



Rural Development

February 7, 2019

Joel C. Baxley
Administrator

Rural Housing Service
1400 Independence Ave, SW
Room 5014-S
Washington, D.C. 20250

Telephone: (202) 692-0268

TO: State Directors
Rural Development

FROM: Joel C. Baxley /s/ *Joel C. Baxley*
Administrator
Rural Housing Service

SUBJECT: Multi-Family Housing Financial Reporting Requirements
for Fiscal Year 2018

This Unnumbered Letter (UL) is issued to provide guidance for borrowers electing to submit their Fiscal Year 2018 annual financial reports during the requirements published in the Federal Register on November 24, 2017.

The new rule was in effective for borrowers with fiscal year beginning January 1, 2018 and thereafter. The reporting change will continue to be OPTIONAL for Fiscal Year 2018 reporting and will be MANDATORY for Fiscal Year 2019.

For profit and limited profit borrowers must state the method of reporting the year end actuals. There are two options for reporting for FY 18. Option 1 will be based on the type of property and number of units. Option 2 is based on the borrower ID and amount of federal financial assistance received by the borrower.

Through this rule change, the Agency has removed the requirement for an engagement that examines records using Agreed Upon Procedures (AUP) established by the Agency as part of the annual financial reporting requirements outlined in 7 CFR Part 3560.308. The Agency will allow borrowers to not submit AUPs for the Fiscal Year 2018 reporting cycle by submitting a statement similar to the following with the yearend reports.

EXPIRATION DATE:
February 29, 2020

FILING INSTRUCTIONS:
Housing Programs

Pursuit to the Final Rule 7 CFR Part 3560 to reduce MFH Program financial reporting requirements an engagement that examines records using agreed upon procedures has been eliminated. Accept this as our request to eliminate this engagement for year-end financial reporting of FY2018 per 7 CFR Part 3560.308.

Option 1 Units at the property

**FY 2018
Year End Financial Reporting Requirements
For Profit and Limited Profit Entity**

Type of Property	Forms RD 3560-7 and 3560-10	Borrower Certification Of Performance Standards	Agreed-Upon Procedures and Determinations	Audited Financial Statements (In accordance with Yellow Book Standards)
Rural Development project (1-15 units)	Yes	Yes	No	No
Rural Development project (16-23 units)	Yes	Yes	Eliminated with approval	No
Rural Development project (24 + units)	Yes	Yes	Eliminated with approval	Yes*

Option 2 Borrower Identification Number / Federal Financial Assistance

The determination as to the need of an audit is based on **all** RD projects associated with the borrower identification number and the total amount of federal financial assistance the borrower received at all properties.

**Combined Federal Financial Assistance
Year End Financial Reporting Requirements
For-Profit or Limited Profit**

Total Borrower Federal Financial Assistance*	Forms RD 3560-7 and 3560-10	Borrower Certification of Performance Standards	Uniform Administrative Requirements Audit required in accordance with RD Audit Guide
RD Borrower with less than \$500,000 in Federal financial assistance	Yes	Yes	No
RD Borrower with \$500,000 or greater in Federal financial assistance	Yes	Yes	Yes**

***See RD Programs Audit Determination Worksheet and Major Program Determination – Attachment A.** Compilation of Prescribed Forms may be necessary, if an audited financial statement is not required by another federal agency or other business agreement.

****Must be completed by an Independent CPA.**

State and local governments, Indian tribes, and Non-Profit Organizations must submit audits in accordance with 2 CFR 200, Part F, and the Office of Management and Budget’s (OMB) Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards.

**Combined Federal Financial Assistance
Year End Financial Reporting Requirements
State and Local Government, Indian Tribes and Non-Profit Organizations**

Total Borrower Federal Financial Assistance*	Forms RD 3560-7 and 3560-10	Borrower Certification of Performance Standards	Single Audit in accordance with 2 CFR part 200 subpart F
RD Borrower with less than \$750,000 in Federal financial assistance	Yes	Yes	No
RD Borrower with \$750,000 or greater in Federal financial assistance	Yes	Yes	Yes***
***In accordance with the Council of Financial Assistance Reform (CoFAR) uniform guidance. This Single Audit is in accordance with 2 CFR part 200 subpart F, Appendix XI Compliance Supplement; and submitted to the Agency as part of the financial reporting requirements. Must be completed by an Independent CPA.			

Non-profit borrowers receiving less than \$750,000 in combined Federal financial assistance, will continue to submit owner certified prescribed forms using the accrual method of accounting. The prescribed forms will include Form RD 3560-7, “MFH Project Budget/Utility Allowance” and Form RD 3560-10, “MFH Borrower Balance Sheet”, including supporting schedules for those forms within the report package and the borrower Certification of Performance Standards.

Funds the borrower entity receives which must comply with Federal statutes, regulations, or terms and conditions of Federal awards will be included as Federal Financial Assistance. Examples: expenditure/expense transactions associated with awards including grants, compacts with Indian Tribes, cooperative agreements, and direct appropriations; the use of loan proceeds under loan and loan guarantee programs; the receipt or use of program income and interest subsidy.

Typical Agency combined Federal Financial Assistances is defined as a combination of any or all of the following sources:

- Outstanding principal balance at the beginning of the fiscal year of a U. S. Department of Agriculture (USDA) Mortgage, a mortgage insured by the Federal Housing Administration (FHA) or HUD- held mortgages and other Government insured loans (Including but not limited to HOME, and CBDG loans);
- Any USDA Rental Assistance or Project based Section 8 assistance received during the fiscal year;
- Interest reduction payments received during the year (interest subsidy);
- Federal grant funds received during the year and/or;
- Outstanding principal balance at the beginning of the fiscal year of an existing USDA Section 538 Guaranteed Rural Rental Housing loan.

Any project audits independently obtained by the borrower must be submitted to the Agency.

We will be issuing addition guidance for year-end reporting requirements which will include revisions to HB-2-3560, Chapter 4 and additional training.

If you have any questions, please contact Dana Daugherty-Perez at 217-403-6210. Servicing Officials should direct questions regarding the subject of the UL to their assigned Portfolio Management Analyst.

RD PROGRAMS AUDIT DETERMINATION WORKSHEET

Step 1: Gather all the information below to determine whether a Financial and Compliance audit is required by Rural Development.

RD Borrower Name: _____ **Borrower ID:** _____

RD projects associated with ID _____
 (List all – may need additional pages)

Federal Financial Assistance Received

RD 515 Loan balances at beginning of FY	_____	_____
(Include debt deferral and Interest)		
Interest Subsidy	_____	_____
RD Rental Assistance	_____	_____
HUD Section 8 Assistance	_____	_____
RD GRRH 538 Loan balance	_____	_____
Other: _____	_____	_____

Total Federal Financial Assistance received from the borrower: \$ _____

Step 2: Is the RD project owned by a not-for-profit entity with \$750,000 of assistance?
 Yes, single audit requirements under 2 CFR part 200.
 No, go to Step 3.

Step 3: Did the project receive \$500,000 or greater, in the aggregate, in Federal Financial Assistance?
 Yes, an RD Financial and Compliance Audit is necessary. Go to Step 4.
 No, go to Step 5.

Step 4: Are any of the individual programs identified in Step 1 equal to or greater than \$500,000?
 Yes, these program(s) are the property's major program(s). A major program report is required.

 No, there are no major programs. A major program report is not required in the audited financial statements.

Step 5: Does another regulatory agency, legal entity, and/or other business agreement require an audit in accordance with Generally Accepted Auditing Standards or Government Auditing Standards?
 Yes, submit a copy of that audit to RD.
 No, Go to Step 6.

Step 6: Submit a compilation of prescribed forms in accordance with SSARS by AICPA.

EXAMPLE REPORTS

- 1. Independent Auditor's Report**
- 2. 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**
- 3. Independent Auditor's Report on Compliance For Each Major RD Program and Internal Control Over Compliance required by the Audit Guide for Audits of RD Programs**

**Note – Subject to change based on most recent professional literature and guidance.
It is the auditor's responsibility to use the most up to date language.**

Audited Financial Statements
With Required Rural Development
Supplemental Information

ABC Apartments, LP
RHS Project Number: 00-000-000000000-00-0

December 31, 20x2 and 20x3

ABC Apartments, LP
RHS Project No. 00-000-000000000-00-0

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 Multi Family Housing Borrower Balance Sheet – Form RD 3560-1016-17

 Multiple Family Housing Project Budget – Form RD 3560-718-23

 Supporting Documentation to Forms RD 3560-10 and 3560-724

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Independent Auditor's Report

To the Partners of
ABC Apartments, LP
New York, New York

USDA Rural Development
Servicing Office
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of ABC Apartments, LP RHS Project No. 00-000-000000000-00-0 (Partnership), which comprise the balance sheets as of December 30, 20X2 and 20X1, and the related statements of income (loss), changes in partners' capital (deficit), 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. 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 Partnership'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 Partnership'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Partnership as of December 31, 20X2 and 20X1, and the results of its operations, changes in partners' capital (deficit), 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 financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis as required by the *United States Department of Agriculture Rural Development*.

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 audits 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.

Reports Issued in Accordance with *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March XX, 20X3 on our consideration of Partnership'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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Partnership's internal control over financial reporting and compliance.

ABC Firm, LLC
Indianapolis, Indiana
March XX, 20X3

ABC Apartments, LP
RHS Project No. 00-000-000000000-00-0

Balance Sheets
December 31, 20X2 and 20X1

	<u>20X2</u>	<u>20X1</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ -	\$ -
Prepaid expenses	-	-
Total current assets	<u>-</u>	<u>-</u>
Tenant Deposits Held in Trust		
Tenant deposits held in trust	<u>-</u>	<u>-</u>
Restricted Deposits		
Reserve for taxes and insurance	-	-
Reserve for landscaping	-	-
Reserve for replacement	<u>-</u>	<u>-</u>
Total restricted deposits	<u>-</u>	<u>-</u>
Fixed Assets		
Land	-	-
Buildings	-	-
Furnishings and equipment	<u>-</u>	<u>-</u>
Total fixed assets	<u>-</u>	<u>-</u>
Accumulated depreciation	<u>-</u>	<u>-</u>
Net fixed assets	<u>-</u>	<u>-</u>
Total Assets	<u>\$ -</u>	<u>\$ -</u>

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

ABC Apartments, LP
RHS Project No. 00-000-000000000-00-0

Balance Sheets (continued)

December 31, 20X2 and 20X1

LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)		
	<u>20X2</u>	<u>20X1</u>
Current Liabilities		
Accounts payable - operations	\$ -	\$ -
Accrued mortgage interest	-	-
Accrued real estate taxes	-	-
Mortgage payable - current portion	-	-
Deferred revenue	-	-
Total current liabilities	<u>-</u>	<u>-</u>
Tenant Deposits Held In Trust		
Tenant deposits held in trust	<u>-</u>	<u>-</u>
Long-Term Liabilities		
Mortgage payable, net of current portion	-	-
Due to related parties	<u>-</u>	<u>-</u>
Total long-term liabilities	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>
Total Partners' Capital (Deficit)	<u>-</u>	<u>-</u>
Total Liabilities and Partners' Capital (Deficit)	<u>\$ -</u>	<u>\$ -</u>

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

ABC Apartments, LP
RHS Project No. 00-000-000000000-00-0

Statements of Income (Loss)
For the Years Ended December 31, 20X2 and 20X1

	20X2	20X1
Rental Income		
Tenant payments	\$ -	\$ -
Tenant assistance payments	-	-
Total potential rental income	-	-
Vacancies	-	-
Total rental income	-	-
Other Income		
Interest income	-	-
Laundry and vending	-	-
Tenant charges	-	-
Other income	-	-
Total other income	-	-
Total income	-	-
Expenses		
Maintenance and operating	-	-
Utility	-	-
Administrative	-	-
Tax and insurance	-	-
Total expenses	-	-
Income from Operations	-	-
Non-Operating Income (Expense)		
Interest subsidy income	-	-
Interest expense	-	-
Depreciation expense	-	-
Total non-operating income (expense)	-	-
Net Income	\$ -	\$ -

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

ABC Apartments, LP
RHS Project No. 00-000-000000000-00-0

**Statements of Changes in Partners' Capital (Deficit)
For the Years Ended December 31, 20X2 and 20X1**

	<u>20X2</u>	<u>20X1</u>
Partners' Capital (Deficit), Beginning of Year	\$ -	\$ -
Net Income	-	-
Distributions	-	-
Partners' Capital (Deficit), End of Year	<u>\$ -</u>	<u>\$ -</u>

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

ABC Apartments, LP
RHS Project No. 00-000-000000000-00-0

**Statements of Cash Flows
For the Years Ended December 31, 20X2 and 20X1**

	<u>20X2</u>	<u>20X1</u>
Reconciliation of Net Income to Net Cash Provided by Operating Activities		
Net Income	\$ -	\$ -
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation expense	-	-
Decrease (increase) in assets		
Prepaid expenses	-	-
Tenant deposits held in trust	-	-
Increase (decrease) in liabilities		
Accounts payable - operations	-	-
Accrued mortgage interest	-	-
Accrued real estate taxes	-	-
Tenant deposits held in trust	-	-
Net Cash Provided By Operating Activities	<u>-</u>	<u>-</u>
Cash Flow From Investing Activities		
Net withdrawals from the reserve for taxes and insurance	-	-
Purchase of fixed assets	-	-
Net Cash Used In Investing Activities	<u>-</u>	<u>-</u>
Cash Flow from Financing Activities		
Principal payments	-	-
Payments on deferred revenue	-	-
Proceeds on deferred revenue	-	-
Distributions	-	-
Net Cash Used In Financing Activities	<u>-</u>	<u>-</u>
Increase (Decrease) in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents, Beginning of Year	<u>-</u>	<u>-</u>
Cash and Cash Equivalents, End of Year	<u>\$ -</u>	<u>\$ -</u>
Supplemental Disclosure		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>

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

ABC Apartments, LP
RHS Project No. 00-000-000000000-00-0

Notes to the Financial Statements
For the Years Ended December 31, 20X2 and 20X1

Note 1 – Nature of Activities

ABC Apartments, LP RHS Project No. 00-000-000000000-00-0 (Partnership) was formed on June 1, 1908, under the laws of the State of New York, for the purpose of operating a XX-unit apartment community located in New York, New York. The community is financed by a United States Department of Agriculture Rural Development (RD) Section 515 Loan, and therefore is regulated by RD as to rent charges and operating methods. Under this program, Partnership provides housing to low-income and moderate-income families, subject to regulation by RD as to rental charges and operating methods. Lower rental charges to tenants are recovered by Partnership through rental and interest subsidies provided by RD.

Note 2 – Significant Accounting Policies

A summary of Partnership's significant accounting policies consistently applied in the preparation of the accompanying financial statements is as follows:

Basis of Accounting

Partnership's financial statements were prepared on the accrual basis of accounting.

Use of 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and other changes in partners' capital (deficit) during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the statements of cash flows, all unrestricted investment instruments with original maturities of three months or less are cash and cash equivalents. As of December 31, 20X2 and 20X1, cash and cash equivalents consist of an operating checking account.

Subsequent Events

Partnership evaluated subsequent events through March XX, 20X3, which is the date the financial statements were available to be issued. This evaluation determined that there are no subsequent events that necessitated further disclosure in and/or adjustments to the accompanying financial statements.

ABC Apartments, LP
RHS Project No. 00-000-00000000-00-0

Note 2 – Significant Accounting Policies (continued)

Tenant Receivable and Bad Debt

Tenant rent charges for the current month are due on the first of the month. Tenants who are evicted or move out are charged with damages or cleaning fees, if applicable. Tenant receivable consists of amounts due for rental income, security deposits, or the charges for damages and cleaning fees. Partnership does not accrue interest on the tenant receivable balances.

Partnership has not established an allowance for doubtful accounts and does not use the reserve method for recognizing bad debts. Bad debts are treated as direct write-offs in the period management determines that collection is not probable.

Tenant Security Deposits

Partnership maintains accounts for security deposits received from tenants. The cash is restricted for reimbursement of the security deposits unless there is evidence of default by a tenant under the lease agreement.

Tax and Insurance Reserve

Tax and insurance reserve is restricted cash for payments of real estate taxes and insurance. Partnership is required to establish and maintain a reserve account. This account is used to receive monthly deposits sufficient to pay annual real estate taxes and insurance premiums that are paid from the account.

Replacement Reserves

In accordance with the loan agreement with RD, a reserve for replacement is to be funded \$AMT annually until it reaches \$AMT.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method of depreciation. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized as income or loss for the period. The cost of maintenance and repairs is charged to expense as incurred and significant renewal and betterments are capitalized. Deductions are made for retirements resulting from renewals or betterments.

Accrued Real Estate Taxes

Partnership is subject to real estate and personal property taxes and pays one year in arrears. Partnership was assessed in 20X1 and made bi-annual payments in May 20X2 and November 20X2. Failure to make these payments could have resulted in additional penalties, interest, and liens. At December 31, 20X2 and 20X1, accrued real estate taxes represent an estimated amount to be paid in the subsequent year.

Recognition of Rent Revenue

Partnership recognized net rent revenue in the period in which the rent is earned. In accordance with the RD financial reporting requirements, potential rental income represents total possible rent revenue as if all units are 100% occupied during the year. Total rental income represents potential rental income less vacancies. Rents collected in advance are deferred until the rental income is earned.

ABC Apartments, LP
RHS Project No. 00-000-000000000-00-0

Note 2 – Significant Accounting Policies (continued)

Rental Assistance Payments

Partnership entered into a rental assistance contract for low-income families as provided by RD.

Advertising

Partnership expenses advertising costs as they incur. For the years ended December 31, 20X2 and 20X1, advertising and marketing expenses were \$AMT and \$AMT, respectively.

Income Taxes

No provision for federal or state income taxes was made in the financial statements as the federal and state income tax effect on Partnership's activities accrued to its partners.

Generally accepted accounting principles in the United States require Partnership to examine its tax positions for uncertain positions. Partnership is not aware of any tax positions that are more likely than not to change in the next twelve months, or that would not sustain an examination by applicable taxing authorities. Partnership's policy is to recognize penalties and interest as incurred in its statements of income (loss) as a component of operating expenses, and totaled \$0 for December 31, 20X2 and 20X1. Partnership's federal and state income tax returns for fiscal years ended 20XX through 20XX are subject to examination by the applicable tax authorities, generally for three years after the later of the original or extended due date.

Impairment of Long-Lived Assets

In accordance with the provisions of accounting for the impairment or disposal of long-lived assets, Partnership reviews long-lived assets for impairments when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified.

Fair Value Measurements

Partnership adopted fair value measurements of financial assets and financial liabilities of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. This establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that Partnership has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

ABC Apartments, LP RHS
Project No. 00-000-000000000-00-0

Note 2 – Significant Accounting Policies (continued)

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Partnership had no investments at December 31, 20X2 and 20X1 except for certificate of deposits.

Partnership operates in a heavily regulated environment that typically includes restrictions such as land use, rent regulations, government subsidies in the form of rental assistance through either rent subsidy or tenant vouchers, subsidized mortgage interest rates, and restrictions on selling or transferring.

A summary of the methods and significant assumptions used to estimate the fair values of financial instruments is as follows:

- Short-term financial instruments – The fair value of short-term financial instruments, including cash and cash equivalents, restricted deposits, accounts receivable, accounts payable and accrued liabilities approximate their carrying value due to the short-term nature of these instruments.
- Long-term financial instruments – The fair value of long-term financial instruments, including mortgage payable which approximates the carrying value in the accompanying financial statements based on current borrowing rates.

Reclassifications

Certain accounts in the 20X1 financial statements were reclassified for comparative purposes to conform with the presentation in the 20X2 financial statements. Total assets, liabilities, partners' capital (deficits), and net income are unchanged due to these reclassifications.

Note 3 – Mortgage Payable

The mortgage payable is payable to RD in monthly installments of \$AMT at an interest rate of RATE% per annum and a term of # years, maturing on DATE. As part of the Loan Agreement, Partnership entered into an Interest Credit and Rental Assistance Agreement that effectively lowers the interest rate to approximately 1% over the term of the loan. The mortgage liability of Partnership is limited to the underlying value of the real estate collateral pledged. No partner is personally liable on the mortgage note payable. The original amount of the note payable was \$AMT.

Estimated annual maturities of the mortgage notes payable are as follows:

20X3	\$ AMT
20X4	AMT
20X5	AMT
20X6	AMT
20X7	AMT
Thereafter	<u>AMT</u>

\$ AMT

ABC Apartments, LP RHS
Project No. 00-000-000000000-00-0

Note 4 – Distribution To Partners

Under the mortgage payable agreement, annual distributions to partners are limited by RD regulations to \$AMT. During the years ended December 31, 20X2 and 20X1, \$AMT and \$AMT, respectively were distributed to the partners. Distributions are paid one year in arrears of being earned.

Note 5 – Related Party Transaction

Management Fee

Partnership entered into a management agreement with ABC Property Management (management agent), an identity of interest with the general partner, to manage the rental operations. The management agreement allows for a management fee based on per occupied unit per month. Property management fees were \$AMT and \$AMT during the years ended December 31, 20X2 and 20X1, respectively.

Management Services

Management agent provides administrative services to Partnership and was reimbursed \$AMT and \$AMT for the cost of site employee payroll, payroll taxes, and benefits during the years ended December 31, 20X2 and 20X1, respectively.

Legal Services

ABC Legal, an identity of interest with the general partner, performs legal services for Partnership. During the years ended December 31, 20X2 and 20X1, \$AMT and \$AMT, respectively, was incurred and expensed.

Advances from General Partner

A general partner made non-interest bearing operating deficit loans of \$AMT which are payable from the proceeds of the sale or refinancing of the rental property. At December 31, 20X2 and 20X1, Partnership owes the general partner \$AMT and \$AMT, respectively.

Note 6 – Current Vulnerability Due to Certain Concentrations

Concentration in Affordable Housing Market

Partnership's sole asset is ABC Apartments. Partnership's operations are concentrated in the affordable housing real estate market. In addition, Partnership operates in a heavily regulated environment. The operations of Partnership are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, RD and the State Housing Agency. Such administrative directives, rules, and regulations are subject to change by an act of Congress or an administrative change mandated by RD or the State Housing Agency. Such changes may occur with little adequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Concentration in Government Funding

Partnership received X% and X% of gross revenue from RD in the form of rental assistance and interest reduction subsidy payments during the years ended December 31, 20X2 and 20X1, respectively.

Concentration in Credit Risk

Partnership continually monitors its positions with, and the credit quality of, the financial institutions with which it invests. Financial instruments that potentially subject the company to concentration of credit risk consist principally of cash. Management believes Partnership placed all cash with high-credit quality financial institutions and that there is no significant concentration of credit risk with respect to cash.

ABC Apartments, LP RHS
Project No. 00-000-000000000-00-0

**Schedule of Required Supplemental Information
For the Year Ended December 31, 20X2**

1. Management Fee Calculation

The management fee is based on a fee per unit occupied by tenants during the month.

Total qualified units	-	
Less: Rent free units	-	
Vacancies	-	
Total occupied units	-	
Fee per unit		\$ -
Management fee expense		<u>\$ -</u>

2. Insurance Disclosure

Partnership maintains insurance coverage as follows:

	Coverage period	Coverage
Property coverage on buildings	November 20X2 to October 20X3	\$ -
Fidelity / employee dishonesty	March 20X2 to March 20X3	\$ -

3. Return to Owner

In accordance with the loan agreement, the annual return to owner is as follows:

Maximum return to owner	<u>\$ -</u>
Budgeted return to owner	<u>\$ -</u>
Return to owner paid	<u>\$ -</u>

4. Schedule of Changes in Fixed Assets

	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ -	\$ -	\$ -	\$ -
Buildings	-	-	-	-
Furniture and equipment	-	-	-	-
Total fixed assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Accumulated depreciation				
Buildings	\$ -	\$ -	\$ -	\$ -
Furniture and equipment	-	-	-	-
Total accumulated depreciation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Fixed asset additions for the year ended December 31, 20X2

None

Fixed asset disposals for the year ended December 31, 20X2

None

See Independent Auditors report

ABC Apartments, LP RHS
Project No. 00-000-000000000-00-0

**Schedules of Expenses
For the Years Ended December 31, 20X2 and 20X1**

	20X2	20X1
Maintenance and Operating Expenses		
Maintenance and repairs - payroll	\$ -	\$ -
Maintenance and repairs - supplies	-	-
Maintenance and repairs - contract	-	-
Painting	-	-
Snow removal	-	-
Grounds	-	-
Services	-	-
Annual capital budget	-	-
Other operating expenses	-	-
Total maintenance and operating expenses	<u>\$ -</u>	<u>\$ -</u>
Utility Expenses		
Electricity	\$ -	\$ -
Water	-	-
Sewer	-	-
Fuel (Oil/Coal/Gas)	-	-
Garbage and trash removal	-	-
Other utilities	-	-
Total utility expenses	<u>\$ -</u>	<u>\$ -</u>
Administrative Expenses		
Site management payroll	\$ -	\$ -
Management fee	-	-
Project audit fee	-	-
Legal expense	-	-
Advertising	-	-
Telephone and answering service	-	-
Office supplies	-	-
Training expense	-	-
Health insurance and other employee benefits	-	-
Payroll taxes	-	-
Workers' compensation	-	-
Other administrative expenses	-	-
Total administrative expenses	<u>\$ -</u>	<u>\$ -</u>
Taxes and Insurance Expenses		
Real estate taxes	\$ -	\$ -
Property and liability insurance	-	-
Fidelity coverage insurance	-	-
Total taxes and insurance expenses	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditors report

ABC Apartments, LP RHS
Project No. 00-000-000000000-00-0

USDA Form RD 3560-10 (Rev. 02-05)		Position 3 MULTI FAMILY HOUSING BORROWER BALANCE SHEET PART 1 - BALANCE SHEET		FORM APPROVED OMB NO. 0575-0189	
PROJECT NAME		BORROWER NAME		BORROWER ID AND PROJECT NO.	
		BEGINNING DATES >		CURRENT YEAR	PRIOR YEAR
		ENDING DATES >		1/1/20X2	1/1/20X1
				12/31/20X2	12/31/20X1
				COMMENTS	
ASSETS					
CURRENT ASSETS					
1	GENERAL OPERATING ACCOUNT	\$	-	\$	-
2	R.E. TAX & INSURANCE ACCOUNT		-		-
3	RESERVE ACCOUNT		-		-
4	SECURITY DEPOSIT ACCOUNT		-		-
5	OTHER CASH (Identify)		-		-
6	OTHER (Identify)		-		-
7	ACCOUNTS RECEIVABLE (Attach list)		-		-
	ACCT RCVBL 0-30 DAYS	\$	-		-
	ACCT RCVBL 31-60 DAYS	\$	-		-
	ACCT RCVBL 61-90 DAYS	\$	-		-
	ACCT RCVBL OVER 90 DAYS	\$	-		-
8	LESS: ALLOWANCE FOR DOUBTFUL ACCTS		-		-
9	INVENTORIES (Identify)		-		-
10	PREPAYMENTS		-		-
11			-		-
12	TOTAL CURRENT ASSETS (Add 1 thru 11)		-		-
FIXED ASSETS					
13	LAND		-		-
14	BUILDINGS		-		-
15	LESS: ACCUMULATED DEPRECIATION		-		-
16	FURNITURE & FIXTURES		-		-
17	LESS: ACCUMULATED DEPRECIATION		-		-
18			-		-
19	TOTAL FIXED ASSETS (Add 13 thru 18)		-		-
OTHER ASSETS					
20			-		-
21	TOTAL ASSETS (Add 12, 19 and 20)	\$	-	\$	-
LIABILITIES AND OWNER'S EQUITY					
CURRENT LIABILITIES					
22	ACCOUNTS PAYABLE (Attach list)	\$	-	\$	-
	ACCT PAYABLE 0-30 DAYS	\$	-		-
	ACCT PAYABLE 31-60 DAYS	\$	-		-
	ACCT PAYABLE 61-90 DAYS	\$	-		-
	ACCT PAYABLE OVER 90 DAYS	\$	-		-
23	NOTES PAYABLE (Attach list) (Accd Expenses)		-		-
24	SECURITY DEPOSITS		-		-
25	TOTAL CURRENT LIABILITIES (Add 22 thru 24)		-		-
LONG-TERM LIABILITIES					
26	NOTES PAYABLE RURAL DEVELOPMENT		-		-
27	OTHER (Identify)		-		-
28	TOTAL LONG-TERM LIABILITIES (Add 26 and 27)		-		-
29	TOTAL LIABILITIES (Add 25 and 28)		-		-
30	OWNER'S EQUITY (Net Worth) (21 minus 29)		-		-
33	TOTAL LIABILITIES AND OWNER'S EQUITY (Add 29 and 30)	\$	-	\$	-

According to the Payment Reduction Act of 2009, no person is required to collect information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0189. The time required to complete this information collection is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

See Independent Auditors report

ABC Apartments, LP RHS
Project No. 00-000-000000000-00-0

Warning:
Section 1001 of Title 18, United States Code provides: "Whoever, in any manner within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statement or represents, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined under this title or imprisoned not more than five years, or both."

I HAVE READ THE ABOVE WARNING STATEMENT AND I HEREBY CERTIFY THE FOREGOING INFORMATION IS COMPLETE AND ACCURATE TO THE BEST OF MY KNOWLEDGE.

Date

(Signature of Borrower or Borrower Representative)

(Title)

PART III - THIRD PARTY REPRESENTATION

We have compared the borrower's records to the accompanying balance sheet and statement of actual budget and income on Form RD 3560-7. The accompanying Forms are a fair presentation of the borrower's records taken as a whole.

We certify that no identity of interest exists between us and any individual or organization doing business with the project or borrower.

Date

(Signature)

(Name and Title)

(Address)

In lieu of the above representation and signature, a compilation, review or audit opinion completed, dated and signed by a person or firm qualified by license or certification is attached.

See Independent Auditors report

ABC Apartments, LP RHS
Project No. 00-000-000000000-00-0

USDA Form RD 3560-7 (Rev. 05-05)		Position 3		FORM APPROVED OMB NO. 0575-0189	
MULTIPLE FAMILY HOUSING PROJECT BUDGET					
PROJECT NAME		BORROWER NAME		BORROWER ID AND PROJECT NO.	
Loan/Transfer Amount	\$	Note Rate Payment	\$	IC Payment	\$
<input type="checkbox"/> Annual <input type="checkbox"/> Quarterly <input type="checkbox"/> Monthly	<input type="checkbox"/> Initial <input type="checkbox"/> Regular Report <input type="checkbox"/> Rent Change <input type="checkbox"/> SNR <input type="checkbox"/> Other Servicing	<input type="checkbox"/> Family <input type="checkbox"/> Elderly <input type="checkbox"/> Congregate <input type="checkbox"/> Group Home <input type="checkbox"/> Mixed <input type="checkbox"/> LH	<input type="checkbox"/> Full Profit <input type="checkbox"/> Limited Profit <input type="checkbox"/> Non-Profit	<input checked="" type="checkbox"/> Electricity <input type="checkbox"/> Water <input type="checkbox"/> Trash <input type="checkbox"/> Gas <input type="checkbox"/> Sewer	<input checked="" type="checkbox"/> I hereby request ___ units of RA. Current number of RA units Borrower Accounting Method <input type="checkbox"/> Cash <input type="checkbox"/> Accrual
BEGINNING DATES >			CURRENT BUDGET	ACTUAL	PROPOSED BUDGET
ENDING DATES >			1/1/20X2	1/1/20X2	1/1/20X3
			12/31/20X2	12/31/20X2	12/31/20X3
OPERATIONAL CASH SOURCES					
1 RENTAL INCOME			\$ -	\$ -	\$ -
2 RHS RENTAL ASSISTANCE RECEIVED			-	-	-
3 APPLICATION FEES RECEIVED			-	-	-
4 LAUNDRY AND VENDING			-	-	-
5 INTEREST INCOME			-	-	-
6 TENANT CHARGES			-	-	-
7 OTHER - PROJECT SOURCES			-	-	-
8 LESS (Vacancy and Contingency Allowance)			-	-	-
9 LESS (Agency Approved Incentive Allowance)			-	-	-
10 Subtotal (11 thru 7) - (8 & 9)			-	-	-
NON-OPERATIONAL CASH SOURCES					
11 CASH - NON PROJECT			-	-	-
12 AUTHORIZED LOAN (Non-RHS)			-	-	-
13 TRANSFER FROM RESERVE			-	-	-
14 Subtotal (11 thru 13)			-	-	-
15 TOTAL CASH SOURCES (10 + 14)			-	-	-
OPERATIONAL CASH USES					
16 TOTAL OSM EXPENSES (From Part II)			-	-	-
17 RHS DEBT PAYMENT			-	-	-
18 RHS PAYMENT (Overage)			-	-	-
19 RHS PAYMENT (Late Fee)			-	-	-
20 REDUCTION IN PRIOR YEAR PAYABLES			-	-	-
21 TENANT UTILITY PAYMENTS			-	-	-
22 TRANSFER TO RESERVE			-	-	-
23 RETURN TO OWNER/INP ASSET MANAGEMENT FEE			-	-	-
24 Subtotal (16 thru 23)			-	-	-
NON-OPERATIONAL CASH USES					
25 AUTHORIZED DEBT PAYMENTS (Non-RHS)			-	-	-
26 ANNUAL CAPITAL BUDGET (From Part III, Lines 4-6)			-	-	-
27 MISCELLANEOUS - See Supp. Data #5, pg. 12			-	-	-
28 Subtotal (26 thru 27)			-	-	-
29 TOTAL CASH USES (24 + 28)			-	-	-
30 NET CASH (DEFICIT) (15 - 29)			-	-	-
CASH BALANCE					
31 BEGINNING CASH BALANCE			-	-	-
32 ACCRUAL TO CASH ADJUSTMENT			-	-	-
33 ENDING CASH BALANCE (30 + 31 + 32)			\$ -	\$ -	\$ -

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0189. The time required to complete this information collection is estimated to average 4 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

Form RD 3560-7 Page 1

See Independent Auditors report

ABC Apartments, LP RHS
Project No. 00-000-000000000-00-0

PART II – OPERATING AND MAINTENANCE EXPENSE SCHEDULE				
	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
1 MAINTENANCE AND REPAIRS PAYROLL	\$ -	\$ -	\$ -	
2 MAINTENANCE AND REPAIRS SUPPLY	-	-	-	
3 MAINTENANCE AND REPAIRS CONTRACT	-	-	-	
4 PAINTING	-	-	-	
5 SNOW REMOVAL	-	-	-	
6 ELEVATOR MAINTENANCE/CONTRACT	-	-	-	
7 GROUNDS	-	-	-	
8 SERVICES	-	-	-	
9 ANNUAL CAPITAL BUDGET (From Part V - Operations)	-	-	-	
10 OTHER OPERATING EXPENSE (Itemize)	-	-	-	
11 SUB-TOTAL MAINT. & OPERATING (1 thru 10)	-	-	-	
12 ELECTRICITY	-	-	-	
13 WATER	-	-	-	
14 SEWER	-	-	-	
15 FUEL (Oil/Coal/Gas)	-	-	-	
16 GARBAGE & TRASH REMOVAL	-	-	-	
17 OTHER UTILITIES	-	-	-	
18 SUB-TOTAL UTILITIES (12 thru 17)	-	-	-	
19 SITE MANAGEMENT PAYROLL	-	-	-	
20 MANAGEMENT FEE	-	-	-	
21 PROJECT AUDITING EXPENSE	-	-	-	
22 PROJECT BOOKKEEPING/ACCOUNTING	-	-	-	
23 LEGAL EXPENSE	-	-	-	
24 ADVERTISING	-	-	-	
25 TELEPHONE & ANSWERING SERVICE	-	-	-	
26 OFFICE SUPPLIES	-	-	-	
27 OFFICE FURNITURE & EQUIPMENT	-	-	-	
28 TRAINING EXPENSE	-	-	-	
29 HEALTH INS. & OTHER EMP. BENEFITS	-	-	-	
30 PAYROLL TAXES	-	-	-	
31 WORKERS' COMPENSATION	-	-	-	
32 OTHER ADMINISTRATIVE EXPENSE (Itemize)	-	-	-	
33 SUB-TOTAL ADMINISTRATIVE (19 thru 32)	-	-	-	
34 REAL ESTATE TAXES	-	-	-	
35 SPECIAL ASSESSMENTS	-	-	-	
36 OTHER TAXES, LICENSES & PERMITS	-	-	-	
37 PROPERTY & LIABILITY INSURANCE	-	-	-	
38 FIDELITY COVERAGE INSURANCE	-	-	-	
39 OTHER INSURANCE	-	-	-	
40 SUB-TOTAL TAXES & INSURANCE (34 thru 39)	-	-	-	
41 TOTAL OHM EXPENSES (11 + 18 + 33 + 40)	\$ -	\$ -	\$ -	

See Independent Auditors report

ABC Apartments, LP RHS
Project No. 00-000-000000000-00-0

PART III - ACCOUNT BUDGETING STATUS				
	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
RESERVE ACCOUNT:				
1 BEGINNING BALANCE	\$ -	\$ -	\$ -	
2 TRANSFER TO RESERVE	-	-	-	
TRANSFER FROM RESERVE				
3 OPERATING DEFICIT	-	-	-	
4 ANNUAL CAPITAL BUDGET (Part V - Reserve)	-	-	-	
5 BUILDING & EQUIPMENT REPAIR	-	-	-	
6 OTHER NON-OPERATING EXPENSES	-	-	-	
7 TOTAL (3 thru 6)	-	-	-	
8 ENDING BALANCE [(1+2)-7]	-	-	-	
GENERAL OPERATING ACCOUNT*:				
BEGINNING BALANCE		-		
ENDING BALANCE		-		
REAL ESTATE TAX AND INSURANCE ESCROW ACCOUNT*:				
BEGINNING BALANCE		-		
ENDING BALANCE		-		
TENANT SECURITY DEPOSIT ACCOUNT*:				
BEGINNING BALANCE		-		
ENDING BALANCE		-		
(* Complete upon submission of actual expenses.)				
NUMBER OF APPLICANTS ON THE WAITING LIST	-	RESERVE ACCT. REQ. BALANCE	-	
NUMBER OF APPLICANTS NEEDING RA	-	AMOUNT AHEAD/BEHIND	-	

See Independent Auditors report

ABC Apartments, LP RHS
Project No. 00-000-000000000-00-0

PART V -- ANNUAL CAPITAL BUDGET							
	Proposed Number of Units/Items	Proposed From Reserve	Actual From Reserve	Proposed From Operating	Actual From Operating	Actual Total Cost	Total Actual Units/Items
Appliances:							
Range	-	\$ -	\$ -	\$ -	\$ -	\$ -	-
Refrigerator	-	-	-	-	-	-	-
Range Hood	-	-	-	-	-	-	-
Washer & Dryer	-	-	-	-	-	-	-
Other:	-	-	-	-	-	-	-
Carpet and Vinyl:							
1 BR	-	-	-	-	-	-	-
2 BR	-	-	-	-	-	-	-
3 BR	-	-	-	-	-	-	-
4 BR	-	-	-	-	-	-	-
Other:	-	-	-	-	-	-	-
Cabinets:							
Kitchens	-	-	-	-	-	-	-
Bathrooms	-	-	-	-	-	-	-
Other:	-	-	-	-	-	-	-
Doors:							
Exterior	-	-	-	-	-	-	-
Interior	-	-	-	-	-	-	-
Other:	-	-	-	-	-	-	-
Window Coverings:							
List:	-	-	-	-	-	-	-
Other:	-	-	-	-	-	-	-
Heating & Air Conditioning:							
Heating	-	-	-	-	-	-	-
Air Conditioning	-	-	-	-	-	-	-
Other:	-	-	-	-	-	-	-
Plumbing:							
Water Heater	-	-	-	-	-	-	-
Bath Sinks	-	-	-	-	-	-	-
Kitchen Sinks	-	-	-	-	-	-	-
Faucets	-	-	-	-	-	-	-
Toilets	-	-	-	-	-	-	-
Other:	-	-	-	-	-	-	-
Major Electrical:							
List: EXT LIGHTING	-	-	-	-	-	-	-
Other:	-	-	-	-	-	-	-
Structures:							
Windows	-	-	-	-	-	-	-
Screens	-	-	-	-	-	-	-
Walls	-	-	-	-	-	-	-
Roofing	-	-	-	-	-	-	-
Sliding	-	-	-	-	-	-	-
Exterior Painting	-	-	-	-	-	-	-
Other:	-	-	-	-	-	-	-
Paving:							
Asphalt	-	-	-	-	-	-	-
Concrete	-	-	-	-	-	-	-
Seal and Strips	-	-	-	-	-	-	-
Other:	-	-	-	-	-	-	-
Landscaping & Grounds:							
Landscaping - MULCH	-	-	-	-	-	-	-
Lawn Equipment	-	-	-	-	-	-	-
Fencing	-	-	-	-	-	-	-
Recreation Area	-	-	-	-	-	-	-
Signs	-	-	-	-	-	-	-
Other: Brick work	-	-	-	-	-	-	-
Accessibility Features:							
List: Furniture	-	-	-	-	-	-	-
Other:	-	-	-	-	-	-	-
Automation Equipment:							
Site Management	-	-	-	-	-	-	-
Common Area	-	-	-	-	-	-	-
Other:	-	-	-	-	-	-	-
Other:							
List: Gutters	-	-	-	-	-	-	-
List: Bed Bug Equipment	-	-	-	-	-	-	-
List: Greenhouse Repair	-	-	-	-	-	-	-
List: 2016 RTO	-	-	-	-	-	-	-
TOTAL CAPITAL EXPENSE:	-	\$ -	\$ -	\$ -	\$ -	\$ -	-

See Independent Auditors report

ABC Apartments, LP RHS
Project No. 00-000-000000000-00-0

PART VI – SIGNATURES, DATES AND COMMENTS

Warning:
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I HAVE READ THE ABOVE WARNING STATEMENT AND I HEREBY CERTIFY THE FOREGOING INFORMATION IS COMPLETE AND ACCURATE TO THE BEST OF MY KNOWLEDGE.

(Date)

(Signature of Borrower or Borrower Representative)

(Title)

AGENCY APPROVAL (Rural Development Approval Official):

DATE:

COMMENTS:

INDEPENDENT AUDITORS' 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

To the Partners of
ABC Limited Partnership
DBA ABC Apartments
City, State

USDA Rural Development
Servicing Office
City, State

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 ABC Limited Partnership, which comprise the balance sheet as of December 31, 20X2, and the related statements of operations, changes in partners' equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated DATE, YEAR.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ABC Limited Partnership'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 ABC Limited Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of ABC Limited Partnership'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.

ABC Limited
Partnership
Independent Auditors'
Report on Internal
Control Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ABC Limited Partnership's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with 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 our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ABC Limited Partnership's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ABC Limited Partnership's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Firm's signature
City, State
DATE, YEAR

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR RD PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE CONSOLIDATED
AUDIT GUIDE FOR AUDITS OF RD PROGRAMS**

To the Partners of
ABC Limited Partnership
DBA ABC Apartments
City, State

USDA Rural Development
Servicing Office
City, State

Report on Compliance for Each Major RD Program

We have audited ABC Limited Partnership's compliance with the compliance requirements described in the *Audit Guide for Audits of RD Programs* (the Guide) that could have a direct and material effect on ABC Limited Partnership's major U.S. Department of Rural Development (RD) program for the year ended December 31, 20X2. The Partnership's major RD program is as follows:

List the major program.

Name of Major RD Program	Direct and Material Compliance Requirements
Section 515 Rural Rental Housing Loan	Mortgage status, replacement reserve, return on investment or return to owner, equity skimming, cash receipts, cash disbursements, tenant security deposits, management functions, unauthorized change of ownership or acquisition of liabilities and unauthorized loans of project funds.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its RD program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of ABC Limited Partnership's major RD programs based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major RD program occurred. An audit includes examining, on a test basis, evidence about ABC Limited Partnership's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major RD programs. However, our audit does not provide a legal determination of ABC Limited Partnership's compliance.

Opinion on Each Major RD Program

In our opinion, ABC Limited Partnership complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major RD program for the year ended December 31, 20X2.

Opinion on Each Major RD Program

In our opinion, ABC Limited Partnership complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major RD program for the year ended December 31, 20X2.

Other Matters (needs to be included if immaterial instances of non-compliance were noted)

We noted certain matters that we are required to report to management of ABC Limited Partnership in a separate written communication. These matters are described in our management letter dated DATE, YEAR.

Report on Internal Control Over Compliance

Management of ABC Limited Partnership is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered ABC Limited Partnership's internal control over compliance with the requirements that could have a direct and material effect on its major RD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major RD program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ABC Limited Partnership's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

Firm's signature
City, State
DATE, YEAR.

ABC Apartments, LP RHS
Project No. 00-000-000000000-00-0

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 20X2**

For the Year Ended December 31, 20X2:

There were no findings or questioned costs for the year ended December 31, 20X2.

For the Year Ended December 31, 20X1:

There were no findings or questioned costs for the year ended December 31, 20X1.

Year End Financial Reporting Requirements
State and Local Government, Indian Tribes and Non-Profit Organizations
Single Audit

The Single Audit is divided into two areas: Compliance and Financial.

The compliance component of a Single Audit covers the study and understanding (planning stage) as well as the testing and evaluation (exam stage) of the recipient with respect to federal assistance usage, operations and compliance with laws and regulations

The financial component is exactly like a financial audit of a non-federal entity which includes the audit of the financial statements and accompanying notes.

Single Audit Component Reference /Checklist

Financial Statement(s) 2 CFR 200.510(a)
Opinion on Financial Statements 2 CFR 200.515(a)
Uniform Guidance Report on Internal Control 2 CFR 200.515(b) (major programs)
Uniform Guidance Report on Compliance 2 CFR 200.515(c) (major programs)
GAS Report on Internal Control 2 CFR 200.515(b)
Schedule of expenditures of Federal Awards 2 CFR 200.510(b) (Example provided)
Opinion or Disclaimer of Opinion on Schedule of Federal Awards 2 CFR 200.515(a)
GAS Report on Compliance 2 CFR 200.515(c)
Schedule of Findings and Questioned Costs 2 CFR 200.515(d) (Example provided)
Summary Schedule of Prior Audit Findings 2 CFR 200.511(b)
Corrective Action Plan (if findings) 2 CFR 200.511(c) (Example provided)

DEF Apartments NFP
Project No. 00-000-000000000-00-0

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 20X7

<u>Federal Grantor/ (Pass-through Grantor)/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
U.S. Departments of Agriculture Rural Rental Housing Loans	10.415		\$2,247,033
U.S. Departments of Agriculture Rural Rental Housing Loans	10.427		242,249
U.S. Departments of Agriculture Interest Assistance Programs	10.437		<u>87,046</u>
Total			<u>\$ 2,576,328</u>

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of DEF Apartments under programs of the federal government for the year ended December 31, 20X7.

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Project, it is not intended to and does not present the Project's financial position, changes in net assets, or cash flows.

2. Summary of Significant Accounting Policies

(a) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(b) DEF Apartments NFP has elected not to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

(c) The outstanding balance of loan and loan guarantee programs at December 31, 20x7 with continuing compliance requirements which are reported as federal expenditures on the accompanying schedule of expenditures of Federal Awards was \$2,229,088.

See Independent Auditor's Report.

SCHEDULE OF FINDINGS
Year ended December 31, 20X7

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
Material weakness identified? Yes X No

Significant deficiency identified not considered
to be material weaknesses? Yes X None

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Type of auditor's report issued on compliance for
major programs:

Internal control over financial reporting:
Material weakness identified? Yes X No

Significant deficiency identified not considered
to be material weaknesses? Yes X None

Any audit findings disclosed that are required to be
reported in accordance with CFR Section
200.516(a)? Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.415	Rural Rental Housing Loans

Dollar threshold used to distinguish between Type A
and Type B programs: \$XX0,000

Auditee qualified as low-risk auditee? Yes X No

SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND RECOMMENDATIONS
December 31, 20X7

Findings Financial Statements Audit

None noted

Findings and Questioned Costs Major Award Programs Audit

None noted

Findings and Questioned Costs Prior Years

None noted