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Boot Camp on Financial Reporting for Rental Housing Nonprofit Enterprises

Module 9:

Financial Statement Presentation & Intro to Surplus Cash

Wednesday, August 2, 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 9: Financial Statement Presentation & Intro to Surplus Cash
90 min/up to 1.6 CPEs

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

Please have your Handouts PDF available for reference.

Module 9 Materials

15 – Section 10 of Restoration Housing's Limited Partnership Agreement - Surplus Cash (page 72) ******

17 – Restoration Housing Limited Partnership's 2017 Financial Statements / Audit (pages 7 - 50)

18 – Big Charity Sample Financial Statements

****** ***Asterisks indicate file you will refer to in class today***

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

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

Topics for this session:

- Non-profit financial statement presentation
- Partnership or Limited Liability Company financial statement presentation
- Surplus Cash & Waterfall

Financial Statement Presentation

Poll 1

1. Who within your organization plays a role in the preparation of the financial statements?

   A. The CFO or Controller

   B. The Executive Director

   C. The program and real estate development staff

   D. All of the above

Financial Statement Presentation

Non-Profit Organization (NPO)

- Statement of financial position, statement of activities and functional expenses
- Assets – liabilities = net assets
  - No equity since no ownership
  - Net assets are normally broken down between those with donor restrictions and those without donor restrictions
- Balance sheet may not be classified between current/non-current but items should appear in order of liquidity
- Multi-column format for statement of activities to show net assets with donor restrictions and net asset without donor restrictions.

Financial Statement Presentation

Poll 2

1. Does your organizations have more donors with restrictions or general donors without restrictions for the use of their donation?

   A. More donors with restrictions on the use of funds

   B. More donors without any restrictions on the use of funds

Financial Statement Presentation

Non-Profit Organization (NPO)

- Expenses are shown based on function: program, management/general and fundraising
  - Program = expense related to the program that you are providing (in this case housing and/or services)
  - Management/General = expense related to the management or oversight of the program
  - Fundraising = expense related to fundraising activities that resulted in charitable donations
- No statement of changes in equity, since there is no ownership

Financial Statement Presentation

Poll 3

1. Does your agency have more or less than 10 programs listed on your financial statements?

   A. More than 10

   B. Less than 10

   C. I don’t know

Financial Statement Presentation

Partnership or Limited Liability Company (LLC)

- Classified balance sheets
- Statements of Operations (Income Statement)
- Statements of Changes in Partners' Capital
- Surplus cash
- Could also be presented in real estate financial statement format:
  - Classified balance sheet not presented; real estate is the first asset and mortgage is the first liability presented
  - This format is not required by GAAP, but some investors prefer it

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.
   D. Not sure.

Surplus Cash & Waterfall

See the sample financials and the waterfall section of the LPA agreement in the Handouts.

- Priority distribution of surplus cash
- What to do when the partnership, loan and regulatory agreements contradict each other?
- Accrual of fees payable from surplus cash flow
  - Cumulative - Accrued and paid to the extent of surplus cash
  - Noncumulative – Not accrued if there is insufficient surplus cash

Surplus Cash

Poll 5

1. When should you calculate the amount of the surplus and who it is distributed to?

   A. After the audit is completed and you are certain of the amount to be distributed.

   B. As you get close to year end and can estimate

   C. The year prior with an estimate for the surplus so that you know have some understanding of the impact on cash for the year and so that you can budget for any fees that you will earn.

   D. All of the above

Surplus Cash & Waterfall

Surplus Cash Methods

- Income statement approach
  - usually defined in the LPA or operating agreement and various regulatory agreements
- Balance sheet approach
  - usually required for HUD deals

Best Practice

- Reconciliation between required approach and other approach – if you don't reconcile the two then you could be distributing surplus cash that doesn't exist or not distributing surplus that does exist

Surplus Cash & Waterfall

Class Exercise

- Let's Look at the Surplus Cash Calculation for Restoration Housing for 2017

- Handout 17 – Restoration Housing 2017 financials

Surplus Cash & Waterfall

Poll 6

1. Does your agency rely on surplus cash distributions from your properties to fund program costs?

   A. Yes, it does

   B. No, it does not, we have other sources of revenue

   C. I wish that our properties had surplus cash to distribute

QUESTIONS?

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

Next Session: Surplus Cash Case Studies
Date: August 9, 2023
Time: 1:00 – 3:00 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.**

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