

REAC's Position on Restricted Cash (and ASU 2016-18)

In November 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-18 on Restricted Cash. The ASU is effective for entities with fiscal years beginning after December 15, 2018. The amendments in the Update require that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts on the statement of cash flows. The amendments are designed to reduce the diversity in practice that exist when these amounts are presented in the statement of cash flows. However, importantly, the Update does not provide a definition of restricted cash or restricted cash equivalents.

After consultation with various independent public accountants (IPAs), insofar as how this ASU affects HUD property audits, we have elected to not adopt these changes in the HUD chart of accounts. Therefore, for purposes of the REAC Financial Data Template, the cash flow will continue to require the presentation of the changes in escrows and reserve for replacements in the investment section of the cash flow statement.

The decision is based on lengthy discussions with various firms regarding the nature of the ASU requirements and each firm's opinion on implementation. These discussions indicate that the nature of what should be included in restricted cash under the Update is unclear. Some believe all HUD accounts representing tenant security deposits and restricted deposits and funded reserves should be included on the statement of cash flows as cash. Others believe only tenant security deposits and self-restricted reserves, such as operating reserves, should be included in cash, cash equivalents and restricted cash. Still others believe that mortgage escrows are the only accounts that should be excluded from cash, cash equivalents and restricted cash.

Because of these differing interpretations, and the fact that HUD has no need for the new information as presented, REAC has concluded that it is not in our best interest to adopt the changes. This position is further strengthened by the fact that making the changes impact REAC's ability to capture and evaluate specific information related to HUD-required accounts, such as reserve for replacements. For the reasons stated above, we believe REAC can better achieve its mission of evaluating multifamily submissions by not making the changes. Instead, it is better to leave the HUD chart of accounts as is, allowing individual IPA firms to make decisions with respect to the presentation of restricted cash in the basic statements of cash flows.

We understand that this will result in there being a difference in the total amount of cash, cash equivalents and restricted cash in the basic statement of cash flows compared to the total amount in the supplementary statement of cash flows presented for HUD purposes. Since there are multiple interpretations of the requirements for implementation, this difference would exist under any scenario. There would still be many instances where the basic statements of cash flows do not match the HUD version of the statement of cash flows contained in supplementary information.

We remind all users that the HUD Financial Data Templates (FDT) are GAAP-based but are not required to be completely aligned with GAAP. Rather the templates are based on the GAAP financial data presented in the basic financial statements. Accordingly, differences can and have existed in the past

between a pure GAAP presentation and the supplementary data. In this case, the difference in the total amounts of cash, cash equivalents and restricted cash in the basic and supplementary statement of cash flows is not material enough to warrant any change in the unmodified opinion on supplementary information referred to in the auditor's report.