

**DELAWARE STATE HOUSING AUTHORITY**

**AUDIT GUIDE**

**Address: 18 The Green**  
**Dover, DE 19901**

**Phone: 302-739-4263**

**Fax: 302-739-1117**

**EFFECTIVE: DECEMBER 2004**  
**FOR FISCAL YEARS ENDING ON OR AFTER 12/31/04**

## *Foreword*

The Delaware State Housing Authority (DSHA) is a state housing finance and tax credit agency responsible for the financing of low-to-moderate income housing developments through the Housing Development Fund (HDF) and HOME Programs. DSHA is also responsible for the administration and allocation of Low Income Housing Tax Credits (LIHTC) for the State of Delaware.

Audited financial statements are one of the primary tools used by DSHA to assure the State of Delaware that DSHA's fiduciary responsibilities have been met in administering and financing housing programs, and that the integrity of DSHA's multifamily portfolio is sound.

This guide is a resource and procedural tool for auditors, owners, and management companies of housing developments participating in DSHA's multifamily housing programs. This guide has been developed so that all audits received by DSHA are in a consistent format. This guide is not a substitute for existing federal and state laws and regulations, nor does it replace the auditor's judgment of audit work. Suggested formats contained herein may not cover all circumstances or conditions encountered in an audit. The auditor should use professional judgment to add supplemental information and to determine the extent of testing necessary to support the opinion in the financial statements. All applicable compliance requirements in this Audit Guide must be addressed by the auditor. Any deviations from DSHA's audit guide must have prior written approval from DSHA. The auditor should contact DSHA if technical assistance is needed.

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## I. INTRODUCTION TO DSHA

Delaware State Housing Authority (DSHA) was created in 1968 as a public body corporate and politic of the State of Delaware. DSHA became the Division of Housing and Community Development under the Department of Community Affairs by Executive Order in 1983. In recognition of the essential link between housing and the State's overall development, the Delaware State Housing Authority and Delaware Development Office (DDO) merged on July 1, 1987. In 1997, DSHA was separated from DDO and the Director of Housing was given cabinet-level status, and serves as an advisor to the Governor.

The Housing Authority, with a staff of over 100, is divided administratively into seven interdependent sections:

**Housing Development and Loan Management** reviews all applications to the Housing Development Fund (HDF) and the LIHTC program and monitors construction of all projects so funded. The Development staff is also responsible for all aspects of the construction and rehabilitation of DSHA Public Housing, as well as other sites owned by DSHA or its nonprofit corporations. The federal HOME Program is also administered by this section. The allocation, underwriting, monitoring and compliance aspect of the LIHTC Program is also the responsibility of this section. In addition, the section performs asset management, financial monitoring and inspections of HDF/HOME financed rental housing and is responsible for enforcing the State Housing Code in those communities which have not adopted and enforced equivalent codes.

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**Housing Finance** manages the Authority's Single Family Mortgage Revenue Bond Program, and the Housing Rehabilitation Loan Program (HRLP), and works closely with the Housing Development and Loan Management staff to perform financial analysis of applications to the HDF. This office, based in Wilmington, also collaborates with banks, developers, corporations, and various housing sponsors to develop new financing mechanisms for home ownership initiatives and rental projects statewide, including multifamily bond financing.

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**Planning and Community Development** administers the Community Development Block Grant Program, the Emergency Shelter Grant Program, Supportive Housing Program, Housing Opportunities for Persons with AIDS, and the Rental Rehabilitation Program and the statewide Consolidated Plan. Members of the section also design and conduct various housing studies to determine the specific nature of the housing supply and demand in Delaware. The Housing Capacity Building Program is also part of this Section.

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**Administration** is responsible for DSHA's general ledgers, purchasing functions, accounts receivable and payable, personnel, investments monitoring and the preparation of financial statements for the Authority and its various programs. The section also coordinates the design, maintenance and improvement of the agency's fully integrated computer network which is used to track program progress, analyze costs and provide a centralized source of program data.

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**Community Relations** coordinates all media and public inquiries, in addition to organizing special events in support of DSHA programs and activities. The section also coordinates the production of the annual report and other various brochures and promotional materials detailing the Authority's programs.

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**Housing Management** oversees the administration of federal rent subsidies to units statewide, including the Authority's Section 8 Certificate and Voucher Programs in Kent and Sussex Counties, and DSHA's eight Public Housing sites. The Management Section directly manages 445 units of Public Housing, 209 units of Section 8 New Construction, and 24 units of state-financed housing.

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**Asset Management** oversees over 2700 units of Section New Construction financed with DSHA multi-family tax-exempt revenue bonds and is the Project Based Contract Administer (PBCA) for HUD of an additional 1700 units statewide. This section performs asset management duties for properties financed with DSHA tax-exempt financing properties as well as the PBCA HUD portfolio and is responsible for overseeing the HUD subsidy through the TRACS program.

## **II. DSHA ORGANIZATIONAL RELATIONSHIPS**

DSHA has formed several partnerships with federal agencies, lending institutions and other for-profit and non-profit entities which affect monitoring and regulatory requirements with which these agencies are affiliated. Often there is more than one type of funding or agency involved with DSHA's loans. Generally speaking, the most stringent requirement for each program are used for financial reporting and compliance purposes.

It is important that auditors determine the type of financing and the relationship to DSHA's loan or grant that the development or program has with any other agency involved in the financing. Some basic information on the various partnerships and DSHA financing programs follow:

**U.S. Department of Housing and Urban Development (HUD)** - DSHA has partnered with HUD on HUD-insured programs and several other HUD programs.

DSHA has several HUD-insured loans in its portfolio under the Section 8 New Construction Program. DSHA is the primary mortgagee on Section 8 New Construction loans financed by DSHA's Multifamily Mortgage Revenue Bond Program. DSHA serves as the contract administrator and approves rent, monitors eligibility and authorizes reserve and residual receipt releases. These developments should also follow the HUD audit guide. The servicing of the loan, in many cases, is handled by DSHA. DSHA performs management reviews, physical inspections and monitors the financial performance of these developments.

DSHA also has several deferred loans in its portfolio under the Section 202 and 236 Programs where HUD is the contract administrator. DSHA's deferred loans were funded through the Housing Development Fund (HDF). DSHA also has partnered on several Section 8 Mod. Rehab. Properties in the state. These developments should also follow the HUD audit guide. DSHA performs physical inspections and monitors financial performance on these properties.

**Internal Revenue Service - Section 42 Low Income Housing Tax Credit** - DSHA is the housing Tax Credit agency for Delaware and allocates Tax Credits under Section 42 of the Internal Revenue Code. After Tax Credits have been allocated to a development, DSHA also monitors the development for compliance. Noncompliance matters are reported directly to the IRS. In many cases, DSHA provides financing for Tax Credit properties through the HDF or HOME Programs and is mostly in a secondary position. DSHA monitors financial performance on these properties as well.

**Rural Development (formerly Farmer's Home Administration)** - RD provides construction and permanent financing for the Section 515 Rural Rental Housing Program. Many of the DSHA-allocated Tax Credits have been awarded to Section 515 properties. DSHA has also begun to partner with RD on financing Section 515 properties and shortly will begin financial monitoring of those RD projects with DSHA funding.

**Delaware Community Investment Corporation** - DCIC is a nonprofit, community development corporation made up of a consortium of banks whose purpose is to serve as a vehicle for community revitalization through the financing of and investment in housing and related activities designed to address the needs of low- to moderate-income persons. DCIC also coordinates the use of public and private resources to improve and expand community development throughout Delaware. DCIC participates by providing permanent financing as well as equity for many of DSHA's Tax Credit properties and other affordable housing developments.

**Housing Development Fund (HDF)** - The HDF is the State of Delaware's primary financing resource to support the development of affordable housing statewide. The HDF is a very flexible revolving fund that allows interest rates and loan repayments to be tailored to each project. The HDF is used for construction and permanent financing for multifamily rental housing; construction financing for single- family housing; deferred mortgages for homeless facilities, transitional shelters, and group homes; second mortgages for first-time homeowners and grants funds for housing programs, security deposits and emergency home repairs. Any financing by the HDF requires financial monitoring and reporting by DSHA.

**HOME Program** - The HOME Program is a formula-based federal housing block grant program, which provides states and local governments with the flexibility to fund a wide range of affordable housing activities. The HOME Program addresses diverse local housing needs through moderate and substantial rehabilitation, new construction, tenant-based rental assistance and other related activities. In Delaware, DSHA, New Castle County Community Development and Housing, and the City of Wilmington Real Estate and Housing receive funding through the HOME Program. Many of DSHA's Tax Credit properties are funded in part with HOME funds and require compliance and financial monitoring.

### **III. REFERENCE MATERIAL**

The following documents should be obtained by the Mortgagor/Grantee, as applicable, for the auditor prior to starting the audit in order to perform the audit:

1. Regulatory Agreement
2. Partnership Agreement (distributions, capital contributions, reserve requirements etc.)
3. Closing Binder, copies of recorded mortgage(s), modification agreements, notes, workout agreements and other agreements
4. Grant Agreement
5. Verification of escrow balances, principal and interest paid, etc.
6. Management Agreement
7. Utility allowance and approved rent information
8. Any notices of default or other regulatory non-compliance, copies of latest compliance, management review, physical inspection reports issued by DSHA and/or other mortgagees, the management agent or owners response and any other supplemental information.
9. Any applicable HUD, RD or DSHA handbook or compliance manuals, and contracts.
10. Section 42 of the Internal Revenue Code
11. Delaware Landlord Tenant Code
12. Prior Year(s) Audited Financial Statements
13. Monthly Operating Statements (Cash Basis - Unaudited)
14. Fidelity Bond and Certificate of Insurance(s)
15. Current Rent Schedule
16. Copies of Letters of Credits, if applicable

#### IV. SUBMISSION INFORMATION

- DSHA requires financial statements be prepared and certified by an independent Certified Public Accountant (CPA). **The CPA must have no business relationship with the Mortgagor/Grantee except for the performance of the audit, accounting systems work, and tax preparation.** An individual who performs manual or automated bookkeeping services, and/or maintains the official accounting records may not perform the audit of the mortgagor/grantee.
- Where Government Auditing Standards apply, the auditor must meet the auditor qualifications of Government Auditing Standards, including the qualifications relating to independence and continuing professional education. Additionally, the audit organization must meet the quality control standards of Government Auditing Standards.
- DSHA recommends that the mortgagor/grantee rotate auditors or bid out their audit every 5 years.
- Submissions are required at the end of each fiscal period. Please check the regulatory agreement for the specific time period. Requests for extensions may be granted; however, extensions must be in writing and specify the extenuating circumstance(s).
- DSHA urges all project owners/agents to contact their auditor in advance in order to arrange for timely preparation and submission of the audit. Failure to furnish the audited financial statements in the stipulated format is a violation of the regulatory documents governing the loan and places it in technical default.
- The audit engagement letter or arrangements for audit between the auditor and mortgagor/grantee must allow duly authorized staff of DSHA to examine the auditor's working papers supporting the audit report at DSHA's request.
- DSHA requires that **two** copies of the completed audited financial statements, including the signed mortgagor/grantee and management agent certifications, be submitted to:

Housing Development and Loan Management Program Administrator  
Delaware State Housing Authority  
18 The Green  
Dover, DE 19901

- ***HUD Electronic Submissions*** – *HUD-Insured projects have a reporting requirement to both the Federal government and DSHA. HUD has issued final rules requiring all organizations, both for-profit and non-profit, to submit their financial information electronically. For those owners that are subject to DSHA's Audit Guide, audits must be submitted in a paper version. Those audits should include all the requirements noted in this Audit Guide.*

## V. AUDIT SCOPE AND COVERAGE

- The primary purpose of the audit is to report to the mortgagor/grantee and DSHA on the financial operations of the development. DSHA is interested in the financial solvency of the mortgagor/grantee and its ability to meet operating expenses and debt service requirements. Should the auditor, during the course of the review, have concerns about the solvency of the mortgagor, such concerns and an evaluation of the extent of the credit risk should be reported in the audit report.
- **All non-profit entities with federal expenditures of \$500,000 or more must complete an OMB A-133 audit. However, non-profit entities with less than \$500,000 federal expenditures must complete all reports and all supplemental information as noted in Section VII and Section VIII of this guide (see Quick Reference Checklist Schedules and Reports in Section XI) are required for DSHA properties/programs.**\*
- All other entities receiving funding from DSHA must complete an audit in accordance with the Consolidated Audit Guide of HUD Programs. This audit shall include reporting on Compliance with Specific Requirements applicable to Major HUD Programs, Compliance with Specific Requirements applicable to Nonmajor HUD Transactions (DSHA funding), Compliance with Specific Requirements Applicable to Affirmative Fair Housing and Non-Discrimination, and a Combined Report on Internal Controls. The HUD guide requires the use of HUD Form 92410 for the Statement of Operations, (substitute DSHA's Statement of Profit and Loss (See Section XII of this guide)), the Statement of Cash Flows using the direct method and **all supplementary data.** DSHA also requires additional supplemental information as described in Section VIII of this guide.
- The auditor should state whether the financial statements present fairly, in all material respects, the financial position of the project as of the audit date and the results of its operations and its cash flows in conformity with generally accepted accounting principles (GAAP). The auditor should state whether the audit was performed in accordance with generally accepted auditing standards (GAAS) and GAS. Also, the auditor should state whether the Supplemental Information has been subjected to the audit procedures applied to the audit of the basic financial statements and is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The auditor is expected to review, evaluate and provide audit level assurance on the adequacy of the accounting records, accounting procedures, and the systems of internal controls.
- Exit Conference - At the conclusion of the audit, an exit conference is to be held with the mortgagor/grantee to discuss the audit findings and obtain comments from the mortgagor/grantee on: 1) the accuracy and completeness of the facts presented and whether they agree with the audit conclusions; and 2) any action the mortgagor/grantee plans to take or reasons for not taking action. A Corrective Action Plan, if applicable, should be submitted by the Mortgagor/Grantee with the financial statements.

*\* Non-profits that own only one affordable housing rental unit may request a waiver from the non-profit requirements (unless they are subject to the requirement from other programs) and submit a "Review" that includes agreed upon procedures for eligibility and income, balance sheet, DSHA Statement of Profit and Loss, and a limited assurance letter. DSHA reserves the right to require a full audit at any time at DSHA's discretion.*

## **VI. INTERNAL CONTROL AND COMPLIANCE REPORTING**

Internal control and compliance reporting is required and should adhere with Generally Accepted - Government Auditing Standards (GAS).

- In addition to the internal control requirements of OMB-A133 and/or the HUD Consolidated Audit Guide, DSHA requires the auditor to perform tests and report on the mortgagor/grantee's compliance with the regulatory agreements, housing management agreement, partnership agreements and DSHA, HUD, RD or other lender regulations and procedures applicable to the mortgagor/grantee's operation of the development or program in order to comply with Government Auditing Standards and Generally Accepted Accounting Principles as applicable.

## **VII. DSHA AUDIT REQUIREMENTS\***

The audited financial statements delivered to DSHA should conform to the contents of this Audit Guide and should include all schedules and reports. In addition, the financial statements should be in **comparative fiscal years**. The following are required of all audits submitted to DSHA:

1. Balance Sheet
2. Statement of Cash Flow
3. Statement of Owner/Partner's Equity
4. Statement of Profit and Loss *(must use DSHA form and must be completed for all properties financed by DSHA)\*\**
5. Notes to Financial Statements
6. Supplemental Information (see Section VIII of this guide)
7. Surplus Cash Computation and Distributions
8. Mortgagor/Grantee's Certification with Original Signature and Date
9. Management Agent's Certification with Original Signature and Date
10. Auditor's Report on Compliance and Internal Controls - All Applicable Laws, Program Regulations, and Requirements
11. Auditor's Report on Audited Financial Statements and Supplemental Information
12. Schedule of Findings and Questioned Costs.
13. Report on Prior Year (s) Audit Findings or Going Concern Issues - Resolution and/or Current Status
14. Auditor's Management Letter and/or report
15. DSHA's Compliance and Internal Control Questionnaire

*\*See Attachment Audit Schedules and Reports*

*\*\* Must use DSHA – Statement of Profit and Loss*

## **VIII. DSHA SUPPLEMENTAL REQUIREMENTS AND GENERAL INFORMATION**

1. **Supplemental Information**. Additional supplemental information in the form of explanatory comments or appropriate schedules must include the following:

- a. A summary of all long-term debt, including a summary of any applicable Tax Credit allocation and equity pay-ins. Include all lenders, general partners, investors, syndicators, and the management company. The summary should include name of lender(s) and/or note holder(s), original debt amount, current balance(s), term(s) of loan(s) or note(s), lien position, name of insurer, if applicable. The syndication pay-in summary should include the schedule of payment dates, amounts, payor and payee.
- b. Accounts Payable (Trade Creditors) - The list should be included of accounts payable, segregated by those payable within 30 days, 31 - 60 days, and more than 60 days. The list should segregate those incurred by the development from those incurred by the mortgagor/grantee entity. A summary of accounts payable which are at least 30 days past due including date incurred, original amount, purpose, terms, creditor and balance due is required. Accrued expenses should be shown separately from accounts payable.
- c. Accrued Expenses - A schedule of accrued expenses should be included. A summary of accrued expenses including include date incurred, original amount, purpose, terms, creditor and balance due is required.
- d. Delinquent Accounts Receivables – A summary listing number of tenants past due, amount and 30, 60 or over 90 days.
- e. Accounts and Notes Receivables – A detailed schedule shall be made of any accounts or notes receivable other than regular tenants accounts including date acquired, original amount, terms name of borrower or vendor and balance due.
- f. Schedule of Letters of Credit – A schedule of all outstanding Letters of Credits. The summary should include the purpose, original amount, current amount, expiration date, issuer and beneficiary.
- g. Escrows and Reserves accounts – A detailed schedule of all escrows and reserve accounts including the type of account, balance of account, deposits and withdrawals and any other activity, schedule of payments to fund the reserve, and name of lender (where account is held) is required. These include Reserves for Replacements, Operating Deficit Reserves, Builder/Contractor Reserves, Rental Reserves, Tax and Insurance Escrows and any other reserves or escrows required by any loan agreement, partnership agreement or regulatory agreement. If reserves are held in the form of a letter of credit or a form other than cash, provide a description of the form of security and/or collateral.
- h. Unauthorized Distribution of Development Revenue - If any unauthorized distribution of development revenue is revealed during the audit, a separate schedule must be prepared detailing the amounts involved, date of distributions, and any other relevant information.
- i. Declaration of Ownership - In the project's first annual financial statement, full details should be included concerning the issuance of all stock and/or investments including names of stockholders or investors, proportionate interest of each and whatever consideration is received by corporate or non-corporate developments (considerations should be itemized to show amount of cash, land, services, etc.). Initially, a list should be furnished by the mortgagor/grantee entity consisting of officers, directors and individuals having financial interest in the development. Thereafter, details should be furnished of any changes in these positions occurring during the year as required by the Regulatory Agreement and/or other loan/grant documents. If no changes have occurred, it should be so noted.

- j. Community Housing Development Organizations (CHDO) - A schedule detailing all income and expenses should be included as part of the report for non-profit entities in receipt of DSHA's CHDO operating grant funds.
  - k. Other - Comments on, and explanations of, all other Balance Sheet items not fully explained by the title of the account should be a part of the report.
  - l. Comparison of budget to actual - A schedule comparing budgeted figures submitted by the mortgagor/grantee to DSHA at the fiscal year start to actual expenditures at fiscal year end is required. Any discrepancies or significant increases/decreases on the budget should be so noted.
  - m. Fidelity bond/certificate of insurance - Provide copies of current certificates of coverages that are in force.
  - n. Identification of Engagement Auditor - A statement specifying the name, mailing address, telephone and fax numbers of the lead auditor on the engagement letter must be included in the statement. This contact should be the individual to whom questions on the report can be addressed.
2. **Computation of Surplus Cash and Distributions** - The form should be completed and attached to the financial statements. This form should reconcile with the Balance Sheet.
3. **Mortgagor/Grantee Certification**. The report must include a certification signed by an authorized official of the mortgagor/grantee entity as to the completeness and accuracy of the financial statements and supplemental information and that no funds from operations of the development were used to pay for construction or mortgagor expenses.
4. **Management Agent Certification**. The report must include a certification signed by an authorized official of the management agent as to the completeness and accuracy of the financial statements and supplemental information.
5. **Report on Prior Year (s) Audit Findings or Going Concern Issues**. An updated report on any findings or concerns from prior years should be included in the financial statements.
6. **Auditor's Management Letter**. Any letters prepared by the auditors recommending management corrections and/or changes to the internal control methods or other management recommendations must be included with the financial statements or *auditor must note that no recommendations or corrections were made*.
7. **DSHA's Compliance and Internal Control Questionnaire**. The questionnaire will guide the auditor in his/her review of compliance and internal control matters which are of particular interest to DSHA. The questionnaire has been designed so that "No" answers are indicative of an adverse condition which must be described in the audit report. The auditor should also cite alternative conditions which mitigate weaknesses as disclosed by the questionnaire. The Audit Compliance and Internal Control Questionnaire must be submitted to DSHA with all financial statements.

## Definitions

- Distribution - Any withdrawal or taking of cash or other assets of the development, excluding payment for reasonable expenses necessary and essential to the operation and maintenance of the development (including repayment of owner advances), but including cash or assets segregated for subsequent withdrawal. Distributions are subject to the terms of the Regulatory Agreement or other governing documents. Distribution earnings (return on equity investment) commence upon the final closing of the loan, unless otherwise specified in the regulatory documents. The amount of equity investment and the maximum allowable return thereon are determined at final closing.

Distributions may not be made: 1) from borrowed funds, 2) prior to final closing of the mortgage loan/grant, 3) when the development is not in good repair or condition based on DSHA's or other regulatory entity's physical inspection or management and marketing review, 4) when the development is in a non-surplus cash position as defined hereunder, 5) when restricted by a modification agreement, or 6) when there is any default under the Regulatory Agreement, Deed of Trust, Note and/or other regulatory documents.

- Essential, Necessary and Reasonable Expenses - Limited to those obligations specifically incurred directly for the operations and maintenance of the development. The auditor will have to make a judgment as to the propriety of development disbursements. However, some expenditures, such as for expenses incurred by the partnership, the fee for the preparation of a partner's, shareholder's or individual's federal, state or local income tax returns, or the payment for advice to an owner on the tax consequences of foreclosure, clearly are not expenses essential, necessary and reasonable to the operations of the development and, therefore, do not qualify as distributions from development income. Also not allowed as a development expense is the cost of a fidelity bond (other than for on-site staff) or letter of credit required of the agent or mortgagor/grantee. The fee for preparation of the federal, state or local income tax returns of the partnership or corporation is an expense necessary and reasonable to the operations of the development.
- Surplus Cash - Cash remaining as of the last day of the fiscal year of the development after all reasonable expenses necessary and essential to the operation of the development have been paid or funds have been set aside for such payment and all reserve requirements have been met. Note: For limited partnerships or limited liability companies, partnership cash and obligations must be excluded from the calculation.
- Tenant Eligibility - Each program contains specific eligibility requirements based on income, family size and similar criteria. The criteria, for the most part, is contained on the application forms for tenant eligibility maintained at the development and/or management agent's office. The auditor should also have access to the applicable HUD, RD, and/or DSHA handbooks and directives. Any tenant eligibility questions that cannot be resolved through these resources should be directed to DSHA.

**IX. AUDIT INTERNAL CONTROL/COMPLIANCE CHECKLIST**

Development Name  
 DSHA/HUD/RD Number  
 Fiscal Year End

Please answer the questions below. All answers should be based upon a review of procedures and/or actual test transactions. Any question answered "no" may indicate of an adverse condition which should be described in the audit report.

		Yes, No or N/A	Working Paper Reference
1.	<b><u>Mortgage Status</u></b>		
A.	Are payments on the mortgage(s) current? First Lien Second Lien Third Lien Fourth Lien Fifth Lien	_____	_____
B.	Has the mortgagor/grantee complied with the terms and conditions of the mortgage, modification, Regulatory, forbearance and/or workout agreement?	_____	_____
C.	If the workout agreement , Regulatory Agreement or subsequent correspondence requires periodic deposits of surplus cash, were such deposits made within sixty days after the end of the specified period?	_____	_____
2.	<b><u>Books and Records</u></b>		
A.	Are a completed set of books and records maintained in a satisfactory manner?	_____	_____
B.	Does the mortgagor/grantee make frequent postings (at least monthly) to the ledger accounts?	_____	_____
3.	<b><u>Cash Activities</u></b>		
A.	Are the cash receipts deposited in an account in the name of the development/program?	_____	_____
B.	Are all account balances fully federally insured?	_____	_____
C.	Are security deposits kept in an account separate and apart from all other funds of the development?	_____	_____
D.	Are security deposits kept in an interest bearing account and is the interest returned to the tenant or applied to a tenant balance?	_____	_____

**Examination Item Reference (cont.)**

		Yes, No. or N/A	Working Paper Reference
E.	Does the balance in the security deposit account equal or exceed the liability? Note: The liability difference should include the accrued interest payable.	_____	_____
F.	Does the owner and/or the management agent have a fidelity bond in an amount at least equal to potential collections for two months which provides coverage for all employees handling cash?	_____	_____
G.	Did cash disbursements exclude payments for items listed below:		
(1)	Legal expenses incurred in the sale of partnership interest or in connection with permanent closing?	_____	_____
(2)	The fee for the preparation of a partner's , shareholder's or individual's federal, state or local income tax returns?	_____	_____
(3)	Expenses for advice to an owner on tax consequences of foreclosure?	_____	_____
(4)	Reimbursement to the owners or affiliates for prior advances, capital expenditures and/or development acquisition costs while the mortgage/grant is in default, under modification, forbearance or provisional workout arrangements?	_____	_____
(5)	Were all disbursements from the operating account(s) made exclusively for operation or obligations of the development?	_____	_____
(6)	Were letter of credit fees paid for out of operations or obligations of the development?	_____	_____
H.	Were distributions made to, or on behalf of, the owners limited to those authorized by the Regulatory Agreement or the distributions in accordance with prior written approval of DSHA while the development was in a surplus cash position?	_____	_____
(1)	Developments operating under a modification or forbearance agreement and/or a provisional workout arrangement are not in a "surplus cash" position for distributions.	_____	_____

**Examination Item Reference (cont.)**

		Yes, No or N/A	Working Paper Reference
I.	Were residual receipts deposited with the mortgagee within thirty days after mortgagee request for such deposit? (HUD Section 8/202/236 projects only)	_____	_____
J.	Were excess rental collections in Section 236 developments remitted to HUD each month?	_____	_____
K.	Does the mortgagor/grantee have a formal rent collection policy and is it posted?	_____	_____
L.	Is the collection policy uniformly enforced?	_____	_____
M.	Do tenants' accounts receivables consist exclusively of amounts due from those other than employees?	_____	_____
N.	Is there a formal procedure to write-off bad debts?	_____	_____
O.	Have write-offs of tenant's accounts been less than one percent of the gross rent?	_____	_____
P.	Are accounts receivables other than tenants' receivables composed exclusively of amounts due from unrelated persons or firms?	_____	_____
Q.	Were there indications that payments for services, supplies or materials were substantially in excess of amounts normally paid for such services, etc?	_____	_____
R.	Were accounts payable remitted in a timely manner so as to not incur late charges/penalties?	_____	_____
S.	Has the mortgagee made the required deposits to the mortgage escrow accounts as required by the loan documents?	_____	_____
4.	<b><u>Management Compensation</u></b>		
A.	Was compensation to the management agent limited to the amounts prescribed in the Management Agreement?	_____	_____
B.	Were development expenses paid in accordance with the management agreement (no expenses that management agent are required to pay charged to the development)?	_____	_____

**Examination Item Reference (cont.)**

Yes, No  
or N/A

Working  
Paper  
Reference

5. **Rents and Occupancy**

A. On nonsubsidized tax credit developments, is the gross potential rental income from apartments equal to or less than that shown on the most recent rent schedule?

\_\_\_\_\_

\_\_\_\_\_

B. On subsidized developments, are dwelling unit rents the same as those approved by DSHA/ HUD/RD on the most recent rent schedule?

\_\_\_\_\_

\_\_\_\_\_

6. **RD/HUD Subsidy Payments (Section 8/515 developments only)**

A. Were the amounts requested from DSHA/HUD/RD adequately supported by the accounting records?

\_\_\_\_\_

\_\_\_\_\_

B. Were subsidy receipts recorded in the proper accounts?

\_\_\_\_\_

\_\_\_\_\_

C. Utility allowance payments were paid to residents within five days of receipt from DSHA/HUD/RD and in an amount equal to the corresponding utility allowance subsidy amounts received?

\_\_\_\_\_

\_\_\_\_\_

Delaware State Housing Authority  
COMPUTATION OF SURPLUS CASH AND DISTRIBUTIONS

Property Name	Fiscal Period Ending	DSHA/HDF Number
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**PART A. - COMPUTE SURPLUS CASH**

Section I - Cash

1.	Cash	\$	
2.	Tenant Subsidy Vouchers due for Period Covered by Financial Statements	\$	
3.	Other (Describe) _____	\$	
	(A) Total Cash (Add Lines 1, 2, & 3)		\$

Section II. - Current Obligations

4.	Accrued Mortgage Interest Payables	\$	
5.	Delinquent Mortgage Principal Payments	\$	
6.	Delinquent Deposits to Reserve for Replacements	\$	
7.	Accounts Payables (due within 30 days)	\$	
8.	Loans and Notes Payables (due within 30 days)	\$	
9.	Deficient Tax Insurance/Mortgage Insurance Escrow	\$	
10.	Accrued Expenses (not escrowed)	\$	
11.	Prepaid Rents	\$	
12.	Tenant Security Deposits Liability	\$	
13.	Other (Describe) _____	\$	
	(B) Total Liabilities		\$
	(C) Surplus Cash (Deficiency)		\$
	Line (A) Minus Line (B)		

\*\*\*\*\*

**PART B - COMPUTE OWNERS DISTRIBUTIONS & REQUIRED HDF LOAN BALANCE REDUCTION**

1.	Surplus Cash		\$ _____
2.	a. Beginning Balance: Accrued Distributions from Prior Year(s) Unpaid	\$	
	Annual Distribution Earned During Fiscal Period Covered	\$	
	Annual Distribution Paid During Audit Year Against Audit Year	\$(     )	
	Annual Distribution Paid During Audit Year Against Prior Years (s)	\$(     )	
	b. Ending Balance: Distributions Unpaid From Audit Year and Prior Years(s) at Audit Year End (Amount Carried on Balance Sheet)	\$	
3.	Amount available for distribution (the lesser of Line 1 or Line 2b)		\$
4.	Amount due DSHA to be applied to DSHA Permanent Loan or deposited in to residual receipts (Line 1 minus Line 3)		\$

\*\*\*\*\*

Prepared By: \_\_\_\_\_  
 Date

Reviewed By: \_\_\_\_\_  
 Date

Delaware State Housing Authority  
Instructions for Surplus Cash Statement- Page 1

**PART A - COMPUTE SURPLUS CASH**

- Line 1. Cash - Do not include escrow deposits or DSHA required reserves. Include petty cash, cash in bank, tenant security deposits, and other deposits (i.e., pet deposits).
- Line 2. Tenant Subsidy Vouchers - Section 8 Certificate/Voucher subsidies earned but not yet received from the local Public Housing Authority during the period covered by this financial statement.
- Line 3. Other - Include amounts related to replacement reserve draws for which have: (1) been paid from project funds; (2) approved by DSHA prior to the end of the fiscal year, but which reimbursement has not been received from the mortgagee.
- Line 4. Accrued Mortgage Interest Payables - For projects current under the mortgage, include the interest payment due the first of the next month. Remember interest is paid in arrears; interest for the month of December is payable January 1. For projects in default under the mortgage, include delinquent interest payments.
- Line 5. Delinquent Mortgage Principal Payments - Include principal delinquent under the mortgage. This should be the difference between the unpaid balance shown on the amortization schedule and mortgage payable on the balance sheet.
- Line 6. Delinquent Deposits to Replacement Reserves - Include any delinquent deposits to the reserve for replacement account.
- Line 7. Accounts Payable - All payables due within 30 days, excluding payables related to replacement reserve draws which were: approved by DSHA prior to the end of the fiscal year, but which have not yet been released by DSHA and deposited in the project account.
- Line 8. Loans and Notes Payable - Include loans or notes due within 30 days. Short term notes from any subsidiary or parent company, must have documented legally binding notes *and must be actually due*.
- Line 9. Deficient Insurance Tax Escrow or Mortgage Insurance Escrow - Include any deficiency reported in the mortgage escrow deposits.
- Line 10. Accrued Expenses (not escrowed) - Expenses that have been accrued but not paid. (i.e., wages, payroll taxes).
- Line 11. Prepaid Rents - Rents received from tenants (including commercial tenants) that apply to future accounting periods.
- Line 12. Tenant Security Deposits Liability - This account records the off-setting liability resulting from transactions recorded in tenant security deposits held in trust.

Line 13. Other Obligations due but not paid (can be accrued).

**PART B - COMPUTE DISTRIBUTIONS TO OWNERS & REQUIRED HDF LOAN BALANCE  
REDUCTION**

Line 1. Surplus Cash from Part A. If the amount on line (C) is zero or negative, enter zero. If the amount was positive, enter that amount here.

Line 2.a. Beginning Balance: Accrued Distribution from Prior Year(s) Unpaid - Enter beginning balance, if any, the accrued distribution from prior year(s) unpaid. It is essential that auditor references all partnership agreements, loan agreements, council resolutions for distribution amounts prior to completing this line item. Note, some partnership agreements do not allow for accrued distributions. Reference prior year ending balance, as adjusted by DSHA if applicable.

Annual Distribution Earned During Audit Year - Enter zero if mortgagor agreed to waive distributions for audit year or enter amount determined in regulatory, partnership or loan documents.

Annual Distribution Paid During Audit Year Against Audit Year - Enter the total amount of distribution paid during the audit year against amount of distribution earned during audit year.

Annual Distribution Paid During Audit Year Against Prior Year(s) - Enter total amount of distribution paid during the audit year against accrued distributions from prior year(s).

Line 2. b. Ending Balance: Distributions Unpaid from Audit Year and Prior Year(s) at Audit Year End - Total amount of distributions earned but unpaid during audit and prior year(s).

Line 3. For non-profits enter zero. For limited partner projects, enter the lesser of Line 1 or Line 2b.

Line 4. If there is any excess (Line 1 minus Line 3), this amount should be paid to DSHA as per the regulatory agreement to reduce the accrued interest and/or principal amount of the HDF loan or if non-profit or HUD Assisted property applied to residual receipts and/or the operating reserve escrow accounts.