GLOSSARY

ACCOUNTING:
The activity of providing quantitative information, primarily financial in nature, that is intended to be useful in making economic decisions; the process of measuring recording, summarizing and reporting the assets, liabilities and owner's equity of an enterprise and the changes in them.

ACCOUNTING PERIOD:
A length of time established as a period for which accounting activity will be recorded, summarized, and reported. Accounting periods provide the divisions required for comparative financial analysis. Normally, they are established monthly and quarterly for interim statements and annually for completed audited statements and disclosures.

ACCOUNTS PAYABLE:
All amounts owed for goods, properties or services which were purchased on credit and have been received. See definition of accrued liabilities, below.

ACCOUNTS RECEIVABLE:
All amounts owed to an entity for facilities or services that were provided during the current or prior accounting period(s). (Rent that is due or overdue, including government Rent Supplement amounts, is a common example of an account receivable).

ACCRUAL BASIS OF ACCOUNTING:
The method of accounting in which income is recognized when earned (regardless of when cash has been received) and expenses are recognized when incurred (regardless of when cash has been paid).

ACCRUALS:
Entries made at the end of an accounting period which are due entirely to the use of the accrual basis of accounting; i.e., to record expenses incurred but not paid.

ACCRUED EXPENSES:
An expense which has been incurred during an accounting period but which has not been paid and recorded in the accounting records because payment is not due. These expenses are essentially for financial statement preparation only.

ACCRUED LIABILITIES:
Amounts computed by an entity as owed to outsiders for goods or services received but not invoiced. Examples include utilities and wages where the service period does not coincide with the financial statement period of the project.

ACCRUED REVENUE:
A revenue that has been earned during an accounting period but has not been received and recorded in the accounting records because payment is not due. These expenses are essentially for financial statement preparation only.

AMORTIZATION:
(1) The portion of a mortgage payment which represents a payment of principal. (2) The spreading of the cost of certain assets over more than one accounting period.

ASSETS:
Economic resources used by the business entity and expected to benefit future operations.

AUDITING:
The examination of financial statements and their underlying data to determine whether the statements are fairly presented in accordance with generally accepted accounting principles. Auditing is done by CPAs or others licensed by the state or authorized by the government to do such work.

BALANCE SHEET:
The basic financial statement which presents the assets, liabilities and owner's equity of an entity. The total of the assets must equal (balance) the total of the liabilities and owner's equity.

BOOKKEEPING:
The process of recording transactions in an entity's books of accounts.

CAPITAL:
The dollar balance of the amount of ownership interest of the owners of an entity. Also referred to as Owner's Equity.

CAPITALIZE:
To set up an expenditure as an asset or to increase the recorded value of an asset so that the expenditure can be charged off as depreciation expense during future accounting periods. It is the opposite of "expending" an expenditure.

CASH:

Currency, checks and other negotiable instruments acceptable for direct deposit by a bank.

CASH BASIS OF ACCOUNTING:

The method of accounting in which revenue and expenses are recorded and reported in the accounting period in which cash is actually received or disbursed, regardless of when the related goods or services were received or provided. The cash basis of accounting does not follow generally accepted accounting principles.

CERTIFIED PUBLIC ACCOUNTANT (CPA):

A person who is licensed by the state to offer professional auditing and accounting services to the public; license is granted upon successful completion of an examination and completion of qualified professional experience.

CHART OF ACCOUNTS:

A list, by number and title, of all of a development's accounts, grouped according to type of account. The Chart of Accounts prescribed by HUD for insured multifamily projects is at Chapter 4 of HUD Handbook 4370.2 and Chapter 6 of HUD Handbook 4370.3.

CONSISTENCY:

A convention in accounting that once an accounting method (such as depreciation) has been adopted it should not be changed without full disclosure and an explanation of the impact of the change on published financial statements.

CONTRA ACCOUNT:

An account established to record offsetting liabilities or reductions in value to another account(s). Examples of contra accounts include Accumulated Depreciation of Buildings and Equipment, Allowances for Doubtful Accounts Receivables and the liabilities applicable to security deposit accounts. The manner in which contra accounts are to be reported on financial statements varies, but usually are shown separately as subtractions from the account(s) to which they are contra.

CURRENT ASSETS:

Cash and other assets that are reasonably expected to be realized in cash or used up during the normal operating period of a business, typically one year.

CURRENT LIABILITIES:

Obligations due to be paid or settled within the normal operating period of a business, typically one year.

DEFAULT:
There are two types of defaults: (1) fiscal and (2) covenant.

(1) A monetary default exists when the owner fails to make any payment due under the mortgage.

(2) A covenant default exists when the owner fails to perform any other covenant under the provisions of the mortgage or of the regulatory agreement, which is incorporated into the mortgage. A lender becomes eligible for insurance benefits on the basis of a covenant default only after the lender has accelerated the debt and the owner has failed to pay the full amount due, thus converting the covenant default to a monetary default.

DEFERRED INCOME:
Goods or services owed by an entity to an outsider for which cash has been received in advance.

DEPRECIATION:
The process of distributing the cost of fixed assets over a period of years, in a systematic and rational manner.

DIRECT METHOD (for Statement of Cash Flows):
Refer to Financial Accounting Standards Board (FASB) Statement No. 95.

DISBURSEMENT:
Any outlay of funds, either in cash or by check.

DIVIDEND:
A distribution of cash or other assets made by a corporation to its stockholders.

EXPENDITURE:
An outflow of assets or increases in liabilities in connection with the acquisition of assets or expenses; includes both expenses and purchases of fixed assets.

EXPENSE:
The outflow of assets or increases in liabilities that takes place in connection with the products or services provided during an accounting period.

EXPENSED:

The process of having charged an expenditure against operations, such expenditure having been considered to benefit a current accounting period (as opposed to a future accounting period). It is the opposite of "capitalizing" an expenditure.

FINANCIAL POSITION:
The assets, liabilities and owner's equity of an entity and the relationship among them as displayed by the Statement of Financial Position (Balance Sheet), the Statement of Retained Earnings and the Statement of Cash Flows.

FISCAL YEAR:
The twelve month period which an entity chooses as the period for reporting the annual report of its financial operations; normally runs to the end of a month. Often used in contrast to the Calendar Year ending December 31st.

FIXED ASSETS:
Assets such as buildings, land and equipment that are necessary to the operations of the business and have a useful life of more than one year.

FUND:
(1) An amount restricted for a specified purpose, such as for replacement of fixed assets (Reserve Fund for Replacements).

(2) A separate set of accounts for a subdivision of a governmental or other nonprofit entity.

FUNDS:
(1) Plural of fund.
(2) Cash and cash equivalents.
(3) Current assets or net current assets.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP):
General understandings governing accounting measurements derived from long-standing experience and conventions in the profession.

GENERALLY ACCEPTED AUDITING STANDARDS (GAAS):
General understandings governing auditing measurements and standards of presentation derived from long-standing experience and conventions in the profession.

GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (GAS or GAGAS):

General understandings used by the government that govern auditing measurements and standards of presentation derived from long-standing experience and conventions in the profession. These audit standards set forth in the "Government Auditing Standards (Standards for Audits of Governmental Organizations, Program Activities and Functions)" issued by the Comptroller General of the United States.

GOING CONCERN:

The accounting assumption that an entity will have an indefinite future life.

IDENTITY-OF-INTEREST:

This term applies to parties having business relationships with the project owner or any officer, director, or partner of the mortgagor entity. Such a relationship should be construed to exist when the owner and the vendor are not the same person but (1) the project owner; or (2) any officer, partner, or director of the project owner or (3) any person who directly or indirectly controls 10 percent or more of the project owner's voting rights or directly or indirectly owns 10 percent or more of the project owner; is also (1) an officer, director, partner, or owner of the vendor; or (2) a person who directly or indirectly controls 10 percent or more of the vendor. For purposes of this definition the term "person" includes any individual, partnership, corporation, or other business entity. Any ownership, control or interest held or possessed by a person's spouse, parent, child, grandchild, brother or sister is attributed to that person.

IMMATERIAL:

Judged by an accountant or auditor as insignificant to an informed reader of financial statements; said of minor items which are erroneous, omitted, or inconsistent.

IMPOUND ACCOUNT:

Amounts held by a mortgagee (or mortgagee's agent) which belong to the mortgagor but are collected to ensure future payment of items such as property taxes and insurance.

INCOME (PROJECT):

Excess of revenues over expenses

INCOME (TENANT):

The gross annual income of the tenant from all sources before taxes and withholdings, after giving effect to exclusions allowed by the Housing Commissioner.

INCOME STATEMENT:
See Statement of Income

INTERNAL REVENUE CODE:
The codification of the numerous revenue acts passed by Congress.

INVOICE:
A document (commonly called a "bill") that states the price and an itemized description of goods and/or services bought and requesting payment. Not to be confused with vendors' "statements, it which summarize transactions periodically.

LIABILITY:
The economic obligation to convey assets (usually cash) or to render services in the future; claims against an entity by outside parties resulting from past or current transactions and requiring future settlement.

LIQUID ASSETS:
Cash and other short-term assets that are expected to be converted to cash within a short period of time. First items presented on asset side of Balance Sheet

LONG-TERM INVESTMENTS:
Certificates of deposit, stocks, bonds, notes receivable, etc., that are intended to be held for more than one year.

LONG-TERM LIABILITIES:
Obligations that come due a year or more hence, such as mortgages.

MATERIALITY:
The concept of whether an amount or event would, if known, influence the judgment of an informed reader of a financial statement; a test of the significance of an item.

MORTGAGE:
A loan made for the purpose of purchasing, building or rehabilitating real property, and secured by that property.

MORTGAGE NOTE:

Sets forth the amount the owner owes the lender and the manner in which the debt is to be satisfied. The note establishes the payment terms, conditions under which prepayments may be made, and the lender's rights in the event of default.

MORTGAGE INSURANCE PREMIUM (MIP):

A payment made to HUD for insurance to protect the lender against any failure by the mortgagor to make payments on the mortgage loan. Paid by the mortgagor through the lender, it amounts to one-half of one percent (0. 5%) annually of the unpaid balance of the mortgage loan. In Section 236 projects, an "interest reduction payment" (IRP) also pays the MIP.

MORTGAGEE (INVESTING/HOLDING):

The institution which holds a particular mortgage. The mortgagee may be a bank, savings and loan association, FNMA, GNMA, insurance company, etc. The mortgagee often engages another institution for the loan servicing function (example: FNMA services GNMA loans).

MORTGAGEE'S CERTIFICATE:

The lender executes the Mortgagee's Certificate at the loan closing. In executing the Certificate, the lender identifies all fees and escrow deposits collected in conjunction with the mortgagee transaction and agrees to collect, hold and administer the reserve for replacements and any required mortgage escrows in accordance with HUD's requirements.

MORTGAGOR:

An individual, corporation, or partnership that borrows money from the lending institution (the mortgagee) in exchange for a mortgage on the property.

NET INCOME:

Revenues of a period minus the expenses of that period. If expenses exceed revenues it is called Net Loss.

OWNER'S EQUITY:

The dollar balance of the amount of ownership interest of the owners of an entity.

PREPAID EXPENSES:

Assets consisting of remaining portions of amounts which have been paid for in advance for short term future expenses. Example: unexpired insurance.

PROJECT:

The mortgaged property and all its other assets used in or owned by the business conducted on a mortgaged property, which is providing housing and other such activities.

PRORATE:
To divide or apportion an amount according to the number of days or months during the period. Can relate to the amount of rent owed by a resident for occupying a unit for only a part of a month.

PURCHASE ORDER:
A form used by a purchaser to record the details of an order for goods, services, equipment, etc. It authorizes delivery and billing.

RESERVE:
(1) An accounting term for a formal segregation (appropriation) of owner's equity or for a valuation deduction from an asset account. (2) A fund of cash or cash equivalents retained for a specific purpose such as painting, replacements, or general contingencies.

RETAINED EARNINGS:
Stockholders' equity in a corporation resulting from earnings in excess of losses and dividends declared.

REVENUE:
The inflow of assets to an entity as a result of the rendering of services or delivering of goods.

STATEMENT OF CASH FLOW:
The statement that shows the sources and uses of cash over a specific reporting period in conjunction with the Statement of Income and Balance Sheet.

STATEMENT OF INCOME:
A statement that shows the revenues and expenses of an enterprise over a specific time period, and the resultant net income or net loss, e.g. HUD 92410.

STATEMENT OF RETAINED EARNINGS:
A statement which reports changes in a corporation's retained earnings during an accounting period.

STOCKHOLDER:
A person or enterprise owning a share or shares of stock in a corporation.

TAX BASIS OF ACCOUNTING:

The method of accounting which reflects transactions based upon the Internal Revenue Code, but does not follow generally accepted accounting principles.

TRANSACTION:
Any event that changes assets, liabilities or owner's equity.

UNPAID PRINCIPAL BALANCE (UPB):
The original amount of the mortgage loan less any decreases in the amount due to monthly amortization or prepayment of mortgage.