

A CASE STUDY OF A CAREFULLY PACED AND PLANNED ORGANIZATIONAL MERGER

SATELLITE AFFORDABLE HOUSING ASSOCIATES

By My B. Trinh



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INTRODUCTION

Crisis frequently instigates merger discussions, forcing them to be conducted with few resources and a demoralized staff at one or more organizations. The parties to a merger are seldom equals. Frequently, one leader must relinquish control of the ship's helm. In all of these respects, the merger of Satellite Housing (Satellite) and Affordable Housing Associates (AHA), both based in Berkeley, Calif., to form Satellite Affordable Housing Associates (SAHA) presents a refreshing departure and important lessons for affordable housing and community development entities considering a merger.

Satellite was founded in 1966 with a mission to provide affordable, service-enriched housing that promotes healthy and dignified living for people with limited options. Over the past 46 years, the organization grew to include 28 communities with 1,700 units, serving approximately 1,800 low-income residents and employing more than 120 staff. A significantly younger organization, AHA was founded in 1993 to create and preserve high-quality affordable housing communities that strengthen individuals, families and neighborhoods. Over the past 20 years, AHA grew to a portfolio of 28 properties with 900 units, serving 1,400 residents with a staff of 50 employees.

As they began their merger exploration, both organizations had strong financial positions and a significant development pipeline, despite a challenging external environment for real estate development.

The effects of mergers can last long after they are complete. This paper focuses on merger conception to completion and early integration activities. For the purposes of this discussion, we define merger as the coming together of two organizations to assume a single identity. A brief discussion of the legal affiliation is described in the pre-merger integration section on page 12.



MERGER EXPLORATION: NOVEMBER 2011-JULY 2012

Located just a few blocks from each other in Berkeley, Calif., Satellite Housing and Affordable Housing Associates had considered the idea of partnering in various ways, but had no real impetus for a merger until Satellite's executive director left the organization for another opportunity in early 2012. During the leadership transition, Susan Friedland, executive director of AHA, emerged as a strong candidate for Satellite's executive director. This process, coupled with the impending external challenges that both organizations observed, led both Satellite's and AHA's boards to consider a merger in earnest.



While the real estate market had partially recovered from its crisis in 2008, federal programs for affordable housing had either been cut significantly or completely defunded. Meanwhile, state housing bond funds had been exhausted, and California's redevelopment agencies had been eliminated. Along with the redevelopment agencies, an estimated \$1 billion in annual local funding specifically for housing for low- and moderate-income residents vanished.¹ It was a daunting funding environment, no matter how strong the organization. In the year before its executive director's departure, Satellite was approached by another organization interested in merging. After much deliberation, the board decided against it, but not before spending time carefully analyzing and discussing the opportunity. When Friedland became a candidate for AHA's executive director, both organizations saw opportunities to strengthen their impact and long-term viability by joining forces.



¹Alexandra Zavis and Jessica Garrison, "Door slams on housing for poor; Loss of state and federal funding halts projects to build affordable units," *Los Angeles Times*, August 13, 2012, AA1.

The following chart illustrates the opportunities presented by the merger.

Opportunity	Factors	Analysis
Improving financial strength	Strong balance sheet	Both organizations were financially healthy. Combined, they had a strong balance sheet, 170 staff members and 2,700 units of affordable housing in 56 well-performing properties. Their collective strength and scale would provide a high comfort level to potential lenders and investors interested in supporting their development projects.
	Programmatic expansion and diversification	While AHA relied on development for its revenue, Satellite leaned on its property management operations. Satellite had a robust in-house resident services department and AHA had strong relationships with third-party service providers. Merging would create an entity with diverse programs, a robust portfolio and the potential to generate greater financial stability. Within overlapping territories, the two organizations served different demographic populations, one primarily with the support of Low-Income Housing Tax Credits (LIHTC) and the other mainly with HUD financing.
	Cost savings and purchasing power	Merging had the potential to eliminate common costs and give the newly merged entity negotiating leverage when purchasing products for a much larger portfolio. The two organizations expected a savings of over \$500,000 annually after merging.
Increasing impact	Political voice	Combined, the new entity would become a larger, more diversified organization with the potential for commensurate influence. Satellite and AHA board members predicted that the merger would strengthen advocacy work and produce a more effective political voice, especially in the effort to shape statewide and regional affordable housing policy and a new housing-delivery model for the future.
	Cross-departmental collaboration	While preserving the well-aligned cultures of the two organizations, the merger would integrate their programs, creating the opportunity for cross-functional collaborations that may better serve the community.
	Scale	Full-time positions that may not have been cost effective at either organization, like an asset manager, could become cost-effective with the new entity's combined scale.
	Systems and infrastructure improvement	Combining the two organizations would expose both to the systems of each – along with their strengths and weaknesses, allowing the new entity to choose the best system or create a third.
	Ability to secure financing	Based on combined financial strength and expertise with multiple funding sources, the new entity would have a greater ability to secure competitive financing for new development across a broader array of funding programs.
Moving the organization to the next level	Staff Development	Merging would prompt a review of staff positions and provide opportunities for staff development and leadership as merger activities intensified.
	Board Development	In merging the two boards and retaining all of their members, Satellite and AHA hoped to leverage the strengths and experience of both boards.

Even at the exploration stage, two things had become clear: 1) if the merger were to move forward, Susan Friedland would become the executive director of the merged organization; and 2) the merger would be conducted as a merger of equals, rather than an acquisition by one organization of the other.

The merger presented considerable opportunities along with a logistical challenge: Who would negotiate on behalf of Satellite? Dori Kojima, interim executive director of Satellite, resolved this issue by providing the necessary leadership. A long-time Satellite employee of Satellite, Kojima was well respected and deeply committed to the merger process. She worked tirelessly to manage many aspects of the merger. Although Kojima had previously made plans to leave Satellite prior to the merger, she delayed those plans to ensure an orderly transition.

FEASIBILITY ANALYSIS

In December 2011, each board voted to undertake a partnership exploration effort and formed a joint Partnership Steering Committee. Based on the recommendation of a merger consultant from La Piana who would facilitate the committee meetings, four members of each board were appointed to the Partnership Steering Committee, along with the executive director of each organization. The Partnership Steering Committee met biweekly over six months to evaluate the feasibility of the merger, and ultimately make the recommendation to their respective boards to affiliate.

The decision to affiliate was by no means a foregone conclusion. Some board members brought a healthy skepticism to the process because much was at stake. Satellite and AHA were successful organizations, each with its unique history, brand and culture to which board members held strong allegiances. Each entity observed differences in the other organization, and feared the changes that a merger would bring.

As the Partnership Steering Committee's meetings began, one organization tended to sit opposite the other. Issues such as how many board members from each organization would become a part of SAHA's board seemed contentious. However, each time it became clear that an issue had reached an impasse, the facilitator would table the issue to tackle a less contentious one. These early wins served to build trust across the table. The issue that was delayed was often quickly revisited and resolved to mutual satisfaction. As the meetings continued, the perception of differences diminished; members began to intermingle their seating, and issues that seemed contentious at first were negotiated far more collaboratively.

KEYS TO THIS PROCESS

Familiarity. As the board members got to know each other, what they perceived to be differences in the two organizations shrank, as did their fears about the future operation and identity of a merged organization. Meeting bimonthly was intense for board members. However, they could not have achieved the same level of familiarity by trying to negotiate all the issues in one day. According to one board member, it took five to six meetings before committee members began to relate to one another in a more collaborative fashion.

Early wins. The ability to reach agreement on less contentious matters in each meeting built trust, and paved the way for agreement on more divisive issues. In this case, the role of the merger consultant was important in allowing members to discuss critical issues, while ending those discussions when it was clear that the issue needed to be revisited later in the meeting. It was also important to ensure that the task list for each meeting always included a matter of agreement. Early wins included decisions around SAHA's mission and name. Governance structures took more time to resolve, but ultimately grew less contentious.

Highly committed board members. Making the decision to merge places a unique responsibility on board members. Compared to approving an audit or even hiring an executive director, deciding to merge is game-changing for an organization, and the pressure to make the right decision forces board members to engage intensively in due diligence.

QUALITATIVE FACTORS CONSIDERED

Cultural fit and compatible missions. Satellite and AHA share similar organizational cultures, mission, and similar values.

External validation and support from other stakeholders. Funders, partners and investors responded positively to the prospective merger.

Complementary organizational strengths. Both organizations came to the table with financial strength, but different core capacities. AHA and Satellite relied on development and property management, respectively, as primary revenue sources. Both organizations provided resident services for different populations. Combined, they would have greater strength in multiple business lines.

Low-risk of internal competition. Organizations often expect to realize an advantage in market share when they merge, but find that their products are sufficiently similar as to cannibalize this growth. Because Satellite's and AHA's business lines are sufficiently differentiated, the risk of internal competition was low.

Clarity on leadership. The executive director of the merged organization was clear from the beginning.

QUANTITATIVE FACTORS

Financial Underwriting

“Both AHA and Satellite bring a solid balance sheet and a history of sound operations to this merger. From an investor perspective, this merger blends two strong organizations, resulting in a new, even stronger organization that offers a very healthy cash balance, smooth cash flow and an opportunity to realize economies of scale. As a merged organization, SAHA would have both development and property management as its core strengths.”

– *Enterprise Community Investment*

Portfolio Risk Assessment

“Both Satellite Housing and Affordable Housing Associates have financially sound properties and portfolios. Both portfolios provide ample evidence of the ability of the parent organization to manage, negotiate funding and renovate affordable housing properties. The geographic footprint of the two organizations is very compatible. Both portfolios contain numerous properties in Berkeley and Oakland. A merger would create more easily managed clusters of properties in Southern Alameda County and Eastern Contra Costa County.”

– *Cathy Craig*
Asset Management Consultant

QUANTITATIVE FACTORS CONSIDERED

- An underwriting assessment of the combined organization, based on investor underwriting criteria prepared by Enterprise Community Investment (see Appendix page 20)
- A legal analysis recommending a corporate structure
- A portfolio analysis detailing the risks and rewards of each property based on three years of audited financial statements
- A development pipeline analysis examining the risks and rewards to SAHA of properties in development, based on percentage of completion compared to contingency
- A three-year budget projection of the merged vs. separate organizations with review of assumptions by one member of each organization’s finance committee

The analyses successfully convinced the merger steering committees that a merger into SAHA was feasible. Six months after the boards agreed to explore a partnership, they each met and voted unanimously to sign an affiliation agreement with the other organization, officially kicking off the merger process.

COSTS

The expected operating income and costs on a cash basis for three fiscal years starting in 2011 are shown in the chart below.

	FY 2011 – 2012		FY 2012 - 2013		FY 2013 – 2014	
Satellite and AHA combined						
Income	5,846,654		7,239,092		7,353,378	
Expense	5,031,797		5,341,207		5,399,497	
Net Income (Cash basis)	814,857		1,897,885		1,953,881	
SAHA						
Income	5,851,804	0%	7,179,380	-1%	7,315,833	-1%
Expense	4,646,593	-8%	4,731,569	-11%	4,895,208	-9%
Net Income (Cash basis)	1,205,211	48%	2,447,811	29%	2,420,625	24%

The percentages above indicate the variance as compared to the sum of Satellite and AHA numbers. For example, for FY2012 through FY2013, SAHA is projected to earn 1 percent less income than the two organizations each would have earned separately. Merger costs are not included in the calculation. Satellite and AHA expect to save well over half a million dollars in expenses annually as a merged entity.

Cost savings arise from staff salaries. SAHA has only one executive director, and one director for each department instead of two. Some of those costs savings, however, were offset by SAHA's decision to match the higher salary of positions at the same level. SAHA's budget also recognizes costs savings from insurance and audit expenses.

Consultants – who conducted due diligence, project managed the lender consent process for properties, provided change management training and carried out other specialized services – represented the largest cost center of the merger.

As of November 2013, merger costs were projected to be \$445,000. Here is the approximate breakdown of those costs:

Consultants	175,000
Personnel/Admin/Overhead*	125,000
Website and Materials	45,000
Legal	45,000
Systems/IT	25,000
Celebrations	20,000
Office related/move	10,000
Total	445,000

*Includes staff time, severance and temps

PRE-MERGER INTEGRATION: JULY 10, 2012-DECEMBER 31, 2012

In their affiliation agreement, Satellite and AHA committed to merging by January 1, 2013. With the merger effort officially underway, Satellite and AHA created a daunting task list to be completed during the six months prior to the merge. Friedland and Kojima learned early on that each aspect of integration required many small tasks and each one could quickly snowball.

CHANGING LEGAL DOCUMENTS

Based on the recommendation of legal counsel, AHA changed its name to Satellite Affordable Housing Associates, and Satellite changed its name to Satellite Affordable Housing Associates Property Management. Both organizations remained intact, and each altered its bylaws to reflect its new roles. The two organizations became affiliates with a shared board that combined all the members of the previous Satellite and AHA boards. Legal documents for each organization’s properties were altered to reflect the transfer of guarantees to SAHA. In some instances, the general partners also changed. An experienced consultant, who had worked with many of the same lenders and investors to obtain consent in his past roles, oversaw the procurement of lender consents.

The chart below shows the organizational changes that resulted in the merger. All the entities in parentheses have been renamed. For example, AHA was renamed Satellite Affordable Housing Associates, Inc.



INTERNAL POLICIES

Multiple sets of policies and systems required integration in order for SAHA to function as one organization on January 1, 2013. The most critical were: personnel manual, employee benefits and internal controls. Less critical, and completed shortly after the official merger date, were: property management policies and procedures as well as resident services policies.

Satellite and AHA set up committees to address each of these issues. Many new decisions were being made on a weekly (sometimes daily) basis. Friedland and Kojima needed to determine and clearly communicate who would make what decisions and who would perform which tasks. The impossibility of attending to all merger decisions required Friedland and Kojima to delegate.

In part, the solution entailed creating merger committees made up of senior staff. A committee consisting of all the directors worked on the personnel manual and employee benefits as well as SAHA's mission and values. The personnel manual was also reviewed by an attorney. The accounting committee, with the help of consultants, addressed internal controls and accounting policies. The property management committee started joint property management policies and procedures. These committees were responsible for a plethora of decisions – from deciding on the right form for a certain task to choosing uniforms for the maintenance staff. By examining both organizations' best practices, SAHA created new systems that were better than the sum of their parts.

The integration of resident services was not delegated to a merger committee. Instead, AHA's director of resident services assumed responsibility for resident services for both organizations soon after the two organizations agreed to merge. Satellite had performed resident services in-house while AHA had coordinated its resident services through third-party providers. Under the leadership of SAHA's director of resident services, both structures are being maintained.

By the end of November 2012, Satellite and AHA had launched the mission and values of SAHA, presented the benefits and main policies to staff, and introduced each department's director team.

STAFF CHANGES AND SOCIAL/CULTURAL INTEGRATION

Satellite and AHA began work on a staff list for SAHA even before the boards agreed to affiliate. Satellite and AHA were both short-staffed in accounting, and saw the opportunity to create an asset management position that had not previously existed at either organization. Satellite and AHA relied on a social committee to organize events



such as bowling and a picnic for staff to get to know one another. Site staff formed lunch groups by geographic location. In November, Satellite and AHA hosted their first joint all-staff meeting, and engaged in several team-building activities.

BOARD INTEGRATION

As part of their affiliation, Satellite's and AHA's boards agreed to meet on a monthly basis through the end of the merger, and to continue meeting through SAHA's first year. They formed an executive committee with a president and treasurer appointed by Satellite, and a vice chair and secretary appointed by AHA. They began meeting with a board consultant in September 2012 to put together SAHA's board governance structure and determine the board's committees, protocol and roles and responsibilities. The key task was to create a board handbook based on best practices. The full boards held their first joint meeting in December 2012.

The process of merging and creating a larger, more impactful organization engaged the boards of both Satellite and AHA in a new way, refocusing them on creative strategic thinking, strengthening board involvement and recommitting members to the mission-based work.

OFFICE MOVE

While SAHA is not currently under one roof, it did reorganize to concentrate administrative functions in one of the offices, and program functions in the other. Eventually, SAHA will seek a single office space for its entire staff.

PUBLIC RELATIONS

Friedland led a committee to take on the important task of public relations for the merger. Public relations included media around the merger as well as creating a website, new logo and promotional items to market the new organization. Much of this activity needed to be completed and ready for the merged organization by day one: logos, business cards, letterhead, etc.

KEYS TO SUCCESS

The many factors that led to a successful merger will continue to become evident. The factors mentioned earlier in the Feasibility Analysis section were critical. But as the merger moved forward, three factors took center stage:

- Clear and frequent communication
- Commitment to bringing on necessary staff and consultants to handle existing and additional workload
- Clear objectives and goals

COMMUNICATION

Strong communication is central to any organization, but even more critical as an organization undergoes major changes. While keeping staff members informed of the merger's progress, Friedland and Kojima also had to maintain an environment in which staff members could raise challenging issues that were critical to the merger's success. For Satellite and AHA, keeping all 170 staff members sufficiently informed throughout the merger process was no small feat.

“You can't over-communicate,” says Susan Friedland. “You have to be as honest and forthright as possible. Holding back information causes suspicion. We communicate through weekly emails, multiple committees, and frequent informal conversations.”

“You can't over-communicate.
You have to be as honest
and forthright as possible.”

Susan Friedland, Executive Director
Satellite Affordable Housing Associates, Inc.

The staff wanted answers to important questions, including:

- *Will I still have a job, and if so, how will it change?* The key is to reassure staff that there will be positions. Once Friedland and Kojima knew there would not be significant layoffs, it was the single most important communication to staff.
- *What is the name of the organization and what will it do?* It was critical to disseminate the mission statement once it had been developed. Staff wanted to know that the merged organization would continue to build affordable, service-enriched housing.
- *What will it be like to work for the new organization? Will my salary or benefits change? What are the policies and benefits?* Once Friedland, Kojima and others created the personnel manual, rolling out the manual to all staff was key.

Friedland and Kojima sent weekly emails to apprise all staff members of merger progress, communicated as much information as possible at monthly staff meetings, shared information informally as appropriate, and created lines of communication through committees that were created to shepherd major aspects of the merger. Satellite and AHA's leadership approach to communication during this process was clear and straightforward: "We share what we know and we share what we don't know."

Weekly emails included:

- Updates on merger milestones and pending developments
- Notes from previous staff meetings
- Information about upcoming staff events, including social events
- Upcoming trainings
- Resources for staff such as change management coaching

Fairness and transparency were important values for Friedland and Kojima. They placed a premium on making thoughtful decisions and communicating them as clearly and quickly as possible. In addition, documents and tools were created to provide clarity to guide staff and consultants on the merger work. That required documenting each working group's purpose, approach and communications process. Maintaining these tools has been challenging but invaluable. Seemingly simple tasks can quickly become complex, so a mechanism for stepping up oversight when complications arise is imperative.

Finally, it is important that staff members' concerns are heard throughout the process. Change invokes fear and anxiety. Friedland and Kojima were mindful of allowing staff

members to express their concerns. In addition, a change management coach was available to staff for confidential sessions.

STAFFING AND CONSULTANTS

There is a balance to strike between keeping the staff engaged in the process, but not too overwhelmed to maintain the usual workflow. Hiring additional help was critical to ensuring that merger tasks and projects were completed effectively while the organizations' core work was not compromised. Temporary staff and consultants ranged from those providing help with increased workloads to specialized merger consultants. At the same time, protocol was established to allow each organization to share excess capacity with the other organization, reducing the use of temporary staff and bridging the two organizations early on.

While a merger consultant was hired at the outset to work with the board in determining merger feasibility, the consultant's work ended once the Partnership Steering Committee decided to affiliate. No other general merger consultants oversaw the process. Rather, Friedland and Kojima hired consultants to focus on specific merger projects. For example, they hired a consultant to handle the transfer of guarantees from one entity to another, which entailed obtaining consent and amending agreements from all the lenders and investors in both Satellite and AHA's portfolio. Because the consultant had prior experience with this project as well as relationships with all the lenders and investors, the consultant also required less oversight from Friedland and Kojima.

"One thing we didn't do was have an overall merger consultant. The nature of our business is really complex. If we had brought in a generic merger consultant, it wouldn't have been as effective," says Friedland.

In retrospect, SAHA concluded that while integrating accounting practices and creating governance structures were real estate-specific, most of the other merger tasks involved were fairly routine. As a result, *Nonprofit Mergers Workbook*, by David La Piana and Robert Harrington, proved a useful guide.

In the finance department, three high-level finance consultants worked as a team to provide leadership to Satellite's and AHA's finance departments, including defining an appropriate department structure for the larger combined organization, which would have the need and capacity for a full-time asset manager.

A change management consultant helped Friedland and Kojima in their new roles, and

“Pace yourself. A merger takes a long time, and there’s no perfect roadmap.”

Susan Friedland, Executive Director
Satellite Affordable Housing Associates, Inc.

offered staff assistance with their adjustment to a new organization and new roles. Change management consultants were hired to provide staff trainings and to advise Friedland, Kojima and other senior staff on how staff was working through the transition. To take advantage of the opportunity to promote the organization, a consultant helped to create a new logo and branding strategy.

Finally, a board consultant was hired to work with SAHA’s board executive committee to develop the board’s governance structure, board binder instructions and other protocol and responsibilities. The consultant will continue to work with the board during the post-merger integration period.

OBJECTIVES AND GOALS

The list of merger tasks can be daunting. Satellite and AHA had committed to completing the merger within six months while staff members of each organization were expected to continue to perform their everyday functions. Delegating with clear goals became paramount for Friedland and Kojima. In particular, Friedland had to adjust her role from a more hands-on director of a 50-person organization to the leader of a 170-person organization with the resources to delegate many more decisions to staff.

Friedland, Kojima and others also utilized the project-management software, Wrike. As mentioned earlier in the Communications section, committees and merger control documents were critical to making sure each aspect of the merger was managed effectively.

“Pace yourself. A merger takes a long time, and there’s no perfect roadmap,” says Friedland. “While great guidebooks exist, much of a merger requires intensive thought and planning. There are ebbs and flows in time, energy and enthusiasm that must be managed well to prevent burnout or negative momentum.”

CONCLUSION

SAHA expects to realize many benefits from the merger. It is already a highly regarded organization in the industry. Costs savings from the merger and other benefits remain to be seen, and will be studied in the future.

While January 1, 2013, marked the official launch of SAHA, integration activities continued throughout the first year.

“It feels rewarding that the decision to merge was a strategic and proactive decision,” says Friedland. “This is a great opportunity to do things really well and bring in best practices. That’s a theme that we’re trying to weave through this whole merger.”



Date: June 14, 2012

To: AHA Board of Directors and Satellite Board of Directors

From: Whit Spencer, Director, Asset Management
Erik Apinis, Underwriter, Syndication

Enterprise

Background: Enterprise evaluates the financial risks and strengths of a wide range of development partners, approximately 200 each year. As staff at Enterprise, we have collectively reviewed the financials of approximately 150 organizations. In our analysis, we are specifically charged with evaluating organizational financial strength on behalf of Enterprise investors. In addition, Enterprise regularly provides guidance to the affordable housing development community, including guidance on best practices in financial statement analysis and presentation.

Re: Financial Review of Proposed Merger between AHA and Satellite

Objective: Provide an investor perspective on the combined financial position of a Satellite and AHA merger.

Approach

This review looks, in brief, at the operations of each individual organization and then extrapolates the financial standing of a new, merged organization. In an effort to adjust for different accounting policies and provide a more focused review on each organization as a business, real estate has been removed from the analysis (both the stabilized portfolio and the development pipeline); these reviews are being completed by other consultants. Although not explicitly addressed here, both the stabilized portfolio and the development pipeline are critical components of a thorough financial analysis of the organizations, separate and combined.

References to balance sheet information are derived from 3/31/12 internal statements from each organization and references to revenues/expenses are extracted from the year end audits of each organization (6/30/11 for AHA and 9/30/11 for Satellite). This approach was taken because different accounting policies for each organization do not easily allow for direct comparison of more up to date internal income statements.

Summary

Both AHA and Satellite bring a solid balance sheet and a history of sound operations to this merger. From an investor perspective, this merger blends two strong organizations, resulting in a new, even

stronger organization that offers a very healthy cash balance, smooth cash flow, and an opportunity to realize economies of scale.

Operations and Business Strategy

AHA – Development is AHA’s profit center and is critical to the organization’s cash flow. Property management has been a break-even endeavor while grants, fundraising, and commercial income further supplement the budget. Given the focus on development, AHA is prone to the ups and downs of the development cycle. AHA relies on EQ2 lines of credit from Wells Fargo to fund pre-development costs that then get paid off at a project’s construction closing.

Satellite – Property management continues to be Satellite’s core business and has provided consistent, stable income over the years. Additionally, in 2011 refinancing activity generated significant cash for the organization. Satellite began ramping up development activities beginning in 2005. Over this time, development has become a larger source of revenue. Cash is used to not only further development activities but to build a cash balance for the organization. Satellite also has access to predevelopment lines of credit.

SAHA - As a merged organization, SAHA would have both development and property management as its core strengths. Development brings risk but also great profits. Property management will offer stability. Given that both organizations have a similar conservative approach to development where land/properties are not purchased “on spec,” it is assumed that a new organization will manage pipeline and portfolio with an even greater strength and capacity.

Past and Current Financial Picture

AHA has shown a steady growth in cash balance from \$900,000 in FYE 2007 to over \$2.2 MM as of their 3/31/12 internal statement. Development fees prior to the recession typically composed 50% or more of revenue. Following the recession, this revenue source declined but more recently development fee income has again increased to approximately 2/3 of FYE 2007 and FYE 2008 levels. This pattern of irregular developer fee income is typical for organization with heavy development activity, and is not directly representative of cash flow from development activity. Irrespective of the timing of earned and paid development fees, AHA has generated cash flow from its operations—which includes developer fees—in each of the five years studied.

Satellite has also had year over year growth in their cash balance with the period reviewed, growing from \$540,000 in FYE 2008 to over \$1.3MM as of 3/31/12. Property management fee – the largest source of revenue - has provided 55% to 62% of Satellite’s income (50% of expenses) over this same time period. Net income has grown steadily, particularly over the last three years, as development projects and development fee have come to fruition. A steady increase in net assets from \$3.13 MM in FYE 2008 to over \$4 MM currently comes as a result of development, with both assets (in the form of projects in construction and development costs advanced) and liabilities (debt associated with projects in development) growing. This is to be expected for an organization with a development pipeline.

SAHA's organizational strength is rooted in the individual organizational stability of both AHA and Satellite. Both organizations appear to bring similar philosophies in terms of their financial management - measured growth that does not expose the organizations to unnecessary risk.

Benchmarks

A detailed discussion on individual benchmarks is included in this analysis.

AHA – AHA meets or exceeds nearly every Enterprise financial benchmark. They are thought to be strong financially. Only reliance on developer fee and amount of accounts receivable are considered material financial risks worth noting. AHA's reliance on developer fee is a large and persistent risk, and common for Enterprise partners. AHA's reliance on receivables is largely due to accrued development fees. AHA has a strong track record of performance, which has served as an adequate mitigant to their development risk and large receivables.

Satellite – Satellite also meets or exceeds almost all of Enterprise's financial benchmarks. They are thought to be strong financially. Only their amount of accounts receivable and modest net assets are considered material financial risks worth noting. Satellite's receivables are somewhat diversified and as a whole not a risk. Their net assets are 75% of Enterprise's benchmark, but well within the range of a typical development partner.

SAHA – Together, AHA and Satellite meet or exceed nearly every Enterprise financial benchmark. Moreover, the combined entity further strengthens key areas such as liquidity and stable revenue sources. Together they are thought to be very strong financially. The only area where they would continue to present a material risk is their reliance on receivables. The reliance on receivables is less a concern when combined, however, as the sources are further diversified.

Partner Marketable Assets

AHA – AHA has limited means to generate cash in excess of that currently on hand. AHA has one wholly owned commercial property worth between \$200,000 and \$400,000. Most AHA properties are not owned outright and have multiple layers of financing that limit the ability to sell or refinance.

Satellite - Like AHA, Satellite does not have any significant assets which they could sell to raise cash. They do have a number of wholly owned properties that could be refinanced to generate cash. A preliminary estimate is that these properties represent anywhere from \$2 MM to \$4 MM in value.

SAHA – Individually and as a merged organization it is expected that SAHA would have a strong cash position that makes it unlikely that they will need to sell or borrow against existing assets for purposes of generating cash. As noted in the Benchmarks section, with both AHA and Satellite having a strong cash position, neither organization has needed a line of credit to support operations. However, an operations line of credit could likely be secured, if needed.

Projected Financial Health

From an investor perspective, cash and liquid assets are vital in determining an organization's relative strength and ability to stand behind its guarantees. This merger brings two organizations with relatively strong cash on hand to produce an organization with an even stronger cash position. How an organization gets its cash – cash flow – is another vital piece of partner evaluation. With the joining of these two organization, it is anticipated that not only will Satellite's property management bring profitability to the joint portfolio but Satellite's refinancing pipeline and experience in 4% LIHTC transactions, as well as AHA's potential refinancing opportunities, will smooth out revenues at times when 9% deals might take time to garner funding. Lastly, there will likely be some economies of scale - not fully captured in this analysis- as the income statements of both organizations were simply combined. The projected financial health should remain strong and provide an investor with confidence that this new entity will build on the individual organizational strengths to achieve a stronger merged organization.