GLOSSARY

ACCOUNTING:
The activity of providing quantitative information, primarily financial in nature, that is intended to be useful in making economic decisions; the process of measuring recording, summarizing and reporting the assets, liabilities and owner's equity of an enterprise and the changes in them.

ACCOUNTING PERIOD:
A length of time established as a period for which accounting activity will be recorded, summarized, and reported. Accounting periods provide the divisions required for comparative financial analysis. Normally, they are established monthly and quarterly for interim statements and annually for completed audited statements and disclosures.

ACCOUNTS PAYABLE:
All amounts owed for goods, properties or services which were purchased on credit and have been received. See definition of accrued liabilities, below,

ACCOUNTS RECEIVABLE:
All amounts owed to an entity for facilities or services that were provided during the current or prior accounting period(s). (Rent that is due or overdue, including government Rent Supplement amounts, is a common example of an account receivable).

ACCRUAL BASIS OF ACCOUNTING:
The method of accounting in which come is recognized when earned (regardless of when cash has been received) and expenses are recognized when incurred (regardless of when cash has been paid).

ACCRUALS:
Entries made at the end of an accounting period which are due entirely to the use of the accrual basis of accounting; e.g., to record expenses incurred but not paid.

ACCRUED LIABILITIES:
Amounts computed by an entity as owed to outsiders for goods or services received but not invoiced. Examples include utilities and wages where the service period does not coincide with the financial statement period of the project.

GLOSSARY

AMORTIZATION:
(1) The portion of a mortgage payment which represents a payment of principal.
(2) The spreading of the cost of certain assets over more than one accounting period.

ASSETS:
Economic resources used by the business entity and expected to benefit future operations.

AUDITING:
The examination of financial statements and their underlying data to determine whether the statements are fairly and consistently stated in accordance with generally accepted accounting principles. Auditing is done by CPAs, others licensed by the state to do such work, or authorized by government agencies.

BALANCE SHEET:
The basic financial statement which presents the assets, the liabilities and owner's equity of an entity at a point in time. The total of the assets must equal (balance) the total of the liabilities and owner's equity.

BOOKKEEPING:
The process of recording transactions in an entity's books of accounts.

CAPITAL:
The dollar balance of the amount Of ownership interest of the owners of an entity. Also referred to as Owner's Equity.

CAPITALIZE:
To set up an expenditure as an asset or to increase the recorded value of an asset so that the expenditure can be charged off as depreciation expense during future accounting periods. It is the opposite of "expensing" an expenditure.

CASH:
Currency, checks and other negotiable instruments acceptable for direct deposit by a bank, and checking account balances.

GLOSSARY

CASH BASIS OF ACCOUNTING:
The method of accounting in which income and expenses are recorded and reported in the accounting period in which cash is actually received or disbursed, regardless of when the related goods or services were received or provided.

CERTIFIED PUBLIC ACCOUNTANT (CPA):
A person who is licensed by the state to offer professional auditing and accounting services to the public; license is granted upon successful completion of an examination and satisfying other requirements of the state.

CHART OF ACCOUNTS:
A list, by number and title, of all of a development's accounts, grouped according to type of account. The Chart of Accounts prescribed by HUD for cooperatives is in Chapter 6 of this Handbook.

CONSISTENCY:
A convention in accounting that once an accounting method (such as depreciation) has been adopted it should not be changed without full disclosure and an explanation of the impact of the change on published financial statements.

CONTRA ACCOUNT:
An account established to record offsetting liabilities or reductions in value to another account(s). Examples of contra accounts include Accumulated Depreciation of Buildings and Equipment, Allowances for Doubtful Accounts Receivable, and the liabilities applicable to security deposit accounts. The manner in which contra accounts are to be reported on financial statements varies, but usually are shown separately as subtractions from the account(s) to which they are contra.

CURRENT ASSETS:
Cash and other assets that are reasonably expected to be realized in cash or used up during the normal operating period of a business, typically one year.

CURRENT LIABILITIES:
Obligations due to be paid or settled within the normal operating period of a business, typically one year.

GLOSSARY

DEBT SERVICE:
The interest and principal due on a mortgage note. Does not include impounds or reserve fund contributions, but can include Mortgage Insurance Premium.

DEFAULT:
There are two types of defaults: (1) fiscal and (2) covenant.

(1) A monetary, or fiscal, default exists when the owner fails to make any payment due under the mortgage.

(2) A covenant default exists when the owner fails to perform any other covenant under the provisions of the mortgage or of the regulatory agreement, which is incorporated into the mortgage. A lender becomes eligible for insurance benefits on the basis of a covenant default only after the lender has accelerated the debt and the owner has failed to pay the full amount due, thus converting the covenant default to a monetary default.

DEPRECIATION:
The process of distributing the cost of fixed assets over a period of years, in a systematic and rational manner.

DIRECT METHOD (for Statement of Cash Flows):
Refer to Financial Accounting Standards Board (FASB) Statement No. 95.

DISBURSEMENT:
Any outlay of funds, either in cash or by check.

EXPENDITURE:
An outflow of assets or increase in liability in connection with the acquisition of assets or expenses; includes both expenses and purchases of fixed assets.

GLOSSARY

EXPENSE:
The outflow of assets or increases in liabilities that takes place in connection with the products or services provided during an accounting period.

EXPENSED:
The process of having charged an expenditure against operations, such expenditure having been considered to benefit a current accounting period (as opposed to a future accounting period). It is the

opposite of "capitalizing" an expenditure.

FINANCIAL POSITION:
The assets, liabilities and owner's equity of an entity and the relationship among them as displayed by the Statement of Position or Balance Sheet, the Statement of Retained Earnings and the Statement of Cash Flows.

FISCAL YEAR:
The twelve month period which an entity chooses as the period for reporting the annual report of its financial operations; normally runs to the end of a month. Often used in contrast to the Calendar Year ending December 31st.

FIXED ASSETS:
Assets such as buildings, land and equipment that are necessary to the operations of the business and have a useful life of more than one year.

FUND:
(1) An amount restricted for a specified purpose, such as for replacement of fixed assets (Reserve Fund for Replacements). (2) A separate set of accounts for a subdivision of a governmental or other nonprofit entity.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP):
General understandings governing accounting measurements and standards of presentation derived from long-standing experience and conventions in the profession.

GENERALLY ACCEPTED AUDITING STANDARDS (GAAS):

GLOSSARY

GAAS refer to the ten auditing standards that have been approved and adopted by the members of the American Institute of Certified Public Accountants (AICPA).

GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (GAS or GAGAS):
GAS are standards for audits of government organizations, programs, activities and functions of government funds received by contractors non-profit organizations and other nongovernmental organizations. GAS are issue(by the U.S. General Accounting Office (GAO).

IDENTITY-OF-INTEREST:

This term applies to a management agent and other parties having business relationships with the project owner or any officer or director of the mortgagor. Such a relationship should be construed to exist when the owner and the vendor are not the same person but (1) the project owner; or (2) any officer or director of the project owner or (3) any person who directly or indirectly controls 10 percent or more of the project owner's voting rights or directly or indirectly owns 10 percent or more of the project owner; is also (1) an officer, director, partner, or owner of the vendor; or (2) a person who directly or indirectly controls 10 percent or more of the vendor's voting rights or directly or indirectly owns 10 percent or more of the vendor. For purposes of this definition, the term "person" includes any individual, member of Board of Directors, partnership, corporation, or other business entity. Any ownership, control or interest held or possessed by a person's spouse, parent, child, grandchild, brother or sister is attributed to that person.

IMMATERIAL:
Judged by an accountant or auditor as insignificant to an informed reader of financial statements; said of minor items which are erroneous, omitted, or inconsistent.

IMPREST FUND:
An account that is used by a project management agent as the operating account for a project. The management agent should not commingle (mix together) funds for more than one project without prior HUD approval.

GLOSSARY

IMPOUND ACCOUNT:
Amounts held by a mortgagee (or mortgagee's agent) which belong to the mortgagor but are collected to ensure future payment of items such as property taxes and insurance.

INCOME (PROJECT):
The excess of annual revenues over project expenses.

INCOME (TENANT):
The gross annual income of the tenant from all sources before taxes and withholdings, after giving effect to exclusions allowed by the Housing Commissioner.

INCOME STATEMENT:
See Statement of Income

INVOICE:
A document (commonly called a "bill") that states the price and an itemized description of goods and/or services bought. Not to be confused with vendors' "statements," to which summarize transactions periodically (usually monthly).

LIABILITY:
The economic obligation to convey assets (usually cash) or to render services in the future; claims against an entity by outside parties resulting from past or current transactions and requiring future settlement.

LIQUID ASSETS:
Cash and other short-term assets that are expected to be converted to cash within a short period of time generally not longer than one year. These are the first items presented on asset side of balance sheet.

LONG-TERM INVESTMENTS:
Certificates of deposit, stocks, bonds, notes receivable, etc., that are intended to be held for more than one year.

LONG-TERM LIABILITIES:
Obligations that are expected to be liquidated over a period exceeding one year.

GLOSSARY

MATERIALITY:
The concept of whether an amount or event would, if known, influence the judgment of an informed reader of a financial statement; a test of the significance of an item.

MORTGAGE:
A loan made for the purpose of purchasing, building or rehabilitating real property, and secured by that property.

MORTGAGE NOTE:
Sets forth the amount the owner owes the lender and the manner in which the debt is to be satisfied. The note establishes the payment terms, conditions under which prepayments may be made, and the lender's rights in the event of default.

MORTGAGEE (INVESTING/HOLDING):
The institution which holds a particular mortgage. The mortgagee may be a bank, savings and loan association, FNMA, GNMA, insurance

company, etc. The mortgagee often engages another institution for the loan servicing function (example: FNMA services GNMA loans).

MORTGAGEE'S CERTIFICATE:
The lender executes the Mortgagee's Certificate at the loan closing. In executing the Certificate, the lender identifies all fees and escrow deposits collected in conjunction with the mortgage transaction and agrees to collect, hold and administer the reserve for replacements and any required mortgage escrows in accordance with HUD's requirements.

MORTGAGE INSURANCE PREMIUM (MIP):
A payment made to HUD for insurance to protect the lender against any failure by the mortgagor to make payments on the mortgage loan. Paid by the mortgagor through the lender, it amounts to one-half of one percent (0. 5%) annually of the unpaid balance of the mortgage loan. In Section 236 projects, an "interest reduction payment." (IRP) also is used to pay the MIP.

MORTGAGOR:
An individual, corporation, or partnership that borrows money from the lending institution (the mortgagee) in exchange for a mortgage on his/her property).

GLOSSARY

MULTIFAMILY INFORMATION PROCESSING SYSTEM (MIPS):
An automated system used to monitor the receipt and review of annual and, monthly financial statements.

NET INCOME:
Revenues of a period minus the expenses of that period. If expenses exceed revenues it is called Net Loss.

OWNER'S EQUITY:
The dollar balance of the amount of ownership interest of the owners of an entity.

PREPAID EXPENSES:
Assets consisting of remaining portions of amounts which have been paid for in advance for short term future expenses. Example: unexpired insurance.

PROJECT:
The mortgaged property and all its other assets used in or owned by the business conducted on said mortgaged property, which is providing housing and other such activities.

PRORATE:

To divide or apportion an amount according to the number of days or months during the period. Can relate to the amount of rent owed by a resident for occupying a unit for only a part of a month.

PURCHASE ORDER:

A form used by a purchaser to record the details of an order for goods, services, equipment, etc. It authorizes delivery and billing by a vendor or supplier.

REGULATORY AGREEMENT:

The regulatory agreement lists the management and reporting requirements that HUD and the lender impose upon the owner in return for their insuring the mortgage. The regulatory agreement also specifies what actions the lender and/or HUD may take if the owner does not carry out its obligations under the regulatory agreement so long as the mortgage insurance is in effect.

GLOSSARY

RESERVE:

(1) An accounting term for a formal segregation (appropriation) of owner's equity or for a valuation deduction from an asset account. (2) Technically incorrect but common in HUD informal parlance: a fund of cash or cash equivalents retained for a specific purpose such as painting, replacements, or general contingencies. The correct term is "Cash (or Securities) - Reserve or "Reserve Fund for..."

RESERVE FOR REPLACEMENTS:

The regulatory agreement requires an owner to establish and maintain a reserve for replacements. The reserve provides cash for the replacement of capital items (e.g. appliances). The reserve is funded from two sources (1) a lump sum deposit made at the time of loan closing and (2) monthly deposits made as part of the monthly mortgage payments.

RESIDUAL RECEIPTS:

Any cash remaining at the end of a semi-annual or annual fiscal period after deducting from surplus cash the amount of all distributions. See also SURPLUS CASH.

REVENUE:

The inflow of assets to an entity as a result of the rendering of services or delivering of goods.

STATEMENT OF CASH FLOWS:
The statement shows the sources and uses of cash over a specific reporting period in conjunction with the Income Statement and Balance Sheet.

STATEMENT OF INCOME:
A statement that shows the revenues and expenses of an enterprise over a specific time period, and the resultant net income or net loss.

SURPLUS CASH:
The cash remaining after all necessary and reasonable expenses of the project have been paid or funds have been set aside for such payment and all reserve requirements have been met.

GLOSSARY

TAX BASIS OF ACCOUNTING:
The basis of accounting allowed for tax purposes. For example, a beneficiary of a homeowner's insurance policy may omit insurance proceeds as income; however, using the accrual basis of accounting, the proceeds would have to be included in the income.

TRANSACTION:
Any event that changes assets, liabilities or owner's equity.

VENDOR:
Anyone who sells goods or services (store, wholesaler, supplier, utility company, service company, management agent, etc.).