2012 NEF CPA Town Hall

Reporting Overview: LP Level
1,800 LIHTC Limited Partnerships

Project audits & tax returns are due 2/28 to NEF; fund cut-offs start on 3/1. Issuance of fund K-1s to investors begins mid-March and audits mid-April.
GAAP consolidation rules require that all NEF funds consolidate into the NEF Inc. audit report.

The consolidated NEF Inc. audit report is completed in the summer after all fund audits are issue. The consolidated NEF financials rolls up into LISC.

LISC must issue their audit by 9/30 or they risk losing federal grant funding.
NEF 2012 Year-End Reporting Requirements

Michele Davis / Project Reporting
Brenda Puls / Project Reporting
Katie McCarthy / Project Reporting
Tracy Townsend / Fund Accounting
Truefelia Dickerson / Fund Accounting
Theresa Tribue / Year-end Reporting

New for 2012 – Draft Requirement

NEF will require DRAFT audits and tax returns for all lower tier projects

- Some drafts will require Asset Management (AM) Approval prior to being finalized
- NEF will publish two lists on the NEF website – one will include those drafts that need AM Approval and the other will include those that can be finalized without AM approval
- ALL DRAFTS ARE DUE BY FEBRUARY 15th

Have You Heard?
New for 2012 – Late Notices

- Penalties for late reporting will be strictly enforced beginning 3/15/13
  - Information about fees can be found in the Limited Partner Agreement:
    - Article 8: Accounting & Fiscal Affairs § Failure to Provide Information
    - Penalties can range from $50 - $100 per day
  - Contact Katie McCarthy (kmccarthy@nefinc.org) if deadlines will not be met
  - Must provide a realistic expected date
  - Reason for delay must be provided

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Project Year-End Deadlines

<table>
<thead>
<tr>
<th>Reporting Documents</th>
<th>Deadline to NEF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Engagement Letter <em>(if required)</em></td>
<td>November 30, 2012</td>
</tr>
<tr>
<td>Waived Audit Documentation <em>(Required for ALL waived audits, only)</em></td>
<td>January 31, 2013</td>
</tr>
<tr>
<td>Draft Partnership Tax Return <em>(REQUIRED)</em></td>
<td>February 15, 2013</td>
</tr>
<tr>
<td>Final 2012 Audit Report</td>
<td>February 28, 2013</td>
</tr>
<tr>
<td>Final 2012 Tax Return</td>
<td></td>
</tr>
<tr>
<td>CPA Independence Letter</td>
<td></td>
</tr>
<tr>
<td>Analytical Review Support <em>(if required)</em></td>
<td></td>
</tr>
</tbody>
</table>
Aligning our Year End Reporting Goals

- All DRAFT audit and tax returns are due by 2/15
- All FINAL audit and tax returns are due by 2/28
  - For CPA’s with multiple NEF projects we provide a priority listing which weighs several factors:
    - The fund cut-off dates
    - The fund investment level
    - Project materiality to the fund audit

- To request priorities contact Project Reporting

**Specific Draft approval requirements will be noted on the priority listing**

NEF Audit Waivers

- Audit Waivers are only approved for select projects
  - No losses in 2012
  - No tax credits in 2012
  - Less than 50% of NEF equity paid at 12/31
  - Cannot PIS before 12/31

- Listing of approved audit waivers will be on the NEF website
  - Preliminary listing will be available by 11/15/12
  - Updated listing will be available by 12/15/12
  - Final listing will be available by 1/15/12
Required Documents for Projects with APPROVED audit waivers (Due 1/31)

- Trial Balance and general ledger as of 12/31/12
- All bank statements and reconciliations as of year-end, including tenant security deposit, escrow and reserve accounts
- All mortgage and debt statements, including construction loan statements
- Development Agreement (signed copy)
- Final AIA G702 document completed in 2012
- Purchase/Sale agreement for the acquisition of land/building (signed copy)
- Additional information as deemed necessary by NEF

NEF Audit Waivers

- To apply for a waiver, fill out the Audit Waiver Request form on the NEF website and submit before 12/31/12
- Partnerships granted 2012 audit waivers must submit required documents by 1/31/13
- Waivers submitted after 3/1/13 will be denied and an audited financial statement will be required
- Please contact Michele Davis (mdavis@nefinc.org) with any questions regarding audit waivers
Limited Partnership Audits

Peer Reviews
Engagement Letters
Additional Audit Support
Audited Financial Statements

Peer Reviews

- Please ensure NEF has a copy of your most recent peer review on file
  - Project Reporting will contact all CPA’s with expired or missing peer reviews prior to year-end to obtain updated letters
  - Peer Reviews can be emailed to the year end reporting mailbox or uploaded via the CPA portal
**Engagement Letters**

- When does NEF require an engagement letter?
  - Initial years of a project
    - Engagement letters are required for projects in the PIS year
  - History of late reporting
    - Engagement letters may be required if there is a history of late reporting or engaging the CPA late
  - Change in CPA

*The list of projects requiring engagement letters will be posted to the NEF website by 11/2; engagement letters are due by 11/30*

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**Additional Audit Support**

80% of projects within a fund are required to submit additional support

- Analytical analysis with material variances explained
- Signed management representation letter
  - Date must match the audit opinion date
  - If not, please provide an explanation or gap letter
- Summary of uncorrected audit differences or confirmation that all audit adjusting entries were included in the audited Financial Statements
- Over-audit questionnaire & checklist
  - ALL questions must be addressed
  - Any “Yes” answers require supporting documentation
- Impairment Analysis (if booked)
  - If impairment was booked at lower tier level, please provide workpaper support when audit is submitted
- Additional information as deemed necessary by NEF
- List of projects is posted on the NEF website
Financial Report Template

- Balance Sheet
  - Assets
    - Identify receivables by source i.e. Medicare, Subsidy, etc.
    - Allowance for bad debt
  - Liabilities
    - Due to related parties
    - Construction payable

Financial Report Template (Cont.)

- Balance Sheet (Cont.)
  - Partners’ Equity
    - Break-out and separately disclose the following:
      - Accumulated unrealized gain (loss) on Investment Securities (accumulated OCI)
      - Limited partner receivable
      - Syndication costs
Financial Report Template (Cont.)

- Income Statement
  - Gross Potential Rent & Vacancy Loss
    - Do not only show the net balance
  - Commercial Gross Potential Rent & Vacancy Loss
    - Do not only show the net balance
    - Do not lump commercial rent with residential rent
  - Unrealized Gain / Loss (current year OCI)
    - Must show below the line

Financial Report Template (Cont.)

- Statements of Equity
  - Syndication costs - Disclose separately
  - LP Receivable
    - MUST agree to NEF Confirmation
    - If not, contact Project Reporting
  - Restatements & Adjustments to beginning 1/1 balance
    - Clearly disclose in footnotes
    - Make adjustments recognizable on the FS
Sample Footnotes

➢ Please disclose the following in the Audit Footnotes:
  ▪ Asset Management Fees
  ▪ NEF loans
  ▪ GP / Affiliate loans
  ▪ Reserve targets sufficiency
  ▪ Impairment

➢ Debt - Please include:
  ▪ Interest rates
  ▪ Defaults
  ▪ Lender information
  ▪ Monthly payment, etc

➢ Detailed schedule of operating expenses
➢ Break-even analysis; date it’s met, date of expiration
➢ Operating Deficit Guaranty (is it in effect?)

Information NEF can provide

➢ Underwriting Projections for expected Cash Flow, Net Loss, and Depreciation

➢ Initial Loan Agreements from Closing

➢ LPA and amendments

➢ Developer Fee Agreement

➢ Asset Mgnt Fee and NEF loan balances

➢ Prior year tax returns, 8609’s, and audits

➢ Closing Statements & other partnership documents
The LP Receivable Confirmation is posted on the NEF Inc. website. To locate the confirmation for your partnership, go to the NEF Inc. website: http://www.nefinc.org/partnerportal/accountants/reporting-information. And select the audit year on the ‘Reporting Information’ page:

Audit Issues: When to Notify NEF

- Qualified opinion / disclaimed opinion
- Going concern
- Impairment
- Restatement
- Amended tax returns

Who should you contact?

- Project Reporting
  - Brenda Puls
    - Bpuls@nefinc.org
  - Katie McCarthy
    - Kmccarthy@nefinc.org
Limited Partnership Tax Returns

General Reminders
M-3 Information
Credit and Loss Variances

Tax Returns: General Reminders

- NEF requires that the full Form 1065 and K-1s be submitted for each partnership

- NEF prefers the partner’s capital account on the K-1 be shown on a TAX basis
  - Facilitates our process for analyzing minimum gain for the partnerships
  - If you file GAAP basis returns, please submit GAAP to Tax reconciliations
**Tax Returns: M-3 Information**

- Most NEF partnerships are required to file form M-3 due to Funds or certain Investors in the Funds meeting the 50% test

- Check the NEF website for M-3 required list, Fund FEINs, and ownership %
  - [http://www.nefinc.org/partnerportal/accountants/reporting-information](http://www.nefinc.org/partnerportal/accountants/reporting-information)

- If a Fund has an Investor with 50% or more ownership, contact Tracy Townsend for the Investor’s FEIN

**Tax Returns: Tax Credit & Loss Variances**

- NEF Investors carefully watch the return on their portfolios

- NEF provides Investors explanations for variances between credits and losses delivered and NEF model projections

- In the initial years of a project, the projections are based on the original underwriting model
Tax Returns: First Year Tax Credits

- In the first year the lower tier project is eligible to claim credits, NEF will require a calculation by the lower tier CPA.
- Please include this calculation with the submission of the draft tax return.
- You will be notified by NEF staff with any questions regarding the first year credit calculation.

Tax Returns: Projects without executed 8609s

- Please notify NEF immediately if the Form 8609 has not been executed and the lower tier project is eligible to claim credits.
- You will be required to submit an estimate of earned credits if 8609s are not received by the 9/15 extension deadline.
Tax Returns: Depreciation

- **Bonus Depreciation**
  - Refer to the underwriting model to determine whether bonus depreciation should be taken
  - Contact Brenda Puls (bpuls@nefinc.org) for all questions regarding bonus depreciation

- **Depreciation Elections**
  - Refer to the underwriting model to determine useful lives that should be used for tax purposes
  - Contact the Asset Manager with questions regarding the assets’ useful lives

Tax Returns: Technical Terminations

- A list of projects that qualify for a technical termination will be available on the NEF website by 1/15/13

- All relevant information (i.e. purchase price, LPA amendments, etc.) will be emailed to all CPA’s engaged on projects that qualify for technical terminations

- Contact Tracy Townsend (ttownsend@nefinc.org) with all questions regarding technical terminations
NEF Late Reporting Watch List

- Who are candidates for the late reporting watch list?
  - Sponsors who had one or more partnerships submit 2011 reports after the 2/28/2012 reporting deadline
  - Sponsors with a history of reporting after the 2/28 deadline
NEF Late Reporting Watch List (Cont.)

- What does being on the watch list mean?
  - Increased communication between NEF and Sponsors to determine cause of late reporting
  - NEF works with Sponsors to identify resources and solutions to improve the Sponsors’ ability for timely reporting

Late Reporting Penalties

- NEF, Inc. will enforce a per day charge ($50-$100) on projects that miss the 2/28/2013 deadline and are not submitted by 3/15, if such language exists in the LPA
- Late charges are the responsibility of the Managing General Partner/Manager as defined in the LPA
NEF Inc. Website

- The NEF Inc. website is used to communicate partnership requirements, reporting information, and sample templates needed for year-end.
- Check this website often during year-end

http://www.nefinc.org/partnerportal/accountants/

NEF Inc. CPA Portal

- Proprietary system created to facilitate the submission & management of year end documents for both NEF and the limited partnership CPAs

- Benefits to CPAs
  - Quickly determine the reporting requirements for each Partnership
  - Secure environment
  - Submit documents more efficiently
  - Obtain documentation from NEF
NEF Inc. CPA Portal (Cont.)

- How to Register?
  - Fill out the registration form included in your program materials
  - Link to registration form will be available on the NEF Inc. website

- How to use the CPA Portal?
  - Link to the manual will be available on the NEF Inc. Website
  - Contact Project Reporting with any questions

Questions?
Independence Letters

➢ Use NEF Template:
   ▪ http://www.nefinc.org/partnerportal/accountants/sampleddocuments/notes-for-2012

➢ Make sure the report date cited in the letter ties to the audit opinion date

➢ Reference the correct NEF Fund name
   ▪ For multi-investor funds please reference NEF Assignment Corp.
   ▪ Contact Project Reporting if you need the fund name