



# STRENGTH MATTERS

## Boot Camp on Financial Reporting for Rental Housing Nonprofit Enterprises

### Module 5:

### New Construction, Rehab & Funders Requisition

**Wednesday, October 19, 2022**

**1:00 – 3:00 PM Eastern**



## Thank You to Our Sponsors



Morgan Stanley



# Meet the Presenters

**Gayle H. LaCroix, CPA**

Chief Financial Officer

Volunteers of America of Massachusetts



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Partner

Lindquist, von Husen & Joyce LLP



# 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. **If your Zoom display name is not correct, send a Chat to the Host.**
  - 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](mailto: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 5: New Construction, Rehab & Funders Requisition**

*120 min/2.0 CPEs*

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

### **Module Materials:**

*Please have your Handouts  
PDF available for reference.*

# 11 Funding Requisition for Restoration Housing LP (Excel)

# 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**

Topics for this session:

- Construction Accounting & Reporting
- Construction Costs
- Rehab Phase
- Funding Requisition Tips



## Poll 1

1. Which of these helps you relax?
  - A. Exercise
  - B. Meditation
  - C. Music
  - D. Good conversation
  - E. Laughter
  - F. Reviewing financial reports

# What is a funder's requisition?

A funder's requisition is a monthly invoice that goes to all funders to collect proceeds to pay vendor invoices for that month.

Let's take a look at the sample funding requisition.

# Construction Accounting & Reporting

*Please discuss in your Breakout room.*

- Funders Requisition or Monthly Draw – **see handout.**  
Take 5 minutes to review the Requisition to answer these questions
  - **Sources**
    - How much 4% Tax Credit Equity was earned in the end?
    - What do you think the Sponsor Note was used to fund?
  - **Uses**
    - Which cost category was the most over budget and why?
    - Which cost category was the most under budget and why?

# Construction Accounting & Reporting

## ANSWERS

- Funders Requisition or Monthly Draw – **see handout.**
- **Sources**
  - How much 4% Tax Credit Equity was earned in the end?  
**\$9,342,080**
  - What do you think the Sponsor Note was used to fund?  
**Acquisition and Rehab Costs**
- **Uses**
  - Which cost category was the most over budget and why?  
**Construction Cost**
  - Which cost category was the most under budget and why?  
**Construction Loan Interest**

# Construction Accounting & Reporting

## Poll 2

1. Looking at the sources, why do you think that deferred fee is listed?
  - A. The Developer is willing to completely forgo this portion of the fee
  - B. The Developer is willing to defer the fee to be paid out of operating cash flow some time in the future.

# Construction Accounting & Reporting

## Construction Costs

- Direct costs of construction are all capitalized (contractor, architect, engineer, city fees, developer fee)
- Period costs capitalized during construction period and expensed once the property is placed in service (interest, insurance, property taxes)
- Costs are categorized by land, site improvements, offsites, building, furniture and equipment, amortizable costs, expenses, reserves

# Construction Accounting & Reporting

## Construction Costs *(continued)*

- Certificate of Occupancy (C of O) or a temp C of O date determines completion of construction and date that you may move tenants in.
- Interest
  - Effective Interest method is used to match interest expense with borrowings over the term of the loan (applicable to loans with no stated interest rate for early years)
  - Interest may be calculated differently for income-tax purposes (e.g. OID, AFR, Section 266)

## Construction Costs

### Poll 3

1. Looking at the construction costs, which cost would you avoid if you were involved with new construction?
  - A. Bond Fees
  - B. Inspection Engineering Cost
  - C. Relocation Fees



# Construction Accounting & Reporting

## Construction Costs

- Relocation costs
  - Differing treatment depending on whether tenants are over income, commercial, etc.
- Developer fee
  - % of completion recognition versus milestone approach
- Special tests measuring qualified construction costs as a % of bond proceeds as a % of total costs – these will differ by state.

# Construction Accounting & Reporting

## Transition to Operations

- Interaction with property manager
  - internal or 3rd party
- Rental achievement/Breakeven
- Tenant file reviews
- First year audit /Cost Certification

# 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

1. Is your company currently in the middle of an active development project?
  - Yes
  - No
2. If so, what type?
  - Rehab
  - New Construction
  - No active projects at this time
  - Both rehab and new construction
  - N/A

# Construction Accounting & Reporting

## REHAB phase

- When rehabilitation coincides with in-service use, any units taken out of service for > 30 days should capitalize pro-rated period costs (interest, insurance, property taxes)
- Units taken out of service for > 30 days depreciation on existing building has to be stopped
- If you have to comply with Davis Bacon, then any labor performed on building during rehab should be done by GC so you can include in basis therefore need to have site staff coordinate with development staff
- A project can claim Rehab credits or Acquisition and Rehab credits, but cannot claim Acquisition credits alone

## Rehab Phase

### Poll 5

1. Why might your units be out of service longer than anticipated?
  - A. Adverse Weather
  - B. Staffing issues with Construction Company or non-performance
  - C. Material Delays
  - D. All of the above

# Construction Accounting & Reporting

## REHAB phase

- Operation's cash is sometimes used as a source
- If a related party acquisition, the building value is transferred to the new entity based on book value of property from old entity for GAAP and the difference is recorded towards Equity (Excess of Liabilities Assumed Over Assets Acquired) in the new entity. On the tax side, the value of the asset is recognized based on sales price, which is generally the appraised value. This creates a permanent GAAP to Tax difference.

## Funding Requisition Tips

- Funding Requisitions need to be reconciled to the GL each month
- Even though not required, a final funding requisition should be prepared that reconciles to the GL and to the Cost Certification before it is issued (next module) to be sure that there are no costs left behind.
- Consider using one master excel sheet with the prior month's activity hidden. At the end, you will have one master file with all invoices listed for the Cost Certification



## Rehab Phase

### Poll 6

1. Who prepares the Funding Requisitions in your agency?
  - A. The accounting department
  - B. The real estate development team
  - C. A development consultant
  - D. None of the above.
  - E. I don't know

# QUESTIONS?

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

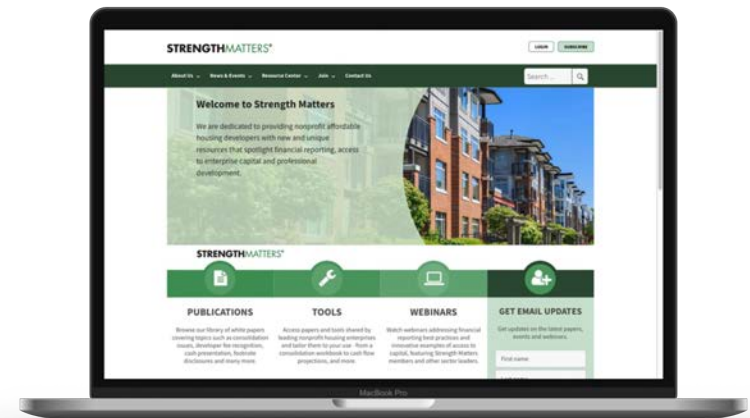
**Next Session: Cost Certifications & 8609's**  
**Date: October 26, 2022**  
**Time: 1:00 – 3:00 PM Eastern**

# EVALUATION POLL

**Your feedback is important to us!**

- ✓ **Please complete the evaluation poll for this session.**
- ✓ **Email [info@strengthmatters.net](mailto:info@strengthmatters.net) with any questions or concerns.**

Visit [www.strengthmatters.net](http://www.strengthmatters.net) to subscribe and access resources.



# CONTACT INFORMATION

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