

HCD and CalHFA Audit Handbook – FAQs (March 2015)

1) When withdrawals from the Replacement Reserve Account are less than the amount capitalized, does the Audit Handbook allow a reduction to Operating Cash Flow?

Answer: No. Operating Cash Flow may not be reduced for fixed capital asset purchases as it would reduce the cash available for distributions. Project Operating Cash Flow as defined and discussed in Regulatory Agreements and the Audit Handbook is not the same as project entity level cash flow.

Operating Cash Flow is reduced by deposits made to the Replacement Reserve Account. If this Account is insufficient to meet required capital improvements, project owners should contact their Asset Manager to review funding levels in advance of anticipated capital expenditures. The Department encourages project owners/management not to use operating cash to fund capitalized assets. The Department approves funding of the Replacement Reserve for that purpose. The use of project operating cash to fund capitalized assets harms the project's liquidity, and potentially its ability to meet financial obligations in a timely manner.

HCD is aware that differing project to project owner capitalization policies may result in different treatment of costs, (i.e. capitalized or expensed). The project owner must review its capitalization policy with the CPA for conformity with GAAP, and in relation to the Department's Operating Cash Flow method to avoid any inadvertent consequences.

2) Is it necessary that the comparative Statement of Operations be displayed in the same HUD Account categories for both last year and the current reporting year?

Answer: Yes. Last year's audited Statement of Operation amounts must be recast into the appropriate operating expense account categories (i.e., Administrative, Utilities, Operating & Maintenance, Taxes and Insurance) for consistency with the new Audit Handbook and the current reporting year. In addition, owners should compare the existing project chart of accounts for conformity to the complete chart of accounts required in the Audit Handbook (pages A-21 to A23) and HCD's revised [Operating Budget workbook](#). Click [here](#) to see a side by side comparison of the old HUD Accounts as used in HCD's prior 180 and 181 forms and the new HUD Accounts as used in the Audit Handbook.

3) Regarding the Supplementary Information: for those Miscellaneous accounts over \$2,500, is it required to illustrate the details right below or can it be referred to on a separate page?

Answer: Reporting the details of miscellaneous activity below the applicable account category is consistent with the HUD chart of accounts structure. Auditors may report this activity on a separate schedule or page within the Audit.

4) Pages 3 to 4 regarding separate financial statements - for non-profit organizations that own rental properties financed by HCD/CalHFA, if the organization-wide audit includes the rental property specific information in the format of the suggested supplementary information, would that be an acceptable alternative to meet this requirement?

Answer: Yes, as long as the property specific information includes all the required Audit Handbook supplemental information including property specific notes. The Auditors opinion regarding the organization-wide audit must include a paragraph that indicates the supplementary information has been subjected to auditing procedures applied to the basic financial statements, and certain other procedures. That opinion will cover all supplemental information so a separate opinion is not required for each project.

5) May a General Partner or Corporate Officer tax return preparation fee be included as part of the partnership operating expense? Also, the Handbook states that fees related to the determination of alternative treatments of complex accounting issues should not be included as professional service costs.

Answer: GP or Corporate Officer tax return preparation fees are not eligible project operating expenses. Fees related to alternative tax treatment of complex accounting issues (e.g. re-syndication) are also not eligible project operating expenses since these are not ongoing recurring operating costs.

6) Is disclosing the operating expense allocation method sufficient for RHCP-O/MHSA projects?

Answer: No. The allocation method must be disclosed along with three separate columns (Assisted Expenses, Non-Assisted Expenses and Total Expenses) for allocation of all expenses.