

## CHAPTER 1.

## INTRODUCTION

## 1-1. PURPOSE

The purpose of this Handbook is to provide HUD and the cooperative housing corporations and their board of directors with the necessary information to monitor and report on the project's financial activities and status.

The primary users of the handbook are cooperative housing corporation board of directors. They are responsible for the daily operations of the project. The responsibility for the daily operations could also be contracted out to an independent management agent.

This handbook has been prepared in the interest of defining complete and uniform financial information relative to the following HUD provided cooperative housing corporation projects:

- o 207/223(c) Formerly HUD-owned projects
- o 213S Sales and Investor Cooperatives
- o 213M Management Cooperatives
- o 213(i) Consumer Cooperatives
- o 221(d)(3) Market Rate, Moderate Income Families
- o 221(d)(4) Market Rate, Moderate Income Families
- o 221(d)(5) Below Market Interest Rate (BMIR)
- o 221(h) Rehab. Sales Projects
- o 236 Housing for Lower Income Families

This handbook provides guidance to the board of directors by:

- o Providing guidelines to establish a financial accounting system to capture the required financial data as defined by HUD,
- o Defining procedures to prepare annual operating budget, Form HUD-92547,
- o Defining instructions for preparing monthly and annual HUD standard reports, and
- o Presenting the cooperative housing corporation's chart of accounts and an explanation for each account.

The board of directors assumes the day-to-day financial responsibilities of cooperative housing projects. This includes

submitting monthly and annual financial reports and providing any supporting information as requested by HUD. HUD is authorized to give technical advice to cooperatives in organizing the cooperative housing corporation and in planning, building and operating the housing project.

By working together, HUD and cooperative housing corporations can continue to provide affordable housing to lower- and middle-income families.

1-2. SCOPE

This Handbook is the principal procedures guide for accounting systems and financial reporting for all HUD-insured or HUD-held mortgages for cooperative housing projects, with the exception of multi-corporate developments sharing community facilities.

1-3. LEGISLATIVE AUTHORITY

A. Sections 8, 213, 221, and 236 of the National Housing Act as Amended. Provisions of the National Housing Act include the following:

1. HUD insures mortgages made by private lending institutions to build or rehabilitate multifamily cooperative housing for a) low to moderate income families (Section 221) and b) for moderate income families (Section 213).
2. The Secretary is authorized to make periodic interest reduction payments on behalf of the owner of a project designed for lower-income families (Section 236).
3. Public Housing Agencies (PHAs) and HUD administer a program to assist very low-income families in obtaining decent and safe housing by selecting landlords to rehabilitate properties to meet certain safety and sanitation standards (Section 8). The various assistance programs

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authorized under this Section include Lower Income Rental Assistance, Existing Housing Voucher, Certificate Programs, New Construction, Substantial Rehabilitation, Special Allocations (Loan Management Set Aside), Farmer's Home (515), and Section 202/8 programs. Of these, this handbook applies only

to cooperative projects whose mortgages are insured or held by HUD.

- B. Sections 2 and 4 of the Inspector General Act of 1978. The HUD Inspector General (IG) has the statutory responsibility to conduct, supervise, and coordinate audits and investigations relating to HUD's programs and operations. The IG also provides leadership and recommends policies designed to promote the economy, efficiency, and effectiveness and to prevent fraud and abuse.
- C. Section 108 of the HUD Reform Act of 1989. The Secretary may impose a monetary penalty on any mortgagor of a multifamily property who has agreed to use nonproject income to pay project liabilities or to make cash contributions for payment due under the mortgage but who fails to do so. A monetary penalty may also be imposed for any violation of the regulatory agreement, including failure to maintain books and accounts of the project in accordance with requirements prescribed by the Secretary.
- D. Section 416 of the Housing and Community Development Act of 1987, Misuse and diversion of Funds. These sections impose specific sanctions and penalties for the misuse and diversion of funds and for the violation of regulatory agreements and other applicable regulations. Penalties may include 1) a fine of up to \$250,000 or imprisonment for up to five (5) years, or both, or 2) requesting the U.S. Attorney General to recover any assets or income of the violator.

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1-4. OBJECTIVES OF THE HUD COOPERATIVE ACCOUNTING SYSTEM

The primary objective of the HUD cooperative accounting system is to provide the board of directors and HUD with a means of monitoring progress of multifamily cooperative housing projects. Through the analysis of financial statements and verification of project financial data, both parties can determine the financial condition of cooperative housing projects.

Additional objectives of the cooperative accounting system include:

- o Execution of all transactions in accordance with cooperative management and HUD's general or specific authorization

- Providing monthly and annual reports on all financial transactions using HUD guidelines and GAAP
- Supporting the chart of accounts for HUD cooperative housing corporation operations
- Safeguarding cooperative housing corporation assets
- Providing timely, accurate and complete information for management decision making
- Supporting HUD specified accounting procedures including, for example, recording of Personal Benefit Expenses (PBE)