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Boot Camp on Financial Reporting for Rental Housing Nonprofit Enterprises

Module 11:

Consolidation and Year 15 Issues

Wednesday, August 10, 2022
1:00 – 3:00 PM Eastern

NeighborWorks AMERICA

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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 <u>submit ALL polls, including the final evaluation</u>.**

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

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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.

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Module 11: Consolidation and Year 15 Issues
120 min/2.0 CPEs

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

Module 11 Materials

Please have your Handouts PDF available for reference.

18 – Big Charity Sample Financial Statements

26 – Sample Consolidation Excel Workbook

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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

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Topics covered to date (continued)

- Module 7
  - Transition to Operations, Key Operating Documents
- Module 8
  - Operations Issues
- Module 9
  - Financial Statement Presentation & Intro to Surplus Cash
- Module 10
  - Surplus Cash Case Studies

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Module 11: Consolidation and Year 15 Issues

Topics for this session:

- Consolidation
- Best practices
- Year 15
- Re-syndication

Consolidation

Poll 1

1. Consolidated financial statements are prepared to present the complete financial position of an organization that includes all subsidiaries.

   A. False

   B. True

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Consolidation

- View of a single entity
- Common control
- Elimination entries
- Non-controlling interests

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CPE requirement

Consolidation

Poll 2

1. Eliminating Entries are used:

   A. To remove activity between the parent company and unrelated parties

   B. To remove activity between the parent company and related parties

   C. Both A and B above

Consolidation
Eliminating Entries

Please use the Breakout Room for this Exercise

Which of the following transactions would be eliminated in consolidation and what is the DR(CR) - memo entry on the consolidation?

1. Asset management fees received by the Non-profit sponsor from an affordable housing entity whose General Partner is controlled by the Non-profit?

2. Loan payable to ABC bank for mortgage on the Non-profit sponsor's corporate office

3. Operating Advances made by the parent company to an affordable housing entity whose General Partner is controlled by the Non-profit and the allowance for doubtful accounts recorded against it in a prior year.

4. Development Fee of $100,000 recorded received and recorded in the current year by the Non-profit sponsor from an affordable housing entity whose General Partner is controlled by the Non-profit? (assume that it is all profit)

5. Development Fee of $100,000 recorded and received last year from a related party? (assume that it is all profit)

6. Same as #4, but assume 30% profit instead of 100%.

Consolidation
Eliminating Entries

Please use the Breakout Room for this Exercise

Which of the following transactions would be eliminated in consolidation and what is the DR(CR) - memo entry on the consolidation?

1. Asset management fees received by the Non-profit sponsor from an affordable housing entity whose General Partner is owned by the Non-profit?

Yes, eliminate. Dr. Asset Management Fee Revenue, Cr. Asset Management Fee Expense

2. Loan payable to ABC bank for mortgage on the Non-profit sponsor's corporate office – ***No do not eliminate. Not a related party***

3. Operating Advances made to an affordable housing entity whose General Partner is owned by the Non-profit and the allowance for doubtful accounts recorded against it in a prior year. **Yes, eliminate.**

Dr. Allowance for Doubtful Accounts, Cr. Net Assets Without Donor Restrictions

Dr. Operating Advances Payable, Cr. Operating Advances Receivable

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Consolidation
Eliminating Entries

Please use the Breakout Room for this Exercise

Which of the following transactions would be eliminated in consolidation and what is the DR(CR) - memo entry on the consolidation?

4. Development Fee recorded received and recorded in the current year by the Non-profit sponsor from an affordable housing entity whose General Partner is owned by the Non-profit?

Dr. Development Fee revenue $100,000, Cr. Land & Building $100,000(depending upon the original allocation of the fee.

5. Development Fee recorded and received in a prior year from related party

Dr. Net Assets without Donor Restriction $100,000

Cr. Land & Building $100,000 (depending upon the original allocation of the fee)

Dr. Accumulated Depreciation $2,500 ($100,000/40 years)

Cr. Depreciation Expense $2,500 first year of depreciation

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Consolidation
Eliminating Entries

Please use the Breakout Room for this Exercise

Which of the following transactions would be eliminated in consolidation and what is the DR(CR) - memo entry on the consolidation?

6. Same circumstances as in #4, but assume 30% profit instead of 100%.

Dr. Development Fee revenue $30,000, Cr. Land & Building $30,000(depending upon the original allocation of the fee.

NOTE:

GAAP requires us to eliminate only the profit in the fee. If you are able to document the cost incurred which is principally the time that staff spent on the project, you can deduct that from the total fee and then eliminate only the profit.

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Consolidation
Best Practices

- Establish one-to-one affiliated account matching
  - Each specific asset account should agree to a specific liability account
- Denote affiliated accounts with unique identifier in chart of accounts
  - for example ending in “-001”
- Determine whether one accounting group is responsible for recording items on both sides
  - for example accrued interest on affiliated debt; property management fees
- Reconcile affiliate accounts across the entire portfolio more than once a year
- Establish accounting entity in accounting system to post eliminating entries to or maintain the consolidation in an excel workbook

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Consolidation

- Statement of Financial Position (Balance Sheet)
- Statement of Changes in Net Assets (Income Statement)
- Statement of Functional Expense
- Statement of Net Assets

Consolidation

Poll 3

1. Statement of Functional Expense is meant to show the Agency's expenses by:

   A. Type of Natural Expense (what the funds were spent on)

   B. Type of Program (what the funds were spent for)

   C. Parent/Subsidiary

   D. A & B

   E. All of the above

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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 4

*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.

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Year 15

- Typical buy-out structures
  - A new limited partner (controlled by the GP) buys out the investor’s interest and the partnership continues (no change in title or loans)
  - The partnership sells the property to a new affiliate (a new partnership or LLC)
- Impact of reserve balances on buyout price
- Accounting for property transferred to a controlled entity
  - No Step up in basis for GAAP purposes
- Importance of planning for the transaction early
  - Make a plan in year 10 based on your rights under the option agreement

Year 15

Poll 5

1. When should you begin to think about the year 10 or year 15 exit?

   A. When you are negotiating with the investor before the partnership agreement is signed

   B. About half-way through the tax credit period

   C. A year before the exit

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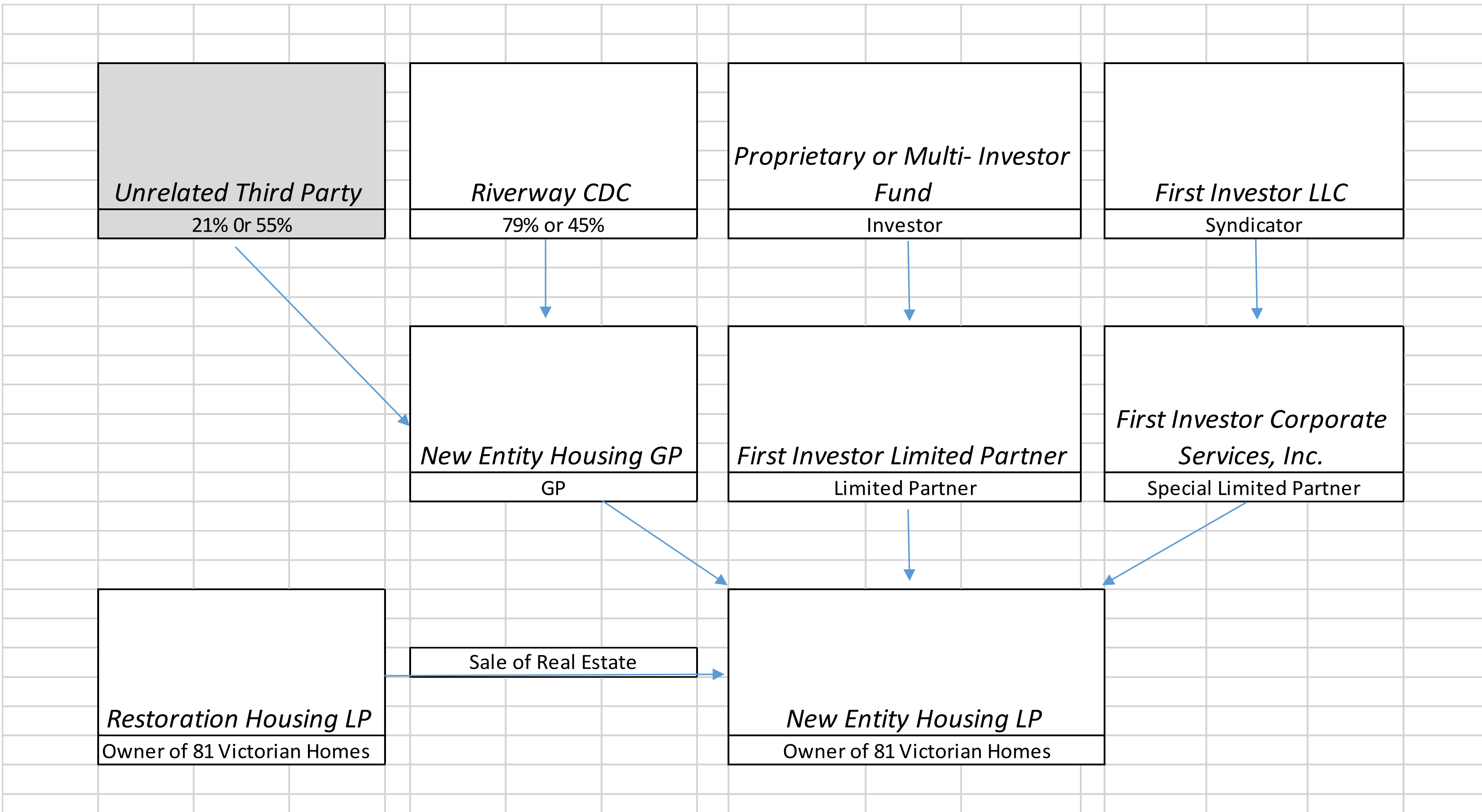
Year 15 and Resyndication



Year 15

Poll 6

You have completed the class!!!!

1. Would you recommend this class to others in your organization?

   A. Yes, definitely

   B. Maybe

   C. No

QUESTIONS?

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

This is the FINAL session. Congratulations on completing this course!

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EVALUATION POLL & CPE REQUEST

Your feedback is important to us!

- ✓ Please complete the evaluation poll.
- ✓ You may **request CPE credit** via this poll.
- ✓ Email info@strengthmatters.net with any questions or concerns.

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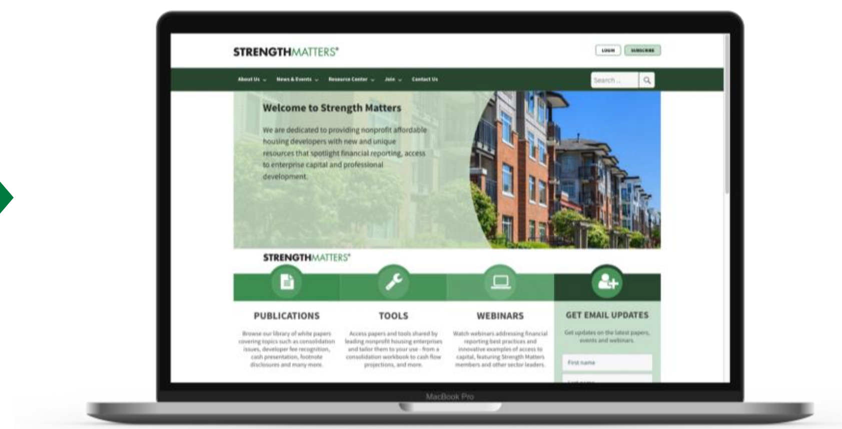

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Visit **www.strengthmatters.net** for more resources, and become a member today!

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