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Boot Camp on Financial Reporting for Rental Housing Nonprofit Enterprises

Module 10:

Surplus Cash Case Studies

Wednesday, August 9, 2023
1:00 – 3:00 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 10: Surplus Cash Case Studies
120 min/up to 2.0 CPEs

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

Please have your Handouts PDF available for reference.

Module 10 Materials

***** ***ALL materials below will be referred to in class today***

20. Two Blank HUD calculation worksheets
21. Restoration Housing LP Audit 2017 and 2018
22. Restoration – Distribution Limitation Worksheet
23. Worksheet to Calculate Distributable Surplus Cash
24. Answer Key for 2017
25. Answer Key for 2018

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

Topics covered to date (continued)

- Module 7
  - Transition to Operations, Key Operating Documents
- Module 8
  - Operations Issues
- Module 9
  - Financial Statement Presentation & Intro to Surplus Cash

Module 10: Surplus Cash Case Studies

Topics for this session:

- Surplus Cash
- Waterfall

Surplus Cash

Poll 1

1. Have you ever prepared or reviewed a surplus cash calculation?

   A. Yes, I have

   B. No, I have not

Surplus Cash & Waterfall

Refer to the Sample Financial Statements and Partnership Agreement handouts.

Please use the Breakout Room for this Exercise. (25 minutes)

Class Exercise

- Using the HUD Balance Sheets for Restoration Housing in the handouts, calculate the amount of surplus cash on the HUD calculation worksheets for both 2017 and 2018. Please prepare 2017 and only 2018 if time allows.
- Hints: In 2017, the amount of accrued but un-escrowed liabilities is $32,625. In 2018, the amount is $68,684.
- For 2017, accounts payable of $42 is due in 30 days. For 2018, accounts payable of $1,159 is due in 30 days.

Surplus Cash & Waterfall

Refer to the Sample Financial Statements and Partnership Agreement handouts.

Class Exercise

- See the completed HUD Surplus Cash Calculations in your handouts

Discussion of difference in surplus cash 2017 v 2018

- The difference between the surplus cash generated in 2017 and 2018:
  - In 2017, $1,013,000 in Bond Reserves were released and deposited into the operating cash account making it available for distribution.
  - See the 2017 Cash Flow for Restoration Housing LP.

Surplus Cash Case Studies

Poll 2

1. In which year was there more surplus cash generated?

   A. 2017

   B. 2018

Surplus Cash and the Waterfall

Section 10.1 *Distribution of Cash Flow.*

For each year, Available Cash of the Partnership, after payment of operating expenses, debt service and satisfaction of reserve funding requirements, shall be paid in the following priority and distributed within ninety (90) days after the end of each Fiscal Year, in the following order of priority:

- *First*, to pay the Asset Management Fee to the Special Limited Partner;
- *Second*, to the Investor Limited Partner an amount equal to any amounts contributed by the Investor Limited Partner pursuant to Section 6.4O(iii) (if any);

Surplus Cash and the Waterfall

Section 10.1 *Distribution of Cash Flow (continued)*

- *Third*, to the payment of any Deferred Development Fee and any accrued interest thereon;
- *Fourth*, to the payment of the Investor Limited Partner an amount equal to any theretofore unpaid Tax Credit Shortfall Payments;
- *Fifth*, to the payment of the Partnership Management Fee;

Surplus Cash Waterfall

Section 10.05 *Distributions of Available Cash*

- *Sixth,* to the repayment of any Operating Expense Loans and Development Deficit Loans then outstanding;
- *Seventh,* to the replenishment of the Operating Reserve up to $1,197,027;
- *Eighth,* to make payments on “Tranche B” of the Seller Loan in accordance with the terms of the Seller Loan Note, until such Loan is paid in full;

Surplus Cash Waterfall

Section 10.05 *Distributions of Available Cash (continued)*

- *Ninth,* to make payments on the Sponsor Loan in accordance with the terms of the Sponsor Loan Note, until such Loan is paid in full;
- *Tenth,* to make payments on the State Historic Tax Credit Loan in accordance with the terms of the State Historic Tax Credit Loan Note, until such Loan is paid in full; and
- *Eleventh,* 99.99% of the balance remaining shall be distributed to the Investor Limited Partner and 0.01% to the General Partner. From and after January 1, 2021, 90% of the balance remaining shall be distributed to the General Partner, first as payment of the Supervisory Management Fee and then as a distribution and 10% shall be distributed

Surplus Cash Case Studies

Poll 3

1. In the partnership or operating agreements that you have seen, how many lines of distribution do you normally see? If you haven't seen one, make your best guess.

   A. Less than 10

   B. More than 10

Break

- We will take a 5-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.

Surplus Cash & Waterfall

Refer to the Sample Financial Statements and Partnership Agreement handouts.

Please use the Breakout Room for this Exercise. (20 minutes)

Class Exercise

- Determine how the 2017 and 2018 surplus cash should be distributed in accordance with the excerpt from the Partnership Agreement – Distribution of Surplus Cash in your handouts. Calculate the cumulative distributions to be sure that you do not exceed the cap.

- Hint: Deferred Development Fee to be paid from surplus cash is $639,136 (see page 22 of the 2018 audit)

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Waterfall Calculation HUD

			Balance at 12/31/2018	2017	2018
	Distributable Cash Flow	**Payable To:**		**$ 1,243,585**	**$ 240,338**
1	Special Limited Partner - Asset Management Fees			$ 2,500	$ 5,150
2	Investor Limited Partner - return of contributions			$ -	$ -
3	Deferred development fees-principal			$ 639,136	$ -
3	Deferred development fees - interest		$ -	$ -	$ -
4	Investor Limited Partner - tax credit shortfall payments		$ -	$ -	$ -
5	Partnership Management Fee	RTH Restoration Inc.	$ 15,538.00	$ 15,538	$ 7,957
6	Repayment of Operating Deficit Loans	RTH	$ -		
6	Repayment of Development Deficit Loans	RTH	$ -		
7	Replenish Operating Reserve to floor of $1,197,027	RTH Restoration LP	$ 1,200,823.00	$ -	
8	Tranche B payments on the Seller Loan		$ 5,003,058.98	$ 586,411	$ 227,231
9	Payments on the Sponsor Loan		$ 1,634,293.00		
10	Payments on the State Historic Tax Credit Loan	ABC CDC	$ 2,082,500.00		
11	99.99% to the investor LP, .01% to the GP until 1/1/2021, at which time 90% to the GP comprised of Supervisory Fee & Distribution		0		
				$ 1,243,585	$ 240,338

Waterfall

Poll 5

1. What happens if the mortgage note requires that the first $75,000 of surplus cash be used to paydown the first mortgage?
   A. The mortgage note would be paid after the asset management fee to the investor. The first mortgage lender takes priority.
   B. OTHER ANSWER
   C. OTHER ANSWER

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Waterfall Distribution Limitations

Restoration Housing LP			
Distribution Cap Limitation - Regulatory Agreement with BRA. The 121A agreement expires on 10/16/20			
1. Calculation of Annual Cap on Distributions			
LIHTC Equity & Federal Historic Credits	$ 12,030,308.00		
Regulatory Agreement Annual Cap	8%		
	$ 962,424.64		
3. Calculation of Cumulative Surplus Available for Future Distribution			
			Over (Under) Annual Cap
Distribution for 2016	$ -	$ 962,424.64	$ (962,424.64)
Distribution for 2017	$ 1,243,585.00	$ 962,424.64	$ (681,264.28)
Distribution for 2018	$ 240,338.00	$ 962,424.64	$ (1,403,350.92)

Waterfall - Conflicting priorities

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

Individual Exercise

Affordable Housing, LP generated $100,000 in surplus cash

The partnership agreement requires that the funds be distributed as follows:

- Asset Management fee to the investor $5,000
- Incentive fee to the sponsor $25,000
- Debt service on the first mortgage (50% of the remainder)
- Debt service on the sponsor loans (40%)
- Remainder to the GP/LP in accordance with their equity percentages.

Question: What happens if the mortgage note requires that the first $75,000 of surplus cash be used to paydown the first mortgage?

Surplus Cash Case Studies

Poll 6

1. Which agreements need to be reviewed to determine how surplus cash will be distributed?

   A. The Partnership or Operating Agreement

   B. The Loan Agreements

   C. The Regulatory Agreement

   D. The Property Management Fee Agreement

   E. All of the above

   F. A, B and C only

QUESTIONS?

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

Next (and FINAL) Session: Consolidation and Year 15 Issues
Date: August 16, 2023
Time: 1:00 – 3:00 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.**

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