

MOSSES ADAMS

**HOUSING NORTHWEST, INC.
AND SUBSIDIARIES**

**INDEPENDENT AUDITOR'S REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS
(with supplemental information)**

JUNE 30, 2009 AND 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Housing Northwest, Inc.

We have audited the accompanying consolidated balance sheets of Housing Northwest, Inc. and Subsidiaries (the Organization) as of June 30, 2009 and 2008, 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, 2009 and 2008, 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 24, 2009

HOUSING NORTHWEST, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	ASSETS	
	June 30,	
	2009	2008
CURRENT ASSETS		
Cash and cash equivalents	\$ 262,377	\$ 277,209
Restricted cash and cash equivalents	496,706	20,150
Total cash and cash equivalents	<u>759,083</u>	<u>297,359</u>
Short-term investments	3,074,229	2,050,804
Tenant deposits	150,050	145,916
Accounts receivable, less allowance for doubtful accounts (\$55,851 in 2009 and \$58,291 in 2008)	114,263	261,629
Prepaid expenses and other assets	<u>34,423</u>	<u>8,084</u>
Total current assets	<u>4,132,048</u>	<u>2,763,792</u>
PROPERTY AND EQUIPMENT		
Land	2,063,006	2,063,006
Buildings and improvements	40,577,205	40,156,780
Leasehold improvements	278,607	278,607
Furnishings and equipment	2,260,867	2,233,679
Construction in process	<u>37,327</u>	<u>-</u>
Total property and equipment	45,217,012	44,732,072
Less accumulated depreciation and amortization	<u>(11,399,401)</u>	<u>(10,049,727)</u>
Net property and equipment	<u>33,817,611</u>	<u>34,682,345</u>
OTHER ASSETS		
Assets limited as to use under bond trust indenture	4,757,601	5,662,351
Debt financing costs, net of accumulated amortization (\$467,670 in 2009 and \$370,374 in 2008)	1,251,899	1,349,194
Long-term investments	<u>-</u>	<u>1,561,403</u>
Total other assets	<u>6,009,500</u>	<u>8,572,948</u>
TOTAL ASSETS	<u><u>\$ 43,959,159</u></u>	<u><u>\$ 46,019,085</u></u>

HOUSING NORTHWEST, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

LIABILITIES

	June 30,	
	2009	2008
CURRENT LIABILITIES		
Accounts payable	\$ 119,035	\$ 231,715
Accrued expenses	777,292	966,301
Refundable deposits	150,050	145,916
Tenant advance payments	52,498	69,982
Current portion of long-term debt:		
Bonds payable	645,000	865,000
Notes payable	53,904	47,381
Total current liabilities	1,797,779	2,326,295
 LONG-TERM DEBT, net of current portion		
Bonds payable	38,040,699	38,674,130
Notes payable	1,487,756	1,542,307
Total long-term debt	39,528,455	40,216,437
Total liabilities	41,326,234	42,542,732
 UNRESTRICTED NET ASSETS	 2,632,925	 3,476,353
TOTAL LIABILITIES AND NET ASSETS	\$ 43,959,159	\$ 46,019,085

HOUSING NORTHWEST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year Ended June 30,	
	2009	2008
CHANGES IN UNRESTRICTED NET ASSETS		
Housing and related revenues	\$ 6,560,403	\$ 6,946,214
Operating expenses	<u>5,048,282</u>	<u>5,751,124</u>
Increase in net assets from operations	<u>1,512,121</u>	<u>1,195,090</u>
Other changes:		
Investment loss, net	(439,280)	(131,609)
Interest expense	(1,961,984)	(1,913,845)
Miscellaneous income	<u>45,715</u>	<u>7,399</u>
Total other changes	<u>(2,355,549)</u>	<u>(2,038,055)</u>
DECREASE IN UNRESTRICTED NET ASSETS	(843,428)	(842,965)
UNRESTRICTED NET ASSETS, beginning of year	<u>3,476,353</u>	<u>4,319,318</u>
UNRESTRICTED NET ASSETS, end of year	<u><u>\$ 2,632,925</u></u>	<u><u>\$ 3,476,353</u></u>

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

	Year Ended June 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in unrestricted net assets	\$ (843,428)	\$ (842,965)
Adjustments to reconcile decrease in unrestricted net assets to net cash from operating activities:		
Depreciation and amortization	1,458,538	1,507,942
Realized and unrealized loss on investments	614,779	303,865
Increase (decrease) in allowance for doubtful accounts	(2,440)	20,660
Net changes in operating assets and liabilities:		
Tenant deposits	(4,134)	(81,658)
Accounts receivable	149,806	(21,473)
Prepaid expenses and other assets	(26,339)	2,215
Accounts payable	(112,680)	(28,017)
Accrued expenses	(189,009)	(71,705)
Refundable deposits	4,134	10,205
Tenant advance payments	(17,484)	21,295
Net cash from operating activities	1,031,743	820,364
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	2,396,736	1,568,800
Purchases of investments	(2,473,537)	(1,360,604)
Decrease in assets limited as to use under bond trust indenture	904,750	221,436
Purchases of property and equipment	(484,940)	(212,663)
Net cash from investing activities	343,009	216,969
 CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of long-term debt	(913,028)	(1,054,727)
Net change on line of credit	-	(120,000)
Net cash from financing activities	(913,028)	(1,174,727)
 NET CHANGE IN CASH	461,724	(137,394)
 CASH AND CASH EQUIVALENTS, beginning of year	297,359	434,753
 CASH AND CASH EQUIVALENTS, end of year	\$ 759,083	\$ 297,359
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 1,867,773	\$ 1,813,339

HOUSING NORTHWEST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2009, four 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 – Bend, which was formed for the Central Oregon Community College (COCC) contract, (contract with COCC terminated June 30, 2008), (3) 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 (4) 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, 2009 and 2008.

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. Cash equivalents are recorded at fair value.

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

**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, 2009 and remitted to the Organization. Restricted cash equivalents are recorded at fair value.

Investments – The Organization invests excess cash in securities, consisting primarily of 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 \$1,349,674 and \$1,398,636 for the years ended June 30, 2009 and 2008, 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

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 \$3,083 and \$7,570 in 2009 and 2008, 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 the Accounting for Uncertainty in Income Taxes, on July 1, 2007. The Organization had no unrecognized tax benefits which would require an adjustment to the July 1, 2007 beginning balance of net assets. The Organization had no unrecognized tax benefits at June 30, 2008 and 2009.

The Organization’s policy requires recognition of interest accrued and penalties related to unrecognized tax benefits as administrative expenses. During the years ended June 30, 2009 and 2008, the Organization recognized no interest and penalties.

The Organization files an exempt organization income tax return, and an unrelated business income tax return in the U.S. federal jurisdiction and a copy with the state charities division. The appropriate state returns are also filed for any unrelated business income. 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 2005.

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

**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 balance sheet date but before financial statements are issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Organization’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Organization has evaluated subsequent events through September 24, 2009, which is the date the financial statements are issued.

Reclassifications – Certain reclassifications have been made to the 2008 financial statements to conform to current year presentation. These reclassifications do not impact the change in unrestricted net assets.

NOTE 2 – INVESTMENTS

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

	<u>2009</u>	<u>2008</u>
Equity holdings	\$ 1,583,318	\$ 1,806,796
Fixed income	1,490,911	-
U.S. corporate bonds	-	<u>1,805,411</u>
Total investments	<u>\$ 3,074,229</u>	<u>\$ 3,612,207</u>

The Organization is aware there are global pressures on the current financial markets. Based on the best information available at this time, the Organization has made changes to further diversify its bond holdings by moving into bond funds rather than purchasing individual bonds.

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

NOTE 2 – INVESTMENTS – (continued)

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

	<u>2009</u>	<u>2008</u>
Interest and dividend income	175,499	\$ 172,256
Realized loss on investments	(329,002)	-
Unrealized loss on investments	<u>(285,777)</u>	<u>(303,865)</u>
Investment income (loss)	<u>\$ (439,280)</u>	<u>\$ (131,609)</u>

NOTE 3 – FAIR VALUE OF ASSETS AND LIABILITIES

Effective July 1, 2008, the Organization adopted 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 has been applied prospectively as of July 1, 2008.

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 – Observable inputs other than Level I prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

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:

Cash and cash equivalents – For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investments – Investments are comprised of money market funds, marketable securities, mutual funds and fixed income funds. 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 money market funds and marketable government discount notes. Values are based on quoted market prices.

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position 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 at 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)
Cash and cash equivalents	\$ 759,083	\$ 759,083	\$ -	\$ -
Investments	3,074,229	3,074,229	-	-
Assets limited as to use under bond trust indenture	4,757,601	4,757,601	-	-
Total assets measured at fair value	<u>\$ 8,590,913</u>	<u>\$ 8,590,913</u>	<u>\$ -</u>	<u>\$ -</u>

As of June 30, 2009, the Organization does not have any liabilities that are required to be measured in accordance with this new standard.

HOUSING NORTHWEST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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, 2009 and June 30, 2008 (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 2nd 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, 2009, 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, 2009.

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

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

Required investments are stated at fair value for the following funds:

	2009	2008
Reserve Fund	\$ 1,490,774	\$ 2,186,399
Bond Fund	596,173	567,689
Revenue Fund	35,974	47,393
R & R Fund	104,910	301,014
Subtotal	2,227,831	3,102,495
Surplus Fund	496,706	20,150
Total assets limited as to use under bond trust indenture	\$ 2,724,537	\$ 3,122,645

The following schedule summarizes required investments by major category:

	2009	2008
Money market funds	\$ 2,226,737	\$ 453,117
Marketable government discount notes	497,800	483,225
Guaranteed investment contracts	-	2,186,303
	\$ 2,724,537	\$ 3,122,645

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

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 consist of money market instruments stated at fair value for the following funds:

	<u>2009</u>	<u>2008</u>
Reserve Fund	\$ 1,362,106	\$ 1,352,732
Bond Fund	673,755	766,349
Operating Fund	341,667	336,116
R & R Fund	<u>152,242</u>	<u>104,659</u>
	<u>\$ 2,529,770</u>	<u>\$ 2,559,856</u>

The following schedule summarizes required investments by major category:

	<u>2009</u>	<u>2008</u>
Money market funds	\$ 2,246,770	\$ 707,349
Marketable government discount notes	283,000	642,900
Guaranteed investment contracts	<u>-</u>	<u>1,209,607</u>
	<u>\$ 2,529,770</u>	<u>\$ 2,559,856</u>

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

NOTE 5 – BONDS PAYABLE

Bonds payable consist of the following:

	2009	2008
2002 bonds payable, net of discount of \$177,659	\$ 19,767,341	\$ 20,421,570
2005 bonds payable, including premium of \$158,358	18,918,358	19,117,560
Total bonds payable	38,685,699	39,539,130
Less current portion	(645,000)	(865,000)
Bonds payable, net of current portion	\$ 38,040,699	\$ 38,674,130

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

Redemption for	2002 Bonds	2005 Bonds	Total
Year ended June 30, 2010	\$ 445,000	\$ 200,000	\$ 645,000
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
Thereafter	17,500,000	17,215,000	34,715,000
	\$ 19,945,000	\$ 18,760,000	\$ 38,705,000

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

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 \$343,995 and \$388,535 at June 30, 2009 and 2008, 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, 2009, management believes that the Organization is in compliance with all covenants, with the exception of the requirement that net revenues be at least 1.50 times annual debt service requirements (Release Coverage Ratio) for two consecutive years once the Organization does 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, 2009 and 2008, net revenues were 1.44 and 1.27 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 1.5 times the annual debt service for two consecutive fiscal years. For the years ended June 30, 2009 and 2008, gross revenues of \$4,256,002 and \$3,990,391, respectively, were remitted to the Trustee.

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

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 \$907,904 and \$960,659 at June 30, 2009 and 2008, 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, 2009, the Organization is considered to be in compliance with all covenants.

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

NOTE 6 – NOTES PAYABLE

Notes payable consists of the following:

	<u>2009</u>	<u>2008</u>
Promissory note payable (Administrative building) to bank, monthly principal and interest payments of \$3,755, interest rate renews every five years beginning 12/30/09 at five-year treasury constant maturity plus 2.85% (6.44% at June 30, 2009), final payment of \$335,325 due at maturity on January 10, 2015. Note secured by real property.	\$ 442,398	\$ 458,404
Promissory note payable (Cambrian building) to bank, monthly principal and interest payments of \$7,437, interest rate renews every five years beginning 3/10/09 at five-year treasury constant maturity plus 2.20% (4.23% at June 30, 2009), final payment of \$936,740 due at maturity on March 10, 2014. Note secured by real property and assignment of rents.	<u>1,099,262</u>	<u>1,131,284</u>
Total notes payable	1,541,660	1,589,688
Less current portion	<u>(53,904)</u>	<u>(47,381)</u>
Notes payable, net of current portion	<u><u>\$ 1,487,756</u></u>	<u><u>\$ 1,542,307</u></u>

Principal maturities on the notes payable are as follows:

June 30, 2010	\$ 53,904
2011	52,992
2012	55,975
2013	59,271
2014	978,917
Thereafter	<u>340,601</u>
	<u><u>\$ 1,541,660</u></u>

HOUSING NORTHWEST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. The Organization was not in compliance with the requirement to maintain a debt service coverage ratio of no less than 1.15 at June 30, 2009, but has obtained a waiver of noncompliance from the financial institution.

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, 2009, 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 after all expenses. No lease payments were required for the year ended June 30, 2009. A lease payment of \$36,506 was required for the year ended June 30, 2008.

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 years ended June 30, 2009 and 2008, the Organization received \$222,032 and \$476,046, respectively, in management fee revenue from these contracts.

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

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 \$27,000 and \$26,000 for the years ended June 30, 2009 and 2008, 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.

NOTE 10 – SUBSEQUENT EVENT

Subsequent to year-end, the Organization obtained a line of credit with a maximum borrowing limit of \$100,000, annual interest rate of 5.52% and a maturity of May 29, 2010. There had been no borrowings on the line of credit as of the audit report date.

SUPPLEMENTAL INFORMATION

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

To the Board of Directors
Housing Northwest, Inc.

Our report on our audit of the basic consolidated financial statements of Housing Northwest, Inc. and Subsidiaries for the year ended June 30, 2009, 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 24, 2009

HOUSING NORTHWEST, INC.
STATEMENT OF OPERATIONS – THE 2002 BOND PROJECT
YEAR ENDED JUNE 30, 2009

Gross revenues	\$ 4,256,002
Expenses (excluding depreciation, amortization, interest, and lease expense)	<u>(1,853,092)</u>
Cash generated	2,402,910
Less deposits to Replacement Reserves Fund	(212,800)
Debt service reserve earnings	<u>59,306</u>
Net revenues	2,249,416
Subordinated indirect expense	<u>(259,758)</u>
Net cash flow after corporate allocation before principal on debt	<u><u>\$ 1,989,658</u></u>
Debt service	<u><u>\$ 1,562,693</u></u>
Debt service coverage (net cash available for debt service before overhead divided by debt service)	<u><u>1.44</u></u>