AUDIT REQUIREMENTS

WHEDA-financed and American Recovery and Reinvestment Act (TCAP and Exchange) developments are required to submit an annual audited financial statement within 60 days of fiscal year end. Developments whose aggregate loan balance is less than $500,000 are not required to submit an annual audited financial statement unless notified by their Portfolio Risk Officer however all other requirements contained in these requirements apply.

WHEDA will require the owner to submit a signed **electronic** copy of the audited financial statements beginning in 2016. The audit must be signed by the management agent and the owner prior to submission. These should be remitted to Wheda.audits@wheda.com. WHEDA's Compliance Certificate (Form 400) is no longer a requirement of the audit.

All developments are required to submit WHEDA Forms 800 and 600AL electronically within 60 days of the development's year end. The forms and electronic specifications are located at http://www.wheda.com/Forms/Asset-Management/ Detailed instructions on completion of these forms can be found in Addendum B (SUPPORTING DATA REQUIRED BY WHEDA FOR ALL MULTIFAMILY PROJECTS).

CHANGES IN AUDIT PROCEDURES

WHEDA will be reviewing all properties with the submission of their 2016 financial statements for allowing a waiver of the requirement of audited financial statements for up to two years. (Please note: if a property receives a waiver they will be required to submit an audit at a minimum of every three years) Each property will be reviewed independently for the waiver. If the property qualifies for a waiver, you will be notified after the audit is reviewed. If a waiver is granted the electronic submission of Forms 800 and 600AL is still a requirement. The waiver will be based on a number of criteria which include, overall health of the development and ability to produce accurate Forms 600AL and 800.

The following properties will not be eligible for the waiver:

- Watch list properties
- Loans serviced for others
- Section 8 limited distribution
- Non-profits with required residual receipts
- Surplus cash payable to WHEDA

Account Changes Required for the Implementation of FASB ASU 2015-03

In April of 2015 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-03 (ASU 2015-03). ASU 2015-03 changes the way debt issuance costs are reported. Debt issuance costs, prior to this notice, were reported on the balance sheet as assets and amortized over the life of the loan(s). ASU 2015-03 requires these costs to be reported on the liability side of the balance sheet as a discount to the debt. Amortization of the discount will be reported as interest expense. ASU 2015-03 is effective for financial statements with fiscal years beginning after December 15, 2015. WHEDA is not modifying the forms 600AL and 800. There are options available of how this will be presented in the audit to comply with GAAP and the footnotes should disclose the adoption of the new standard and the effects it has on prior year presented.

In addition please note the changes in computation of surplus cash calculation procedures as well as the reduction in supporting data requirements noted on the following pages that were implemented beginning with 2015 financial statements.

COMPUTATION OF SURPLUS CASH, LIMITED DIVIDEND (if applicable) AND RESIDUAL RECEIPTS

PLEASE NOTE: WHEDA will not be performing a calculation on unlimited distribution developments unless there is a surplus cash note due payable to WHEDA or required remittance of surplus cash funds. WHEDA does retain the ability to discuss partnership distributions in the event the development has operating deficits or a debt coverage ratio under 1.0.

The following is a model of the WHEDA format to be used when computing surplus cash for those properties that are limited in distribution, subject to cash flow notes, residual receipts, or other regulatory/contractual requirements that tie to surplus cash. Line item explanations follow the calculations.

CURRENT ASSETS (A) – INCLUDABLE CURRENT LIABILITIES (B) = SURPLUS CASH

+ CURRENT ASSETS (A)

Line 1: Project Cash
Line 2: *MEMO ONLY* –Tenant Security Deposits
Line 3: Accounts Receivable due from WHEDA
Line 4: Other Accounts Receivable (due within 30 days)
Line 5: Rea Estate Taxes

TOTAL CURRENT ASSETS

- CURRENT LIABILITIES (B)

Line 6: Accounts Payable (due within 30 days only)
Line 7: Accounts Payable due to WHEDA
Line 8: Mortgage Interest Payable (see explanation for exception)
Line 9: Prepaid Rent from Tenants
Line 10: Accrued Expenses
Line 11: Accrued Real Estate Taxes
Line 12: *MEMO ONLY* - Tenant Security Deposits

TOTAL CURRENT LIABILITIES

= SURPLUS CASH

Line 1:	Cash includes only project cash; *no partnership cash or tenant security deposits should be included*.
Lines 2 & 12:	Include Tenant Security Deposits as memo items only. The asset account must always equal or exceed the liability account, including accrued interest. If this is not the case, a Payable Due to under-funding should be established and included in the computation of Surplus Cash in order to fully fund the Tenant Security Deposit Account.
Line 3:	Accounts Receivable from WHEDA is listed separately. Tenant Accounts Receivable is not included in the computation of surplus cash. Include any requests for reimbursement from WHEDA-held reserve accounts that have been approved.
Line 4:	Other Accounts Receivable (due within 30 days, excluding tenant receivables)
Lines 5 & 11:	The only escrow account used as an asset in the computation of Surplus Cash is the Real Estate Tax Escrow on line 5. The corresponding tax liability is also used as illustrated in Line 11 of the model.
Lines 6 & 7:	Separate the Accounts Payable due to WHEDA from the Accounts Payable due within 30 days and include the Preservation Fee (if applicable).
Line 8:	Do not include this line item for uninsured Section 8 projects. Interest payable should include accrued interest due through the end of the fiscal year.
Line 9:	Include any prepaid rent revenue from tenants.
Line 10:	Include all other accrued expenses that are not included in Line 6 or 7.

LIMITED DIVIDENDS (if applicable):

The computation to be used for determining Limited Dividends is:

Limited Dividend = Original Owner's Equity x Dividend Percentage

EXPLANATION OF LINE ITEMS: LIMITED DIVIDENDS:

a. The amount of the Limited Dividend unpaid from prior years, excluding amounts disbursed during the current year.

b. The total Limited Dividend paid during the current year, including all expense amounts which were paid from the distribution (i.e., partnership management fee).

c. State the calculation for the current Limited Dividend.

RESIDUAL RECEIPTS (if applicable):

The computation to be used for determining Residual Receipts is:

Surplus Cash - Limited Dividend - Surplus Real Estate Tax Escrow, if any = Net Residual Receipts Due

ADDENDUM A

AUDIT REQUIREMENTS

The audit must be signed by the owner and management. The audit must also include the name, address and phone number of the lead auditor responsible for the audit. All financial statements must be prepared on an accrual basis. If a not-for-profit organization has an organizational audit, it should be submitted with the property audit. When preparing the annual audit, the Certified Public Accountant is required to follow the guidelines established by WHEDA.

Examination of the entity's financial statements, along with a review of internal accounting controls is required. The examination is to be performed in accordance with Generally Accepted Auditing Standards (GAAS) as promulgated by the American Institute of Certified Public Accountants (AICPA) and should include:

1. An Audit report on the examination of the financial statements of the audited entity prepared in conformity with Generally Accepted Auditing Standards (GAAS) and Generally Accepted Accounting Principles (GAAP);

2. An unqualified opinion with respect to the financial statements, or if an unqualified opinion cannot be expressed, a qualified opinion, adverse opinion, or a disclaimer of opinion with an explanation of the reasons therefore; and

3. A management letter of comments and recommendations, if any.

The following list identifies the specific audit guide to be followed for each type of development or ownership entity. In addition, all projects will be required to submit the supplementary schedules and data described in these instructions.

These requirements are effective for the preparation of audit reports. <u>One</u> <u>electronic</u> copy of the audited financial statement is due to WHEDA sixty (60) days after the end of the development's fiscal year.

I. For-profit entities (limited or general partnerships corporations) receiving Section 8 Assistance Payments *(New Construction, Substantial Rehabilitation)*
Audit guide IG2000.4, Rev-2 Chg 1

II. Non-profit organizations receiving Section 8 Assistance Payments. All reports should be provided on an organization-wide basis; all supplementary data should be prepared on a project-specific basis. **Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards (2 CFR 200) for new awards and additional funding to existing awards made after December 26, 2014 (existing awards should follow OMB Circular A-133)**

III. Non-profit organizations receiving Federal monies, which are **not** audited as part of a State and/or Local Government that were under OMB Circular A-128, are now to use OMB Circular A-133 *(e.g., McKinney Grant recipients)*
Same as indicated in II above

IV. Public Housing Authorities; and State or Local Governments
Same as indicated in II above

V. For-profit entities (limited or general partnerships, GAAS (see above) corporations) and Non-profit organizations not described above, which have **not** received Federal monies *(e.g., LIHC projects)*. ***Audit Guide GAAS (see above)***

OTHER REQUIRED SUPPORTING DATA

a. Itemized Accounts and Notes Receivable other than from tenants. WHEDA requires any amounts due from WHEDA or an Identity of Interest to be identified separately. *(Remember to include Section 8 special claims, and reserve releases reimbursed to the project the following year for expenses incurred in the reporting year.)*

b. Distributions. Please indicate the amounts "actually disbursed" to the partners and/or used to pay entity expenses. This includes but is not limited to surplus cash.

c. Identification and accounting of all partnership cash and non-WHEDA held reserves including activity for the year.

d. Related party transactions. Please indicate the types and amounts of related party transactions.

e. Calculation of Preservation Fee (if applicable).

f. Computation of Surplus Cash

ADDENDUM B

SUPPORTING DATA REQUIRED BY WHEDA FOR ALL MULTIFAMILY PROJECTS

The Owner is required to include additional information on a development-specific basis in order to provide support and detail to the specific accounts shown in the basic financial statements. If no related amount exists for any category listed below, please indicate **NONE**.

I. WHEDA SCHEDULE OF PROFIT AND LOSS FOR MULTIFAMILY PROJECTS (Form 800-Rev. 12/05)

a. Rental Income should be stated as the **maximum potential at 100% occupancy**; vacancies and concessions should be identified separately. PLEASE DO NOT PROVIDE NET REVENUE ONLY.

b. Identify separately any interest earned on escrows and reserves for each respective account. Please ensure that interest on development funds can be identified easily.

c. Payroll taxes and all employee benefits are now to be reported in Section 6700 Taxes and Insurance.

d. Replacement Reserve Deposits (Line 3220) should include only actual total of monthly deposits.

e. Preservation Fee (if applicable) is to be incorporated in line item 6890, Miscellaneous Financial Expense.

f. Please remember to **complete the last five lines** on the schedule of Profit and Loss: Principal payments, reserve releases that reimbursed items expensed on the schedule, and capital expenditures paid from operations and expensed on the schedule. Line item 9920 should reflect the amount of reimbursement received from reserves for expenses that are included on the Form 800 in the event they were capital in nature and/or one-time expenses. Line item 9930 should reflect the costs associated with any expenses that were capital in nature and/or one-time expenses that were not reimbursed.

g. For those developments that rely on support service income and incur support service expense, income and expenses are to be listed on Schedule A, which is totaled and reported on lines 5300 and 6900 respectively.

h. All material miscellaneous expense items must be identified separately in supplementary data material (greater than 1% of total expense category).

II. WHEDA SCHEDULE OF ASSETS, LIABILITIES & EQUITY FOR MULTIFAMILY PROJECTS (Form600AL-Rev. 10/02)

The Annual Schedule of Assets, Liabilities and Equity must be completed. This schedule assists us in analyzing the development's financial condition and will expedite the review process.

a. Project cash and Entity cash must be stated separately. **Cash not otherwise identified will be deemed project cash.**

b. For those developments on which WHEDA does not hold an insurance escrow, prepaid insurance should be accounted for on line 1200 as a prepaid expense.

c. Preservation fee (if applicable) is to be incorporated in line item 2190, Miscellaneous Current Liabilities