-	-
S1000-20	The total of all monthly reserve for replacement deposits (usually 12) required during the audit period even if deposits have been temporarily waived or suspended.	\$21,600	\$21,600
S1000-30	Replacement Reserves, or Residual Receipts and Releases which are included as expense items on this Profit and Loss Statement.	-	-
S1000-40	Project Improvement Reserve releases under the Flexible Subsidy Program that is included as expense items on this Income Statement.	-	-

## Supplementary Information (Cont.)

Sample Apartments

**Statement of Cash Flow**  
**For the Year Ended December 31, 20YY**

Account No.		20YY
	<b>Cash Flow from Operating Activities</b>	
S1200-010	Rental Receipts	\$450,125
S1200-020	Interest Receipts	2,496
S1200-025	Gifts	-
S1200-030	Other Operating Receipts	4,268
S1200-035	Entity/Construction Receipts	-
S1200-050	Administrative	(24,840)
S1200-070	Management Fee	(35,376)
S1200-090	Utilities	(44,051)
S1200-100	Salaries and Wages	(92,222)
S1200-110	Operating and Maintenance	(128,088)
S1200-120	Real Estate Taxes	(17,789)
S1200-140	Property Insurance	(14,500)
S1200-150	Miscellaneous Taxes and Insurance	(1,138)
S1200-160	Tenant Security Deposits	183
S1200-170	Other Operating Expenses	-
S1200-180	Interest on First Mortgage	(75,399)
S1200-181	Interest Payments - Second Mortgage	-
S1200-182	Interest Payments - Third Mortgage	-
S1200-220	Miscellaneous Financial	(18,482)
S1200-240	Net Cash Provided (used) by Operating Activities :	<u>\$5,187</u>
	<b>Cash Flow from Investing Activities</b>	
S1200-245	Net Deposits to the Mortgage Escrow account	-
S1200-250	Net Deposits to the Reserve for Replacement account	\$33,502
S1200-255	Net Deposits to Other Reserves	-
S1200-260	Net Deposits to Residual Receipts account	(13,793)
S1200-330	Net Purchases of Fixed Assets	-
S1200-350	Net Cash Provided (used) by Investing Activities :	<u>\$19,709</u>



## Supplementary Information (Cont.)

Sample Apartments

**Statement of Cash Flow**  
**For the Year Ended December 31, 20YY**

Account No.		20YY
<b>Cash Flow from Financing Activities</b>		
S1200-360	Principal Payments - First Mortgage (or Bonds)	\$(51,626)
S1200-361	Principal Payments - Second Mortgage	-
S1200-362	Principal Payments - Third Mortgage	-
S1200-417	Principal Payments on Capital Recovery Payment	-
S1200-420	Distributions	(4,626)
S1200-430	Contributions	-
S1200-450	Other Financing Activities	(800)
S1200-455	Entity/Construction Financing Activities	-
S1200-460	Net Cash used by Financing Activities	<u>\$(57,052)</u>
	Net Increase (Decrease) in Cash & Cash Equivalents:	\$(32,156)
<b>Cash and Cash Equivalents</b>		
S1200-480	Beginning of Period Cash	\$36,393
S1200T	End of Period Cash	\$4,237
<b>Reconciliation of Net Loss to Net Cash Provided by Operating Activities</b>		
6600	Depreciation Expense	\$26,394
6610	Amortization Expense	97
S1200-490	Decrease (increase) in Tenant/Member Accounts Receivable	-
S1200-500	Decrease (increase) in Accounts Receivable - Other	\$(486)
S1200-505	Increase in Gifts Receivable	-
S1200-510	Decrease (increase) in Accrued Receivables	(4,412)
S1200-520	Decrease (increase) in Prepaid Expenses	-
S1200-540	Increase (decrease) in Accounts Payable	(14,526)
S1200-560	Increase (decrease) in Accrued Liabilities	13,793
S1200-570	Increase (decrease) in Accrued Interest Payable	626
S1200-580	Increase (decrease) in Tenant Security Deposits Held in Trust	183
S1200-590	Increase (decrease) in Prepaid Revenue	102
S1200-600	Other adjustments to reconcile net profit (loss) (used in) Operating Activities	800
	Net Income (Loss)	<u>\$(17,384)</u>

## Supplementary Information (Cont.)

Sample Apartments

### Changes in Fixed Assets For the Year Ended December 31, 20YY

#### Assets

	Balance Jan. 1, 20YY	Additions	Removals	Balance Dec. 31, 20YY
Land	\$53,000	-	-	\$53,000
Land Improvement	130,324	-	-	130,324
Buildings	1,602,686	-	-	1,602,686
Building Equipment-fixed	45,521	-	-	45,521
Furniture & Equipment	18,152	-	-	18,152
Maintenance Equipment	8,548	-	-	8,548
Site Improvements	223,689	-	-	223,689
Total	\$2,081,920			\$2,081,920
Accumulated Depreciation	1,846,332	\$26,394	-	1,872,726
Net Book Value	\$235,588	-	-	\$209,194

## Supplementary Information (Cont.)

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Sample Apartments  
Supplementary Information Required by CalHFA

### Schedule of Federal Financial Assistance For the Year Ended December 31, 20YY

Program	Federal CFDA Number	Amount
Department of Housing and Urban Development-Rent Supplements - Rental Housing for Lower Income Families	14.149	<u>\$278,498</u>

## Supplementary Information (Cont.)

Sample Apartments

**Surplus Cash Computation for CalHFA Section 8 Project Only  
For the Year Ended December 31, 20YY**

<b>Surplus Cash Computation</b>		<b>For Year End</b>
Add	Cash And Equivalents	
	Cash On Hand And In Banks	\$4,237
	Reserve Funds For Operations (Per Annual Statement)	20,270
	Other Receivables	486
	Tenant Security Deposit	26,043
	Total Cash And Equivalents	\$51,036
Less	<b>Current Obligations</b>	
	Accounts Payable And Accrued Expenses (Due Within 30 Days)	\$1,760
	Delinquent Mortgage Payments	
	Accrued Mortgage Interest	2,764
	Prepaid Hap (Unearned Hap)	
	Prepaid Rents (Unearned Income)	
	Delinquent Impound Payments	
	Tenant Security Deposits	18,079
	Total Current Obligations	\$22,603
Equals	Available Surplus Cash	\$28,433
	<b>Accumulated Limited Distribution Calculation</b>	
Add	Allowable Accumulated Limited Distribution At Beginning Of The Year	\$4,626
Less	Distributions Paid During The Year	4,626
Add	Owner Distributions Allowed Under The Regulatory Agreement	4,626
Equals	Accumulated Limited Distributions	\$4,626
	<b>Disposition Of Surplus Cash</b>	
	<b>Allowable Limited Distributions*</b> (Payment Subject To CalHFA Approval)	<b>\$4,626</b>
	* Lesser Of Surplus Cash Or Accumulated Limited Distributions	
	Residual Receipts	\$23,807
	<b>Reserve Fund For Operations (RFO) Calculation</b>	
	Reserve Funds For Operations (Per Annual Statement)	\$20,270
Less	Required RFO This Year (5% Of Year End Gross Potential Rent)	22,670
Equals	RFO Shortage	2,400
Less	<b>RFO Payment - Remit To CalHFA</b>	<b>\$2,400</b>
	<b>Earned Surplus Calculation</b>	
Less	Reserve Funds For Operations (Per Annual Statement)	\$20,270
	<b>Earned Surplus Amount (Remit To CalHFA)</b>	<b>\$1,137</b>

## Supplementary Information (Cont.)

### Cash

#### Unrestricted Cash Operating Accounts

Cash in office (petty cash)	\$600
Bank of America (general checking)	3,637
Total unrestricted cash	<u>\$4,237</u>

#### Restricted Cash Accounts

Bank of America (tenant deposits)	\$26,043
CalHFA (Tax and insurance impounds)	21,676
CalHFA (Reserve fund for operations)	20,270
CalHFA (Reserve for replacement)	69,426
Total restricted cash	<u>\$137,415</u>

### Accounts Payable

Accounts payable consists of amounts payable to suppliers, which are due within 30 days of year-end.

### Gross Potential Rents

Gross potential rent includes:

Tenants	\$157,632
Housing assistance payments	278,498
Employee unit	14,448
Vacancy loss	2,409
Bad Debt	414
Total gross potential rent	<u>\$453,401</u>

### Management Fee

The term of the most recent management agreement expired on August 7, 20ZZ. However, the agreement states that upon expiration of the term of the contract, if not otherwise renewed, it shall be deemed to continue on a month-to-month basis.

The management fee authorized by CalHFA for 20YY is as follows:

12 X \$2,948 monthly fee	<u>\$35,376</u>
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Sample Apartments

**Management Agent Certification  
For The Year Ended December 31, 20YY**

*Audits submitted to HCD and CalHFA must be signed and dated*

I hereby certify that I have examined the accompanying financial statements and supplementary information of Sample Apartments Company, as of and for the year ended December 31, 20YY, and to the best of my knowledge and belief, the same is complete and accurate.

*Sign Name*

AM Management Company  
Sign Name, President

2/15/20ZZ

Date

## Other (Cont.)

Sample Apartments Company

**Partner's Certification**  
**For The Year Ended December 31, 20YY**

*Audits submitted to HCD and CalHFA must be signed and dated*

We hereby certify that we have examined the accompanying financial statements and supplementary data of Sample Apartments Company as of and for the year ended December 31, 20YY and to the best of our knowledge and belief, these financial statements and data are complete and accurate.

*Sign Name*

Name

President

Title

2/15/20ZZ

Date

*Sign Name*

Name

CFO

Title

2/15/20ZZ

Date

Federal Identification #94-xxxxxxx

## Other (Cont.)

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### **Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards**

The Partners of  
Sample Apartments Company  
City, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Sample Apartments, LP, which comprise the balance sheet as of December 31, 20YY, and the related statements of operations, changes in partners' capital and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 15, 20ZZ.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Sample Apartments, LP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sample, LP's internal control. Accordingly, we do not express an opinion on the effectiveness of Sample Apartments, LP's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Sample Apartments, LP's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with



## Other (Cont.)

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which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sample Apartments, LP's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sample Apartments, LP's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Certified Public Accountants

City, California  
February 15, 20ZZ

## Other (Cont.)

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Sample Apartments Company

CalHFA Project #11-111-N

### **Summary of Audit Findings and Recommendations For the Year Ended December 31, 20YY**

#### **Status of Prior Year Findings and Recommendations:**

There were no findings and recommendations reported in the December 31, 20XX financial statements.

#### **Findings and Recommendations:**

1. Finding: During the audit of tenant files, the auditor noted two (2) instances where Sample Apartments did not perform background checks on potential tenants as required by the Department of HUD.

Recommendation: We recommend background checks be performed on all potential tenants and retained as a part of the tenant file.

Management Response: The management policy is to complete background checks, prior to move-in, on all applicants. Any missing background checks may have been in files of very long-term residents, move-ins prior to HUD requirement.

TABLE 5.1 of HUD Procurement Handbook 7460.8 REV 2

***MANDATORY CONTRACT CLAUSES FOR SMALL PURCHASES OTHER THAN  
CONSTRUCTION***

The following contract clauses are required in contracts pursuant to **24 CFR 85.36(i) and Section 6002 of the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act**. HUD is permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Federal Procurement Policy. The PHA and contractor is also subject to other Federal laws including the U.S. Housing Act of 1937, as amended, Federal regulations, and state law and regulations.

**Examination and Retention of Contractor's Records.** The PHA, HUD, or Comptroller General of the United States, or any of their duly authorized representatives shall, until three years after final payment under this contract, have access to and the right to examine any of the Contractor's directly pertinent books, documents, papers, or other records involving transactions related to this contract for the purpose of making audit, examination, excerpts, and transcriptions.

**Right in Data and Patent Rights (Ownership and Proprietary Interest).** The PHA shall have exclusive ownership of, all proprietary interest in, and the right to full and exclusive possession of all information, materials, and documents discovered or produced by Contractor pursuant to the terms of this Contract, including, but not limited to, reports, memoranda or letters concerning the research and reporting tasks of the Contract.

**Energy Efficiency.** The Contractor shall comply with all mandatory standards and policies relating to energy efficiency which are contained in the energy conservation plan issued in compliance with the Energy Policy and Conservation Act (Pub.L. 94-163) for the State in which the work under this contract is performed.

**Procurement of Recovered Materials**

(a) In accordance with Section 6002 of the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act, the Contractor shall procure items designated in guidelines of the Environmental Protection Agency (EPA) at 40 CFR Part 247 that contain the highest percentage of recovered materials practicable, consistent with maintaining a satisfactory level of competition. The Contractor shall procure items designated in the EPA guidelines that contain the highest percentage of recovered materials practicable unless the Contractor determines that such items: (1) are not reasonably available in a reasonable period of time; (2) fail to meet reasonable performance standards, which shall be determined on the basis of the guidelines of the National Institute of Standards and Technology, if applicable to the item; or (3) are only available at an unreasonable price.

(b) Paragraph (a) of this clause shall apply to items purchased under this contract where: (1) the Contractor purchases in excess of \$10,000 of the item under this contract; or (2) during the preceding Federal fiscal year, the Contractor: (i) purchased any amount of the items for use under a contract that was funded

## TABLE 5.1 of HUD Procurement Handbook 7460.8 REV 2

***MANDATORY CONTRACT CLAUSES FOR SMALL PURCHASES OTHER THAN  
CONSTRUCTION***

with Federal appropriations and was with a Federal agency or a State agency or agency of a political subdivision of a State; and (ii) purchased a total of in excess of \$10,000 of the item both under and outside that contract.

**Termination for Cause and for Convenience**

(a) The PHA may terminate this contract in whole, or from time to time in part, for the PHA's convenience or the failure of the Contractor to fulfill the contract obligations (cause/default). The PHA shall terminate by delivering to the Contractor a written Notice of Termination specifying the nature, extent, and effective date of the termination. Upon receipt of the notice, the Contractor shall: (1) immediately discontinue all services affected (unless the notice directs otherwise), and (2) deliver to the PHA all information, reports, papers, and other materials accumulated or generated in performing the contract, whether completed or in process.

(b) If the termination is for the convenience of the PHA, the PHA shall be liable only for payment for services rendered before the effective date of the termination.

(c) If the termination is due to the failure of the Contractor to fulfill its obligations under the contract (cause/default), the PHA may (1) require the Contractor to deliver to it, in the manner and to the extent directed by the PHA, any work described in the Notice of Termination; (2) take over the work and prosecute the same to completion by contract or otherwise, and the Contractor shall be liable for any additional cost incurred by the PHA; and (3) withhold any payments to the Contractor, for the purpose of set-off or partial payment, as the case may be, of amounts owned by the PHA by the Contractor. In the event of termination for cause/default, the PHA shall be liable to the Contractor for reasonable costs incurred by the Contractor before the effective date of the termination. Any dispute shall be decided by the Contracting Officer.

# Instructions to Offerors Non-Construction

U.S. Department of Housing  
and Urban Development  
Office of Public and Indian Housing

Attachment 5



- 03291 -

## 1. Preparation of Offers

(a) Offerors are expected to examine the statement of work, the proposed contract terms and conditions, and all instructions. Failure to do so will be at the offeror's risk.

(b) Each offeror shall furnish the information required by the solicitation. The offeror shall sign the offer and print or type its name on the cover sheet and each continuation sheet on which it makes an entry. Erasures or other changes must be initialed by the person signing the offer. Offers signed by an agent shall be accompanied by evidence of that agent's authority, unless that evidence has been previously furnished to the HA.

(c) Offers for services other than those specified will not be considered.

## 2. Submission of Offers

(a) Offers and modifications thereof shall be submitted in sealed envelopes or packages (1) addressed to the office specified in the solicitation, and (2) showing the time specified for receipt, the solicitation number, and the name and address of the offeror.

(b) Telegraphic offers will not be considered unless authorized by the solicitation; however, offers may be modified by written or telegraphic notice.

(c) Facsimile offers, modifications or withdrawals will not be considered unless authorized by the solicitation.

## 3. Amendments to Solicitations

(a) If this solicitation is amended, then all terms and conditions which are not modified remain unchanged.

(b) Offerors shall acknowledge receipt of any amendments to this solicitation by

- (1) signing and returning the amendment;
- (2) identifying the amendment number and date in the space provided for this purpose on the form for submitting an offer,
- (3) letter or telegram, or
- (4) facsimile, if facsimile offers are authorized in the solicitation. The HA/HUD must receive the acknowledgment by the time specified for receipt of offers.

## 4. Explanation to Prospective Offerors

Any prospective offeror desiring an explanation or interpretation of the solicitation, statement of work, etc., must request it in writing soon enough to allow a reply to reach all prospective offerors before the submission of their offers. Oral explanations or instructions given before the award of the contract will not be binding. Any information given to a prospective offeror concerning a solicitation will be furnished promptly to all other prospective offerors as an amendment of the solicitation, if that information is necessary in submitting offers or if the lack of it would be prejudicial to any other prospective offerors.

## 5. Responsibility of Prospective Contractor

(a) The HA shall award a contract only to a responsible prospective contractor who is able to perform successfully under the terms and conditions of the proposed contract. To be determined responsible, a prospective contractor must -

- (1) Have adequate financial resources to perform the contract, or the ability to obtain them;

- (2) Have a satisfactory performance record;
- (3) Have a satisfactory record of integrity and business ethics;
- (4) Have a satisfactory record of compliance with public policy (e.g., Equal Employment Opportunity); and
- (5) Not have been suspended, debarred, or otherwise determined to be ineligible for award of contracts by the Department of Housing and Urban Development or any other agency of the U.S. Government. Current lists of ineligible contractors are available for inspection at the HA/HUD.

(b) Before an offer is considered for award, the offeror may be requested by the HA to submit a statement or other documentation regarding any of the foregoing requirements. Failure by the offeror to provide such additional information may render the offeror ineligible for award.

## 6. Late Submissions, Modifications, and Withdrawal of Offers

(a) Any offer received at the place designated in the solicitation after the exact time specified for receipt will not be considered unless it is received before award is made and it -

- (1) Was sent by registered or certified mail not later than the fifth calendar day before the date specified for receipt of offers (e.g., an offer submitted in response to a solicitation requiring receipt of offers by the 20th of the month must have been mailed by the 15th);
- (2) Was sent by mail, or if authorized by the solicitation, was sent by telegram or via facsimile, and it is determined by the HA/ HUD that the late receipt was due solely to mishandling by the HA/ HUD after receipt at the HA;
- (3) Was sent by U.S. Postal Service Express Mail Next Day Service - Post Office to Addressee, not later than 5:00 p.m. at the place of mailing two working days prior to the date specified for receipt of proposals. The term "working days" excludes weekends and U.S. Federal holidays; or
- (4) Is the only offer received.

(b) Any modification of an offer, except a modification resulting from the HA's request for "best and final" offer (if this solicitation is a request for proposals), is subject to the same conditions as in subparagraphs (a)(1), (2), and (3) of this provision.

(c) A modification resulting from the HA's request for "best and final" offer received after the time and date specified in the request will not be considered unless received before award and the late receipt is due solely to mishandling by the HA after receipt at the HA.

(d) The only acceptable evidence to establish the date of mailing of a late offer, modification, or withdrawal sent either by registered or certified mail is the U.S. or Canadian Postal Service postmark both on the envelope or wrapper and on the original receipt from the U.S. or Canadian Postal Service. Both postmarks must show a legible date or the offer, modification, or withdrawal shall be processed as if mailed late. "Postmark" means a printed, stamped, or otherwise placed impression (exclusive of a postage meter machine impression) that is readily identifiable without further action as having been supplied and affixed by employees of the U.S. or Canadian Postal Service on the date of mailing. Therefore, offerors should request the postal clerk to place a hand cancellation bull's-eye postmark on both the receipt and the envelope or wrapper.

(e) The only acceptable evidence to establish the time of receipt at the HA is the time/date stamp of HA on the offer wrapper or other documentary evidence of receipt maintained by the HA.



(f) The only acceptable evidence to establish the date of mailing of a late offer, modification, or withdrawal sent by Express Mail Next Day Service-Post Office to Addressee is the date entered by the post office receiving clerk on the "Express Mail Next Day Service-Post Office to Addressee" label and the postmark on both the envelope or wrapper and on the original receipt from the U.S. Postal Service. "Postmark" has the same meaning as defined in paragraph (c) of this provision, excluding postmarks of the Canadian Postal Service. Therefore, offerors should request the postal clerk to place a legible hand cancellation bull's eye postmark on both the receipt and the envelope or wrapper.

(g) Notwithstanding paragraph (a) of this provision, a late modification of an otherwise successful offer that makes its terms more favorable to the HA will be considered at any time it is received and may be accepted.

(h) If this solicitation is a request for proposals, proposals may be withdrawn by written notice, or if authorized by this solicitation, by telegram (including mailgram) or facsimile machine transmission received at any time before award. Proposals may be withdrawn in person by a offeror or its authorized representative if the identity of the person requesting withdrawal is established and the person signs a receipt for the offer before award. If this solicitation is an invitation for bids, bids may be withdrawn at any time prior to bid opening.

## 7. Contract Award

(a) The HA will award a contract resulting from this solicitation to the responsible offeror whose offer conforming to the solicitation will be most advantageous to the HA, cost or price and other factors, specified elsewhere in this solicitation, considered.

(b) The HA may

- (1) reject any or all offers if such action is in the HA's interest,
- (2) accept other than the lowest offer,
- (3) waive informalities and minor irregularities in offers received, and (4) award more than one contract for all or part of the requirements stated.

(c) If this solicitation is a request for proposals, the HA may award a contract on the basis of initial offers received, without discussions. Therefore, each initial offer should contain the offeror's best terms from a cost or price and technical standpoint.

(d) A written award or acceptance of offer mailed or otherwise furnished to the successful offeror within the time for acceptance specified in the offer shall result in a binding contract without further action by either party. If this solicitation is a request for proposals, before the offer's specified expiration time, the HA may accept an offer, whether or not there are negotiations after its receipt, unless a written notice of withdrawal is received before award. Negotiations conducted after receipt of an offer do not constitute a rejection or counteroffer by the HA.

(e) Neither financial data submitted with an offer, nor representations concerning facilities or financing, will form a part of the resulting contract.

## 8. Service of Protest

Any protest against the award of a contract pursuant to this solicitation shall be served on the HA by obtaining written and dated acknowledgment of receipt from the HA at the address shown on the cover of this solicitation. The determination of the HA with regard to such protest or to proceed to award notwithstanding such protest shall be final unless appealed by the protestor.

## 9. Offer Submission

Offers shall be submitted as follows and shall be enclosed in a sealed envelope and addressed to the office specified in the solicitation. The proposal shall show **the hour and date specified in the solicitation for receipt, the solicitation number, and the name and address of the offeror, on the face of the envelope.**

It is very important that the offer be properly identified on the face of the envelope as set forth above in order to insure that the date and time of receipt is stamped on the face of the offer envelope. Receiving procedures are: date and time stamp those envelopes identified as proposals and deliver them immediately to the appropriate contracting official, and only date stamp those envelopes which do not contain identification of the contents and deliver them to the appropriate procuring activity only through the routine mail delivery procedure.

[Describe bid or proposal preparation instructions here:]

**HACB CONTRACT NO. 21022-QSP****CONTRACT BETWEEN  
THE HOUSING AUTHORITY OF THE COUNTY OF BUTTE  
AND**

This contract by and between the Housing Authority of the County of Butte, hereinafter "HACB", and \_\_\_\_\_, CPA, hereinafter "Consultant", is hereby entered into this \_\_\_\_\_ day of \_\_\_\_\_, 2022.

Services pursuant to this contract shall begin on the \_\_\_\_\_ day of \_\_\_\_\_, 2022, and shall end on the \_\_\_\_\_ day of \_\_\_\_\_ 2023, with options to renew the contract for fiscal years ending September 30, 2024, 2025, 2026, 2027 unless otherwise extended, modified, or terminated by the parties. Unless otherwise detailed herein, all references to "days" shall be calendar days (in the case that the last day referenced falls on a Saturday, Sunday or legal holiday, then the period of time shall be automatically extended to include the next work day). Also, whenever the term "herein" is referred to, such refers to this contract form, the appendices and all listed attachments.

**Contract Documents:** The documents noted below are attached hereto and made a part of this contract.

- A. Contract
- B. Cost Proposal
- C. Auditor's Letter of Engagement
- D. Proposal submitted by the Consultant
- E. 21022-QSP RFP For Audit Services
- F. Table 5.1 Mandatory Contract Clauses for Small Purchase other than Construction
- G. Certificate of Insurance with additional insured endorsement

**Services and Payment**

**Scope of Services:** The services provided pursuant to this contract consist of those services described in Request for Proposal 21022-QSP Audit Services, including attachments and the proposal submitted by the consultant.

**Contract Value:** The current total not to exceed value price of this contract is: \$ \_\_\_\_\_. The Consultant exceeds the amount at his/her own risk. The Consultant is under no obligation to provide additional services that would cause the Consultant's fees to exceed the amount without prior revision of this amount by written change order.

**Billing Method:** The HACB will pay each such properly completed invoice received on a Net/30 basis. At a minimum the invoice shall detail the following information:

- 1. Unique invoice number
- 2. Consultant's name, address, and telephone number
- 3. Date of invoice and/or billing period
- 4. Applicable HACB Contract No. 21022-QSP HACB Audit Services
- 5. Brief description of services rendered, total hours billed for each service (may be in the form of a report)
- 6. Total dollar amount being billed

**Payment Schedule:** The HACB agrees to the following pay schedule (based on his proposed fee): 30% upon completion of Field Work; 30% upon completion of Draft Audit; 20% upon delivery of the Final Audit; and 20% upon receipt from HUD of the Audit's acceptance.

**Modification:** This contract shall not be modified, revised, amended or extended except by written addendum, executed by both parties.

**Consultant's Additional Obligations:** In addition, to the specific services detailed herein that the Consultant is required to provide, the Consultant shall be responsible for the following:

- 1. Supervision and Oversight: the Consultant shall be solely responsible for providing supervision and oversight to all of the consultant's personnel that are assigned to the HACB properties pursuant to this contract.
- 2. Qualified Personnel: The Consultant warrants and represents that it will assign only qualified personnel to perform the services outlined herein and within the appendices. For the purposes of this contract the term "qualified personnel" shall mean those personnel that have been investigated, tested, and trained in the manner described within this contract and as proposed by the consultant within its proposal or as provided by the consultant during the consultant's normal conduct of business.

## HACB CONTRACT NO. 21022-QSP

### **Indemnification and Insurance Requirements**

**Indemnification:** To the fullest extent permitted by law, THE CONSULTANT, I shall indemnify, defend, and hold harmless the HOUSING AUTHORITY OF THE COUNTY OF BUTTE, and its agents, affiliates, employees, managers, officers, other contractors, heirs and assigns (hereinafter "Indemnified Parties") from and against any and all liability, claims, damage, costs, expenses, awards, fines, judgments, and attorneys' fees (including, without limitation, expert witness fees and other litigation expenses) of every nature arising out of or in connection with THE CONSULTANT, performance of work hereunder, or work of its agents, employees, subcontractors and/or independent contractors, or their failure to comply with any of its obligations contained in the agreement, except to the extent the claims arise from active negligence of Indemnified Parties. Such obligation shall not be construed to negate, abridge, or reduce other rights or obligations of indemnity that would otherwise exist as to PARTIES.

The indemnification obligations of THE CONSULTANT, under this Agreement shall not be limited by the amounts or types of insurance (or the deductibles or self-insured retention amounts of such insurance) which THE CONSULTANT, INC. is required to carry under this Agreement. Indemnified Parties' right to indemnification from THE CONSULTANT, under this section shall be independent of Indemnified Parties' rights under the insurance to be provided by THE CONSULTANT, under this Agreement.

THE CONSULTANT, duty to defend the Indemnified Parties is entirely separate from, independent of, and free-standing from THE CONSULTANT, duty to indemnify the Indemnified Parties, including, without limitation, the defense of the Indemnified Parties against claims for which the Indemnified Parties (or any of them) may be strictly liable and applies whether the issue of THE CONSULTANT, liability, breach of this Agreement or other obligation, or THE CONSULTANT, responsibility has been determined and whether the Indemnified Parties (or any of them) have paid any sums or incurred any detriment, arising out of or resulting directly or indirectly from THE CONSULTANT, performance of the Work. Such defense obligation shall arise immediately upon presentation of a claim by any Person which arises out of or is connected to the Work performed by THE CONSULTANT, or any of its Agents and written notice of such claim being tendered to THE CONSULTANT."

**Applicable Laws:** The laws of the State of California shall govern the validity, construction and effect of this contract, unless said laws are superseded by, or in conflict with applicable federal laws and/or regulations. This contract will be binding upon the parties, their heirs, beneficiaries, and devisees of the parties hereto. The parties agree that Butte County, California is the appropriate forum for any action relating to this contract. Should any party hereto retain counsel for the purpose of initiating arbitration to enforce, prevent the breach of any provision hereof, or for any other judicial remedy, then the prevailing party shall be entitled to be reimbursed by the losing party for all costs and expenses incurred by such prevailing party.

**Compliance with Federal and State Laws:** All work performed by the Consultant, pursuant to this contract, shall be done in accordance with applicable all Federal, State and local laws, regulations, codes and ordinances, where these rules conflict, the more stringent law or rule applies. The parties agree that Butte County, California is the appropriate forum for any action relating to this contract. You agree to have any issue of dispute decide by neutral arbitration and you are giving up your right to a jury or court trial.

### **Financial Viability and Regulatory Compliance:**

1. The Consultant warrants and represents that it is in good standing with all applicable federal, state, and local licensing authorities and that it possesses all requisite licenses to perform services required by this contract. The contractor further warrants and represents that it owes no outstanding federal, state or local taxes or business assessments.
2. The Consultant agrees to promptly disclose to the HACB any IRS liens or insurance suspensions or revocation that may adversely affect its capacity to perform the services outlined within this contract. The failure to disclose such issues to HACB within five (5) days of notification will constitute a material breach of this contract.
3. The Consultant further agrees to promptly disclose to the HACB any change of its ownership and/or declaration of bankruptcy that the Consultant may undergo during the term(s) of this contract. The failure to disclose any change of its ownership and/or declaration of bankruptcy to HACB within five (5) days of said actions shall constitute a material breach of this contract.
4. All disclosures made pursuant to this section of the contract shall be made in writing and submitted to HACB within the prescribed time periods.

**Notices or Reports:** All notices or reports submitted to the HACB by the Consultant pursuant to this contract shall be in writing and delivered to the attention of the following person representing the HACB:

Hope Stone, Finance Officer  
Housing Authority of the County of Butte  
2039 Forest Ave.  
Chico, CA 95928  
(530) 895-4474 x 218



**HACB CONTRACT NO. 21022-QSP**

**Independent Contractor:** Unless otherwise stated within the contract, the Consultant is an independent contractor. Nothing herein shall create any association, agency, partnership or joint venture between the parties hereto and neither shall have any authority to bind the other in any way.

**Licensing:** The Consultant must maintain a clear, current and valid license through the California Board of Accountancy. The Consultant must immediately notify the HACB representative if the Consultant's license becomes inactive for any reason at any time during the contract term(s). Failure to maintain a clear, current and valid license during the contract term(s) shall constitute a material breach of contract.

**Assignment of Contract:** This contract shall not be assigned or transferred by either party without the written consent of the other party.

**Termination:** Notwithstanding any other provision of this contract, either party may terminate this contract, without cause, at any time with a 30 days written notice of such intent to terminate.

**Non-Disclosure:** The Consultant will not, during the term of the contract or at any time thereafter, disclose to others or use, except as authorized by the HACB, any of the HACB's confidential, technical, or other business information. "Confidential, technical or other business information" will mean any information (including lists of the HACB's clients) which the Consultant has used, had access to, learned or contributed to during the course of his/her engagement.

**Severability:** If any provision of this contract or any portion or provision hereof applicable to any particular situation or circumstance is held invalid, the remainder of this contract or the remainder of such provision (as the case may be), and the application thereof to other situations or circumstances shall not be affected thereby.

**CERTIFICATIONS:**

The undersigned representatives of each party acknowledge by signature below that they have reviewed the foregoing and understand and agree to abide by their respective obligations as defined herein:

\_\_\_\_\_, CPA:

By: \_\_\_\_\_ Date: \_\_\_\_\_  
CPA

**Housing Authority of the County of Butte:**

By: \_\_\_\_\_ Date: \_\_\_\_\_  
Edward S. Mayer, Executive Director

Form **W-9**  
(Rev. October 2018)  
Department of the Treasury  
Internal Revenue Service

## Request for Taxpayer Identification Number and Certification

► Go to [www.irs.gov/FormW9](http://www.irs.gov/FormW9) for instructions and the latest information.

Give Form to the  
requester. Do not  
send to the IRS.

Print or type.  
See Specific Instructions on page 3.

1 Name (as shown on your income tax return). Name is required on this line; do not leave this line blank.	
2 Business name/disregarded entity name, if different from above	
3 Check appropriate box for federal tax classification of the person whose name is entered on line 1. Check only <b>one</b> of the following seven boxes.	4 Exemptions (codes apply only to certain entities, not individuals; see instructions on page 3):
<input type="checkbox"/> Individual/sole proprietor or single-member LLC <input type="checkbox"/> Limited liability company. Enter the tax classification (C=C corporation, S=S corporation, P=Partnership) ► _____ <b>Note:</b> Check the appropriate box in the line above for the tax classification of the single-member owner. Do not check LLC if the LLC is classified as a single-member LLC that is disregarded from the owner unless the owner of the LLC is another LLC that is <b>not</b> disregarded from the owner for U.S. federal tax purposes. Otherwise, a single-member LLC that is disregarded from the owner should check the appropriate box for the tax classification of its owner. <input type="checkbox"/> Other (see instructions) ► _____	<input type="checkbox"/> C Corporation <input type="checkbox"/> S Corporation <input type="checkbox"/> Partnership <input type="checkbox"/> Trust/estate  Exempt payee code (if any) _____  Exemption from FATCA reporting code (if any) _____ <i>(Applies to accounts maintained outside the U.S.)</i>
5 Address (number, street, and apt. or suite no.) See instructions.	Requester's name and address (optional)
6 City, state, and ZIP code	
7 List account number(s) here (optional)	

### Part I Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. The TIN provided must match the name given on line 1 to avoid backup withholding. For individuals, this is generally your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the instructions for Part I, later. For other entities, it is your employer identification number (EIN). If you do not have a number, see *How to get a TIN*, later.

**Note:** If the account is in more than one name, see the instructions for line 1. Also see *What Name and Number To Give the Requester* for guidelines on whose number to enter.

Social security number											
				-				-			
or											
Employer identification number											

### Part II Certification

Under penalties of perjury, I certify that:

1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me); and
2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding; and
3. I am a U.S. citizen or other U.S. person (defined below); and
4. The FATCA code(s) entered on this form (if any) indicating that I am exempt from FATCA reporting is correct.

**Certification instructions.** You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the certification, but you must provide your correct TIN. See the instructions for Part II, later.

Sign Here	Signature of U.S. person ►	Date ►
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## General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

**Future developments.** For the latest information about developments related to Form W-9 and its instructions, such as legislation enacted after they were published, go to [www.irs.gov/FormW9](http://www.irs.gov/FormW9).

## Purpose of Form

An individual or entity (Form W-9 requester) who is required to file an information return with the IRS must obtain your correct taxpayer identification number (TIN) which may be your social security number (SSN), individual taxpayer identification number (ITIN), adoption taxpayer identification number (ATIN), or employer identification number (EIN), to report on an information return the amount paid to you, or other amount reportable on an information return. Examples of information returns include, but are not limited to, the following.

- Form 1099-INT (interest earned or paid)

- Form 1099-DIV (dividends, including those from stocks or mutual funds)
- Form 1099-MISC (various types of income, prizes, awards, or gross proceeds)
- Form 1099-B (stock or mutual fund sales and certain other transactions by brokers)
- Form 1099-S (proceeds from real estate transactions)
- Form 1099-K (merchant card and third party network transactions)
- Form 1098 (home mortgage interest), 1098-E (student loan interest), 1098-T (tuition)
- Form 1099-C (canceled debt)
- Form 1099-A (acquisition or abandonment of secured property)

Use Form W-9 only if you are a U.S. person (including a resident alien), to provide your correct TIN.

*If you do not return Form W-9 to the requester with a TIN, you might be subject to backup withholding. See What is backup withholding, later.*

By signing the filled-out form, you:

1. Certify that the TIN you are giving is correct (or you are waiting for a number to be issued),
2. Certify that you are not subject to backup withholding, or
3. Claim exemption from backup withholding if you are a U.S. exempt payee. If applicable, you are also certifying that as a U.S. person, your allocable share of any partnership income from a U.S. trade or business is not subject to the withholding tax on foreign partners' share of effectively connected income, and
4. Certify that FATCA code(s) entered on this form (if any) indicating that you are exempt from the FATCA reporting, is correct. See *What is FATCA reporting*, later, for further information.

**Note:** If you are a U.S. person and a requester gives you a form other than Form W-9 to request your TIN, you must use the requester's form if it is substantially similar to this Form W-9.

**Definition of a U.S. person.** For federal tax purposes, you are considered a U.S. person if you are:

- An individual who is a U.S. citizen or U.S. resident alien;
- A partnership, corporation, company, or association created or organized in the United States or under the laws of the United States;
- An estate (other than a foreign estate); or
- A domestic trust (as defined in Regulations section 301.7701-7).

**Special rules for partnerships.** Partnerships that conduct a trade or business in the United States are generally required to pay a withholding tax under section 1446 on any foreign partners' share of effectively connected taxable income from such business. Further, in certain cases where a Form W-9 has not been received, the rules under section 1446 require a partnership to presume that a partner is a foreign person, and pay the section 1446 withholding tax. Therefore, if you are a U.S. person that is a partner in a partnership conducting a trade or business in the United States, provide Form W-9 to the partnership to establish your U.S. status and avoid section 1446 withholding on your share of partnership income.

In the cases below, the following person must give Form W-9 to the partnership for purposes of establishing its U.S. status and avoiding withholding on its allocable share of net income from the partnership conducting a trade or business in the United States.

- In the case of a disregarded entity with a U.S. owner, the U.S. owner of the disregarded entity and not the entity;
- In the case of a grantor trust with a U.S. grantor or other U.S. owner, generally, the U.S. grantor or other U.S. owner of the grantor trust and not the trust; and
- In the case of a U.S. trust (other than a grantor trust), the U.S. trust (other than a grantor trust) and not the beneficiaries of the trust.

**Foreign person.** If you are a foreign person or the U.S. branch of a foreign bank that has elected to be treated as a U.S. person, do not use Form W-9. Instead, use the appropriate Form W-8 or Form 8233 (see Pub. 515, *Withholding of Tax on Nonresident Aliens and Foreign Entities*).

**Nonresident alien who becomes a resident alien.** Generally, only a nonresident alien individual may use the terms of a tax treaty to reduce or eliminate U.S. tax on certain types of income. However, most tax treaties contain a provision known as a "saving clause." Exceptions specified in the saving clause may permit an exemption from tax to continue for certain types of income even after the payee has otherwise become a U.S. resident alien for tax purposes.

If you are a U.S. resident alien who is relying on an exception contained in the saving clause of a tax treaty to claim an exemption from U.S. tax on certain types of income, you must attach a statement to Form W-9 that specifies the following five items.

1. The treaty country. Generally, this must be the same treaty under which you claimed exemption from tax as a nonresident alien.
2. The treaty article addressing the income.
3. The article number (or location) in the tax treaty that contains the saving clause and its exceptions.
4. The type and amount of income that qualifies for the exemption from tax.
5. Sufficient facts to justify the exemption from tax under the terms of the treaty article.

**Example.** Article 20 of the U.S.-China income tax treaty allows an exemption from tax for scholarship income received by a Chinese student temporarily present in the United States. Under U.S. law, this student will become a resident alien for tax purposes if his or her stay in the United States exceeds 5 calendar years. However, paragraph 2 of the first Protocol to the U.S.-China treaty (dated April 30, 1984) allows the provisions of Article 20 to continue to apply even after the Chinese student becomes a resident alien of the United States. A Chinese student who qualifies for this exception (under paragraph 2 of the first protocol) and is relying on this exception to claim an exemption from tax on his or her scholarship or fellowship income would attach to Form W-9 a statement that includes the information described above to support that exemption.

If you are a nonresident alien or a foreign entity, give the requester the appropriate completed Form W-8 or Form 8233.

## Backup Withholding

**What is backup withholding?** Persons making certain payments to you must under certain conditions withhold and pay to the IRS 24% of such payments. This is called "backup withholding." Payments that may be subject to backup withholding include interest, tax-exempt interest, dividends, broker and barter exchange transactions, rents, royalties, nonemployee pay, payments made in settlement of payment card and third party network transactions, and certain payments from fishing boat operators. Real estate transactions are not subject to backup withholding.

You will not be subject to backup withholding on payments you receive if you give the requester your correct TIN, make the proper certifications, and report all your taxable interest and dividends on your tax return.

**Payments you receive will be subject to backup withholding if:**

1. You do not furnish your TIN to the requester,
2. You do not certify your TIN when required (see the instructions for Part II for details),
3. The IRS tells the requester that you furnished an incorrect TIN,
4. The IRS tells you that you are subject to backup withholding because you did not report all your interest and dividends on your tax return (for reportable interest and dividends only), or
5. You do not certify to the requester that you are not subject to backup withholding under 4 above (for reportable interest and dividend accounts opened after 1983 only).

Certain payees and payments are exempt from backup withholding. See *Exempt payee code*, later, and the separate Instructions for the Requester of Form W-9 for more information.

Also see *Special rules for partnerships*, earlier.

## What is FATCA Reporting?

The Foreign Account Tax Compliance Act (FATCA) requires a participating foreign financial institution to report all United States account holders that are specified United States persons. Certain payees are exempt from FATCA reporting. See *Exemption from FATCA reporting code*, later, and the Instructions for the Requester of Form W-9 for more information.

## Updating Your Information

You must provide updated information to any person to whom you claimed to be an exempt payee if you are no longer an exempt payee and anticipate receiving reportable payments in the future from this person. For example, you may need to provide updated information if you are a C corporation that elects to be an S corporation, or if you no longer are tax exempt. In addition, you must furnish a new Form W-9 if the name or TIN changes for the account; for example, if the grantor of a grantor trust dies.

## Penalties

**Failure to furnish TIN.** If you fail to furnish your correct TIN to a requester, you are subject to a penalty of \$50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

**Civil penalty for false information with respect to withholding.** If you make a false statement with no reasonable basis that results in no backup withholding, you are subject to a \$500 penalty.

**Criminal penalty for falsifying information.** Willfully falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

**Misuse of TINs.** If the requester discloses or uses TINs in violation of federal law, the requester may be subject to civil and criminal penalties.

## Specific Instructions

### Line 1

You must enter one of the following on this line; **do not** leave this line blank. The name should match the name on your tax return.

If this Form W-9 is for a joint account (other than an account maintained by a foreign financial institution (FFI)), list first, and then circle, the name of the person or entity whose number you entered in Part I of Form W-9. If you are providing Form W-9 to an FFI to document a joint account, each holder of the account that is a U.S. person must provide a Form W-9.

a. **Individual.** Generally, enter the name shown on your tax return. If you have changed your last name without informing the Social Security Administration (SSA) of the name change, enter your first name, the last name as shown on your social security card, and your new last name.

**Note: ITIN applicant:** Enter your individual name as it was entered on your Form W-7 application, line 1a. This should also be the same as the name you entered on the Form 1040/1040A/1040EZ you filed with your application.

b. **Sole proprietor or single-member LLC.** Enter your individual name as shown on your 1040/1040A/1040EZ on line 1. You may enter your business, trade, or "doing business as" (DBA) name on line 2.

c. **Partnership, LLC that is not a single-member LLC, C corporation, or S corporation.** Enter the entity's name as shown on the entity's tax return on line 1 and any business, trade, or DBA name on line 2.

d. **Other entities.** Enter your name as shown on required U.S. federal tax documents on line 1. This name should match the name shown on the charter or other legal document creating the entity. You may enter any business, trade, or DBA name on line 2.

e. **Disregarded entity.** For U.S. federal tax purposes, an entity that is disregarded as an entity separate from its owner is treated as a "disregarded entity." See Regulations section 301.7701-2(c)(2)(iii). Enter the owner's name on line 1. The name of the entity entered on line 1 should never be a disregarded entity. The name on line 1 should be the name shown on the income tax return on which the income should be reported. For example, if a foreign LLC that is treated as a disregarded entity for U.S. federal tax purposes has a single owner that is a U.S. person, the U.S. owner's name is required to be provided on line 1. If the direct owner of the entity is also a disregarded entity, enter the first owner that is not disregarded for federal tax purposes. Enter the disregarded entity's name on line 2, "Business name/disregarded entity name." If the owner of the disregarded entity is a foreign person, the owner must complete an appropriate Form W-8 instead of a Form W-9. This is the case even if the foreign person has a U.S. TIN.

### Line 2

If you have a business name, trade name, DBA name, or disregarded entity name, you may enter it on line 2.

### Line 3

Check the appropriate box on line 3 for the U.S. federal tax classification of the person whose name is entered on line 1. Check only one box on line 3.

IF the entity/person on line 1 is a(n) . . .	THEN check the box for . . .
• Corporation	Corporation
• Individual • Sole proprietorship, or • Single-member limited liability company (LLC) owned by an individual and disregarded for U.S. federal tax purposes.	Individual/sole proprietor or single-member LLC
• LLC treated as a partnership for U.S. federal tax purposes, • LLC that has filed Form 8832 or 2553 to be taxed as a corporation, or • LLC that is disregarded as an entity separate from its owner but the owner is another LLC that is not disregarded for U.S. federal tax purposes.	Limited liability company and enter the appropriate tax classification. (P= Partnership; C= C corporation; or S= S corporation)
• Partnership	Partnership
• Trust/estate	Trust/estate

### Line 4, Exemptions

If you are exempt from backup withholding and/or FATCA reporting, enter in the appropriate space on line 4 any code(s) that may apply to you.

#### Exempt payee code.

- Generally, individuals (including sole proprietors) are not exempt from backup withholding.
- Except as provided below, corporations are exempt from backup withholding for certain payments, including interest and dividends.
- Corporations are not exempt from backup withholding for payments made in settlement of payment card or third party network transactions.
- Corporations are not exempt from backup withholding with respect to attorneys' fees or gross proceeds paid to attorneys, and corporations that provide medical or health care services are not exempt with respect to payments reportable on Form 1099-MISC.

The following codes identify payees that are exempt from backup withholding. Enter the appropriate code in the space in line 4.

- 1—An organization exempt from tax under section 501(a), any IRA, or a custodial account under section 403(b)(7) if the account satisfies the requirements of section 401(f)(2)
- 2—The United States or any of its agencies or instrumentalities
- 3—A state, the District of Columbia, a U.S. commonwealth or possession, or any of their political subdivisions or instrumentalities
- 4—A foreign government or any of its political subdivisions, agencies, or instrumentalities
- 5—A corporation
- 6—A dealer in securities or commodities required to register in the United States, the District of Columbia, or a U.S. commonwealth or possession
- 7—A futures commission merchant registered with the Commodity Futures Trading Commission
- 8—A real estate investment trust
- 9—An entity registered at all times during the tax year under the Investment Company Act of 1940
- 10—A common trust fund operated by a bank under section 584(a)
- 11—A financial institution
- 12—A middleman known in the investment community as a nominee or custodian
- 13—A trust exempt from tax under section 664 or described in section 4947



The following chart shows types of payments that may be exempt from backup withholding. The chart applies to the exempt payees listed above, 1 through 13.

IF the payment is for . . .	THEN the payment is exempt for . . .
Interest and dividend payments	All exempt payees except for 7
Broker transactions	Exempt payees 1 through 4 and 6 through 11 and all C corporations. S corporations must not enter an exempt payee code because they are exempt only for sales of noncovered securities acquired prior to 2012.
Barter exchange transactions and patronage dividends	Exempt payees 1 through 4
Payments over \$600 required to be reported and direct sales over \$5,000 <sup>1</sup>	Generally, exempt payees 1 through 5 <sup>2</sup>
Payments made in settlement of payment card or third party network transactions	Exempt payees 1 through 4

<sup>1</sup> See Form 1099-MISC, Miscellaneous Income, and its instructions.

<sup>2</sup> However, the following payments made to a corporation and reportable on Form 1099-MISC are not exempt from backup withholding: medical and health care payments, attorneys' fees, gross proceeds paid to an attorney reportable under section 6045(f), and payments for services paid by a federal executive agency.

**Exemption from FATCA reporting code.** The following codes identify payees that are exempt from reporting under FATCA. These codes apply to persons submitting this form for accounts maintained outside of the United States by certain foreign financial institutions. Therefore, if you are only submitting this form for an account you hold in the United States, you may leave this field blank. Consult with the person requesting this form if you are uncertain if the financial institution is subject to these requirements. A requester may indicate that a code is not required by providing you with a Form W-9 with "Not Applicable" (or any similar indication) written or printed on the line for a FATCA exemption code.

A—An organization exempt from tax under section 501(a) or any individual retirement plan as defined in section 7701(a)(37)

B—The United States or any of its agencies or instrumentalities

C—A state, the District of Columbia, a U.S. commonwealth or possession, or any of their political subdivisions or instrumentalities

D—A corporation the stock of which is regularly traded on one or more established securities markets, as described in Regulations section 1.1472-1(c)(1)(i)

E—A corporation that is a member of the same expanded affiliated group as a corporation described in Regulations section 1.1472-1(c)(1)(i)

F—A dealer in securities, commodities, or derivative financial instruments (including notional principal contracts, futures, forwards, and options) that is registered as such under the laws of the United States or any state

G—A real estate investment trust

H—A regulated investment company as defined in section 851 or an entity registered at all times during the tax year under the Investment Company Act of 1940

I—A common trust fund as defined in section 584(a)

J—A bank as defined in section 581

K—A broker

L—A trust exempt from tax under section 664 or described in section 4947(a)(1)

M—A tax exempt trust under a section 403(b) plan or section 457(g) plan

**Note:** You may wish to consult with the financial institution requesting this form to determine whether the FATCA code and/or exempt payee code should be completed.

## Line 5

Enter your address (number, street, and apartment or suite number). This is where the requester of this Form W-9 will mail your information returns. If this address differs from the one the requester already has on file, write NEW at the top. If a new address is provided, there is still a chance the old address will be used until the payor changes your address in their records.

## Line 6

Enter your city, state, and ZIP code.

## Part I. Taxpayer Identification Number (TIN)

**Enter your TIN in the appropriate box.** If you are a resident alien and you do not have and are not eligible to get an SSN, your TIN is your IRS individual taxpayer identification number (ITIN). Enter it in the social security number box. If you do not have an ITIN, see *How to get a TIN* below.

If you are a sole proprietor and you have an EIN, you may enter either your SSN or EIN.

If you are a single-member LLC that is disregarded as an entity separate from its owner, enter the owner's SSN (or EIN, if the owner has one). Do not enter the disregarded entity's EIN. If the LLC is classified as a corporation or partnership, enter the entity's EIN.

**Note:** See *What Name and Number To Give the Requester*, later, for further clarification of name and TIN combinations.

**How to get a TIN.** If you do not have a TIN, apply for one immediately. To apply for an SSN, get Form SS-5, Application for a Social Security Card, from your local SSA office or get this form online at [www.SSA.gov](http://www.SSA.gov). You may also get this form by calling 1-800-772-1213. Use Form W-7, Application for IRS Individual Taxpayer Identification Number, to apply for an ITIN, or Form SS-4, Application for Employer Identification Number, to apply for an EIN. You can apply for an EIN online by accessing the IRS website at [www.irs.gov/Businesses](http://www.irs.gov/Businesses) and clicking on Employer Identification Number (EIN) under Starting a Business. Go to [www.irs.gov/Forms](http://www.irs.gov/Forms) to view, download, or print Form W-7 and/or Form SS-4. Or, you can go to [www.irs.gov/OrderForms](http://www.irs.gov/OrderForms) to place an order and have Form W-7 and/or SS-4 mailed to you within 10 business days.

If you are asked to complete Form W-9 but do not have a TIN, apply for a TIN and write "Applied For" in the space for the TIN, sign and date the form, and give it to the requester. For interest and dividend payments, and certain payments made with respect to readily tradable instruments, generally you will have 60 days to get a TIN and give it to the requester before you are subject to backup withholding on payments. The 60-day rule does not apply to other types of payments. You will be subject to backup withholding on all such payments until you provide your TIN to the requester.

**Note:** Entering "Applied For" means that you have already applied for a TIN or that you intend to apply for one soon.

**Caution:** A disregarded U.S. entity that has a foreign owner must use the appropriate Form W-8.

## Part II. Certification

To establish to the withholding agent that you are a U.S. person, or resident alien, sign Form W-9. You may be requested to sign by the withholding agent even if item 1, 4, or 5 below indicates otherwise.

For a joint account, only the person whose TIN is shown in Part I should sign (when required). In the case of a disregarded entity, the person identified on line 1 must sign. Exempt payees, see *Exempt payee code*, earlier.

**Signature requirements.** Complete the certification as indicated in items 1 through 5 below.

**1. Interest, dividend, and barter exchange accounts opened before 1984 and broker accounts considered active during 1983.**

You must give your correct TIN, but you do not have to sign the certification.

**2. Interest, dividend, broker, and barter exchange accounts opened after 1983 and broker accounts considered inactive during 1983.** You must sign the certification or backup withholding will apply. If you are subject to backup withholding and you are merely providing your correct TIN to the requester, you must cross out item 2 in the certification before signing the form.

**3. Real estate transactions.** You must sign the certification. You may cross out item 2 of the certification.

**4. Other payments.** You must give your correct TIN, but you do not have to sign the certification unless you have been notified that you have previously given an incorrect TIN. "Other payments" include payments made in the course of the requester's trade or business for rents, royalties, goods (other than bills for merchandise), medical and health care services (including payments to corporations), payments to a nonemployee for services, payments made in settlement of payment card and third party network transactions, payments to certain fishing boat crew members and fishermen, and gross proceeds paid to attorneys (including payments to corporations).

**5. Mortgage interest paid by you, acquisition or abandonment of secured property, cancellation of debt, qualified tuition program payments (under section 529), ABLE accounts (under section 529A), IRA, Coverdell ESA, Archer MSA or HSA contributions or distributions, and pension distributions.** You must give your correct TIN, but you do not have to sign the certification.

**What Name and Number To Give the Requester**

For this type of account:	Give name and SSN of:
1. Individual	The individual
2. Two or more individuals (joint account) other than an account maintained by an FFI	The actual owner of the account or, if combined funds, the first individual on the account <sup>1</sup>
3. Two or more U.S. persons (joint account maintained by an FFI)	Each holder of the account
4. Custodial account of a minor (Uniform Gift to Minors Act)	The minor <sup>2</sup>
5. a. The usual revocable savings trust (grantor is also trustee)	The grantor-trustee <sup>1</sup>
b. So-called trust account that is not a legal or valid trust under state law	The actual owner <sup>1</sup>
6. Sole proprietorship or disregarded entity owned by an individual	The owner <sup>3</sup>
7. Grantor trust filing under Optional Form 1099 Filing Method 1 (see Regulations section 1.671-4(b)(2)(i)(A))	The grantor*
For this type of account:	Give name and EIN of:
8. Disregarded entity not owned by an individual	The owner
9. A valid trust, estate, or pension trust	Legal entity <sup>4</sup>
10. Corporation or LLC electing corporate status on Form 8832 or Form 2553	The corporation
11. Association, club, religious, charitable, educational, or other tax-exempt organization	The organization
12. Partnership or multi-member LLC	The partnership
13. A broker or registered nominee	The broker or nominee

For this type of account:	Give name and EIN of:
14. Account with the Department of Agriculture in the name of a public entity (such as a state or local government, school district, or prison) that receives agricultural program payments	The public entity
15. Grantor trust filing under the Form 1041 Filing Method or the Optional Form 1099 Filing Method 2 (see Regulations section 1.671-4(b)(2)(i)(B))	The trust

<sup>1</sup> List first and circle the name of the person whose number you furnish. If only one person on a joint account has an SSN, that person's number must be furnished.

<sup>2</sup> Circle the minor's name and furnish the minor's SSN.

<sup>3</sup> You must show your individual name and you may also enter your business or DBA name on the "Business name/disregarded entity" name line. You may use either your SSN or EIN (if you have one), but the IRS encourages you to use your SSN.

<sup>4</sup> List first and circle the name of the trust, estate, or pension trust. (Do not furnish the TIN of the personal representative or trustee unless the legal entity itself is not designated in the account title.) Also see *Special rules for partnerships*, earlier.

**\*Note:** The grantor also must provide a Form W-9 to trustee of trust.

**Note:** If no name is circled when more than one name is listed, the number will be considered to be that of the first name listed.

**Secure Your Tax Records From Identity Theft**

Identity theft occurs when someone uses your personal information such as your name, SSN, or other identifying information, without your permission, to commit fraud or other crimes. An identity thief may use your SSN to get a job or may file a tax return using your SSN to receive a refund.

To reduce your risk:

- Protect your SSN,
- Ensure your employer is protecting your SSN, and
- Be careful when choosing a tax preparer.

If your tax records are affected by identity theft and you receive a notice from the IRS, respond right away to the name and phone number printed on the IRS notice or letter.

If your tax records are not currently affected by identity theft but you think you are at risk due to a lost or stolen purse or wallet, questionable credit card activity or credit report, contact the IRS Identity Theft Hotline at 1-800-908-4490 or submit Form 14039.

For more information, see Pub. 5027, Identity Theft Information for Taxpayers.

Victims of identity theft who are experiencing economic harm or a systemic problem, or are seeking help in resolving tax problems that have not been resolved through normal channels, may be eligible for Taxpayer Advocate Service (TAS) assistance. You can reach TAS by calling the TAS toll-free case intake line at 1-877-777-4778 or TTY/TDD 1-800-829-4059.

**Protect yourself from suspicious emails or phishing schemes.**

Phishing is the creation and use of email and websites designed to mimic legitimate business emails and websites. The most common act is sending an email to a user falsely claiming to be an established legitimate enterprise in an attempt to scam the user into surrendering private information that will be used for identity theft.

The IRS does not initiate contacts with taxpayers via emails. Also, the IRS does not request personal detailed information through email or ask taxpayers for the PIN numbers, passwords, or similar secret access information for their credit card, bank, or other financial accounts.

If you receive an unsolicited email claiming to be from the IRS, forward this message to [phishing@irs.gov](mailto:phishing@irs.gov). You may also report misuse of the IRS name, logo, or other IRS property to the Treasury Inspector General for Tax Administration (TIGTA) at 1-800-366-4484. You can forward suspicious emails to the Federal Trade Commission at [spam@uce.gov](mailto:spam@uce.gov) or report them at [www.ftc.gov/complaint](http://www.ftc.gov/complaint). You can contact the FTC at [www.ftc.gov/idtheft](http://www.ftc.gov/idtheft) or 877-IDTHEFT (877-438-4338). If you have been the victim of identity theft, see [www.IdentityTheft.gov](http://www.IdentityTheft.gov) and Pub. 5027.

Visit [www.irs.gov/IdentityTheft](http://www.irs.gov/IdentityTheft) to learn more about identity theft and how to reduce your risk.

## Privacy Act Notice

Section 6109 of the Internal Revenue Code requires you to provide your correct TIN to persons (including federal agencies) who are required to file information returns with the IRS to report interest, dividends, or certain other income paid to you; mortgage interest you paid; the acquisition or abandonment of secured property; the cancellation of debt; or contributions you made to an IRA, Archer MSA, or HSA. The person collecting this form uses the information on the form to file information returns with the IRS, reporting the above information. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation and to cities, states, the District of Columbia, and U.S. commonwealths and possessions for use in administering their laws. The information also may be disclosed to other countries under a treaty, to federal and state agencies to enforce civil and criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism. You must provide your TIN whether or not you are required to file a tax return. Under section 3406, payers must generally withhold a percentage of taxable interest, dividend, and certain other payments to a payee who does not give a TIN to the payer. Certain penalties may also apply for providing false or fraudulent information.