
CHAPTER 2. FINANCIAL OPERATIONS AND ACCOUNTING

2-1. INTRODUCTION

This chapter provides a description of the financial operations and accounting requirements of a HUD-insured multifamily project including: maintenance of books and accounts, completeness and accuracy of books and accounts; auditable paper trail, invoices, etc.; treatment of specific transactions such as surplus cash and residual receipts; distribution to owners; cash controls and use of management agreements.

2-2. OBJECTIVES OF THE HUD-PRESCRIBED ACCOUNTING SYSTEM

General objectives of the HUD accounting system include:

- o Execution of all transactions in accordance with project management and where required, HUD's general or specific authorization.
- o Reporting on all financial transactions using HUD guidelines and Generally Accepted Accounting Principles (GAAP).
- o Safeguarding project assets.
- o Providing timely, accurate and complete information for management decision making.
- o Assisting with compliance with HUD specified accounting procedures, such as treatment of Low Income Housing Tax Credits.

2-3. MAINTENANCE OF BOOKS AND ACCOUNTS

- A. Both the Regulatory Agreement and the certificate executed by the mortgagor, at the time the mortgage is insured, contain provisions that accounts of mortgaged property operations be kept in accordance with the requirements of the Secretary and in such form as to

permit a speedy and effective audit. Further, the mortgagor or owner agrees that:

"The mortgaged property, equipment, buildings,

plans, offices, apparatus, devices, books, contracts, records, documents, and other papers relating thereto shall at all times be maintained in reasonable condition for proper audit and shall be subject to examination and inspection at any reasonable time by the Secretary or his duly authorized agents. Owners shall keep copies of all written contracts or other instruments which affect the mortgaged property, all or any of which may be subject to inspection and examination by the Secretary or his duly authorized agents."

- B. Books and accounts must be complete and accurate. The books of original entry must be kept current at all times, and postings must be made at least monthly to ledger accounts. Standard journal entries may be established for recurring items and posted monthly.
- C. In establishing a financial accounting system, auditing problems can be avoided by keeping operating funds separate from other project funds. Particularly when occupancy occurs prior to final closing, care must be taken to segregate construction and operating funds. Accounting of any construction expenses shall be in accordance with HUD Handbook 4470.1, Mortgage Credit Analysis for Project Mortgage Insurance, Section 207.
- D. In the first annual financial statement, whenever construction costs remain unpaid after final endorsement, two Statements of Cash Flows are required. One shall apply to project construction cost transactions during the first annual statement period. The second shall apply strictly to project rental operations from the day following the cost certification cut-off date to the end of the fiscal year.

2-4. PRESCRIBED ACCOUNTS

In order to ensure that books are complete and reporting is uniform, prescribed accounts must be maintained as outlined and described in Chapter 4. While various items of income and expense must be classified under the proper accounts, no single project will likely have use for all accounts. This will especially be true of smaller projects. In addition, some accounts will be applicable only to nursing homes and health care facilities. However, any accounts required should be placed

in the groupings and order shown in the Chart of Accounts, Chapter 4. If additional accounts not otherwise covered in the chart are needed for recording transactions, they should be set up and classified in accordance with accepted accounting principles. The chart should be followed, however, as far as it applies.

Note: It is important for consistency to exist in the categorization of accounts. Consistency allows HUD field offices to directly input data received from the financial statements into their computer system without any interpretation of the accounts. Therefore, the chart of accounts has a direct relationship to the MIPS system.

2-5. MINIMUM NUMBER OF BANK ACCOUNTS

Under terms of the regulatory agreement, each Project must maintain in Federally insured banks, the following minimum number of bank accounts:

- o Regular Operating Account
- o Replacement Reserve (Held by the mortgagee, except for Section 202s)
- o Tenant Security Deposit Account (Only if security deposits are received)
- o Residual Receipts Account (Held by mortgagee, except for Section 202)

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2-6. REGULAR OPERATING ACCOUNT

- A. The Regular Operating account is a general operating account for the project which is used for depositing rental receipts and other receivables not specifically designated for the Security Deposits Account. The account also is used to pay operating expenses of general administration including mortgage payments, management fees, utilities and maintenance. The Regulatory Agreement states that the funds must be maintained in a separate account. However,
- * this paragraph suspends the operation and effect of this Regulatory Agreement provision by authorizing the management agent to hold funds in a centralized account, up to or exceeding \$100,000, in institutions under the control of, and whose deposits are insured by, the Federal Deposit Insurance Corporation, National Credit Union Association, or other U. S. government insurance corporations under the following conditions:
- * 1. Managing agents must determine that the financial institution has a rating consistent at all times with current minimally acceptable ratings as established and published by Government National Mortgage Association (GNMA).
 - * 2. The managing agent must monitor the institution's ratings no less than on a quarterly basis, and change institutions when necessary. The managing agent must document the ratings of the institution where the funds are deposited and maintain the

documentation in the administrative record for three years, including the current year.

- * 3. In the event that the managing agent fails to follow these procedures and the bank fails, the owner/managing agent will be expected to make up losses sustained by the various project accounts held by the failed bank.

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- * 4. Deposits to and disbursements from the centralized account must clearly be traceable to each project. The actual cash position of each and every project in the centralized account must be easily identifiable at all times without exception.
- * 5. The managing agent must allow a project owner to require, at any time, that the particular owner's funds be kept isolated and separate from the funds of other projects held by the agent; that is, at all times an owner is to have the prerogative of not participating in the centralized account arrangement or of withdrawing from such an arrangement.

NOTE: The above language is not deemed a modification of the Regulatory Agreement. Therefore, HUD reserves the right to invoke this Regulatory Agreement provision and make it operational in the future through notice or handbook change, if it is determined that such a policy is necessary or desirable.

- * B. **Subsidiary Centralized Accounts.** Many businesses find it convenient to maintain separate, subsidiary accounts for payroll. Separate payroll accounts usually facilitate auditing and recordkeeping, particularly where frequent deposits are made to the special escrows required for payroll withholding taxes. The Department has decided to allow the establishment of separate, subsidiary payroll accounts within the centralized account arrangement.

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- * C. **Special Fees.** Establishing a centralized account eliminates some staff resource requirements for managing agents. For example, separate checks do not need to be maintained for each project. Fewer checks need to be issued because one vendor, mortgagee, or trade account can be paid with one check that covers invoices for several projects. By increasing productivity and efficiency and by reducing overhead expenses, managing agents are able to achieve higher profit margins when they use a centralized account. For this reason, the Department generally discourages increasing a managing agent's fee when the rationale for the fee increase is a centralized account. Where a managing agent has adopted certain investment strategies requiring a great deal of staff time in order to optimize interest earned on funds held in centralized accounts, at the discretion of the local HUD Office, the managing agent could be permitted a cash management fee not to exceed 1% per year based on the average of funds invested.

- * D. Section 8 Deposits. Section 8 receipts may be deposited directly into centralized accounts (without passing through a project's separate bank account) provided the amounts of the Section 8 funds are clearly identified as belonging to each project at all times.
- E. All disbursements from the Regular Operating Account (including checks, wire transfers and computer generated disbursements) must be supported by approved invoices/bills or other supporting documentation. The request for project funds should only be used to make mortgage payments, make required deposits to the Reserve for Replacements, pay reasonable expenses necessary for the operation and maintenance of the project, pay distributions of surplus cash permitted and repay owner advances authorized by HUD.

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- F. An independent public accountant (IPA) audits the books and records of the mortgagor to furnish an opinion on the annual financial statements. As part of the IPA's audit, the accountant will confirm, directly with the bank the current balance in the Regular Operating account, perform a reconciliation between the amount shown on the books and the amount reported by the bank, as well as examine supporting documentation authorizing the disbursements of funds from the account.

2-7. REPLACEMENT RESERVE

- A. The Replacement Reserve account provides cash for the replacement of capital items. Generally, those items are major capital investments such as heating, ventilation, air conditioning, re-plumbing, roofing, sprinkler systems, etc. The reserve is not intended to pay for routine maintenance costs. The regulatory agreement establishes the requirements for the Replacement Reserve account.
- B. The regulatory agreement states that the reserve must be maintained in a separate account with the mortgagee or in a safe and responsible depository designated by the mortgagee. Certain Section 8 projects are required to have replacement reserves invested in interest bearing Federally insured securities or accounts.
- C. The amount and frequency of deposits to the Replacement Reserve account is regulated by the regulatory agreement. The reserve is funded from two sources, a lump sum deposit made at the time of loan closing and monthly deposits made as part of the monthly mortgage payments.

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- D. All requests, by the owner, for withdrawals from the Replacement Reserve account must be in writing and supported by invoices showing what was purchased and the cost of the purchase. The request must list the items for which the withdrawal is requested, the number of each item and the dollar amount requested for each

item.

- E. An independent public accountant (IPA) audits the books and records of the mortgagor to furnish an opinion on the annual financial statements. As part of the IPA's audit, the accountant will confirm, directly with the mortgagee (or bank, in the case of Section 202 projects), the current balance in the Replacement Reserve account, perform a reconciliation between the amount shown on the books and the amount reported by the mortgagee or bank, as well as examine supporting documentation authorizing the releases of funds from the reserve.

2-8. SURPLUS CASH AND RESIDUAL RECEIPTS. Appendix 2, Form HUD-93486 Computation of Surplus Cash Distributions and Residual Receipts. contains a worksheet to be used for the Computation of Surplus Cash, Distributions and Residual Receipts. The purpose of this worksheet

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is to identify any available cash to be distributed to project owners or transferred to the Residual Receipts account.

- A. Basically, surplus cash is the cash remaining after all necessary and reasonable expenses of the project have been paid or funds have been set-aside for such payment. Specifically, the regulatory agreement defines surplus cash as any cash remaining after:
 - 1. The payment of all sums due under the terms of any mortgage, all amounts required for funded reserve accounts, and all obligations of the project, and
 - 2. The segregation of an amount equal to the aggregate of all special funds required to be maintained by the project and the segregation of all tenant security deposits held.
- B. Surplus cash is computed as of the end of an annual period. However, surplus cash may be calculated semiannually if the project's regulatory agreement permits. Surplus cash is determined by subtracting certain accounts payable from available unrestricted cash and like items.
- C. On profit-motivated projects (PM), all surplus cash is available for distribution to project owners. On most non-profit (NP) projects, on which distributions are not permitted, the regulatory agreement requires that all surplus cash available as of the end of an annual fiscal period be deposited in the Residual Receipts account. On limited dividend (LD) projects, the regulatory agreement provides that surplus cash be used first to pay distributions (up to the amount specified in the project's regulatory agreement), and that any remaining surplus cash be deposited in the Residual Receipts account. The Regulatory Agreement and any subsidy contracts should be reviewed in order to test cash restrictions for each particular project.

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- D. The regulatory agreement provides that any deposit due the residual receipts fund be deposited with the mortgagee within 60 days after the end of the fiscal year in which the receipts were generated.
- E. Funds may be released from the residual receipts funds only with prior written approval from HUD. HUD has the authority to approve, modify, or reject the owner's proposed usage for residual receipts.

For certain Section 8 assisted projects, when a project's Section 8 contract is terminated or expires and is not renewed, HUD may request the project owner or managing agent to return to HUD the funds remaining in the Residual Receipts account. These amounts may represent a loss contingency as defined by FASB No. 5 Accounting for Contingencies. It is reasonably possible (i.e., the chance of the future event or events occurring is more than remote but less than likely) that HUD will request any balance of residual receipts to be transferred back to HUD.

- F. An independent public accountant (IPA) audits the books and records of the mortgagor to render an opinion on the annual financial statements. As part of the IPA's audit, the accountant will confirm, directly with the mortgagee or bank, the current balance in the Residual Receipts account, perform a reconciliation between the amount shown on the books and the amount reported by the mortgagee or bank, as well as examine supporting documentation authorizing the releases of funds from these accounts.
- G. The amount transferred to the residual receipts account should be debited to that account and credited to the General Operating account. The notes to the financial statements should include a discussion of residual receipts account activity and a disclosure that use of residual receipts account funds is contingent upon HUD's prior written approval. In addition, any funds transferred to

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or from the residual receipts account must be separately displayed in the Statement of Cash Flows.

2-9. SECURITY DEPOSIT ACCOUNT

- A. In instances where the Regulatory Agreement allows the receipt of security deposits from project tenants, a separate bank account should be established to maintain these funds. In addition, individual states have specific regulations governing the handling of tenant security deposits and these regulations should be complied with. There shall be one Security Deposit Account per project. Funds in the single Security Deposit Account must not be commingled with any other funds, e.g., security deposit funds of other projects, operating accounts, managing agent accounts, etc. In cases where the funds in the project's Security Deposit bank account exceed the amount that may be insured by the federal government (\$100,000/bank), the project may open another bank account for the excess amounts.

- B. All disbursements from the Security Deposit account must be supported by approved invoices/bills or other documentation. Disbursements must be only for refunds to tenants and for payment of appropriate expenses incurred by the tenant.
- C. An independent public accountant (IPA) examines the books and records of the mortgagor to render an opinion on the annual financial statements. As part of the IPA's audit, the accountant will confirm, directly with the bank, the current balance in the Security Deposit account, perform a reconciliation between the amount shown on the books and the amount reported by the bank, as well as examine supporting documentation authorizing the releases of funds from these accounts.

2-10. DISTRIBUTIONS TO OWNERS

A distribution is any withdrawal or taking of cash or any assets of the project other than for the payment of reasonable expenses necessary to

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the operation and maintenance of the project. The regulatory agreement for the project defines distributions and the circumstances under which distributions may be made from surplus cash.

Form HUD-93486 provides the basis for calculating surplus cash. The term distributions includes, for example, supervisory fees paid to general partners and any salaries or other fees paid to the sponsor or mortgagor, unless those salaries or fees have been approved by HUD as essential to the operation of a project (e.g., a management fee approved by HUD and paid on an Owner-Managed project).

Money taken from syndication proceeds to pay for such expenses, for example, are not considered distributions. Payments of residual receipts notes may or may not be considered distributions. The classification of these payments depends on the financial condition of the project and decisions made by the HUD Office.

Exhibit 2-1 presents guidelines for distribution allowances by project type. These are general guidelines for owner distributions and should be verified in the project regulatory agreement.

- A. Surplus cash distributions may not be paid from borrowed funds, prior to the completion of the project or when a project is in default or under a forbearance agreement. If the owner takes distributions when the project is in default or when the project is in a non-surplus cash position, the owner is subject to criminal and/or civil penalties. (See Appendix 1 - Criminal Statutes for a listing of civil and criminal statutes).

The first year's distribution may not be paid until all required cost certification submissions have been made. Distributions are earned beginning with the day following the cut-off date for cost certification. Distributions to owners are not permitted on non-profit (NP) projects. On limited dividend (LD) or profit-motivated (PM) projects, the regulatory agreement provides that

distributions can be paid without prior HUD approval only:

- o if paid from surplus cash,
- o if paid as of and after the end of an annual or, if specified in the regulatory agreement, semiannual fiscal period.

In effect, surplus cash generated at the end of one fiscal period is not available for distribution until the next fiscal period. Stated differently, distributions paid out early in fiscal year 1991, for example, may not exceed surplus cash available as of the end of fiscal year 1990.

- B. All distributions must be computed as of the end of the period and only as permitted by the law of the applicable jurisdiction. If the owner elects to collect distributions semi-annually, if permitted by the regulatory agreement, then the owner must also compute surplus cash as of the end of each semi-annual fiscal period. These computations are audited and the Form(s) HUD-93486 are included in the annual report. Restrictions on distributions depend on the type of project (i.e., limited dividend or profit motivated). The restrictions placed on distributions are discussed in more detail in the project's regulatory agreement.
- C. On projects owned by profit-motivated (PM) entities, distributions may be paid up to the amount of surplus cash available. For projects owned by limited dividend (LD) mortgagors, distributions are subject to an additional restriction. In any one year, distributions may not exceed the amount earned that year plus any distributions unpaid from previous years. It should be noted that limited dividend mortgagors are subject to both this limitation and the surplus cash limitation. See Exhibit 2-1 for more specific information.
- D. Some regulatory agreements permit distributions to be paid out of surplus cash available as of the end of a semi-annual period. Before determining whether surplus cash is available for

distribution, the project books must be tentatively closed in accordance with the distribution period stated in the regulatory agreement or Corporate Charter. If an owner paid distributions following the end of the first six months of the fiscal year covered by the annual statement, a surplus cash computation reported as of the end of that semi-annual period must be submitted with the annual statement. This computation would be in addition to the computation required as of the end of the fiscal year.

- E. On limited distribution projects, the right to distribution is cumulative. Authorized distributions for which surplus cash is not available must be shown as a liability of the project on the

audited Statement of Financial Position (Balance Sheet) under Account No. 2140, Dividends or Distributions Payable - Current.

NOTE 1: The above statements reflect the normal policy on distributions. An owner may have agreed to waive payment of distributions and to use all surplus cash to repay flexible subsidy grants/loans. Nearly all flexible subsidy contracts contain such clauses. Even if the project did not receive Flexible Subsidy, the owner may still have agreed to waive payment of distributions in return for HUD's approval of other forms of mortgage relief (e.g., provisional workout, modification, partial payment of claim, etc.).

NOTE 2: If this is the case, the notes to the financial statements should so disclose. The IPA should note any waivers in the notes to the annual audit report.

- F. Distributions may be made only if owners have been in compliance with all provisions of the Regulatory Agreement, including the requirement for the project to be in good repair and condition.
- G. Form HUD-93486, Computation of Surplus Cash, Distributions and Residual Receipts, shall be used to compute distributions to owners.

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Exhibit 2-1

Distributions Earned by Type of Project

Type of Project	Annual Distribution Earned
1. Section 8 - New Construction projects whose notification of selection was issued before 11/5/79 and Section 8 Substantial Rehabilitation projects whose notification of selection was issued before 2/20/80.	Surplus Cash
2. Section 8 - New Construction projects whose notification of selection was issued on or after 11/5/79 and Section 8 Substantial Rehabilitation projects whose notification of selection was issued on or after 2/20/80.	
a. Non-profit	No distribution permitted
b. Small projects (under 50 units) and partially assisted projects (i.e., projects with more than 50 units and less than 20% assistance).	Surplus Cash
c. Elderly projects	6% of initial equity investment
d. Non-elderly	10% of initial equity investment

- 3. Other projects.
 - a. Profit-motivated (PM) Surplus Cash
 - b. Limited dividend (LD) 6% of initial equity investment
 - c. Non-profit (NP) No distribution permitted

Note: (1) Above represents general rules. Always check the amount specified in the regulatory agreement.

(2) Owners may have waived their rights to accrue or pay distributions in return for subsidies or mortgage relief. Be sure to check subsidy and mortgage relief contracts for such clauses.

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2-11. REPAYMENT OF OWNER ADVANCES

- A. Advances made for reasonable and necessary operating expenses may be paid from surplus cash at the end of the annual or semi-annual period. Such repayment is not considered an owner distribution. It is considered a repayment of advances. Repayment of owner advances when the project is in a non-surplus cash position will subject the owner to criminal and civil monetary penalties. (See Appendix 1, Criminal Statutes.)
- B. To encourage owners to make advances to projects in critical situations, the Department may approve on a case-by-case basis requests to make advances and for repayment of such advances on a monthly basis. Repayments under this paragraph are not considered owner distributions.
 - 1. Approval for scheduled repayment can be made for short-term operating advances made on behalf of the welfare of the tenants (e.g., necessary emergency repairs, security measures), or to avoid a claim by the lender for insurance benefits, or default by the mortgagor under the mortgage, or in the payment of a project operating expense (e.g., taxes, utility bills).
 - 2. Prior HUD approval is required for an owner to receive repayment on a monthly basis.
 - 3. The scheduled repayment may not be made if it would cause a default or, if the project is already in default, the repayment may not be made if it would have an adverse effect on an existing workout agreement.
- C. Periodically, project owners are required by HUD to make additional equity contributions to sustain the project. Such contributions are not repaid unless the agreement stipulates otherwise.

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NOTE: While owner advances appear on the Statement of Financial Position in the Liabilities Section, (could be long

term or short term), additional infusions of capital are reflected as Owner's Equity (i.e., 3000 series in the Chart of Accounts).

2-12. CASH MANAGEMENT CONTROLS

A. GENERAL

1. All cash receipts (including those collected by management agents) must be deposited in the name of the project in a bank or banks whose deposits are federally insured. When the \$100,000 insurance limit would be exceeded, the owner/managing agent shall follow the banking procedures described in paragraph 2-6 of this Handbook 4370.2. Such funds shall be withdrawn only in accordance with the provisions for project expenses or for distributions of surplus cash. Any owner receiving funds of the project, other than by such distribution of surplus cash, shall immediately deposit such funds in the project bank account.
2. Any funds collected as security deposits must be kept separate and apart from all other project funds in an account maintained in the name of the project. The balance of the account must not at any time be less than the aggregate of all outstanding obligations under the account for security deposits.
3. As insurance against loss, the owner or his designated agent must obtain a fidelity bond in an amount at least equal to

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potential collections for two months. Blanket coverage should extend to all employees handling cash.

4. Numbered rent receipts shall be used and reconciled to actual collections.
5. The person making up deposits shall not handle the accounts receivable or the general ledger.
6. Disbursement checks shall be identified with all relevant account numbers and amounts applicable to each account when one check is for more than one invoice/bill.
7. The person preparing the payroll shall not handle the related pay checks.
8. Unissued checks should be locked up and access to checks should be restricted to a limited number of authorized personnel.

A. RECEIPT CONTROLS

1. Collections and all other funds held within an office, whether

pending regular deposit or in imprest funds, shall be completely controlled under proper safeguards, preferably in a fire-resistant combination safe or safe-cabinet.

2. An adequate recording system shall be employed to note all checks received and deposited.
3. Insofar as is possible, all collections shall be promptly deposited on the day received.
4. Bank statements shall be reconciled promptly to the formal accounting records by persons other than those recording or handling cash, or preparing and signing checks.

B. DISBURSEMENT CONTROLS.

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1. A request for a check must have supporting documentation (i.e., invoice itemizing amount requested with an authorized signature) in order for approval to be obtained to make the disbursement.
2. Checks must be approved by an individual authorized to approve checks.
3. The authorized check signer shall review supporting documentation before signing the check.
4. Supporting vouchers shall be marked canceled to prevent resubmission.
5. A monthly reconciliation shall be performed to ensure that all checks disbursed are accounted for (i.e., cashed, outstanding, or void).
6. Invoices should be marked "paid" and the check number and date should be posted to the invoice. Supporting vouchers shall also be marked "paid" to prevent resubmission.

2-13. MANAGEMENT AGREEMENTS

- A. The management agreement is a contract which establishes the rights and obligations between the management agent, the project owner and any identity-of-interest or independent fee manager. The agreement also establishes the management fee and conditions for payment of the management fee. It is the mortgagor's responsibility to ensure that the management agent performs his duties in accordance with the management agreement.
- B. The management agreement shall state that it is subject to termination:
 1. For failure to comply with the provisions of the Management Certification or for other good

cause upon written HUD request 30 days in advance. Upon such request, owners shall immediately arrange to terminate the agreement within a period of not more than 30 days and shall immediately make arrangements satisfactory to HUD for continuing proper management of the project.

2. In the event of a default under the mortgage note or regulatory agreement, immediately upon HUD's issuance of a Notice of Termination to the owner or administrator. The agreement must also contain a clause acknowledging the following:
 3. HUD's and the lender's rights and requirements will prevail in the event the management agent conflicts with HUD's or the lender's requirements or restricts HUD's or the lender's rights; and
 4. The management agent must turn over to the owner all of the project's cash, trust accounts, investments, and records within thirty days after the date the management agreement is terminated.
- C. HUD requires a written management agreement in cases where a qualified management agent, on behalf of the project, handles record keeping, collection of rents, payment of bills and mortgage payments, etc. The terms of the agreement shall be complete as to the extent of the agent's duties and the amount of his fee.

2-14. EXCESS RENTAL COLLECTIONS

- A. Rental collected in excess of basic rental charges from tenants in a Section 236 project must be remitted monthly to NO. Excess rent is the amount by which the rent collected on a dwelling unit exceeds the approved basic rental for that unit.

- B. Rentals collected in excess of basic rental charges from tenants in a Section 221(d)(3) BMIR project must be accounted for separately and made available for deposit to the Residual Receipts Account with the mortgagee.

2-15. DISPOSITION OF EXCESS RENTAL COLLECTIONS

- A. In a Section 236 project, the total of all excess rents collected from units charged in excess of the basic monthly rent shall be remitted monthly to:

Excess Rental Income
P.O. Box 360333M
Pittsburgh, PA 15250.

Forms HUD-93104, Monthly Report of Excess Income and Accrued Unpaid Excess Income and HUD-93104A, Schedule for Calculating Excess Income and Report of Excess Income Delinquencies, are included in Appendix 3 and are to be used for this purpose.

NOTE: Form HUD-93104 is designed to calculate the following two amounts: 1) amount of funds collected from tenants which are in excess of the basic rent due and 2) to track accrued unpaid excess rent over the basic which has not been paid by tenants who do not qualify for the basic rent. Form HUD-93104A, should be used to assist with the completion of Form HUD-93104. Note, however, that only Form HUD-93104 is required to be submitted to HUD. Form HUD-93104A should be attached to the project file copy of the HUD-93104. Also note that Form HUD-93104 must be submitted even if no funds are due HUD.

Refer to Handbook 4350.5, Occupancy Requirements of Subsidized Multifamily Housing for additional information and procedures for completing and submitting Form HUD-93104.

B. In a limited distribution BMIR project, excess rental collections:

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1. Shall not be distributed to stockholders,
2. Shall not be used to pay authorized dividends or distributions, and
3. Shall not be used to meet operating expenses at the time project income is distributed to owners or stockholders.

C. As part of the IPA's audit of the financial statements, the IPA should confirm the transfer of these excess rentals for Section 236 projects with the Excess Rental Income Office in Pittsburgh, PA For Section 221 projects, the IPA's audit of the Residual Receipts Account Balances shall include a test for any excess rental collections and confirmation of the Residual Receipts Account Balance with the mortgagee.

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