



FINANCIAL STATEMENT  
PREPARATION GUIDE

Fiscal Year End  
2021

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

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### FINANCIAL STATEMENT REQUIREMENTS

#### **Documents due by December 15, 2021, where a draft is required:**

- **DRAFT** Audited Financial Statements in their entirety, including footnote disclosures and supplemental information
- Trial balance and CPA Journal Entries to support draft audit numbers (uploaded as work papers)

**Remember:** Our review is required before you direct your CPA to issue the FINAL.

#### **Documents due by January 1, 2022\*, where a draft is not required:**

- **FINAL** Audited Financial Statements with signed opinion
- Trial balance and CPA Journal Entries to support audit numbers (uploaded as work papers)
- CPA Component Auditor Letter - Please note that this can (and should) be uploaded to our portal prior to the Final Audit

*\*If submission of Final Audit is not possible by January 1, 2022, please upload a draft along with a list of remaining open items in the comments section on the Financial Reporting Portal.*

#### **Additional Information available on our website at:**

[www.enterprisecommunity.org/capabilities/low-income-housing-tax-credit/asset-management-resources](http://www.enterprisecommunity.org/capabilities/low-income-housing-tax-credit/asset-management-resources)

- Financial Reporting Portal “Quick Reference Card”
- Financial Statement and Tax Return Preparation Guides
- Limited Partnerships financial statement and tax return deadline requirements
- Frequently Asked Questions

#### **Document Submission**

- Financial Statements are required to be submitted through our secure [Financial Reporting Portal \(www.e360community.com\)](https://www.e360community.com). In addition, we request that trial balances, depreciation schedules and CPA journal entries be uploaded as well. Please refer to the [Community Quick Reference Guide](#) for further details.
- All CPA firms and sponsors should have received registration information to access our [Financial Reporting Portal](#) for LIHTC Financial Reporting. If you have not registered or received the information to do so, please contact us at [financialreporting@enterprisecommunity.com](mailto:financialreporting@enterprisecommunity.com).

Should you have any questions or concerns about the above, please contact your Asset Manager/Accounting Manager or email us at [financialreporting@enterprisecommunity.com](mailto:financialreporting@enterprisecommunity.com).

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### Legislative & Miscellaneous Updates

#### **FASB changes that will impact year-end 2021 financial reporting and disclosure requirements.**

As you are aware, there was an Accounting Standard Update in 2015 that changes the treatment of Debt Issuance Costs on the financial statements. Please ensure that the requirements as disclosed on the FASB website (<http://www.fasb.org/home>) are reflected on your financial statements. Non-conformance with this update may delay our Fund Audit delivery. We urge you to look at all the disclosure requirements of ASU 2015-3 (see extract below per the FASB's website).

#### **Accounting Standard Update (ASU 2015-3): Simplifying the Presentation of Debt Issuance Costs**

The Financial Accounting Standards Board ("FASB") issued ASU No. 2015-03,

Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs.

ASU 2015-03 requires partnerships to present debt issuance costs as a direct deduction from the carrying value of the related debt liability, and amortization is required to be included with interest expense in the statements of operations.

For **Public Business Entities**, ASU 2015-03 is effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years.

For **all other entities**, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016.

An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items (that is, debt issuance cost asset and the debt liability).

**2021 FINANCIAL STATEMENT PREPARATION GUIDE**

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

XYZ LIMITED PARTNERSHIP

OCTOBER 31, 20XX AND 20XX

# 2021 FINANCIAL STATEMENT PREPARATION GUIDE

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## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### Independent Auditors' Report

To the Partners  
XYZ Limited Partnership  
City, State

#### Report on the Financial Statements

We have audited the accompanying financial statements of XYZ Limited Partnership, which comprise the balance sheet as of October 31, 20XX, and the related statement of operations, partners' equity, and cash flows for the year then ended, and the related notes to the financial statements.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### **Emphasis of Matter - *Change in Accounting Principle***

As discussed in Note 2 to the financial statements, the Partnership has early-adopted ASU No. 2015-03, *Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*. Our opinion is not modified with respect to that matter.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XYZ Limited Partnership as of October 31, 20XX, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matter**

Our audit of the financial statements was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information required by \_\_\_\_\_ is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

City, State

Date



## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### XYZ LIMITED PARTNERSHIP BALANCE SHEET

#### ASSETS

	October 31,	
	20XX	20XX
<b>CURRENT ASSETS</b>		
Cash – operations	\$ xx	\$ xx
Cash – entity	xx	xx
Tenant accounts receivable	xx	xx
Subsidy accounts receivable	xx	xx
Due from Affiliates	xx	xx
Other Receivables	xx	xx
Prepaid expenses	xx	xx
Prepaid Interest	xx	xx
Total current assets	xxx	xxx
<b>DEPOSITS HELD IN TRUST</b>		
Tenant deposits	xx	xx
<b>RESTRICTED DEPOSITS AND FUNDED RESERVES</b>		
Operating Reserve	xx	xx
Reserve for replacements	xx	xx
Lease-up reserve	xx	xx
Tax and Insurance escrow	xx	xx
Other restricted reserves	xx	xx
Total restricted deposits and funded reserves	xxx	xxx
<b>RENTAL PROPERTY</b>		
Land	xx	xx
Buildings & Improvements	xxx	xxx
Construction in Progress	xx	xx
Office furniture and equipment	xx	xx
	xxx	xxx
Less accumulated depreciation	xx	xx
Total rental property	xxx	xxx
<b>OTHER ASSETS</b>		
Tax Credit fees, net of accumulated amortization of \$XX	xx	xx
Organizational Costs, net of accumulated amortization of \$XX	xx	xx
Partnership Fees, net of accumulated amortization of \$XX	xx	xx
Utility and Other Deposits	xx	xx
Land Lease	xx	xx
Other Assets	xx	xx
Investment in Partnership	xx	xx
Total assets	\$ xxxx	\$ xxxx

**2021 FINANCIAL STATEMENT PREPARATION GUIDE**

**XYZ LIMITED PARTNERSHIP  
BALANCE SHEET (CONTINUED)**

LIABILITIES AND PARTNERS' CAPITAL

	October 31,	
	20XX	20XX
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$    xx	\$    xx
Accounts payable - construction	xx	xx
Real Estate Taxes Payable	xx	xx
Accrued Expenses & Other Liabilities	xx	xx
Due to affiliates	xx	xx
Accrued interest - first mortgage	xx	xx
Accrued interest - affiliates	xx	xx
Accrued interest – notes	xx	xx
Accrued interest – construction loan	xx	xx
Deferred rental income	xx	xx
Mortgage payable - (Current Portion)	xx	xx
Total current liabilities	<u>          xxx</u>	<u>          xxx</u>
<b>DEPOSIT LIABILITY</b>		
Tenant deposits held in trust	<u>          xx</u>	<u>          xx</u>
<b>LONG-TERM LIABILITIES</b>		
Mortgage payable - first mortgage (net of Current Portion)	xxx	xxx
Less unamortized deferred financing costs	<u>          (xx)</u>	<u>          (xx)</u>
Mortgage payable – first mortgage payable (net of Current Portion and Deferred financing costs)	xxx	xxx
Mortgage payable -affiliates	xxx	xxx
Note payable	xxx	xxx
Notes payable - affiliates	xxx	xxx
Construction loan payable	xxx	xxx
Deferred Development fee payable	xxx	xxx
Deferred Interest Payable	<u>          xxx</u>	<u>          xxx</u>
Total long-term liabilities	<u>          xxxx</u>	<u>          xxxx</u>
Total liabilities	<u>          xxxx</u>	<u>          xxxx</u>
<b>COMMITMENT</b>	-	-
<b>PARTNERS' CAPITAL</b>	<u>          xxx</u>	<u>          xxx</u>
Total liabilities and partners' capital	\$ <u>          xxxx</u>	\$ <u>          xxxx</u>

2021 FINANCIAL STATEMENT PREPARATION GUIDE

XYZ LIMITED PARTNERSHIP  
STATEMENT OF OPERATIONS

REVENUE

	October 31,	
	20XX	20XX
RENT REVENUE		
Rent revenue - gross potential	\$ xxx	\$ xxx
Subsidized Tenant Rent	xx	xx
Commercial Rent – gross potential	xx	xx
Vacancies	(xx)	(xx)
Vacancies – commercial	(xx)	(xx)
Concessions	<u>(x)</u>	<u>(x)</u>
Net rental revenue	<u>xxx</u>	<u>xxx</u>
FINANCIAL REVENUE		
Financial revenue - project operations	xx	xx
Revenue from investments - replacement reserve	<u>xx</u>	<u>xx</u>
Total financial revenue	<u>xx</u>	<u>xx</u>
Tenant charges	xx	\$ xx
Grant Income	xx	xx
Other Income	<u>xx</u>	<u>xx</u>
Total other revenue	<u>xx</u>	<u>xx</u>
Total revenue	\$ <u>xxx</u>	\$ <u>xxx</u>

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### XYZ LIMITED PARTNERSHIP STATEMENT OF OPERATIONS (CONTINUED)

#### EXPENSES

	October 31,	
	20XX	20XX
<b>ADMINISTRATIVE EXPENSES</b>		
Management consultants	\$ xx	\$ xx
Advertising and marketing	xx	xx
Office salaries	xx	xx
Office expenses	xx	xx
Management fee	xx	xx
Legal expense – project	xx	xx
Auditing expense	xx	xx
Bookkeeping fees/accounting services	xx	xx
Bad debts	xx	xx
Staff Rent Free Unit	xx	xx
Security Payroll/Contract	xx	xx
Social and Other Tenant Services	xx	xx
Payroll Taxes	xx	xx
Health Insurance & Other Employee Benefits	xx	xx
Telephone	xx	xx
Miscellaneous administrative expenses	<u>xx</u>	<u>xx</u>
Total administrative expenses	\$ <u>xxx</u>	\$ <u>xxx</u>
<b>UTILITIES EXPENSES</b>		
Fuel Oil	\$ xx	\$ xx
Coal	xx	xx
Electricity	xx	xx
Gas	xx	xx
Water	xx	xx
Sewer	xx	xx
Other Utilities	<u>xx</u>	<u>xx</u>
Total Utilities	\$ <u>xx</u>	\$ <u>xx</u>

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### XYZ LIMITED PARTNERSHIP STATEMENT OF OPERATIONS (CONTINUED)

#### EXPENSES

	October 31,	
	20XX	20XX
OPERATING AND MAINTENANCE EXPENSES		
Repairs & Maintenance Payroll	\$ xx	\$ xx
Cleaning	xx	xx
Repairs Contracts	xx	xx
Painting & Decorating	xx	xx
Elevator Maintenance	xx	xx
Exterminating	xx	xx
Trash Removal	xx	xx
Grounds Maintenance	xx	xx
HVAC Maintenance	xx	xx
Supplies	xx	xx
Other Repairs & Maintenance	xx	xx
Snow Removal	xx	xx
Equipment Maintenance & Repairs	xx	xx
Miscellaneous operating and maintenance expenses	<u>xx</u>	<u>xx</u>
Total operating and maintenance expenses	\$ <u>xxx</u>	\$ <u>xxx</u>
TAXES AND INSURANCE		
Real estate taxes	\$ xx	\$ xx
Property and liability insurance	xx	xx
Workmen's compensation	xx	xx
Miscellaneous taxes, licenses, permits and insurance	<u>xx</u>	<u>xx</u>
Total taxes and insurance	\$ <u>xx</u>	\$ <u>xx</u>
PROPERTY MANAGEMENT FEES		
Property Management Fees	\$ <u>xx</u>	\$ <u>xx</u>
Total Property Management Fees	\$ <u>xx</u>	\$ <u>xx</u>

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### XYZ LIMITED PARTNERSHIP STATEMENT OF OPERATIONS (CONTINUED)

#### EXPENSES

	October 31,	
	20XX	20XX
<b>MUST PAY FEES</b>		
Partnership Admin/Mgmt	\$ xx	\$ xx
Other Management	<u>xx</u>	<u>xx</u>
Total Must Pay Fees	\$ <u>xx</u>	\$ <u>xx</u>
<b>CASH FLOW CONTINGENT FEES</b>		
Partnership Admin/Mgmt.	\$ xx	\$ xx
Investor Services Fee	xx	xx
Incentive Management Fees.	xx	xx
Other Management	<u>xx</u>	<u>xx</u>
Total Cash Flow Contingent Fees	\$ <u>xx</u>	\$ <u>xx</u>
<b>MISCELLANEOUS EXPENSE</b>		
Miscellaneous Expense	\$ xx	\$ xx
Ground Rent	<u>xx</u>	<u>xx</u>
Total Miscellaneous Expenses	\$ <u>xx</u>	\$ <u>xx</u>
<b>FINANCIAL EXPENSES</b>		
Interest on mortgage payable	\$ xxx	\$ xxx
Interest on notes payable - long-term	xxx	xxx
Deferred Interest Expense	xxx	xxx
Mortgage Insurance Premium	<u>xxx</u>	<u>xxx</u>
Total financial expenses	\$ <u>xxx</u>	\$ <u>xxx</u>

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### XYZ LIMITED PARTNERSHIP STATEMENT OF OPERATIONS (CONTINUED)

#### EXPENSES

	October 31,	
	20XX	20XX
<b>OPERATING RESULTS</b>		
Total cost of operations before depreciation and amortization	\$ <u>xxx</u>	\$ <u>xxx</u>
Loss before depreciation and amortization	\$ <u>xx</u>	\$ <u>xx</u>
 <b>DEPRECIATION AND AMORTIZATION</b>		
Depreciation expense	\$ xxx	\$ xxx
Amortization expense	<u>xx</u>	<u>xx</u>
Total depreciation and amortization	\$ <u>xxx</u>	\$ <u>xxx</u>
 <b>NONOPERATING EXPENSES</b>		
Impairment	\$ xxx	\$ xxx
Organization expense	xxx	xxx
Capital Gains/Loss	xxx	xxx
Extraordinary Items	<u>xxx</u>	<u>xxx</u>
Total Nonoperating expenses	\$ <u>xxx</u>	\$ <u>xxx</u>
Total expenses	\$ <u>xxxx</u>	\$ <u>xxxx</u>
Net (income) loss	\$ <u>xx</u>	\$ <u>xx</u>

**\*\*If the Statement of Operations is not detailed as stated above please include Supplementary Information.**

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### XYZ LIMITED PARTNERSHIP STATEMENT OF PARTNERS' EQUITY (DEFICIT) Years ended October 31, 20XX and 20XX

		TOTAL	General Partners	*Limited Partner # 1	*Limited Partner # 2	Accumulated Other Comprehensive Income
Partners' equity (deficit), October 31, 20XX	\$	XXX	\$ XXX	\$ XXX	\$ XXX	XXX
Capital Contributions		XX	XX	XX	XX	XX
Unrealized Gain/(Loss) on Marketable Securities		-	-	-	-	-
Syndication Costs (if applicable)		(X)		(X)	(X)	(X)
Net loss		(XXX)	(XXX)	(XXX)	(XXX)	(XXX)
Partners' equity (deficit), October 31, 20XX		XXX	XXX	XXX	XXX	XXX
Unrealized Gain/(Loss) on Marketable Securities		-	-	-	-	-
Capital Contributions		XX	XX	XX	XX	XX
Net loss		(XXX)	(XXX)	(XXX)	(XXX)	(XXX)
Partners' equity (deficit), October 31, 20XX	\$	XXX	\$ XXX	\$ XXX	\$ XXX	XXX



**2021 FINANCIAL STATEMENT PREPARATION GUIDE**

**XYZ LIMITED PARTNERSHIP  
STATEMENT OF CASH FLOWS**

**Year ended October 31**

	<u>20XX</u>	<u>20XX</u>
<b>Cash flows from operating activities</b>		
Net loss	\$ (xx,xxx)	\$ (xx,xxx)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation	xxx,xxx	xxx,xxx
Amortization	x,xxx	x,xxx
(Increase) decrease in accounts receivable - tenants	(xx,xxx)	(x,xxx)
(Increase) decrease in accounts receivable - subsidy	(x,xxx)	(x,xxx)
(Increase) decrease in miscellaneous receivables	-	-
(Increase) decrease in prepaid expenses	(x,xxx)	(x,xxx)
(Increase) decrease in real estate taxes and insurance escrow	(xxx)	(x,xxx)
Increase (decrease) in accounts payable	(x,xxx)	x,xxx
Increase (decrease) in government overage payable	-	-
Increase (decrease) in accrued expenses	x,xxx	x,xxx
Increase (decrease) in accrued interest payable	xx,xxx	xx,xxx
Increase (decrease) in real estate taxes payable	x,xxx	-
Net security deposits received (paid)	-	-
 <b>Net cash provided by (used in) operating activities</b>	 <u>xxx,xxx</u>	 <u>xxx,xxx</u>
<b>Cash flows from investing activities</b>		
Increase in rental property	(x,xxx)	-
Deposits to reserve for replacements	(xx,xxx)	(xx,xxx)
Withdrawals from reserve for replacements	-	-
Principal collections on notes receivable	-	-

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

Proceeds from sale of rental property	-	-
(Identify other inflows and outflows) Operating Reserve Deposit	<u>(xx,xxx)</u>	<u>(xx,xxx)</u>
 <b>Net cash provided by (used in) investing activities</b>	 (xx,xxx)	 (xx,xxx)
<b>Cash flows from financing activities</b>	<b>\$ -</b>	<b>\$ -</b>
Loans from general partners	-	-
Mortgage proceeds	-	-
Loan proceeds from related parties	x,xxx	xx,xxx
Loan repayments to related parties	-	-
Principal payments on mortgage	(xx,xxx)	(xx,xxx)
Partner contributions	xxx,xxx	-
Partner withdrawals	-	-
(Identify other inflows and outflows)	-	-
<b>Net cash provided by (used in) financing activities</b>	<b>xx,xxx</b>	<b>(xx,xxx)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>xx,xxx</b>	<b>(xx,xxx)</b>
<b>Cash, beginning</b>	<b>xx,xxxx</b>	<b>xxx,xxx</b>
 <b>Cash, end</b>	 <b>\$ xx,xxx</b>	 <b>\$ xx,xxx</b>
	=====	=====
Supplemental disclosure of cash flow information		
 <b>Cash paid during the year for interest</b>	 <b>\$ xx,xxx</b>	 <b>\$ xx,xxx</b>
	=====	=====

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### XYZ LIMITED PARTENRSHIP NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 1 – ORGANIZATION

XYZ Limited Partnership (the Partnership) was organized as a limited liability partnership on [DATE] under the laws of the State of [STATE] for the purpose of acquiring, constructing and operating a [NUMBER] unit apartment complex located in [CITY], [STATE] The property was placed in service on [DATE].

The term of the partnership shall continue until [DATE], unless dissolved sooner in accordance with the provisions of the Limited Partnership Agreement.

The project has qualified for and been allocated low-income housing credits pursuant to the Internal Revenue Code Section 42 (Section 42), which regulates the use of the project as to occupant eligibility and gross unit rent, among other requirements. The project must meet the provisions of these requirements during each of the 15 consecutive years in order to remain qualified to receive the credits. (If Applicable - In addition, the Partnership has executed a land use restriction agreement which requires the utilization of the project pursuant to Section 42 for a minimum of 30 years, even if the Partnership disposes of the project.)

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### **Cash Equivalents** (If Applicable)

Included in cash equivalents are short-term investments in money market funds or marketable securities with original maturities of 90 days or less when purchased. The securities are carried at cost, which approximates fair market value.

##### **Investment Securities** (If Applicable)

Investment securities consist of marketable U.S. Treasury debt securities and certificate of deposits maturing within five years, which are classified as debt securities held-to-maturity. The securities are carried at cost, which approximates fair market value. Because the Company has the ability and intent to hold these investments until a recovery of fair value, which is maturity, the Company does not consider these investments to be impaired at October 31, 20XX.

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### XYZ LIMITED PARTENRSHIP NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### Risks and Uncertainties

The Partnership is subject to various risks and uncertainties in the ordinary course of business that could have adverse impacts on its operating results and financial condition. Future operations could be affected by changes in the economy or other conditions in the geographical area where the property is located or by changes in federal low-income housing subsidies or the demand for such housing.

#### Cash and Credit Risk (If Applicable)

The Partnership considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At times cash deposits exceed the federally insured limits of the financial institution and expose the Partnership to credit risk. At October 31, 20XX there were no balances over the federally insured limits. The Partnership believes it is not exposed to any significant risk of loss on these funds.

#### Capitalization and Depreciation

Land, buildings and furniture and fixtures are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are expensed. Upon disposal of the depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation.

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives by use of the straight-line method for financial reporting purposes. For income tax purposes, accelerated lives and methods are used. For financial statement purposes, the following estimated useful lives are used:

	<u>Estimated Life</u>	<u>Method</u>
Land	-	None
Building and Improvements	40	Straight-line
Furniture and fixtures	Various	Straight-line

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### XYZ LIMITED PARTENRSHIP NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### **Impairment**

The partnership reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. For assets held and used, if management's estimate of the aggregate future cash flows to be generated by the property, undiscounted and without interest charges, by the rental property including the low-income housing tax credits and any estimated proceeds from the eventual disposition of the real estate are less than their carrying amounts, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. The determination of undiscounted cash flows requires significant estimates by management. Subsequent changes in estimated undiscounted cash flows could impact the determination of October 31, 20XX and 20XX.

#### **Income Taxes**

The Partnership has elected to be treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its owners on their respective income tax returns. The Partnership's federal tax status as a pass-through entity is based on its legal status as a Partnership. Accordingly, the Partnership is not required to take any tax positions in order to qualify as a pass-through entity. The Partnership is required to file and does file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Partnership has no other tax positions, which must be considered for disclosure.

#### **Rental Income and Prepaid Rents**

Rental income is recognized as rent becomes due. Rental payments received in advance are deferred until earned.

#### **Tenant Receivables and Bad Debt**

Tenant receivables are reported need of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of tenant account receivable. It is reasonably possible that management's estimate of the allowance will change. As of October 31, 20XX and 20XX, allowance for doubtful accounts was \$X and \$X, respectively.

#### **Advertising Costs**

Advertising costs are charged to operations when incurred.

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### XYZ LIMITED PARTENRSHIP NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### **Deferred Fees and Amortization**

Financing costs are amortized over the term of the mortgage loan using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

Tax credit fees are amortized over fifteen years using the straight-line method.

#### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Subsequent Events**

The partnership has evaluated subsequent events through [REPORT DATE], the date which the financial statements were available to be issued.

#### **Reclassifications**

Certain amounts have been reclassified in the 20XX financial statements to be comparative with amounts reported in 20XX. These reclassifications have no effect on net loss or partners' equity.

#### **Accounting Standard Adopted**

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-03, Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires partnerships to present debt issuance costs as a direct deduction from the carrying value of the related debt liability and amortization is required to be included with interest expense in the statements of operations. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years, beginning after December 15, 2015. As allowed under the standard, the Partnership has early adopted the provisions of ASU 2015-03 and prior period amounts have been retroactively reclassified to conform to the current period presentation. As a result, as of October 31, 20xx, \$xxx,xxx of unamortized deferred financing costs related to the Partnership's mortgage payable were reclassified in the balance sheet from other assets to mortgage payable and for the year ended October 31, 20xx, \$xx,xxx of amortization expense related to such deferred financing

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### XYZ LIMITED PARTENRSHIP NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

costs were reclassified to interest expense in the statement of operations, with no effect on previously reported net income (loss). Other than this reclassification, the adoption of ASU 2015-03 did not have a material impact on the Partnership's financial position, results of operations or cash flows.

#### NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>20XX</u>	<u>20XX</u>
Land	\$ XXX,XXX	\$ XXX,XXX
Building and Improvements	X,XXX,XXX	X,XXX,XXX
Furniture and fixtures	XXX,XXX	XXX,XXX
	<u>\$X,XXX,XXX</u>	<u>\$X,XXX,XXX</u>

#### NOTE 4 – CAPITALIZED COSTS

The costs incurred to obtain financing of the project and to obtain tax credits fee have been capitalized:

	<u>20XX</u>	<u>20XX</u>
Tax Credit Fees	\$ XXX,XXX	\$ XXX,XXX
Less Accumulated Amortization	XXX,XXX	XXX,XXX
Net Capitalized Costs	<u>\$X,XXX,XXX</u>	<u>\$X,XXX,XXX</u>

Estimated amortization expense for each of the ensuing years through October 31, 20XX (*current year +5*) is \$X.

#### NOTE 5 – RESTRICTED ESCROW DEPOSITS AND RESERVES

##### Operating Reserve

The Partnership is required to fund an operating reserve from Limited Partner capital contributions and surplus cash as defined in the Partnership Agreement in the initial amount of \$X. The Operating Reserve has been fully funded in accordance with the partnership agreement.

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### XYZ LIMITED PARTENRSHIP NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### **Replacement Reserve** (If Applicable)

The Partnership is required to fund a replacement reserve from Limited Partner capital contributions followed by annual deposits of \$X per unit. The replacement reserve has been fully funded in accordance with the partnership agreement.

#### **Lease-up Reserve** (If Applicable)

The Partnership agreement requires a Lease-up Reserve which was fully funded in the amount of \$X by capital contributions from the Limited Partner at October 31, 20XX.

#### **Tax and Insurance Escrow** (If Applicable)

During 20XX, the Partnership established a tax and insurance escrow. The Partnership is required to make periodic payments to the escrow account and make all payments for taxes and insurance payments with disbursements from this account. The escrow funds are held by [LENDER NAME]. The balance in this escrow as of October 31, 20XX was \$X.

**FOR OTHER RESTRICTED RESERVES NOT LISTED ABOVE USE THE SAME  
FORMAT STATED ABOVE.**

***PLEASE INCLUDE IN DISCLOSURE, WHETHER DEPOSITS/WITHDRAWALS WERE NOT  
MADE OR APPROVED IN ACCORDANCE WITH THE LIMITED PARTENRSHIP OR  
REGULATORY AGREEMENTS.***

#### **Additional Presentation:**

	Beginning Balance October 31, 20XX	Additions and Interest	Withdrawals and Transfers	Ending Balance October 31, 20XX
Operating Reserve	\$	\$	\$	\$
Replacement Reserve				
Lease-up Reserve				
Mortgage Escrows				
Development Cost Escrow				
Other Reserves/Escrow				
Total	\$	\$	\$	\$



## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### XYZ LIMITED PARTENRSHIP NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### NOTE 6 – CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Partnership considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(If Applicable) The Partnership maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Partnership has not experienced any losses in such accounts. The Partnership believes it is not exposed to any significant credit risk on cash and cash equivalents.

(If Applicable) The Partnership maintains an account with a brokerage firm. The account contains cash and securities. The securities mature within one year and are carried at cost. Balances are insured up to \$500,000 (with a limit of \$100,000 for cash) by the Security Investor Protection Corporation. The brokerage firm maintains additional insurance to cover any significant credit risk on cash and cash equivalents. The Partnership has not experienced any losses in such account. The Partnership believes it is not exposed to any significant credit risk on cash and cash equivalents.

#### NOTE 7 – PARTNERS' CAPITAL CONTRIBUTIONS

The Partnership has one General Partner, XYZ Limited Partnership, which has a .01% interest and one Limited Partner, 123 Limited Partnership, which has a 99.99% interest.

In accordance with the First Amended and Restated Agreement of Limited Partnership, the Limited Partner is required to make capital contributions of \$X in installments. The installments are subject to adjustment depending on certain conditions being met, primarily related to the amount and timing of low-income housing tax credits the Partnership is able to obtain.

#### NOTE 8 – PARTERNSHIP PROFITS, LOSSES, AND DISTRIBUTIONS

Profits and losses are allocated \_\_\_% to the General Partner and \_\_\_% to the Limited Partner. Cash flow to the extent available, as defined by the First Amended and Restated Agreement of Limited Partnership, shall be distributed \_\_\_% to the General Partner and \_\_\_% to the Limited Partner. Profits and losses arising from the sale, refinancing, or other disposition of all or substantially all of the Partnership's assets will be specially allocated as prioritized by the First Amended and Restated Agreement of Limited Partnership.

**2021 FINANCIAL STATEMENT PREPARATION GUIDE**

**XYZ LIMITED PARTENRSHIP  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 9 – MORTGAGE NOTES PAYABLE**

As of October 31, 20XX the Partnership had outstanding mortgage debt of approximately \$X.

20XX

20XX

[ONLY USED DURING CONSTRUCTION]

The construction loan is for the maximum amount of [\$\_\_\_] and bears interest at [\_\_%] until [DATE]. Interest will be adjusted annually on [DATE] 20XX, to prime plus [\_\_%]. The annual increase/decrease in interest is restricted to [\_\_%] in any year and cannot exceed [\_\_%] or decrease below [\_\_%]. The loan is due once all of the draws are taken and the mortgage company has made a determination at final endorsement. Collateralized by investment in real estate. Accrued interest as of October 31, 20XX and 20XX is \$X and \$X, respectively.

[Use for fixed debt]

The first mortgage note which was originated on - \_\_\_\_\_ is held by the [LENDER NAME] in the original amount of [\$\_\_\_]. The note bears interest at [\_\_%] per annum. Monthly installments of principal and interest are based on a [\_\_\_] year amortization of the original note balance and are payable by the partnership in the amount of [\$\_\_\_] each month beginning [DATE] and continuing through [DATE]. Collateralized by investment in real estate. Accrued interest as of October 31, 20XX and 20XX is \$X and \$X, respectively.

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

As discussed in Note 2, as a result of the early adoption of ASU No. 2015-03, Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs, deferred financing costs were reclassified in the balance sheet from other assets to mortgage payable. As of October 31, 20XX and 20XX, the outstanding principal balance of the mortgage payable less unamortized deferred financing costs was [\$\_\_\_] and [\$\_\_\_], respectively. As of October 31, 20XX and 20XX, unamortized deferred financing costs of [\$\_\_\_] and [\$\_\_\_], respectively, consist of financing costs of [\$\_\_\_] less accumulated amortization of [\$\_\_\_] and [\$\_\_\_], respectively. The effective interest rate is approximately [\_\_%] over the life of the loan. During the years ended October 31, 20XX and 20XX, amortization expense incurred was [\$\_\_\_] and [\$\_\_\_], respectively, and was included in interest on first mortgage payable in the statements of operations.

The second mortgage note which was originated on \_\_\_\_\_ is held by the [LENDER NAME] Partnership in the original amount of [\$\_\_\_] and is subordinated to the first mortgage. The note bears interest at [\_\_%] per annum. Monthly installments of principal and interest are based on a [\_\_\_] year amortization of the original note balance and are payable by the Partnership in the amount of [\$\_\_\_] each month beginning [DATE], and continuing through [DATE]. Collateralized by investment in real estate. Accrued interest as of October 31, 20XX and 20XX is \$X and \$X, respectively. As of October 31, 20XX and 20XX, the outstanding principal due to the lender was [\$\_\_\_] and [\$\_\_\_], respectively, and the accreted value of the loan totaled [\$\_\_\_] and [\$\_\_\_], respectively, which is recorded on the balance sheet. The difference between the accreted value

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

and the face amount of the note is amortized based on the effective yield at [\_\_%] interest over the remaining life of the loan.

TOTAL

\$ \_\_\_\_\_ \$ \_\_\_\_\_

Aggregate maturities of mortgage payable for the next five years are as follows:

Year Ending October 31,	Amount
20XX	\$X,XXX,XXX
20XX	X,XXX,XXX
20XX	XXX,XXX
20XX	XXX,XXX
20XX	XXX,XXX
Thereafter	XXX,XXX
Total	<u><u>\$X,XXX,XXX</u></u>

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### XYZ LIMITED PARTENRSHIP NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### NOTE 10 – TRANSACTION WITH AFFILIATES AND RELATED PARTIES

##### **Development Fee**

As provided in the Development Services Agreement, the Partnership shall pay the Developer Fee in the amount of \$X to [NAME], an affiliate of the General Partner, and [NAME], the General Partner, for services rendered for overseeing the construction and development of the complex. As of October 31, 20XX and 20XX, the Partnership owed \$X and \$X, respectively, in developer fees. Of this amount, \$X is considered deferred, and will be paid from Cash Flow available. Any amount of developer fee including the deferred developer fee that has not been paid in full on or before October 31, 20XX, shall be paid no later than such date.

##### **Property Management Fee (If Applicable)**

The Partnership has entered into a management agreement with [NAME], an affiliate of the General Partner. The monthly fee equals \$X per unit per month or \$X or [#] % of net collections. During the period ended October 31, 20XX, property management fees of \$X were incurred, and property management fees of \$X were paid. The management agent is also entitled to a bookkeeping fee equal to \$X per unit per month. During 20XX, the Partnership incurred fees of \$X for monthly bookkeeping fees. As of October 31 20XX and 20XX, \$X and \$X of accrued property management fees remain payable.

##### **Partnership Administration Fee (If Applicable)**

Per the Partnership Administration Agreement, the partnership shall pay to the Administrator a Partnership Administration Fee annually in the amount of \$X, to be increased annually by X% to compensate the General Partner for managing the Partnership's operations and assets. The fee shall be payable from Cash Flow available. If Cash Flow is not sufficient to pay such fee, then any unpaid fees shall accrue without interest and shall be payable out of the next available Cash Flow *(if the agreement calls for an accumulation fee then use the following "If not paid, the fee shall accumulate from year to year, however no such amount will be deducted as an expense until paid")*. As of October 31, 20XX and 20XX, Partnership Administration fees totaled \$X and \$X, respectively, of which \$X and \$X remains payable.

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### XYZ LIMITED PARTENRSHIP NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### **Investor Service Fee (If Applicable)**

Per the Investor Service Agreement, the Partnership shall pay the Investor Service Fee annually to the Servicer, an affiliate of the Limited Partner, for property management oversight, tax credit compliance monitoring, and related services in the amount of \$X, to be increased annually by X%. The fee shall be payable from Cash Flow available. If Cash Flow is not sufficient to pay such fee, then any unpaid fees shall accrue without interest and shall be payable out of the next available Cash Flow *(if the agreement calls for an accumulation fee then use the following “If not paid, the fee shall accumulate from year to year, however no such amount will be deducted as an expense until paid”)*. As of October 31, 20XX and 20XX, Investor Service Fees totaled \$X and \$X, respectively, of which \$X and \$X remains payable.

#### **Incentive Management Fee (If Applicable)**

Per the Partnership Administration Agreement, the partnership shall pay to the General Partner a Incentive Management Fee of \$X percent (X%) of Net Cash Flow of the partnership, not to exceed \$X. If Cash Flow is not sufficient to pay such fee, then any unpaid fees shall accrue without interest and shall be payable out of the next available Cash Flow *(if the agreement calls for an accumulation fee then use the following “If not paid, the fee shall accumulate from year to year, however no such amount will be deducted as an expense until paid”)*. As of October 31, 20XX and 20XX, Incentive Management Fees totaled \$X and \$X, respectively, of which \$X and \$X remains payable.

#### **Operating Deficit Guarantee (If Applicable)**

In accordance with the First Amended and Restated Agreement of Limited Partnership, an affiliate of the general partner guarantees to the limited partner: the payment of any development advances required; to fund any operating deficit contributions not funded from the operating reserve up to a maximum of \$X through achievement of operating at the required debt service coverage for a period of at least [#] consecutive years and the balance of the operating reserve totals at least \$X; the payment of any required credit adjuster advances and additional advances; the purchase of interest of the limited partner and the indemnification of the partnership and the limited partner. As of October 31, 20XX, no amounts have been advanced under these guarantees.

Account	ODG Per LPA Exhibit A2 Section Reference 5.14	ODG GP Loans Over Life of P/S	Remaining ODG	Total Repayment of GP ODG Loan Over Life of P/S	Balance Owed to GP for ODG Loan
<b>Operating Deficit Guarantee</b>					
<b>Current Year Activity</b>					

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### XYZ LIMITED PARTENRSHIP NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### Due From Affiliate

The partnership advanced funds to an affiliate of the general partner for [EXPLAIN]. As of October 31, 20XX and 20XX, \$X and \$X, respectively remains outstanding.

#### Due to Affiliates

The General Partner advanced funds to the partnership for [EXPLAIN]. As of October 31, 20XX and 20XX, \$X and \$X, respectively remains outstanding.

Amounts due to the General Partner at October 31, 20XX and 20XX are as follows:

	20XX	20XX
Developer Fee	\$X,XXX,XXX	\$X,XXX,XXX
Property Management Fee	X,XXX,XXX	X,XXX,XXX
Due to affiliates	XXX,XXX	XXX,XXX
Total	\$X,XXX,XXX	\$X,XXX,XXX

Amounts due from the General Partner at October 31, 20XX and 20XX are as follows:

	20XX	20XX
Due from Affiliate	\$X,XXX,XXX	\$X,XXX,XXX
Other	X,XXX,XXX	X,XXX,XXX
Total	\$X,XXX,XXX	\$X,XXX,XXX

#### NOTE 11 – PROPERTY PURCHASE OPTION

According to the First Amended and Restated Agreement of Limited Partnership, the General Partner has an option to purchase partnership property at the end of the low-income housing tax credit compliance period at a price which would facilitate the purchase while protecting the Partnership's tax benefits from the Project. Such option is based on the General Partner or sponsor maintaining the low- income occupancy of the Project and is in a form satisfactory to legal and accounting counsel.

**2021 FINANCIAL STATEMENT PREPARATION GUIDE**

**XYZ LIMITED PARTENRSHIP  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 12 – CONTINGENCY (CONTINGENCIES)**

The Project’s low-income housing credits are contingent on its ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rent, or to correct noncompliance within a specified time period could result in recapture of previously taken tax credits plus interest. Noncompliance with state requirements could result in recapture of the project’s state low-income housing tax credits. In addition, such potential noncompliance may require an adjustment to the contributed capital by the Limited Partner.

The Partnership does not believe there is any litigation pending or threatened against it that, individually or in the aggregate, reasonable may be expected to have a material adverse effect on the Partnership. (If Applicable)

The Partnership, as an owner of real estate, is subject to various Federal, state and local environmental laws. Compliance by the Partnership with existing laws has not had a material adverse effect on the Partnership. However, the Partnership cannot predict the impact of new or changed laws or regulations on its current properties. (If Applicable)

**NOTE 13 – TENANT ACCOUNTS RECEIVABLE**

At October 31, 20XX and 20XX tenant accounts receivable consist of the following:

	20XX	20XX
Accounts Receivable – Tenants	\$X,XXX,XXX	\$X,XXX,XXX
Accounts Receivable – Subsidy	X,XXX,XXX	X,XXX,XXX
Allowance for Bad Debt	X,XXX,XXX	X,XXX,XXX
Total	<u>\$X,XXX,XXX</u>	<u>\$X,XXX,XXX</u>

**NOTE 14 – EXEMPTION FROM REAL ESTATE TAXES (If Applicable)**

The General Partner is wholly owned 100% by a 501(c)(3) organization which qualifies the Partnership for full exemption for property taxes. The owner of the General Partner is required to maintain in good standing its 501(c)(3) non-profit status. The tax-exemption is subject to change by an act of State Legislature. Such change may occur with little notice and would materially impact the rental operations of the Project.



## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### XYZ LIMITED PARTENRSHIP NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### **NOTE 15 – HOUSING ASSISTANCE PAYMENTS CONTRACT** (If Applicable)

The Partnership executed a Housing Assistance Payments (HAP) Contract with The U.S. Department of Housing and Urban Development providing for payments to the Partnership for [#] units leased to eligible low-income families pursuant to Section 8 of the U.S. Housing Act of 1937. The contract expires [DATE]. Such subsidy revenue represented X% of total revenues from November 1, 20XX through October 31, 20XX.

#### **NOTE 16 – CONSTRUCTION CONTRACT** (If Applicable)

The Partnership entered into a Construction Contract Agreement dated [DATE] in the amount of \$X, including change orders, for construction services in connection with the Project. At October 31, 20XX construction in the amount of \$X has been completed and billed.

#### **NOTE 17 – COMMERCIAL LEASE** (If Applicable)

Effective DATE, the Partnership entered into a lease agreement (the “DATE Lease Agreement”) with [NAME]. The DATE lease agreement provided for monthly lease payments of \$X through DATE. Total rent earned under the lease in 20XX and 20XX was \$X and \$X, respectively. As of October 31, 20XX \$X remained receivable from [NAME] and is included in other receivable on the balance sheet.

#### **NOTE 18 – GROUND LEASE** (If Applicable)

On [DATE] a ground lease between [NAME] and XYZ Limited Partnership was executed. The lease runs from [DATE] through [DATE].

#### **NOTE 19 – INVESTMENT SECURITIES** (If Applicable)

The marketable securities held in the XYZ Limited Partnership reserve were classified as available for sale and recorded at fair value, which approximated cost plus accrued interest. In addition to cash, the XYZ Limited Partnership reserve included U.S. government agency issued debt securities with a recorded fair market value of \$X at October 31, 20XX. The amortized cost of these securities was \$X.

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### SAMPLE COMPONENT AUDITOR LETTER

(AICPA Reference)



[Date]

[Audit Firm] (“Component Auditor”)

[Address]

In connection with our audit of the financial statements of each **fund entity** as listed on the attached schedule as of and for the year ended or period ended December 31, 2016, for the purpose of expressing an opinion on whether the group financial statements present fairly, in all material respects, the financial position of each **fund entity** as of December 31, 2016, and the results of its operations and its cash flows for the year or period then ended in accordance with generally accepted accounting principles, please confirm by signing and returning this communication or by separate communication the following information regarding the **component operating entity** as listed on the attached schedule in relation to the corresponding **fund entity**:

Component Auditor acknowledges that:

1. The financial information of each **component operating entity** will be included in the group financial statements of the corresponding **fund entity** and agree to cooperate with us in our audit of each fund entity.
2. CohnReznick may consider it necessary to be further involved in the work we have been requested to perform on the financial information of each **component operating entity** as of and for the year or period ended December 31, 2016.
3. CohnReznick intends to evaluate and, if considered appropriate, use our work for the audit of the group financial statements of each **fund entity**.

In connection with the work that the Component Auditor will perform on the financial information of each **component operating entity** in which the corresponding **fund entity** is the investor, we confirm the following:

1. Component Auditor has an understanding of AICPA Code of Professional Conduct that is sufficient to fulfill our responsibilities in the audit of the group financial statements and will

**\*\*\*Enterprise will send out a new Component Auditor Letter each year to the current CPA firm on file.\*\*\***



**BACK-UP REQUIREMENTS CHECKLIST FOR EQUITY FUND AUDITORS (only when requested)**

**APPLICABLE TO ALL AUDITS**

- \_\_\_\_\_ 1. Component Auditors Letter (see attached Required).
- \_\_\_\_\_ 2. Current Peer review report (if not already sent).

**THE ITEMS BELOW WILL BE REQUESTED AS NEEDED**

- \_\_\_\_\_ 3. Representation letter (date of letter must agree to date of audit report).
- \_\_\_\_\_ 4. Trial balance and journal entries.
- \_\_\_\_\_ 5. Bank reconciliation and statements/confirmations as of 10/31 for all cash, escrows and reserves.
- \_\_\_\_\_ 6. Fixed asset workpapers (**only if there are material additions**)
- \_\_\_\_\_ 7. FASB 144 worksheet – impairment analysis (see attached).
- \_\_\_\_\_ 8. All mortgage and note confirmations as well as any other mortgage, accrued interest, and interest expense workpapers. If no confirmations, please document how tested.
- \_\_\_\_\_ 9. Schedule showing breakout of equity (only if not included in the financial statements)
- \_\_\_\_\_ 10. Analytical review workpapers for the revenue and expense accounts
- \_\_\_\_\_ 11. Detail of building basis (for example a cost certification or settlement sheet)

**Please upload all required documents through our secure [Financial Reporting Portal](#).**

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### Statement Of Financial Accounting Standards No. 144 (SFAS No. 144)

#### Accounting For The Impairment or Disposal of Long-Lived Assets

SFAS No. 144 addresses the financial accounting and reporting for the impairment of long-lived assets and long-lived assets to be disposed of. Impairment is defined as a condition that exists when the carrying amount of a long-lived asset (asset group) exceeds its fair value. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. It requires recognition of an impairment loss if the carrying amount of the long-lived asset is not recoverable from its undiscounted cash flow and requires the measurement of this loss as the difference between the carrying amount and fair value of the asset.

A long-lived asset (asset group) shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The following are examples of such events or changes in circumstances:

- a. A significant decrease in market price of a long-lived asset (asset group).
- b. A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition
- c. A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator
- d. An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group)
- e. A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group)
- f. A current expectation that, *more likely than not*, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

We are providing you with some basic worksheets to perform the impairment analysis. This is simply guidance and does not represent the only way to assess impairment. We have furnished you with an approach relying on financial statement information. There may be other factors that may be relevant to the value of the building, such as where the building is located and potential resale value. All of these items must be considered when assessing impairment.

**\*\*If after completing the worksheet, your operating partnership appears to have a potential impairment, please contact Enterprise before finalizing the audit.**

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### IMPAIRMENT WORKSHEET

#### Sample NOI

A long-lived asset shall be tested for recoverability whenever events or changes in circumstances (i.e. Triggering events) indicate that its carrying amount may not be recovered.

Examples for triggering events are:

- Negative NOI
- Mortgage default (technical defaults may not necessarily be a triggering event)
- History of poor cash flow
- Expiring Section 8 contract during audit period (with no extension)

Is there a triggering event (in the current year)? No -----> **Stop**

Yes -----> Continue

Calculate the sum of all undiscounted expected future cash flows for remaining useful life of the property excluding debt service: **1.**

	\$	
Net Loss	-	
Add Back		
Depreciation	-	
Interest expense	-	
Investor service fee	-	
Incentive management fee	-	
Partnership administration fee	-	
Partnership management fee	-	
Tenant Service fee	-	
Non-recurring expenses*	-	
	-----	
NOI (based on a normalized Year)	-	=====

** Estimated future cash flows (must be greater than zero)	-	
Estimated sales value	-	
Remaining tax credits at Syndication rate	-	
	-----	

Sum of all undiscounted expected future cash flows -

**B** Carrying value of Property **2.** -----

Deduct carrying value from expected FCF (1-2) **3.** -----

Is #3. positive Yes-----> **Stop**

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

No -----> Continue

If the answer above is **No** then calculate the Present value of the undiscounted future cash flows at an appropriate discount rate and compare to carrying value.

**C** Record impairment of the property

**4.** Impairment Expense   XX  
Building                   XX

\* Non-recurring expenses are unusual, onetime expenses which occur in the current year and did not occur in the prior year or a substantial unexpected rise in operating expenses which is expected to return to a normal level.

\*\*Sum of Estimated future cash flows = (NOI x Remaining useful life)

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### RECORDING CAPITAL CONTRIBUTIONS AND DEVELOPMENT FEES

It is imperative that the Investor Limited Partner's capital contributions are recorded properly on the partnership's books and that the fees paid and to be paid out of capital are properly recorded as well.

#### *Method of calculating capitalized interest:*

- New construction - capitalize interest up to the day the units are placed in service or available for occupancy on a building-by-building basis.
- Rehabilitation around tenants - begin capitalizing interest when units are out of service. Then capitalize interest up to the day the units are placed in service or available for occupancy on a building-by-building basis.

### CAPITAL CONTRIBUTIONS AND EQUITY ADVANCES

Cash	\$XXX	
Capital Contributions - Investor Limited Partner		\$XXX
To record additional installment(s) of capital from Investor Limited Partner(s)		

### DEVELOPMENT FEES

The entire development fee must be included in both the depreciable and credit basis.

Building (Development fee)	\$XXX	
Development fee payable (Due to affiliates)		\$XXX
To record the development fee payable to the general partner		

Development fee payable (Due to affiliates)	\$XXX	
Cash		\$XXX
To record payment of the first installment of the development fee		

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### CONTACT INFORMATION

#### **Tax & Regional Accounting**

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General Financial Reporting Questions – [financialreporting@enterprisecommunity.com](mailto:financialreporting@enterprisecommunity.com)

#### **Limited Partner Capital Confirmations for CPAs**

Limited partner capital contribution can be viewed on our secured [Financial Reporting Portal](#).

#### **Investor Service Fee (ISF) Confirmations for CPAs**

Investor Service Fee inquiries can be submitted to ISF Questions Mailbox using the following email address: [isfquestions@enterprisecommunity.com](mailto:isfquestions@enterprisecommunity.com). Please allow 48 business hours for a response.



## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### FREQUENTLY ASKED QUESTIONS

- Q. Are we required to complete an audit and tax return?**
- A. Yes, however there may be times (very rare) when an Audit or Tax Return can be waived or not considered necessary. If you feel that this may apply to your property, please consult with your Regional Accounting Manager immediately.
- Q. What is the due date?**
- A. Drafts are due by December 15 and Finals are due by January 1 only where a draft was not required. Do Not issue the final if a draft was required until comments have been provided by Enterprise. Please see the Audit and Tax Return Requirements on our [Financial Reporting website](#).
- Q. Will I always be required to submit drafts?**
- A. No, at certain points within the life of the operating partnership the Tax and Regional Accounting Team will notify you once the draft requirement has been waived and the due date would be extended to January 1.
- Q. In what format should the documents be sent?**
- A. Documents should be submitted in pdf format through our secure [Financial Reporting Portal](#).
- Q. Will our audit or tax return be used by anyone else?**
- A. Yes, by the fund auditors, which is why it is necessary to provide a Component Auditor Letter and specific workpapers which may be requested by them.
- Q. Should the audit reflect all of the Capital Contributions that we expect to receive?**
- A. No, only contributions actually received should be recorded.
- Q. How should costs paid by Enterprise on behalf of the LP be recorded?**
- A. Typically, these would be recorded as a reduction of the Limited Partner's equity account, but this should be verified through review of the underwriting Projections.
- Q. What disclosures related to SFAS No. 144 – Impairment Analysis are required?**
- A. The footnotes to the financial statements should include a statement that impairment was assessed as of October 31 and the result of this assessment.
- Q. What is the appropriate depreciable life for fixed assets?**
- A. The depreciable life for GAAP using the straight-line method is forty years for building, fifteen years for land improvements and five years for Furniture Fixtures and Equipment. Please refer to the [projections](#) for Tax Purposes. Consult directly with the Regional Accounting Manager should you have any questions.

## 2021 FINANCIAL STATEMENT PREPARATION GUIDE

### RESOURCES

#### Equity Fund Audit Firm

CohnReznick

[www.cohnreznick.com](http://www.cohnreznick.com)

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#### Accounting, Tax, and Federal Organizations

AICPA (American Institute of CPAs)

[www.AICPA.org](http://www.AICPA.org)

MACPA (MD Assoc. of CPAs)

[www.MACPA.org](http://www.MACPA.org)

AAA (American Accounting Association)

[www.aaahq.org](http://www.aaahq.org)

American Tax Association

[www.aaahq/ata](http://www.aaahq/ata)

IRS (Internal Revenue Service)

[www.irs.gov](http://www.irs.gov)

Listing & web link to your state  
Assoc. of CPAs

[www.AICPA.org/states/info/index.htm](http://www.AICPA.org/states/info/index.htm)

National Low Income Housing Coalition

[www.nlihc.org](http://www.nlihc.org)

National Council of State Housing Agencies

[www.ncsha.org](http://www.ncsha.org)

National Housing and Rehab Association

[www.housingonline.com](http://www.housingonline.com)

National Housing Institute

[www.nhi.org](http://www.nhi.org)

National Multi-Housing Council

[www.nmhc.org](http://www.nmhc.org)

Office of Housing and Urban Development

[www.hud.gov](http://www.hud.gov)

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#### Other Web Sites

IRS Forms & Instructions

[www.irs.gov/formspubs/index.html](http://www.irs.gov/formspubs/index.html)

FedWorld U.S. Government Publications

[www.fedworld.gov](http://www.fedworld.gov)