

MOSSES ADAMS

**HOUSING NORTHWEST, INC.  
AND SUBSIDIARIES**

**INDEPENDENT AUDITOR'S REPORT AND  
CONSOLIDATED FINANCIAL STATEMENTS  
WITH SUPPLEMENTAL INFORMATION**

**JUNE 30, 2010 AND 2009**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Housing Northwest, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Housing Northwest, Inc. and Subsidiaries (the Organization) as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Housing Northwest, Inc. and Subsidiaries as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Moss Adams LLP*

Portland, Oregon  
September 29, 2010

**HOUSING NORTHWEST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

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**ASSETS**

	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 113,724	\$ 262,377
Restricted cash and cash equivalents	53	496,706
Total cash and cash equivalents	<u>113,777</u>	<u>759,083</u>
Short-term investments	3,186,864	3,074,229
Tenant deposits	165,142	150,050
Accounts receivable, less allowance for doubtful accounts (\$6,073 in 2010 and \$55,851 in 2009)	82,894	114,263
Prepaid expenses and other assets	<u>8,621</u>	<u>34,423</u>
Total current assets	<u>3,557,298</u>	<u>4,132,048</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	2,063,006	2,063,006
Buildings and improvements	41,846,770	40,577,205
Leasehold improvements	298,237	278,607
Furnishings and equipment	2,243,858	2,260,867
Construction in process	<u>186,994</u>	<u>37,327</u>
Total property and equipment	46,638,865	45,217,012
Less accumulated depreciation and amortization	<u>(12,698,339)</u>	<u>(11,399,401)</u>
Net property and equipment	<u>33,940,526</u>	<u>33,817,611</u>
<b>OTHER ASSETS</b>		
Assets limited as to use under bond trust indenture	4,909,329	4,757,601
Debt financing costs, net of accumulated amortization (\$559,181 in 2010 and \$467,670 in 2009)	<u>1,160,388</u>	<u>1,251,899</u>
Total other assets	<u>6,069,717</u>	<u>6,009,500</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 43,567,541</u></u>	<u><u>\$ 43,959,159</u></u>

**HOUSING NORTHWEST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

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**LIABILITIES**

	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 308,282	\$ 119,035
Accrued expenses	775,039	777,292
Refundable deposits	165,142	150,050
Tenant advance payments	79,501	52,498
Current portion of long-term debt:		
Bonds payable	870,000	645,000
Notes payable	58,814	53,904
	<u>2,256,778</u>	<u>1,797,779</u>
<b>LONG-TERM DEBT, net of current portion</b>		
Bonds payable	37,181,848	38,040,699
Notes payable	1,424,385	1,487,756
	<u>38,606,233</u>	<u>39,528,455</u>
Total long-term debt	<u>38,606,233</u>	<u>39,528,455</u>
Total liabilities	<u>40,863,011</u>	<u>41,326,234</u>
<b>UNRESTRICTED NET ASSETS</b>	<u>2,704,530</u>	<u>2,632,925</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 43,567,541</u>	<u>\$ 43,959,159</u>

**HOUSING NORTHWEST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**

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	<b>Year Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
Housing and related revenues	\$ 5,939,418	\$ 6,560,403
Operating expenses	4,338,684	5,048,282
	<u>1,600,734</u>	<u>1,512,121</u>
Increase in net assets from operations		
Other changes:		
Investment income (loss), net	393,455	(439,280)
Interest expense	(1,977,543)	(1,961,984)
Miscellaneous income	54,959	45,715
	<u>(1,529,129)</u>	<u>(2,355,549)</u>
Total other changes		
<b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b>	71,605	(843,428)
<b>UNRESTRICTED NET ASSETS, beginning of year</b>	<u>2,632,925</u>	<u>3,476,353</u>
<b>UNRESTRICTED NET ASSETS, end of year</b>	<u>\$ 2,704,530</u>	<u>\$ 2,632,925</u>

**HOUSING NORTHWEST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in unrestricted net assets	\$ 71,605	\$ (843,428)
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash from operating activities:		
Depreciation and amortization	1,419,607	1,458,538
Realized and unrealized (gain) loss on investments	(310,876)	614,779
Decrease in allowance for doubtful accounts	(49,778)	(2,440)
Net changes in operating assets and liabilities:		
Tenant deposits	(15,092)	(4,134)
Accounts receivable	81,147	149,806
Prepaid expenses and other assets	25,802	(26,339)
Accounts payable	189,247	(112,680)
Accrued expenses	(2,253)	(189,009)
Refundable deposits	15,092	4,134
Tenant advance payments	27,003	(17,484)
Net cash from operating activities	<u>1,451,504</u>	<u>1,031,743</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	3,234,922	2,396,736
Purchases of investments	(3,036,681)	(2,473,537)
Decrease (increase) in assets limited as to use under bond trust indenture	(151,728)	904,750
Purchases of property and equipment	(1,439,862)	(484,940)
Net cash from investing activities	<u>(1,393,349)</u>	<u>343,009</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of long-term debt	(703,461)	(913,028)
Net cash from financing activities	<u>(703,461)</u>	<u>(913,028)</u>
<b>NET CHANGE IN CASH</b>	(645,306)	461,724
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>759,083</u>	<u>297,359</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 113,777</u>	<u>\$ 759,083</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 1,890,930</u>	<u>\$ 1,867,773</u>

## HOUSING NORTHWEST, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization** – Housing Northwest, Inc. and Subsidiaries (the Organization) is a tax-exempt corporation that provides housing and other services to students, faculty, and staff of Portland State University (PSU), Oregon State University (OSU), and other smaller Portland based colleges. The housing of the Organization-owned buildings are provided under 12-month, 10-month or month-to-month rental agreements. In addition to these services, the Organization developed and managed low-income housing. During the year ended June 30, 2009, all low-income housing management contracts were terminated (see Note 7).

The Board of Directors also established a limited liability corporation (LLC) structure for each of the Organization's projects or groups of projects. As of June 30, 2010, three LLCs are active: (1) College Housing Northwest, LLC, which is comprised of all Portland properties owned by Housing Northwest, Inc., including Goose Hollow Plaza, Goose Hollow Tower, Palladian, Clifton House, Cambrian, Clay, and Tiffany, (2) College Housing Northwest, LLC – Corvallis, L.L.C., which was formed for the renovation and operation of Oregon State University's student housing complex, The Gem, and (3) Affordable Housing Northwest, LLC, which was formed for the management of low-income housing projects. Management contracts for affordable housing properties were terminated during the year ended June 30, 2009 (see Note 7).

**Basis of accounting and presentation** – The consolidated financial statements are prepared on the accrual basis of accounting. All significant intercompany accounts and transactions have been eliminated in consolidation.

Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- *Unrestricted net assets* – reflect the cumulative effect of net activity absent donor-imposed restrictions. There were no temporarily or permanently restricted net assets as of June 30, 2010 and 2009.

**Cash and cash equivalents** – Cash and cash equivalents are comprised of cash on hand, cash deposited with banks, and certain liquid investments with original maturities of three months or less.

**HOUSING NORTHWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES – (continued)**

**Restricted cash and cash equivalents** – Restricted cash and cash equivalents are comprised of money market accounts. The restricted funds are Surplus Funds which are limited to use under the 2002 Bond trust indenture. If the Organization complies with certain requirements of the Indenture, the funds will be released from restriction as of October 2, 2010 and remitted to the Organization. Restricted cash equivalents are recorded at fair value.

**Investments** – The Organization invests excess cash in money market funds, marketable securities, mutual funds and fixed income funds, with original maturity dates between six months and five years. Investments are recorded at fair value as determined by quoted prices in active markets, and any related gains or losses are reflected in investment income.

**Accounts receivable** – Receivables are presented at the aggregate unpaid amounts. Management reviews the collectibility of accounts on a periodic basis and has determined an allowance for doubtful accounts of amounts greater than 90 days to be appropriate. Accounts are charged off when all collection efforts have been exhausted.

**Property and equipment** – Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets as follows:

Furnishings and equipment	3 – 5 years
Buildings and leasehold improvements	10 – 50 years

New equipment and expenditures for major repairs and improvements exceeding \$300 are capitalized; conversely, expenditures for minor repairs and maintenance costs are expensed when incurred. Depreciation expense totaled \$1,316,947 and \$1,349,674 for the years ended June 30, 2010 and 2009, respectively.

**Assets limited as to use under bond trust indenture** – Assets limited as to use include restricted investments of the proceeds of the \$23,030,000 State of Oregon, Oregon Facilities Authority, Revenue Bonds, 2002 Series A, the Series One and proceeds of the \$19,320,000 State of Oregon Facilities Authority, Revenue Bonds, 2005 Series A, Series B, and Series One (Notes 4 and 5). These restricted investments are comprised of money market funds and marketable government discount notes.

## HOUSING NORTHWEST, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

**Debt financing costs** – Underwriter and legal fees, printing costs, rating agency fees, and other expenditures associated with the 2002 and 2005 bond offerings were capitalized and are being amortized using the interest method over the terms of the bonds.

Loan fees associated with notes payable have been capitalized and amortized on the straight-line basis over the terms of the notes.

**Revenue recognition** – Revenue is recognized monthly for all tenants as well as the management fees earned from managing Affordable Housing properties (See Note 7).

**Advertising** – The Organization expenses nondirect response advertising costs when incurred. Advertising expense was approximately \$4,875 and \$3,083 in 2010 and 2009, respectively. The Organization has not incurred any direct response advertising costs.

**Income taxes** – The Organization is exempt from federal and state income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization’s tax-exempt purpose is subject to taxation as unrelated business income. Unrelated business income tax, if any, is insignificant and therefore, no tax provision has been made in the accompanying consolidated financial statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 170(b)(1)(A)(ii). All LLC’s are single member LLC’s and are reported on the Organization’s Form 990.

The Organization adopted the provisions of *Accounting for Uncertainty in Income* on July 1, 2007. The Organization had no unrecognized tax benefits at June 30, 2010 and 2009.

The Organization’s policy requires recognition of accrued interest and penalties related to unrecognized tax benefits as administrative expenses. During the years ended June 30, 2010 and 2009, the Organization recognized no interest and penalties.

The Organization files an exempt organization income tax return in the U.S. federal jurisdiction and a copy with the state charities division. With few exceptions, the Organization is no longer subject to U.S. federal or state/local income tax examinations by tax authorities for years before 2006.

**HOUSING NORTHWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES – (continued)**

**Use of estimates** – The preparation of the consolidated financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The fair value of investments is a significant estimate and can change dramatically. This could have a significant effect on these financial statements.

**Subsequent events** – Subsequent events are events or transactions that occur after the consolidated balance sheet date but before consolidated financial statements are issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization’s consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before consolidated financial statements are available to be issued. The Organization has evaluated subsequent events through September 29, 2010, which is the date the consolidated financial statements were issued.

**NOTE 2 – INVESTMENTS**

Investments are stated at fair value as determined by quoted market prices and are as follows as of June 30:

	<u>2010</u>	<u>2009</u>
Marketable domestic equity securities	\$ 933,161	\$ 1,159,002
Marketable mutual funds	591,542	424,316
Bonds	<u>1,662,161</u>	<u>1,490,911</u>
Total investments	<u>\$ 3,186,864</u>	<u>\$ 3,074,229</u>

## HOUSING NORTHWEST, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### NOTE 2 – INVESTMENTS – (continued)

Investment income and gains for cash equivalents and investments are comprised of the following as of June 30:

	2010	2009
	<u>          </u>	<u>          </u>
Interest and dividend income	\$ 82,579	\$ 175,499
Realized gain (loss) on investments	109,010	(329,002)
Unrealized gain (loss) on investments	<u>201,866</u>	<u>(285,777)</u>
Investment income (loss)	<u>\$ 393,455</u>	<u>\$ (439,280)</u>

#### NOTE 3 – FAIR VALUE OF ASSETS AND LIABILITIES

The Organization accounts for investments in accordance with the standard for *Fair Value Measurements*. This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, but does not expand the use of fair value in any new circumstances.

The standard defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The Organization determines fair value based upon quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Organization's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability.

**HOUSING NORTHWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3 – FAIR VALUE OF ASSETS AND LIABILITIES – (continued)**

The Organization used the following methods and significant assumptions to estimate fair value for its assets measured and carried at fair value in the financial statements:

*Investments* – Investments are comprised of marketable securities, mutual funds and bonds. The fair values of the investments are based on quoted market prices.

*Assets limited as to use under bond trust indenture* – Funds are comprised of marketable securities such as money market funds and marketable government discount notes. Values are based on quoted market prices.

The following tables presents the fair value measurements of assets recognized in the accompanying balance sheet measured at fair value on a recurring and non-recurring basis and the level within the fair value hierarchy in which the fair value measurements fall.

	As of June 30, 2010			
	Fair Value Measurement at Report Date Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fair Value at June 30, 2010	(Level 1)	(Level 2)	(Level 3)	
Investments				
Marketable domestic equity securities	\$ 933,161	\$ 933,161	\$ -	\$ -
Marketable mutual funds	591,542	591,542	-	-
Bonds funds	1,662,161	1,662,161	-	-
Assets limited as to use under bond trust indenture				
Money market funds	2,720,611	2,720,611	-	-
Marketable government discount notes	698,828	698,828	-	-
Bonds	1,489,890	-	1,489,890	-
Total assets measured at fair value	<u>\$ 8,096,193</u>	<u>\$ 6,606,303</u>	<u>\$ 1,489,890</u>	<u>\$ -</u>

**HOUSING NORTHWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3 – FAIR VALUE OF ASSETS AND LIABILITIES – (continued)**

	As of June 30, 2009			
	Fair Value Measurement at Report Date Using:			
	Fair Value at June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Marketable domestic equity securities	\$ 1,159,002	\$ 1,159,002	\$ -	\$ -
Marketable mutual funds	424,316	424,316	-	-
Bonds	1,490,911	1,490,911	-	-
Assets limited as to use under bond trust indenture				
Money market funds	3,976,801	3,976,801	-	-
Marketable government discount notes	780,800	780,800	-	-
Total assets measured at fair value	<u>\$ 7,831,830</u>	<u>\$ 7,831,830</u>	<u>\$ -</u>	<u>\$ -</u>

As of June 30, 2010 and 2009, the Organization does not have any liabilities that are required to be measured in accordance with fair value.

**NOTE 4 – ASSETS LIMITED AS TO USE UNDER BOND TRUST INDENTURE**

**2002 Series Bonds**

Trust funds were established with the proceeds from the State of Oregon, Oregon Facilities Authority Revenue Bonds, 2002 Series A and 2002 Series One (referred to in Note 5 as the 2002 bonds), as mandated and restricted by the related trust indenture. Several funds are required by the trust indenture.

**Reserve Fund** – Monies and investments in the Reserve Fund are to be used to cover any shortfalls by the Bond Fund in the payment of principal and interest on the bonds when due. The amounts on deposit in the Reserve Fund will be determined by the Trustee on October 31 and April 30 of each year.

**Bond Fund** – All monies and investment earnings in the Bond Fund are to be used solely for the payment of principal and interest on the bonds when due.

**HOUSING NORTHWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 4 – ASSETS LIMITED AS TO USE UNDER BOND TRUST INDENTURE –**  
(continued)

**Revenue Fund** – When the Organization does not meet its annual debt service coverage requirement, the Organization must submit to the Trustee for deposit into the Revenue Fund all gross revenues from properties financed with bond proceeds when they are received by the Organization. Revenue funds are applied to funding requirements in the following order: Trustee fees and expenses, debt service requirements, payment of the Organization’s operating expenses, deficiencies in the Reserve Fund, and monthly deposits to the R & R Fund for capital expenditures as budgeted by the Organization. The Organization did not meet its release coverage ratio requirement at June 30, 2010 and June 30, 2009 (see Note 5).

**R & R Fund** – Money on deposit in the R & R Fund will be disbursed by the Trustee for the purpose of making any capital expenditures with respect to any project having a cost in excess of \$500 and to provide funds to make qualified deposits in accordance with the loan agreement.

**Surplus Fund** – The Surplus Fund is used to accumulate monthly excess cash from operations of the properties financed by bond proceeds. According to the terms of the Indenture, this cash will be held in the Surplus Fund until the later of October 2<sup>nd</sup> of each year, or 10 business days following the receipt by the Trustee of the audited financial statements for the Projects for the last completed fiscal year. If the Organization has complied with requirements of the Indenture, the Trustee shall withdraw from the Surplus Fund an amount equal to the balance therein as of September 30, 2010, and remit such funds to the Organization. The funds are recorded as restricted cash and cash equivalents as the Organization is considered to be in compliance with the requirements of the Indenture at June 30, 2010.

**HOUSING NORTHWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 4 – ASSETS LIMITED AS TO USE UNDER BOND TRUST INDENTURE –**  
 (continued)

Required investments are stated at fair value for the following funds as of June 30:

	<u>2010</u>	<u>2009</u>
Reserve Fund	\$ 1,501,142	\$ 1,490,774
Bond Fund	609,865	596,173
Revenue Fund	10,053	35,974
R & R Fund	2,387	104,910
Subtotal	<u>2,123,447</u>	<u>2,227,831</u>
Surplus Fund	<u>53</u>	<u>496,706</u>
 Total assets limited as to use under bond trust indenture	 <u>\$ 2,123,500</u>	 <u>\$ 2,724,537</u>

The following schedule summarizes required investments by major category:

	<u>2010</u>	<u>2009</u>
Money market funds	\$ 148,782	\$ 2,226,737
Marketable government discount notes	484,828	497,800
Bonds	<u>1,489,890</u>	<u>-</u>
	<u>\$ 2,123,500</u>	<u>\$ 2,724,537</u>

**2005 Series Bonds**

Trust funds were established with the proceeds from the State of Oregon, Oregon Facilities Authority Revenue Bonds, 2005 Series A, 2005 Series B and 2005 Series One (referred to in Note 5 as the 2005 bonds), as mandated and restricted by the related trust indenture. Several funds are required by the trust indenture.

**Reserve Fund** – Monies and investments in the Reserve Fund will be used to cover any shortfalls by the Bond Fund in the payment of principal and interest on the bonds when due. The amounts on deposit in the Reserve Fund are determined by the Trustee on June 30 of each year.

**HOUSING NORTHWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 4 – ASSETS LIMITED AS TO USE UNDER BOND TRUST INDENTURE –**  
(continued)

**Bond Fund** – Monies and investments in the Bond Fund are to be used for the payment of principal, interest and bond premium on the bonds when due.

**Operating Fund** – Monies and investments in the Operating Fund are to be used to cover operating cash flow shortfalls for the day-to-day operations of the OSU Gem project.

**R & R Fund** – Money on deposit in the R & R Fund will be disbursed by the Trustee for the purpose of making any capital expenditure with respect to any project having a cost in excess of \$500 and to provide funds to make qualified deposits in accordance with the loan agreement.

Required investments are stated at fair value and consist of the following funds as of June 30:

	<u>2010</u>	<u>2009</u>
Reserve Fund	\$ 1,363,228	\$ 1,362,106
Bond Fund	842,910	673,755
Operating Fund	380,333	341,667
R & R Fund	<u>199,411</u>	<u>152,242</u>
	<u>\$ 2,785,882</u>	<u>\$ 2,529,770</u>

The following schedule summarizes required investments by major category as of June 30:

	<u>2010</u>	<u>2009</u>
Money market funds	\$ 2,571,882	\$ 2,246,770
Marketable government discount notes	<u>214,000</u>	<u>283,000</u>
	<u>\$ 2,785,882</u>	<u>\$ 2,529,770</u>

**HOUSING NORTHWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 5 – BONDS PAYABLE**

Bonds payable consist of the following as of June 30:

	<u>2010</u>	<u>2009</u>
2002 bonds payable, net of discount of \$157,503	\$ 19,342,497	\$ 19,767,341
2005 bonds payable, including premium of \$149,351	<u>18,709,351</u>	<u>18,918,358</u>
Total bonds payable	38,051,848	38,685,699
Less current portion	<u>(870,000)</u>	<u>(645,000)</u>
Bonds payable, net of current portion	<u>\$ 37,181,848</u>	<u>\$ 38,040,699</u>

The following is a summary of scheduled redemptions of bonds payable:

<u>Redemption for</u>	<u>2002</u> <u>Bonds</u>	<u>2005</u> <u>Bonds</u>	<u>Total</u>
Year ended June 30, 2011	\$ 470,000	\$ 400,000	\$ 870,000
2012	490,000	325,000	815,000
2013	510,000	290,000	800,000
2014	530,000	330,000	860,000
2015	555,000	380,000	935,000
Thereafter	<u>16,945,000</u>	<u>16,835,000</u>	<u>33,780,000</u>
	<u>\$ 19,500,000</u>	<u>\$ 18,560,000</u>	<u>\$ 38,060,000</u>

**2002 Series Bonds**

The State Treasurer of the State of Oregon, acting on behalf of the State of Oregon and the Oregon Facilities Authority (the Issuer), issued \$19,945,000 in federally tax-exempt 2002 Series A bonds, and \$3,085,000 in federally taxable 2002 Series One bonds (collectively referred to as the 2002 bonds) under a trust indenture as of October 1, 2002, between the Issuer and Wells Fargo Bank Northwest, National Association, as Trustee (Trustee). The Issuer loaned the proceeds of the bonds to the Organization pursuant to a loan agreement dated October 1, 2002. The 2002 bonds were issued to refund the 1998 bonds of the Issuer to refinance certain conventional loans undertaken by the Organization, and to finance the acquisition of a student housing complex in Portland, Oregon.

**HOUSING NORTHWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 5 – BONDS PAYABLE – (continued)**

The 2002 bonds were issued at a discount of \$321,790, which is being amortized to interest expense over the life of the bonds, using the effective interest method. Debt financing costs associated with the 2002 bonds had an unamortized balance of \$304,125 and \$343,996 at June 30, 2010 and 2009, respectively. The costs are being amortized over the life of the bonds.

The 2002 Series One bonds bear interest at rates ranging from 4.00% for the 2003 maturity to 5.75% for the 2008 maturity. The 2002 Series A bonds bear interest at rates ranging from 4.50% for the 2009 maturity to 5.45% for the 2032 maturity. Interest payments on all outstanding bonds are due on April 1 and October 1 of each year through October 1, 2032. Commencing October 1 each year, the Organization is required to make payments to the Trustee equal to one-sixth of the scheduled interest payment due on the next interest due date. Commencing October 1 each year, the Organization is also required to make payments to the Trustee equal to one-twelfth of the scheduled principal payment due on the next principal due date.

In accordance with the borrowing agreement for the 2002 bonds, the Organization is required to meet certain reporting, insurance, and financial covenants. As of June 30, 2010, management believes that the Organization is in compliance with financial covenants related to the 2002 bonds, with the exception of the Release Coverage Ratio. The Release Coverage Ratio requires that net revenues be at least 1.50 times annual debt service requirements for two consecutive years once the Organization has not meet the original requirement that net revenues for each fiscal year not be less than 1.20 times the annual debt service coverage for such fiscal year. The Organization did not meet the original debt service requirement for the year ended June 30, 2006. For the years ended June 30, 2010 and 2009, net revenues were 1.26 and 1.44 times the annual debt service coverage, respectively.

Based on the terms of the borrowing agreement, if the Organization does not meet its annual debt service coverage requirement, Section 404C of the Trust Indenture and Section 5.3(b) of the Loan Agreement for the 2002 bonds requires the Organization to remit to the Trustee all gross revenues from properties financed with bond proceeds when they are received by the Organization until it meets the requirements of the Release Coverage Ratio. Such revenues are to be deposited by the Trustee into the Revenue fund for use and application as provided by the Trust Indenture (see Note 4). The Organization must remit gross revenues to the Trustee until it has net revenues of 1.50 times the annual debt service for two consecutive fiscal years. For the years ended June 30, 2010 and 2009, gross revenues of \$3,813,728 and \$4,256,002, respectively, were remitted to the Trustee.

## **HOUSING NORTHWEST, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **NOTE 5 – BONDS PAYABLE – (continued)**

##### **2005 Series Bonds**

The State Treasurer of the State of Oregon, acting on behalf of the State of Oregon and the Oregon Facilities Authority (the Issuer), issued \$18,610,000 in federal tax-exempt 2005 Series A bonds, \$475,000 in federally tax exempt Series B bonds and \$235,000 in federally taxable 2005 Series One bonds (collectively referred to as the 2005 bonds) under a trust indenture as of April 15, 2005, between the Issuers and Wells Fargo Bank Northwest, National Association, as Trustee (Trustee). The Issuer loaned the proceeds of the bonds to the Organization pursuant to a loan agreement dated April 1, 2005. The 2005 bonds were issued to finance the renovation of a student housing complex located on the north end of the OSU campus in Corvallis, Oregon.

The 2005 bonds were issued at a premium of \$187,809, which is being amortized to interest expense over the life of the bonds, using the effective interest method. Debt financing costs associated with the 2005 bonds had an unamortized balance of \$856,263 and \$907,903 at June 30, 2010 and 2009, respectively. The costs are being amortized over the life of the bonds.

The 2005 Series One bonds bear interest at rates ranging from 4.45% for the 2008 maturity to 4.75% for the 2010 maturity. The 2005 Series A bonds bear interest at rates ranging from 3.75% for the 2010 maturity to 5.25% for the 2030 maturity. The 2005 Series B bonds bear an interest rate of 6.25% and are due in 2011. Interest payments on all outstanding bonds are due on January 1 and July 1 of each year through July 1, 2038. Commencing July 1 of each fiscal year, the Organization is required to make payments to the Trustee equal to one-sixth of the scheduled interest payment due on the next interest due date. Commencing July 1, the Organization is also required to make payments to the Trustee equal to one-twelfth of the scheduled principal payment due on the next principal due date.

In accordance with the borrowing agreement for the 2005 bonds, the Organization is required to meet certain reporting, insurance, and financial covenants. As of June 30, 2010, the Organization is considered to be in compliance with financial covenants related to the 2005 bonds.

**HOUSING NORTHWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 6 – NOTES PAYABLE**

Notes payable consists of the following as of June 30:

	2010	2009
Promissory note payable (Administrative building) to bank, monthly principal and interest payments of \$3,441, interest rate renews every five years beginning 12/30/09 at five-year treasury constant maturity plus 2.85% (5.04% at June 30, 2010), final payment of \$323,794 due at maturity on January 10, 2015. Note secured by real property.	\$ 424,101	\$ 442,398
Promissory note payable (Cambrian building) to bank, monthly principal and interest payments of \$6,886, interest rate renews every five years beginning 3/10/09 at five-year treasury constant maturity plus 2.20% (4.23% at June 30, 2010), final payment of \$913,232 due at maturity on March 10, 2014. Note secured by real property and assignment of rents.	<u>1,059,098</u>	<u>1,099,262</u>
Total notes payable	1,483,199	1,541,660
Less current portion	<u>(58,814)</u>	<u>(53,904)</u>
Notes payable, net of current portion	<u><u>\$ 1,424,385</u></u>	<u><u>\$ 1,487,756</u></u>

Principal maturities on the notes payable are as follows:

June 30, 2011	\$ 58,814
2012	61,468
2013	64,355
2014	965,810
2015	332,752
Thereafter	<u>-</u>
	<u><u>\$ 1,483,199</u></u>

## **HOUSING NORTHWEST, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **NOTE 6 – NOTES PAYABLE – (continued)**

In accordance with the business loan agreement for the Administrative building note payable, the Organization is required to meet certain reporting, insurance, and financial covenants. As of June 30, 2010, the Organization is considered to be in compliance with financial covenants related to the Administrative building note payable.

In accordance with the business loan agreement for the Cambrian note payable, the Organization is required to meet certain reporting, insurance, and financial covenants. As of June 30, 2010, the Organization is considered to be in compliance with financial covenants related to the Cambrian note payable.

#### **NOTE 7 – COMMITMENTS AND CONTINGENCIES**

**Legal contingencies** – From time to time, the Organization finds itself, in the normal course of business, named in various lawsuits. It is the opinion of management that the lawsuits are without merit and the Organization intends to vigorously defend such claims. No amounts have been accrued in these financial statements since the outcome of such matters is uncertain and the amount of liability, if any, cannot be determined including any insurance recovery.

**Oregon State University** – Effective July 19, 2004, the Organization entered into a land lease agreement with the State of Oregon, acting by and through its State Board of Higher Education, on behalf of Oregon State University (OSU), whereby the Organization will receive management fees based on the gross revenues for The Gem's units. As part of the agreement, the Organization will receive a property management fee monthly of 5% of gross rent revenue and an asset management fee of 1% of gross revenues.

The current lease agreement is effective through June 30, 2041, 35 years following the completion date of the renovation of The Gem. Payments by the Organization for the lease will be calculated as 85% of net cash flow related to the Gem property, after all expenses. No lease payments were required for the years ended June 30, 2010 and 2009.

**Affordable housing management** – As of June 30, 2009, the Organization had terminated all management contracts for affordable housing properties. Management fees on the contracts were different for each property with the management fee being calculated as a percentage of gross rents (5% - 9%) or as a flat rate per occupied unit (\$30 - \$42), assuming specific criteria have been met by the Organization. During the year ended June 30, 2009, the Organization received \$222,032 in management fee revenue from these contracts.

**HOUSING NORTHWEST, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 8 – EMPLOYEE BENEFITS**

The Organization maintains a 401(k) plan for employees meeting plan eligibility requirements. The plan provides for the Organization to make a discretionary matching contribution (up to 5% of the participants' compensation) as determined annually by the Board of Directors. The Organization's contributions were approximately \$13,000 and \$27,000 for the years ended June 30, 2010 and 2009, respectively.

**NOTE 9 – CONCENTRATION OF CREDIT RISK**

The Organization maintains cash and cash equivalent balances which may occasionally exceed federally insured depository insurance limits at local banking institutions in Portland, Oregon.

**SUPPLEMENTAL INFORMATION**

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**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL  
INFORMATION**

To the Board of Directors  
Housing Northwest, Inc. and Subsidiaries

Our report on our audit of the basic consolidated financial statements of Housing Northwest, Inc. and Subsidiaries for the year ended June 30, 2010, appears on page one. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental information on the following page is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as whole.

*Moss Adams LLP*

Portland, Oregon  
September 29, 2010

**HOUSING NORTHWEST, INC.**  
**STATEMENT OF OPERATIONS – THE 2002 BOND PROJECT**  
**YEAR ENDED JUNE 30, 2010**

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Gross revenues	\$ 3,813,728
Expenses (excluding depreciation, amortization, interest, and lease expense)	<u>(1,753,714)</u>
Cash generated	2,060,014
Less deposits to Replacement Reserves Fund	(216,781)
Debt service reserve earnings	<u>17,649</u>
Net revenues	1,860,882
Subordinated indirect expense	<u>(268,664)</u>
Net cash flow after corporate allocation before principal on debt	<u><u>\$ 1,592,218</u></u>
Debt service	<u><u>\$ 1,499,221</u></u>
Debt service coverage (net cash available for debt service before overhead divided by debt service)	<u><u>1.24</u></u>