



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

**Special Attention of**

**All Multifamily Hub Directors  
All Multifamily Program Center Directors  
All Multifamily Operations Officers  
All Multifamily Directors of Project Management  
All Contract Administrators  
Real Estate Assessment Center  
Departmental Enforcement Center  
Office of General Counsel**

**Notice H 2013-23**

Issued: August 8, 2013

Expires: This Notice remains in effect until amended, superseded, or rescinded.

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**Cross References:**

IG Handbook 2000.04 REV-2 CHG-1;  
HUD Handbook 4370.1 REV-2;  
HUD Handbook 4370.2 REV-1;  
HUD Handbook 4370.4;  
FASS Industry User Guide (7.1.9.0)

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**SUBJECT:** Change in Annual Financial Statement (AFS) Submission Requirements for Some Multifamily Housing Projects.

**PURPOSE**

This Notice revises the financial reporting requirements for small multifamily housing projects. Specifically, it relieves the Owners of small multifamily projects of the burden and cost of submitting audited financial statements. For purposes of this Notice, the term “small multifamily housing project” means a project for which the Owner is under an obligation to submit an audited financial statement but receives less than \$500,000 in combined federal financial assistance. Such Owners will be permitted to submit an Owner Certified financial statement provided they receive less than \$500,000 in combined federal financial assistance.<sup>1</sup> Combined federal financial assistance means assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.<sup>2</sup>

This Notice will apply to Owners having a fiscal year end of December 31, 2013, and thereafter.

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<sup>1</sup> This Notice does not implicate, and is unrelated to, the definition of “Small Project” that appears in 24 C.F.R. §§ 880.201, 881.201, and 883.302.

<sup>2</sup> See Office of Management and Budget (OMB) Circular A-133 for a complete definition of combined “federal financial assistance.”

## **BACKGROUND**

HUD participates in the Rental Policy Working Group (RPWG) along with the White House Domestic Policy Council, the National Economic Council, the Office of Management and Budget (OMB), the United States Department of Agriculture (USDA) and the U.S. Department of Treasury. The RPWG is a White House initiative to align the housing programs of federal agencies by creating uniform standards for federal programs. This initiative is designed to make federal programs easier to use and to reduce the administrative burdens to program participants.

The initial focus of the RPWG was to align financial reporting requirements of HUD's and USDA's multifamily housing programs. The RPWG examined the financial reporting requirements for HUD and USDA and found them to be vastly different. HUD requires all Owners of profit-motivated projects that have a financial submission requirement to submit audited financial statements, while USDA only requires audited financial statements for Owners of projects having 25 units or more. The RPWG also discovered that both agencies treat non-profit owners differently from for-profits by exempting non-profit owners who receive less than \$500,000 in combined federal assistance from submitting an audited AFS. This practice follows the OMB Circular A-133 which recognizes that audit requirements should be directly tied to federal dollars that are at risk.

The RPWG determined that both agencies should have the same audit standards and that the requirements should be based on the dollar amount of risk exposure rather than the number of units in a multifamily development. HUD and USDA jointly decided that the audit threshold should initially be set at a level of \$500,000 in combined federal financial assistance. This is the same threshold that is currently applied to non-profit owners of HUD-assisted projects. This threshold is modeled after the current federal awards threshold established by OMB for non-profit federal awards recipients, but it should be noted that this threshold is completely independent of OMB requirements since OMB Circular A-133 only applies to non-profit entities. This threshold may be increased or decreased independent of current or future OMB rules. The RPWG believes that standardizing the audit requirements is an important first step in aligning the financial reporting standards among various federal and state agencies.

## **IMPACT**

HUD currently receives over 24,000 financial statement submissions electronically each year. This notice is expected to apply to approximately 2,174 of those submissions. Once implemented, this directive is expected to save the Owners of these small projects from \$2,000 to \$10,000 per year in annual financial reporting costs. The cost savings realized from this policy will free up dollars to be used for additional maintenance, operating costs, or owner distributions. Reducing the financial and administrative burden associated with filing audited financial statements will also encourage the Owners of these small projects to renew rather than opt-out of existing Section 8 Housing Assistance Payments (HAP) contracts, thereby preserving much needed affordable housing units.

The Department has determined that this policy will not adversely affect HUD's oversight responsibilities. The 2,174 projects affected by the policy are comprised of two groups: (1) projects that have an FHA-insured or HUD-held mortgage (about 534 properties) and possibly some other type of HUD assistance; and, (2) projects that are not FHA-insured and receive only project-based Section 8 assistance (1,640 owners). The 534 projects with FHA-insured or HUD-held mortgages receive a relatively small dollar amount in combined federal assistance. Furthermore, many of these projects are near the end of their amortization period and the risk of a default in the final years of amortization is minimal. The remaining 1,640 projects are projects whose only assistance is a project-based Section 8 contract. HUD's primary oversight objective for Section 8 owners is to ensure that the Section 8 assistance is properly administered (i.e. tenant eligibility and income are properly monitored) and that the owner maintains the project in decent, safe and sanitary condition. Management and Occupancy Reviews and routine Physical Inspections are more effective monitoring tools for these types of projects than an audited financial statement. HUD has Performance-Based Contract Administrators (PBCA) that conduct onsite occupancy reviews to monitor owner compliance with Section 8 contracts and HUD's Real Estate Assessment Center (REAC) conducts physical inspections, so these contract oversight functions are already being performed. In the case of projects with FHA-insured or HUD-held mortgages, the project's Regulatory Agreement allows HUD to request Monthly Accounting Reports and give specific answers to questions upon which information is desired from time to time relative to income, assets, liabilities, contracts, operation, and condition of the project and the status of the insured mortgage.

The USDA is currently in the process of drafting the regulatory changes necessary to support this initiative. Implementation of this policy by HUD will achieve a major milestone in the White House initiative to standardize reporting requirements and to reduce excessive costs and administrative burdens on program participants.

## **IMPLEMENTATION**

Owners of affected projects will continue to submit financial statements to HUD electronically via the Real Estate Assessment Center's (REAC's) Financial Assessment Subsystem - Multifamily (FASS-MF). The financial statement must be presented in accordance with Generally Accepted Accounting Principles (GAAP) including a full set of notes to financial statements. However, owner-certified submissions will not contain an auditor's opinion or an auditor's report on compliance and internal controls. Unless they have the technical expertise in-house to prepare GAAP-based financial statements, most Owners will still have to contract a Certified Public Accountant (CPA) to prepare the financial statements. The FASS system will continue to track overdue financial statements and make the appropriate referrals to the Departmental Enforcement Center (DEC) for Owners who fail to submit on time.

During the submission process, the system will prompt Owners to certify that they receive less than \$500,000 in combined federal financial assistance and the system will perform a crosscheck of HUD's databases to verify the owner's certification. Each submission will be reviewed by REAC for compliance and will be subject to all of the FASS-MF system's internal compliance checks. These internal checks are designed to identify non-compliance with HUD regulations and include checks for unauthorized distributions, failure to make reserve deposits,

underfunded security deposits, etc. Owners who do not comply with their business agreements will continue to receive non-compliance letters and will be required to clear all non-compliance findings. Furthermore, the Department may take appropriate enforcement action when necessary.

If you have general questions regarding the new submission requirements, please contact the Office of Asset Management, Business Relationships and Special Initiatives Division at (202) 402-2629. Persons with hearing or speech impairments may access this number via TTY by calling the Federal Information relay service at (800) 877-8339.

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Carol J. Galante  
Assistant Secretary for Housing-  
Federal Housing Commissioner

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Previous edition is obsolete.