

CHAPTER 3. PROJECT ACCOUNTING, FINANCIAL AND REPORTING REQUIREMENTS

3-1. GENERAL INSTRUCTIONS

- A. Project owners and lenders must comply with the following:
- 1) Chapter 3 of HUD Handbook 4566.2.
 - 2) This handbook's policies on:
 - a) special operating statements
 - b) application of any net operating income generated from project operations between initial occupancy and the beginning of amortization and
 - c) monthly financial reports
 - 3) The cost certification audit and supplemental cost certification requirements in HUD Handbook 4561.1 and HUD Handbook 4470.1, Mortgage Credit Analysis for Project Mortgage Insurance.
- B. Auditors must follow IG Audit Guide 4200.1, Auditing Development Costs of HUD Insured Projects, when preparing the cost certification audit.

3-2. INITIAL OPERATING STATEMENT. If there has been occupancy during the construction period, the owner must give the lender an initial operating statement at cost certification. The owner must certify and attach the audited Form HUD-92410, Statement of Profit and Loss, to the Form FHA-2330, Mortgagor's Certificate of Actual Cost.

- A. Period covered: The date of initial residential or commercial occupancy through the cut-off date for cost certification.
- B. Required contents:
- 1) Project income. Prepare on a cash basis. Show gross rent receipts (excluding security deposits) and all other project income.
 - 2) Project operating expenses. Prepare on an accrual basis.
 - a) Include all project expenses not already included in construction costs on Form FHA-2330.
 - b) Exclude depreciation, construction loan interest, taxes, and hazard and mortgage insurance premiums.
- C. Treatment of net income from operations for profit-motivated and limited-dividend mortgagors (See paragraph

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- 1) If income is greater than operating expenses during the statement period, treat net income as a reduction of approved construction costs. (Enter net income on Line 15 of Form FHA-2330.)
 - 2) The lender may approve the release of net income to the owner at final closing provided that:
 - a) the project will not be adversely affected (e.g., the funds are not needed to pay operating expenses); and
 - b) the lender reduces the certified project construction costs by the amount of net income shown on the operating statement.
 - 3) If the lender authorizes the release of net income:
 - a) The owner may use the net income only to reimburse or pay development costs which the lender recognized for cost certification purposes.
 - b) The owner may withdraw the authorized amount before the end of the project's fiscal year and without regard to surplus cash considerations or percentage limitations on distributions.
- D. Treatment of net income from operations for non-profit mortgagors
- 1) At final closing, the owner must deposit all net income to the residual receipts account at final closing.
 - 2) Net income from project operations during the period covered by the report is not treated as a reduction or recovery of approved construction costs.
- E. Treatment of net loss from operations
- 1) The owner must leave Line 15 of the FHA-2330 blank if the operating statement shows project expenses exceeded income.
 - 2) The owner may carry forward any net loss to any required supplemental income statement.

3-3. SUPPLEMENTAL INCOME STATEMENT. (DOES NOT APPLY TO NON-PROFIT, COOPERATIVE AND INVESTOR-SPONSORED PROJECTS.)

- A. The owner must submit an audited supplemental income statement when more than three months elapse between the cut-off for cost certification and the first scheduled principal payment. The owner must submit the statement on Form HUD-92410 and CERTIFY IT, as required for the initial operating statement.

6/85

3-2

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- B. Period covered: Cut-off for cost certification to three months before the first scheduled principal payment.

- C. Submission dates

- 1) If final closing occurs after the period covered by the operating statement, the owner must submit the statement to the lender before final closing.
- 2) If final closing occurs during the period covered by the operating statement, the owner must:
 - a) submit the supplemental income statement to lender within 30 days after the operating period ends; and
 - b) apply any net income as required in paragraph 3-4.D. below.

- D. Content of Statement. The statement must include all project income and operating expenses. (Prepare the income portion on a cash basis and the expense portion on an accrual basis.)

- 1) In determining net income for this statement, the owner may deduct from gross revenues all operating expenses, including those excluded in determining net income on the initial operating statement. Expenses for taxes, insurance and MIP must be prorated for the period covered by the statement.
- 2) The owner may reduce net income by any net loss shown on the initial operating statement described in paragraph 3-2. The owner must label the adjustment "unrecovered expense - prior operating period."

- E. Application of net income. The owner must send the lender any net income shown on the supplemental income statement.

- 1) The lender must apply any net income first to a prepayment on the mortgage. The payment must equal the lesser of:
 - a) the sum of the maximum number of full scheduled monthly principal payments that can be made from

net income; or

b) the total principal amount that would have been due if amortization had started the month after the accounting period began.

2) The lender must deposit any remaining net income in the replacement reserve account.

3-4. MONTHLY FINANCIAL REPORTS. The reports described in paragraph 3-5 of HUD Handbook 4566.2 must begin with the month in which initial occupancy occurs, even if this is before final endorsement.