

Housing Authority of Portland

(Portland, Oregon)

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED MARCH 31, 2011

HOUSING AUTHORITY OF PORTLAND

**Basic Financial Statements and Independent Auditor's Report
for the Years Ended March 31, 2011 and 2010 and
Supplementary Information for the Year Ended March 31, 2011**

HOUSING AUTHORITY OF PORTLAND

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As of March 31, 2011

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HOUSING AUTHORITY OF PORTLAND
BOARD OF COMMISSIONERS, MANAGEMENT AND GENERAL COUNSEL
As of March 31, 2011

BOARD OF COMMISSIONERS

| | |
|--------------------------------------|--|
| Mr. Lee Moore Chair | 135 S.W. Ash Street, 6 th Floor Portland, Oregon 97204 |
| Ms. Harriet Cormack Vice Chair | 135 S.W. Ash Street, 6 th Floor Portland, Oregon 97204 |
| Mr. David Widmark Treasurer | 135 S.W. Ash Street, 6 th Floor Portland, Oregon 97204 |
| Mr. Jeff Bachrach Chair Emeritus | 135 S.W. Ash Street, 6 th Floor Portland, Oregon 97204 |
| Ms. Gretchen Kafoury Commissioner | 135 S.W. Ash Street, 6 th Floor Portland, Oregon 97204 |
| Mr. Brian Lessler Commissioner | 135 S.W. Ash Street, 6 th Floor Portland, Oregon 97204 |
| Ms. Amie Pico Commissioner | 135 S.W. Ash Street, 6 th Floor Portland, Oregon 97204 |
| Ms. Shelli Romero Commissioner | 135 S.W. Ash Street, 6 th Floor Portland, Oregon 97204 |
| Mr. Jim Smith Commissioner | 135 S.W. Ash Street, 6 th Floor Portland, Oregon 97204 |

ADMINISTRATIVE OFFICER

| | |
|--|--|
| Mr. Steven D. Rudman Executive Director and Secretary/Treasurer | 135 S.W. Ash Street, 6 th Floor Portland, Oregon 97204 |
|--|--|

GENERAL COUNSEL

| | |
|----------------|---|
| Mr. Steve Abel | Stoel Rives, LLP 900 S.W. Fifth Avenue, Suite 2600 Portland, Oregon 97204 |
|----------------|---|

Members of the Board of Commissioners of the
Housing Authority of Portland
Portland, Oregon

Independent Auditor's Report

We have audited the accompanying basic financial statements of the business-type activity (primary government) and the aggregate discretely presented component units of the Housing Authority of Portland, Oregon (the Authority) as of and for the year ended March 31, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the Authority. Those financial statements, except for the RAC Housing Limited Partnership, were audited by other auditors, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented components units, except for RAC Housing Limited Partnership, is based solely on the reports of the other auditors. The basic financial statements as of and for the year ended March 31, 2010, were audited by other auditors whose opinion dated September 8, 2010 expressed a qualified opinion on those statements because the other auditors were unable to obtain audited financial statements for 1115 SW 11th Avenue Limited Partnership and RAC Housing Limited Partnership. As discussed in Note 21, the Authority has restated its March 31, 2010 basic financial statements during the current year to implement the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The other auditors reported on the March 31, 2010 basic financial statements before the restatement.

Except as discussed in the following paragraph, 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. The financial statements of the aggregate discretely presented component units, except for the Gateway Park Limited Partnership, were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

The financial statements of RAC Housing Limited Partnership, a discretely presented component unit presently under development, have not been audited, and we were not engaged to audit the RAC Housing Limited Partnership financial statements as part of our audit of the Authority's basic financial statements. RAC Housing Limited Partnership's financial activities are included in the Authority's basic financial statements as a discretely presented component unit and represent 15 percent, 12 percent and 17 percent of the assets, net assets and revenues/contributions, respectively, of the Authority's aggregate discretely presented component units.

In our opinion, based on the reports of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had RAC Housing Limited Partnership's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units for the Authority as of March 31, 2011, and the changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.


In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity (primary government) for the Authority, as of March 31, 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 21 to the financial statements, during the year ended March 31, 2011, the Authority implemented the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2011 on our consideration of the Authority's 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress, as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements as a whole. The other supplementary information, as listed in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary 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, based on our audit, the other supplementary information is fairly stated in all material respects in relation to the financial statements taken as a whole.



Linda Hurley, Partner
for Macias Gini & O'Connell LLP
Walnut Creek, California
September 12, 2011

HOUSING AUTHORITY OF PORTLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Years Ended March 31, 2011 and 2010

This section of the Housing Authority of Portland's (Authority) annual financial report presents Management's Discussion and Analysis of the Authority's financial performance during the years ended on March 31, 2011 and 2010. Please read it in conjunction with the Authority's basic financial statements that follow this section.

Overview of the Financial Statements

The financial statements consist of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and supplementary information (required and other.) The Authority is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the Authority. The Authority-wide statements report information about the Authority as a whole using accounting methods similar to those used by private sector companies. While detailed sub-fund information is not presented, separate accounts are maintained for each program to control and manage money for particular purposes or to demonstrate that the Authority is properly using specific appropriations and grants. The financial statements also include a "Notes to Financial Statements" section that explains the information in the basic financial statements and provides more detailed data. The Notes to Financial Statements are followed by a "Supplementary Information" section, which presents the required supplementary information and other financial schedules of the Authority's operating units and its individual properties.

As required by the Governmental Accounting Standards Board (GASB) Statement No. 14, the basic financial statements include its blended component unit, New Columbia Community Campus Corporation (N4C), and its 21 discretely presented component units. These discretely presented component units represent multi-family properties structured as limited partnerships, which have the Authority as the general partner, and the Authority retains a minimal ownership interest. The Statements of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets, regardless of when cash is received or paid.

During fiscal year 2011, the Authority implemented GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*. This Statement, effective for financial statements of period beginning after June 15, 2009, addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments and requires the fair value of derivative instrument arrangements be reported in the financial statements. This resulted in a restatement of the financial statements for 2010 and 2009 and all prior year financial results have been updated to reflect this change in accounting methodology. Additionally, the results and activities of fiscal year 2010 have been reclassified to comport with the presentation of fiscal year 2011 results and activities.

Management's Discussion and Analysis – For the Year Ended March 31, 2011

Significant Developments

American Recovery and Reinvestment Act of 2009 funding - The American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law on February 17, 2009. The Recovery Act includes \$13.6 billion for projects and programs administered by the Department of Housing and Urban Development (HUD) of which the Authority received approximately \$6.3 million of additional capital grant funds and \$0.2 million in competitive public housing ARRA funding for ADA improvements at Demar Downs, a public housing property. During fiscal year 2011, the Authority expended the remaining \$1.9 million of the ARRA capital grant award. Additionally, the Authority was also awarded \$3.3 million of competitive ARRA funding from HUD for gap financing for the Bud Clark Commons project (see below). These competitive ARRA funds are scheduled for expenditure in fiscal year 2012.

The Authority is serving as a sub-grantee for the City of Portland for the Homelessness Prevention and Rapid Rehousing Program (HPRP). HPRP is funded by HUD's ARRA program. The pass-through award from the City of Portland to the

HOUSING AUTHORITY OF PORTLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Years Ended March 31, 2011 and 2010

Authority is approximately \$4.0 million. In fiscal year 2011, the Authority expended \$2.6 million in HPRP funds bringing grant utilization-to-date to \$3.6 million.

RAC Housing Limited Partnership (Bud Clark Commons) – The Authority, in collaboration with the City of Portland, Portland Housing Bureau and Transition Projects, Inc., has built an innovative facility in downtown Portland supporting the City of Portland's 10 year plan to end homelessness. Bud Clark Commons combines a day center that can serve up to 200 people, a 90-bed men's shelter providing sleeping and living areas, and 130 affordable studio units. This \$47 million project was completed in July 2011. The Authority is the general partner with Wells Fargo Bank N.A. as the limited partner providing funding through low income housing tax credits to assist with the financing of this project. This partnership was initiated in December of 2009.

Scattered Site Sales – During fiscal year 2008, the Authority submitted a disposition application to HUD for the sale of 158 public housing scattered sites properties. These properties are primarily single family residences and these sales are part of the Authority's Public Housing Preservation Initiative, with sale proceeds planned for reinvestment in current and replacement low income housing units. 6 units sold in fiscal year 2008, 60 units sold in fiscal year 2009, 39 units sold in fiscal year 2010 and 26 units sold in fiscal year 2011.

Transfer of Tax Credit Limited Partnership Interests - During fiscal year 2011, the Authority acquired the remaining interest in two tax credit limited partnerships, Dawson Park Limited Partnership and Pearl Court Limited Partnership, and became sole owner of their low income housing properties. These tax credit partnerships were originally formed by the Authority under Section 42 of the Internal Revenue Code.

Hillsdale Terrace Duplexes – In October 2010, the Authority acquired three duplexes adjacent to the Hillsdale Terrace public housing property for \$0.9 million. These properties were acquired to support the anticipated redevelopment of Hillsdale Terrace. The Authority was awarded an \$18.5 million HOPE VI grant in June 2011 supporting the Hillsdale Terrace redevelopment plan.

Grove Hotel Dispositions – In November 2007, the Authority acquired the Grove Hotel for the purpose of rehabilitating the property. The repaired property would then be transferred to a government entity for the provision of low income housing. With rehabilitation complete, the Authority transferred title of the Grove Hotel to Portland Housing Bureau in April 2010 for total consideration of \$3.7 million. Included in this consideration was Portland Housing Bureau's assumption of the Authority's \$3.5 million note payable related to the Grove Hotel.

Pine Square Apartment - In July 2010, the Authority sold Pine Square, a 143 unit affordable apartment property, for \$5.9 million, generating a \$0.6 million gain.

Financial Highlights

The Authority's Statements of Net Assets continued to reflect favorable liquidity and growth in net assets during 2011. Specifically:

- Total assets and deferred outflows increased \$9.2 million from \$356.1 million at March 31, 2010 to \$365.2 million at March 31, 2011 primarily due to the increase in capital assets of \$14.3 million, notes and accrued interest receivable of \$7.9 million, investments in partnerships of \$7.5 million and cash and investments (including restricted categories) of \$4.3 million. This was offset by a decrease of \$9.5 million in assets available for sale, \$8.2 million in due from partnerships and \$8.1 million in notes receivable - partnerships.
- Total liabilities decreased \$11.4 million from \$172.3 million at March 31, 2010 to \$160.9 million at March 31, 2011 primarily due to a reduction of bonds payable – partnerships of \$8.4 million and a reduction of notes payable of \$2.2 million.

HOUSING AUTHORITY OF PORTLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Years Ended March 31, 2011 and 2010

- Total operating revenues increased \$11.2 million to \$112.2 million primarily due to increased HUD operating subsidies of \$5.7 million for public housing and Section 8 programs along with higher development fee revenue of \$2.4 million and increased dwelling rental revenue of \$1.4 million.
- Total operating expenses of \$110.7 million increased \$5.7 million from the prior year, primarily due to higher housing assistance payments of \$3.2 million, administration costs of \$1.3 million and depreciation expense of \$1.6 million.
- Operating results for 2011 yielded operating income of \$1.5 million compared to an operating loss of \$4.0 million for 2010. Operating income in 2011 includes depreciation expense of \$7.2 million.
- Net assets grew \$20.5 million to \$204.3 million at March 31, 2011. This growth was primarily due to HUD capital contributions and other non-operating contributions, the proceeds from sale of public housing scattered site properties and operating income of \$1.5 million.

Condensed Statement of Net Assets

The following tables show a summary of net assets and net assets by type at March 31, 2011 and 2010:

| (in thousands of dollars) | <u>2011</u> | <u>2010</u> <u>(restated)</u> | <u>Increase</u> <u>(Decrease)</u> |
|--|-------------------|----------------------------------|--------------------------------------|
| Assets and Deferred Outflows | | | |
| Current assets | \$ 64,374 | \$ 44,840 | \$ 19,534 |
| Non-current assets | 154,926 | 170,370 | (15,444) |
| Capital assets | 143,828 | 129,520 | 14,308 |
| Assets available for sale | 787 | 10,268 | (9,481) |
| Total assets before deferred outflows | <u>363,915</u> | <u>354,998</u> | 8,917 |
| Deferred outflows | 1,287 | 1,152 | 135 |
| Total assets and deferred outflows | <u>\$ 365,202</u> | <u>\$ 356,150</u> | <u>\$ 9,052</u> |
| Liabilities | | | |
| Current liabilities | \$ 34,382 | \$ 12,994 | \$ 21,388 |
| Non-current liabilities | 125,224 | 158,182 | (32,958) |
| Derivative instruments | 1,287 | 1,152 | 135 |
| Total liabilities | <u>160,893</u> | <u>172,328</u> | <u>(11,435)</u> |
| Net Assets | | | |
| Invested in capital assets—net of related debt | 66,546 | 61,168 | 5,378 |
| Restricted | 26,777 | 42,609 | (15,832) |
| Unrestricted | <u>110,986</u> | <u>80,045</u> | <u>30,941</u> |
| Total Net assets | <u>204,309</u> | <u>183,822</u> | <u>20,487</u> |
| Total liabilities and net assets | <u>\$ 365,202</u> | <u>\$ 356,150</u> | <u>\$ 9,052</u> |

HOUSING AUTHORITY OF PORTLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Years Ended March 31, 2011 and 2010

Year-end Financial Position

Current assets increased in 2011 from \$44.8 million to \$64.4 million. Current portion of notes receivable increased \$22.9 million due to the upcoming repayment next year of construction financing provided to the RAC Housing Limited Partnership. Net accounts receivable increased \$0.8 million due to outstanding draws from funders for the RAC Housing Limited Partnership project offset by receipt of outstanding draws for the completed James Hawthorne project. Cash and cash equivalents combined with current investments (including restricted categories) decreased by \$4.2 million due to management's decision to lengthen investment maturities beyond one year.

Non-current assets decreased \$15.4 million, mainly due to the reclassification of \$22.9 million of notes receivable-partnerships to current assets in anticipation of repayment of construction financing provided to the RAC Housing Limited Partnership. Additionally, due from partnerships decreased \$8.2 million primarily due to receipt of outstanding developer fees and other development activities. Offsetting these reductions were an \$8.6 million increase in long-term investments from lengthening investment maturities and \$7.5 million increase in investments in partnership for the RAC Housing Limited Partnership.

Capital assets increased \$14.3 million. Additions included capital projects at public housing buildings (\$8.2 million), acquisition of the Madrona (\$3.4 million) for future public housing, the transfers of capital assets from Dawson Park Limited Partnership (\$1.9 million) and Pearl Court Limited Partnership (\$6.5 million) that were acquired at the end of their tax compliance period under Section 42 of the Internal Revenue Code, and the acquisition of a duplex (\$0.9 million) adjacent to the Hillsdale Terrace public housing property, a future HOPE VI redevelopment site. Offsetting the increases above was \$7.2 million of depreciation

Assets available for sale decreased \$9.5 million from \$10.3 million in 2010 to \$0.8 million in 2011. During 2011, the Authority sold Pine Square, with a book value of \$5.3 million; the Grove Hotel, with a book value of \$3.3 million; and 26 public housing scattered sites with a book value of \$0.8 million. Assets available for sale of \$0.8 million consists of the remaining unsold 26 public housing scattered sites.

Current liabilities increased \$21.4 million during the year, primarily due to the \$22.9 million increase in current portion of bonds payable – partnership for the expected retirement of RAC Housing Limited Partnership construction bonds payable in fiscal year 2012. Offsetting this increase, accounts payable decreased by \$2.0 million primarily due to completion of major public housing capital improvements and the James Hawthorne re-development.

Non-current liabilities decreased by \$33.0 million during 2011. This decrease is primarily the result of the reclassification to current liabilities of \$23.2 million of bonds payable – partnerships related to construction financing associated with the RAC Housing Limited Partnership pending the payoff of those bonds. Additionally, the sale of Pine Square apartments resulted in a reduction of bonds payable of \$6.5 million and the sale of the Grove Hotel reduced notes payable – long term by \$3.5 million.

The reduction in bonds payable – partnerships was additionally effected by the acquisition of the Dawson Park and Pearl Court properties which resulted in the reclassification of \$6.9 million from bonds payable – partnerships to bonds payable. This increase to bonds payable was offset by the sale of Pine Square Apartments mentioned in the previous paragraph.

Net assets at March 31, 2011 were \$204.3 million, an increase of \$20.5 million over 2010. This increase resulted from public housing scattered site sales and capital contributions from HUD, the City of Portland, Multnomah County and other sources in support of development activities and by fiscal year 2011 operations.

HOUSING AUTHORITY OF PORTLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Years Ended March 31, 2011 and 2010

Notes and Bonds Payable

At March 31, 2011, the Authority had \$78.0 million of notes and bonds payable outstanding (excluding notes payable–partnerships), a decrease of \$2.0 million over the prior year. More detailed information about the Authority's capital debt is presented in Notes 11 and 12 to the financial statements.

| (in thousands of dollars) | <u>2011</u> | <u>2010</u> | <u>Increase (Decrease)</u> |
|--|------------------|------------------|--------------------------------|
| Current portion of notes and bonds payable | \$ 1,854 | \$ 1,557 | \$ 297 |
| Notes payable | 57,553 | 59,820 | (2,267) |
| Bonds payable | <u>18,667</u> | <u>18,689</u> | <u>(22)</u> |
| Total notes and bonds payable | <u>\$ 78,074</u> | <u>\$ 80,066</u> | <u>\$ (1,992)</u> |

There were no changes in the Authority's credit rating during the year.

HOUSING AUTHORITY OF PORTLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Years Ended March 31, 2011 and 2010

Results of Operations – Year ended March 31, 2011 compared to Year Ended March 31, 2010

Statement of Revenues, Expenses and Changes in Net Assets

| (in thousands of dollars) | 2011 | 2010 (restated) | Increase (Decrease) |
|---|-------------------|----------------------------|--------------------------------|
| Operating revenues | | | |
| Rental revenue | \$ 13,596 | \$ 12,222 | \$ 1,374 |
| HUD subsidies and grants | 85,195 | 79,490 | 5,705 |
| ARRA revenue | 2,780 | 3,134 | (354) |
| Development fee revenue | 3,929 | 1,517 | 2,412 |
| State, local and other grants | 2,026 | 1,428 | 598 |
| Other | 4,641 | 3,226 | 1,415 |
| | <u>112,167</u> | <u>101,017</u> | <u>11,150</u> |
| Operating expenses | | | |
| Housing assistance payments | 65,583 | 62,347 | 3,236 |
| Administration | 20,352 | 19,038 | 1,314 |
| Tenant services | 3,544 | 3,795 | (251) |
| Utilities | 4,120 | 3,787 | 333 |
| Maintenance | 8,995 | 9,448 | (453) |
| Depreciation | 7,211 | 5,620 | 1,591 |
| Other | 876 | 996 | (120) |
| | <u>110,681</u> | <u>105,031</u> | <u>5,650</u> |
| Operating income/(loss) | <u>1,486</u> | <u>(4,014)</u> | <u>5,500</u> |
| Nonoperating revenues (expenses) | | | |
| Investment income | 547 | 577 | (30) |
| Interest expense | (3,469) | (3,028) | (441) |
| Investment in partnership valuation charge | (386) | (530) | 144 |
| Amortization | (252) | (252) | - |
| Loss on sale of capital assets | (595) | (650) | 55 |
| Gain on sale of assets available for sale | 4,656 | 5,673 | (1,017) |
| | <u>501</u> | <u>1,790</u> | <u>(1,289)</u> |
| Income (Loss) before Capital Contributions | <u>1,987</u> | <u>(2,224)</u> | <u>4,211</u> |
| Capital Contributions | | | |
| HUD non-operating contributions | 4,535 | 9,070 | (4,535) |
| Other non-operating contributions | 12,047 | 10,549 | 1,498 |
| ARRA non-operating contributions | 1,918 | 4,138 | (2,220) |
| | <u>18,500</u> | <u>23,757</u> | <u>(5,257)</u> |
| Increase in Net Assets | <u>20,487</u> | <u>21,533</u> | <u>(1,046)</u> |
| Net Assets—Beginning of year (as restated) | <u>183,822</u> | <u>162,289</u> | <u>21,533</u> |
| Net Assets—End of year | <u>\$ 204,309</u> | <u>\$ 183,822</u> | <u>\$ 20,487</u> |

HOUSING AUTHORITY OF PORTLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Years Ended March 31, 2011 and 2010

Fiscal year 2011 generated \$1.5 million of operating income. This result is a \$5.5 million increase in operating income from fiscal year 2010. Total operating revenues were higher by \$11.2 million while operating expenses increased by \$5.7 million.

Operating revenues of \$112.2 million increased \$11.2 million from fiscal year 2010. Rental revenue was \$1.4 million greater than in fiscal year 2010 primarily due to the addition of Dawson Park and Pearl Court properties acquired from the limited partnerships at the end of their tax compliance period. HUD operating subsidies and grants were \$5.7 million greater than prior year, driven mainly by an increase in Section 8 and public housing subsidy in 2011. Development fee revenue increased \$2.4 million due to activity associated with the Resource Access Center project.

Operating expenses increased \$5.7 million to \$110.7 million in 2011. This was mainly due to a \$3.2 million increase in housing assistance payments correlated to additional funding received for short term rent assistance and Section 8 payments to landlords. Administration expense increased \$1.3 million primarily due to the increase of personnel expenses. Depreciation expense increased \$1.6 million due to the addition of the Dawson Park and Pearl Court properties along with higher depreciation on properties benefitting from capital improvements under ARRA and capital program rehabilitation work.

Nonoperating revenues (expenses) netted \$0.6 million of revenues in 2011, a decrease of \$1.2 million. This was due mainly to \$1.0 million lower gain on sale of assets available for sale and higher interest expense of \$0.4 million compared to 2010 due to the acquisition of Dawson Park and Pearl Court offset.

During 2011, capital contributions from HUD totaled \$6.5 million including \$4.5 million from HUD's modernization grant and \$1.9 million of ARRA non-operating contributions for the modernization and rehabilitation of existing public housing properties. Other capital contributions of \$12.0 million include funds from the City of Portland for the RAC Housing Limited Partnership project (\$10.1 million) and \$0.7 million of funds for the Martha Washington Limited Partnership, primarily from the State of Oregon and Multnomah County.

Management's Discussion and Analysis – For the Year Ended March 31, 2010

Significant Developments

American Recovery and Reinvestment Act of 2009 funding – As discussed earlier, the Authority received approximately \$6.3 million of additional capital grant funds and \$0.2 million in competitive public housing ARRA funding for ADA improvements at Demar Downs, a public housing property. As of March 31, 2010, the Authority expended \$4.1 million of the ARRA capital grant award. Additionally, the Authority was also awarded \$3.3 million of competitive ARRA funding from HUD for gap financing for the RAC Housing Limited Partnership project (see above).

The Authority is serving as a sub-grantee for the City of Portland for Homelessness Prevention and Rapid Rehousing Program (HPRP). HPRP is funded by HUD's ARRA funding. The funding award pass-through from the City of Portland to the Authority is approximately \$4.0 million. As of March 31, 2010, the Authority expended \$0.9 million in HPRP funds.

The Authority was awarded \$0.2 million from the Department of Homeland Security's Emergency Food and Shelter Program, funded by ARRA. As of March 31, 2010, the Authority expended the total award.

During the year, the Authority received \$1.8 million in project-based Section 8 rental assistance funded from HUD's ARRA funding. HUD elected to use ARRA funding to supplement the Authority's project-based Section 8 rental assistance contracts for the following affordable properties: Multnomah Manor, Plaza Townhomes, Rosenbaum Plaza,

HOUSING AUTHORITY OF PORTLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Years Ended March 31, 2011 and 2010

St. Johns Woods and Unthank Plaza.

Transfer of Thirteenth Avenue Building Limited Partnership interest - During fiscal year 2010, the Authority acquired the remaining 99% interest in the Thirteenth Avenue Building Limited Partnership (Peter Paulson building) and became the sole owner of the Peter Paulson building, a 93-unit low income housing project. This was the second property acquired by the Authority from a tax credit partnership it formed under Section 42 of the Internal Revenue Code.

Financial Highlights

The Authority's Statement of Net Assets continued to reflect favorable liquidity and growth in net assets during 2010. Specifically:

- Total assets and deferred outflows increased \$10.9 million from \$345.3 million at March 31, 2009 to \$356.2 million at March 31, 2010 primarily due to the increase in notes and accrued interest receivable of \$8.8 million, cash and investments of \$5.7 million, capital assets of \$5.5 million and assets available for sale of \$4.0 million. This was offset by a \$13.6 million decrease in notes receivable - partnerships related to the payment of construction financing.
- Total liabilities decreased from \$183.0 at March 31, 2009 to \$172.3 million at March 31, 2010 primarily due to the payment of bonds payable – partnerships of \$13.6 million offset by an increase of accounts payable of \$2.0 million.
- Total operating revenues increased \$3.8 million to \$101.0 million as the Authority received ARRA operating subsidies of \$3.1 million.
- Total operating expenses of \$105.0 million increased \$4.3 million from the prior year, primarily due to higher housing assistance payments of \$3.3 million and administration costs of \$0.9 million.
- Operating results for 2010 yielded an operating loss of \$4.0 million compared to an operating loss of \$3.5 million for 2009. The operating loss in 2010 includes depreciation of \$5.6 million.
- Net assets grew \$21.5 million to \$183.8 million at March 31, 2010. This growth was primarily due to the proceeds from sale of public housing scattered site properties, HUD capital contributions and other non-operating contributions offset by the operating loss of \$4.0 million.

HOUSING AUTHORITY OF PORTLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Years Ended March 31, 2011 and 2010

Statement of Net Assets

The following tables show a summary of net assets and net assets by type at March 31, 2010 and 2009:

| (in thousands of dollars) | 2010 | 2009 | Increase |
|--|----------------------|----------------------|-------------------|
| | (as restated) | (as restated) | (Decrease) |
| Assets and deferred outflows | | | |
| Current assets | \$ 44,840 | \$ 72,093 | \$ (27,253) |
| Non-current assets | 170,370 | 141,519 | 28,851 |
| Capital assets | 129,520 | 123,993 | 5,527 |
| Assets available for sale | 10,268 | 6,226 | 4,042 |
| Total assets before deferred outflows | <u>354,998</u> | <u>343,831</u> | 11,167 |
| Deferred outflows | 1,152 | 1,436 | (284) |
| Total assets and deferred outflows | <u>\$ 356,150</u> | <u>\$ 345,267</u> | <u>\$ 10,883</u> |
| Liabilities | | | |
| Current liabilities | \$ 12,994 | \$ 46,515 | \$ (33,521) |
| Non-current liabilities | 158,182 | 135,027 | 23,155 |
| Derivative instruments | 1,152 | 1,436 | (284) |
| Total liabilities | <u>172,328</u> | <u>182,978</u> | <u>(10,650)</u> |
| Net assets | | | |
| Invested in capital assets—net of related debt | 61,168 | 56,703 | 4,465 |
| Restricted | 42,609 | 32,087 | 10,522 |
| Unrestricted | <u>80,045</u> | <u>73,499</u> | <u>6,546</u> |
| Net assets | <u>183,822</u> | <u>162,289</u> | <u>21,533</u> |
| Total liabilities and net assets | <u>\$ 356,150</u> | <u>\$ 345,267</u> | <u>\$ 10,883</u> |

Year-end Financial Position

Current assets decreased in 2010 from \$72.1 million to \$44.8 million. Cash and cash equivalents, combined with investments, increased by \$3.3 million due to the receipt of proceeds from public housing scattered site sales and the partial collection of earned developer fees. Accounts receivable increased \$4.5 million due to funds owed to the Authority from HUD for modernization of public housing properties, earned but unpaid developer fees for the RAC Housing Limited Partnership project and outstanding draws for the University Place redevelopment project. Current portion of notes receivable decreased \$35.0 million due to the scheduled repayment of construction financing provided to the Trouton Limited Partnership and Humboldt Gardens Limited Partnership.

Non-current assets, consisting primarily of advances, notes and investment in limited partnerships, increased \$28.9 million, mainly due to receivables associated with the issuance of bonds on behalf of the RAC Housing Limited Partnership and the increase in notes and accrued interest receivable due to funding of development activity for Humboldt Gardens, Trouton and RAC Housing Limited Partnerships.

HOUSING AUTHORITY OF PORTLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Years Ended March 31, 2011 and 2010

Capital assets increased \$5.5 million due to ARRA-funded capital projects at public housing buildings and the \$4.6 million transfer of capital assets from the Thirteenth Avenue Building Limited Partnership that was acquired at the end of its tax compliance period under Section 42 of the Internal Revenue Code.

During 2010, the Authority added Pine Square, with a book value of \$5.3 million to the portfolio of assets available for sale. This was offset by the sale of 39 scattered sites. Assets available for sale of \$10.3 million consists of the remaining 53 public housing scattered sites, the Grove Hotel and Pine Square.

Current liabilities decreased \$33.5 million during the year, primarily due to payoff of current portion of bonds payable – partnerships for Trouton and Humboldt construction bonds. Additionally, accounts payable increased by \$2.0 million due to outstanding payables related to public housing capital improvements and rent assistance payments.

Non-current liabilities increased by \$23.2 million during 2010. Long-term notes payable increased by \$6.3 million mainly due to the issuance of notes for the University Place redevelopment and the assumption of notes payable related to the Peter Paulson building purchase. Bonds payable - partnerships increased by \$21.4 million mainly due to the issuance of bonds on behalf of the RAC Housing Limited Partnership. This was offset by the reduction of bonds payable – conduit financing of \$5.1 million.

Net assets at March 31, 2010 were \$183.8 million, an increase of \$21.5 million over 2009. This increase resulted from public housing scattered site sales and capital contributions primarily from HUD and other sources in support of development activities and fiscal year 2010 operations.

Notes and Bonds Payable

At March 31, 2010, the Authority had \$80.1 million of notes and bonds payable outstanding (excluding conduit financing and notes payable–partnerships), an increase of \$5.7 million over the prior year. More detailed information about the Authority's capital debt is presented in Notes 11 and 12 to the financial statements.

| (in thousands of dollars) | <u>2010</u> | <u>2009</u> | <u>Increase (Decrease)</u> |
|--|------------------|------------------|--------------------------------|
| Current portion of notes and bonds payable | \$ 1,557 | \$ 1,498 | \$ 59 |
| Notes payable | 59,820 | 53,513 | 6,307 |
| Bonds payable | 18,689 | 19,401 | (712) |
| Total notes and bonds payable | <u>\$ 80,066</u> | <u>\$ 74,412</u> | <u>\$ 5,654</u> |

HOUSING AUTHORITY OF PORTLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Years Ended March 31, 2011 and 2010

Results of Operations – Year ended March 31, 2010 compared to Year Ended March 31, 2009

Statement of Revenues, Expenses and Changes in Net Assets

| (in thousands of dollars) | 2010 (as restated) | 2009 (as restated) | Increase (Decrease) |
|---|-------------------------------------|-------------------------------------|--------------------------------------|
| Operating revenues | | | |
| Rental revenue | \$ 12,222 | \$ 12,368 | \$ (146) |
| HUD subsidies and grants | 79,490 | 77,999 | 1,491 |
| ARRA revenue | 3,134 | - | 3,134 |
| Development fee revenue | 1,517 | 470 | 1,047 |
| State, local and other grants | 1,428 | 2,821 | (1,393) |
| Other | 3,226 | 3,523 | (297) |
| | <u>101,017</u> | <u>97,181</u> | <u>3,836</u> |
| Operating expenses | | | |
| Housing assistance payments | 62,347 | 59,090 | 3,257 |
| Administration | 19,038 | 18,147 | 891 |
| Tenant services | 3,795 | 3,333 | 462 |
| Utilities | 3,787 | 3,652 | 135 |
| Maintenance | 9,448 | 9,317 | 131 |
| Depreciation | 5,620 | 5,392 | 228 |
| Other | 996 | 984 | 12 |
| Impairment charge | - | 790 | (790) |
| | <u>105,031</u> | <u>100,705</u> | <u>4,326</u> |
| Operating loss | <u>(4,014)</u> | <u>(3,524)</u> | <u>(490)</u> |
| Nonoperating revenues (expenses) | | | |
| Investment income | 577 | 861 | (284) |
| Interest expense | (3,028) | (4,013) | 985 |
| Investment in partnership valuation charge | (530) | 329 | (859) |
| Amortization | (252) | (253) | 1 |
| Loss on sale of capital assets | (650) | (290) | (360) |
| Gain on sale of assets available for sale | 5,673 | 9,103 | (3,430) |
| | <u>1,790</u> | <u>5,737</u> | <u>(3,947)</u> |
| Income (Loss) before Capital Contributions | <u>(2,224)</u> | <u>2,213</u> | <u>(4,437)</u> |
| Capital Contributions | | | |
| HUD non-operating contributions | 9,070 | 7,789 | 1,281 |
| Other non-operating contributions | 10,549 | 956 | 9,593 |
| ARRA non-operating contributions | 4,138 | - | 4,138 |
| | <u>23,757</u> | <u>8,745</u> | <u>15,012</u> |
| Increase in Net Assets | <u>21,533</u> | <u>10,958</u> | <u>10,575</u> |
| Net Assets—Beginning of year (as restated) | <u>162,289</u> | <u>151,331</u> | <u>10,958</u> |
| Net Assets—End of year | <u>\$ 183,822</u> | <u>\$ 162,289</u> | <u>\$ 21,533</u> |

HOUSING AUTHORITY OF PORTLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Years Ended March 31, 2011 and 2010

Fiscal year 2010 generated a \$4.0 million operating loss. This result is a \$0.5 million decline in operating income from fiscal year 2009. Total operating revenues were higher by \$3.8 million while operating expenses increased by \$4.3 million.

Operating revenues of \$101.0 million increased \$3.8 million from fiscal year 2009. HUD operating subsidies and grants were \$1.5 million greater than prior year, driven mainly by an increase in public housing subsidy in 2010. ARRA revenue of \$3.1 million replaced standard project-based Section 8 funding for five properties, supplanted state and local grants for rent assistance and provided funding support for operating expenses associated with relocation and administration of the ARRA-funded public housing capital projects. Development fee revenue increased \$1.0 million due to activity associated with the Resource Action Center project. These increases were offset by a reduction of state, local and other grants of \$1.4 million as these funds were supplanted with ARRA revenue.

Operating expenses increased \$4.3 million to \$105.0 million in 2010. Housing assistance payments generated \$3.3 million of this increase due to the additional funding available for short term rent assistance and increased payment standards for the Housing Choice Voucher program. Administration expense increased \$0.9 million due to the inclusion of Helen Swindells and Peter Paulson properties into the affordable housing portfolio, increased resources for New Columbia and an increase of personnel expenses primarily related to ARRA-funded projects. During 2009, the Authority incurred an impairment charge of \$0.8 million related to the demolition of its University Place property currently being redeveloped. There were no impairment charges incurred during 2010.

Nonoperating revenues (expenses) netted to \$1.8 million of revenues in 2010, a decrease of \$3.9 million. This was due mainly to \$3.8 million less on gain on sale of assets and assets available for sale, offset by lower interest expense of \$1.0 million compared to 2009 due to final amortization of interest rate differential related to the refinancing of debt for Fairview and Rockwood affordable properties.

During 2010, capital contributions from HUD totaled \$13.2 million including \$9.1 million from HUD's modernization grant and \$4.1 million of ARRA non-operating contributions for the modernization and rehabilitation of existing public housing properties and the HOPE VI grant associated with the Humboldt Gardens development. Other capital contributions of \$10.5 million include funds from the City of Portland for the RAC Housing Limited Partnership project and more than \$5.5 million of donated weatherization and energy efficient capital assets from Multnomah County.

Forward Looking Information

On March 23, 2011, HUD approved the Authority's FY2012 Moving To Work Annual plan. This plan includes several initiatives to be launched during fiscal year 2012, including:

- Rent reform – this initiative will streamline the rent calculation for section 8 and public housing participants by eliminating the collection of medical and child care expenses and changing the rent calculation to a lower percentage based on gross income
- Local Blended Subsidy – this initiative will use a blend of MTW Section 8 and public housing funds to subsidize units reserved for families earning 80 percent or below of area median income.

On May 18, 2011 the Housing Authority of Portland changed its legal name to Home Forward. This new name and accompanying new logo allow for a better understanding of the goals of the organization. By providing the essentials of a home, the Authority enables individuals to move forward in life and with more commitment than ever to serving the community of Multnomah County by providing hope, access, and the potential for a better tomorrow. The Housing Authority of Portland is now a DBA of Home Forward.

HOUSING AUTHORITY OF PORTLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Years Ended March 31, 2011 and 2010

On May 23, 2011, the Authority was awarded an \$18.5 million HOPE VI Revitalization Grant from the U.S. Department of Housing and Urban Development (HUD) to implement a comprehensive redevelopment of the Hillsdale Terrace public housing property. Hillsdale Terrace is comprised of 60 three-bedroom public housing units, which will be removed and replaced with 122 units of varying bedroom sizes. An additional seven off-site homes, developed in partnership with Habitat for Humanity, will be available for first-time homeowners. The redevelopment will incorporate sustainable and green building features, a community garden/urban farm space, a community center for residents and neighbors, and more open space and play area. The total development is estimated at \$47.3 million and Home Forward anticipates providing \$7.0 million in proceeds to the project.

Contact Information

This annual financial report is designed to provide Oregon citizens and taxpayers, and our customers, clients, investors and creditors, with a general overview of the Authority's finances, and to demonstrate the Authority's accountability for the appropriations and grants that it receives. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Chief Financial Officer, Housing Authority of Portland, 135 S.W. Ash Street, Portland, Oregon 97204.

HOUSING AUTHORITY OF PORTLAND

STATEMENTS OF NET ASSETS

As of March 31, 2011 and 2010 (with Discretely Presented Component Units as of December 31, 2010 and 2009)

| | HOUSING AUTHORITY OF PORTLAND | | DISCRETELY PRESENTED COMPONENT UNITS | |
|--|----------------------------------|------------------------------------|---|----------------------|
| | March 31, 2011 | March 31, 2010 (as restated) | December 31, 2010 | December 31, 2009 |
| ASSETS AND DEFERRED OUTFLOWS | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | \$ 18,844,571 | \$ 21,167,614 | \$ 6,189,434 | \$ 5,997,706 |
| Cash and cash equivalents- Restricted | 7,356,563 | 6,644,429 | 16,958,079 | 31,220,562 |
| Investments | 4,584,820 | 7,226,323 | - | - |
| Investments- Restricted | - | - | 1,568,737 | 1,713,715 |
| Accounts receivable, net | 8,657,317 | 7,865,101 | 649,902 | 4,114,763 |
| Prepaid expenses | 854,026 | 783,075 | 464,678 | 198,429 |
| Current portion of notes receivable—partnerships | 24,076,424 | 1,153,640 | - | - |
| | 64,373,721 | 44,840,182 | 25,830,830 | 43,245,175 |
| NON-CURRENT ASSETS: | | | | |
| Investments | 11,167,667 | 2,545,309 | - | - |
| Investments- Restricted | 1,995,515 | 2,132,137 | 1,422,875 | 1,775,732 |
| Due from partnerships, net | 5,868,313 | 14,035,201 | - | - |
| Notes and accrued interest receivable | 77,914,920 | 69,684,092 | 382,624 | 382,624 |
| Notes receivable—partnerships | 46,012,958 | 77,289,382 | - | - |
| Deferred charges—net | 1,312,872 | 1,491,389 | 3,909,897 | 4,045,329 |
| Investments in partnerships | 10,653,563 | 3,192,442 | - | - |
| Capital assets not being depreciated | 24,229,188 | 23,944,695 | 47,338,854 | 25,870,620 |
| Capital assets being depreciated, net | 119,599,052 | 105,575,254 | 209,423,097 | 201,465,408 |
| | 298,754,048 | 299,889,901 | 262,477,347 | 233,539,713 |
| ASSETS AVAILABLE FOR SALE | 786,836 | 10,267,829 | - | - |
| TOTAL ASSETS BEFORE DEFERRED OUTFLOWS | 363,914,605 | 354,997,912 | 288,308,177 | 276,784,888 |
| Deferred outflows on derivative instruments | 1,287,337 | 1,152,350 | - | - |
| TOTAL ASSETS AND DEFERRED OUTFLOWS | \$ 365,201,942 | \$ 356,150,262 | \$ 288,308,177 | \$ 276,784,888 |

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF PORTLAND

STATEMENTS OF NET ASSETS

As of March 31, 2011 and 2010 (with Discretely Presented Component Units as of December 31, 2010 and 2009)

| LIABILITIES AND NET ASSETS | HOUSING AUTHORITY OF PORTLAND | | DISCRETELY PRESENTED COMPONENT UNITS | |
|--|----------------------------------|------------------------------------|---|-----------------------|
| | March 31, 2011 | March 31, 2010 (as restated) | December 31, 2010 | December 31, 2009 |
| | | | | |
| CURRENT LIABILITIES: | | | | |
| Accounts payable | \$ 2,226,474 | \$ 4,261,238 | \$ 5,652,666 | \$ 2,657,207 |
| Accrued interest payable, payable from restricted assets | 478,646 | 460,606 | 966,057 | 896,727 |
| Other accrued liabilities | 2,971,032 | 2,833,760 | 9,623,540 | 12,931,928 |
| Deferred revenue | 988,656 | 831,369 | 101,087 | 149,750 |
| Deposits, payable from restricted assets | 1,785,952 | 1,895,775 | 849,912 | 849,392 |
| Current portion of bonds payable—partnerships | 24,076,424 | 1,153,640 | - | - |
| Current portion of notes payable | 924,325 | 837,156 | 24,796,147 | 1,811,275 |
| Current portion of bonds payable | 930,000 | 720,000 | - | - |
| | <u>34,381,509</u> | <u>12,993,544</u> | <u>41,989,409</u> | <u>19,296,279</u> |
| NON-CURRENT LIABILITIES: | | | | |
| Notes payable - long-term | 57,552,588 | 59,820,278 | 171,868,943 | 192,215,695 |
| Bonds payable | 18,667,001 | 18,688,736 | - | - |
| Bonds payable—partnerships | 46,012,958 | 77,289,382 | - | - |
| Accrued interest - long-term | 2,775,615 | 2,222,851 | 4,979,542 | 5,300,146 |
| Other liabilities | 215,809 | 161,285 | 4,146,227 | 5,580,144 |
| | <u>125,223,971</u> | <u>158,182,532</u> | <u>180,994,712</u> | <u>203,095,985</u> |
| Derivative instruments | 1,287,337 | 1,152,350 | - | - |
| Total liabilities | <u>160,892,817</u> | <u>172,328,426</u> | <u>222,984,121</u> | <u>222,392,264</u> |
| NET ASSETS: | | | | |
| Invested in capital assets—net of related debt | 66,546,128 | 61,168,098 | 60,096,862 | 33,309,057 |
| Restricted | | | | |
| Real estate sale proceeds | 19,139,629 | 35,439,663 | - | - |
| Residual receipts | 131,953 | 131,377 | - | - |
| Funds held in trust and debt amortization funds | 6,932,294 | 6,388,747 | 19,098,877 | 33,859,020 |
| Unused PILOT funds | 572,815 | 648,763 | - | - |
| | <u>26,776,691</u> | <u>42,608,550</u> | <u>19,098,877</u> | <u>33,859,020</u> |
| Unrestricted (deficit) | 110,986,306 | 80,045,188 | (13,871,683) | (12,775,453) |
| Total net assets | <u>204,309,125</u> | <u>183,821,836</u> | <u>65,324,056</u> | <u>54,392,624</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 365,201,942</u> | <u>\$ 356,150,262</u> | <u>\$ 288,308,177</u> | <u>\$ 276,784,888</u> |

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF PORTLAND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended March 31, 2011 and 2010 (with Discretely Presented Component Units Years Ended December 31, 2010 and 2009)

| | HOUSING AUTHORITY OF PORTLAND | | DISCRETELY PRESENTED COMPONENT UNITS | |
|--|----------------------------------|------------------------------------|---|----------------------|
| | March 31, 2011 | March 31, 2010 (as restated) | December 31, 2010 | December 31, 2009 |
| OPERATING REVENUES: | | | | |
| Dwelling rental | \$ 11,974,412 | \$ 10,486,309 | \$ 13,729,135 | \$ 14,395,332 |
| Non-dwelling rental | 1,620,903 | 1,735,447 | 443,803 | 465,495 |
| HUD operating subsidies | 79,315,903 | 73,587,834 | 1,492,280 | 1,208,010 |
| HUD grants | 5,879,261 | 5,902,331 | - | - |
| ARRA revenue | 2,780,021 | 3,133,953 | - | - |
| Development fee revenue | 3,928,954 | 1,517,232 | - | - |
| State, local and other grants | 2,026,061 | 1,427,696 | - | - |
| Other | 4,641,109 | 3,225,787 | 853,977 | 721,986 |
| | 112,166,624 | 101,016,589 | 16,519,195 | 16,790,823 |
| OPERATING EXPENSES: | | | | |
| Housing assistance payments | 65,583,002 | 62,346,887 | 58,693 | 54,909 |
| Administration | 20,352,117 | 19,038,337 | 4,421,644 | 4,559,403 |
| Tenant services | 3,543,286 | 3,794,809 | 219,674 | 126,190 |
| Utilities | 4,120,118 | 3,786,863 | 2,175,123 | 2,194,358 |
| Maintenance | 8,995,201 | 9,447,865 | 2,811,833 | 3,112,462 |
| Depreciation | 7,211,064 | 5,620,362 | 10,590,349 | 10,302,959 |
| General and other | 875,951 | 995,363 | 645,721 | 497,021 |
| | 110,680,739 | 105,030,486 | 20,923,037 | 20,847,302 |
| OPERATING INCOME/(LOSS) | 1,485,885 | (4,013,897) | (4,403,842) | (4,056,479) |
| NONOPERATING REVENUES (EXPENSES): | | | | |
| Investment income | 546,646 | 576,973 | 172,353 | 224,575 |
| Interest expense | (3,469,082) | (3,027,758) | (5,069,849) | (5,480,971) |
| Investment in partnership valuation charge | (386,100) | (530,245) | - | - |
| Amortization | (251,333) | (251,805) | (376,740) | (187,570) |
| Loss on sale and disposal of capital assets | (595,111) | (650,447) | (28,171) | (88,491) |
| Gain on sale of assets available for sale | 4,655,704 | 5,673,541 | - | - |
| | 500,724 | 1,790,259 | (5,302,407) | (5,532,457) |
| INCOME/(LOSS) BEFORE CAPITAL CONTRIBUTIONS | 1,986,609 | (2,223,638) | (9,706,249) | (9,588,936) |
| CAPITAL CONTRIBUTIONS: | | | | |
| HUD nonoperating contributions | 4,535,404 | 9,070,289 | - | - |
| Other nonoperating contributions | 12,046,924 | 10,548,490 | - | - |
| ARRA nonoperating contributions | 1,918,352 | 4,137,635 | - | - |
| Partner contributions | - | - | 20,637,681 | 30,496,193 |
| | 18,500,680 | 23,756,414 | 20,637,681 | 30,496,193 |
| INCREASE IN NET ASSETS | 20,487,289 | 21,532,776 | 10,931,432 | 20,907,257 |
| NET ASSETS—Beginning of year (as previously reported) | 183,821,836 | 160,853,552 | 54,392,624 | 33,485,367 |
| Prior period adjustment | - | 1,435,508 | - | - |
| NET ASSETS—Beginning of year (as restated) | 183,821,836 | 162,289,060 | 54,392,624 | 33,485,367 |
| NET ASSETS—End of year | \$ 204,309,125 | \$ 183,821,836 | \$ 65,324,056 | \$ 54,392,624 |

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF PORTLAND

STATEMENTS OF CASH FLOWS

Years ended March 31, 2011 and 2010

| | HOUSING AUTHORITY OF PORTLAND | |
|--|--|---------------------------|
| | March 31, 2011 | March 31, 2010 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from HUD grants | \$ 89,447,457 | \$ 81,814,136 |
| Receipts from state, local and other grants | 2,537,770 | 1,479,804 |
| Receipts from tenants and landlords | 13,637,344 | 12,690,625 |
| Receipts from developer fees | 3,504,318 | 4,984,260 |
| Receipts from others | 4,808,862 | 4,082,693 |
| Payments to landlords | (65,876,077) | (61,896,689) |
| Payments to and on behalf of employees | (20,752,360) | (20,378,599) |
| Payments to vendors, contractors and others | (18,849,121) | (15,645,611) |
| | <u>8,458,193</u> | <u>7,130,619</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Proceeds from line of credit | - | 4,450,000 |
| Payments on line of credit | - | (4,450,000) |
| Proceeds from issuance of notes payable | 553,054 | 4,773,178 |
| Proceeds from issuance of bonds payable | 571,274 | - |
| Proceeds from issuance of bonds payable - partnership | - | 23,155,000 |
| Interest paid on notes and bonds payable | (3,375,309) | (2,671,946) |
| Principal payments on notes payable | (591,783) | (516,558) |
| Principal payments on bonds payable | (7,296,735) | (690,001) |
| Principal payments on bonds payable—partnerships | (868,640) | (36,718,721) |
| Principal payments on bonds payable—conduit financing | - | (5,075,000) |
| Change in restricted cash | (823,242) | 43,053 |
| Changes in restricted investments | 1,027,829 | 285,436 |
| HUD capital and other capital contributions | 14,720,922 | 13,596,129 |
| Acquisition and construction of capital assets | (13,002,349) | (18,258,666) |
| Improvements of assets available for sale | 18,072 | (12,872) |
| Proceeds from the sale of capital assets | - | 5,628,099 |
| Proceeds from the sale of assets available for sale | 10,653,873 | 7,334,694 |
| | <u>1,586,965</u> | <u>(9,128,175)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of investments | (14,199,469) | (9,880,691) |
| Proceeds from maturity of investments | 8,218,614 | 18,050,053 |
| Change in deferred charges | 112,267 | 2,002 |
| Issuance of notes receivable | (6,396,251) | (11,017,409) |
| Issuance of notes receivable—partnerships | (283,225) | (23,155,000) |
| Collections on notes receivable | 729,890 | 221,001 |
| Collections on notes receivable—partnerships | 868,640 | 36,718,721 |
| Collections on notes receivable—conduit financing | - | 5,075,000 |
| Change in due from partnerships, net | 5,011,206 | (1,434,674) |
| Change in investments in partnerships, net | (7,674,104) | (371,038) |
| Investment income | 1,244,231 | 1,685,988 |
| | <u>(12,368,201)</u> | <u>15,893,953</u> |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | (2,323,043) | 13,896,397 |
| CASH AND CASH EQUIVALENTS—Beginning of year | 21,167,614 | 7,271,217 |
| CASH AND CASH EQUIVALENTS—End of year | \$ 18,844,571 | \$ 21,167,614 |

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF PORTLAND

STATEMENTS OF CASH FLOWS

Years ended March 31, 2011 and 2010

| | HOUSING AUTHORITY OF PORTLAND | |
|---|--|---------------------------|
| | March 31, 2011 | March 31, 2010 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES: | | |
| Operating income (loss) | 1,485,885 | \$ (4,013,897) |
| Adjustments to reconcile operating loss to cash flows from operating activities: | | |
| Depreciation | 7,211,064 | 5,620,362 |
| Provision for uncollectable accounts - Notes Receivable | - | 887,287 |
| Changes in assets and liabilities: | | |
| Accounts receivable—net | 2,048,512 | (114,859) |
| Developer fee receivable | (424,636) | 3,467,028 |
| Prepaid expenses | (58,743) | (35,935) |
| Accounts payable | (2,133,143) | 1,959,060 |
| Other accrued liabilities | 129,479 | (481,483) |
| Other liabilities | 54,524 | 47,585 |
| Deferred revenue | 145,251 | (204,529) |
| | <u>\$ 8,458,193</u> | <u>\$ 7,130,619</u> |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS | | |
| Forgiveness of notes payable | <u>\$ 295,654</u> | <u>\$ 295,654</u> |
| Property transfer in exchange for forgiveness of notes payable | <u>\$ 3,464,752</u> | <u>\$ -</u> |
| Change in investment in partnerships | <u>\$ 1,594</u> | <u>\$ 6,153</u> |
| Donated capital assets | <u>\$ 726,997</u> | <u>\$ 5,513,654</u> |
| Due from partnership related to capital asset transfer | <u>\$ -</u> | <u>\$ 3,664,098</u> |
| Limited partnership acquisition | | |
| Restricted assets | \$ 1,002,186 | \$ 495,544 |
| Other assets | 834,826 | 222,766 |
| Capital assets | 8,385,119 | 3,006,934 |
| Other liabilities | (719,699) | (53,720) |
| Tenant security deposits | (112,264) | (33,175) |
| Accrued interest payable from restricted assets | (477,031) | (1,061,661) |
| Notes payable | (1,618,614) | (1,960,937) |
| Bonds payable | (7,467,641) | (577,983) |
| Net assets | 173,118 | (37,768) |
| | <u>\$ -</u> | <u>\$ -</u> |

See accompanying notes to the financial statements.

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity—The Housing Authority of Portland (the “Authority” or “HA”) is a municipal corporation located in Portland, Oregon. The Federal Housing Act of 1937 authorized public housing authorities. Utilizing the 1937 Federal Housing Act, the Portland City Council established the Housing Authority of Portland as a municipal corporation under the Oregon Revised Statutes in December 1941.

The Authority is governed by a nine-member Board of Commissioners; four appointments are recommended by the City of Portland, two by the City of Gresham and two by Multnomah County. The Authority is not financially dependent on the City of Portland and is not considered a component unit of the City. The Executive Director is appointed by the Board and is responsible for the daily functioning of the Authority.

The Authority is the general partner and owns a .01% to 1% investment in each of the following discretely presented component unit limited partnerships:

General Partner Ownerships presented in both December 31, 2010 and 2009 discretely presented component unit results:

- 1115 SW 11th Avenue Limited Partnership
- Cecilia Limited Partnership
- Civic Redevelopment Limited Partnership
- Clay Street Limited Partnership
- Columbia Street Limited Partnership
- Fountain Place Limited Partnership
- Gateway Park Limited Partnership
- Gladstone Square Limited Partnership
- Haven Limited Partnership
- Humboldt Gardens Limited Partnership
- Kelly Place Limited Partnership
- Lovejoy Station Limited Partnership
- RAC Housing Limited Partnership
- Rockwood Landing Limited Partnership
- Sequoia Square Limited Partnership
- St. Francis Limited Partnership
- Trouton Limited Partnership
- Union Station A LIH Limited Partnership
- Woolsey Limited Partnership

General Partner Ownerships presented in only December 31, 2010 discretely presented component unit results:

- Jeffrey Apartments Limited Partnership - The Authority became a partner of the Jeffrey Apartments Limited Partnership on February 26, 2010. See Note 2 for additional information.

General Partner Ownerships presented in only December 31, 2009 discretely presented component unit results:

- Thirteenth Avenue Building Limited Partnership - On January 1, 2010, the Authority purchased the limited partner’s interest for the Thirteenth Avenue Building Limited Partnership. See Note 2 for additional information.
 - Dawson Park Limited Partnership - On June 4, 2010, the Authority entered into a Charitable Contribution Agreement with U.S. Bancorp Community Development Corporation. U.S. Bancorp Community Development Corporation donated their 99% interest in Dawson Park Limited Partnership to the Authority. Upon receiving the contribution, the partnership was dissolved.
 - Pearl Court Limited Partnership- On May 3, 2010, the Authority purchased the remaining 99% in the Pearl Court Limited Partnership from Fannie Mae for \$280,000. Upon the purchase, the partnership was dissolved.
-

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

As a general practice, the Authority's liability is not limited to initial investment and/or any future funding requirements. The limited partnerships have a December 31 year-end and complete financial statements may be obtained by contacting the Chief Financial Officer, Housing Authority of Portland, 135 S.W. Ash Street, Portland, Oregon 97204.

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the Authority was made by applying the criteria set forth by accounting principles generally accepted in the United States of America (GAAP). As required by the Governmental Accounting Standards Board (GASB) Statement No. 14, the basic financial statements include its blended component unit, New Columbia Community Campus Corporation (N4C) and 21 discretely presented component units. N4C is a blended component unit because N4C is a supporting organization to the Authority and the N4C board is elected by the Authority board.

Programs Administered by the Authority—The Authority administers annual contribution contracts to provide low-income housing with primary financial support from the U.S. Department of Housing and Urban Development (“HUD”) and develops and manages affordable properties. Programs administered by the Authority are as follows:

Public Housing—The Authority owns, operates and maintains 2,544 units of Public Housing, of which 491 units are located at buildings included in the Affordable Housing portfolio. The properties were acquired through bonds and notes guaranteed by HUD and through grants, subject to the terms of an Annual Contributions Contract with HUD. Revenues consist primarily of rents and other fees collected from tenants, and an Operating Subsidy from HUD. Funds from the Capital Grant Program provided by HUD are used to maintain and improve this Public Housing portfolio. Substantially all additions to land, structures and equipment of Public Housing are accomplished through these capital grant funds.

Rent Assistance—Section 8 of the U.S. Housing and Community Development Act of 1974 provides Housing Assistance Payments on behalf of lower-income families to participating housing owners. Under this program, the landlord-tenant relationship is between a rental-housing owner and a family, rather than the Authority and a family as in the Public Housing program. For approved housing, HUD contracts with the Authority to enter into contracts with owners to make assistance payments for the difference between the approved contract rent and the actual rent paid by the lower-income families, which equals 30% of adjusted household gross income. Housing Assistance Payments made to landlords and some participants are funded through Annual Contributions Contracts. At March 31, 2011, the Authority administered approximately 8,400 vouchers through several programs authorized by Section 8. Additionally, the Authority administers the Short-Term Rent Assistance program on behalf of the City of Portland, the City of Gresham, and Multnomah County.

Affordable Housing & Special Needs Housing—The Authority owns, is developing, or is a partner in approximately 3,800 units of housing, of which 491 are public housing units. The Affordable Housing portfolio consists of 36 multifamily properties representing 3,325 units, of which 2,156 are owned through tax credit partnerships. The Special Needs portfolio consists of 36 properties representing 422 units. The Special Needs properties were developed using grant funds received from the State of Oregon and Federal programs combined with contributions from the Authority and other local agencies.

Resident Services—The Authority coordinates and provides social and economic development programs for families, and administers a variety of community housing and service partnerships throughout Multnomah County. Funding for these programs comes from HUD, Medicare, participant fees, charitable organizations and private donations.

Development—The Authority pursues development projects that augment the supply of low-cost housing, provide essential services to residents and revitalizes overall communities. These projects include renovation of older/existing housing, new construction and pilot projects.

Basis of Accounting—The Authority maintains its accounting records as a proprietary fund using the accrual basis of accounting. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority applies all GASB pronouncements as

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

well as the Financial Accounting Standards Board Accounting Standards Codification (—FASB ASC”) pronouncements issued after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses are derived from providing services in connection with the Authority’s ongoing operations. Operating revenues, generally, include rental income, operating subsidies, operating grant revenue and development fee income. Operating expenses, generally, include housing assistance payments, occupancy charges, tenant services, administrative expenses and depreciation on capital assets. All other revenue and expenses not meeting this definition are classified as non-operating revenues and expenses.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents—Cash and cash equivalents consists of amounts deposited in checking, money market accounts and the Oregon Local Government Investment Pool (—LGIP”) or investments with original maturities of 90 days or less. The LGIP is managed by the Oregon State Treasurer as an alternative to commercial money market accounts. Deposits are subject to collateral requirements. Deposits in the LGIP are recorded at fair value, which is the same as the value of the pool shares. Investments in the LGIP are included in the Oregon Short-Term Fund, which is not registered with the U.S. Securities and Exchange Commission as an investment company. Investments in the Oregon Short-Term Fund are governed by ORS 294.135, Oregon Investment Council, and portfolio guidelines issued by the Oregon Short-Term Fund Board.

Cash and Cash Equivalents—Restricted and Investments—Restricted – This consists of funds set aside for:

Family self-sufficiency funds consist of amounts deposited under the Family Self-Sufficiency (—FSS) program. Under the FSS program, if the income of a tenant enrolled in the program increases, instead of decreasing the subsidy amount, the original subsidy continues to be paid and the difference between the original and new subsidy amount is deposited into an escrow account. If the tenant enrolled in the program attains certain target goals related to self-sufficiency, the tenant is awarded money from the escrow account to use for various purposes stated in the tenant’s self-sufficiency plan such as college tuition or a down payment for the purchase of a home.

Tenant security deposits represent the refundable deposits received from tenants and held in trust to secure the performance of a rental agreement. Tenant security deposits in excess of any outstanding damage or rent charges must be returned to the departing tenants within 31 days after the termination of the tenancy. The funds are typically held in segregated bank accounts since these funds may not be used for operations. The funds are, however, allowed to earn interest that may be retained for operations.

Construction funds escrow represents funds held in escrow for the purpose of completing construction projects.

Residual receipts reserve is maintained for the Plaza and Multnomah Manor properties, which are included in the Authority’s Affordable Housing Portfolio, and consists of surplus cash on hand at the end of each fiscal year, less authorized disbursements to date plus interest earned on the deposits. As of March 31, 2011 and 2010, the reserve is funded as required.

Funds held in trust consist primarily of replacement reserves held in trust and by the Authority for Affordable Housing properties owned and operated by the Authority. In addition, the balance includes performance guarantee and other funds held in trust and by the Authority under various agreements. The reserves are invested in interest-bearing bank accounts and are externally restricted for the purposes of maintaining required reserve funds or purchasing or constructing capital

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

assets or other non-current assets. As such, the amounts are classified as restricted, non-current assets. During 2011 and 2010, the reserves were funded as required under the various agreements.

Debt service funds include externally restricted funds on deposit with various trustees relating to the servicing of debt. Funds are invested in guaranteed investment contracts and short-term marketable securities.

Concentration of Risk— Federal regulations require that public funds on deposit with financial institutions be secured at a rate of 100% of amounts in excess of deposit insurance coverage. The Authority maintains cash balances at several financial institutions, some in excess of the federally insured amount of \$250,000. Financial institutions insure these excess balances either via the Oregon State Treasurer’s office by designating these balances as Public Funds per ORS 295 or via other collateral agreements at the Federal Reserve Bank and/or the Federal Home Loan Bank. Deposits for low- or non-interest bearing transactional accounts are fully insured by the FDIC under the Temporary Account Guarantee Program (TAGP) if the financial institution chooses to participate in the program. As of March 31, 2011, all of the Authority’s funds were collateralized. As of March 31, 2010, approximately \$120,000 of affordable housing deposits did not have adequate collateralization. The funds not collateralized resided in a bank account that the Authority was required to maintain due to the existence of a debt agreement with that bank. The bank associated with this debt agreement would not provide additional collateralization and the debt agreement prevented the Authority from transferring those funds to another bank. The Authority has not experienced any losses from these accounts

Investments—The Authority entered into an agreement with HUD, known as Moving to Work, in January of 1999. This agreement, among other things, allows the Authority to conduct its investment activity under the State of Oregon Statutes where the Statutes differ from HUD investment restrictions. These statutes authorize the Authority to invest in bankers’ acceptances, time certificates of deposit, repurchase agreements, certain commercial paper, obligations of the United States and its agencies and instrumentalities.

Fair Value of Financial Instruments—Investments held by the Authority are stated at fair value. The Authority determines the fair value of these investments on a monthly basis, based on quoted market prices. Outside trustees provide monthly statements to report the fair value and pricing of the assets held by them, which are also based on quoted market prices. The Authority adopted FASB ASC Topic 820 *Fair Value Measurements and Disclosures* at the beginning of the 2009 fiscal year and there was no material impact to the financial statements. Topic 820 provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under the FASB ASC Topic 820 *Fair Value Measurements and Disclosures* are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
-

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at March 31, 2011 as compared to March 31, 2010. Only negotiable investments in certificates of deposit are required to be measured at fair value. The Authority has no investments of this type as of March 31, 2011 or 2010. Investments in derivatives are valued based upon quoted prices for similar assets in active markets.

The following table sets forth by level, within the fair value hierarchy, the Authority's assets and liabilities at fair value as of March 31, 2011:

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------------|----------------|----------------|----------------|---------------|
| US Treasury Securities | \$ 6,185,280 | \$ - | \$ - | \$ 6,185,280 |
| Federal National Mortgage Association | | | | |
| Discount Notes | - | 999,952 | - | 999,952 |
| Federal Home Loan Bank | - | 6,156,458 | - | 6,156,458 |
| Federal Farm Credit Bank | - | 2,038,452 | - | 2,038,452 |
| Repurchase agreements | - | 1,995,515 | - | 1,995,515 |
| Investments in derivatives | - | (1,287,337) | - | (1,287,337) |
| | \$ 6,185,280 | \$ 9,903,040 | \$ - | \$ 16,088,320 |

The following table sets forth by level, within the fair value hierarchy, the Authority's assets and liabilities at fair value as of March 31, 2010:

| | Level 1 | Level 2 | Level 3 | Total |
|----------------------------|----------------|----------------|----------------|--------------|
| US Treasury Securities | \$ 1,992,086 | \$ - | \$ - | \$ 1,992,086 |
| Repurchase agreements | - | 2,132,137 | - | 2,132,137 |
| Investments in derivatives | - | (1,152,350) | - | (1,152,350) |
| | \$ 1,992,086 | \$ 979,787 | \$ - | \$ 2,971,873 |

Non-current Assets

Due from Partnerships consists primarily of development and management fees earned by the Authority through its involvement as the General Partner in tax credit partnerships and partnership project costs paid by the Authority on behalf of the partnerships (see Note 5.) The fees are typically paid based on the availability of net cash flow of the partnerships or from the proceeds of capital contributions to the partnerships. Management reviews the balance for likelihood of collection and records an allowance for doubtful accounts based on the type and age of the individual receivables.

Notes receivable (non-current) consists primarily of loans to tax credit partnerships for the development of affordable housing. These loans have a maturity date greater than one year in duration. Management reviews the balance for likelihood of collection and records an allowance for doubtful accounts based on the type and age of the individual receivables (see Note 6.)

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

Deferred charges—net consists of unamortized issue costs and other bond issuance costs. These charges are being amortized over the lives of the respective bond issues using the straight-line method, which approximates the effective interest method. Accumulated amortization was \$618,427 and \$371,562 as of March 31, 2011 and 2010, respectively.

Investments in Partnerships represents the Authority's equity interest in 21 limited partnerships, the Authority's component units (see Note 7). These investments are accounted for under the equity method because the Authority either holds a controlling interest or has "significant influence" over the operations of the partnerships. Under the equity method, the initial investment is recorded at cost and is increased or decreased by the Authority's share of income or losses and is increased by contributions and decreased by distributions. Management reviews the investment in partnerships for possible impairment in value whenever events or circumstances indicate the carrying value of the investment may not be recoverable.

Capital assets include land, structures, and equipment. All capital assets are recorded at cost except for donated capital assets which are recorded at fair value. Depreciation is computed on the straight-line method based on the estimated useful lives of the individual assets: 15 to 40 years for buildings and improvements and 3 to 15 years for equipment. When debt is issued for construction of capital assets, interest is capitalized during construction up to the placed-in-service date. No interest was capitalized for the years ended March 31, 2011 and March 31, 2010, respectively. Maintenance and repairs are charged to expense when incurred. Assets with costs in excess of \$5,000 are capitalized and depreciated from the respective placed-in-service date.

Management reviews land, structures, equipment and construction in progress for possible impairment whenever events or circumstances cause a material and unanticipated decline in the service utility of an asset. Impairment is inherently subjective and is based on management's best estimate of assumptions concerning expected future conditions.

Deferred Revenue—Deferred revenue consists primarily of advanced grant payments received from HUD programs and payments received from non-HUD sources that have not been earned as of March 31, 2011 and 2010.

Other Liabilities—Non-current—Other liabilities – non-current represents the liabilities associated with other post-employment benefits as determined in accordance with GASB Statement No. 45.

Revenue Recognition—Operating subsidies are recognized in the period funds are received. Revenues from grants are recognized in the periods designated by the grantor as the associated costs are incurred. Revenues from contracts and rental revenues are recognized when the associated services are provided.

Compensated Absences—All full-time and part-time employees who are regularly scheduled to work at least 20 hours per week are eligible to earn paid annual leave. Eligible employees begin to accrue annual leave as of their hire date; however, the accrued time does not become earned, useable or payable until the completion of 90 days of continuous service. Earned paid annual leave time may be carried over and accumulated up to a maximum of two years' accrual as of January 1 of any year. Total accrued compensated absences as of March 31, 2011 and 2010 were \$1,366,677 and \$1,213,556, respectively, and are a component of other accrued liabilities.

Payments in Lieu of Taxes—As a municipal corporation, the Authority is exempt from federal, state and local income and property taxes. Instead, the Authority is required to make payments to local government entities called Payments in Lieu of Taxes (PILOT) on certain rental properties owned by the Authority. Under an agreement with the City of Portland, the Authority is required to make an annual payment equal to 10% of the shelter rent charged by the local authority in respect to the project. Shelter rent is the total of all charges to all tenants for dwelling and non-dwelling rents less the cost of utilities. The Authority also makes annual payments to the City of Fairview. In 2011, the Authority made a one time payment of \$30,000 of PILOT to the City of Gresham. Total payments in lieu of taxes for March 31, 2011 and 2010 were \$255,000 and \$225,000, respectively.

Income Taxes—The Authority adopted the provisions of FASB ASC Topic 740-10 *Accounting for Uncertainty in Income Taxes* on April 1, 2009 as applicable to the tax credit limited partnerships as shown as discretely presented component units in the basic financial statements. These Oregon tax credit limited partnerships were formed in conformity with the

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

provisions of Section 42 of the Internal Revenue Code, thus no provision has been made for income taxes. There was no effect on net assets in the current year as a result of adopting this Topic. No expense for interest of penalties is recognized in the financial statements. Management believes the tax credit limited partnerships have not taken any uncertain tax positions, as defined in the Topic.

Assets Available for Sale—Land, buildings or equipment identified as available for sale are separately identified from assets placed in service. No depreciation expense is recorded on these assets and the value of the assets is reflected at the lower of book value or market value.

Restatement of prior year financial statements – During fiscal year 2011, the Authority implemented GASB Statements No. 53 *Accounting and Financial Reporting for Derivative Instruments*. This resulted in a restatement of the financial statements for 2010 and 2009 and prior year financial results have been updated to reflect this change in accounting principle. See Note 21 for more information.

Reclassifications - Certain amounts on the financial statements for the year ended March 31, 2010, have been reclassified to be consistent with the classifications adopted for the year ended March 31, 2011.

Effects of new pronouncements – The Authority is currently analyzing its accounting practices to identify the potential impact on the financial statements for the following GASB statements:

On June 24, 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The Statement is effective for financial statements prepared by state and local governments for periods beginning after June 15, 2011.

On December 17, 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. Statement 61 is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The Statement will improve the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units). The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials of the primary government by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that the government determines would be misleading to exclude. In addition, the Statement amends the criteria for blending—that is, reporting component units as if they were part of the primary government—in certain circumstances. The amendments to the criteria for blending will help ensure that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and will clarify which component units have that characteristic. For primary governments that are business-type activities reporting in a single column (for example, a state university), the new guidance for reporting blended component units will require condensed combining information to be included in the notes to the financial statements, which will allow users to better distinguish between the primary government and its component units. Lastly, the new requirements for reporting equity interests in component units help ensure that the primary government’s financial statements do not understate financial position and provide for more consistent and understandable display of those equity interests. The requirements of Statement 61 are effective for financial statements for periods beginning after June 15, 2012.

On December 30, 2010 GASB issued statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

On July 13, 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53).

Statement 63 is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. Statement 63 provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. A deferred outflow of resources is a consumption of net assets that is applicable to a future reporting period. An example of a deferred outflow of resources is a government's hedging interest rate swap agreement in which the fair value becomes negative. If the hedge is determined to be effectively offsetting the changes in fair value of the debt, the decrease in the fair value of the derivative instrument would be reported as a liability with a corresponding deferred outflow of resources to reflect the fact that this decrease is not expected to be recognized in investment income in future periods. A deferred inflow of resources is an acquisition of net assets that is applicable to a future reporting period. An example of a deferred inflow of resources is a service concession arrangement that involves a public toll road. If the government receives an up-front payment from an operator, the revenue associated with that payment will be recognized in future years because the arrangement that generated the up-front payment relates to those periods. Statement 63 also amends certain provisions of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

Statement 64 will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. Statement 64 clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (1) the collectability of swap payments is considered to be probable, (2) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (3) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied. GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, provides for the use of hedge accounting for derivatives that are effective hedges. Hedge accounting entails reporting fair value changes of a hedging derivative as either deferred outflows of resources or deferred inflows of resources, rather than recognizing those changes in investment income. When a hedging derivative is terminated, Statement 53 requires that hedge accounting cease and all accumulated deferred amounts be reported in investment income. As Statement 53 was being implemented, questions had arisen regarding situations in which a government has entered into a hedging interest rate swap or a hedging commodity swap and the swap counterparty (or the swap counterparty's credit support provider) commits or experiences an act of default or a termination event under the swap agreement through no fault of the government. When a swap counterparty (or a swap counterparty's credit support

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

provider) is replaced through an assignment or an in-substance assignment, the GASB concluded that the government's financial position remains unchanged. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011.

2. LOW INCOME HOUSING TAX CREDIT LIMITED PARTNERSHIPS

The low-income housing tax credit program is the result of Federal legislation that allows investors certain tax incentives for investing in low-income housing. Under terms of the Federal tax code and extended use agreements with the State of Oregon, the buildings must continue to serve the targeted population for 30 years; after 15 years, the Authority has the option to purchase the property from the partnership.

Tax Credit Limited Partnerships are created to finance and own affordable housing. The Authority acts as Managing General Partner of each partnership. Although each Tax Credit Limited Partnership is structured differently, they are generally financed via loans to the partnership, contributions of equity by the general and limited partners, and other sources. In some transactions, the Authority issues bonds and loans the proceeds to the Tax Credit Limited Partnership. Tax-exempt bond issuances are secured by the underlying partnership real estate and, in some cases, by the general revenues of the Authority. The bonds and notes payable are offset by notes receivable from the partnerships. The partnerships make payments to the Authority for debt service. The Authority may receive grant funds or other loans to assist in purchasing the properties and in preserving affordability within the projects. Because of limitations posed by the Internal Revenue Service, all such funds are received by the Authority and lent to the partnerships. These funds are accounted for as notes receivable from the partnerships if the proceeds are used for developing the property. Other advances are included in amounts due from partnerships and are reflected in Note 5. Notes payable related to the partnerships are reflected in Note 11. A summary of the Authority's long-term debt, including debt pertaining to the tax credit partnerships, is reflected in Note 13. A summary of notes receivable from the partnerships is reflected in Note 6.

The Authority typically earns a developer's fee for its role in bringing the project to fruition. These fees are earned based on certain events or dates relative to the development of the project. Developer fees are paid primarily from development proceeds and available cash flows. Under the various partnership agreements, developer fees, which are not paid during the construction phase, are generally required to be paid either within 10 to 15 years of the project having been placed-in-service and may accrue interest on unpaid balances. In 2011, the Authority earned \$3.9 million in developer fees and was paid \$3.5 million. In 2010, the Authority earned \$1.5 million in developer fees and was paid \$5.0 million. At March 31, 2011 and 2010, the balance of the development fees owed to the Authority is \$9.2 million and \$8.6 million, respectively. Some tax credit projects also pay a General Partner's management fee and/or a tenant services fee; these fees are reflected in other operating revenues and totaled \$405,305 and \$431,205 in 2011 and 2010, respectively.

During the year ended March 31, 2011, the following acquisition of interest in tax credit partnerships occurred:

On May 3, 2010, the Authority purchased the remaining 99% in the Pearl Court Limited Partnership from Fannie Mae for \$280,000. Upon the purchase, the partnership was dissolved. A summary of the partnership's statement of net assets at the time of purchase was:

| | | |
|-------------------|----|-----------------------|
| Total Assets | \$ | 7,808,526 |
| Total Liabilities | | <u>7,429,055</u> |
| Net Assets | \$ | <u><u>379,471</u></u> |

On June 4, 2010, the Authority entered into a Charitable Contribution Agreement with U.S. Bancorp Community Development Corporation. U.S. Bancorp Community Development Corporation donated their 99% interest in

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Dawson Park Limited Partnership to the Authority. Upon receiving the contribution, the partnership was dissolved. A summary of the partnership's statement of net assets at the time of purchase was:

| | | |
|-------------------|----|------------------|
| Total Assets | \$ | 2,413,605 |
| Total Liabilities | | <u>2,966,194</u> |
| Net Assets | \$ | <u>(552,589)</u> |

During the year ended March 31, 2010, the following acquisition of interest in tax credit partnerships occurred:

On January 1, 2010 the Authority purchased the remaining 99% interest in Thirteenth Avenue Building Limited Partnership. Upon purchase, the partnership was dissolved. A summary of the partnership's statement of net assets at the time of purchase was:

| | | |
|-------------------|----|------------------|
| Total Assets | \$ | 3,725,244 |
| Total Liabilities | | <u>3,687,476</u> |
| Net Assets | \$ | <u>37,768</u> |

On February 26, 2010 the Authority purchased a .01% interest in the Jeffrey Apartments Limited Partnership for \$100. Results from operations will be included as a discretely presented component unit commencing with the period ending December 31, 2010. A summary of the partnership's statement of net assets as of March 31, 2010 was:

| | | |
|-------------------|----|------------------|
| Total Assets | \$ | 15,320,735 |
| Total Liabilities | | <u>9,027,092</u> |
| Net Assets | \$ | <u>6,293,643</u> |

3. INVESTMENTS

The Authority's investment policies require that all investments be made in accordance with the stated objectives of capital preservation, optimum liquidity and return, while conforming to all applicable statutes and regulations. The Authority intends to adhere fully to its investment policy, which expressly prohibits the making of speculative or leveraged investments and requires that all investments be made prudently and with due care to ensure compliance with all statutes and regulations.

Investment Risk Disclosures

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Authority will not be able to recover the value of the investment securities that are in the possession of the outside party. As of March 31, 2011 and 2010, all investments were insured or registered, and held by the Authority or its agent in the Authority's name, or uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Authority's name and were not exposed to custodial credit risk.

Credit risk of investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This credit risk is measured by the credit quality rating of investments in debt securities as described by a national statistical rating organization such as Standard and Poor's (S&P). To minimize credit risk, the Authority's policies provide that investments in corporate indebtedness are rated a minimum of A1, P1, 3a3 and investments in municipal debt

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obligations of the State of Oregon that are A or better. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer (not including investments issued or guaranteed by the U.S. government, investments in mutual funds, or external investments pools). To minimize concentration of credit risk, the Authority's investments are made from a selection of diverse issuers. As of March 31, 2011, the Authority's investments in Federal Home Loan Bank debt securities represented 31% of the Authority's investments, exceeding the 5% concentration threshold.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority selects investments of varied maturities to mitigate this risk.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Authority does not invest in securities associated with exchange rates and therefore is not exposed to foreign currency risk.

Investments and Investments – restricted consist of the following at March 31, 2011

| | Credit Rating | Investment maturities (in years) | | | Fair Value |
|---|---------------|----------------------------------|----------------------|---------------------|----------------------|
| | | < 1 yr | 1-3 yrs | >3 yrs | |
| CURRENT | | | | | |
| Cash equivalents | | | | | |
| US Treasury securities - treasury bill | Exempt | \$ 2,000,000 | \$ - | \$ - | \$ 2,000,000 |
| Cash equivalents - restricted | | | | | |
| US Treasury securities - treasury bill | Exempt | 192,000 | - | - | 192,000 |
| Investments | | | | | |
| Certificates of deposit - negotiable | Not rated | 2,564,345 | - | - | 2,564,345 |
| Federal Natl. Mortgage Assoc. discount notess | Aaa | - | 999,952 | - | 999,952 |
| Federal Home Loan Bank notes | Aaa | - | 1,020,523 | - | 1,020,523 |
| | | <u>4,756,345</u> | <u>2,020,475</u> | <u>-</u> | <u>6,776,820</u> |
| NON-CURRENT | | | | | |
| Investments | | | | | |
| US Agency securities - treasury note | Exempt | - | 3,993,280 | - | 3,993,280 |
| Federal Home Loan Bank notes | Aaa | - | 5,135,935 | - | 5,135,935 |
| Federal Farm Credit Bank notes | Aaa | - | 2,038,452 | - | 2,038,452 |
| Investments - restricted | | | | | |
| Repurchase agreement - Bayerisch | Aa2 | - | - | 1,305,148 | 1,305,148 |
| Repurchase agreement - Societe Generale | Aa2 | - | - | 690,367 | 690,367 |
| | | <u>-</u> | <u>11,167,667</u> | <u>1,995,515</u> | <u>13,163,182</u> |
| TOTAL | | <u>\$ 4,756,345</u> | <u>\$ 13,188,142</u> | <u>\$ 1,995,515</u> | <u>\$ 19,940,002</u> |

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Years Ended March 31, 2011 and 2010

Investments and Investments – restricted consist of the following at March 31, 2010:

| | Credit Rating | Investment maturities (in years) | | | Fair Value |
|---|---------------|----------------------------------|---------------------|---------------------|----------------------|
| | | < 1 yr | 1-3 yrs | >3 yrs | |
| CURRENT | | | | | |
| Investments | | | | | |
| Certificates of deposit - negotiable | Not rated | \$ - | \$ 5,234,237 | \$ - | \$ 5,234,237 |
| US Treasury securities - treasury bill | Exempt | - | 1,992,086 | - | 1,992,086 |
| | | <u>-</u> | <u>7,226,323</u> | <u>-</u> | <u>7,226,323</u> |
| NONCURRENT | | | | | |
| Investments | | | | | |
| Certificates of deposit - negotiable | Not rated | - | 2,545,309 | - | 2,545,309 |
| Investments - restricted | | | | | |
| Repurchase agreement - Bayerisch | Aa2 | - | - | 818,764 | 818,764 |
| Repurchase agreement - Societe Generale | Aa2 | - | - | 666,595 | 666,595 |
| Repurchase agreement - HSBC | Aa2 | - | - | 646,778 | 646,778 |
| | | <u>-</u> | <u>2,545,309</u> | <u>2,132,137</u> | <u>4,677,446</u> |
| TOTAL | | <u>\$ -</u> | <u>\$ 9,771,632</u> | <u>\$ 2,132,137</u> | <u>\$ 11,903,769</u> |

Investments and investments - restricted for the year ended March 31, 2011 matured between April 2011 and January 2029 and the interest rate on the investments ranges from 0.06% to 5.92%. Investments and investments – restricted for the year ended March 31, 2010 matured between April 2010 and January 2032 and the interest rate on these investments ranged from 0.55% to 5.92%. The repurchase agreements are guaranteed investment contracts.

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at March 31:

| | <u>2011</u> | <u>2010</u> |
|--------------------------------------|---------------------|---------------------|
| HUD grants | \$ 1,351,107 | \$ 2,891,220 |
| State, local and other grants | 6,741,031 | 4,564,632 |
| Tenants and landlords | 672,595 | 767,797 |
| Other | 385,465 | 177,388 |
| | <u>9,150,198</u> | <u>8,401,037</u> |
| Less allowance for doubtful accounts | (492,881) | (535,936) |
| Total accounts receivable, net | <u>\$ 8,657,317</u> | <u>\$ 7,865,101</u> |

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Years Ended March 31, 2011 and 2010

5. DUE FROM PARTNERSHIPS

Due from partnerships consists of the following at March 31:

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|----------------------|
| RAC Housing Limited Partnership | \$ 4,589,715 | \$ 6,088,944 |
| Cecelia Limited Partnership | 536,275 | 483,716 |
| 1115 SW 11 th Avenue Limited Partnership | 282,248 | 1,150,826 |
| Woolsey Limited Partnership | 274,329 | 1,275,825 |
| Humboldt Gardens Limited Partnership | 13,265 | 2,744,325 |
| Trouton Limited Partnership | 25 | 443,389 |
| Civic Redevelopment Limited Partnership | - | 972,571 |
| All other partnerships | 1,446,419 | 2,237,166 |
| | <u>7,142,277</u> | <u>15,396,762</u> |
| Less: allowance for doubtful accounts | <u>(1,273,964)</u> | <u>(1,361,561)</u> |
| Total due from partnerships | <u>\$ 5,868,313</u> | <u>\$ 14,035,201</u> |

6. NOTES RECEIVABLE AND ACCRUED INTEREST

Notes and accrued interest receivable consist of the following at March 31:

| | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| Partnership notes | \$ 78,250,089 | \$ 69,760,113 |
| Homeowners notes | 228,300 | 228,300 |
| | <u>78,478,389</u> | <u>69,988,413</u> |
| Accrued interest receivable | 4,804,380 | 4,365,943 |
| Less: Allowance for doubtful accounts | <u>(5,367,849)</u> | <u>(4,670,264)</u> |
| Total notes and accrued interest receivable | <u>\$ 77,914,920</u> | <u>\$ 69,684,092</u> |

Partnership notes have been issued to the limited partnerships invested in by the Authority. These notes are used for the purpose of acquiring, constructing, and/or remodeling buildings for housing and other housing related purposes. These notes have an interest range of 0% to 7% with various maturity dates to 2062. As described in each note agreement, payments will be made from available cash flows.

Homeowners' notes are secured by deed of trust and accrue interest at 5% per annum. Deferred interest will be forgiven if owner completes required homeowner education classes and remains in the house for five years. Principal is payable upon sale of property or various dates between 2033 through 2037.

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

7. INVESTMENTS IN PARTNERSHIPS

Investments in partnerships consist of the following at March 31:

| | 2011 | 2010 |
|---------------------------------------|-------------------|------------------|
| RAC Housing Limited Partnership | \$ 7,904,726 | \$ 279,631 |
| Cecilia Limited Partnership | 1,273,351 | 1,273,449 |
| Haven Limited Partnership | 516,169 | 516,207 |
| Lovejoy Station Limited Partnership | 256,564 | 256,620 |
| Rockwood Landing Limited Partnership | 224,824 | 224,842 |
| Kelly Place Limited Partnership | 188,144 | 188,973 |
| All other partnerships | 289,785 | 452,720 |
| Total investments in partnerships | \$ 10,653,563 | \$ 3,192,442 |

8. CAPITAL ASSETS

Land, structures and equipment activity of the Authority was as follows for the years ended March 31:

| | Balance April 1, 2010 | Additions and transfers in | Disposals and transfers out | Reclassified as Available for Sale | Balance March 31, 2011 |
|--|----------------------------------|---------------------------------------|--|---|-----------------------------------|
| Land | \$ 18,256,514 | \$ 1,979,697 | \$ - | \$ (6,532) | \$ 20,229,679 |
| Construction in progress | 5,688,181 | 9,270,351 | (10,959,023) | - | 3,999,509 |
| Total capital assets not being depreciated | 23,944,695 | 11,250,048 | (10,959,023) | (6,532) | 24,229,188 |
| Buildings and improvements | 153,319,937 | 26,072,273 | (2,063,298) | (21,132) | 177,307,780 |
| Equipment | 9,295,490 | 2,957,947 | (10,335) | - | 12,243,102 |
| | 162,615,427 | 29,030,220 | (2,073,633) | (21,132) | 189,550,882 |
| Less: Accumulated Depreciation | | | | | |
| Buildings and Improvements | (52,160,455) | (12,745,431) | 1,473,266 | 7,133 | (63,425,487) |
| Equipment | (4,879,718) | (1,656,960) | 10,335 | - | (6,526,343) |
| Total Accumulated depreciation | (57,040,173) | (14,402,391) | 1,483,601 | 7,133 | (69,951,830) |
| Total capital assets being depreciated | 105,575,254 | 14,627,829 | (590,032) | (13,999) | 119,599,052 |
| Total capital assets, net | \$ 129,519,949 | \$ 25,877,877 | \$ (11,549,055) | \$ (20,531) | \$ 143,828,240 |

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

| | Balance April 1, 2009 | Additions and transfers in | Disposals and transfers out | Reclassified as Available for Sale | Balance March 31, 2010 |
|--|----------------------------------|---------------------------------------|--|---|-----------------------------------|
| Land | \$ 19,240,339 | \$ 3,080,820 | \$ (3,113,445) | \$ (951,200) | \$ 18,256,514 |
| Construction in progress | 4,312,503 | 18,409,654 | (17,033,976) | - | 5,688,181 |
| Total capital assets not being depreciated | 23,552,842 | 21,490,474 | (20,147,421) | (951,200) | 23,944,695 |
| Buildings and improvements | 144,328,543 | 17,984,842 | (3,509,000) | (5,484,448) | 153,319,937 |
| Equipment | 7,852,747 | 1,512,336 | (43,050) | (26,543) | 9,295,490 |
| | 152,181,290 | 19,497,178 | (3,552,050) | (5,510,991) | 162,615,427 |
| Less: Accumulated depreciation | | | | | |
| Buildings and improvements | (47,553,884) | (6,498,146) | 766,727 | 1,124,848 | (52,160,455) |
| Equipment | (4,186,817) | (729,667) | 33,005 | 3,761 | (4,879,718) |
| Total Accumulated depreciation | (51,740,701) | (7,227,813) | 799,732 | 1,128,609 | (57,040,173) |
| Total capital assets being depreciated | 100,440,589 | 12,269,365 | (2,752,318) | (4,382,382) | 105,575,254 |
| Total capital assets, net | \$ 123,993,431 | \$ 33,759,839 | \$ (22,899,739) | \$ (5,333,582) | \$ 129,519,949 |

9. ASSETS AVAILABLE FOR SALE

On February 22, 2008, HUD approved the Authority's plan for the disposition of 158 scattered site buildings. These buildings are anticipated to be sold for market value by fiscal year 2011. A recap of buildings sold is:

| | Units |
|---|-------|
| Original scattered sites available for sale | 158 |
| Scattered sites sold fiscal year 2008 | (6) |
| Scattered sites sold fiscal year 2009 | (60) |
| Scattered sites sold fiscal year 2010 | (39) |
| Scattered sites sold fiscal year 2011 | (26) |
| Scattered sites retained fiscal year 2011 | (1) |
| Scattered sites available for sale as of March 31, 2011 | 26 |

During FY 2011, HAP retained one scattered site location rather than sell that site to a third party. The value of this site was transferred out of Assets Available for Sale and transferred in as a capital asset.

Additionally, HAP purchased the Grove Hotel on November 28, 2007 for approximately \$1,800,000 for the purpose of providing low income housing. On May 2, 2008, HAP received a loan of \$3,468,752 from the Portland Development Commission to fund the rehabilitation of the Grove Hotel. These funds were spent during fiscal year 2009. On April 15, 2010, the Authority transferred title of the Grove Hotel to Portland Development Commission for total consideration of \$3,710,752. Included in this consideration was Portland Development Commission assumption of the Authority's \$3,464,753 Note Payable related to the Grove Hotel

On March 11, 2010 the Board of Commissioners approved a plan to sell Pine Square Apartments, an affordable housing property. On July 26, 2010, the Pine Square Apartment building was sold to NFN Investments for \$6,135,000.

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Years Ended March 31, 2011 and 2010

Total net book value of remaining assets available for sale as of March 31, 2011 and March 31, 2010 is \$786,836 and \$10,267,829, respectively.

10. LINE OF CREDIT

The Authority had a \$6,000,000 operating demand line of credit. The line of credit is used for short-term funding needs. The line of credit is collateralized by the general revenues of the Authority and expired in May 2010. Draws on the line of credit may bear a fixed or variable rate of interest. During 2011 and 2010, gross draws, including initial draws and draws after repayments, on the line of credit were \$0 and \$4,450,000, respectively, which represents both principal and accrued interest. There was no remaining outstanding line of credit balance as of March 31, 2011 and 2010, respectively.

There was no line of credit activity during year ending March 31, 2011. A summary of activity for the Authority's line of credit for 2010 is as follows:

| Balance April 1, 2009 | Draws | Repayments | Balance March 31, 2010 |
|--------------------------|--------------|----------------|---------------------------|
| \$ - | \$ 4,450,000 | \$ (4,450,000) | \$ - |

11. NOTES PAYABLE

Notes payables of the Authority consist of the following at March 31:

| Property | March 31, 2011 Interest Rate | Final Maturity Date* | Payment Terms | 2011 | 2010 |
|------------------------|---------------------------------------|----------------------------|------------------|---------------|---------------|
| Laurelhurst | 6.00% | 2016 | Monthly | \$ 14,867 | \$ 17,337 |
| Schiller Way | 4.00% | 2030 | Monthly | 632,184 | 654,253 |
| Schiller Way | 4.14% | 2021 | Monthly | 227,001 | 245,331 |
| Richmond Place | 9.38% | 2019 | Monthly | 419,424 | 427,206 |
| Richmond Place | 3.00% | 2016 | Maturity Date | 500,000 | 500,000 |
| Development Department | 0.00% | 2019 | Maturity Date | 382,624 | 382,624 |
| Mulnomah Manor | 6.75% | 2034 | Monthly | 1,247,229 | 1,267,802 |
| Turning Point | 3.81% | 2032 | Monthly | 446,066 | 459,221 |
| Willow Tree | 4.42% | 2036 | Monthly | 701,061 | 716,092 |
| Helen Swindells | 8.75% | 2014 | Monthly | 249,546 | 269,189 |
| Cambridge Court | 8.50% | 2017 | Monthly | 174,100 | 196,105 |
| Cambridge Court | 1.00% | 2032 | Cash Flow | 538,430 | 533,164 |
| Cambridge Court | 0.00% | 2032 | Cash Flow | 397,753 | 397,753 |
| Dawson Park | 3.00% | 2022 | Cash Flow | 479,526 | - |
| Fenwick Apts | 3.77% | 2025 | Monthly | 1,427,567 | 1,463,453 |
| Fenwick Apts | 0.00% | Sale of Property | Cash Flow | 1,180,211 | 1,180,211 |
| Fenwick Apts | 3.00% | 2034 | Monthly | 176,781 | 181,820 |
| Helen Swindells | 3.00% | 2023 | Cash Flow | 1,483,870 | 1,483,870 |
| Helen Swindells | 3.00% | 2023 | Cash Flow | 600,451 | 600,451 |
| James Hawthorne | 0.00% | Sale of Property | Cash Flow | 5,728,950 | 5,180,990 |
| Forward | | | | \$ 17,007,641 | \$ 16,156,872 |

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NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

| <u>Property</u> | <u>March 31, 2011 Interest Rate</u> | <u>Final Maturity Date*</u> | <u>Payment Terms</u> | <u>2011</u> | <u>2010</u> |
|--|---|-------------------------------------|--------------------------|----------------------|-------------------|
| Forward balance from previous page | | | | \$ 17,007,641 | \$ 16,156,872 |
| North Interstate | 0.00% | Sale of Property | Cash Flow | 929,905 | 929,905 |
| North Interstate | 3.00% | 2032 | Monthly | 82,094 | 84,741 |
| Pearl Court | 3.00% | 2027 | Monthly | 1,088,606 | - |
| Peter Paulson | 7.91% | 2024 | Cash Flow | 1,021,301 | 1,021,301 |
| Peter Paulson | 0.50% | 2024 | Cash Flow | 250,000 | 250,000 |
| Peter Paulson | 0.00% | 2024 | Cash Flow | 689,635 | 689,635 |
| Schiller Way | 0.00% | Sale of Property | Cash Flow | 507,249 | 507,249 |
| Sequoia Square | 0.00% | 2040 | Cash Flow | 516,181 | 516,181 |
| St Francis LP | 0.00% | Sale of Property | Cash Flow | 5,308,681 | 5,308,681 |
| SW 45th (Carriage Hill Apts) | 0.00% | Sale of Property | Cash Flow | 192,975 | 192,975 |
| SW 45th (Carriage Hill Apts) | 3.00% | 2032 | Monthly | 41,095 | 42,423 |
| Willow Tree | 3.00% | 2035 | Monthly | 182,993 | 187,956 |
| Fairview Oaks & Woods | 5.43% | 2041 | Monthly | 11,433,659 | 11,583,115 |
| Rockwood Station | 5.43% | 2041 | Monthly | 4,592,756 | 4,652,791 |
| Hawthorn Home | 6.00% | 2029 | Monthly | 60,109 | 61,845 |
| Madison Home | 6.00% | 2029 | Monthly | 59,959 | 61,705 |
| North Interstate | 6.00% | 2033 | Monthly | 509,242 | 519,713 |
| Project Open Door | 1.75% | 2027 | Monthly | 273,250 | 287,249 |
| Russell Street House | 8.97% | 2018 | Monthly | 28,460 | 31,173 |
| Taylor Home | 7.00% | 2029 | Monthly | 55,686 | 57,132 |
| Ashcreek Commons** | 1.66% | 2014 | Monthly | 2,218,280 | 2,268,477 |
| Plaza Townhomes | 7.00% | 2015 | Monthly | 342,555 | 401,307 |
| N4C - Loan A | 5.88% | 2012 | Monthly | 8,800,000 | 8,800,000 |
| N4C - Loan B | 2.00% | 2036 | Annual | 1,693,292 | 1,693,292 |
| N4C - Loan C | 2.00% | 2012 | Annual | 591,309 | 886,963 |
| The Grove Hotel | 0.00% | 2011 | N/A | - | 3,464,753 |
| | | | | <u>58,476,913</u> | <u>60,657,434</u> |
| Less: Current portion of notes payable | | | | <u>(924,325)</u> | <u>(837,156)</u> |
| Total notes payable | | | | <u>\$ 57,552,588</u> | <u>59,820,278</u> |

* NOTE: Calendar year of final maturity date

**NOTE: All notes payables issuance are fixed rate except for Ashcreek Commons, a variable rate debt issuance. The interest rate for Ashcreek Commons was 1.66% and 1.60% at March 31, 2011 and 2010, respectively.

Notes Payables includes those notes related to equity gap financing. Equity gap financing is utilized to fund the difference between project costs and sources of construction and permanent financing. These notes bear interest rates between 0.00% and 9.38% with maturities due up through 2041 except for certain equity gap notes, which are not payable unless the property is sold.

The N4C notes include a \$2,069,579 loan issued by Enterprise Social Investment Corporation that will be forgiven in one-seventh increments per year over a seven-year period, ending in 2012.

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NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

A summary of activity of the Authority's notes payable for 2011 and 2010 is as follows:

| Balance | | | Balance |
|----------------------|---------------------|-----------------------|-----------------------|
| April 1, 2010 | Increase | Decrease | March 31, 2011 |
| <u>\$ 60,657,434</u> | <u>\$ 2,171,668</u> | <u>\$ (4,352,189)</u> | <u>\$ 58,476,913</u> |

| Balance | | | Balance |
|----------------------|---------------------|---------------------|-----------------------|
| April 1, 2009 | Increase | Decrease | March 31, 2010 |
| <u>\$ 54,321,155</u> | <u>\$ 7,148,491</u> | <u>\$ (812,212)</u> | <u>\$ 60,657,434</u> |

Minimum debt payments due over the next five years and thereafter in five-year increments are as follows:

| Fiscal year ending March 31: | Notes Payable | |
|---------------------------------|----------------------|----------------------|
| | Principal | Interest |
| 2012 | \$ 924,325 | \$ 2,014,637 |
| 2013 | 9,758,604 | 1,756,679 |
| 2014 | 2,809,745 | 1,443,476 |
| 2015 | 887,786 | 1,360,185 |
| 2016 | 723,606 | 1,321,776 |
| 2017-2021 | 4,904,373 | 6,385,567 |
| 2022-2026 | 9,609,909 | 4,653,573 |
| 2027-2031 | 4,605,952 | 3,429,380 |
| 2032-2036 | 5,281,138 | 1,889,962 |
| 2037-2041 | 5,123,504 | 641,367 |
| Thereafter | 13,847,971 | - |
| Total | <u>\$ 58,476,913</u> | <u>\$ 24,896,602</u> |

Amounts presented as "thereafter" are equity gap housing notes with no payoff date.

For the variable rate debt, the March 31, 2011 interest rate, as provided above, was used for the future interest calculation.

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

12. BONDS PAYABLE

Bonds payable of the Authority, which are secured by mortgages on the respective properties, consist of the following at March 31:

| Bond Issue | Bond Type | Interest Rate at March 31, | | Final Maturity Date* | 2011 | 2010 |
|--|-----------|-------------------------------|-------|----------------------------|----------------------|----------------------|
| | | 2011 | 2010 | | 2011 | 2010 |
| Ainsworth Court Series A | Fixed | 5.70% | 5.70% | 2028 | \$ 2,735,000 | \$ 2,830,000 |
| Capital Fund Program, Series A | Fixed | 4.30% | 4.30% | 2025 | 4,550,000 | 4,855,000 |
| New Market West | Variable | 0.34% | 0.35% | 2035 | 2,350,000 | 2,415,000 |
| St. Johns Woods Series A | Fixed | 5.20% | 5.20% | 2029 | 3,185,000 | 3,290,000 |
| St. Johns Woods Series B | Fixed | 5.20% | 5.20% | 2029 | 445,000 | 515,000 |
| Pearl Court | Fixed | 4.00% | 3.95% | 2027 | 5,310,000 | - |
| Dawson Park | Fixed | 6.50% | 6.05% | 2026 | 1,890,000 | - |
| Pine Square, Series A | Fixed | 4.70% | 4.60% | 2032 | - | 5,660,000 |
| | | | | | <u>20,465,000</u> | <u>19,565,000</u> |
| Less current portion of bonds payable | | | | | <u>(930,000)</u> | <u>(720,000)</u> |
| | | | | | 19,535,000 | 18,845,000 |
| Less unamortized discounts | | | | | (75,101) | (156,264) |
| Less interest differential Pine Square Bonds | | | | | <u>(792,898)</u> | <u>-</u> |
| Total | | | | | <u>\$ 18,667,001</u> | <u>\$ 18,688,736</u> |

* NOTE: Calendar year of final maturity date

Unamortized discounts relate to all issuances except for Capital Fund Program Series A, New Market West and St. Johns Woods Series B.

On July 26, 2010, the Pine Square Apartment building was sold. Pine Square's sale proceeds were transferred to Pine Square's Trustee, Wells Fargo Corporate Trust (Wells Fargo). Wells Fargo placed the sale proceeds and Pine Square's debt service funds into a defeasance escrow account. The defeasance escrow account will pay the Pine Square's scheduled principal and interest bond payments thru January 1, 2013. The Pine Square interest differential was calculated at the time of the sale. The interest differential is the total of the remaining unamortized bond costs and discounts, and interest differential between interest earned from the sale proceeds and interest paid on the Pine Square Bond. The interest differential was calculated \$1,094,955. The interest differential is being amortized as interest expense until January 1, 2013. Remaining defeased bonds outstanding were \$5,530,000 at March 31, 2011.

As discussed in Note 2, the Authority acquired the remaining interest in the Pearl Court Limited Partnership and Dawson Park Limited Partnership. This included the assumption of bonds payable for the two properties. In 2010, these bonds were reflected in the Bonds Payable – Partnership (Note 13) and have been appropriately reclassified as non-partnership related bonds payable for 2011.

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NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

A summary activity of the Authority's bonds payable for 2011 and 2010 is as follows:

| Balance | | | Balance |
|----------------------|-----------------|-----------------|-----------------------|
| April 1, 2010 | Increase | Decrease | March 31, 2011 |
| \$ 19,565,000 | \$ 7,485,000 | \$ (6,585,000) | \$ 20,465,000 |
| Balance | | | Balance |
| April 1, 2009 | Increase | Decrease | March 31, 2010 |
| \$ 20,255,000 | \$ - | \$ (690,000) | \$ 19,565,000 |

Minimum debt payments due over the next five fiscal years and thereafter are as follows:

| Fiscal year ending March 31: | Bonds Payable | |
|---------------------------------|---------------|--------------|
| | Principal | Interest |
| 2012 | \$ 930,000 | \$ 919,995 |
| 2013 | 970,000 | 878,844 |
| 2014 | 1,020,000 | 835,665 |
| 2015 | 1,070,000 | 789,988 |
| 2016 | 1,115,000 | 741,876 |
| 2017 - 2021 | 5,560,000 | 2,956,815 |
| 2022 - 2026 | 7,040,000 | 1,478,507 |
| 2027 - 2031 | 2,245,000 | 139,041 |
| 2032 - 2036 | 515,000 | 1,360 |
| Total | \$ 20,465,000 | \$ 8,742,091 |

For the variable rate debt, the March 31, 2011 interest rate, as provided above, was used for the future interest calculation.

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NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

13. BONDS PAYABLE AND NOTES RECEIVABLE—PARTNERSHIPS

The Authority issued Multi-Family Housing Revenue Bonds, Tax-Exempt Tax Credit Notes Receivable and Taxable Tax Credit Notes Receivable for the purpose of providing financing to I.R.S. Section 42 Partnerships (see Note 7 and Note 18) in which the Authority has an ownership interest. The Partnerships are required to make payments on the Notes Receivable to the Authority, the General Partner of the Partnerships, sufficient to make required debt service payments on the Bonds.

Bonds payable—partnerships and the corresponding notes receivable—partnerships consist of the following at March 31:

| <u>Partnership</u> | <u>Bond Type</u> | <u>Interest Rate at March 31,</u> | | <u>Final Maturity Date*</u> | <u>2011</u> | <u>2010</u> |
|--|------------------|-----------------------------------|-------------|-----------------------------|----------------------|----------------------|
| | | <u>2011</u> | <u>2010</u> | | <u>2011</u> | <u>2010</u> |
| RAC Housing Limited Partnership | Variable | 0.25% | 0.25% | 2012 | \$ 23,155,000 | \$ 23,155,000 |
| Lovejoy Station Limited Partnership | Fixed | 5.15% | 5.10% | 2033 | 11,420,000 | 11,655,000 |
| Civic Redevelopment Limited Partnership | Variable | 0.26% | 0.30% | 2038 | 7,800,000 | 7,800,000 |
| Trouton Limited Partnership | Variable | 0.28% | 0.37% | 2037 | 6,065,000 | 6,170,000 |
| Union Station, A LIH Limited Partnership | Fixed | 4.15% | 4.10% | 2029 | 5,785,000 | 5,975,000 |
| Columbia Street Limited Partnership | Fixed | 4.60% | 4.60% | 2031 | 4,435,000 | 4,545,000 |
| Clay Street Limited Partnership | Fixed | 4.60% | 4.60% | 2031 | 3,805,000 | 3,900,000 |
| Cecelia Limited Partnership | Variable | 0.30% | 0.45% | 2035 | 3,760,000 | 3,830,000 |
| Fountain Place Limited Partnership | Fixed | 5.80% | 5.80% | 2034 | 2,889,382 | 2,943,022 |
| Humboldt Gardens Limited Partnership | Fixed | 6.17% | 6.17% | 2040 | 975,000 | 985,000 |
| Pearl Court Limited Partnership | Fixed | N/A | 3.95% | 2027 | - | 5,540,000 |
| Dawson Park Limited Partnership | Fixed | N/A | 6.75% | 2025 | - | 1,945,000 |
| | | | | | <u>70,089,382</u> | <u>78,443,022</u> |
| Less current portion | | | | | <u>(24,076,424)</u> | <u>(1,153,640)</u> |
| Total | | | | | <u>\$ 46,012,958</u> | <u>\$ 77,289,382</u> |

* NOTE: calendar year of final maturity date

A summary activity of the Authority's bonds payable for 2011 and 2010 is as follows:

| <u>Balance</u> | | | <u>Balance</u> |
|----------------------|----------------------|------------------------|-----------------------|
| <u>April 1, 2010</u> | <u>Increase</u> | <u>Decrease</u> | <u>March 31, 2011</u> |
| <u>\$ 78,443,022</u> | <u>\$ -</u> | <u>\$ (8,353,640)</u> | <u>\$ 70,089,382</u> |
| | | | |
| <u>Balance</u> | | | <u>Balance</u> |
| <u>April 1, 2009</u> | <u>Increase</u> | <u>Decrease</u> | <u>March 31, 2010</u> |
| <u>\$ 92,006,743</u> | <u>\$ 23,155,000</u> | <u>\$ (36,718,721)</u> | <u>\$ 78,443,022</u> |

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Years Ended March 31, 2011 and 2010

Minimum debt payments due over the next five fiscal years and thereafter are as follow:

| Fiscal year ending March 31: | Bond Payable - Tax Credit Partnership | |
|---------------------------------|---------------------------------------|----------------------|
| | Principal | Interest |
| 2012 | \$ 24,076,424 | \$ 1,654,657 |
| 2013 | 960,290 | 1,592,077 |
| 2014 | 1,018,933 | 1,548,082 |
| 2015 | 1,067,795 | 1,501,493 |
| 2016 | 1,126,476 | 1,452,552 |
| 2017 - 2021 | 6,599,575 | 6,234,503 |
| 2022 - 2026 | 7,986,052 | 4,694,316 |
| 2027 - 2031 | 9,887,484 | 2,494,553 |
| 2032 - 2036 | 8,551,353 | 410,601 |
| 2037 - 2041 | 8,815,000 | 32,725 |
| Total | <u>\$ 70,089,382</u> | <u>\$ 21,615,559</u> |

For the variable rate debt, the March 31, 2011 interest rate, as provided above, was used for the future interest calculation.

14. BONDS PAYABLE AND NOTES RECEIVABLE—CONDUIT FINANCING

The Authority issued Multi-Family Housing Revenue Bonds, Tax-Exempt Tax Credit Notes Receivable and Taxable Tax Credit Notes Receivable for the purpose of providing construction financing to two I.R.S. Section 42 partnerships in the Portland area. The partnerships are required to make payments on the notes receivable to the Authority sufficient to make the required debt service payments on the bonds when due. The Authority has no ownership interest in these partnerships.

The Authority issued Multi-Family Housing Revenue Bonds in the principal amount of \$5,645,000 for the purpose of funding a loan to the BENY Apartments Limited Partnership, pursuant to a Financing Agreement dated April 1, 1996. The bonds accrue interest at rates ranging from 5.40% to 6.20%. Payments of principal and interest are due semiannually. The bonds are due December 20, 2036. Principal and interest payments are payable only from the revenues of the project, the GNMA mortgage-backed securities program and the reserves of the project. The Authority has limited obligation in the event of non-payment by the Limited Partnership. These bonds were paid off during fiscal year 2010.

15. ADDITIONAL BONDS PAYABLE INFORMATION

Currently outstanding are variable rate demand bonds and notes issued by the Authority on its New Market West headquarters building, and five separate projects: Ashcreek, Cecelia Limited Partnership (Cecelia), Trouton Limited Partnership (Trouton), Civic Limited Partnership, and RAC Housing Limited Partnership (RAC).

The bonds for each have the following common characteristics:

- Letters of Credit (LOC) have been issued by Wells Fargo Bank (NMW and RAC) and Bank of America Securities (Cecelia and Trouton), equal to the amounts outstanding on the bonds plus one interest payment, priced at 1.0% and 2.0% for NMW and RAC Housing, respectively, and 1.4% for Cecelia and Trouton of the outstanding principal balance plus one interest payment of the related bonds. Civic has a credit enhancement agreement (CEA) with Freddie Mac and is charged an annual fee of 1.06% of the outstanding balance. Ashcreek is not required to have a LOC or credit enhancement.

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- The LOCs and CEA are intended not only to provide security to bondholders, but also to make periodic interest payments for which the Authority regularly reimburses the banks.
- The banks act as a remarketing agent, reselling at market rates any bonds sold by bondholders. They have committed to repurchase bonds that cannot be resold on the open market.
- Interest rates are recalculated weekly, based on the rate at which bonds can be remarketed.
- The annual remarketing fee on the outstanding amount of the bonds is 0.08% (Civic), 0.10% (Trouton) and 0.125% (Cecilia, NMW, RAC). Ashcreek is not subject to an annual remarketing fee.
- For bonds where the underlying financed asset is not the pledge for the bonds, the underlying credit for the bonds is the general funds of the Authority.

Civic Redevelopment Limited Partnership entered into a swap agreement with Freddie MAC. The new agreement caps the variable rate on the bonds to 3.6625%. The agreement is set to expire on September 1, 2023.

In conjunction with the sale of Cecelia and Trouton bonds and the Ashcreek note, the Authority entered into interest rate swap agreements. The Authority uses interest rate swap agreements in order to reduce the volatility related to variable rate interest debt, or market risk. The swap agreements effectively convert the interest rate on variable rate debt to a fixed rate. These swaps call for the Authority to receive interest at a variable rate and to pay interest at a fixed rate.

The Ashcreek note was modified with an extended maturity date of March 2014. The variable rate on the note was 1.66% and 1.60%, at March 31, 2011 and 2010, respectively. The swap instrument is at 2.5% on a notional amount of \$2.27 million for which the Authority received 84% of the 30 day LIBOR rate. The fair value of the swap was a liability of \$88,645 and \$63,641 as of March 31, 2011 and 2010, respectively.

The Cecilia bonds mature in 2035. The variable rate on the bonds was 0.30% and 0.45% as of March 31, 2011 and 2010, respectively. The swap instrument associated with the remaining bonds matures July 1, 2021 and is fixed at 4.39% on a notional amount of \$3.83 million for which the Authority receives the 30 day SIFMA rate. The fair value of the swap was a liability of \$499,653 and \$462,687 as of March 31, 2011 and 2010, respectively.

The Trouton bonds mature in 2038. The variable rate on the bonds was 0.28% and 0.37% as of March 31, 2011 and 2010, respectively. The swap instrument associated with the remaining bonds matures July 1, 2022 and is fixed at 4.188% on a notional amount of \$6.17 million for which the Authority receives the 30 day SIFMA rate. The fair value of the swap was a liability of \$699,039 and \$626,022 as of March 31, 2011 and 2010, respectively.

The fair value of the swap instruments are calculated from proprietary models using a mid-market basis. The change in fair market value of the Authority's swap transactions for the years ended March 31, 2011 and March 31, 2010 was a decrease of \$134,987 and \$283,158, respectively. The offset to derivative instruments liability is reflected as Deferred Outflows on Derivative Instruments.

There are certain risks associated with any hedging investment. These risks include credit risk, basis risk, termination risk, rollover risk, interest rate risk, and market access risk.

- *Credit risk* - The aggregate fair value of the swaps represents the Authority's credit exposure to the counterparties as of March 31, 2011 and 2010. Should the counterparties fail to perform according to the terms of the swap contracts, the Authority faced a maximum potential loss equal to the aggregate fair value of the swap. At March 31, 2011 and 2010, the Authority did not face a credit risk because the swap instruments had a negative value. To minimize the potential of credit risk, the Authority engages with counterparties with ratings of A/A2 or higher.

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Any counterparty with a credit rating that falls below this is required to use a credit support annex to document swap termination valuation collateralization. As of March 31, 2011 and 2010, the Authority was engaged with counterparties with ratings of A/A2 or higher.

- *Basis risk* – For the Ashcreek swap, the Authority has chosen a variable index based on percentage of LIBOR plus a spread which has historically approximated the variable rates payable on the related bonds. However the Authority is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable rates would cause a material mismatch between the two rates. This risk is minimized for the Cecilia and Trouton deals as both the underlying debt pays out based on weekly auction rates and the SIFMA rate is an average of auction rate activity.
- *Termination risk* – Counterparties are not allowed to optionally terminate, extend or substantially alter the terms of a swap without the Authority’s consent. The Authority or counterparty may terminate the swaps if the other party fails to perform under the terms of the contract. If, at the time of termination, the hedging derivative instrument is in a liability position, the Authority would be liable to the counterparty for payment of the absolute value of the swap position.
- *Rollover risk* – Rollover risk occurs when the expiration of the swap agreement occurs before the end of the termination of the underlying debt. The Authority is exposed to rollover risk. The swap on the Cecilia bond terminates in July 2021 and the final bond payment is due in January 2035. The swap on the Trouton bond terminates in July 2022 and the final bond payment is due in April 2037. The swap on the Ashcreek bond terminates in March 2014, on the same date as the final bond payment.
- *Interest rate risk* – The Authority’s swaps are structured to reduce the Authority’s exposure to interest rate risk by converting a variable rate to a fixed rate.
- *Market access risk* – Market access risk is the risk that a government will not be able to enter credit markets or that credit will become more costly. The ability to sell auction rate securities in an auction may be adversely affected if there are not sufficient buyers willing to purchase all the auction rate securities at a rate equal to or less than the ARS maximum rate. In the event of failed auctions, the bonds may default to a higher rate as defined in the bonds’ official statements.

16. RETIREMENT PLAN

Plan Description – The Authority is a participating employer in the State of Oregon Public Employee’s Retirement System (–OPERS.”) OPERS, a component unit of the State of Oregon, issues a comprehensive annual financial report, which may be obtained by writing to Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon, 97281-3700, or by calling 1-888-320-7377. As noted in the PERS 2010 Comprehensive Annual Financial Report:

The Oregon Public Employees Retirement System (OPERS or “the System”) provides statewide defined benefit and defined contribution retirement plans for units of state government, political subdivisions, community colleges, and school districts. OPERS is administered under Oregon Revised Statutes (ORS) Chapter 238, Chapter 238A, and Internal Revenue Code Section 401(a) by the Public Employees Retirement Board (Board.)

The 1995 Legislature enacted Chapter 654, Section 3, Oregon Laws 1995, which has been codified into ORS 238.435. This legislation created a second tier of benefits for those who established membership on or after January 1, 1996. The second tier does not have the Tier One assumed earnings rate guarantee and has a higher normal retirement age of 60, compared to 58 for Tier One.

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NOTES TO FINANCIAL STATEMENTS

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The 2003 Legislature enacted HB 2020, codified as ORS 238A, which created the Oregon Public Service Retirement Plan (OPSRP). OPSRP consists of the Pension Program (defined benefit) and the Individual Account Program (defined contribution). Membership includes public employees hired on or after August 29, 2003.

Beginning January 1, 2004, OPERS active Tier One and Tier Two members became members of the Individual Account Program (IAP) of OPSRP. OPERS members retain their existing OPERS accounts, but member contributions are now deposited into the member's IAP account, not into the member's OPERS account. Accounts are credited with earnings and losses net of administrative expenses. OPSRP is part of OPERS and is administered by the Board. The OPERS Board is directed to adopt any rules necessary to administer OPSRP, and such rules are to be considered part of the plan for IRS purposes.

OPERS Pension (Defined Benefits)

The Authority is a participant of the OPERS pension program, an agent multiple-employer plan for those employees hired prior to August 29, 2003. OPERS benefits, as described by the OPERS 2010 Comprehensive Annual Financial Report are as follows:

Pension Benefits

The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage... (1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results. Monthly payments must be a minimum of \$200 per month or the member will receive a lump-sum payment of the actuarial equivalence of benefits to which he or she is entitled.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer. General service employees may retire after reaching age 55. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

Death Benefits

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- the member was employed by an OPERS employer at the time of death,*
- the member died within 120 days after termination of OPERS-covered employment,*
- the member died as a result of injury sustained while employed in an OPERS-covered job, or*
- the member was on an official leave of absence from an OPERS-covered job at the time of death.*

A member's beneficiary may choose a monthly payment for life instead of the lump-sum or a combination of lump-sum and monthly payments, if eligible. The monthly payment must be a minimum of \$30 per month for deaths that occur July 30, 2003, and earlier; \$200 per month for deaths that occur after July 30, 2003.

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Disability Benefits

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member for disability benefits regardless of the length of OPERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

Benefit Changes After Retirement

Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Monthly benefits are adjusted annually through cost-of-living changes. Two percent per year is the maximum cost-of-living adjustment.

OPSRP Pension Programs

The Authority is a participant of the OPSRP pension programs, a hybrid defined benefit/defined contribution plan for those employees hired after August 29, 2003. OPSRP benefits, as described by the OPERS 2010 Comprehensive Annual Financial Report are as follows:

OPSRP Pension Benefits (Defined Benefit)

This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

General service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

Death Benefits

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member. The surviving spouse or other person may elect to delay payment of the death benefit, but payment must commence no later than December 31 of the calendar year in which the member would have reached 70½ years.

Disability Benefits

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

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OPSRP Individual Account Program (Defined Contribution)

Pension Benefits

Upon retirement, a member of the OPSRP Individual Account Program (IAP) may receive the amounts in his or her employee account, rollover account, and employer account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20-year period or an anticipated life span option. Each distribution option has a \$200 minimum distribution limit.

An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

Death Benefits

Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

Risk Pooling – In 2001, the Oregon legislature amended ORS 238.227 allowing for local government entities to pool their OPERS pension assets and liabilities with the State of Oregon and other organizations joining the pool. Contribution rates are actuarially determined based on the experience of the overall pool as opposed to the potentially more volatile experience of the individual member. On January 19, 2010, the Authority's Board of Commissioners approved the Authority's inclusion in the State & Local Government Rate Pool (SLGRP).

Funding Status – Employees who are OPSRP members are required by State statute to contribute 6.0% of their salary to OPSRP and employers may agree to pay this required contribution. The Authority pays the employees' required contribution. Additionally, employers are required to contribute actuarially computed amounts as determined by OPERS on actuarial valuations performed at least every two years. Rates are subject to change as a result of subsequent actuarial valuations and legislative actions.

Employer contribution rates in effect July 1, 2009 to June 30, 2011 are:

| Actuarial Period Ending | Tier 1/ Tier 2 | OPSRP |
|--|---------------------------|--------------|
| Pension contribution rate | 7.80% | 8.85% |
| Retiree healthcare rate | 0.29% | 0.19% |
| Total employer contribution | <u>8.09%</u> | <u>9.04%</u> |

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Employer contribution rates in effect July 1, 2007 to June 30, 2009 were:

| Actuarial Period Ending | Tier 1/ Tier 2 | OPSRP |
|-------------------------------|-------------------|--------|
| Pension contribution rate | 10.08% | 12.21% |
| Retiree healthcare rate | 0.37% | 0.26% |
| Total employer contribution | 10.45% | 12.47% |

The amount to be contributed by the Authority for the years ended March 31, 2011, 2010, and 2009 was approximately, \$1,968,000, \$1,964,000, and \$2,178,000, respectively, which represents the required contributions for both the employee and the employer in each of the years presented. The balance of OPERS payable as of March 31, 2011, 2010, and 2009, respectively, was \$181,747 and \$159,332, and \$183,643, respectively. This balance is recorded in other accrued liabilities on the financial statement.

| Actuarial Period Ending | Required Employer Contributions | Required Employee Contributions | Contributions Paid | Contributions to Required Contributions | Balance of OPERS Payable |
|-------------------------------|---------------------------------------|---------------------------------------|-----------------------|---|--------------------------------|
| 3/31/2011 | \$ 1,157,193 | \$ 810,643 | \$ 1,945,421 | 99% | \$ 181,747 |
| 3/31/2010 | 1,192,967 | 770,589 | 1,987,868 | 101% | 159,332 |
| 3/31/2009 | 1,429,369 | 748,361 | 2,136,628 | 98% | 183,643 |

Schedule of OPERS Funding Progress for Tier1/Tier 2 pension liabilities is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------------|---------------------------------|--|---|-----------------|--------------------|--|
| 12/31/2009 | \$ 45,261,838 | \$ 55,879,567 | \$ 10,617,729 | 81% | \$ 13,438,754 | 79% |

Other Postemployment Healthcare Benefits

Retirement Health Insurance Account (RHIA)

As a member of OPERS, the Authority contributes to the Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost sharing multiple-employer defined benefit other post-employment benefit (OPEB) plan administered by OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statutes (ORS) 238.420 established this trust fund. The Oregon legislature has the ability to establish and amend the benefit provisions of the RHIA. The plan closed to new entrants after August 29, 2003.

ORS require that an amount equal to \$60 or the total monthly cost of Medicare companion health insurance premium coverage, whichever is less, shall be paid from the RHIA, established by the employer, and any monthly cost in excess of \$60 shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment the member must 1) have eight years or more of qualifying service in OPERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in OPERS, 2) receive both

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Years Ended March 31, 2011 and 2010

Medicare Parts A and B coverage, and 3) enroll in a OPERS sponsored health plan. A surviving spouse or dependent of a deceased OPERS retiree who was eligible to receive the subsidy is eligible to receive the benefit if he or she is receiving a retirement benefit or allowance from OPERS or was insured at the time the member died and the member retired before May 1, 1991.

Employer contributions are advance-funded on an actuarially determined basis. There is no inflation assumption for RHIA postemployment benefits because the payment amount is set by statute and is not adjusted for increases in healthcare costs. Participating employees are contractually required to contribute to RHIA at a rate assessed each year by OPERS, currently 0.29% of annual covered OPERS payroll and 0.19% of OPSRP payroll. The OPERS board sets the employer contribution rate based on the annual required contribution (ARC) of the employers, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The Authority's contributions to RHIA for the years ended March 31, 2011, 2010 and 2009 were approximately, \$67,000, \$67,000, and \$75,000, respectively.

Retiree access to the Authority health care plans (Implicit Benefit subsidy)

As a condition of participation in OPERS, the Authority is required to offer healthcare insurance coverage to retirees and their spouses until the retired employee reaches the age for obtaining Medicare coverage. Under this requirement, the employer is required to provide access to the same plan(s) available for current employees. Though the Authority does not pay any portion of the retiree's healthcare insurance, the retired employee receives an implicit benefit of a lower healthcare premium which is subsidized among the premium cost of coverage for active employees.

As the Authority pays none of premium of health insurance coverage for retirees from age 58 to 65, the Authority has not established and does not intend to establish a trust fund to supplement the costs for other post-employment benefit obligation related to this implicit benefit. The Authority's regular health care benefit providers underwrite the retirees' policies. Retirees may not convert the benefit into an in lieu payment to secure coverage under independent plans. At March 31, 2011, there were 8 retirees and/or surviving spouses receiving the post-employment implicit healthcare benefit.

The Authority's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC) an amount actuarially determined in accordance with the guidelines of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

| <u>Actuarial Period Ending</u> | <u>Required Contributions</u> | <u>Contributions Paid</u> | <u>Contributions to Required Contributions</u> | <u>Balance of PERS Payable</u> |
|--|-----------------------------------|-------------------------------|--|--|
| 3/31/2011 | \$ 91,633 | \$ 37,109 | 40% | \$ 215,809 |
| 3/31/2010 | 116,132 | 35,892 | 31% | 161,285 |
| 3/31/2009 | 113,701 | 32,656 | 29% | 81,045 |

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Unfunded Actuarial Accrued Liability (UAAL)</u> | <u>Funded ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|---|--|--|--|-------------------------|----------------------------|--|
| 3/31/2011 | \$ - | \$ 912,321 | \$ 912,321 | 0% | \$ 13,500,000 | 7% |

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

| | March 31, 2011 | March 31, 2010 |
|---|---------------------------|---------------------------|
| Annual required contribution | \$ 94,461 | \$ 113,701 |
| Interest on NET OPEB obligation | 5,645 | 2,431 |
| Adjustment to ARC for NET OPEB obligation | (8,473) | - |
| Annual OPEB cost | 91,633 | 116,132 |
| Contributions made | (37,109) | (35,892) |
| Increase in net OPEB obligation | 54,524 | 80,240 |
| Net OPEB Obligation - beginning of year | 161,285 | 81,045 |
| Net OPEB Obligation - end of year | \$ 215,809 | \$ 161,285 |

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve the estimated value of reported amounts and assumptions about the probability of occurrence of events into the future. The status of funding levels and annual required contributions of the employer are subject to ongoing review and updates based on past history and revised assumptions of future events. These include assumptions about earnings rates, healthcare cost trends, project life expectancy of plan members, withdrawals, retirements, etc. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility, and are subject to revisions as a result of past experience and new estimates about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information on the actuarial value of plan assets compared to actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions for PERS/OPSRP/RHIA

Certain actuarial methods and assumptions for PERS, OPSRP and RHIA from the provided actuarial report ended December 31, 2009 and December 31, 2008 and used to calculate the above activity, includes:

| | |
|---|---|
| Actuarial cost method | Projected unit credit |
| Asset valuation method | Market value of assets |
| Tier 1/Tier 2 UAL and Retiree Healthcare UAL amortization | The Tier 1/Tier 2 regular UAL and Retiree Healthcare UAL are amortized as a level percentage of combined valuation payroll over a closed period. For the Tier 1/Tier 2 UAL, the amortization period is 20 years; for Retiree Healthcare, it is 10 years. Gains and losses between odd-year valuations are amortized as a level percentage of combined valuation payroll over 20 years (10 for Retiree Healthcare) from the odd-year valuation in which they are first recognized. |
| OPSRP UAL Amortization | Gains and losses between odd-year valuations are amortized as a level percentage of combined valuation payroll over 16 years from the odd-year valuation in which they are first recognized |
| Investment return | 8.0% compounded annually on system assets |
| Interest crediting | 8.0% compounded annually on members' regular account balances 8.5% compounded annually on members' variable account balances |
| Consumer price inflation | 2.75% per year |
| Future general wage inflation | 3.75% per year |
| Healthcare cost inflation | Graded from 7.0% in 2010 to 4.5% in 2029 |

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

Actuarial Methods and Assumptions for Implicit Benefit subsidy

Certain actuarial assumptions for the Implicit Benefit subsidy calculation are from the actuarial report ended March 31, 2011 and used to calculate the above activity includes:

| | |
|--------------------------------|---|
| Actuarial cost method | Entry Age Normal Cost Method |
| Asset valuation method | Investment return assumption equal to expectation of the Authority's own investment funds |
| Investment return | 3.5% compounded annually on system assets; |
| Interest rate discount | 3.0% per year |
| Medical cost annual trend rate | 7% to 8% initial increase, reducing to 5% over 4 to 6 years |
| Dental cost annual trend rate | 5% to 8% initial increase, reducing to 3% over 4 to 5 years |

Certain actuarial assumptions for the Implicit Benefit subsidy calculation are from the actuarial report ended March 31, 2010 and used to calculate the above activity includes:

| | |
|--------------------------------|---|
| Actuarial cost method | Entry Age Normal Cost Method |
| Asset valuation method | Investment return assumption equal to expectation of the Authority's own investment funds |
| Investment return | 3.0% compounded annually on system assets |
| Interest rate discount | 3.00% per year |
| Medical cost annual trend rate | 6.5% to 7.5% initial increase, reducing to 5% over 3 to 5 years |
| Dental cost annual trend rate | 5% to 6% initial increase, reducing to 3% over 4 to 6 years |

17. DEFERRED COMPENSATION PLAN

The Authority offers employees an optional deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all the Authority's employees, permits them to defer a portion of their salary to future years. Annual deferrals are limited to the lesser of \$16,500 or 100% of includable compensation. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. This plan is administered by a third-party and is not included in the Authority's basic financial statements.

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2011 and 2010

18. DISCREETELY PRESENTED COMPONENT UNITS CONDENSED FINANCIAL INFORMATION

The Authority is the General Partner and holds a 0.01% to 1% interest in each of the following limited partnerships (see Note 2 and Note 7.) Summarized partnership information as of and for the year ended December 31, 2010 is as follows:

| ASSETS | Lovejoy | Union | St. Francis | Cecilia | Trouton | Woolsey | Civic | Humboldt |
|--|----------------------|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Station | Station ALIH | Francis | Cecilia | Trouton | Woolsey | Redevelopment | Gardens |
| Cash and cash equivalents | \$ 532,549 | \$ 461,634 | \$ 13,405 | \$ 389,758 | \$ 336,709 | \$ 507,488 | \$ 58,216 | \$ 877,813 |
| Cash and cash equivalents - restricted | 684,824 | 486,381 | 563,729 | 957,362 | 1,065,516 | 848,533 | 458,232 | 884,954 |
| Investments (Restricted)- Short Term | 1,283,638 | - | - | - | - | - | - | - |
| Accounts receivables and other assets | 32,090 | 7,246 | 119,499 | 79,927 | 102,961 | 53,345 | 20,621 | 105,762 |
| Investments (Restricted)- Long Term | - | 472,680 | - | - | - | - | 277,970 | - |
| Deferred charges - net | 399,707 | 160,129 | 90,901 | 243,925 | 695,209 | 179,719 | 891,012 | 294,601 |
| Capital assets - net | 13,348,382 | 6,233,318 | 10,307,414 | 17,601,974 | 39,450,741 | 18,534,649 | 18,667,814 | 29,745,395 |
| TOTAL | \$ 16,281,191 | \$ 7,821,388 | \$ 11,094,948 | \$ 19,272,946 | \$ 41,651,136 | \$ 20,123,734 | \$ 20,373,864 | \$ 31,908,525 |
| LIABILITIES AND PARTNERS' CAPITAL (DEFICIT) | | | | | | | | |
| LIABILITIES: | | | | | | | | |
| Current liabilities | \$ 1,357,704 | \$ 569,635 | \$ 754,807 | \$ 278,149 | \$ 615,349 | \$ 299,657 | \$ 1,028,053 | \$ 516,234 |
| Long-term liabilities | 15,527,204 | 7,101,672 | 8,432,697 | 14,851,015 | 32,498,342 | 4,745,574 | 13,012,616 | 20,158,222 |
| PARTNERS' CAPITAL (DEFICIT) | (603,717) | 150,081 | 1,907,444 | 4,143,782 | 8,537,445 | 15,078,503 | 6,333,195 | 11,234,069 |
| TOTAL | \$ 16,281,191 | \$ 7,821,388 | \$ 11,094,948 | \$ 19,272,946 | \$ 41,651,136 | \$ 20,123,734 | \$ 20,373,864 | \$ 31,908,525 |
| Operating revenues | \$ 1,828,274 | \$ 1,243,084 | \$ 978,256 | \$ 1,043,799 | \$ 1,936,614 | \$ 944,926 | \$ 1,114,140 | \$ 866,406 |
| Operating expenses | (1,104,219) | (1,074,642) | (974,968) | (1,721,296) | (3,415,883) | (1,808,146) | (1,397,745) | (1,940,203) |
| Operating income (loss) | 724,055 | 168,442 | 3,288 | (677,497) | (1,479,269) | (863,220) | (283,605) | (1,073,797) |
| Nonoperating revenues | 64,714 | 19,009 | 1,201 | 5,553 | 8,008 | 4,801 | 3,906 | 3,902 |
| Nonoperating expenses | (845,243) | (313,366) | (229,580) | (309,783) | (483,967) | (203,050) | (669,592) | (261,790) |
| Loss before capital contributions | (56,474) | (125,915) | (225,091) | (981,727) | (1,955,228) | (1,061,469) | (949,291) | (1,331,685) |
| Partner contributions | - | - | - | - | 1,034,985 | 1,414,555 | 1,671,530 | 3,857,411 |
| Change in net assets | \$ (56,474) | \$ (125,915) | \$ (225,091) | \$ (981,727) | \$ (920,243) | \$ 353,086 | \$ 722,239 | \$ 2,525,726 |

(continued)

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2011 and 2010

| | 1115 SW 11th Avenue | RAC Housing* | All other partnerships | Total |
|--|------------------------|----------------------|---------------------------|-----------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 111,277 | \$ 1,735,781 | \$ 1,164,804 | \$ 6,189,434 |
| Cash and cash equivalents - restricted | 100,018 | 8,381,591 | 2,526,939 | 16,958,079 |
| Investments (Restricted)- Short Term | - | - | 285,099 | 1,568,737 |
| Accounts receivables and other assets | 20,586 | 439,420 | 515,747 | 1,497,204 |
| Investments (Restricted)- Long Term | - | - | 672,225 | 1,422,875 |
| Deferred charges - net | 195,402 | 102,412 | 656,880 | 3,909,897 |
| Capital assets - net | 15,945,617 | 33,283,791 | 53,642,856 | 256,761,951 |
| TOTAL | \$ 16,372,900 | \$ 43,942,995 | \$ 59,464,551 | \$ 288,308,177 |
| LIABILITIES AND PARTNERS' CAPITAL (DEFICIT) | | | | |
| LIABILITIES: | | | | |
| Current liabilities | \$ 816,473 | \$ 31,990,132 | \$ 3,763,216 | \$ 41,989,409 |
| Long-term liabilities | 15,180,144 | 4,019,296 | 45,467,930 | 180,994,712 |
| PARTNERS' CAPITAL (DEFICIT) | 376,283 | 7,933,567 | 10,233,404 | 65,324,056 |
| TOTAL | \$ 16,372,900 | \$ 43,942,995 | \$ 59,464,550 | \$ 288,308,177 |
| Operating revenues | \$ 285,811 | \$ - | \$ 6,277,885 | \$ 16,519,195 |
| Operating expenses | (607,038) | (20,637) | (6,858,260) | (20,923,037) |
| Operating income (loss) | (321,227) | (20,637) | (580,375) | (4,403,842) |
| Nonoperating revenues | 313 | 536 | 60,410 | 172,353 |
| Nonoperating expenses | (375,029) | - | (1,783,360) | (5,474,760) |
| Loss before capital contributions | (695,943) | (20,101) | (2,303,325) | (9,706,249) |
| Partner contributions | (27,832) | 6,500,888 | 6,186,144 | 20,637,681 |
| Change in net assets | \$ (723,775) | \$ 6,480,787 | \$ 3,882,819 | \$ 10,931,432 |

* Unaudited

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2011 and 2010

The Authority is the General Partner and holds a 0.01% to 1% interest in each of the following limited partnerships (see Note 2 and Note 7.) Summarized partnership information as of and for the year ended December 31, 2009 is as follows:

| | Lovejoy | | Union | | St. Francis | | Cecilia | | Trouton | | Woolsey | | Civic | | Humboldt | |
|--|----------------------|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|---------|---------|---------|---------|---------|---------|----------|---------|
| | Station | Station | Station | Station | Station | Station | Station | Station | Station | Station | Station | Station | Station | Station | Station | Station |
| ASSETS | | | | | | | | | | | | | | | | |
| Cash and cash equivalents | \$ 598,577 | \$ 1,011,369 | \$ 83,720 | \$ 369,176 | \$ 369,371 | \$ 463,778 | \$ 204,428 | \$ 652,021 | | | | | | | | |
| Cash and cash equivalents - restricted | 700,874 | 504,150 | 488,947 | 920,173 | 974,153 | 808,773 | 412,527 | 116,848 | | | | | | | | |
| Investments (Restricted)- Short Term | 1,260,928 | - | - | - | - | - | - | - | | | | | | | | |
| Accounts receivables and other assets | 20,497 | 7,236 | 117,420 | 37,416 | 60,833 | 38,880 | 18,883 | 70,197 | | | | | | | | |
| Investments (Restricted)- Long Term | - | 472,680 | - | - | - | - | - | 154,886 | | | | | | | | |
| Deferred charges - net | 419,961 | 170,605 | 97,603 | 255,966 | 724,740 | 190,662 | 930,382 | 308,527 | | | | | | | | |
| Capital assets - net | 13,730,876 | 6,621,101 | 10,788,373 | 18,562,272 | 41,569,337 | 19,633,897 | 19,483,813 | 30,805,715 | | | | | | | | |
| TOTAL | \$ 16,731,713 | \$ 8,787,141 | \$ 11,576,063 | \$ 20,145,003 | \$ 43,698,434 | \$ 21,135,990 | \$ 21,204,919 | \$ 31,953,308 | | | | | | | | |
| LIABILITIES AND PARTNERS' CAPITAL (DEFICIT) | | | | | | | | | | | | | | | | |
| LIABILITIES: | | | | | | | | | | | | | | | | |
| Current liabilities | \$ 1,330,476 | \$ 978,191 | \$ 938,817 | \$ 263,697 | \$ 1,828,399 | \$ 1,231,711 | \$ 2,318,857 | \$ 2,875,649 | | | | | | | | |
| Long-term liabilities | 15,948,480 | 7,532,954 | 8,504,711 | 14,755,797 | 32,412,347 | 5,178,862 | 13,275,106 | 20,369,316 | | | | | | | | |
| PARTNERS' CAPITAL (DEFICIT) | (547,243) | 275,996 | 2,132,535 | 5,125,509 | 9,457,688 | 14,725,417 | 5,610,956 | 8,708,343 | | | | | | | | |
| TOTAL | \$ 16,731,713 | \$ 8,787,141 | \$ 11,576,063 | \$ 20,145,003 | \$ 43,698,434 | \$ 21,135,990 | \$ 21,204,919 | \$ 31,953,308 | | | | | | | | |
| Operating revenues | \$ 1,829,995 | \$ 1,233,364 | \$ 784,105 | \$ 999,849 | \$ 1,848,907 | \$ 876,135 | \$ 1,127,532 | \$ 762,750 | | | | | | | | |
| Operating expenses | (1,176,170) | (1,032,466) | (973,720) | (1,833,750) | (3,637,134) | (1,817,291) | (1,235,413) | (1,821,770) | | | | | | | | |
| Operating income (loss) | 653,825 | 200,898 | (189,615) | (833,901) | (1,788,227) | (941,156) | (107,881) | (1,059,020) | | | | | | | | |
| Nonoperating revenues | 73,040 | 25,298 | 1,255 | 7,904 | 12,149 | 5,407 | 7,991 | 5,377 | | | | | | | | |
| Nonoperating expenses | (860,323) | (347,555) | (234,079) | (308,851) | (541,537) | (200,392) | (660,714) | (310,656) | | | | | | | | |
| Loss before capital contributions | (133,458) | (121,359) | (422,439) | (1,134,848) | (2,317,615) | (1,136,141) | (760,604) | (1,364,279) | | | | | | | | |
| Partner contributions | - | - | - | - | 17,928,625 | - | - | 9,960,291 | | | | | | | | |
| Change in net assets | \$ (133,458) | \$ (121,359) | \$ (422,439) | \$ (1,134,848) | \$ 15,611,010 | \$ (1,136,141) | \$ (760,604) | \$ 8,596,012 | | | | | | | | |

(continued)

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2010 and 2009

| | 1115 SW 11th Avenue* | RAC Housing* | All other partnerships | Total |
|--|-------------------------|----------------------|---------------------------|-----------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 481,755 | \$ 362,396 | \$ 1,401,115 | \$ 5,997,706 |
| Restricted Cash | 33,925 | 23,021,871 | 3,238,321 | 31,220,562 |
| Investments (Restricted)- Short Term | | | 452,787 | 1,713,715 |
| Accounts receivables and other assets | 683,018 | 3,168,192 | 473,244 | 4,695,816 |
| Investments (Restricted)- Long Term | | | 1,148,166 | 1,775,732 |
| Deferred charges - net | 4,200 | 102,412 | 840,271 | 4,045,329 |
| Capital assets - net | 8,416,179 | 7,701,963 | 50,022,502 | 227,336,028 |
| TOTAL | <u>\$ 9,619,077</u> | <u>\$ 34,356,834</u> | <u>\$ 57,576,406</u> | <u>\$ 276,784,888</u> |
| LIABILITIES AND PARTNERS' CAPITAL (DEFICIT) | | | | |
| LIABILITIES: | | | | |
| Current liabilities | \$ 104,445 | \$ 3,069,669 | \$ 4,356,368 | \$ 19,296,279 |
| Long-term liabilities | 8,414,574 | 29,834,385 | 46,869,453 | 203,095,985 |
| PARTNERS' CAPITAL (DEFICIT) | <u>1,100,058</u> | <u>1,452,780</u> | <u>6,350,585</u> | <u>54,392,624</u> |
| TOTAL | <u>\$ 9,619,077</u> | <u>\$ 34,356,834</u> | <u>\$ 57,576,406</u> | <u>\$ 276,784,888</u> |
| Operating revenues | \$ - | \$ - | \$ 7,328,186 | \$ 16,790,823 |
| Operating expenses | - | (957) | (7,318,631) | (20,847,302) |
| Operating income (loss) | - | (957) | 9,555 | (4,056,479) |
| Nonoperating revenues | 58 | 180 | 85,916 | 224,575 |
| Nonoperating expenses | - | - | (2,292,945) | (5,757,032) |
| Loss before capital contributions | 58 | (777) | (2,197,474) | (9,588,936) |
| Partner contributions | 1,100,000 | 1,453,557 | 53,720 | 30,496,193 |
| Change in net assets | <u>\$ 1,100,058</u> | <u>\$ 1,452,780</u> | <u>\$ (2,143,754)</u> | <u>\$ 20,907,257</u> |

* Unaudited

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

Summarized Capital assets – Discretely presented component units

Land, structures, and equipment activity of the discretely presented component units was as follows for the years ended December 31:

| | Balance Deceber 31, 2009 | Additions and transfers in | Disposals and transfers out | Balance December 31, 2010 |
|--|--------------------------------------|---------------------------------------|--|--------------------------------------|
| Land | \$ 9,752,478 | \$ 5,050,000 | \$ (904,607) | \$ 13,897,871 |
| Construction in progress | 16,118,142 | 34,091,030 | (16,768,189) | 33,440,983 |
| Total capital assets not being depreciated | 25,870,620 | 39,141,030 | (17,672,796) | 47,338,854 |
| Buildings and improvements | 252,548,330 | 26,251,519 | (14,134,831) | 264,665,018 |
| Equipment | 7,261,380 | 618,360 | (585,477) | 7,294,263 |
| | 259,809,710 | 26,869,879 | (14,720,308) | 271,959,281 |
| Less: Accumulated depreciation | (58,344,302) | (11,384,385) | 7,192,503 | (62,536,184) |
| Total capital assets being depreciated | 201,465,408 | 15,485,494 | (7,527,805) | 209,423,097 |
| Total capital assets, net | \$ 227,336,028 | \$ 54,626,524 | \$ (25,200,601) | \$ 256,761,951 |
| | | | | |
| | Balance December 31, 2008 | Additions and transfers in | Disposals and transfers out | Balance December 31, 2009 |
| Land | \$ 8,604,167 | \$ 1,434,161 | \$ (285,850) | \$ 9,752,478 |
| Construction in progress | 32,317,954 | 16,843,664 | (33,043,476) | 16,118,142 |
| Total capital assets not being depreciated | 40,922,121 | 18,277,825 | (33,329,326) | 25,870,620 |
| Buildings and improvements | 225,928,279 | 30,993,621 | (4,373,570) | 252,548,330 |
| Equipment | 6,874,871 | 514,849 | (128,340) | 7,261,380 |
| | 232,803,150 | 31,508,470 | (4,501,910) | 259,809,710 |
| Less: Accumulated depreciation | (49,733,029) | (10,316,352) | 1,705,079 | (58,344,302) |
| Total capital assets being depreciated | 183,070,121 | 21,192,118 | (2,796,831) | 201,465,408 |
| Total capital assets, net | \$ 223,992,242 | \$ 39,469,943 | \$ (36,126,157) | \$ 227,336,028 |

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

Summarized notes payable – Discretely presented component units

Notes payable of the discretely presented component units consist of the following:

| | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|---|--------------------------|--------------------------|
| Notes payable - General Partner | \$ 140,281,818 | \$ 148,460,219 |
| Mortgages and other housing related notes | 56,383,272 | 45,566,751 |
| Total Notes payable | <u>\$ 196,665,090</u> | <u>\$ 194,026,970</u> |

A summary of activity of the discretely presented component units' notes payable is as follows:

| <u>Balance</u> <u>December 31, 2009</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance</u> <u>December 31, 2010</u> |
|--|-----------------|-----------------|--|
| \$ 194,026,970 | \$ 16,663,097 | \$ (14,024,977) | \$ 196,665,090 |

| <u>Balance</u> <u>December 31, 2008</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance</u> <u>December 31, 2009</u> |
|--|-----------------|-----------------|--|
| \$ 189,372,175 | \$ 43,553,636 | \$ (38,898,841) | \$ 194,026,970 |

19. COMMITMENTS AND CONTINGENCIES

Leases - At March 31, 2011, the Authority has approximately 8,400 dwelling units under lease to Section 8 landlords. The terms of these leases extend up to one year. Additionally, the Authority has placed public housing units inside tax credit properties and support these units with public housing subsidy transfers to those properties. Housing assistance payments under these leases or public housing subsidy transfers, including FSS program contributions, for the years ended March 31, 2011 and 2010 were approximately \$65,583,000 and \$62,347,000, respectively.

Construction Commitments - At March 31, 2011, the Authority had construction commitments of approximately \$5,106,000.

Other Commitments - N4C has transferred property to the Boys and Girls Club of Portland in accordance with an agreement whereby N4C retains the title to the property until certain conditions are met no later than 2012.

Contingent Liabilities - The Authority has entered into long-term use agreements with the City of Portland, Multnomah County and the State of Oregon in exchange for development funds for group homes and other projects. These agreements expire between 2019 and 2065. Repayment of an amortized portion of these funds is required if the Authority does not use the properties according to their intended purposes. The Authority has not and does not intend to violate those agreements. The liability, if recorded, would be approximately \$5,897,000.

General Partner Operating Deficit Guarantees - In relation to the performance of the tax credit partnerships for which the Authority is the general partner, the Authority has agreed to provide certain levels of funding in the event of partnership operating deficits that exceed operating reserves. The maximum amount required to fund excess operating deficits ranges from zero to the total amount of the excess operating deficit for a single partnership. As of March 31, 2011, no additional liability existed relating to excess operating deficits for any of the partnerships.

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

20. RISK MANAGEMENT

The Authority operates in an industry subject to various risks of loss related to torts, theft, damage, destruction, errors and omissions, injuries to employees or participants, and natural disasters. As such, the Authority utilizes several insurance providers to reduce agency risk of loss.

The Authority is a member of the Housing Authorities Risk Retention Pool (“HARRP”), a risk pool currently operating as a common risk management and insurance program for approximately 90 public housing authorities throughout California, Nevada, Oregon and Washington. HARRP is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of predetermined limits for each insured event. Risks insured for public housing properties include blanket coverage for buildings and business personal property of approximately \$259,698,000 and \$7,183,000 respectively. HARRP coverage as of March 31, 2011, includes:

| <u>Liabilities</u> | <u>Deductible</u> | <u>Coverage</u> |
|------------------------------|-------------------|-----------------|
| Property liability | \$ 5,000 | \$ 2,000,000 |
| Employee dishonesty | 1,000 | 1,000,000 |
| Forgery or Alteration | 1,000 | 1,000,000 |
| Theft of money or securities | 1,000 | 100,000 |
| Business auto liability | 250 | 1,000,000 |

For Authority owned affordable properties (non-public housing), the Authority uses Nielsen Insurance to provide commercial insurance. Nielsen Insurance provides blanket coverage for buildings and business personal property of approximately \$284,678,000 and \$1,111,500, respectively. Depending on the building, general liability coverage is either \$1,000,000 per incident/\$2,000,000 aggregate or \$2,000,000 per incident/\$4,000,000 aggregate. Additionally, several properties have umbrella liability coverage that increases coverage to up to \$2,000,000 to \$5,000,000.

The Authority contracts with Liberty Northwest to provide Worker’s Compensation and Employer Liability coverage of \$1,000,000 per incident with no deductible.

There have been no significant modifications in coverage in insurance coverage from the previous year and settlements have not exceeded coverage during the last three years. Additionally, the Authority has no recorded claims liability as of March 31, 2011 and 2010.

21. RESTATEMENT

On June 2008, GASB issued Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*. This Statement, effective for financial statements of period beginning after June 15, 2009, addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments and requires the fair value of derivative instrument arrangements be reported in the financial statements. If a derivative effectively hedges a specific risk of fluctuating cash flows or fair values, then the annual changes in fair value are deferred (reported as deferred inflows and outflows on the statement of net assets) until the hedged transaction occurs or the point at which the derivative is no longer effective. The Authority believes its derivatives are, and have been, effectively hedged and, as a result, are required to restate the statements of net assets and net assets for prior years.

HOUSING AUTHORITY OF PORTLAND

NOTES TO FINANCIAL STATEMENTS

Years Ended March 31, 2011 and 2010

| | As previously reported March 31, 2010 | As restated March 31, 2010 | As previously reported March 31, 2009 | As restated March 31, 2009 |
|------------------------------|--|---------------------------------------|--|---------------------------------------|
| INCREASE IN NET ASSETS | \$ 21,815,934 | \$ 21,532,776 | \$ 10,407,416 | \$ 11,842,923 |
| NET ASSETS—Beginning of year | <u>160,853,552</u> | <u>162,289,059</u> | <u>150,446,136</u> | <u>150,446,136</u> |
| NET ASSETS—End of year | <u><u>\$ 182,669,486</u></u> | <u><u>\$ 183,821,835</u></u> | <u><u>\$ 160,853,552</u></u> | <u><u>\$ 162,289,059</u></u> |

22. SUBSEQUENT EVENTS

On May 18, 2011 the Authority changed its legal name from Housing Authority of Portland to Home Forward. Housing Authority of Portland is now a DBA of Home Forward.

On May 23, 2011, the Authority was awarded an \$18.5 million HOPE VI Revitalization Grant from the U.S. Department of Housing and Urban Development (HUD) to implement a comprehensive redevelopment of the Hillsdale Terrace public housing property. Hillsdale Terrace is comprised of 60 three-bedroom public housing units, which will be removed and replaced with 122 units of varying bedroom sizes. An additional seven off-site homes, developed in partnership with Habitat for Humanity, will be available for first-time homeowners. The redevelopment will incorporate sustainable and green building features, a community garden/urban farm space, a community center for residents and neighbors, and more open space and play area. The total development is estimated at \$47.3 million and Home Forward anticipates providing \$7.0 million in proceeds to the project.

The Authority has evaluated subsequent events through September 12, 2011, the date on which the financial statements were issued. Other than as discussed above, during this period no material subsequent events occurred which would require recognition or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

HOUSING AUTHORITY OF PORTLAND

REQUIRED SUPPLEMENTARY INFORMATION

Years Ended March 31, 2011 and 2010

SCHEDULES OF FUNDING PROGRESS

Schedule of funding progress presented below provides a consolidated review of the Authority's ability to meet current and future liabilities with the plan assets.

Schedule of funding progress – OPERS Pension Benefits

The latest actuarial valuation performed as of:

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Unfunded Actuarial Accrued Liability (UAAL)</u> | <u>Funded ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|---|--|--|--|-------------------------|----------------------------|--|
| 12/31/2009 | \$ 45,261,838 | \$ 55,879,567 | \$ 10,617,729 | 81% | \$ 13,438,754 | 79% |
| 12/31/2008 | 39,584,672 | 53,425,920 | 13,841,248 | 74% | 12,167,778 | 114% |
| 12/31/2007 | 53,285,995 | 51,981,581 | (1,304,414) | 103% | 11,194,312 | (12%) |

Schedule of Funding Progress – OPEB Implicit Benefit subsidy

The last actuarial report performed as of:

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Unfunded Actuarial Accrued Liability (UAAL)</u> | <u>Funded ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|---|--|--|--|-------------------------|----------------------------|--|
| 3/31/2011 | \$ - | \$ 912,321 | \$ 912,321 | 0% | \$ 13,500,000 | 7% |
| 3/31/2010 | - | 1,115,771 | 1,115,771 | 0% | 12,200,000 | 9% |
| 3/31/2009 | - | 1,022,034 | 1,022,034 | 0% | 11,200,000 | 9% |

OTHER SUPPLEMENTARY INFORMATION

As of and for the year ended March 31, 2011

HOUSING AUTHORITY OF PORTLAND

COMBINING SCHEDULE OF NET ASSETS/(DEFICIT) - AFFORDABLE HOUSING

As of March 31, 2011

| | Grace Peck Terrace | Multnomah Manor | The Plaza | Rosenbaum Plaza | St. Johns Woods | Unthank Plaza | Helen Swindells | Dawson Park |
|--|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| ASSETS AND DEFERRED OUTFLOWS | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | |
| Cash and cash equivalents | \$ 3,931,676 | \$ (59,207) | \$ (145,673) | \$ 1,545,934 | \$ 177,692 | \$ 2,326,318 | \$ (128,229) | \$ (333,126) |
| Cash and cash equivalents - Restricted | 179,581 | 296,561 | 582,272 | 63,461 | 31,992 | 229,096 | 599,790 | 183,459 |
| Investments | - | - | - | - | - | - | - | - |
| Investments - Restricted | - | - | - | - | - | - | - | 192,000 |
| Accounts receivable- net | 13,448 | 797 | 1,629 | 1,450 | 8,718 | 3,741 | 19,257 | 974 |
| Interproperty receivable | - | - | - | - | - | - | - | - |
| Prepaid expenses | 2,160 | 1,460 | 2,483 | 2,688 | 6,197 | 1,997 | 14,686 | 5,360 |
| Current portion of notes receivable-partnerships | - | - | - | - | - | - | - | - |
| | <u>4,126,865</u> | <u>239,611</u> | <u>440,711</u> | <u>1,613,533</u> | <u>224,599</u> | <u>2,561,152</u> | <u>505,504</u> | <u>48,667</u> |
| NON-CURRENT ASSETS: | | | | | | | | |
| Investment- Restricted | - | - | - | - | 829,207 | - | - | - |
| Due from partnerships, net | - | - | - | - | - | - | - | - |
| Notes receivable and accrued interest receivable | - | - | - | - | - | - | - | - |
| Notes receivable -partnerships | - | - | - | - | 91,670 | - | - | - |
| Deferred charges, net | - | 29,242 | - | - | - | - | 13,615 | 42,840 |
| Investment in partnerships | - | - | - | - | - | - | - | - |
| Capital assets not being depreciated | 157,489 | 310,301 | 290,536 | 50,000 | 793,538 | 105,335 | 432,881 | 138,456 |
| Capital assets being depreciated, net | 637,735 | 1,768,132 | 1,411,241 | 622,560 | 2,662,074 | 445,004 | 2,372,239 | 1,655,280 |
| | <u>795,224</u> | <u>2,107,675</u> | <u>1,701,777</u> | <u>672,560</u> | <u>4,376,489</u> | <u>550,339</u> | <u>2,818,735</u> | <u>1,836,576</u> |
| TOTAL ASSETS BEFORE DEFERRED OUTFLOWS | <u>4,922,089</u> | <u>2,347,286</u> | <u>2,142,488</u> | <u>2,286,093</u> | <u>4,601,088</u> | <u>3,111,491</u> | <u>3,324,239</u> | <u>1,885,243</u> |
| Deferred outflows on derivative investments | - | - | - | - | - | - | - | - |
| TOTAL ASSETS AND DEFERRED OUTFLOWS | <u>\$ 4,922,089</u> | <u>\$ 2,347,286</u> | <u>\$ 2,142,488</u> | <u>\$ 2,286,093</u> | <u>\$ 4,601,088</u> | <u>\$ 3,111,491</u> | <u>\$ 3,324,239</u> | <u>\$ 1,885,243</u> |

HOUSING AUTHORITY OF PORTLAND

COMBINING SCHEDULE OF NET ASSETS/(DEFICIT) - AFFORDABLE HOUSING

As of March 31, 2011

| | Grace Peck Terrace | Multnomah Manor | The Plaza | Rosenbaum Plaza | St. Johns Woods | Unthank Plaza | Helen Swindells | Dawson Park |
|---|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| LIABILITIES AND NET ASSETS | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | |
| Accounts payable | \$ - | \$ 5,450 | \$ 51,425 | \$ 1,530 | \$ 24,028 | \$ 3,181 | \$ 51,295 | \$ 17,050 |
| Accrued interest payable | - | 7,016 | 1,998 | - | 46,935 | - | 1,819 | 52,698 |
| Other accrued liabilities | 13,500 | - | 10,080 | 10,625 | 817 | 9,000 | 3,163 | - |
| Deferred revenue | 2,078 | 368 | 710 | 4,916 | 1,000 | 1,465 | 2,215 | 3,954 |
| Deposits, payable from restricted assets | 16,989 | 22,380 | 17,806 | 6,813 | 23,170 | 13,799 | 38,564 | 28,752 |
| Current portion of bonds payable-partnerships | - | - | - | - | - | - | - | - |
| Current portion of notes and bonds payable | - | 22,006 | 62,999 | - | 130,000 | - | 21,433 | 75,000 |
| | <u>32,567</u> | <u>57,220</u> | <u>145,018</u> | <u>23,884</u> | <u>225,950</u> | <u>27,445</u> | <u>118,489</u> | <u>177,454</u> |
| NON-CURRENT LIABILITIES: | | | | | | | | |
| Notes payable | - | 1,225,223 | 279,556 | - | - | - | 2,312,433 | 479,526 |
| Bonds payable | - | - | - | - | 3,463,528 | - | - | 1,798,584 |
| Bonds payable-partnerships | - | - | - | - | - | - | - | - |
| Bonds payable- conduit financing | - | - | - | - | - | - | - | - |
| Accrued interest - long-term | - | - | - | - | - | - | 1,009,257 | 64,519 |
| Other liabilities | - | - | - | - | - | - | - | - |
| | <u>-</u> | <u>1,225,223</u> | <u>279,556</u> | <u>-</u> | <u>3,463,528</u> | <u>-</u> | <u>3,321,690</u> | <u>2,342,629</u> |
| Derivative instruments | - | - | - | - | - | - | - | - |
| Total liabilities | <u>32,567</u> | <u>1,282,443</u> | <u>424,574</u> | <u>23,884</u> | <u>3,689,478</u> | <u>27,445</u> | <u>3,440,179</u> | <u>2,520,083</u> |
| NET ASSETS (DEFICIT) | <u>4,889,522</u> | <u>1,064,843</u> | <u>1,717,914</u> | <u>2,262,209</u> | <u>911,610</u> | <u>3,084,046</u> | <u>(115,940)</u> | <u>(634,840)</u> |
| TOTAL LIABILITIES AND NET ASSETS/(DEFICIT) | <u>\$ 4,922,089</u> | <u>\$ 2,347,286</u> | <u>\$ 2,142,488</u> | <u>\$ 2,286,093</u> | <u>\$ 4,601,088</u> | <u>\$ 3,111,491</u> | <u>\$ 3,324,239</u> | <u>\$ 1,885,243</u> |

HOUSING AUTHORITY OF PORTLAND

COMBINING SCHEDULE OF NET ASSETS/(DEFICIT) - AFFORDABLE HOUSING

As of March 31, 2011

| | Pearl Court | Fenwick Avenue | Ainsworth Court | Fairview Oaks | Rockwood Station | Pine Square | University Place | Ash Creek |
|--|---------------------|---------------------|---------------------|----------------------|---------------------|-----------------------|---------------------|---------------------|
| ASSETS AND DEFERRED OUTFLOWS | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | |
| Cash and cash equivalents | \$ 459,565 | \$ (150,548) | \$ (611,880) | \$ (323,032) | \$ 1,025,370 | \$ (1,579,321) | \$ (727,673) | \$ (102,000) |
| Cash and cash equivalents - Restricted | 244,353 | 71,745 | 163,915 | 438,301 | 260,663 | - | - | 45,099 |
| Investments | - | - | - | - | - | - | - | - |
| Investments - Restricted | - | - | - | - | - | - | - | - |
| Accounts receivable- net | 703 | 2,175 | 78,640 | 13,450 | 2,810 | - | - | 2,262 |
| Interproperty receivable | - | - | - | - | - | 174,860 | (174,860) | - |
| Prepaid expenses | 11,718 | 359 | 4,755 | 52,996 | 25,350 | 375 | - | 1,120 |
| Current portion of notes receivable-partnerships | - | - | - | - | - | - | - | - |
| | <u>716,339</u> | <u>(76,269)</u> | <u>(364,570)</u> | <u>181,715</u> | <u>1,314,193</u> | <u>(1,404,086)</u> | <u>(902,533)</u> | <u>(53,519)</u> |
| NON-CURRENT ASSETS: | | | | | | | | |
| Investment- Restricted | 475,941 | - | 690,367 | - | - | - | - | - |
| Due from partnerships, net | - | - | - | - | - | - | - | - |
| Notes receivable and accrued interest receivable | - | - | - | - | - | - | - | - |
| Notes receivable -partnerships | - | - | - | - | - | - | - | - |
| Deferred charges, net | 126,380 | 18,683 | 50,488 | 227,511 | 114,114 | - | - | 22,210 |
| Investment in partnerships | - | - | - | - | - | - | - | - |
| Capital assets not being depreciated | 766,151 | 292,240 | 1,304,319 | 943,432 | 702,000 | - | - | 363,581 |
| Capital assets being depreciated, net | 5,358,474 | 2,365,994 | 1,587,764 | 9,383,578 | 4,386,250 | - | - | 1,819,326 |
| | <u>6,726,946</u> | <u>2,676,917</u> | <u>3,632,938</u> | <u>10,554,521</u> | <u>5,202,364</u> | <u>-</u> | <u>-</u> | <u>2,205,117</u> |
| TOTAL ASSETS BEFORE DEFERRED OUTFLOWS | <u>7,443,285</u> | <u>2,600,648</u> | <u>3,268,368</u> | <u>10,736,236</u> | <u>6,516,557</u> | <u>(1,404,086)</u> | <u>(902,533)</u> | <u>2,151,598</u> |
| Deferred outflows on derivative investments | - | - | - | - | - | - | - | 88,645 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS | <u>\$ 7,443,285</u> | <u>\$ 2,600,648</u> | <u>\$ 3,268,368</u> | <u>\$ 10,736,236</u> | <u>\$ 6,516,557</u> | <u>\$ (1,404,086)</u> | <u>\$ (902,533)</u> | <u>\$ 2,240,243</u> |

HOUSING AUTHORITY OF PORTLAND

COMBINING SCHEDULE OF NET ASSETS/(DEFICIT) - AFFORDABLE HOUSING

As of March 31, 2011

| | Pearl Court | Fenwick Avenue | Ainsworth Court | Fairview Oaks | Rockwood Station | Pine Square | University Place | Ash Creek |
|---|---------------------|---------------------|---------------------|----------------------|---------------------|-----------------------|---------------------|---------------------|
| LIABILITIES AND NET ASSETS | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | |
| Accounts payable | \$ 38,950 | \$ 23,929 | \$ 36,472 | \$ 3,117 | \$ 2,211 | \$ - | \$ - | \$ 5,508 |
| Accrued interest payable | 61,854 | 4,929 | 39,451 | 51,737 | 20,782 | - | - | 7,538 |
| Other accrued liabilities | - | - | - | 2,500 | - | - | - | 88,645 |
| Deferred revenue | 15,334 | 498 | 3,189 | 11,075 | 6,870 | - | - | 5 |
| Deposits, payable from restricted assets | 86,862 | 9,100 | 48,664 | 268,249 | 84,010 | - | - | 8,000 |
| Current portion of bonds payable-partnerships | - | - | - | - | - | - | - | - |
| Current portion of notes and bonds payable | 291,482 | 42,484 | 100,000 | 157,777 | 63,377 | - | - | 52,764 |
| | 494,482 | 80,940 | 227,776 | 494,455 | 177,250 | - | - | 162,460 |
| NON-CURRENT LIABILITIES: | | | | | | | | |
| Notes payable | 1,032,123 | 2,742,075 | - | 11,275,883 | 4,529,380 | - | - | 2,165,516 |
| Bonds payable | 5,075,000 | - | 2,612,787 | - | - | (792,898) | - | - |
| Bonds payable-partnerships | - | - | - | - | - | - | - | - |
| Bonds payable- conduit financing | - | - | - | - | - | - | - | - |
| Accrued interest - long-term | 328,681 | - | - | - | - | - | - | - |
| Other liabilities | - | - | - | - | - | - | - | - |
| | 6,435,804 | 2,742,075 | 2,612,787 | 11,275,883 | 4,529,380 | (792,898) | - | 2,165,516 |
| Derivative instruments | - | - | - | - | - | - | - | 88,645 |
| Total liabilities | 6,930,286 | 2,823,015 | 2,840,563 | 11,770,338 | 4,706,630 | (792,898) | - | 2,327,976 |
| NET ASSETS (DEFICIT) | 512,999 | (222,367) | 427,805 | (1,034,102) | 1,809,927 | (611,188) | (902,533) | (87,733) |
| TOTAL LIABILITIES AND NET ASSETS/(DEFICIT) | <u>\$ 7,443,285</u> | <u>\$ 2,600,648</u> | <u>\$ 3,268,368</u> | <u>\$ 10,736,236</u> | <u>\$ 6,516,557</u> | <u>\$ (1,404,086)</u> | <u>\$ (902,533)</u> | <u>\$ 2,240,243</u> |

HOUSING AUTHORITY OF PORTLAND
COMBINING SCHEDULE OF NET ASSETS/(DEFICIT) - AFFORDABLE HOUSING

As of March 31, 2011

| | Willow Tree | Schiller Way | Peter Paulson | Hillside Duplexs | Trouton Commercial | Affordable Housing Management | Eliminations | Totals |
|--|---------------------|---------------------|---------------------|-------------------|--------------------|-------------------------------|--------------------|-----------------------|
| ASSETS AND DEFERRED OUTFLOWS | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | |
| Cash and cash equivalents | \$ (176,549) | \$ (340,469) | \$ (192,699) | \$ 16,488 | \$ (61,737) | \$ (2,906,571) | \$ (43,207) | \$ 1,601,122 |
| Cash and cash equivalents - Restricted Investments | 99,348 | 56,323 | 325,116 | 2,390 | - | 510,226 | - | 3,873,465 |
| Investments - Restricted | - | - | - | - | - | - | - | 510,226 |
| Accounts receivable- net | 747 | 1,401 | 4,868 | - | 3,203 | 40,195 | - | 192,000 |
| Interproperty receivable | - | - | - | - | - | - | - | 200,468 |
| Prepaid expenses | 836 | 829 | 3,971 | 2,507 | 938 | - | - | 142,785 |
| Current portion of notes receivable-partnerships | - | - | - | - | - | 721,424 | - | 721,424 |
| | <u>(75,618)</u> | <u>(281,916)</u> | <u>141,256</u> | <u>21,385</u> | <u>(57,596)</u> | <u>(1,634,726)</u> | <u>(43,207)</u> | <u>7,241,490</u> |
| NON-CURRENT ASSETS: | | | | | | | | |
| Investment- Restricted | - | - | - | - | - | - | - | 1,995,515 |
| Due from partnerships, net | - | - | - | - | - | (95,988) | - | (95,988) |
| Notes receivable and accrued interest receivable | - | - | - | - | - | 9,807,556 | - | 9,807,556 |
| Notes receivable -partnerships | - | - | - | - | - | 35,412,958 | - | 35,412,958 |
| Deferred charges, net | 20,435 | - | 1,944 | - | - | - | - | 759,132 |
| Investment in partnerships | - | - | - | - | - | 959,317 | - | 959,317 |
| Capital assets not being depreciated | 162,767 | 48,706 | 285,850 | 471,500 | - | - | - | 7,619,082 |
| Capital assets being depreciated, net | 1,621,014 | 1,583,006 | 2,590,729 | 383,578 | 12,643 | - | - | 42,666,621 |
| | <u>1,804,216</u> | <u>1,631,712</u> | <u>2,878,523</u> | <u>855,078</u> | <u>12,643</u> | <u>46,083,843</u> | <u>-</u> | <u>99,124,193</u> |
| TOTAL ASSETS BEFORE DEFERRED OUTFLOWS | <u>1,728,598</u> | <u>1,349,796</u> | <u>3,019,779</u> | <u>876,463</u> | <u>(44,953)</u> | <u>44,449,117</u> | <u>(43,207)</u> | <u>\$ 106,365,683</u> |
| Deferred outflows on derivative investments | - | - | - | - | - | - | - | \$ 88,645 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS | <u>\$ 1,728,598</u> | <u>\$ 1,349,796</u> | <u>\$ 3,019,779</u> | <u>\$ 876,463</u> | <u>\$ (44,953)</u> | <u>\$ 44,449,117</u> | <u>\$ (43,207)</u> | <u>\$ 106,454,328</u> |

HOUSING AUTHORITY OF PORTLAND
COMBINING SCHEDULE OF NET ASSETS/(DEFICIT) - AFFORDABLE HOUSING

As of March 31, 2011

| | Willow Tree | Schiller Way | Peter Paulson | Hillside Duplexs | Troun Commercial | Affordable Housing Management | Eliminations | Totals |
|---|---------------------|---------------------|---------------------|-------------------|--------------------|-------------------------------|--------------------|-----------------------|
| LIABILITIES AND NET ASSETS | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | |
| Accounts payable | \$ 10,117 | \$ 8,369 | \$ 15,094 | \$ 1,147 | \$ 981 | \$ 96,473 | \$ - | \$ 396,327 |
| Accrued interest payable | 3,040 | 2,890 | 0 | - | - | - | - | 302,688 |
| Other accrued liabilities | - | - | - | 2,560 | - | 43,176 | - | 184,066 |
| Deferred revenue | 971 | 549 | 7,473 | 31 | 2,380 | 60,713 | - | 125,794 |
| Deposits, payable from restricted assets | 6,276 | 6,776 | 37,125 | 2,390 | - | - | - | 725,725 |
| Current portion of bonds payable-partnerships | - | - | - | - | - | 721,424 | - | 721,424 |
| Current portion of notes and bonds payable | 20,822 | 42,071 | - | - | - | - | - | 1,082,215 |
| | 41,226 | 60,655 | 59,692 | 6,128 | 3,361 | 921,786 | - | 3,538,239 |
| NON-CURRENT LIABILITIES: | | | | | | | | |
| Notes payable | 863,233 | 1,324,364 | 1,960,936 | - | - | 5,824,861 | - | 36,015,109 |
| Bonds payable | - | - | - | - | - | - | - | 12,157,001 |
| Bonds payable-partnerships | - | - | - | - | - | 35,412,958 | - | 35,412,958 |
| Bonds payable- conduit financing | - | - | 1,150,659 | - | - | - | - | - |
| Accrued interest - long-term | - | - | - | - | - | 7,263 | - | 2,553,115 |
| Other liabilities | 863,233 | 1,324,364 | 3,111,595 | - | - | 41,245,082 | - | 86,145,446 |
| Derivative instruments | - | - | - | - | - | - | - | 88,645 |
| Total liabilities | 904,459 | 1,385,019 | 3,171,287 | 6,128 | 3,361 | 42,166,868 | - | 89,683,685 |
| NET ASSETS (DEFICIT) | 824,139 | (35,223) | (151,508) | 870,335 | (48,314) | 2,282,249 | (43,207) | 16,770,643 |
| TOTAL LIABILITIES AND NET ASSETS/(DEFICIT) | <u>\$ 1,728,598</u> | <u>\$ 1,349,796</u> | <u>\$ 3,019,779</u> | <u>\$ 876,463</u> | <u>\$ (44,953)</u> | <u>\$ 44,449,117</u> | <u>\$ (43,207)</u> | <u>\$ 106,454,328</u> |

HOUSING AUTHORITY OF PORTLAND

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - AFFORDABLE HOUSING

Year ended March 31, 2011

| | Grace Peck Terrace | Multnomah Manor | The Plaza | Rosenbaum Plaza | St. Johns Woods | Unthank Plaza | Helen Swindells | Dawson Park |
|--|-----------------------|---------------------|---------------------|---------------------|--------------------|---------------------|---------------------|---------------------|
| OPERATING REVENUES: | | | | | | | | |
| Dwelling rental | \$ 224,563 | \$ 212,568 | \$ 146,305 | \$ 161,215 | \$ 257,386 | \$ 158,547 | \$ 397,989 | \$ 406,263 |
| Non-dwelling rental | 18,214 | - | - | 56,407 | - | 3,640 | 120,005 | - |
| HUD operating subsidies | 604,457 | 176,277 | 525,337 | 450,312 | 821,482 | 590,451 | - | - |
| HUD grants | - | - | - | - | - | - | - | - |
| ARRA revenue | - | - | - | 28,956 | - | 54,512 | - | - |
| Other | 9,539 | 9,332 | 8,233 | 9,266 | 124,420 | 193,173 | 39,848 | 13,811 |
| | <u>856,773</u> | <u>398,177</u> | <u>679,875</u> | <u>706,156</u> | <u>1,203,288</u> | <u>1,000,323</u> | <u>557,842</u> | <u>420,074</u> |
| OPERATING EXPENSES: | | | | | | | | |
| Housing assistance payments | 1,819 | 2,157 | 9,024 | - | 15,998 | 2,892 | - | - |
| Administration | 211,678 | 81,170 | 260,884 | 264,535 | 265,216 | 424,019 | 222,945 | 117,823 |
| Tenant services | - | - | 491 | 5,509 | - | 2,400 | 5,994 | - |
| Utilities | 69,827 | 62,064 | 83,478 | 97,445 | 261,726 | 55,467 | 80,723 | 50,427 |
| Maintenance | 144,517 | 92,960 | 286,889 | 179,062 | 224,215 | 150,462 | 158,449 | 85,785 |
| Depreciation | 81,483 | 86,575 | 123,463 | 78,167 | 122,140 | 51,935 | 106,557 | 118,801 |
| General | 17,512 | 10,683 | 1,157 | 20,545 | 32,492 | 15,340 | 39,062 | 8,180 |
| | <u>526,836</u> | <u>335,609</u> | <u>765,386</u> | <u>645,263</u> | <u>921,787</u> | <u>702,515</u> | <u>613,730</u> | <u>381,016</u> |
| OPERATING INCOME (LOSS) | 329,937 | 62,568 | (85,511) | 60,893 | 281,501 | 297,808 | (55,888) | 39,058 |
| NONOPERATING REVENUES (EXPENSES): | | | | | | | | |
| Investment income | 1,701 | 1,500 | 52,692 | 396 | 52,476 | 2,047 | 1,375 | 681 |
| Interest expense | - | (84,832) | (25,888) | - | (199,305) | - | (85,165) | (119,510) |
| Investment in partnership valuation change | - | - | - | - | (5,023) | - | - | (552,588) |
| Amortization | - | (1,236) | - | - | (11,573) | - | (5,828) | (2,481) |
| Loss on disposal of assets | - | (5,294) | (65,265) | - | (163,425) | - | - | - |
| | <u>1,701</u> | <u>(89,862)</u> | <u>(38,461)</u> | <u>396</u> | <u>(163,425)</u> | <u>2,047</u> | <u>(89,618)</u> | <u>(673,898)</u> |
| CAPITAL CONTRIBUTIONS: | | | | | | | | |
| Other nonoperating contributions | - | - | - | - | - | - | - | - |
| TRANSFERS | - | - | - | - | - | - | - | - |
| INCREASE (DECREASE) IN NET ASSETS | 331,638 | (27,294) | (123,972) | 61,289 | 118,076 | 299,855 | (145,506) | (634,840) |
| NET ASSETS (DEFICIT)-Beginning of year (as previously reported) | 4,557,884 | 1,092,137 | 1,841,886 | 2,200,920 | 793,534 | 2,784,191 | 29,566 | - |
| Prior Period Adjustment | - | - | - | - | - | - | - | - |
| NET ASSETS-Beginning of year (as restated) | 4,557,884 | 1,092,137 | 1,841,886 | 2,200,920 | 793,534 | 2,784,191 | 29,566 | - |
| NET ASSETS (DEFICIT)-End of year | \$ 4,889,522 | \$ 1,064,843 | \$ 1,717,914 | \$ 2,262,209 | \$ 911,610 | \$ 3,084,046 | \$ (115,940) | \$ (634,840) |

HOUSING AUTHORITY OF PORTLAND

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - AFFORDABLE HOUSING

Year ended March 31, 2011

| | Pearl Court | Fenwick Avenue | Ainsworth Court | Fairview Oaks | Rockwood Station | Pine Square | Ash Creek | Willow Tree |
|---|-------------------|---------------------|--------------------|-----------------------|---------------------|---------------------|--------------------|-------------------|
| OPERATING REVENUES: | | | | | | | | |
| Dwelling rental | \$ 1,281,287 | \$ 212,103 | \$ 682,246 | \$ 2,570,729 | \$ 1,369,049 | \$ 307,556 | \$ 301,686 | \$ 150,306 |
| Non-dwelling rental | 13,233 | - | - | 27,607 | 20,748 | 4,340 | - | - |
| HUD operating subsidies | - | - | - | 154,253 | 96,408 | - | - | - |
| HUD grants | - | - | - | - | - | - | - | - |
| ARRA revenue | - | - | - | - | - | - | - | - |
| Other | 49,444 | 6,398 | 28,053 | 94,542 | 41,494 | 18,415 | 7,053 | 13,677 |
| | 1,343,964 | 218,501 | 710,299 | 2,847,131 | 1,527,699 | 330,311 | 308,739 | 163,983 |
| OPERATING EXPENSES: | | | | | | | | |
| Housing assistance payments | - | - | - | 8,040 | 3,799 | - | - | - |
| Administration | 255,417 | 55,113 | 101,497 | 462,218 | 371,957 | 54,027 | 38,485 | 36,600 |
| Tenant services | 19 | - | 271 | - | - | - | - | - |
| Utilities | 143,168 | 36,386 | 107,073 | 288,654 | 101,828 | 50,760 | 44,930 | 33,715 |
| Maintenance | 197,927 | 25,566 | 124,082 | 629,822 | 362,602 | 59,909 | 29,227 | 26,872 |
| Depreciation | 347,957 | 79,885 | 95,315 | 447,871 | 234,834 | - | 63,770 | 69,096 |
| General | 27,242 | 5,556 | 8,977 | 151,723 | 94,991 | 2,882 | 4,478 | 11,096 |
| | 971,730 | 202,506 | 437,215 | 1,988,328 | 1,170,011 | 167,578 | 180,890 | 177,379 |
| OPERATING INCOME (LOSS) | 372,234 | 15,995 | 273,084 | 858,803 | 357,688 | 162,733 | 127,849 | (13,396) |
| NONOPERATING REVENUES (EXPENSES): | | | | | | | | |
| Investment income | 22,419 | 173 | 35,588 | 549 | 469 | 4,873 | 245 | 298 |
| Interest expense | (253,479) | (59,837) | (163,186) | (624,604) | (250,894) | (414,780) | (93,918) | (36,852) |
| Investment in partnership valuation charge | 379,471 | - | - | - | - | - | - | - |
| Amortization | (7,646) | (781) | (2,889) | (7,647) | (3,836) | (1,789) | (962) | (817) |
| Loss on disposal of assets | - | - | (40,212) | (14,973) | (26,677) | 594,735 | (2,101) | - |
| | 140,765 | (60,445) | (170,699) | (646,675) | (280,938) | 183,039 | (96,736) | (37,371) |
| CAPITAL CONTRIBUTIONS: | | | | | | | | |
| Other nonoperating contributions | - | - | 189,065 | - | - | - | - | - |
| TRANSFERS | | | | | | | | |
| INCREASE (DECREASE) IN NET ASSETS | 512,999 | (44,450) | 291,450 | 211,520 | 76,750 | 345,772 | 31,113 | (50,767) |
| NET ASSETS (DEFICIT)-Beginning of year (as previously reported) | - | (177,917) | 136,355 | (1,245,622) | 1,733,177 | (956,960) | (182,487) | 874,906 |
| Prior Period Adjustment | - | - | - | - | - | - | 63,641 | - |
| NET ASSETS-Beginning of year (as restated) | - | (177,917) | 136,355 | (1,245,622) | 1,733,177 | (956,960) | (118,846) | 874,906 |
| NET ASSETS (DEFICIT)-End of year | \$ 512,999 | \$ (222,367) | \$ 427,805 | \$ (1,034,102) | \$ 1,809,927 | \$ (611,188) | \$ (87,733) | \$ 824,139 |

HOUSING AUTHORITY OF PORTLAND

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - AFFORDABLE HOUSING

Year ended March 31, 2011

| | Schiller Way | Peter Paulson | Hillsdale Duplexes | Trouton Commercial | Affordable Housing Management | Eliminations | Civic Apartments | Village Court |
|--|-----------------|------------------|-----------------------|-----------------------|-------------------------------------|--------------|---------------------|---------------|
| OPERATING REVENUES: | | | | | | | | |
| Dwelling rental | \$ 174,041 | \$ 484,948 | \$ 24,728 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Non-dwelling rental | 36,600 | - | - | 74,102 | 85,044 | - | - | - |
| HUD operating subsidies | - | - | - | - | 158,077 | - | - | - |
| HUD grants | - | - | - | - | 64,872 | - | - | - |
| ARRA revenue | - | - | - | - | - | - | - | - |
| Other | 3,461 | 24,112 | 17 | 13,416 | 1,138,948 | (199,680) | - | - |
| | 214,102 | 509,060 | 24,745 | 87,518 | 1,446,941 | (199,680) | - | - |
| OPERATING EXPENSES: | | | | | | | | |
| Housing assistance payments | - | - | - | - | - | - | - | - |
| Administration | 43,442 | 193,918 | 2,098 | 78,067 | 1,265,433 | (199,680) | - | - |
| Tenant services | - | - | - | - | 299,136 | - | - | - |
| Utilities | 42,555 | 82,879 | 1,719 | 9,626 | - | - | - | - |
| Maintenance | 40,430 | 113,207 | 3,524 | 9,911 | 2,759 | - | - | - |
| Depreciation | 56,447 | 111,840 | 4,038 | 5,948 | - | - | - | - |
| General | 6,885 | 10,365 | 4,379 | 1,714 | 767,159 | - | - | - |
| | 189,759 | 512,209 | 15,758 | 105,266 | 2,334,487 | (199,680) | - | - |
| | 24,343 | (3,149) | 8,987 | (17,748) | (887,546) | - | - | - |
| NONOPERATING REVENUES (EXPENSES): | | | | | | | | |
| Investment income | 65 | 2,650 | 2 | - | (49,030) | - | - | - |
| Interest expense | (35,443) | (82,035) | - | - | - | - | - | - |
| Investment in partnership valuation change | - | - | - | - | (212,983) | - | - | - |
| Amortization | - | (507) | - | - | - | - | - | - |
| Loss on disposal of assets | - | - | - | - | - | - | - | - |
| | (35,378) | (79,892) | 2 | - | (262,013) | - | - | - |
| CAPITAL CONTRIBUTIONS: | | | | | | | | |
| Other nonoperating contributions | - | - | 861,346 | - | 51,108 | - | - | - |
| TRANSFERS | | | | | | | | |
| | - | - | - | - | 7,878,381 | (61,791) | (489,715) | 42 |
| INCREASE (DECREASE) IN NET ASSETS | (11,035) | (83,041) | 870,335 | (17,748) | 6,779,930 | (61,791) | (489,715) | 42 |
| NET ASSETS (DEFICIT)-Beginning of year (as previously reported) | (24,188) | (68,467) | - | (30,566) | (4,497,681) | 18,584 | 489,715 | (42) |
| Prior Period Adjustment | - | - | - | - | - | - | - | - |
| NET ASSETS-Beginning of year (as restated) | (24,188) | (68,467) | - | (30,566) | (4,497,681) | 18,584 | 489,715 | (42) |
| NET ASSETS (DEFICIT)-End of year | \$ (35,223) | \$ (151,508) | \$ 870,335 | \$ (48,314) | \$ 2,282,249 | \$ (43,207) | \$ - | \$ - |

HOUSING AUTHORITY OF PORTLAND

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - AFFORDABLE HOUSING

Year ended March 31, 2011

| | Willow Springs | LaTourelle | University Place | Total |
|---|----------------|------------|------------------|---------------|
| OPERATING REVENUES: | | | | |
| Dwelling rental | \$ - | \$ - | \$ - | \$ 9,523,515 |
| Non-dwelling rental | - | - | - | 459,940 |
| HUD operating subsidies | - | - | - | 3,577,054 |
| HUD grants | - | - | - | 64,872 |
| ARRA revenue | - | - | - | 83,468 |
| Other | - | - | - | 1,646,972 |
| | - | - | - | 15,355,821 |
| OPERATING EXPENSES: | | | | |
| Housing assistance payments | - | - | - | 43,729 |
| Administration | - | - | - | 4,606,862 |
| Tenant services | - | - | - | 313,820 |
| Utilities | - | - | - | 1,704,450 |
| Maintenance | - | - | - | 2,948,177 |
| Depreciation | - | - | - | 2,286,122 |
| General | - | - | - | 1,242,418 |
| | - | - | - | 13,145,578 |
| | - | - | - | 2,210,243 |
| OPERATING INCOME (LOSS) | | | | |
| | - | - | - | 131,169 |
| NONOPERATING REVENUES (EXPENSES): | | | | |
| Investment income | - | - | - | (2,529,728) |
| Interest expense | - | - | - | (386,100) |
| Investment in partnership valuation charge | - | - | - | (41,442) |
| Amortization | - | - | - | 428,640 |
| Loss on disposal of assets | - | - | - | (2,397,461) |
| | - | - | - | 1,101,519 |
| CAPITAL CONTRIBUTIONS: | | | | |
| Other nonoperating contributions | - | - | - | 2,013,001 |
| TRANSFERS | (4,529,160) | (784,148) | - | 2,927,302 |
| INCREASE (DECREASE) IN NET ASSETS | (4,529,160) | (784,148) | - | 13,779,700 |
| NET ASSETS (DEFICIT)-Beginning of year (as previously reported) | 4,529,160 | 784,148 | (902,533) | 63,641 |
| Prior Period Adjustment | - | - | - | - |
| NET ASSETS-Beginning of year (as restated) | 4,529,160 | 784,148 | (902,533) | 13,843,341 |
| NET ASSETS (DEFICIT)-End of year | \$ - | \$ - | \$ (902,533) | \$ 16,770,643 |

HOUSING AUTHORITY OF PORTLAND
COMBINING SCHEDULE OF NET ASSETS/(DEFICIT) - SPECIAL NEEDS HOUSING

As of March 31, 2011

| | Interstate Crossing | Carriage Hill | Project Open Door | Other Special Needs | Total |
|--|------------------------|-------------------|----------------------|------------------------|----------------------|
| ASSETS | | | | | |
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | \$ (26,549) | \$ 16,709 | \$ 15,047 | \$ 957,079 | \$ 962,286 |
| Cash and cash equivalents-restricted | 50,824 | 750 | 45,442 | 948,017 | 1,045,033 |
| Accounts receivable, net | 3,155 | - | - | 10,289 | 13,444 |
| Prepaid expenses | - | - | - | 3,646 | 3,646 |
| | <u>27,430</u> | <u>17,459</u> | <u>60,489</u> | <u>1,919,031</u> | <u>2,024,409</u> |
| NONCURRENT ASSETS: | | | | | |
| Deferred charges, net | 2,174 | - | - | 14,505 | 16,679 |
| Capital assets not being depreciated | 90,000 | 75,424 | 71,104 | 1,404,274 | 1,640,802 |
| Capital assets being depreciated, net | 1,338,817 | 340,934 | 518,093 | 16,563,660 | 18,761,504 |
| | <u>1,430,991</u> | <u>416,358</u> | <u>589,197</u> | <u>17,982,439</u> | <u>20,418,985</u> |
| TOTAL ASSETS | <u>\$ 1,458,421</u> | <u>\$ 433,817</u> | <u>\$ 649,686</u> | <u>\$ 19,901,470</u> | <u>\$ 22,443,394</u> |
| LIABILITIES AND NET ASSETS | | | | | |
| CURRENT LIABILITIES: | | | | | |
| Accounts payable | \$ 1,650 | \$ 8,187 | \$ 1,531 | \$ 6,792 | \$ 18,160 |
| Accrued interest payable | 1,478 | 103 | 199 | 229,033 | 230,813 |
| Other accrued liabilities | 51,625 | 492 | 865 | 3,750 | 56,732 |
| Deferred revenue | 11 | 1,459 | 4,756 | 7,716 | 13,942 |
| Deposits, payable from restricted assets | 1,325 | - | 1,250 | 11,541 | 14,116 |
| Current portion of notes and bonds payable | 13,845 | 1,369 | 14,246 | 56,997 | 86,457 |
| | <u>69,934</u> | <u>11,610</u> | <u>22,847</u> | <u>315,829</u> | <u>420,220</u> |
| NONCURRENT LIABILITIES: | | | | | |
| Notes payable - long-term | 1,507,395 | 232,701 | 259,004 | 8,366,808 | 10,365,908 |
| | <u>1,507,395</u> | <u>232,701</u> | <u>259,004</u> | <u>8,366,808</u> | <u>10,365,908</u> |
| Total Liabilities | 1,577,329 | 244,311 | 281,851 | 8,682,637 | 10,786,128 |
| Net Assets/(Deficits) | (118,908) | 189,506 | 367,835 | 11,218,833 | 11,657,266 |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 1,458,421</u> | <u>\$ 433,817</u> | <u>\$ 649,686</u> | <u>\$ 19,901,470</u> | <u>\$ 22,443,394</u> |

HOUSING AUTHORITY OF PORTLAND

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - SPECIAL NEEDS HOUSING

Year ended March 31, 2011

| | Interstate Crossing | Carriage Hill | Project Open Door | Other Special Needs | Total |
|--|------------------------|------------------|----------------------|------------------------|---------------|
| OPERATING REVENUES: | | | | | |
| Dwelling rental | \$ 100,036 | \$ 19,906 | \$ 59,336 | \$ 34,905 | \$ 214,183 |
| Non-dwelling rental | - | - | - | 523,746 | 523,746 |
| State, local and other grants | - | - | - | 16,433 | 16,433 |
| Other | 5,964 | - | - | 31,874 | 37,838 |
| | 106,000 | 19,906 | 59,336 | 606,958 | 792,200 |
| OPERATING EXPENSES: | | | | | |
| Administration | 16,875 | - | 4,980 | 242,886 | 264,741 |
| Tenant services | 7,111 | - | - | - | 7,111 |
| Utilities | 14,786 | 3,165 | 9,950 | 23,960 | 51,861 |
| Maintenance | 29,165 | 5,116 | 15,829 | 141,444 | 191,554 |
| Depreciation | 61,295 | 11,715 | 23,606 | 736,276 | 832,892 |
| General | 2,014 | 281 | 615 | 23,371 | 26,281 |
| | 131,246 | 20,277 | 54,980 | 1,167,937 | 1,374,440 |
| | (25,246) | (371) | 4,356 | (560,979) | (582,240) |
| NON-OPERATING REVENUE (EXPENSE): | | | | | |
| Investment income | 103 | - | 250 | 1,807 | 2,160 |
| Interest expense | (33,371) | (1,251) | (4,905) | (107,720) | (147,247) |
| Amortization | (97) | - | - | (379) | (476) |
| Gain on sale of assets | - | - | - | 437,772 | 437,772 |
| | (33,365) | (1,251) | (4,655) | 331,480 | 292,209 |
| | (58,611) | (1,622) | (9,310) | (229,499) | (290,031) |
| NET LOSS BEFORE CAPITAL CONTRIBUTIONS | | | | | |
| CAPITAL CONTRIBUTIONS | | | | | |
| Other non-operating contributions | - | - | - | (213,259) | (213,259) |
| TRANSFERS | | | | | |
| | 5,528 | 11,600 | 945,902 | 2,301,464 | 3,264,494 |
| INCREASE (DECREASE) IN NET ASSETS | (53,083) | 9,978 | 945,603 | 1,858,706 | 2,761,204 |
| NET ASSETS-beginning of year | (65,825) | 179,528 | (577,768) | 9,360,127 | 8,896,062 |
| NET ASSETS/(DEFICIT)-end of year | \$ (118,908) | \$ 189,506 | \$ 367,835 | \$ 11,218,833 | \$ 11,657,266 |

HOUSING AUTHORITY OF PORTLAND

SCHEDULE OF CAPITAL FUND PROGRAM

As of March 31, 2011

| <u>Comprehensive Grant #</u> | <u>Capital Fund Program Grant Approved</u> | <u>Capital Fund Program Grant Expended</u> |
|------------------------------|--|--|
| OR16P0002501-08 | <u>\$ 4,438,453</u> | <u>\$ 4,438,453</u> |

Members of the Board of Commissioners of the
Housing Authority of Portland
Portland, Oregon

Independent Auditor's Report Required by Oregon State Regulations

We have audited the basic financial statements of the business-type activity (primary government) and the aggregate discretely presented component units of the Housing Authority of Portland, Oregon (the Authority) as of and for the year ended March 31, 2011, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 12, 2011. Our report includes a reference to other auditors, a scope limitation related to the RAC Housing Limited Partnership, a discretely presented component unit of the Authority, which was not audited, and an explanatory paragraph indicating that the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial for Derivative Instruments*. Except for the RAC Housing Limited Partnership, 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, and the *Minimum Standards for Audits of Oregon Municipal Corporations*. Other auditors audited the financial statements of the aggregate discretely presented component units, except for RAC Housing Limited Partnership, as described in our report on the Authority's financial statements. The audits of the discretely presented component units, except for the Gateway Park Limited Partnership, were not performed in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors of the Gateway Park Limited Partnership.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes (ORS) as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, noncompliance with which could have a direct and material effect on the determination of financial statements 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.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- Deposit of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions and repayment.
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).

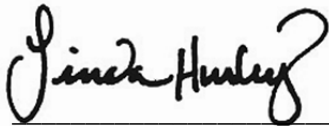
In connection with our testing nothing came to our attention that caused us to believe the Authority was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of ORS as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations* except as described as finding 2011-01 in the accompanying schedule of finding and management response.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of finding and management response. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, management of the Authority, and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these specified parties.



Linda Hurley, Partner
for Macias Gini & O'Connell LLP
Walnut Creek, California
September 12, 2011

2011-01 Noncompliance with Bond Reserve Requirement

Criteria

The Authority is required to establish and maintain a Bond Reserve Fund at the Reserve Requirement as defined in the bond indenture of the St. Johns Woods Multifamily Housing Revenue Bonds Series 1998 A and B (the Bonds).

Condition

We noted that the Authority did not maintain the Bond Reserve Fund at the Reserve Requirement for the Bonds. The Reserve Requirement of the Bonds, as defined in the Bonds' indenture, is equal to the maximum annual debt service on the Bonds. At March 31, 2011, the Bond Reserve Requirement for the Bonds was \$328,245, while \$324,685 was held in the Bond Reserve Fund trustee account, representing a difference of \$3,560.

Cause

The Authority relied on its trustee to monitor the Bonds' Reserve Requirement. During the year ended March 31, 2008, the Authority relied on the trustee's instructions and transferred a portion of the funds held in the Bond Reserve Fund to another trustee account not designated for satisfying the Bonds' Reserve Requirement. As a result, the Authority was not in compliance with its Reserve Requirement during the year ended March 31, 2011.

Recommendation

In response to the finding, the Authority has taken corrective action and transferred \$3,560 to the Bond Reserve Fund on September 1, 2011, and the assets held in the Bond Reserve Fund satisfies the Reserve Requirement as of September 1, 2011. While the Authority is currently in compliance with its Reserve Requirement, it should establish procedures to continually monitor the required minimum levels to be held in reserve accounts on all of its outstanding bond issues to prevent reoccurrences of noncompliance with its bond reserve requirements.

Management Response

Management agrees that it relied on the trustee's calculation and will create a procedure to monitor the trustee's calculations to ensure compliance with bond reserve funding requirements.

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