

OUR HOUSE OF PORTLAND
(a nonprofit organization)

OMB Circular A-133
Annual Financial Report
Year ended March 31, 2007



Our House of Portland Audited Financial Statements

PAGE

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS

Statement of Financial Position	2
Statement of Activity	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-16

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards

Independent Auditor's 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*.

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

Schedule of Findings and Questioned Costs



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, 2007 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, 2006 financial statements and, in our report dated July 7, 2006, 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, 2007 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 August 15, 2007 on our consideration of 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.

/:S:/ Lauka & Associates

Portland, Oregon
August 15, 2007

Our House of Portland

Statement of Financial Position

March 31, 2007, with comparative totals for 2006

(See Accompanying Notes and Accountant's Audit Report)

	2007			2006
	Unrestricted	Temporarily Restricted	Total	Total
CURRENT ASSETS				
Cash	\$ 338,859	\$ 25,793	\$ 364,652	\$ 644,566
Operating reserves (Notes 1,3)	468,342		468,342	637,876
Receivables, net (Note 4)	93,344		93,344	158,206
Pledges receivable, net (Note 5)	8,542	95,270	103,812	277,064
Deferred grants receivable (Note 9)		43,475	43,475	1,328,077
Other current assets	49,037		49,037	39,928
	<u>958,124</u>	<u>164,538</u>	<u>1,122,662</u>	<u>3,085,717</u>
PROPERTY AND EQUIPMENT				
Net of accumulated depreciation (Note 6)	3,011,900	290,200	3,302,100	367,197
OTHER ASSETS				
Pledges receivable, net (Note 5)	-	64,825	64,825	169,126
Project development (Note 11)	-		-	1,337,060
	<u>-</u>	<u>64,825</u>	<u>64,825</u>	<u>1,506,186</u>
Total assets	<u>\$ 3,970,024</u>	<u>\$ 519,563</u>	<u>\$ 4,489,587</u>	<u>4,959,100</u>
CURRENT LIABILITIES				
Accounts payable	\$ 54,526		\$ 54,526	\$ 451,347
Accrued payroll and payroll liabilities	136,003		136,003	102,405
Deferred grant revenue (Note 9)	1,500	43,475	44,975	1,251,493
	<u>192,029</u>	<u>43,475</u>	<u>235,504</u>	<u>1,805,245</u>
NET ASSETS				
Unrestricted	3,777,995		3,777,995	2,416,558
Temporarily restricted (Notes 1,8)		476,088	476,088	737,297
	<u>3,777,995</u>	<u>476,088</u>	<u>4,254,083</u>	<u>3,153,855</u>
Total liabilities and net assets	<u>\$ 3,970,024</u>	<u>\$ 519,563</u>	<u>\$ 4,489,587</u>	<u>\$ 4,959,100</u>

Our House of Portland

Statement of Activity

For the year ended March 31, 2007, with comparative totals for 2006

(See Accompanying Notes and Accountant's Audit Report)

	2007			2006
	Unrestricted	Temporarily Restricted	Total	Total
OPERATING REVENUES				
Our House net resident service revenue	\$ 837,962		\$ 837,962	\$ 714,686
Neighborhood Housing & Care Program	236,506		236,506	146,221
Swan House net resident service revenue	171,578		171,578	142,802
Other revenue	9,938		9,938	3,449
	<u>1,255,984</u>	<u>-</u>	<u>1,255,984</u>	<u>1,007,158</u>
OPERATING EXPENSES				
Our House resident care	1,113,619		1,113,619	965,927
Neighborhood Housing & Care expenses	242,038		242,038	139,505
Swan House resident care	237,439		237,439	203,554
Administrative	174,942		174,942	188,348
	<u>1,768,038</u>	<u>-</u>	<u>1,768,038</u>	<u>1,497,334</u>
Deficit from operations	(512,054)	-	(512,054)	(490,176)
NONOPERATING INCOME AND (EXPENSES)				
Contributions, grants & events	820,619	23,258	843,877	808,689
Campaign contributions	1,095,069	10,000	1,105,069	1,350,480
Fundraising expenses	(338,330)		(338,330)	(298,657)
Net assets released from restriction	294,467	(294,467)	-	-
Loss on disposal of assets	(4,539)		(4,539)	(5,061)
Investment income	6,205	-	6,205	54,806
	<u>1,873,491</u>	<u>(261,209)</u>	<u>1,612,282</u>	<u>1,910,257</u>
Change in net assets	1,361,437	(261,209)	1,100,228	1,420,081
NET ASSETS, BEGINNING	<u>2,416,558</u>	<u>737,297</u>	<u>3,153,855</u>	<u>1,733,774</u>
NET ASSETS, ENDING	<u>\$ 3,777,995</u>	<u>\$ 476,088</u>	<u>\$ 4,254,083</u>	<u>\$ 3,153,855</u>

Our House of Portland

Statement of Functional Expenses

For the year ended March 31, 2007, with comparative totals for 2006

(See Accompanying Notes and Accountant's Audit Report)

	Program Services			Supporting Services		2007	2006
	Our House Resident Care	NHCP	Swan House AFC	Admini- strative	Fund- raising	Total	Total
Compensation							
Nursing and related services	\$ 486,653	\$ 49,088	\$ 146,596			\$ 682,337	\$ 617,834
Social worker & Occup. Therapist	102,822	83,609	8,717			195,148	108,736
Housekeeping	23,569					23,569	16,216
Kitchen manager	23,467					23,467	20,628
Volunteer program	39,288					39,288	34,952
Director	44,403			6,900	30,306	81,609	52,001
Administrative		15,735	237	83,205		99,177	96,815
Development					129,570	129,570	110,646
Temporary Nursing	19,373					19,373	8,558
Payroll taxes & workers comp	73,764	27,226	17,748	12,156	21,569	152,463	120,883
Employee benefits, training & recog.	47,051	9,882	14,927	8,991	15,952	96,803	90,441
Advertising for staff				1,391		1,391	1,722
Total compensation	<u>860,390</u>	<u>185,540</u>	<u>188,225</u>	<u>112,643</u>	<u>197,397</u>	<u>1,544,195</u>	<u>1,279,432</u>
Payroll fees				4,301		4,301	3,956
Audit and accounting fees		3,500	1,190	9,310		14,000	12,120
Bad debts	3,344				3,712	7,056	4,304
Business consultants		7,721				7,721	23,812
Clinical consultants	3,285	8,296				11,581	7,539
Communications	18,371	300	4,576	2,610	2,645	28,502	32,204
Credit card fees	1,968				5,300	7,268	1,897
Depreciation	71,371	981	74	12,781		85,207	25,012
Direct mail					13,258	13,258	9,956
Dues and subscriptions		100	160	1,460		1,720	1,951
Event expenses					100,900	100,900	122,681
Groceries	20,787		13,206			33,993	31,369
Insurance	23,783	1,899	2,167	4,532		32,381	35,039
Leases	15,881		7,800	5,047		28,728	53,910
Maintenance	5,867		245	1,035		7,147	11,220
Medical supplies	31,056		4,293			35,349	30,437
Other expenses	2,242	3,817	518	1,675	2,380	10,632	16,816
Postage				2,536	814	3,350	3,013
Publications and cable tv	2,927		786		1,088	4,801	2,771
OT/Quality of living program	16,800	3,312	4,438			24,550	13,647
Rental assistance		21,938				21,938	15,379
Security system	1,120		513	198		1,831	2,058
Storage unit rental				2,924		2,924	3,003
Supplies	20,058	680	3,131	12,028	9,974	45,871	29,705
Utilities	11,481	3,954	6,103	1,862	862	24,262	20,089
Volunteer program	2,888		14			2,902	2,671
	<u>253,229</u>	<u>56,498</u>	<u>49,214</u>	<u>62,299</u>	<u>140,933</u>	<u>562,173</u>	<u>516,559</u>
Total expenses	<u>\$ 1,113,619</u>	<u>\$ 242,038</u>	<u>\$ 237,439</u>	<u>\$ 174,942</u>	<u>\$ 338,330</u>	<u>\$ 2,106,368</u>	<u>\$ 1,795,991</u>

Our House of Portland

Statement of Cash Flows

For the year ended March 31, 2007, with comparative totals for 2006

(See Accompanying Notes and Accountant's Audit Report)

	2007			2006
	Unrestricted	Temporarily Restricted	Total	Total
CASH FLOWS RELATED TO OPERATING ACTIVITIES				
Change in net assets	\$ 1,361,437	\$ (261,209)	\$ 1,100,228	\$ 1,420,081
Adjustments to reconcile the change in net assets to cash provided by operating activities:				
Depreciation	85,207		85,207	25,012
Loss on disposal of assets	4,539		4,539	5,061
Receivables	64,862		64,862	(101,223)
Deferred grants receivable	78,084		78,084	(76,584)
Pledges receivable	(4,847)	282,400	277,553	320,870
Other assets	(9,110)		(9,110)	2,871
Accounts payable	(396,820)		(396,820)	439,387
Accrued liabilities and deposits	33,598		33,598	25,418
Net cash provided by operating activities	1,216,950	21,191	1,238,141	2,060,893
CASH FLOWS RELATING TO INVESTING ACTIVITIES				
Building project costs	(1,622,792)		(1,622,792)	(1,226,006)
Investment activity	202,540	(33,006)	169,534	(154,955)
Purchase of equipment	(64,797)		(64,797)	(75,728)
Net cash (used) by investing activities	(1,485,049)	(33,006)	(1,518,055)	(1,456,689)
Change in cash	(268,099)	(11,815)	(279,914)	604,204
CASH, BEGINNING	606,958	37,608	644,566	40,362
CASH, ENDING	\$ 338,859	\$ 25,793	\$ 364,652	\$ 644,566
NONCASH ACTIVITY				
Donated fixed assets capitalized			\$ 10,000	\$ 20,023
Donated supplies & services expensed			\$ 52,094	\$ 47,457

Our House of Portland

Notes to Financial Statements

March 31, 2007

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, 2006 from which the summarized information was derived.

Our House of Portland

Notes to Financial Statements

March 31, 2007

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.

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

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

Our House of Portland

Notes to Financial Statements

March 31, 2007

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 12,000 volunteer hours per year. Of these hours, 6,800 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.

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	39 years
Furniture and equipment	5-7 years

Receivables and Allowance for Doubtful Accounts

Accounts and pledges receivable are stated at cost and do not accrue interest on past due amounts over 30 days. An allowance for doubtful accounts is accrued for the portion of resident receivables over 90 days old. Receivables are charged off as uncollectible after management has made reasonable collection efforts. As of March 31, 2007 there was no accrual for the allowance. An allowance for uncollectible pledges has not been recorded in the financial statements as management estimates that most pledges are collectable and the uncollectable amount is immaterial.

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, 2009 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 \$1,945,000 for the period February 7, 2007 - January 31, 2009. 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, 2007 includes \$752,091 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, 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 provision of ORS 293.462 and shall not exceed the total maximum sum of \$320,000 for the period April 1, 2006 to December 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, 2007 includes \$145,503 of state funding.

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, 2007:

Mutual Funds	
Equity	\$ 237,369
Fixed Income	221,782
Cash and equivalents	<u>9,191</u>
	\$ <u>468,342</u>

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

Realized/Unrealized investment gains	\$ 24,594
Loss on Unicru stock donation recorded in prior year	(31,244)
Interest and dividends	16,758
Investment fees	<u>(3,903)</u>
Net Investment Income	\$ <u>6,205</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, 2007 consisted of the following:

Trade receivables	\$ 77,832
Other receivables	<u>15,512</u>
	\$ <u>93,344</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	\$ 103,812
One to five years	<u>64,825</u>
	<u>\$ 168,637</u>

NOTE - 6 PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2007 consisted of the following:

Automobiles	\$ 32,855
Furniture and fixtures	87,132
Equipment	102,202
Building and improvements	2,972,215
Land	<u>257,346</u>
	3,451,750
Accumulated depreciation	<u>(149,650)</u>
	<u>\$ 3,302,100</u>

NOTE - 7 CONCENTRATIONS

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, 2007 was as follows:

	Receivable Amount	Trade & other Receivables	Net Resident Service Revenue
State of Oregon	\$ 75,539	81%	89%
Other	<u>17,805</u>	<u>19%</u>	<u>11%</u>
	<u>\$ 93,344</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 \$263,312 at March 31, 2007.

Source of Revenue

34% of all income in the fiscal year ended March 31, 2007 including operating and contribution income came from three grantors, excluding State of Oregon contract payments.

NOTE - 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at March 31, 2007 were available for the following purposes:

Nutrition	\$ 22,116
Kitchen supplies	1,142
Land and building (note 10)	290,200
Capital campaign	160,095
Medical textbooks	685
Cultural competency	<u>1,850</u>
	<u>\$ 476,088</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, 2007:

	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	(1,093,770)	(904,238)	(189,532)
Grants received and recorded as income FYE March 31, 2007	<u>(1,206,518)</u>	<u>(725,002)</u>	<u>(481,516)</u>
Deferred grants	\$ <u>44,975</u>	\$ <u>1,500</u>	\$ <u>43,475</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.

NOTE - 10 COMMITMENTS AND CONTINGENCIES, *cont.*

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. In accordance with the PDC loan agreement, Our House of Portland must comply with 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 11 units to residents earning 0-30% and 3 units to residents at 0-80% 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, \$271,519, March 31, 2007, \$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.

Our House of Portland

Notes to Financial Statements

March 31, 2007

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.

Our House of Portland

Notes to Financial Statements

March 31, 2007

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.

SUPPLEMENTARY INFORMATION

**Our House of Portland
Schedule of Expenditures of Federal Awards
Year Ended March 31, 2007**

CFDA				
Catalog of Federal				
Domestic	Federal	Pass-thru	Program	
Assistance #	Grantor	Grantor	Title	Expenditure
14.241	U.S Department of Housing and Urban Development	N/A	Housing Opportunities for Persons with AIDS	\$481,276
14.239	U.S Department of Housing and Urban Development - Community Planning & Development	Portland Development Commission	HOME Investment Partnership Program	\$373,481
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	\$10,478
14.241	U.S Department of Housing and Urban Development	City of Portland, Oregon	Housing Opportunities for Persons with AIDS	\$242,542
Total Federal Awards				<u>\$1,107,777</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.



**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, 2007, and have issued our report thereon dated August 15, 2007. 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 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 Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported on *Government Auditing Standards*.

We noted certain matters that we reported to management of Our House of Portland in a separate letter dated August 15, 2007.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, others within the entity, U.S. Department of Housing and Urban Development, 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.

/s/ *Lauka & Associates*

Lauka & Associates
Portland, Oregon
August 15, 2007



**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, 2007. 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, 2007.

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, regulations, 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Our House's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, Board of Trustees, others within the entity, U.S. Department of Housing and Urban Development, 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.

/:S:/ *Lauka & Associates*

Lauka & Associates, PC
Portland, Oregon
August 15, 2007

OUR HOUSE OF PORTLAND, INC.
(A nonprofit Organization)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED March 31, 2007

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