

# SHNNY Asset Management Training

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## Consolidated Audits October 6, 2009

Perspective of a Practitioner

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# Lessons Learned in Adopting EITF 04 -05

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- **Benefits:**
  - Presents to board of directors and other constituents the scale of the organization
  - While footnotes detail contingent obligations, the review of the consolidation offers an opportunity to review the obligations that exist to the limited partnerships
  - Forced a change in the fiscal year of parent company to align with limited partnerships, resulting in operational efficiency

# Lessons Learned in Adopting EITF 04 -05

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- Challenges:
  - Confusing to users of our financial statements in understanding what are the “true” financial results of the organization
  - Consolidation is a complex and time consuming process
  - Requires knowledge of technical consolidation issues that are only used once a year
  - Audit season requires greater coordination

# December 31, 2008

## Consolidated Financial Statements

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- Financial statements prepared in conformity with EITF 04-05, which requires the consolidation of limited partnerships over which the general partner has effective control

Limited Partnerships Included in Consolidation	
Limited Partnership	Description of Partnership
Times Square Hotel LP	652 units operating since 1993
Prince George Assoc LP	416 units operating since 1999
Christopher Residence LP	207 units operating since 2004
Schermerhorn LP	217 units syndicated December 2005 – in construction
Pitt Street LP	263 units syndicated December 2006 – in construction
Brook Avenue LP	190 units syndicated December 2007 – in construction
410 Asylum St LLC	70 units syndicated February 2008 – in construction
St Marks LP	71 units syndicated November 2008 – in construction

# Accounting Principals of Consolidation

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- Eliminations between Common Ground and the LP's consist of Management Fees and Developer Fees.
  - Management fees eliminate as an expense to the LP's and as revenue to Common Ground, so there is no P&L impact
  - Developer fees are revenue to Common Ground and capitalized on the books of the LP's. In consolidation only the portion of the developer fee to paid from operating cash flow of the limited partnership is eliminated.

# Contingent Liabilities to LP's

- Common Ground has various financial obligations to the limited partnerships, which have previously been, and continue to be, disclosed in footnotes.
- The operating deficit and tax credit compliance guarantees are generally limited to the amount of funds held in Sponsor Reserve accounts which are funded in the first year of the project through LP equity contributions.

Limited Partnership	Obligation for Operating Deficits	Obligation for Tax Credit Compliance	Construction Completion and Letter of Credit Guarantees
Prince George Assoc LP	\$1,799,000	\$1,799,000	
Christopher Residence LP	\$585,000	\$585,000	
Schermerhorn LP	\$400,000	\$400,000	\$30 million
Pitt Street LP	\$1,000,000	\$1,000,000	\$31 million
Brook Avenue LP	\$225,000	\$225,000	\$22.3 million
410 Asylum Street LLC	\$325,000	\$1,750,000	Completion guarantee
St Marks Brownsville LP	Unconditional	\$303,000	Completion guarantee

# Operations of LP's

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- Consolidation of the LP's is done solely for audit purposes to comply with GAAP.
- The fiscal operations of the LP entities are segregated, as is required by LP operating agreements.
- For management purposes, Common Ground manages and reviews the operations of each LP as independent entities.
- Projects in development are closely monitored by the various funding agencies and the Letter of Credit Banks, who have issued LOC's as credit enhancement for tax exempt bond financings provided by City and State agencies.
- Further oversight of LP operations comes from the LP syndicators who, monitor tax credit performance through independent audits.

Common Ground 2008 Audit  
 Comparison of Standalone vs Consolidation

	Consolidation with LP's (Audit Format)	Common Ground Standalone (Audit Consolidating Statement Before LP's)	Common Ground Standalone - Available for Operations
Change in Net Assets	369,027	369,027	369,027
Add back : LP Losses	3,797,501	3,797,501	3,797,501
	<u>4,166,528</u>	<u>4,166,528</u>	4,166,528
Add Back; Eliminating Items		2,934,626	2,934,626
Less: Contractually Restricted			(5,246,052)
Loss- Hegeman Land	(1,100,000)	(1,100,000)	
Loss CG GP Interest in Schermerhorn	(2,550,000)	(2,550,000)	
Adjustment for change in accounting for dev fees	(1,224,274)	(1,224,274)	
Change in Net Assets CG Standalone	<u>516,528</u>	<u>3,451,154</u>	<u>1,855,102</u>

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