

Audited Financial Statements Handbook For Multifamily Rental Housing

**CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
CALIFORNIA HOUSING FINANCE AGENCY**

LAST REVISED: APRIL 2018



Foreword

Audited financial statements are one of the primary tools used by both the California Department of Housing and Community Development (HCD) and the California Housing Finance Agency (CalHFA) to meet their fiduciary responsibilities in overseeing housing programs, bond requirements, and assuring the integrity of their respective multifamily housing portfolios. The areas of noncompliance and internal control weaknesses noted in these statements will be addressed by the respective HCD or CalHFA Asset Management staff as appropriate.

This Audited Financial Statements Handbook For Multifamily Rental Housing (Audit Handbook) is the result of a joint effort by HCD and CalHFA to coordinate their audit requirements. The Audit Handbook and has been managed and developed by George Rodine and Michael Frost (HCD) and Janet Louie (CalHFA) since its initial publication in 2013. The Audit Handbook and submission requirements detailed herein are for HCD and CalHFA purposes only and the Independent Certified Public Accountant (auditor) must be aware of and file appropriate audit submissions as may be required by other governmental agencies, investors, etc. in their formats. **Audits are required to be submitted to both HCD and CalHFA for jointly funded projects and to the respective department for individually funded projects.**

The Audit Handbook is neither intended to be a complete manual of procedures, nor is it intended to supplant the auditor's judgment of audit work required. Suggested formats contained herein may not cover all circumstances or conditions encountered in an audit. The auditor must use professional judgment to add supplementary information and to determine the extent of testing necessary to support the opinion in the financial statements. All applicable compliance requirements in this Audit Handbook must be addressed by the auditor.

The auditor may contact the respective HCD or CalHFA Asset Management staff if technical assistance is needed pertaining to particular HCD or CalHFA programs, regulations or operations.

HCD and CalHFA require auditors use the current HUD Chart of Accounts in the presentation of the audit supplementary information as the HCD and CalHFA databases utilize these HUD accounts.

HCD and CalHFA staff continue to be receptive to suggestions and appreciate the help provided by the accounting profession.

The Audit Handbook is posted at HCD's and CalHFA's respective websites at:

- www.hcd.ca.gov/grants-funding/already-have-funding/all-rental-projects.shtml
- www.calhfa.ca.gov/multifamily/asset/

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Introduction

Regulatory Agreement

Each owner participating in various HCD or CalHFA programs is required to sign an HCD or CalHFA Regulatory Agreement(s) (or in some instances an FHA Regulatory Agreement with CalHFA amendments, addendums or modifications) as well as other documents relating to the financing and affordability of the project. The contents of the agreements from one project to another may vary due to statute and regulatory changes, specific HCD or CalHFA program requirements and/or special project conditions or requirements. The auditor must obtain a copy of the applicable HCD or CalHFA Regulatory Agreement(s) and other agreements including but not limited to the promissory note(s), deed(s) of trust and other relevant regulatory information. Once obtained, the auditor is to review the terms and conditions, and document findings of material non-compliance in the accompanying information of the audited financial statements. Financing arrangements may involve another agency's requirements that interact with HCD or CalHFA. Instances of noncompliant financing arrangements must be disclosed.

Programs

HCD programs covered under this Audit Handbook:

- Affordable Housing and Sustainable Communities (AHSC) Program
- California Housing Rehabilitation Program - Rental Component (CHRP-R)
- California Natural Disaster Assistance Program - Rental Component (CALDAP-R)
- Deferred Payment Rehabilitation Loan Program (DPRLP) - Rental
- Families Moving to Work Program (FMTW)
- Family Housing Demonstration Program (FHDP)
- HOME Investment Partnership Program (HOME) - CHDO
- Joe Serna, Jr. Farmworker Housing Grant Program (JSJFWHG)
- Mobilehome Park Resident Ownership Program (MPROP)
- Multifamily Housing Program (MHP)
- Multifamily Housing Program – Downtown Rebound Program (DRP)
- Multifamily Housing Program – Governor's Homeless Initiative (GHI)
- Multifamily Housing Program – Homeless Youth (HYMHP)
- Multifamily Housing Program – Supportive Housing (SHMHP)
- Rental Housing Construction Program (RHCP-Bond)
- Rental Housing Construction Program (RHCP-Original)

Introduction (Cont.)

- Special User Housing Rehabilitation Program (SUHRP)
- State Earthquake Rehabilitation Assistance Program (SERA)
- Transit Oriented Development Housing Program (TOD)
- New or Restructured Programs/Projects that require project audits
- Veteran Housing and Homeless Prevention Program (VHHP)

CalHFA programs covered under this Audit Handbook:

- 80/20 projects with or without Special Needs
- Section 8 projects with CalHFA as Housing Assistance Payment (HAP) contract administration
- Section 8 projects with a CalHFA loan with Performance-Based Contract Administrator (PBCA) as HAP contract administration
- Rental Housing Construction Program (RHCP)
- Mental Health Services Act Housing Program (MHSA)

Owner's Responsibilities

Accounting Records

The owner must provide HCD or CalHFA, as applicable, with required reports, financial statements, projections and analyses. Records must be maintained at all times in reasonable condition for proper audit. The books and records must be posted on a regular basis and consist of appropriate journal entries to a general ledger necessary to reflect project financial condition without substantial corrections or adjustments.

Audited Financial Statements

HCD and CalHFA require the owner to submit a signed electronic copy of the audited financial statements within 90 days of the project's fiscal year ending date. The submitted copy must include a signed certification by the owner regarding the completeness and accuracy of the financial statements and a signed certification by the management agent, if applicable, regarding the management of the project. The Financial Statements including the notes and supplementary information are to be audited in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (Yellow Book) in addition to Generally Accepted Auditing Standards (GAAS) developed by the Auditing Standards Board of the American Institute of Certified Public Accountants. Applicable Government auditing standards include the General Standards, and the Field Work and Reporting Standards for Financial Audits. The Financial Statements are also to be audited in accordance with the requirements of this Audit Handbook.

Owner's Responsibilities (Cont.)

The Financial Statements must include supplementary information and reports which HCD or CalHFA requires for general analysis of operations and for assurance of compliance with the applicable HCD or CalHFA Regulatory Agreement(s), HUD 4350.5, HUD IG 2000.04 and Office of Management and Budget (OMB) Circular A-133, as applicable.

The audit must include the supplementary information as described in the Notes to the Financial Statements and the Supplementary Information in this Audit Handbook. Two separate sample financial statements are provided: *APPENDIX B* must be used for projects with no HCD funding and either CalHFA administered HUD Section 8 or HUD Section 8 with a requirement to submit Audits to HUD/REAC as part of the Financial Assessment SubSystem. *APPENDIX A* is for all other projects. Projects having both HCD funding and either CalHFA administered HUD Section 8 or HUD Section 8 with a requirement to submit Audits to HUD/REAC as part of the Financial Assessment SubSystem must submit *APPENDIX A plus* the *CalHFA Surplus Cash Computation (see page B-25)*. Although the auditor expresses an opinion on the financial statements, the statements themselves are the owner's responsibility. It is also the owner's responsibility to maintain adequate books and records and examine the audit prior to sending to HCD and/or CalHFA.

From the accounting records, an opinion must be provided regarding: the financial statements including the notes and supplementary information (in all material respects); the financial position; and the results of the operations and cash flows for the years then ended. The opinion must state if the financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The cost of operations of the project includes the expenses incurred in maintaining the accounting records. Although the owner may engage an auditor to perform services outside the audit, the owner or the owner's representative must perform the management functions and make management decisions. The owner must certify to the completeness and accuracy of the financial statements. The management agent, if applicable, must certify to the owner (see pages A-27 to A-28, B-27 to B-28).

Delegation of Responsibility to Agent

The owner may delegate the responsibility for the maintenance of the project accounting records to the management agent. Under these circumstances, the management agent must fulfill these responsibilities as required by the Regulatory Agreement(s). Additional audit fees resulting from the failure to maintain accounting records in accordance with HCD or CalHFA requirements may not be charged to the project. The management agent may be required to provide, at his/ her own expense, additional accounting services to have these records put in an auditable condition.

The responsibility for obtaining the audit and engaging the services of an auditor may not be delegated. Although the management agent may provide the names of auditors who may be interested in the professional engagement, the actual contractual relationship must be between the owner and the auditor.

Owner's Responsibilities (Cont.)

The First Audit

Projects whose funding sources include equity from low-income housing tax credits

The first audit is required within 90 days after the end of the fiscal year of the permanent loan closing. For HCD construction loans, the first audit is due 90 days after the end of the fiscal year of the project's first year of operations. In addition, if the project was in operation during a prior year, the audit for the prior year may also be required.

Projects whose funding does not include equity from low-income housing tax credits

If the permanent loan closing date was less than six months prior to the end of the fiscal year, the first audit may either include only those few months of operations, or may include those months along with the first full year of operations after permanent loan closing, as long as the audit does not exceed 18 months of operations. Thus, if the project does not have funding from low-income housing tax credits, and if the permanent loan closing date is August 1, the owner who maintains accounting records on a calendar year basis would have the audit performed either as of the partial operating year of five months or as of the end of the next fiscal year covering 17 months.

Separate Financial Statements

Where the entity that owns the project has other programs and projects, only the separate operations of the HCD or CalHFA financed project are required to be shown as a separate financial statement including the project specific Notes to the Financial Statements and the Supplementary Information. For example, there may be a non-profit organization that provides other services or owns other projects. Such an organization may obtain an organization-wide audit but will nevertheless be required to prepare separate financial statements for the HCD or CalHFA financed project.

Distributions and Residual Receipts

HCD or CalHFA review of audited financial statements may result in authorization to make cash distributions and/or Residual Receipts payments. The Owner must remain cognizant of these and other regulatory or contractual requirements.

Engagement Of The Auditor

The owner must engage the services of an auditor, satisfactory to HCD or CalHFA, well in advance of the end of the project fiscal year. Although prior experience in performing HCD or CalHFA or similar type audits is advantageous, any independent accountant licensed in California may be selected to perform the audit.

The owner must select an auditor that is qualified to perform and complete the audit in a professional and timely manner. Failure to perform the audit in accordance with HCD or CalHFA requirements may result in additional expense to the owner.

Engagement of the Auditor (Cont.)

The auditor must not be responsible for the preparation or the maintenance of the project's basic accounting, financial records or for creation of a trial balance. The auditor must adhere to the American Institute of Certified Public Accountants (AICPA) and Yellow Book Independence Standards.

Audit Fee

Professional service costs including the audit may include the preparation of tax returns for the project itself, i.e., partnership or corporation returns where the project is the principal asset of the entity, but may not include the determining of alternative treatments of complex accounting issues. The tax advice costs to the owner must not be charged to the project. HCD or CalHFA may require a review of the auditor selection process.

Independent Auditor's Responsibilities

Performance Standards and Requirements

Financial Statements including the notes and supplementary information are to be audited in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (Yellow Book) in addition to Generally Accepted Auditing Standards (GAAS) developed by the Auditing Standards Board of the AICPA. Applicable Government auditing standards include the General Standards, and the Field Work and Reporting Standards for Financial Audits. The Financial Statements are also to be audited in accordance with the requirements of this Audit Handbook. The Financial Statements must include supplementary information and reports which HCD or CalHFA requires for general analysis of operations and for assurance of compliance with the applicable HCD or CalHFA Regulatory Agreement(s), HUD 4350.5, HUD IG 2000.04 and OMB Circular A-133, as applicable.

The auditor must establish an understanding with the client regarding the services to be performed for each engagement, be qualified, and have current knowledge of the applicable auditing standards. The auditor must have an appropriate quality control system in place and undergo an external quality review within the last three years.

Upon completion of the audit, the auditor is to:

1. Provide an opinion on whether the basic financial statements including notes and the supplementary information present fairly in all material respects, the financial position of the project.
2. Report on project compliance with laws, regulations and agreements and internal control over financial reporting. Auditors must be alert to situations or transactions in non-compliance with the Regulatory Agreement(s) or indications of waste, fraud, abuse, illegal expenditures and acts.

Independent Auditor's Responsibilities (Cont.)

3. Provide a schedule of audit findings as deemed appropriate (including resolutions of prior period findings), comments and recommendations.

The auditor must notify HCD or CalHFA, as applicable, immediately if a scope limitation is placed upon the auditor in the course of performing the audit.

If the audited entity is a non-profit subject to the requirements of OMB Circular A-133, local government or other governmental organization, audits must be performed in accordance with the Single Audit Act of 1986, the OMB Circular A-133, Government Auditing Standards as well as their amendments and revisions that are periodically updated.

Examination of Tenant Files

The auditor should exercise professional judgment when determining the number of tenant files to examine. The auditor's responsibility is limited to matters that would have a material effect on the project's financial position such as:

- Household income and rent limits being applied in accordance with the Regulatory Agreement(s).
- Household occupancy requirements being met in accordance with the Regulatory Agreement(s).
- Annual owner physical unit inspections being conducted.
- Findings of non-compliance must include owner's plan for remedy.

For projects with CalHFA-administered HUD Section 8 contracts, refer to HUD audit guide IG 2000.4 and HUD Handbook 4350.3 for the requirements of the tenant files sampling attributes. The auditor should consider that HCD or CalHFA staff, as applicable, periodically review these files and report any non-compliance. If during the limited tests performed, the auditor becomes aware of a condition that requires attention, this condition must be reported to the owner. Any material noncompliance or condition that in the opinion of the auditor should be improved must be included in the report; otherwise no discussion of tenant files examination is necessary.

Basic Financial Statements

The basic financial statements must be presented in comparative format. The statement of cash flows must be prepared in the direct method. If the statements are not on a basis consistent with those of the prior year this must be explained fully in the Opinion and/ or the Notes to the Financial Statements. The auditor must use the format that provides basic financial statements that comply with GAAP and is applicable to the entity being presented. The AICPA has published audit and accounting guides for non-profit and governmental organizations. Where an event has occurred that affects the financial or structural status of the project or any owner entity, disclosure of the event is required.

Included in this Audit Handbook are two sample audited financial statements, together with supplementary information. The basic financial statements and supplementary information submitted to HCD and CalHFA should be comparable in format and content to what is shown in the Sample Project financial statements.

APPENDIX A is for all projects except those that do not have HCD funding and do not have either CalHFA administered HUD Section 8 or HUD Section 8 with a requirement to submit Audits to HUD/REAC as part of the Financial Assessment SubSystem. Projects having both HCD funding and either CalHFA administered HUD Section 8 or HUD Section 8 with a requirement to submit Audits to HUD/REAC as part of the Financial Assessment SubSystem must submit *APPENDIX A* plus the *CalHFA Surplus Cash Computation as shown on page B-25*. As shown in the *APPENDIX A* Supplementary Information, the Schedules of Operating Revenues and Expenses must be in comparative format and must use the current HUD chart of accounts (see pages A-20 to A-22) – refer to [HUD's Account Definitions](#).

APPENDIX B must be used for projects with no HCD funding and either CalHFA administered HUD Section 8 or HUD Section 8 with a requirement to submit Audits to HUD/REAC as part of the Financial Assessment SubSystem. As shown in the *APPENDIX B* Supplementary information, the Schedules of Operations must be in comparative format and must use the current HUD chart of accounts (see pages B-17 to B-20) – refer to [HUD's Account Definitions](#).

The following financial statement notes and supplementary information are required:

1. Summary of Organization – include owner name and entity type, number of units, year project was constructed and nature of the agreements with HCD or CalHFA and others. **For projects with tax credits, the Audit must report the earliest project placed in service date (month, day and year) as well as the tax credit allocation date (rent floor date) as typically shown on Internal Revenue Service Form 8609. For tax credit projects that were placed in service prior to 2009, the month and year the earliest project was placed in service is sufficient.**
2. Significant Accounting Policies
 - a. Accounting Method
 - b. Cash and Concentrations of Credit Risk – the cash funds and separate bank accounts must be identified. The general operating account, unrestricted cash and other accounts are to be shown separately from restricted accounts. The amounts shown must agree to the totals shown on the Balance Sheet in the basic financial statements and, if applicable, the surplus cash computation.
 - c. Accounts/Tenant Receivable – current amounts receivable (within 30 days), and amounts in excess of 30 days must be stated separately.

- d. Capitalization Policy – report whether the project has a capitalization policy in place.
- e. Other Assets – if the project has other assets and the nature is not readily determinable, as shown in the basic financial statement, a schedule is required.
- f. Tenant and Other Income Recognition – the detail of gross potential rent, including amounts received or receivable from tenants, subsidy payments, employee/manager apartments, vacancy loss and concessions must all be reported (see page A-20). Commercial income must be shown in Account #5140. Detail of revenue must be provided when the “Miscellaneous” HUD Operating Revenue Accounts total \$2,500 or greater.

RHCP-Original Projects: RHCP and market unit revenues and expenses must be shown separately in the supplementary information.

MHSA Projects: projects containing MHSA and market units must show the income from each separately in the supplementary information.

- g. Accounts Payable – current amounts payable (within 30 days), and amounts in excess of 30 days must be stated separately.
- h. Other Payables – if other amounts are payable and the nature is not readily determinable, as shown in the basic financial statement, a schedule is required.
- i. Operating Expenses – detail of expenditures must be provided when the “Miscellaneous” HUD Operating Expense Accounts total \$2,500 or greater.

Property Management Fee: must comply with [HUD’s allowed per unit per month amount](#) and/or if applicable, the approved operating budget. Use HUD Account #6320, which reflects the cost of the management agent service contracted by the project and must not include partnership fees or similar fees paid to an owner entity.

Supportive Services Costs: **if any supportive services costs including service coordinator salary and benefits are paid from project income, use HUD Account #6990 (see page A-21).** For most HCD and CalHFA funded projects, per Regulations supportive services costs other than service coordinator salary and benefits are not an eligible expense and must be paid by another funding source other than the project’s operating income. Typically, such costs are paid by third party services agencies or by the owner. Projects regulated by the HCD 2017 Uniform Multifamily Regulations (UMRs) may include all supportive services costs as operating expenses as described in §8301(t), 8301(u) and 8314(e). Supportive services costs must be reported in HUD Account #6990 as shown on page A-22.

RHCP-Original Projects: a statement of expenses by assisted and non-assisted units is required within the supplementary information to enable HCD or CalHFA staff, as applicable, to determine the amount of supplementary annuity funds required. The project must establish an expense allocation method at project inception and continue this allocation throughout the term of the Regulatory Agreement.

MHSA Projects: a statement of expenses by MHSA vs. market units is required to determine the amount of Cost Operating Subsidy Revenue (COSR) funds required to be funded for the MHSA COSR units.

- j. HUD Account #7190 – detail of expenditures must be provided for this account regardless of the amount.
 - k. Subsequent Events – describe any material events that have occurred through the date the financial statements were available to be issued.
3. Related Party Transactions including Fees – all related party transactions including fees such as deferred developer fee, asset management fee and similar fees must be broken out in a schedule showing the following:
- › Name of the fee and the legal agreement requiring the fee.
 - › Fee amount, method of calculation and HUD Account # charged. Note: HUD Account #7190 must include fees for asset management, supervisory and other similar fees for services performed by partners or other identities of interest.
 - › Description of the Identities of Interest.

Some HCD Regulatory Agreement(s) limit the amount of the deferred developer fee payable from project cash flow on a priority basis prior to determining Net Cash Flow payments to HCD. Any amount not permitted as a priority payment must be paid from the owner's allowable distribution. **Limited deferred developer fees allowed to be paid on a priority basis must be separated and detailed in the Related Party Transactions footnotes (see pages A-13 to A-14, footnote 3).**

4. Restricted Accounts – Reserves, Impounds and Tenant Security Deposits
- a. Restricted Funds including all Reserve Accounts – all required restricted accounts must be identified including the agency requiring the account, the name of the legal agreement(s) requiring the account and the amount required. For each restricted account, a schedule must be included showing the following:
 - » Beginning and ending balances
 - » Deposits
 - » Withdrawals – describe amounts capitalized or expensed. If withdrawals relate to the prior year capital purchases, footnote the applicable year and amounts.
 - » Interest earned
 - b. Impound Accounts – for each impound account, a schedule similar to the Restricted Funds schedule must be included. Per HCD and CalHFA Regulations, impound activity may not be included in the HCD and CalHFA Distribution of Operating Cash Flow/Surplus Cash computation.

- c. Tenant Security Deposits – applicable law or regulation may provide different handling and security deposit accountability. The auditor must disclose security deposits on hand and the treatment of interest earned.
5. Property, Equipment and Improvements – a schedule identifying the changes in each fixed asset category must be included. Retired fixed assets must also be identified.
6. Deferred Costs and Amortization
7. Mortgages/Notes Payable – interest rate, interest expense amount, maturity date, applicable mandatory payment amount, and beginning/ending principal and interest balance must be reported for each loan.
8. Ground Lease – for projects having a ground lease, the Notes to the Financial Statements must include a summary of the lease terms and conditions including the name of the lessor, identity of interests, and whether the annual lease payment is an eligible operating expense or to be paid out of owner’s allowable distribution. If the lease payment is an authorized operating expense indicate the HUD Account charged.
9. HCD and CalHFA – Distribution of Operating Cash Flow/Surplus Cash – refer to the applicable HCD or CalHFA Regulatory Agreement(s) of the project to determine the distribution of Operating Cash Flow/Surplus Cash. A computation must be included that details the Operating Cash Flow/Surplus Cash as described in the Regulatory Agreement(s). An adjustment must be made to this computation when withdrawals from the Replacement Reserve Account are greater than the amount Capitalized, which indicates some of the withdrawals were included in operating expenses (see pages A-24 to A-25). Timing difference exceptions related to Replacement Reserve withdrawals and capital purchases will be considered by HCD and CalHFA if clearly noted. When withdrawals from the Replacement Reserve Account are less than the amount Capitalized, no adjustment to Other Activity within the Operating Cash Flow/Surplus Cash is allowed. Impound activity may not be included in the HCD and CalHFA Distribution of Operating Cash Flow/Surplus Cash computation. Residual receipt payments should not be submitted to HCD and CalHFA until invoiced.
10. CalHFA administered Section 8 project only – Surplus Cash Computation – accumulated limited distributions and earned surplus, where applicable, requires a statement to list the amount of allowable limited distributions and the amount of prior period unpaid limited distributions, if any (see page B-25). Entity fees and expenses that are not part of project expenses, such as developer fees, incentive management fees, asset management fees, and partnership management fees are to be considered as distributions to owner. The CalHFA Regulatory Agreement may require surplus cash remaining after payment of a limited distribution, to remit the balance to CalHFA to be applied first to the reserve fund for operations (maximum balance to equal 5% of annual gross potential rent at fiscal year-end). Any remaining balance is earned surplus. Pre-80, small or partially assisted project’s earned surplus account balance is owned and controlled by CalHFA. A Post 80 project’s earned surplus account balance is owned and

controlled by HUD. Any earned surplus or residual receipt must be remitted to CalHFA within 90 days of the project's fiscal year end. The calculation must be disclosed in the financial statements and the surplus cash format is posted on the CalHFA website at: www.calhfa.ca.gov/multifamily/asset/forms/index.htm

APPENDIX A: Sample Financial Statement for HCD or CalHFA Projects

CA PROPERTY APARTMENTS, L.P. (A California Limited Partnership)

HCD Contract Numbers: 01-FWHG-1111 & 03-MHP-9999
and
CalHFA Project Number: #03333N

Financial Statements and Independent Auditor's Report For Years Ended December 31, 20YY and 20XX

With accompanying information required by
the California Department of Housing and Community Development
and the California Housing Finance Agency

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Independent Auditor's Report

The Partners of
CA Property Apartments
City, California

Report on the Financial Statements

We have audited the accompanying financial statements of CA Property Apartments, L.P., a California limited partnership, HCD Contract Numbers 01-FWHG-1111 and 03-MHP-9999 and CalHFA Project No. #03333N, which comprise the balance sheets as of December 31, 20YY and 20XX, and the related statements of operations, changes in partners' capital, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements of the *Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (Cont.)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CA Property Apartments, L.P., as of December 31, 20YY and 20XX, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages A-20 through A-26, as required by the California Department of Housing and Community Development and the California Housing Finance Agency, is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards and the requirements of the *Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency*, we have also issued a report dated February 1, 20ZZ on our consideration of CA Property Apartments, L.P.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and the requirements of the *Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency*, in considering CA Property Apartments, L.P.'s internal control over financial reporting and compliance.

February 13, 20ZZ

Certified Public Accountants

City, California
Date

CA Property Apartments, L.P.

Balance Sheets
For The Years Ended December 31, 20YY and 20XX

ASSETS	20YY	20XX
Investment in real estate:		
Land	\$2,084,544	\$2,084,544
Building and improvements	17,762,845	17,759,796
Furniture, fixtures and equipment	460,441	457,743
Less: accumulated depreciation	(3,002,266)	(2,507,374)
Net investment in real estate	17,305,564	17,794,709
Other assets:		
Cash	142,900	102,419
Rent receivable	-	305
Restricted deposits (Note 3):		
Replacement reserve	111,072	90,429
Operating reserve	180,806	179,996
CalHFA impound deposits	22,107	25,383
Tenant security deposits	69,373	69,262
Prepaid expenses	8,037	8,906
Deferred costs – net (Note 4)	84,815	92,083
Total assets	\$17,924,674	\$18,363,492
Liabilities And Partners' Capital		
Liabilities:		
Notes payable (Note 6)	\$11,662,176	\$11,791,927
Accounts payable and accrued expenses	10,479	11,028
Related-party payable (Note 5)	353,452	404,027
Deferred revenue	43	19
Tenant security deposits	67,092	65,723
Interest payable (Note 6)	1,294,492	1,088,804
Total liabilities	13,387,734	13,361,528
Partners' capital	4,661,379	5,126,403
Syndication costs	(124,439)	(124,439)
Total partners' capital	4,536,940	5,001,964
Total liabilities and partners' capital	\$17,924,674	\$18,363,492

The accompanying notes are an integral part of these financial statements

CA Property Apartments, L.P.

Statements of Operations
For The Years Ended December 31, 20YY and 20XX

	<u>20YY</u>	<u>20XX</u>
Income:		
Gross potential rent	\$812,075	\$795,725
Less: vacancies and concessions	(12,570)	(14,934)
	<u>799,505</u>	<u>780,791</u>
Interest income	1,511	1,856
Other income:		
Laundry and vending income	6,662	9,755
Other tenant charges	3,990	4,531
Miscellaneous	395	610
Total income	<u>812,063</u>	<u>797,543</u>
Operating expenses:		
Administrative	126,466	142,584
Utilities	88,306	85,089
Operating and maintenance	112,149	133,333
Taxes and insurance	56,484	68,940
Supportive services costs	5,991	6,001
Total operating expenses	<u>389,396</u>	<u>435,947</u>
Net operating income	<u>422,667</u>	<u>361,596</u>
Financial, partnership and other expenses:		
Depreciation	494,892	492,494
Amortization	7,268	7,268
Interest (Note 6)	345,312	348,083
Asset management fee (Note 5)	12,000	12,000
Partnership management fee (Note 5)	22,294	22,073
Density Bonus Program monitoring fee (County monitoring Fee)	5,925	5,925
Total financial, partnership and other expenses	<u>887,691</u>	<u>887,843</u>
Net loss	<u>\$(465,024)</u>	<u>\$(526,247)</u>

The accompanying notes are an integral part of these financial statements

CA Property Apartments, L.P.

**Statements Of Changes In Partners' Capital
For The Years Ended December 31, 20YY and 20XX**

	General Partner^a	Administrative Limited Partner^b	Investor Limited Partner^c	Syndication Costs	Total
Partnership interest	0.01%	0.00%	99.99%	-	100.00%
Balance, December 31, 20WW	\$805,541	-	\$4,847,109	\$(124,439)	\$5,528,211
Net Loss for 20YY	(103)	-	(526,144)	-	(526,247)
Balance, December 31, 20YY	805,438	-	4,320,965	(124,439)	5,001,964
Net Loss for 20XX	(91)	-	(464,933)	-	(465,024)
Balance, December 31, 20XX	\$805,347	-	\$3,856,032	\$(124,439)	\$4,536,940

^a GP Development Corporation

^b Tax Credit Investor, Inc.

^c ABC Tax Credit Fund

The accompanying notes are an integral part of these financial statements

CA Property Apartments, L.P.

Statements of Cash Flows
For The Years Ended December 31, 20YY and 20XX

	20YY	20XX
Cash Flow from operating activities:		
Rental receipts	\$801,092	\$783,782
Interest receipts	1,511	1,856
Other receipts	11,047	14,896
Total receipts	<u>813,650</u>	<u>800,534</u>
Administrative	(75,867)	(89,330)
Management fee	(49,824)	(48,372)
Utilities	(88,306)	(85,089)
Operating and maintenance	(110,995)	(124,943)
Taxes and insurance	(42,014)	(49,209)
Property insurance	(16,944)	(24,202)
Miscellaneous taxes and insurance	(800)	(800)
Supportive services costs	(5,991)	(6,001)
Interest	(139,624)	(142,382)
Asset management fee	(12,000)	(12,000)
Total disbursements	<u>(542,365)</u>	<u>(582,328)</u>
Net cash provided by operating activities	<u>271,285</u>	<u>218,206</u>
Cash flows from investing activities:		
Purchase of property and equipment	(5,747)	(25,737)
Net (increase) decrease in restricted deposits for reserves	(21,453)	1,892
Net cash used in investing activities	<u>(27,200)</u>	<u>(23,845)</u>
Cash flows from financing activities:		
Payment of developer fee	(73,853)	(8,817)
Payment of notes payable	(129,751)	(126,992)
Net cash used in financing activities	<u>(203,604)</u>	<u>(135,809)</u>
Net increase in cash	40,481	58,552
Cash, beginning of year	<u>102,419</u>	<u>43,867</u>
Cash, end of year	<u>\$142,900</u>	<u>\$102,419</u>

The accompanying notes are an integral part of these financial statements

CA Property Apartments, L.P.

Statements Of Cash Flows
For The Years Ended December 31, 20YY and 20XX

	<u>20YY</u>	<u>20XX</u>
Cash flows from operating activities		
Net Loss	\$(465,024)	\$(526,247)
Reconciliation of net loss to net cash provided by operating activities:		
Depreciation	494,892	492,494
Amortization	7,268	7,268
(Increase) decrease in assets:		
Rent receivable	305	(166)
Impound deposits	3,276	6,655
Tenant security deposits – net	1,258	3,171
Prepaid expenses	869	6,390
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(549)	881
Related-party payable	23,278	22,073
Deferred revenue	24	(14)
Interest payable	205,688	205,701
Net cash provided by operating activities	<u>\$271,285</u>	<u>\$218,206</u>

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements

CA Property Apartments, L.P.
HCD Contract Numbers: 01-FWHG-1111 & 03-MHP-9999 and
CalHFA Project Number: #03333N

Notes To Financial Statements For The Years Ended December 31, 20YY and 20XX

Note 1 – Organization And Nature Of Activities

CA Property Apartments, L.P. (the Partnership) was formed in 20QQ to develop, own and operate an 80-unit apartment complex, for low- and moderate-income households in a City, California, and operates under the name of CA Property Apartments (the Project). The property was placed in service on September 4, 2010 and received a tax credit allocation (rent floor) on March 1, 2008.

The Project participates in the low-income housing tax credit program under Section 42 of the Internal Revenue Code. Various agreements dictate the maximum income levels of new tenants and also provide rent restrictions through 2066.

Note 2 – Summary Of Significant Accounting Policies

Accounting Method

The Partnership uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Rental income is shown at its maximum gross potential. Vacancy loss is shown as a reduction in rental income. Rental units occupied by employees are included in rental income and as an expense of operations.

Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. Not included as cash are funds restricted as to their use, regardless of liquidity, such as tenant security deposits, replacement reserve, operating reserve, and CalHFA impound accounts. The Partnership occasionally maintains cash on deposit at a bank in excess of the Federal

Notes to Financial Statements (Cont.)

Deposit Insurance Corporation limit. The Partnership has not experienced any losses in such accounts.

Accounts Receivable

Management has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the result that would have been obtained had the allowance method been followed.

Property and Equipment/Investment in Real Estate and Deferred Costs

Property and equipment is stated at cost of acquisition or construction. The costs of maintenance and repairs are charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets

Deferred costs are incurred in order to obtain permanent financing and tax credits for the Project. Deferred costs are stated at cost and amortized on a straight-line basis over the term of the mortgage and 10-year tax credit period.

The useful lives of the assets are estimated as follows:

Building and improvements	10 to 40 years
Furniture, fixtures and equipment	5 to 10 years
Permanent loan coats	30 years
Tax credit cost	10 years

The Partnership reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property, including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 20YY and 20XX.

Income Taxes

No provision for federal and state income taxes is included in the financial statements. The income or loss of the Partnership is reported by the partners on their income tax returns. The Partnership believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Partnership's federal and state income tax returns for the years 20UU through 20XX are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

Notes to Financial Statements (Cont.)

Allocation of Partnership Income/Loss and Tax Credits

The Partnership expects to generate low-income housing credits, which will be allocated in the same manner as the income or loss of the Partnership. Because the limited partner's losses are limited to its investment, the limited partner's equity will not be reduced below zero unless future capital contributions will be made in an amount sufficient to absorb the losses. All remaining losses are allocated to the general partner. Any subsequent income allocable to the limited partner is allocated to the general partner first until the general partner's share of that income offsets the losses not previously recognized by the limited partner.

Compensated Absences

Compensated absences are not accrued. Accounting principles generally accepted in the United States of America require that compensated absences be accrued. However, the effect of not accruing compensated absences is not materially different from the result that would have been obtained had compensated absences been accrued.

Subsequent Events

Management has evaluated subsequent events through February 3, 20ZZ, the date on which the financial statements were available to be issued.

Note 3 – Restricted Funds

Replacement Reserve

The Partnership is required to maintain a reserve for replacement and repair of property and equipment in accordance with the lenders' regulatory agreements. The reserve is held by the California Housing Finance Agency and is required to be funded in an annual amount of \$27,960. The balance is held by CalHFA and expenditures are subject to the supervision and approval by CalHFA.

Operating Reserve

The Partnership is required to maintain an operating reserve to fund any shortfall that exists when operating expenses exceed operating income in accordance with the lenders' regulatory agreements. The reserve is held by the California Housing Finance Agency and was funded from capital contributions from Limited Partners in the amount of \$175,000. The balance is held by CalHFA and expenditures are subject to the supervision and approval by CalHFA.

Impounds

The Partnership is required to make monthly deposits to impound accounts to cover insurance premiums and property taxes in accordance with the CalHFA regulatory agreement. The balance is held by CalHFA and expenditures are subject to the supervision and approval by CalHFA.

Notes to Financial Statements (Cont.)

Tenant Security Deposits

The Partnership is required to hold security deposits in a separate bank account in the name of the Project.

Note 4 – Deferred Costs

Deferred costs are summarized as follows

	20YY	20XX
Tax credit costs	\$45,480	\$45,480
Permanent loan costs	81,625	81,625
	127,105	127,105
Less: accumulated amortization	(42,290)	(35,022)
Total deferred costs	\$84,815	\$92,083

Note 5 – Related Party Transactions

All payroll-related costs are paid by The GP Group Corporation and allocated to the Partnership based on actual results. Related-party transactions include the following fees and charges:

Payable/Paid to Description	Payable at Dec. 31, 20YY	20YY Expense (Payment)	Payable at Dec. 31, 20XX	20XX Expense (Payment)
The GP Group Corporation				
Property management fee (HUD Account # 6320) ¹	-	\$49,824	-	\$48,372
		(49,824)		(48,372)
Bookkeeping fee ¹	-	8,616	-	8,616
		(8,616)		(8,616)
Operating advances	984		-	
The GP Development Corporation				
Partnership management fee (HUD Account # 7190) ²	128,040	22,294	105,746	22,073
Deferred development fee ³	212,428	-	286,281	-
		(73,853)		(8,817)
ABC Tax Credit Fund				
Asset management fee(HUD Account # 7190) ⁴	12,000	12,000	12,000	12,000
		(12,000)		(12,000)
Total	<u>\$353,452</u>		<u>\$404,027</u>	

Notes to Financial Statements (Cont.)

- ¹ The Partnership entered into a management agreement with MA Management, an affiliate of The GP Group Corporation. The agreement provides for management and bookkeeping fees equal to the approved annual operating budget.
- ² The Partnership shall pay a partnership management fee to the general partner, in an amount not to exceed \$25,000 per year. This partnership fee is not permitted as a priority payment and must be paid from the owner's allowable distribution. The term of the agreement shall terminate on December 19, 2069.
- ³ The Partnership shall pay the developer a development fee in an amount equal to \$2,000,000, which includes any fees paid to third parties that are treated as a development fee. Per the HCD MHP Regulatory Agreement, only a portion can be paid on a priority basis from operating cash flow/surplus cash. Of the \$212,428 Deferred Development Fee payable at December 31, 20YY, \$90,000 can be paid on a priority basis. The remaining amount must be paid from the owner's allowable distribution.
- ⁴ The Partnership shall pay an asset management fee to the Investor Limited Partner, in the amount of \$12,000 per year, which shall be payable out of operating cash flow/surplus cash.

Notes to Financial Statements (Cont.)

Note 6 – Notes Payables

Notes payable are secured by the property unless otherwise noted and summarized as follows:

	20YY		20XX	
	Interest Payable	Principal	Interest Payable	Principal
California Housing Finance Agency loan, in the original amount of \$1,985,000, bears simple interest at 5.5% per annum, with monthly payments of principal and interest in the amount of \$11,271, to be repaid in full by 2036. Interest expense was \$101,330 and \$103,141 for 20YY and 20XX, respectively.	\$8,372	\$1,826,728	\$8,527	\$1,860,491
Rural Community Assistance Corporation (RCAC) loan, in the original amount of \$2,300,000, bears simple interest at 1% per annum, with monthly payments of principal and interest in the amount of \$9,548, to be repaid in full by 2029. Interest expense was \$18,506 and \$19,466 for 20YY and 20XX, respectively.	1,505	1,806,603	1,585	1,902,591
Department of Housing and Community Development- Multifamily Housing Program loan (MHP loan), in the amount of \$4,655,357, accrues simple interest at 3% per annum, requires an annual payment of .42% of the outstanding principal balance for a period 29 years, at which time annual loan payments are required equal to the lesser of the accrued interest for the previous 12 month period or such amount determined by HCD. Annual payments can also be made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2061. Interest expense was \$139,661 for both 20YY and 20XX.	640,705	4,655,357	520,597	4,655,357

Notes to Financial Statements (Cont.)

	20YY		20XX	
	Interest Payable	Principal	Interest Payable	Principal
Department of Housing and Community Development (Serna loan), bears simple interest at 3% per annum. Annual payments are made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2044. Interest expense was \$45,000 for both 20YY and 20XX.	328,192	1,500,000	283,192	1,500,000
County Community Development Commission HOME loan (CCDC HOME first loan), bears simple interest at 3% per annum. Annual payments are made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2034. Interest expense was \$4,062 for both 20YY and 20XX.	30,450	135,400	26,388	135,400
County Community Development Commission (CCDC HOME second loan), bears simple interest at 3% per annum. Annual payments are made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2035. Interest expense was \$1,490 for both 20YY and 20XX.	8,942	49,668	7,452	49,668
County Community Development Commission (CCDC first loan), bears simple interest at 3% per annum. Annual payments are made subject to available net cash flow. The principal and unpaid accrued interest to be repaid in full by 2058. Interest expense was \$15,000 for both 20YY and 20XX.	128,959	500,000	113,959	500,000

APPENDIX B:
Sample Financial Statement for
CalHFA-administered Section 8
Projects
or
Section 8 Projects required to submit
Audited Financial Statements to
HUD/REAC as part of the Financial
Assessment SubSystem

SAMPLE APARTMENTS COMPANY

(A Limited Partnership)

CalHFA Project #11-111-N

Financial Statements For
Years Ended December 31, 20YY and 20XX

and

Independent Auditor's Report

Sample Apartments

**Management Agent Certification
For The Year Ended December 31, 20YY**

Audits submitted to HCD and CalHFA must be signed and dated

I hereby certify that I have examined the accompanying financial statements and supplementary information of Sample Apartments Company, as of and for the year ended December 31, 20YY, and to the best of my knowledge and belief, the same is complete and accurate.

Sign Name

AM Management Company
Sign Name, President

2/15/20ZZ

Date

Other (Cont.)

Sample Apartments Company

**Partner’s Certification
For The Year Ended December 31, 20YY**

Audits submitted to HCD and CalHFA must be signed and dated

We hereby certify that we have examined the accompanying financial statements and supplementary data of Sample Apartments Company as of and for the year ended December 31, 20YY and to the best of our knowledge and belief, these financial statements and data are complete and accurate.

<i>Sign Name</i>	President	2/15/20ZZ
_____	_____	_____
Name	Title	Date

<i>Sign Name</i>	CFO	2/15/20ZZ
_____	_____	_____
Name	Title	Date

Federal Identification #94-xxxxxxx

Other (Cont.)

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

The Partners of
Sample Apartments Company
City, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Sample Apartments, LP, which comprise the balance sheet as of December 31, 20YY, and the related statements of operations, changes in partners' capital and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 15, 20ZZ.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sample Apartments, LP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sample, LP's internal control. Accordingly, we do not express an opinion on the effectiveness of Sample Apartments, LP's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sample Apartments, LP's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with

Other (Cont.)

which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sample Apartments, LP's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sample Apartments, LP's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Certified Public Accountants

City, California
February 15, 20ZZ

Other (Cont.)

Sample Apartments Company

CalHFA Project #11-111-N

Summary of Audit Findings and Recommendations For the Year Ended December 31, 20YY

Status of Prior Year Findings and Recommendations:

There were no findings and recommendations reported in the December 31, 20XX financial statements.

Findings and Recommendations:

1. Finding: During the audit of tenant files, the auditor noted two (2) instances where Sample Apartments did not perform background checks on potential tenants as required by the Department of HUD.

Recommendation: We recommend background checks be performed on all potential tenants and retained as a part of the tenant file.

Management Response: The management policy is to complete background checks, prior to move-in, on all applicants. Any missing background checks may have been in files of very long-term residents, move-ins prior to HUD requirement.