

OUR HOUSE OF PORTLAND
(a nonprofit organization)

OMB Circular A-133
Annual Financial Report
Year ended March 31, 2006

Our House of Portland Audited Financial Statements

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Independent Auditor's Report

To the Board of Directors
Our House of Portland
Portland, Oregon

We have audited the accompanying statement of financial position of Our House of Portland (a nonprofit organization) as of March 31, 2006 and the related statement of activity, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the management of Our House of Portland. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information is derived from the Organization's March 31, 2005 financial statements and, in our report dated June 14, 2005, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements. An audit also includes 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Our House of Portland as of March 31, 2006 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2006 on our consideration Our House of Portland'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 and 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. The 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Our House of Portland taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Loupa - Associates

Portland, Oregon
July 7, 2006

Our House of Portland

Statement of Financial Position

March 31, 2006, with comparative totals for 2005

(See Accompanying Notes and Accountant's Audit Report)

	2006			2005
	Unrestricted	Temporarily Restricted	Total	Total
CURRENT ASSETS				
Cash	\$ 606,958	\$ 37,608	\$ 644,566	\$ 40,362
Operating reserves (Notes 1,3)	637,876		637,876	482,921
Receivables, net (Note 4)	158,206		158,206	56,983
Pledges receivable, net (Note 5)	3,695	273,369	277,064	767,060
Deferred grants receivable (Note 9)	76,584	1,251,493	1,328,077	1,920,262
Other current assets	39,928		39,928	42,799
	<u>1,523,247</u>	<u>1,562,470</u>	<u>3,085,717</u>	<u>3,310,387</u>
PROPERTY AND EQUIPMENT				
Net of accumulated depreciation (Note 6)	110,003	257,194	367,197	321,543
OTHER ASSETS				
Pledges receivable, net (Note 5)		169,126	169,126	-
Project development (Note 11)	1,337,060		1,337,060	111,055
	<u>1,337,060</u>	<u>169,126</u>	<u>1,506,186</u>	
Total assets	<u>\$ 2,970,310</u>	<u>\$ 1,988,790</u>	<u>\$ 4,959,100</u>	<u>\$ 3,742,985</u>
CURRENT LIABILITIES				
Accounts payable	\$ 451,347		\$ 451,347	\$ 11,959
Accrued payroll and payroll liabilities	102,405		102,405	52,540
Deferred grant revenue (Note 9)		1,251,493	1,251,493	1,920,262
Prepaid event revenue			-	24,450
	<u>553,752</u>	<u>1,251,493</u>	<u>1,805,245</u>	<u>2,009,211</u>
NET ASSETS				
Unrestricted	2,416,558		2,416,558	672,119
Temporarily restricted (Notes 1,8)		737,297	737,297	1,061,655
	<u>2,416,558</u>	<u>737,297</u>	<u>3,153,855</u>	<u>1,733,774</u>
Total liabilities and net assets	<u>\$ 2,970,310</u>	<u>\$ 1,988,790</u>	<u>\$ 4,959,100</u>	<u>\$ 3,742,985</u>

Our House of Portland

Statement of Activity

For the year ended March 31, 2006, with comparative totals for 2005

(See Accompanying Notes and Accountant's Audit Report)

	2006			2005
	Unrestricted	Temporarily Restricted	Total	Total
OPERATING REVENUES				
Our House net resident service revenue	\$ 714,686		\$ 714,686	\$ 615,147
NHCP	146,221		146,221	22,022
Swan House net resident service revenue	142,802		142,802	100,305
Other revenue	3,449		3,449	5,711
	<u>1,007,158</u>	<u>-</u>	<u>1,007,158</u>	<u>743,185</u>
OPERATING EXPENSES				
Our House resident care	965,927		965,927	908,589
NHCP expenses	139,505		139,505	24,497.00
Swan House resident care	203,554		203,554	149,590.00
Administrative	188,348		188,348	120,699
	<u>1,497,334</u>	<u>-</u>	<u>1,497,334</u>	<u>1,203,375</u>
Deficit from operations	(490,176)	-	(490,176)	(460,190)
NONOPERATING INCOME AND (EXPENSES)				
Contributions, grants & events	807,798	891	808,689	683,135
Campaign contributions	1,159,280	191,200	1,350,480	972,581
Fundraising expenses	(298,657)		(298,657)	(231,590)
Net assets released from restriction	516,449	(516,449)	-	-
Loss on disposal of assets	(5,061)		(5,061)	-
Investment income	54,806	-	54,806	6,285
	<u>2,234,615</u>	<u>(324,358)</u>	<u>1,910,257</u>	<u>1,430,411</u>
Change in net assets	1,744,439	(324,358)	1,420,081	970,221
NET ASSETS, BEGINNING	672,119	1,061,655	1,733,774	763,553
NET ASSETS, ENDING	\$ 2,416,558	\$ 737,297	\$ 3,153,855	\$ 1,733,774

Our House of Portland

Statement of Functional Expenses

For the year ended March 31, 2006, with comparative totals for 2005

(See Accompanying Notes and Accountant's Audit Report)

	Program Services			Supporting Services		2006	2005
	Our House Resident Care	NHCP	Swan House AFC	Admini- strative	Fund- raising	Total	Total
Compensation							
Nursing and related services	\$ 426,187	\$ 64,400	\$ 135,805			\$ 626,392	\$ 512,699
Social worker & Occup. Therapist	108,736					108,736	92,504
Housekeeping	16,216					16,216	13,675
Kitchen manager	20,628					20,628	18,370
Mercy Corps						-	2
Volunteer program	34,952					34,952	32,836
Director	32,071	500		3,619	15,810	52,001	67,400
Administrative				96,815		96,815	58,659
Development					110,646	110,646	118,230
Payroll taxes & workers comp	72,020	7,416	15,519	11,477	14,451	120,883	104,890
Employee benefits, training & recog.	53,883	5,549	11,611	8,587	10,812	90,441	82,854
Advertising for staff			922	800		1,722	2,661
Total compensation	764,693	77,865	163,857	121,298	151,719	1,279,432	1,104,778
ADP fees				3,956		3,956	2,911
Audit and accounting fees		2,750		9,370		12,120	4,900
Bad debts	4,304					4,304	4,917
Business consultants		23,812				23,812	13,504
Clinical consultants	2,480	5,059				7,539	6,940
Communications	18,735	5,853	2,877	4,289	450	32,204	21,153
Credit card fees					1,897	1,897	7,119
Depreciation	20,679	450	102	3,781		25,012	25,296
Direct mail					9,956	9,956	7,658
Dues and subscriptions				1,951		1,951	1,274
Event expenses					122,681	122,681	45,266
Groceries	19,916	28	11,425			31,369	26,665
Insurance	26,492	661	3,094	4,792		35,039	27,801
Leases	36,155		7,800	9,955		53,910	9,476
Maintenance	8,700		985	1,535		11,220	8,774
Medical Supplies	29,993		444			30,437	21,146
Other expenses	1,978	2,440	840	9,978	1,580	16,816	4,330
Postage				2,193	820	3,013	2,651
Publications and cable tv	1,424		777		570	2,771	3,416
Quality of living program	6,543	2,582	4,522			13,647	11,769
Rental assistance		15,379				15,379	-
Security system	1,583		196	279		2,058	1,809
Storage unit rental				3,003		3,003	2,928
Supplies	6,541	2,626	1,899	9,655	8,984	29,705	24,212
Utilities	13,106		4,670	2,313		20,089	29,380
Volunteer program	2,605		66			2,671	2,530
Website & annual report expenses						-	12,362
	201,234	61,640	39,697	67,050	146,938	516,559	330,187
Total expenses	\$ 965,927	\$ 139,505	\$ 203,554	\$ 188,348	\$ 298,657	\$ 1,795,991	\$1,434,965

Our House of Portland

Statement of Cash Flows

For the year ended March 31, 2006, with comparative totals for 2005

(See Accompanying Notes and Accountant's Audit Report)

	2006			2005
	Unrestricted	Temporarily Restricted	Total	Total
CASH FLOWS RELATED TO OPERATING ACTIVITIES				
Change in net assets	\$ 1,744,439	\$ (324,358)	\$ 1,420,081	\$ 970,221
Adjustments to reconcile the change in net assets to cash provided by operating activities:				
Depreciation	25,012		25,012	25,296
Loss on disposal of assets	5,061		5,061	-
Receivables	(101,223)		(101,223)	(7,285)
Deferred grants receivable	(76,584)		(76,584)	-
Pledges receivable	(3,695)	324,565	320,870	(767,060)
Other assets	2,871		2,871	(10,250)
Accounts payable	439,387		439,387	4,622
Accrued liabilities and deposits	25,418		25,418	(21,415)
Net cash provided by operating activities	2,060,686	207	2,060,893	194,132
CASH FLOWS RELATING TO INVESTING ACTIVITIES				
Building project costs	(1,226,006)		(1,226,006)	(111,055)
Investment activity	(192,356)	37,401	(154,955)	(45,933)
Purchase of equipment	(75,728)		(75,728)	(6,814)
Net cash provided (used) by investing activities	(1,494,090)	37,401	(1,456,689)	(163,802)
Change in cash	566,596	37,608	604,204	30,330
CASH, BEGINNING	40,362	-	40,362	10,032
CASH, ENDING	\$ 606,958	\$ 37,608	\$ 644,566	\$ 40,362
NONCASH ACTIVITY				
Donated fixed assets capitalized		\$ 20,023		\$ 20,207
Donated supplies expenses		\$ 47,457		\$ 26,690

NOTE - 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities

Our House of Portland (Our House) was established in 1988 as a non-profit residential care facility located in Portland, Oregon, providing facility-based 24-hour nursing care for to up to twelve individuals in the advanced stages of AIDS. In 2004 Our House adopted two new programs: Swan House and The Neighborhood Housing and Care Program (NHCP).

Swan House is a large 6-bedroom home located in Milwaukie, Oregon and serves five adult low-income persons living with AIDS who need on-site supportive services for moderate physical and/or mental health challenges.

The Neighborhood Housing and Care Program combines stable housing with in-home medical, occupational therapy and social work services for individuals in the community living with AIDS who can establish themselves in a more independent setting.

Revenues consist primarily of contributions, grants, and payments for room and board.

Financial statement presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Comparative financial information and expense allocation

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended March 31, 2005 from which the summarized information was derived.

NOTE - 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *cont.*

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include general checking account funds and cash on hand. Temporarily restricted cash includes contributions for the capital campaign.

Income taxes

The Organization is a non-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code. In addition, the Organization qualifies for the charitable contribution deduction under 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Donated services

Under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if donated services create or enhance non-financial assets, or require specialized skills that are performed by people with those skills, and would otherwise be purchased, those services would be recognized as contributions. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific

NOTE - 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *cont.*

assistance programs, fundraising, and various committee assignments that are not recorded in the financial statements. The Organization receives approximately 12,100 volunteer hours per year. Of these hours, 6,850 are required for daily operations and include services for the cook/dietician, maintenance, medical director and receptionists. Management estimates the value of the operational services is about \$125,000.

Contributions and pledges

Contributions and pledges are recognized when the donor makes a written promise to give that is, in substance, unconditional. Contributions that are restricted by the donor either by purpose and/or time are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as a release from restriction.

An allowance for uncollectible pledges has not been recorded in the financial statements as management estimates this amount to be insignificant.

Capital campaign contributions and pledges are all restricted for future use unless received and used in the current year.

Investments and investment income

Investments including operating reserves with readily determinable market values are stated at fair market value. Realized and unrealized gains are reported in the statement of activity when recognized. Since no restrictions exist on investment income, all income and gains or losses are recorded as non-operating unrestricted activity.

Property and equipment

Acquisitions of property and equipment in excess of \$500 and expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation.

NOTE - 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *cont.*

Depreciation is computed using primarily the straight-line method with the following class lives:

Buildings	27.5 years
Furniture and equipment	7 years
Computer equipment	5 years

Allowance for doubtful accounts

Accounts receivable are stated at cost and do not accrue interest on past due amounts over 30 days. The allowance represents the portion of resident receivables over 90 days old. Receivables are charged off as uncollectible after management has made reasonable collection efforts.

NOTE - 2 STATE OF OREGON CONTRACTS

Our House has a personal/professional services contract with the State of Oregon to provide reimbursement for specialized residential care facility services. The current contract period expires January 31, 2007 and is subject to renewal. A service payment is paid for each eligible resident, per month, less any resident income available to apply to the cost. The rates are determined by the State of Oregon and payments are subject to the provisions of ORS 293.462 and shall not exceed the total maximum sum of \$806,000 for the period February 20, 2006 - January 31, 2007. There are presently no factors that have come to our attention that would cause us to believe the state would not renew the contract. Net resident service revenue for the year ending March 31, 2006 includes \$633,743 of state funding.

Swan House has a personal/professional services contract with the State of Oregon to maintain a valid Adult and Care Home. The current contract period expires December 31, 2006 and is subject to renewal. A service payment is paid for each eligible resident, per month, less any resident income available to apply to the cost. The rates are determined by the State of Oregon and payments are subject to the provision of ORS 293.462 and shall not exceed the total maximum sum of \$111,000 for the period January 1, 2006 to December 31, 2006. There are presently no factors that have come to our attention that would cause us to believe the state would not renew the contract. Net resident service revenue for the year ending March 31, 2006 includes \$103,324 of state funding.

Our House of Portland
Notes to Financial Statements
March 31, 2006

NOTE - 3 OPERATING RESERVES

Investments are carried at market value. The following is a summary of the operating reserve asset mix and investment income at March 31, 2006:

Mutual Funds	
Equity	\$ 331,710
Fixed Income	294,681
Cash and equivalents	<u>11,485</u>
	\$ <u>637,876</u>

The investment gain for the year consisted of the following activity:

Realized/Unrealized investment gains	\$ 46,659
Interest and dividends	12,279
Investment fees	<u>(4,132)</u>
Net Investment Income	\$ <u>54,806</u>

Mutual funds and other investment products are not insured by the FDIC or any other government agency, and are subject to investment risks, including possible loss of principal invested.

NOTE - 4 RECEIVABLES

Receivable balances at March 31, 2006 consisted of the following:

Trade receivables	\$ 152,706
Other receivables	<u>5,500</u>
	\$ <u>158,206</u>

NOTE - 5 PLEDGES RECEIVABLE

Pledges receivable consist of unconditional promises to give and may be restricted for uses as designated by the capital campaign.

Unconditional pledges receivable due in more than one year are required to be reflected at the present value of estimated future cash flows using a discount rate. However, the discounts on amounts due in one to five years are considered immaterial. The pledges are stated at the value expected to be received.

Amounts due in:

Less than one year	\$ 277,064
One to five years	<u>169,126</u>
	<u>\$ 446,190</u>

NOTE - 6 PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2006 consisted of the following:

Automobiles	\$ 32,855
Furniture and fixtures	46,510
Equipment	78,028
Leasehold improvements	17,251
Land	<u>257,346</u>
	431,990
Accumulated depreciation	<u>(64,793)</u>
	<u>\$ 367,197</u>

Accumulated costs of the building renovation are recorded on the Statement of Financial Position as project development.

NOTE - 7 CONCENTRATIONS OF CREDIT RISK

Receivables

Our House is located in Portland, Oregon. The facility grants credit without collateral to its residents, most of who are local residents and are insured under third-party payor agreements or meet the Medicaid eligibility criteria.

The composition of trade receivables and net resident services revenue at March 31, 2006 was as follows:

	Receivable Amount	Trade & other Receivables	Net Resident Service Revenue
State of Oregon	\$ 151,530	96%	75%
Other	<u>6,676</u>	<u>4%</u>	<u>25%</u>
	<u>\$ 158,206</u>	<u>100%</u>	<u>100%</u>

Cash

Our House maintains several bank accounts at two banks. Accounts at an institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Cash at one institution exceeded federally insured limits. The amount of excess of the FDIC limit totaled \$520,446 at March 31, 2006.

NOTE - 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at March 31, 2006 were available for the following purposes:

Capital campaign	\$ 475,421
Washer and dryer	124
Land	257,194
Medical textbooks	685
Groceries	1,776
Gilead Sciences - Education	247
Cultural competency	<u>1,850</u>
	<u>\$ 737,297</u>

NOTE - 9 DEFERRED GRANTS

Deferred grants represent grants awarded by HUD, the City of Portland, Oregon Housing and Community Services, the Portland Development Commission and the Department of Health and Human Services for the building renovation and NHCP Program. The grants are considered exchange transactions and accordingly aren't recorded as income in the financial statements until services are performed and costs incurred. Deferred grants consisted of the following activity for the year ended March 31, 2006:

	Total	Capital Campaign	NHCP
Grants awarded FYE March 2005	\$ 2,016,963	\$ 1,280,615	\$ 736,348
Grants awarded FYE March 2006	425,000	425,000	
Grants received and recorded as income FYE March 31, 2005	(96,700)	(74,875)	(21,825)
Grants received and recorded as income FYE March 31, 2006	<u>(1,093,770)</u>	<u>(904,238)</u>	<u>(189,532)</u>
Deferred grants	<u>\$ 1,251,493</u>	<u>\$ 726,502</u>	<u>\$ 524,991</u>

NOTE - 10 COMMITMENTS AND CONTINGENCIES

Land and Building

On May 18, 1999, Sisters of Providence in Oregon, an Oregon nonprofit organization, donated to Our House of Portland land and building with a fair market value of \$290,200. If Our House transfers or otherwise conveys its interest in the real property prior to dissolution or liquidation and before December 31, 2009, it shall repay Providence the sum of \$290,200. The contribution was recorded as temporarily restricted.

Portland Development Commission – PDC Loan

It is anticipated by management that the PDC note will never be required to be repaid during the 30 year term based on excess cash-flow payment calculations defined in the loan agreement. Therefore, the loan is reported as income in the year received rather than a loan payment. In accordance with the PDC loan agreement, Our House of Portland must comply with

NOTE - 10 COMMITMENTS AND CONTINGENCIES, *cont.*

certain current and future restrictions in order to obtain and retain the \$645,000 funds from PDC.

Some of these restrictions include, but are not limited to:

- Affordability requirements to rent units to residents earning 0-30% of median income for 60 years. These terms are specified in the Regulatory Agreement and Home Restrictive Agreement and Declaration.
- Screening of prospective residents with a lower Income to Rent Ratio of no more than 1.5:1 cash income to rent.
- Receipt of various other specified grants, fundraising, and line of credit to complete construction.
- Annual reporting requirements including, annual operating report, rent rolls, tenant surveys, tenant re-certifications.
- Written rental policies including Landlord Screening Criteria and Affirmative Fair Housing and Marketing Plan.
- Comply with regulations necessary to secure and maintain property tax exemption.
- Annual audit of financial statements.
- Establishment of a Reserve Account (see below).

Loan Terms:

- Loan commitment amount \$645,000
- Loan amount advanced and recorded as income as of March 31, 2006, \$373,481
- Interest at 0%
- Maturity 30 years, July 1, 2036
- Construction loan to convert to permanent loan upon construction completion in July 2006
- Cash flow payment due annually in July (see cash flow payment calculation)
- Security on loan includes line of credit trust deed, security agreement, fixture filing and assignment of leases and rents and UCC financing statement in all existing and future acquired furniture, fixtures, equipment, and other items of personal property.

NOTE - 10 COMMITMENTS AND CONTINGENCIES, *cont.*

Cash flow payment calculation:

Our House shall pay to PDC on the first day of July of each year during the Permanent Loan Period, in addition to the payments required pursuant to Section 1 and 2 of the Note, one-half of Excess Cash flow ("**Cash Flow Payment**") until the Note has been repaid in full. Excess cash flow shall be computed as of the last day of March each year during the Permanent Loan Period. Excess cash flow means the greater of: (i) the amount, if any, by which Net Operating Income exceeds the sum of the Priority Payments and 115% of Permitted Loan Payments, or (ii) the amount, if any, by which Net Cash Flow exceeds the sum of Priority Payments and \$600 per bed. Net operating income of Our House includes residential rental income less residential and overhead expenses but does not include net fundraising income. Our House has historically always had negative cash flow from resident programs, relying on net fundraising to provide the additional funds needed to run the programs. Since fundraising is not included in the excess cash flow calculation as represented by Our House Management and PDC attorneys, it is never expected or intended by either party that the PDC loan will ever be required to be repaid.

Reserve Account:

As a condition of making the Loan, PDC requires Our House to establish and maintain a Replacement Cost and Capital Improvement Reserve Account ("**Reserve Account**") which shall run with the land. The Reserve Account shall be established on the earlier of the month after the beginning of the Permanent Loan Period, or August 1, 2006, and shall end on the latest of (i) sixty (60) years after the date on which such Certificate of Occupancy is issued or (ii) the date upon which any form of Public Subsidy of the Project ceases (the "**Reserve Account Period**"). Our House shall have an obligation to establish and deposit funds annually into the Reserve Account until the balance reaches \$300,000. If the balance falls below \$300,000, the minimum annual deposit shall be \$15,000. The purpose of the Reserve Account is to provide funds for the future replacement of capital items and extraordinary repairs or maintenance. Capital items are defined as items in need of replacement that have an estimated useful life of five or more years. Extraordinary repairs or maintenance are maintenance or repairs that will extend the life of an item for five or more years. Ordinary, general and routine repair and maintenance shall be funded from the annual budget, repair and maintenance line item, and not from the Reserve Account.

NOTE - 10 COMMITMENTS AND CONTINGENCIES, *cont.*

Other Federal Programs:

Other federal grants received by Our House including but not limited to HUD, Oregon Housing and Community Services, and the City of Portland, Oregon, have similar monthly and/or annual reporting requirements, tenant income requirements, and period of use restrictions. These requirements are primarily determined by the US Department of Housing and Urban Development (HUD) and are subject to federal regulations and any Handbooks HUD may issue governing the HOPWA or other federal programs.

NOTE - 11 CAPITAL CAMPAIGN

In 2004, Our House launched its first capital campaign to raise needed funds for (1) the building expansion project, (2) sustainability of new programs currently being supplemented with HUD funds, and (3) three years annual support.

Funds for the building project will be used to expand the current facility from 10 rooms to 14 rooms and add more living space. Sources of this funding will come primarily from federal grants. Following is a summary of the capital campaign and amounts received or pledged to date from all sources:

	Goal	Received or Pledged to Date	Deferred revenue	Remaining to raise
Facility Expansion	\$ 3,189,360	\$ 2,298,593	\$ 726,501	\$ 164,266
NHCP	736,348	24,168	524,991	187,189
Sustainability Fund	573,037	190,469		382,568
3 Year Major Annual Gifts	225,000	37,100		187,900
Fundraising Costs	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>75,000</u>
Total	\$ 4,798,745	\$ 2,550,330	\$ 1,251,492	\$ 996,923
Value of present building	<u>810,000</u>	<u>810,000</u>	<u>-</u>	<u>-</u>
Total Campaign	\$ <u>5,608,745</u>	\$ <u>3,360,330</u>	\$ <u>1,251,492</u>	\$ <u>996,923</u>

The building renovation began in July, 2004 and is anticipated to be completed by July, 2006. A total of \$1,337,060 has been spent on project development as of March 31, 2006.

SUPPLEMENTARY INFORMATION

**Our House of Portland
Schedule of Expenditures of Federal Awards
Year Ended March 31, 2006**

CFDA Catalog of Federal Domestic Assistance #	Federal Grantor	Pass-thru Grantor	Program Title	Expenditure
14.241	U.S Department of Housing and Urban Development	N/A	Housing Opportunities for Persons with AIDS	\$685,511
14.239	U.S Department of Housing and Urban Development - Community Planning & Development	Portland Development Commission	HOME Investment Partnership Program	\$271,519
14.401	U.S Department of Housing and Urban Development - Office of Fair Housing & Equal Opportunity	Oregon Housing and Community Services	Fair Housing Assistance Program	\$64,522
14.241	U.S Department of Housing and Urban Development	City of Portland, Oregon	Housing Opportunities for Persons with AIDS	\$42,458
93.779	U.S Department of Health and Human Services - Centers for Medicare and Medicaid Services	N/A	Centers for Medicare and Medicaid Services (CMS) Research Demonstrations and Evaluations	\$29,760
Total Federal Awards				<u>\$1,093,770</u>

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Our House of Portland (a non-profit organization) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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

To the Board of Directors of
Our House of Portland

We have audited the financial statements of Our House of Portland (a nonprofit organization) as of and for the year ending March 31, 2006, and have issued our report thereon dated July 7, 2006. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Our House of Portland's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that may be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Our House of Portland in a separate letter dated July 7, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal award agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Lauka & Associates
Portland, Oregon
July 7, 2006



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Our House of Portland

Compliance

We have audited the compliance of Our House of Portland (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2006. Our House of Portland's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Our House of Portland's management. Our responsibility is to express an opinion on Our House of Portland's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Our House of Portland's compliance with those requirements and performing such other procedures as we considered necessary in the

circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Our House of Portland's compliance with those requirements.

In our opinion, Our House of Portland complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2006.

Internal Control Over Compliance

The management of Our House of Portland is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, contracts, and grants applicable to federal programs. In planning and performing our audit, we consider Our House of Portland's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lauka & Associates

Lauka & Associates, PC
Portland, Oregon
July 7, 2006

OUR HOUSE OF PORTLAND, INC.
(A nonprofit Organization)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED March 31, 2006

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? Yes No
- Reportable condition identified that is not considered to be a material weakness? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness identified? Yes No
- Reportable condition identified that is not considered to be a material weakness? Yes None reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of federal program</u>
14.241	Housing Opportunities for Persons with Aids
14.239	HOME Investment Partnership Program

Dollar threshold used to distinguish between type A and type B programs:
 \$300,000

Auditee qualified as low-risk auditee? Yes No

Section II – Financial Statement Findings: No matters were reported

Section III – Federal Award Findings and Questioned Costs: None