LISC Greater Boston
Helping neighbors build communities

MACDC
1982 United Communities Building Together 2007

February 17, 2010

Dear Friends:

For the last two years many of you have been engaged with us in a set of conversations about the future of community development in Massachusetts that we have called the Community Development Innovation Forum. We began that effort in the spring of 2008 before the full force of the economic meltdown was evident, and we began it with a hypothesis that times had changed and that the community development field needed new models and strategies to achieve lasting community impact and financial sustainability. As the year wore on, the economic crisis deepened and the impact on community development was greater.

Early in 2009, in response to what seemed an unprecedented crisis for the field and for community development corporations in particular, LISC and MACDC invited a group of stakeholders to a discussion of the state of the community development sector and what steps could be taken to strengthen the sector and insure that Massachusetts did not lose the community development infrastructure that has been built over the last four decades. A strong theme of the conversation was a desire for concrete data on the state of CDCs as a whole as a basis for developing strategies to strengthen individual CDCs and the overall sector.

We engaged the Nonprofit Finance Fund to work with MACDC and LISC and look at the financial strength of community development corporations in Massachusetts. With the support of The Boston Foundation, the New Sector Alliance assisted this project in gathering survey data and in an analysis of preliminary financial data during the spring of 2009.

Twenty-six Massachusetts community development corporations took part in the study. We believe their commitment to this project is a sign of the organizational courage and adaptive capacity that has been a hallmark of community development corporations as institutions for decades.

The picture that has emerged is sobering if not surprising. As a group, CDCs are clearly experiencing serious financial challenges and those challenges have grown steadily over the five year period that we studied from 2003 to 2008. At the same time, it is important to place the situation of CDCs within the broader context of the economic melt down. With one exception, all of the organizations with whom CDCs partner are struggling themselves and facing significant constraints. That includes state and local governments, foundations, banks and corporations, community development financial institutions and other non-profit organizations with whom CDCs collaborate. The only significant partner in community development that has not seen an erosion of resources is the federal government. In addition, two key markets that have severely impacted the community development sector in Massachusetts are the market for homeownership units and the market for the sale of low income housing tax credits.

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The homeownership market began to impact community development corporations in 2007 as affordable homes for first time homebuyers became increasingly difficult to sell, and community developers were forced to hold units for longer periods, reduce prices, and in some cases restructure deals completely. The market for low income housing tax credits underwent its own meltdown in 2008 and stalled many CDC deals for a year or more before the short term fixes included in the ARRA package began to hit the street this fall. The LIHTC market has not returned to pre-recession levels and many observers believe that it will not return in the foreseeable future.

Other kinds of non-profit organizations, not directly tied to the real estate market, have also experienced significant financial stress during the last two years. Cuts in government contracts, philanthropy and individual giving have all added to the financial stress of the non profit sector as a whole, including CDCs.

It is very important to recognize that despite all of these challenges over the past several years, CDCs have continued to achieve significant results in their communities. During the five year period of this study (2003 – 2008) CDCs in Massachusetts achieved the following outcomes:

- Engaged over 1,700 community resident leaders;
- Built or preserved 6,538 homes;
- Created or preserved 10,120 job opportunities;
- Helped 5,187 locally-owned businesses start, grow or stabilize their businesses;
- Provided economic and educational opportunities to 89,536 families;
- Attracted $1,114,000,000 in private and public investment to revitalize our communities;

MACDC is currently surveying its members to obtain their production levels in 2009. (see http://www.macdc.org/research/goals for more information)

The key findings of the study include:

- Taken as a group, the twenty-six organizations represented in the study have become financially more vulnerable over the last five years. That means that the financial challenges facing community development corporations predate the 2008 recession, although those trends certainly have been intensified by the events of the last two years. Individually and collectively, CDCs must reverse this trend in order to be financially sustainable for the long term.
- Unlike private real estate companies, CDC financial performance was not demonstrably better during the hot real estate market in the middle of the decade, leaving little cushion when the market collapsed in 2008.
- The study did not find a significant difference among small, medium and large CDCs in terms of recent financial performance.

- While all of the participating CDCs provided audits that fully comply with GAAP there is clearly a wide variation in financial reporting practices across the field that make it difficult to aggregate and compare data among CDCs.

The limitations of the data do not allow us to draw any strong conclusions about the erosion of CDC's financial strength, but the risks inherent in real estate development are clearly part of the answer. Mission driven organizations that use real estate development as part of a neighborhood development strategy are uniquely impacted by the real estate cycle. In good times the land and buildings that we develop are more expensive and the competition more intense, but in most cases the profits and fees that we can earn on these developments are strictly limited by the public agencies that support our work. In poor economic times, the prices for land and buildings are lower but the risks are higher, and the public sector usually has fewer resources to support development. CDCs also face a weaker market to rent or sell homes and to sell tax credits. The risk of development for a mission driven organization are similar to a private developer, but the rewards (profit) of successfully completing a project are capped so there is a mismatch between risk and reward. This mismatch may have grown over the past decade as CDCs began to pursue deals with more market risks from high acquisition costs, private sector competition, larger transactions, and market risk associated with mixed income and mixed used developments. And while some of these challenges are inherent to the real estate sector, others are created or exaggerated by public policies that can be changed.

What does this all mean?

LISC and MACDC believe this study will accelerate efforts within the Community Development Innovation Forum and elsewhere to address the challenges faced by CDCs. Several important steps are necessary and many of them are already underway.

1. Strength Matters – A number of national organizations have been working for years to develop a consistent financial reporting framework for nonprofit housing developers. This framework, known as Strength Matters, should be considered by Massachusetts CDCs. This transition will require training, technical assistance, new software and systems, and outreach to auditors and accounting firms that work with CDCs. MHP has already begun to work with Neighborworks America to begin this transition in Massachusetts, and we intend to support this effort in the coming months/years.

2. Learning from characteristics of strong organizations- We intend to use the insights gleaned from this study and from other work to more carefully analyze the common successes of more financially stable organizations and present them to our colleagues in the field here in Massachusetts for learning and replication.

3. Real estate finance system changes – During the first phase of the Community Development Innovation Forum, a working group identified a number of system reforms that would incentivize and reward CDCs that effectively develop and operate real estate development projects so they can steadily build their financial strength over time. Changes in developer fee formulas, cash flow distribution, per-project and per-unit caps, and other policies could make a significant difference. We will be reconvening this group to work with state and local agencies to explore these changes.

4. Measure outcomes/ accountability- MACDC has established a strong program to measure CDC outcomes on a statewide level, but together we will work to improve and strengthen community development organization's ability to measure the outcome of their programs and in the lives of the people they assist. We want to be able to more clearly demonstrate the value of community building and asset building work that CDCs perform as well as the housing units created.

5. Operational efficiency and new business models: CDCs need to explore how they can achieve greater operational efficiency and implement new, more sustainable business models. Much work is already underway in this regard. We are seeing new partnerships emerge where CDCs are sharing staff, resources and even office space. We are seeing a few mergers and new collaborative structures. Some CDCs are strategically expanding their service areas so they can build a more stable pipeline, while others are reducing their emphasis on real estate development to focus on other neighborhood challenges. We need to support these efforts and encourage new ones, including the development of new infrastructure systems that can be used to support large numbers of local groups, such as group purchasing programs, new guarantee funds, and perhaps new centralized asset management or real estate development capacity.

6. Continue Research – Now that we have a baseline study with five years of data, we need to continue tracking CDC fiscal health to see whether our efforts are beginning to bear fruit. MACDC and LISC will seek to raise the resources necessary to track CDC fiscal health in 2009, 2010 and beyond.

In conclusion we believe that structural flaws in the way that real estate is financed makes it difficult for mission driven organizations to succeed, and this report underscores that point. Real estate development is a high risk economic activity and the affordable housing financing system makes it difficult for that risk to be adequately rewarded for mission driven organizations while not shielding them from the negative consequences of failure. We also believe that they way all non profits are financed creates inherent challenges, including government contracts with little overhead, private philanthropy that is highly restricted and a lack of unrestricted operating funds that allow nonprofits to invest in organizational infrastructure, capacity building, research and development, and innovation.

We strongly believe in the value of community based development organizations as both community building institutions and as a significant part of the larger affordable housing delivery system. The mortgage and foreclosure crisis of the last three years underscores the important role that community development corporations play in the neighborhoods of Massachusetts and around the country, as CDCs have stepped up to offer foreclosure prevention counseling to seek to prevent or ameliorate foreclosures and to deal with the community consequences after homes are foreclosed. Despite the severe economic challenges CDCs have continued to support the communities they serve. CDC leaders have also been actively working to explore new ways to deliver services to their community so that they can have a greater impact AND strengthen their financial position. These include:

- strategic integration
- diversification in some cases and functional specialization in others
- regionalization
- outsourcing
- uniform financial statements
- Collaboration in mission related areas like Transit Oriented Development
- Mergers where appropriate

We hope that the publication of this report will increase the momentum toward a stronger and more vital community development sector in Massachusetts.

Sincerely.

Bob Van Meter
Executive Director, Greater Boston LISC

Joe Kriesberg
President, MACDC

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A Survey of the Financial Situation of the Massachusetts CDC Sector

Prepared for

The Community Development Innovation Forum

February 26, 2010

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The Local Initiatives Support Corporation,
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The Boston Foundation

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The CDC Sector Is An Important Engine for the Development and Support of Healthy Communities

The strengths that the CDC Sector brings to the development and support of healthy communities are widely recognized and include:

- local control for neighborhood improvement
- entrepreneurial responses to local social challenges
- a history of collaborations to achieve enhanced positive community impact
- capacity to identify and nurture existing skills of residents to build community leadership and revitalization.

The CDC Sector Faces Challenges on a Number of Fronts

As is the case with community development organizations across the country and notwithstanding the strengths identified on the previous page, the CDC Sector is facing significant challenges.

The principal drivers of these challenges are:

- the dramatic changes in the business fundamentals of the CDC Sector,
- CDC business models that are struggling to find effective ways to adapt to these changes,
- systemic, structural constraints on the business practices and competiveness of CDCs and
- a recession that has hastened and intensified some pre-existing vulnerabilities in the CDC Sector's financial durability and sustainability.

MACDC Has Articulated Both the Challenges AND the Opportunities for the CDC Sector Both Now and in the Future

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This phenomenon was perhaps captured best by the Massachusetts Association of Community Development Corporations ("MACDC") in the summer of 2008 when it noted that,

"Changes in real estate markets, public policy, private investment, philanthropy, the non-profit sector, generational leadership and other areas are forcing a major rethinking of the community development field and how it needs to evolve to meet the challenges and opportunities of today and the future."

These comments were made by MACDC in the summer of 2008 as it was announcing the formation of the Community Development Innovation Forum (the "Forum").

The Objectives of the Community Development Innovation Forum Were the Impetus for the CDC Sector Survey

The Forum is a partnership between the MACDC and the Boston office of the Local Initiatives Support Corporation ("LISC") to:

"...examine where the community development field is now, to look deeply at the challenges facing the field, and to think about how we can be more effective in creating healthy communities. The Forum will convene stakeholders from the public, private, non-profit and academic sectors to challenge old orthodoxies and indentify creative new opportunities. The Forum will be organized into several working groups that will explore specific issue areas and develop tangible recommendations for how the field can best move forward."

The CDC Sector Survey Speaks in Varying Degrees to All Five Objectives of the Forum

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The specific objectives of the Forum are to:

- Enhance the financial stability and long-term viability of community based development organizations through reforms to the real estate development finance system as well as changes in CDC business and operational models.
- Seize exciting new opportunities through deeper and longer term collaborations, partnerships and potentially mergers.
- Undertake and sustain comprehensive community building initiatives that leverage partnerships and networks to impact broader community change.
- More effectively communicate about the community development movement to diverse audiences, including policy makers, funders, investors, media and local neighborhood residents.
- Promote and support "disruptive innovations" at the local, regional and state level that have the potential to significantly increase the field's impact and long-term sustainability.

The CDC Sector Survey Has Two Primary Goals

As one of several of the Forum's initiatives to address these objectives, the Nonprofit Finance Fund ("NFF") was commissioned by LISC in November of 2008 to undertake a survey of the financial situation of the CDC Sector (the "Survey").

The two primary goals of this Survey are to:

- identify any meaningful trends or indicators of the state of the financial situation of the CDC Sector and
- where possible, provide suggestions for the sector to consider in light of these trends and indicators.

To our knowledge, this is the first survey of the financial situation of the CDC Sector overall. As an initial overview of the CDC Sector from the perspective of its financial durability and sustainability, this Survey will also help to identify issues for further analysis for the CDC Sector to consider pursuing.

Supplemental Research Support for the Survey Was Provided by LISC and New Sector Alliance

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Originally conceived as a preliminary overview of the topic, Forum stakeholders requested that the Survey approach the topic in as much depth and with as much current and forward-looking data as possible.

To assist in the expanded scope of the Survey, The Boston Foundation commissioned New Sector Alliance ("NSA") to provide additional research capabilities in support of NFF's work on the Survey.

NFF also had numerous informal conversations with individuals and organizations involved in the CDC Sector. These conversations provided a rich source of anecdotal data that was taken under advisement in the writing of the Survey report.

There Are Some Notable Limitations in the Data and Structure Used in the Survey

In the Survey, NFF has maintained its customary focus on 5-year trends in the three key determinants of nonprofit financial durability and sustainability:

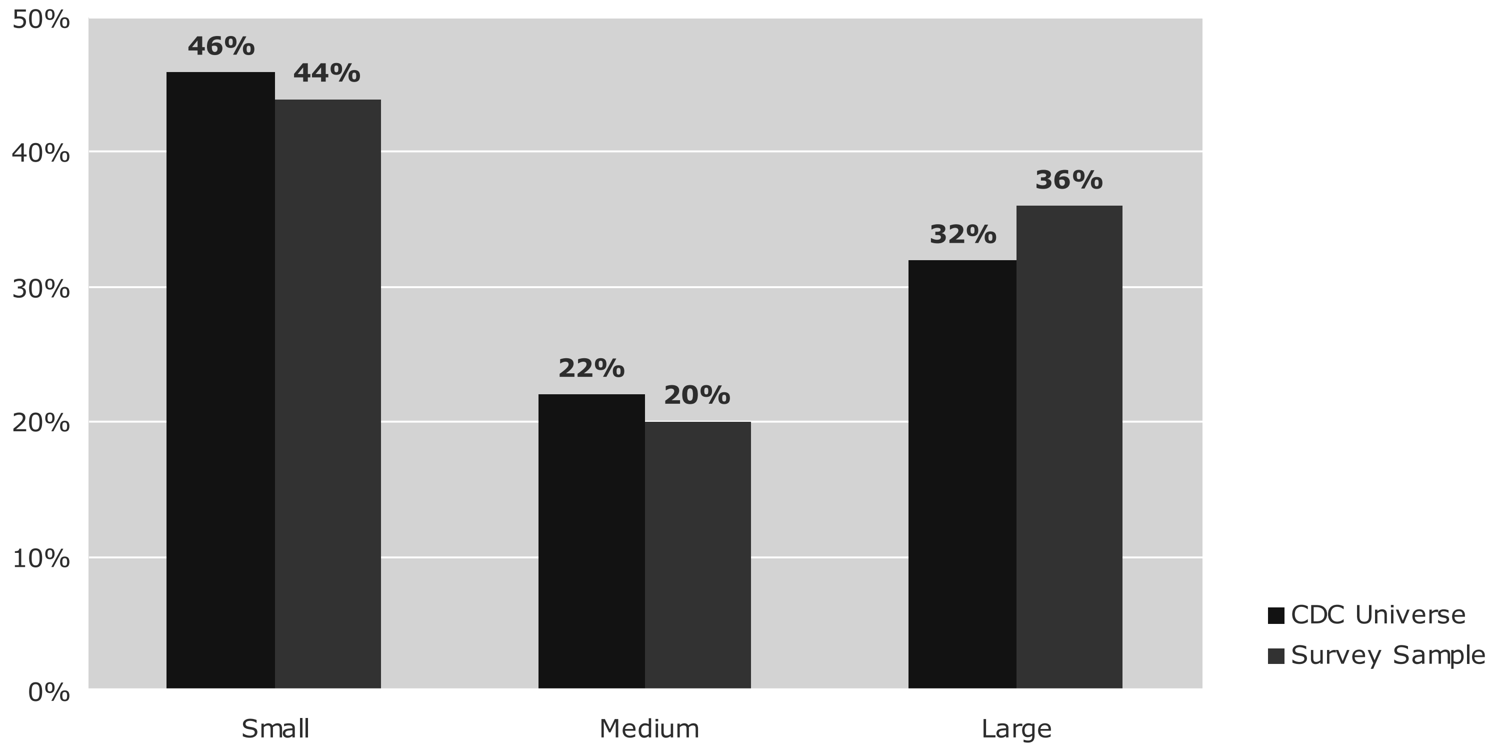
- profitability and savings,
- balance sheet strength and
- liquidity.

The data collected for the Survey was encouraging for how closely the 26 CDCs participating in the Survey represented the universe of 41 CDCs on the basis of budget size (see the graph on page 12).

However, there are some important limitations in the manner in which data for the Survey had to be collected. These limitations required NFF to take an analytical approach that differed in meaningful ways from its customary analysis (see, ***"Appendix 1 – Summary of Criteria and Data Used in the Survey"*** and ***"Appendix 2 – Limitations and Structure of the Survey"***).

The Survey Sample of 26 CDCs Reasonably Represents the CDC Sector Universe by Budget Size

Distribution of CDC's by Budget Size



Budget < $1M **Budget = $1M-$2M** **Budget > $2M**

Material Variations in Financial Reporting and Financial Statement Presentation Were the Main Limitations for NFF's Analysis

The principal limitations we encountered arose from the material variations in financial reporting practices and financial statement presentation among the 26 individual CDCs that participated in the Survey.

These variations did not permit NFF to aggregate data directly from the audited financial statements of individual CDCs on an "apples-to-apples" basis for our analysis of the CDC Sector, as is our customary practice.

In the absence of comparable, direct audit data, NFF has relied on secondary, "derived" data that was:

- conformed and aggregated by LISC from the individual CDC audited financial statements and
- collected and represented by NSA from CDC responses to the questionnaire that was designed for the Survey.

Despite These Limitations, the Data Provide Visibility Into CDC Sector Finances and Suggest Some Future Considerations for the Sector

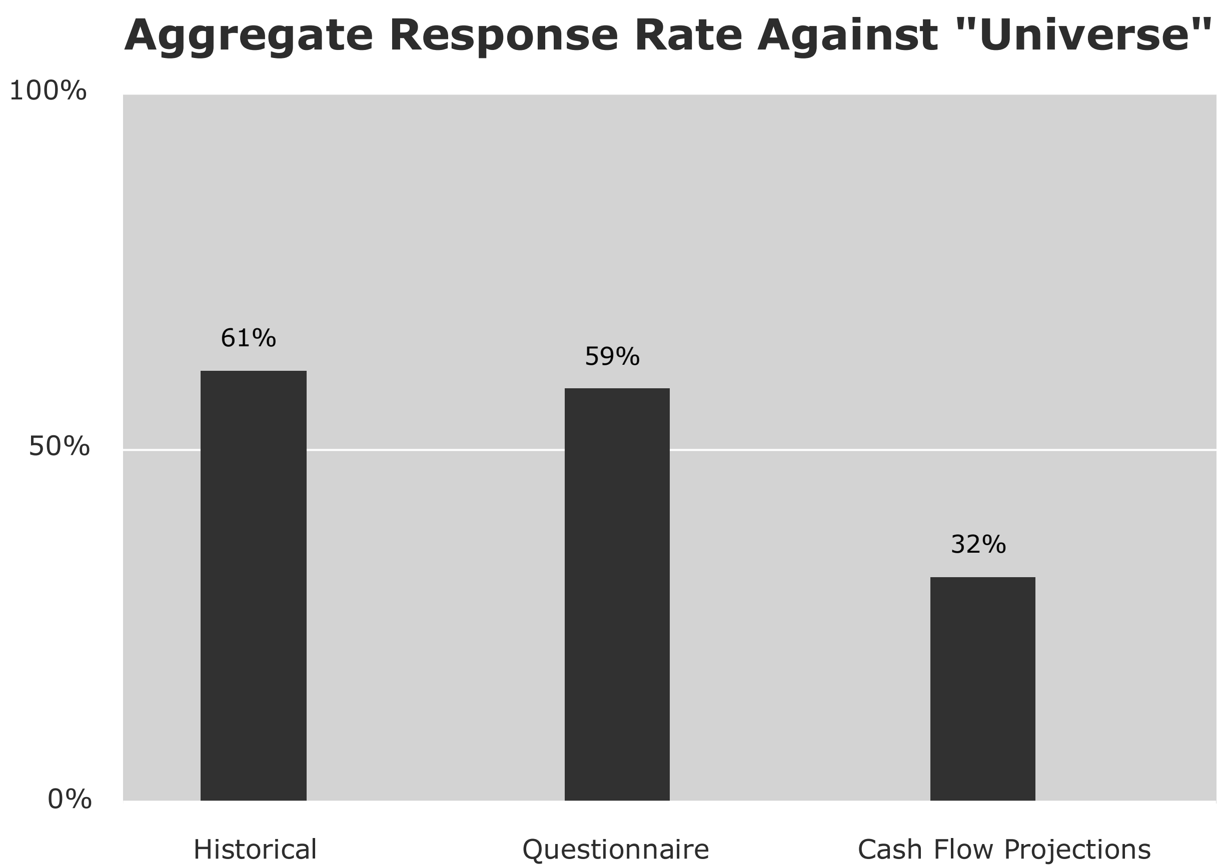
Finally, with the use of this derived data and its limitations came the need for NFF to use some additional financial ratios in our analysis. NFF does not customarily rely on financial ratios in conducting its analyses as extensively as we have in this Survey. Our experience has been that, all too often, a single ratio can be isolated from the full scope of an analysis and used as a substitute for informed judgment in assessing the overall financial situation of a nonprofit, a cohort of similar nonprofits or an entire sector.

However, after giving consideration to all of the limiting factors and taking pains to avoid these pitfalls, NFF is reasonably confident that:

- in the aggregate, our analysis of the historical and questionnaire data has provided some meaningful visibility into the financial situation of the CDC Sector and

- this visibility, in turn, has suggested some issues for further investigation for the CDC Sector, its stakeholders and its funders to consider as they continue to discuss what MACDC describes as, "how the CDC Sector needs to evolve to meet the challenges and opportunities of today and the future."

Meaningful Survey Findings and Observations May be Drawn from Historical and Questionnaire Data



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Summary of Survey Findings and Observations

An Understanding of the Criteria, Data, Limitations and Structure of the Survey is Essential for the Reader

To avoid misinterpretations of either the content or the intent of the Survey, readers are strongly encouraged to interpret the findings, observations and future considerations for the CDC Sector discussed in this Survey with a full understanding of the context provided in:

- “Appendix 1 - Summary of Criteria and Data Utilized in the Survey” and
- “Appendix 2 - Limitations and Structure of the Survey” .

Findings and Observations Discussed In the Survey are Supported by Illustrative Data and Commentary

The overall findings and observations from the Survey are first identified in summary form in this section of the Survey report. Also, page 30, the final page in this section of the report, presents a chart that summarizes the minimum, maximum and average levels for each of the data points and ratios analyzed for the 26 CDCs participating in the Survey.

Each of the principal findings and observations is then discussed in greater detail in subsequent sections of the Survey report using illustrative data and commentary, including, where applicable, graphs and charts of the historical and questionnaire data that gave rise to the finding or observation.

For readers who may be unfamiliar with the financial data points and ratios used in the historical analysis, a detailed description of each data point and ratio is provided in ***"Appendix 3 – Glossary of Financial Data Points and Ratios Used in the Survey".***

General Findings and Observations

Financial Reporting Inconsistencies Aside, Trend Data for the CDC Sector Are Down for Durability and Up for Risk

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More Consistency in CDC Sector Financial Reporting is Needed to Support Important Strategic Initiatives

- More consistent use of financial reporting practices that provide visibility into the true operating performance of CDCs is recommended for the CDC Sector. Progress on this issue can help to remove potential barriers to voluntary, value-added collaborations and contribute to the ability of CDCs to raise capital at the enterprise level.

Financial Trends are Down for Durability and Up for Risk

- With a few exceptions, (i) measures of financial durability and sustainability in the CDC Sector overall have trended down over the five years examined in the Survey and (ii) measures of financial risk have trended up.

Despite Cost Cutting, Decreases in Revenue from Multiple Sources are Depleting CDC Sector Cash

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Broad-based Revenue Decreases Are Depleting CDC Sector Cash

- CDC's report decreases in revenue from multiple sources, including fundraising, government contracts, bank and grant sources and loan portfolios. These revenue decreases have combined with delayed and reduced real estate development revenues to create a significant cash constraint in the CDC Sector.

Trends in Revenue Sources in the CDC Sector Overall are Difficult to Identify Due to Variations Among Individual CDCs in the Reporting of Revenues in their Audits

- This is a potential area for further study. Visibility into the relative contribution of the various revenue sources in the CDC Sector and any trends in the share of each of these sources in overall annual revenues can provide valuable insight into the financial drivers of the CDC Sector business model.

Liquidity is a Top Concern

Low Absolute Levels and Steady Decreases in Liquidity = A CDC Sector on a Comprehensive Drive for Cash

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The Data Indicate that Liquidity Concerns are High

- By the analysis of both the data points and ratios in the historical data and questionnaire data, the greatest stress on the financial durability of the CDC Sector centers on liquidity, particularly in Working Capital (i.e., Current Assets less Current Liabilities). In addition to broad-based revenue decreases, anecdotal data suggest that increases in current liabilities, such as rising line of credit payments and payments due under maturing pre-development and working capital loans are contributing to this issue.

Cash Generation and Preservation Are Top Priorities in the CDC Sector

- Many CDC's report taking fewer operating and financial risks, reducing programs and capacity to cut expenses, and shifting revenue generating capacity to fundraising. It is unclear whether these actions will be sufficient to produce and sustain adequate liquidity across the CDC Sector.

Further Investigation Into Some Conflicting Data on CDC Sector Liquidity is Recommended

Certain absolute levels of liquidity measurement would seem to indicate more strength in the liquidity position of the CDC Sector than is evident in CDC responses in the Survey questionnaire and other indicators NFF analyzed, particularly “Working Capital”. This was the case with “Days Cash” where the average reported for the CDC Sector at year end 2008 was 85 days, a marginally healthy 2.8 months. When the data for these “Days Cash” are disaggregated, however, what emerges is visibility into emerging stress in CDC liquidity that is more consistent with the other indicators.

Further investigation beyond the scope of this survey is recommended in order to identify the factors that may be responsible for these discrepancies.

Historical Levels of CDC Sector Liquidity May Have Been Lower Than Thought

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Recent Restatements of Some Individual CDC Audits are Providing More Visibility into Past Liquidity Levels in the CDC Sector

- NFF is aware that recently, some revenue accruals previously taken by certain CDCs have been reversed in restatements made to audited financial statements. Some of this restated audit information is reflected in the data in the Survey, but for at least one reasonably significant restatement that occurred subsequent to the Survey, it is not.

- Further analysis would be required to fully incorporate the impact of all restatements and identify the order of magnitude they might have on overall CDC Sector data used in the Survey. However, we would expect that the directional impact of such restatements would be (i) lower overall levels of Working Capital in prior years than reported in the Survey data and, therefore, (ii) less dramatic declines in Working Capital over the 2004 to 2008 period analyzed by NFF.

Business Model Constraints

With Some Exceptions, the Financial Situation Among CDCs by Budget Size and Business Model Varies Modestly

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Market Power, Capital and Fund Raising Capacity are Widely Dispersed in the CDC Sector

- With a few moderate exceptions discussed below, there were no clear-cut differences in the historical data indicating that any one of the three dominant business models or budget sizes was materially more or less financially durable or sustainable than the others.

- Anecdotal data suggest that the distinction among the three business models identified for the Survey – Real Estate Developers, Asset Managers and Problem Solvers - may be a fairly recent phenomenon and that a reasonably significant legacy of real estate development dominance is reflected in the historical data for these business models and budget sizes.

Small CDCs Appear Somewhat More Vulnerable to the Economic and Competitive Forces Buffeting the CDC Sector

Weakening Trends for Small CDCs Tended to be Steeper

- The data also suggest that small CDCs may have been more vulnerable to the economic and competitive forces buffeting the CDC Sector. Downward trends on measures of financial durability and sustainability and upward trends in measures of financial risk tended to be steeper for small CDCs and particularly small real estate development dominant CDCs.

Problems Solvers, Despite an Implied Lack of Exposure to Real Estate and Asset Management Challenges, Showed Comparable Signs of Balance Sheet Stress

- As a group, the problem solving dominant business model, where one would expect less asset intensity than in the other business models, instead showed comparable upwards trends and absolute levels of measures indicating increased balance sheet risk.

Suggested Guidelines for Using the Summary Chart of Historical Data Analysis on Page 30

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The Chart on the following page summarized the high-low ranges and averages for each data point and ratio analyzed in the survey for the years 2004 through 2008 for the CDC sector.

- Care should be taken in interpreting this data. For example, recommended standards of performance don't exist for all of these data points and ratios. Also, where standards of performance may exist they vary, for example, from lender to lender, and can change over time.

- Individual CDCs can compare their own data points and ratios to these ranges and averages to get some sense for how they compare on a relative basis. However we recommend that CDCs make any such comparisons across <u>all</u> data points and ratios and assess this information in the aggregate and in light of their own 5-year trends.

Summary Chart of Historical Data Analysis – Ranges and Averages for the CDC Sector

Key Metrics 2004-2008	2004			2005			2006		
Profitability & Savings	Minimum	Maximum	Average	Minimum	Maximum	Average	Minimum	Maximum	Average
Profitability (pre-depreciation)	-21%	54%	12%	-24%	49%	9%	-183%	41%	-4%
Profitability (post-depreciation)	-27%	48%	6%	-34%	49%	2%	-189%	40%	-12%
Change in Unrestricted Net Assets ($1000s)	-$1,524	$862	$84	-$643	$5,020	$309	-$2,058	$3,066	$22
Balance Sheet Strength									
Debt Ratio	0.0	1.2	0.6	0.0	1.2	0.6	0.1	1.2	0.6
Debt Coverage	-0.3	4.5	0.6	-0.9	8.0	0.5	-1.2	6.9	0.3
Liquidity									
Days of Cash	3	492	141	3	615	140	14	411	102
Working Capital ($1000s)	-$3,526	$3,404	$531	-$2,526	$7,311	$858	-$1,700	$3,506	$428
Current Ratio	0.1	52.2	5.3	0.0	15.8	3.8	0.1	20.6	3.6

Key Metrics 2004-2008	2007			2008		
Profitability & Savings	Minimum	Maximum	Average	Minimum	Maximum	Average
Profitability (pre-depreciation)	-52%	37%	2%	-77%	26%	0%
Profitability (post-depreciation)	-52%	35%	-5%	-80%	19%	-9%
Change in Unrestricted Net Assets ($1000s)	-$1,302	$515	-$63	-$987	$4,410	$156
Balance Sheet Strength						
Debt Ratio	0.1	1.4	0.7	0.1	1.2	0.8
Debt Coverage	-2.5	1.5	0.0	-3.8	0.1	-0.1
Liquidity						
Days of Cash	1	306	98	0	614	104
Working Capital ($1000s)	-$6,133	$4,153	$367	-$2,151	$1,029	$28
Current Ratio	0.1	7.8	1.5	0.1	13.7	1.7

(See, "Appendix 3 – Glossary of Financial Data Points and Ratios Used in the Survey")

General Findings and Observations – Illustrative Data and Commentary

More Consistent Financial Reporting Practices Providing Visibility Into the True Operating Performance of the CDC Sector is Needed

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Perhaps the most striking observation NFF had in conducting this assessment of the financial situation of the CDC Sector was the difficulty we had in getting visibility and meaning into the financial situation of the CDC Sector overall. As a general matter, we have not encountered significant issues gaining visibility into the financial situations of individual CDCs from their audits. However, variations in the reporting practices of individual CDCs made it difficult to aggregate the data for a sector-wide analysis on an "apples-to-apples" basis.

We should note that NFF does not advise on rules of GAAP accounting. However, to obtain a better understanding of the financial situation of the Sector, we would suggest a more consistent, standardized approach to the financial reporting practices of individual CDCs that is, of course, consistent with the rules of GAAP accounting.

Some suggestions for the CDC Sector to consider on accounting are detailed in the section of this Survey titled ***"Future Considerations for the CDC Sector"***. NFF would also encourage adoption of best practices of the sort that are recommended in the 17 provisions of the ***StrengthMatters "Financial Reporting Best Practice Papers"***.

Financial Reporting Inconsistencies Can Be a Barrier to Desirable Voluntary Collaborations

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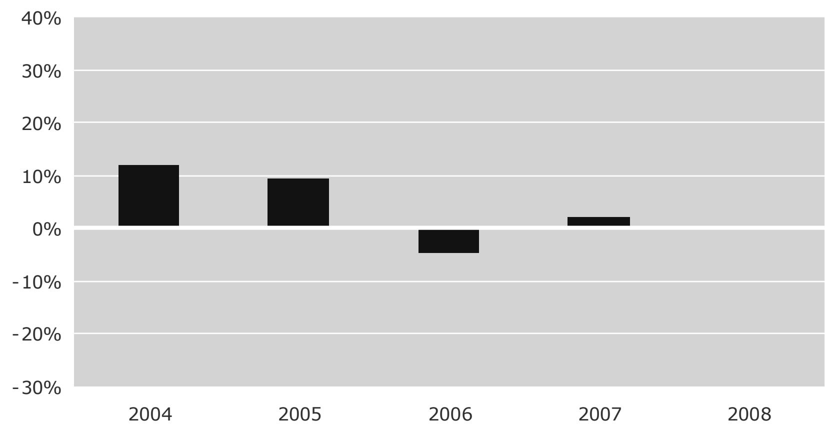
Given the critical strategic juncture at which the CDC Sector finds itself, it is recommended that the Sector identify and utilize more consistently applied financial reporting practices based, in part, on the sort of best practices promoted in StrengthMatters.

We are aware that certain of the organizations in the CDC Sector are considering the possibility of strategic restructurings and collaborations, including mergers. These restructurings are designed to produce more effective business models and improve the financial durability and sustainability of the participating CDCs, while maintaining CDC community presence and support.

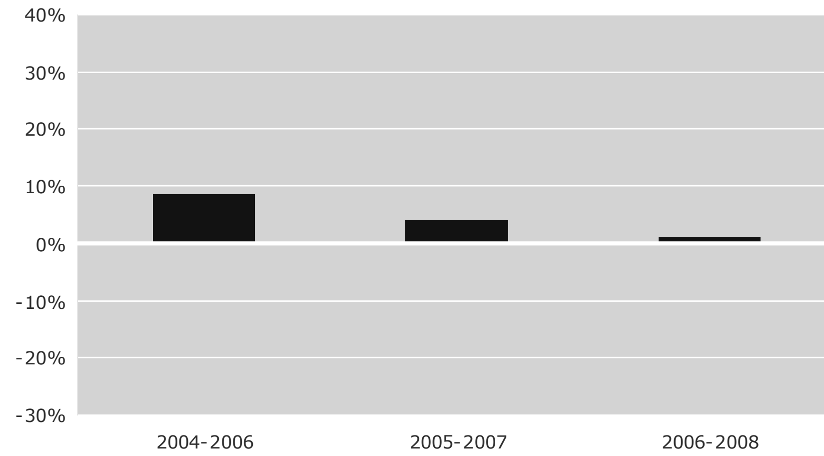
The lack of commonly applied financial reporting practices among individual CDCs and the expense it would take to reconcile them in these situations could present a real barrier to accomplishing value-added, voluntary strategic restructurings and collaborations.

Average Pre-depreciation Profitability for the CDC Sector Has Trended Down

All CDCs (annual)



All CDCs (3-yr rolling average)



- 56% of the CDC Sector reported pre-depreciation profitability of 5% of revenues or higher in 2008
- Conversely, 32% of the CDC Sector reported negative pre-depreciation profitability (deficits) in 2008

Average Post-depreciation Profitability Has Also Trended Down Significantly and Has Indicated Deficits for the Past Three Years

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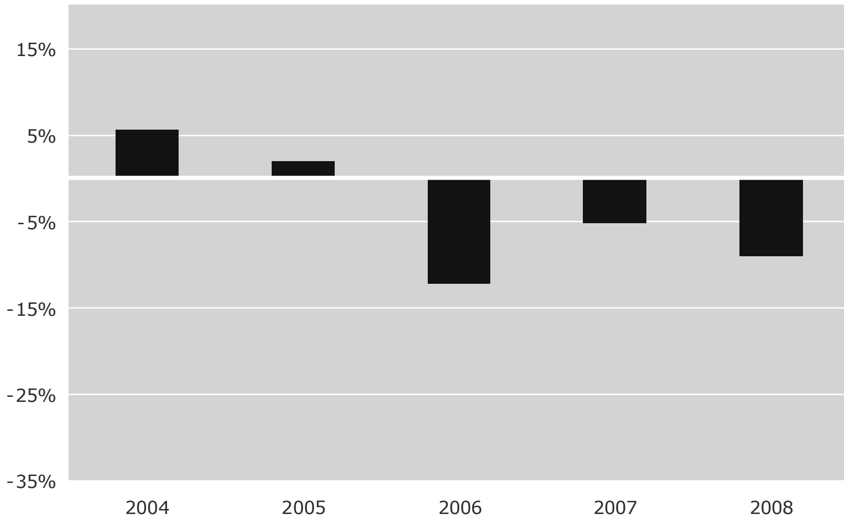
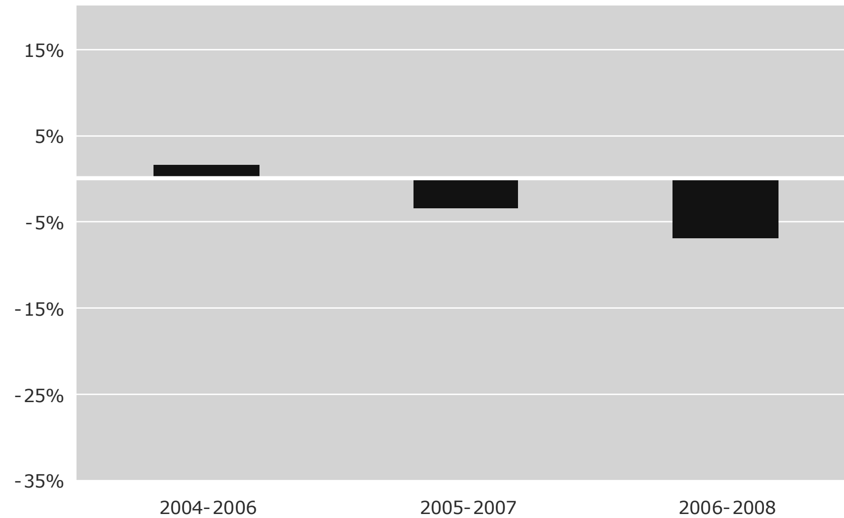
All CDCs (annual)



All CDCs (3-yr rolling average)



- 68% of the CDC Sector reported post-depreciation deficits in 2008
- Small CDCs comprised the largest percentage of CDCs in this deficit position (47%)

Prior to a Positive Change in 2008, Annual Changes in Unrestricted Net Assets for the CDC Sector Had Been Decreasing for 2 Years

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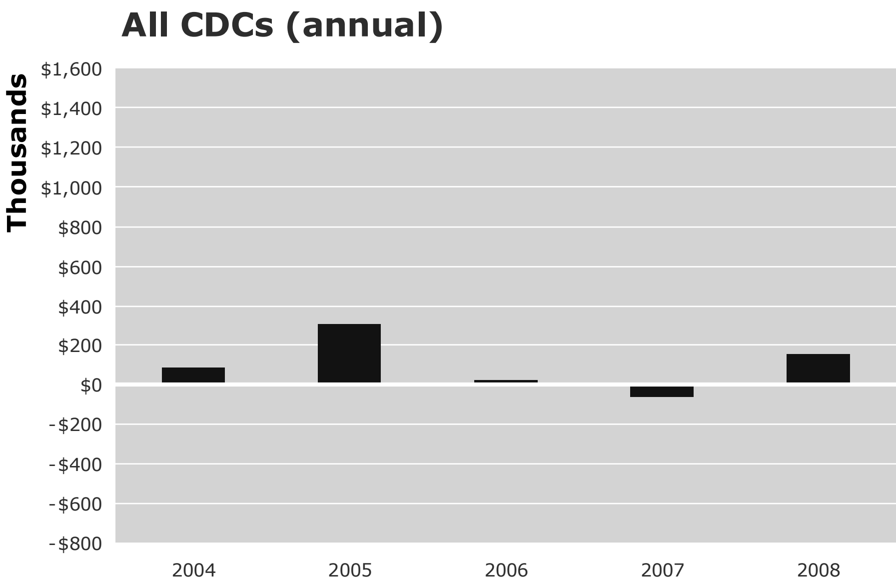
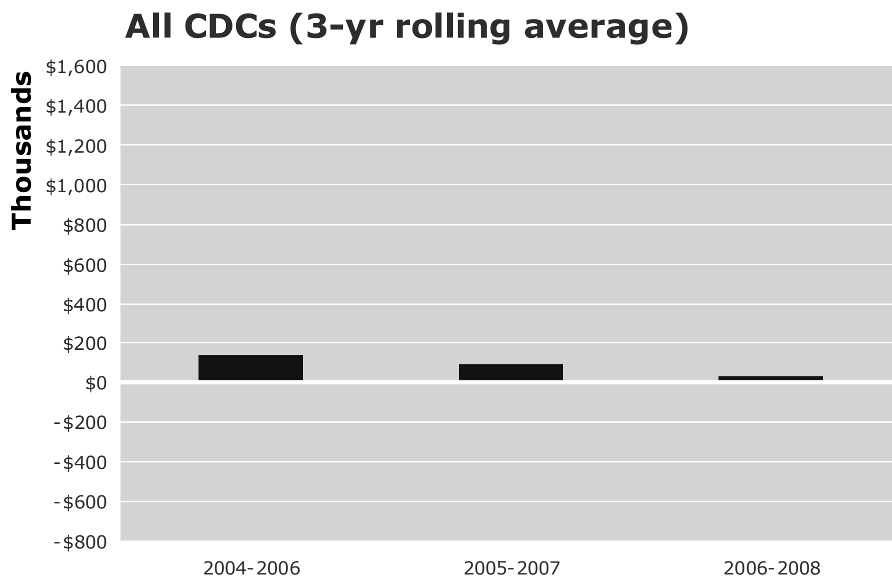
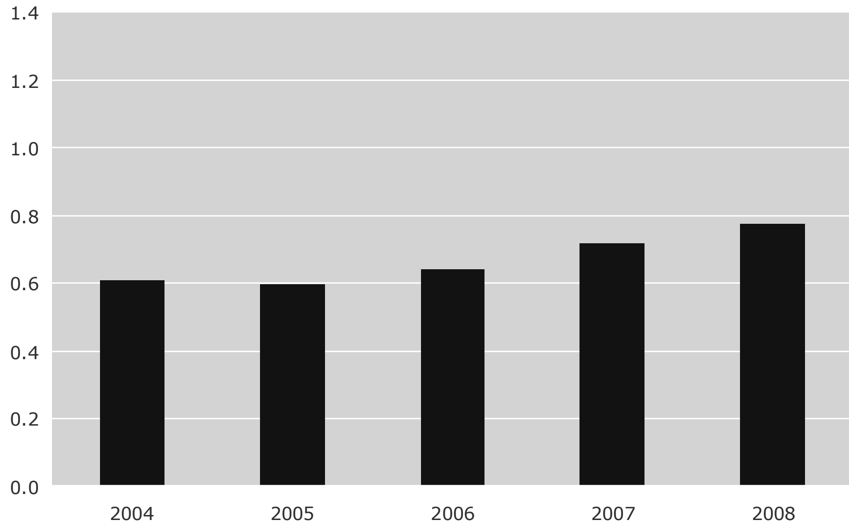




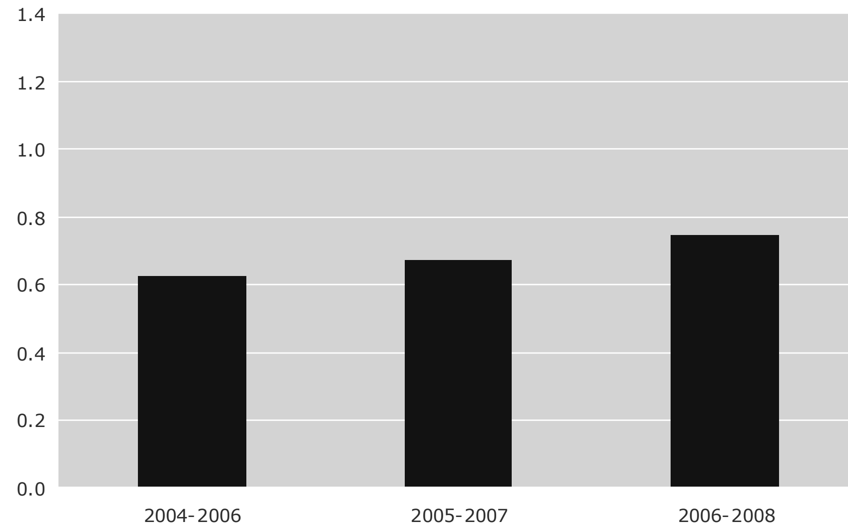
- In 2008, 52% of the CDC Sector reported a decrease (negative change) in net assets
- Small CDCs comprised the largest percentage of CDCs in this negative change in net assets position (69%)

Average Debt Ratio Indicates a Steady Increase in Leverage Since 2005

All CDCs (annual)



All CDCs (3-yr rolling average)



- Not withstanding this trend of increasing leverage, 72% of the CDC Sector still managed to achieve a Debt Ratio under 1.0 in 2008

Average Debt Coverage in the CDC Sector Has Trended Down Markedly and is Now Negative

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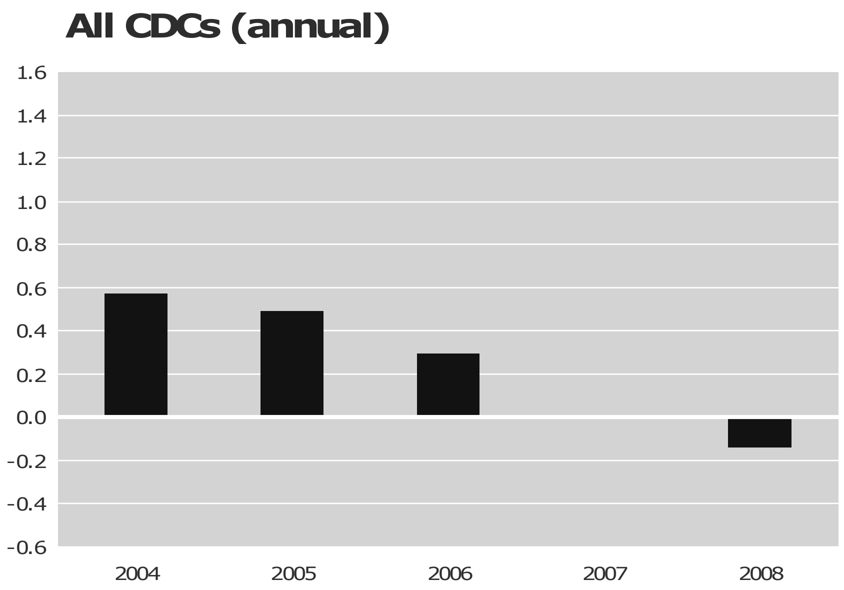

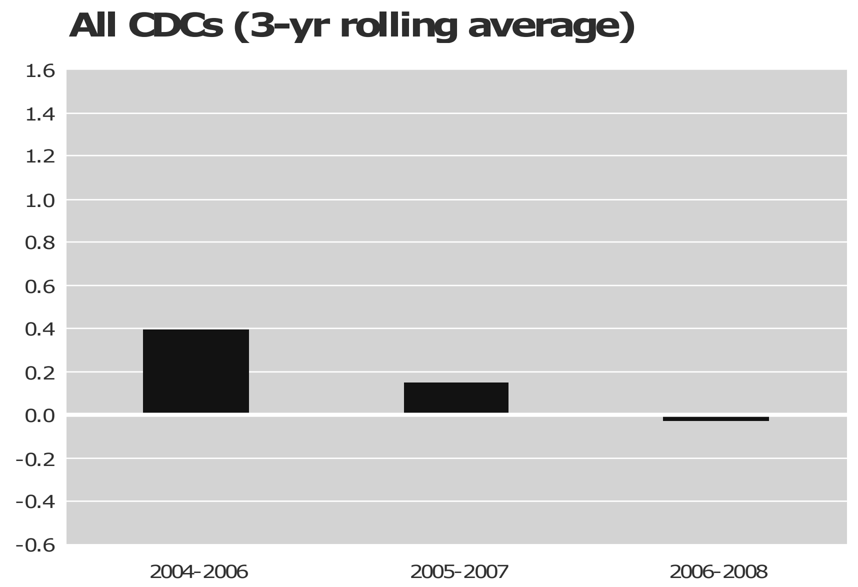

- For 76% of the CDC Sector in 2008, unrestricted net asset coverage of debt was negative or thin (0.00 to 0.05)
- 24% of the CDCs had negative Debt Coverage in 2008

Although the Current Ratio Has Trended Down, On Average for the CDC Sector it is Well Above 1.0X

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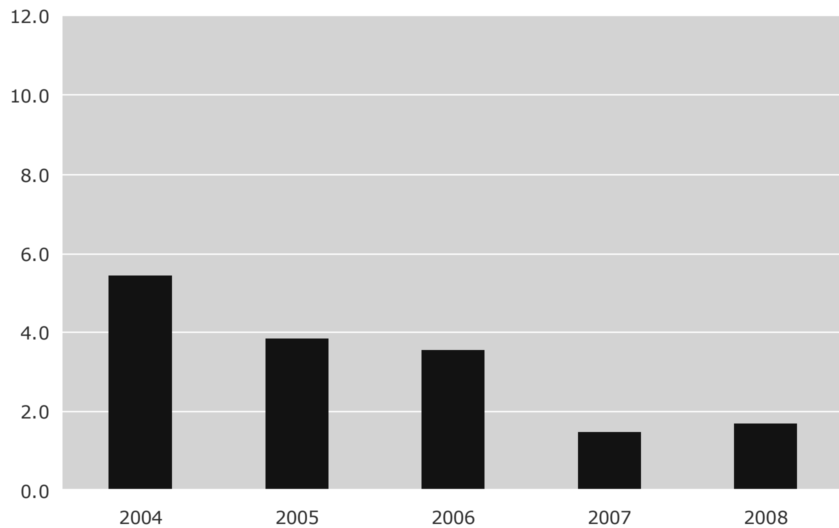
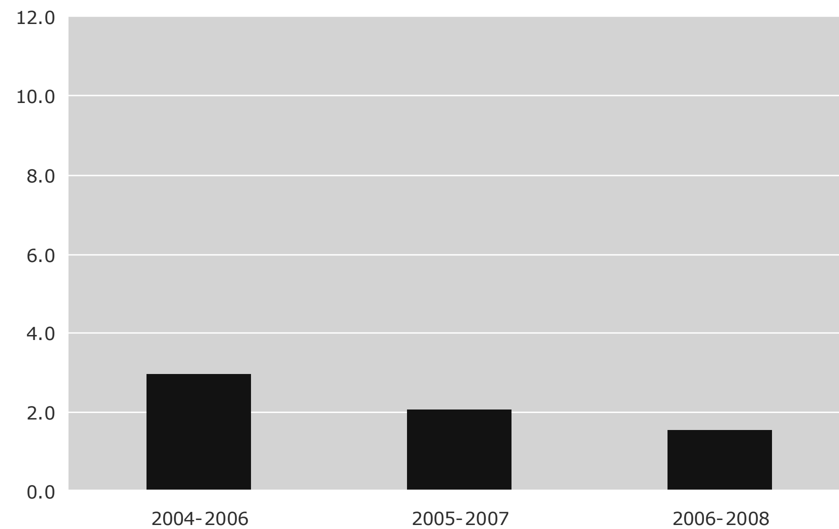
Average Current Ratio (annual) All CDCs

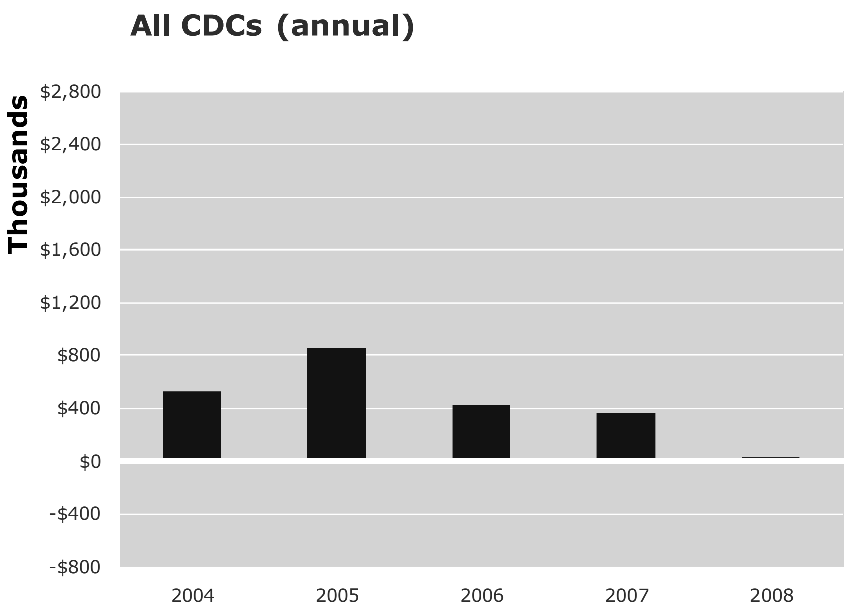


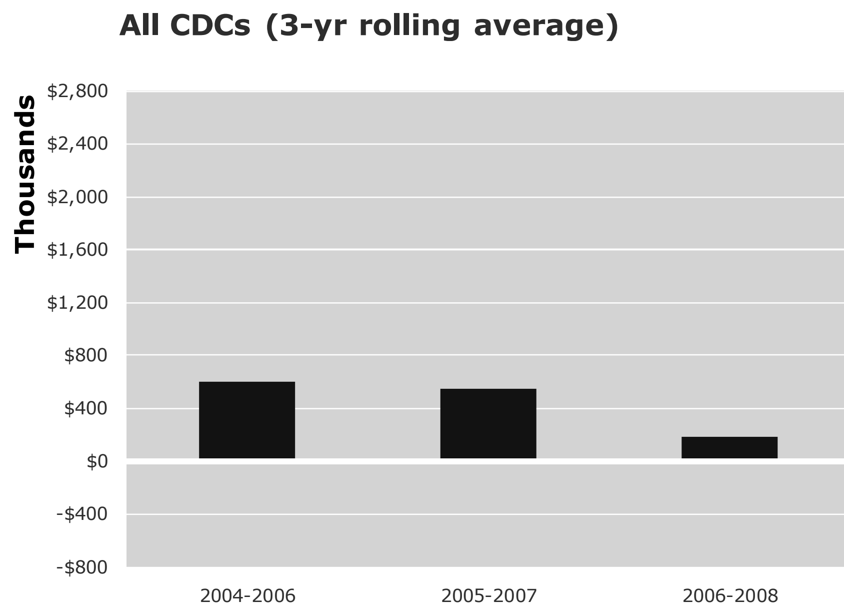
Average Current Ratio (3-yr rolling average) All CDCs



- At 1.19X, the median Current Ratio for the CDC Sector in 2008 is lower than the Sector average of 1.71X
- 40% of the CDC Sector had a Current Ratio below 1.0X in 2008.

Working Capital for the CDC Sector as a Whole Was Down to Almost Zero at the End of 2008

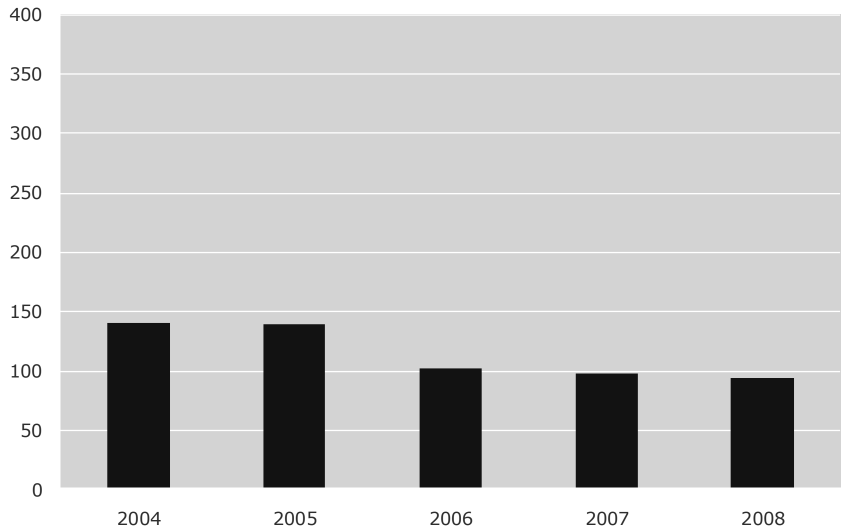




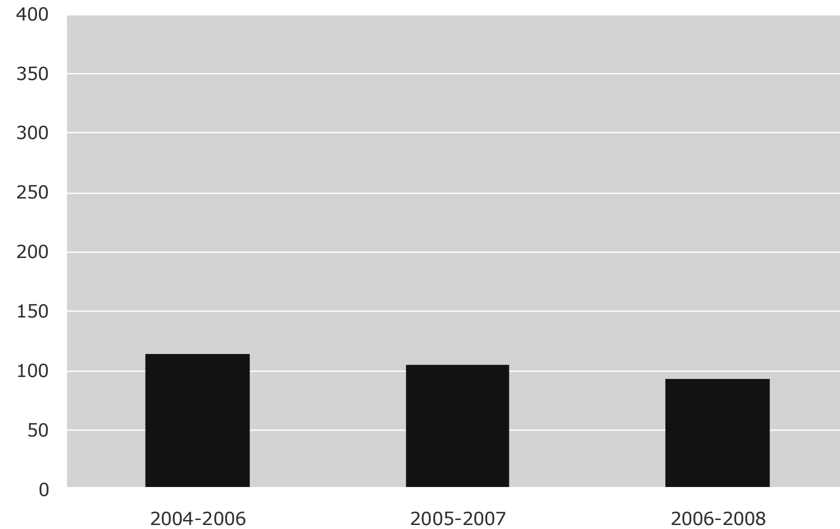
- In 2008, negative Working Capital (current assets less current liabilities) was reported by 10 CDCs, i.e., 40% of the CDC Sector

Levels of Average Days of Cash Are Not Consistent With Other Indicators – A More Detailed View Indicates Growing Stress

All CDCs (annual)

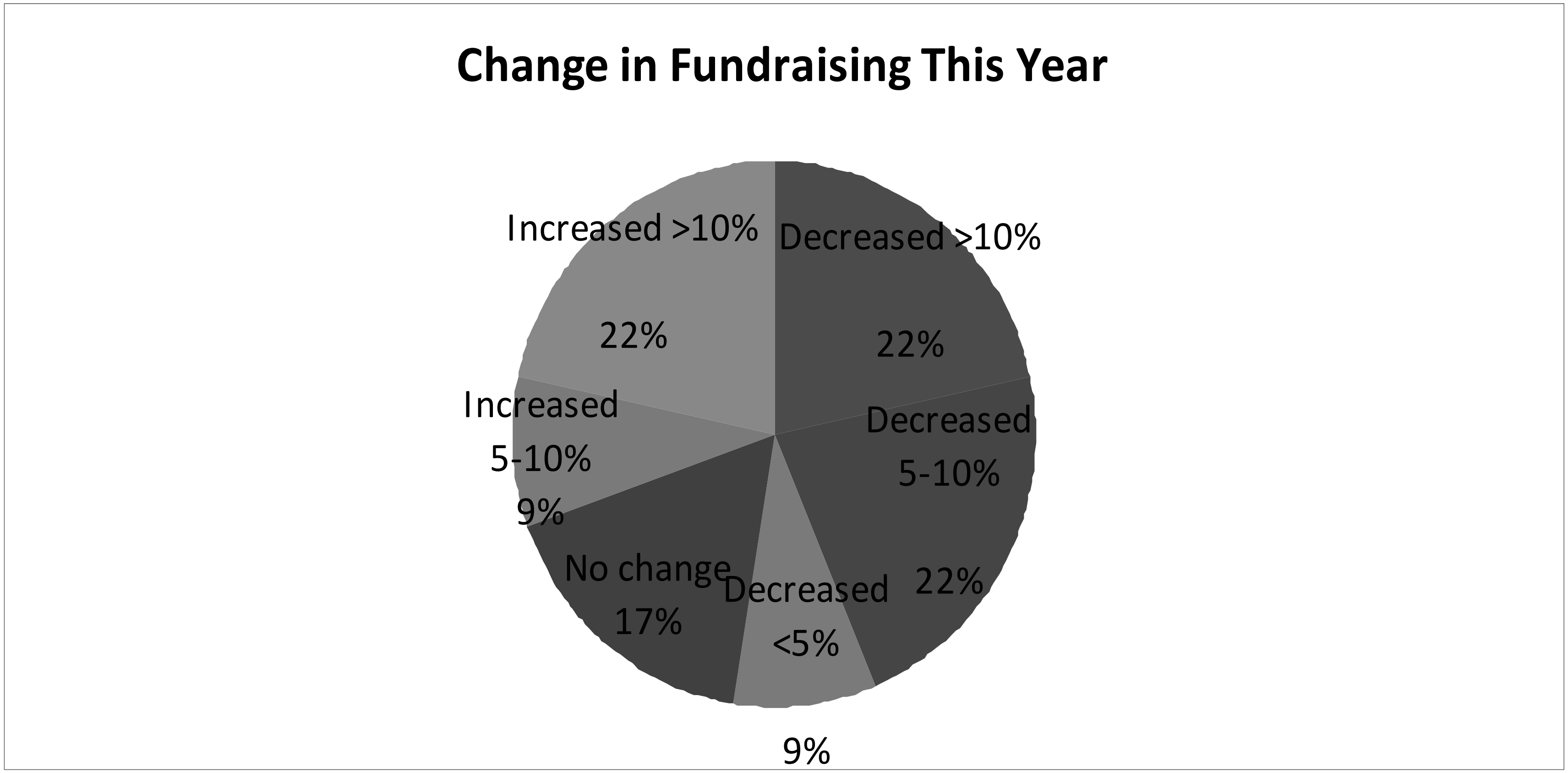


All CDCs (3-yr rolling average)



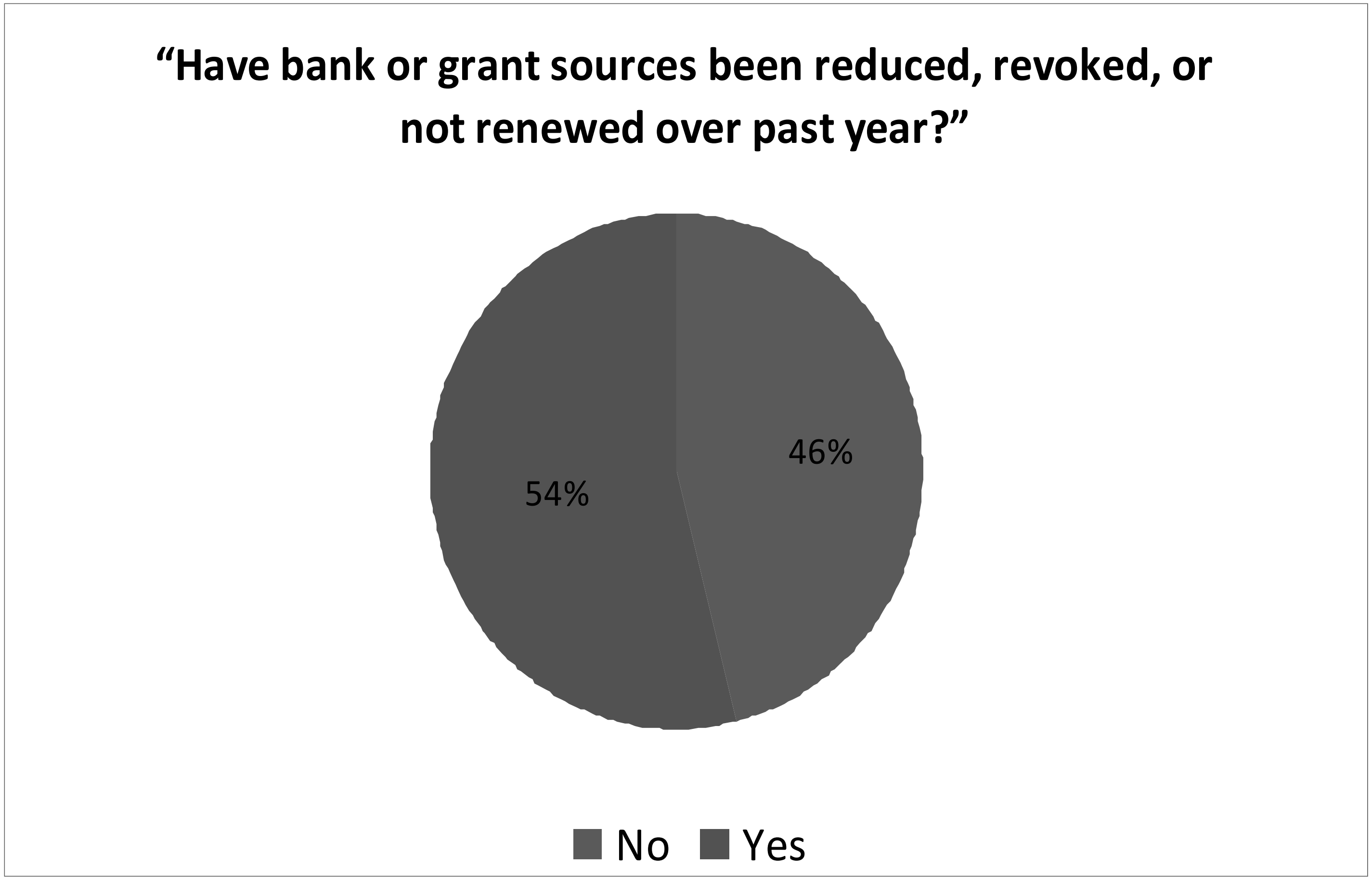
- When the days of cash data for 2008 are disaggregated, we find that 68% of the CDC sector had 90 days of cash or less, 40% had 60 days of cash or less and 24% had 30 days of cash or less.

Fundraising Revenue Decreases are Prevalent Among CDCs - 53% of CDC's Reported Decreases in 2009



Source:
NSA - CDC Sector questionnaire results

Bank and Grant Funding is Down for Over Half of the CDCs Responding to the Survey Questionnaire



Source:
NSA - CDC Sector questionnaire results

Financial Stress and the Drive for Cash Preservation Has Lead to Significant Cuts in CDC Programs

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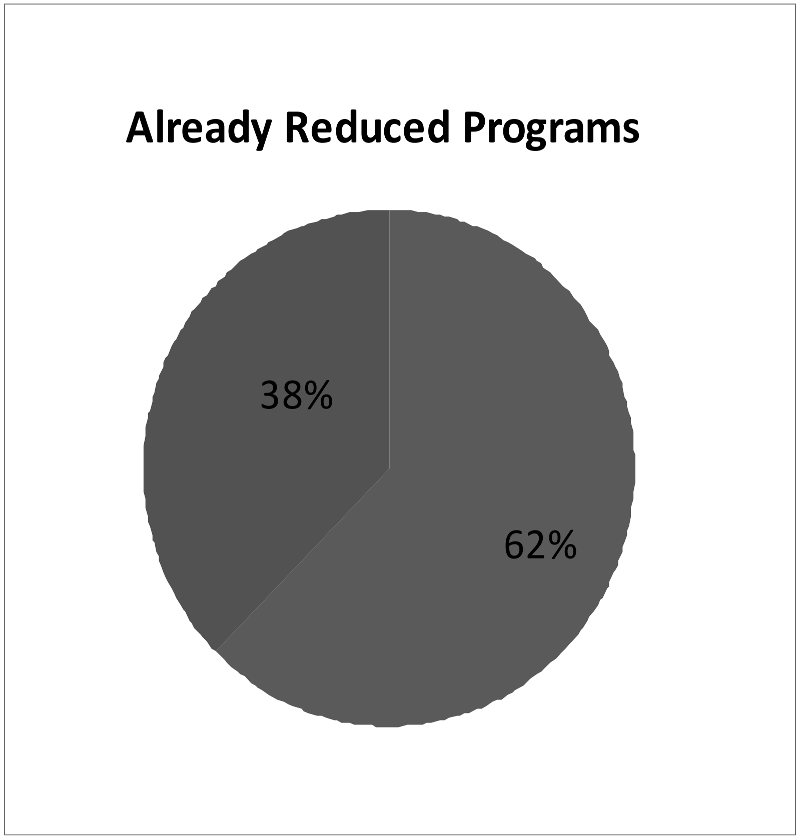
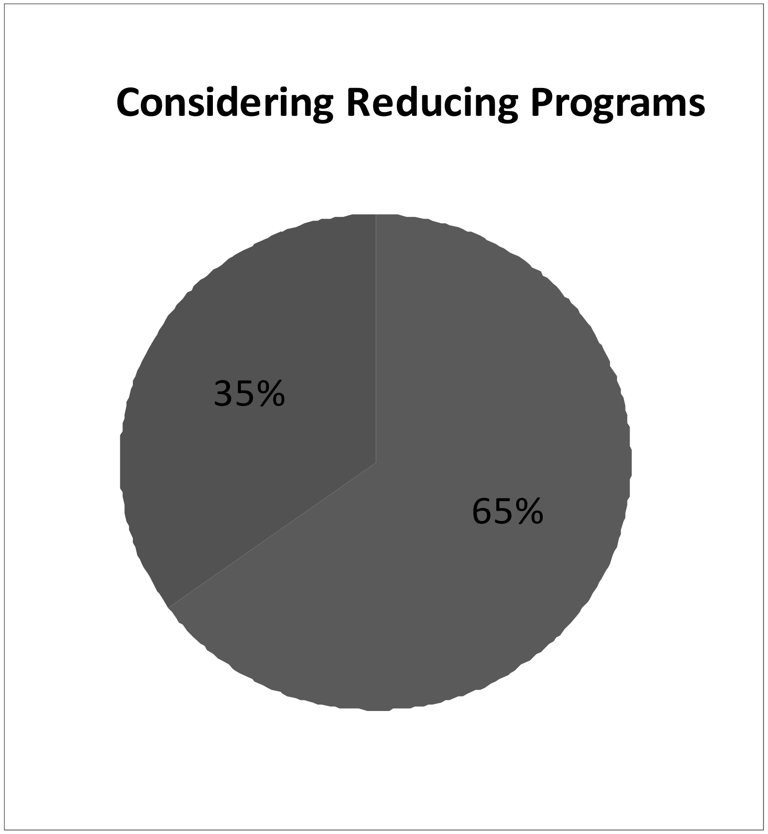


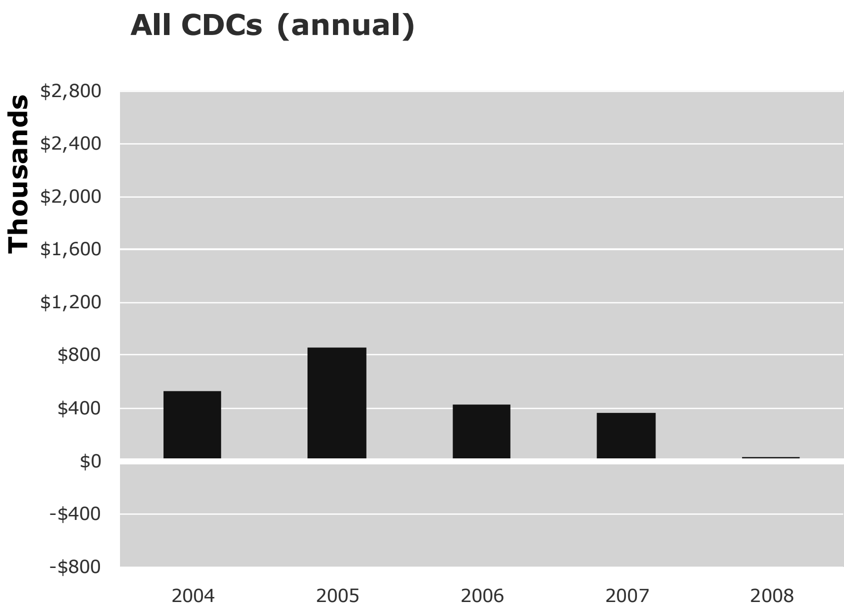


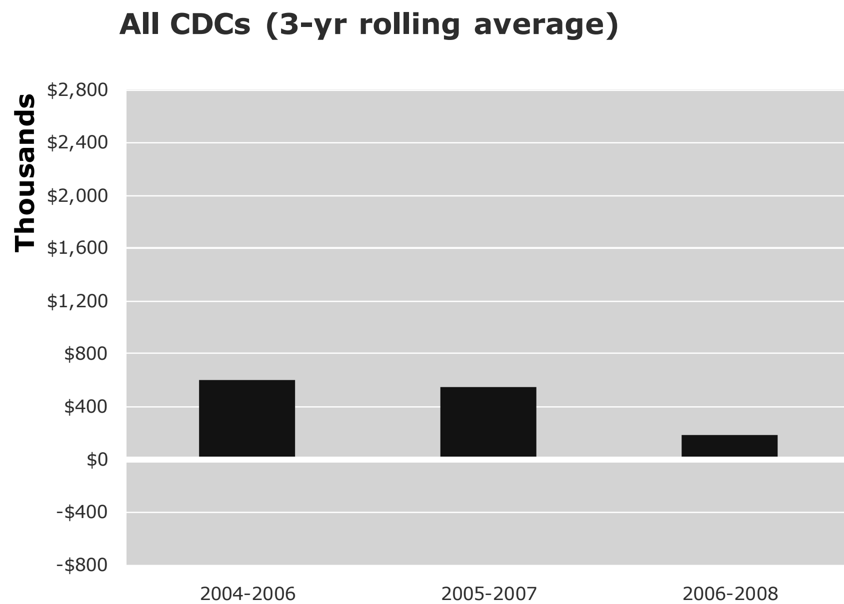
Yes No

Source:
NSA - CDC Sector questionnaire results

Liquidity Concerns Are High - Illustrative Data and Commentary

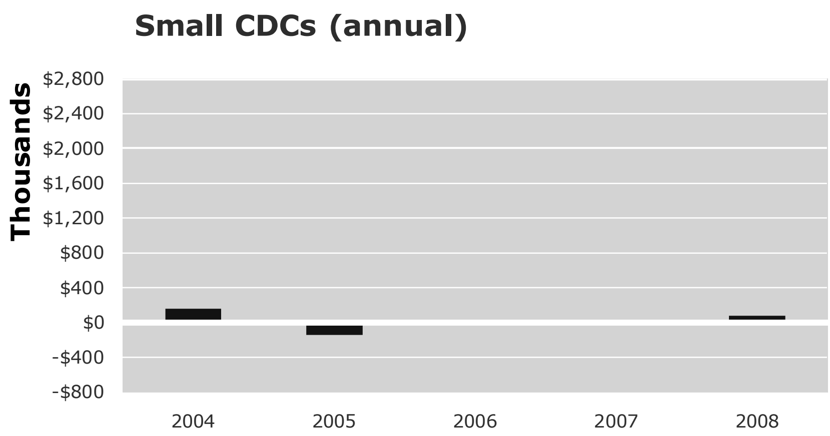
Working Capital for the CDC Sector as a Whole Was Down to Almost Zero at the End of 2008

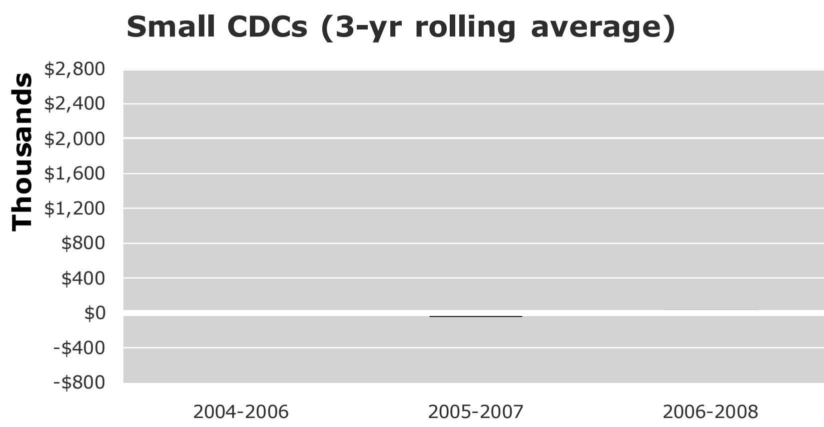




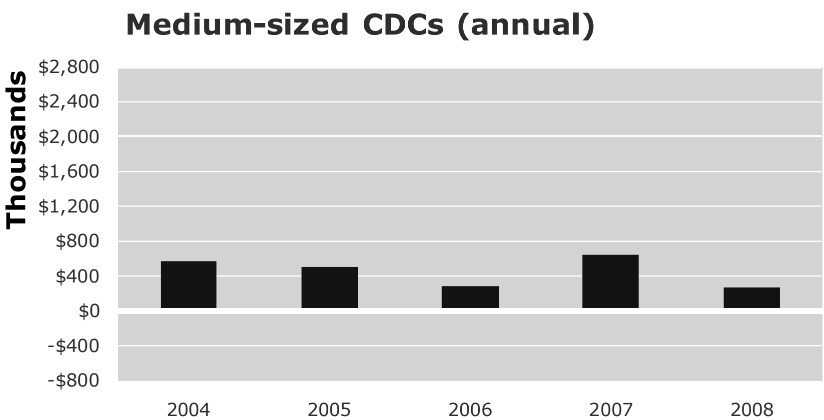
- In 2008, negative Working Capital (current assets less current liabilities) was reported by 10 CDCs, i.e., 40% of the CDC Sector

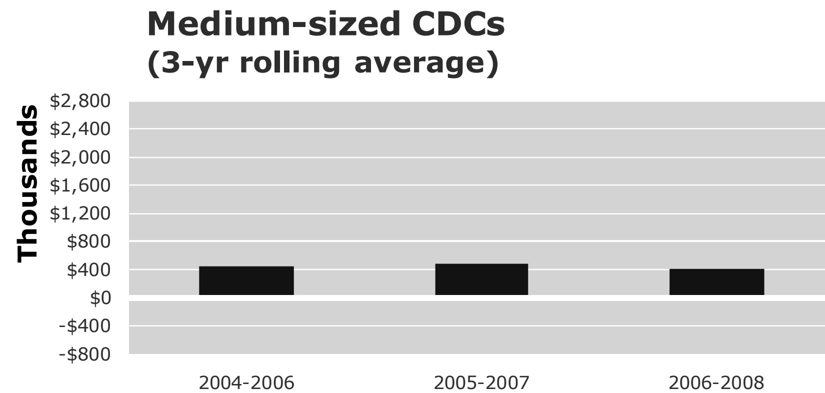
On Average, Small CDCs Have Historically Had Little Working Capital





On Average, Medium-sized CDCs Have Maintained Modest Levels of Working Capital





There Has Been a Steep Down Trend in the Working Capital Level for Large CDCs – At End of FY 2008 It Was Negative

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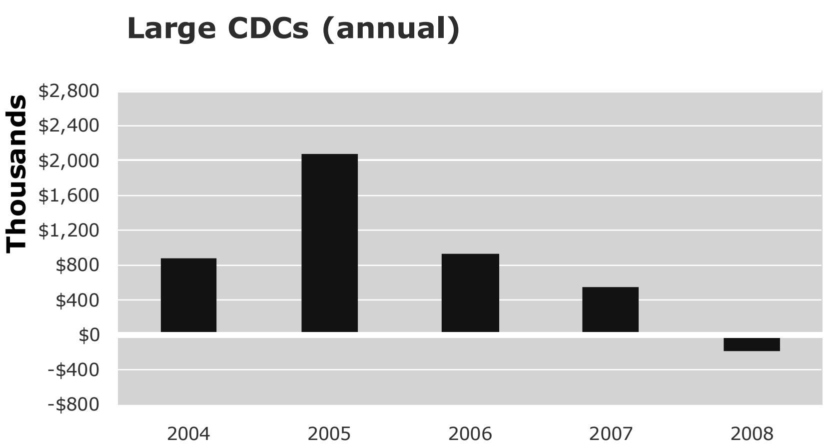
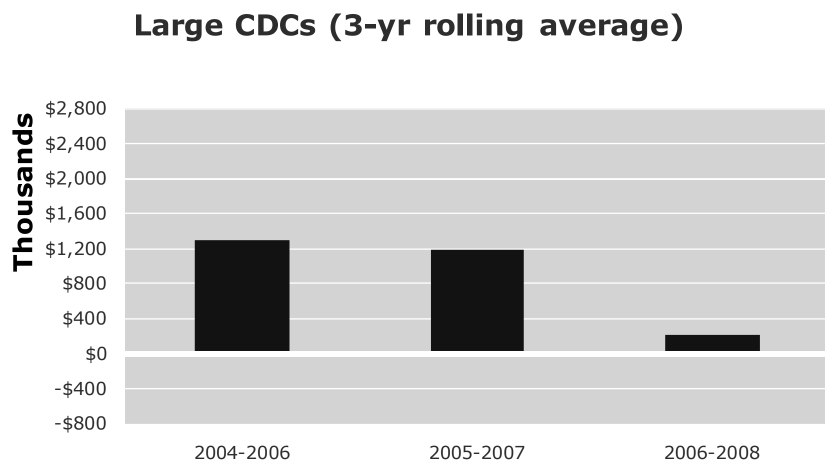
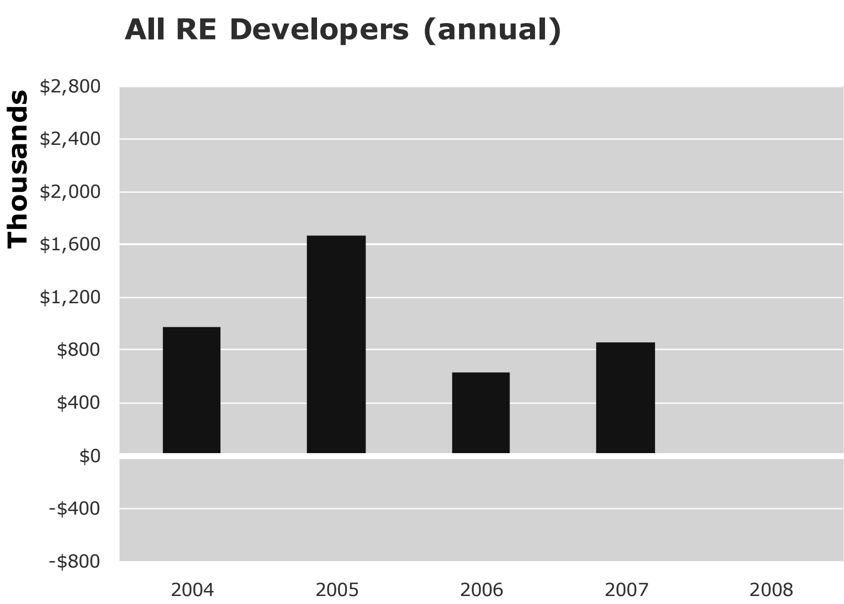
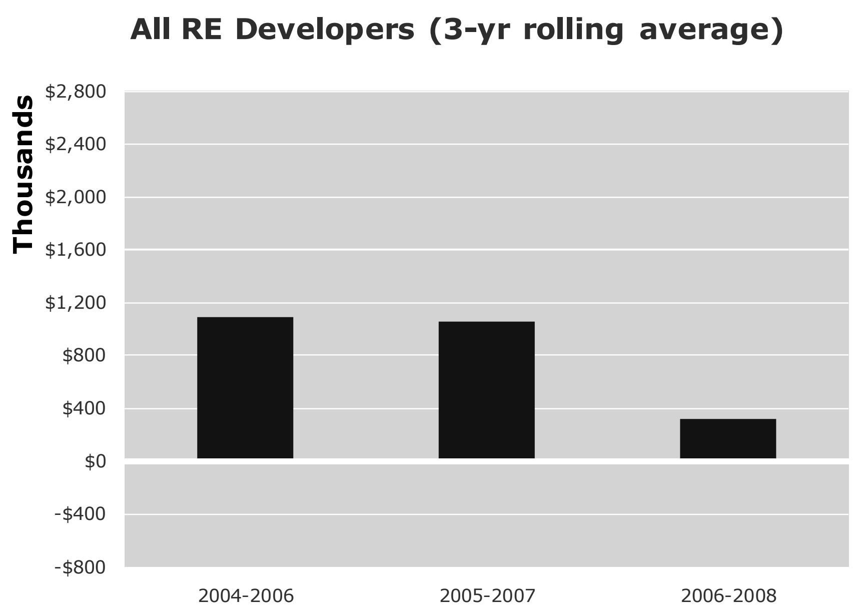


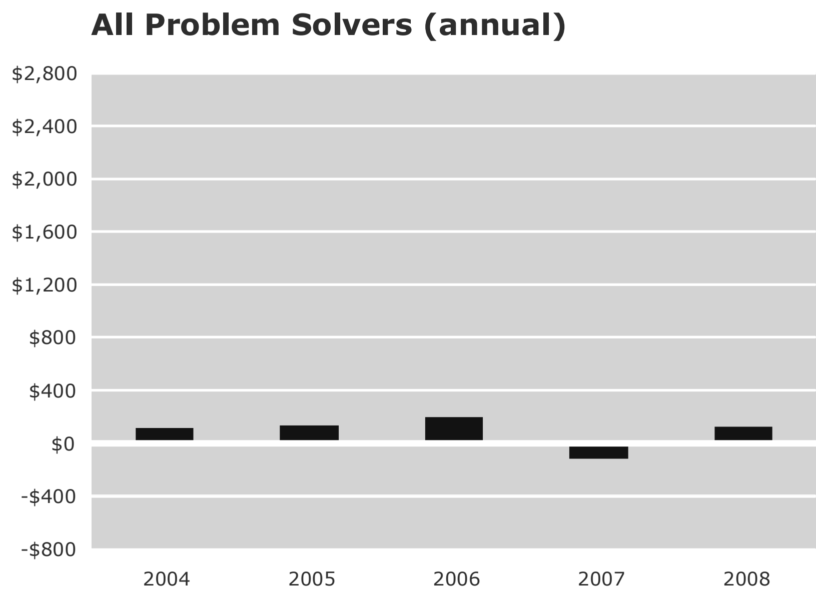


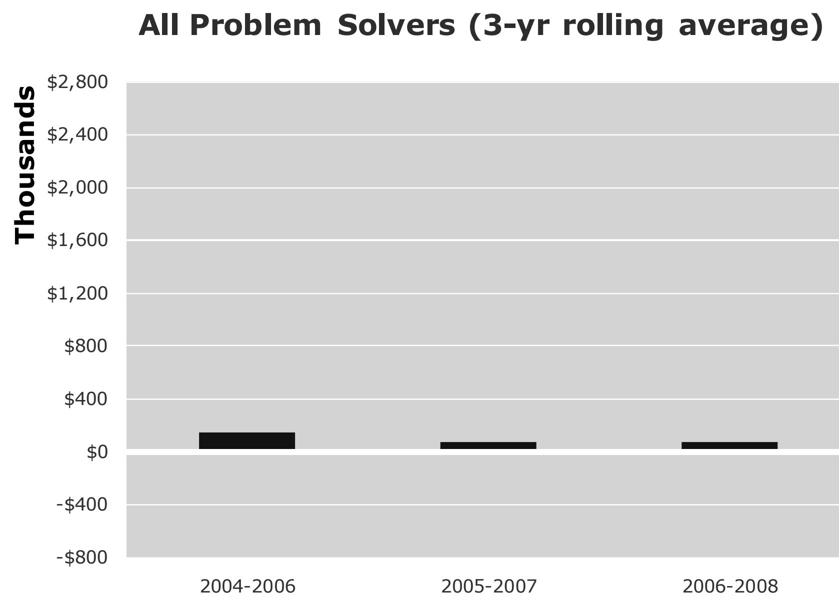
On Average, Real Estate Developer CDCs' Historically Strong, If Erratic, Working Capital Level Went to Zero in 2008





Working Capital Levels Among Problem Solver CDCs Has Historically Been Thin





The Historically Stable Working Capital Levels of Asset Manager CDCs Turned Negative in 2008

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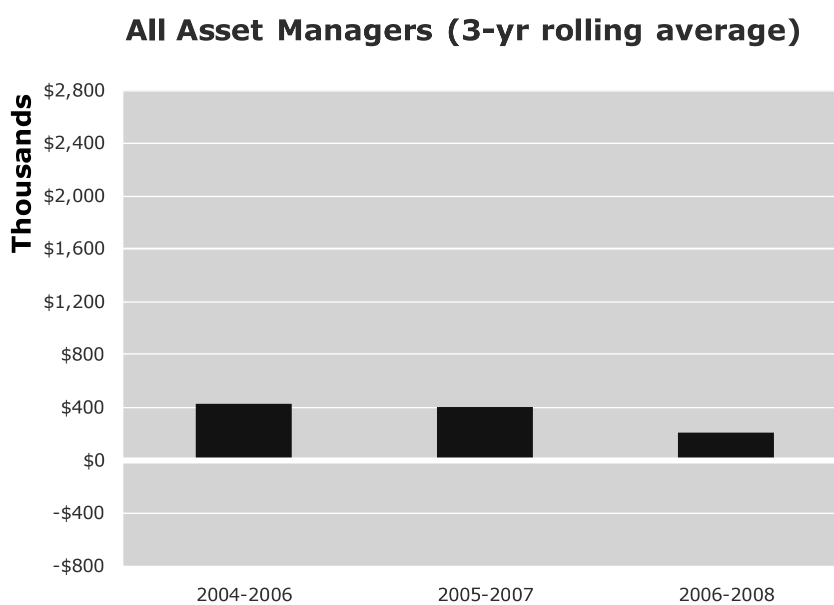
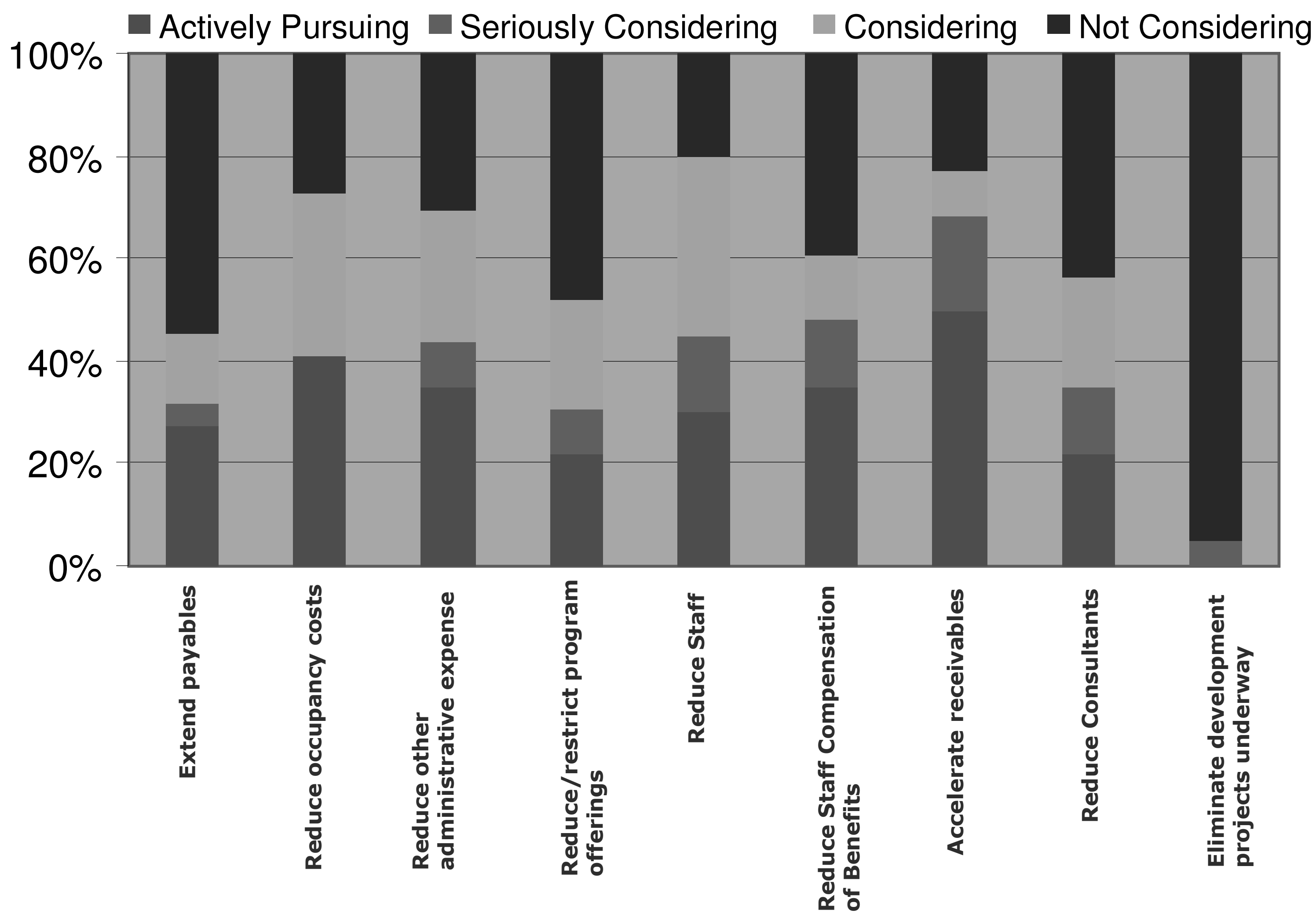


Risk Taking and Program Offerings Among CDCs are Down and Efforts to Preserve Cash are Up

Theme	Quotes
CDCs are resetting priorities	• ***"Mainly has to do with prioritizing what staff works on, given need to focus on core priorities as staff has incurred reduced work hours"*** • ***Focusing on projects and programs that pay on a current basis"*** • ***"Limit expansion into new programs"*** • ***"Stopped subsidizing one program, will put one program on hiatus"***
CDCs are cutting housing and housing services programs	• ***"We're presently looking at restricting our goals for producing very low income housing units, based on inability to secure tax credit investors with such units in projects"*** • ***"Scaling back our housing capacity and administrative staffing has been the main cutback"*** • ***"We will cease providing homebuyer training and foreclosure prevention counseling if funding does not come in to support this work"***
Several CDCs are also making cuts in other program areas	• ***"We are considering cutting back on staff time, though not stipends, on our youth programs…"*** • ***"Cutting back some community outreach and community building activities"*** • ***"We stopped providing economic development programs."***

Source:
NSA - CDC Sector
questionnaire results

CDCs are Engaging in Capacity Reductions and Operational and Financial Engineering to Preserve Cash



Source:
NSA - CDC Sector questionnaire results

CDC Anecdotal Commentary Indicates a High Priority on Cash Generation and Preservation

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Theme	Quotes
CDCs are working to increase access to credit	• ***"(Plan to secure) working capital loans against future, but fairly secure, developer fee revenues"*** • ***"We now have two lines of credit"***
Diversifying revenue base is also a favored strategy	• ***"(We are) diversifying revenue base with individual donor campaign"*** • ***We are expanding our services to other towns as a way to increase fees for service"*** • ***(We are pursuing a) joint venture with for-profit small developers to acquire and renovate more foreclosed 3 deckers"*** • ***"Always looking for new markets, new sources of funding, different ways of doing the same things only better, creation of partnerships and collaborations with a broader array of partners"***
CDCs are also making other cost reductions	• ***"We are selling several residential properties that have consistently run at a deficit"*** • ***"Hiring interns for positions formerly staffed, partnering with Brandeis to provide tenant assistance, which was formerly staffed…"*** • ***"We already secured less expensive health insurance and lower cost rent"***

Source:
NSA - CDC Sector questionnaire results

55

Business Model Considerations – Illustrative Data and Commentary

Several Factors Limit Profitability for CDC Sector Real Estate Transactions – Some Factors Are Out of CDCs' Direct Control

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Anecdotal Data Suggest That CDC Real Estate Development Profitability and the Liquidity It Could Provide are Limited By: (i) Externally Imposed Caps on Funding and Revenues and (ii) Unlimited Property Acquisition and Construction Costs

Ironically, this combination of circumstances can make CDC real estate transactions LESS profitable in rising real estate markets. In rising real estate markets; (i) property acquisition and construction costs are higher, (ii) it's harder to find projects without undertaking additional risks and (iii) more private developers are competing for projects in CDC neighborhoods. At the same time, CDCs have externally imposed restrictions that cap project revenues from sales, rentals and developer fees.

Smaller Development Transactions May Also Be Contributing to Difficulties in Building and Maintaining Liquidity Reserves in the CDC Sector

The data would seem to support commentary from other recent assessments of the CDC Sector that point to a preponderance of smaller and therefore significantly less profitable real estate development transactions.

Business Model Economies of Scale By Themselves Do Not Materially Differentiate the Financial Situations of CDCs

Economies of Scale Require Underlying Balance Sheet Strength and Liquidity in Order to Provide Financial Durability and Sustainability in Support of CDC Mission

- The data suggest that, as a group, CDCs with larger budgets and a real estate development dominant business model may have a small advantage in financial durability and sustainability, most likely attributable to economies of scale. However, most of this small advantage is indicated in measures of profitability, which can be subject to distortions as a result of varying accounting practices for real estate development fee revenue recognition.

- Measures of balance sheet strength and liquidity were not materially better for the large and or real estate dominant CDCs than for the other groups, and, in some cases, these measures were worse.

A Balance Between (i) Community Presence and Support and (ii) Building Financial Durability and Sustainability Is Key

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This Balance Is Essential for the CDC Sector to Continue to Deliver Effectively on Its Community Development Mission

- Neighborhood presence, knowledge of unique neighborhood needs and the delivery of effective programs to address those needs are the core elements of what makes CDCs such important and powerful agents of community development.

- The prevalence of the Real Estate Developer business model and its legacy effects in the other CDC business models may have dispersed the CDC Sector's market power among a large number of generally smaller, thinly capitalized CDCs at a time when market, funding and competitive trends would appear to place such a broadly dispersed model at a disadvantage.

- The data suggest that building financial durability and sustainability in the CDC Sector in a manner that preserves its community presence and support may require restructuring of this fully dispersed business model and focused support for these restructuring efforts from public and private funding sources.

Future Considerations for Further Analysis

Sector-wide Use of Consolidating Schedules and the Separation of Operating and Non-operating Activities are Recommended

- In large measure, the challenges NFF faced in getting visibility into the finances of the CDC Sector was due to the number of financial reporting format and treatment inconsistencies both between different organizations and between different years within the same organization.

- The financial reporting difference that presented perhaps the largest obstacle was the inconsistency in the use of consolidating schedules. Consolidating schedules allow for a greater level of transparency into the parent organization, particularly for CDC's that are focused on real estate development. Without consolidating schedules, this visibility is absent, and it is difficult to get a clear view of the organization on an enterprise level, i.e., as a parent entity outside of its holdings.

- Conversely, The CDC's who provided the most visibility into their true operating performance did so by separating out all extraordinary revenues and expenses in a given year as a separate portion of the Statement of Activities. As is illustrated in the example on the page 62, true operating surpluses and deficits can be masked if a nonprofit does not segregate the proper non-operating items.

Sector-wide Use of Consolidating Schedules and the Separation of Operating and Non-operating Activities is Recommended

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Given the visibility that is gained, CDCs might consider discussing the separation of non-operating and operating activities on their Statement of Activities with their auditors. This would represent the true operating performance of CDCs more visibly than GAAP requires.

Similarly, a sector-wide commitment to the use of consolidating schedules would also improve visibility.

Commingling Non-Operating and Operating Dollars Can Mask True Operating Performance

XYZ CDC
Statement of Activities
Year ended September 30, 2008

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Rental revenue	628	58	686
Other revenue and support			
Contracts	192	-	192
Grants and contributions	842	-	842
Program Fees	45	-	45
Total revenue and support	1,707	58	1,765
OPERATING EXPENSES			
Program Services	1,004	-	1,004
Supporting Services			-
Housing development	100	-	100
Housing programs	25	-	25
Education and outreach	59	-	59
Administrative	25	-	25
Development	49	-	49
Total Expenses	1,262	-	1,262
CHANGE IN NET ASSETS	445	58	503

XYZ CDC
Statement of Activities
Year ended September 30, 2008

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Rental revenue	628	58	686
Other revenue and support			
Contracts	192	-	192
Grants and contributions	93	-	93
Program Fees	45	-	45
Total revenue and support	958	58	1,016
OPERATING EXPENSES			
Program Services	1,004	-	1,004
Supporting Services			-
Housing development	100	-	100
Housing programs	25	-	25
Education and outreach	59	-	59
Administrative	25	-	25
Development	49	-	49
Total Expenses	1,262	-	1,262
OPERATING SURPLUS/DEFICIT	(304)	58	(246)
NON-OPERATING ACTIVITIES			
Forgiveness of debt	641	-	-
CHANGE IN NET ASSETS	445	58	(246)

Revenue Recognition Practices May Also Be Contributing to Reduced Visibility into True Operating Performance

- Revenue recognition practices may also be contributing to reduced visibility in the CDC Sector. This showed up in the Survey in certain of the differences we observed in our assessments of CDC Sector profitability compared to assessments of liquidity.

- For example, there appears to be both trends and absolute levels of liquidity in the large budget size and real estate development business models, in particular, that one would not necessarily expect given the trends and absolute levels of profitability in those segments. Specifically, these segments evidenced relatively solid trends and absolute levels of profitability, but their liquidity was substantially weaker.

- *Further study would be necessary to definitively determine the strength of any linkage between revenue recognition practices in these segments and this counter-intuitive phenomenon and whether other factors may also be contributing to it. However, (i) the order of magnitude of real estate development fee revenue in these segments, (ii) the GAAP-permitted accrual recognition for this fee revenue and (iii) the dislocations and delays that have occurred and continue to occur in real estate development would suggest the possibility that revenue recognition practices may have a material influence on this phenomenon.*

Improved financial Reporting Consistency and Visibility = Better Informed Management, Planning and Governance

- As a general matter, the CDC Sector should consider exceeding GAAP requirements on practices that touch importantly on the visibility into the true operating performance of the sector, such as (i) the consistent use of consolidating schedules, (ii) the separation of non-operating and operating activities and (iii) recognition of real estate development revenues.

- *Anything constructive and effective that can be done to encourage the consistent use of such practices in the CDC Sector will contribute to (i) better informed management, planning and governance in the CDC Sector and (ii) a stronger platform from which to access sources of funding at the CDC enterprise level.*

Obtaining Funding Support for Pressing Liquidity Needs Is Critically Important Challenge for the CDC Sector

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- It appears evident that the CDC Sector faces pressing liquidity needs that are critically important.
- However, it also needs to be recognized that pressing liquidity needs are pervasive in the nonprofit sector, and it seems unlikely that there will be enough funding available from private and public sources to meet all of the liquidity needs of the nonprofit sector.
- Given the importance of its mission and the magnitude of its need, the CDC Sector may be able to make a compelling case for “bridge” financing for unrestricted operating support, i.e., liquidity, to see it through these tough times.
- In order to make a truly compelling case, the CDC Sector may want to consider: (i) how to distinguish itself from other, equally needy and important nonprofit subsectors and (ii) how to demonstrate that this unrestricted funding support is truly a “bridge” to a more durable and sustainable business model.

Funding Support for Pressing Liquidity Needs May Require a Commitment to Restructuring at Both the Individual CDC and CDC Sector Levels

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In summary terms, presenting a case for "bridging" the liquidity needs of the CDC Sector to a continuation of the same business model(s) may not be viewed as a compelling enough case by private and public funders given how pervasive similar liquidity needs are throughout the nonprofit sector.

This presents an opportunity for the CDC Sector to distinguish itself for this funding by encouraging individual CDCs to undertake meaningful business model restructurings on their own or in collaboration with other CDCs or other culturally comparable organizations.

For the Funding Case, It May Help to Leverage Work on CDC Business Model Restructuring Options Currently Under Consideration

- In making its case for bridge funding for operating support., the CDC Sector may want to consider leveraging current efforts of individual CDCs to restructure their business models and the work the Forum has undertaken on researching new business model options.

- There are, of course, a range of forms these business model restructurings could take. It is NFF's hope that this Survey will help to provide some meaningful direction to the CDC Sector in identifying appropriate forms of business model restructuring and investigating their applicability.

- Providing detailed proposals for business model restructurings to potential public and private funders along with bona fide commitments to pursue them can strengthen the case for bridge funding for CDC unrestricted operating support.

One Potential Template for Consideration and Further Study is the "Aggregator" Model Other Nonprofit Sectors Have Used

- The CDC sector may be at a juncture where it may want to consider refining and adapting its fully dispersed sector business model in order to: (i) become more competitive and financially sustainable AND (ii) preserve local presence and impact in support of local control over community improvement.

- Doing both of these things simultaneously poses something of a dilemma. However, other nonprofit sectors, such as the municipal utility sector, have undertaken creative and highly successful restructurings in the face of a similar juncture in their evolutions.

- The municipal utility sector was evolving from a fully dispersed sector model and did so by transitioning to a new model that allowed for voluntary participation in the aggregation or regionalization of certain functions for economies of scale, competitiveness and financial durability, while maintaining local autonomy and control. Certainly, there are differences between the CDC sector and the municipal utility sector, and this particular form of restructuring may not, in fact, prove to be appropriate for the CDC Sector. Also, the CDC Sector would certainly want to consider other forms of potential business model restructurings. We mention this form of restructuring as one illustrative example of the kinds of things that might be considered by the CDC Sector.

Appendix 1 - Summary of Criteria and Data Utilized in the Survey

NFF Assesses Financial Durability and Sustainability in the Nonprofit Sector Through Trend Data on Three Key Criteria

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As a general matter, NFF examines five years (or more) of financial data from audited financial statements when conducting its assessments. This audit data is run through NFF's analytical software which produces a series of graphs that "tell the financial story" of the organization, cohort or sector under study.

This use of audit-driven graphs and accompanying narrative is designed to provide as much visibility and meaning as is possible into any trends that speak to the following key indicators of nonprofit financial health and sustainability:

- Profitability & Savings
- Balance Sheet Strength
- Liquidity

NFF Assesses Financial Health in the Nonprofit Sector Through Trend Data on Three Key Criteria

However, given the range of financial reporting procedures and differences in the presentation of information in the annual audits of individual CDCs in the CDC Sector, it was not feasible for NFF to conduct this assessment in our customary fashion within the scope of the Survey.

As a result, in this assessment NFF has had to rely on data that LISC has conformed from individual CDC audits rather than conducting our analyzing data directly from the audits themselves.

NFF has also had to create some proxies for some of the customary data points we would ordinarily analyze in assessing profitability and savings, balance sheet strength and liquidity. A number of these proxy data points are financial ratios (see "Limitations and Structure of the Survey" below).

Survey Conclusions are Based Extensively on Ratios Calculated from Questionnaire Data and Derived Financial Data

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It should be noted that NFF does not customarily use financial ratios to such an extensive degree in our assessments of the financial situation of individual nonprofit organizations, cohorts (groups of similar nonprofits) or entire sectors. Also, NFF is very cautious about the use of any ratios as they are subject to misinterpretation when viewed in the absence of the full range of data needed to make a valid determination of financial durability and sustainability in the nonprofit sector.

Simply stated, in NFF's experience, a focus on a single or a few isolated ratios can be materially misleading in assessing the overall financial situation of either an organization, a cohort or a sector.

We believe that the approach taken for this survey, which, of necessity, uses financial ratios and derived data rather than data directly from audits, will produce less visibility into the financial situation of the CDC Sector than NFF's customary analysis. However, we are comfortable that the multi-year trends analyzed with the proxies for the data points we would customarily use provides a useful level of visibility into the financial situation of the CDC Sector, while minimizing the possibility of the sort of misinterpretation discussed above.

Data Was Examined for Any Meaningful Trends in Profitability & Savings, Balance Sheet Strength and Liquidity

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In addition to derived historical financial data and questionnaire data, the Survey examined reported cash flow projection data for certain large CDCs to gain as much visibility and meaning as possible into any trends that speak to the three key criteria for CDC Sector financial health and sustainability.

- **Profitability & Savings:** This criterion was assessed through the evaluation of questionnaire data and any overall historical trends in the following financial data points and ratios: (i) Pre-depreciation Profitability (surplus or deficit), (ii) Post-depreciation Profitability (surplus or deficit) and (iii) Change in Unrestricted Net Assets.

- **Balance Sheet Strength:** This criterion was assessed through the evaluation of questionnaire data and any overall historical trends in the following financial ratios: (i) Debt Ratio and (ii) Debt Coverage.

- **Liquidity:** This criterion was assessed through questionnaire data, cash flow projection information provided by certain CDCs (large CDCs only) and any overall historical trends on the following data points and financial ratios: (i) Current Ratio, (ii) Days of Cash and (iii) Working Capital (Current Asset less Current Liabilities).

Appendix 2 - Limitations and Structure of the Survey

Limitation #1 – Variations in CDC Financial Reporting and Complexity

One of the fundamental strengths of the CDC Sector as articulated by MACDC is that,

"CDCs are an extraordinarily diverse set of organizations because each is adapted to the unique characteristics and opportunities of the communities they serve."

NFF concurs that this diversity is, indeed, a fundamental strength of the CDC Sector. However, we also note that certain aspects of this extraordinary diversity also presented some very real challenges in assessing the financial situation of the CDC Sector overall.

One outgrowth of the diversity in the CDC Sector is that there is a significant range in accounting procedures and in the presentation of financial data in annual audits and accounting reviews among individual CDCs.

Limitation #1 – Variations in CDC Financial Reporting and Complexity

Because of this, before any reasonably meaningful analysis of the CDC Sector could commence, LISC had to collect the historical financial audit data on individual CDCs and make a determination about the best figures to use from each audit so that individual financial data from each CDC participating in the Survey could be aggregated, analyzed and interpreted by NFF on a reasonably comparable basis.

Given the scope of the Survey, it would have been very difficult to conduct a meaningful assessment of the financial health of the CDC Sector overall without LISC deriving comparable financial data in this way.

Recognizing that this was an arduous, time-consuming and imperfect process, The Boston Foundation commissioned NSA to assist LISC in the data collection process, including the construction of a questionnaire, the collection of questionnaire data and, to the extent feasible, the collection of projected cash flow data.

Limitation #1 – Variations in CDC Financial Reporting and Complexity

As a result of these factors, it is important to note that in conducting the assessment for this report, NFF is relying principally on: (i) derived historical financial data collected and conformed as deemed appropriate by LISC and (ii) questionnaire data collected and represented by NSA.

NFF did not attempt to confirm the accuracy or completeness of these data as this was beyond the scope of our work for the Survey.

Limitation #1 – Variations in CDC Financial Reporting and Complexity

NFF would like to acknowledge the 26 CDCs that took the time and effort required to provide the primary data for this Survey in the form of their financial audit reports and/or responses to the questionnaire designed by NSA. Without the cooperation and participation of these CDCs, this Survey would not have been possible.

NFF would also like to acknowledge the outstanding work of Kristin Blum at LISC and the team from NSA in collecting and conforming all of the data upon which NFF has relied for its assessment.

Limitation #2 – Building a Representative Survey Sample

In order to ensure that observations emerging from this assessment about any trends or suggestions for further consideration are reasonable and prudent, a considerable amount of effort was devoted to: (i) identifying the pool of Massachusetts CDCs that would define the CDC Sector for the purposes of the Survey and (ii) collecting data on a sufficient number of Massachusetts CDCs from this pool to build a Survey sample that would be reasonably representative.

With the guidance of LISC, NFF identified 41 Massachusetts CDCs that together define the CDC Sector universe for the purposes of this Survey. The following page lists these 41 CDCs.

LISC considered a variety of factors in identifying the CDCs included in this CDC Sector universe. The overriding goal was to create a proxy for the Massachusetts CDC Sector that captures the diversity of size, location and business models in the State.

The Defined Universe of Massachusetts CDCs for the Survey

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- Allston Brighton CDC
- Arlington Community Trabajando
- Asian CDC
- Back of the Hill CDC
- Cascap
- Chelsea Neighborhood Developers
- Coalition for a Better Acre
- Codman Square Neighborhood Development Center
- Dorchester Bay Economic Development Center
- East Boston CDC
- ETC Developers, Inc.
- Fenway CDC
- Fields Corner CDC
- Franklin County CDC
- Housing Corporation of Arlington
- Jamaica Plain Neighborhood Development Corporation
- Just-A-Start Corporation
- Lawrence Community Works
- Lynn Investing in Neighborhood Corp.
- Madison Park Development Corporation
- Mattapan CDC
- Mission Hill Neighborhood Housing Services
- Neighborhood Development Corporation of Grove Hall
- Needham Opportunities Inc.
- Neighborhood Housing Services of South Shore
- Neighborhood of Affordable Housing, Inc.
- North Shore Housing Trust
- Nuestra CDC
- Oak Hill CDC
- Quaboag Valley CDC
- Quincy-Geneva Housing Corporation
- Salem Harbor CDC
- The Somerville Community Corporation, Inc.
- South Boston Neighborhood Development Corporation
- Southwest Boston CDC
- Twin Cities CDC
- Urban Edge Housing Corporation
- Vietnamese American Initiative for Development, Inc.
- Waltham Alliance to Create Housing, Inc.
- Watertown Community Housing, Inc.
- Women's Institute for Housing and Economic Development, Inc.

Limitation #2 – Building a Representative Study Sample: Segmenting the CDC Sector Universe by Budget Size

Once LISC defined the Mass CDC Sector in this fashion, NFF discussed with LISC the idea of an additional criterion for segmenting the sector. The intent of this further segmentation was twofold: (i) to help refine the basis for determining whether the Survey sample we were to create was reasonably representative of the CDC Sector or not and (ii) to identify a potential CDC characteristic that might be a material factor affecting the financial situation of the CDC Sector.

We determined that a first-cut segmentation by budget size (revenues) into "small" (under $1 million), "medium" ($1 million to $2 million) and "large" (over $2 million) categories would be most useful. CDC 2007 revenues as reported in their Form 990s were used to fix this segmentation. Page 84 lists the 41 CDC Sector universe, segmented by budget size.

Limitation #2 – Building a Representative Study Sample: Segmenting the CDC Sector Universe by Budget Size

This segmentation by size did, in fact, prove helpful in determining whether or not the 26 CDCs participating in the Survey constituted a representative sample.

Most notably, the proportions of small, medium and large segments in the Survey sample of 26 participating CDCs are very similar to the proportions of small, medium and large segments in the CDC Sector universe (see the graph on page 85).

Therefore, we are comfortable that the overall composition of the Survey sample on the basis of budget size (revenues) is reasonably representative of the CDC Sector universe.

CDCs in the Survey Universe, Segmented by Budget Size

Small (less than $1M)

- Arlington Community Trabajando
- Back of the Hill CDC
- Fields Corner CDC
- Housing Corporation of Arlington
- Lynn Investing in Neighborhood Corp.
- Mission Hill Neighborhood Housing Services
- Needham Opportunities Inc.
- Neighborhood Development Corporation of Grove Hall
- North Shore Housing Trust
- Oak Hill CDC
- Quaboag Valley CDC
- Quincy-Geneva Housing Corporation
- Salem Harbor CDC
- South Boston Neighborhood Development Corporation
- Southwest Boston CDC
- Twin Cities CDC
- Vietnamese American Initiative for Development, Inc.
- Waltham Alliance to Create Housing, Inc.
- Watertown Community Housing, Inc.

Medium ($1M-$2M)

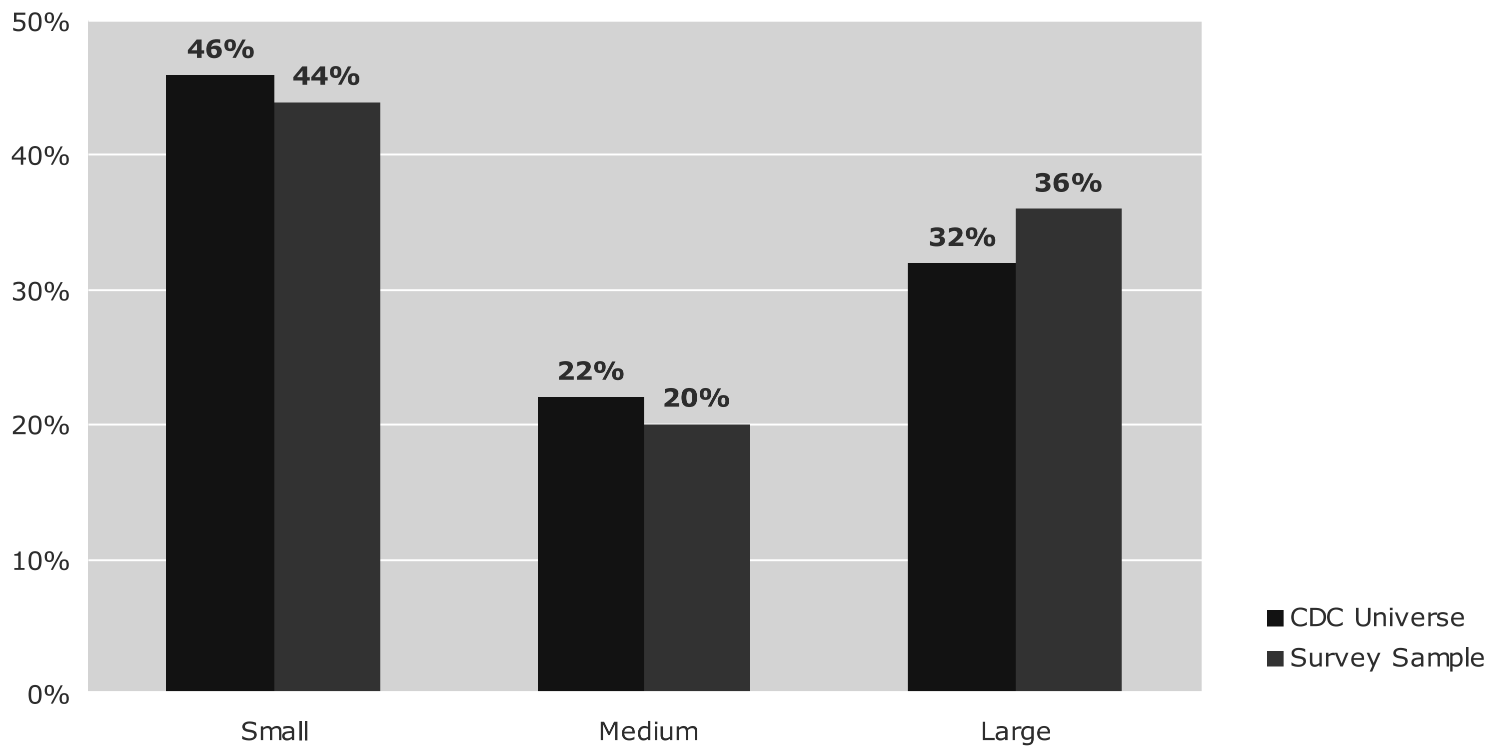
- Allston Brighton CDC
- Asian CDC
- Chelsea Neighborhood Developers
- Fenway CDC
- Franklin County CDC
- Mattapan CDC
- Neighborhood Housing Services of South Shore
- Neighborhood of Affordable Housing, Inc.
- Women's Institute for Housing and Economic Development, Inc.

Large (more than $2M)

- Cascap
- Coalition for a Better Acre
- Codman Square Neigborhood Development Center
- Dorchester Bay Economic Development Center
- East Boston CDC
- ETC Developers, Inc.
- Jamaica Plain Neighborhood Development Corporation
- Just-A-Start Corporation
- Lawrence Community Works
- Madison Park Development Corporation
- Nuestra CDC
- The Somerville Community Corporation, Inc.
- Urban Edge Housing Corporation

The Survey Sample by Budget Size is Reasonably Representative of the CDC Sector Universe

Distribution of CDC's by Budget Size



Limitation #2 – Building a Representative Study Sample: Use of a "Prudent Person" 50% Data Collection Threshold

In working with LISC and NSA to build a representative sample, NFF used a "prudent person" rationale in setting data collection thresholds for the Survey sample that met or exceeded 50% of the CDC Sector universe.

This same 50% threshold for the Survey sample was applied to the small, medium and large segments, as well.

We further sought to achieve this 50% threshold for each of the historical, projected and questionnaire data categories that NSA and LISC collected.

Some Meaningful Survey Conclusions May be Drawn from Historical and Questionnaire Data

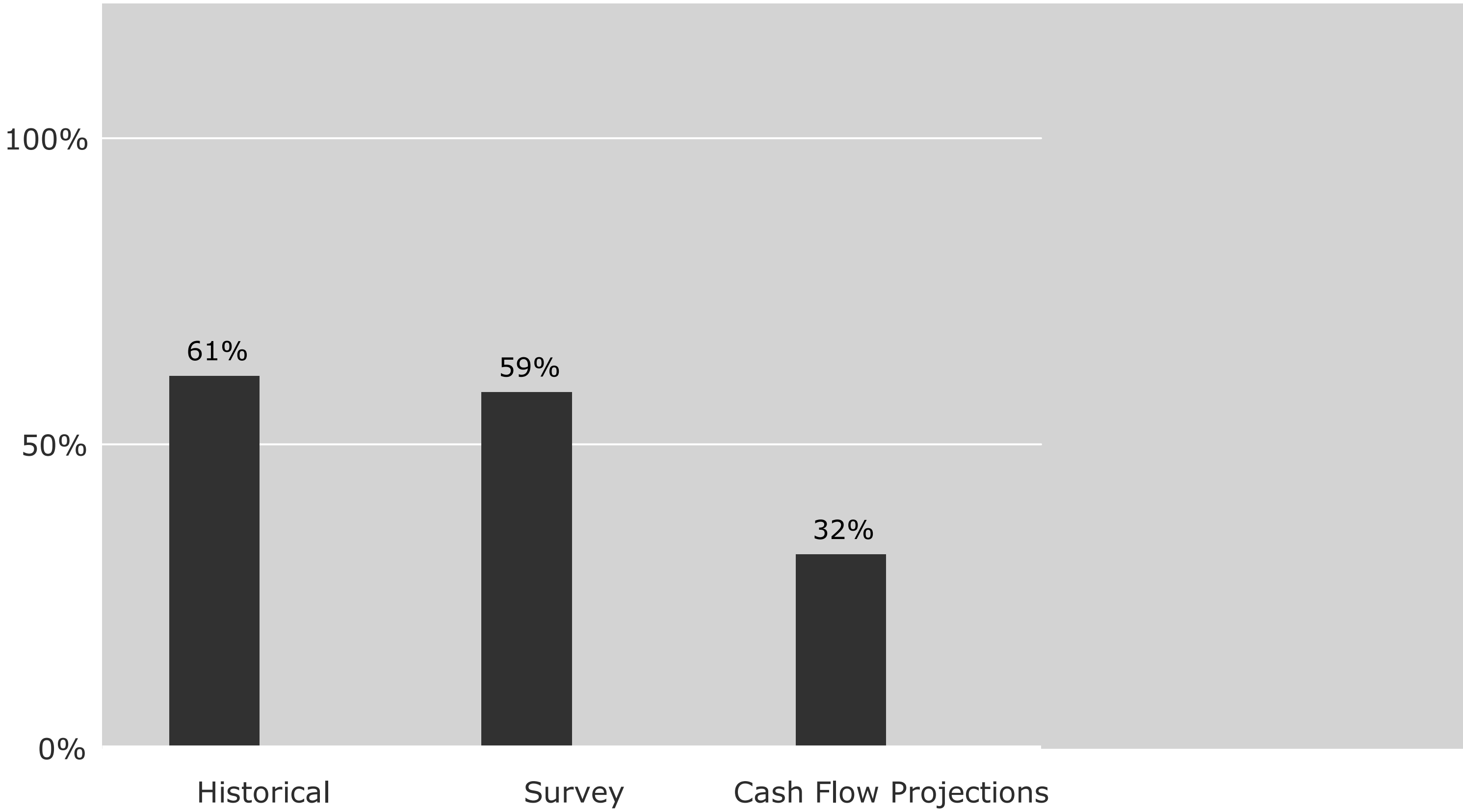
A total of 26 CDCs participated in the Survey with the promise that the financial data of the individual CDCs participating would not be identified. As can be seen from the graphs on the pages 88 and 89, CDC participation and response rates were generally at or above the 50% threshold.

All 26 participating CDCs did not provide data in all three data categories NFF analyzes in the Survey: (i) historical, (ii) questionnaire and (iii) projected. However, NFF is comfortable that meaningful conclusions, such as they may exist, will be able be made about aspects of the financial situation of the CDC Sector on the following basis:

- Historical and questionnaire data for the CDC Sector overall
- Historical and questionnaire data for the small, medium and large segments

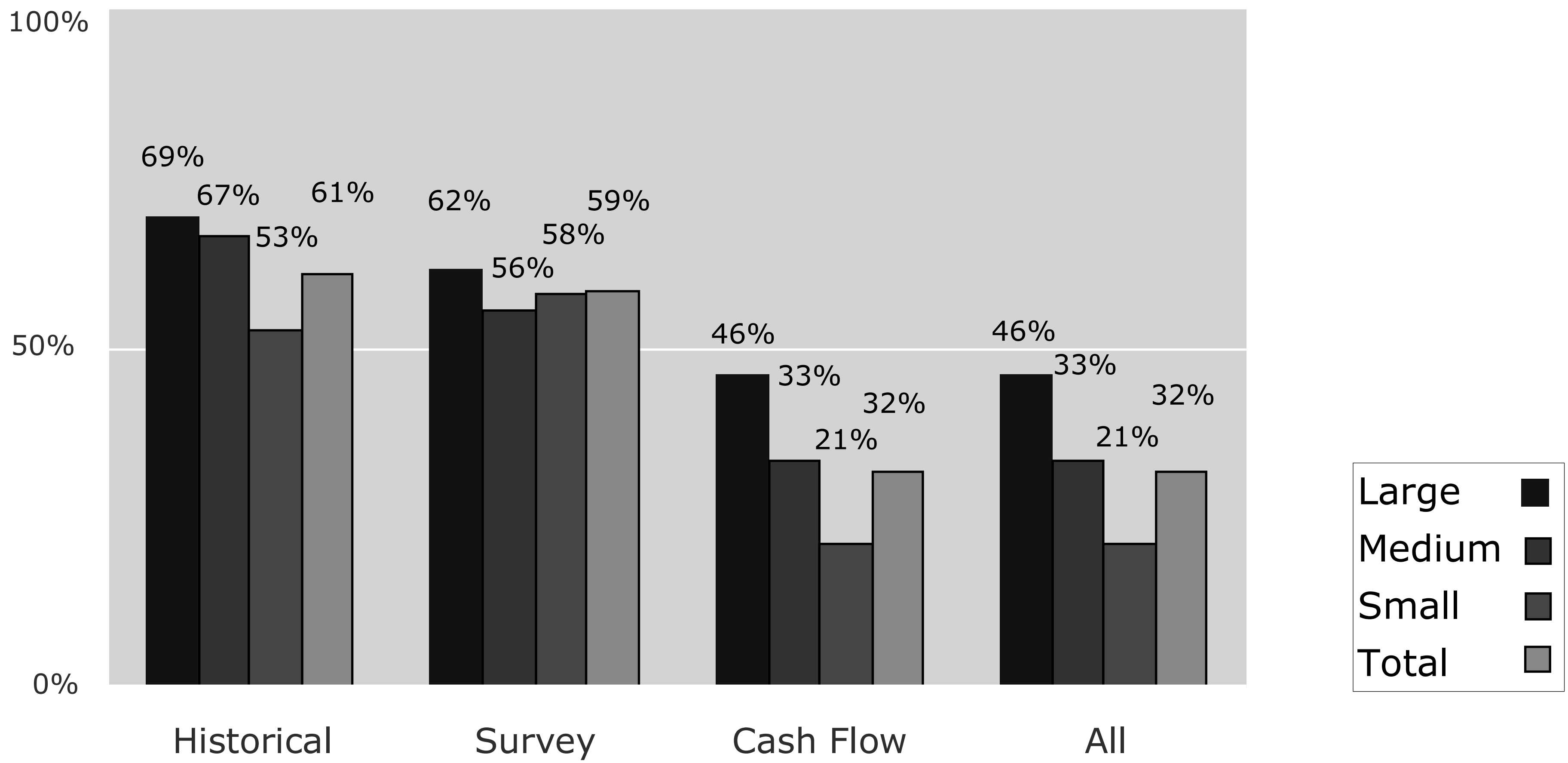
Meaningful Survey Conclusions May be Drawn from Historical and Questionnaire Data

Aggregate Response Rate Against "Universe" of 41 CDCs



Meaningful Survey Conclusions Can be Drawn for All Revenue Segments from Historical and Questionnaire Data

Response Rate by Revenue Size (Sm <$1M, Med $1M to $2M, Lge >$2M)



Limitation #3 – Identifying CDC Characteristics with the Potential to Have a Material Impact on the CDC Sector Financial Situation

Although the segmentation by size did provide help in determining whether or not we had a representative sample, we weren't confident that budget size would prove to be the dominant or sole influence on the financial situation of the CDC Sector.

NFF, LISC and MACDC all thought that a second segmentation by business model might be helpful to: (i) add greater visibility into what CDC characteristics influence the financial situation of the CDC Sector and (ii) to test some long-standing industry assumptions about the effectiveness of certain CDC business models.

Three Dominant CDC Business Models Were Identified - Real Estate Development, Problem Solving & Asset Management

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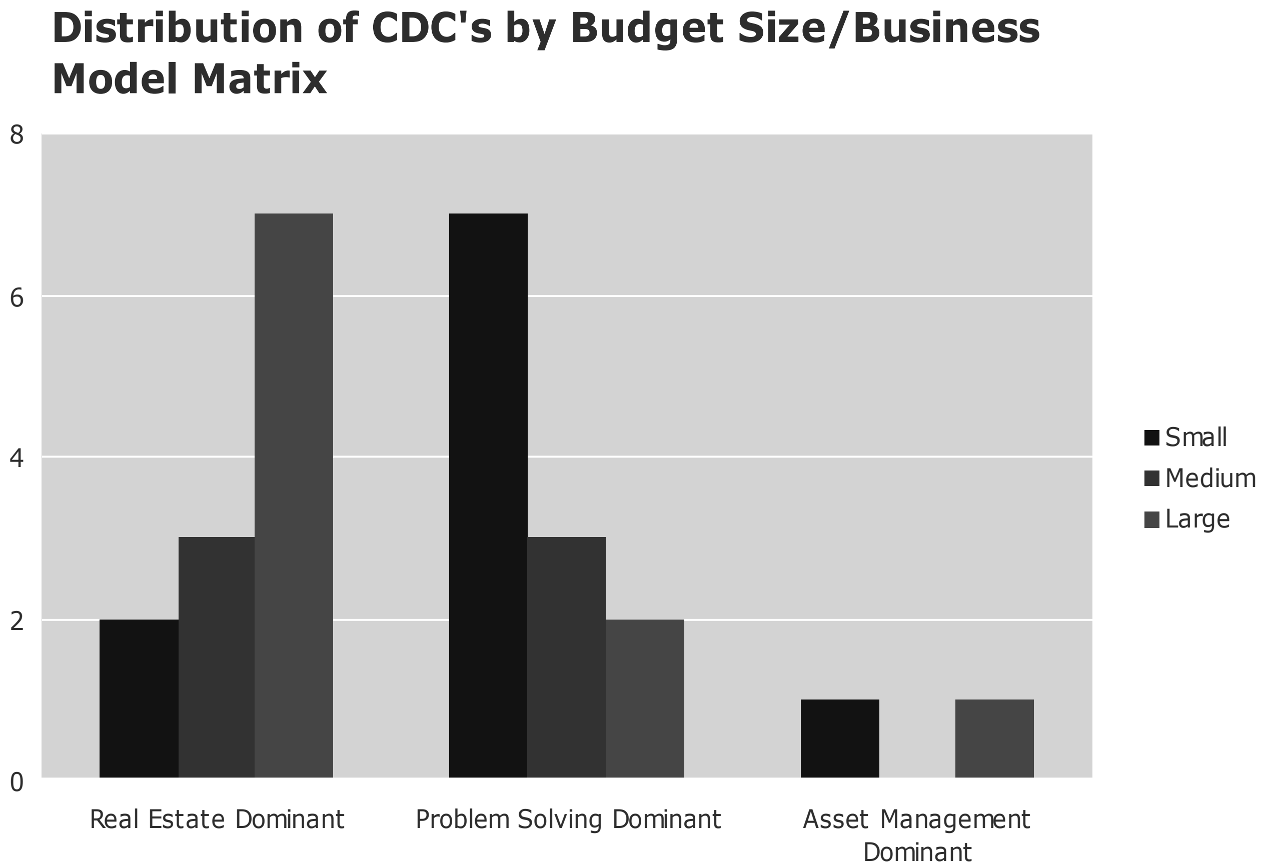
LISC and MACDC provided NFF with what they felt were the three representative business models in the CDC Sector and identified the business model they felt best characterized each of the CDCs participating in the Survey.

- **Business Model 1 –** Real Estate Development Dominant
- **Business Model 2 –** Problem Solving Dominant
- **Business Model 3** – Asset Management Dominant

Finally, all 26 participating CDCs we segmented based on a matrix combining budget size and business model, e.g., medium asset manager, small real estate developer, large problem solver, etc. in order to test if the combination of budget size and business model was an even more robust indicator of financial health

Based on Sample Size, Real Estate Development and Problems Solving Business Models Are the Principal Focus of the Survey



Structure of the Survey – Historical Audit Data

NFF examined five years of historical derived data provided by LISC for audit years 2004 to 2008. This data was analyzed to identify any meaningful trends in profitability and savings, balance sheet strength and liquidity in: (i) the CDC Sector overall, (ii) the CDC Sector segmented by budget size, (iii) the CDC Sector segmented by business model and (iv) the CDC Sector segmented by the budget size/business model matrix.

Sets of graphs for each data point and financial ratio we examined were run for (i) each year on a stand-alone basis in order to identify any year-to-year trends over the five-year period and (ii) on a three-year rolling average to see if any different trends might emerge when year-to-year variations were smoothed out.

Although they are not discussed in the Survey, analytical runs were done for each of the 26 CDCs participating in the Survey and can be provided to CDCs upon request.

Structure of the Survey – Questionnaire Data

NSA designed and collected questionnaire data and represented the collected data in a series of graphs and charts. NFF selected those charts and graphs produced by NSA that addressed NFF's three key criteria for assessing the financial durability and sustainability of nonprofit organizations. NFF has also added it's analytical commentary to NSA's graphs and charts.

A small number of CDCs provided cash flow projection data for the Survey. The only Survey sample component for which cash flow projection data came close to the 50% response rate hurdle was for the 'Large Budget" segment.

Although we attempted to draw some meaningful findings and observations from these cash flow projections, substantial variations in the manner in which data was collected for them as well as in the manner they were prepared did not permit us to do so.

Appendix 3 – Glossary of Financial Data Points and Ratios Used in the Survey

Appendix 3 - Glossary of Financial Data Points and Ratios Used in the Survey

Profitability

- **Pre-Depreciation Profitability Margin**

  [((Change in Unrestricted Net Assets)+(Depreciation Expense))/Revenue]

  Defined: The surplus/deficit during a given period of time and its relation to the revenue during that period of time – calculated before depreciation expense. Can be read as "surpluses are X% of revenue."

- **Post-Depreciation Profitability Margin**

  [(Change in Unrestricted Net Assets)/Revenue]
  Defined: The surplus/deficit during a given period of time and its relation to the revenue during that period of time – calculated after depreciation expense.

- **Change in Unrestricted Net Assets**

  [Unrestricted Revenue – Expense]

  Defined: An overall representation of an unrestricted "bottom line," or the surplus/deficit which is free and clear from restrictions.

Glossary of Financial Data Points and Ratios Used in the Survey

Balance Sheet Strength

- **Debt Ratio**

  [Total Liabilities/Total Assets]

  Defined: Helps determine an organization's level of risk by describing how much of its assets are matched by its liabilities. If the debt ratio is less than one, it means that for every $1 in liabilities, there is more than $1 in assets.

- **Debt Coverage (also known as Cash Flow to Total Debt)**

  [(Change in Unrestricted Net Assets)/Total Liabilities]

  Defined: Describes "how much cash is received in a year and is available to satisfy the liabilities (short-term and long-term) on record."

Glossary of Financial Data Points and Ratios Used in the Survey

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Liquidity

- **Days Cash**
  [(End of Year Cash/Pre-depreciation Expense)*365]
  Defined: "The number of days of average size cash disbursements the organization can withstand without any cash inflow."

- **Working Capital**
  [Current Assets-Current Liabilities]
  Defined: "Describes the amount of short-term liquidity an organization has at its disposal, i.e., how much cash and near cash it has on hand or has ready access to in order to meet its obligations when they come due."

- **Current Ratio**
  [Current Assets/Current Liabilities]
  Defined: "Matches short-term assets of an organization with the liabilities that it expects to face during the same period."

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To learn more about NFF,
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"Changes in real estate markets, public policy, private investment, philanthropy, the non-profit sector, generational leadership and other areas are forcing a major rethinking of the community development field and how it needs to evolve to meet the challenges and opportunities of today and the future."

–MACDC, 2008