Special Attention of:

Transmittal for Handbook No.: 4370.1 REV-2

Directors of Housing;
CHG-1
Directors of Multifamily Housing Division;
Asset Management Branch Chiefs;
Owners and Management Agents;
Contract Administrators

1. This Transmits change No. 1 to HUD Handbook 4370.1 REV-2

2. Explanation of Material Transmitted:

a. This change transmits clarifying instructions for the Computation of Surplus Cash in Line 3 (page 2) for completion of Form HUD-93486 "Computation of Surplus Cash, Distributions and Residual Receipts," dated 8/95 as Appendix No. 11 of Handbook 4370.1 REV-2.

The instructions now allow for the inclusion of any Government receivables that a project expects to receive within 60 days of fiscal year end as an addition to cash. For example: Nursing Homes usually have a large account receivable related to medicare billings. This may now be included in the Computation of Surplus Cash.

b. Previous editions of this form are obsolete. Supplies of these forms are available from Administrative Services Division located in the local HUD Office.

3. Effective Date: Upon Receipt.

Insert:

From Handbook 4370.1 REV-2
page marked, "Appendix 11, pages 1 and 2 dated 8/95
From Handbook 4566.2
page marked Appendix 13

Remove:

Appendix 11, pages 1 and 2 dated 12/80
Appendix 13, pages 1 and 2 dated 8/95

Assistant Secretary for Housing -
Federal Housing Commissioner

HMHP: Distribution: W-3-1,W-2(H),W-3(A) (H) (OGC) (ZAS),W-4(H),R-1,R-2,R-3-1,
R-3-2,R-3-3,R-6,R-6-2,R-7,R-8

ATTACHMENT - FORM HUD-93486 - COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS AND RESIDUAL RECEIPTS.

OFFICE OF HOUSING

Special Attention of: Regional Administrators,
1. This transmits Revised Handbook 4370.1 REV-2, Reviewing Annual and Monthly Financial Reports.

2. Explanation of Materials Transmitted. This Handbook is a complete revision of HUD Handbook 4370.1 REV-1, Reviewing Annual and Monthly Financial Reports, dated February 1981. It provides procedures for reviewing annual and monthly financial statements submitted to HUD on multifamily projects. The Handbook describes the financial statements required to be submitted, explains how to use the financial statements to evaluate the financial and management effectiveness of a multifamily project, and contains procedures for checking the accuracy and completeness of the financial statements. Due to the number and significance of the changes, it is essential that the Handbook be read in its entirety by the user.

3. Significant Changes:
   - Include revised accounting and auditing nomenclature in accordance with AICPA, Government Auditing Standards, and other appropriate standards.
   - Include cross-references to current HUD Handbooks and automated system (Multifamily Information Processing System) for functions related to management.
   - Contain a list of forms used by Loan Management Staff for the annual and monthly review process.
   - Incorporate new chapter on monitoring the performance of project owner/management agent and independent public accountants.
   - Incorporate new guidance on imposing sanctions on independent public accountants whose performance does not meet IG requirements, governmental auditing standards, or generally accepted auditing standards.
   - Provide list of acronyms (Appendix 18).
   - Contain a glossary of pertinent terms (Appendix 17).
   - Encompass additional liquidity, profitability, activity ratios that measure projects' financial stability, collection procedures, and management effectiveness.
   - Include definitions of generally accepted accounting principles.
(GAAP) and generally accepted auditing standards (GAAS) that must be followed by the auditor during the audit of financial statements and supplemental data.

- Evaluate methodology used to calculate management fees and advises most appropriate method.
- Revise and expand explanation of auditor's opinions on financial statements with special reference to cash basis and tax basis opinions.

4. Cross References:

This handbook contains a Foreword which cross references all applicable handbooks and guidance relating to reviewing multifamily financial statements and supplemental data.

5. Cancellations: