

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

**CONSOLIDATED AND COMBINED
FINANCIAL STATEMENTS**

Year Ended December 31, 2016

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Executive Director's Report

Northwest Housing Alternatives (NHA) has created opportunity through housing in Oregon since 1982. We believe that stable and affordable housing is the foundation for healthy families and communities. NHA is a leading non-profit developer of affordable housing in Oregon, currently providing 1,865 safe, dignified, affordable homes to over 2,800 individuals in 15 counties. We challenge ourselves through continuous improvement and innovation in our programs, properties, and partnerships.

2016 was another year of intentional, steady progress for NHA. Our affordable housing portfolio is performing well and growing, our Resident Services program is enhancing resident well-being within our communities, and our Homeless Intervention Service programs are helping Clackamas County residents avoid or transition from homelessness.

Program Successes

NHA's Homeless Intervention Services (HIS) helps people in Clackamas County move from crisis to stability. The HomeBase program served 184 households in 2016, preventing homelessness before it begins or helping families transition quickly from homelessness to housing. A unique aspect of the HomeBase program is called Pathways, which serves vulnerable residents living with mental illness. HIS programs also include the Annie Ross House, which shelters five homeless families each night in addition to five units of transitional housing, and supportive case management – all focused on Clackamas County families with children.

NHA's Resident Services program helps people stabilize by connecting them to services for health and wellness, nutrition, education, employment and more. In 2016, our Resident Services program provided services to over 2,000 NHA residents in 29 properties across the state. NHA's residents accessed the program over 15,000 times in 2016 - including individual services requests, notice responses, and event attendance.

In 2016, NHA completed rehabilitation of Hawthorne East, a 71 unit property for seniors and people with disabilities in Southeast Portland. NHA is continuing development and pre-development work on several other projects including:

- *Pomeroy Place* – New construction of 20 units of family housing for military veterans in Washington County scheduled to open in October 2017.

- *Milwaukie Campus* – Redevelopment of NHA's main campus to include 28 affordable units, a new Annie Ross House emergency family shelter, and an upgraded operations center.
- *Pleasant Street* - NHA has recently acquired a development site in Oregon City and envisions a new construction project of about 20 units.

Strategic Priorities

2016 saw marked progress on the NHA strategic plan adopted the prior year. Goals and outcomes are designed to ensure NHA provides exceptional housing and high quality service to our clients while also strengthening public awareness and support for our programs. Progress is measured and calibrated throughout the year to ensure the ongoing alignment of critical resources.

NHA maintains the strategic priority of advancing social equity by implementing and refining the NHA Equity Policy and Equity Plan. The Equity Plan enables the NHA staff, management, and board to apply principles and values of social equity to all that we do. In 2016 we built upon advances in staff and board training, measuring program participation and outcomes to address any disparate impacts, and increasing participation of minority- and women-owned businesses in property development and management.

Collaboration

Meaningful partnerships are essential to our work. We apply a collaborative spirit to all of our endeavors. By expanding and strengthening partnerships with other service providers, volunteers, and the organizations and individuals that support our work, we are able to achieve a greater community impact.

NHA owes much of its success in providing affordable housing to the efforts of talented employees, a passionate volunteer Board of Directors, generous support from community members, and partnerships with valued business and government partners. NHA's ability to lead the affordable housing industry in Oregon depends on these collaborative relationships. We are deeply proud of our work and grateful to all of our partners.

Martha McLennan
Executive Director

Management’s Discussion and Analysis of Financial Conditions and Results of Operations

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MISSION

Northwest Housing Alternatives provides a continuum of housing opportunities - from emergency shelter, to supportive housing for families and individuals with special needs, to below-market rental homes. We are a strong developer of affordable rental housing for families and seniors. Residents of our rental housing have a median income of \$13,008 based on our 2016 resident census. Our focus is statewide, serving both urban and rural communities. We touch the lives of thousands of Oregonians each year. For a description of our 2016 accomplishments, please read the Executive Director letter included in this audit.

BUSINESS STRUCTURE

Northwest Housing Alternatives, Inc. (NHA) is a 501(c)(3) organization incorporated in the state of Oregon. Throughout this discussion, “NHA” is used to refer to the NHA parent organization. Significant portions of our program scope are carried out by a variety of related business entities, which include limited partnerships, limited liability companies, and sponsored not-for-profit corporations. These entities are owners, or partial owners, of properties developed by NHA. The Financial Statements and the Notes found in the main section of the audit are presented on a consolidated basis – as discussed in the “Key Accounting Concepts” section – while the chart below shows the full breadth of our activity. The financial details for the NHA parent and the consolidating entities can be found in the supplemental audit schedules starting on page 28.

The following charts show the full breadth of the NHA parent and all related entities by including those that are unconsolidated for both 2016 and 2015.

2016 Summary of Activity	Prepared in accordance with GAAP			Unconsolidated property financial information [2]		Total NHA and all related entities
	NHA Parent Entity	Consolidated properties	Consolidated totals	Equity affiliate properties [3]	Sponsored projects [4]	
Fixed assets	21,557,734	34,629,777	56,187,511	127,554,080	6,847,658	190,589,249
Accumulated depreciation	(8,160,562)	(20,448,899)	(26,609,461)	(21,104,676)	(2,678,249)	(52,392,386)
Net fixed assets	13,397,172	14,180,878	27,578,050	106,449,403	4,169,409	138,196,862
Liabilities	4,977,585	13,986,361	18,963,946	77,511,162	149,496	96,624,604
Net assets	22,716,666	3,694,445	26,411,111	38,059,120	4,290,464	68,760,695
Net operating Cash flows ^[1]	\$ 1,183,770	(732,969)	450,801	1,401,880	90,495	1,943,176
Number of Units	284	478	762	1,025	78	1,865

2015 Summary of Activity	Prepared in accordance with GAAP			Unconsolidated property financial information [2]		Total NHA and all related entities
	NHA Parent Entity	Consolidated properties	Consolidated totals	Equity affiliate properties [3]	Sponsored projects [4]	
Fixed assets	\$ 20,826,455	29,255,500	50,081,955	137,650,804	6,766,339	194,499,098
Accumulated depreciation	(7,652,221)	(14,042,897)	(21,695,118)	(30,285,152)	(2,524,543)	(54,504,813)
Net fixed assets	13,174,234	15,212,603	28,386,837	107,365,652	4,241,796	139,994,285
Liabilities	5,208,548	14,214,090	19,422,638	73,881,401	161,542	93,465,581
Net assets	22,163,223	1,828,128	23,991,351	43,927,556	4,339,144	72,258,051
Net operating Cash flows ^[1]	\$ 1,762,289	450,791	2,213,080	1,425,998	39,167	3,678,245
Number of Units	284	449	733	1,054	78	1,865

[1] Property cash flows from operations represent the net increase (decrease) in cash related to the operation of the entity.

[2] To supplement the financial information presented in the organization's consolidated financial statements, prepared in accordance with generally accepted accounting principles, management uses certain additional measures in the above table to enhance the reader's understanding of the breadth and range of NHA-sponsored programs and activities, including the "pro forma" presentation of financial information for affiliated entities founded by, or operated in conjunction with, NHA in the delivery of its housing and related services. NHA does not exercise sole control over these affiliated entities.

[3] Equity affiliates are described in note 8 of the consolidated financial statements.

[4] Sponsored projects include Fisher Ridge, Meadowlark, and River Glen Associates, Inc.

BUSINESS LINES – NHA PROGRAMS

The fees earned by NHA from the development of affordable housing are the economic engine that supports future development efforts and enables NHA to fulfill its mission. We use unrestricted revenue generated by housing development efforts to address a range of other critical housing needs. Our ***Housing Development*** team has developed 174 new units of housing and preserved 217 units since 2010 while receiving cash fees of \$11.5 million.

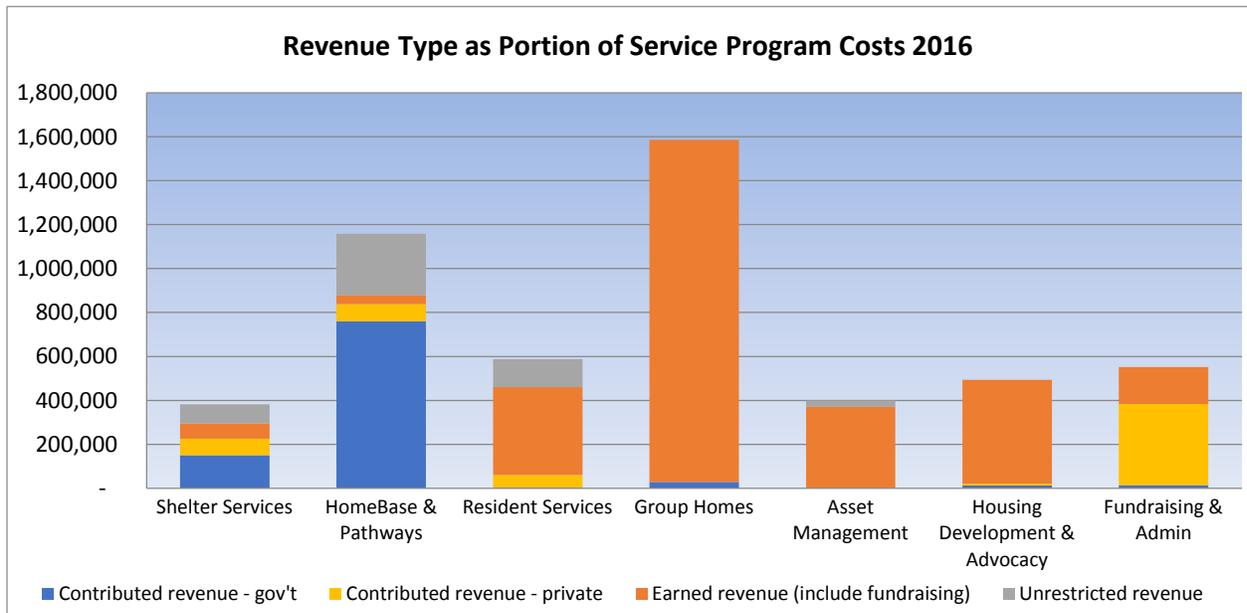
After construction and lease-up, the NHA ***Asset Management*** department oversees property management with focus on a triple bottom line – financial stability, tenant stability, and physical stability. For most of the portfolio, NHA contracts with for-profit property management firms who manage our properties on a day-to-day basis. This allows NHA’s asset management team to focus on long-term property performance and to hold property managers accountable. The reader will be able to see the effect of this focus in a later section of this Management’s Discussion and Analysis (MD&A) which summarizes the health of our housing portfolio. The fees collected as a result of effective Asset Management covered 74% of the costs of managing the LIHTC and LIHPRHA portfolio in 2016. This compares favorably to the range of 95% to 66% NHA experienced between 2015 and 2012 (calculated on a cash-basis).

Our ***Resident Services*** department works closely with Asset Management on the bottom line goal of tenant stability and success. We began this program in 2008 with a single AmeriCorps volunteer and have expanded to 6.8 FTE in 2016. During 2012, we expanded our services statewide and now reach almost 100% of our residents living in multi-family and senior properties. The fees generated by resident service contracts with the properties provided 61% of total program costs in 2016. This falls within the range of 72% to 52% experienced between 2015 and 2012 (calculated on a cash-basis).

Our ***Homeless Intervention Services (HIS)*** department includes the ***Annie Ross House shelter*** and associated transitional housing program and the ***HomeBase*** program. These programs meet the needs of Clackamas County, Oregon residents who have lost their housing or are at risk of losing their housing. The programs provide emergency shelter, eviction prevention, transitional housing, and rapid rehousing along with comprehensive support services. In 2016, HIS programs helped to stabilize the housing of 235 households. In late 2014, HIS services expanded to include Pathways, a program designed to stabilize individuals diagnosed with a persistent, severe mental illness who are currently experiencing homelessness, discharging from a hospital, or transitioning from

group living into an independent living environment. The Pathways project is a collaboration with Clackamas County Behavioral Healthcare, Lifeworks NW, and Cascadia Behavioral Healthcare. In 2016, 20 individuals were stably housed by the program. The HIS department is funded primarily with public grants, contracts, and private contributions. Fully funding the programs requires NHA to provide support from our unrestricted income.

Chart A below shows the sources of revenue covering the costs of each service department – **Contributed Revenue** – **government**, **Contributed Revenue – private** (donations and private grants), **Earned Revenue** (cash fees, rents and interest earnings), and **Unrestricted Revenues** (net earnings from other NHA efforts). This chart demonstrates the blend of private and public funding of our social service programs as well as the contribution of unrestricted earnings made to each department in order to cover all costs of service delivery. Unrestricted earnings are also critical to the organization to support a strong organizational infrastructure and our affordable housing advocacy efforts.



LOOKING AHEAD – RISKS AND OPPORTUNITIES

Physical Challenges

NHA has run out of room on our campus in Milwaukie, Oregon. The Annie Ross House, while a warm and inviting remodeled house, is expensive to operate and doesn't allow for modern best practices in shelter operations. In addition to the family shelter, the 1.73 acres of our campus currently provides seven transitional units as well as

the shelter and our administrative offices. This space could be more effectively used and would allow for a small affordable housing complex.

In 2014, NHA experienced a setback in our efforts to redevelop our campus when our application for new zoning was contested by the neighborhood association. During 2015, we worked with neighbors to address their concerns, and we prepared a new application to the city. The new design will create 28-units of affordable housing, an 8-unit family shelter with a community space, and a new Opportunity Resource Center to provide offices, access to services, and a best practices research center. The new campus design was approved by the Milwaukie Planning Commission in early 2016 and was uncontested by the neighborhood association. In March 2017, we received an allocation of tax credits for the affordable housing component of the campus redevelopment. Our capital campaign for the Shelter and Resource Center is going very well, and we expect to break ground in October 2017.

Development of a larger shelter and new office building create both the opportunity to expand our programs and the risk of consuming too many NHA resources. While the capital campaign is generating a lot of community support and the development of the affordable housing will generate a cash developer fee, the redevelopment will still take a significant contribution of NHA net earnings. Management is aware of this concern and prepares long-term cash projections to monitor this risk and to prepare for changes in our already conservatively estimated future revenues.

Pipeline Challenges

The development of affordable housing has three phases – ***Predevelopment*** during which a property or land is acquired and funding is secured, ***Construction*** during which actual rehab or construction activity occurs and a developer fee is earned, and ***Close-Out*** during which the transition to permanent financing and receipt of cash developer fee occurs. The challenge is to keep a sufficient number of projects in each of these phases so that earnings remain steady, new opportunities can be pursued, and the NHA housing development staff can effectively manage projects. The Predevelopment phase is the riskiest phase for a developer as large amounts of funding are needed to secure property and to begin architectural and other development costs. These NHA out-of-pocket predevelopment dollars aren't returned to the organization until public investment and private financing are secured. With less robust public sector funding over the past several years, these resources are becoming more difficult to secure.

However, NHA's proven track record of delivering on both the development and on the ongoing asset management of properties has given it an enviable edge when requesting funding.

.During 2015 and 2016, NHA focused on developing a robust pipeline of projects – both new construction and preservation. NHA either purchased land or incurred viable exploration costs for six new projects. Three projects previously started (the Victorian-Mayfield re-syndication, the new NHA campus housing, and a veteran's housing project in Oregon City) continued within the predevelopment phase. Hawthorne East both began and completed the construction phase during 2016, and Pomeroy Place, a new 20-unit project in Washington County for veterans, started construction in December 2016. NHA also completed the close out of NHA's Ikoï So property.

During 2017, NHA will begin construction of the new Milwaukie campus and also renew our efforts to win state approval to re-syndicate two of our year-15 tax credit properties (Victorian Inn Apartments and Mayfield Court) into one partnership and rehabilitate them using 4% tax credits. By merging these properties into one partnership, we can offset the senior services and higher need of Mayfield Court with the financial strength created by the Victorian Inn's higher-rent market area with. We expect this project to begin the rehabilitation phase in late 2017. Also during 2017, we will prepare two projects currently in the predevelopment pipeline to begin construction in early 2018. To assist with this large pipeline of new projects, NHA added another experienced, full time developer to our Housing Development department in March 2017.

During the predevelopment phase, one new construction project, Sandy Workforce Housing, had serious environmental site issues. We came to a negotiated settlement with the City of Sandy during 2016 which allows them to repurchase the site for slightly less than our original purchase price. We had written off almost all of our investment in predevelopment expenses for this property (approximately \$250,000) in previous years. We had also impaired the land to 78% of its original value. The final settlement returned 83% of the original value of the land.

Investments

At the end of 2016, NHA has almost \$1.7 million invested in predevelopment costs including the purchase of land for future development. For comparison, \$2.2 million was invested at the end of 2015. Projections call for NHA predevelopment investments to range from \$1.7 to \$2.7 million over the next five years. NHA self-finances a significant portion of its predevelopment activity. NHA management has identified this opportunity as a better investment of NHA funds than is currently available through banks or other market investment products.

The NHA Board of Directors (the NHA Board) has also begun investing in current portfolio properties by replacing higher interest mortgages with loans from NHA. The first of these transactions, a \$412,000 loan to Mayfield Court, Inc., took place in early 2013, with another \$100,000 loan made to Foster Townhomes later in the year. During 2016, we made additional operating loans to Cottonwoods 1 and 2 as these properties are experiencing siding issues.

The NHA Board has also pursued more traditional investment opportunities. During 2015, the Board formed an investment committee, hired an investment manager, and invested \$1million in socially screened securities through Key Private Bank. In 2016, we contributed an additional \$100,000 to this investment. The goal is to be better stewards of our unrestricted earnings and earn a better rate of return on our cash reserves while we seek out opportunities for further self-investment. As of December 31, 2016, this investment had earned \$97,000 since its inception.

Funding Challenges

In 2013, NHA kicked-off the NHA Opportunity Fund which is a joint effort of the NHA Board, long-term donors, and business partners to establish stable funding of direct service programs. The goal of the fund is to leverage unrestricted NHA resources as a match to new funds raised through fundraising events and campaigns. The 2015 goal for the Opportunity Fund was to leverage \$300,000, and the campaign actually raised \$335,000. The 2016 goal was \$300,000 and \$394,000 was raised. Funds raised through the Opportunity Fund support our Resident Services program, HomeBase, and the Annie Ross House shelter programs.

Since the expansion of our social service programs in 2009, Clackamas County government, businesses, foundations, and individual donors have risen to the challenge and opportunity of our new social service programs and generously supported both HomeBase and the Annie Ross House shelter programs. In 2016, NHA used unrestricted funds to 'self-fund' about 24% of the full cost of these programs (about \$370,000). NHA's strategic plan and long-term cash projections address the degree to which social service programs should be self-funded from unrestricted earnings. The board and management are well aware that NHA must not risk our overall organizational mission by providing an unsustainable amount of self-funding for our social service programs. For this reason, we are expanding our efforts to increase community support of these programs.

ORGANIZATION RESOURCES AND STRENGTHS

NHA management maintains a focus on organizational strength. We are aware that our mission will not be served if the organization does not maintain fiscal and managerial strength. To that end, we focus on financial capacity, human capacity, and cash projections.

Financial capacity: Leverage and Liquidity

In order to meet the need for affordable housing for our most vulnerable citizens, the NHA parent organization must maintain liquidity and healthy cash reserves. Strong financial capacity allows us to maintain:

- A pipeline of housing projects at varying stages of development to insure a steady source of earnings to support future housing efforts
- Financial capacity, primarily in the form of adequate cash reserves (liquidity) and minimal debt (leverage), to meet the stringent underwriting and lending criteria necessary to attract project partners
- The strength to withstand economic downturns and other unforeseen funding challenges.

The following table shows trends in selected financial data for the NHA parent organization:

	2016	2015	2014	2013	2012	Goal
Current ratio ¹	9.87	11.75	13.53	15.19	15.44	>2
Number of months of operating cash ²	14	15	15	15	20	>6
Leverage ³	0.22	0.24	0.24	0.24	0.26	< 0.75
Return on net assets ⁴	2%	-5%	8%	5%	4%	>6%
Viability ratio ⁵	6.2	3.8	4.24	3.65	3.12	>1.25

¹ Current assets / current liabilities (not including development loans to be repaid using non-parent organization resources).

² (Cash and cash equivalents + investments) / (total expenses / 12 months).

³ Total liabilities / total net assets.

⁴ Change in expendable net assets / total expendable net assets at beginning of period.

⁵ Expendable net assets / (total long-term debt – deferred debt).

Human Resources

At full staffing, NHA employs 38 full-time and part-time employees. During 2016, we added one new position within Administration and Finance and a second position with the Resource Development (fundraising) department. During prior years, a pattern of mid- and upper-level turnovers resulted from staff members being recruited by outside partners. Although we keep current with industry wage trends and have a goal of compensating our staff well, we revisited our compensation structure. We have directed organization budgets to adjust salaries clos-

er to those paid by the private market in an effort to retain our talented staff. During 2016, we had only two positions turnover – 5% – compared to 34% turnover during 2014.

At NHA, the management team represents all departments in the organization and works to facilitate the flow of information and cooperation between the departments. At the end of 2016, average organizational tenure of management team members was 9 years. We believe that long tenure on the management team leads to better working relationships within the team and the organization.

Strategic Planning

During the spring of 2015, a three-year strategic plan was developed with a focus on resident and community partner participation. The strategic plan focuses on four areas that either enhance or support our mission.

- People. NHA provides services that create stability and transform lives
- Places. We develop and manage exceptional affordable housing
- Profile. We strengthen public awareness and support for NHA programs
- Process. We create processes that support organizational excellence – including the equity plan, taking advantage of information technology, and training to increase capacity

Another aspect of NHA strategic planning is our five year cash projections which are updated on a semi-annual basis. Our cash projections are designed to update to actual activity in prior quarters as well as project the effect of expected changes. These projections allow management to monitor organizational health, make timely adjustments to program budgets, and monitor the long-term effect of strategic changes such as the redevelopment of our campus.

Portfolio Strength

One important aspect of understanding the health of the NHA portfolio is the occupancy rate of our multifamily properties. NHA's portfolio maintained an average economic vacancy rate of 1.7% for 2016, with an individual property range from 0% to 5%. This rate compares very favorably to statewide rates and NHA's asset management department is focused on keeping this rate low. The chart on page iv showing the breadth of the NHA portfolio illustrates another indicator of the health of our multi-family properties – net operating cash. This cash is used to ensure that the properties remain strong both physically and financially and to pay NHA for deferred fees and loans.

Operating Efficiency

While continuing to grow in all of our program areas, NHA has maintained a balanced ratio of direct program costs to administrative expenses. Management costs and fundraising costs are 4% and 7%, respectively, of the NHA parent organization costs. Charity Navigator gives their highest score to organizations spending less than 15% on management and less than 10% on fundraising.

KEY ACCOUNTING CONCEPTS

Consolidation of Related Entities

The financial statements of not-for-profit developers were changed dramatically in 2007 with the implementation of Emerging Issues Task Force (EITF) pronouncement 04-5, and this pronouncement was reaffirmed in 2017 with Accounting Standard Update (ASU) 2017-02. This pronouncement requires the consolidation of partnership financials with the financials of the general partner regardless of ownership percentage. However, a partnership is not consolidated if the partnership agreement contains substantial participating rights of the limited partner. We interpret the majority of our partnership agreements to contain substantial participating rights of the limited partner, and therefore do not consolidate them all.

NHA consolidates six not-for-profit entities originally developed by NHA and with which we share common Board membership; three wholly-owned properties that have reached the end of their tax credit life; five entities that are in the predevelopment or acquisition phase; and fourteen entities that serve as general partners or co-developers. These properties contain 478 units. Twenty-one LIHTC entities, containing 1,025 units, are not consolidated. All entities related to the NHA parent organization are listed on page 43 of the audit. With few exceptions, those entities in the column “Equity method accounting” are not consolidated and those in the column “Full consolidation accounting” are consolidated. NHA also was the developing sponsor of three housing projects with separate boards of directors, none of which are consolidated.

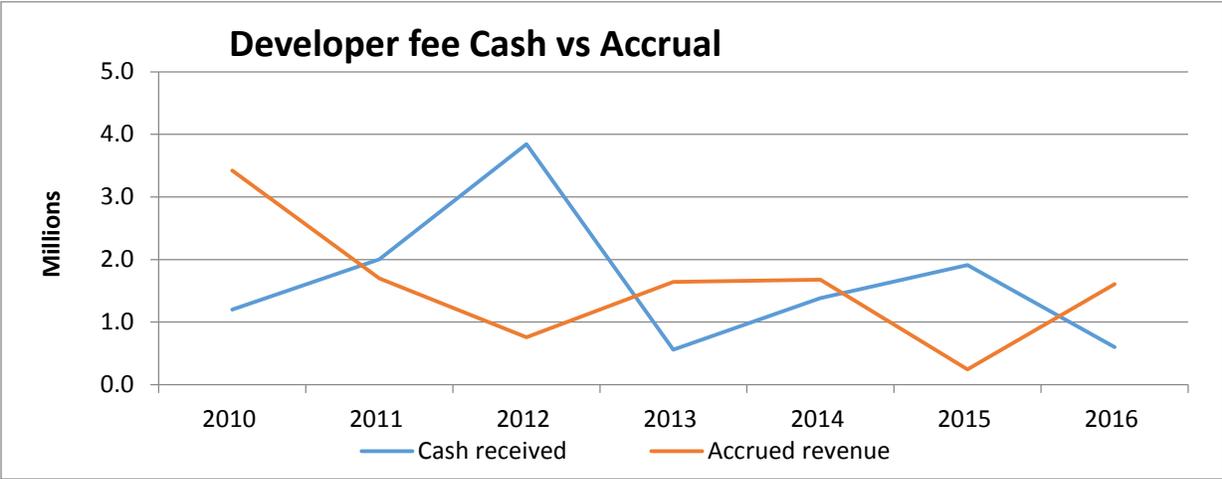
One impact of this interpretation is that operations of properties, especially existing properties acquired to preserve their affordable units, may be consolidated during the pre-development phase and then unconsolidated when a limited partner is admitted. This causes the consolidated financial statements to fluctuate in a way that is not consistent with our core operations.

Cash vs. Accrual of Developer Fees

To understand the health of the NHA parent organization, the timing of developer fee cash receipts is more important than the timing of revenue accruals. Revenue earned by the NHA parent may vary widely from year to year, and the primary factor contributing to this fluctuation is the accrual of developer fees. Developer fees earned from an unconsolidated related entity, such as a LIHTC property partnership, are recorded as revenue during the period of the construction or rehabilitation of the property.

However, the cash for these fees is paid to NHA according to a timetable established by the limited partnership agreement, and that timetable is very different from the timetable for accrual of the revenue. Historically, the delay between accruing the revenue and receiving the bulk of the cash payments has been anywhere from six to thirty-six months. Because of this timing difference, cash flow from developer fees is smoothed out over several years while earnings lump into one to two years.

The following chart shows two patterns – one is the timeline for fee accrual and the other for fee cash receipts. The 2012 revenue figures show the effect of years when a large proportion of our pipeline is in the predevelopment phase while cash is being received for fees earned in prior years. During 2013 and 2014, the difference between accrued revenue and received cash has narrowed as our pipeline smoothed. In 2015, we had no projects move forward and our accrual was at a low point; however, we brought in almost \$2 million in cash receipts.



Write Down of Long-Term Receivables

NHA has made the decision to create an allowance against the revenue generated when we accrue certain fees payable to us by the properties. Management believes that our receivables and our net assets would be significantly overstated if we did not record these offsets.

NHA earns fees as defined by the partnership agreements for the ongoing asset management or administration of the properties. These fees are collected on a pre-defined schedule dependent on the availability of cash from each property. If management analysis reveals that we do not expect to receive payment on a fee for a number of years, then a calculation is made of the present value of the expected future cash flows from that fee. Using that present value calculation, we create an allowance expense which offsets both the recorded revenue and the related receivable to its net realizable value.

In a similar manner, NHA management has elected to create an allowance against the receivable created when we loan funds into the properties. Most of these “sponsor loans” are made using funds granted to NHA by public or private partners. The grants create revenue to NHA. NHA’s loan to the property often creates a large receivable. By creating an allowance expense, we are able to offset the grant revenue, and the related receivable, to its net realizable value.

In the audit presentation, Notes D and E disclose the detail behind these allowances. The expense lines which create the fee allowances are titled “Provision for the doubtful collection of receivables.” The loans are written down under the Non-operating activities section using the expense titled “Provision for the non-collection of loans to affiliated organizations.”

CONCLUSION

NHA is a strong and active organization. With a thirty-four year track record, a substantial scope of services, a strong management team and board, and solid organizational systems, NHA looks forward to many more productive years of creating opportunity through affordable housing.



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated and combined financial statements of Northwest Housing Alternatives, Inc. and Subsidiaries (a nonprofit organization), which comprise the consolidated and combined statement of financial position as of December 31, 2016, and the related consolidated and combined statements of activities, functional revenues and expenses and cash flows for the year then ended, and the related consolidated and combined notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of College Manor Associates, Inc., Oakhill Associates, Inc., Ridgeway Village Associates, Inc., Saginaw Village Associates, Inc., Sunnyslope Manor Associates, Inc., Mayfield Court, Inc., Oak Associates, LP, Rosemont Senior Housing Associates, LP, and Victorian Inn Holdings, LLC (Other Subsidiaries), a combined entity, which statements reflect total assets of \$15,391,133 as of December 31, 2016, and the total support and revenues of \$4,014,240 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for the Other Subsidiaries, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of the other auditors, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of Northwest Housing Alternatives, Inc. and Subsidiaries as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

KERN & THOMPSON, LLC

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of *Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Requirement by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2017, on our consideration of Northwest Housing Alternatives, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northwest Housing Alternatives, Inc. and Subsidiaries' internal control over financial reporting and compliance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information on pages 28-33 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

The financial statements of Northwest Housing Alternatives, Inc. and Subsidiaries as of December 31, 2015 were audited by other auditors whose report dated June 24, 2016 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Kern & Thompson, LLC

Portland, Oregon
July 6, 2017

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATED AND COMBINED STATEMENT OF FINANCIAL POSITION
December 31, 2016

(With Comparative Totals as of December 31, 2015)

ASSETS		
	2016	2015
Current assets:		
Cash and cash equivalents	\$ 5,520,768	\$ 6,126,006
Tenant and other receivables	275,419	67,466
Investments (Note R)	1,707,334	1,337,660
Grant and contract payments receivable	362,486	397,330
Prepaid expenses and deferred charges	164,058	158,071
Current fees receivable from affiliated organization (Note D)	961,285	804,499
Current notes receivable from affiliated organization (Note E)	123,250	-
Total current assets	9,114,600	8,891,032
Investments in affiliated organizations (Note F)	1,966,811	2,600,497
Required deposits and funded reserves (Note G)	2,936,500	2,227,280
Long-term fees receivable from affiliated organizations (Note D)	1,470,299	717,816
Notes receivable from affiliated organizations (Note E)	419,068	590,527
Land, buildings, and equipment (Note H)	27,530,722	28,386,837
Total assets	\$ 43,438,000	\$ 43,413,989
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 536,131	\$ 335,738
Construction payable	78,303	94,492
Accrued payroll and related expenses	116,987	94,753
Payments to affiliates	42,365	-
Current portion of long-term debt (Note I)	596,281	6,511,653
Deferred revenue	336,066	135,373
Total current liabilities	1,706,133	7,172,009
Funds held on behalf of others	150,765	132,555
Long-term interest payable (Note I)	1,412,064	704,239
Long-term debt, less current portion (Note I)	14,465,360	11,398,925
	\$ 17,734,322	\$ 19,407,728
Net assets		
Unrestricted		
Available for general operations and programs	6,355,491	6,897,958
Designated by Board (Note K)	1,777,000	1,587,000
Required deposits and funded reserves (Note G)	2,936,500	2,227,280
Net investment in capital assets and affiliated organizations	14,435,892	13,076,756
Total unrestricted	25,504,883	23,788,994
Temporarily restricted	198,795	217,267
Total net assets	25,703,678	24,006,261
Total liabilities and net assets	\$ 43,438,000	\$ 43,413,989

See notes to consolidated and combined financial statements.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATED AND COMBINED STATEMENT OF ACTIVITIES

Year Ended December 31, 2016

(With Comparative Totals for the Year Ended December 31, 2015)

	Unrestricted	Temporarily Restricted	Total	
	2016	2015	2016	2015
Operating revenues, gains and other support:				
Government grants and contracts	\$ 1,667,472	\$ -	\$ 1,667,472	\$ 1,815,204
Private grants and contributions	153,387	218,410	371,797	480,496
Special events, net of direct costs of \$20,671 in 2016 and \$22,801 in 2015	124,877	-	124,877	94,761
In-kind contributions	51,260	-	51,260	92,798
Trust deed note installments forgiven	114,933	-	114,933	108,758
Rental income	4,898,249	-	4,898,249	4,734,013
Development fees from equity affiliates	1,481,299	-	1,481,299	278,495
Consulting and asset management fees	228,114	-	228,114	279,332
Resident service fees	193,352	-	193,352	233,756
Interest income from affiliates	495,688	-	495,688	661,915
Investment income	132,466	-	132,466	7,970
Change in equity interest in affiliated organizations	(252,182)	-	(252,182)	(204)
Other	121,410	-	121,410	140,937
	9,410,325	218,410	9,628,735	8,928,231
Net assets released from restrictions for operating purposes	242,787	(242,787)	-	-
Total operating revenues, gains, and other support	9,653,112	(24,377)	9,628,735	8,928,231
Expenses				
Program services				
Homeless intervention services	1,535,270	-	1,535,270	1,227,104
Group homes	1,259,986	-	1,259,986	1,217,734
Housing development and advocacy	856,641	-	856,641	940,013
Asset management	819,179	-	819,179	717,900
Resident services	573,373	-	573,373	550,212
Consolidated housing subsidiaries	4,222,737	-	4,222,737	4,243,674
Total program services	9,267,186	-	9,267,186	8,896,637
Supporting services				
Management and general	189,744	-	189,744	181,538
Fundraising	344,435	-	344,435	271,930
Total expenses	9,801,365	-	9,801,365	9,350,105
Increase (decrease) in net assets before non-operating activities	(148,253)	(24,377)	(172,630)	(421,874)
Non-operating activities:				
Capital grants received for the acquisition of property	1,283,468	167,760	1,451,228	237,237
Capital assets sales gain/loss	(90,361)	-	(90,361)	-
Provision for the non-collection of loans to affiliated organizations	(403,337)	-	(403,337)	(151,493)
Forgiveness of debt	416,073	-	416,073	-
Recovery of fees upon consolidation	-	-	-	-
Assignment of equity interest in limited partnership to NHA	-	-	-	-
Impairment loss on property	-	-	-	(125,416)
Net assets released from restrictions for capital purposes	161,855	(161,855)	-	-
Other non-operating grants and transfers	496,444	-	496,444	50,000
Total non-operating activities	1,864,142	5,905	1,870,047	10,328
Increase in net assets	1,715,889	(18,472)	1,697,417	(411,546)
Net assets at beginning of year	23,788,994	217,267	24,006,261	24,417,807
Net assets at end of year	\$ 25,504,883	\$ 198,795	\$ 25,703,678	\$ 24,006,261

See notes to consolidated and combined financial statements.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATED AND COMBINED STATEMENT OF FUNCTIONAL REVENUES AND EXPENSES
Year Ended December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	PROGRAM SERVICES						SUPPORTING SERVICES				
	Homeless Intervention Services	Group Homes	Housing Development and Advocacy	Asset Management	Resident Services	Consolidated Housing Subsidiaries	Total	Management and General	Fund- Raising	Total	
										2016	2015
Operating revenues, gains and other support:											
Government grants and contracts	\$ 908,075	\$ 696,756	\$ -	\$ 28,211	\$ 1,585	\$ -	\$ 1,634,627	\$ -	\$ 32,846	\$ 1,667,473	\$ 1,815,204
Private grants and contributions	25,142	-	8,125	-	2,695	-	35,962	-	335,835	371,797	480,496
Special events, net of direct costs	-	-	-	-	-	-	-	-	124,877	124,877	94,761
In-kind contributions	32,628	-	-	-	9,802	-	42,430	-	8,830	51,260	92,798
Trust deed note installments forgiven	-	114,933	-	-	-	-	114,933	-	-	114,933	108,758
Rental income	29,791	632,027	-	296,905	-	3,939,526	4,898,249	-	-	4,898,249	4,734,013
Development fees from equity affiliates	-	-	1,481,299	-	-	-	1,481,299	-	-	1,481,299	278,495
Consulting and asset management fees	-	-	-	228,114	-	-	228,114	-	-	228,114	279,332
Resident service fees	-	-	-	-	193,352	-	193,352	-	-	193,352	233,756
Interest income from affiliates	-	-	620,674	-	-	3,364	624,038	-	-	624,038	661,915
Investment income	-	-	-	-	-	4,116	4,116	-	-	4,116	7,970
Change in equity interest in affiliated organizations	-	-	(212,644)	-	-	(39,538)	(252,182)	-	-	(252,182)	(204)
Other	2,002	247	44,507	26,724	-	(4,866)	68,614	6,502	46,293	121,409	140,937
Total revenues	997,638	1,443,963	1,941,961	579,954	207,434	3,902,602	9,073,552	6,502	548,681	9,628,735	8,928,231
Expenses:											
Salaries and related costs	\$ 861,946	\$ 169,955	\$ 428,740	\$ 379,711	\$ 503,954	\$ 940,280	\$ 3,284,586	\$ 85,658	\$ 253,673	\$ 3,623,917	\$ 3,064,163
Professional services	44,638	-	-	17,045	3,955	46,545	112,183	59,070	45,972	217,225	1,051,451
Management fees	-	-	-	-	-	27,541	27,541	-	-	27,541	239,120
Direct client assistance	482,058	-	-	26,381	10,282	274	518,995	-	-	518,995	346,033
Supplies	4,589	253	21,803	4,697	11,493	2,683	45,518	27,524	23,233	96,275	288,321
Communications	5,187	678	3,059	2,407	3,728	493	15,552	1,004	1,570	18,126	61,008
Travel	1,823	2,509	521	3,883	17,996	-	26,732	612	624	27,968	36,604
Seminars and conferences	11,976	3,575	10,337	8,181	7,542	-	41,611	13,117	3,694	58,422	41,525
Insurance	3,455	-	-	-	-	175,894	179,349	-	-	179,349	148,678
Occupancy	21,558	-	-	-	-	1,668,277	1,689,835	-	-	1,689,835	1,222,879
Interest	-	99,139	-	29,225	-	128,309	256,673	-	-	256,673	651,993
Provision for the doubtful collection of receivables	2,860	-	379,911	115,539	-	-	498,310	-	-	498,310	698,396
Community building	1,027	67	-	-	-	-	1,094	-	12,772	13,866	15,981
Other	64,085	601,335	-	141,384	9,802	140,066	956,672	-	-	956,672	169,270
Depreciation and amortization	30,068	382,475	12,270	90,726	4,621	1,092,375	1,612,535	2,759	2,897	1,618,191	1,314,683
Total expenses	\$ 1,535,270	\$ 1,259,986	\$ 856,641	\$ 819,179	\$ 573,373	\$ 4,222,737	\$ 9,267,186	\$ 189,744	\$ 344,435	\$ 9,801,365	\$ 9,350,105
Non-operating activities:											
Capital grants received for the acquisition of property	\$ -	\$ -	\$ 403,207	\$ -	\$ -	\$ 947,521	\$ 1,350,728	\$ -	\$ 100,500	\$ 1,451,228	\$ 237,237
Capital assets sales gain/loss	-	-	(65,361)	-	-	(25,000)	(90,361)	-	-	(90,361)	-
Provision for the non-collection of loans to affiliated organizations	-	-	(388,337)	(15,000)	-	-	(403,337)	-	-	(403,337)	(151,493)
Forgiveness of debt	-	-	-	-	-	416,073	416,073	-	-	416,073	-
Recovery of fees upon consolidation	-	-	-	-	-	-	-	-	-	-	-
Assignment of equity interest in limited partnership to NHA	-	-	-	-	-	-	-	-	-	-	-
Impairment loss on property	-	-	-	-	-	-	-	-	-	-	(125,416)
Net assets released from restrictions for capital purposes	-	-	-	-	-	-	-	-	-	-	-
Other non-operating grants and transfers	-	-	(62,260)	-	-	558,704	496,444	-	-	496,444	50,000
	\$ -	\$ (112,751)	\$ (15,000)	\$ -	\$ -	\$ 1,897,298	\$ 1,769,547	\$ -	\$ 100,500	\$ 1,870,047	\$ 10,328

See notes to consolidated and combined financial statements.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATED AND COMBINED STATEMENT OF CASH FLOWS
Year Ended December 31, 2016

(With Comparative Totals for the Year Ended December 31, 2015)

	2016	2015
Cash flows from operating activities:		
Cash received from tenants, contractors, grantors, and donors	\$ 9,027,713	\$ 7,047,169
Cash received from development, management, and other fees	1,113,187	2,233,057
Cash received for interest	112,431	29,108
Cash paid to employees and suppliers	(9,545,857)	(6,506,537)
Cash paid for interest	(256,673)	(589,717)
Net cash provided by (used in) operating activities	450,801	2,213,080
Cash flows from investing activities:		
Capital expenditures for project in pre-development	(1,304,536)	(1,134,158)
Capital expenditures for NHA acquisitions and rehabilitations	(710,055)	(595,377)
Capital expenditures for acquisitions and rehabilitations by subsidiaries	(189,988)	(296,959)
Proceeds from the sale of capital assets	460,000	-
Net change to restricted cash reserves	(238,906)	461,834
Purchase of investments	(300,000)	(977,897)
Proceeds from the sale of investments	-	195,000
<i>Investing cash flows associated with affiliated organizations:</i>		
Investments in affiliated organizations	381,504	(396,113)
Loans made to affiliated organizations	-	(209,130)
Payments received on loans to affiliated organizations	-	231,512
Net cash provided by (used in) investing activities	(1,901,981)	(2,721,288)
Cash flows from financing activities:		
Repayment of long-term debt	(957,649)	(812,620)
Proceeds from issuance of debt	352,363	887,070
Proceeds from capital grants restricted for property acquisition	1,451,228	187,237
Proceeds from grants restricted for capital improvements	-	50,000
Net cash provided by (used in) financing activities	845,942	311,687
Net increase (decrease) in cash and cash equivalents	(605,238)	(196,521)
Cash and cash equivalents at beginning of year	6,126,006	6,322,527
Cash and cash equivalents at end of year	\$ 5,520,768	\$ 6,126,006

See notes to consolidated and combined financial statements.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
December 31, 2016

NOTE A – DESCRIPTION OF ORGANIZATION

1. Organization

Northwest Housing Alternatives, Inc. (“NHA”) is a nonprofit organization founded in 1982 to provide a wide range of affordable housing options for Oregonians who earn low incomes including families, seniors, and people with special needs. The organization has a portfolio that includes 100 properties with 1,865 units of housing in fifteen Oregon counties. NHA’s mission is to create opportunity through housing.

2. Program Services

During the year ended December 31, 2016, NHA provided services in the following major program areas:

Homeless Intervention Services – This department includes both the Annie Ross Programs and HomeBase.

Annie Ross Programs – The Annie Ross House provides shelter and services to five Clackamas County families who are experiencing homelessness. NHA Transitional Housing units provide homes for another five families who are transitioning out of homelessness. In 2016, 51 households were served through both programs.

HomeBase – This community-based program provides both eviction prevention services to households to stop homelessness before it begins and rapid rehousing to move households who are experiencing homelessness into their own home. In late 2014, this program expanded into “Pathways” where we work in collaboration with community partners to provide market housing and wrap around services to individuals living with persistent mental illness. In 2016, 184 households were served. Twenty of these households were in the Pathways program.

Housing Development and Advocacy – NHA is a leading developer of affordable rental communities and group homes. NHA combines federal, state, and local government programs with financing from banks, private investors, and charitable foundations in order to develop and preserve affordable housing. In 2016, NHA completed rehabilitation of Hawthorne East Apartments, a 71-unit senior housing property in Multnomah County. Also in 2016, NHA started construction on Pomeroy Place Apartments, a 20 unit veterans’ housing community in Washington County. Additionally in 2016, NHA acquired a parcel of land located in Oregon City, Clackamas County, Oregon for the development of a 22 unit veteran-specific property. Finally, in 2016 NHA entered into a lease option agreement on a parcel of land in the Alphabet District of the City of Portland for the purposes of developing 150 units of housing for seniors, veterans, and people with disabilities. NHA also seeks to advance the importance of affordable housing in the public policy sphere.

Asset Management – NHA provides asset and partnership management to 36 multifamily properties totaling 1,593 units. The funding and regulatory requirements for these properties include LIHTC, HUD 202 & 811, HOME, CDBG, Trust fund, and other sources. These properties provide affordable housing for the community and some properties provide specialized housing for individuals with chronic mental illness or in recovery from addictions. Our asset management insures the financial viability, physical longevity, and risk management of our multi-family assets.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE A – DESCRIPTION OF ORGANIZATION (CONTINUED)

Group Homes – NHA owns and manages 57 group homes along with seven small properties with a total of 272 units across Oregon. The group homes serve individuals living with developmental disabilities, chronic mental illness, and individuals in recovery. The homes are leased by licensed care providers. The small properties serve formerly homeless families.

Resident Services – NHA links residents of multi-family and senior properties across the state to services that keep them stable in their housing and connected to their community. Core services include eviction prevention, information and referral, and onsite programming targeted to a specific building's population. In 2016, Resident Services responded to 8,475 requests for services, coordinated 720 onsite events for NHA residents, and leveraged over \$33,000 in volunteer and in-kind resources. Additionally, the department continued an Individual Development Account (IDA) program in partnership with CASA of Oregon. This program provides NHA residents with a matched savings account that can then be used to fund their first home or post-secondary education. At year-end, participants in the IDA program had a matched savings balance of over \$64,000 to go toward homeownership or post-secondary education.

Consolidated Housing Subsidiaries – NHA creates and maintains attractive, financially healthy, and affordable rental housing. This program summarizes the operations of the consolidated entities including five LIHPRHA projects, one preservation acquisition property, four former LIHTC properties, four entities formed to develop new projects, and 14 entities organized to invest in LIHTC projects.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

Basis of Consolidation

The accompanying financial statements include all accounts and activities of NHA, including all wholly-owned and majority-owned subsidiaries, joint ventures and partnerships, and all nonprofit organizations in which NHA has a controlling financial and economic interest.

Low-Income Housing Preservation and Resident Homeownership Act (LIHPRHA) – Non-Profit Organizations – Projects organized and operated under Section 236 of the National Housing Act:

- College Manor Associates, Inc.
- Oakhill Associates, Inc.
- Ridgeway Village Associates, Inc.
- Saginaw Village Associates, Inc.
- Sunnyslope Manor Associates, Inc.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Consolidation (Continued)

Wholly-owned LIHTC – Projects organized under Section 42 of the Internal Revenue Code:

- Mayfield Court, Inc.
- Oak Associates, LP
- Rosemont Senior Housing Associates, LP
- Victorian Inn Holdings, LLC

LLC formed to develop Foster Townhomes, LP:

- Pleasant Valley Homes, LLC

Entities formed to acquire and develop new low-income housing

- Blanton Street Housing GP, LLC
- Hawthorne East Acquisition, LLC
- Sandy Workforce Housing, LP
- Victorian Mayfield Revitalization, LP

24 entities organized under the laws of the State of Oregon to invest in LIHTC projects

- | | |
|---------------------------------------|----------------------------------|
| • 333 Associates, LLC | • Ikoi So Terrace GP, LLC |
| • 333 Interim, LLC | • Oakridge GP, LLC |
| • Alma GP, LLC | • Quimby GP, LLC |
| • Autumn Park GP, LLC | • Rosemont Renewal, LLC |
| • Charleston GP, LLC | • Pleasant Street Housing, LLC |
| • Creekside GP, LLC | • Seneca Terrace GP, LLC |
| • Foster GP, LLC | • Siuslaw Dunes Acquisition, LLC |
| • The Headwaters GP, LLC | • Spring Renewal GP, LLC |
| • Hawthorne Renewal GP, LLC | • Upshur GP, LLC |
| • Hermiston Housing GP, LLC | • Victorian Mayfield GP, LLC |
| • Hollyfield Village Acquisition, LLC | • Villa St. Rose Management, LLC |
| • Hotel Julian Acquisition, LLC | • Weidler Renewal GP, LLC |

Investments in affiliated organizations in which NHA has significant ownership interests, and where the organization exercises significant influence over the operating and financial policies of the affiliate, are accounted for using the equity method. The equity method of accounting is also followed for other investments in limited partnerships for which NHA serves as sponsor and general partner, and in which it holds an equity interest. NHA's share of affiliate earnings is included in the consolidated statement of activities. See Note C for a summary of NHA's investments in affiliated organizations.

All significant inter-organizational investments, accounts, and transactions have been eliminated.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

NHA has adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 958-605, Revenue Recognition, and FASB ASC No. 958-205, Presentation of Financial Statements. Under these provisions, net assets and all balances and transactions are presented 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** – Net assets not subject to donor-imposed stipulations.
- **Temporarily Restricted Net Assets** – Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/ or the stipulated time period has elapsed) are reported as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions of Long-Lived Assets

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted asset class. Contributions of cash or other assets to be used to acquire property and equipment with donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Contributions

A number of unpaid volunteers have made significant contributions of their time to develop and implement the organization's programs. In accordance with FASB ASC No. 958-605, significant services received which create or enhance a nonfinancial asset or require specialized skills that the organization would have purchased if not donated are recognized in the consolidated statement of activities. During the year ended December 31, 2016, there were no contributed services.

In-kind contributions of equipment and other materials are recorded where there is an objective basis upon which to value these contributions and where the contributions are an essential part of the organization's activities. During the year ended December 31, 2016, \$51,260 of contributed property, equipment, and materials were recorded.

Cash and Cash Equivalents

For purposes of the financial statements, the organization considers all liquid investments having initial maturities of three months or less to be cash equivalents.

Investments

Investments are carried at fair value. Net appreciation (decline) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (decline) of those investments, is shown in the consolidated statement of activities. Interest income is accrued as earned, and reported net of investment advisory fees. Security transactions are recorded on a trade date basis.

Capital Assets and Depreciation

Land, buildings, and equipment are carried at cost, and initially at fair value when acquired by gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which is generally 5 to 40 years for buildings and improvements, 5 years for automobiles, and 3 to 5 years for furnishings and equipment. Expenditures of less than \$5,000 for maintenance, repairs and minor renewals to maintain facilities in operating condition are generally expensed as incurred. Major replacements and renewals of \$2,000 or more are capitalized.

Development Properties

Properties acquired and held for development are recorded at acquisition cost, plus all costs associated with repair and rehabilitation of the property and other amounts incurred to make the properties ready for their intended use. In addition, certain indirect costs associated with the acquisition of properties are capitalized and allocated to the properties to which the costs relate, including interest expense which is capitalized in accordance with FASB ASC No. 835-20, Capitalization of Interest. During the year ended December 31, 2016, capitalized interest costs were immaterial. Costs incurred for such items after the property has been substantially completed and made ready for its intended use, and indirect costs that do not relate to the property acquired, including general and administrative expenses, are charged to expense as incurred. Depreciation is recorded on all completed and occupied properties.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

All contributions and grants are considered available for the unrestricted general operations of the organization unless specifically restricted by a donor. Restricted revenues received and expended in the same period are reported in the unrestricted net asset class. Revenues for services are recognized at the time services are provided and the revenues are earned.

Income Taxes

NHA is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law. In addition, the organization has been recognized as a public charity under Section 509(a)(1) of the Internal Revenue Code. Single member LLCs wholly-owned by NHA are treated, for tax purposes, as disregarded entities, with the exception of Upshur GP, LLC and Hollyfield Village Acquisition, LLC, which have elected to be treated as corporations.

Limitations on Certain Unrestricted Net Assets

A certain portion of the organization's unrestricted net assets is limited by contract to use within the program from which it was generated. In these cases, surplus funds are neither refundable nor payable to the contractor, but are generally limited to providing an extension or continuation of specific program services. In addition, and despite the control that NHA exercises over organization affiliates, the net assets of affiliates are not generally available to the parent organization due to restrictions that have been imposed by external grantors and contractors.

Concentrations of Credit Risk

The organization's financial instruments consist primarily of cash equivalents, certificates of deposit, and money market funds, which may subject the organization to concentrations of credit risk as, from time to time, for example, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). In addition, the market value of securities is dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values.

All checking and savings accounts, money market deposit accounts, and certificates of deposit are insured by the FDIC for up to \$250,000 per depositor, per insured bank. At December 31, 2016, uninsured cash balances totaled \$4,292,055.

Certain receivables may also, from time to time, subject the organization to concentrations of credit risk. To minimize its exposure to significant losses from customer or donor insolvencies, the organization's management evaluates the financial condition of its customers and donors, and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics. When necessary, receivables are reported net of an allowance for uncollectible accounts.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Results

Operating results reported in the consolidated statement of activities reflect all transactions that change unrestricted net assets, except for capital grants received for the acquisition of property, bad debt expenses associated with notes to affiliates for capital purposes, transfers of equity interests, gains and losses on the sale or disposal of assets, and losses on the impairment of property.

Prior Year Summarized Financial Information

The accompanying financial information as of and for the year ended December 31, 2015 is presented for comparative purposes only and is not intended to represent a complete financial statement presentation.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the following notes.

NOTE C – AFFILIATED ORGANIZATIONS

NHA is affiliated with the following organizations directly as General Partner, or indirectly through its Disregarded Entity which is the General Partner, and shares in residual profits and losses to the extent of their ownership percentage:

Direct Ownership:

<u>Organization</u>	<u>Ownership %</u>
Cottonwood I Renewal, LLC	0.01%
Cottonwood II Renewal, LLC	0.01%
Roselyn Renewal, LLC	0.01%
Trenton Terrace, LP	0.01%

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE C – AFFILIATED ORGANIZATIONS (CONTINUED)

Indirect Ownership:

Organization	Disregarded Entity	Ownership %
Alma Gardens, LP	Alma Gardens GP, LLC	0.01%
Autumn Park Renewal, LP	Autumn Park GP, LLC	0.01%
Charleston, LP	Charleston GP, LLC	0.01%
Creekside Woods, LP	Creekside GP, LLC	0.01%
Foster Townhomes, LP	Foster GP, LLC	0.01%
Hawthorne Renewal, LP	Hawthorne Renewal GP, LLC	0.01%
Hollyfield Village Apartments, LP	Hollyfield Village Acquisition, LLC	0.01%
Ikoï So Terrace Renewal, LP	Ikoï So Terrace GP, LLC	0.01%
Oakridge Park, LP	Oakridge GP, LLC	0.01%
Quimby Housing, LP	Quimby GP, LLC	0.01%
Rosemont Town Homes Associates, LP	Villa St. Rose Management, LLC	0.01%
Seneca Terrace Renewal, LP	Seneca Terrace GP, LLC	0.01%
Siuslaw Dunes Renewal, LP	Siuslaw Dunes Acquisition, LLC	0.01%
Spring Housing, LP	Spring Renewal GP, LLC	0.01%
Upshur Renewal Housing, LP	Upshur GP, LLC	0.01%
Village at the Headwaters, LP	The Headwaters GP, LLC	0.01%
Weidler Renewal, LP	Weidler Renewal GP, LLC	0.01%

Sponsored Projects and Other Interests:

River Glen Associates, Inc. – NHA is the sponsor and management agent of River Glen Associates, Inc., a LIHPRHA project operated under the control of a separate Board of Directors and not included in the accompanying financial statements.

Other Projects – NHA also is the sponsor of the Fisher Ridge and Meadowlark projects.

Summarized revenues, net of allowances and discounts, resulting from the relationships and transactions described above for the year ended December 31, 2016 are as follows:

Revenues:	
Development fees	\$ 1,481,299
Asset management fees	221,360
Resident service fees	169,685
Interest income	<u>495,688</u>
	<u>\$ 2,368,032</u>

Related-party interest income is generated by notes receivable and development fees receivable due from affiliated organizations (also see Notes E and D).

Currently in Formation, indirect 100% ownership and consolidated:

Sandy Workforce Housing, LP – As of June 4, 2012, NHA is the initial limited partner (through Initial LP, LLC) and the general partner (through Sandy GP, LLC).

Victorian Mayfield Revitalization, LP – As of October 31, 2014, NHA is the initial limited partner (through Initial LP, LLC) and the general partner (through Victorian Mayfield GP, LLC) in this entity.

Blanton Street Housing GP, LLC – As of June 1, 2016, NHA is the sole partner in this entity.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE D – FEES RECEIVABLE FROM AFFILIATED ORGANIZATIONS

At December 31, 2016, amounts due from affiliates for development fees, asset management fees, and resident services fees, net of \$727,417 in allowances for non-collection, consist of the following:

	Development Fees	Asset Management Fees	Resident Service Fees	Allowance	Total
<i>Current:</i>					
Alma Gardens, LP	\$ -	\$ 25,000	\$ -	\$ -	\$ 25,000
Autumn Park Renewal, LP	-	-	29,173	-	29,173
Charleston, LP	-	-	-	-	-
Cottonwood 1 Renewal, LLC	-	-	-	-	-
Foster Townhomes	-	-	14,375	-	14,375
Hawthorne Renewal, LP [E]	668,770	-	-	-	668,770
Hollyfield Village Apartments, LP [D]	15,000	-	-	-	15,000
Hotel Julian Community, LLC	-	-	-	-	-
Ikoï So Terrace Renewal, LP [A]	50,000	-	12,443	-	62,443
Oakridge Park, LP	-	19,964	-	-	19,964
Pleasant Valley Homes	36,068	-	-	-	36,068
Quimby Housing, LP	-	5,970	-	-	5,970
River Glen Apartments	-	-	8,402	-	8,402
Roselyn Renewal, LLC	-	-	-	-	-
Rosemont Townhomes, LP	-	10,190	3,437	-	13,627
Seneca Terrace Renewal, LP	-	-	-	-	-
Siuslaw Dunes Renewal, LP	-	26,523	-	-	26,523
Spring Housing, LP	-	11,255	-	-	11,255
Trenton Terrace, LP	-	18,267	-	-	18,267
Upshur Renewal Housing, LP	-	6,448	-	-	6,448
Weidler Renewal, LP	-	-	-	-	-
	<u>\$ 769,838</u>	<u>\$ 123,617</u>	<u>\$ 67,830</u>	<u>\$ -</u>	<u>\$ 961,285</u>
<i>Long-term:</i>					
Autumn Park Renewal, LP [B]	\$ 205,901	\$ 504,109	\$ -	\$ (504,109)	\$ 205,901
Charleston, LP	-	-	-	-	-
Cottonwood 1 Renewal, LLC	-	1,746	1,746	-	3,492
Foster Townhomes	-	-	-	-	-
Hawthorne Renewal, LP [E]	511,230	-	-	-	511,230
Hollyfield Village Apartments, LP [D]	179,663	-	-	-	179,663
Ikoï So Terrace Renewal, LP [A]	254,912	17,800	-	-	272,712
River Glen Apartments	-	86,788	-	(86,788)	-
Rosemont Townhomes, LP	-	-	-	-	-
Seneca Terrace Renewal, LP [C]	405,392	-	-	(136,520)	268,872
Trenton Terrace, LP	-	-	-	-	-
Village at the Headwaters, LP	-	13,048	-	-	13,048
Weidler Renewal, LP	-	8,207	7,174	-	15,381
	<u>\$ 1,557,098</u>	<u>\$ 631,698</u>	<u>\$ 8,920</u>	<u>\$ (727,417)</u>	<u>\$ 1,470,299</u>

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE D – FEES RECEIVABLE FROM AFFILIATED ORGANIZATIONS (CONTINUED)

[A] In 2014, NHA entered into a development services agreement (DSA) with Ikoï So Terrace Renewal, LP. In consideration of the services provided, NHA is entitled to \$700,000 in development fees generated by the project to be recognized based on the percentage completed each year. At December 31, 2015, the project was 100% complete with NHA earning \$700,000. At December 31, 2016, Ikoï So Terrace Renewal, LP owed \$304,912 to NHA.

[B] In 2005, NHA (through Autumn Park GP, LLC) entered into a DSA with Autumn Park Renewal, LP. In consideration of the services provided, NHA earned \$850,000 in development fees generated by the project. Interest on the outstanding balance is calculated at 5.5% according to the development services agreement. Total unpaid developer fees, including accrued interest, at December 31, 2016 is \$205,901, and is subject to the availability of cash and subordinate to cash that may be required for the underwriting of operating deficits and other costs.

At December 31, 2015, Autumn Park Renewal, LP also owed \$504,109 to NHA for partnership management fees and tax credit monitoring fees accrued. This amount has been fully reserved.

[C] In 2010, NHA entered into a DSA with Seneca Terrace Renewal, LP. In consideration of the services provided, NHA earned the full \$625,000 in development fees in 2010.

[D] In 2013, NHA entered into a DSA with Hollyfield Village Apartments, LP. In consideration of the services provided, NHA is entitled to \$735,000 in development fees generated by the project to be recognized based on the percentage completed each year. At December 31, 2013, the project was 100% complete with NHA earning the \$735,000 fee. At December 31, 2016, Hollyfield Village Apartments, LP owed \$194,663 to NHA.

[E] In 2016, NHA entered into a DSA with Hawthorne Renewal, LP. In consideration of the services provided, NHA is entitled to \$1,480,000 in development fees generated by the project to be recognized based on the percentage completed each year. At December 31, 2016, the project was 100% complete with NHA earning the \$1,480,000 fee. At December 31, 2016, Hawthorne Renewal, LP owed \$1,180,000 to NHA.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE E – NOTES RECEIVABLE FROM AFFILIATED ORGANIZATIONS

Notes receivable from affiliates are financed by outside funders and are advanced to affiliate directly or through a disregarded entity. In the event of a default, all principal and interest are due immediately. NHA provides financing to its affiliated organizations for the development of affordable housing by the issuance of promissory notes. Given that the conditions precedent to repayment of the loans are unlikely to occur, NHA's management has elected to reserve amounts advanced, including accrued interest on the notes. In many cases, the full amount of the loan is reserved.

Entity	Year Financed	Interest At %	Payment Details	Principal and Interest Due	Principal and Interest Balance	Allowance	Net
Autumn Park Renewal, LP	2004	1.00%	Optional payments of principal. No payments during the term of the loan are required.	December 2044	313,517	(313,517)	-
Charleston, LP	2008	4.46%	Unpaid principal and interest due at maturity.	June 2049	2,293,083	(2,293,083)	-
Charleston, LP	2008	2.75%	Payable out of cash flow.	July 2048	267,924	(267,924)	-
Cottonwood I Renewal, LLC	2009	1.00%	Payable solely through Gross Revenue. Unpaid principal and interest due at maturity. Per note: Payable solely through Gross Revenue.	December 2049	169,376	(162,821)	6,555
Cottonwood II Renewal, LLC	2009	1.00%	Principal due at maturity subject to sufficient cash flow.	December 2049	609,286	(597,322)	11,964
Creekside Woods, LP	2009	0.00%	Unpaid principal due at maturity.	February 2051	5,505,700	(5,246,605)	259,095
Creekside Woods, LP	2009	0.00%	Payments shall be made from cash flows from property.	December 2065	150,000	(150,000)	-
Foster Townhomes, LP	2013	2.50%	Unpaid principal due at maturity.	January 2021	107,973	-	107,973
Hollyfield Village Apartments, LP	2013	0.00%	Annual payments in arrears subject to cash flow.	April 2043	613,642	(613,642)	-
Hollyfield Village Apartments, LP	2013	8.00%	Payable out of cash flow.		37,136	(37,136)	-
Ikoï So Terrace Renewal, LP	2014	7.00%	No payments during the term of the loan are required.	December 2063	234,138	(234,138)	-
Oakridge	2010	3.50%	Unpaid principal and interest due at maturity.	November 2066	5,500,753	(5,483,364)	17,389
Quimby Housing, LP	2010	5.00%	Payable out of cash flow.	June 2040	1,657,073	(1,594,963)	62,110
Roselyn Renewal, LLC	2009	1.00%	Payable solely through Gross Revenue.	December 2049	35,538	(33,744)	1,794
Seneca Terrace Renewal, LP	2010	8.00%	Payments are subject to available cash flows.	June 2040	602,252	(602,252)	-
Siuslaw Dunes Renewal, LP	2013	6.50%	Payable out of cash flow.	December 2063	1,206,903	(1,141,316)	65,587
Siuslaw Dunes Renewal, LP	2013	6.50%	Payable out of cash flow.	December 2063	240,870	(240,870)	-
Siuslaw Dunes Renewal, LP	2014	6.50%	Payable out of cash flow.	December 2063	593,687	(593,687)	-
Spring Housing, LP	2011	4.00%	Payable out of cash flow.	July 2066	1,003,887	(1,003,887)	-
Spring Housing, LP	2011	4.00%	Payable out of cash flow.	July 2066	679,611	(672,510)	7,101
Trenton Terrace, LP	2006	0.25%	P&I due monthly subject to sufficient cash flow.	May 2047	5,778,414	(5,778,414)	-
Upshur Housing Renewal, LP	N/A	N/A	N/A	N/A	2,000	-	2,000
Village at the Headwaters, LP	2005	3.50%	Unpaid principal and interest due at maturity.	December 2048	212,081	(211,331)	750
Weidler Renewal, LP	2006	5.25%	Unpaid principal and interest due at maturity.	December 2047	49,992	(49,992)	-
					\$ 27,864,836	\$ (27,322,518)	\$ 542,318

{A} The entire unpaid balance of principal and interest is due on or before the earliest of (a) December 31, 2044; (b) the date that is 15 years after the close of the compliance period; (c) the date the property is no longer a qualified low-income property; or (d) the date the property is sold.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE F – INVESTMENTS IN AFFILIATED ORGANIZATIONS

As noted in Note C, NHA is the sponsor and 0.01% interest general partner (either directly or indirectly through wholly-owned or nonprofit subsidiaries), of the following limited partnerships and limited liability corporations:

<u>Ownership Entity</u>	<u>Investment</u>	<u>Current-year Equity in Earnings (Losses) of Affiliates</u>
Alma Gardens, LP	\$ 1,580	\$ (28)
Autumn Park Renewal, LP	285,264	(4)
Charleston, LP	200	(31)
Cottonwood I Renewal, LLC	52,853	(5)
Cottonwood II Renewal, LLC	56,686	(5)
Creekside Woods, LP	1,069,100	(30)
Foster Townhomes, LP	-	-
Hawthorne Renewal, LP	-	-
Hollyfield Village Apartments, LP	-	-
Hotel Julian Community, LLC	-	-
Ikoï So Terrace Renewal, LLC	26,597	(16)
Quimby Housing, LP	28,082	(15)
Roselyn Renewal, LLC	22,708	1
Rosemont Town Homes Associates, LP	192,417	(8)
Seneca Terrace Renewal, LP	697	(16)
Siuslaw Dunes Renewal, LP	14,927	(31)
Spring Housing, LP	15,498	(22)
Trenton Terrace, LP	61,581	(26)
Upshur Renewal Housing, LP	-	-
Village at The Headwaters, LP	138,555	(28)
Weidler Renewal, LP	66	(7)
	<u>\$ 1,966,811</u>	<u>\$ (271)</u>

Each of the entities listed in the previous table was formed under the law of the State of Oregon for the purpose of rehabilitating, constructing, operating and/or investing in the LIHTC projects.

Summarized financial information for the limited partnerships and limited liability corporations at December 31, 2016 is as follows:

Total assets	\$ <u>115,570,282</u>
Total liabilities	<u>77,511,162</u>
Net assets	<u>38,059,120</u>
Total liabilities and net assets	\$ <u>115,570,282</u>
Net decrease in net assets	\$ <u>(5,868,436)</u>

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE G – REQUIRED DEPOSITS AND FUNDED RESERVES

In accordance with regulations promulgated by the U.S. Department of Housing and Urban Development (“HUD”) and the State of Oregon Housing and Community Services Department (“OHCS”), NHA maintains certain required cash reserves for the renewal and replacement of property, capital improvements, necessary insurance reserves, and etc. totaling \$2,936,500. These reserves may be used only upon the authorization of HUD or OHCS.

NOTE H – LAND, BUILDINGS, AND EQUIPMENT

A summary of land, buildings, and equipment at December 31, 2016 is as follows:

Buildings and improvements	\$	45,318,375
Land and improvements		6,804,317
Furnishings and equipment		1,128,009
Automobiles		46,914
Construction-in-progress		<u>2,842,568</u>
		56,140,183
Less accumulated depreciation		<u>(28,609,461)</u>
	\$	<u><u>27,530,722</u></u>

In the above category, land and buildings, several housing projects funded by restricted grants and contracts are represented. In accordance with contract stipulations, these properties must remain available to eligible low-income households in accordance with the Low-Income Housing Preservation and Resident Homeownership Act. Failure to retain this housing exclusively for eligible low-income families and individuals could result in revocation of the grants and the return of all funds received, plus interest since the date of the first advance.

As of December 31, 2016, the organization has complied with all asset restrictions referred to above, and also has the intention and ability to continue to comply with those restrictions. Accordingly, no associated liability has been recorded in the accompanying financial statements.

NHA periodically reviews the carrying amount of capital assets, including projects under development, whenever events or circumstances provide evidence that suggests that the carrying amount may not be recoverable. NHA assesses the recoverability of the capital assets by comparing the estimated undiscounted cash flows associated with the related assets against their respective carrying amounts. If such assets are considered to be impaired in value, that is, when the carrying amount exceeds the fair value of those assets, the impairment is recognized as a charge in the consolidated statement of activities.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE I – LONG-TERM DEBT

The acquisition and rehabilitation of the organization's properties include costs financed through loans received from various parties. The following obligations, all secured by property (except as noted), were outstanding at December 31, 2016:

	Total	Current
Adult Foster Care Projects:		
Trust deed notes payable to the Oregon Housing and Community Services Department, at 7.4%, due in monthly payments of \$2,354 through 2026.	\$ 193,491	\$ 14,414
Bridges to Housing (B2H):		
Loan payable to Clackamas County HOME Program, at 0%, due in February of 2060 or earlier, if the property is transferred or sold or the loan is in default.	250,000	-
DD Group Homes:		
First mortgages payable to the Oregon Housing and Community Services Department, at rates varying between 0.25% to 8.8%, due in monthly aggregate payments of \$19,087 through 2030.	1,365,117	152,395
Non-interest bearing liens payable to the Mental Health and Developmental Disability Services Division of the State of Oregon, reduced monthly in the aggregate amount of \$8,775, as long as the properties continue to house qualifying tenants, through 2030.	911,925	105,305
Fieldstone:		
Promissory note payable to the Office of Mental Health and Addiction Services of the State of Oregon, at 5.0%, with unpaid principal and interest due in December of 2058. On the maturity date, the terms of the note may be extended or forgiven if the property has continuously been used in accordance with the note agreement.	307,759	-
Hearthstone:		
Promissory note payable to the Office of Mental Health and Addiction Services of the State of Oregon, at 5.0%, with unpaid principal and interest due in May of 2056. On the maturity date, the terms of the note may be extended or forgiven if the property has continuously been used in accordance with the note agreement.	330,000	-
Non-interest bearing liens payable to the Mental Health and Addiction Services Division of the State of Oregon, reduced annually in the amount of \$3,453, as long as the properties continue to house qualifying tenants, through 2036.	69,723	3,453

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE I – LONG-TERM DEBT (CONTINUED)

Lake Road House Project:

Note payable to US Bank at 3.95%, due in monthly payments of \$1,367 through November of 2020. 174,896 8,988

Molalla:

Two loans payable to Clackamas County, at 0% interest. The loans are repayable only if the property is sold or transferred, is changed from affordable housing status, or in the event of default. 67,090 -

Oak Associates, LP:

Equity gap and Housing Development Subordinate loans payable to the Portland Housing Bureau at interest of 1.0% and 3.0%. Loans require debt service only from available cash flow until maturity on December 31, 2030. As of December 31, 2016, accrued interest payable was \$33,073. 427,855 -

Rehabilitation loan payable to the Portland Housing Bureau at interest of 0.25%. Payments are to be made from available cash flows. Balance due on June 1, 2049. As of December 31, 2016, accrued interest payable was \$55,148. 3,269,125 -

Mortgage note payable to the Oregon Housing and Community Services Department at interest of 5.35%. Due in monthly payments of \$19,033. Balance due in January of 2031. As of December 31, 2016, accrued interest payable was \$5,191, net of debt issuance costs of \$102,717. 2,256,075 110,373

Less unamortized debt issuance costs on OHCSA loan (102,717)
2,153,358

Pleasant Street Housing, LLC:

Note payable to Network for Affordable Housing with interest at 5.0% due quarterly. Principal and interest due April 2019. 350,865 -

Pre-Development Loan for Various Affiliates:

Two loans payable to Wells Fargo Community Development Corporation, at 2.0%, interest due quarterly, unpaid principal and interest due in December of 2017, with an automatic extended maturity date of December of 2019. 500,000 62,500

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE I – LONG-TERM DEBT (CONTINUED)

Rosemont Senior Housing Associates, LP:

Mortgage note payable to Network for Oregon Affordable Housing (NOAH) with stated interest at 8.06% but effective interest varying from 4.06% due to allocation of Oregon Affordable Housing Tax Credits in connection with the note. Monthly installments of \$13,224 based on 30-year amortization. The note matures July 2032. As of December 31, 2016, accrued interest payable was \$6,472. 1,830,290 85,969

Mortgage note payable to Portland Housing Bureau which was converted from a construction loan to a permanent loan in 2002. The note has simple interest of 3% but not fixed payments are required until January 2022, when all interest due on loan is added to principal and monthly payments will then be required. However, the borrower must make payments of excess cash flow as defined in the loan agreement. The note matures December 2051. As of December 31, 2016, accrued interest payable totaled \$765,805. 2,046,014 -

Less unamortized debt issuance costs on both loans (74,179)
3,802,125

Victorian Inn Holding, LLC:

Mortgage note payable to Chase, at 2.4% (6.4% if company does not meet qualifications set forth in note) due in monthly payments of \$4,934 through November of 2019. As of December 31, 2016, accrued interest payable was \$1,159. 287,377 52,884

Mortgage note payable to Portland Housing Bureau, at compounding interest of 8.23%, 25-year term using a 50-year amortization period, due in monthly loan payments of \$2,203, with a balloon payment of principal and accrued interest due April of 2025. As of December 31, 2016, accrued interest payable was \$551,688. 605,000 -

Less unamortized debt issuance costs on both loans (4,065)
888,312

\$ 15,061,641 \$ 596,281

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE I – LONG-TERM DEBT (CONTINUED)

Aggregate maturities of the long-term debt for the five years subsequent to December 31, 2016 and thereafter are as follows:

Year Ending June 30,		
2017	\$	596,281
2018		804,539
2019		1,116,451
2020		732,382
2021		586,484
Thereafter		<u>11,225,504</u>
	\$	<u><u>15,061,641</u></u>

NOTE J – LINES OF CREDIT AND CONTINGENT LIABILITIES

At December 31, 2016, the organization has available unsecured lines of credit in the amounts of \$96,500, bearing interest at 12.0%, and \$500,000, at a variable interest rate. At December 31, 2016, no balances were outstanding under these agreements.

The organization has secured construction loan financing for \$2,139,900 for a project, Blanton Street Housing GP, LLC, under development. No amounts were outstanding at December 31, 2016.

NHA also has entered into "equity gap" financing agreements with the Portland Housing Bureau ("PHB") for the financing of certain properties, whereby if the properties are sold, transferred, refinance or changed as to use, without the written consent of the commission, the outstanding balance of the financing must be repaid immediately to PHB. In addition, if the operation of these properties demonstrates surplus revenues in excess of 1.15 times the annual debt service in any single year of its operation, the excess must be shared equally with PHB. The outstanding balance of equity gap financing with PHB totaled \$157,650 at December 31, 2016. At December 31, 2016, there were no liabilities under these agreements.

In addition, NHA has received grants from the U.S. Department of Housing and Urban Development, the State of Oregon, Clackamas County, and other governmental agencies for the financing of certain properties, whereby if the properties are sold, transferred, refinanced, or changed as to use, the grants become immediately payable. At December 31, 2016, there were no liabilities under these agreements.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE K – RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

Board-Designated Net Assets

NHA's Board of Directors designated \$1,777,000 of the organization's unrestricted net assets for long-term investment at December 31, 2016, which approximates four months of operating cash needs.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent grants, contributions, and other unexpended revenues and gains available for the following at December 31, 2016:

Homeless intervention and HomeBase	\$	78,093
Capital improvements		55,905
Housing development		33,110
Other purposes		<u>31,687</u>
	\$	<u><u>198,795</u></u>

Net Assets Released from Restrictions

During the year ended December 31, 2016, net assets were released from temporary restrictions by incurring expenses in satisfaction of the restricted purposes specified by the organization's donors, or by the occurrence of other events specified by donors, as follows.

For capital purposes	\$	161,855
For operating purposes		<u>242,787</u>
	\$	<u><u>404,642</u></u>

NOTE L – EXPENSES

The costs of providing the various programs and activities of the organization have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Expenses by natural classification are presented in the consolidated statement of revenues and expenses by function.

NOTE M – RETIREMENT PLAN

NHA offers voluntary retirement plans, as described under Section 403(b) of the Internal Revenue Code, and makes them available to all fulltime and certain part-time employees. All employees may make voluntary contributions to the appropriate plan on a pre-tax basis, up to the limits allowed by law, from their first day of employment. Employees select among several investment options. The organization contributes a discretionary matching percentage of eligible employees' salary reduction amount. During the year ended December 31, 2016, the organization matched up to 7.0% of each eligible employee's compensation for the year. Matching contributions made by the organization during the year ended December 31, 2016 totaled \$101,419.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE N – TRUST DEED NOTE INSTALLMENTS FORGIVEN

At December 31, 2016, mortgages and liens payable in the amount of \$981,649 were owed to the Mental Health Development Disability Services Division of the State of Oregon, under programs whereby the liens are reduced ratably each month that the encumbered properties are used exclusively and continuously to house qualifying tenants. Principal and interest payments related to the second mortgages are made on behalf of NHA by the Mental Health and Developmental Disability Services Division of Oregon to the Oregon Housing and Community Services Department. Should the organization use the properties for any other purpose or attempt to sell the properties, the outstanding balances become due and payable within 15 days. Principal and interest forgiven and/or paid on behalf of NHA during the year ended December 31, 2016 totaled \$114,933.

NOTE O – CONTINGENCIES

Amounts received and expended by the organization under contracts with various federal and state governmental agencies are subject to audit and adjustment by those agencies. Any expenditures or claims disallowed as a result of such audits would become a liability of the organization's general operating funds. In the opinion of the organization's management, any adjustment that might result from such audits would not be material to the organization's overall financial statements.

NOTE P – CONTINGENT LIABILITIES

FASB ASC No. 460, *Guarantees*, requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee.

Operating Deficit Guarantees

At December 31, 2016, NHA has provided various guarantees to certain affiliated organizations for the funding of operating deficits. These guarantees were undertaken to ensure the development of these properties and the availability of housing to the constituents served by the organization. NHA management believes that its estimated exposure on these agreements currently is minimal. Accordingly, NHA has no liabilities recorded for these guarantees at December 31, 2016.

Loan Guarantee

At December 31, 2016, NHA also has guaranteed the repayment of a construction loan on behalf of an affiliate with property under construction. The guaranteed loan amount and outstanding balance on the construction loan at December 31, 2016 is as follows:

	Loan Amount	Loan Draws
Hawthorne Renewal, LP	\$ <u>11,500,000</u>	\$ <u>10,781,038</u>

NHA's management believes that its estimated exposure on these agreements currently is minimal. Accordingly, NHA has no liabilities recorded for these guarantees at December 31, 2016. In early 2017, the above construction loan was paid in full.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE Q – RECLASSIFICATION OF 2015 COMPARATIVE TOTALS

Certain 2015 amounts presented herein have been reclassified to conform to the 2016 presentation.

NOTE R – FAIR VALUE MEASUREMENTS

Included in the accompanying financial statements are certain financial instruments (primarily investments) carried at fair value. The fair value is the amount that would be received to sell an asset or paid to transfer a liability in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality.

NHA's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by FASB ASC No. 820, *Fair Value Measurements and Disclosures*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3).

At December 31, 2016, NHA's investments are measured at fair value on a recurring basis using quoted prices in active markets for identical assets (i.e., Level 1).

Investments consist of the following at December 31, 2016:

Investments at fair value:	
Cash equivalents	\$ 570,000
Equities	1,015,162
Foreign equity funds	108,231
Total investments carried at fair value	<u>1,693,393</u>
Certificates of deposit	<u>13,941</u>
Total investments	<u>\$ 1,707,334</u>

Investment income for the year ended December 31, 2016 is summarized as follows:

Dividends and interest	\$ 42,239
Net increase in the fair value of investments	<u>90,227</u>
	<u>\$ 132,466</u>

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016

NOTE S – STATEMENT OF CASH FLOW RECONCILIATION

The following presents a reconciliation of the decrease in net assets (as reported on the consolidated statement of activities) to net cash provided by operating activities (as reported on the consolidated statement of cash flows):

Increase in net assets	\$ <u>1,697,417</u>
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation and amortization	1,618,191
Trust deed note installments forgiven	(114,933)
Gain from forgiveness of debt	(416,073)
Loss on disposition of fixed assets	90,361
Gain on sale of assets to affiliated limited partnership	(512,684)
Provision for uncollectible interest receivable from affiliates	358,422
Net gain in the fair value of investments	(69,674)
Change in equity interest in affiliated organizations	252,182
Proceeds from capital advances restricted for property acquisition	(1,451,228)
Provision for uncollectible notes receivable from affiliates	403,337
Provision for uncollectible receivables from affiliates	139,888
Net changes in:	
Tenant and other receivables	(202,479)
Grant and contract payments receivable	34,844
Prepaid expenses and deferred charges	10,443
Receivables from affiliated organizations	(1,721,033)
Accounts payable and accrued expenses	162,386
Accrued payroll and related expenses	22,234
Deferred revenue	200,693
Funds held on behalf of others	(11,482)
Interest payable	<u>(40,011)</u>
Total adjustments	<u>(1,246,616)</u>
Net cash provided by operating activities	<u>\$ 450,801</u>

NOTE T – SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 6, 2017, which is the date the financial statements were available to be issued.

In March 2017, NHA acquired the Limited partner's interest in Rosemont Townhomes Associates LP, resulting in an adjustment to its capital of approximately \$229,000. Partnership assets of approximately \$1,189,000 and liabilities of \$1,297,000 will be included in the 2017 consolidated financial statements of NHA and Subsidiaries.

SUPPLEMENTARY INFORMATION

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
December 31, 2016

ASSETS

See Note B for entities included within each category.

	Northwest Housing Alternatives	Not-For- Profit LIHPRHAs	Wholly- Owned LIHTCs	Acquisition LLCs	In Development	General Partners	Consolidating Elimination Entries	Total
Current assets:								
Cash and cash equivalents	\$ 5,103,036	\$ 128,211	\$ 235,023	\$ -	\$ 2,578	\$ 51,920	\$ -	\$ 5,520,768
Tenant and other receivables	83,296	33,047	14,106	-	115,000	29,970	-	275,419
Investments	1,707,334	-	-	-	-	-	-	1,707,334
Grant and contract payments receivable	362,486	-	-	-	-	-	-	362,486
Prepaid expenses and deferred charges	69,096	40,241	54,721	-	-	-	-	164,058
Current fees receivable from affiliated organization	1,119,037	-	-	-	-	-	(157,752)	961,285
Current notes receivable from affiliated organization	123,250	-	-	-	-	-	-	123,250
Total current assets	<u>8,567,535</u>	<u>201,499</u>	<u>303,850</u>	<u>-</u>	<u>117,578</u>	<u>81,890</u>	<u>(157,752)</u>	<u>9,114,600</u>
Investments in affiliated organizations	2,867,338	-	-	-	-	1,084,027	(1,984,554)	1,966,811
Restricted deposits and funded reserves	84,109	1,020,758	1,830,168	-	-	1,465	-	2,936,500
Long-term fees receivable from affiliated organizations	1,497,533	-	-	-	-	-	(27,234)	1,470,299
Notes receivable from affiliated organizations	1,280,564	-	-	-	-	338,744	(1,200,240)	419,068
Land, buildings, and equipment, net	13,397,172	1,563,170	10,471,688	-	1,803,524	420,798	(125,630)	27,530,722
Total assets	<u>\$ 27,694,251</u>	<u>\$ 2,785,427</u>	<u>\$ 12,605,706</u>	<u>\$ -</u>	<u>\$ 1,921,102</u>	<u>\$ 1,926,924</u>	<u>\$ (3,495,410)</u>	<u>\$ 43,438,000</u>
LIABILITIES AND NET ASSETS								
Current liabilities:								
Accounts payable and accrued expenses	\$ 358,109	\$ 172,873	\$ 96,795	\$ -	\$ -	\$ 29,970	\$ (121,616)	\$ 536,131
Construction payable	-	-	-	-	352,546	79,578	(353,821)	78,303
Accrued payroll and related expenses	116,987	-	-	-	-	-	-	116,987
Payable to affiliated organizations	-	-	42,365	-	125,630	-	(125,630)	42,365
Current portion of long-term debt	597,779	-	36,878	-	-	-	(38,376)	596,281
Deferred revenue	322,578	10,554	2,934	-	-	-	-	336,066
Total current liabilities	<u>1,395,453</u>	<u>183,427</u>	<u>178,972</u>	<u>-</u>	<u>478,176</u>	<u>109,548</u>	<u>(639,443)</u>	<u>1,706,133</u>
Funds held on behalf of others	9,910	60,677	80,178	-	-	-	-	150,765
Long-term interest payable	-	-	1,412,064	-	-	-	-	1,412,064
Long-term debt, less current portion	3,572,222	-	10,792,731	-	493,827	352,363	(745,783)	14,465,360
	<u>\$ 4,977,585</u>	<u>\$ 244,104</u>	<u>\$ 12,463,945</u>	<u>\$ -</u>	<u>\$ 972,003</u>	<u>\$ 461,911</u>	<u>\$ (1,385,226)</u>	<u>\$ 17,734,322</u>
Net assets								
Unrestricted	22,517,871	(2,430,654)	141,761	-	949,099	1,465,013	(2,110,184)	20,532,906
Temporarily restricted	198,795	4,971,977	-	-	-	-	-	5,170,772
Total net assets	<u>22,716,666</u>	<u>2,541,323</u>	<u>141,761</u>	<u>-</u>	<u>949,099</u>	<u>1,465,013</u>	<u>(2,110,184)</u>	<u>25,703,678</u>
Total liabilities and net assets	<u>\$ 27,694,251</u>	<u>\$ 2,785,427</u>	<u>\$ 12,605,706</u>	<u>\$ -</u>	<u>\$ 1,921,102</u>	<u>\$ 1,926,924</u>	<u>\$ (3,495,410)</u>	<u>\$ 43,438,000</u>

See notes to consolidated and combined financial statements.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
December 31, 2015

ASSETS

	Northwest Housing Alternatives	Not-For- Profit LIHPRHAs	Wholly- Owned LIHTCs	Acquisition LLCs	In Development	General Partners	Consolidating Elimination Entries	Total
Current assets:								
Cash and cash equivalents	\$ 5,017,944	\$ 48,941	\$ 785,979	\$ 169,365	\$ -	\$ 103,777	\$ -	\$ 6,126,006
Tenant and other receivables	23,575	26,721	15,897	332	-	4,189	(3,248)	67,466
Investments	1,337,660	-	-	-	-	-	-	1,337,660
Grant and contract payments receivable	397,330	-	-	-	-	-	-	397,330
Prepaid expenses and deferred charges	66,122	33,172	51,189	7,588	-	-	-	158,071
Current fees receivable from affiliated organization	902,606	-	-	-	-	-	(98,107)	804,499
Total current assets	<u>7,745,237</u>	<u>108,834</u>	<u>853,065</u>	<u>177,285</u>	<u>-</u>	<u>107,966</u>	<u>(101,355)</u>	<u>8,891,032</u>
Investments in affiliated organizations	3,078,783	-	-	-	-	1,069,130	(1,547,416)	2,600,497
Restricted deposits and funded reserves	127,168	922,539	1,019,135	158,438	-	-	-	2,227,280
Long-term fees receivable from affiliated organizations	717,816	-	-	-	-	-	-	717,816
Notes receivable from affiliated organizations	2,528,533	-	-	-	-	275,978	(2,213,984)	590,527
Land, buildings, and equipment	13,174,234	1,666,605	6,198,000	6,387,707	960,291	-	-	28,386,837
Total assets	<u>\$ 27,371,771</u>	<u>\$ 2,697,978</u>	<u>\$ 8,070,200</u>	<u>\$ 6,723,430</u>	<u>\$ 960,291</u>	<u>\$ 1,453,074</u>	<u>\$ (3,862,755)</u>	<u>\$ 43,413,989</u>

LIABILITIES AND NET ASSETS

Current liabilities:								
Accounts payable and accrued expenses	\$ 97,565	\$ 117,657	\$ 21,064	\$ 98,415	\$ -	\$ 1,037	\$ -	\$ 335,738
Construction payable	60,232	-	49,170	-	-	(14,910)	-	94,492
Accrued payroll and related expenses	94,753	-	-	-	-	-	-	94,753
Payable to affiliated organizations	-	16,325	86,283	-	-	-	(102,608)	-
Current portion of long-term debt	275,385	-	51,632	6,184,636	-	-	-	6,511,653
Deferred revenue	131,382	2,789	393	809	-	-	-	135,373
Total current liabilities	<u>659,317</u>	<u>136,771</u>	<u>208,542</u>	<u>6,283,860</u>	<u>-</u>	<u>(13,873)</u>	<u>(102,608)</u>	<u>7,172,009</u>
Funds held on behalf of others	9,552	60,971	48,706	13,326	-	-	-	132,555
Long-term interest payable	-	-	679,682	24,557	-	-	-	704,239
Long-term debt, less current portion	4,539,679	-	7,299,679	813,307	1,350,972	-	(2,604,712)	11,398,925
	<u>\$ 5,208,548</u>	<u>\$ 197,742</u>	<u>\$ 8,236,609</u>	<u>\$ 7,135,050</u>	<u>\$ 1,350,972</u>	<u>\$ (13,873)</u>	<u>\$ (2,707,320)</u>	<u>\$ 19,407,728</u>
Net assets								
Unrestricted	21,945,956	2,500,236	(166,409)	(411,620)	(390,681)	1,466,947	(1,155,435)	23,788,994
Temporarily restricted	217,267	-	-	-	-	-	-	217,267
Total net assets	<u>22,163,223</u>	<u>2,500,236</u>	<u>(166,409)</u>	<u>(411,620)</u>	<u>(390,681)</u>	<u>1,466,947</u>	<u>(1,155,435)</u>	<u>24,006,261</u>
Total liabilities and net assets	<u>\$ 27,371,771</u>	<u>\$ 2,697,978</u>	<u>\$ 8,070,200</u>	<u>\$ 6,723,430</u>	<u>\$ 960,291</u>	<u>\$ 1,453,074</u>	<u>\$ (3,862,755)</u>	<u>\$ 43,413,989</u>

See notes to consolidated and combined financial statements.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF ACTIVITIES
Year Ended December 31, 2016

	Northwest Housing Alternatives	Not-For- Profit LIHPRHAs	Wholly- Owned LIHTCs	Acquisition LLCs	In Development	General Partners	Consolidating Elimination Entries	Total
Operating revenues, gains and other support:								
Government grants and contracts	\$ 1,667,472	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,667,472
Private grants and contributions	371,797	-	-	-	-	-	-	371,797
Special events, net of direct costs	124,877	-	-	-	-	-	-	124,877
In-kind contributions	51,260	-	-	-	-	-	-	51,260
Trust deed note installments forgiven	114,933	-	-	-	-	-	-	114,933
Rental income	958,723	1,298,780	2,527,559	113,187	-	-	-	4,898,249
Development fees from equity affiliates	1,606,929	-	-	-	-	-	(125,630)	1,481,299
Consulting and asset management fees	354,401	-	-	-	-	-	(126,287)	228,114
Resident service fees	374,624	-	-	-	-	-	(181,272)	193,352
Interest income from affiliates	492,324	-	-	-	-	17,389	(14,025)	495,688
Investment income	128,350	271	3,845	-	-	-	-	132,466
Change in equity interest in affiliated organizations	(212,644)	-	-	-	-	(43)	(39,495)	(252,182)
Other	126,276	60,069	123,716	-	-	-	(188,651)	121,410
Total operating revenues, gains, and other support	6,159,322	1,359,120	2,655,120	113,187	-	17,346	(675,360)	9,628,735
Expenses	5,578,628	1,318,033	3,120,365	107,109	(1,186)	-	(321,584)	9,801,365
Increase (decrease) in net assets before non-operating activities	580,694	41,087	(465,245)	6,078	1,186	17,346	(353,776)	(172,630)
Non-operating activities:								
Capital grants received for the acquisition of property	503,707	-	-	-	947,521	62,260	(62,260)	1,451,228
Capital assets sales gain/loss	(65,361)	-	-	-	(25,000)	-	-	(90,361)
Provision for the non-collection of loans to affiliated organizations	(403,337)	-	-	-	-	-	-	(403,337)
Forgiveness of debt	-	-	-	-	416,073	-	-	416,073
Recovery of fees upon consolidation	-	-	-	-	-	-	-	-
Assignment of equity interest in limited partnership to NHA	-	-	-	-	-	-	-	-
Impairment loss on property	-	-	-	-	-	-	-	-
Other non-operating grants and transfers	(62,260)	-	(16,209)	512,684	-	(31)	62,260	496,444
Total non-operating activities	(27,251)	-	(16,209)	512,684	1,338,594	62,229	-	1,870,047
Increase in net assets	553,443	41,087	(481,454)	518,762	1,339,780	79,575	(353,776)	1,697,417
Net assets at beginning of year	22,163,223	2,500,236	623,215	(411,620)	(390,681)	1,466,995	(1,945,107)	24,006,261
Contributions	-	-	-	-	-	-	-	-
Distribution	-	-	-	(107,142)	-	(81,557)	188,699	-
Net assets at end of year	\$ 22,716,666	\$ 2,541,323	\$ 141,761	\$ -	\$ 949,099	\$ 1,465,013	\$ (2,110,184)	\$ 25,703,678

See notes to consolidated and combined financial statements.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF ACTIVITIES
Year Ended December 31, 2015

	Northwest Housing Alternatives	Not-For- Profit LIHPRHAs	Wholly- Owned LIHTCs	Acquisition LLCs	In Development	General Partners	Consolidating Elimination Entries	Total
Operating revenues, gains and other support:								
Government grants and contracts	\$ 1,815,204	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,815,204
Private grants and contributions	480,496	-	-	-	-	-	-	480,496
Special events, net of direct costs	94,761	-	-	-	-	-	-	94,761
In-kind contributions	92,798	-	-	-	-	-	-	92,798
Trust deed note installments forgiven	108,758	-	-	-	-	-	-	108,758
Rental income	938,552	1,267,269	1,820,230	707,962	-	-	-	4,734,013
Development fees from equity affiliates	278,495	-	-	-	-	-	-	278,495
Consulting and asset management fees	357,608	-	-	-	-	-	(78,276)	279,332
Resident service fees	329,388	-	-	-	-	-	(95,632)	233,756
Interest income from affiliates	479,931	-	-	-	-	260,634	(78,650)	661,915
Investment income	6,190	198	1,539	43	-	-	-	7,970
Change in equity interest in affiliated organizations	9,151	-	-	-	-	(40)	(9,315)	(204)
Other	56,206	31,576	45,512	7,643	-	-	-	140,937
Total operating revenues, gains, and other support	5,047,538	1,299,043	1,867,281	715,648	-	260,594	(261,873)	8,928,231
Expenses	5,106,431	1,561,700	1,795,222	931,897	-	243,751	(288,896)	9,350,105
Increase (decrease) in net assets before non-operating activities	(58,893)	(262,657)	72,059	(216,249)	-	16,843	27,023	(421,874)
Non-operating activities:								
Capital grants received for the acquisition of property	237,237	-	-	-	-	-	-	237,237
Provision for the non-collection of loans to affiliated organizations	(506,909)	-	-	-	-	-	355,416	(151,493)
Impairment loss on property	-	-	-	-	(160,681)	-	35,265	(125,416)
Other non-operating grants and transfers	50,000	-	-	-	-	-	-	50,000
Total non-operating activities	(219,672)	-	-	-	(160,681)	-	390,681	10,328
Increase (decrease) in net assets	(278,565)	(262,657)	72,059	(216,249)	(160,681)	16,843	417,704	(411,546)
Equity distributions	-	-	-	-	-	(168,529)	168,529	-
Net assets at beginning of year	22,441,788	2,762,893	(238,468)	(195,371)	(230,000)	1,603,723	(1,726,758)	24,417,807
Net assets at end of year	\$ 22,163,223	\$ 2,500,236	\$ (166,409)	\$ (411,620)	\$ (390,681)	\$ 1,452,037	\$ (1,140,525)	\$ 24,006,261

See notes to consolidated and combined financial statements.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF CASH FLOWS
Year Ended December 31, 2016

	Northwest Housing Alternatives	Subsidiaries	Consolidation Elimination Entries	Total
Cash flows from operating activities:				
Cash received from tenants, contractors, grantors, and donors	\$ 4,598,637	\$ 4,429,076	\$ -	\$ 9,027,713
Cash received from development, management, and other fees	1,248,475	-	(135,288)	1,113,187
Cash received for interest	112,431	-	-	112,431
Cash paid to employees and suppliers	(4,647,409)	(5,033,736)	135,288	(9,545,857)
Cash paid for interest	(128,364)	(128,309)	-	(256,673)
Net cash provided by operating activities	1,183,770	(732,969)	-	450,801
Cash flows from investing activities:				
Capital expenditures for project in pre-development	(94,942)	(1,209,594)	-	(1,304,536)
Capital expenditures for NHA acquisitions and rehabilitations	(710,055)	-	-	(710,055)
Capital expenditures for acquisitions and rehabilitations by subsidiaries	-	(189,988)	-	(189,988)
Proceeds from the sale of capital assets	-	460,000	-	460,000
Net change to restricted cash reserves	43,060	(281,966)	-	(238,906)
Purchase of investments	(300,000)	-	-	(300,000)
Proceeds from the sale of investments	-	-	-	-
<i>Investing cash flows associated with affiliated organizations:</i>				
Investments in affiliated organizations	(1,199)	382,703	-	381,504
Loans made to affiliated organizations	-	(359,305)	359,305	-
Payments received on loans to affiliated organizations	-	509,982	(509,982)	-
Net cash provided by (used in) investing activities	(1,063,136)	(688,168)	(150,677)	(1,901,981)
Cash flows from financing activities:				
Repayment of long-term debt	(539,249)	(928,382)	509,982	(957,649)
Proceeds from issuance of debt	-	711,668	(359,305)	352,363
Proceeds from capital grants restricted for property acquisition	503,707	947,521	-	1,451,228
Proceeds from grants restricted for capital improvements	-	-	-	-
Net cash provided by (used in) financing activities	(35,542)	730,807	150,677	845,942
Net increase (decrease) in cash and cash equivalents	85,092	(690,330)	-	(605,238)
Cash and cash equivalents at beginning of year	5,017,944	1,108,062	-	6,126,006
Cash and cash equivalents at end of year	\$ 5,103,036	\$ 417,732	\$ -	\$ 5,520,768

See notes to consolidated and combined financial statements.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF CASH FLOWS
Year Ended December 31, 2015

	Northwest Housing Alternatives	Subsidiaries	Consolidation Elimination Entries	Total
Cash flows from operating activities:				
Cash received from tenants, contractors, grantors, and donors	\$ 3,172,218	\$ 3,874,951	\$ -	\$ 7,047,169
Cash received from development, management, and other fees	2,572,156	-	(339,099)	2,233,057
Cash received for interest	24,635	4,473	-	29,108
Equity distributions received from affiliated organizations	168,527	-	(168,527)	-
Cash paid to employees and suppliers	(3,874,326)	(2,971,310)	339,099	(6,506,537)
Cash paid for interest	(132,394)	(457,323)	-	(589,717)
Net cash provided by operating activities	<u>1,930,816</u>	<u>450,791</u>	<u>(168,527)</u>	<u>2,213,080</u>
Cash flows from investing activities:				
Capital expenditures for project in pre-development	(604,410)	(529,748)	-	(1,134,158)
Capital expenditures for NHA acquisitions and rehabilitations	(595,377)	(296,959)	-	(892,336)
Net change to restricted cash reserves	(10,907)	472,741	-	461,834
Purchase of investments	(977,897)	-	-	(977,897)
Proceeds from the sale of investments	195,000	-	-	195,000
<i>Investing cash flows associated with affiliated organizations:</i>				
Investments in affiliated organizations	(396,113)	-	-	(396,113)
Loans made to affiliated organizations	(765,524)	-	556,394	(209,130)
Payments received on loans to affiliated organizations	227,506	46,392	(42,386)	231,512
Net cash provided by (used in) investing activities	<u>(2,927,722)</u>	<u>(307,574)</u>	<u>514,008</u>	<u>(2,721,288)</u>
Cash flows from financing activities:				
Repayment of long-term debt	(159,173)	(695,833)	42,386	(812,620)
Proceeds from issuance of debt	383,223	1,060,241	(556,394)	887,070
Proceeds from capital grants restricted for property acquisition	187,237	-	-	187,237
Proceeds from grants restricted for capital improvements	50,000	-	-	50,000
Equity distributions paid	-	(168,527)	168,527	-
Net cash provided by (used in) financing activities	<u>461,287</u>	<u>195,881</u>	<u>(345,481)</u>	<u>311,687</u>
Net increase (decrease) in cash and cash equivalents	<u>(535,619)</u>	<u>339,098</u>	<u>-</u>	<u>(196,521)</u>
Cash and cash equivalents at beginning of year	5,553,563	768,964	-	6,322,527
Cash and cash equivalents at end of year	<u>\$ 5,017,944</u>	<u>\$ 1,108,062</u>	<u>\$ -</u>	<u>\$ 6,126,006</u>

See notes to consolidated and combined financial statements.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northwest Housing Alternatives, Inc. and Subsidiaries (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional revenues and expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 6, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northwest Housing Alternatives, Inc. and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

KERN & THOMPSON, LLC

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kern & Thompson, LLC

Portland, Oregon
July 6, 2017



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited Northwest Housing Alternatives, Inc. and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Northwest Housing Alternatives, Inc. and Subsidiaries' major federal programs for the year ended December 31, 2016. Northwest Housing Alternatives, Inc. and Subsidiaries' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Northwest Housing Alternatives, Inc. and Subsidiaries' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northwest Housing Alternatives, Inc. and Subsidiaries' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Northwest Housing Alternatives, Inc. and Subsidiaries' compliance.

Opinion on Each Major Federal Program

In our opinion, Northwest Housing Alternatives, Inc. and Subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

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

Report on Internal Control Over Compliance

Management of Northwest Housing Alternatives, Inc. and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Northwest Housing Alternatives, Inc. and Subsidiaries' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northwest Housing Alternatives, Inc. and Subsidiaries' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Kern & Thompson, LLC

Portland, Oregon
July 6, 2017

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2016

<u>Federal Grantor/Passed through Grantor/Program Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal CFDA Number</u>	<u>Expenditures of Federal Awards</u>	<u>Pass-Through to Subrecipient</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Supportive Housing for the Elderly	N/A	14.157	\$ 15,869,700	\$ 15,869,700 *
Supportive Housing for Persons with Disabilities	N/A	14.181	1,704,500	1,704,500
Continuum of Care Program	N/A	14.267	140,824	
<i>Passed through City of Portland:</i>				
HOME Investment Partnerships Program	32001243	14.239	14,000	
<i>Passed through Clackamas County:</i>				
HOME Investment Partnerships Program	M15UC41201	14.239	51,579	
HOME Investment Partnerships Program	N/A	14.239	250,000	
HOME Investment Partnerships Program	N/A	14.239	<u>13,000</u>	
Total CFDA 14.239			328,579	
<i>Passed through Clackamas County:</i>				
Emergency Solutions Grants Program	16-17 ESG 17-022	14.231	39,600	
Emergency Solutions Grants Program	16-17 ESG 17-021	14.231	<u>17,815</u>	
Total CFDA 14.231			57,415	
<i>Passed through Enterprise Community Partners, Inc.:</i>				
Section 4 Capacity Building for Community Development and Affordable Housing	15SG0254	14.252	<u>19,844</u>	
Total CFDA 14.252			19,844	
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>18,120,862</u>	
U.S. DEPARTMENT OF HOMELAND SECURITY:				
<i>Passed through Clackamas County:</i>				
Emergency Food and Shelter National Board Program	33-7080-00-005	97.024	<u>27,762</u>	
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>27,762</u>	
			<u>\$ 18,148,624</u>	

* Major program

See Notes to Schedule of Expenditures of Federal Awards.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2016

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Northwest Housing Alternatives, Inc. under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2, *U.S. Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Northwest Housing Alternatives, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Northwest Housing Alternatives, Inc.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

LOAN PROGRAMS

The U.S. Department of Housing and Urban Development has issued notes and mortgages to Northwest Housing Alternatives, Inc. in connection with certain capital advances. These notes and mortgages have 40 to 55-year terms. Northwest Housing Alternatives, Inc. is not required to repay principal or interest and the notes are forgiven at maturity, as long as Northwest Housing Alternatives, Inc. provides housing for the designated class of people in accordance with applicable HUD requirements. As reported in the Schedule, capital advances made to the organization by HUD and passed through to subrecipients in prior years total \$17,574,200.

In addition, Clackamas County has issued a note to Northwest Housing Alternatives, Inc. in connection with the HOME Investment Partnerships Program. The note has a 50-year term. Northwest Housing Alternatives, Inc. is not required to repay principal or interest until maturity, as long as Northwest Housing Alternatives, Inc. complies with the terms of the note, including a 15-year period of affordability requirements. The \$250,000 note was fully drawn down and remains outstanding at December 31, 2016. The balance of loans outstanding at December 31, 2016 consists of the following:

CFDA Number	Program Name	Outstanding Balance
14.157	Supportive Housing for the Elderly	\$ 15,869,700
14.181	Supportive Housing for Persons with Disabilities	1,704,500
14.239	HOME Investment Partnership Program	<u>250,000</u>
		<u>\$ 17,824,200</u>

INDIRECT COST RATE

Northwest Housing Alternatives, Inc. has not used the 10% de minimis indirect cost rate under the Uniform Guidance.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2016

Section 1 – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued – **Unmodified**

Internal control over financial reporting:

- Material weakness(es) identified: _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor’s report issued on compliance for major programs – **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Part 200.516(a) _____ Yes X No

Identification of Major Programs

- **Supportive Housing for the Elderly – CFDA No. 14.157**
1. Dollar threshold used to distinguish between Type A and Type B programs – **\$750,000.**
 2. Is the auditee qualified as a low-risk auditee under the Uniform Guidance – Yes

Section 2 – Financial Statement Findings

None

Section 3 – Federal Award Findings and Questioned Costs

None

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2016

There were no findings reported in the prior audit.

OTHER INFORMATION

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
GOVERNING BOARD AND MANAGEMENT
Year Ended December 31, 2016

Board of Directors

Katy Patricelli
President

Scott Bullard
Vice President

Roberta Ando
Secretary

Rose Mary Ojeda
Treasurer

Marilyn Cohen

Jake Kirsch

Shilo Wittrock-Laccino

Michael Anderson

Laura Howard

Grace Badik

Barb Smith

Ex Officio Members

Winston Kurth

John Mullin

Mike Dykes

Management

Martha McLennan
Executive Director

Tam Gardner
Director of Finance & Administration

Stephen McMurtrey
Housing Development Director

Ray Hackworth
Director of Asset Management

Julia Doty
Director of Resident Services

Kristin Barber
Resource Development Director

Angela Trimble
Director of Homeless Intervention Services

Administrative Offices

NORTHWEST HOUSING ALTERNATIVES, INC.
2316 SE Willard Street
Milwaukie, Oregon 97222

(503) 654-1007
(503) 654-1319 Fax

E-Mail

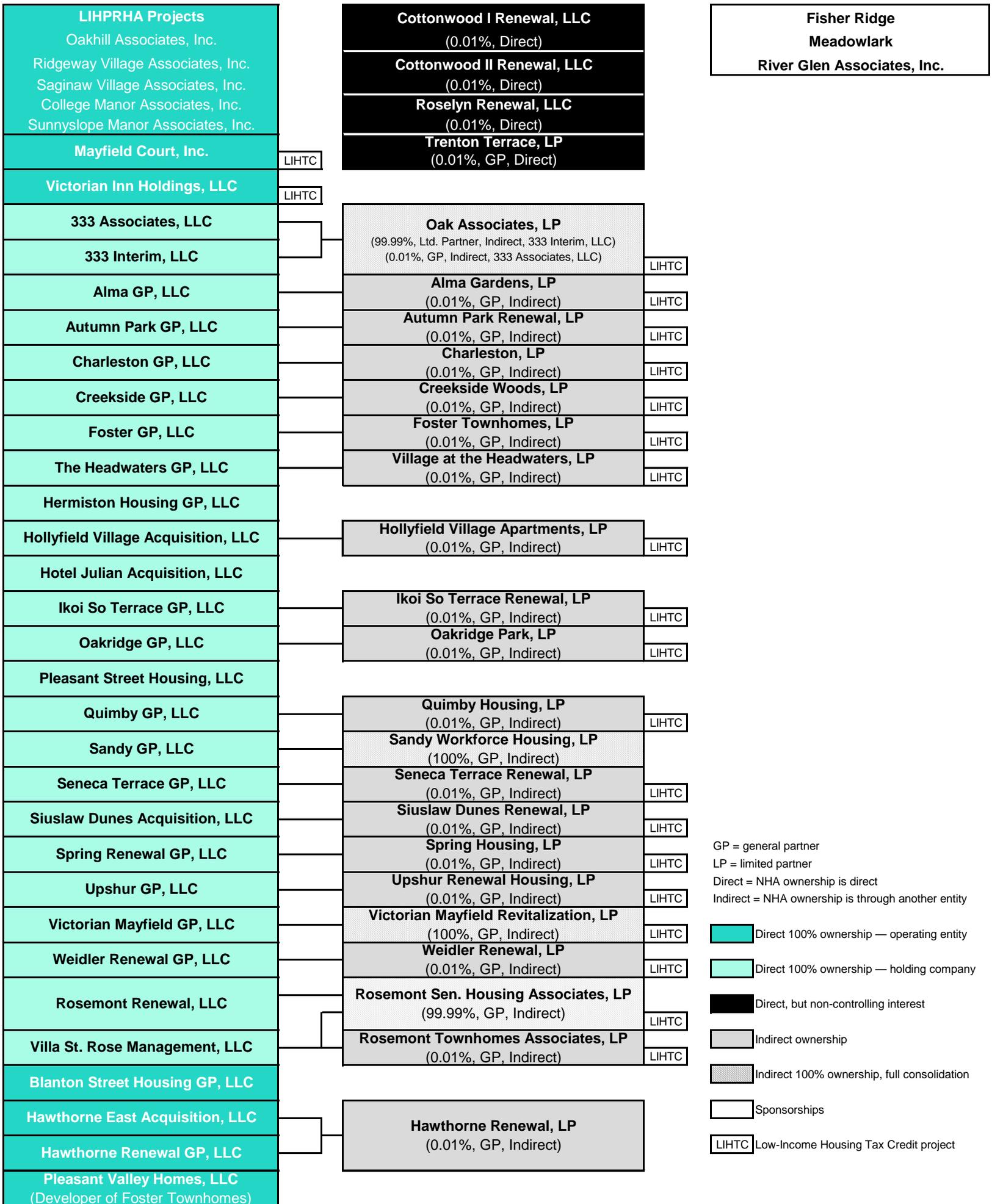
info@nwhousing.org

NORTHWEST HOUSING ALTERNATIVES

**Control | 100% Direct Ownership
Full Consolidation Accounting**

**Equity Method Accounting
(except where indicated)**

Disclosure Only



GP = general partner
 LP = limited partner
 Direct = NHA ownership is direct
 Indirect = NHA ownership is through another entity

Direct 100% ownership — operating entity
 Direct 100% ownership — holding company
 Direct, but non-controlling interest
 Indirect ownership
 Indirect 100% ownership, full consolidation
 Sponsorships
LIHTC Low-Income Housing Tax Credit project