

**HOME FORWARD  
PORTLAND, OREGON**

Independent Auditor's Reports and  
Basic Financial Statements  
For Years Ended March 31, 2013 and 2012  
and  
Supplementary Information  
For Year Ended March 31, 2013

# HOME FORWARD

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As of March 31, 2013

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# HOME FORWARD

## BOARD OF COMMISSIONERS, MANAGEMENT AND GENERAL COUNSEL

As of March 31, 2013

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### **BOARD OF COMMISSIONERS**

Ms. Harriet Cormack  
Chair

135 S.W. Ash Street, 6<sup>th</sup> Floor  
Portland, Oregon 97204

Mr. David Widmark  
Vice Chair

135 S.W. Ash Street, 6<sup>th</sup> Floor  
Portland, Oregon 97204

Mr. Jim Smith  
Treasurer

135 S.W. Ash Street, 6<sup>th</sup> Floor  
Portland, Oregon 97204

Mr. Lee Moore  
Chair Emeritus

135 S.W. Ash Street, 6<sup>th</sup> Floor  
Portland, Oregon 97204

Mr. Jorge Guzman  
Commissioner

135 S.W. Ash Street, 6<sup>th</sup> Floor  
Portland, Oregon 97204

Mr. David Kelleher  
Commissioner

135 S.W. Ash Street, 6<sup>th</sup> Floor  
Portland, Oregon 97204

Ms. Benita Legarza  
Commissioner

135 S.W. Ash Street, 6<sup>th</sup> Floor  
Portland, Oregon 97204

Mr. Brian Lessler  
Commissioner

135 S.W. Ash Street, 6<sup>th</sup> Floor  
Portland, Oregon 97204

Ms. Catherine Such  
Commissioner

135 S.W. Ash Street, 6<sup>th</sup> Floor  
Portland, Oregon 97204

### **ADMINISTRATIVE OFFICER**

Mr. Steven D. Rudman  
Executive Director and Secretary/Treasurer

135 S.W. Ash Street, 6<sup>th</sup> Floor  
Portland, Oregon 97204

### **GENERAL COUNSEL**

Mr. Steve Abel

Stoel Rives, LLP  
900 S.W. Fifth Avenue, Suite 2600  
Portland, Oregon 97204

## Independent Auditor's Report

Members of the Board of Commissioners  
of Home Forward  
Portland, Oregon

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activity (primary government) and the aggregate discretely presented component units of Home Forward, Oregon, as of and for the years ended March 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Home Forward's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the aggregate discretely presented component units of Home Forward. Those statements of the discretely presented component units, except for the financial statements discussed in the "Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units" paragraph, were audited by other auditors whose reports 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 the financial statements discussed in the "Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units" paragraph, are based solely on the reports of the other auditors.

We conducted our audits in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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*.

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

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

***Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units***

The financial statements of Stephens Creek Crossing North Limited Partnership and Stephens Creek Crossing South Limited Partnership for the year ended December 31, 2012, and the statement of revenues, expenses and changes in net position for the year ended December 31, 2011 of the RAC Housing Limited Partnership (Limited Partnerships) have not been audited, and we were not engaged to audit the those financial statements as part of our audits of Home Forward's basic financial statements. However, the RAC Housing Limited Partnership's financial statements for the period from inception at March 19, 2008 to December 31, 2011 were audited by other auditors. Limited Partnerships' financial activities are included in Home Forward's basic financial statements as discretely presented component units and represent 5 percent, 2 percent, and 3 percent of the assets, net position and revenues/contributions, respectively, for the year ended December 31, 2012 and represent 15 percent, 16 percent, and 17 percent of the assets, net position and revenues/contributions, respectively, for the year ended December 31, 2011 of Home Forward's aggregate discretely presented component units.

***Qualified Opinion***

In our opinion, based on the reports of other auditors, except for the possible effects of the matter described in the "Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units for Home Forward as of March 31, 2013 and 2012, and the changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Unmodified Opinion***

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) of Home Forward, as of March 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of a Matter***

***Change in Accounting Principle***

As described in Note 1 to the financial statements, effective April 1, 2011, Home Forward adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinions are not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

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 audits 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.

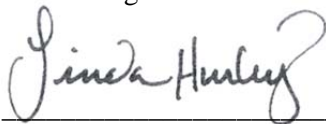
***Other Information***

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Home Forward's basic financial statements. 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 basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2013 on our consideration of Home Forward'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 for the year ended March 31, 2013. 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* in considering Home Forward's internal control over financial reporting and compliance.



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Linda Hurley, Partner  
for Macias Gini & O'Connell LLP  
Walnut Creek, California  
September 24, 2013

**HOME FORWARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Years Ended March 31, 2013 and 2012

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This section of Home Forward's annual financial report presents Management's Discussion and Analysis of the Home Forward's financial performance during the years ended on March 31, 2013 and 2012. Please read it in conjunction with Home Forward'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). Home Forward 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 Home Forward. Agency-wide statements report information about Home Forward 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 Home Forward 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 Home Forward'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 Home Forward as the general partner with minimal ownership interest. The Statements of Net Position includes all of Home Forward'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 Position, regardless of when cash is received or paid.

**Management's Discussion and Analysis – For the Year Ended March 31, 2013**

**Significant Developments**

*New Columbia Community Campus Corporation* - During fiscal year 2013, the building and land owned by New Columbia Community Campus was sold to Portland Public Schools and the Boys and Girls Club of Portland. This fulfilled the entity's role under the New Markets Tax Credit program.

*Scattered Site Sales* – During fiscal year 2008, Home Forward 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 Home Forward's Public Housing Preservation Initiative, with sale proceeds planned for reinvestment in current and replacement low income housing units. During fiscal year 2013, the final unit was sold. The overall sales raised \$26.0 million over 5 years in funding for the acquisition, development and rehabilitation of affordable housing units.

*Transfer of Tax Credit Limited Partnership Interests* - During fiscal year 2013, Home Forward acquired the remaining interest in the Union Station A LIH Limited Partnership and became sole owner of the Yards at Union Station, a 158 unit affordable housing property. This tax credit partnership was originally formed by Home Forward under Section 42 of the Internal Revenue Code.

**HOME FORWARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Years Ended March 31, 2013 and 2012

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**Stephens Creek Crossing** – Work continued on Stephens Creek Crossing, Home Forward's third HOPE VI project awarded by the U.S. Department of Housing and Urban Development (HUD). Originally awarded in May 2011, this initiative involves the demolition and replacement of Hillsdale Terrace, a 60 three-bedroom public housing unit building, with 122 units of varying bedroom sizes. The new property will be known as Stephens Creek Crossing and will consist of a community center owned by Home Forward as well as housing owned by two limited partnership entities, for which Home Forward will be the general partner.

In addition to the 122 units of housing, there will be seven off-site homes, developed in partnership with Habitat for Humanity, and the homes 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 \$52.8 million and Home Forward anticipates providing \$9.3 million in proceeds to the project. \$17.8 million has been expended as of March 31, 2013.

**Beech Street development project** - On January 15, 2013, Home Forward executed a Memorandum of Understanding with Lifeworks NW, a local nonprofit that provides addiction and mental health services, for the construction of a 35 bed treatment facility and a 32 unit permanent rental housing apartment on Beech Street in Portland, Oregon. The \$7.4 million treatment facility, to be owned and operated by Lifeworks NW, will utilize New Markets Tax Credits and the \$10.4 million apartment, to be owned and operated by Home Forward, will utilize 9% low income housing tax credits (LIHTC).

**St. John's Woods** – On January 15, 2013, Home Forward's Board of Commissioners agreed to sell St. John's Woods, a 124 unit affordable housing apartment complex, to Vitus Group for \$8.25 million. The sale is expected to be completed in the fall of 2013 and the property is classified as an asset available for sale.

### **Financial Highlights**

Home Forward's Statements of Net Position reflect modest growth in net position during 2013. Specifically:

- Total assets and deferred outflows of resources decreased \$9.5 million from \$355.2 million at March 31, 2012 to \$345.7 million at March 31, 2013 primarily due to the decrease in capital assets being depreciated of \$10.0 million related to the sale of the New Columbia Community Campus property.
- Total liabilities and deferred inflows of resources decreased \$10.8 million from \$142.1 million at March 31, 2012 to \$131.3 million at March 31, 2013 primarily due to a reduction of notes payable of \$10.8 million related to the sale of the New Columbia Community Campus property.
- Total operating revenues increased \$4.0 million to \$113.3 million primarily due to a \$1.6 million increase in HUD operating subsidies in FY 2013.
- Total operating expenses of \$118.7 million decreased \$0.6 million from the prior year. This decrease is primarily due to a \$4.1 million increase in housing assistance payments offset by a decrease impairment charge of \$3.6 million and \$1.6 million in administration expenses.
- Operating results for 2013 yielded an operating loss of \$5.4 million compared to an operating loss of \$10.1 million for 2012. The operating loss in 2013 includes depreciation expense of \$8.2 million, a non-cash expense.
- Net position grew \$1.3 million to \$214.5 million at March 31, 2013. This growth was primarily due to capital contributions of \$10.4 million offset by the operating loss of \$5.4 million and nonoperating expenses of \$3.7 million.



**HOME FORWARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Years Ended March 31, 2013 and 2012

**Condensed Statement of Net Position**

The following tables show a summary of net position by type at March 31, 2013 and 2012:

(in thousands of dollars)	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
<b>Assets and Deferred Outflows of Resources</b>			
Current assets	\$ 42,078	\$ 48,257	\$ (6,179)
Non-current assets	165,397	162,277	3,120
Capital assets	132,775	142,556	(9,781)
Assets available for sale	<u>3,264</u>	<u>30</u>	<u>3,234</u>
Total assets before deferred outflows of resources	343,514	353,120	(9,606)
Deferred outflows of resources/derivative instruments	<u>2,186</u>	<u>2,056</u>	<u>130</u>
Total assets and deferred outflows of resources/derivative instruments	<u>345,700</u>	<u>355,176</u>	<u>(9,476)</u>
<b>Liabilities and Deferred Inflows of Resources</b>			
Current liabilities	14,506	21,854	(7,348)
Non-current liabilities	114,558	118,142	(3,584)
Deferred inflows of resources	<u>2,186</u>	<u>2,056</u>	<u>130</u>
Total liabilities and deferred inflows of resources	<u>131,250</u>	<u>142,052</u>	<u>(10,802)</u>
<b>Net Position</b>			
Net Investment in capital assets	57,616	61,869	(4,253)
Restricted	22,007	21,045	962
Unrestricted	<u>134,827</u>	<u>130,210</u>	<u>4,617</u>
Total net position	<u>214,450</u>	<u>213,124</u>	<u>1,326</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 345,700</u>	<u>\$ 355,176</u>	<u>\$ (9,476)</u>

**Year-end Financial Position**

Current assets decreased in 2013 from \$48.3 million to \$42.1 million. Cash and cash equivalents decreased \$2.8 million and investments decreased \$5.1 million with proceeds loaned to the Stephens Creek Crossing project. This decrease was offset by an increase in Accounts Receivable of \$1.9 million primarily due to an increase in amounts owed by HUD.

Non-current assets (other than capital assets) increased \$3.1 million, mainly due to the increase in investments in partnership of \$10.2 million for the Stephens Creek Crossing partnerships offset by a \$5.6 million reduction in notes receivable – partnership for Union Station, formerly a tax credit partnership with full ownership acquired by Home Forward during fiscal year 2013.

Capital assets decreased \$9.8 million. This decrease is mainly due to the New Columbia Community Campus sale of property and land related to Portland Public Schools and the Boys and Girls Club of Portland.

Assets available for sale increased \$3.2 million in 2013 due to the pending sale of St. John's Woods, a 124 unit affordable housing apartment complex.

**HOME FORWARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
Years Ended March 31, 2013 and 2012

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Current liabilities decreased \$7.3 million during the year, again primarily related to the retirement of debt associated with the sale of property of New Columbia Community Campus.

Non-current liabilities decreased by \$3.6 million during 2013. This decrease is primarily due to the \$5.6 million reduction in bonds payable related to the Union Station purchase.

Net position at March 31, 2013 was \$214.5 million, a modest increase of \$1.3 million over 2012. This increase mainly resulted from \$10.4 million in capital contributions from HUD, the City of Portland, Multnomah County and other sources in support of development activities offset by a fiscal year 2013 loss before capital contributions of \$9.1 million.

**Notes and Bonds Payable**

At March 31, 2013, Home Forward had \$75.2 million of notes and bonds payable outstanding (excluding bonds payable–partnerships), a decrease of \$5.5 million over the prior year. More detailed information about Home Forward's capital debt is presented in Notes 11 and 12 to the financial statements.

(in thousands of dollars)	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Current portion of notes and bonds payable	\$ 4,146	\$ 10,754	\$ (6,608)
Notes payable	48,084	51,508	(3,424)
Bonds payable	<u>22,928</u>	<u>18,424</u>	<u>4,504</u>
Total notes and bonds payable	<u>\$ 75,158</u>	<u>\$ 80,686</u>	<u>\$ (5,528)</u>

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

**HOME FORWARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Years Ended March 31, 2013 and 2012

**Results of Operation – Year ended March 31, 2013 compared to Year Ended March 31, 2012**

**Statement of Revenues, Expenses and Changes in Net Position**

(in thousands of dollars)	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
<b>Operating revenues</b>			
Rental revenue	\$ 14,159	\$ 14,077	\$ 82
HUD subsidies and grants	91,281	89,691	1,590
ARRA revenue	118	365	(247)
Development fee revenue	953	95	858
State, local and other grants	4,620	3,741	879
Other	2,138	1,284	854
	<u>113,269</u>	<u>109,253</u>	<u>4,016</u>
<b>Operating expenses</b>			
Housing assistance payments	71,886	67,786	4,100
Administration	19,467	21,028	(1,561)
Tenant services	4,350	4,174	176
Utilities	4,265	4,182	83
Maintenance	9,097	9,274	(177)
Depreciation	8,193	8,132	61
Other	1,420	1,101	319
Impairment charge	-	3,641	(3,641)
	<u>118,678</u>	<u>119,318</u>	<u>(640)</u>
<b>Operating income/(loss)</b>	<u>(5,409)</u>	<u>(10,065)</u>	<u>4,656</u>
<b>Nonoperating revenues (expenses)</b>			
Investment income	606	563	43
Interest expense	(2,868)	(3,381)	513
Investment in partnership valuation charge	3	(37)	40
Amortization	(315)	(575)	260
Loss on sale of capital assets	(1,185)	(1,378)	193
Gain on sale of assets available for sale	112	1,797	(1,685)
	<u>(3,647)</u>	<u>(3,011)</u>	<u>(636)</u>
<b>Income (Loss) before Capital Contributions</b>	<u>(9,056)</u>	<u>(13,076)</u>	<u>4,020</u>
<b>Capital Contributions</b>			
HUD non-operating contributions	9,336	2,889	6,447
Other non-operating contributions	1,045	15,724	(14,679)
ARRA non-operating contributions	-	3,278	(3,278)
	<u>10,381</u>	<u>21,891</u>	<u>(11,510)</u>
<b>Increase in net position</b>	<u>1,325</u>	<u>8,815</u>	<u>(7,490)</u>
<b>Net position - Beginning of year</b>	<u>213,124</u>	<u>204,309</u>	<u>8,815</u>
<b>Net position - End of year</b>	<u>\$ 214,449</u>	<u>\$ 213,124</u>	<u>\$ 1,325</u>

**HOME FORWARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Years Ended March 31, 2013 and 2012

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Fiscal year 2013 generated an operating loss of \$5.4 million. This result is a \$4.7 million improvement in operating income from fiscal year 2012. Total operating revenues were \$4.0 million higher while operating expenses decreased by \$0.6 million.

Operating revenues of \$113.3 million increased \$4.0 million from fiscal year 2012. HUD housing assistance subsidies increased \$3.9 million while public housing operating subsidies decreased \$1.9 million. Additionally, there was a \$0.9 million increase in development fee revenue, mainly due to fees earned for Stephens Creek Crossing, a \$0.9 Million increase in state, local and other grants due to an increase in rent assistance grants from the City of Portland and a \$0.9 million increase in other revenue due to improved collection of general partner fees. These increases were offset by a \$0.4 million decrease in HUD grants for relocation work associated with the Stephens Creek Crossing HOPE VI project and a reduction in non-capitalized work eligible for HUD capital grant funds.

Operating expenses decreased \$0.6 million to \$118.7 million in 2013. This was mainly due to an increase in housing assistance payments of \$4.1 million offset by decreases in impairment of capital assets of \$3.6 million and administration expenses of \$1.6 million.

Nonoperating revenues (expenses) netted \$3.6 million of expenses in 2013, an increase of \$0.6 million. This was due mainly to \$1.7 million lower gain on sale of assets as the final scattered site sold in 2013 compared to 18 units sold in 2012 offset by a reduction of \$0.5 million in interest expense.

During 2013, capital contributions from HUD and other sources totaled \$10.3 million with funds mainly supporting the Stephens Creek Crossing HOPE VI project.

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**Management's Discussion and Analysis – For the Year Ended March 31, 2012**

**Significant Developments**

*Home Forward, a new name for the Housing Authority of Portland* – 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, Home Forward enables individuals and families of Multnomah County to move forward in life by providing hope, access, and the potential for a better tomorrow. The Housing Authority of Portland is now a registered business name of Home Forward.

*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). In prior years, Home Forward received and expended \$6.3 million of additional capital grant funds and \$0.2 million in competitive public housing ARRA funding for ADA improvements. In 2011, Home Forward was awarded \$3.3 million of competitive ARRA funding from HUD for gap financing for the Bud Clark Commons project (see below) and these funds were expended in fiscal year 2012.

Home Forward 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 Home Forward is approximately \$4.0 million. In fiscal year 2012, Home Forward expended \$0.4 million in HPRP funds bringing grant utilization-to-date to \$3.9 million.

**HOME FORWARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Years Ended March 31, 2013 and 2012

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**RAC Housing Limited Partnership (Bud Clark Commons)** – Home Forward, 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 facility is comprised of two units, the shelter unit is owned by Home Forward and the housing unit is owned by RAC Housing Limited Partnership. Home Forward is the general partner.

**Scattered Site Sales** – During fiscal year 2008, Home Forward 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 Home Forward's Public Housing Preservation Initiative, with sale proceeds planned for reinvestment in current and replacement low income housing units. During fiscal year 2012, 18 units were sold and 7 units were placed back into service. There is one remaining unit of the original 158 that is anticipated to be sold in April 2013.

**Transfer of Tax Credit Limited Partnership Interests** - During fiscal year 2012, Home Forward acquired the remaining interest in the Kelly Place Limited Partnership, and became sole owner of this low income housing properties. This tax credit partnership was originally formed by Home Forward under Section 42 of the Internal Revenue Code.

**Stephens Creek Crossing** – On May 23, 2011, Home Forward 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, comprised of 60 three-bedroom public housing units, will be demolished and replaced with 122 units of varying bedroom sizes. The new property will be known as Stephens Creek Crossing and will consist of a community center owned by Home Forward as well as housing owned by two limited partnership entities, for which Home Forward will be the general partner.

In addition to the 122 units of housing, Stephens Creek Crossing, there will be seven off-site homes, developed in partnership with Habitat for Humanity, and the homes 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. \$3.3 million has been expended as of March 31, 2012.

### **Financial Highlights**

Home Forward's Statements of Net Position continued to reflect favorable liquidity and growth in net position during 2012. Specifically:

- Total assets and deferred outflows of resources decreased \$10.8 million from \$366.0 million at March 31, 2011 to \$355.2 million at March 31, 2012 primarily due to the decrease in notes receivable – partnership of \$24.1 million, offset by an increase in investments in partnerships of \$13.1 million.
- Total liabilities and deferred inflows of resources decreased \$19.6 million from \$161.7 million at March 31, 2011 to \$142.1 million at March 31, 2012 primarily due to a reduction of bonds payable – partnerships of \$24.1 million, offset by an increase in notes payable of \$2.8 million.
- Total operating revenues decreased \$2.9 million to \$109.3 million primarily due to a \$3.8 million decrease in development fee revenue in FY 2012 and a decrease of ARRA revenue of \$2.4 million. This was offset by an increase in HUD grants of \$1.7 million and an increase in state, local and other grants of \$1.7 million.

**HOME FORWARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Years Ended March 31, 2013 and 2012

- Total operating expenses of \$119.3 million increased \$8.6 million from the prior year. The increase is primarily due to \$2.2 million increase in housing assistance payments, and increases in two non-cash expenses - an impairment charge of \$3.6 million and \$0.9 in higher depreciation expense.
- Operating results for 2012 yielded an operating loss of \$10.1 million compared to operating income of \$1.5 million for 2011. The operating loss in 2012 includes depreciation expense of \$8.1 million and an impairment charge of \$3.6 million, both non-cash expenses.
- Net position grew \$8.8 million to \$213.1 million at March 31, 2012. This growth was primarily due to capital contributions of \$21.9 million, of which \$14.7 million related to funds used for the completion of the Bud Clark Commons, offset by the operating loss of \$10.1 million.

**Condensed Statement of Net Position**

The following tables show a summary of net position by type at March 31, 2012 and 2011:

(in thousands of dollars)	<u>2012</u>	<u>2011</u> <u>(reclassified)</u>	<u>Increase</u> <u>(Decrease)</u>
<b>Assets and Deferred Outflows of Resources</b>			
Current assets	\$ 48,257	\$ 64,374	\$ (16,117)
Non-current assets	162,277	155,719	6,558
Capital assets	142,556	143,828	(1,272)
Assets available for sale	30	787	(757)
Total assets	<u>353,120</u>	<u>364,708</u>	<u>(11,588)</u>
Deferred outflows of resources/derivative instruments	<u>2,056</u>	<u>1,287</u>	<u>769</u>
Total assets and deferred outflows of resources/derivative instruments	<u>\$ 355,176</u>	<u>\$ 365,995</u>	<u>\$ (10,819)</u>
<b>Liabilities and Deferred Inflows of Resources</b>			
Current liabilities	\$ 21,854	\$ 34,382	\$ (12,528)
Non-current liabilities	118,142	126,017	(7,875)
Total liabilities	<u>2,056</u>	<u>1,287</u>	<u>769</u>
Deferred inflows of resources	<u>142,052</u>	<u>161,686</u>	<u>(19,634)</u>
Total liabilities and deferred inflows of resources	<u>\$ 355,176</u>	<u>\$ 365,995</u>	<u>\$ (10,819)</u>
<b>Net Position</b>			
Net investment in capital assets	61,869	66,546	(4,677)
Restricted	21,045	26,777	(5,732)
Unrestricted	<u>130,210</u>	<u>110,986</u>	<u>19,224</u>
Total Net Position	<u>213,124</u>	<u>204,309</u>	<u>8,815</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 355,176</u>	<u>\$ 365,995</u>	<u>\$ (10,819)</u>

**Year-end Financial Position**

Current assets decreased in 2012 from \$64.4 million to \$48.3 million. Current portion of notes receivable decreased \$23.2 million due to the repayment of construction financing provided to the RAC Housing Limited Partnership. Net accounts receivable decreased \$4.2 million due to collection of outstanding draws from funders for the Bud Clark Commons

**HOME FORWARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
Years Ended March 31, 2013 and 2012

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project. Cash and cash equivalents (including restricted categories) increased by \$10.3 million, mainly due to the sale of long term investments during the current year.

Non-current assets increased \$6.6 million, mainly due to the increase in investments in partnership of \$13.1 million for the RAC Housing Limited Partnership, the \$11.5 million increase in notes and accrued interest receivable related to the Martha Washington and Bud Clark Commons projects, offset by a \$5.3 million decrease in Due from Partnerships, net, and an \$11.2 million reduction of long term investments.

Capital assets decreased \$1.2 million. The decrease includes the depreciation of \$8.1 million, the disposal of Hillsdale Terrace property of \$2.8 million, and the \$3.6 million impairment of two affordable housing properties requiring repairs for structural defects. Offsetting the decrease were increases in public housing capital assets of \$3.2 million, \$3.5 million related to the Bud Clark Commons shelter, a \$1.5 million rehab at Ainsworth Court and the \$1.2 million of capital assets from Kelly Place acquired at the end of the tax compliance period under Section 42 of the Internal Revenue Code. Additionally, work in progress at Stephens Creek Crossing totaled \$1.3 million and will be transferred to two tax credit partnerships during fiscal year 2013.

Assets available for sale decreased \$0.8 million in 2012. During 2012, Home Forward sold 18 scattered sites properties and placed 7 scattered sites, previously considered as assets available for sale, back into service.

Current liabilities decreased \$12.5 million during the year, primarily due to the \$23.2 million decrease in current portion of bonds payable – partnership for the retirement of RAC Housing Limited Partnership construction bonds payable in fiscal year 2012. Offsetting this decrease, the current portion of notes payable increased \$8.9 million primarily due to the \$8.8 million note due in October 2012 related to N4C.

Non-current liabilities decreased by \$7.9 million during 2012. This decrease is primarily the result of the reclassification to current liabilities of \$8.8 million of notes payable for N4C offset by the issuance of \$2.4 million of new notes issued for Ainsworth Court and Madrona Apartments.

Net position at March 31, 2012 were \$213.1 million, an increase of \$8.8 million over 2011. This increase mainly resulted from \$21.9 million in capital contributions from HUD, the City of Portland, Multnomah County and other sources in support of development activities offset by fiscal year 2012 loss before capital contributions of \$13.1 million.

**Notes and Bonds Payable**

At March 31, 2012, Home Forward had \$80.7 million of notes and bonds payable outstanding (excluding notes payable–partnerships), an increase of \$1.8 million over the prior year. More detailed information about Home Forward's capital debt is presented in Notes 11 and 12 to the financial statements.

(in thousands of dollars)	<u>2012</u>	<u>2011 (reclassified)</u>	<u>Increase (Decrease)</u>
Current portion of notes and bonds payable	\$ 10,754	\$ 1,854	\$ 8,900
Notes payable	51,508	57,553	(6,045)
Bonds payable	<u>18,424</u>	<u>19,460</u>	<u>(1,036)</u>
Total notes and bonds payable	<u>\$ 80,686</u>	<u>\$ 78,867</u>	<u>\$ 1,819</u>

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

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**HOME FORWARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Years Ended March 31, 2013 and 2012

**Results of Operation – Year ended March 31, 2012 compared to Year Ended March 31, 2011**

**Statement of Revenues, Expenses and Changes in Net Position**

(in thousands of dollars)	<b>2012</b>	<b>2011 (restated)</b>	<b>Increase (Decrease)</b>
<b>Operating revenues</b>			
Rental revenue	\$ 14,077	\$ 13,596	\$ 481
HUD subsidies and grants	89,691	87,975	1,716
ARRA revenue	365	2,780	(2,415)
Development fee revenue	95	3,929	(3,834)
State, local and other grants	3,741	2,026	1,715
Other	1,284	1,861	(577)
	<u>109,253</u>	<u>112,167</u>	<u>(2,914)</u>
<b>Operating expenses</b>			
Housing assistance payments	67,786	65,583	2,203
Administration	21,028	20,352	676
Tenant services	4,174	3,544	630
Utilities	4,182	4,120	62
Maintenance	9,274	8,995	279
Depreciation	8,132	7,211	921
Other	1,101	876	225
Impairment charge	3,641	-	3,641
	<u>119,318</u>	<u>110,681</u>	<u>8,637</u>
<b>Operating income/(loss)</b>	<u>(10,065)</u>	<u>1,486</u>	<u>(11,551)</u>
<b>Nonoperating revenues (expenses)</b>			
Investment income	563	547	16
Interest expense	(3,381)	(3,469)	88
Investment in partnership valuation charge	(37)	(386)	349
Amortization	(575)	(252)	(323)
Loss on sale of capital assets	(1,378)	(595)	(783)
Gain on sale of assets available for sale	1,797	4,656	(2,859)
	<u>(3,011)</u>	<u>501</u>	<u>(3,512)</u>
<b>Income (Loss) before Capital Contributions</b>	<u>(13,076)</u>	<u>1,987</u>	<u>(15,063)</u>
<b>Capital Contributions</b>			
HUD non-operating contributions	2,889	4,535	(1,646)
Other non-operating contributions	15,724	12,047	3,677
ARRA non-operating contributions	3,278	1,918	1,360
	<u>21,891</u>	<u>18,500</u>	<u>3,391</u>
<b>Increase in Net Position</b>	8,815	20,487	(11,672)
<b>Net Position—Beginning of year (as restated)</b>	<u>204,309</u>	<u>183,822</u>	<u>20,487</u>
<b>Net Position—End of year</b>	<u>\$ 213,124</u>	<u>\$ 204,309</u>	<u>\$ 8,815</u>



**HOME FORWARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Years Ended March 31, 2013 and 2012

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Fiscal year 2012 generated an operating loss of \$10.1 million. This result is an \$11.6 million decrease in operating income from fiscal year 2011. Total operating revenues were lower by \$2.9 million while operating expenses increased by \$8.6 million.

Operating revenues of \$109.3 million decreased \$2.9 million from fiscal year 2011. Development fee revenue decreased \$3.8 million due to activity associated with the Resource Access Center project earned in 2011. Additionally, there was a \$2.4 million decrease in ARRA revenue, as that program was nearly completed by the middle of 2012. These decreases were offset by a \$1.7 million increase in State, local and other grants, to support local rent assistance programs and \$1.7 million increase in HUD grants to support shelter plus care program and the Hope VI redevelopment at Stephens Creek Crossing.

Operating expenses increased \$8.6 million to \$119.3 million in 2012. This was mainly due to \$3.6 million impairment of capital assets due to identified structural defects. These defects are being repaired, and that work will be completed during 2013. Additionally, housing assistance payments increased \$2.2 million. Also, depreciation expense increased \$0.9 million related to capital improvements at various public and affordable housing properties.

Nonoperating revenues (expenses) netted \$3.0 million of expenses in 2012, a decrease of \$3.5 million. This was due mainly to lower gain on sale of assets as 18 scattered sites sold in 2012 compared to 26 sold in 2011 and a \$1.4 million loss on sale and disposal of capital assets, which was \$0.8 million worse than in 2011.

During 2012, capital contributions from HUD and ARRA non-operating funds (also from HUD) were \$6.2 million for 2012 compared to \$6.5 million in 2011. Other capital contributions of \$15.7 million included \$11.4 million in funds from the City of Portland for the RAC Housing Limited Partnership project and \$3.5 million of funds for the Bud Clark Commons project.

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### **Forward Looking Information**

On March 1, 2013, Federal Budget Sequestration went into effect requiring 5.0% spending cuts of federal programs for federal fiscal year 2013. As a result of the sequestration, Home Forward is receiving approximately \$5.3 million less in federal funding. Home Forward is taking the following steps in FY 2014 to balance the funding shortfall:

- Rent increases for public housing residents and Section 8 participants effective August 1, 2013.
- No staff pay increase and staff furlough day.
- A voluntary lay-off and retirement program.
- Reductions in administration costs

In addition to these steps, Home Forward has stopped drawing from the Section 8 Voucher waiting list. Home Forward is anticipating this stoppage to continue throughout FY 2014.

In April 2013, New Columbia Community Campus changed its name to Home Forward Development Enterprises and changed its primary purpose to support Home Forward to allow development, redevelopment, operation and maintenance of one or more housing projects (as defined in ORS 456.065) in the state of Oregon as opposed to only the New Columbia neighborhood.

In August 2013, Home Forward submitted an application for 9% low income housing tax credits for Sellwood Center apartments.

**HOME FORWARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Years Ended March 31, 2013 and 2012

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In September 2013, Home Forward converted four buildings from public housing funding to project based section 8 funding and transferred the buildings to Home Forward Development Enterprises. This is the first phase of Home Forward's *85 Stories*, an initiative to preserve over 1,200 units affordable housing at ten buildings in the greater Portland area. Home Forward management is evaluating the opportunities to preserve the remaining six additional public housing high rise buildings identified as needing major capital investments.

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**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 Home Forward's finances, and to demonstrate Home Forward'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, Home Forward, 135 S.W. Ash Street, Portland, Oregon 97204 or emailed to [info@homeforward.org](mailto:info@homeforward.org).

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# HOME FORWARD

## STATEMENTS OF NET POSITION

As of March 31, 2013 and 2012 (with Discretely Presented Component Units as of December 31, 2012 and 2011)

	HOME FORWARD		DISCRETELY PRESENTED COMPONENT UNITS	
	March 31, 2013	March 31, 2012	December 31, 2012	December 31, 2011
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 26,432,181	\$ 29,219,781	5,269,524	\$ 5,614,062
Cash and cash equivalents - restricted	7,604,129	7,574,750	11,932,090	11,498,011
Investments	-	5,083,940	-	-
Investments - restricted	-	-	1,310,969	1,311,983
Accounts receivable, net	6,366,629	4,474,541	1,563,301	427,891
Prepaid expenses	871,526	943,968	212,259	294,966
Current portion of notes receivable—partnerships	803,933	960,290	-	-
	42,078,398	48,257,270	20,288,143	19,146,913
<b>NON-CURRENT ASSETS:</b>				
Investments- Restricted	2,039,707	1,533,595	1,144,905	1,144,905
Due from partnerships, net	1,631,704	589,376	-	-
Notes and accrued interest receivable	96,168,717	89,372,619	382,624	382,624
Notes receivable—partnerships	40,082,956	45,052,668	-	-
Deferred charges, net	1,702,492	1,956,639	3,463,506	3,587,049
Investments in partnerships	23,771,063	23,771,793	-	-
Capital assets not being depreciated	24,223,712	23,573,229	24,229,709	13,927,763
Capital assets being depreciated, net	108,550,668	118,982,787	223,714,115	236,806,919
	298,171,019	304,832,706	252,934,859	255,849,260
<b>ASSETS AVAILABLE FOR SALE</b>	3,264,295	29,756	-	-
<b>TOTAL ASSETS BEFORE DEFERRED OUTFLOWS OF RESOURCES</b>	343,513,712	353,119,732	273,223,002	274,996,173
Deferred outflows of resources - derivative instruments	2,186,084	2,056,476	-	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	\$ 345,699,796	\$ 355,176,208	\$ 273,223,002	\$ 274,996,173

(continued)

See accompanying notes to the financial statements.

# HOME FORWARD

## STATEMENTS OF NET POSITION

As of March 31, 2013 and 2012 (with Discretely Presented Component Units as of December 31, 2012 and 2011)

	HOME FORWARD		DISCRETELY PRESENTED COMPONENT UNITS	
	March 31, 2013	March 31, 2012	December 31, 2012	December 31, 2011
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>				
<b>CURRENT LIABILITIES:</b>				
Line of credit	\$ 1,351,023	\$ 351,713	\$ -	\$ -
Accounts payable	2,517,844	2,928,906	908,087	563,827
Accrued interest payable, payable from restricted assets	467,606	442,127	531,643	555,649
Other accrued liabilities	2,492,324	2,590,384	7,787,602	8,379,532
Unearned revenue	1,053,475	2,179,461	180,238	172,781
Deposits, payable from restricted assets	1,672,603	1,646,349	958,006	890,213
Current portion of bonds payable—partnerships	803,933	960,290	-	-
Current portion of notes payable	2,847,236	9,784,364	1,886,569	21,592,069
Current portion of bonds payable	1,299,464	970,000	-	-
	<u>14,505,508</u>	<u>21,853,594</u>	<u>12,252,145</u>	<u>32,154,071</u>
<b>NON-CURRENT LIABILITIES:</b>				
Notes payable - long-term	48,083,766	51,508,439	181,197,853	174,877,297
Bonds payable	22,928,316	18,424,349	-	-
Bonds payable—partnerships	40,082,956	45,052,668	-	-
Accrued interest - long-term	3,067,076	2,885,889	6,709,278	6,127,284
Other liabilities	396,600	270,833	2,400,006	1,249,526
	<u>114,558,714</u>	<u>118,142,178</u>	<u>190,307,137</u>	<u>182,254,107</u>
<b>TOTAL LIABILITIES BEFORE DEFERRED INFLOWS OF RESOURCES</b>				
	<u>129,064,222</u>	<u>139,995,772</u>	<u>202,559,282</u>	<u>214,408,178</u>
Deferred inflows of resources - derivative instruments	2,186,084	2,056,476	-	-
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>				
	<u>131,250,306</u>	<u>142,052,248</u>	<u>202,559,282</u>	<u>214,408,178</u>
<b>NET POSITION:</b>				
Net investments in capital assets	57,615,598	61,868,864	64,859,402	54,265,317
Restricted:				
Real estate sale proceeds	13,509,050	13,835,394	-	-
Residual receipts	132,441	132,291	-	-
Funds held in trust and debt amortization funds	8,205,654	6,867,884	13,440,894	12,970,393
Unused PILOT funds	159,916	209,834	-	-
	<u>22,007,061</u>	<u>21,045,403</u>	<u>13,440,894</u>	<u>12,970,393</u>
Unrestricted (deficit)	134,826,831	130,209,693	(7,636,576)	(6,647,715)
<b>TOTAL NET POSITION</b>				
	<u>214,449,490</u>	<u>213,123,960</u>	<u>70,663,720</u>	<u>60,587,995</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>				
	<u>\$ 345,699,796</u>	<u>\$ 355,176,208</u>	<u>\$ 273,223,002</u>	<u>\$ 274,996,173</u>

See accompanying notes to the financial statements.

# HOME FORWARD

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended March 31, 2013 and 2012 (with Discretely Presented Component Units Years Ended December 31, 2012 and 2011)

	HOME FORWARD		DISCRETELY PRESENTED COMPONENT UNITS	
	March 31, 2013	March 31, 2012	December 31, 2012	December 31, 2011
<b>OPERATING REVENUES:</b>				
Dwelling rental	\$ 12,473,103	\$ 12,285,314	\$ 14,676,688	\$ 14,353,158
Non-dwelling rental	1,686,003	1,792,125	482,407	424,449
HUD operating subsidies	84,886,414	82,849,169	2,209,902	1,662,553
HUD grants	6,394,836	6,842,403	-	-
ARRA revenue	117,860	364,511	-	-
Development fee revenue	952,901	95,106	-	-
State, local and other grants	4,620,197	3,740,996	-	-
Other	2,137,581	1,283,643	1,308,789	1,337,321
	113,268,895	109,253,267	18,677,786	17,777,481
<b>OPERATING EXPENSES:</b>				
Housing assistance payments	71,885,606	67,785,556	63,595	56,160
Administration	19,466,907	21,027,557	5,647,081	5,542,142
Tenant services	4,350,175	4,174,198	343,284	360,527
Utilities	4,265,433	4,182,437	2,465,843	2,349,121
Maintenance	9,096,882	9,273,542	3,251,687	3,116,567
Depreciation	8,193,281	8,132,459	12,279,225	11,494,357
General and other	1,419,546	1,101,422	935,501	771,490
Impairment loss	-	3,641,253	-	-
	118,677,830	119,318,424	24,986,216	23,690,364
<b>OPERATING INCOME/(LOSS)</b>	(5,408,935)	(10,065,157)	(6,308,430)	(5,912,883)
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment income	605,986	562,859	120,829	136,207
Interest expense	(2,867,749)	(3,381,357)	(4,571,974)	(4,812,145)
Investment in partnership valuation charge	2,910	(37,052)	-	-
Change in derivative contract valuation	-	-	(160,672)	(748,970)
Amortization	(314,659)	(575,033)	(196,835)	(624,731)
Loss on sale and disposal of capital assets	(1,185,104)	(1,377,512)	(49,322)	(103,637)
Gain on sale of assets available for sale	112,179	1,797,214	-	-
	(3,646,437)	(3,010,881)	(4,857,974)	(6,153,276)
<b>INCOME/(LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	(9,055,372)	(13,076,038)	(11,166,404)	(12,066,159)
<b>CAPITAL CONTRIBUTIONS:</b>				
HUD nonoperating contributions	9,335,711	2,888,673	-	-
Other nonoperating contributions	1,045,191	15,723,830	-	-
ARRA nonoperating contributions	-	3,278,370	-	-
Partner contributions	-	-	21,242,129	7,830,655
	10,380,902	21,890,873	21,242,129	7,830,655
<b>INCREASE (DECREASE) IN NET POSITION</b>	1,325,530	8,814,835	10,075,725	(4,235,504)
<b>NET POSITION—Beginning of year</b>	213,123,960	204,309,125	60,587,995	64,823,499
<b>NET POSITION—End of year</b>	\$ 214,449,490	\$ 213,123,960	\$ 70,663,720	\$ 60,587,995

See accompanying notes to the financial statements.

**HOME FORWARD**  
**STATEMENTS OF CASH FLOWS**

Years Ended March 31, 2013 and 2012

	<b>HOME FORWARD</b>	
	<b>March 31, 2013</b>	<b>March 31, 2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from HUD grants	\$ 84,754,582	\$ 87,224,942
Receipts from state, local and other grants	4,605,846	3,434,367
Receipts from tenants and landlords	14,180,526	14,140,369
Receipts from developer fees	4,337,239	1,921,587
Receipts from others	5,146,723	4,891,975
Payments to landlords	(71,993,791)	(67,756,244)
Payments to and on behalf of employees	(19,601,710)	(20,376,455)
Payments to vendors, contractors and others	(19,263,825)	(19,237,400)
	<u>2,165,590</u>	<u>4,243,141</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from line of credit	29,587,678	4,938,625
Payments on line of credit	(28,588,368)	(4,586,912)
Proceeds from issuance of notes payable	713,995	19,484,545
Proceeds from issuance of bonds payable	453,387	-
Proceeds from issuance of bonds payable - partnership	1,214,221	-
Interest paid on notes and bonds payable	(2,367,559)	(2,783,787)
Principal payments on notes payable	(9,843,779)	(16,677,888)
Principal payments on bonds payable	(1,018,558)	(1,000,000)
Principal payments on bonds payable—partnerships	(960,290)	(24,076,424)
Change in restricted cash	461,362	(297,764)
Changes in restricted investments	(33,432)	461,920
HUD capital and other nonoperating contributions	10,445,957	26,219,886
Acquisition and construction of capital assets	(9,351,665)	(7,383,450)
Proceeds from the sale of capital assets	8,879,656	-
Proceeds from the sale of assets available for sale	141,935	2,355,882
	<u>(265,460)</u>	<u>(3,345,367)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	-	(998,202)
Proceeds from maturity of investments	5,083,940	11,666,749
Change in deferred charges	(267,776)	(869,899)
Issuance of notes receivable	(11,420,706)	(15,517,247)
Issuance of notes receivable—partnerships	(1,214,221)	-
Collections on notes receivable	181,964	754,638
Collections on notes receivable—partnerships	960,290	24,076,424
Change in due from partnerships, net	318,358	5,148,903
Change in investments in partnerships, net	730	(16,318,200)
Investment income	1,669,692	1,534,270
	<u>(4,687,729)</u>	<u>9,477,436</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,787,600)</b>	<b>10,375,210</b>
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<b>29,219,781</b>	<b>18,844,571</b>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<b>\$ 26,432,181</b>	<b>\$ 29,219,781</b>

(continued)

See accompanying notes to the financial statements.

**HOME FORWARD**  
**STATEMENTS OF CASH FLOWS**

Years Ended March 31, 2013 and 2012

	<b>HOME FORWARD</b>	
	<b>March 31, 2013</b>	<b>March 31, 2012</b>
<b>RECONCILIATION OF OPERATING LOSS</b>		
<b>TO NET CASH FROM OPERATING ACTIVITIES:</b>		
Operating loss	\$ (5,408,935)	\$ (10,065,157)
Adjustments to reconcile operating loss to cash flows from operating activities:		
Depreciation	8,193,281	8,132,459
Impairment loss	-	3,641,253
Changes in assets and liabilities:		
Accounts receivable, net	(2,473,638)	(656,718)
Notes receivable for developer fees	3,384,338	1,826,481
Prepaid expenses	84,261	(87,633)
Accounts payable	(486,745)	587,870
Other accrued liabilities	(98,060)	(380,648)
Other liabilities	125,767	55,024
Unearned revenue	(1,154,679)	1,190,210
Net cash flows from operating activities	<u>\$ 2,165,590</u>	<u>\$ 4,243,141</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS</b>		
Forgiveness of notes payable	<u>\$ 2,081,433</u>	<u>\$ 375,020</u>
Change in investment in partnerships	<u>\$ 830</u>	<u>\$ 3,064</u>
Donated capital assets	<u>\$ 13,293</u>	<u>\$ 139,702</u>
Payment to refunded bond escrow from refunding bond proceeds	<u>\$ 4,025,000</u>	<u>\$ -</u>
Equity transfer - limited partnership purchase		
Restricted assets	\$ 1,021,281	\$ 85,235
Other assets	168,565	114,526
Capital assets	5,452,057	1,231,426
Other liabilities	(260,572)	(180,174)
Tenant security deposits	(84,114)	(5,650)
Accrued interest payable from restricted assets	(64,891)	(206,702)
Notes payable	(849,416)	(842,572)
Bond payable	(5,380,000)	-
Net position	(2,910)	(196,089)
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

**HOME FORWARD**  
NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2013 and 2012

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**— 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. On May 18, 2011, Home Forward changed its legal name from Housing Authority of Portland to Home Forward. Housing Authority of Portland is a now a registered name of Home Forward. Home Forward, is a municipal corporation located in Portland, Oregon.

Home Forward 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. Home Forward 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 Home Forward.

Home Forward is the general partner and owns a 0.01% to 1% investment in each of the following discretely presented component unit limited partnerships:

*General Partner Ownerships presented in both December 31, 2012 and 2011 discretely presented component unit results:*

- 1115 SW 11<sup>th</sup> 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
- Jeffery Apartment Limited Partnership
- Kelly Place Limited Partnership \*
- Lovejoy Station Limited Partnership
- RAC Housing Limited Partnership
- Rockwood Landing Limited Partnership
- Sequoia Square Limited Partnership
- Stephens Creek Crossing North Limited Partnership
- Stephens Creek Crossing South Limited Partnership
- St. Francis Limited Partnership
- Trouton Limited Partnership
- Union Station A LIH Limited Partnership
- Woolsey Limited Partnership

\* On January 1, 2012, Home Forward purchased the limited partnership's interest for the Kelly Place Limited Partnership. See Note 2 for additional information.

As a general practice, Home Forward'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, Home Forward, 135 S.W. Ash Street, Portland, Oregon 97204.

In evaluating how to define Home Forward for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in Home Forward was made by applying the criteria set forth by accounting principles generally accepted in the United States of America (GAAP). As required by the



**HOME FORWARD**  
NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2013 and 2012

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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 Home Forward and the N4C board is appointed by Home Forward board.

***Programs Administered by Home Forward***—Home Forward 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 Home Forward are as follows:

***Public Housing***—Home Forward owns, operates and maintains 2,636 units of Public Housing, of which 637 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 Home Forward and a family as in the Public Housing program. For approved housing, HUD contracts with Home Forward 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, 2013, Home Forward administered approximately 8,620 vouchers through several programs authorized by Section 8. Additionally, Home Forward 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***—Home Forward owns, is developing, or is a partner in approximately 3,952 units of housing, of which 637 are public housing units. The Affordable Housing portfolio consists of 37 multifamily properties representing 3,952 units, of which 2,108 are owned through tax credit partnerships. The Special Needs portfolio consists of 34 properties representing 514 units. The Special Needs properties were developed using grant funds received from the State of Oregon and Federal programs combined with contributions from Home Forward and other local agencies.

***Resident Services***—Home Forward 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***—Home Forward 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***—Home Forward maintains its accounting records as a proprietary fund using the accrual basis of accounting. Home Forward distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses are derived from providing services in connection with Home Forward’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.

**HOME FORWARD**  
NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2013 and 2012

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**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.

**Residual receipts reserve** is maintained for the Plaza and Multnomah Manor properties, which are included in Home Forward’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, 2013 and 2012, the reserve is funded as required.

**Funds held in trust** consist primarily of replacement reserves held in trust and by Home Forward for Affordable Housing properties owned and operated by Home Forward. In addition, the balance includes performance guarantee and other funds held in trust and by Home Forward 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 assets or other non-current assets. As such, the amounts are classified as restricted, non-current assets. During 2013 and 2012, 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. Home Forward 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

**HOME FORWARD**  
NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2013 and 2012

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Program (TAGP) if the financial institution chooses to participate in the program. The TAGP expired on December 31, 2012. As of March 31, 2013, all of Home Forward's funds were collateralized.

As of March 31, 2012, approximately \$795,000 of affordable housing deposits did not have adequate collateralization. The funds not collateralized resided in bank accounts that Home Forward was required to maintain due to the existence of a debt agreement with that bank. The bank associated with these deposits has subsequently provided additional collateralization for these deposits. Home Forward has not experienced any losses from these accounts.

**Investments**—Home Forward entered into an agreement with HUD, known as Moving to Work, in January of 1999. This agreement, among other things, allows Home Forward to conduct its investment activity under the State of Oregon Statutes where the Statutes differ from HUD investment restrictions. These statutes authorize Home Forward 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 Home Forward are stated at fair value. Home Forward 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. Home Forward 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 Home Forward 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.

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.

**HOME FORWARD**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended March 31, 2013 and 2012

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, 2013 as compared to March 31, 2012. Only negotiable investments in certificates of deposit are required to be measured at fair value. Home Forward has no investments of this type as of March 31, 2013 or 2012. 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, Home Forward's assets and liabilities at fair value as of March 31, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Repurchase agreements	\$ -	\$ 2,039,707	\$ -	\$ 2,039,707
Investments in derivatives	-	(2,186,084)	-	(2,186,084)
	<u>\$ -</u>	<u>\$ (146,377)</u>	<u>\$ -</u>	<u>\$ (146,377)</u>

The following table sets forth by level, within the fair value hierarchy, Home Forward's assets and liabilities at fair value as of March 31, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Federal National Mortgage Association				
Discount Notes	\$ -	\$ 2,022,093	\$ -	\$ 2,022,093
Federal Home Loan Bank	-	3,061,847	-	3,061,847
Repurchase agreements	-	1,533,595	-	1,533,595
Investments in derivatives	-	(2,056,476)	-	(2,056,476)
	<u>\$ -</u>	<u>\$ 4,561,059</u>	<u>\$ -</u>	<u>\$ 4,561,059</u>

**Non-current Assets**

*Due from partnerships, net* consists primarily of development and management fees earned by Home Forward through its involvement as the General Partner in tax credit partnerships and partnership project costs paid by Home Forward 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).

*Notes receivable – partnership* consists of required payments to be made by the Partnerships to Home Forward to pay required debt service payments on the Multi-Family Housing Revenue Bonds in which Home Forward has an ownership interest.

*Deferred charges—net* consists of unamortized issue costs and unamortized interest differential associated with the debt restructuring (see Note 12). These charges are being amortized over the lives of the respective bond issues using the straight-line method, which approximates the effective interest method. Net deferred charges were \$1,702,492 and \$1,956,639, as of March 31, 2013 and 2012, respectively.

*Investments in Partnerships* represents Home Forward's equity interest in 21 limited partnerships, Home Forward's discretely presented component units (see Note 7). These investments are accounted for under the equity method because Home Forward either holds a controlling interest or has "significant influence" over the operations of the partnerships.

**HOME FORWARD**  
NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2013 and 2012

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Under the equity method, the initial investment is recorded at cost and is increased or decreased by Home Forward'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, 2013 and March 31, 2012, 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.

During FY 2012, Home Forward incurred impairment losses of approximately \$3,641,000. These impairment losses occurred at three of Home Forward's properties. Home Forward is implementing a \$53 million comprehensive redevelopment of its Hillsdale Terrace public housing property. The new redevelopment is called Stephens Creek Crossing and includes 122 units of housing and seven off-site homes, developed in partnership with Habitat for Humanity. To prepare for the redevelopment, the existing Hillsdale Terrace buildings were demolished and Home Forward wrote off the net book value of \$1,273,000.

During property inspections, Home Forward discovered evidence of physical damage to the exterior envelopes of the buildings at two affordable housing properties, Ash Creek Commons and Willow Tree Apartments. It was determined that a complete siding replacement is necessary to maintain the useful life of these buildings. Using the restoration cost approach, Home Forward calculated an impairment charge of approximately \$2,368,000 during FY 2012.

**Unearned 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, 2013 and 2012.

**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, 2013 and 2012 were \$1,393,892 and \$1,395,031, respectively, and are a component of other accrued liabilities.

**Payments in Lieu of Taxes**—As a municipal corporation, Home Forward is exempt from federal, state and local income and property taxes. Instead, Home Forward is required to make payments to local government entities called Payments in Lieu of Taxes (PILOT) on certain rental properties owned by Home Forward. Under an agreement with the City of Portland, Home Forward 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. Home Forward also makes annual payments to the City of Fairview. Total payments in lieu of taxes for March 31, 2013 and 2012 were \$225,500 and \$255,000, respectively.

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**HOME FORWARD**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended March 31, 2013 and 2012

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**Income Taxes**—Home Forward 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 provisions of Section 42 of the Internal Revenue Code, thus no provision has been made for income taxes. There was no effect on net position 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.

**Reclassifications** - Certain amounts on the financial statements for the year ended March 31, 2012, have been reclassified to be consistent with the classifications adopted for the year ended March 31, 2013.

**New pronouncements adopted** – As of April 1, 2011, Home Forward adopted the provisions of following GASB statements, which did not have a significant impact on its financial statements:

Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedures which does not conflict with or contradict other GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

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

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*. 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. 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. 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 April 2, 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement 65 establishes accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities, as deferred outflows of resources or deferred inflows of resources. Statement 65 amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. Statement 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.

**HOME FORWARD**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended March 31, 2013 and 2012

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On June 25, 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement 68 establishes accounting and financial reporting requirements for pension plans that are administered through trusts. Statement 68 requires governments participating in cost-sharing plans to report a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost sharing plan. Statement 68 also requires that notes to financial statements of cost-sharing employers include descriptive information about the pension plan, including the discount rate and assumptions used to calculate of their proportionate shares of net pension liabilities. Statement 68 requires cost-sharing employers to present in the required supplementary information 10-year schedules for net pension liability, information about contractually required contribution, contributions to the pension plan, and related ratios. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014.

During January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. It establishes accounting related to government combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. Statement 69 also establishes the required financial statement disclosure for government combinations and disposals of government operations. The requirements of this Statement are effective for financial statement for periods beginning after December 15, 2013.

During April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Nonexchange financial guarantees are financial guarantees from a government for obligations of another entity. These guarantees are without directly receiving equal or approximately equal value in exchange. Statement 70 requires nonexchange financial guarantee, which will likely be required to make a payment to the guarantee, to be recognized as a liability. Statement 70 also established the required disclosures for nonexchange financial guarantees for the government that extend and the government that receives nonexchange financial guarantees. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013.

## **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, Home Forward has the option to purchase the property from the partnership.

Tax Credit Limited Partnerships are created to finance and own affordable housing. Home Forward 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, Home Forward 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 Home Forward. The bonds and notes payable are offset by notes receivable from the partnerships. The partnerships make payments to Home Forward for debt service. Home Forward 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 Home Forward 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 Home Forward'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.

Home Forward 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 2013, Home Forward earned \$952,901 in developer fees and was paid \$3.4 million. In 2012, Home Forward earned \$95,000 in developer fees and was paid \$1.9 million.

**HOME FORWARD**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended March 31, 2013 and 2012

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At March 31, 2013 and 2012, the balance of the development fees owed to Home Forward is \$4.8 million and \$7.2 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 \$415,472 and \$545,868 in 2013 and 2012, respectively.

During the year ended March 31, 2013, the following acquisition of interest in tax credit partnerships occurred:

On January 24, 2013, Home Forward purchased the remaining 99.9% interest in Yards at Union Station Limited Partnership. Upon purchase, the partnership was dissolved. A summary of the partnership's statement of net position at the time of purchase was:

Total Assets	\$ 6,641,903
Total Liabilities	<u>6,638,993</u>
Net Position	<u>\$ 2,910</u>

During the year ended March 31, 2012, the following acquisition of interest in tax credit partnerships occurred:

On January 1, 2012, Home Forward purchased the remaining 99% interest in Kelly Place Limited Partnership. Upon purchase, the partnership was dissolved. A summary of the partnership's statement of net position at the time of purchase was:

Total Assets	\$ 1,431,187
Total Liabilities	<u>1,235,098</u>
Net Position	<u>\$ 196,089</u>

### 3. INVESTMENTS

Home Forward'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. Home Forward 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, Home Forward 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, 2013 and 2012, all investments were insured or registered, and held by Home Forward or its agent in Home Forward's name, or uninsured and unregistered, with securities held by the counterparty's trust department or agent in Home Forward'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, Home Forward's policies provide that investments in corporate indebtedness are rated a minimum of A1, P1, 3a3 and investments in municipal debt 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 Home Forward's investment in a single issuer (not including investments issued or guaranteed by the U.S. government, investments in mutual funds, or external



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investments pools). To minimize concentration of credit risk, Home Forward's investments are made from a selection of diverse issuers.

As March 31, 2012, Home Forward's investments in Federal Home Loan Bank and Federal Farm Credit Bank debt securities represented 46% and 31%, respectively, of Home Forward'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. Home Forward 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. Home Forward does not invest in securities associated with exchange rates and therefore is not exposed to foreign currency risk.

Investments – restricted consist of the following at March 31, 2013:

	Credit Rating	Investment maturities (in years)			Fair Value
		< 1 yr	1-3 yrs	>3 yrs	
NON-CURRENT					
Investments - restricted					
Repurchase agreement - Bayerisch	Baa1	\$ -	\$ -	\$ 1,496,853	\$ 1,496,853
Repurchase agreement - Societe Generale	A2	-	-	542,854	542,854
		-	-	2,039,707	2,039,707
		\$ -	\$ -	\$ 2,039,707	\$ 2,039,707
TOTAL					

Investments – restricted consist of the following at March 31, 2012:

	Credit Rating	Investment maturities (in years)			Fair Value
		< 1 yr	1-3 yrs	>3 yrs	
CURRENT					
Investments					
Federal Farm Credit Bank notes	Aaa	\$ 2,022,093	\$ -	\$ -	\$ 2,022,093
Federal Home Loan Bank notes	Aaa	3,061,847	-	-	3,061,847
		5,083,940	-	-	5,083,940
NONCURRENT					
Investments - restricted					
Repurchase agreement - Bayerisch	Baa1	-	-	1,048,180	1,048,180
Repurchase agreement - Societe Generale	A1	-	-	485,415	485,415
		-	-	1,533,595	1,533,595
		\$ 5,083,940	\$ -	\$ 1,533,595	\$ 6,617,535
TOTAL					

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Investments and investments - restricted for the year ended March 31, 2013, matured between April 2027 and May 2029 and the interest rate on the investments ranges from 4.57% to 5.92%. Investments and investments – restricted for the year ended March 31, 2012, matured between April 2012 and January 2029 and the interest rate on these investments ranged from 0.03% to 5.92%. The repurchase agreements are guaranteed investment contracts.

**4. ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following at March 31:

	<u>2013</u>	<u>2012</u>
HUD grants	\$ 4,544,766	\$ 3,011,866
State, local and other grants	1,398,858	1,081,885
Tenants and landlords	942,776	697,860
Other	320,478	196,104
	<u>7,206,878</u>	<u>4,987,715</u>
Less allowance for doubtful accounts	(840,249)	(513,174)
	<u>6,366,629</u>	<u>4,474,541</u>

**5. DUE FROM PARTNERSHIPS**

Due from partnerships consists of the following at March 31:

	<u>2013</u>	<u>2012</u>
Cecelia Limited Partnership	\$ 546,275	\$ 501,275
Stephens Creek Crossing North Limited Partnership	545,376	-
Woolsey Limited Partnership	382,429	336,804
Stephens Creek Crossing South Limited Partnership	379,232	-
Clay Street Limited Partnership	371,908	322,686
RAC Housing Limited Partnership	288,518	97,573
Gladstone Square Limite Partnership	278,094	251,859
Fountain Place Limited Partnership	162,138	157,138
All other partnerships	579,175	669,472
	<u>3,533,145</u>	<u>2,336,807</u>
Less: allowance for doubtful accounts	(1,901,441)	(1,747,431)
	<u>\$ 1,631,704</u>	<u>\$ 589,376</u>

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**6. NOTES RECEIVABLE AND ACCRUED INTEREST**

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

	<u>2013</u>	<u>2012</u>
Partnership notes	\$ 96,416,248	\$ 89,801,571
Homeowners notes	228,300	228,300
	<u>96,644,548</u>	<u>90,029,871</u>
Accrued interest receivable	5,962,023	5,264,721
Less: Allowance for doubtful accounts	<u>(6,437,854)</u>	<u>(5,921,973)</u>
Total notes and accrued interest receivable	<u>\$ 96,168,717</u>	<u>\$ 89,372,619</u>

Partnership notes have been issued to the limited partnerships invested in by Home Forward. 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 6% with various maturity dates to 2072. 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. As of March 31, 2013, all Homeowners' accrued interest had been forgiven. Principal is payable upon sale of property or various dates between 2033 through 2037.

**7. INVESTMENTS IN PARTNERSHIPS**

Investments in partnerships consist of the following at March 31:

	<u>2013</u>	<u>2012</u>
RAC Housing Limited Partnership	\$ 21,186,251	\$ 21,186,489
Cecilia Limited Partnership	1,273,151	1,273,257
Haven Limited Partnership	516,092	516,132
Lovejoy Station Limited Partnership	256,694	256,527
Rockwood Landing Limited Partnership	224,799	224,811
Clay Street Limited Partnership	96,479	96,710
All other partnerships	<u>217,597</u>	<u>217,867</u>
Total investments in partnerships	<u>\$ 23,771,063</u>	<u>\$ 23,771,793</u>

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**8. CAPITAL ASSETS**

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

	<b>Balance April 1, 2012</b>	<b>Additions and transfers in</b>	<b>Disposals and transfers out</b>	<b>Reclassified as Available for Sale</b>	<b>Balance March 31, 2013</b>
Land	\$ 21,021,757	\$ 2,680,652	\$ (397,839)	\$ (793,539)	\$ 22,511,031
Construction in progress	2,551,472	7,239,408	(8,078,199)	-	1,712,681
Total capital assets not being depreciated	<u>23,573,229</u>	<u>9,920,060</u>	<u>(8,476,038)</u>	<u>(793,539)</u>	<u>24,223,712</u>
Buildings and improvements	180,100,150	16,690,716	(12,691,438)	(3,938,247)	180,161,181
Equipment	14,365,528	507,479	(1,561,205)	-	13,311,802
	<u>194,465,678</u>	<u>17,198,195</u>	<u>(14,252,643)</u>	<u>(3,938,247)</u>	<u>193,472,983</u>
Less: Accumulated depreciation					
Buildings and improvements	(67,505,583)	(12,301,253)	2,523,243	1,467,491	(75,816,102)
Equipment	(7,977,308)	(1,788,233)	659,328	-	(9,106,213)
Total Accumulated depreciation	<u>(75,482,891)</u>	<u>(14,089,486)</u>	<u>3,182,571</u>	<u>1,467,491</u>	<u>(84,922,315)</u>
Total capital assets being depreciated	<u>118,982,787</u>	<u>3,108,709</u>	<u>(11,070,072)</u>	<u>(2,470,756)</u>	<u>108,550,668</u>
Total capital assets, net	<u>\$ 142,556,016</u>	<u>\$ 13,028,769</u>	<u>\$ (19,546,110)</u>	<u>\$ (3,264,295)</u>	<u>\$ 132,774,380</u>

	<b>Balance April 1, 2011 (reclassified)</b>	<b>Additions and transfers in</b>	<b>Disposals and transfers out</b>	<b>Reclassified as Available for Sale</b>	<b>Balance March 31, 2012</b>
Land	\$ 20,415,996	\$ 609,536	\$ (3,775)	\$ -	\$ 21,021,757
Construction in progress	3,999,509	9,952,412	(11,400,449)	-	2,551,472
Total capital assets not being depreciated	<u>24,415,505</u>	<u>10,561,948</u>	<u>(11,404,224)</u>	<u>-</u>	<u>23,573,229</u>
			-		
Buildings and improvements	177,121,463	11,756,343	(8,777,656)	-	180,100,150
Equipment	12,243,102	2,174,503	(52,077)	-	14,365,528
	<u>189,364,565</u>	<u>13,930,846</u>	<u>(8,829,733)</u>	<u>-</u>	<u>194,465,678</u>
Less: Accumulated depreciation					
Buildings and improvements	(63,425,487)	(7,887,478)	3,807,382	-	(67,505,583)
Equipment	(6,526,343)	(1,476,205)	25,240	-	(7,977,308)
Total Accumulated depreciation	<u>(69,951,830)</u>	<u>(9,363,683)</u>	<u>3,832,622</u>	<u>-</u>	<u>(75,482,891)</u>
Total capital assets being depreciated	<u>119,412,735</u>	<u>4,567,163</u>	<u>(4,997,111)</u>	<u>-</u>	<u>118,982,787</u>
Total capital assets, net	<u>\$ 143,828,240</u>	<u>\$ 15,129,111</u>	<u>\$ (16,401,335)</u>	<u>\$ -</u>	<u>\$ 142,556,016</u>

**HOME FORWARD**  
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**9. ASSETS AVAILABLE FOR SALE**

On February 22, 2008, HUD approved Home Forward's plan for the disposition of 158 scattered site buildings. 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 sold fiscal year 2012	(18)
Scattered sites retained fiscal year 2012	(7)
Scattered sites sold fiscal year 2013	(1)
Scattered sites available for sale as of March 31, 2013	-

During 2012, Home Forward retained seven scattered site locations rather than sell those sites to a third party. The value of these sites was transferred out of assets available for sale and transferred in as a capital asset. The final remaining scattered site with net book value of \$29,756 was sold during 2013.

On February 1, 2013, Home Forward entered into a purchase sales agreement with a third party for the sale of St John Woods Apartments. Capital assets with net book value of \$3,264,295 was reclassified to assets available for sale. The sale is currently scheduled to occur during the Fall of 2013.

Total net book value of remaining assets available for sale as of March 31, 2013 and March 31, 2012 is \$3,264,295 and \$29,756, respectively.

**10. LINE OF CREDIT**

Home Forward has an \$8,000,000 revolving 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 Home Forward and matures December 12, 2014. Draws on the line of credit may bear a fixed or variable rate of interest. During 2013 and 2012 gross draws, including initial draws and draws after repayments, on the line of credit were \$29,587,678 and \$4,938,625, respectively, which represents both principal and accrued interest. The remaining outstanding line of credit balance for March 31, 2013 and March 31, 2012 is \$1,351,023 and \$351,713, respectively. A summary of activity for Home Forward's line of credit for year ending March 31, 2013 and March 31, 2012 is as follows:

Balance April 1, 2012	Draws	Repayments	Balance March 31, 2013
\$ 351,713	\$ 29,587,678	\$ (28,588,368)	\$ 1,351,023
-	4,938,625	(4,586,912)	351,713

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**11. NOTES PAYABLE**

Notes payables of Home Forward consist of the following at March 31:

Property	Interest Rate at March 31,		Final Maturity Date*	Payment Terms	2013	2012
	2013	2012				
Laurelhurst	-	6.00%	2016	Monthly	\$ -	\$ 12,246
Schiller Way	4.00%	4.00%	2030	Monthly	585,313	609,216
Schiller Way	4.14%	4.14%	2021	Monthly	187,989	207,898
Richmond Place	-	9.38%	2019	Monthly	-	410,881
Richmond Place	3.00%	3.00%	2016	Maturity Date	500,000	500,000
Development Department	0.00%	0.00%	2019	Maturity Date	382,624	382,624
Mulnomah Manor	6.75%	6.75%	2034	Monthly	1,201,684	1,225,223
Turning Point	3.81%	3.81%	2032	Monthly	418,205	432,400
Willow Tree	4.42%	4.42%	2036	Monthly	668,936	685,353
Cambridge Court	8.50%	8.50%	2017	Monthly	124,083	150,150
Cambridge Court	1.00%	1.00%	2032	Cash Flow	526,600	543,711
Cambridge Court	0.00%	0.00%	2032	Cash Flow	397,753	397,753
Dawson Park	3.00%	3.00%	2022	Cash Flow	545,227	545,227
Fenwick Apts	3.77%	3.77%	2025	Monthly	1,351,618	1,390,306
Fenwick Apts	0.00%	0.00%	Sale of Property	Cash Flow	1,180,211	1,180,211
Fenwick Apts	3.00%	3.00%	2034	Monthly	166,239	171,589
Helen Swindells	3.00%	3.00%	2023	Cash Flow	1,483,870	1,483,870
Helen Swindells	3.00%	3.00%	2023	Cash Flow	600,451	600,451
Kelly Place	5.39%	5.39%	2028	Monthly	395,296	411,847
James Hawthorne	0.00%	0.00%	Sale of Property	Cash Flow	5,728,950	5,728,950
North Interstate	0.00%	0.00%	Sale of Property	Cash Flow	929,905	929,905
Yards at Union Station	3.00%	-	2027	Monthly	1,409,538	-
Pearl Court	3.00%	3.00%	2027	Monthly	973,922	1,032,123
Peter Paulson	7.91%	7.91%	2024	Cash Flow	1,021,301	1,021,301
Peter Paulson	0.50%	0.50%	2024	Cash Flow	250,000	250,000
Peter Paulson	0.00%	0.00%	2024	Cash Flow	689,636	689,636
Schiller Way	0.00%	0.00%	Sale of Property	Cash Flow	505,351	505,351
Sequoia Square	0.00%	0.00%	2040	Cash Flow	514,486	514,486
St Francis LP	0.00%	0.00%	Sale of Property	Cash Flow	5,308,681	5,308,681
SW 45th (Carriage Hill Apts)	0.00%	0.00%	Sale of Property	Cash Flow	181,420	186,360
Forward balance to next page					\$ 28,229,289	\$ 27,507,749

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Property	Interest Rate at March 31,		Final Maturity Date*	Payment Terms	2013	2012
	2013	2012				
Forward balance from previous page					\$ 28,229,289	\$ 27,507,749
SW 45th (Carriage Hill Apts)	3.00%	3.00%	2032	Monthly	38,278	39,722
Willow Tree	3.00%	3.00%	2035	Monthly	178,312	178,312
Fairview Oaks & Woods	3.58%	3.58%	2041	Monthly	11,948,681	12,125,600
Rockwood Station	3.58%	3.58%	2041	Monthly	4,799,634	4,870,700
Hawthorn Home	6.00%	6.00%	2029	Monthly	56,308	58,265
Madison Home	6.00%	6.00%	2029	Monthly	56,139	58,107
North Interstate	6.00%	6.00%	2033	Monthly	486,322	498,125
Project Open Door	1.75%	1.75%	2027	Monthly	244,507	259,004
Russell Street House	8.97%	8.97%	2018	Monthly	22,248	25,493
Taylor Home	7.00%	7.00%	2029	Monthly	52,471	54,135
Ashcreek Commons**	1.60%	1.60%	2014	Monthly	2,110,052	2,165,516
Plaza Townhomes	7.00%	7.00%	2015	Monthly	212,003	279,556
Ainsworth Court	0.00%	0.00%	2052	Cash Flow	1,400,000	1,260,668
Madrona Apartments	7.25%	7.25%	2032	Monthly	1,096,758	1,122,905
N4C - Loan A	-	5.88%	2012	Monthly	-	8,800,000
N4C - Loan B	-	2.00%	2036	Annual	-	1,693,292
N4C - Loan C	-	2.00%	2012	Annual	-	295,655
					50,931,002	61,292,803
Less: Current portion of notes payable					(2,847,236)	(9,784,364)
Total notes payable					\$ 48,083,766	51,508,439

\* 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 1.60% and 1.60% at March 31, 2013 and 2012, 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 2052 except for certain equity gap notes, which are not payable unless the property is sold.

N4C used proceeds from the sale of Rosa Park Elementary School to the Portland Public Schools on a \$8,707,514 principal payment on the N4C Loan A. The remaining balance of \$92,486 was forgiven by Bank of America.

On October 31, 2012, Home Forward acquired ESIC New Markets Partners XII Limited Partnership which assets included the N4C Loan B. Home Forward immediately forgave the remaining balance due from N4C for the N4C Loan B subsequent to the acquisition.

N4C Loan C is 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. As of March 31 2013, the outstanding balnce of the N4C Loan C in the amount of \$295,655 was forgiven by Enterprise Social Investment Corporation.

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A summary of activity of Home Forward's notes payable for 2013 and 2012 is as follows:

<u>Balance</u> <u>April 1, 2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>March 31, 2013</u>
\$ 61,292,803	\$ 1,563,411	\$ (11,925,212)	\$ 50,931,002

<u>Balance</u> <u>April 1, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>March 31, 2012</u>
\$ 58,476,913	\$ 19,868,798	\$ (17,052,908)	\$ 61,292,803

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

<u>Fiscal year ending</u> <u>March 31:</u>	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 2,847,236	\$ 1,210,254
2015	768,564	1,145,541
2016	780,150	1,113,127
2017	1,244,384	1,380,090
2018	770,098	1,059,428
2019-2023	7,197,884	4,927,126
2024-2028	7,351,352	3,642,350
2029-2033	4,330,269	2,269,200
2034-2038	3,341,854	1,527,855
2039-2043	3,892,331	954,245
2044-2048	3,172,362	307,359
2049-2053	1,400,000	57,189
Thereafter	13,834,518	-
Total	<u>\$ 50,931,002</u>	<u>\$ 19,593,764</u>

For the variable rate debt, the March 31, 2013 interest rate was used for the future interest calculation.



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**12. BONDS PAYABLE**

Bonds payable of Home Forward, 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*	2013	2012
		2013	2012			
Ainsworth Court Series A	Fixed	5.78%	5.70%	2028	\$ 2,530,000	\$ 2,635,000
Capital Fund Program, Series A	Fixed	4.52%	4.51%	2025	3,900,000	4,230,000
Dawson Park 2012	Fixed	3.37%	-	2027	1,768,011	-
Dawson Park 1995	Fixed	-	6.70%	2026	-	1,815,000
New Market West 2013	Variable	1.76%	-	2038	2,641,818	-
New Market West 2004	Variable	-	0.30%	2035	-	2,280,000
Pearl Court	Fixed	4.49%	4.47%	2027	4,830,000	5,075,000
St. Johns Woods Series A	Fixed	5.27%	5.26%	2029	2,960,000	3,075,000
St. Johns Woods Series B	Fixed	5.30%	5.20%	2029	270,000	355,000
Yards at Union Station	Fixed	4.74%	-	2030	5,380,000	-
					24,279,829	19,465,000
Less current portion of bonds payable					(1,299,464)	(970,000)
					22,980,365	18,495,000
Less unamortized discounts					(52,049)	(70,651)
Total					\$ 22,928,316	\$ 18,424,349

\* NOTE: Calendar year of final maturity date

Unamortized discounts relate to issuances for Ainsworth Court, Dawson Park -1995, and St. Johns Woods Series A.

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 \$0 and \$5,390,000 at March 31, 2013 and 2012, respectively.

On May 1, 2012, Home Forward entered into a bond purchase agreement with a bank and issued Dawson Park Housing Refunding Revenue Bonds Series 2012 (Dawson Park 2012 Bonds) in the amount of \$1,815,000 to current refund the outstanding principal of \$1,815,000 of the Dawson Park Bonds Series 1995. The purpose of the refunding is to lower the financing costs for the bonds. The Dawson Park 2012 Bonds have a final maturity date of May 1, 2027 and bear interest at fixed rates of 3.37%.

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On December 6, 2012, Home Forward issued New Market West Revenue Bonds Series 2013 (New Market West 2013 Bonds) in the amount not to exceed \$4,210,000. Proceeds in the amount of \$2,210,000 were drawn on January 1, 2013 to current refund the outstanding principal of \$2,210,000 of the New west Market Bonds Series 2004. Proceeds in the amount of \$431,818 were drawn during the year to pay for the costs of rehabilitating the New Market West Project and costs of issuance of the bonds. The remaining proceeds will be drawn in the future years for the rehabilitating of the New Market West Project. The New Market West 2013 Bonds have a final maturity date of January 1, 2038 and bear variable interest that will be recalculated monthly based on the rate at which bonds can be remarketed.

A summary activity of Home Forward's bonds payable for 2013 and 2012 is as follows:

<u>April 1, 2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2013</u>
<u>\$ 19,465,000</u>	<u>\$ 9,858,387</u>	<u>\$ (5,043,558)</u>	<u>\$ 24,279,829</u>
<u>Balance April 1, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance March 31, 2012</u>
<u>\$ 20,465,000</u>	<u>\$ -</u>	<u>\$ (1,000,000)</u>	<u>\$ 19,465,000</u>

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

Fiscal year ending <u>March 31:</u>	<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,299,464	\$ 1,056,093
2015	1,391,184	1,001,089
2016	1,444,570	942,746
2017	1,343,072	881,552
2018	1,396,692	823,757
2019-2023	7,847,219	3,139,847
2024-2028 *	8,412,628	1,195,174
2029-2033	1,145,000	34,097
Total	<u>\$ 24,279,829</u>	<u>\$ 9,074,355</u>

For the variable rate debt, the March 31, 2013 interest rate was used for the future interest calculation.

\* Final debt payments for New Market West 2013 Bonds were assumed to be made on August 1, 2023 upon the expiration of the associated swap instrument.

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**13. BONDS PAYABLE AND NOTES RECEIVABLE—PARTNERSHIPS**

Home Forward 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 Home Forward has an ownership interest. The Partnerships are required to make payments on the Notes Receivable to Home Forward, 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:

Partnership	Bond Type	at March 31,		Maturity Date*	2013	2012
		2013	2012			
Lovejoy Station Limited Partnership	Fixed	5.96%	5.96%	2033	\$ 10,915,000	\$ 11,175,000
Civic Redevelopment Limited Partnership	Variable	0.12%	0.16%	2038	7,800,000	7,800,000
Trouton Limited Partnership	Variable	0.16%	0.21%	2037	5,840,000	5,955,000
Columbia Street Limited Partnership	Fixed	5.44%	4.72%	2031	4,190,000	4,315,000
Cecelia Limited Partnership	Variable	0.16%	0.21%	2035	3,610,000	3,685,000
Clay Street Limited Partnership	Fixed	5.44%	4.72%	2031	3,600,000	3,705,000
Fountain Place Limited Partnership	Fixed	5.80%	5.80%	2034	2,772,668	2,832,958
Stephens Creek Crossing North L.P.	Variable	1.85%	-	2031	1,214,221	-
Humboldt Gardens Limited Partnership	Fixed	6.17%	6.17%	2040	945,000	960,000
Union Station, A LIH Limited Partnership	Fixed	4.74%	4.72%	2029	-	5,585,000
					40,886,889	46,012,958
Less current portion					(803,933)	(960,290)
Total					\$ 40,082,956	\$ 45,052,668

\* NOTE: calendar year of final maturity date

A summary activity of Home Forward's bonds payable for 2013 and 2012 is as follows:

Balance April 1, 2012	Increase	Decrease	Balance March 31, 2013
\$ 46,012,958	\$ 1,214,221	\$ (6,340,290)	\$ 40,886,889

Balance April 1, 2011	Increase	Decrease	Balance March 31, 2012
\$ 70,089,382	\$ -	\$ (24,076,424)	\$ 46,012,958

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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
2014	\$ 803,933	\$ 1,322,888
2015 *	2,057,016	1,281,324
2016	891,476	1,226,737
2017	936,210	1,186,326
2018	995,814	1,143,923
2019-2023	5,673,050	4,993,371
2024-2028	6,967,551	3,505,603
2029-2033	8,503,748	1,480,446
2034-2038	6,143,091	123,547
2039-2043	7,915,000	6,498
Total	<u>\$ 40,886,889</u>	<u>\$ 16,270,663</u>

For the variable rate debt, the March 31, 2013 interest rate, as provided above, was used for the future interest calculation.

\* Final debt service payments for Stephens Creek Crossing North L.P Bonds were assumed to be made on December 2014 upon the completion of the construction project.

#### 14. ADDITIONAL BONDS PAYABLE INFORMATION

Currently outstanding are variable rate demand bonds and notes issued by Home Forward on its New Market West headquarters building, and five separate projects: Ashcreek, Cecelia Limited Partnership (Cecelia), Trouton Limited Partnership (Trouton), Civic Limited Partnership, and Stephen Creek Crossing North Limited Partnership.

The bonds for each have the following common characteristics:

- Letters of Credit (LOC) have been issued Bank of America Securities (Cecelia and Trouton), equal to the amounts outstanding on the bonds plus one interest payment, 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 and New Market West are not required to have a LOC or credit enhancement.
- The LOCs and CEA are intended not only to provide security to bondholders, but also to make periodic interest payments for which Home Forward 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.
- New Market West's interest rates are recalculated monthly, based on the rate at which bond can be remarketed. Interest rates for other bonds 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% (Cecelia). Ashcreek and New Market West are 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 Home Forward.

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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, Trouton, and New Market West-2012 bonds and the Ashcreek note, Home Forward entered into interest rate swap agreements. Home Forward 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 Home Forward 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 1.60% and 1.60%, at March 31, 2013 and 2012, respectively. The swap instrument is at 2.5% on a notional amount of \$2.11 million at March 31, 2013 for which Home Forward received 84% of the 30 day LIBOR rate. The fair values of the swap were \$51,894 and \$94,903 as of March 31, 2013 and 2012, respectively.

The Cecelia bonds mature in 2035. The variable rate on the bonds was 0.16% and 0.21% as of March 31, 2013 and 2012, respectively. The swap instrument associated with the remaining bonds matures July 1, 2021, and is fixed at 4.39% on a notional amount of \$3.61 million at March 31, 2013 for which Home Forward receives the 30 day SIFMA rate. The fair values of the swap were \$803,796 and \$776,083 as of March 31, 2013 and 2012, respectively.

The Trouton bonds mature in 2038. The variable rate on the bonds was 0.16% and 0.21% as of March 31, 2013 and 2012, respectively. The swap instrument associated with the remaining bonds matures July 1, 2022, and is fixed at 4.188% on a notional amount of \$5.78 million at March 31, 2013 for which Home Forward receives the 30 day SIFMA rate. The fair values of the swap were \$1,251,086 and \$1,185,490 as of March 31, 2013 and 2012, respectively.

New Market West bond mature in 2038. The variable rate on the bonds was 1.76% as of March 31, 2013. The swap instrument associated with the remaining bonds mature August 1, 2023 and is fixed at 1.73% on a national amount of the outstanding principal of the New Market Bonds Series 2013 up to \$4.21 million dollar for which Home Forward receives 65.2% of the 30 day LIBOR rate. The fair value of the swap was \$79,308 as of March 31, 2013.

The fair value of the swap instruments are calculated from proprietary models using a mid-market basis. The change in fair market value of Home Forward's swap transactions for the years ended March 31, 2013 and March 31, 2012 was an increase of \$129,608 and \$769,139, respectively. The fair value of the swap instruments are reflected as deferred inflow of resources - derivative instruments on the basic financial statements and are offset by corresponding deferred outflows of resources - 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 Home Forward's credit exposure to the counterparties as of March 31, 2013 and 2012. Should the counterparties fail to perform according to the terms of the swap contracts, Home Forward faced a maximum potential loss equal to the aggregate fair value of the swap. At March 31, 2013 and 2012, Home Forward did not face a credit risk because the swap instruments had a negative value. To minimize the potential of credit risk, Home Forward engages with counterparties with ratings of A/A2 or higher. 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, 2013 and 2012, Home Forward was engaged with counterparties with ratings of A/A2 or higher.
- *Basis risk* - For the Ashcreek swap, Home Forward has chosen a variable index based on percentage of LIBOR plus a spread which has historically approximated the variable rates payable on the related bond. However, Home Forward 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 Cecelia 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.

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- *Termination risk* – Counterparties are not allowed to optionally terminate, extend or substantially alter the terms of a swap without Home Forward’s consent. Home Forward 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, Home Forward 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. Home Forward 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. The swap on the New Market West bond terminates in August 2023 and the final bond payment is due in August 2038.
- *Interest rate risk* – Home Forward’s swaps are structured to reduce Home Forward’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.

## 15. RETIREMENT PLAN

**Plan Description** – Home Forward is a participating employer in the State of Oregon Public Employees’ Retirement System (“PERS”). PERS, 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 2012 Comprehensive Annual Financial Report:

*The Oregon Public Employees Retirement System (PERS or “the System”) provides statewide defined benefit retirement plans for units of state government, political subdivisions, community colleges, and school districts. PERS 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.*

*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, PERS active Tier One and Tier Two members became members of the Individual Account Program (IAP) of OPSRP. PERS members retain their existing PERS accounts, but member contributions are now deposited into the member’s IAP account, not into the member’s PERS account. Accounts are credited with earnings and losses net of administrative expenses. OPSRP is part of PERS and is administered by the Board. The PERS 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.*

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**PERS Pension (Defined Benefits)**

Home Forward is a participant of the PERS pension program. PERS benefits, as described by the PERS 2012 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 a PERS employer at the time of death,*
- the member died within 120 days after termination of PERS-covered employment,*
- the member died as a result of injury sustained while employed in an PERS-covered job, or*
- the member was on an official leave of absence from a PERS-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.*

***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 PERS-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.*

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**OPSRP Pension Programs**

Home Forward 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 PERS 2012 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.*

**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.*



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**Risk Pooling** – In 2001, the Oregon legislature amended ORS 238.227 allowing for local government entities to pool their PERS 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, Home Forward’s Board of Commissioners approved Home Forward’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. Home Forward pays the employees’ required contribution. Additionally, employers are required to contribute actuarially computed amounts as determined by PERS 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, 2011 to June 30, 2013 are:

<b>Actuarial Period Ending</b>	<b>Tier 1/ Tier 2</b>	<b>OPSRP</b>
Pension contribution rate	9.92%	7.87%
Retiree healthcare rate	0.59%	0.50%
Total employer contribution	10.51%	8.37%

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

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

The amount to be contributed by Home Forward for the years ended March 31, 2013, 2012, and 2011 was approximately, \$2,163,000, \$2,195,000, and \$1,968,000, respectively, which represents the required contributions for both the employee and the employer in each of the years presented. The balance of PERS payable as of March 31, 2013, 2012, and 2011, respectively, was \$176,268, \$208,547, and \$181,747, respectively. This balance is recorded in other accrued liabilities on the financial statement.

<b>Actuarial Period Ending</b>	<b>Required Employer Contributions</b>	<b>Required Employee Contributions</b>	<b>Contributions Paid</b>	<b>% of Actual Contributions to Required Contributions</b>	<b>Balance of PERS Payable</b>
3/31/2013	\$ 1,322,572	\$ 840,618	\$ 2,130,910	99%	\$ 176,268
3/31/2012	1,329,031	865,673	2,167,904	99%	208,547
3/31/2011	1,157,193	810,643	1,945,421	99%	181,747

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**Other Postemployment Healthcare Benefits**

***Retirement Health Insurance Account (RHIA)***

As a member of PERS, Home Forward 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 PERS. 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 PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, 2) receive both Medicare Parts A and B coverage, and 3) enroll in a PERS sponsored health plan. A surviving spouse or dependent of a deceased PERS 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 PERS 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 PERS, currently 0.59% of annual covered PERS payroll and 0.50% of OPSRP payroll. The PERS 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. Home Forward's contributions to RHIA for the years ended March 31, 2013, 2012 and 2011 were approximately, \$138,000, \$124,000, and \$67,000, respectively.

***Retiree access to Home Forward health care plans (Implicit Benefit subsidy)***

As a condition of participation in PERS, Home Forward 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 Home Forward 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 Home Forward pays none of premium of health insurance coverage for retirees from age 58 to 65, Home Forward 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. Home Forward'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, 2013 and 2012, there were 10 and 8 retirees and/or surviving spouses, respectively, receiving the post-employment implicit healthcare benefits.

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Home Forward'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>Annual OPEB Cost</u>	<u>Contributions Paid</u>	<u>Contributions to Required Contributions</u>	<u>Balance of PERS Payable</u>
3/31/2013	\$ 174,903	\$ 49,136	28%	\$ 396,600
3/31/2012	90,677	35,653	39%	270,833
3/31/2011	91,633	37,109	40%	215,809
			<u>March 31, 2013</u>	<u>March 31, 2012</u>
Annual required contribution			\$ 180,193	\$ 94,461
Interest on NET OPEB obligation			8,125	7,553
Adjustment to ARC for NET OPEB obligation			<u>(13,415)</u>	<u>(11,337)</u>
Annual OPEB cost			174,903	90,677
Contributions made			<u>(49,136)</u>	<u>(35,653)</u>
Increase in net OPEB obligation			<u>125,767</u>	<u>55,024</u>
Net OPEB Obligation - beginning of year			<u>270,833</u>	<u>215,809</u>
Net OPEB Obligation - end of year			<u>\$ 396,600</u>	<u>\$ 270,833</u>

Funding progress for implicit benefit subsidy based on most recent actuarial valuation is as follows:

<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>
3/31/2013	\$ -	\$ 1,813,482	\$ 1,813,482	0%	\$ 14,527,714	12%

### 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.

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***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, 2011 and December 31, 2010 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 8.25% in 2011 and 8.25% in 2010 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 6.9% in 2011 to 7.0% in 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, 2013 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 Home Forward'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	7% to 10% initial increase, reducing to 5% over 4 to 10 years
Dental cost annual trend rate	5% initial increase, reducing to 3% over 4 years

**16. DEFERRED COMPENSATION PLAN**

Home Forward offers employees an optional deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Home Forward's employees, permits them to defer a portion of their salary to future years. Annual deferrals are limited to the lesser of \$17,500 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 Home Forward's basic financial statements.

**HOME FORWARD**  
**NOTES TO FINANCIAL STATEMENTS**  
Years ended March 31, 2013 and 2012

**17. DISCRETELY PRESENTED COMPONENT UNITS CONDENSED FINANCIAL INFORMATION**

The Authority is the General Partner and holds a 0.01% to 0.1% 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, 2012 is as follows:

	<u>Lovejoy Station</u>	<u>Union Station A LIH</u>	<u>St. Francis</u>	<u>Cecilia</u>	<u>Trouton</u>	<u>Woolsey</u>	<u>Civic Redevelopment</u>	<u>Humboldt Gardens</u>
<b>ASSETS</b>								
Cash and cash equivalents	\$ 705,179	\$ 534,114	\$ 36,934	\$ 296,304	\$ 195,937	\$ 548,437	\$ 122,555	\$ 143,279
Cash and cash equivalents - restricted	744,099	545,125	646,607	1,027,862	1,160,338	927,418	1,115,039	1,465,162
Investments (restricted) - short term	1,240,352	-	-	-	-	-	-	-
Accounts receivables and other assets	23,370	24,309	93,044	28,148	40,290	20,226	24,744	40,220
Investments (restricted) - long term	-	472,680	-	-	-	-	-	-
Deferred charges - net	359,200	139,176	77,498	219,843	636,147	157,833	812,273	266,750
Capital assets - net	12,583,394	5,484,744	9,348,000	15,778,411	35,615,020	16,557,554	17,037,781	27,376,085
<b>TOTAL ASSETS</b>	<b>\$ 15,655,593</b>	<b>\$ 7,200,149</b>	<b>\$ 10,202,083</b>	<b>\$ 17,350,568</b>	<b>\$ 37,647,732</b>	<b>\$ 18,211,468</b>	<b>\$ 19,112,391</b>	<b>\$ 29,291,496</b>
<b>LIABILITIES AND NET POSITION</b>								
Current liabilities	\$ 1,446,980	\$ 650,162	\$ 567,304	\$ 364,208	\$ 462,975	\$ 203,884	\$ 2,403,870	\$ 221,172
Long-term liabilities	14,681,533	6,509,989	7,658,354	14,848,259	32,631,569	4,971,337	13,474,630	20,617,032
Total liabilities	16,128,513	7,160,151	8,225,658	15,212,467	33,094,544	5,175,221	15,878,500	20,838,204
Net position	(472,920)	39,998	1,976,425	2,138,101	4,553,188	13,036,247	3,233,891	8,453,292
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 15,655,593</b>	<b>\$ 7,200,149</b>	<b>\$ 10,202,083</b>	<b>\$ 17,350,568</b>	<b>\$ 37,647,732</b>	<b>\$ 18,211,468</b>	<b>\$ 19,112,391</b>	<b>\$ 29,291,496</b>
Operating revenues	\$ 1,999,123	\$ 1,361,549	\$ 1,237,446	\$ 1,064,134	\$ 2,002,655	\$ 963,869	\$ 1,228,778	\$ 839,842
Operating expenses	(1,082,620)	(1,114,416)	(987,014)	(1,829,347)	(3,543,953)	(1,784,499)	(1,428,387)	(1,999,387)
Operating income (loss)	916,503	247,133	250,432	(765,213)	(1,541,298)	(820,630)	(199,609)	(1,159,545)
Nonoperating revenues	57,859	22,615	544	1,261	1,243	1,466	1,227	119
Nonoperating expenses	(807,370)	(291,995)	(219,543)	(298,711)	(472,569)	(208,238)	(815,888)	(260,615)
Loss before capital contributions	166,992	(22,247)	31,433	(1,062,663)	(2,012,624)	(1,027,402)	(1,014,270)	(1,420,041)
Capital contributions	-	-	-	-	-	-	-	-
Change in net position	\$ 166,992	\$ (22,247)	\$ 31,433	\$ (1,062,663)	\$ (2,012,624)	\$ (1,027,402)	\$ (1,014,270)	\$ (1,420,041)

(continued)

**HOME FORWARD**  
**NOTES TO FINANCIAL STATEMENTS**  
Years ended March 31, 2013 and 2012

	<b>1115 SW 11th Avenue</b>	<b>RAC Housing</b>	<b>Stephens Creek Crossing- South *</b>	<b>Stephens Creek Crossing- North *</b>	<b>All other partnerships</b>	<b>Total</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 184,530	\$ 510,728	\$ 483,002	\$ 523,932	\$ 984,593	\$ 5,269,524
Cash and cash equivalents - restricted	544,282	737,353	-	-	3,018,805	11,932,090
Investments (restricted) - short term	-	-	-	-	70,618	1,310,969
Accounts receivables and other assets	20,082	37,493	309,178	1,015,236	481,844	2,158,185
Investments (restricted) - long term	-	-	-	-	672,225	1,144,905
Deferred charges - net	53,835	79,214	36,291	45,091	580,356	3,463,506
Capital assets - net	14,833,781	35,200,173	3,599,101	6,909,203	47,620,578	247,943,824
<b>TOTAL ASSETS</b>	<b>\$ 15,636,510</b>	<b>\$ 36,564,961</b>	<b>\$ 4,427,572</b>	<b>\$ 8,493,462</b>	<b>\$ 53,429,019</b>	<b>\$ 273,223,004</b>
<b>LIABILITIES AND NET POSITION</b>						
Current liabilities	\$ 168,966	\$ 745,589	\$ 413,754	\$ 925,041	\$ 3,678,240	\$ 12,252,145
Long-term liabilities	12,319,077	8,635,910	3,485,366	6,767,480	43,706,601	190,307,137
Total liabilities	12,488,043	9,381,499	3,899,120	7,692,521	47,384,841	202,559,282
Net position	3,148,467	27,183,462	528,452	800,941	6,044,176	70,663,720
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 15,636,510</b>	<b>\$ 36,564,961</b>	<b>\$ 4,427,572</b>	<b>\$ 8,493,462</b>	<b>\$ 53,429,017</b>	<b>\$ 273,223,002</b>
Operating revenues	\$ 758,149	\$ 1,258,232	\$ (1)	\$ (1)	\$ 5,964,011	\$ 18,677,786
Operating expenses	(1,211,614)	(3,570,864)	(13,115)	(36,885)	(6,384,115)	(24,986,216)
Operating income (loss)	(453,465)	(2,312,632)	(13,116)	(36,886)	(420,104)	(6,308,430)
Nonoperating revenues	514	20	-	-	33,961	120,829
Nonoperating expenses	(15,318)	(67,280)	1	1	(1,521,278)	(4,978,803)
Loss before capital contributions	(468,269)	(2,379,892)	(13,115)	(36,885)	(1,907,421)	(11,166,404)
Capital contributions	-	20,048,478	541,567	837,826	(185,742)	21,242,129
Change in net position	\$ (468,269)	\$ 17,668,586	\$ 528,452	\$ 800,941	\$ (2,093,163)	\$ 10,075,725

\*Unaudited

**HOME FORWARD**  
**NOTES TO FINANCIAL STATEMENTS**  
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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, 2011 is as follows:

	<u>Lovejoy Station</u>	<u>Union Station A LIH</u>	<u>St. Francis</u>	<u>Cecilia</u>	<u>Trouton</u>	<u>Woolsey</u>	<u>Civic Redevelopment</u>	<u>Humboldt Gardens</u>
<b>ASSETS</b>								
Cash and cash equivalents	\$ 523,557	\$ 498,261	\$ 15,309	\$ 367,431	\$ 283,600	\$ 591,063	\$ 145,241	\$ 177,317
Cash and cash equivalents - restricted	712,491	501,093	602,605	995,620	1,090,807	891,017	922,125	1,385,532
Investments (restricted) - short term	1,247,709	-	-	-	-	-	-	-
Accounts receivables and other assets	35,704	14,468	111,837	47,039	80,149	32,249	16,643	33,762
Investments (restricted) - long term	-	472,680	-	-	-	-	-	-
Deferred charges - net	379,453	149,653	84,200	231,884	665,678	168,776	851,642	280,675
Capital assets - net	12,965,888	5,861,164	9,826,455	16,690,192	37,495,274	17,509,911	17,851,817	28,616,888
<b>TOTAL ASSETS</b>	<b>\$ 15,864,803</b>	<b>\$ 7,497,319</b>	<b>\$ 10,640,406</b>	<b>\$ 18,332,166</b>	<b>\$ 39,615,508</b>	<b>\$ 19,193,016</b>	<b>\$ 19,787,469</b>	<b>\$ 30,494,174</b>
<b>LIABILITIES AND NET POSITION</b>								
Current liabilities	\$ 1,389,356	\$ 623,853	\$ 572,655	\$ 328,010	\$ 496,475	\$ 180,057	\$ 1,014,033	\$ 136,470
Long-term liabilities	15,115,359	6,811,221	8,122,759	14,803,392	32,553,221	4,949,310	14,525,275	20,484,371
Total liabilities	16,504,715	7,435,074	8,695,414	15,131,402	33,049,696	5,129,367	15,539,308	20,620,841
Net position	(639,912)	62,245	1,944,992	3,200,764	6,565,812	14,063,649	4,248,161	9,873,333
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 15,864,803</b>	<b>\$ 7,497,319</b>	<b>\$ 10,640,406</b>	<b>\$ 18,332,166</b>	<b>\$ 39,615,508</b>	<b>\$ 19,193,016</b>	<b>\$ 19,787,469</b>	<b>\$ 30,494,174</b>
Operating revenues	\$ 1,843,365	\$ 1,287,136	\$ 1,288,441	\$ 1,086,108	\$ 2,016,109	\$ 980,188	\$ 1,246,444	\$ 906,175
Operating expenses	(1,112,230)	(1,091,300)	(1,011,871)	(1,728,412)	(3,510,954)	(1,796,776)	(1,411,914)	(2,008,944)
Operating income (loss)	731,135	195,836	276,570	(642,304)	(1,494,845)	(816,588)	(165,470)	(1,102,769)
Nonoperating revenues	59,993	9,302	899	1,703	1,613	2,986	2,389	2,328
Nonoperating expenses	(827,323)	(292,974)	(239,921)	(302,417)	(478,401)	(201,252)	(1,421,396)	(260,295)
Loss before capital contributions	(36,195)	(87,836)	37,548	(943,018)	(1,971,633)	(1,014,854)	(1,584,477)	(1,360,736)
Capital contributions	-	-	-	-	-	-	-	-
Change in net position	\$ (36,195)	\$ (87,836)	\$ 37,548	\$ (943,018)	\$ (1,971,633)	\$ (1,014,854)	\$ (1,584,477)	\$ (1,360,736)

(continued)

**HOME FORWARD**  
**NOTES TO FINANCIAL STATEMENTS**  
Years ended March 31, 2013 and 2012

	<u>1115 SW 11th Avenue</u>	<u>RAC Housing*</u>	<u>All other partnerships</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 209,633	\$ 1,691,954	\$ 1,110,696	\$ 5,614,062
Cash and cash equivalents - restricted	509,122	911,528	2,976,071	11,498,011
Investments (restricted) - short term	-	-	64,274	1,311,983
Accounts receivables and other assets	(79,669)	301,462	511,837	1,105,481
Investments (restricted) - long term	-	-	672,225	1,144,905
Deferred charges - net	56,746	97,242	621,100	3,587,049
Capital assets - net	15,485,651	37,216,824	51,214,617	250,734,682
<b>TOTAL ASSETS</b>	<u>\$ 16,181,483</u>	<u>\$ 40,219,010</u>	<u>\$ 57,170,820</u>	<u>\$ 274,996,173</u>
<b>LIABILITIES AND NET POSITION</b>				
Current liabilities	\$ 90,982	\$ 23,510,489	\$ 3,811,691	\$ 32,154,071
Long-term liabilities	12,473,765	7,193,645	45,221,789	182,254,107
Total liabilities	12,564,747	30,704,134	49,033,480	214,408,178
Net position	3,616,736	9,514,876	8,137,339	60,587,995
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 16,181,483</u>	<u>\$ 40,219,010</u>	<u>\$ 57,170,819</u>	<u>\$ 274,996,173</u>
Operating revenues	\$ 739,446	\$ 529,515	\$ 5,854,554	\$ 17,777,481
Operating expenses	(1,171,019)	(2,323,353)	(6,523,591)	(23,690,364)
Operating income (loss)	(431,573)	(1,793,838)	(669,037)	(5,912,883)
Nonoperating revenues	967	1,060	(50,670)	32,570
Nonoperating expenses	(266,603)	(347,906)	(1,547,358)	(6,185,846)
Loss before capital contributions	(697,209)	(2,140,684)	(2,267,065)	(12,066,159)
Capital contributions	3,937,662	3,721,993	171,000	7,830,655
Change in net position	<u>\$ 3,240,453</u>	<u>\$ 1,581,309</u>	<u>\$ (2,096,065)</u>	<u>\$ (4,235,504)</u>

\* Audited for the period from inception at March 19, 2008 to December 31, 2011



**HOME FORWARD**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended March 31, 2013 and 2012

***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 December 31, 2011	Additions and Transfer in	Disposals and Transfer out	Balance December 31, 2012
Land	\$ 13,904,969	\$ -	\$ (188,664)	\$ 13,716,305
Construction in progress	22,794	10,870,941	(380,331)	10,513,404
Total capital assets not being depreciated	<u>13,927,763</u>	<u>10,870,941</u>	<u>(568,995)</u>	<u>24,229,709</u>
Buildings and improvements	298,902,872	135,452	(2,228,960)	296,809,364
equipment	<u>11,826,452</u>	<u>143,052</u>	<u>(96,395)</u>	<u>11,873,109</u>
	310,729,324	278,504	(2,325,355)	308,682,473
Less: accumulated depreciation	<u>(73,922,405)</u>	<u>(12,279,224)</u>	<u>1,233,271</u>	<u>(84,968,358)</u>
Total capital assets being depreciated	<u>236,806,919</u>	<u>(12,000,720)</u>	<u>(1,092,084)</u>	<u>223,714,115</u>
Total capital assets, net	<u>\$ 250,734,682</u>	<u>\$ (1,129,779)</u>	<u>\$ (1,661,079)</u>	<u>\$ 247,943,824</u>

	Balance December 31, 2010	Additions and Transfer in	Disposals and Transfer out	Balance December 31, 2011
Land	\$ 13,897,871	\$ 7,098	\$ -	\$ 13,904,969
Construction in progress	<u>33,440,983</u>	<u>8,481,703</u>	<u>(41,899,892)</u>	<u>22,794</u>
Total capital assets not being depreciated	<u>47,338,854</u>	<u>8,488,801</u>	<u>(41,899,892)</u>	<u>13,927,763</u>
Buildings and improvements	264,665,018	34,440,538	(202,684)	298,902,872
Equipment	<u>7,294,263</u>	<u>4,541,277</u>	<u>(9,088)</u>	<u>11,826,452</u>
	271,959,281	38,981,815	(211,772)	310,729,324
Less: accumulated depreciation	<u>(62,536,184)</u>	<u>(11,495,284)</u>	<u>109,063</u>	<u>(73,922,405)</u>
Total capital assets being depreciated	<u>209,423,097</u>	<u>27,486,531</u>	<u>(102,709)</u>	<u>236,806,919</u>
Total capital assets, net	<u>\$ 256,761,951</u>	<u>\$ 35,975,332</u>	<u>\$ (42,002,601)</u>	<u>\$ 250,734,682</u>

***Summarized notes payable – Discretely presented component units***

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

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Notes payable - General Partner	\$ 143,269,524	\$ 149,582,020
Mortgages and other housing related notes	<u>39,814,898</u>	<u>46,887,346</u>
Total Notes payable	<u>\$ 183,084,422</u>	<u>\$ 196,469,366</u>

**HOME FORWARD**  
NOTES TO FINANCIAL STATEMENTS  
Years Ended March 31, 2013 and 2012

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

<b>Balance</b>			<b>Balance</b>
<b>December 31, 2011</b>	<b>Increase</b>	<b>Decrease</b>	<b>December 31, 2012</b>
\$ 196,469,366	\$ 9,311,878	\$ (22,696,822)	\$ 183,084,422

<b>Balance</b>			<b>Balance</b>
<b>December 31, 2010</b>	<b>Increase</b>	<b>Decrease</b>	<b>December 31, 2011</b>
\$ 196,665,090	\$ 13,688,045	\$ (13,883,769)	\$ 196,469,366

**18. COMMITMENTS AND CONTINGENCIES**

**Leases** - At March 31, 2013, Home Forward has approximately 8,620 dwelling units under lease to Section 8 landlords. The terms of these leases extend up to one year. Additionally, Home Forward 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, 2013 and 2012 were approximately \$71,885,000 and \$67,785,000, respectively.

**Construction Commitments** - At March 31, 2013, Home Forward had construction commitments of approximately \$17,289,000.

**Contingent Liabilities** - Home Forward 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 Home Forward does not use the properties according to their intended purposes. Home Forward has not and does not intend to violate those agreements. The liability, if recorded, would be approximately \$4,984,000.

**General Partner Operating Deficit Guarantees** - In relation to the performance of the tax credit partnerships for which Home Forward is the general partner, Home Forward 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, 2013, no additional liability existed relating to excess operating deficits for any of the partnerships.

**19. RISK MANAGEMENT**

Home Forward 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, Home Forward utilizes several insurance providers to reduce agency risk of loss.

Home Forward 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 \$255,089,000 and \$5,494,000, respectively.

**HOME FORWARD**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended March 31, 2013 and 2012

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HARRP coverage as of March 31, 2013, 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	2,000,000

For Home Forward owned affordable properties (non-public housing), Home Forward uses Affordable Housing Risk Pool (“AHRP”), a subsidiary of HARRP, and HARRP to provide commercial insurance. AHRP provides general liability coverage for 19 affordable properties for \$2,000,000 per incident/ unlimited aggregate. AHRP also provides blanket coverage for building property for 2 properties for approximately \$14,289,000.

HARRP provides blanket coverage for buildings and business personal property for 18 affordable properties for approximately \$126,156,000 and \$474,000, respectively. HARRP provides general liability coverage for 1 affordable property for \$2,000,000 per incident/ unlimited aggregate

Home Forward 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. Home Forward has one claim liability as of March 31, 2013.

**20. SUBSEQUENT EVENTS**

On September 1, 2013, Home Forward transferred ownership of four Public Housing buildings to Home Forward Development Enterprises (HFDE). HFDE is the repurposed and renamed N4C. These buildings are Hollywood East, Northwest Towers, Gallagher Plaza, and Sellwood Center. The funding for these buildings changed from Public Operating Subsidy to Project Based Section 8 Vouchers. HFDE will operate these four buildings until the buildings are transferred into Low Income Housing Tax Credits Partnerships with Home Forward as general partner.

Home Forward has evaluated subsequent events through September 24, 2013, 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.

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**REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)**

**HOME FORWARD**  
 REQUIRED SUPPLEMENTARY INFORMATION  
 As of March 31, 2013 and 2012

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**SCHEDULE OF FUNDING PROGRESS**

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

**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>
3/31/2013	\$ -	\$ 1,813,482	\$ 1,813,482	0%	\$ 14,527,714	12%
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%

**OTHER SUPPLEMENTARY INFORMATION**

## HOME FORWARD

### COMBINING SCHEDULE OF NET POSITION - AFFORDABLE HOUSING

As of March 31, 2013

	<u>Grace Peck Terrace</u>	<u>Multnomah Manor</u>	<u>The Plaza</u>	<u>Rosenbaum Plaza</u>	<u>St. Johns Woods</u>	<u>Unthank Plaza</u>	<u>Helen Swindells</u>	<u>Dawson Park</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>								
<b>CURRENT ASSETS:</b>								
Cash and cash equivalents	\$ 4,695,855	\$ (51,690)	\$ (91,551)	\$ 1,721,528	\$ 434,327	\$ 2,824,651	\$ (88,689)	\$ (187,345)
Cash and cash equivalents - restricted	237,279	295,711	260,885	105,754	581,476	208,194	387,755	296,373
Accounts receivable, net	5,830	1,618	6,842	5,902	3,819	2,896	8,330	538
Prepaid expenses	8,796	-	1,525	7,049	11,113	6,895	14,533	7,497
	<u>4,947,760</u>	<u>245,639</u>	<u>177,701</u>	<u>1,840,233</u>	<u>1,030,735</u>	<u>3,042,636</u>	<u>321,929</u>	<u>117,063</u>
<b>NON-CURRENT ASSETS:</b>								
Investment - restricted	-	-	-	-	-	-	-	-
Due from partnerships, net	-	-	-	-	-	-	-	-
Notes receivable and accrued interest receivable	-	-	-	-	-	-	-	-
Deferred charges, net	-	26,772	-	-	81,624	-	2,615	43,035
Capital assets not being depreciated	157,490	315,722	286,680	49,999	793,538	68,201	432,879	138,456
Capital assets being depreciated, net	477,781	1,631,202	1,359,803	636,740	2,470,756	568,305	2,165,866	1,374,259
	<u>635,271</u>	<u>1,973,696</u>	<u>1,646,483</u>	<u>686,739</u>	<u>3,345,918</u>	<u>636,506</u>	<u>2,601,360</u>	<u>1,555,750</u>
<b>TOTAL ASSETS BEFORE DEFERRED OUTFLOWS OF RESOURCES</b>	5,583,031	2,219,335	1,824,184	2,526,972	4,376,653	3,679,142	2,923,289	1,672,813
Deferred outflows of resources - derivative instruments	-	-	-	-	-	-	-	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 5,583,031</u>	<u>\$ 2,219,335</u>	<u>\$ 1,824,184</u>	<u>\$ 2,526,972</u>	<u>\$ 4,376,653</u>	<u>\$ 3,679,142</u>	<u>\$ 2,923,289</u>	<u>\$ 1,672,813</u>

(continued)

## HOME FORWARD

### COMBINING SCHEDULE OF NET POSITION - AFFORDABLE HOUSING

As of March 31, 2013

	Grace Peck Terrace	Multnomah Manor	The Plaza	Rosenbaum Plaza	St. Johns Woods	Unthank Plaza	Helen Swindells	Dawson Park
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>								
<b>CURRENT LIABILITIES:</b>								
Accounts payable	\$ -	\$ 4,467	\$ 26,581	\$ -	\$ 30,326	\$ 2,444	\$ 26,654	\$ 10,038
Accrued interest payable	-	6,759	1,237	-	42,587	-	-	41,183
Other accrued liabilities	27,000	-	7,303	19,125	1,362	21,910	840	-
Unearned revenue	1,803	3,256	141	2,048	2,821	812	4,497	6,136
Deposits, payable from restricted assets	16,573	23,697	18,049	7,572	25,376	13,819	41,809	29,477
Current portion of notes and bonds payable	-	25,177	72,437	-	145,000	-	-	96,367
	<u>45,376</u>	<u>63,356</u>	<u>125,748</u>	<u>28,745</u>	<u>247,472</u>	<u>38,985</u>	<u>73,800</u>	<u>183,201</u>
<b>NON-CURRENT LIABILITIES:</b>								
Notes payable	-	1,176,507	139,567	-	-	-	2,084,322	545,227
Bonds payable	-	-	-	-	3,052,525	-	-	1,671,644
Accrued interest - long-term	-	-	-	-	-	-	1,134,487	15,057
Other liabilities	-	-	-	-	-	-	-	-
	<u>-</u>	<u>1,176,507</u>	<u>139,567</u>	<u>-</u>	<u>3,052,525</u>	<u>-</u>	<u>3,218,809</u>	<u>2,231,928</u>
<b>TOTAL LIABILITIES BEFORE DEFERRED INFLOWS OF RESOURCES</b>	45,376	1,239,863	265,315	28,745	3,299,997	38,985	3,292,609	2,415,129
Deferred inflows of resources - derivative instruments	-	-	-	-	-	-	-	-
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<u>45,376</u>	<u>1,239,863</u>	<u>265,315</u>	<u>28,745</u>	<u>3,299,997</u>	<u>38,985</u>	<u>3,292,609</u>	<u>2,415,129</u>
<b>NET POSITION</b>	<u>5,537,655</u>	<u>979,472</u>	<u>1,558,869</u>	<u>2,498,227</u>	<u>1,076,656</u>	<u>3,640,157</u>	<u>(369,320)</u>	<u>(742,316)</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<u>\$ 5,583,031</u>	<u>\$ 2,219,335</u>	<u>\$ 1,824,184</u>	<u>\$ 2,526,972</u>	<u>\$ 4,376,653</u>	<u>\$ 3,679,142</u>	<u>\$ 2,923,289</u>	<u>\$ 1,672,813</u>



**HOME FORWARD**  
**COMBINING SCHEDULE OF NET POSITION - AFFORDABLE HOUSING**  
As of March 31, 2013

	<u>Pearl Court</u>	<u>Fenwick Avenue</u>	<u>Ainsworth Court</u>	<u>Fairview Oaks</u>	<u>Rockwood Station</u>	<u>Pine Square</u>	<u>Willow Tree</u>	<u>Ash Creek</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>								
<b>CURRENT ASSETS:</b>								
Cash and cash equivalents	\$ 936,231	\$ (103,199)	\$ (209,951)	\$ 1,070,613	\$ 1,350,096	\$ (1,582,321)	\$ (1,678,275)	\$ (1,413,711)
Cash and cash equivalents - restricted	934,526	81,220	598,908	852,767	394,342	-	120,775	59,387
Accounts receivable, net	3,245	868	1,790	18,676	6,662	-	3,190	1,413
Prepaid expenses	18,808	1,950	7,356	29,409	19,220	-	-	2,241
	<u>1,892,810</u>	<u>(19,161)</u>	<u>398,103</u>	<u>1,971,465</u>	<u>1,770,320</u>	<u>(1,407,461)</u>	<u>(1,554,310)</u>	<u>(1,350,670)</u>
<b>NON-CURRENT ASSETS:</b>								
Investment - restricted	-	-	-	-	-	-	-	-
Due from partnerships, net	-	-	-	-	600	-	-	-
Notes receivable and accrued interest receivable	-	-	-	-	-	-	-	-
Deferred charges, net	110,332	17,121	44,712	547,196	252,713	-	18,800	20,286
Capital assets not being depreciated	766,151	292,242	1,115,633	943,432	702,002	-	162,767	363,580
Capital assets being depreciated, net	4,621,575	2,210,051	2,425,295	8,574,859	4,141,048	-	1,984,448	1,852,742
	<u>5,498,058</u>	<u>2,519,414</u>	<u>3,585,640</u>	<u>10,065,487</u>	<u>5,096,363</u>	<u>-</u>	<u>2,166,015</u>	<u>2,236,608</u>
<b>TOTAL ASSETS BEFORE DEFERRED OUTFLOWS OF RESOURCES</b>	7,390,868	2,500,253	3,983,743	12,036,952	6,866,683	(1,407,461)	611,705	885,938
Deferred outflows of resources - derivative instruments	-	-	-	-	-	-	-	51,894
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 7,390,868</u>	<u>\$ 2,500,253</u>	<u>\$ 3,983,743</u>	<u>\$ 12,036,952</u>	<u>\$ 6,866,683</u>	<u>\$ (1,407,461)</u>	<u>\$ 611,705</u>	<u>\$ 937,832</u>

(continued)

## HOME FORWARD

### COMBINING SCHEDULE OF NET POSITION - AFFORDABLE HOUSING

As of March 31, 2013

	<u>Pearl Court</u>	<u>Fenwick Avenue</u>	<u>Ainsworth Court</u>	<u>Fairview Oaks</u>	<u>Rockwood Station</u>	<u>Pine Square</u>	<u>Willow Tree</u>	<u>Ash Creek</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>								
<b>CURRENT LIABILITIES:</b>								
Accounts payable	\$ 26,604	\$ 15,583	\$ 13,865	\$ 35,427	\$ 16,874	\$ -	\$ 77,954	\$ 88,150
Accrued interest payable	56,676	4,664	36,530	35,647	14,319	-	2,464	7,150
Other accrued liabilities	-	-	-	2,500	-	-	85	52,255
Unearned revenue	35,592	156	7,199	6,713	3,159	-	4,306	311
Deposits, payable from restricted assets	100,636	9,450	48,854	238,711	102,813	-	5,600	8,000
Current portion of notes and bonds payable	314,971	45,687	110,000	183,358	73,653	-	17,157	2,110,052
	<u>534,479</u>	<u>75,540</u>	<u>216,448</u>	<u>502,356</u>	<u>210,818</u>	<u>-</u>	<u>107,566</u>	<u>2,265,918</u>
<b>NON-CURRENT LIABILITIES:</b>								
Notes payable	913,951	2,652,381	1,400,000	11,765,323	4,725,981	-	830,091	-
Bonds payable	4,575,000	-	2,400,426	-	-	-	-	-
Accrued interest - long-term	328,681	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-
	<u>5,817,632</u>	<u>2,652,381</u>	<u>3,800,426</u>	<u>11,765,323</u>	<u>4,725,981</u>	<u>-</u>	<u>830,091</u>	<u>-</u>
<b>TOTAL LIABILITIES BEFORE DEFERRED INFLOWS OF RESOURCES</b>	6,352,111	2,727,921	4,016,874	12,267,679	4,936,799	-	937,657	2,265,918
Deferred inflows of resources - derivative instruments	-	-	-	-	-	-	-	51,894
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<u>6,352,111</u>	<u>2,727,921</u>	<u>4,016,874</u>	<u>12,267,679</u>	<u>4,936,799</u>	<u>-</u>	<u>937,657</u>	<u>2,317,812</u>
<b>NET POSITION</b>	<u>1,038,757</u>	<u>(227,668)</u>	<u>(33,131)</u>	<u>(230,727)</u>	<u>1,929,884</u>	<u>(1,407,461)</u>	<u>(325,952)</u>	<u>(1,328,086)</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<u>\$ 7,390,868</u>	<u>\$ 2,500,253</u>	<u>\$ 3,983,743</u>	<u>\$ 12,036,952</u>	<u>\$ 6,866,683</u>	<u>\$ (1,407,461)</u>	<u>\$ 611,705</u>	<u>\$ 989,726</u>

# HOME FORWARD

## COMBINING SCHEDULE OF NET POSITION - AFFORDABLE HOUSING

As of March 31, 2013

	<u>Schiller Way</u>	<u>Peter Paulson</u>	<u>Kelly Place</u>	<u>Hillsdale Duplexs</u>	<u>Trouton Commercial</u>	<u>Yards at Union Station</u>	<u>Affordable Housing Management</u>	<u>Eliminations</u>	<u>Totals</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>									
<b>CURRENT ASSETS:</b>									
Cash and cash equivalents	\$ (356,458)	\$ (89,996)	\$ 34,153	\$ 479,313	\$ (78,195)	\$ 467,482	\$ (5,812,749)	\$ (43,207)	\$ 2,226,912
Cash and cash equivalents - restricted	50,012	332,553	79,889	-	-	1,035,901	-	-	6,913,707
Accounts receivable, net	283	2,450	148	-	157	781	147,675	-	223,113
Prepaid expenses	3,075	7,829	2,674	-	480	25,190	-	-	175,640
	<u>(303,088)</u>	<u>252,836</u>	<u>116,864</u>	<u>479,313</u>	<u>(77,558)</u>	<u>1,529,354</u>	<u>(5,839,934)</u>	<u>(43,207)</u>	<u>9,539,372</u>
<b>NON-CURRENT ASSETS:</b>									
Investment - restricted	-	-	-	-	-	-	-	-	-
Due from partnerships, net	-	-	-	-	(4,790)	-	232,356	-	228,166
Notes receivable and accrued interest receivable	-	-	-	-	-	-	478,500	-	478,500
Deferred charges, net	-	930	4,984	-	-	136,557	-	-	1,307,677
Capital assets not being depreciated	48,707	285,851	188,665	-	-	592,500	-	-	7,704,495
Capital assets being depreciated, net	1,470,809	2,367,047	945,433	-	4,550	4,789,792	-	-	46,072,361
	<u>1,519,516</u>	<u>2,653,828</u>	<u>1,139,082</u>	<u>-</u>	<u>(240)</u>	<u>5,518,849</u>	<u>710,856</u>	<u>-</u>	<u>55,791,199</u>
<b>TOTAL ASSETS BEFORE DEFERRED OUTFLOWS OF RESOURCES</b>	1,216,428	2,906,664	1,255,946	479,313	(77,798)	7,048,203	(5,129,078)	(43,207)	65,330,571
Deferred outflows of resources - derivative instruments	-	-	-	-	-	-	-	-	51,894
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 1,216,428</u>	<u>\$ 2,906,664</u>	<u>\$ 1,255,946</u>	<u>\$ 479,313</u>	<u>\$ (77,798)</u>	<u>\$ 7,048,203</u>	<u>\$ (5,129,078)</u>	<u>\$ (43,207)</u>	<u>\$ 65,382,465</u>

(continued)

## HOME FORWARD

### COMBINING SCHEDULE OF NET POSITION - AFFORDABLE HOUSING

As of March 31, 2013

	<u>Schiller Way</u>	<u>Peter Paulson</u>	<u>Kelly Place</u>	<u>Hillsdale Duplexs</u>	<u>Trouton Commercial</u>	<u>Yards Station</u>	<u>Affordable Housing Management</u>	<u>Eliminations</u>	<u>Totals</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>									
<b>CURRENT LIABILITIES:</b>									
Accounts payable	\$ 4,892	\$ 14,581	\$ 2,042	\$ -	\$ 4,258	\$ 39,551	\$ 49,105	\$ -	\$ 489,396
Accrued interest payable	2,600	-	1,776	-	-	107,370	-	-	360,962
Other accrued liabilities	-	-	-	-	-	-	51,532	-	183,912
Unearned revenue	112	1,203	639	-	-	27,572	491,304	-	599,780
Deposits, payable from restricted assets	6,576	34,955	5,800	-	-	83,337	-	-	821,104
Current portion of notes and bonds payable	45,626	-	17,465	-	-	302,194	-	-	3,559,144
	<u>59,806</u>	<u>50,739</u>	<u>27,722</u>	<u>-</u>	<u>4,258</u>	<u>560,024</u>	<u>591,941</u>	<u>-</u>	<u>6,014,298</u>
<b>NON-CURRENT LIABILITIES:</b>									
Notes payable	1,233,027	1,960,936	377,831	-	-	1,322,344	-	-	31,127,488
Bonds payable	-	-	-	-	-	5,165,000	-	-	16,864,595
Accrued interest - long-term	-	1,314,728	-	-	-	-	-	-	2,792,953
Other liabilities	-	-	-	-	-	-	10,231	-	10,231
	<u>1,233,027</u>	<u>3,275,664</u>	<u>377,831</u>	<u>-</u>	<u>-</u>	<u>6,487,344</u>	<u>10,231</u>	<u>-</u>	<u>50,795,267</u>
<b>TOTAL LIABILITIES BEFORE DEFERRED INFLOWS OF RESOURCES</b>									
	1,292,833	3,326,403	405,553	-	4,258	7,047,368	602,172	-	56,809,565
Deferred inflows of resources - derivative instruments	-	-	-	-	-	-	-	-	51,894
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>									
	<u>1,292,833</u>	<u>3,326,403</u>	<u>405,553</u>	<u>-</u>	<u>4,258</u>	<u>7,047,368</u>	<u>602,172</u>	<u>-</u>	<u>56,861,459</u>
<b>NET POSITION</b>									
	<u>(76,405)</u>	<u>(419,739)</u>	<u>850,393</u>	<u>479,313</u>	<u>(82,056)</u>	<u>835</u>	<u>(5,731,250)</u>	<u>(43,207)</u>	<u>8,572,900</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>									
	<u>\$ 1,216,428</u>	<u>\$ 2,906,664</u>	<u>\$ 1,255,946</u>	<u>\$ 479,313</u>	<u>\$ (77,798)</u>	<u>\$ 7,048,203</u>	<u>\$ (5,129,078)</u>	<u>\$ (43,207)</u>	<u>\$ 65,434,359</u>

## HOME FORWARD

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

Year ended March 31, 2013

	Grace Peck Terrace	Multnomah Manor	The Plaza	Rosenbaum Plaza	St. Johns Woods	Unthank Plaza	Helen Swindells	Dawson Park
<b>OPERATING REVENUES:</b>								
Dwelling rental	\$ 213,727	\$ 260,840	\$ 197,438	\$ 171,183	\$ 314,551	\$ 159,343	\$ 434,961	\$ 533,075
Non-dwelling rental	19,943	398	-	59,618	-	4,051	122,708	-
HUD operating subsidies	652,595	135,024	503,723	482,953	822,358	690,420	-	-
HUD grants	-	-	-	-	-	-	-	-
Other	157,055	12,923	13,100	70,978	114,371	159,588	46,768	15,610
	<u>1,043,320</u>	<u>409,185</u>	<u>714,261</u>	<u>784,732</u>	<u>1,251,280</u>	<u>1,013,402</u>	<u>604,437</u>	<u>548,685</u>
<b>OPERATING EXPENSES:</b>								
Housing assistance payments	2,075	785	4,534	-	6,995	2,654	-	-
Administration	370,862	92,803	264,280	318,055	249,004	390,748	266,529	103,970
Tenant services	-	-	547	8,265	-	2,640	5,763	-
Utilities	77,386	60,384	74,009	105,800	250,982	68,323	99,322	57,012
Maintenance	156,482	124,152	272,807	186,973	290,549	191,378	148,763	161,241
Depreciation	81,482	65,240	120,610	83,851	102,957	65,119	107,893	139,986
General	22,461	9,270	8,719	19,008	37,596	18,569	39,709	9,286
	<u>710,748</u>	<u>352,634</u>	<u>745,506</u>	<u>721,952</u>	<u>938,083</u>	<u>739,431</u>	<u>667,979</u>	<u>471,495</u>
<b>OPERATING INCOME (LOSS)</b>	<u>332,572</u>	<u>56,551</u>	<u>(31,245)</u>	<u>62,780</u>	<u>313,197</u>	<u>273,971</u>	<u>(63,542)</u>	<u>77,190</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>								
Investment income	542	250	51,554	161	36,820	432	323	539
Interest expense	-	(81,851)	(17,035)	-	(180,212)	-	(62,530)	(97,183)
Investment in partnership valuation charge	-	-	-	-	-	-	-	-
Amortization	-	(1,236)	-	-	(5,023)	-	(5,721)	(42,664)
Loss on disposal of assets	-	-	(61,078)	(4,698)	(32,663)	(2,913)	-	-
	<u>542</u>	<u>(82,837)</u>	<u>(26,559)</u>	<u>(4,537)</u>	<u>(181,078)</u>	<u>(2,481)</u>	<u>(67,928)</u>	<u>(139,308)</u>
<b>CAPITAL CONTRIBUTIONS:</b>								
Other nonoperating contributions	-	-	-	116,911	-	47,823	-	-
<b>INCREASE (DECREASE) IN NET POSITION</b>	333,114	(26,286)	(57,804)	175,154	132,119	319,313	(131,470)	(62,118)
<b>NET POSITION- Beginning of year</b>	<u>5,204,541</u>	<u>1,005,758</u>	<u>1,616,673</u>	<u>2,323,073</u>	<u>944,537</u>	<u>3,320,844</u>	<u>(237,850)</u>	<u>(680,198)</u>
<b>NET POSITION-End of year</b>	<u>\$ 5,537,655</u>	<u>\$ 979,472</u>	<u>\$ 1,558,869</u>	<u>\$ 2,498,227</u>	<u>\$ 1,076,656</u>	<u>\$ 3,640,157</u>	<u>\$ (369,320)</u>	<u>\$ (742,316)</u>

(continued)

## HOME FORWARD

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

Year ended March 31, 2013

	Pearl Court	Fenwick Avenue	Ainsworth Court	Fairview Oaks	Rockwood Station	Pine Square	Willow Tree	Ash Creek
<b>OPERATING REVENUES:</b>								
Dwelling rental	\$ 1,537,279	\$ 234,684	\$ 709,350	\$ 2,764,542	\$ 1,389,804	\$ -	\$ 164,496	\$ 299,628
Non-dwelling rental	19,369	-	-	21,295	32,724	-	-	-
HUD operating subsidies	-	-	-	135,933	84,958	-	-	-
HUD grants	-	-	-	-	-	-	-	-
Other	42,907	6,070	17,048	113,515	71,049	-	7,913	3,122
	<u>1,599,555</u>	<u>240,754</u>	<u>726,398</u>	<u>3,035,285</u>	<u>1,578,535</u>	<u>-</u>	<u>172,409</u>	<u>302,750</u>
<b>OPERATING EXPENSES:</b>								
Housing assistance payments	-	-	-	10,795	4,266	-	-	-
Administration	290,501	35,046	114,019	379,540	351,734	2,875	72,844	52,669
Tenant services	-	-	-	-	-	-	5,444	-
Utilities	140,898	47,449	73,789	310,356	129,020	-	22,470	43,492
Maintenance	216,044	18,793	130,932	621,005	350,737	-	26,691	30,745
Depreciation	377,674	76,057	193,249	446,110	240,295	-	55,969	50,582
General	17,335	3,513	9,596	161,263	85,043	-	3,537	2,143
	<u>1,042,452</u>	<u>180,858</u>	<u>521,585</u>	<u>1,929,069</u>	<u>1,161,095</u>	<u>2,875</u>	<u>186,955</u>	<u>179,631</u>
<b>OPERATING INCOME (LOSS)</b>	<u>557,103</u>	<u>59,896</u>	<u>204,813</u>	<u>1,106,216</u>	<u>417,440</u>	<u>(2,875)</u>	<u>(14,546)</u>	<u>123,119</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>								
Investment income	22,330	82	29,504	678	433	93,678	120	70
Interest expense	(254,524)	(56,714)	(151,928)	(430,684)	(173,000)	(339,813)	(29,902)	(84,687)
Investment in partnership valuation charge	-	-	-	-	-	-	-	-
Amortization	(8,024)	(781)	(2,889)	(16,093)	(7,433)	-	(817)	(962)
Loss on disposal of assets	(2,494)	-	(63,981)	(34,836)	(118,204)	-	-	-
	<u>(242,712)</u>	<u>(57,413)</u>	<u>(189,294)</u>	<u>(480,935)</u>	<u>(298,204)</u>	<u>(246,135)</u>	<u>(30,599)</u>	<u>(85,579)</u>
<b>CAPITAL CONTRIBUTIONS:</b>								
Other nonoperating contributions	-	-	-	-	-	(93,678)	(2,070)	-
<b>INCREASE (DECREASE) IN NET ASSETS</b>	314,391	2,483	15,519	625,281	119,236	(342,688)	(47,215)	37,540
<b>NET POSITION- Beginning of year</b>	724,366	(230,151)	(48,650)	(856,008)	1,810,648	(1,064,773)	(278,737)	(1,365,626)
<b>NET POSITION-End of year</b>	<u>\$ 1,038,757</u>	<u>\$ (227,668)</u>	<u>\$ (33,131)</u>	<u>\$ (230,727)</u>	<u>\$ 1,929,884</u>	<u>\$ (1,407,461)</u>	<u>\$ (325,952)</u>	<u>\$ (1,328,086)</u>

(continued)

# HOME FORWARD

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

Year ended March 31, 2013

	Schiller Way	Peter Paulson	Kelly Place	Hillsdale Duplexes	Trouton Commercial	Yards at Union Station	Affordable Housing Management	Eliminations	Total
<b>OPERATING REVENUES:</b>									
Dwelling rental	\$ 182,277	\$ 514,517	\$ 158,886	\$ -	\$ -	\$ 243,130	\$ -	\$ -	\$ 10,483,711
Non-dwelling rental	40,351	-	-	-	24,384	440	36,960	-	382,241
HUD operating subsidies	-	-	-	-	-	-	147,827	-	3,655,791
HUD grants	-	-	-	-	-	-	112,952	-	112,952
Other	2,703	10,092	2,819	-	74,181	6,963	1,136,112	(171,141)	1,913,746
	<u>225,331</u>	<u>524,609</u>	<u>161,705</u>	<u>-</u>	<u>98,565</u>	<u>250,533</u>	<u>1,433,851</u>	<u>(171,141)</u>	<u>16,548,441</u>
<b>OPERATING EXPENSES:</b>									
Housing assistance payments	-	-	-	-	-	-	-	-	32,104
Administration	40,946	216,226	30,245	-	65,164	51,005	1,147,477	(171,141)	4,735,401
Tenant services	-	-	-	-	-	-	735,008	-	757,667
Utilities	43,929	91,575	20,407	-	30,359	27,666	-	-	1,774,628
Maintenance	78,509	136,805	44,376	-	18,248	44,083	983	-	3,250,296
Depreciation	56,099	111,841	83,417	-	3,413	77,145	-	-	2,538,989
General	5,102	8,596	5,376	-	1,301	5,512	684,434	-	1,157,369
	<u>224,585</u>	<u>565,043</u>	<u>183,821</u>	<u>-</u>	<u>118,485</u>	<u>205,411</u>	<u>2,567,902</u>	<u>(171,141)</u>	<u>14,246,454</u>
<b>OPERATING INCOME (LOSS)</b>	<u>746</u>	<u>(40,434)</u>	<u>(22,116)</u>	<u>-</u>	<u>(19,920)</u>	<u>45,122</u>	<u>(1,134,051)</u>	<u>-</u>	<u>2,301,987</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>									
Investment income	29	592	96	-	-	4,251	526	-	243,010
Interest expense	(32,017)	(82,035)	(21,719)	-	-	(49,816)	-	-	(2,145,650)
Investment in partnership valuation charge	-	-	-	-	-	2,910	-	-	2,910
Amortization	-	(507)	(332)	-	-	(1,632)	-	-	(94,114)
Loss on disposal of assets	-	-	(4,315)	-	-	-	-	-	(325,182)
	<u>(31,988)</u>	<u>(81,950)</u>	<u>(26,270)</u>	<u>-</u>	<u>-</u>	<u>(44,287)</u>	<u>526</u>	<u>-</u>	<u>(2,319,026)</u>
<b>CAPITAL CONTRIBUTIONS:</b>									
Other nonoperating contributions	20,123	-	11,878	-	-	-	(3,463,606)	-	(3,362,619)
<b>INCREASE (DECREASE) IN NET POSITION</b>	<u>(11,119)</u>	<u>(122,384)</u>	<u>(36,508)</u>	<u>-</u>	<u>(19,920)</u>	<u>835</u>	<u>(4,597,131)</u>	<u>-</u>	<u>(3,379,658)</u>
<b>NET POSITION- Beginning of year</b>	<u>(65,286)</u>	<u>(297,355)</u>	<u>886,901</u>	<u>479,313</u>	<u>(62,136)</u>	<u>-</u>	<u>(1,134,119)</u>	<u>(43,207)</u>	<u>11,952,558</u>
<b>NET POSITION-End of year</b>	<u>\$ (76,405)</u>	<u>\$ (419,739)</u>	<u>\$ 850,393</u>	<u>\$ 479,313</u>	<u>\$ (82,056)</u>	<u>\$ 835</u>	<u>\$ (5,731,250)</u>	<u>\$ (43,207)</u>	<u>\$ 8,572,900</u>

# HOME FORWARD

## COMBINING SCHEDULE OF NET POSITION - SPECIAL NEEDS HOUSING

As of March 31, 2013

	Interstate Crossing	Carriage Hill	Project Open Door	Other Special Needs	Total
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents (overdraft)	\$ (192,324)	\$ 15,569	\$ 33,808	\$ 1,193,891	\$ 1,050,943
Tenant security deposit - restricted cash	1,375	-	1,750	11,041	14,166
Cash and cash equivalents-restricted	39,691	3,086	43,726	590,874	677,378
Accounts receivable, net	2,382	205	20	4,478	7,085
Prepaid expenses	-	-	-	3,686	3,686
	(148,877)	18,861	79,304	1,803,970	1,753,258
<b>NONCURRENT ASSETS:</b>					
Deferred charges, net	1,979	-	-	13,747	15,726
Due from Partnership	-	-	-	106,889	106,889
Capital assets not being depreciated	90,000	75,424	71,104	1,404,274	1,640,802
Capital assets being depreciated, net	1,248,038	322,357	500,849	18,349,501	20,420,746
	1,340,017	397,781	571,953	19,874,411	22,184,163
<b>TOTAL ASSETS</b>	<b>\$ 1,191,141</b>	<b>\$ 416,642</b>	<b>\$ 651,257</b>	<b>\$ 21,678,381</b>	<b>\$ 23,937,421</b>
<b>LIABILITIES AND NET POSITION</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable	2,636	7,940	491	14,871	25,937
Accrued interest payable	1,216	96	178	40,101	41,591
Other accrued liabilities	3,110	503	-	9,882	13,496
Deferred revenue	139	880	5,206	7,945	14,169
Deposits, payable from restricted assets	1,375	-	1,750	11,041	14,166
Current portion of notes and bonds payable	12,531	1,455	14,753	52,614	81,353
	21,007	10,873	22,378	136,454	190,711
<b>NONCURRENT LIABILITIES:</b>					
Accrued interest long-term	-	-	-	237,500	237,500
Notes payable - long-term	1,403,696	218,243	229,754	7,830,145	9,681,838
	1,403,696	218,243	229,754	8,067,645	9,919,338
<b>TOTAL LIABILITIES</b>	<b>1,424,703</b>	<b>229,116</b>	<b>252,132</b>	<b>8,204,098</b>	<b>10,110,049</b>
<b>NET POSITION</b>	<b>(233,562)</b>	<b>187,526</b>	<b>399,125</b>	<b>13,474,283</b>	<b>13,827,372</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 1,191,141</b>	<b>\$ 416,642</b>	<b>\$ 651,257</b>	<b>\$ 21,678,381</b>	<b>\$ 23,937,421</b>



# HOME FORWARD

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

Year ended March 31, 2013

	Interstate Crossing	Carriage Hill	Project Open Door	Other Special Needs	Total
<b>OPERATING REVENUES:</b>					
Dwelling rental	\$ 99,685	\$ 21,574	\$ 62,196	\$ 43,354	\$ 226,809
Non-dwelling rental	-	-	-	593,164	593,164
State, local and other grants	-	-	-	6,892	6,892
Other	6,616	1,050	4,012	71,779	83,457
	106,301	22,624	66,208	715,189	910,322
<b>OPERATING EXPENSES:</b>					
Administration	13,428	2,195	5	84,080	99,708
Management fee	6,754	-	-	-	6,754
Utilities	17,606	4,699	8,924	24,950	56,179
Maintenance	39,693	8,589	22,716	194,830	265,828
Depreciation	62,112	12,221	25,708	972,131	1,072,172
General	726	582	1,326	43,128	45,762
	140,319	28,286	58,679	1,319,119	1,546,403
<b>OPERATING INCOME/(LOSS)</b>	(34,018)	(5,662)	7,529	(603,930)	(636,081)
<b>NON-OPERATING REVENUE (EXPENSE):</b>					
Investment income	27	3	59	751	840
Interest expense	(29,537)	(1,168)	(4,406)	(89,414)	(124,525)
Amortization	(97)	-	-	(379)	(476)
Gain (loss) on sale of assets	-	(9,402)	(23,000)	(121,391)	(153,793)
	(29,607)	(10,567)	(27,347)	(210,433)	(277,954)
<b>NET LOSS BEFORE CAPITAL CONTRIBUTIONS</b>	(63,625)	(16,229)	(54,694)	(814,363)	(914,035)
Other non-operating contributions	-	12,000	40,296	174,642	226,938
<b>TOTAL CAPITAL CONTRIBUTIONS</b>	-	12,000	40,296	174,642	226,938
<b>INCREASE (DECREASE) IN NET POSITION</b>	(63,625)	(4,229)	20,478	(639,721)	(687,097)
<b>NET POSITION - beginning of year</b>	(169,937)	191,755	378,647	14,114,004	14,514,469
<b>NET POSITION - end of year</b>	\$ (233,562)	\$ 187,526	\$ 399,125	\$ 13,474,283	\$ 13,827,372

**Independent Auditor’s Report Required by Oregon State Regulations**

Members of the Board of Commissioners  
of Home Forward  
Portland, Oregon

We have audited the basic financial statements of the business-type activity (primary government) and the aggregate discretely presented component units of Home Forward, Oregon, as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise Home Forward’s basic financial statements, and have issued our report thereon dated September 24, 2013. Our report includes a reference to other auditors, a scope limitation related to the Stephens Creek Crossing North Limited Partnership and Stephens Creek Crossing South Limited Partnership (Limited Partnerships), discretely presented component units of Home Forward, which were not audited, and an emphasis of a matter paragraph indicating that Home Forward adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Except for the Limited Partnerships, 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 the Limited Partnerships, as described in our report on Home Forward’s basic financial statements. The financial statements of the discretely presented component units, except for the Gateway Park Limited Partnership, were not audited 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 the other auditors of the Gateway Park Limited Partnership.

**Compliance**

As part of obtaining reasonable assurance about whether Home Forward’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 Home Forward 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*.

### **OAR 162-10-0230 Internal Control**

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

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

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

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



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Linda Hurley, Partner  
for Macias Gini & O'Connell LLP  
Walnut Creek, California  
September 24, 2013