



Affordable Housing Audit and Financial Statement Essentials



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INTRODUCTION



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FIRM OVERVIEW

McKonly & Asbury is a team of CPAs and Business Advisors serving clients from our offices in Camp Hill, Lancaster, Bloomsburg, and Philadelphia.

We provide **Advisory & Business Consulting, Audit & Assurance, Entrepreneurial Support & Client Accounting, Internal Audit, Professional Placement, Tax, and Technology** services to a variety of industries including:



Affordable Housing



Construction



Employee Benefit Plans



Family-Owned Business



Healthcare



Manufacturing & Distribution



Nonprofits



AGENDA

- Better understanding of financial statements of affordable housing entities
- Knowledge of the audit process of affordable housing entities and how to prepare for an audit
- Financial reporting best practices that comply with the various regulatory requirements impacting the industry





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AFFORDABLE HOUSING FINANCIAL STATEMENTS

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■ Funding Sources

- PHFA programs or other Yellow Book Sources – PHFA has provided funding through one of its programs or other federal programs passed through from City, County, or State (i.e. HOME, CDBG, etc.)
- HUD Multifamily Housing Programs – partnership received funding through HUD'S Federal Housing Administration (FHA) multifamily housing programs such as project-based vouchers and/or other loan programs under HUD (i.e. 811, 223(f), etc.)
- RD – loans, loan guarantees, or grants provided to assist rural property owners



AFFORDABLE HOUSING FINANCIAL STATEMENTS

■ Tax credit vs. PHFA audit

1. Compliance with IRC Section 42

- Both scenarios require adherence to IRC Section 42 due to the receipt of tax credits

2. Scope of the Audit

3. Additional Compliance Requirements



AFFORDABLE HOUSING FINANCIAL STATEMENTS

- TC Only Financial Statements typically include –
 - Balance sheet
 - Profit and loss statement
 - Equity statement
 - Cash flow statement (indirect method)



AFFORDABLE HOUSING FINANCIAL STATEMENTS

- PHFA financial statements include
 - All items noted in TC only
 - Additional supplemental schedules required by PHFA
 - Requirement for direct method cash flow statement
 - Report on Internal Controls over Financial Reporting



PHFA FINANCIAL REPORTING MANUAL

Manual Overview

- Definitions
- Chart of accounts

Best Practices

- Aligning your chart of accounts with the PHFA manual

Electronic Submission

- Documents needed
- Submission process





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AUDIT PROCESS

AREAS OF AUDIT FOCUS

Management Override of Controls

Improper Revenue Recognition

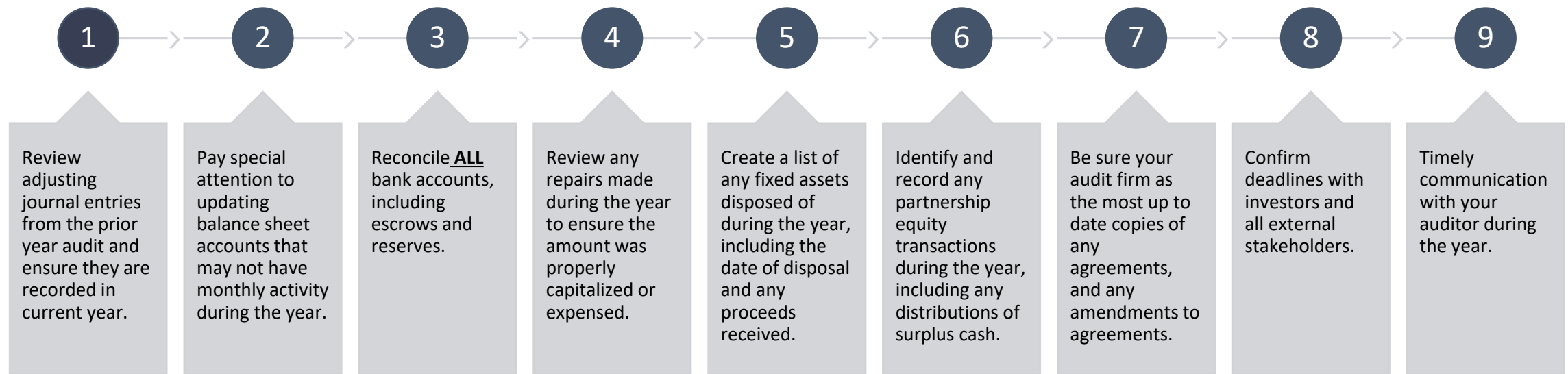
Related Party Transactions



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OUR TOP TIPS FOR A SUCCESSFUL AUDIT





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BEST PRACTICES

SURPLUS CASH

“ Cash remaining after all necessary and reasonable expenses for the property have been paid or funds have been set aside for such payment and all reserve requirements have been met. ”



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SURPLUS CASH

■ PHFA –

- Applies to Agency Financed developments
- PHFA will review the annual financial statements and information of the Partnership and will determine amount of Surplus Cash
- If there is Surplus Cash, a letter will be sent to the Partnership requesting payment on loan
 - Separate letter will also be issued approving a return on equity distribution
- If the approval for return on equity is not requested and approved, the Partnership cannot pay any distributions
 - If they do, this will be considered an unauthorized distribution



SURPLUS CASH

■ PHFA Calculation

SURPLUS CASH COMPUTATION

Add -

Line No. 1	Cash - Operations	_____	
Line No. 2	Tenant Security Deposits	_____	
Line No. 3	Accounts Receivable HAP	_____	
Line No. 4	Accounts Receivable - Resident	_____	
Line No. 5	Accounts Receivable - Other	_____	
	Total Cash	_____	_____

Less -

Line No. 6	Accounts Payable - Operations	_____	
Line No. 7	Accrued Expenses	_____	
Line No. 8	Delinquent Mortgage Principal Payments	_____	
Line No. 9	Delinquent Mortgage Interest Payments	_____	
Line No. 10	Delinquent Payments to Res. for Replacement	_____	
Line No. 11	Delinquent Tax Escrow Payments	_____	
Line No. 12	Delinquent Insurance Escrow Payments	_____	
Line No. 13	Delinquent Service Fee	_____	
Line No. 14	Delinquent Self Insurance Fee	_____	
Line No. 15	Delinquent Late Fees	_____	
Line No. 16	Prepaid Rents	_____	
Line No. 17	Tenant Security Deposits	_____	
Line No. 18	Other Liabilities	_____	
	Total Current Obligations	_____	_____

Surplus Cash (Deficit) End of Year _____



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SURPLUS CASH

- Partnership Agreement
 - Unique to each partnership and should be reviewed in consideration with PHFA surplus cash calculation
 - Distributions follow a prescribed format and path – the **WATERFALL**



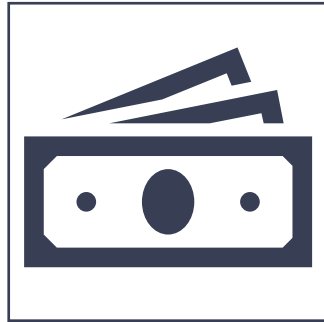
RESERVES

■ Utilizing Reserves

- Ensure partnership agreement is reviewed for when it is appropriate to utilize reserves
- Remember these deals were structured to utilize reserve funds

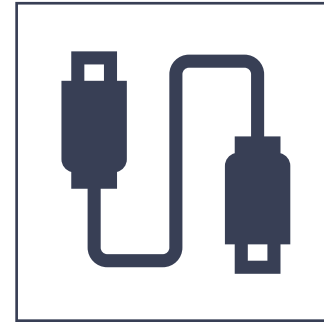


DEVELOPER'S FEE



Development

Developer fee should be fully accrued once building is placed into service



Maturity

When it matures?
How will it be repaid?



RELATED PARTY TRANSACTIONS



Ledger Management

Maintaining accurate records



PHFA Supplementary Schedule

Detail itemization of operating payables owed to related parties including name of related party, purpose, and amount



Cash Flow

Tracking is important to enable preparation of direct method cash flow



ENTITY EXPENSES

Cumulative
vs. Non-
Cumulative

Accrual
Timing

Reporting
on the P&L



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OPERATING CASH VS. DEVELOPMENT CASH

Operating
Cash

Definition and
usage

Development
Cash

Definition and
usage

Best
Practices

Separate accounts
for operating cash
and development
cash



OPERATING CASH VS. DEVELOPMENT CASH

	<u>Operating</u>	<u>Non- Operating</u>
Reconciliation of net loss to net cash provided by (used in) operating activities		
Net loss	\$ (99,000)	\$ (45,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	155,000	-
Amortization of debt issuance costs	850	-
Interest on reserves and escrows	(2,750)	(100)
(Increase) decrease in		
Accounts receivable - tenants	(6,700)	-
Prepaid insurance	30,000	-
Increase (decrease) in		
Accounts payable - trade	4,500	-
Due to related party - trade	22,500	-
Accrued expenses	11,500	-
Accrued investor services fee	-	4,000
Tenant security deposits	15,000	-
Prepaid rent	1,500	-
	<u>132,400</u>	<u>(41,100)</u>
Net cash provided by (used in) operating activities	<u>\$ 132,400</u>	<u>\$ (41,100)</u>



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UPCOMING EVENTS

AUGUST 1 WEBINAR

WEBINAR SERIES: Acquisition/Rehab First Year Credits



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