
FINANCIAL STATEMENTS PACKAGE

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SAMPLE FINANCIAL STATEMENTS

FHA PROJECT NO.: 123-45678-ABC
PROJECT NAME: WEST OAKDALE APARTMENTS
AS OF DECEMBER 31, 1991

The following set of financial statements illustrates what might be found on an actual HUD project. Use them to familiarize yourself with financial statements.

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INDEX TO THE FINANCIAL STATEMENTS
FHA PROJECT NO. : 123-45678-ABC
PROJECT NAME: WEST OAKDALE APARTMENTS
AS OF DECEMBER 31, 1991

AUDITOR/AUDITEE REPORTS

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SCHEDULE A-2 - Schedule of Changes in Fixed Assets Account for the Year Ended December 31, 1991

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EXHIBIT C - Statement of Changes in Owner's Equity (Deficit) for the Year Ended December 31, 1991

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December 31, 1991

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AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

XYZ & Company, CPA
123 Main Street
Anytown, USA

J. Doe
West Oakdale Apartments
528 North America Dr.
Anytown, USA

We have audited the accompanying balance sheet of West Oakdale Apartment, HUD Project No. 123-45678, as of December 31, 1991, and the related statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Oakdale Apartment at December 31, 1991, and the results of its operations and its cash flows and its analysis of net worth for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supporting information included in the report are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the West Oakdale Apartment. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial

statements taken as a whole.

February 12, 1992
Accountants

XYZ and Company
Certified Public

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AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE

XYZ & Company, CPA
123 Main Street
Anytown, USA

J. Doe
West Oakdale Apartments
528 North America Dr.
Anytown, USA

We have audited the financial statements of West Oakdale Apartments as of and for the year ended December 31, 1991, and have issued our report thereon dated February 12, 1992. We have also audited West Oakdale Apartments compliance with requirements applicable to major HUD-assisted programs and have issued our report thereon dated February 12, 1992.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audits for the year ended December 31, 1991, we considered the West Oakdale Apartments internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the West Oakdale Apartments basic financial statements and on its compliance with requirements applicable to major programs and not to provide assurance on the internal control structure.

In connection therewith, we also have obtained an understanding of those internal accounting control and administrative control procedures comprehended in the U.S. Department of Housing and Urban Development (HUD) Consolidated Audit Guide for Audits of HUD Programs, IG Handbook 2000.4. Our study included tests of compliance with such procedures.

The management of the Project is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute,

assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles and that Federal financial assistance programs are managed in compliance with applicable laws and

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regulations. Because of inherent limitations in any internal control structure, errors, irregularities or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories: accounting managerial, and systems.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation and we assessed control risk.

We performed tests of controls to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance. Our procedures were less in scope than would be necessary to render an opinion on internal control structure policy and procedures. Thus, we do not express our opinion on those policies and procedures.

We noted certain matters involving the internal control structure and its operations that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the organization's ability to administer Federal financial assistance programs in accordance with applicable laws and regulations.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily

disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the West Oakdale Apartments in a separate communication dated January 31, 1992.

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This report is intended for the information of the mortgagor, management, and the Department of Housing and Urban Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

XYZ and Company
Certified Public Accountants

February 12, 1992

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AUDITOR'S REPORT ON COMPLIANCE

XYZ & Company, CPA
123 Main Street
Anytown, USA

J. Doe
West Oakdale Apartments
528 North America Dr.
Anytown, USA

We have audited the financial statements of West Oakdale Apartments as of and for the year ended December 31, 1991 and have issued our report thereon dated (date of report). In addition, we have audited the (Entity's) compliance with the common and specific program requirements that are applicable to each of its major HUD-assisted programs, for the year(s) ended December 31, 1991. The management of the West Oakdale Apartments is responsible for compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our

audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the West Oakdale Apartments compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings and questioned costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the West Oakdale Apartments complied, in all material respects, with the requirements described above that are applicable to its major HUD-assisted programs for the year ended December 31, 1991.

February 12, 1992

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AUDITOR'S COMMENTS ON AUDIT RESOLUTION MATTERS

Per HUD letter of November 10, 1991 all prior audit findings have been successfully resolved.

February 12, 1992

XYZ and Company, CPA

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AUDITEE'S RESPONSE, OR CORRECTIVE ACTION PLAN

Name and Number of Project: West Oakdale Apartments - 123-45678
Auditor/Audit Firm: XYZ and Company
Audit Period: December 1, 1991 - December 31, 1991

Section I - Internal Control Structure Review

A. Comments on Findings and Recommendations

West Oakdale Apartments concurs with the findings of the auditor.

B. Actions Taken or Planned

None Required

C. Status of Corrective Action or Prior Findings

Per letter of November 10, 1991 from HUD West Oakdale Apartments has corrected all prior audit findings.

Section II - Compliance Review

A. Comments on Findings and Recommendations

(See Section I.A. above.)

B. Actions Taken or Planned

None Required

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West Oakdale Apartments
FHA Project
123-45678

CERTIFICATE OF OWNER/MANAGEMENT AGENT

I hereby certify that I have examined the accompanying financial statements and supplemental data of West Oakdale Apartments and, to the best of my knowledge and belief, the same is complete and accurate.

J. P. Doe February 12, 1992

CERTIFICATE OF MANAGEMENT AGENT

We hereby certify that we have examined the accompanying financial statements and supplement data of West Oakdale Apartments and to the best of our knowledge and belief the same is complete and accurate. The financial statements were prepared by A - B Management Co.

A - B Management
J. Jones February 10, 1992

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Exhibit A STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)
FHA PROJECT NO.: 123-45678
PROJECT NAME: WEST OAKDALE APARTMENT'S
AS OF DECEMBER 31, 1991

ASSETS

CURRENT ASSETS

1120	Funds in Banks and On Hand (Schedule A-1)		\$13,859
	Accounts Receivable:		
1130	Tenants (Note 2)	\$270	
1140	Federal Housing Assistance Section 8	45	
	Other (Note 2)	749	1,064
1240	Prepaid Expenses - property insurance		2,465
	Funds held in impound by Department of Housing and Urban Development for:		
1310	Taxes (Note 3)	\$5,713	
1320	Reserve for replacements (including painting reserve) (Note 4)	12,882	18,595
	TOTAL CURRENT ASSETS		\$35,983
	FIXED ASSETS (Schedule A-2) (Note 1)		731,259
	TOTAL ASSETS		\$767,242

LIABILITIES AND OWNER'S EQUITY

CURRENT LIABILITIES

2110	Accounts Payable (Schedule A-3)		5,551
2130	Accrued Interest Payable (net of interest and MIP subsidy of \$3,143)	1,287	
2140	Sponsor's Dividend Payable (Schedule D-2)	2,035	
2191	Security Deposits	4,671	
2320	Mortgage Payable - current portion (Note 5)		5,902
	TOTAL CURRENT LIABILITIES		\$19,446
2140	SPONSORS DIVIDEND PAYABLE - DEFERRED (Schedule D-2)		8,364
2320	MORTGAGE PAYABLE (Note 5)		753,520
	TOTAL LIABILITIES		\$781,330

TOTAL	\$929,844	\$5,436	\$935,320
	=====	=====	=====

DEPRECIATION RESERVE

FIXED ASSETS	Balance 12/31/90	Additions	Deductions	Balance 12/31/91
1410 Land				
1420 Building	\$167,079	\$30,501		\$197,580
1430 Building Equipment -portable	61	197		258
1460 Furnishings	1,949	3,223		5,172
1470 Maintenance Equipment	957	94		1,051
	-----	-----		-----
TOTAL	\$170,046	\$34,015		\$204,061
	=====	=====		=====

FIXED ASSETS	Net Book Value 12/31/91
1410 Land	\$155,000
1420 Building	564,949
1430 Building Equipment-portable	1,099
1460 Furnishings	10,190
1470 Maintenance Equipment	21

TOTALS	\$731,259
	=====

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Schedule A-3

SCHEDULE OF ACCOUNTS PAYABLE
 FHA PROJECT NO.: 123-45678
 PROJECT NAME: WEST OAKDALE APARTMENTS
 AS OF DECEMBER 31, 1991

Andrew Buller and Associates (hazard insurance premium, August 17, 1991-1992)	\$2,372
A-B Management Company	424
A-B Management Company - clients' trust	136
Local Electric Company	1,226
State Gas Company	458
City of Anytown	426
Ajax Hardware, Inc.	294
Acme Disposal Company	84
Others	131

FOR THE YEAR ENDED DECEMBER 31, 1991

OWNER'S EQUITY, DECEMBER 31, 1991	\$8,982
NET (LOSS) FOR YEAR (Exhibit B)	(16,792)
SPONSOR'S DIVIDEND	(6,278)
	<hr/>
OWNER'S EQUITY (DEFICIT) DECEMBER 31, 1991	(\$14,088) =====

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Exhibit D

Statement of Cash Flows for the Year Ended
December 31, 1991

West Oakdale Apartments

Cash flows from operating activities:	
Rental receipts	\$96,809
Interest receipts	879
Other receipts (Laundry)	936
Administrative	(350)
Management fees	(17,182)
Utilities	(1,152)
Salaries and wages	(10,000)
Operating and maintenance	(20,000)
Real estate taxes	(8,581)
Mortgage insurance	(3,810)
Payroll taxes	(1,000)
Property insurance	(2,720)
Miscellaneous taxes and insurance	(395)
Interest on mortgage note	(15,630)
Miscellaneous financial	(262)
Tenant security and other deposits	35
Forfeited security deposits	512
	<hr/>
Net cash provided (used) by operating activities	\$18,089
Cash flows from investing activities:	
Purchase of depreciable assets	(\$5,436)
Decrease (increase) in:	
Reserve for replacement of	

depreciable assets net	(2,783)
Reserve for taxes and insurance	1,894
Decrease in other deposits	(115)
Net cash provided (used) by investing activities	(6,440)

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Cash flows from financing activities:	
Mortgage principal payments	(5,504)
Cash distributions paid to partners	(4,623)
Decrease in Accounts Payable	(225)
Net cash provided (used) by financing activities	(10,352)
Net increase (decrease) in cash	1,297
Cash - beginning of period	12,562
Cash - end of period	\$13,859

Reconciliation of net income (loss) to net cash provided by operating activities:

Net income (loss)	(16,792) *
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities	
Depreciation	34,015 *
Interest earned on Bonds	879 *
Decrease (increase) in:	
Accounts receivable - rent subsidy	1,750
Accounts receivable - tenants	(1,152) **
Prepaid property insurance	(200) **
Prepaid mortgage insurance	(800) **
Prepaid property taxes	(758) **
Increase (decrease) in:	
Accounts payable - trade	(225) **
Accounts payable - management agent	300
Accrued interest payable	1,372
Tenant security deposit payable	300
Rents received in advance	(600) **

NOTES TO THE FINANCIAL STATEMENTS
FHA PROJECT NO.: 123-45678
PROJECT NAME: WEST OAKDALE APARTMENTS
AS OF DECEMBER 31, 1991

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

The Project, owned by John J.P. Doe, an individual, consists of real property located in San Francisco, California and an apartment complex of 46 units operated thereon under Section 236 of the National Housing Act. Such projects are regulated by HUD as to rent charges and operating methods. The regulatory agreement limits annual distributions of net operating receipts to "surplus cash" available at the end of each year.

The maximum distributable amount for the year ended December 31, 1991 was \$6,278 and "surplus cash" amounted to \$2,035. Undistributed amounts are cumulative and may be distributed in subsequent years if future operations provide "surplus cash" in excess of current requirements. The cumulative amount distributable at December 31, 1991 was \$10,399, limited to "surplus cash."

The following significant accounting policies have been followed in the preparation of the financial statements:

Land and building are stated at recognized "actual cost" per U.S. Department of Housing and Urban Development Form No. 2580 (adjusted for subsequent legal fee of \$5,989). Capitalized costs include interest during construction. Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

No income tax provision has been included in the financial statements since income or loss is required to be reported by the owner on his income tax return.

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NOTES TO THE FINANCIAL STATEMENTS
FHA PROJECT NO.: 123-45678
PROJECT NAME: WEST OAKDALE APARTMENTS
AS OF DECEMBER 31, 1991

NOTE 2 - ACCOUNTS RECEIVABLE

	Number of Tenants	Amount Due
Tenants:		
December	3	\$110

October	1	95
September	1	65

TOTAL		\$270
		=====
Others:		
XYZ Agency, Inc.		\$634
Other		115

		\$749
		=====

NOTE 3 - MORTGAGE ESCROW DEPOSITS

Estimated amount required for future payment of:

City and County taxes		\$1,434
Amount on deposit in excess of estimated payments		4,279

TOTAL CONFIRMED BY MORTGAGEE		\$5,713
		=====

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NOTES TO THE FINANCIAL STATEMENTS
FHA PROJECT NO.: 123-45678
PROJECT NAME: WEST OAKDALE APARTMENTS
AS OF DECEMBER 31, 1991

NOTE 4 - RESERVE FOR REPLACEMENTS (INCLUDING PAINTING RESERVE)

In accordance with the provisions of the regulatory agreement, restricted cash is held by Department of Housing and Urban Development to be used for replacement of property and exterior painting with the approval of HUD as follows:

Reserve for Replacements:			
Balance, December 31, 1990		\$5,152	
Monthly Deposits:			
\$215.69 x 12	\$2,588		
Extra	340	2,928	\$8,080
Withdrawals:			
February 8, 1991:			
Carpets - capitalized	1,428		

Door - expenses	33	1,461		
May 6, 1991:				
Drapes - capitalized	318			
Disposal - expensed	21	339	(1,800)	\$6,280
Painting Reserve:				
Balance, December 31, 1990	4,946			
Monthly Deposits (\$138 x 11)	1,518	6,464		
Transferred to HUD		(6,464)		
Monthly Deposits (\$138 x 1)			138	6,602
BALANCE, DECEMBER 31, 1991, CONFIRMED BY MORTGAGEE				\$12,882

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NOTES TO THE FINANCIAL STATEMENTS
 FHA PROJECT NO.: 123-45678
 PROJECT NAME: WEST OAKDALE APARTMENTS
 AS OF DECEMBER 31, 1991

NOTE 4 - RESERVE FOR REPLACEMENTS (INCLUDING PAINTING RESERVE)
 (CONTINUED)

The following information pertains to Reserve for Replacement reimbursement requests that were authorized:

Amount of Request	Purpose of Request	Account Charged	Fiscal Year Affected
\$354 (1)	Refrigerator	1430	December 31, 1991
823 (2)	Carpets and Drapes	1460	December 31, 1991

- (1) Form HUD 9250 - approved October 17, 1991 (applied to January, 1992 payment)
- (2) Form HUD 9250 - approved December 13, 1991 (applied to February, 1992 payment)

NOTE 5 - MORTGAGE PAYABLE - DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

The Project has obtained a mortgage loan insured by FHA under the interest reduction provisions of Section 236 of the National Housing Act. The Section 236 program is a federally assisted program designed to provide housing for families with low and moderate incomes. The annual payments of principal and interest for 1992 total \$58,874, less interest and MIP subsidy of \$37,714, for net annual payments of \$21,160. The annual MIP premium for 1992 will be \$3,781. The January, 1992 mortgage payment consists of the following:

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NOTES TO THE FINANCIAL STATEMENTS
 FHA PROJECT NO.: 123-45678
 PROJECT NAME: WEST OAKDALE APARTMENTS
 AS OF DECEMBER 31, 1991

NOTE 5 - MORTGAGE PAYABLE - DEPARTMENT OF HOUSING AND URBAN
 DEVELOPMENT (CONTINUED)

Principal	\$476.22
Interest at 7%	4,429.96
Property taxes	772.11
Mortgage insurance premium	315.31
Replacement reserve payment	430.31 *
Painting reserve payment	166.67
Interest and MIP subsidy	(3,143.06)
Reserve for replacement withdrawal	(353.60)
	<hr/>
NET PAYMENT	\$3,093.92

* This represents the current monthly payment of \$323.00 plus December, 1991 shortage of \$107.31.

NOTE 6 - RENT INCREASE

Approval was received for a rent increase to \$103,800 per year effective September 1, 1991 from \$96,360.

NOTE 7 - MANAGER'S SALARY

The amount includes \$1,648 (seven months at \$180 and November and December, 1991 at \$194) for manager's apartment. The current manager, J. Jones, (as of January 26, 1992) occupies Apartment #5 at a current monthly rental of \$194.

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PROJECT NAME: WEST OAKDALE APARTMENTS
AS OF DECEMBER 31, 1991

NOTE 8 - MANAGEMENT FEES

Includes \$596 special fee adjustment for December 31, 1990 (\$7,179 x 8.3%).

NOTE 9 - FINANCIAL EXPENSES

Interest on mortgage payable	\$53,341	
Insurance on mortgage	3,810	
Less: Interest and MIP subsidy	(37,741)	\$19,410
Interest - County of San Francisco		262
TOTAL FINANCIAL EXPENSES		\$19,672
		=====

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Project has entered into a management contract with A-B Management Company to manage the apartment complex. A-B Management Company receives 7 1/2% of gross receipts as a management fee. The contract expires on February 29, 1992. Managing agent on January 23, 1992 sent to FNMA and HUD approval to extend agreement for one year to February 28, 1993; it has been signed by the managing agent and the sponsor.

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NOTE 11 - COMPENSATION OF OWNER

None

NOTE 12 - RENT SUPPLEMENT CONTRACT

A Section 8 Housing Assistance Payments Program contracted with the U.S. Department of Housing and Urban Development has been entered into, effective October 1, 1988 and ending September 30, 1992. It provides for an annual maximum commitment of \$68,796 per annum. Collections on this contract were as follows:

	Contract	Collections
October 1, 1988 - September 30, 1989	\$68,796	\$14,021
October 1, 1989 - September 30, 1990	68,796	28,471

October 1, 1990 - September 30, 1991	68,796	40,026
October 1, 1991 - September 30, 1992	68,796	11,144*
	<u> </u>	<u> </u>
	\$275,184	\$93,662

*To December 31, 1991.

NOTE 13 - RELATED ENTITY

The Project uses services provided by Service Maintenance Corporation, a company wholly owned by Able Smith, who is a partner in A-B Management Company, the managing agent of the Project.

The total amount of services rendered by Service Maintenance Corporation during 1991 was \$17,507. Some of the services provided are gardening, general repairs and maintenance, plumbing repairs, drain service, painting, masonry, heavy electrical, plastering, purchase of carpets and drapes, and consultation on repairs and maintenance.

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NOTES TO THE FINANCIAL STATEMENTS
FHA PROJECT NO.: 123-45678
PROJECT NAME: WEST OAKDALE APARTMENTS
AS OF DECEMBER 31, 1991

NOTE 14 - DEPRECIATION

The following details the depreciation expense for the period ending December 31, 1991.

Buildings	\$30,501
Building Equipment-portable	197
Furnishings	39223
Maintenance Equipment	94
	<u> </u>
	\$34,015
	=====

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AUDIT COMPLIANCE AND INTERNAL CONTROL QUESTIONNAIRE

NOTE A - ITEM 3d (FIDELITY BOND)

The managing agent manages sixty properties (forty-five HUD projects) with potential collections for two months aggregating \$1,973,242. He carried a fidelity bond of \$200,000, or 10.14%. Your office has indicated that this provision should be figured on the aggregate. We have therefore listed this as a condition not in compliance.

REPLY

The managing agent has been in contact with John Smith, Office of Multifamily Housing Management, HUD Central, Washington, D.C. as to the aggregate requirement of two times potential collections of the largest project managed; this would amount to \$197,930, and therefore the current \$200,000 would be adequate. Mr. Smith has stated that a resolution to this matter will be forthcoming and that the field will be notified.

NOTE B - ITEMS 6a, 6b, 6c and 6d (TENANT ELIGIBILITY)

Our sampling of tenants' files disclosed that a portion did not contain original FHA Form 3131, current recertification forms, or evidence of independent verification of family income.

REPLY

The managing agent's staff is currently working to bring all tenant files into a condition of compliance with these requirements.