



STRENGTH MATTERS

Boot Camp on Financial Reporting for Rental Housing Nonprofit Enterprises

Module 8: Operations Issues

Wednesday, November 10, 2021
1:00 – 2:30 PM Eastern



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.**

Module 8 Materials

*Please have your Handouts
PDF available for reference.*

1. Equity Section of Restoration Housing LP's financial statements – Year 1
2. Restoration Housing LP's Limited Partnership Agreement-Section 10

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

Accounting issues arising during operations *(continued)*

- Fees paid above and below the line – some cumulative and some non-cumulative
 - Property management fee
 - Partnership management fee
 - Asset management fee
 - Incentive management fee
 - Accounting/bookkeeper fee
 - Compliance fee
 - Other 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)
- Property Management Fee – not in the LPA

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 3

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.

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.

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

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

Operations

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

- What are the key elements of a partnership agreement for you to pay attention to?
- How important is the definitions section of the LPA?
- What other agreements should you read and understand from the closing binder?

QUESTIONS?

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

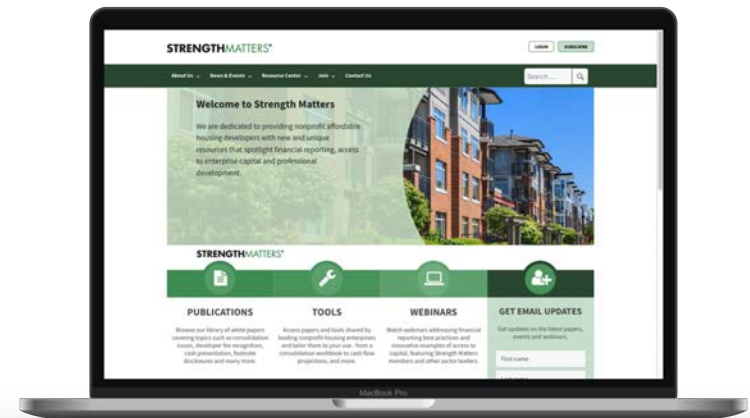
**Next Session: Financial Statement Presentation
& Intro to Surplus Cash
Date: November 17, 2021
Time: 1:00 – 3:00 PM Eastern**

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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