

Gearing Up for the 2008 Financial Statement Audit

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As the year draws to a rapid close, accountants' thoughts are irresistibly drawn to pending financial statement audits. However, before year-end, there are many opportunities to get affairs in order and thus expedite the audit process. We all have a desire to have our audits completed as early as possible, not only to keep investors happy and maintain compliance with agreed-upon delivery dates, but also to minimize the disruption to our everyday operations.

Fortunately, there is a relatively simple list of efficiency measures that owners of low-income housing tax credit (LIHTC) properties can take now that will pay huge dividends down the road. If the list seems daunting, keep in mind that even if every item on the list cannot be completed, merely completing a handful will have a direct and measurable impact on this year's audit.

Accounting

- Make sure the adjusting entries from the prior year audit have been posted.
- For projects with cost certifications completed this year, make sure the books have been reconciled to the amounts reported on the cost certification.
- Review balance sheet accounts for accounts that need cleaning up – tenant accounts receivable, prepaid rent, interest payable, notes payable, related party advances, developer fee payable, and capital accounts should all be scrutinized for potential misstatements.
- Make sure that all bank accounts have been reconciled monthly.

Operational

- Where there have been changes in management companies, make sure the accounting balances from the previous management company were rolled over to the new management company's books and records.
- For projects placed-in-service during the current year, analyze the lease-up to date carefully – for projects not fully leased, develop a strategy to place new move-ins to maximize credits for the current year and avoid 15-year credits.
- For significant repairs made during the year, make sure the items have been capitalized or expensed properly.
- For insurance claims received during the current year, contact your accounting advisor regarding the proper accounting for this transaction
- For any new litigation threatened or in process, discuss the status with your auditor.
- For any asset dispositions, contact your accounting advisor to discuss proper accounting.
- For projects coming up on Year 15, consider possible exit strategies and discuss the pros and cons with your tax advisor.

Tax

- For partnerships with a change in ownership, the details should be reported to your tax preparer – if the change in ownership is greater than 50 percent, alert your tax preparer immediately, as this may trigger another tax filing with a potentially earlier due date.
- For projects receiving Form 8609s this year, Part II should be completed, and the 8609s should be signed and filed with the Philadelphia service center of the Internal Rev-

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- enue Service.
- For allocations received in the current year, plan ahead to meet the 10 percent test – contact a tax advisor early and complete the 10 percent test before year-end if possible.
- For partnerships with low or negative capital accounts, discuss strategies with a tax advisor to avoid having credits reallocated away from the investor.
- Spend some time to double-check tenant files or hire a professional to assist on compliance with commitments made to federal, state, or local agencies.

HUD Issues

- The U.S. Department of Housing and Urban Development (HUD) has made a major revision to the HUD audit requirements, significantly increasing the amount of audit work required – make sure to plan staffing needs to address the substantial increase in document requests from auditors.
- For any HUD issues identified in the prior year financial

statements, make sure that remedial action has been taken to address the issues raised.

Agreements

- For projects with capital contributions pending, review the list of requirements and develop a plan to expedite the capital contribution.
- For projects with pending tax credit adjusters, consider having your tax advisor assist you with the calculation of the potential adjuster.
- For older projects with unpaid deferred developer fees, check agreements for possible impending requirements that the fee be paid and formulate a strategy to address this requirement.
- For any new agreements or amendments to agreements, forward copies to your auditor prior to year-end to facilitate confirmations and new disclosures.
- For projects with operating deficits or project cost overruns, review guarantee agreements for possible funding requirements. ❖

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