

NORTHWEST HOUSING ALTERNATIVES, INC.
AND SUBSIDIARIES

CONSOLIDATED AND COMBINED
FINANCIAL STATEMENTS

Year Ended December 31, 2018



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CERTIFIED PUBLIC ACCOUNTANTS

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
Year Ended December 31, 2018

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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 prominent non-profit developer of affordable housing in Oregon, currently providing 1,871 safe, dignified, affordable homes to over 2,900 individuals in 16 counties. We challenge ourselves through continuous improvement and innovation in our programs, properties, and partnerships.

2018 was another year of intentional, steady progress for NHA with a notable transition in leadership. Long-time Executive Director Martha McLennan retired in August after some sixteen years at the helm. All that NHA is today - the scope of the portfolio and impact of the programs - are in large part due to her vision and leadership. In September, the Board of Directors appointed Trell Anderson as Executive Director to lead NHA through the coming years.

While this change in leadership occurred, NHA maintained steady progress toward meeting our mission. Our affordable housing portfolio continued to perform well both financially and physically, and we continued to grow in terms of securing new funding for additional projects. Our Resident Services program spreads across the properties to enhance resident well-being, and our Homeless Intervention Services programs steadily and successfully assisted Clackamas County residents to avoid or transition from homelessness.

The "home" of NHA was under construction during 2018. When we return to our rebuilt Milwaukie campus, it will include a new administrative office, a new and expanded Annie Ross House family shelter, and twenty-eight affordable housing units with opportunities for direct referral from the Annie Ross House.

Program Successes

NHA's *Homeless Intervention Services* (HIS) helps people in Clackamas County move from crisis to stability. The HomeBase program served 285 households (745 individuals) in 2018, preventing homelessness before it begins or helping families transition quickly from homelessness to housing. Two unique aspects of the HomeBase program are Pathways, serving vulnerable residents living with mental illness, and a collaboration with the Clackamas branch of the State's Department of Human Services (DHS) which provides DHS clients with housing stabilization services. The Annie Ross House, the only full-time shelter for homeless families in Clackamas County, was closed during 2018 for the rebuilding of the campus.

NHA's *Resident Services* (RS) program supports residents who live at our properties to stabilize their housing by connecting them to services for health and wellness, nutrition, education, employment and more. In 2018, our RS

program provided services to over 2,400 residents living in 32 properties across the state. Eighty-four percent of our residents improved or maintained their housing stability, and we maintained a 97% eviction prevention rate.

In 2018, NHA's *Housing Development* (HD) program completed the refinance and rehabilitation of two key properties in our portfolio: the Victorian Inn in NW Portland provides 62 units of workforce housing and Mayfield Court in outer Southeast Portland provides 30 units of senior housing.

In addition to the construction of the new Milwaukie Campus, we continued development and pre-development work on several other projects including:

- *Pleasant Avenue Veterans' Housing* – New construction of 24 units of housing for military veterans in Clackamas County.
- *Gateway Workforce Housing*- New construction of 159 units of workforce housing serving individuals and families in the Gateway District of SE Portland at 60% or less of AMI.
- *Hermiston Family Housing*- New construction of 48 units in Umatilla County serving families.
- *Alphabet/The Alta at 18th*- A combination workforce/senior property in the heart of Portland's Alphabet District. The Alta is comprised of three buildings, including the preservation of the historic Buck-Prager building the former site of Portland's first women's hospital. In all the property will provide 130 to 148 units.
- *Ontario Apartments*- the acquisition of a former care center, Ontario Apartments will be comprised of two phases. Phase 1 is an adaptive reuse of the existing care facility providing 60 apartments for seniors and families. Phase 2 will be a new construction project providing approximately 50 family-sized units on the same site.
- *Florence Apartments*- 45 units of workforce and family-sized units in the coastal community of Florence in Lane County.
- *Harold*- 75 units of workforce housing in the outer Lents District of SE Portland.
- *NHA's LIHPRHA portfolio*- the rehabilitation of 120 to 240 units spread across 6 properties in 5 Oregon Counties.

Strategic Priorities: Equity and Partnerships

2018 saw marked progress toward completing the NHA strategic plan. Goals and outcomes were achieved which ensure that NHA continues to provide exceptional housing and high quality services to our clients while also strengthening public awareness and support for our programs.

NHA also continued the strategic priority of 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 2018, we built upon previous advances in staff and board training and expanded our measurement of program participation and outcomes. One example of this work is that we achieved greater than 20% participation of minority- and women-owned businesses in property development and asset management.

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 opportunities through affordable housing to the efforts of talented and dedicated employees, a passionate volunteer Board of Directors, generous support from community members, and partnerships with valued business and government funders. We recognize that NHA's effectiveness in the affordable housing industry in Oregon depends on these collaborative relationships. We are deeply grateful to all of our partners.

Trell Anderson
Executive Director

Scott Bullard
Board Chair

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 \$13,229 based on our 2017 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 2018 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 30.

The following charts show the full breadth of the NHA parent and all related entities by including those that are unconsolidated in 2018 and 2017.

2018 Summary of Activity	NHA Parent Entity	Prepared in accordance with GAAP			Unconsolidated property financial information [2]		Total NHA and all related entities
		Consolidated properties	Consolidated Totals	Equity affiliate properties [3]	Sponsored projects [4]		
Fixed assets	21,741,716	39,758,818	61,500,534	155,092,301	6,847,658	223,440,493	
Accumulated depreciation	(8,482,866)	(19,433,900)	(27,916,766)	(36,519,839)	(2,933,415)	(67,370,020)	
Net fixed assets	13,258,850	20,324,918	33,583,768	118,572,462	3,914,243	156,070,473	
Liabilities	5,124,962	16,470,497	21,595,459	86,516,187	156,021	108,267,667	
Net assets	22,628,638	7,407,316	30,035,954	45,811,649	4,151,669	79,999,272	
Net operating Cash flows ^[1]	\$ 1,594,960	(2,221,183)	(626,223)	2,262,155	(8,060)	1,627,872	
Number of Units	270	424	694	1,099	78	1,871	

2017 Summary of Activity	NHA Parent Entity	Prepared in accordance with GAAP			Unconsolidated property financial information [2]		Total NHA and all related entities
		Consolidated properties	Consolidated Totals	Equity affiliate properties [3]	Sponsored projects [4]		
Fixed assets	\$ 22,907,296	34,880,202	57,787,498	147,482,608	6,847,658	212,117,764	
Accumulated depreciation	(8,701,530)	(18,455,487)	(27,157,017)	(32,006,511)	(2,836,653)	(62,000,181)	
Net fixed assets	14,205,766	16,424,715	30,630,481	115,476,097	4,011,005	150,117,583	
Liabilities	5,161,446	14,253,706	19,415,152	76,251,061	196,634	95,862,847	
Net assets	22,520,109	5,254,571	27,774,680	47,745,063	2,092,098	77,611,842	
Net operating Cash flows ^[1]	\$ 1,885,081	119,609	2,004,690	1,911,511	72,651	3,988,852	
Number of Units	284	516	800	1,007	78	1,885	

[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 C 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 65 new units of housing and preserved 273 units since 2012 while receiving cash fees of \$10.4 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 the previous charts which summarize the health

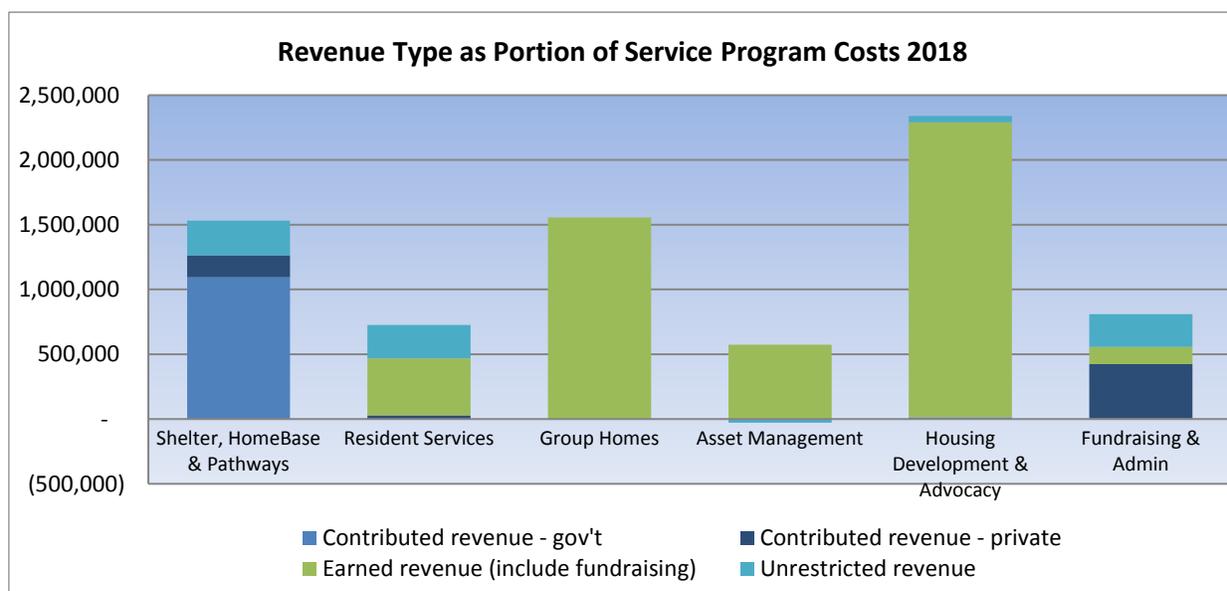
of our housing portfolio. The fees and owner distributions collected as a result of effective Asset Management covered 39% of the costs of managing the LIHTC and LIHPRHA portfolio in 2018 and 69% in 2017.

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 expanded to 7 FTE in 2017. We now reach 100% of our residents living in multi-family and senior properties across the state. The fees generated by resident service contracts with the properties funded 59% of total program costs in 2018 and 66% in 2017.

Our *Homeless Intervention Services (HIS)* department operates the *HomeBase* and *Pathways* programs. These programs meet the needs of Clackamas County, Oregon residents who have lost or are at risk of losing their housing. The programs also assist those living with a persistent, severe mental illness and who are currently experiencing homelessness, discharging from a hospital, or transitioning from group living into an independent living environment. HIS also operated the *Annie Ross House family shelter* and associated transitional units until August 2017. At that time the shelter was temporarily closed to make room for construction of an improved and expanded shelter. The new shelter will house eight families and will reopen in September 2019.

The HIS department is funded primarily with public grants, contracts, and private contributions. Grants from Clackamas County historically funded about 40% of the costs of operating the shelter. Fully funding the HIS programs requires NHA to provide support from our unrestricted income.

The chart 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 was seriously challenged to provide adequate office space for our growing staff on our campus in Milwaukie, Oregon. The campus also held the Annie Ross House shelter and seven units of transitional housing. While the shelter was warm and welcoming, it was a converted single family home not designed to hold five families, and the surrounding land, with only seven units of housing, presented an opportunity for more efficient use of a valuable resource. The process to rebuild the NHA campus, which started in 2014, will culminate with a grand re-opening ceremony in August 2019.

Twenty-eight units of LIHTC affordable housing (1, 2, and 3-bedroom apartments and townhomes) have replaced the transitional units that the campus previously provided. A new administrative building will provide access to services, a best practices research center, and offices for up to 50 employees. The new Annie Ross House family shelter expands 60%, from five families to eight families, in a facility designed to accommodate best practices. The goal of the new NHA campus Operations and Direct Services Center is to serve more than 2,800 people per year.

Development of a larger shelter and new office building creates both the opportunity to expand our programs and the risk of consuming too much of NHA's financial reserves. Indeed, NHA liquid assets at the end of 2018 were at their lowest level for nine years; however, in the months since the close of the year, NHA's cash commitment to the office and shelter was completed, over two million in predevelopment investments were repaid to the organization, and cash has rebounded. Management was aware that this dip would take place and continues to monitor cash flow risk.

Pipeline Challenges

NHA has continued to develop a robust pipeline of projects – both new construction and preservation – and at the end of 2018, we had over \$4 million invested in predevelopment. In total, there were fifteen projects in construction or predevelopment during 2018. Of these projects, seven create new affordable housing and eight preserve existing affordable housing. To assist with these projects, NHA added a fourth housing developer position in 2017 and a fifth in 2018. The list of current housing development projects is as follows:

<u>Project Name</u>	<u># of units</u>	<u>Preserve vs New</u>	<u>Status</u>
NHA Campus Housing	28	new	Broke ground June 2018, completion expected July 2019
Alphabet district	149	new	Land leased, in predevelopment
Gateway Workforce	160	new	Predevelopment, moved to construction in March 2019
Ontario	60	new	Predevelopment, LLC acquired vacant property in May 2018
College Manor	20	preserve	Currently a related entity; needs refinancing and preservation
Florence	45	new	Predevelopment, purchased land in 2016
Hermiston	48	new	Predevelopment, purchased land in 2015
Mayfield	30	preserve	Was a related entity; resyndicated in 2017 with rehab in 2018
Oakhill	56	preserve	Currently a related entity; needs refinancing and preservation
Pleasant Street	24	new	Predevelopment, LLC acquired land in 2016; moved to construction in January 2019
Ridgeway	40	preserve	Currently a related entity; needs refinancing and preservation
River Glen	44	preserve	Currently a related entity; needs refinancing and preservation
Saginaw	30	preserve	Currently a related entity; needs refinancing and preservation
Sunnyslope	50	preserve	Currently a related entity; needs refinancing and preservation
Victorian Inn	62	preserve	Was a related entity; resyndicated in 2017 with rehab in 2018

All of these properties indicate the ability of the NHA development team to tackle innovative development strategies. Pleasant Street will be our second effort to build veteran’s housing utilizing gap financing from the state and local financing partners to avoid the traditionally oversubscribed LIHTC platform. The Victorian-Mayfield project merges two properties into one partnership where 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. This project’s innovations involve NHA’s use of seller-financing combined with 4% LIHTC credits and housing bonds. The Gateway Hermiston Workforce Housing project was funded in the spring of 2018 and moved into construction in the spring of 2019. This project again combines two diverse properties in order to leverage the strengths of one to enable a less fundable project to go forward – thus expanding the number of affordable housing units across the state. These two projects are an urban development in the Gateway district of Portland, Oregon and a rural project in Hermiston, Oregon.

Investments

The NHA board has committed to invest at least \$1.5 million in predevelopment costs. At the end of 2018, and as one of the factors that led to NHA’s historically low liquid assets at the end of the year, NHA had over \$4 million invested in predevelopment costs including the purchase of land for future development. For comparison, \$1.9 million was invested at the end of 2017. Projections call for NHA predevelopment investments to range from \$1.9 to \$2.2 million over the next four 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 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. Of these, the Mayfield loan has been paid off in December 2017 as the property moved into re-syndication.

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 long term cash reserves. As of December 31, 2018, NHA's unrealized gain on this investment had dipped to \$223,000 from a 2017 ending balance of \$303,000, but it has since recovered. The NHA Board anticipated fluctuations in the value of this type of investment and continues to have faith in our advisors.

Funding Challenges

Ongoing support for social service work is difficult to find from foundation and corporate donors. Despite having many smaller donors who have contributed for years to the Annie Ross House, we have been unable to fully fund the operations of the shelter. Funding from Clackamas County has historically funded about 40% of the cost of operating the shelter. To address this challenge, NHA kicked-off the NHA Opportunity Council in 2013. The Opportunity Council is a joint effort of the NHA Board, long-term donors, and business partners to create stable funding for our direct service programs. The fund intends to leverage unrestricted NHA resources as a match to new funds raised through corporate and individual donations. Funds raised through the Opportunity Fund support our Resident Services program, HomeBase, and the Annie Ross House shelter programs. The council has met its funding goals each year.

In 2016 and 2017, the council focused their efforts on the capital campaign for the new campus. \$1.9 million of the NHA cash commitment to the campus was raised by the capital campaign. In addition to raising funds, the capital campaign generated a lot of community support and new awareness of the role of the shelter in providing an alternative to homelessness in Clackamas County. NHA management expects that this new awareness will assist with future efforts to raise funds for the shelter and other NHA work.

In 2018, NHA used unrestricted funds to 'self-fund' about 17% (\$250,000) of the cost to run the Homeless Intervention Services programs. This was during a period when the Annie Ross House was not operating. In 2017, the shelter operated for half of the year before being closed to prepare for the campus redevelopment, and NHA 'self-funded' about 26% (\$421,000) of the cost of these programs. NHA's strategic plan and long-term cash projections address the degree to which social service programs should be self-funded from unrestricted earnings. With the expanded Annie Ross House shelter restarting operations in September 2019, 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.

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 and fulfill our mission
- 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:

	2018	2017	2016	2015	2014	Goal
Current ratio ¹	4.4	9.80	9.87	11.75	13.53	>2
Number of months of operating cash ²	7.8	17	14	15	15	>6
Leverage ³	0.23	0.23	0.22	0.24	0.24	< 0.75
Return on net assets ⁴	8%	-5%	2%	-5%	8%	>6%
Viability ratio ⁵	8.27	6.37	6.20	3.80	4.24	>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

During 2018, NHA experienced a 34% turnover rate, compared to 2017 when our turnover rate was 8%. We lost two staff from the Housing Development department, had five staff turnover in the Homeless Intervention Services department and one in the Resident Services department. Together the Resource Development and Administration/Finance functions had three staff positions turnover including the Executive Director position. The reasons for these turnovers were varied and show no particular pattern. However, and especially in an organization that prides

itself on our staff commitment and longevity, the process of returning to normality after this level of change was hard on the remaining staff. As of April 2019, the organization is again fully staffed at 33 positions and morale is high as we prepare to move back to the Milwaukie campus.

One of the biggest staff transitions was the retirement, in September 2018, of NHA's Executive Director, Martha McLennan. Martha had been the Executive Director of NHA for over 16 years and provided excellent leadership as well as a deep understanding of, and commitment to, the affordable housing industry. However, the NHA Board was successful in hiring Trell Anderson as the new Executive Director. Trell has twenty years of experience in affordable housing and social services in Oregon along with a commitment to equity, data driven services, and strategic planning. Trell has brought new energy and focused commitment to our mission and the people living in our housing communities and continues to generate excitement among staff and partners as he builds our next strategic plan.

At NHA, the management team represents all departments in the organization and works to facilitate the flow of information and cooperation between the departments. The management team remains strong with a range of tenure from zero to fourteen years. NHA management realizes that our staff is one of our strongest resources, and we remain committed to providing strong benefits and compensation to attract and retain talented staff. We participate in compensation surveys and strive to be above market for both social service and housing development compensation.

Strategic Planning

The current strategic plan expired in 2018. Development of the new strategic plan is an opportunity to build on NHA's historic strengths and to position NHA to take advantage of new opportunities. The process is being led by the new Executive Director with input from staff, board, and community partners.

Increased public awareness of the need for affordable housing has created a climate which more than ever supports new housing development. Both the City of Portland and Metro have passed bonds to support large scale affordable developments. The State of Oregon has recently committed new resources for rural development and portfolio preservation efforts. NHA will be focused on maintaining a robust project pipeline.

A continuing aspect of NHA's 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 1.76% in 2018 and 2.2% for 2017. 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 ii 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 5% and 8%, 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.

In 2018, NHA consolidates five not-for-profit entities originally developed by NHA and with which we share common Board membership; three wholly-owned former LIHTC properties; and four single member LLCs that were formed to hold or develop new low-income housing and organization assets; and 24 entities that serve as general partners or co-developers. These properties contain 424 units. Twenty-one LIHTC entities, containing 1,099 units, are not consolidated. All entities related to the NHA parent organization are listed on page 45 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.

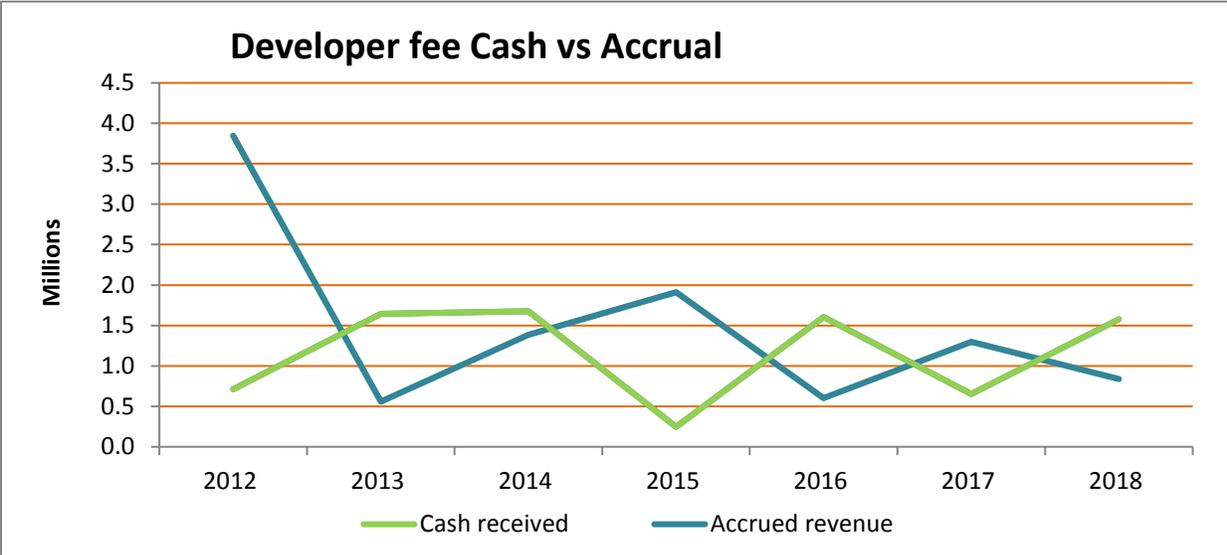
One impact of this interpretation is that operations of properties, especially existing properties acquired to preserve their affordable units, may be consolidated during the pre-development phase and then unconsolidated when a limited partner is admitted. This causes the consolidated financial statements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

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. NHA parent net income 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 the subsequent years, 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, parent company, 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-six year track record, a substantial scope of services, strong subject matter expertise, a stable board averaging 7+ years of service per member, and solid organizational systems, NHA looks forward to many more productive years of creating opportunity through affordable housing.

Tam Gardner, CPA
Director of Finance and Administration
Milwaukie, Oregon
June 2019

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. (a nonprofit organization) and Subsidiaries, which comprise the consolidated and combined statement of financial position as of December 31, 2018, 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., Oak Associates, LP, Rosemont Senior Housing Associates, LP, and Rosemont Town Homes Associates, LP (Other Subsidiaries), which statements reflect total assets of \$14,216,752 as of December 31, 2018 and the total support and revenues of \$3,677,913 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, 2018, 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.

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 June 26, 2019, 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 30-35 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.

Emphasis of Matter

As discussed in Note B, the Organization adopted the provisions of Accounting Standards Update No. 2016-14, Not-for-Profit Entities (Topic 958), for the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Northwest Housing Alternatives, Inc. and Subsidiaries' 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 6, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Portland, Oregon
June 26, 2019

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATED AND COMBINED STATEMENT OF FINANCIAL POSITION
December 31, 2018

(With Comparative Totals as of December 31, 2017)

ASSETS		<u>2018</u>	<u>2017</u>
Current assets:			
Cash and cash equivalents	\$	2,752,181	\$ 6,222,025
Tenant and other receivables		262,343	269,179
Investments (Note R)		2,415,656	2,174,601
Grant, pledges and contract payments receivable		1,027,422	724,761
Prepaid expenses and deferred charges		142,214	136,774
Current fees receivable from affiliated organization (Note D)		933,673	514,409
Current notes receivable from affiliated organization (Note E)		118,985	28,250
Total current assets		<u>7,652,474</u>	<u>10,069,999</u>
Investments in affiliated organizations (Note F)		2,516,340	1,759,277
Required deposits and funded reserves (Note G)		2,824,310	3,312,592
Long-term fees receivable from affiliated organizations (Note D)		1,722,521	967,935
Notes receivable from affiliated organizations (Note E)		395,377	368,361
Land, buildings, and equipment (Note H)		33,583,768	30,630,480
Total assets	\$	<u>48,694,790</u>	<u>\$ 47,108,644</u>
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable and accrued expenses	\$	738,588	\$ 629,991
Construction payable		199,200	1,270,983
Accrued payroll and related expenses		99,527	120,159
Current portion of long-term debt (Note I)		922,650	518,734
Deferred revenue		685,351	535,971
Total current liabilities		<u>2,645,316</u>	<u>3,075,838</u>
Funds held on behalf of others		140,840	129,886
Long-term interest payable (Note I)		990,853	993,053
Long-term debt, less current portion (Note I)		16,531,116	15,135,187
	\$	<u>20,308,125</u>	<u>\$ 19,333,964</u>
Net assets			
Without donor restrictions			
Available for general operations and programs		2,281,665	1,103,561
Designated by Board (Note K)		3,350,000	5,402,959
Required deposits and funded reserves (Note G)		2,824,310	3,312,592
Net investment in capital assets and affiliated organizations		18,646,342	16,735,836
Total without donor restrictions		<u>27,102,317</u>	<u>26,554,948</u>
With donor restrictions		1,284,348	1,219,732
Total net assets		<u>28,386,665</u>	<u>27,774,680</u>
Total liabilities and net assets	\$	<u>48,694,790</u>	<u>\$ 47,108,644</u>

See notes to consolidated and combined financial statements.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATED AND COMBINED STATEMENT OF ACTIVITIES
Year Ended December 31, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	Without Donor		With Donor		Total	
	Restrictions	Restrictions	2018	2017	2018	2017
Operating revenues, gains and other support:						
Government grants and contracts	\$ 1,639,425	\$ -	\$ 1,639,425	\$ 1,595,830		
Private grants and contributions	122,922	494,416	617,338	252,852		
Special events, net of direct costs of \$17,000 in 2018 and \$24,310 in 2017	158,550	-	158,550	120,767		
In-kind contributions	39,831	-	39,831	38,708		
Trust deed note installments forgiven	108,758	-	108,758	108,758		
Rental income	4,769,515	-	4,769,515	5,116,744		
Development fees from equity affiliates	1,557,500	-	1,557,500	262,500		
Consulting and asset management fees	368,611	-	368,611	337,936		
Resident service fees	303,290	-	303,290	281,821		
Interest income from affiliates	717,790	-	717,790	521,032		
Investment income	(24,422)	-	(24,422)	280,104		
Change in equity interest in affiliated organizations	1,118	-	1,118	(347,949)		
Other	144,430	-	144,430	123,330		
	<u>9,907,318</u>	<u>494,416</u>	<u>10,401,734</u>	<u>8,692,433</u>		
Net assets released from restrictions for operating purposes	145,213	(145,213)	-	-		
Total operating revenues, gains, and other support	<u>10,052,531</u>	<u>349,203</u>	<u>10,401,734</u>	<u>8,692,433</u>		
Expenses						
Program services						
Homeless intervention services	1,555,474	-	1,555,474	1,584,535		
Group homes	1,214,994	-	1,214,994	1,228,885		
Housing development and advocacy	1,242,042	-	1,242,042	970,332		
Asset management	684,076	-	684,076	570,658		
Resident services	738,560	-	738,560	717,964		
Consolidated housing subsidiaries	3,884,767	-	3,884,767	3,881,738		
Total program services	<u>9,319,913</u>	<u>-</u>	<u>9,319,913</u>	<u>8,954,112</u>		
Supporting services						
Management and general	338,608	-	338,608	316,269		
Fundraising	387,882	-	387,882	411,879		
Total expenses	<u>10,046,403</u>	<u>-</u>	<u>10,046,403</u>	<u>9,682,260</u>		
Increase (decrease) in net assets before non-operating activities	<u>6,128</u>	<u>349,203</u>	<u>355,331</u>	<u>(989,827)</u>		
Non-operating activities:						
Capital grants received for the acquisition of property	350,833	307,968	658,801	2,270,939		
Capital assets sales gain/loss	(22,533)	-	(22,533)	(140,778)		
Campus building demolition/loss	(867,028)	-	(867,028)	-		
Campus capital campaign contributions	-	574,569	574,569	1,005,789		
Provision for the non-collection of loans to affiliated organizations	(87,120)	-	(87,120)	(75,087)		
Net assets released from restrictions for capital purposes	1,167,124	(1,167,124)	-	-		
Other non-operating grants and transfers	(35)	-	(35)	(34)		
Total non-operating activities	<u>541,241</u>	<u>(284,587)</u>	<u>256,654</u>	<u>3,060,829</u>		
Increase in net assets	<u>547,369</u>	<u>64,616</u>	<u>611,985</u>	<u>2,071,002</u>		
Net assets at beginning of year	<u>26,554,948</u>	<u>1,219,732</u>	<u>27,774,680</u>	<u>25,703,678</u>		
Net assets at end of year	<u>\$ 27,102,317</u>	<u>\$ 1,284,348</u>	<u>\$ 28,386,665</u>	<u>\$ 27,774,680</u>		

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, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	PROGRAM SERVICES						SUPPORTING SERVICES			Total	
	Homeless Intervention Services	Group Homes	Housing Development and Advocacy	Asset Management	Resident Services	Consolidated Housing Subsidiaries	Total	Management and General	Fundraising	2018	2017
	Operating revenues, gains and other support:										
Government grants and contracts	\$ 1,093,318	\$ 528,107	\$ -	\$ -	\$ -	\$ -	\$ 1,621,425	\$ -	\$ 18,000	\$ 1,639,425	\$ 1,595,830
Private grants and contributions	134,680	-	-	-	1,500	-	136,180	-	481,158	617,338	252,852
Special events, net of direct costs	-	-	-	-	-	-	-	500	158,050	158,550	120,767
In-kind contributions	26,980	-	-	-	2,990	-	29,970	-	9,861	39,831	38,708
Trust deed note installments forgiven	-	108,758	-	-	-	-	108,758	-	-	108,758	108,758
Rental income	-	918,054	-	-	-	3,851,455	4,769,509	6	-	4,769,515	5,116,744
Development fees from equity affiliates	-	-	1,557,500	-	-	-	1,557,500	-	-	1,557,500	262,500
Consulting and asset management fees	-	-	5,000	363,611	-	-	368,611	-	-	368,611	337,936
Resident service fees	-	-	-	-	303,290	-	303,290	-	-	303,290	281,821
Interest income from affiliates	-	-	695,862	4,440	-	17,488	717,790	-	-	717,790	521,032
Investment income	-	492	-	-	-	89	581	(25,003)	-	(24,422)	280,104
Change in equity interest in affiliated organizations	-	-	1,154	-	-	(36)	1,118	-	-	1,118	(347,949)
Other	-	5	3,079	-	-	135,795	138,879	5,511	40	144,430	123,330
Total revenues	1,254,978	1,555,416	2,262,595	368,051	307,780	4,004,791	9,753,611	(18,986)	667,109	10,401,734	8,692,433
Expenses:											
Personnel	\$ 657,133	\$ 179,019	\$ 616,535	\$ 450,317	\$ 633,601	\$ -	\$ 2,536,605	\$ 83,458	\$ 340,151	\$ 2,960,214	\$ 2,928,949
Professional services	44,201	17,913	9,828	13,056	12,064	-	97,062	79,213	5,792	182,067	186,419
Overhead	24,191	4,751	36,799	62,101	25,379	-	153,221	37,632	20,077	210,930	148,844
Occupancy	30,206	4,591	17,921	11,895	10,379	-	74,992	13,218	10,379	98,589	53,408
Fleet	2,761	278	189	189	717	-	4,134	54	173	4,361	6,364
Interest and accrued fees allowances	-	-	526,355	135,905	-	-	662,260	-	-	662,260	445,441
Program costs	41,526	2,741	24,741	8,627	39,692	-	117,327	21,260	9,597	148,184	183,232
Direct Assistance	740,240	-	-	-	8,338	-	748,578	-	-	748,578	638,230
Property costs - rentals	704	423,262	-	-	-	2,459,830	2,883,796	-	-	2,883,796	3,236,978
Interest	-	105,150	-	-	-	-	432,668	-	-	537,818	448,779
Depreciation and amortization	14,512	477,289	9,674	1,986	8,390	992,269	1,504,120	103,773	1,713	1,609,606	1,405,616
Total expenses	\$ 1,555,474	\$ 1,214,994	\$ 1,242,042	\$ 684,076	\$ 738,560	\$ 3,884,767	\$ 9,319,913	\$ 338,608	\$ 387,882	\$ 10,046,403	\$ 9,682,260
Non-operating activities:											
Capital grants received for the acquisition of property	\$ -	\$ -	\$ 307,968	\$ -	\$ -	\$ -	\$ 307,968	\$ -	\$ 350,833	\$ 658,801	\$ 2,270,939
Capital assets sales gain/loss	-	-	(21,405)	138,956	-	(140,824)	(23,273)	740	-	(22,533)	(140,778)
Campus building demolition/loss	-	-	(867,028)	-	-	-	(867,028)	-	-	(867,028)	-
Capital campaign contributions	-	-	245,000	-	-	-	245,000	-	329,569	574,569	1,005,789
Provision for the non-collection of loans to affiliated organizations	-	-	(87,120)	-	-	-	(87,120)	-	-	(87,120)	(75,087)
Other non-operating grants and transfers	-	-	(307,968)	-	-	307,933	(35)	-	-	(35)	(34)
Total non-operating activities	\$ -	\$ (730,553)	\$ 138,956	\$ -	\$ 167,109	\$ (424,488)	\$ 740	\$ 680,402	\$ 256,654	\$ 3,060,829	

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, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from tenants, contractors, grantors, and donors	\$ 6,299,649	\$ 7,392,125
Cash received from development, management, and other fees	869,290	1,501,628
Cash received for interest	55,530	113,884
Cash paid to employees and suppliers	(7,312,874)	(6,554,168)
Cash paid for interest	(537,818)	(448,779)
Net cash provided by (used in) operating activities	<u>(626,223)</u>	<u>2,004,690</u>
Cash flows from investing activities:		
Capital expenditures for project in pre-development	(4,470,153)	(3,104,716)
Capital expenditures for NHA acquisitions and rehabilitations	(868,051)	(1,349,562)
Capital expenditures for acquisitions and rehabilitations by subsidiaries	(114,252)	(144,817)
Net change to restricted cash reserves	488,284	(219,744)
Purchase of investments	(265,477)	(200,000)
<i>Investing cash flows associated with affiliated organizations:</i>		
Investments in affiliated organizations	(755,945)	(140,415)
Loans made to affiliated organizations	-	-
Payments received on loans to affiliated organizations	-	-
Net cash provided by (used in) investing activities	<u>(5,985,594)</u>	<u>(5,159,254)</u>
Cash flows from financing activities:		
Repayment of long-term debt	(776,679)	(1,403,198)
Proceeds from issuance of debt	2,685,282	1,982,291
Proceeds from capital grants restricted for property acquisition	658,801	2,270,939
Proceeds from grants restricted for capital improvements	574,569	1,005,789
Net cash provided by (used in) financing activities	<u>3,141,973</u>	<u>3,855,821</u>
Net increase (decrease) in cash and cash equivalents	(3,469,844)	701,257
Cash and cash equivalents at beginning of year	<u>6,222,025</u>	<u>5,520,768</u>
Cash and cash equivalents at end of year	\$ <u><u>2,752,181</u></u>	\$ <u><u>6,222,025</u></u>

See notes to consolidated and combined financial statements.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
December 31, 2018

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 95 properties with 1,872 units of housing in sixteen Oregon counties. NHA’s mission is to create opportunity through housing.

2. Program Services

During the year ended December 31, 2018, 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 Clackamas County families who are experiencing homelessness. Throughout 2018, the shelter was officially closed down while it was being rebuilt. By the end of 2018, the new shelter was 30 percent completed. Funds that were dedicated to the Annie Ross House are being shifted to HomeBase during this period.

HomeBase – This community-based program provides both eviction prevention services to households to stop homelessness before it begins and rapid rehousing services to move households who are experiencing homelessness into their own home. A third component of this department is the Pathways program that provides rapid re-housing for individuals living with persistent mental illness. In 2018, 745 people received eviction prevention and rapid re-housing services through the HomeBase program, including 361 children. Twenty-eight of these households were in the Pathways program.

Property Development and Consulting – 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 2018, NHA broke ground on 28 new units of affordable housing on the NHA Milwaukie campus. Also, in 2018, NHA added significantly to our pipeline by beginning or continuing pre-development of over 800 units across eight Oregon counties. NHA ended 2018 with 554 units in pre-development and 92 units updated and rehabbed, ensuring their affordability for families and individuals for decades to come.

Asset Management – NHA provides asset and partnership management to 34 multifamily properties totaling 1,601 units. The funding and regulatory requirements for these properties include LIHTC, HUD 202 & 811, HOME, CDBG, Oregon Housing 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.

Group Homes – NHA owns and manages 58 group homes and three small properties with a total of 271 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.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

NOTE A – DESCRIPTION OF ORGANIZATION (CONTINUED)

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 2018, Resident Services responded to 8,162 requests for services, and coordinated 683 onsite events for NHA residents. 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 post-secondary education or their first home.

Advocacy and Public Policy – NHA seeks to advance the importance of affordable housing in the public policy sphere.

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

Significant Transaction – In early 2018, NHA moved all operations off of the 1.7 acre Milwaukie campus. All buildings on the campus were demolished and reconstruction began in June 2018. The new campus contains 28 units of LIHTC funded affordable housing owned by a limited partnership, an 8-unit family shelter, and an administrative building which will provide access to services, a best practices research center, and offices for up to 50 employees. As of the audit issuance, the new campus buildings are expected to be complete by mid-July 2019.

The new shelter and administrative building are funded by a \$1.9 million capital campaign, a conditional grant from the Federal Home Loan Bank, and Community Development Block Grant (CDBG) funds through Clackamas County. The project also received a HOME loan from Clackamas County and a SNAP Bond backed loan through Heritage Bank. ‘SNAP’ refers to the Small Nonprofit Accelerated Program loan through the Oregon Facilities Authority.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Pronouncement

During the fiscal year ended December 31, 2018, the Organization implemented Accounting Standards Update No. 2016-14, Not-for-Profit Entities Topic 958 (“ASU 2016-14”). This standard revised the net asset classification requirements and information presented in financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows. As a result of the implementation of ASU 2016-14, net assets and transactions are now presented in two categories (with donor restrictions and without donor restrictions) instead of three (unrestricted, temporary, and permanent). Additionally, disclosures regarding liquidity have been added and the expansion of disclosures regarding the nature of board designations, donor restrictions and cost allocation methodology have been made. The implementation of ASU 2016-14 had no impact on total beginning net assets.

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets at December 31, 2017, as previously reported:			
Unrestricted	\$ 26,554,948	\$ -	\$ 26,554,948
Temporarily restricted	-	1,219,732	1,219,732
	\$ 26,554,948	\$ 1,219,732	\$ 27,774,680

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, 2018

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 where NHA has acquired the limited partners' interests:

- Oak Associates, LP
- Rosemont Senior Housing Associates, LP
- Rosemont Town Homes Associates, LP

Single Member LLC's– Entities formed to hold or develop new low-income housing and other organizational assets:

- Blanton Street Housing GP, LLC
- Ever Onward Campus 2018, LLC
- Ontario Acquisition, LLC
- Pleasant Street Housing, LLC

General Partners – 24 entities organized under the laws of the State of Oregon to invest in low income housing projects:

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

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **Net Assets Without Donor Restrictions** – Net assets that are not subject to donor-imposed stipulations. The Board of Directors may designate net assets without donor restrictions for specific purposes.
- **Net Assets With Donor Restrictions** – Net assets either subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time, or net assets with donor restrictions that are not subject to appropriation or expenditure.

Expenses are reported as a decrease in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expiration of net assets with donor restrictions (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.

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 are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions with donor restrictions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. Otherwise, when a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

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 increases in net assets without donor restrictions. Contributions of cash or other assets to be used to acquire property and equipment with donor stipulations are reported as increases in net assets with donor restrictions; the restrictions are considered to be released when the donor stipulations as noted in the gift instrument have been met.

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, 2018, there were no contributed services.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Contributions (CONTINUED)

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, 2018, \$39,831 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 equipment replacements and repairs 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, 2018, 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.

Revenue Recognition

All contributions and grants are considered available for the general operations of the organization unless specifically restricted by a donor. Revenues for services are recognized at the time services are provided and the revenues are earned.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 net assets without donor restrictions is limited by contract to use within the affiliate 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, 2018, uninsured cash balances totaled \$1,294,520.

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. An allowance for uncollectible receivables is provided based upon management's judgment, including such factors as prior collection history, the type of contribution, and the nature of the fundraising activity.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized in the statement of functional expenses. Expenses are charged to programs based on direct expenditures incurred. Personnel cost is allocated to programs or supporting services based on the estimated time spent on each. Support costs are allocated to programs based on the proportion of direct salary costs to total costs.

Operating Results

Operating results reported in the consolidated statement of activities reflect all transactions that change 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.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

Prior Year Summarized Financial Information

The accompanying financial information as of and for the year ended December 31, 2017 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:

Organization	Ownership %
Cottonwood I Renewal, LLC	0.01%
Cottonwood II Renewal, LLC	0.01%
Roselyn Renewal, LLC	0.01%
Trenton Terrace, LP	0.01%

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%
NHA Campus Redevelopment, LP	Willard Street Redevelopment, LLC	0.01%
Oakridge Park, LP	Oakridge GP, LLC	0.01%
Quimby Housing, LP	Quimby GP, 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%
Victorian Mayfield Revitalization, LP	Victorian Mayfield 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:

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

NOTE C – AFFILIATED ORGANIZATIONS (CONTINUED)

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, 2018 are as follows:

Revenues:	
Development fees	\$ 1,557,500
Asset management fees	368,611
Resident service fees	303,290
Interest income	<u>717,790</u>
	<u>\$ 2,947,191</u>

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

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

NOTE D – FEES RECEIVABLE FROM AFFILIATED ORGANIZATIONS

At December 31, 2018, amounts due from affiliates for development fees, asset management fees, and resident services fees, net of \$1,098,063 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	-	-	30,950	-	30,950
Cottonwood 1 Renewal, LLC	-	4,525	4,525	(2,779)	6,271
Cottonwood 2 Renewal, LLC	-	3,030	3,030	(3,030)	3,030
Foster Townhomes	-	-	7,957	-	7,957
Hawthorne Renewal, LP	-	25,595	15,038	-	40,633
Hollyfield Village Apartments, LP [D]	135,256	-	-	-	135,256
Ikoi So Terrace Renewal, LP [A]	-	-	1,198	-	1,198
NHA Campus Redevelopment, LP [B]	100,000	-	-	-	100,000
Oakridge Park, LP	-	10,746	-	-	10,746
Quimby Housing, LP	-	6,334	-	-	6,334
River Glen Apartments	-	-	-	-	-
Seneca Terrace Renewal, LP [C]	-	-	-	-	-
Siuslaw Dunes Renewal, LP	-	28,138	-	-	28,138
Spring Housing, LP	-	11,940	-	-	11,940
Trenton Terrace, LP	-	19,379	-	-	19,379
Upshur Renewal Housing, LP	-	6,841	-	-	6,841
Victorian Mayfield Revitalization, LP [E]	500,000	-	-	-	500,000
Village at the Headwaters, LP	-	-	-	-	-
Weidler Renewal, LP	-	-	-	-	-
	<u>\$ 735,256</u>	<u>\$ 141,528</u>	<u>\$ 62,698</u>	<u>\$ (5,809)</u>	<u>\$ 933,673</u>
	Development Fees	Asset Management Fees	Resident Service Fees	Allowance	Total
<i>Long-term:</i>					
Alma Gardens, LP	\$ -	\$ -	\$ -	\$ -	-
Autumn Park Renewal, LP	-	607,820	-	(592,694)	15,126
Cottonwood 1 Renewal, LLC	-	-	-	-	-
Cottonwood 2 Renewal, LLC	-	-	-	-	-
Creekside Woods, LP	-	80,000	-	(80,000)	-
Foster Townhomes	-	50,750	-	(25,750)	25,000
Hawthorne Renewal, LP	-	-	-	-	-
Hollyfield Village Apartments, LP [D]	61,913	47,378	-	(47,378)	61,913
Ikoi So Terrace Renewal, LP [A]	244,912	39,336	-	(39,336)	244,912
NHA Campus Redevelopment, LP [B]	450,000	-	-	-	450,000
Oakridge Park, LP	-	-	-	-	-
Quimby Housing, LP	-	-	-	-	-
River Glen Apartments	-	98,788	-	(98,788)	-
Seneca Terrace Renewal, LP [C]	448,411	-	-	(179,540)	268,871
Siuslaw Dunes Renewal, LP	-	-	-	-	-
Spring Housing, LP	-	-	-	-	-
Trenton Terrace, LP	-	-	-	-	-
Upshur Renewal Housing, LP	-	-	-	-	-
Victorian Mayfield Revitalization, LP [E]	559,479	-	-	-	559,479
Village at the Headwaters, LP	-	41,124	12,036	(13,842)	39,318
Weidler Renewal, LP	-	34,001	38,827	(14,926)	57,902
	<u>\$ 1,764,715</u>	<u>\$ 999,197</u>	<u>\$ 50,863</u>	<u>\$ (1,092,254)</u>	<u>\$ 1,722,521</u>

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

NOTE D – FEES RECEIVABLE FROM AFFILIATED ORGANIZATIONS (CONTINUED)

[A] In 2014, NHA entered into a development services agreement (DSA) with Ikoi 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, 2016, the project was 100% complete with NHA earning \$700,000. At December 31, 2018, Ikoi So Terrace Renewal, LP owed \$244,912 to NHA.

[B] In 2018, NHA entered into a DSA WITH NHA Campus Redevelopment, LP. In consideration of the services provided, NHA is entitled to \$1,100,000 in development fees generated by the project to be recognized in specific percentages of the total fee based on milestones set out in the Developer Agreement. At December 31, 2018, the project was approximately 70% complete with NHA earning \$770,000 of the total fee. At December 31, 2018, NHA Campus Redevelopment, LP owed \$550,000 to NHA.

[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. This receivable earns 8% simple interest on the unpaid portion. The accrued interest has been fully reserved.

[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. The unpaid portion of the fees earns 8% simple interest. At December 31, 2018, Hollyfield Village Apartments, LP owed \$197,169 to NHA; \$134,060 in fees and \$63,109 and accrued interest to NHA.

[E] In 2017, NHA entered into a DSA with Victorian Mayfield Revitalization, LP. In consideration of the services provided, NHA is entitled to \$1,050,000 in development fees generated by the project to be recognized in specific percentages of the total fee based on milestones set out in the Developer Agreement. At December 31, 2018, the project was 100% complete with NHA earning \$1,050,000 of the total fee. At December 31, 2018, Victorian Mayfield Revitalization, LP owed \$1,059,479 to NHA, including \$9,479 accrued interest.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

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.	December 2044	\$ 319,117	\$ (319,117)	\$ -
Charleston, LP	2008	4.46%	No payments during the term of the loan are required.	June 2049	-	-	-
Charleston, LP	2008	2.75%	Unpaid principal and interest due at maturity. Payable out of cash flow.	July 2048	282,863	(282,863)	-
Cottonwood I Renewal, LLC	2009	1.00%	Payable solely through gross revenue.	December 2049	172,662	(172,662)	-
Cottonwood I Renewal, LLC	2016	2.26%	Annual payments are subject to available cash flow. Unpaid principal and interest due at maturity.	January 2028	76,055	(76,055)	-
Cottonwood II Renewal, LLC	2009	1.00%	Unpaid principal and interest due at maturity. Per note: Payable solely through gross revenue.	December 2049	621,117	(621,117)	-
Cottonwood II Renewal, LLC	2017	2.26%	Annual payments are subject to available cash flow. Unpaid principal and interest due at maturity.	January 2028	51,649	(51,649)	-
Creekside Woods, LP	2009	0.00%	Principal due at maturity subject to sufficient cash flow.	February 2051	5,505,700	(5,401,922)	103,778
Creekside Woods, LP	2009	0.00%	Unpaid principal due at maturity.	December 2065	150,000	(150,000)	-
Foster Townhomes, LP	2013	2.50%	Payments shall be made from cash flows from property.	January 2021	68,333	-	68,333
Hawthorne Renewal, LP	2016	3.00%	Annual payments are subject to available cash flow. Unpaid principal and interest due at maturity.	February 2056	546,581	(430,353)	116,228
Hollyfield Village Apartments, LP	2013	0.00%	Unpaid principal due at maturity.	April 2043	613,642	(613,642)	-
Hollyfield Village Apartments, LP	2013	8.00%	Annual payments in arrears subject to cash flow.		43,315	(43,315)	-
Ikoï So Terrace Renewal, LP	2014	7.00%	Payable out of cash flow.	December 2063	268,064	(268,064)	-
NHA Campus Redevelopment 2018, LP	2018	3.00%	Payable out of cash flow.	December 2058	254,089	(254,089)	-
Oakridge Park, LP	2010	3.50%	No payments during the term of the loan are required.	November 2066	5,793,669	(5,776,221)	17,448
Quimby Housing, LP	2010	5.00%	Unpaid principal and interest due at maturity. Payable out of cash flow.	June 2040	1,816,423	(1,681,459)	134,964
Seneca Terrace Renewal, LP	2010	8.00%	Payments are subject to available cash flows.	June 2040	702,467	(702,467)	-
Siuslaw Dunes Renewal, LP	2013	6.50%	Payable out of cash flow.	December 2063	1,321,214	(1,255,453)	65,761
Siuslaw Dunes Renewal, LP	2013	6.50%	Payable out of cash flow.	December 2063	273,201	(273,201)	-
Siuslaw Dunes Renewal, LP	2014	6.50%	Payable out of cash flow.	December 2063	673,374	(673,374)	-
Spring Housing, LP	2011	4.00%	Payable out of cash flow.	July 2066	735,067	(727,967)	7,100
Spring Housing, LP	2011	4.00%	Payable out of cash flow.	July 2066	1,085,804	(1,085,804)	-
Trenton Terrace, LP	2006	0.25%	P&I due monthly subject to sufficient cash flow.	May 2047	5,806,640	(5,806,640)	-
Victorian Mayfield Revitalization, LP	2017	2.75%	Payments are subject to available cash flow. Unpaid principal and interest due at maturity.	December 2059	4,032,367	(4,032,367)	-
Village at the Headwaters, LP	2005	3.50%	Unpaid principal and interest due at maturity.	December 2048	225,661	(224,911)	750
Weidler Renewal, LP	2006	5.25%	Unpaid principal and interest due at maturity.	December 2047	55,379	(55,379)	-
					\$ <u>31,494,453</u>	\$ <u>(30,980,091)</u>	\$ <u>514,362</u>

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

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	\$ -
Autumn Park Renewal, LP	285,261	-
Cottonwood I Renewal, LLC	52,844	(2)
Cottonwood II Renewal, LLC	56,675	(5)
Creekside Woods, LP	1,069,033	-
Foster Townhomes, LP	-	-
Hawthorne Renewal, LP	-	-
Hollyfield Village Apartments, LP	-	-
Ikoï So Terrace Renewal, LP	26,563	(19)
NHA Campus Redevelopment, LP	755,810	-
Quimby Housing, LP	28,046	(18)
Roselyn Renewal, LLC	22,701	(5)
Seneca Terrace Renewal, LP	698	-
Siuslaw Dunes Renewal, LP	14,858	(35)
Spring Housing, LP	15,465	(18)
Trenton Terrace, LP	61,529	(27)
Upshur Renewal Housing, LP	1,233	1,232
Victorian Mayfield Revitalization, LP	171	-
Village at The Headwaters, LP	123,825	26
Weidler Renewal, LP	<u>48</u>	<u>(11)</u>
	<u>\$ 2,516,340</u>	<u>\$ 1,118</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, 2018 is as follows:

Total assets	\$ <u>136,635,526</u>
Total liabilities	<u>86,672,208</u>
Net assets	<u>49,963,318</u>
Total liabilities and net assets	\$ <u>136,635,526</u>
Net increase in net assets	\$ <u>3,796,614</u>

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

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 (“OHCSA”), NHA maintains certain required cash reserves for the renewal and replacement of property, capital improvements, necessary insurance reserves, and etc. totaling \$2,824,310. These reserves may be used only upon the authorization of HUD or OHCSA.

NOTE H – LAND, BUILDINGS, AND EQUIPMENT

A summary of land, buildings, and equipment at December 31, 2018 is as follows:

Buildings and improvements	\$	41,483,634
Land and improvements		13,043,399
Furnishings and equipment		1,312,044
Automobiles		46,914
Construction-in-progress		4,762,161
Pre-development		<u>852,382</u>
		61,500,534
Less accumulated depreciation		<u>(27,916,766)</u>
	\$	<u><u>33,583,768</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, 2018, 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, 2018

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, 2018:

<u>NHA</u>	<u>Total</u>	<u>Current</u>
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.	\$ 163,561	\$ 16,705
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.	1,052,412	179,606
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.	701,315	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.	329,759	-
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.	352,000	-
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.	62,817	3,453

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

NOTE I – LONG-TERM DEBT (CONTINUED)

	Total	Current
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	-
Pre-Development Loan for Various Affiliates:		
EQ2 loans payable to Wells Fargo Community Development Corporation, at 2.0%, interest due quarterly, principal of \$62,500 due quarterly after reset date, unpaid principal and interest due quarterly, in December of 2023.	500,000	-
Subsidiaries		
Blanton Street Housing, GP, LLC		
Loan payable to Washington County of the State of Oregon at interest of 0.50%. Loan requires debt service only from available cash flow until maturity on June 30, 2048.	749,900	
Mortgage note payable to Network for Oregon Affordable Housing (NOAH) with stated interest at 5.50%. Monthly installments of \$12,150 based on 30-year amortization. The note matures June 2038.	2,135,427	29,628
Ever Onward:		
Construction loan payable to Heritage Bank up to \$4,400,000 (financed with bonds through the Oregon Facilities Authority SNAP Revenue Note, 2018 Series A, issued by the Authority.) Principal and interest payments are due monthly beginning October 2020. Current interest rate is 4.81% with 2 reset dates, September 1, 2028 and September 1, 2038. Reset rates will adjust to FHLB Rate at that date plus 2.5% margin multiplied by 0.8076. The loan matures September 2043. The loan is callable by both the lender and borrower at each reset date.	114,755	-
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, 2018, accrued interest payable was \$19,271.	401,736	-
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, 2018, accrued interest payable was \$17,572.	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, 2018, accrued interest payable was \$4,670, net of debt issuance costs of \$89,838.	2,029,276	122,809
Less unamortized debt issuance costs on OHCS D loan	(89,838)	
	1,939,438	

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

NOTE I – LONG-TERM DEBT (CONTINUED)

	Total	Current
Ontario:		
Mortgage note payable to Network for Oregon Affordable Housing (NOAH) with stated interest at 5.00%. Interest only payable quarterly. The note matures May 2021.	450,000	-
Pleasant Street Housing, LLC:		
Note payable to Network for Affordable Housing with interest at 5.0% due quarterly. Principal and interest due April 2019, paid in full January 2019.	352,363	352,363
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, 2018, accrued interest payable was \$5,599.	1,654,796	93,228
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 no 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, 2018, accrued interest payable totaled \$888,566.	2,046,014	
Less unamortized debt issuance costs on both loans	(64,557)	
	3,636,253	
Rosemont Townhomes Association, LP:		
Mortgage note payable to Oregon Housing and Community Services Division (OHCSA) with interest at 6.30%. Due in monthly installments of \$6,930. Balance due in June 2042. As of December 31, 2018, accrued interest payable was \$3,082.	1,018,556	19,553
Mortgage note payable to Portland Housing Bureau (PHB) with interest at 3.66%. Loan requires debt service only from available cash flow until maturity on December 31, 2029. As of December 31, 2018, accrued interest payable was \$60,774.	186,542	
Less unamortized debt issuance costs on both loans	(29,283)	
	1,175,815	
	\$ 17,453,766	\$ 922,650

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

NOTE I – LONG-TERM DEBT (CONTINUED)

Aggregate maturities of the long-term debt for the five years subsequent to December 31, 2018 and thereafter are as follows:

Year Ending December 31,	
2019	\$ 922,650
2020	574,798
2021	1,033,530
2022	768,766
2023	748,665
Thereafter	<u>13,405,357</u>
	<u>\$ 17,453,766</u>

NOTE J – LINES OF CREDIT AND CONTINGENT LIABILITIES

At December 31, 2018, the organization has available unsecured lines of credit in the amounts of \$96,500, bearing interest at 13.75%, and \$500,000, at a variable interest rate. At December 31, 2018, no balances were outstanding under these agreements.

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, refinanced 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, 2018. At December 31, 2018, 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, 2018, there were no liabilities under these agreements.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2018

NOTE K – RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

Board-Designated Net Assets – The NHA Board of Directors revised the organization’s reserve policy during 2018 and adopted the following reserve goals.

Name of Reserve	Goal and Purpose	% of Goal Met	Balance
Working capital reserve	3 months of COE*	43%	500,000
Operating reserve	6 months of COE*	48%	1,100,000
Capital activity	Amount expected to invest in NHA campus redevelopment over the next 12 months	13%	100,000
Long-term internal investments	Invest a minimum of \$1.5 million in predevelopment and CIP** costs	100%	1,500,000
Opportunity reserve	Budgeted amount available for staff initiatives	100%	150,000
			<u>\$ 3,350,000</u>

* COE = Cash Operating Expenses

** CIP = Construction in Progress

Net Assets With Donor Restrictions – net assets represent grants, contributions, and other unexpended revenues and gains available for the following at December 31, 2018:

Homeless intervention and HomeBase	\$ 203,408
Capital campaign	191,335
Housing development	708,968
Other purposes	<u>180,637</u>
	<u>\$ 1,284,348</u>

Net Assets Released from Restrictions – During the year ended December 31, 2018, net assets were released from 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	\$ (1,167,124)
For operating purposes	<u>(145,213)</u>
	<u>\$ (1,312,337)</u>

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

NOTE L – LIQUIDITY

The following chart represents the Organization's financial assets available to meet cash needs for general expenditures within one year of December 31, 2018:

Financial assets at year-end*	
Cash and cash equivalents	\$ 2,752,181
Tenant and other receivables	262,343
Grant, pledges and contracts receivables	1,027,422
Fees receivable	2,656,194
Investments	2,415,656
Note receivable	514,362
Required deposits and reserves	<u>2,824,310</u>
Total financial assets	<u>12,452,468</u>

Less those unavailable for general expenditure within one year, due to:

Contractual or donor-imposed restrictions:	
Receivables due beyond one year	1,722,521
Notes receivable	395,377
Restricted by donor	1,284,348
Required deposits and reserves	2,824,310
Board designations:	
Board-designated reserves	<u>3,350,000</u>
Total unavailable financial assets	<u>9,576,556</u>

Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,875,912</u>
--	---------------------

* Total assets, less nonfinancial assets (e.g. property and equipment, prepaid expenses)

As part of its liquidity management, the Organization's policy is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. In addition, the Organization invests cash in excess of current requirements in short-term investments.

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, 2018, 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, 2018 totaled \$137,195.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

NOTE N – TRUST DEED NOTE INSTALLMENTS FORGIVEN

At December 31, 2018, mortgages and liens payable in the amount of \$701,315 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, 2018 totaled \$108,758.

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, 2018, 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, 2018.

Loan Guarantee

At December 31, 2018, NHA also has guaranteed the repayment of construction loans on behalf of affiliates with property under construction. The guaranteed loan amounts and outstanding balances on the construction loan at December 31, 2018 are as follows:

	Loan Amount	Loan Draws
NHA Campus Redevelopment LP	\$ 8,900,000	\$ 4,188,164
Victorian Mayfield Revitalization LP	8,700,000	8,190,327

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, 2018.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2018

NOTE Q – RECLASSIFICATION OF 2017 COMPARATIVE TOTALS

Certain 2017 amounts presented herein have been reclassified to conform to the 2018 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, 2018, 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, 2018:

Investments at fair value:	
Cash equivalents	\$ 1,170,000
Equities	1,095,012
Foreign equity funds	13,888
Foreign mutual funds	<u>136,756</u>
Total investments	<u>\$ 2,415,656</u>

Investment income for the year ended December 31, 2018 is summarized as follows:

Dividends and interest	\$ 32,088
Net increase in fair value of investments	<u>(56,510)</u>
	<u>\$ (24,422)</u>

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

NOTE T – SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 26, 2019, which is the date the financial statements were available to be issued.

In January 2019, Pleasant Street Housing, LLC closed on its \$2,126,000 construction loan with JP Morgan Chase and began construction of a new 24-unit apartment building for veterans in Oregon City, Oregon. The Housing Authority of Clackamas County will purchase the property once completed. NHA guarantees the construction loan through payoff by permanent financing. Approximately, \$295,000 was outstanding on the construction loan as of the evaluation date of subsequent events.

Gateway Hermiston Affordable Housing, LP closed on its financing in March 2019. The \$22,381,000 construction loan is with JP Morgan Chase. This project combines two new construction, affordable housing projects, one urban in Portland, Oregon (159 units) and a second rural project in Hermiston, Oregon (48 units). As of the audit issuance date, the construction loan balance was approximately \$1.2 million. NHA is the guarantor of the loan.

SUPPLEMENTARY INFORMATION

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
December 31, 2018

ASSETS

See Note B for entities included within each category.

	Northwest Housing Alternatives	Not-For- Profit LIHPRHAs	Wholly- Owned LIHTCs	Single Member LLC's	General Partners	Consolidating Elimination Entries	Total
Current assets:							
Cash and cash equivalents	\$ 1,479,531	\$ 126,406	\$ 1,025,271	\$ 61,355	\$ 59,618	\$ -	\$ 2,752,181
Tenant and other receivables	131,921	44,028	16,126	22,890	47,378	-	262,343
Investments	2,415,656	-	-	-	-	-	2,415,656
Grant and contract payments receivable	1,027,422	-	-	-	-	-	1,027,422
Prepaid expenses and deferred charges	47,977	31,035	57,706	5,496	-	-	142,214
Current fees receivable from affiliated organization	1,052,596	-	-	-	-	(118,923)	933,673
Current notes receivable from affiliated organization	118,985	-	-	-	-	-	118,985
Total current assets	<u>6,274,088</u>	<u>201,469</u>	<u>1,099,103</u>	<u>89,741</u>	<u>106,996</u>	<u>(118,923)</u>	<u>7,652,474</u>
Investments in affiliated organizations	4,611,556	-	-	-	1,083,891	(3,179,107)	2,516,340
Restricted deposits and funded reserves	106,291	1,255,062	1,370,818	92,139	-	-	2,824,310
Long-term fees receivable from affiliated organizations	1,880,459	-	-	-	-	(157,938)	1,722,521
Notes receivable from affiliated organizations	1,622,356	-	-	707,968	121,266	(2,056,213)	395,377
Land, buildings, and equipment, net	13,258,850	1,595,282	8,695,018	10,438,988	-	(404,370)	33,583,768
Total assets	<u>\$ 27,753,600</u>	<u>\$ 3,051,813</u>	<u>\$ 11,164,939</u>	<u>\$ 11,328,836</u>	<u>\$ 1,312,153</u>	<u>\$ (5,916,551)</u>	<u>\$ 48,694,790</u>
LIABILITIES AND NET ASSETS							
Current liabilities:							
Accounts payable and accrued expenses	\$ 1,111,837	\$ 182,315	\$ 101,446	\$ 3,580	\$ 47,378	\$ (707,968)	\$ 738,588
Construction payable	4,664	-	-	194,536	-	-	199,200
Accrued payroll and related expenses	99,527	-	-	-	-	-	99,527
Payable to affiliated organizations	-	1,321	137,393	1,486,392	-	(1,625,106)	-
Current portion of long-term debt	305,069	-	235,590	381,991	-	-	922,650
Deferred revenue	679,980	2,113	3,258	-	-	-	685,351
Total current liabilities	<u>2,201,077</u>	<u>185,749</u>	<u>477,687</u>	<u>2,066,499</u>	<u>47,378</u>	<u>(2,333,074)</u>	<u>2,645,316</u>
Funds held on behalf of others	-	71,093	65,503	4,244	-	-	140,840
Long-term interest payable	-	-	990,853	-	-	-	990,853
Long-term debt, less current portion	2,923,885	-	10,186,777	3,420,454	-	-	16,531,116
	<u>\$ 5,124,962</u>	<u>\$ 256,842</u>	<u>\$ 11,720,820</u>	<u>\$ 5,491,197</u>	<u>\$ 47,378</u>	<u>\$ (2,333,074)</u>	<u>\$ 20,308,125</u>
Net assets							
Without donor restrictions	\$ 22,052,258	2,794,971	(555,881)	5,129,671	1,264,775	(3,583,477)	27,102,317
With donor restrictions	576,380	-	-	707,968	-	-	1,284,348
Total net assets	<u>22,628,638</u>	<u>2,794,971</u>	<u>(555,881)</u>	<u>5,837,639</u>	<u>1,264,775</u>	<u>(3,583,477)</u>	<u>28,386,665</u>
Total liabilities and net assets	<u>\$ 27,753,600</u>	<u>\$ 3,051,813</u>	<u>\$ 11,164,939</u>	<u>\$ 11,328,836</u>	<u>\$ 1,312,153</u>	<u>\$ (5,916,551)</u>	<u>\$ 48,694,790</u>

See notes to consolidated and combined financial statements.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF ACTIVITIES
Year Ended December 31, 2018

	Northwest Housing Alternatives	NFP LIHPRHAs	Wholly Owned LIHTCs	Single Member LLC's	General Partners	Consolidating Elimination Entries	Total
Operating revenues, gains and other support:							
Government grants and contracts	\$ 1,639,425	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,639,425
Private grants and contributions	617,338	-	-	-	-	-	617,338
Special events, net of direct costs	158,550	-	-	-	-	-	158,550
In-kind contributions	39,831	-	-	-	-	-	39,831
Trust deed note installments forgiven	108,758	-	-	-	-	-	108,758
Rental income	918,060	1,399,424	2,142,604	309,427	-	-	4,769,515
Development fees from equity affiliates	1,572,656	-	-	-	-	(15,156)	1,557,500
Consulting and asset management fees	435,770	-	-	-	-	(67,159)	368,611
Resident service fees	438,498	-	-	-	-	(135,208)	303,290
Interest income from affiliates	700,302	-	-	-	17,488	-	717,790
Investment income	(24,511)	89	-	-	-	-	(24,422)
Change in equity interest in affiliated organizations	(81,858)	-	-	-	(36)	83,012	1,118
Other	8,634	61,674	74,122	-	-	-	144,430
	<u>6,531,453</u>	<u>1,461,187</u>	<u>2,216,726</u>	<u>309,427</u>	<u>17,452</u>	<u>(134,511)</u>	<u>10,401,734</u>
Total operating revenues, gains, and other support	<u>6,531,453</u>	<u>1,461,187</u>	<u>2,216,726</u>	<u>309,427</u>	<u>17,452</u>	<u>(134,511)</u>	<u>10,401,734</u>
Expenses	<u>6,161,636</u>	<u>1,301,278</u>	<u>2,445,624</u>	<u>340,232</u>	<u>-</u>	<u>(202,367)</u>	<u>10,046,403</u>
Non-operating activities:							
Capital grants received for the acquisition of property	307,968	-	-	350,833	-	-	658,801
Capital asset sales gain/loss	118,291	-	-	-	-	(140,824)	(22,533)
Campus building demolition/loss	(867,028)	-	-	-	-	-	(867,028)
Campus capital campaign contributions	574,569	-	-	-	-	-	574,569
Provision for the non-collection of loans to affiliated organizations	(87,120)	-	-	-	-	-	(87,120)
Other non-operating grants and transfers	(307,968)	-	-	307,968	(35)	-	(35)
Total non-operating activities	<u>(261,288)</u>	<u>-</u>	<u>-</u>	<u>658,801</u>	<u>(35)</u>	<u>(140,824)</u>	<u>256,654</u>
Increase in net assets	108,529	159,909	(228,898)	627,996	17,417	(72,968)	611,985
Net assets at beginning of year	22,520,109	2,635,062	(187,738)	3,279,318	1,265,269	(1,737,340)	27,774,680
Contributions	-	-	-	1,931,903	-	(1,931,903)	-
Distribution	-	-	(139,245)	(1,578)	(17,911)	158,734	-
Net assets at end of year	<u>\$ 22,628,638</u>	<u>\$ 2,794,971</u>	<u>\$ (555,881)</u>	<u>\$ 5,837,639</u>	<u>\$ 1,264,775</u>	<u>\$ (3,583,477)</u>	<u>\$ 28,386,665</u>

See notes to consolidated and combined financial statements.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
December 31, 2017

	ASSETS						
	Northwest Housing Alternatives	Not-For- Profit LIHPRHAs	Wholly- Owned LIHTCs	Single Member LLC's	General Partners	Consolidating Elimination Entries	Total
Current assets:							
Cash and cash equivalents	\$ 5,589,081	\$ 102,532	\$ 456,591	\$ 14,204	\$ 59,617	\$ -	\$ 6,222,025
Tenant and other receivables	133,000	29,494	31,432	36,707	38,546	-	269,179
Investments	2,174,601	-	-	-	-	-	2,174,601
Grant and contract payments receivable	805,949	-	-	-	-	-	805,949
Prepaid expenses and deferred charges	56,316	36,431	44,027	-	-	-	136,774
Current fees receivable from affiliated organization	964,421	-	-	-	-	(450,012)	514,409
Current notes receivable from affiliated organization	28,250	-	-	-	-	-	28,250
Total current assets	<u>9,751,618</u>	<u>168,457</u>	<u>532,050</u>	<u>50,911</u>	<u>98,163</u>	<u>(450,012)</u>	<u>10,151,187</u>
Investments in affiliated organizations	2,023,440	-	-	-	1,083,963	(1,348,126)	1,759,277
Restricted deposits and funded reserves	96,610	1,196,889	2,007,344	11,749	-	-	3,312,592
Long-term fees receivable from affiliated organizations	1,152,041	-	-	-	-	(184,106)	967,935
Notes receivable from affiliated organizations	452,080	-	-	400,000	121,689	(605,408)	368,361
Land, buildings, and equipment, net	14,205,766	1,497,786	9,371,717	5,944,425	-	(389,214)	30,630,480
Total assets	<u>\$ 27,681,555</u>	<u>\$ 2,863,132</u>	<u>\$ 11,911,111</u>	<u>\$ 6,407,085</u>	<u>\$ 1,303,815</u>	<u>\$ (2,976,866)</u>	<u>\$ 47,189,832</u>
LIABILITIES AND NET ASSETS							
Current liabilities:							
Accounts payable and accrued expenses	\$ 615,484	\$ 73,555	\$ 261,768	\$ 40,638	\$ 38,546	\$ (400,000)	\$ 629,991
Construction payable	-	83,135	-	1,393,256	-	(205,408)	1,270,983
Accrued payroll and related expenses	114,756	-	5,403	-	-	-	120,159
Payable to affiliated organizations	-	-	111,137	604,169	-	(634,118)	81,188
Current portion of long-term debt	294,421	-	224,313	-	-	-	518,734
Deferred revenue	524,026	6,329	5,616	-	-	-	535,971
Total current liabilities	<u>1,548,687</u>	<u>163,019</u>	<u>608,237</u>	<u>2,038,063</u>	<u>38,546</u>	<u>(1,239,526)</u>	<u>3,157,026</u>
Funds held on behalf of others	-	65,051	62,494	2,341	-	-	129,886
Long-term interest payable	-	-	993,053	-	-	-	993,053
Long-term debt, less current portion	3,612,759	-	10,435,065	1,087,363	-	-	15,135,187
	<u>\$ 5,161,446</u>	<u>\$ 228,070</u>	<u>\$ 12,098,849</u>	<u>\$ 3,127,767</u>	<u>\$ 38,546</u>	<u>\$ (1,239,526)</u>	<u>\$ 19,415,152</u>
Net assets							
Without donor restrictions	21,700,377	2,635,062	(187,738)	2,879,318	1,265,269	(1,737,340)	26,554,948
With donor restrictions	819,732	-	-	400,000	-	-	1,219,732
Total net assets	<u>22,520,109</u>	<u>2,635,062</u>	<u>(187,738)</u>	<u>3,279,318</u>	<u>1,265,269</u>	<u>(1,737,340)</u>	<u>27,774,680</u>
Total liabilities and net assets	<u>\$ 27,681,555</u>	<u>\$ 2,863,132</u>	<u>\$ 11,911,111</u>	<u>\$ 6,407,085</u>	<u>\$ 1,303,815</u>	<u>\$ (2,976,866)</u>	<u>\$ 47,189,832</u>

See notes to consolidated and combined financial statements.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF ACTIVITIES
Year Ended December 31, 2017

	Northwest Housing Alternatives	NFP LIHPRHAs	Wholly Owned LIHTCs	Single Member LLC's	General Partners	Consolidating Elimination Entries	Total
Operating revenues, gains and other support:							
Government grants and contracts	\$ 1,595,830	\$ -	\$ -	\$ -	\$ -	\$ -	1,595,830
Private grants and contributions	252,852	-	-	-	-	-	252,852
Special events, net of direct costs	120,767	-	-	-	-	-	120,767
In-kind contributions	38,708	-	-	-	-	-	38,708
Trust deed note installments forgiven	108,758	-	-	-	-	-	108,758
Rental income	938,060	1,341,157	2,835,615	1,912	-	-	5,116,744
Development fees from equity affiliates	651,715	-	-	-	-	(389,215)	262,500
Consulting and asset management fees	434,117	-	-	-	-	(96,181)	337,936
Resident service fees	424,305	-	-	-	-	(142,484)	281,821
Interest income from affiliates	503,121	-	-	-	17,911	-	521,032
Investment income	277,885	340	1,879	-	-	-	280,104
Change in equity interest in affiliated organizations	(843,908)	-	-	-	(155,361)	651,320	(347,949)
Other	-	48,800	74,530	-	-	-	123,330
	<u>4,502,210</u>	<u>1,390,297</u>	<u>2,912,024</u>	<u>1,912</u>	<u>(137,450)</u>	<u>23,440</u>	<u>8,692,433</u>
Total operating revenues, gains, and other support	<u>4,502,210</u>	<u>1,390,297</u>	<u>2,912,024</u>	<u>1,912</u>	<u>(137,450)</u>	<u>23,440</u>	<u>8,692,433</u>
Expenses	<u>5,682,641</u>	<u>1,296,558</u>	<u>2,936,834</u>	<u>4,892</u>	<u>-</u>	<u>(238,665)</u>	<u>9,682,260</u>
Non-operating activities:							
Capital grants received for the acquisition of property	400,000	-	-	1,870,939	-	-	2,270,939
Capital asset sales gain/loss	53,172	-	(138,895)	-	-	(55,055)	(140,778)
Campus capital campaign contributions	1,005,789	-	-	-	-	-	1,005,789
Provision for the non-collection of loans to affiliated organizations	(75,087)	-	-	-	-	-	(75,087)
Other non-operating grants and transfers	(400,000)	-	-	400,000	(34)	-	(34)
Total non-operating activities	<u>983,874</u>	<u>-</u>	<u>(138,895)</u>	<u>2,270,939</u>	<u>(34)</u>	<u>(55,055)</u>	<u>3,060,829</u>
Increase in net assets	<u>(196,557)</u>	<u>93,739</u>	<u>(163,705)</u>	<u>2,267,959</u>	<u>(137,484)</u>	<u>207,050</u>	<u>2,071,002</u>
Net assets at beginning of year	22,716,666	2,541,323	33,837	1,011,359	1,402,753	(2,002,260)	25,703,678
Contributions	-	-	-	-	-	-	-
Distribution	-	-	(57,870)	-	-	57,870	-
Net assets at end of year	<u>\$ 22,520,109</u>	<u>\$ 2,635,062</u>	<u>\$ (187,738)</u>	<u>\$ 3,279,318</u>	<u>\$ 1,265,269</u>	<u>\$ (1,737,340)</u>	<u>\$ 27,774,680</u>

See notes to consolidated and combined financial statements.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF CASH FLOWS
Year Ended December 31, 2018

	Northwest Housing Alternatives	Subsidiaries	Consolidation Elimination Entries	Total
Cash flows from operating activities:				
Cash received from tenants, contractors, grantors, and donors	\$ 2,289,101	\$ 4,010,548	\$ -	\$ 6,299,649
Cash received from development, management, and other fees	1,007,436	-	(138,146)	869,290
Cash received for interest	55,530	-	-	55,530
Cash paid to employees and suppliers	(1,651,957)	(5,799,063)	138,146	(7,312,874)
Cash paid for interest	(105,150)	(432,668)	-	(537,818)
Net cash provided by operating activities	<u>1,594,960</u>	<u>(2,221,183)</u>	<u>-</u>	<u>(626,223)</u>
Cash flows from investing activities:				
Capital expenditures for project in pre-development	-	(4,485,309)	15,156	(4,470,153)
Capital expenditures for NHA acquisitions and rehabilitations	(852,895)	-	(15,156)	(868,051)
Capital expenditures for acquisitions and rehabilitations by subsidiaries	-	(114,252)	-	(114,252)
Proceeds from the sale of capital assets	-	-	-	-
Net change to restricted cash reserves	(9,679)	497,963	-	488,284
Purchase of investments	(265,477)	-	-	(265,477)
Proceeds from the sale of investments	-	-	-	-
<i>Investing cash flows associated with affiliated organizations:</i>				
Investments in affiliated organizations	(2,999,685)	1,931,903	311,837	(755,945)
Loans made to affiliated organizations	(1,625,106)	1,625,106	-	-
Payments received on loans to affiliated organizations	-	311,837	(311,837)	-
Net cash provided by (used in) investing activities	<u>(5,752,842)</u>	<u>(232,752)</u>	<u>-</u>	<u>(5,985,594)</u>
Cash flows from financing activities:				
Repayment of long-term debt	(526,237)	(250,442)	-	(776,679)
Proceeds from issuance of debt	-	2,685,282	-	2,685,282
Proceeds from capital grants restricted for property acquisition	-	658,801	-	658,801
Proceeds from grants restricted for capital improvements	574,569	-	-	574,569
Net cash provided by (used in) financing activities	<u>48,332</u>	<u>3,093,641</u>	<u>-</u>	<u>3,141,973</u>
Net increase (decrease) in cash and cash equivalents	<u>(4,109,550)</u>	<u>639,706</u>	<u>-</u>	<u>(3,469,844)</u>
Cash and cash equivalents at beginning of year	5,589,081	632,944	-	6,222,025
Cash and cash equivalents at end of year	<u>\$ 1,479,531</u>	<u>\$ 1,272,650</u>	<u>\$ -</u>	<u>\$ 2,752,181</u>

See notes to consolidated and combined financial statements.

NORTHWEST HOUSING ALTERNATIVES, INC. AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF CASH FLOWS
Year Ended December 31, 2017

	Northwest Housing Alternatives	Subsidiaries	Consolidation Elimination Entries	Total
Cash flows from operating activities:				
Cash received from tenants, contractors, grantors, and donors	\$ 3,281,286	\$ 4,110,839	\$ -	\$ 7,392,125
Cash received from development, management, and other fees	1,617,696	-	(116,068)	1,501,628
Cash received for interest	113,884	-	-	113,884
Cash paid to employees and suppliers	(3,007,761)	(3,662,475)	116,068	(6,554,168)
Cash paid for interest	(120,024)	(328,755)	-	(448,779)
Net cash provided by operating activities	<u>1,885,081</u>	<u>119,609</u>	<u>-</u>	<u>2,004,690</u>
Cash flows from investing activities:				
Capital expenditures for project in pre-development	-	(3,493,930)	389,214	(3,104,716)
Capital expenditures for NHA acquisitions and rehabilitations	(1,349,562)	-	-	(1,349,562)
Capital expenditures for acquisitions and rehabilitations by subsidiaries	-	(144,817)	-	(144,817)
Proceeds from the sale of capital assets	-	-	-	-
Net change to restricted cash reserves	(12,501)	(207,243)	-	(219,744)
Purchase of investments	(200,000)	-	-	(200,000)
Proceeds from the sale of investments	-	-	-	-
<i>Investing cash flows associated with affiliated organizations:</i>				
Investments in affiliated organizations	(140,415)	-	-	(140,415)
Loans made to affiliated organizations	(839,526)	-	839,526	-
Payments received on loans to affiliated organizations	-	1,228,740	(1,228,740)	-
Net cash provided by (used in) investing activities	<u>(2,542,004)</u>	<u>(2,617,250)</u>	<u>-</u>	<u>(5,159,254)</u>
Cash flows from financing activities:				
Repayment of long-term debt	(262,821)	(1,140,377)	-	(1,403,198)
Proceeds from issuance of debt	-	1,982,291	-	1,982,291
Proceeds from capital grants restricted for property acquisition	400,000	1,870,939	-	2,270,939
Proceeds from grants restricted for capital improvements	1,005,789	-	-	1,005,789
Net cash provided by (used in) financing activities	<u>1,142,968</u>	<u>2,712,853</u>	<u>-</u>	<u>3,855,821</u>
Net increase (decrease) in cash and cash equivalents	486,045	215,212	-	701,257
Cash and cash equivalents at beginning of year	5,103,036	417,732	-	5,520,768
Cash and cash equivalents at end of year	<u>\$ 5,589,081</u>	<u>\$ 632,944</u>	<u>\$ -</u>	<u>\$ 6,222,025</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 consolidated and combined financial statements of Northwest Housing Alternatives, Inc. and Subsidiaries, which comprise the consolidated and combined statement of financial position as of December 31, 2018, and the related consolidated and combined 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 June 26, 2019.

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*.

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.

A handwritten signature in blue ink that reads "Kim Thompson, LLC". The signature is written in a cursive, slightly slanted style.

Portland, Oregon
June 26, 2019

**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.
Milwaukie, Oregon

Report on Compliance for Each Major Federal Program

We have audited Northwest Housing Alternatives, Inc. 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. major federal programs for the year ended December 31, 2018. Northwest Housing Alternatives, Inc. 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. 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. 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. compliance.

Opinion on Each Major Federal Program

In our opinion, Northwest Housing Alternatives, Inc. 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, 2018.

To the Board of Directors
Northwest Housing Alternatives, Inc.

Report on Internal Control Over Compliance

Management of Northwest Housing Alternatives, Inc. 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. etc. 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. 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.

A handwritten signature in blue ink that reads "Kim Thompson, LLC". The signature is written in a cursive, slightly slanted style.

Portland, Oregon
June 26, 2019

NORTHWEST HOUSING ALTERNATIVES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2018

<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				
<i>Direct:</i>				
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	122,419	
Multi-Family Housing Service Coordinator- Resident Services for Ikoi So	N/A	14.191	22,743	
<i>Passed through Clackamas County:</i>				
HOME Investment Partnerships Program	M15UC410201	14.239	36,977	
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			299,977	
<i>Passed through Clackamas County:</i>				
Emergency Solutions Grants Program	18-19 ESG 19-003 17-18 ESG 18-016	14.231	58,104	
<i>Passed through State of Oregon:</i>				
Jobs Plus Pilot Initiative	N/A	14.895	<u>2,343</u>	
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>18,079,786</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>10,252</u>	
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>10,252</u>	
			<u>\$ 18,090,038</u>	

See Notes to Schedule of Expenditures of Federal Awards.

NORTHWEST HOUSING ALTERNATIVES, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2018

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, 2018. 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 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 had a 50-year term. Northwest Housing Alternatives, Inc. was not required to repay principal or interest until maturity, as long as Northwest Housing Alternatives, Inc. complied with the terms of the note, including a 15-year period of affordability requirements. The \$250,000 note was repaid during 2018. The balance of loans outstanding at December 31, 2018 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	<u>1,704,500</u>
		<u>\$ 17,574,200</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.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2018

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
 - **Supportive Housing for Persons with Disabilities** – CFDA No. 14.181
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.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2018

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, 2018

Board of Directors

Scott Bullard
President

Jake Kirsch
Vice President

Roberta Ando
Secretary

Steven Phan
Treasurer

Barbara Smith

Michael Anderson

Marilyn Cohen

Management

Trell Anderson
Executive Director

Martha McLennan
Outgoing Executive Director

Tam Gardner
Director of Finance/CFO

Stephen McMurtrey
Housing Development Director

Ray Hackworth
Director of Asset Management

Julia Doty
Director of Resident Services

Kristin Barber
Resource Development Director

Angela Mullins
Director of Homeless Intervention Services

Ex Officio Members

Winston Kurth

John Mullin

Mike Dykes

Katy Patricelli

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, INC. AND SUBSIDIARIES
AFFILIATION CHART
December 31, 2018

<i>Equity Investments and Consolidated Subsidiaries:</i>				
Property	Ownership Entity (OE)	OE Owners	%	NHA Accounting Method for OE Owners
Alma Gardens	Alma Gardens, LP	<ul style="list-style-type: none"> ● GP- NHA through Alma GP, LLC ● LP External Investors 	0.01% 99.99%	Consolidation Equity
Autumn Park Renewal	Autumn Park Renewal, LP	<ul style="list-style-type: none"> ● GP- NHA through Autumn Park GP, LLC ● LP External Investors 	0.01% 99.99%	Consolidation Equity
Charleston	Charleston, LP	<ul style="list-style-type: none"> ● GP- NHA through Charleston GP, LLC ● LP External Investors 	0.01% 99.99%	Consolidation Equity
Creekside	Creekside Woods, LP	<ul style="list-style-type: none"> ● GP- NHA through Creekside GP, LLC ● LP External Investors 	0.01% 99.99%	Consolidation Equity
Cottonwood I	Cottonwood I Renewal, LLC	<ul style="list-style-type: none"> ● NHA ● External Investor Members 	0.01% 99.99%	Equity Equity
Cottonwood II	Cottonwood II Renewal, LLC	<ul style="list-style-type: none"> ● NHA ● External Investor Members 	0.01% 99.99%	Equity Equity
Campus Office/Shelter	Ever Onward Campus, LLC	<ul style="list-style-type: none"> ● NHA 	100%	Consolidation
Campus Housing	NHA Campus Redevelopment, LP	<ul style="list-style-type: none"> ● GP- NHA through Willard Street Redevelopment GP, LLC ● LP-External Investors 	0.01% 99.99%	Consolidation Equity
Hawthorne East	Hawthorne Renewal, LP	<ul style="list-style-type: none"> ● GP- NHA through Hawthorne Renewal GP, LLC ● LP-External Investors 	0.01% 99.99%	Consolidation Equity
Hermiston	Gateway Hermiston Affordable Housing, LP	<ul style="list-style-type: none"> ● GP- NHA through Gateway Hermiston Affordable Housing GP, LLC ● LP-External Investors 	0.01% 99.99%	Consolidation Equity
Hollyfield Village	Hollyfield Village Apartments, LP	<ul style="list-style-type: none"> ● GP- NHA through Hollyfield Village Acquisition, LLC ● LP-External Investors 	0.01% 99.99%	Consolidation Equity
Ikoi So Terrace	Ikoi So Terrace Renewal, LP	<ul style="list-style-type: none"> ● GP- NHA through Ikoi So Terrace GP, LLC ● LP-External Investors 	0.01% 99.99%	Consolidation Equity
Oakridge Park	Oakridge Park, LP	<ul style="list-style-type: none"> ● GP- NHA through Oakridge GP, LLC ● LP-External Investors 	0.01% 99.99%	Consolidation Equity
Ontario	Ontario Acquisition, LLC	<ul style="list-style-type: none"> ● NHA 	100%	Consolidation
Pleasant Street	Pleasant Street Housing, LLC	<ul style="list-style-type: none"> ● NHA 	100%	Consolidation
Pomeroy Place	Blanton Street Housing GP, LLC	<ul style="list-style-type: none"> ● NHA 	100%	Consolidation
Quimby	Quimby Housing, LP	<ul style="list-style-type: none"> ● GP- NHA through Quimby GP, LLC ● LP-External Investors 	0.01% 99.99%	Consolidation Equity
Roselyn	Roselyn Renewal, LLC	<ul style="list-style-type: none"> ● NHA ● External Investor Member 	0.01% 99.99%	Equity Equity
Rosemont Commons	Rosemont Sen. Housing Associates, LP	<ul style="list-style-type: none"> ● GP-NHA through Villa St. Rose Management, LLC ● LP-NHA through Rosemont Renewal, LLC 	0.01% 99.99%	Consolidation Consolidation
Rosemont Townhomes	Rosemont Townhomes Associates, LP	<ul style="list-style-type: none"> ● GP- NHA through Villa St. Rose Management, LLC ● LP-NHA through Rosemont Townhome Renewal, LLC 	0.01% 99.99%	Consolidation Consolidation
Seneca Terrace	Seneca Terrace Renewal, LP	<ul style="list-style-type: none"> ● GP- NHA through Seneca Terrace GP, LLC ● LP-External Investors 	0.01% 99.99%	Consolidation Equity
Siuslaw Dunes	Siuslaw Dunes Renewal, LP	<ul style="list-style-type: none"> ● GP- NHA through Siuslaw Dunes Acquisition, LLC ● LP-External Investors 	0.01% 99.99%	Consolidation Equity
Spring Street	Spring Housing, LP	<ul style="list-style-type: none"> ● GP- NHA through Spring Renewal GP, LLC ● LP-External Investors 	0.01% 99.99%	Consolidation Equity
Springwater Commons	Foster Townhomes, LP	<ul style="list-style-type: none"> ● NHA through Foster GP, LLC ● LP-External Investors 	0.01% 99.99%	Consolidation Equity
The Oak	Oak Associates, LP	<ul style="list-style-type: none"> ● GP- NHA through 333 Associates, LLC ● LP- NHA through 333 Interim, LLC 	0.01% 99.99%	Consolidation Consolidation
Trenton Terrace	Trenton Terrace, LP	<ul style="list-style-type: none"> ● NHA ● External Investors 	0.01% 99.99%	Equity Equity
Upshur	Upshur Renewal Housing, LP	<ul style="list-style-type: none"> ● GP- NHA through Upshur GP, LLC ● LP-External Investors 	0.01% 99.99%	Consolidation Equity
Victorian /Mayfield	Victorian Mayfield Revitalization, LP	<ul style="list-style-type: none"> ● GP- NHA through Victorian Mayfield GP, LLC ● LP-External Investors 	0.01% 99.99%	Consolidation Equity
Village at the Headwaters	Village at the Headwaters, LP	<ul style="list-style-type: none"> ● GP- NHA through The Headwaters GP, LLC ● LP-External Investors 	0.01% 99.99%	Consolidation Equity
Weidler	Weidler Renewal, LP	<ul style="list-style-type: none"> ● GP- NHA through Weidler Renewal GP, LLC ● LP-External Investors 	0.01% 99.99%	Consolidation Equity

Common Control/Management

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