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Boot Camp on Financial Reporting for Rental Housing Nonprofit Enterprises

Module 8:

Operations Issues

Wednesday, July 26, 2023
1:00 – 2:30 PM Eastern

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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 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/up to 1.8 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

CPE requirement

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

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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
- Development 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
- Cap on fees

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

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

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

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!

CPE requirement

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: August 2, 2023
Time: 1:00 – 2:30 PM Eastern

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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.**

Visit www.strengthmatters.net to subscribe and access resources.

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