



# **STRENGTH MATTERS™**

Friday, September 11, 2009

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## *Objectives*

- Introduce the **STRENGTH MATTERS™** initiative
- Discuss the background of this initiative
- Highlight the Financial Reporting Best Practice Papers produced by the CFO Working Group
- Going forward...

# STRENGTH MATTERS™

A national collaborative sponsored by **NeighborWorks America, Housing Partnership Network (HPN)**, and **Stewards of Affordable Housing for the Future (SAHF)**, with ongoing support from **The John D. and Catherine T. MacArthur Foundation.**

Our partners also include:

**Local Initiatives Support Corporation**  
**Enterprise Community Loan Fund**  
**Low Income Investment Fund**  
**Calvert Foundation**  
**Housing Partnership Fund**  
**NeighborWorks Capital**

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And our  
STRENGTH MATTERS™  
partners:

Calvert Foundation  
Enterprise Community  
Loan Fund  
Housing Partnership Fund  
Local Initiatives  
Support Corporation  
Low Income  
Investment Fund  
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The **STRENGTH MATTERS™** initiative encompasses four strategically linked objectives designed to support the growth, sustainability, and impact of the affordable housing industry. These objectives were identified through a series of meetings, which convened CEOs, CFOs, lenders, and capital markets investors to gain a high level perspective on the characteristics of strength and barriers to growth for CDRIs.

The observations and learnings from these meetings were further informed by the work of a small group of high performing nonprofit developers under the auspices of the Fannie Mae Foundation Alliance.

The four objectives of the initiative are listed below and working groups are implementing projects to accomplish the objectives:

1. [Improve organizational operating performance»](#)
2. [Create transparency and consistency in financial reporting»](#)
3. [Increase and streamline access to capital for parent organizations»](#)
4. [Align public sector regulatory and underwriting policies with sustainable ownership»](#)



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**D Valentine**, *Chief Financial Officer, Bridge Housing, Inc.*

*Moderator.* **Frances Ferguson**, *NeighborWorks America*





## *Why now?* Lender and Accounting Perspective

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## *Increasing Focus on Borrower*

- Emphasis on **core strength**
  - Supports equity-like lending
  - Reaction to unsteady markets
  - Weakening collateral
  
- But: borrowers don't look alike!
  - **Variety** of business lines
  - **Complex** relationship to real estate
  - **Inconsistent** approach to reporting
    - a. Consolidation vs. **parent-only**
    - b. Recognition of **developer fees**

## *Understanding the Story*

- **Different organizations, different narratives**
- Example: **consolidated vs. core**
  - Revenue model – access to operating income?
  - Contingent liability exposure
  - Is there residual value in the real estate?
  - What horizon are you trying to understand?
- Need: **consistent consolidating principles & schedules**

## *How We Got Here...*

- **FASB SOP 94-3-1** – Omnibus Changes to Consolidation
- **FIN 46 (r)** – Consolidation of Variable Interest Entities (“VIEs”)

*Down from 'On-High..'*

**EITF 04-05:**

*Determining When a General Partner, or General Partners as a Group, Controls a Limited Partnership or Similar Entity when the Limited Partners have Certain Rights*

## *Implementation Date*

- **June 29, 2005** for new LP's and existing partnership for which the partnership agreements are modified.
- No later than the beginning of the first reporting period of the fiscal year beginning after **December 15, 2005** for all other LP's.

## *Presumption of Control*

- **Kick out rights**
  - Ability to be removed without cause
- **Participating rights**
  - Effectively participate in significant decisions that would be expected to be made in the ordinary course of the limited partnership's business
- **Protective rights**
  - Limited partner's ability to block certain actions of the limited partnership (amendments, dissolution, acquisitions and dispositions etc.)

## *Multiple General Partners*

- Who has **control**?
- May result in **no consolidation**

## *Consistency*

- **Fiscal** Year vs. **Calendar** Year
  - June 30 Enterprise and 12/31 LIHTC
- 18 Month Audit or 6 Month Audit?
- Pros and Cons



## *How?* Building Industry Guidance

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## *Topic Paper Background and Process*

Topics selected by CFO group, prioritized for detailed review and topic paper release

- *Topic 1:* Determination of Parent Organization **Fiscal Year-End**
- *Topic 2: **Presentation:*** Comparative Statements vs. Non-comparative Statements
- *Topic 3: **Consolidation Issues:*** Elimination and Presentation of Minority/Non-controlling Interest
- Continuing to topic 17 currently

## ***Acknowledgements***

STRENGTH MATTERS™ gratefully acknowledges the work of staff from **Novogradac and Company LLP** and **The Reznick Group** and the following individuals that contributed to this paper:

**Allison Clark**, The John D. and Catherine T. MacArthur Foundation, Chicago, IL

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**Jeff Reed**, Community Housing Partners Corporation, Christiansburg, VA

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**Mary White Vasys**, Vasys Consulting Ltd, Chicago, IL

**Laura Vennard**, Preservation of Affordable Housing, Inc., Boston, MA

## *Disclaimer*

This document is a product of STRENGTH MATTERS, a collaborative initiative among national and local organizations in the affordable housing field, co-sponsored by NeighborWorksAmerica, Housing Partnership Network and Stewards of Affordable Housing for the Future.

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## *Format of Topic Papers: Once a topic is up for dialogue...*

- **Discuss** topic with CFO group and accounting firms
- **Review** CFO Group financial statements and how the issue is handled by each organization
- Novogradac makes a “**first**” **draft paper** on the topic based on above discussion and research,
- **Revisions/edits** are suggested by the CFO Group and Novogradac updates draft and redistributes
- If CFO Group approves of updated draft, the topic is **finalized** as a product of the STRENGTH MATTERS group.
- **Disclaimer** on all topic papers

## *Format of Topic Papers*

- Issue
- Applicable GAAP guidance
- Analysis/facts on the topic paper
- CFO input
- Conclusion
- Examples, if applicable

## *Format of Topic Papers: Conclusion*

- How does the topic paper **affect the affordable housing industry** and non-profit organizations?
- A conclusion as to how the issue should be handled within the framework of **GAAP and current CFO guidance.**



## *What?* The Topic Papers

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# CFO Best Practice Papers: TOPICS

- *Topic 1:* Determination of Parent Organization **Fiscal Year-End**
- *Topic 2:* **Presentation:** Comparative Statements vs. Non-comparative Statements
- *Topic 3:* **Consolidation Issues:** Eliminations and Presentation of Minority/Non-controlling Interests
- *Topic 4a:* **Developer Fee** Recognition
- *Topic 5:* Determination and Presentation of **Supplemental Information**
- *Topic 6:* Preparation of the **Statement of Financial Position**
- *Topic 7:* **Net Assets** Section of the Statement of Financial Position
- *Topic 8:* Statement of **Functional Expenses:** Methodologies and Combining Allocation Methodology

# CFO Best Practice Papers: TOPICS *(con't.)*

- *Topic 9:* Issuance of Stand-Alone Financial Statements or **Parent-Only Financial Statements**
- *Topic 10:* Allowances for **Receivables**
- *Topic 11:* Capitalization of **Fixed Assets** (Policy)
- *Topic 12:* **Statement of Activities**
- *Topic 13:* Statement of **Cash Flows**
- *Topic 14:* **Segment Reporting**
- *Topic 15:* **Cash Presentation**
- *Topic 16:* Footnote **Disclosures**
- *Topic 17:* **Contingent Liabilities**

## *Topic 1*

- Why was it **chosen**?
- Why is it **important**?
- Potential **pitfalls/issues**
- Benefits

## *Topic 1: Determination of Parent Organization Fiscal Year-End*

- GAAP
- CFO Group input
- Conclusion
- Applicable authoritative pronouncements

## *Topic 1 Executive Summary*

It is possible for a parent entity to consider a fiscal year-end that is three months before or after the year-end of its subsidiary entities. Based on GAAP, this would be an acceptable practice, but may create practical issues and challenges, especially with the reconciliation of intercompany accounting. Consolidated financial statements prepared where the fiscal year-end of the parent and its subsidiaries differs by more than three months would not be considered prepared in accordance with GAAP.

We suggest that the industry change to a calendar year-end for their parent and subsidiary entities. Each organization should still evaluate its individual situation to determine the best year end fit based on their company requirements and other factors such as staffing considerations

*Topic 3:* **Consolidation Issues:**

Eliminations and Presentation of Minority/  
Non-controlling Interests

**BRIDGE HOUSING CORPORATION AND AFFILIATES  
COMBINING SCHEDULES OF FINANCIAL POSITION  
DECEMBER 31, 2008 AND 2007**

2008

|  | BRIDGE<br>Housing<br>Corporation | BID                 | BASS                 | BFMC                | HomeBricks,<br>Inc.  | Housing<br>Proposities(1) | Other Entities<br>(2) | Subtotal               | Eliminations           | Total                  |
|--|----------------------------------|---------------------|----------------------|---------------------|----------------------|---------------------------|-----------------------|------------------------|------------------------|------------------------|
| <b>Current Assets</b>                                | <b>\$ 17,159,000</b>             | <b>\$ 1,001,000</b> | <b>\$ 3,725,000</b>  | <b>\$ 839,000</b>   | <b>\$ 444,000</b>    | <b>\$ 14,303,000</b>      | <b>\$ 26,746,000</b>  | <b>\$ 64,217,000</b>   | <b>\$ -</b>            | <b>\$ 64,217,000</b>   |
| Cash and cash equivalents                            | 9,870,000                        | 74,000              | 573,000              | 909,000             | 141,000              | 2,789,000                 | 3,267,000             | 17,623,000             | (14,162,000)           | 3,461,000              |
| Contributions receivable-Current portion             | 165,000                          | -                   | -                    | -                   | -                    | -                         | -                     | 165,000                | -                      | 165,000                |
| Notes receivable-current portion                     | -                                | -                   | 2,574,000            | -                   | -                    | 100,000                   | -                     | 2,674,000              | (100,000)              | 2,574,000              |
| Prepaid expenses and deposits- current portion       | 658,000                          | 9,000               | 159,000              | 10,000              | 22,000               | 395,000                   | 9,000                 | 1,262,000              | -                      | 1,262,000              |
| Impounds   | -                                | -                   | -                    | -                   | -                    | 1,275,000                 | -                     | 1,275,000              | -                      | 1,275,000              |
| <b>Total Current Assets</b>                          | <b>27,852,000</b>                | <b>1,084,000</b>    | <b>7,031,000</b>     | <b>1,758,000</b>    | <b>607,000</b>       | <b>18,862,000</b>         | <b>30,022,000</b>     | <b>87,216,000</b>      | <b>(14,262,000)</b>    | <b>72,954,000</b>      |
| <b>Non-current assets:</b>                           |                                  |                     |                      |                     |                      |                           |                       |                        |                        |                        |
| Restricted cash and deposits                         | 91,000                           | -                   | -                    | -                   | 12,039,000           | 35,424,000                | -                     | 47,554,000             | -                      | 47,554,000             |
| Marketable securities                                | -                                | -                   | 4,579,000            | -                   | -                    | -                         | 1,658,000             | 6,237,000              | -                      | 6,237,000              |
| Contributions receivable-net of current portion      | 69,000                           | -                   | -                    | -                   | -                    | -                         | 0                     | 69,000                 | -                      | 69,000                 |
| Notes receivable-net of current portion              | 13,078,000                       | -                   | 31,625,000           | -                   | -                    | -                         | 13,405,000            | 58,108,000             | (26,408,000)           | 31,700,000             |
| Prepaid expenses and deposits-net of current portion | -                                | -                   | -                    | -                   | -                    | 3,592,000                 | 106,000               | 3,698,000              | (2,610,000)            | 1,088,000              |
| Property and equipment-net                           | 943,000                          | 123,000             | 2,489,000            | -                   | 109,000              | 933,341,000               | 9,901,000             | 946,906,000            | (15,700,000)           | 931,206,000            |
| Deferred costs-net                                   | -                                | -                   | -                    | -                   | -                    | 14,740,000                | 46,000                | 14,786,000             | (348,000)              | 14,438,000             |
| Land under lease and held for development            | 3,110,000                        | -                   | -                    | -                   | -                    | 1,933,000                 | 1,755,000             | 6,798,000              | -                      | 6,798,000              |
| Other investments                                    | 3,392,000                        | 1,145,000           | 116,000              | -                   | 595,000              | -                         | 20,651,000            | 25,899,000             | (23,895,000)           | 2,004,000              |
| <b>Total non-current assets</b>                      | <b>20,683,000</b>                | <b>1,268,000</b>    | <b>38,809,000</b>    | <b>-</b>            | <b>12,743,000</b>    | <b>989,030,000</b>        | <b>47,522,000</b>     | <b>1,110,055,000</b>   | <b>(68,961,000)</b>    | <b>1,041,094,000</b>   |
| <b>Total assets</b>                                  | <b>\$ 48,535,000</b>             | <b>\$ 2,352,000</b> | <b>\$ 45,840,000</b> | <b>\$ 1,758,000</b> | <b>\$ 13,350,000</b> | <b>\$ 1,007,892,000</b>   | <b>\$ 77,544,000</b>  | <b>\$1,197,271,000</b> | <b>\$ (83,223,000)</b> | <b>\$1,114,048,000</b> |

(1) Includes properties owned by separate entities in the form of limited partnerships, limited liability companies, or not-for-profit corporations.

(2) Includes entities that control certain housing property entities.

**BRIDGE HOUSING CORPORATION AND AFFILIATES  
COMBINING SCHEDULES OF FINANCIAL POSITION  
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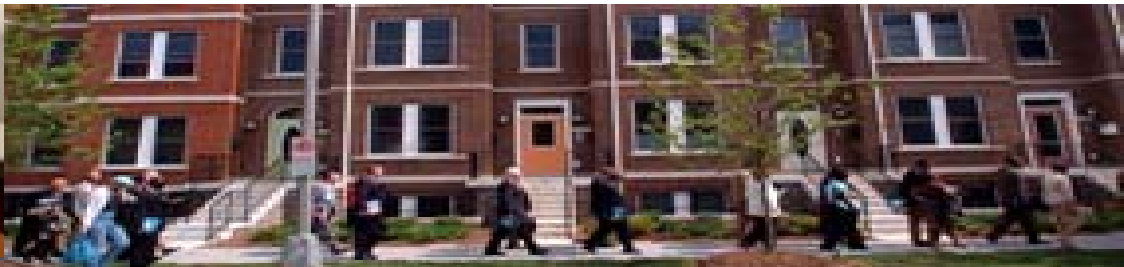
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|--|----------------------------------|---------------------|----------------------|---------------------|----------------------|---------------------------|-----------------------|-------------------------|------------------------|-------------------------|
| <b>Current liabilities:</b>                        |                                  |                     |                      |                     |                      |                           |                       |                         |                        |                         |
| Accounts payable and accrued expenses              | \$ 1,804,000                     | \$ 135,000          | \$ 799,000           | \$ 470,000          | \$ 341,000           | \$ 32,809,000             | \$ 3,189,000          | \$ 39,547,000           | \$ (14,555,000)        | \$ 24,992,000           |
| Notes payable-current portion                      | 1,036,000                        | -                   | -                    | -                   | -                    | 28,959,000                | -                     | 29,995,000              | (100,000)              | 29,895,000              |
| Interest payable-current portion                   | 175,000                          | -                   | -                    | -                   | -                    | 2,712,000                 | -                     | 2,887,000               | -                      | 2,887,000               |
| Deferred revenues-current portion                  | 348,000                          | -                   | 1,308,000            | -                   | -                    | 525,000                   | 45,000                | 2,226,000               | (393,000)              | 1,833,000               |
| Security and other deposits                        | -                                | -                   | 129,000              | -                   | -                    | 3,874,000                 | 19,000                | 4,022,000               | -                      | 4,022,000               |
| <b>Total Current Liabilities</b>                   | <b>3,363,000</b>                 | <b>135,000</b>      | <b>2,239,000</b>     | <b>470,000</b>      | <b>341,000</b>       | <b>68,879,000</b>         | <b>3,253,000</b>      | <b>78,677,000</b>       | <b>(15,048,000)</b>    | <b>63,629,000</b>       |
| <b>Non-current liabilities:</b>                    |                                  |                     |                      |                     |                      |                           |                       |                         |                        |                         |
| Notes payable-net of current portion               | 20,932,000                       | -                   | -                    | -                   | 11,000,000           | 591,994,000               | 13,691,000            | 637,617,000             | (26,064,000)           | 611,553,000             |
| Interest payable-net of current portion            | 707,000                          | -                   | -                    | -                   | 666,000              | 36,355,000                | 750,000               | 38,478,000              | (2,472,000)            | 36,006,000              |
| Deferred revenues-net of current portion           | -                                | -                   | 28,812,000           | -                   | -                    | 106,000                   | 2,504,000             | 31,422,000              | (2,610,000)            | 28,812,000              |
| Security and other deposits-net of current portion | -                                | -                   | 459,000              | -                   | -                    | -                         | -                     | 459,000                 | -                      | 459,000                 |
| <b>Total non-current liabilities</b>               | <b>21,639,000</b>                | <b>-</b>            | <b>29,371,000</b>    | <b>-</b>            | <b>11,666,000</b>    | <b>628,455,000</b>        | <b>16,945,000</b>     | <b>707,976,000</b>      | <b>(31,146,000)</b>    | <b>676,830,000</b>      |
| <b>Total liabilities</b>                           | <b>25,002,000</b>                | <b>135,000</b>      | <b>31,507,000</b>    | <b>470,000</b>      | <b>12,007,000</b>    | <b>697,334,000</b>        | <b>20,198,000</b>     | <b>786,652,000</b>      | <b>(46,194,000)</b>    | <b>740,459,000</b>      |
| <b>Net assets:</b>                                 |                                  |                     |                      |                     |                      |                           |                       |                         |                        |                         |
| <b>Unrestricted</b>                                |                                  |                     |                      |                     |                      |                           |                       |                         |                        |                         |
| Controlling interests                              | 18,979,000                       | 2,217,000           | 14,333,000           | 1,288,000           | 968,000              | 7,681,000                 | 57,346,000            | 102,812,000             | (37,029,000)           | 65,783,000              |
| Non-controlling interests                          | -                                | -                   | -                    | -                   | -                    | 223,195,000               | -                     | 223,195,000             | -                      | 223,195,000             |
| <b>Total unrestricted</b>                          | <b>18,979,000</b>                | <b>2,217,000</b>    | <b>14,333,000</b>    | <b>1,288,000</b>    | <b>968,000</b>       | <b>230,876,000</b>        | <b>57,346,000</b>     | <b>326,007,000</b>      | <b>(37,029,000)</b>    | <b>288,978,000</b>      |
| Temporarily restricted                             | 2,497,000                        | -                   | -                    | -                   | 375,000              | 79,682,000                | -                     | 82,951,000              | -                      | 82,951,000              |
| Permanently restricted                             | 1,660,000                        | -                   | -                    | -                   | -                    | -                         | -                     | 1,660,000               | -                      | 1,660,000               |
| <b>Total net assets</b>                            | <b>23,533,000</b>                | <b>2,217,000</b>    | <b>14,333,000</b>    | <b>1,288,000</b>    | <b>1,343,000</b>     | <b>310,558,000</b>        | <b>57,346,000</b>     | <b>410,618,000</b>      | <b>(37,029,000)</b>    | <b>373,589,000</b>      |
| <b>Total liabilities and net assets</b>            | <b>\$ 48,535,000</b>             | <b>\$ 2,352,000</b> | <b>\$ 45,840,000</b> | <b>\$ 1,758,000</b> | <b>\$ 13,350,000</b> | <b>\$ 1,007,892,000</b>   | <b>\$ 77,544,000</b>  | <b>\$ 1,197,271,000</b> | <b>\$ (83,223,000)</b> | <b>\$ 1,114,048,000</b> |

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## *Wrap-up*

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## *Next steps...*

- Please **register** at [www.strengthmatters.net](http://www.strengthmatters.net)

- **Contribute to the progress:**

*Members Welcome! Here you will find Financial Reporting Best Practices papers from the STRENGTH MATTERS CFO Working Group. Other documents will be posted in the coming months. Please send any comments on the papers by email to [info@strengthmatters.net](mailto:info@strengthmatters.net).*

- **Immediate feedback:** Please respond to the survey that will appear on your screen as you exit the webinar.