



**Rural Development**

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TO: State Directors  
Rural Development

JAN 24 2018

FROM: Curtis M. Anderson  
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SUBJECT: Multi-Family Housing Financial Reporting Requirements for  
Fiscal Year 2017

This Unnumbered Letter (UL) is issued to clarify the new financial reporting requirements for fiscal year (FY) 2017. The Final Rule for the Multi-Family Housing (MFH) Sections 515/514 new financial reporting requirements was published in the Federal Register and became effective November 24, 2017.

The Final Rule updates Rural Development's MFH financial reporting requirements to establish risk thresholds, align requirements with the United States Department of Housing and Urban Development (HUD), and reduce program operating costs to Rural Development and its borrowers. As a result of these changes, we believe small-portfolio borrowers will realize cost savings in property operating expenses and a consequent reduction in the amount of rent subsidy (Rental Assistance (RA) and HUD Section 8).

The new rule will be effective for borrowers with fiscal years beginning January 1, 2018 and thereafter. The Final Rule changes will not affect FY 2017 reporting requirements. The reporting change will be **OPTIONAL** in FY 2018, as proposed budgets have been submitted and will be **MANDATORY** starting in FY 2019.

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 FY 2017 reporting cycle by submitting a statement to the servicing official similar to the following. The statement will be for a single project and may be by e-mail or written correspondence prior to or with yearend reports.

EXPIRATION DATE:  
January 31, 2019

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 FY 2017 per 7 CFR Part 3560.308.*

**Fiscal Year 2017  
Year-End Financial Reporting Requirements  
For Profit and Limited Profit Entities**

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*

**State and local Governments, 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
Less than <b>\$750,000</b> in Federal financial assistance	Yes	Yes	No**
<b>\$750,000 or greater</b> in Federal financial assistance	Yes	Yes	Yes***

\*Must be completed by a CPA.

\*\*Less than \$750,000 in federal financial assistance will follow For Profit and Limited Profit matrix above.

\*\*\*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.

Non-profit entities with combined Federal financial assistance **at or above \$750,000** that require an audit under uniform guidance are still required to submit the single audits performed to the Agency.

Combined Federal financial assistance includes a combination of any or all of the sources identified below:

- The 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 or HUD-held mortgages or loans (including flexible subsidy loans);
- The outstanding principal balance at the beginning of the fiscal year of a USDA Section 538 Mortgage.
- Any RHS RA or Project-based Section 8 assistance received during the fiscal year;
- Interest reduction payments (interest subsidy) received during the year, and/or;
- Federal grant funds received during the year.

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 (example of supporting schedules may be found in HB-2-3560, Attachment 4-H) for those forms within the report package and the borrower Certification of Performance Standards. Any project audits independently obtained by the borrower must be submitted to the Agency.

We will be issuing addition guidance for FY 2018 year-end reporting requirements which will include revisions to HB-2-3560, Chapter 4 and additional training.

Please make sure that all your MFH borrowers and management agents receive a copy of this UL.

Servicing Officials should direct questions regarding the subject of the UL to their assigned Portfolio Management Analyst.