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# Annual Financial Statement Reporting Handbook

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2023

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**CHFA Portfolio Management**  
**Annual Financial Statement Reporting Handbook**

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# Due Dates, Requests for Extension, and Submission Process

## Due Dates

### *CHFA Portfolio*

The due date for financial submissions to CHFA for entities in the CHFA Portfolio is outlined in each development's Regulatory Agreement. Typically, the Regulatory Agreement will require submission within sixty (60) days of the development's year end.

### *SSHP Portfolio*

Due dates for financial submissions to CHFA for entities in the SSHP Portfolio are mandated by the Connecticut Statutes and/or the legal documents. Deadlines vary by entity type.

## Requests for Extension

In the event the deadline in the Regulatory Agreement cannot be met, CHFA Asset Managers are authorized to approve one 30-day extension. Additional extensions are required to be approved by their Senior Program Officer. Requests may be made via email and may originate from the owner, management agent or CPA firm. The request may be made in the body of the email unless the Asset Manager requests otherwise.

For properties which also report to HUD, we do not automatically defer to their reporting deadline if it conflicts with the property's Regulatory Agreement with CHFA. If our deadline precedes HUD's, an extension must be requested from us if you intend to meet HUD's deadline instead of ours.

## Submission Process

CPA's fulfilling management's responsibility of submitting the AFS to CHFA should be aware of the following:

In late 2021, CHFA implemented a secure portal that acts as a drop box to our secure ShareFile site. See the following link:

<https://www.chfa.org/am-afs-dropbox/>

When uploading to this portal, we request that you name your files uniformly starting with the CHFA project number (e.g. *22-001 Property X, LLC.pdf* or *22-001 Property X, LLC CHFA Workbook.xlsx*). As a large volume of documents tends to be uploaded within a short period of time, this keeps all related documents together within the portal and helps to minimize our process time. Developments often have formal names that differ from informal ones, and using the assigned project number will ensure that your submission will not be confused with other developments with similar names.

## Reporting Requirements

Audits of financial statements are expected to be performed in accordance with auditing standards generally accepted in the United States of America (GAAS), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements are to be prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP), and compliance with our programs is to be tested in accordance with the *Consolidated Audit Guide for Audits of HUD Programs* (the Guide) unless a Federal and/or State Single Audit applies.

The following table outlines what is expected to be included in the AFS submitted for all major CHFA programs (“major program” is defined by Guide):

	<u>CHFA MORTGAGE</u>	<u>STATE PORTFOLIO</u>
Signed Independent Auditor's Report	Required	Required
Basic Financial Statements	Required	Required
Notes to Financial Statements	Required	Required
Signed Owner/Sponsor Certification	Required	Required
Signed Management Agent Certification	Required	Required
Supplementary Information:		
- CHFA Workbook, Form HM 6-50	Required	Required
- CHFA Workbook, Form HM 6-51A or 6-51B	Required	Required
- CHFA Workbook, Form HM 6-52	Required	Required
- CHFA Workbook, DOH Congregate	Not Applicable	If Applicable
Signed Auditor's Report on Internal Controls	Required	Required
Signed Auditor's Report on Compliance	Required	Required
Schedule of Findings	If Applicable	If Applicable
Schedule of Prior Year Findings	If Applicable	If Applicable
Corrective Action Plans	If Applicable	If Applicable

Developments with 30 units or less are “small properties.” If no conflicting reporting requirements imposed by other entities exist, then upon **written** approval from the property’s CHFA Asset Manager, CPA’s may perform a review or compilation engagement instead of an audit. In the event this is approved by CHFA, the above table still applies, but reports on internal controls, compliance, schedules of findings and corrective action plans are not applicable.

For properties which also report to HUD, we do not expect to see the pages from our workbook in the PDF AFS because the content is almost identical to the required HUD forms. However, the workbook must still be prepared and submitted to us.

If there are no CHFA loans that exceed the major program threshold as stated in the Guide, the above table still applies, but reports on internal controls, compliance, schedules of findings and corrective action plans are not applicable.

### Other Disclosures Needed

CHFA reviews each audit submitted and issues a letter to the owner upon closeout which includes, but is not limited to, details of amounts owed to CHFA, amounts available for distribution, and comments on the Audited Financial Statements, as applicable. The timing of release of this letter is dependent upon multiple factors which include the completeness and timing of receipt of the AFS. The CPA should obtain this letter from the owner prior to auditing the AFS for the following year and must disclose how funds approved for distribution by CHFA were spent in the space provided in the Financial Input Sheet in the CHFA Annual Financial Statement Workbook.

# Reporting Requirements

## ABC Limited Partnership CHFA Project #11111M

### Sample Table of Contents – Audit of Major CHFA Program

Independent Auditor’s Report	X
Balance Sheet	X
Statement of Operations	X
Statement of Partner’s Capital	X
Statement of Cash Flows	X
Notes to Financial Statements	X
Supplementary Information Required by CHFA	X
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 <i>Government Auditing Standards</i>	X
Independent Auditor’s Report on Compliance for Each Major CHFA Program and on Internal Control Over Compliance Required by the <i>Consolidated Audit Guide for Audits of HUD Programs</i>	X
Schedule of Findings, Questioned Costs and Recommendations*	X
Schedule of the Status of Prior Audit Findings, Questioned Costs and Recommendations*	X
Corrective Action Plan*	X
Mortgagor’s Certification	X
Management Agent’s Certification	X

\*May omit if there are no reportable findings

# Reporting Requirements

## ABC Limited Partnership CHFA Project #11111M

### Sample Table of Contents – Audit of Non-Major CHFA Program, Review, or Compilation

Independent Auditor’s Report	X
Balance Sheet	X
Statement of Operations	X
Statement of Partner’s Capital	X
Statement of Cash Flows	X
Notes to Financial Statements	X
Supplementary Information Required by CHFA	X
Mortgagor’s Certification	X
Management Agent’s Certification	X

## Reporting Requirements

**Note: These certifications may be combined if one entity fulfills the roles of both Mortgagor and Management Agent.**

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**ABC Limited Partnership**  
**CHFA Project #11111M**  
Mortgagor's Certification  
December 31, 20XX

I hereby certify that I have examined the accompanying financial statements and supplementary data of ABC Limited Partnership and, to the best of my knowledge and belief, the same are complete and accurate.

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Mortgagor

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Date

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**ABC Limited Partnership**  
**CHFA Project #11111M**  
Management Agent's Certification  
December 31, 20XX

I hereby certify that I have examined the accompanying financial statements and supplementary data of ABC Limited Partnership and, to the best of my knowledge and belief, the same are complete and accurate.

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Management Agent

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Date

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**Combined certification**

**ABC Limited Partnership**  
**CHFA Project #11111M**  
Mortgagor's and Management Agent's Certification  
December 31, 20XX

I hereby certify that I have examined the accompanying financial statements and supplementary data of ABC Limited Partnership and, to the best of my knowledge and belief, the same are complete and accurate.

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Mortgagor and Management Agent

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Date

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## Confirmation Procedures

To confirm loan balances, reserves and escrows, please provide a confirmation request signed by a representative of the entity you are auditing to our Finance Department at [mf-fin-servicing@chfa.org](mailto:mf-fin-servicing@chfa.org).

At minimum, the request should detail the identifying Loan Number(s), Development Name(s), and instructions detailing where to send our response. Our response will include a statement of loan activity for each loan number you request.

Note: Our internal systems are normally updated approximately three weeks after each month end. Any confirmations requested for December 31<sup>st</sup> balances will typically not be available to provide to you until the fourth week of January.



## Testing Compliance with the Major CHFA Program

The Guide is required to be used to test compliance with a major CHFA program.

The Guide outlines the threshold for major programs, sample size recommendations, sample reports and suggested audit procedures for Multifamily Housing Programs.

The Guide has not been modified to reflect updates to the professional standards followed by CPAs. It is expected that CPAs will use their professional judgement to present the appropriate wording for all reports issued and to determine which suggested procedures will be performed to support the compliance opinion in the financial statements.

Suggested procedures in the Guide were developed for HUD-specific programs and not all may apply or be direct and material to the CHFA program. They could also need to be modified to test compliance with CHFA-specific policies. Examples include, but are not limited to:

- 1) Distributions. Determining whether distributions taken during the audit period exceeded the amounts calculated and/or authorized for that period should include steps to obtain the closeout letter received from CHFA for the audit of the previous year and ensure that these distributions were spent as allowed by the Regulatory Agreement.
- 2) Management Functions. Determining whether liability coverage is sufficient as determined by chapter 21 of HUD Handbook 4350.1 should be modified to test compliance with CHFA's insurance requirements. See Forms and Links for a copy of the current insurance requirements.

## FAQ and Common Issues

### **Surplus Cash and Adjusted Cash Flow**

There are questions on the Financial Input Tab in the CHFA workbook to help determine which form to use. When Adjusted Cash Flow applies, the language in the Regulatory Agreement will specifically define the term, and most also define Surplus Cash as “Adjusted Cash Flow”. Unless you see this as a defined term in the Regulatory Agreement, the Surplus Cash Computation applies.

### **Surplus Cash Calculation**

Line 1 of the Surplus Cash computation should only include accounts 1110 (Petty Cash), 1120 (Operating Cash), and 1191 (Security Deposit Cash) as indicated on the form. Non-operating cash (e.g. construction/development and entity) are excluded from this calculation.

Line 3 should include withdrawals from the Replacement Reserve that were requested by yearend and approved and disbursed before the date of your audit report. However, if a withdrawal was made to pay for an expenditure that was not previously paid from the Operating Account, that amount should not be added to this calculation.

Lines 5-14: All current obligations incurred by a development should be taken into account. Exceptions to this include the current portion of loans payable, entity expenditures, and expenditures to be paid from an existing escrow account. Non-operating payables (e.g. construction/development and entity) are excluded from this calculation.

Part B: This section should be completed. If a distribution is earned and unpaid, it is imperative to provide the total accrued and unpaid distribution. When a development’s Regulatory Agreement states that distributions are limited and cumulative, it is expected that this section reflect the cumulative amount that could have been distributed from the first year of operations through the Balance Sheet date. This amount is not expected to be recorded on the Balance Sheet. The Financial Input Sheet contains a section to enter these amounts.

Note: There have been multiple instances of amounts being reported in account 1135 (HUD A/R) but no amount was reflected in line 2 of the Surplus Cash statement. Subsidy receivables at yearend are considered cash at yearend.

*Are all operating accounts payable liabilities allowable reductions to the Surplus Cash Computation?*

Yes. The Financial Input Sheet contains a section to input all 30, 60 and 90+ days accounts payable. If you indicate “Yes” in column H, these amounts will carry over to the Computation of Surplus Cash (HM6-51A).

### **Adjusted Cash Flow**

The Adjusted Cash Flow Computation modifies account 5060T (Profit/Loss before Depreciation and Amortization) for certain non-cash and loan-related transactions as required by the Regulatory Agreement.

## FAQ and Common Issues

### Adjusted Cash Flow, continued

The computation was constructed under the assumption that any accrued interest, imputed interest (amortization of deferred loan costs) and additional interest paid to CHFA would be reported in line 6820. If these amounts were not disclosed in the CHFA workbook in an account which is used to compute subtotal 5060T, then these amounts must be excluded from the computation.

Line 12 of the calculation was added to capture non-operating activity in instances where Adjusted Cash Flow yields a distributable amount that is not supported by cash on hand at the development. This typically happens in the first two years of operation when the development is wrapping up construction activity. Entries to this line will be scrutinized. This line is not meant to capture entity or other expenditures that may only be paid from Adjusted Cash Flow remaining.

### **Distributions Allowed**

Each development must follow its Regulatory Agreement with CHFA when disbursing amounts CHFA approves for distribution. Each Regulatory Agreement features a section which dictates how operating cash may be spent. Typically, Loan Payments and Operating Expenses will be defined as first and second priority, respectively. The payments that follow are generally only allowed from net cash flow available as determined by the Surplus Cash Computation or the Adjusted Cash Flow Computation. This priority must be followed before a development can follow the waterfalls in their own agreements.

For example, LIHTC Property A's Regulatory Agreement indicates the following priority:

- 1) Loan Payments
- 2) Operating Expenses
- 3) Additional Loan Payments of 20% Adjusted Cash Flow, but only after the Deferred Developer Fee is repaid in full
- 4) Annual Distribution Payment

Because Additional Loan Payments are contingent on Deferred Developer Fees being paid in full, net cash flow derived must be used to pay down Deferred Developer Fee until its balance is fully diminished. Entity disbursements only payable from net cash flow can only be paid once the Deferred Developer Fee is paid in full and there is remaining cash flow to be split 20/80 between CHFA and the owner, respectively.

### **Net Operating Income**

#### *Section A. 1) Replacement reserves*

All replacement reserves required by the Regulatory Agreement or other documentation, whether or not paid to CHFA, should be included in the NOI worksheet.

#### *Section A. 2) One-time events recorded as income or expenses*

One-time sources of revenue should be recorded as a reduction of NOI. One-time expenses should increase NOI.

## FAQ and Common Issues

### **Other Questions and Notes**

*When is the first Audited Financial Statement due to CHFA?*

CHFA generally expects to receive the first AFS by the deadline set forth in the Regulatory Agreement (X number of days after the close of the Fiscal Year). However, if less than ninety (90) days has elapsed between the placed-in-service date and the first Fiscal Year-End date, a written request may be submitted to the development's Asset Manager to defer reporting for that period. The request must include an acknowledgement that the activity being deferred will be reported in the AFS for the next Fiscal Year-End date.

An example of such a request is as follows:

Property A was placed in service on XX/XX/20XX, which is less than ninety (90) days prior to its first Fiscal Year-End Date of YY/YY/20YY. We are requesting a waiver for this reporting period. All activity from this reporting period will be included in the YY/YY/20ZZ year-end AFS.

**The request for deferral must be approved in writing by the Asset Manager.**

*What are the reporting requirements when a property is sold?*

A final audit is required unless CHFA approves, in writing, that the reporting requirement is waived. The owner may request that CHFA consider a waiver of the final audit, citing the circumstance(s) that is causing their request. For example, CHFA may consider approving a waiver if the development had three months or less of operating activity prior to the sale. If approved, the submission of a CHFA workbook with financial activity through the date prior to the sale may still be required.

If no written waiver is granted and a final audit is required, the balance sheet date should be the day immediately prior to the sale. The audit should not include the sale transaction and is not required to include reporting over compliance in accordance with the HUD Audit Guide.

### **Chart of Accounts – Various Notes**

- Account 1191 (Tenant Security Deposit Cash) must exceed 2191 (Offsetting liability)
- Account 1310 is expected to include Insurance and Tax Escrow Accounts
- Account 1520 is expected to exclude Deferred Loan Costs or related amortization (also referred to as “imputed interest”)
- Account 2320 is expected to include Deferred Loan Costs and related amortization
- Account 6820 is expected to include Amortization of Deferred Loan Costs and Additional Interest due to CHFA
- Account 6610 is expected to exclude amortization of Deferred Loan Costs

## Forms and Links

### Multifamily Mortgage Program

<https://www.chfa.org/compliance-and-reporting/chfa-multifamily-mortgage-program/#Financial> (See “Financial” for most recent copy of CHFA workbook)

### HUD Audit Guide

<https://www.hudoig.gov/library/single-audit-guidance/hud-consolidated-audit-guide> (See Chapters 1-3)

### Current Income Limits

<https://www.chfa.org/rental-housing-for-owners-and-management-agents-tools-calculators-look-ups/>

### CHFA Escrow Disbursement Policy

<https://www.chfa.org/owners-property-managers/replacement-reserves/> (See “Guidance” section for the policy)

### CHFA Insurance Requirements

[https://www.chfa.org/assets/1/6/CHFA\\_Ins\\_Requirements3.pdf?10614](https://www.chfa.org/assets/1/6/CHFA_Ins_Requirements3.pdf?10614)

## Questions?

Please contact the CHFA Asset Manager for the development. You can look up who the Asset Manager is on chfa.org by following this link: <https://www.chfa.org/compliance-reporting-and-property-look-up/>

By selecting the development's location, then you will be able to choose the specific development you are auditing. Once you hit Search, the page will customize to include the development's information, including the name and contact information of the Asset Manager assigned.