

M.G.L. Ch. 40B RENTAL DEVELOPMENTS

Instructions for Use of Calculation Tool for Computation of Excess Equity⁽¹⁾ and Limited Dividend Distributions

(See associated Excel file document)

(1) “Excess Equity” is the amount of cash at the end of a reporting period that is greater than the maximum allowed limited dividend of 10% of owner equity.

General Note:

The attached EXCEL Calculation Tool is to be completed by the Owner or the Owner’s accountant at the end of each fiscal year and forwarded to the Subsidizing Agency for review as part of the annual audit for the subject property. The purpose of this tool is to help the Owner or Owner’s accountant calculate accurately the following: (a) the amount of cash that the Owner may receive from the property’s operations under the limited dividend requirements contained in the Regulatory Agreement between the Owner and the Subsidizing Agency, (b) the amount, if any, that the Owner is required to deposit into the Excess Equity Account, held by the Subsidizing Agency for the property, and (c) the amount, if any, that Owner is required to deposit from the Excess Equity Account with the municipality in which the property is located.

The Calculation Tool is designed so as to cover multiple years on a single spreadsheet. Since the limited dividend compliance is measured on a cumulative basis, the same spreadsheet must be used across all the reporting years. The spreadsheet completed for the first reporting year, therefore, should be retrieved for the calculation required for the second year, and the same spreadsheet then retrieved for each subsequent year. The Subsidizing Agency will retain the current year’s completed spreadsheet for use each following year. The formulas in the spreadsheet are designed so that the values needed from previous year operations for the current year calculations will be forwarded automatically into the appropriate current year spreadsheet cells.

The Calculation Tool has two tabs – A and B. **Part A** is used to input the relevant asset and liability values as of the end of the fiscal year, and to calculate the surplus cash figure, which is forwarded to Part B automatically. **Part B** is used to determine the amount of funds which the Owner may take as a distribution from surplus cash, and to determine the amount of funds, if any, which the Owner must deposit into the Excess Equity Account and/or deposit with the municipality. This Instructions Guide offers an explanation of terms for the Part A inputs. For Part B, most of the values are calculated for the user, and the others are self-explanatory. See also the instructions on the spreadsheets themselves.

As provided in the Regulatory Agreement, the maximum distribution which the Owner can receive each year is 10% of Owner’s Equity. To be more specific, if, based on the calculations in Part A, there is enough surplus cash from current year operations to cause the Owner to have received, over the life of the project to date, more than 10% of Owner Equity cumulatively (e.g., after the fourth year of operations, more than four times the 10%-of-Owner-Equity figure), the amount of this overage, known as “Excess Equity”, must be deposited into the Excess Equity Account held by the Subsidizing Agency on behalf of the project.

Explanations for Part A Inputs:

Sources of Available Cash:

Line 1. Cash and Cash Equivalents

Cash and cash equivalents comprise any asset that may be converted into cash immediately without upsetting day-to-day operations (short-term investments are excluded). Examples would be cash on hand; cash deposited in banks, and cash in transit, and demand certificates of deposit, trade acceptances and money market accounts. Cash may be assumed to be available for any ordinary use within the enterprise; hence, it does not include amounts that are escrowed or restricted for a specific purpose or were derived from syndication proceeds. For purposes of conformity with S.F.A.S. No. 95, the Statement of Cash Flows, all highly liquid debt instruments with maturity of three months or less are considered cash and cash equivalents.

Line 2. Short-Term Investments

The amount of temporary investments of working capital which management intends to or could convert into cash within one year or the operating cycle. These investments must be highly marketable and their sale not disruptive of normal operations or policy. For purposes of conformity with S.F.A.S. No. 95, the Statement of Cash Flows, all highly liquid debt instruments with maturity greater than three months are considered short-term investments.

Line 3. Accounts Receivable

The amount due on tenant accounts only if the amounts were earned during period covered by the financial statements.

Line 4. Tenants Security Deposits Escrowed

The sum of all cash received from tenants at the inception of the lease to cover any potential repairs at the end of the lease.

Line 5. Unreimbursed Replacement Reserve and Special Escrow Account Withdrawals

The amounts which have been approved for reimbursement from the Replacement Reserve and Special Escrow accounts for which no funds have been transferred.

Line 6. Other (Describe)

Any other source of available cash that has not been included above.

Line 7. Total Sources

This amount represents the sum of Lines 1 through 6 of this form.

Uses of Available Cash / Current Obligations:

Line 8. Accrued Mortgage Interest Payable

Enter amount which represents the interest expense incurred on mortgage debt obligations, on or before the end of year, but not payable until the following year.

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Line 9. Delinquent Mortgage Principal and Interest

Enter amount that represents mortgage principal and interest payments that are in arrears.

Line 10. Delinquent Deposits to Replacement Reserve

Enter amount that represents Replacement Reserve payments that are in arrears.

Line 11. Delinquent Deposits to Insurance and Real Estate Tax Escrows

Enter amount that represents payments to the Insurance and Real Estate Tax Escrows that are in arrears.

Line 12. Delinquent Deposits to Special and Other Escrows

Enter amount that represents payments to the Special and Other Escrows that are in arrears.

Line 13. Deficient Deposits to Real Estate Tax, Insurance or MIP Escrow Deposits

Enter amount that represents the estimated annual shortfall in the funding of the Real Estate Tax, Insurance or MIP Escrows due to inflation. Provide documentation.

Line 14. Accounts Payable (due within 30 days)

Enter amount that represents the portion of the Accounts Payable due within 30 days.

Line 15. Accrued Expenses (not Escrowed)

Enter amount that represents the accrued expenses, exclusive of amounts for which a specific escrow exists or for which any delinquent escrow amounts are reflected in Lines 10, 11, 12, and 13 of this form. (For example: Wages, Water & Sewer, etc).

Line 16. Loans and Notes Payable (due within 30 days)

Enter amount that represents any other loans and notes payable that are due within the next 30 days.

Line 17. Tenant Security Deposit Liability

Enter amount that represents the total liability of the development to the tenants for cash received from the tenants at the inception of the lease to cover any potential repairs or unpaid rents at the expiration of the same.

Line 18. Prepaid Rents

Enter amount that represents the deferred revenue account equal to the value of rental payments received in advance from tenants.

Line 19. Due to General Partners and/or Affiliates (exclusive of development fees)

Enter amount that represents the advances made by the general partner, or affiliates of the general partner (i.e. management company), to supplement operating funds, and which have received approval from the Lender or Subsidizing Agency.

Line 20. Other (Describe)

Enter amount that represents any other use of available cash that has not been defined above.

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Line 21. Total Uses

This amount is the sum of Lines 8 through 20 of this form.

Line 22. Surplus (Deficiency) in Cash

This amount is the sum of Line 7 minus Line 21 of this form.