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Boot Camp on Financial Reporting for Rental Housing Nonprofit Enterprises

Module 7:

Transition to Operations, Key Operating Documents

Wednesday, July 19, 2023
1:00 – 2:30 PM Eastern

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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 7: Transition to Operations, Key Operating Documents

90 min/up to 1.6 CPEs

- See CPE Summary handout for **Core Competencies and Learning Objectives.**

Please have your Handouts PDF available for reference.
You will need to look at your copies of handouts denoted with ** today.

Module 7 Materials

- #15 - Definitions section of the Limited Partnership Agreement for Restoration Housing LP **
- #15 - Surplus cash section of the Limited Partnership Agreement for Restoration Housing LP – Section 10 **
- #16 – Sample Deal Book (for future reference)

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

Topics for this session:

- Transition to Operations
- Partnership/Operating Agreement

Poll 1

1. Do you think that a project's transition from development to operations is a smooth process within your organization?
   A. Yes
   B. Sometimes
   C. No

Operations

*Please use the **Zoom Chat** feature to share your responses.*

Individual Reflection Questions

- How does your organization transition deal points from development to operations?
- What works well?
- How could it be improved?

Operations

Deal Books

- This is a document that should be prepared by the Development Staff as they are most familiar with all of the players, key terms and conditions, reserve levels, debt coverage ratios, etc.
- If you do not have them for each of your deals, consider preparing an abbreviated version to have handy
- Best practice, copy and paste key definitions, terms etc into your deal book with a reference to where it was extracted from so that you know that it was not someone's interpretation.
- See class handouts for a sample deal book

Operations

Transition to operations

- Asset management involvement
  - Sponsor's asset manager
  - Investor's asset manager
  - Lender's asset manager
- Working with the property manager

CPE requirement

Operations

Poll 2

1. Do you have an individual who is solely responsible for asset management at your organization?
   A. Yes
   B. No
2. If not, who performs that function?
   A. The CFO or Controller
   B. Someone on the Development Team
   C. Other
   D. No one
   E. N/A – We have someone responsible for asset management

Operations

Transition to operations

- Lender and other regulatory agreements – what is of interest to accounting?
  - Unit mix and income levels
  - Reserve funding
  - Debt service coverage ratio requirements
  - Reporting requirements
  - Continued…

Operations

Transition to operations

- Lender and other regulatory agreements – what is of interest to accounting? *(continued)*
  - Restrictions on distributions
  - Restrictions on dispositions
  - Term of affordability restrictions

CPE requirement

Transition to Operations

Poll 3

1. Of the list of items below, which interest you the most? Select all that apply.

A. Unit Mix/Income Levels

B. Reserve funding

C. Debt Service coverage

D. Reporting requirements

E. Distributions

F. Dispositions

G. Affordability restrictions

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

Transition to operations

- Partnership/Operating agreement – what is of interest to accounting?
  - Budget approval
  - Reserve funding and withdrawals
  - Other approvals required by the investor
  - Capital contribution timing
  - Continued…

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Operations
Transition to operations

- Partnership/Operating agreement – what is of interest to accounting? *(continued)*
  - Waterfall – Distribution of surplus operating cash, if any, as defined in your agreements
    - Best practice: include side by side waterfall per regulatory agency and then determine governing.
    - This will help during Year 15 as each regulatory agency might have different priority and/or different fees paid
  - Reporting requirements
  - Ownership percentages
  - Disposition/end of partnership/Sale

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Operations
Class Exercise – Breakout Room

Please use the Limited Partnership Agreement to complete this exercise in the Breakout Room.

- Who is the investor limited partner in this deal? (Hint Pg 2)
- Who is in the fifth position to receive surplus cash in the waterfall distribution? (Hint – see section 10, the definitions section and pg 2)
- When are the audited financial statements due to the investor? (Hint – see exhibit J)
- What is the initial replacement reserve funding requirement? [dollar amount] (Hint – see section 6)

Operations
Class Exercise – Answer Key

- Who is the investor limited partner in this deal? Bank of America, N.A.)
- Who is in the fifth position to receive surplus cash in the waterfall distribution? RTH Restoration Housing GP, Inc.
- When are the audited financial statements due to the investor? 120 days following year end
- What is the initial replacement reserve funding requirement? [dollar amount] - $1,279,720 Section 6.12

CPE requirement

Partnership/Operating Agreement

Poll 5

1. Are you indirectly or directly involved with the surplus cash calculations for your agency?

   A. Yes

   B. Sometimes

   C. No

   D. Not applicable

QUESTIONS?

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

Next Session: Operations Issues
Date: July 26, 2023
Time: 1:00– 2:30 PM Eastern

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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.**

Visit www.strengthmatters.net to subscribe and access resources.

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