

**REQUIREMENTS FOR YEAR-END
AUDITED FINANCIAL STATEMENTS
VHFA FINANCED PROJECTS**

The financial statements of the owner *must* conform with the following requirements:

1. The financial statements must be audited.
2. All financial statements must be prepared on the accrual basis of accounting.
3. Financial statements must be prepared on a comparative basis with the prior year.
4. Financial statements must include:
 - A. The Auditor's Report.
 - B. Comparative Balance Sheet.
 - C. Comparative Statement of Income and Expense.
 - D. Comparative Statement of Cash Flows.
 - E. Notes to the Financial Statements.
 - F. Supplemental Information:
 1. VHFA Comparative Supplemental Financial Statement Accrual Basis.
Please Note: Only this required format will be accepted.
 2. VHFA Supplemental Accounts Payable Schedule
 - G. Management Letter. This is an **essential** component of the financial statements.

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BALANCE SHEET INSTRUCTIONS

A comparative balance sheet should be prepared, following the attached format. Footnote disclosure should be provided for each restricted account, fixed assets, other assets, and long-term obligations *at a minimum*. Balance sheet classification descriptions follow:

1. BALANCE SHEET

A. ASSETS

All cash accounts should be shown separately as Operating Cash and Working Capital.

1. Cash: All restricted deposits, funded reserves such as Project Cost Escrow, Replacement Reserve, Residual Receipts, Deficit Escrow, Sinking Funds, Tenant Security Deposits, etc., must be segregated and shown separately on the balance sheet.
2. Working Capital: Although available as an operating cash account, VHFA requires that Working Capital be shown separately from operating cash. This account balance is monitored for release and compliance with the levels called for in the Regulatory Agreement and Commitment Letter.
3. Restricted Deposits and Funded Reserves: All restricted deposits and funded reserves must be listed separately under this caption. Where Multiple Replacement Reserve accounts are required, each should be listed separately on the Balance Sheet or a detailed schedule should be provided in the Notes, listing the accounts separately along with brief descriptions of the various deposit requirements.
4. Operating Reserve Fund: For those projects whose Regulatory Agreement does not specifically refer to this Fund (paragraph 6[a]), VHFA may require owners to deposit any unused budgeted maintenance monies into the Reserve for Replacement Account at the end of any fiscal or calendar year. Within the Replacement Reserve account, it must be identified as the Operating Reserve Fund.
5. Receivables: Trade and rent receivables must be shown separately. Rent receivables must be further broken down between tenant and housing assistance payments receivable. If an allowance for doubtful accounts has been determined, then it should be reflected as an offset to receivables.
6. Fixed Assets: This includes all tangible assets used in the operation of the project.

B. **LIABILITIES**

1. Current Liabilities: Accounts payable, accrued expenses, prepaid rent and accrued interest payable on mortgage loans must be shown separately.
2. Other Liabilities: VHFA mortgage payable(s) must be listed separately from other loans.

C. **PARTNERS' EQUITY**

Any additional funds advanced to the project from the owner should be accounted for under owners' equity and should not be considered a loan to the project under the liability section.

BALANCE SHEET

	<u>Assets</u>	
	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash - operating accounts	\$ _____	\$ _____
Cash - partnership accounts	_____	_____
Working Capital (Note __)	_____	_____
Rent Receivable:		
Tenants	_____	_____
HUD, VSHA, VHFA	_____	_____
Accounts receivable	_____	_____
Prepaid property insurance	_____	_____
Prepaid property taxes	_____	_____
Total Current Assets	_____	_____
RESTRICTED DEPOSITS		
Project Cost Escrow (Note __)	_____	_____
Reserve for Replacements (Note __)	_____	_____
Operating Reserve Fund (Note __)	_____	_____
Residual Receipts (Note __)	_____	_____
Escrow for Uncompleted Work (Note __)	_____	_____
Tenant Security Deposits (Note __)	_____	_____
Deficit Escrow (Note __)	_____	_____
Sinking Fund Reserve (Note __)	_____	_____
Total Restricted Deposits	_____	_____
PROPERTY AND EQUIPMENT (Note __)		
Land	_____	_____
Buildings and renovations	_____	_____
Landscaping and site improvements	_____	_____
Appliances, furniture and equipment	_____	_____
Less accumulated depreciation	_____	_____
Net Property and Equipment	_____	_____
OTHER ASSETS (NOTE __)		
Financing costs, less accumulated amortization of \$ _____ in 2011 and \$ _____ in 2010	_____	_____
TOTAL ASSETS	\$ _____	\$ _____

The accompanying notes are an integral part of these statements.

LIABILITIES AND PARTNERS' EQUITY

	<u>Liabilities</u>	
	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES		
Accounts payable		
- trade	\$ _____	\$ _____
- HUD	_____	_____
Accrued interest	_____	_____
Accrued expense	_____	_____
Prepaid rent	_____	_____
Current maturities of long-term debt	_____	_____
Total Current Liabilities	_____	_____
Tenants' security deposits and Accrued interest	_____	_____
Long-term debt, less current maturities	_____	_____
Due general partners	_____	_____
TOTAL LIABILITIES	_____	_____
Partners' Equity (Deficit)	_____	_____
TOTAL LIABILITIES AND PARTNERS' EQUITY	\$ _____	\$ _____

The accompanying notes are an integral part of these statements

STATEMENT OF INCOME AND EXPENSE INSTRUCTIONS

This statement should be on an accrual basis and detail all income and expense accounts of the reporting entity.

The major line item categories of income and expenses on the Statement of Income and Expense should reconcile to the VHFA Supplemental Financial Statement as illustrated in the attached sample financial statements. Certain line-by-line categories may be combined in the audited financial statements, however, the specific line-by-line categories of income and expense *must* be followed on the VHFA Supplemental Financial Statement. For example, utility expenses may be combined in the Statement of Income and Expense statements, but must be segregated into electricity, fuel, water and sewer and other utility expenses on the VHFA Supplemental Financial Statement.

The following specific detail must be followed in the comparative Statement of Income and Expense:

1. REVENUES

- A. Rental Income: Rental income must be shown separately for residential tenant contributions and housing assistance payments. In addition, other income for laundry, vending, parking, late fees, etc. can be shown combined as other income.
- B. Interest Income: Interest income on nonrestricted accounts must be segregated from interest income on restricted deposits and funded reserves.

2. OPERATING EXPENSES

- A. Administrative: Included here are fees for management, audit and accounting, legal services, social services and any other office expenses incurred.
- B. Utilities: The combined cost for electricity, fuel, water and sewer, and any other utility expense.
- C. Maintenance & Repairs: Show cost of all maintenance and repairs on this line.
- D. Property Taxes: Real estate tax assessments for the property.
- E. Insurance: Property hazard, liability and rent loss coverage.
- F. Other: Any other operating expense not listed above.

3. OTHER EXPENSES

- A. Mortgage Interest: Interest paid on VHFA loans must be shown separately from all other interest paid.
- B. Depreciation: As applied to depreciable assets over their estimated lives.
- C. Amortization: Financing fees as applied over the mortgage term.

STATEMENT OF INCOME AND EXPENSE

	<u>2011</u>	<u>2010</u>
REVENUES		
Rental - tenant contributions	_____	_____
- rental assistance payments	_____	_____
Interest- restricted accounts	_____	_____
- unrestricted accounts	_____	_____
Other income	_____	_____
Total Income	_____	_____
OPERATING EXPENSES		
Administrative	_____	_____
Utilities	_____	_____
Maintenance and repairs	_____	_____
Property taxes	_____	_____
Insurance	_____	_____
Other	_____	_____
Total Operating Expenses	_____	_____
Operating Income	_____	_____
OTHER EXPENSES		
Interest - VHFA #1	_____	_____
Interest - VHFA #2	_____	_____
Interest - VHFA #3	_____	_____
Interest - other	_____	_____
Depreciation	_____	_____
Amortization	_____	_____
Total Other Expenses	_____	_____
Net Earnings (Loss)	_____	_____
ACCUMULATED DEFICIT, January 1st	_____	_____
ACCUMULATED DEFICIT, December 31st	\$ _____	\$ _____

The accompanying notes are an integral part of these statements.

STATEMENT OF PARTNERS' EQUITY

	<u>2011</u>	<u>2010</u>
PARTNERS' EQUITY CONTRIBUTIONS		
General Partners:		
Balance at January 1st	\$ _____	\$ _____
Contributions during year	_____	_____
Withdrawals during year	_____	_____
Balance at December 31st	_____	_____
Limited Partners:		
Balance at January 1st	_____	_____
Contributions during year	_____	_____
Withdrawals during year	_____	_____
Balance at December 31st	_____	_____
Partners' Total Contributions	_____	_____
Accumulated Deficit/Earnings	_____	_____
Partners' Equity - December 31st	\$ _____	\$ _____

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Earnings (Loss)	\$ _____	\$ _____
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	_____	_____
Amortization	_____	_____
Changes in operating assets and liabilities:		
(Increase) decrease in security deposits	_____	_____
(Increase) decrease in rents receivable	_____	_____
(Increase) decrease in prepaid expenses	_____	_____
Increase (decrease) in accounts payable - trade	_____	_____
Increase (decrease) in accrued interest	_____	_____
(Decrease) increase in accounts payable, trade	_____	_____
Increase in accrued interest - limited partners	_____	_____
NET CASH PROVIDED BY OPERATING ACTIVITIES	_____	_____
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits to replacement reserve	_____	_____
Deposits from replacement reserve	_____	_____
Deposits to residual receipts	_____	_____
Deposits from residual receipts	_____	_____
Deposits to project cost escrow	_____	_____
Deposits from project cost escrow	_____	_____
Deposits to deficit escrow	_____	_____
Deposits from deficit escrow	_____	_____
Deposits to sinking fund	_____	_____
Deposits from sinking fund	_____	_____
Capital expenditures	_____	_____
Capital distributions	_____	_____
NET CASH USED IN INVESTING ACTIVITIES	_____	_____
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on all VHFA loans	_____	_____
Principal on all other NON-VHFA debt	_____	_____
Construction/Rehab Loan Proceeds	_____	_____
NET CASH USED IN FINANCING ACTIVITIES	_____	_____
NET INCREASE (DECREASE) IN CASH	_____	_____
CASH - BEGINNING OF YEAR	_____	_____
CASH - END OF YEAR	\$ _____	\$ _____
Supplemental Cash Flow Data:		
Cash paid during 2011 and 2010 for interest was \$ _____ and \$ _____ respectively.		

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Many notes to the financial statements are already suggested from the sample statement presentations; see especially the Balance Sheet sample statement. Besides the normal footnote disclosure for these items, there should also be footnotes detailing the following areas:

NOTES TO THE FINANCIAL STATEMENTS

_____ Apartments is a (type of entity) operating a _____ unit residential apartment complex located in _____, Vermont under the Section 8 Program of the Housing and Urban Development Act.

1. **TAX BASIS OF ACCOUNTING**

The (type of entity's) policy is to prepare its financial statements on the federal income tax basis of accounting; consequently, certain expenses are recognized when paid rather than when the obligation is incurred, construction period interest and property taxes were expensed rather than capitalized, and depreciation is provided for over a period which is less than the estimated useful lives of the assets. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

2. **DEPRECIATION/PROPERTY AND EQUIPMENT**

For financial reporting purposes, depreciation is provided using the straight-line method over the estimated useful lives of the assets.

3. **AMORTIZATION/FINANCING FEES**

The financing fees are being amortized over the life of the mortgage.

4. **REGULATORY AGREEMENT**

The regulatory agreement dated _____, between the Vermont Housing Finance Agency (VHFA) and the (type of entity) places various restrictions and requirements on the (type of entity). Among them are the following:

A. **Project Cost Escrow**

An amount equal to either 1.5% or 3% of the total development cost was established under the control and direction of the Agency. This escrow account will remain in existence for up to twelve years. For the first seven years, it is available to cover certain operating expenses at the option of VHFA. Between the seventh and the twelfth years, it must be spent on approved improvements to the development. Interest on the escrow will remain in the account, except that 50% of the accrued interest may be used to fund the partners' return on equity. No distribution of cash may be made until borrowed amounts have been repaid to the escrow account.

B. Reserve for Replacement and Operating Reserve

An amount designated by VHFA must be deposited monthly into a reserve for replacement account. The deposit required by the approved 2011 Operating Budget was \$ _____. In addition, VHFA may request any amount budgeted for maintenance but not used, to be deposited into an operating reserve account. VHFA will permit disbursements from the account only for replacement of structural elements, mechanical equipment, or other similar purposes. Written authorization by VHFA is required for such disbursements.

(Where multiple Replacement Reserve accounts are required, each should be listed separately on the Balance Sheet and/or a detailed schedule provided in the Notes. The Note schedule should list the accounts separately along with brief descriptions of the various deposit requirements.)

C. Distributions - Return on Equity

Distributions of cash for the partners' return on equity are restricted to \$ _____ each year and must be approved by VHFA in writing. If sufficient funds are not available in the allowable amount for any calendar/fiscal years, the accrued distribution may be made up out of surplus cash in any future calendar/fiscal years. \$ _____ was authorized for distribution during 2011 and \$ _____ was authorized in 2010.

5. LONG-TERM DEBT	<u>2011</u>	<u>2010</u>
Long term debt consists of the following:		
Vermont Housing Finance Agency -		
Payable in monthly installments of		
\$ _____, including interest at ____%		
due _____.		
Secured by land,		
buildings, personal property and rents		
receivable. The loan cannot be		
prepaid until _____.		
If prepaid prior to that time, it would be		
subject to a ____% prepayment penalty.		
The prepayment penalty is reduced at		
periodic intervals thereafter and		
expires in _____.	\$ _____	\$ _____
Less current maturities	_____	_____
	\$ _____	\$ _____

As of December 31, 2011, long-term debt matures as follows:

Years Ending	<u>December 31</u>	<u>Amount</u>
	2012	\$ _____
	2013	_____
	2014	_____
	2015	_____
	2016	_____

6. HOUSING ASSISTANCE PAYMENTS

The Partnership entered into an agreement with the VSHA or VHFA whereby the Department of Housing and Urban Development subsidizes a substantial portion of the apartment rentals. The agreement commits the (type of entity) to meet certain tenant eligibility requirements as specified by HUD. The initial term of the agreement extends through _____ (with optional renewal terms of five years each available). HUD payments were \$ _____ for 2011 and \$ _____ for 2010.

7. INCOME TAXES

Income taxes are not applicable to the (type of entity). Items of income and expense are passed through entirely to the partners under the terms of the (type of entity) Agreement and federal income tax regulations.

8. RELATED PARTY TRANSACTIONS

Repair and maintenance services for the project are provided by the rental manager. During the years ended December 31, 2011 and 2010 \$ _____ and \$ _____ were paid for maintenance services and \$ _____ and \$ _____ were paid for repairs under contract.

9. RESIDUAL RECEIPTS ACCOUNT

The project is required to deposit funds into a residual receipts reserve account. These deposits represent excess operating cash (as computed per HUD regulations) generated by the project. This account is under the control and direction of VHFA. It is available to fund approved improvements promoting energy efficiency, social service programs, and other amenities or design modifications benefiting the project. At the termination of the rent subsidy contract, any funds remaining in this account must be returned to HUD.

10. WORKING CAPITAL - DEFICIT ESCROW - SINKING FUND

Segregated and restricted account descriptions should be provided for the above accounts and include original deposit amount, the details of joint control or required authorizations, anticipated uses, and terms for release or reduction of these amounts.

11. DUE TO GENERAL PARTNERS

The amount due the partners represents an advance to the (type of entity) required by the (type of entity) agreement, or payments made in connection with the development and construction of the project. These advances cannot be repaid from the project's operating account, but can only be paid from the proceeds realized upon the resyndication or sale of the (type of entity's) assets.

VHFA SUPPLEMENTAL FINANCIAL STATEMENT INSTRUCTIONS

This required statement is designed to allow VHFA to compare the operating income and expense results for the year, with annual budget projections. In a significant change implemented last year, this statement must now be prepared on the **accrual basis** and provide information relating only to the project's operations using income and expense detail that corresponds to the VHFA Annual Budget format. **Please Note: Only this required format will be accepted.** Specific instructions follow:

1. INCOME

A. Rental

1. Tenant Contribution
2. Housing Assistance Payments: From VHFA, VSHA or HUD.

B. Other Income

1. Non-restricted Accounts: Only interest earned on invested project operating cash such as savings accounts, NOW accounts and Certificates of Deposit. *Do not include restricted interest income here.*
2. Laundry: Income derived from laundry machines.
3. Income not categorized above (commercial, tenant utility payments, etc.)

2. OPERATING EXPENSES

A. Administrative:

1. Management Fee: The cost of property management services. Office/bookkeeping salaries, manager's salary; office expenses including telephone, copying, and postage; computer service fees and supplies; printing costs; and fidelity bonding for personnel must be included in the management fee on this form. *Do not segregate these expenses.*
2. Social Services: The cost of ongoing supportive social services. Eligible activities include: service coordination; congregate meals, transportation; home health care services, on-site social worker to help relieve your manager; speakers to address appropriate issues for tenants and families; education.
3. Audit: Expenses to produce the year-end audited financial statement.
4. Legal: Only attorney's fees directly related to project operations.
5. Other Administrative Expenses: Admin. expenses not categorized above.

B. Utilities:

1. Electricity: Includes direct charges and equipment rental, if applicable.
2. Fuel: The cost of oil, gas, or other fuel.
3. Water and Sewer: Combine if billed separately.
4. Fire Alarm/Emergency Call: The cost of fire alarm and/or emergency call system hookups.
5. Other Utility Expenses: Those utility expenses not categorized above.

C. Maintenance:

1. Maintenance/Janitor Payroll: Includes salary, taxes, Workers' Compensation and benefits.
2. Janitorial Supplies: Cost of janitorial supplies and equipment rental.

3. Exterminating: Cost of supplies or contract services.
4. Trash Removal: Cost of removing rubbish and recycling.
5. Snow Removal: The cost of plowing, sanding and removing snow from site.
6. Grounds/Landscaping: Costs associated with ground care and equipment rental.
7. Repairs Materials: Expenditures for parts and supplies related to plumbing, electrical and general building maintenance.
8. Repairs Contract: Contract maintenance expenses for plumbing, electrical and general building maintenance.
9. HVAC Repairs/Maintenance: Expenses for heating, ventilating and air conditioning systems, including contract repairs, service and parts.
10. Elevator: Cost of service contract, parts and repairs.
11. Painting and Decorating: Cost of interior and exterior painting and decorating.
12. Other: Other maintenance expenses not categorized above.

D. Real Estate Taxes: Property tax assessments.

E. Property insurance: Property hazard, liability and rent loss coverage.

F. Other Expenses:

1. Interest on all VHFA mortgage loans.
2. Interest on all NON-VHFA mortgage loans.
3. Land Lease Payments: Represents payments for land rent.
4. Mortgage Insurance Premium (MIP): HUD mortgage insurance payments.
5. Depreciation.
6. Amortization.

Restricted Accounts Interest Income:

1. Restricted Accounts: Only interest earned on restricted accounts such as Project Cost Escrow, Residual Receipts, Replacement Reserve or Security Deposits.

Additional Restated Information

Principal payments on all VHFA loans
 Principal payments on all other Non-VHFA debt
 Capital expenditures

Please provide this information as presented on the Statement of Cash Flows.

NOTE: Please be certain to include the required Management Letter.

VHFA COMPARATIVE SUPPLEMENTAL FINANCIAL STATEMENT

INCOME	<u>2011</u>	<u>2010</u>
Rental		
Tenant contribution	\$ _____	\$ _____
Housing assistance payments	_____	_____
Other	_____	_____
Interest on non-restricted accounts	_____	_____
Laundry	_____	_____
Other income	_____	_____
 GROSS INCOME	 _____	 _____
 OPERATING EXPENSES		
Administrative:		
Management Fee	_____	_____
Social services	_____	_____
Audit expense	_____	_____
Legal expense	_____	_____
Other administrative	_____	_____
 Total Administrative	 _____	 _____
Utilities:		
Electricity	_____	_____
Fuel	_____	_____
Water and sewer	_____	_____
Fire Alarm/Emergency Call	_____	_____
Other Utility	_____	_____
 Total Utilities	 _____	 _____
Maintenance:		
Maintenance/Janitorial	_____	_____
Janitorial supplies	_____	_____
Exterminating	_____	_____
Trash Removal	_____	_____
Snow Removal	_____	_____
Grounds/Landscaping	_____	_____
Repairs - Materials	_____	_____
Repairs Contract	_____	_____
HVAC Repairs/Maintenance	_____	_____
Painting and Decorating	_____	_____
Other (identify)	_____	_____
 Total Maintenance	 \$ _____	 \$ _____

EXHIBIT F

Page 2 of VHFA Comparative Supplemental Financial Statement

	<u>2011</u>	<u>2010</u>
Real Estate Taxes	\$_____	\$_____
Insurance	_____	_____
Other Expenses		
Interest on all VHFA loans	_____	_____
Interest on all other NON-VHFA Loans	_____	_____
Land Lease payments	_____	_____
HUD Mortgage Insurance Premium (MIP)	_____	_____
Depreciation	_____	_____
Amortization	_____	_____
Total Other Expenses	_____	_____
Net Earnings before Restricted Account Interest Income	_____	_____
Restricted Accounts Interest Income	_____	_____
Net Earnings (Loss)	_____	_____
(should be the same as Exhibit B)		

Please restate the following information as presented on the Statement of Cash Flows:

Principal payments on all VHFA loans	_____
Principal payments on all other Non-VHFA debt	_____
Capital expenditures	_____

NOTE: Please be certain to include the required Management Letter.

VHFA SUPPLEMENTAL ACCOUNTS PAYABLE SCHEDULE

	<u>2011</u>	<u>2010</u>
Maintenance	\$ _____	\$ _____
Insurance	_____	_____
Real Estate Tax	_____	_____
Audit	_____	_____
Utilities	_____	_____
Other	_____	_____
Total Accounts Payable	\$ _____	\$ _____