



STRENGTH MATTERS

Boot Camp on Financial Reporting for Rental Housing Nonprofit Enterprises

Module 8: Operations Issues

Tuesday, July 19, 2022
1:00 – 2:30 PM Eastern



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Morgan Stanley



Meet the Presenters

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CPE Credit Requirements

- We use polls and the Zoom attendance record to verify participation throughout the session.
- **Participants seeking CPE credits must:**
 - Participate fully in the learning activities and submit ALL polls throughout the course.
 - Log in to each session with first name, last name and email before the scheduled start time.
 - Request a certificate via the final evaluation or email.
- **If you plan to petition your state board of accountancy for CPE credits, please submit ALL polls, including the final evaluation.**



Certificates will be sent after the final session. For more information on CPE credits, **contact Lindsay Wells at consult.lwells@gmail.com.**

Getting Started

- If you have a technical issue, including issues with Polls, please contact the Host via **Chat**.
- Please use the **Chat** feature to submit all content questions.
- We will pause for questions during the presentation.
- Participants will be muted during the course presentation. Participant breakout rooms offer small group discussion with audio and video sharing.

Module 8: Operations Issues ***90 min/1.5 CPEs***

- See CPE Summary handout for **Core Competencies and Learning Objectives.**

*Please have your Handouts PDF available for reference.
You will need to look at your copies of handouts denoted with ** today.*

Module 8 Materials

- #15 - Restoration Housing LP's Limited Partnership Agreement, Section 10
- #17 - Equity Section of Restoration Housing LP's financial statements – Year 1

Topics covered to date

- Module 1
 - Identify the Deal; Grants, Contributions & Exchange Transactions; Predevelopment Best Practices
- Module 2
 - Entity Formation and Deal Structure
- Module 3
 - Deal Structure, Deal Cycle & Participants, QAP, LIHTC calculations and the State Determination Letters
- Module 4
 - Financial Projections, Investor Letters of Intent
- Module 5
 - New Construction, Rehab & Funders Requisition
- Module 6
 - Cost Certifications & 8609's
- Module 7
 - Transition to Operations, Key Operating Documents

Module 8: Operations Issues

Topics for this session:

- Operations
- Accounting issues
- Best practices



Operations

Poll 1

1. When do you typically receive the deal's operating or partnership agreement?
 - A. Before construction commences
 - B. During the construction period
 - C. Once operations begin

Operations

Accounting issues arising during operations

- Construction payables during the year – separate from Trade Payables
- Related party transactions – some in the form of fees payable

Operations

List of fees that you might see on your deal:

- Property management fee
- Partnership management fee
- Asset management fee
- Incentive management fee
- Accounting/bookkeeper fee
- Compliance fee
- Other fees

Operations

What attributes might your fees have?

- Cumulative or non-cumulative
- Increasing annually or fixed
- Interest-bearing or not
- Payable from surplus cash or from operations
- Fees paid to arrive at net operating income or below the line to arrive at net income



Accounting Issues

Poll 2

1. Which of the fees discussed will most likely be accrued only when there is sufficient surplus cash?
 - A. Property management fee
 - B. Accounting/ bookkeeper fee
 - C. Developer fee
 - D. Incentive management fee
 - E. C & D above

Break

- We will take a 10-minute break.
- Remain logged in during the break.
- Please return promptly.
 - This is especially important for participants seeking CPEs so that you may receive full credit.

Checking In

Poll 3

*Please use the **Zoom Chat** to share what has been most helpful.*

1. Have you learned anything today that you already know will directly impact your work?
 - A. Yes, definitely.
 - B. Maybe.
 - C. No, definitely not.
 - D. Not sure.

Operations

Please use the Breakout Room for this Exercise.

Class Exercise

- Identify the fees that you can find in Restoration Housing's Partnership Agreement – use the definitions section and/or section 10

Operations

Class Exercise – Answer Key

- Identify the fees that you can find in Restoration Housing's Partnership Agreement – See section 10.1
- Asset Management Fee (Step 1)
- Development Fee (Step 3)
- Partnership Management Fee (Step 5)
- Supervisory Management Fee (Step 11)
- Management Fee (Property) – can be found in the definitions section of the LPA; fee itself found in the property management agreement

Operations

Accounting issues arising during operations

- Sponsor loans
 - GAAP – Does not allow step-up in value when you sell one asset to affiliated organization. The difference between the purchase price of the assets and the carrying value is recorded as equity – See example in handouts

The sponsor loan may be recorded as an equity contribution by the general partner or as a loan payable to the sponsor.

 - Tax – Allows the step-up in value to be counted in fixed assets and allows for the recognition of the Sponsor Loan
- Allowance for uncollectible accounts receivable
 - inter-company receivables allowance policy



Accounting Issues

Poll 4

1. When would GAAP allow you to record fixed assets at market rate upon purchase?
 - A. When fixed assets are purchased from a related party.
 - B. When fixed assets are purchased from an unrelated party.

Operations

Accounting issues arising during operations

- Reserve funding/withdrawal issues/surplus cash distributions
 - Agreements can contain contradictory provisions for the funding and withdrawal of replacement/operating reserves
 - Debt lien position can have significance when contradictions arise – in other words, the definition provided by the lender that is in the highest position for payment would most likely be used.

Operations

Best Practices

- Everything you do for the auditors should be done monthly
- All balance sheet accounts should be reconciled monthly
- Know the investor financial reporting requirements
- Maintain a surplus cash workbook that tracks surplus cash distributions so that you know who is to receive the surplus!



Best Practices

Poll 5

1. Operational Issues should best be considered:
 - A. During pre-development
 - B. During the construction period
 - C. When operations commence

Operations

Operational Issues to think about early on:

- System for utility monitoring
- Choice of equipment for units based upon operating experience
- Reserve requirements – can the operating reserve be written to sunset off with positive operating results
- Can surplus cash be allocated to fees rather than distributions as they can look better on a statement of operations

QUESTIONS?

- Please use the **Zoom Chat** to submit questions.
- Instructors will remain on the line to answer remaining questions.

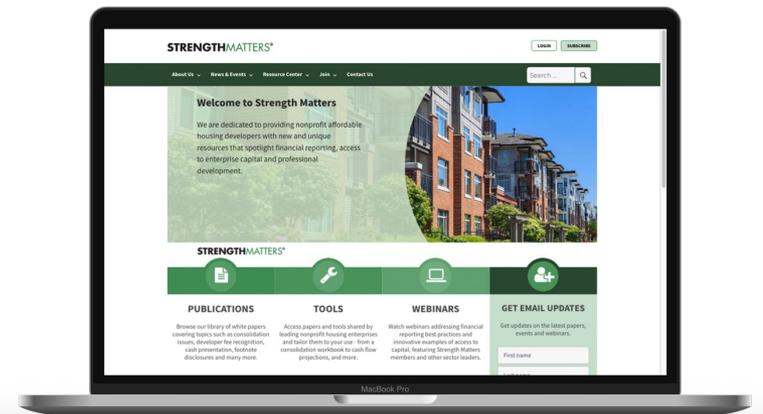
**Next Session: Financial Statement Presentation
& Intro to Surplus Cash
Date: July 27, 2022
Time: 1:00 – 3:00 PM Eastern**

EVALUATION POLL

Your feedback is important to us!

- ✓ **Please complete the evaluation poll for this session.**
- ✓ **Email info@strengthmatters.net with any questions or concerns.**

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