

## Annual Financial Statement and Compilation Requirements

Many multifamily projects allocated resources by Kentucky Housing Corporation (KHC) are required to submit an audited financial statement (AFS) or compilation to the Corporation each year for review. These reviews allow the Corporation the opportunity to ascertain the financial viability of a project that may not otherwise be discovered.

All projects allocated a loan under the Risk-Sharing Program are required to submit an AFS to Kentucky Housing Corporation. The AFS must use the U.S. Department of Housing and Urban Development's (HUD) Chart of Accounts and be performed in accordance with the Consolidated Audit Guide, with the exception that the HUD Major/Minor Programs and Fair Housing certifications are not required. The AFSs for these projects must be submitted to Kentucky Housing within 90 days of the project's fiscal year end.

All projects allocated a loan from the Small Multifamily Affordable Loan (SMAL) Program or received a residual receipt loan or otherwise had an AFS requirement listed in their legal documents, are required to submit a compilation of their financial statements to Kentucky Housing Corporation within 120 days from the end of the project's fiscal year. This should be a full disclosure compilation conducted by a certified public accountant (CPA). It should include a balance sheet, profit and loss (income statement), statement of cash flows, all appropriate disclosure notes and the appropriate CPA statements.

The compilations should utilize the HUD Chart of Accounts. It is understood that most of the projects submitting compilations are not utilizing most of the accounts listed under HUD's Chart of Accounts. In order to help make this process a little simpler, KHC has produced an *Example of Compilation Accounts*, which only shows the accounts that are used most frequently. You may use it as an example, but feel free to delete accounts that are not applicable. If you need an account number that is not listed, you may find it in the *HUD Multifamily Chart of Accounts List*. Definitions of what should be included in each account can be found in the *HUD Multifamily Chart of Accounts Descriptions*.

The compilation is only for the project and not for the entire borrowing entity. If the borrowing entity does not have their accounting system organized in such a manner as to make this feasible, KHC will accept an AFS that was performed on the borrowing entity that includes the project. If the AFS indicates a weak financial position, KHC reserves the right to ask for more detailed project information. Also, please note that for residual receipt loans, KHC must always receive at least an income statement that is specific to the project in question. That is the only way in which KHC can determine if a payment is due. If a residual receipt payment is due, it should be submitted along with the income statement/compilation.

In summary, Risk-Sharing projects should submit an AFS to KHC within 60 days of the projects fiscal year end. Projects allocated SMAL loans or residual receipt loans are to submit compilations within 120 days of the current fiscal year's end. All other multifamily projects, such as HOME Investment Partnerships Program or the Affordable Housing Trust Fund, are only required to submit annual compilations if the requirement was noted in the legal documents between the owner and Kentucky Housing. KHC reserves the right to make exceptions to this policy if specific circumstances warrant it. Please note that failure to submit the required AFSs will be considered by Kentucky Housing in future funding proposals.

Required AFSs or compilations are to be submitted to your Asset Management representative. If you have any questions about this policy or need clarification whether or not this requirement is applicable to your multifamily project, please contact Kentucky Housing's Michael Dant toll-free in Kentucky at (800) 633-8896 or (502) 564-7630, extension 389; TTY 711; or e-mail [mdant@kyhousing.org](mailto:mdant@kyhousing.org)