

## ACCOUNTING AND FINANCIAL REPORTING

### INTRODUCTION

The Maine State Housing Authority Accounting Manual has been designed to consolidate and amplify the financial reporting requirements specified in the standard form Regulatory Agreement, Housing Management Handbook and various notices to Owners and Managers. The primary responsibility for maintenance of proper financial accounting and management records rests with the Owner, whether or not there is a separate Agent to attend to the daily operations of the Development. The primary concern of MSHA is to ensure that each development functions as a financially viable and self-sustaining unit.

### METHODOLOGY

To achieve the broad objectives outlined above, the financial accounting and management functions must be properly integrated and coordinated. A proper appreciation and implementation of the uniform system of accounts will enable Owner and Agent to have effective control over the operations of the development and to furnish MSHA with accurate reports on a timely basis.

The reports, schedules and statements are designed to enable MSHA to:

Evaluate on a continuing basis the operations of each development so that any problem areas may be identified and necessary technical assistance can be rendered promptly.

Compute data for similar operations.

Evaluate the feasibility of similar developments under consideration or construction by MSHA.

#### A. General Description of the Accounting System

The following paragraphs summarize the significant aspects of the Uniform Accounting System required by MSHA:

General Concept. The accounting manual presents a system which meets MSHA policies and objectives, and can be adapted to a handwritten or mechanized basis. Another system which meets MSHA reporting and accounting requirements, however, may be used subject to review and written approval by the Assistant Director for Management, and may not be altered without prior consent.

Uniform System of Accounts. Each mortgagor shall use a uniform system of accounts as presented in the Manual. The MSHA chart of accounts is used for classifying and accumulating financial data. Other charts of accounts meeting MSHA reporting and accounting requirements may be used subject to the prior approval of the Assistant Director for Management.

The use of a uniform system of accounts will:

Provide a common basis for classification of financial data by all mortgagors;

Facilitate the preparation of required financial statements and reports;

Facilitate comparison of financial data among developments.

Accounting Records. A General ledger must be maintained and posted at a minimum on a quarterly basis from data recorded in the books of original entry. The books of original entry required as support for the general ledger entries are:

Journal of Monthly Rental

Cash Receipts Journal

Cash Disbursements Journal

Journal of Monthly Entries (General Journal)

The general ledger for the journals indicated above is described in separate parts of this section along with the related policies and procedures. The above journals represent the minimum books of original entry as prescribed by MSHA. When desirable, due to the size of the development, a payroll journal or voucher register may also be added.

Accrual Basis of Accounting. Annual Financial Statements must be submitted on an accrual basis of accounting for both income and expenses. In addition, rental income must be accrued and be reflected in the general ledger. Quarterly Operating Reports which are submitted to MSHA must also reflect rental income and expenses on an accrual basis.

To provide realistic quarterly financial statements, the accrual basis of accounting must also be used for prorating deferred charges, prepaid expenses and unpaid invoices to their respective period. However, to facilitate recordkeeping and reporting, MSHA will accept the cash basis of recording expenses for interim months of the fiscal year.

Whether the accrual or cash basis is used for recording expenses, MSHA requires that cash reserves be used to cover certain types of expenditures. Monthly, a pro rata portion of the expense is to be disbursed from the operating cash account and placed in a reserve cash fund account. Payment will be made from the reserve cash fund as required. Normally, this requirement will apply to the Tax and Insurance Reserve and Replacement Reserve.

Each Owner must report and maintain records consistently under the accounting method selected. Any change in reporting or recordkeeping must receive the advance approval of the Assistant Director for Management.

Generally Accepted Accounting Principles. Unless specifically noted other wise, mortgagors must follow generally accepted accounting principles in all statements and reports filed with MSHA.

B. Financial Reports.

Report Filing Periods and Due Date. The following financial statements and reports are to be filed with MSHA:

Due Date to MSHA

Quarterly:

Quarterly Operating Report - 30 days following the close of each quarter

Annual:

Operating Budget - 30 days prior to start of each fiscal year covered

Annual Financial Report - Within 60 days following the end of each fiscal year

General Instructions.

Two copies of all required reports must be submitted to the Assistant Director for Management of MSHA with a copy to the Owner.

All sections of the reports are to be completed. If no activity has occurred in a particular section, the words "No Activity" should be inserted.

Each report is to be prepared from the general ledger and other accounting records maintained for the development.

The budget figures reflected on the report are to be based upon the Annual Budget as submitted to and approved by MSHA.

All financial amounts reflected on the reports should be expressed in whole dollars.

The reports (except audited financial statements) must be signed by the Owner or Agent for the development.

Quarterly Operating Report

Procedures:

The Quarterly Operating Report (MSHA Form MD202.2) is to be prepared for each fiscal quarter and must include quarterly figures as well as year to date amounts. The MSHA "Source Data for Budget and Operating Reports" sheet should be used as an aid for completion of the Operating Report.

## Schedule A Development Statement of Profit and Loss

Page #1 of Form MD202.2 is to be used to record the following categories of expenses:

- Administrative Expenses
- Operating Expenses
- Maintenance Expenses
- General Expenses
- Commercial Expenses

Page #2 of the Form is a continuation of Schedule A and this portion should be used to record the various types of Development Income, Lines #62-#64 on Page #2 also are to be used to reflect the net Development Profit or Loss.

On page #2, a new section entitled "Other Transactions Increase or (Decrease)" has been added to the end of Schedule A. This includes lines #65 through #72. The purpose of this section is to reflect the net surplus funds that have been generated for a given period after all development obligations have been satisfied.

## Schedule B Development Fixed Asset Transactions

All types of quarterly fixed asset transactions must be detailed in this schedule. This will include acquisitions, disposals, retirements, trade-ins, etc.

## Schedule C Development Fund Transactions

This schedule is to be used to record all net quarterly changes in reserve and escrow account balances. It must contain separate balances for Restricted Reserve Accounts and Unrestricted Reserve Accounts. It should be noted that the Unrestricted Accounts portion of the schedule has been revised and that it now contains a line for recording net quarterly changes in the Development Operating Account (D.O.A.). The Total Unrestricted Accounts balance now represents total cash available for development rental operations.

## Schedule D Development Receivables

Total development accounts and notes receivable at the end of each quarter must be detailed in this schedule. In addition, rents receivable from tenants must be aged and tenant damages receivable must indicate the action being taken to obtain collection of amounts due from tenants.

## Schedule E Development Payables and Accrued Liabilities

All known accounts payable must be shown in this schedule at the end of each quarter. Under the accrual method of accounting, these items must be charged to appropriate expense accounts and the credits indicated in this schedule as current liabilities. The accurate aging of trade payables is important so that the Owner and Authority can analyze the financial condition at the close of each operating quarter.

It should be noted that the schedule has been revised and that total accrued liabilities must be shown on Line #17.

#### Schedule F Supplemental Financial Information

As shown on Form MD202.2, any circled line numbers in previous schedules should be explained under Schedule F. Any other financial data of an unusual nature should also be outlined even though it might not be shown on a circled line.

#### Schedule G Rental Activity

This schedule must be completed as accurately as possible since it is of benefit in evaluating the rental activity of any development and in making comparisons between various developments.

#### Schedule H Supplemental Operating Information

This schedule should be used by development personnel to explain unusual rental or operational circumstances that may have occurred. Explanations given here may assist in eliminating further correspondence between the Owner/Agent and Management Division personnel.

#### Schedule I Report Certification

This section of the report is designed to certify the authenticity of the report and to indicate that a copy has been forwarded to the Development Owner. It must show pertinent information regarding the person preparing the report and the one approving it. Signatures of both individuals must be shown to properly certify.

#### Annual Budget

The annual budget is a financial projection of operations for the coming fiscal year. It reflects the best judgment of the Owner and Agent concerning the anticipated expenditures to be incurred and income to be received. It requires the establishment of objectives; i.e., maintenance standards, services to be rendered, etc. As a planning and financial control aid, the budget process involves: (1) establishing performance objectives; (2) comparing actual performance against objectives; (3) determining reasons for deviations from objectives; and (4) taking corrective action to improve performance.

The MSHA Form MD201 included within this section is to be used when submitting the annual budget to MSHA. Two copies must be submitted to the Management Division, with supporting schedules A, B, and C also completed. The sample MSHA "Source Data for Budget and Operating Reports" sheet should be used as an aid in completing the Annual Budget Report.

Since the annual budget must be submitted before the close of the current year, expenditures for the last two or three months of operations of the current year must be estimated. If annual rental increase adjustment factors have not been published, the adjustment factors should be estimated and rental income increased accordingly.

Estimates for the remaining months of the fiscal year should be verified for reasonableness by comparing them to the prior year's actual experience for the estimated months.

The current period estimated amounts should be inserted on the annual budget forms.

A comprehensive review of the current period should be made. Investigation of unusual variations of actual amounts from the current period budget should disclose if adjustments are required in the new annual budget. A letter must accompany the budget explaining the reason for large increases in budget over the previous year's projected actual expense.

The budget must be submitted to the Owner for approval prior to submission to MSHA.

MSHA will, when necessary, consult with the Owner and Managing Agent concerning budget content.

Once approved by the Owner and MSHA, the budget figures must be reflected on subsequent quarterly reports for the new period. Changes in budgeted figures are to be made in writing for approval by Maine State Housing Authority.

A budget must be prepared and submitted to MSHA for all periods after MSHA mortgage closing.

#### ANNUAL FINANCIAL STATEMENTS

Financial Statements and supporting schedules for the Annual Financial Report must be prepared and issued in conformance with the MSHA recent requirements. On December 1, 1981, a report entitled "Requirements for Completion of the Annual Financial Report" was mailed to all Owners, Managing Agents and Certified Public Accountants associated with MSHA Developments. A complete copy of the reporting requirements has been inserted in total in this section of the Accounting Manual. These requirements are effective for all developments with the filing of the fiscal year end December 31, 1981 annual financial report.

The Annual Report must be submitted by the Owner for each fiscal year or portion thereof, after MSHA mortgage closing.

The financial statements and schedules shall be audited by an independent certified public accountant with the purpose of expressing an opinion thereon.

The certified public accountant shall be selected by the Owner and be acceptable to the MSHA.

The audit must be performed in accordance with generally accepted auditing standards and there must be no limitations placed on the scope of the examination.

The following financial statements and schedules are to be included in the Annual Financial Report as submitted by each Owner:

REQUIREMENTS FOR COMPLETION OF ANNUAL FINANCIAL REPORT

The following requirements pertain to all developments that are mortgaged, in part or totally through the Maine State Housing Authority.

A. Preparation

- (1) Financial statements contained in the report must be based on data obtained from separate books and records established for and relating solely to the entity.
- (2) Financial statements and supporting schedules related thereto must be prepared consistent with the formats contained in these requirements.
- (3) The financial statements and schedules must be audited in accordance with generally accepted auditing standards by an Independent Certified Public Accountant with the purpose of expressing an opinion thereon.
- (4) The Certified Public Accountant shall be selected by the owner and be acceptable to the Maine State Housing Authority.
- (5) The audit must be performed in accordance with generally accepted auditing standards and there must be no limitations on the scope of the examination.
- (6) With the exception of Schedule 3 Statement of Receipts and Disbursements, Development Operating Fund, the financial statements contained in the annual report must be prepared on the accrual basis of accounting.
- (7) Comments on and explanations of significant "other" items not fully explained by the title or description of the accounts must be made a part of the report.
- (8) Notes to financial statements must include notes relative to the Mortgagor organization and policy changes affecting the preparation of financial statements and account balances, as well as significant accounting policies that have been followed in the preparation of the financial statement.

Notes to the financial statements shall include all disclosures required by generally accepted reporting standards. In addition, the notes shall include the following:

Long Term Debt:

Date Incurred
Original Amount
Purpose Creditor

Short Term Debt:

Creditor Interest Rate

Accounts Receivable, Loans Receivable and Notes Receivable other than Tenant Receivables:

Name of Debtor Original Amount Terms of Repayment

- (9) The following financial statements and schedules are to be included in the annual financial report as submitted by each owner:

Exhibits and  
Accompanying Notes  
There to

Description

A	Comparative Balance Sheets
B	Comparative Statements of Operations and Partners Equity
C	Comparative Statements of Changes in Financial Position <u>Schedules</u>
1	Comparative Statements of Rental Operations Expenses
2	Comparative Statements of Other Operating Income and Expenses
3	Statement of Receipts and Disbursements
4	Development Operating Fund Statement of Restricted Cash Reserves and Escrows
5	Statement of Surplus Cash Calculation

Also, if applicable, a copy of the "Cost Certification" (sample attached) including the Accountants Report thereon must be filed in a timely manner with the Maine State Housing Authority.

- (10) Comparative Statements Waiver:

The requirement for comparative statements for the first year filing under these requirements is waived.

- (11) Management Letter:



If generated by the Certified Public Accountant as a result of audit, must be made available by the owner to the Authority by submitting a complete copy of the management letter as soon as it is available.

B. Submission

- (1) The Annual Report must be submitted by the owner for each fiscal year ending, after Maine State Housing Authority mortgage closing. Two copies of the report must be submitted to the Management Division of the Maine State Housing Authority.
- (2) The Annual Report must be submitted within sixty (60) days following the close of each fiscal year of the development. The report for the first fiscal year of the development shall contain the accountant's opinion certifying the costs of the development as agreed by the Developer in the Developer's Cost Certification Affidavit and Agreement.

C. Certification

- (1) ACCOUNTANT'S REPORT: A Certified Public Accountant must examine the books and records of the mortgagor and must furnish an opinion on the annual financial report. The accountant may be requested by Maine State Housing Authority to justify any material departure from the following language:

"We have examined the Balance Sheets of (Partnership Name) as of December 31, 19XX and 19XX and the related Statements of Operations and Partners' Equity and Changes in Financial Position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances."

"In our opinion, the aforementioned financial statements present fairly the financial position of (Partnership Name) \_\_\_\_\_ at December 19XX and 19XX and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis."

"The examinations referred to above were directed primarily toward formulating an opinion on the financial statements of (Partnership Name) \_\_\_\_\_, taken as a whole. The supplementary data included in Schedules 1 through 5 are presented for supplementary analysis purposes and are not necessary for a fair presentation of the financial position and results of operations and changes in financial position of (Partnership Name) \_\_\_\_\_. The supplementary data have been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, are stated fairly in all material respects only when considered in conjunction with the financial statements taken as a whole."

Date \_\_\_\_\_

- (2) Mortgagor's Certification. The annual financial report must be accompanied by a certification by the mortgagor, when the development is owned by an individual; by two partners, when it is owned by a partnership, or by two officers, when it is owned by a corporation. The following language shall be used:

"I/we hereby certify that I/we have examined the accompanying financial statements and supplemental data of (mortgagor's name) for the fiscal year ended \_\_\_\_\_ and, to the best of my/our knowledge and belief, the same are complete and accurate."

D. Content of Financial Statements And Schedules

Sample formats and comments related to the content of financial statements Exhibits A thru C and Schedules 1 thru 5 are presented in the following pages of this section.

- (1) Exhibit A, Comparative Balance Sheets Must contain comparative information with the current year for at least one (1) preceding year. The format and account classifications should follow, insofar as possible, those contained on Exhibit A. Classifications on the statements which are not applicable may be deleted.
- (2) Exhibit B, Comparative Statements of Operations and Partners Equity Must contain comparative information with the current year for at least one (1) preceding year. The format and expense account classifications should follow those illustrated on Exhibit B. The statements shall include no less detail than that shown in Exhibit B. They must be prepared on the accrual basis and must segregate income and expense between Rental Operations and other operating classifications. As stated previously, these statements must be prepared on the accrual basis of accounting.
- (3) Exhibit C, Comparative Statements of Changes in Financial Position Must contain comparative information with the current year for at least one (1) preceding year and component information as illustrated on Exhibit C, effecting changes in financial position with regard to working capital. This statement shall include no less detail than that shown on Exhibit C.
- (4) Schedule 1 Comparative Statements of Development Rental Operations Expenses Must contain comparative information with the current year for at least one (1) preceding year. Must contain detail of the expenses reported on Exhibit B. The format and expense account classifications should follow those illustrated on Schedule 1. The statements shall include no less detail than that shown on Schedule 1. Account numbers and titles that are not applicable may be deleted.
- (5) Schedule 2, Comparative Statements of Other Operating Income and Expenses Must contain comparative information with the current year for at least one (1) preceding year. Must contain a detail of "Other Operating Income and Expenses" as reported on Exhibit B. The statement shall include no less detail than that shown on Schedule 2. Examples of some other operating expenses are as follow:

1. Construction Period Costs: All costs paid or incurred that benefited the construction period.
  2. Unallowable Costs: As set out in the Regulatory Agreement and other related documents, i.e., the cost of goods or services that are covered by the management fee as outlined in the Maine State Housing Authority Management Handbook.
  3. Other Partnership or Corporate Costs: Expenses paid or incurred that are not related to or necessary for the direct rental operation of the development as a housing facility.
- (6) Schedule 3, Statement of Receipts and Disbursements Development Operating Fund The statement shall include no less detail than that shown on Schedule 3. It shall be prepared on a cash basis and shall include all receipts, i.e., Rental income, concessions, commercial property, advances by owner, releases from restricted cash reserves and escrows, tenant security deposits, etc. It shall also include all disbursements, whether by check or in cash. Transfers to and from restricted cash reserves and escrows should agree with Schedule 4. The fund cash balance at year end must be broken down between petty cash, specific unrestricted reserves and development operating account balances.

(7) Schedule 4, Statement of Restricted Cash Reserves and Escrows - This statement shall include no less detail than that shown on Schedule 4. It shall include all restricted cash reserve and escrow accounts. The following examples should provide clarification with regard to the methods to be utilized to arrive at the estimated required balance column.

1. Tax & Insurance Reserve: The amount required in this account at the end of the fiscal year is the amount which, together with future monthly deposits will equal the estimated or actual real estate taxes and insurance due on or about 15 days prior to when such items are payable without interest or penalty. With respect insurance, the policy anniversary date is considered to be the due date. For taxes, the due date without penalty is that date specified on the property tax bill. Following is a typical example of the prefunding calculation when certain assumptions are made.

A. Assumptions

- Project Fiscal Year End is 12/31/83
- Property taxes, most recent bill is \$12,000 for the year and is payable without penalty on or before April 5, 1984. Monthly funding is \$1,000 ( $\$12,000 \div 12$  months).
- Property Insurance, annual premium is \$2,400 and the policy anniversary date is 6/18/84. Monthly funding is \$200 ( $\$2,400 \div 12$ ).

B. Required Balance @ 12/31/83

(1) Property Taxes

Per item #1A above, funding would have to begin in April to fully fund the escrow by March 1984, therefore April through December = 9 months required funding by 12/31/83 or 9 mo. at \$1,000/mo.

Amount required 12/31/83 \$9,000.00

(2) Property Insurance

Per item #1A above, funding would have to begin in July to fully fund the escrow by June 1984, therefore July through December = 6 months required funding by 12/31/83 or 6 mo. at \$200/mo.

Amount required 12/31/83 \$1,200.00

Total Required Balance (T & I Escrow 12/31/83) \$10,200.00

2. Replacement Reserve: The amount required in this account at the end of a given fiscal year should be arrived at as follows:

A. Assumptions

- Project Fiscal Year End is 12/31/83
- % to be applied to total annual contract rents per R/A is 4%
- Gross potential annual contract rent is \$200,000.

B. Required Balance @ 12/31/83

(1)	Required balance 12/31/82	\$31,075.00
(2)	Required deposits for year - 4% of \$200,000	+\$ 8,000.00
(3)	Withdrawals authorized by MSHA during year	- \$ 4,200.00
(4)	Actual interest earned on account during year	<u>+\$ 2,790.00</u>

Total required balance @ 12/31/83 \$37,665.00

3. Vacancy Reserve: The amount required in this account at the end of a given fiscal year should be arrived at as follows:

A. Assumptions

- Project Fiscal Year End is 12/31/83
- % to be applied to total annual contract rents per R/A is 1%
- Gross potential annual contract rent is \$200,000
- Owners annual R.O.E. is \$5,000.

B. Required Balance @ 12/31/83

(1)	Required balance 12/31/83	\$ 4,200.00
(2)	Required deposit for year - 1% of \$200,000	+\$ 2,000.00

Total required balance @ 12/31/83 \$ 6,200.00

Note: Other appropriate applications and/or uses of funds, i.e., actual vacancy losses, operating deficits, allowable R.O.E. prior to vacancy funding, etc. will be given due consideration based upon individual requests of owners/managers and individual requirements of regulatory agreements. Also note that actual interest earned on Vacancy Reserve funds does not have to be included in the calculation in arriving at the total required balance.

(8) Schedule 5, Statement of Surplus Cash Calculation - The cash section of the statement represents cash resources on hand and in banks at balance sheet date (including unrestricted reserve and escrow funds). The current obligations section of the statement represents the following:





- (a) All sums due or currently required to be paid under the terms of any mortgage or note. (Such sums do not include mortgage principal payments or restricted reserve or escrow deposits due on the first day of the month following the end of the fiscal period. However, any mortgage interest that accrued during the last month of the fiscal period must be included.)
- (b) A deficiency in funding or (excess funding) of the restricted reserve and escrow accounts; and
- (c) Other current obligations of the development at the balance sheet date that benefited the period as of or prior to that date and which will be paid in a subsequent period; and
- (d) Deferred income that applies to a period subsequent to the balance sheet date; and
- (e) Delinquent transfers to the tenant security deposit escrow; and
- (f) Other items that appropriately reflect current obligations at balance sheet date and are not included in items (a) thru (e) above.

The Adjustments to Surplus section represents prepaid expenses (except taxes and insurance) that will be applied in a subsequent period (not requiring cash) and receivables that apply to the current period that were not realized in cash at balance sheet date.

The amount of Tenant Accounts Receivable which are not more than (30) thirty days past due will be allowed as a positive adjustment on Schedule 5. Adjustments will not be allowed unless notes to the Financial Report disclose the amount less than thirty days past due or a certified copy of a "Tenants Accounts Receivable Aging List" by tenant name is filed with the Annual Financial Report to substantiate the adjustment. The Tenant Accounts Receivable Aging List must reconcile to the balance sheet account "Accounts Receivable Tenants Rent."

The format and account classification should follow the illustration on Schedule 5 and the Statement shall include no less detail than that shown on Schedule 5.

Partnership Name \_\_\_\_\_  
 Development Name \_\_\_\_\_  
 Development No. ME36-H017-\_\_\_\_\_  
 (Sample) BALANCE SHEET  
 As of \_\_\_\_\_ 19\_\_ and 19\_\_

<u>CURRENT ASSETS</u>	<u>ASSETS</u>	
	19__	19__
<u>Cash</u>		
1110 Petty Cash	\$ _____	\$ _____
1120 Development Operations Account	_____	_____
Unrestricted Reserves (Sch. 3 )	_____	_____
Restricted Reserves & Escrows (Sch. 4 )	_____	_____
Other	_____	_____
Total	\$ _____	\$ _____
<u>Accounts Receivable</u>		
1130 Tenants - Rent	\$ _____	\$ _____
1131 Tenants - Damages	_____	_____
1140 Other (See note # _____)	_____	_____
1141 Management Agent (See note # _____)	_____	_____
1143 MSHA - HAP Payments (See note # _____)	_____	_____
Total	\$ _____	\$ _____
<u>Notes Receivable</u>		
1150 Other (See note # _____)	\$ _____	\$ _____
1151 Partners/Stockholders/Officers	_____	_____
Total	\$ _____	\$ _____
<u>Other Current Assets</u>		
1190 Miscellaneous (See note # _____)	\$ _____	\$ _____
1191 Tenant Security Deposit	_____	_____
Total	\$ _____	\$ _____
<u>Prepaid Expenses</u>		
1211 Utilities	\$ _____	\$ _____
1240 Property/Liability Insurance	_____	_____
1270 Taxes	_____	_____
1290 Miscellaneous _____	_____	_____
Total	\$ _____	\$ _____
Total Current Assets	\$ _____	\$ _____
<u>FIXED ASSETS</u>		
1410 Land	\$ _____	\$ _____
1411 Land Improvements	_____	_____
1420 Buildings	_____	_____
1430 Building Equipment	_____	_____
1460 Furnishings	_____	_____
1470 Maintenance Equipment	_____	_____
1480 Motor Vehicles	_____	_____
1490 Miscellaneous Fixed Assets	_____	_____
Total Fixed Assets	\$ _____	\$ _____
Less: Accumulated Depreciation	\$ _____	\$ _____
Total Fixed Assets (Net of depreciation)	\$ _____	\$ _____
<u>OTHER ASSETS</u> (Schedule)	\$ _____	\$ _____

TOTAL ASSETS

\$                    \$  
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**LIABILITIES AND PARTNERS EQUITY**  
**LIABILITIES**

<u>Current Liabilities</u>	<u>19</u>	<u>19</u>
2110 Accounts Payable Trade	\$ _____	\$ _____
2111 Unpaid Construction Costs	_____	_____
2112 Tenant - Rent Credits	_____	_____
2116 Accounts Payable - <u>MSHA</u>	_____	_____
2119 Other Accounts Payable	_____	_____
2120 Accrued Wages Payable	_____	_____
2124 Accrued Payroll Taxes & Fringe Benefits	_____	_____
2130 Accrued Interest	_____	_____
2150 Accrued Taxes	_____	_____
2159 Other Accrued Liabilities	_____	_____
2160 Notes Payable - Short Term, Other (Note # _____)	_____	_____
2161 Notes Payable - Short Term, Related Parties (Note # _____)	_____	_____
2163 MSHA Mortgage Note - Current Portion	_____	_____
Notes Payable Other - Current Portion (Note # _____)	_____	_____
2190 Miscellaneous Current Liabilities	_____	_____
2191 Tenant Security Deposits	_____	_____
2210 Deferred Rent - Tenant Share	_____	_____
2243 Prepaid MSHA HAP payment	_____	_____
2290 Miscellaneous Prepaid Income	_____	_____
 Total Current Liabilities	 \$ _____	 \$ _____
 <u>Long Term Liabilities (Note # _____)</u>	 \$ _____	 \$ _____
 Other Liabilities (Schedule)	 \$ _____	
\$ _____		
Total Liabilities	\$ _____	\$ _____

**PARTNERS EQUITY**

Partners Equity	\$ _____	\$ _____
Total Liabilities and Partners Equity	\$ _____	\$ _____
	+++++=	

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See accompanying notes to Financial Statements

**NOTE:** Partners equity, if entity is other than a partnership use appropriate entity terminology.

\_\_\_\_\_  
Partnership Name

Statements of Operations and Partners Equity

Development Name \_\_\_\_\_

Development No. ME36-H017-\_\_\_\_\_

For the years ended \_\_\_\_\_ 19 and 19 \_\_\_\_\_

Rental Operations      19      19

Income

Tenants Rental Income	\$ _____	\$ _____
HAP Rent Subsidy Payments	_____	_____
Total Rental Income	\$ _____	\$ _____
Service Income	_____	_____
Interest Income	_____	_____
Commercial Income	_____	_____
Other Income	_____	_____
 Total Income	 \$ _____	 \$ _____

Expenses

Administrative (Schedule #1)	\$ _____	\$ _____
Operating (Schedule #1)	_____	_____
Maintenance (Schedule #1)	_____	_____
Depreciation & Amortization (Schedule #1)	_____	_____
Interest-MSHA Mortgage Note (Schedule #1)	_____	_____
Interest-Other Notes (Schedule #1)	_____	_____
General (Schedule #1)	_____	_____
Commercial (Schedule #1)	_____	_____
 Total Expenses	 \$ _____	 \$ _____

Net Rental Operations Income or (Loss)	\$ _____	\$ _____
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Other Operating Income and Expense

Other operating Income (Schedule #2)	_____	_____
Other operating Expenses (Schedule #2)	_____	_____
Net Other operating Income or (Loss)	_____	_____

Net Income or loss (Rental operations and other operating)	_____	_____
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Partners' Equity, Beginning of Period	\$ _____	\$ _____
Partners' Contribution During the Period	\$ _____	\$ _____
Partners' Withdrawals and Distributions During the Period	\$ _____	\$ _____
Partners' Equity, End of Period	=====	=====

See Accompanying Notes to Financial Statements

SCHEDULE - 1  
 STATEMENT OF DEVELOPMENT OPERATING EXPENSES  
 Support for Exhibit-B

Development Name \_\_\_\_\_  
 Development No. ME36 H017-\_\_\_\_\_  
 For Years Ending \_\_\_\_\_ 19\_\_ and 19\_\_

MSHA  
 A/C# \_\_\_\_\_ 19\_\_ 19\_\_

ADMINISTRATIVE EXPENSES

6320	Management Fees	\$ _____	\$ _____
6325	Marketing Expense	_____	_____
6340	Legal Expense	_____	_____
6350	Auditing Expense	_____	_____
6370	Bad Debts	_____	_____
6390	Other Administrative Expense	_____	_____
	Total Administrative	\$ _____	\$ _____

OPERATING EXPENSES

6420	Fuel	\$ _____	\$ _____
6430	Janitorial-Payroll Wages	_____	_____
6431	Janitorial-Tools and Supplies	_____	_____
6432	Janitorial-Contractual Services	_____	_____
6434	Janitorial-Payroll Taxes and Fringe Benefits	_____	_____
6442	Vehicle and Equipment Expenses	_____	_____
6450	Electricity	_____	_____
6451	Water	_____	_____
6452	Gas	_____	_____
6453	Sewer	_____	_____
6462	Exterminating	_____	_____
6470	Garbage and Trash Removal	_____	_____
6490	Misc. Operating Expenses	_____	_____
	Total Operating	\$ _____	\$ _____

MAINTENANCE EXPENSES GROUNDS MAINTENANCE

6520	Payroll Wages	\$ _____	\$ _____
6521	Tools and Supplies	_____	_____
6522	Contractual Services	_____	_____
6524	Payroll Taxes and Fringe Benefits	_____	_____
6525	Miscellaneous Maintenance Expense	_____	_____
6529	Tenant Damage Charges/Credits	\$ _____	\$ _____

BUILDING MAINTENANCE

6540	Payroll Wages	\$ _____	\$ _____
------	---------------	----------	----------

6541	Tools and Supplies	_____	_____
6542	Contractual Services	_____	_____
6544	Payroll Taxes and Fringe Benefits	_____	_____
6550	Elevator Maintenance and Repair	_____	_____
6551	HVAC Maintenance & Repair	_____	_____
6552	Plumbing Maintenance and Repair	_____	_____
6553	Electrical Maintenance and Repair	_____	_____
6563	Decorating Expense	_____	_____
6590	Misc. Maintenance Expenses	_____	_____
6599	Tenant Damage Charges/Credits	_____	_____
	Total Maintenance	\$ _____	\$ _____

MSHA  
A/C# 19 19

GENERAL EXPENSES

6610	Depreciation	\$ _____	\$ _____
6710	Property Taxes	_____	_____
6720	Property and Liability Insurance	_____	_____
6820	Interest - MSHA Mortgage Note	_____	_____
6830	Interest - Other Notes	_____	_____
6850	Mortgage Insurance	_____	_____
6870	Mortgage Service Fees	_____	_____
6880	Amortization-Organization Expense	_____	_____
6890	Misc. Financial Expenses	_____	_____
6900	Service Expenses	_____	_____
	Total General	\$ _____	\$ _____

COMMERCIAL EXPENSES

Total Development Operating Expenses \$ \$  
=====



SCHEDULE-2

STATEMENT OF OTHER OPERATING INCOME AND EXPENSES  
Support for Exhibit-B

Development Name \_\_\_\_\_  
Development No. ME36 H017- \_\_\_\_\_  
For Years Ending \_\_\_\_\_ 19\_\_ and 19\_\_  
  
         19            19   

INCOME

"Provide Detail By Income Classification"

	\$ _____	\$ _____
	_____	_____
	_____	_____
Total Income	\$ _____	\$ _____

EXPENSES

"Provide Detail by Expense Classification"

	\$ _____	\$ _____
	_____	_____
	_____	_____
Total Expenses	\$ _____	\$ _____

SCHEDULE - 3

\_\_\_\_\_  
Partnership Name

STATEMENT OF RECEIPTS AND DISBURSEMENTS - DEVELOPMENT OPERATING  
ACCOUNT

Development Name \_\_\_\_\_

Development No. ME36 H017- \_\_\_\_\_

For the year ended \_\_\_\_\_ 19 \_\_\_\_\_

Source Of Funds

Rental Operations:

Revenues

Tenants Rental Income	\$ _____
HAP Rent Subsidy Payments	_____
Total Rental Income	\$ _____
Service Income	_____
Interest Income	_____
Commercial Income	_____
Other Income	_____
Total Rental Operations Receipts	\$ _____

Expenses

Administrative	\$ _____
Operating	_____
Maintenance	_____
Interest - MSHA Mortgage Note	_____
Interest - Other Notes	_____
General	_____
Commercial	_____
Total Rental Operations Disbursements	\$ _____

Cash provided by rental operations before amortization  
of mortgage \_\_\_\_\_

Amortization of mortgage \_\_\_\_\_

Cash provided by rental operations after debt service \_\_\_\_\_

Other Receipts:

Tenant Security Deposits	\$ _____
Partners Advances/Contributions	_____
Transfers from Restricted Cash Reserves and Escrows	_____

Other (detail on separate sheet) \_\_\_\_\_ \$ \_\_\_\_\_

Other Disbursements or Transfers:

Transfers to Restricted Cash Reserves  
and Escrows \$ \_\_\_\_\_  
Transfer to Tenant Security Deposit Account \_\_\_\_\_  
Partners Distributions \_\_\_\_\_  
Other (detail on separate sheet) \_\_\_\_\_ \$ \_\_\_\_\_

Net Increase or (decrease) in Development Fund Cash \_\_\_\_\_

Development Fund Cash Balance at beginning of year \$ \_\_\_\_\_

Development Fund Cash Balance at end of year \_\_\_\_\_

Composition of Development Fund Cash Balance At End Of Year

Petty Cash \$ \_\_\_\_\_  
Development Operations Account \_\_\_\_\_

Unrestricted Reserves:

Decorating Reserve \$ \_\_\_\_\_  
Operating Reserve \_\_\_\_\_  
Other Reserves \_\_\_\_\_  
Total Unrestricted Reserves \$ \_\_\_\_\_  
Total Development Fund Cash At End of Year \$ \_\_\_\_\_  
=====

EXHIBIT C

\_\_\_\_\_  
Partnership Name

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Development Name \_\_\_\_\_

Development No. ME36 H017- \_\_\_\_\_

For the year ended \_\_\_\_\_ 19\_\_ and 19\_\_

	<u>19</u>	<u>19</u>
<u>Sources of Working Capital:</u>		
From Operations - Net Income or (loss) for the period	\$ _____	\$ _____
Items not requiring use of working capital:		
Depreciation	\$ _____	\$ _____
Amortization	\$ _____	\$ _____
 Working Capital Provided by Operations	 \$ _____ =====	 \$ _____ =====
 <u>Use of Working Capital:</u>		
Reduction of Long-term debt	\$ _____	\$ _____
Increase in Working Capital	_____	_____
	_____	_____
	\$ _____	\$ _____
	=====	=====
 <u>Changes in Components of Working Capital:</u>		
<u>Increase (decrease) in Current Assets:</u>		
	\$ _____	\$ _____
	_____	_____
	_____	_____
	_____	_____
 <u>Decrease (increase) in Current Liabilities:</u>		
	\$ _____	\$ _____
	_____	_____
	_____	_____
	_____	_____

Increase or (decrease) in Working Capital

\$

=====

\$

=====

See Accompanying Notes to Financial Statements

SCHEDULE - 4

Partnership Name \_\_\_\_\_

STATEMENT OF RESTRICTED CASH RESERVES AND ESCROWS

Development Name \_\_\_\_\_

Development Number ME36 H017- \_\_\_\_\_

For the Year Ending \_\_\_\_\_

Description of Fund	Deposits	Withdrawals	Regulatory	Excess	
_____	_____	_____	_____	<u>Agreement</u>	or
Transfers		(Deficiency)			
Balance from	Transfers to	Balance	of Actual	from	
Beginning of	Interest	End of	estimated	re-	
<u>Period</u>	<u>Account</u>	<u>Earned</u>	<u>Account</u>	<u>Period</u>	<u>Balance</u>
					<u>quired balance</u>
1311 Const. Escrow					
1315 T & I Reserve					
1320 Replacement Res.					
1325 CIE					
1330 Vacancy Res.					
1340 Operating Res.					
1345 Other Reserves					
Total Restricted					
Cash Reserves					
and Escrows					

STATEMENT OF SURPLUS CASH CALCULATION

Development Name \_\_\_\_\_

Development No. \_\_\_\_\_

As of \_\_\_\_\_

<u>Cash</u>			
01	Cash on Hand and in Banks (a/c #1110 & #1120)	\$ _____	
02	Unrestricted Reserves (a/c #1380, #1385, #1390)	_____	
03	Other (Describe)	_____	
04	Total Cash		\$ _____
<u>Less: Current Obligations</u>			
05	Mortgage Interest Payable 1st of Next month, if unpaid at balance sheet date (a/c #2130)	\$ _____	
06	Delinquent Mortgage payments (a/c #2363)	_____	
07	Deficient or (excess) funding of restricted reserve and escrow accts. (From Schedule 4)	_____	(1)
08	Accounts Payable (at balance sheet date (2110,2119))	_____	
09	Accrued expense (not escrowed) accts. #2120, 2124, 2140, 2159	_____	
10	Loans and Notes payable - operating expenses (due within 30 days) (accts. 2160, 2161, 2162, 2190)	_____	
11	Delinquent transfer to tenant security deposit escrow (a/c 1191)	_____	
12	Prepaid Income (accts. 2210, 2243)	_____	
13	Other (Describe)	_____	
14	Total Current Obligations		_____
15	Surplus Cash (Deficiency) at Balance Sheet Date		\$ _____
<u>Add: Adjustments to Surplus</u>			
16*	Unallowable expenses & capital expenditures (\$)		
17	Prepaid expenses (other than taxes and insurance) (accts. 1211, 1230, 1290)	\$ _____	
18	HAP Receivables at balance sheet date (Acct 1143)	_____	
19	Other (Describe)	_____	
20	Total Adjustments to Surplus		_____
21	Total Adjusted Surplus Cash or (Deficiency)		\$ _____

\*Disclosure only, do not use in determination of total adjusted surplus cash or (deficiency)

(1) <u>Reserve Account</u>	<u>Actual Balance</u>	<u>Required Balance</u>	<u>Excess or (Deficiency)</u>
	\$	\$	\$





(Letterhead of Independent Certified Public Accountants)

(Date: Between January 1 and February 28)

Maine State Housing Authority  
P.O. Box 2669  
295 Water Street  
Augusta, Maine 04330

We have examined the financial records of (Name of Developer) (the "Developer who/which is the owner of the housing development located at (address of development), your project No. ME36 H017-\_\_\_\_\_(the "Development"). Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We are independent certified public accountants, with respect to the Developer, as defined under the Rules of Conduct of the Code of Professional Ethics of the American Institute of Certified Public Accountants.

In our opinion the financial records of the Developer present fairly the costs paid or incurred by the Developer in connection with the acquisition and construction or reconstruction of the Development in conformity with generally accepted accounting principles applied on a consistent basis. We are also of the opinion that, within the meaning of the U.S. Internal Revenue Code §103 and its implementing regulations, an amount (hereinafter "substantial portion") of the cost of the Development equal to ninety percent (90%) or more of the mortgage loan on the Development of (insert amount of mortgage loan) is chargeable to a portion of the Development's capital account properly allocable to "family units" and "functionally related and subordinate facilities and areas", or would be so chargeable either with a proper election by the Developer (for example, under the U.S. Internal Revenue Code, §266) or but for a proper election by the Developer to deduct such amounts. Any amounts which have been allocated to such substantial portion and which were paid or incurred before (insert date), the date of your Commitment Letter in which you agreed to purchase a note and mortgage given by the Developer, are itemized on an attached sheet. The basis for such allocation is explained by notation on such sheet.

C. GENERAL LEDGER

Purpose and Procedure

The general ledger is necessary to control the recording of information from the journals and make it easier to summarize data for the quarterly and annual financial statements. A general ledger is required and all reports to MSHA must agree with the general ledger. It may be manual or on EDP, and should be posted, updated and balanced on a monthly basis. Posting, updating and balancing is required at least quarterly.

An owner may elect to maintain the general ledger on a cash basis, which is permissible. However, the Owner/Managing Agent must then maintain a worksheet to convert from a cash basis to an accrual basis at the end of each quarter. This worksheet must be retained to facilitate reconciliations between the general ledger and reports submitted to MSHA.

After posting all required journal entries for any period, new account balances should be calculated.

A trial balance of the general ledger account balances should be taken for each period after ledger postings and totaling have been completed.

Discrepancies in the general ledger trial balance should be investigated immediately and not allowed to be carried over to subsequent accounting periods.

MAINE STATE HOUSING AUTHORITY  
DEVELOPMENT CHART OF ACCOUNTS

MSHA ACCOUNT <u>NUMBER</u>	HUD ACCOUNT <u>MSHA ACCOUNT TITLE</u>	<u>NUMBER</u>
----------------------------------	---	---------------

DEVELOPMENT ASSET ACCOUNTS (1000)

Current Assets (1100)

Operating Cash

1110	Cash on Hand	1110
1120	Development Operations Account	1120
1121	Imprest Payroll Account	NONE

Accounts Receivable

1130	Tenants - Rent	1130
1131	Tenants - Damages	NONE
1140	Other	1140
1141	Management Agent	1141
1142	Other Projects	1142
1143	MSHA - HAP Payments	1143

Notes Receivable

1150	Other Notes Receivable	1150
1151	Partners, Stockholders, Officers	1151
1152	Individuals	1152

Other Current Assets

1190	Miscellaneous Current Assets	1190
1191	Tenant Security Deposits (Contra)	1191

Prepaid Expenses (1200)

Prepaid Expenses

1211	Utilities	NONE
1230	Supplies	1230
1240	Property and Liability Insurance	1240
1270	Taxes	1270

1290 Miscellaneous Prepaid Expenses 1290

Funds (1300)

Restricted Reserves and Escrows

1311	Construction Completion Escrow	NONE
1315	Tax and Insurance Reserve	NONE
1320	Replacement Reserve	1320
1325	Capital Improvement Escrow	NONE
1330	Vacancy Reserve	NONE
1340	Excess Surplus Cash Fund	1340
1345	Other Restricted Reserves	NONE

Unrestricted Reserves

1380	Decorating Reserve	NONE
1385	Unrestricted Operating Reserve Account	NONE
1390	Other Unrestricted Reserves	NONE

Fixed Assets (1400)

Fixed Assets

1410	Land	1410
1411	Land Improvements	NONE
1420	Buildings	1420
1430	Building Equipment	1430
1431	Building Alterations and Improvements	1431
1460	Furnishings	1460
1470	Maintenance Equipment	1470
1480	Motor Vehicles	1480
1490	Miscellaneous Fixed Assets	1490

Investments (1500)

Deposits Receivable (1600)

Suspense Accounts (1700)

Organization Expenses (1800)

1810	Deferred Charges, Less Amortization	NONE
------	-------------------------------------	------

Other Assets (1900)

DEVELOPMENT LIABILITY ACCOUNTS (2000)

Current Liabilities (2100)

Accounts Payable

2110	Trade	2110
2111	Unpaid Construction Costs	2111
2112	Tenants - Rent Credits	NONE
2116	Maine State Housing Authority	NONE
2119	Other Accounts Payable	NONE

Accrued Liabilities

2120	Payroll Wages	2120
2124	Payroll Taxes and Fringe Benefits	NONE
2130	Interest	2130
2140	Dividends or Distributions - Current	2140
2150	Taxes	2150
2159	Other Accrued Liabilities	NONE

Notes Payable - Short Term or Current Portion

2160	Other Notes Payable	2160
2161	Partners, Stockholders, Officers	NONE
2162	Individuals	NONE
2163	MSHA Mortgage Note	NONE

Other Current Liabilities

2190	Miscellaneous Current Liabilities	2190
2191	Tenant Security Deposits (Contra)	2191

Prepaid Incomes (2200)

2210	Prepaid Rent - Tenant Share	2210
2243	Prepaid MSHA HAP Payment	NONE
2290	Miscellaneous Prepaid Income	2290

Fixed Liabilities (2300)

Notes Payable - Long Term Minus Current Portion

2310	Other Notes Payable	2310
2361	Partners, Stockholders, Officers	NONE
2362	Individuals	NONE
2363	MSHA Mortgage Note	NONE
2390	Miscellaneous Other Fixed Liabilities	2390

Other Liabilities (2900)

DEVELOPMENT NET WORTH ACCOUNTS (3000)

Owner Equity (3100)

Owner Equity Accounts

3110	Capital Stock	3110
3130	Partner's or Owner's Equity	3130
3150	Capital Contributions Due	NONE

Surplus (3200)

Surplus Accounts

3210	Retained Earnings/Earned Surplus	3210
3260	Dividends	3260
3261	Distributions	NONE
3270	Withdrawals	3270

DEVELOPMENT VALUATION ACCOUNTS (4000)

Depreciation Reserves (4100)

Depreciable Fixed Assets

4111	Land Improvements	NONE
4120	Buildings	4120
4130	Building Equipment	4130
4131	Building Alterations and Improvements	4131
4160	Furnishings	4160
4170	Maintenance Equipment	4170
4180	Motor Vehicles	4180
4190	Miscellaneous Fixed Assets	4190

Other Reserves (4200)

4220	Doubtful Accounts Receivable	4220
4230	Doubtful Notes Receivable	4230
4250	Amortization	NONE

DEVELOPMENT INCOME ACCOUNTS (5000)

Rental Income (5100)

Rental Income - Apartments

5120	Tenant Share Rental Income	5120
5121	HAP Rent Subsidy Payments	5121
5122	HAP Vacancy Loss Payments	NONE
5123	HAP Daily Debt Service Payments	NONE

Service Income (5300)

Service Income

5370	Laundry Vending Income	5370
5390	Other Tenant Service Income	5390
5395	Services for Other Projects	NONE

Financial Income (5400)

Interest Income

5410	Development Operations Account	5410
5411	Restricted Reserves and Escrows	NONE
5412	Unrestricted Reserves	NONE

Other Financial Income

5490	Miscellaneous Financial Income	5490
------	--------------------------------	------

Other Income (5900)

Other Income

5910	Late Charges	NONE
5990	Miscellaneous Other Income	NONE

DEVELOPMENT EXPENSE ACCOUNTS (6000)

Administrative Expenses (6300)



Administrative Expenses

6320	Management Fees	6320
6325	Marketing Expenses	NONE
6340	Development Legal Expenses	6340
6350	Development Auditing Expenses	6350
6370	Bad Debts	6370
6390	Other Administrative Expenses	6390

Operating Expenses (6400)

Operating Expenses

6420	Fuel	6420
6430	Janitorial Payroll Wages	6430
6431	Janitorial Tools and Supplies	6431
6432	Janitorial Contractual Services	NONE
6434	Janitorial Payroll Taxes and Fringe Benefits	NONE
6442	Vehicle and Equipment Expenses	NONE
6450	Electricity	6450
6451	Water	6451
6452	Gas	6452
6453	Sewer	NONE
6462	Exterminating	6462
6470	Garbage and Trash Removal	6470
6490	Miscellaneous Operating Expenses	6490

Maintenance Expenses (6500)

Grounds Maintenance

6520	Grounds Maintenance Payroll Wages	6520
6521	Grounds Maintenance Tools and Supplies	6521
6522	Grounds Maintenance Contractual Services	6522
6524	Grounds Payroll Taxes and Fringe Benefits	NONE
6525	Miscellaneous Grounds Maintenance Expenses	NONE
6529	Tenant Damage Charges - Grounds (Contra)	NONE

Building Maintenance

6540	Building Maintenance Payroll Wages	6540
6541	Building Maintenance Tools and Supplies	6541
6542	Building Maintenance Contractual Services	6542
6544	Building Payroll Taxes and Fringe Benefits	6544
6550	Elevator Maintenance and Repair	6550
6551	HVAC Maintenance and Repair	6551
6552	Plumbing Maintenance and Repair	NONE
6553	Electrical Maintenance and Repair	NONE
6563	Decorating Expenses	NONE
6590	Miscellaneous Building Maintenance Expenses	6590
6599	Tenant Damage Charges - Building (Contra)	NONE

Depreciation (6600)

Depreciation

6610	Depreciation Expense	NONE
------	----------------------	------

Taxes and Insurance (6700)

Taxes and Insurance Expenses

6710	Property Taxes	6710
6720	Property and Liability Insurance Premiums	6720

Financial Expenses (6800)

Interest Expenses

6820	Interest on MSHA Mortgage Note Payable	6820
6830	Interest on Other Notes Payable	6830

Other Financial Expenses

6850	Mortgage Insurance	6850
6870	Mortgage Service Fees	6870
6880	Amortization of Organization Expenses	NONE
6890	Miscellaneous Financial Expenses	6890

Services Expenses (6900)

OWNER ACCOUNTS (7000)

Owner Asset Accounts (7100)

Owner Liability Accounts (7200)

Owner Valuation Accounts (7400)

Owner Income Accounts (7500)

Owner Expense Accounts (7600)

MAINE STATE HOUSING AUTHORITY  
EXPLANATION OF DEVELOPMENT ACCOUNTS

DEVELOPMENT ASSET ACCOUNTS (1000)

Current Assets (1100)

Operating Cash

- 1110 Cash on Hand A petty cash fund to be kept on the imprest basis. Some fixed amount, such as \$25 is set up as a petty cash fund for office use, and as cash is used, receipts for the amounts withdrawn are deposited in the cash box. When the petty cash is reduced to the point where it is necessary to reimburse the fund, a check must be drawn on the Development Operations Account in an amount equal to the petty cash used and the appropriate expense accounts debited for the various expenditures made.
- 1120 Development Operations Account A checking account established and maintained in accordance with the provisions of the Regulatory Agreement Dan through which Development operating cash receipts and disbursements pass. The account balance of this account should agree with the checkbook balance at the end of any accounting period. This account does not include any other operating cash, either invested or on deposit, in other restricted or unrestricted accounts. Other non-rental operations deposit and disbursements should not pass through this account.
- 1121 Imprest Payroll Account A checking account maintained on the imprest basis are designed solely for the disbursement of payroll checks. When payrolls are to be paid, an appropriate transfer should be made to this account from the Development Operations Account. The normal balance in this account will be either nil or a nominal amount.

Accounts Receivable

- 1130 Tenants - Rent An account receivable whose balance represents the total rents earned and due from tenants but not yet received. This rent due is totally the liability of the tenants and does not include any HAP rent subsidies due from the MSHA. If a tenant should vacate a unit without paying the full rent due, any subsequent Unpaid Rent Claim (Type 4 Claim on Part II of the HAP Application form HUD - 52670A) must be credited to this account when received from the MSHA (See also Account #4220).
- 1131 Tenants - Damages An account receivable whose balance represents the total costs incurred by the Development as a result of damages inflicted to the Development by tenants. Disbursements for the repair of damages are debited to this account, and also to the applicable maintenance expense accounts in the #6500 series. Reimbursement for damages will be credited to this account and also to Accounts #6529 and #6599 as applicable, when received from either the applicable tenant, or from the MSHA as an approved tenant damage Type 4 Claim on Part II of the HAP Application (HUD-52670A).

- 1140 Other An account receivable whose balance represents the amount due from sources other than those described above for Accounts #1130 and #1131, and below for Accounts #1141 through #1143.
- 1141 Management Agent An account receivable from the management agent of the Development for any funds that may be due to the Development. Items could include excess management fees or unauthorized expenses to be refunded to the Development (See Account #6320).
- 1142 Other Projects An account receivable to record funds due to the Development from other projects. These funds would include fees for providing personnel services, materials or supplies, or the use of Development owned vehicles (see also Account #5395).
- 1143 MSHA - HAP Payments An account receivable from the MSHA for recording the total federal HAP payments documented on Part I and Part II of the monthly Housing Owner's Certification and Application for Housing Assistance Payment (HUD-52670 and HUD-52670A) which have been forwarded to MSHA, but for which payment has not yet been received. As payments are received, this account is credited with the total amount received and Accounts #1130 and #1131, #2112 and #5121 through #5123, are subsequently credited and debited, as appropriate.

#### Notes Receivable

- 1150 Other Notes Receivable An asset account to record, as they are received, any notes receivable from any other entity than an owner of the Development or an other individual.
- 1151 Partners, Stockholders, Officers An asset account to record all notes receivable from an owner of the Development.
- 1152 Individuals An asset account to record all notes receivable from individuals other than an owner of the Development.

#### Other Current Assets

- 1190 Miscellaneous Current Assets An account to record any other current assets for which no other account has been provided. If necessary, this account may be sub-divided into specific current asset accounts using Accounts #1193 through #1199.

1191 Tenant Security Deposits (Contra) A current asset contra account to record all funds that have been collected from tenants as security deposits and deposited into a savings account. These funds are held by the Development in trust to guarantee performance of the covenants of the tenant lease and can be used to help pay for damages caused by the tenant and for delinquent rent payment at the time the tenant vacates the apartment. The amount remaining after paying for damages or delinquent rent is refunded when the tenant vacates. Any accrued interest on the account must be paid to the tenant, if the tenant lease so requires. The corresponding contra liability is Account #2191.

## Prepaid Expenses (1200)

### Prepaid Expenses

- 1211 Utilities An asset account to record the unconsumed portion of any utilities including fuel oil, kerosene, bottled propane gas, natural gas, electricity, water or sewerage at the close of the reporting period that was purchased and paid in advance. The balance in this account at any given time represents utility expenses to be charged in future reporting periods (see description of Accounts #6420 and #6453).
- 1230 Supplier An asset account to record the value of all janitorial, grounds maintenance, building maintenance and repair decorating and any other materials and supplies on hand at the close of the reporting period. As the inventory is consumed, the applicable cost is debited to Accounts #6431, #6521, #6541 and #6563.
- 1240 Property and Liability Insurance An asset account to record the unexpired portion of prepaid insurance premiums. When an insurance policy is purchased, the total premium payments are debited to this account and reduced (credited) monthly by the proportional amount of the insurance premium that is debited to Account #6720.
- 1270 Taxes An asset account to record property taxes or payment sin lieu of taxes on Development assets that have been paid in advance when such taxes or payments apply to a future accounting period. Each month, this account is credited and Account #6710 is debited for the expired, pro-rata, portion of the prepayments.
- 1290 Miscellaneous Prepaid Expenses An asset account to record any expenses other than those described above for Accounts #1211 through #1270 that are paid in advance and are to be charged as expenses in future accounting periods.

## Funds (1300)

### Restricted Reserves and Escrows

- 1311 Construction Completion and Escrow An asset account to record funds withheld at the permanent mortgage loan closing and placed in escrow to pay the cost of any construction items that are still uncompleted as of that date. As funds are released to pay the cost of items as they are completed, this account, rather than an expense account is credited.
- 1315 Tax and Insurance Escrow A restricted fund account that is established in accordance with the provisions of the Regulatory Agreement and which is under the direction and control of the MSHA for the purpose of accumulating monthly deposits to meet the yearly expenses for property taxes, property and liability insurance premiums, and any special assessments or charges for water or sewer or other assessments or charges concerning the Development.
- 1320 Replacement Reserve A restricted fund account established in accordance with the Regulatory Agreement and which is under the direction and control of the MSHA for the purpose of accumulating monthly deposits to meet the anticipated future expenditures for the replacement of structural elements and mechanical equipment of the Development, any other similar authorized purpose, or for payments required under the mortgage loan as specified by the Regulatory Agreement.
- 1325 Capital Improvement Escrow The Capital Improvement Escrow (CIE) or its earlier counterpart know as the Development Cost Escrow (DCE) is a restricted fund account established at the permanent mortgage loan closing in accordance with the provisions of the Regulatory Agreement and under the direction and control of the MSHA for the purpose of holding deposited funds in escrow to meet the anticipated future costs of such physical improvements to the Development as the MSHA determines are required or, in the event of a default of the Regulatory Agreement, to make payments required under the mortgage loan or for other purposes as specified by the Regulatory Agreement.
- 1330 Vacancy Reserve A restricted fund account established in accordance with the provisions of the Regulatory Agreement and which is under the direction and control of the MSHA for the purpose of accumulating required deposits to meet any actual rental income losses that may occur and which are not covered by Housing Assistance Payments and/or to fund any operating deficit in the Development Operations Account at the end of any fiscal year as prescribed by the Regulatory Agreement.



- 1340 Excess Surplus Cash Fund A restricted fund account established in accordance with the provisions of the Regulatory Agreement and which is under the direction and control of the MSHA for the purpose of receiving and holding in reserve all or portions of residual receipts or funds in the Development Operations Account at the end of, or during, the fiscal year to meet the anticipated future costs of items specified by the Regulatory Agreement or as otherwise by the MSHA.
- 1345 Other Restricted Reserves Any other restricted fund account that may be established and which is under the control of the MSHA for the purpose of receiving and holding Development funds in reserve. If necessary, this account may be subdivided using Accounts #1346 and #1349.

#### Unrestricted Reserves

- 1380 Decorating Reserve An unrestricted fund not under the direction and control of the MSHA and which is established to accumulate and hold in an interest bearing reserve account, funds to meet anticipated future expenditures for decorating tenant apartment units or common areas, and which otherwise would be debited to the Development Operating Account.
- 1385 Unrestricted Operating Reserve Account An unrestricted fund not under the direction and control of the MSHA and which is established to accumulate and hold in an interest bearing reserve account, Development residual receipts or funds to meet anticipated future expenses of the Development and which otherwise would be debited to the Development Operations Account.
- 1390 Other Unrestricted Reserves Any other unrestricted fund not under the direction and control of the MSHA and which is established to accumulate and hold in an interest bearing reserve account Development funds otherwise debited to the Development Operations Account. If necessary, this account may be subdivided using Account #1391 through #1399.

#### Fixed Assets (1400)

##### Fixed Assets

- 1410 Land A non-depreciable fixed asset account to record the acquisition cost value of all land of the development that is mortgaged to the MSHA, and is described in the Regulatory Agreement. This account does not include the cost of any site preparation such as grading or excavation, or subsequent site improvements such as landscaping or paving.

- 1411 Land Improvements A depreciable fixed asset account to record all preparations and improvements to the land recorded in Account #1410.
- 1420 Buildings A depreciable fixed asset account to record the total acquisition and/or initial substantial rehabilitation construction cost of all buildings comprising the Development that are situated on a portion of the land described in Account #1410. This account does not include any building fixtures, equipment, furnishings or subsequent building improvements or alterations.
- 1430 Building Equipment A depreciable fixed asset account to record the cost of all fixed and portable building equipment and fixtures such as HVAC systems equipment, elevators, appliances, pumps and machinery, etc. that are owned by the Development and located within the building(s) recorded in Account #1420.
- 1431 Building Alterations and Improvements A depreciable fixed asset account to record the cost value of any alterations or improvements made to the building structure(s) recorded in Account #1420 after initial occupancy including those items for which funds are maintained in the Replacement Reserve (see Account #1320) or the Capital Improvement Escrow (see Account #1325).
- 1460 Furnishings The cost of Development owned furnishings (e.g., window shades, venetian blinds, shower curtains, hall carpets, etc.) and project owned furniture (e.g., located in lobbies, halls, lawns, etc.) that are not charged to the cost of the building is recorded in this depreciable fixed asset account. Credits to the account are made when furnishings and furniture are withdrawn from use.
- 1470 Maintenance Equipment The cost of maintenance equipment owned by the Development plus transportation charges there on are charged to this account. Maintenance equipment owned by the Development owner entity must not be recorded in this account.
- 1490 Miscellaneous Fixed Assets Fixed assets of the Development for which no other provision is made, may be recorded in this account. If necessary, this account may be subdivided into specific fixed asset accounts in the #1490 Series of Accounts.

Investments (1500) Long term investments of the Development other than Funds (see #1300 Series) are charged against accounts in the #1500 Series. Credits to these accounts are made when the Development disposes of any such investments. Investments of the Development owner entity must not be recorded in these accounts.

Deposits Receivable (1600) Accounts in the #1600 Series of Accounts should be charged for all deposits, such as those for power, gas, and water. The balances of the accounts represent recoverable deposits and when any refund of deposits occurs, these accounts are credited.

Suspense Accounts (1700) Accounts in the #1700 Series of Accounts are charged for items temporarily left unadjusted, such as bad checks. As the item is cleared, the amount is removed from the account. Any balance in an account is a balance sheet item. The accounts are not used except for these temporary items.

#### Organization Expenses (1800)

1810 Deferred Charges, Less Amortization An organization expense account representing an asset of the Development. The balance in this account represents the initial cost to the Development of organizing the Development owner entity minus the total amortization of this cost to date. These costs usually include such items as commitment fees, filing fees, legal fees, recording costs and the cost value of organization time and materials provided by the owner to the Development. (See accounts 4250 and 6880).

Other Assets (1900) Acquired assets of the development for which no other provision has been made are properly posted to an account with a descriptive name in the #1900 Series of Accounts.

#### DEVELOPMENT LIABILITY ACCOUNTS (2000)

##### Current Liabilities (2100)

###### Accounts Payable

2110 Trade An account payable to record the total amount of all invoices for which the Development is liable and which are unpaid at the end of any accounting period. Payments will reduce the credit balance and new unpaid invoices should be added as they become known. The balance of this account represents the total unpaid trade bills of the Development.

2111 Unpaid Construction Costs An account payable to record the total amount of all unpaid invoices associated with the initial construction or substantial rehabilitation costs of the Development and which are the liability of the Development. Funds to pay all or part of the total balance in this account may or may not be held in escrow and recorded in Account #1311.

- 2112 Tenants Rent Credits An account payable to record the total rent credit allowances which have been received by the Development from the MSHA as part of the monthly HAP payment but which have not yet been disbursed to the applicable tenants (see Account #5121).
- 2116 Maine State Housing Authority An account payable to record any amounts payable by the Development to MSHA other than MSHA mortgage payments. been accrued, but not yet paid to employees at the end of the account period.
- 2124 Payroll Taxes and Fringe Benefits An accrued liability account to record those items associated with the payroll, such as federal and state withholding taxes, FICA, workman's compensation and medical insurance premiums, which have been accrued but not yet paid at the end of the accounting period.
- 2130 Interest An accrued liability account to record any interest unpaid on indebtedness of the Development at the end of an accounting period (see Accounts #2160 through #2163).
- 2140 Dividends or Distributions Current To record any dividends or distributions which have been declared by the Development, but not yet paid pursuant to the terms and conditions of the Regulatory Agreement. When such dividends or distributions are declared, this account is credited for the amount. When the dividend or distribution is actually paid, this account is debited and Account #1120 is credited.
- 2150 Taxes A current liability account to record the monthly accrual of estimated property taxes, or payments in lieu of taxes, incurred to date by the Development and payable upon the subsequent receipt of the municipal tax bill. The balance in this account represents the proportionate part of the annual taxes accrued to date but not yet due (see also Accounts #1270 and #6710).
- 2159 Other Accrued Liabilities A current liability account to record accrued liabilities of the Development that are not otherwise classified.

### Notes Payable Short Term or Current Portion

- 2160 Other Notes Payable A current liability account to record the remaining principal balance still due on notes of less than one year and on that portion of long term notes that are payable by the Development within one year to any entity other than owners of the Development, other individuals, and the MSHA. The interest payable within the next 12 months is recorded in Account #2130.
- 2161 Partners, Stockholders, Officers A current liability account to record all short term notes or the current portion of long term notes that are payable by the Development to Owners of the Development. Only the principal of the indebtedness is recorded in this account. The interest payable within the next 12 months is recorded in Account #2130.
- 2162 Individuals A current liability account to record all short term notes or the current portion of long term notes payable by the Development to individuals other than owners of the Development. Only the principal of the indebtedness is recorded in this account. The interest payable within the next 12 months is recorded in #2130.
- 2163 MSHA Mortgage Note A current liability account to record that portion of the permanent mortgage note payable by the Development to the MSHA within one year. Only the principal of the indebtedness is recorded in this account. The interest payable within the next 12 months is recorded in Account #2130.

### Other Current Liabilities

- 2190 Miscellaneous Current Liabilities Current liabilities of the Development for which no provision has been made are recorded in this account. If necessary, this account may be subdivided into specific current liability accounts numbered from #2193 through #2199.
- 2191 Tenant Security Deposits (Contra) A current liability account contra to an identical current asset account. See Account #1191 for description.
- 2200 Prepaid Incomes
- 2210 Prepaid Rent Tenant Share A prepaid income account to record rent payments received in advance by the Development from existing and incoming tenants for rental periods that will be included in future accounting periods. When the advance rent is received this account is credited and the development Operations Account (Account #1120) is debited. As the rent becomes due, this account is debited and Tenant rent receivable (Account #1130) is credited.
- 2243 Prepaid MSHA HAP Payment A prepaid income account to record total HAP payments received in advance from the MSHA that apply to future accounting periods. As the HAP payment becomes due, this account is debited and MSHA HAP Payments Receivable (Account #1143) is credited.

2290 Miscellaneous Prepaid Income A prepaid income account to record all other prepaid incomes for which a specific account is not provided.

## Fixed Liabilities (2300)

### Notes Payable - Long Term Minus Current Portion

- 2310 Other Notes Payable A fixed liability account to record the total principal amount still payable by the Development after the next twelve months on long term notes to any entity other than owners of the development, other individuals, and the MSHA. The portion payable within the next 12 months is recorded in Account #2160. Only the payment of principal on the indebtedness is debited to these accounts.
- 2361 Partners, Stockholders, Officers A fixed liability account to record the total principal amounts still payable by the Development after the next twelve months on long term notes to owners of the Development. The portion payable within the next twelve months is recorded in Account #2161. Only the payment of principal on the indebtedness is debited to these accounts.
- 2362 Individuals A fixed liability account to record the total principal amount still payable by the Development after the next twelve months on long term notes to individuals other than owners of the Development. The portion payable within the next twelve months is recorded in Account #2162. Only the payment of principal of the indebtedness is debited to these accounts.
- 2363 MSHA Mortgage Note A fixed liability account to record the total principal amount still payable by the Development after the next twelve months on long term notes to MSHA on the permanent mortgage note. The portion payable within the next twelve months is recorded in Account #2163. Only the payment of principal of the indebtedness is debited to these accounts.
- 2390 Miscellaneous Other Fixed Liabilities Any assumed obligations of the Development maturing more than one year in the future, and for which no other provision has been made, are recorded in this account. If necessary, the account may be subdivided into specific liability accounts, using numbers #2391 through #2399.

Other Liabilities (2900) When no other provision is made for the specific liability of the Development, it is recorded in this Series of Accounts. To suit Development requirements, this account would be subdivided, using appropriate numbers in the #2900 Series of Accounts.

## DEVELOPMENT NET WORTH ACCOUNTS (3000)

### Owner Equity (3100)

- 3110 Capital Stock When used, this control equity account reflects the par value of stock issued by the Development. If stock without par value is issued, the value allocated to the issued stock is credited to this account. Debits to the account are made when issued stock is canceled. If more than one class of stock is issued or authorized, an account for each class should be established using Accounts #3111 through #3129.

- 3130 Partner's or Owner's Equity When used, this control account reflects the total amount of equity capital invested in the Development by its owners. Subsidiary accounts, numbered from #3131 through #3149, are established and maintained for each partner or owner and reconciled with this control account whenever a transaction is recorded that directly affects equity.
- 3150 Capital Contributions Due An equity control account to record additional capital due to be contributed to the Development by shareholders or partners, but not yet received. The capital contributions due may represent outstanding commitments originally set forth at the time of organization in the Articles of Incorporation or in the Partnership Agreement, or may represent other capital contributions formally committed and agreed to by shareholders or partners. Subsidiary accounts, numbered from #3151 through #3169, are established and maintained for each shareholder, partner or owner and reconciled with this control account whenever a transaction is recorded that directly affects the Capital Contributions Due account.

### Surplus (3200)

#### Surplus Accounts

- 3210 Retained Earnings/Earned Surplus A control account which reflects the total accumulated earnings of the Development that have not been distributed to the Development owner entity. The account is debited with any Development net loss. The account is credited with any Development net profit for the year. Subsidiary accounts, numbered #3213 through #3239 are established and maintained for each shareholder, partner or owner and should be reconciled with this control account whenever a transaction is recorded which directly affects Retained Earnings.
- 3260 Dividends The balance in this surplus account represents the cumulative amount of dividends which the Development owner entity has declared to be paid, or has paid, to its partners or individual owners.
- 3261 Distributions The balance in this surplus account represents the cumulative amount of distributions that the Development owner entity has declared to be paid, or has paid, to partners or individual owners of the Development.
- 3270 Withdrawals The balance in this surplus account represents the cumulative amounts that have been withdrawn by corporate or non-corporate individuals officers or by stockholders, partners, proprietors, or trustees of the Development other than any dividends and/or distributions recorded in Accounts #3260 and #3261.



## DEVELOPMENT VALUATION ACCOUNTS (4000)

### Depreciation Reserves (4100)

4111 Depreciable Fixed Assets The individual numbered valuation accounts in 4120 the #4111 Series of Accounts (see the Development Chart of Accounts) 4130 correspond to similarly numbered fixed asset accounts in the #1400 Series 4131 of Accounts, and are used in conjunction with a single expense account in 4160 the #6600 Series of Accounts. At the end of each accounting period the 4170 appropriate depreciation on each fixed asset that is recorded in the #1400 4180 Series is credited to the corresponding account in the #4100 Series. The 4190 total depreciation for all fixed assets is then debited to Account #6600 (or to the individual accounts in the #6600 Series of Accounts if such subsidiary accounts have been established.) Consequently, the balance of any #4100 Series account represents the total accumulated depreciation to date of the asset listed in the #1400 Series of Accounts.

### Other Reserves (4200)

4220 Doubtful Accounts Receivable A valuation account to record the total amount of all Development accounts receivable (see Accounts #1130 through #1143) considered to be uncollectable. At the end of the accounting period, a general journal entry is made crediting this account and debiting Bad Debts (Account #6370) for the estimated amount of uncollectable accounts receivable. However, if all or a portion of the previously considered uncollectable amount is received after the accounting period, this account must then be debited and the Bad Debts account must be similarly credited at the end of the next accounting period for the amount so received. Eventually, when all efforts to collect the amount due have failed and it is certain that a particular debt cannot be collected, the amount of the bad debt is "written off" by a general journal entry debiting Account #4220 and crediting the appropriate account receivable.

4230 Doubtful Notes Receivable A valuation account to record the total amount of all Development notes receivable considered to be uncollectable. This account is handled in the same manner as Account #4220 and crediting the appropriate note receivable.

4250 Amortization A valuation account to record the total accumulated amortization to date of the organization expenses listed in Account #1810 (see also Account #6880).

## DEVELOPMENT INCOME ACCOUNTS (5000)

5120 Tenant Share Rental Income An income account to record the total actual rent payments anticipated by the Development from all apartment unit tenants. The amount recorded is not the gross potential tenant rent if all units were occupied. Rather, the amount recorded is the actual rent anticipated from all occupied units, excluding potential income from vacant units. This account is credited monthly from the rent register even though payments from tenants may not have been received during the recording period. This account must not be credited with rent payments from any commercial space tenants.

5121 HAP Rent Subsidy Payments An income account to record the total actual federal HAP rent subsidy payments from the MSHA. The amount is not the gross potential rent subsidy specified on Part I of the Application for Housing Assistance Payments (form HUD52670A) plus the sum of any Type 1 (Moveins and moveouts) and Type 6 (Adjustments) claims specified on Part II and excluding any rent credit payments to tenants that may be included with the total Part I amount. Tenant rent credit payments, if any, should not be considered as Development income, but rather, should be recorded as a credit to the account payable entitled "Tenants Rent Credit" (see Account #2112). These accounts should be credited monthly even though the payment from the MSHA may not have been received during the reporting period.

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ââV}Vf the Application for Housing Assistance Payments (form HUD52670A). The account should be credited monthly even though the payment from the MSHA may not have been received during the reporting period.

5123 HAP Daily Debt Service Payments An income account to record the actual federal HAP daily debt service payments from the MSHA. The amount recorded is the total amount of Type 5 claims specified on Part 2 of the Application for Housing Assistance Payments (form HUD52670A). The account should be credited monthly even though the payment from the MSHA may not have been received during the reporting period.

## Service Income (5300)

### Service Income

- 5370 Laundry Vending Income An account to record the service income derived by the Development from coin operated laundry and dry cleaning equipment located on the Development premises.
- 5390 Other Tenant Service Income An account to record the income derived by the Development from all services provided to the apartment unit tenants of the Development, other than laundry vending services, for which a fee is charged. These other services would include items such as other vending machines, cable TV, rental of furniture or equipment, installation of fixtures, or any special modifications or repairs to the tenant's apartment. This account must not be credited for any service income from commercial space tenants.
- 5395 Services for Other Projects An account to record any income derived by the Development for services provided to other projects or Developments. This would include the prorated costs of vehicles owned or personnel employed by the Development and which are utilized by other projects or Developments. The fee for these services would be debited to an appropriate contractual services expenses account by the other project.

## Financial Income (5400)

### Interest Income

- 5410 Development Operations Account An account to record any interest income earned by the Development Operations Account. This would probably occur only when the Development Operations Account is a N.O.W. checking account. Interest accrued on other Development operating funds, either invested or on deposit in restricted or unrestricted reserves, would not be recorded in this account, but rather, in Account #5411 or #5412 (see Accounts #1120, #5411 and #5412).
- 5411 Restricted Reserves and Escrows An account to record the interest income earned by the Development on the restricted reserves and escrows described in Accounts #1315 through #1345.
- 5412 Unrestricted Reserves An account to record the interest income earned by the Development on the unrestricted reserves described in Accounts #1380 through #1390.

## Other Financial Income

5490 Miscellaneous Financial Incomes An account to record any other miscellaneous financial income to the Development for which no specific account has been provided.

## Other Income (5900)

### Other Income

5910 Late Charges An account to record any income received by the Development from charges, fees or other assessments by the Development for the late payment of balances due on accounts and notes receivable (see Accounts #1130 through #1152).

5990 Miscellaneous Other Income Any income received and accrued by the Development, either irregularly or in small amounts, not otherwise provided for by specific income accounts, is credited to this account. When larger or regular incomes develop, specific income accounts in the #5900 Series of Accounts should be set up to provide for them.

## DEVELOPMENT EXPENSE ACCOUNTS (6000)

### Administrative Expenses (6300)

#### Administrative Expenses

6320 Management Fees An administrative expense account to record the cost to the Development of the contracted services provided by the Management Agent to the Development in accordance with the terms of the Management Agreement subject to the conditions of the MSHA Housing Management Handbook. Since the management fee includes reimbursement of the Management Agent for certain administrative expenses such as managers and office salaries, telephone, travel, office supplies, postage and insurance premium costs for workmen's compensation, health, and fidelity coverage for Management Agent personnel, these and other such unallowable Development expenses cannot be debited to other Development expense accounts.

6325 Marketing Expenses A Development administrative expense account to record the costs of renting tenant apartment units including such items as the cost of advertising, preparation of exhibits and signs, printing brochures and resident handbooks, performing credit checks of applicant tenants, marketing agent commissions or salaries, and concessions, if any, to tenants. This account must not be debited for the cost of preparing an apartment for occupancy, for any marketing expenses during the initial rentup period which are to be paid with developer funds, for marketing expenses to be met by the management fee, or for marketing commercial rental space.

- 6340 Development Legal Expenses An administrative expense account to record the costs of legal services provided to the Development including fees for legal counseling relating to Development operations, serving notices, bonding, eviction proceedings, and defense against liability claims. This account must not be debited for the cost of any legal services provided to the Development owner entity.
- 6350 Development Auditing Expenses An administrative expense account to record the cost of professional services provided to the Development by an accountant for such services as the preparation of yearend financial reports and other special audits and financial reports specifically requested or authorized by the MSHA. This account must not be debited for the cost of initially establishing and subsequently maintaining the financial books and records, for accounting costs to be met by the management fee, or for accounting services provided to the Development owner entity.
- 6370 Bad Debts An administrative expense account to record the estimated amount of any debt due (i.e., account or note receivable) to the Development but not collectible (see description of Accounts #6391 through #6399).

#### Operating Expenses (6400)

##### Operating Expenses

- 6420 Fuel An operating expense account to record the cost to the Development of fuel, such as heating oil and kerosene, but excluding propane, natural gas and electricity, that has been consumed and paid by the Development during the reporting period. This account must not be debited for fuel costs paid directly by the tenant to the fuel company or for internal combustion fuel used by motor vehicles and other Development owned equipment (see Accounts #1211 and #6442).
- 6430 Janitorial Payroll Wages An operating expense account to record the total wages paid by the Development to fulltime or parttime janitorial personnel. If a tenant provides janitorial services as an employee in exchange for full or partial rent credit, rather than for wages, the value of this rent credit nevertheless, must also be debited to this account as wages. This account, however, must not be debited for payroll taxes and fringe benefits (see examples listed in description of Account #6434), for any janitorial services provided under the terms of a written or verbal contract, or for any grounds or building maintenance tasks performed by Development janitorial personnel (see Accounts #6520 and #6540).

- 6431 Janitorial Tools and Supplies An operating expense account to record the cost to the Development of all noncapitalized tools, consumable supplies, and material used in performing janitorial tasks. These would include such items as cleaners, polishes, solvents, waxes, detergents, rags, steel wool, trash bags, mopheads, and other such materials and chemicals used in the year-round custodial care and cleaning of the Development. The cost of minor replacement items such as brooms, mops, pails, brushes, and trash receptacles should also be charged to this account as well as the cost to the Development for the purchase of any janitorial tools and equipment that are not capitalized.
- 6432 Janitorial Contractual Services An operating expense account to record the cost to the Development of any kind of janitorial services provided to the Development under the terms of a written or verbal contract with an individual or firm. If a tenant provides janitorial services as a contractor in exchange for full or partial rent credit, rather than for a fee, the value of this rent credit must also be debited to this account.
- 6434 Janitorial Payroll Taxes and Fringe Benefits An operating expense account to record the cost of those supplemental items associated with janitorial payroll wages such as federal and state withholding taxes, FICA, workmen's compensation, medical insurance premiums, etc.
- 6442 Vehicle and Equipment Expenses An operating expense account to record all costs to the Development associated with the ownership, operation and maintenance of all building, janitorial, maintenance equipment and motor vehicles owned by the Development. These costs would include such items as licenses, registration fees, certifications, permits, inspections, and excise taxes. In addition, this account should be debited with the costs of all motor vehicle and equipment fuel, lubricants, maintenance and repairs. This account should also be debited with any vehicle insurance premiums and any travel expenses, such as mileage, tolls, etc., paid to individuals, other than contractors, who use their own personal vehicles to conduct maintenance activities for the Development.
- 6450 Electricity An operating expense account to record the total cost to the Development of electrical power consumed and paid by the Development. This account must not be debited for any electrical power paid by tenants directly to the utility company (See Account #1211).

- 6451 Water An operating expense account to record the total cost to the Development of water consumed and paid by the Development. This account must not be debited for any water usage paid by tenants directly to the utility company. Sewer charges, if any, must not be debited to this account, but rather, to Account #6453.
- 6452 Gas An operating expense account to record the cost to the Development of propane and/or natural gas consumed and paid by the Development during the reporting period. This account must not be debited for gas costs paid by tenants directly to the utility company.
- 6453 Sewer An operating expense account to record the total cost to the Development of sewerage services received and paid by the Development. This account must not be debited for any sewerage services paid by the tenant directly to the utility company.
- 6462 Exterminating An operating expense account to record all exterminating costs, including all supplies, materials, tools and contractual services. This account, however, must not be debited with any payroll costs.
- 6470 Garbage and Trash Removal An operating expense account to record all garbage and trash removal costs including all materials, supplies, tools and contractual services. This account should not be debited for the prorated share of employee wages if Development personnel perform this function.
- 6490 Miscellaneous Operating Expenses An Account to record other Development operating costs for which a specific account is otherwise not provided. Additional accounts may be set up using account numbers #6491 through #6499.

## Maintenance Expenses (6500)

### Grounds Maintenance

- 6520 Grounds Maintenance Payroll Wages A maintenance expense account to record the total wages paid by the Development to fulltime or parttime grounds maintenance and repair personnel for such tasks as lawn care, pruning, transplanting shrubbery, snow removal, repairing walks and drainage systems, erecting or renovating signs, etc. If a tenant provides grounds maintenance and repair services as an employee in exchange for full or partial rent credit, rather than for wages, the value of the rent credit nevertheless, must also be debited to this account as wages. This account, however, must not be debited for payroll taxes and fringe benefits (see examples listed in description of Account #6524), for any grounds maintenance and repair services provided under the terms of a written or verbal contract, or for exterminating tasks performed by Development maintenance and repair personnel (see Account #6462).
- 6521 Grounds Maintenance Tools and Supplies A maintenance expense account to record the cost to the Development of all noncapitalized tools, supplies, materials, and replacement items used in performing grounds maintenance and repair tasks. These would include such items as grass clippers, rakes, shovels, lawn seed, fertilizer, mulch, insecticides, sand, salt, de-icers, paint and other such materials and chemicals used in the year-round care of Development lawns,

shrubby, trees, flowerbeds, sidewalks and parking lots. The cost of noncapitalized plants and replacement shrubs should also be charged to this account.

- 6522 Grounds Maintenance Contractual Services A maintenance expense account to record the cost to the Development of grounds maintenance and repair services such as lawn care, landscaping, snow removal, repairing walks and parking lots, erecting or renovating signs, cleaning drainage systems, etc., that are provided to the Development under the terms of a written or verbal contract with an individual or firm. If a tenant provides grounds maintenance repair services as a contractor in exchange for full or partial rent credit, rather than for a fee, the value of this rent credit must also be debited to this account.
- 6524 Grounds Payroll Taxes and Fringe Benefits A maintenance expense account to record other grounds maintenance and repair expenses for which a specific account is otherwise not provided. If necessary, this account may be subdivided using Accounts #6526 through #6528 (see Account #6442).
- 6525 Miscellaneous Grounds Maintenance Expenses A maintenance expense account to record other grounds maintenance and repair expenses for which a specific account is otherwise not provided. If necessary, this account may be subdivided using Accounts #6526 through #6528 (see Account #6442).
- 6529 Tenant Damage Charges - Grounds (Contra) A maintenance expense reduction control account to record offsetting credits against debits for expenses incurred by the Development for the repair and/or restoration of damages inflicted by tenants to the grounds of the Development. For a given period of time, the balance in this account should be a credit amount.  
When the tenant is billed for the damages and an account receivable is established and debited, this account is credited in the same amount. The amount recorded in this account therefore is in contra to the actual damage repair expenses which would be recorded in Accounts #6520 through #6528 (see also Accounts #4220 and #6599). Any reimbursement payments (whether received from the tenant, by seizing tenant security deposit funds, or from the MSHA) must not be considered as income, but rather must be credited to Account #1131 when received by the Development.

### Building Maintenance

- 6540 Building Maintenance Payroll Wages A maintenance expense account to record the total wages paid by the Development to full-time or part-time building maintenance and repair personnel for such routine maintenance and repair tasks as repairing broken window panes and screens, replacing locks and light bulbs, fixing leaks, adjusting fixtures, servicing appliances, etc. If a tenant provides building maintenance and repair services as an employee in exchange for full or partial rent credit, rather than for wages, the value of the rent credit nevertheless, must also be debited to this account as wages. This account, however, must not be debited for payroll taxes and fringe benefits (see examples listed in description of Account #6544), for any building maintenance and repair services provided under the terms of a written or verbal contract, or for any exterminating tasks performed by Development maintenance personnel (see Account #6462).



- 6541 Building Maintenance Tools and Supplies A maintenance expense account to record the cost to the Development of all noncapitalized tools, supplies, material, and replacement items used in performing building maintenance and repair tasks. These would include such items as hand tools, power tools, paint brushes, flashlights, lumber, paint, stain, caulking, mortar, fasteners, and other such materials and chemicals used for the year-round maintenance and repair of the interior and exterior of the building structure. The cost of minor, general purpose replacement items such as glass, screens, locks, smoke detectors, handles, etc., should also be charged to this account. This account must not be debited, however, for specific purpose maintenance tools and supplies and replacement items that are more applicable to Accounts #6550 through #6563.
- 6542 Building Maintenance Contractual Services A maintenance expense account to record the cost to the Development of building maintenance and repair services such as painting, carpentry, wall papering, glazing, etc., provided to the Development under the terms of a written or verbal contract with an individual or firm. If a tenant provides building maintenance services as a contractor in exchange for full or partial rent credit, rather than for a fee, the value of the rent credit must also be debited to this account.
- 6544 Building Maintenance Payroll Taxes and Fringe Benefits A maintenance expense account to record the cost of those supplemental items associated with payroll wages such as federal and state withholding taxes, FICA, workmen's compensation medical insurance premiums, etc.
- 6550 Elevator Maintenance and Repair A maintenance expense account to record those costs to the Development that are associated with the maintenance and repair of any component of the building elevator "system". The costs to be recorded to this account would include all supplies, material, replacement parts, tools, and contractual services costs, and any portion of those costs that might otherwise be charged to Accounts #6540 through #6542 which are applicable, and can be reasonably allocated to the maintenance and repair of the building elevator "system". This account, however, must not be debited with any payroll costs.
- 6551 HVAC Maintenance and Repair A maintenance expense account to record all those costs to the Development that are associated with the maintenance and repair of any component of the building heating, ventilation and air conditioning (HVAC) "system". The costs to be recorded to this account would include all supplies, materials, replacement parts, tools, and contractual services costs and any portion of those costs that might otherwise be charged to Accounts #6540 through #6542 which are applicable, and can be reasonably allocated to the maintenance and repair of the building HVAC "system". This account however, must not be debited with any payroll costs.
- 6552 Plumbing Maintenance and Repair A maintenance expense account to record those costs to the Development that are associated with the maintenance and repair of any component of the building water and sewerage "system". The costs to be recorded to this account would include all supplies, material, replacement parts, tools, and contractual services costs and any portion of those costs that might otherwise be charged to Accounts #6540 through #6542 which are applicable, and can be reasonably allocated, to the maintenance and repair of the building

water and sewerage "system". This account, however, must not be debited with any payroll costs.

- 6553 Electrical Maintenance and Repair A maintenance expense account to record those costs to the Development that are associated with the maintenance and repair of any component of the building electrical "system". The costs to be recorded to this account would include all supplies, material, replacement parts, tools, and contractual services costs and any portion of those costs that might otherwise be charged to Accounts #6540 through #6542 which are applicable, and can be reasonably allocated to the maintenance and repair of the building electrical "system". This account, however, must not be debited with any payroll costs.
- 6563 Decorating Expenses A maintenance expense account to record those costs to the Development that are associated with the decoration and renovation of the exterior and interior of the building including both common space and apartment rental units. The cost to be recorded to this account would include all supplies, materials, tools, and contractual services costs and any portion of those costs that might otherwise be charged to Accounts #6540 through #6542 which are applicable, and can be reasonably allocated to such decorating activities and items as sanding, painting, wallpapering, cleaning, polishing, etc., and providing decorations and other similar amenities that are not capitalized. This account, however, must not be debited with any payroll costs.
- 6590 Miscellaneous Building Maintenance Expenses A maintenance expense account to record other building maintenance and repair expenses for which a specific account is otherwise not provided. If necessary, this account may be subdivided using Account #6591 through #6598 (see Account #6442).
- 6599 Tenant Damage Charges - Building (Contra) A maintenance reduction control account to record offsetting credits against debits for expenses incurred by the Development for the repair and/or restoration of damages inflicted by tenants to the buildings of the Development. When the tenant is billed for the damages and an account receivable is established and debited, this account is credited in the same amount. The amount recorded in this account, therefore, is in contra to the actual damage repair expenses which would be recorded in Accounts #6540 through #6598 (see also Accounts #4220 and #6529). Any reimbursement payments (whether received from the tenant, by seizing tenant security deposit funds, or from the MSHA) must not be considered as income, but rather, must be credited to Account #1131 when received by the Development. For any particular period of time, the balance in this account should be a credit amount.

#### Depreciation (6600)

##### Depreciation

- 6610 Depreciation Expense A special Development expense control account to record the total depreciation for all Development owned depreciable assets listed in the #4100 Series of Accounts, that is to be charged as an expense for the reporting period. At the end of each accounting period, the appropriate depreciation on each fixed asset is credited to the corresponding account in the #4100 Series of Accounts and the total of these credits is debited to this expense account (see also description of #4100 Series of Accounts).

#### Taxes and Insurance (6700)

## Taxes and Insurance Expenses

- 6710 Property Taxes A Development expense account to record the total amount of property taxes, or payments in lieu of taxes, that have been assessed on assets owned by the Development and which have been paid or accrued by the Development during the accounting period. The amount of such taxes, or payments in lieu of taxes, that are applicable to subsequent accounting periods, and which have been paid, are debited to Account #1270 as a pre paid expense. At the end of the subsequent accounting period, Account #1270 is credited and this account is debited with the expired, prorata portion of the prepayment. This account must not be debited with tax payments on other property owned by the Development owner entity that does not comprise the Development, or for any taxes other than property taxes (see also Accounts #1315 and #2150).
- 6720 Property and Liability Insurance Premiums A Development expense account to record the total amount of premium payments on insurance coverage required by the MSHA in accordance with the terms of the Regulatory Agreement and which have been paid or accrued by the Development during the accounting period. The amount of such premium payments that are applicable to subsequent accounting periods, and which have been paid, are debited to account #1240 as a prepaid expense. At the end of the subsequent accounting period, Account #1240 is credited and this account is debited with the expired, prorata portion of the prepayment. This account must not be debited with premium payments for insurance coverage on other property owned by the Development owner entity that does not comprise the Development (see also Account #1315).

## Financial Expenses (6800)

### Interest Expenses

- 6820 Interest on MSHA Mortgage Note Payable A financial expense account to record the total amount of interest on the MSHA mortgage loan that has been paid or accrued by the Development during the accounting period.
- 6830 Interest on Other Notes Payable A financial expense account to record the total amount of interest on all notes payable of the Development, other than the MSHA mortgage note, that has been paid or accrued by the Development during the accounting period. The principal balance due on all such notes payable must be recorded in Accounts #2160 through #2163 and Accounts #2310, #2361 and #2362 as applicable.

### Other Financial Expenses

- 6850 Mortgage Insurance A financial expense account to record the cost to the Development of mortgage insurance, if any, on the MSHA mortgage note payable listed in Accounts #2163 and #2363.
- 6870 Mortgage Service Fees A financial expense account to record the cost to the Development of mortgage service fees, if any, assessed by the MSHA or other financial Institution.
- 6880 Amortization of Organization Expenses A financial expense account to record the total cost to the Development during the account period that correspond to the prescribed schedule for the amortization of Commitment Fees paid by the Development owner entity to the MSHA at or prior to the start of construction of the Development, and for other organizational expenses recorded as assets of the Development in Account #1810.
- 6890 Miscellaneous Financial Expenses A financial expense account to record other financial expenses for which a specific account is otherwise not provided. If necessary, this account may be subdivided using Account #6891 through #6899.

Service Expenses (6900) Service expenses accounts may be established, if necessary, using the #6900 Series of Accounts. These accounts would be used to record costs to the Development that are directly attributable and necessary to provide the service income recorded in the #5300 Series of Accounts.

Owner Accounts (7000) The #7000 Group of Accounts is reserved to record the financial status and transactions of the Development owner entity, if so desired. The intent is not to establish a prescribed structure of accounts that relate to other financial matters of the Development owner entity, but rather, to assure that such other financial matters are clearly delineated from the financial matters and the prescribed accounts that relate exclusively to the Development itself as a separate entity, subsidiary to the owner entity.

D. Journals Required

Descriptions:

Title                      Purpose

Journal of Monthly Rent      To record the accrual of monthly income amounts due from tenants and from MSHA HAP payments.

Cash Receipts Journal To record monthly cash receipts and miscellaneous income.  
Cash Disbursements

Journal      To record monthly distribution of expenses (if cash basis is used); or To record monthly amounts paid against accounts payable and other accrued liabilities.

Voucher Register      To record monthly distribution of expenses and record accounts payable (if voucher register is used and if on the accrual basis).

Payroll      To record payment of payroll and distribution of these costs. (The cash disbursements journal can be used to distribute these expenses where a payroll journal is not used due to the limited number of employees).

A separate journal entry each month summarizes the totals of each journal for posting to the general ledger:

All general ledger control accounts (i.e., accounts receivable, accounts payable, etc.) must be in agreement with subsidiary ledgers or other detail records and be maintained on a monthly basis.

A suitable time schedule and checklist for closing the general ledger and other accounting records should be established and maintained by each owner.

The general ledger, journal entries, and supporting records are permanent records. They must be maintained on file after the close of each fiscal year. The general ledger, related journals and journal entries must be maintained as permanent records of the development.

E. Monthly Journal Entries

Purpose: Monthly journal entries provide the data source and cross reference between the general ledger and the books of original entry and other supporting data. Their use establishes a uniform procedure which facilitates the closing of the accounting records from month to month. When preprinted, the clerical effort of rewriting similar information month after month can be avoided.

Procedures:

A suggested listing of journal entries is included within this section of the manual.

Each owner should determine the standard type entries required to close the accounting records each month. The respective account numbers, titles, and descriptions should be preprinted on the standard journal entry form.

Each entry should identify the month of the posting.

It is recommended that each entry indicate the signature of the preparer, the initials of the person posting and approval of the owner or managing agent.

Description of Monthly Entries (other than those from Journals):

<u>Title</u>	<u>Purpose</u>	<u>Insurance Write Off</u>	To record the prorating of insurance over the respective period to be charged.
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Reserve Transactions A monthly or quarterly entry must be made to record interest earned on these savings accounts. The reserve balances will be increased with debits, and credits will be made to the interest income account.

Accrued Real Estate Taxes To reflect the monthly accrual of real estate taxes. The cash transfer to the Tax and Insurance Reserve is recorded through the cash disbursements entry.

<u>Adjusting and Non recurring Entries</u>	As required
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All journal entries should be numbered in sequence and postings identified by number. Refinements will be acceptable, but are not necessary for purposes of MSHA.

F. Recording Monthly Rents

Policy: MSHA requires that each owner utilize an accounting system which provides for (1) the recording of monthly rents on an accrual basis, and (2) the periodic reporting of unpaid tenant balances. To accomplish these objectives, the Journal of Monthly Rents and the Tenant Account Ledger Card are suggested for each Owner's system. Alternative system approaches which accomplish the above objectives will be acceptable to MSHA.

Procedures:

Prior to the first day of each month, a listing of all available renting units is entered in the Journal of Monthly Rent. Consideration should be given to preprinting of standard information on the journal formats.

Each renting unit should be accounted for in the Journal of Monthly Rents.

A determination of the monthly rents/charges and other payments due from each tenant should be made and entered in the journal. It should be noted that rental rates, including adjustments and allowances thereto, must be approved by MSHA.

Unoccupied apartments should be identified and appropriately coded in the journal.

Amounts which pertain to each unit (occupied and unoccupied) should be distributed to the appropriate columns based on the following:

Accounts Receivable This column should include the total amount due from each resident.

Vacancy Losses These columns are used to record the rental amounts for the unoccupied units.

Occupancy Income These columns are used to reflect the gross available rents from all units, occupied and unoccupied.

Other Income The columns are used to record the income derived from tenants for services provided and from miscellaneous sources.

Amounts entered in the accounts receivable column of the journal are posted to the detailed Unit Control Card, which is maintained for each tenant.

An adding machine tape of the amounts posted should be prepared from the Unit Control Cards and the total compared to that of the monthly journal entry to assist in verifying posting accuracy.

Tenant collections are to be posted to the Unit Control Card daily, when received.



As Tenants pay the monthly charges it may be desirable to remove the tenants' Unit Control Cards from the "unpaid" to the "paid" file.

Periodic reviews of unpaid tenant balances should be made each month. Suggested points of review are the 5th, 10th, and daily thereafter.

The Journal of Monthly Rents is to be totaled and crossfooted each month.

Each month the Journal of Monthly Rents is summarized by account number and entered on a Journal Entry.

After posting journal entries to the general ledger, a trial balance of the tenants' Unit Control Cards should be prepared. The total should agree with the general ledger each month. Differences should be investigated immediately.

Special Procedures MSHA does not require that bills or statements be issued to tenants for charges each month. However, if collections from tenants are slow, each Owner should review his collection pattern and determine if the rent collection procedures prescribed within this section of the Manual are being followed and if additional follow-up procedures are necessary.

#### Aging Procedures on Tenants Receivables

A detailed review of unpaid balances should be performed each month.

The review should consist of:

Preparing schedules which classify delinquent tenants into periods; one month unpaid, two months unpaid, and three or more months unpaid; and

Determining the reasons for payment delinquency.

A trial balance of the unpaid tenants' Unit Control Cards should be prepared each month and agreed to the general ledger control account.

In the Quarterly Operating Report, Tenants Payments in Arrears should be prepared from the information on the tenants' Unit Control Cards.

If a tenant has made partial payments, these amounts should be applied against the oldest balances.

### Uncollectible Tenant Receivables

The determination by the Agent that a tenant receivable is uncollectible should be clearly indicated on the Quarterly Operating Report.

The following information shall be maintained for all amounts written off:

Date written off	Tenant's name	Balance written off	Amounts subsequently collected, if any	Remarks
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### G. Receipts

#### Deposits and Recording Procedure

If the normal procedure is to receive rent payments in the mail, someone other than the person preparing the bank deposit or posting the accounting records should prepare an adding machine tape of daily receipts. This tape should be compared independently to the journal total each day.

All checks should be endorsed "for deposit only" to the credit of the housing development immediately upon receipt. Checks or money orders should be made payable to the housing development.

All receipts should be entered daily in the Cash Receipts Journal. Each day's receipts should be totaled in the journal and agreed to the bank deposit prepared.

All receipts must be deposited intact daily. The person preparing the bank deposit should be, if practical, someone other than the person posting the accounting records or reconciling bank accounts. Expenses should never be paid directly out of cash receipts.

Rent and miscellaneous income receipts shall be deposited in the Development Operating Bank Account.

The bank receipt of the deposit should be verified by the Agent to the amount entered in the Cash Receipts Journal each day.

Entries made in the Cash Receipts Journal for Accounts Receivable must be posted to the detail Tenant Ledger Cards daily. The ledger cards are to be maintained on a current basis for billing and payment amounts. This will provide current information on tenant balances.

The Agent should perform an independent review of the Cash Receipts Journal on a periodic basis.

All Miscellaneous receipts should be reviewed by the Agent for propriety.

All Bank debit and credit memos and deposit items returned as uncollectible should be received and controlled by the agent.

#### Summarizing and Posting Procedures

Each Cash Receipts Journal sheet should be headed with the page number, month, and year.

Entries made in the journal are to be distributed to the appropriate columns.

Monthly, the amount columns should be totaled. The sum of the operating cash account and other debit columns should equal the sum of the various credit columns.

The amounts summarized in the journal each month should be reflected on monthly Journal Entries.

The journal entry is posted to the general ledger monthly.

A new journal page should be started in the subsequent month.

#### H. Disbursements

##### Check Preparation Procedures:

The preparation and signing of checks must follow procedures approved by MSHA.

No checks are to be prepared to "cash" or "bearer". Checks for replenishment of petty cash funds should be drawn to the person who is custodian of the fund or to the project's petty cash account.

All disbursements (except those made from the petty cash fund) are to be made using prenumbered checks. Checks must be issued in sequence. Spoiled and voided checks should be mutilated and maintained on file for subsequent audit.

The supply of unused checks is to be adequately safeguarded, and if practical, they should be under the control of someone other than the person responsible for preparing or signing checks.

MSHA requires demonstration of internal controls with respect to separation of signing from the preparation of and accounting for disbursements. MSHA recommends that all checks issued for \$1,000 or more have two authorized signatures, but consideration should also be given to the use of dual signatures on checks for less than \$1,000.

The checks should be signed by someone independent of approving invoices for purchases or maintaining of accounting records.

No checks are to be signed in advance of their being completely filled out.

Unpaid bills should be filed by due date. Discount periods should be noted and taken when applicable.

When due, approved invoices or check requests are removed from the unpaid bill file, the check is prepared, and the details are entered in the Cash Disbursements Journal.

Supporting documentation for each disbursement should include an invoice, evidence of initial order, and proof of receipt of merchandise or services.

Approved invoices or check requests must be submitted with the check at the time of signing. The check signatory must review supporting documentation before signing checks.

All paid invoices and check requests are to be canceled and filed by vendor name. When paid, each invoice should indicate the date paid and the check number.

If practical, signed checks should be mailed to vendors by someone other than the person preparing the check.

Payment should not be made against vendor statements unless original invoices shown on the statement are attached.

### Petty Cash

The following pertains to the use of petty cash funds:

All petty cash funds are to be on an imprest basis, i.e., cash and vouchers should always agree to the total of the fund.

The responsibility of the fund should rest with one individual

There should be a maximum limit established for a single disbursement which can be made from the fund, e.g. \$10.

Each disbursement from the fund must be approved by the Management Agent.

Replenishment of the fund should only be made after proper review of the documentation is made by the Management Agent.

No personal or salary checks of employees are to be cashed using the imprest funds.

All paid vouchers must be signed in ink by the person receiving the cash payments. The petty cash fund is to be periodically reviewed and counted by the Management Agent.

### Check Requests

Occasionally a disbursement will be required where no invoice is available. In these instances, a "check request" must be prepared. A check request should indicate the following:

- Date
- Vendor
- Amount of disbursement
- Account code to be charged
- Remarks concerning disbursement
- Approval of Agent

The check requests should be filed with other vendor invoices. Use of the attached sample form is suggested.

DEVELOPMENT NAME \_\_\_\_\_  
ME36-H017-\_\_\_\_\_

CHECK REQUEST

Date \_\_\_\_\_ \$ \_\_\_\_\_

Pay to: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

<u>Account No.</u>	<u>Amount</u>	<u>Description</u>
_____	\$ _____	_____
_____	\$ _____	_____
_____	\$ _____	_____

=====

Purchase Authority Checked \_\_\_\_\_ Posted \_\_\_\_\_  
Receiving Copy Checked \_\_\_\_\_ Check No. \_\_\_\_\_  
Invoice Checked, Matched \_\_\_\_\_ Approved \_\_\_\_\_  
Approved \_\_\_\_\_

## Summarizing and Posting Procedures:

The Cash Disbursement Journal sheets should be headed with the page number, month, and year. Page numbers should begin with "1" each year and progress consecutively.

Each check issued should be listed in the Cash Disbursement Journal in check number sequence.

Disbursements are distributed to the appropriate columns as indicated by account codings on invoices paid by each check.

At the end of each month, columns should be totaled. The sum of the debit amount columns should equal the sum of the credit amount columns.

Expense category columns, reserve column, and the general column amounts should be summarized by account number.

The summary amounts should be reflected on the journal sheets below the respective columns analyzed.

All total amounts for each account should be entered on the appropriate standard journal entry.

The standard journal entry is used for posting to the general ledger each month. The general ledger may be posted directly from the journals.

Each month, a new journal sheet should be started for cash disbursement transactions.

**Accrual of Invoices** When the accrual method of accounting is used, unpaid invoices can be listed in the Cash Disbursements Journal at month end. The accounts payable credit column is used for these invoices. Debit amounts are distributed to the appropriate expense columns. As invoices are paid in the subsequent month, each entry then reflects a credit to the cash column and a debit to the accounts payable column. An alternative approach would be to reverse amounts entered as accounts payable in the subsequent month.

### I. Bank Accounts and Cash Funds

Project accounts should be established in a depository approved by MSHA. It is MSHA's policy, however, for the owner to select the depository, and nonapproval of a depository is extremely rare. MSHA also requires that signature card be forwarded to MSHA and that a letter from MSHA be sent to the depository describing how the account should be established.

In order to be in compliance with I.R.S. requirements, bank accounts must be in the name of the entity to whom the Tax Identification Number is assigned.

Development Operating Account: Each owner shall maintain a development operating account (1120), at a depository approved by the MSHA. This account is to be used for the deposit of all gross receipts as defined by the Regulatory Agreement. All disbursements from this account shall be made by check and in a manner consistent with the requirements prescribed in the Regulatory Agreement. With prior written approval of MSHA, surplus funds in this account may be invested in accordance with provisions in Section K of this manual. This flexibility is designed to maximize development interest earnings.

The bank account shall be opened in an insured bank, and shall be entitled:

[Name of Owner] Development Operating Account (or DOA Reserve)  
Development Name - Location

Individuals authorized to sign checks shall be designated by the Board of Directors, owner or managing agent, whichever is appropriate. All check payments over \$1,000 should have two authorized signatures. MSHA should also be a named “or” signatory on the account.

Restricted Reserve and Escrow Funds:

Owners are required to establish and maintain restricted reserve and escrow accounts as provided for in their Regulatory Agreement.

Following is a list of restricted reserve and escrow accounts that typically apply to MSHA financed developments:

1. Tax and Insurance Escrow
2. Replacement Reserve
3. Surplus Cash Fund (formerly Excess Surplus Cash Fund) for projects with a Federally-limited distribution
4. Operations and Physical Improvement Escrow for all other nonprofit projects

Although Regulatory Agreements with owners of MSHA financed developments may have different requirements regarding required reserves, generally, specific reserves have the same purpose and restrictions on the use of funds. Control over the actual disbursement of funds represents the most significant difference between Regulatory Agreement provisions.

Restricted Reserve accounts should be entitled as follows:

[Name of Owner] \_\_\_\_\_ Reserve  
Development - Location

MSHA should be a named signatory on all restricted reserve accounts, an “or” signatory on deregulated accounts and an “and” or sole signatory on regulated accounts.



Generally, all reserve funds maintained by the owner shall be in interest-bearing accounts in depositories fully insured by the U.S. Government or in bank-related investments that are fully guaranteed by the United States of America. (See Section K for a full description of MSHA-approved investments.)

Security Deposit Account: All funds received representing security deposits for rentals shall be placed in a segregated account (1191). These funds are to be deposited in an interest-bearing account. Disbursements of funds shall be in compliance with MSHA and HUD Regulations.

Bank accounts used for the deposit of these funds are to be entitled:

“ \_\_\_\_\_ Security Deposit Account”  
Name of Owner/Development Name

Authorized signatures are to be designated by the Board of Directors, owner or managing agent, whichever is appropriate. MSHA is not a signatory on this account.

Imprest Payroll Account (Desirable but Optional): The imprest payroll account is used to control disbursements of payroll checks and to maintain these disbursements separate from the operating account. Its use is optional, but is suggested when there are more than ten (10) employees on the payroll.

The bank account is to be placed with an insured bank, and is to be entitled:

" \_\_\_\_\_ Payroll Account"  
Name of Owner/Development Name

The Board of Directors, owner or managing agent, whichever is appropriate, shall designate the authorized signatures required on the payroll checks. MSHA is not a signatory on this account.

Deposits to the account should be limited to transfers of funds from the Development Operating Account (1120). Disbursements should consist only of payroll checks. The bank should be instructed to charge all service charges, if applicable, to the operating account. Either a zero or a nominal amount should be placed on deposit for this account. The amount placed on deposit should be reflected in the Imprest Payroll Account (1121).

Bank Reconciliation Procedures:

All bank accounts are to be reconciled monthly. Where practical, this should be done by persons other than those responsible for preparing or signing checks or handling cash.

All bank reconciliations shall indicate the balance per bank, deposits, interest, outstanding checks, other reconciling items and balance per general ledger.

Each deposit in transit shall be listed separately and shall indicate the date recorded on the books and by the bank.

Outstanding checks shall be listed sequentially by check number. Appropriate indications (X) should be made in the Cash Disbursements Journal for checks that have cleared the bank.

The bank reconciliation shall contain adequate explanation of other reconciling items as well as comments regarding their ultimate disposition.

Bank reconciliations should be reviewed regularly by the Agent, and he should initial his approval on the reconciliations.

Bank reconciliations must be retained on file in an orderly manner.

J. Inventory Record Keeping

Policy: It is not anticipated that supplies maintained on hand will be of significant dollar value to warrant deferral in financial statements. Generally, these inventories consist of janitorial supplies, tools and equipment, replacement parts, ground maintenance materials, etc. When purchased, these supply items should be charged directly to the appropriate expense accounts. If sizable inventories of supplies are maintained, their value should be periodically determined and consideration should be given to deferral of unexpended amounts at the end of each accounting period. The prepaid series of accounts should be used to reflect any deferred amounts.

Although prepaid balances are not recorded on the general ledger, MSHA recommends that suitable physical control exists over major supply inventories. The following procedures emphasize this material control function.

Procedures:

An inventory record should be maintained for items in each principal class of materials; i.e., supplies, replacement parts, etc.

The inventory record may be in the form of a Cardex file, individual ledger card or account analysis schedule. Information on the record should consist of:

- Name and description of part and serial number
- Location of material
- Inventory quantity on hand
- Cost of each purchase
- Sources of supply
- Minimum inventory level

Responsibility for inventories should be assigned to specific custodians.

All goods should be adequately safeguarded against loss by theft and protected against physical deterioration. Suitable locked rooms or storage areas should be considered with access limited to authorized personnel.

The agent should periodically review the perpetual inventory records to determine that they are properly maintained.

Periodic Physical Inventories. The quantities counted should be verified against perpetual records. Large discrepancies between physical counts and records should be investigated and the reasons for the differences determined.

K. Investments

General Policy & Procedures:

All investment transactions should be authorized by the Board of Directors, owner or managing agent, as appropriate. MSHA also requires its prior approval of all investments. A list of approved investments is provided on page 88 of this manual. Adequate records of investments details should be maintained.

MSHA encourages owner/managers to combine their DOA Reserve, Tax/Insurance Escrow, Replacement Reserve, and Operating and Physical Improvement (OPIE) accounts in a “pooled” investment vehicle, a banking product that has become more available in recent years. Such pooled investments need to meet the following criteria:

- Because of different signatory requirements, “regulated” and “deregulated” accounts should be pooled in separate investment accounts.
- Tracking should be provided by the bank for each subaccount, i.e., the OA Reserve, T&I Escrow, Replacement Reserve, and/or OPIE, so that deposits, withdrawals and interest can be separately accounted for.
- Investments that are protected only by FDIC insurance may need to be limited in dollar amount of the investment. Equivalent investments with no dollar limit would include, among others, direct obligations of the United States of America and bonds, debentures, notes or participation certificates issued by certain Federal agencies.

MSHA also encourages pooling of the reserves from more than one project in order to increase investment earnings.

L. Insurance

Policy: Insurance coverage is to be maintained for each development in accordance with the Regulatory Agreement.

Procedures:

Monthly, an amount equal to approximately 1/12 of the annual premiums is transferred from the Development Operating Account to the Tax and Insurance Reserve.

M. Property and Equipment

Posting and Summary Procedures

Subsidiary records are to be maintained supporting each asset charged to the property and equipment accounts. These records or schedules should agree with the respective general ledger control accounts, and they should reflect any accumulated depreciation amounts.

Each asset should be recorded on a separate card or schedule.

The following information should be recorded for each asset:

General ledger account number and title Asset depreciation and serial number Present location, building/unit number, etc. Date acquired Vendor Cost Estimated useful life Method of depreciation or amortization Annual depreciation Amount of depreciation or amortization to date

Property and equipment purchases are originally recorded in the Cash Disbursements Journal or Voucher Register.

When originally recorded, pertinent information should be written on the asset record card or schedule.

Ledger cards or schedules are to be maintained on file by account number for future reference.

When disposal of assets is effected, the asset record should reflect the details of the transaction, including the proceeds and gain or loss, if any.

Supporting records to the property and equipment accounts should be balanced to the general ledger at least quarterly but must be updated and balanced to the General Ledger annually, at fiscal year end.

Purchasing Procedures:

A formal authorization and approval policy should be established by the owner or managing agent for all capital asset purchases.

The policy established could cover:

Additions and replacements including any trade-in information Retirements Disposals  
Expenditures in excess of original authorizations Major repairs and replacements

Written approval is required from MSHA for all capital purchases. This is required whether funds are from the Replacement Reserve Fund or from current operating funds.

MSHA recommends that any purchases of property or equipment in excess of \$300 and having a useful life over three years be capitalized as fixed assets. Purchases under these limits may be charged to expense accounts.

N. Accounts Payable

Invoice Processing Procedures:

All invoices should be forwarded to the person who processes them for payment on a timely basis. This is particularly important when discounts are available.

Duplicate copies of invoices should be clearly stamped "copy" to prevent duplicate payment.

Once received, vendor invoices should be processed as follows:

Prices, terms and quantities should be compared to approved purchase order or original requisition;

Receipt of goods and services must be verified and recorded on the invoice;

Mathematical accuracy of footings, extensions and discounts should be verified and noted on the invoice.

Proper account coding should be inserted on the invoice.

Final approval for payment should be obtained. All invoices should indicate that the above checks and approvals were made. The use of a "block stamp" is recommended for indicating checks and approvals.

Invoices and vouchers should be filed by due date after the above audit has been performed. This open file can serve as the detail accounts payable ledger. If desired, an individual "Subsidiary Account Ledger" card can be used. Vendor charges and payments would then be posted to these records.

Periodically, weekly or biweekly, the unpaid invoices which are due for payment are removed from the unpaid file and payment checks are prepared.

A trial balance of the accounts payable file must be prepared each month. If the accrual method is used, the trial balance must agree with the balance in the general ledger control account. Any differences should be reconciled promptly.

Statements received from vendors should be verified against the open accounts payable file and kept available in file for auditing purposes for a period of at least three months.

#### Accrued Liabilities:

Accrued liabilities, according to the individual account definitions, are those expenses applicable to the current period which are not payable until some future accounting period.

A careful review should be made at the end of each operating quarter and at year end for determination of the final sum total of all accrued liabilities. These amounts should be recorded in the general ledger for incorporation on the Quarterly Operating Report and Annual Financial Report.

Usually, such accruals are recorded during or at the end of one month and paid or reversed the next month. Journal entries are prepared recording these amounts.

#### Employee Withholdings:

Credits to the various employee withholding accounts are generally derived from the payroll journal.

Offsetting payments to taxing authorities and others are debited directly against these accounts.

Care should be exercised to determine that account balances at month-end represent the actual amounts due.

Employee withholdings must be recorded monthly in the general ledger. Withholding payments must be paid promptly pursuant to the Federal and State requirements.

P. Long-Term Liabilities

Definition

Long-term liabilities consist of any financing or borrowing which will not be liquidated within the current operating fiscal year. The portion which will be liquidated during the fiscal year must be recorded as a current liability.

The Owner, Board of Directors or General Partner(s) must authorize all borrowing and designate those officers of the corporation or partners who are empowered to sign obligations in the name of the corporation or partnership.

The Owner, Board of Directors or General Partner(s) must ascertain compliance with the restrictions of each debt agreement.

Any incurring of long-term debt must have prior written approval of MSHA.

A copy of the debt agreement and other pertinent documents related thereto must be maintained as a part of the permanent records of the development.

Notes Payable

Appropriate subsidiary records should support each of these general ledger accounts.

The following information should be maintained for each note:

Date incurred Description and purpose Payee Due date(s) and rate of interest Original amount of note Payments made, including date and check number Current balance Copy of the original note Approval letter from Maine State Housing Authority

### Mortgage Loans Payable to Maine State Housing Authority

Pertinent information should be extracted from original agreements and retained in summary form for easy reference. Information should consist of:

Date or Mortgage Description of Property Interest Rates Repayment requirements  
Original amount of mortgage Payments made, including date and check number  
Current balance

### Mortgage Loans Payable to Others

The same information required for the MSHA mortgage should be retained for all other mortgages. Before obtaining any other mortgages, the owner/managing agent must obtain prior written approval of MSHA.

### Q. Partners' Equity or Retained Earnings

Records Required and Procedures: Ledger books shall be maintained in accordance with legal requirements of the State. A schedule of stockholders/or partners in alphabetical sequence noting the number of shares or per cent held by each is to be maintained. All transactions and related amounts should also be entered therein.

#### If a Partnership

The most recent partnership agreement must be filed with the Maine State Housing Authority's office of General Counsel;

Pursuant to the terms of the Regulatory Agreement between MSHA and the developer, any significant change in the ownership of interests in the developer must have MSHA's prior approval.

#### If a Corporation

Stock Certificates are to be prenumbered and issued in sequence;

The stockholder records and unissued certificates are to be held in the custody of an officer of the corporation as designated by the Board of Directors;

Surrendered stock certificates are to be effectively canceled and attached to the related stub in the stock certificate book;



When transfers of certificates are made, the officer authorized to sign new certificates must inspect the surrendered certificates for proper assignment and comparison of shares canceled.

Stockholder records should be periodically balanced to the appropriate general ledger accounts.

R. Payroll Records

Timekeeping Records. Each owner shall adopt a suitable timekeeping record to be prepared by each employee. The record should indicate, by day, the time worked. The time record should be signed by the individual employee and approved by his immediate supervisor and the Agent. This record shall be used as the supporting document for payroll disbursements and is to be retained on file.

Each day period, all employees complete a time record for the hours worked during that period. This should be approved by his immediate supervisor.

The time records are then forwarded to the Agent for approval of regular time and overtime worked.

The Agent, after approving the time records, forwards them to the individuals responsible for preparing the payroll.

The time records are used as the basis for calculating gross wages due each employee and for expense distribution purposes.

Payroll Preparation. The need for a separate payroll journal and a separate imprest payroll bank account should be determined by the Agent based on the number of personnel on the payroll. When using a payroll journal, the recordkeeping task is facilitated and systems such as "write it once" or outside computer service bureaus can be used. If a payroll journal is not used due to the limited number of employees, all entries should be recorded in the Cash Disbursements Journal. An employee earnings card is required under either approach.

The following procedures pertain to payroll preparation and are applicable whether using a separate payroll journal or the Cash Disbursements Journal:

Each employee should be listed in the journal in the account number sequence to which their gross wages are to be expensed. This facilitates

the distribution of gross wages by grouping similar individuals.

The net pay of each employee should be determined by calculating the total earnings and subtracting various deductions. All amounts are to be recorded in the journal.

Gross earnings should be charged to the appropriate salary and wage expense account. Employee deductions are credited to the related liability accounts and the net pay is credited to cash.

A payroll check should be prepared for each employee. No payments are to be made by cash.

When a payroll journal and an imprest cash account are used, a single line in the Cash Disbursements Journal should reflect the drawing of a check for the total net payroll. The Operating Cash Account is credited and the Imprest Payroll Account is debited. The Imprest Payroll Account is also credited with the net payroll from the payroll journal.

Once the payroll is prepared, all calculations should be rechecked for accuracy.

A responsible individual other than the preparer should review the entries made in the journal after he has signed the payroll checks.

When a payroll journal is used, a standard journal entry must be prepared each month summarizing amounts in all columns. This entry is posted to the general ledger.

When the accrual basis of accounting is used, the Accrued Payroll and Wages Account (2120) can be used as the clearing account for payrolls. Amounts are recorded and distributed to the respective expense account based on the period earned rather than when paid.

Payroll checks should not be signed in advance.

#### Payroll and Personnel Records

An employee earnings card is prepared and used for summarizing (a) gross wages, (b) deductions, and (c) net earnings on a monthly and year-to-date basis.

The card should contain pertinent information about the employee related to payroll such as social security number, number of dependents for payroll purposes, straight and overtime wage rate, etc.

The employee earnings cards are to be compared at least quarterly to the gross wage amounts shown in the general ledger expense classifications. All payroll deductions must agree with the Federal and State tax returns filed for the quarters in question.

#### Employee File

An employee file should be established for current and future use.

Suggested contents of an employee file are:

- Approved employee application
- Dependent statements (W4 State and Federal)
- Authorizations for other deductions
- Approved rate change forms
- Other employee information

#### S. Maintenance and Repairs

Records Required. Owners shall maintain a schedule of planned and completed maintenance and repairs which must include the following:

- Work order number
- Building and unit number
- Date work scheduled
- Description of work
- Estimated time to complete
- Estimated cost for materials and labor
- Whether costs were chargeable to tenant
- Account to be charged
- Date work completed
- Names of personnel performing work
- Actual cost of materials and labor

#### T. Purchasing

##### Purchase Order System

Each owner should consider the need for a purchase order system. Generally,

the purchase volume of supplies and services can be controlled through the review and approval of vendor invoices by the Agent. However, when the purchase volume is large, formal purchasing procedures can aid in controlling expenditures. Adherence to established ordering procedures helps to insure that disbursements are made only for authorized purchases.

The basis of a good purchasing system is the Purchase Order. Purchase Orders are available in stock form. This multicopy document provides space for (1) vendor name and address, (2) required delivery date, (3) item(s) requested, (4) quantity, (5) price, and (6) approval.

The various copies should be distributed as follows:

Part 1, Original to the vendor.

Part 2, Acknowledgment to the vendor along with original copy for return acknowledging receipt, terms, and condition of order request.

Part 3, Receiving Report used to indicate receipt of shipment and subsequently attached to invoice as supporting evidence of the transactions.

Part 4, Purchasing retained in open file until receipt of goods and then removed.