

**COLLEGE HOUSING NORTHWEST –  
CORVALLIS, L.L.C.**

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**INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS  
(with supplemental information)**

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**JUNE 30, 2009 AND 2008**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
College Housing Northwest – Corvallis, L.L.C.

We have audited the accompanying balance sheets of College Housing Northwest – Corvallis, L.L.C. (the Organization) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of College Housing Northwest – Corvallis, L.L.C. as of June 30, 2009 and 2008, and the changes in its net deficit and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Moss Adams LLP*

Portland, Oregon  
September 24, 2009

**COLLEGE HOUSING NORTHWEST – CORVALLIS, L.L.C.**  
**BALANCE SHEETS**

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**ASSETS**

	<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,045	\$ 762
Tenant deposits	35,420	35,600
Accounts receivable, less allowance for doubtful accounts (\$4,273 in 2009 and \$0 in 2008)	5,584	13,311
Accrued interest receivable	578	578
Prepaid expenses and other assets	4,147	4,130
	<u>48,774</u>	<u>54,381</u>
<b>PROPERTY AND EQUIPMENT</b>		
Building and improvements	15,379,991	15,379,991
Furnishings and equipment	806,317	806,028
	<u>16,186,308</u>	<u>16,186,019</u>
Less accumulated depreciation and amortization	(1,749,400)	(1,188,506)
	<u>14,436,908</u>	<u>14,997,513</u>
<b>OTHER ASSETS</b>		
Assets limited as to use under bond trust indenture	2,529,770	2,559,856
Debt financing costs, net of accumulated amortization (\$168,849 in 2009 and \$116,094 in 2008)	907,903	960,658
	<u>3,437,673</u>	<u>3,520,514</u>
<b>TOTAL ASSETS</b>	<u>\$ 17,923,355</u>	<u>\$ 18,572,408</u>

**COLLEGE HOUSING NORTHWEST – CORVALLIS, L.L.C.**  
**BALANCE SHEETS**

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**LIABILITIES AND NET DEFICIT**

	<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable – sole member	\$ 11,135	\$ 91,351
Accounts payable	20,764	36,807
Accrued interest	457,223	462,173
Refundable deposits	37,268	38,935
Tenant advance payments	13,632	15,213
Accrued expenses	8,610	-
Current portion of long-term debt	200,000	190,000
Total current liabilities	748,632	834,479
 <b>LONG-TERM DEBT</b>		
Bonds payable	18,718,358	18,927,625
Total long-term debt	18,718,358	18,927,625
 <b>UNRESTRICTED NET DEFICIT</b>		
	(1,543,635)	(1,189,696)
 <b>TOTAL LIABILITIES AND NET DEFICIT</b>		
	\$ 17,923,355	\$ 18,572,408

**COLLEGE HOUSING NORTHWEST – CORVALLIS, L.L.C.**  
**STATEMENTS OF ACTIVITIES**

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	<b>Year Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>CHANGES IN UNRESTRICTED NET DEFICIT</b>		
Housing and related revenues	\$ 1,855,449	\$ 1,790,787
Operating expenses	<u>1,368,255</u>	<u>1,344,426</u>
Increase in net assets from operations	<u>487,194</u>	<u>446,361</u>
Other changes:		
Investment income (loss), net	14,603	(11,140)
Interest expense	(856,324)	(838,755)
Miscellaneous income	<u>588</u>	<u>1,253</u>
Total other changes	<u>(841,133)</u>	<u>(848,642)</u>
<b>INCREASE IN UNRESTRICTED NET DEFICIT</b>	(353,939)	(402,281)
<b>UNRESTRICTED NET DEFICIT, beginning of year</b>	<u>(1,189,696)</u>	<u>(787,415)</u>
<b>UNRESTRICTED NET DEFICIT, end of year</b>	<u><u>\$ (1,543,635)</u></u>	<u><u>\$ (1,189,696)</u></u>

**COLLEGE HOUSING NORTHWEST – CORVALLIS, L.L.C.**  
**STATEMENTS OF CASH FLOWS**

	<b>Year Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in unrestricted net deficit	\$ (353,939)	\$ (402,281)
Adjustments to reconcile increase in unrestricted net deficit to net cash from operating activities:		
Depreciation and amortization	604,382	617,268
Realized and unrealized loss (gain) on assets limited as to use under bond trust indenture	2,152	(1,166)
Increase in allowance for doubtful accounts	(4,273)	-
Net changes in operating assets and liabilities:		
Tenant deposits	180	2,300
Accounts receivable	12,000	(4,066)
Prepaid expenses and other assets	(17)	236
Accrued interest receivable	-	42,951
Accounts payable	(96,259)	38,479
Accrued expenses	8,610	-
Accrued interest	(4,950)	(50)
Refundable deposits	(1,667)	(11,005)
Tenant advance payments	(1,581)	4,056
Net cash from operating activities	<u>164,638</u>	<u>286,722</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in assets limited as to use under bond trust indenture	27,934	219,133
Purchases of property and equipment	(289)	(137,213)
Net cash from investing activities	<u>27,645</u>	<u>81,920</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments on long-term debt	(190,000)	(370,000)
<b>NET CHANGE IN CASH</b>	2,283	(1,358)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>762</u>	<u>2,120</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 3,045</u>	<u>\$ 762</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 817,786</u>	<u>\$ 794,727</u>

See accompanying notes.

**COLLEGE HOUSING NORTHWEST – CORVALLIS, L.L.C.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** – College Housing Northwest – Corvallis, L.L.C. (the Organization) is a tax-exempt corporation formed by its sole member, Housing Northwest, Inc. As a wholly-owned subsidiary of Housing Northwest, Inc. the Organization has access to the resources of the consolidated group. As of June 30, 2009, Housing Northwest, Inc. on a consolidated basis had unrestricted net assets of \$2,632,925, working capital of \$2,334,269 and cash and short-term investments of \$3,833,312. The Organization provides quality affordable housing for students, faculty and staff of Oregon State University (OSU).

Effective July 19, 2004, the Organization entered into a land lease agreement with the Oregon University System to develop, finance, renovate and operate the College Inn (The Gem). The land lease terminates either the later of June 30, 2041, or the month following the last payment with respect to any outstanding debt relating to the renovation of The Gem.

**Basis of accounting and presentation** – The financial statements are prepared on the accrual basis of accounting. Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- *Unrestricted net assets* – reflect the cumulative effect of net activity absent donor-imposed restrictions.

**Cash and cash equivalents** – Cash and cash equivalents are comprised of cash on hand, cash deposited with banks, and certain liquid investments with original maturities of three months or less. Cash equivalents are recorded at fair value. There were no temporarily or permanently restricted net assets as of June 30, 2009 and 2008.

**Accounts receivable** – Receivables are presented at the aggregate unpaid amounts. Management reviews the collectibility of accounts on a periodic basis and has determined an allowance for doubtful accounts of amounts greater than 90 days to be appropriate. Accounts are charged off when all collection efforts have been exhausted.

**Property and equipment** – Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets as follows:

Furnishings and equipment	3 – 5 years
Buildings and improvements	10 – 35 years

**COLLEGE HOUSING NORTHWEST – CORVALLIS, L.L.C.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES – (continued)**

New equipment and expenditures for major repairs and improvements exceeding \$300 are capitalized; conversely, expenditures for minor repairs and maintenance costs are expensed when incurred. Depreciation totaled \$560,894 and \$573,190 for the years ended June 30, 2009 and 2008, respectively.

**Assets limited as to use under bond trust indenture** – Assets limited as to use include restricted investments of the proceeds of the \$19,320,000 State of Oregon, Oregon Facilities Authority, Revenue Bonds, 2005 Series A, Series B, and Series One (see Notes 2 and 3). These restricted investments are comprised of money market funds and marketable government discount notes.

**Debt financing costs** – Underwriter and legal fees, printing costs, rating agency fees, and other expenditures associated with the 2005 bond offerings were capitalized and are being amortized using the interest method over the terms of the bonds.

**Revenue recognition** – Revenue is recognized monthly for all tenants.

**Advertising** – The Organization expenses nondirect response advertising costs when incurred. Advertising expense totaled \$1,683 and \$2,501 for the years ended June 30, 2009 and 2008, respectively. The Organization has not incurred any direct response advertising costs.

**Income taxes** – The Organization is a wholly-owned subsidiary of a not-for-profit organization and as such, is disregarded for tax filing purposes. All activity, therefore, is reported on the informational tax return of its parent, Housing Northwest, Inc. The parent does an analysis annually to determine if any of the activity of College Housing Northwest – Corvallis, L.L.C. is unrelated business income to the not-for-profit parent and any related tax would be disclosed in the consolidated financial statements of the parent.

**Use of estimates** – The preparation of the financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the 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. The fair value of investments is a significant estimate and can change dramatically. This could have a significant effect on these financial statements.

## COLLEGE HOUSING NORTHWEST – CORVALLIS, L.L.C.

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

**Subsequent events** – Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Organization’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Organization has evaluated subsequent events through September 24, 2009, which is the date the financial statements were issued.

**Reclassifications** – Certain reclassifications have been made to the 2008 financial statements to conform to current year presentation. These reclassifications do not impact the change in unrestricted net assets.

#### NOTE 2 – FAIR VALUE OF ASSETS AND LIABILITIES

Effective July 1, 2008, the Organization adopted the standard for *Fair Value Measurements*. This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, but does not expand the use of fair value in any new circumstances. The standard has been applied prospectively as of the beginning of the year.

The standard defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The Organization determines fair value based upon quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Organization’s market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

**COLLEGE HOUSING NORTHWEST – CORVALLIS, L.L.C.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 2 – FAIR VALUE OF ASSETS AND LIABILITIES – (continued)**

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. The Organization’s own data used to develop unobservable inputs shall be adjusted for market consideration when reasonably available.

The Organization used the following methods and significant assumptions to estimate fair value for its assets measured and carried at fair value in the financial statements:

*Cash and cash equivalents* – For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

*Assets limited as to use under bond trust indenture* – Funds are comprised of marketable securities such as money market funds and marketable government discount notes. Marketable security fair values are based on quoted market prices.

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring and non-recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2009:

	Fair Value Measurement at Report Date Using:			
	Fair Value at June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 3,045	\$ 3,045	\$ -	\$ -
Assets limited as to use under bond trust indenture	<u>2,529,770</u>	<u>2,529,770</u>	<u>-</u>	<u>-</u>
Total assets measured at fair value	<u>\$ 2,532,815</u>	<u>\$ 2,532,815</u>	<u>\$ -</u>	<u>\$ -</u>

As of June 30, 2009, the Organization does not have any liabilities that are required to be measured in accordance with this new standard.

**COLLEGE HOUSING NORTHWEST – CORVALLIS, L.L.C.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 3 – ASSETS LIMITED AS TO USE UNDER BOND TRUST INDENTURE**

Trust funds were established with the proceeds from the State of Oregon, Oregon Facilities Authority Revenue Bonds, 2005 Series A, 2005 Series B, and 2005 Series One (referred to in Note 4 as the 2005 bonds), as mandated and restricted by the related trust indenture. Several funds are required by the trust indenture as follows:

**Reserve Fund** – Monies and investments in the Reserve Fund will be used to cover any shortfalls by the Bond Fund in the payment of principal and interest on the bonds when due. The amounts on deposit in the Reserve Fund will be determined by the Trustee June 30 of each year.

**Bond Fund** – Monies and investments in the Bond Fund are to be used for the payment of principal, interest and bond premium on the bonds when due.

**Operating Fund** – Monies and investments in the Operating Fund are to be used to cover operating cash flow shortfalls for the day-to-day operations of the Organization.

**R & R Fund** – Money on deposit in the R & R fund will be disbursed by the Trustee for the purpose of making any capital expenditure with respect to any project having a cost in excess of \$500 and to provide funds to make qualified deposits in accordance with the loan agreement.

Required investments consist of money market instruments stated at fair value for the following funds:

	<u>2009</u>	<u>2008</u>
Reserve fund	\$ 1,362,106	\$ 1,352,732
Bond fund	673,755	766,349
Operating fund	341,667	336,116
R & R fund	<u>152,242</u>	<u>104,659</u>
	<u>\$ 2,529,770</u>	<u>\$ 2,559,856</u>

**COLLEGE HOUSING NORTHWEST – CORVALLIS, L.L.C.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 3 – ASSETS LIMITED AS TO USE UNDER BOND TRUST INDENTURE –**  
(continued)

The following schedule summarizes required investments by major category:

	<u>2009</u>	<u>2008</u>
Money market funds	\$ 2,246,770	\$ 707,349
Marketable government discount notes	283,000	642,900
Guaranteed investment contracts	-	1,209,607
	<u>\$ 2,529,770</u>	<u>\$ 2,559,856</u>

The Organization is aware there are global pressures on the current financial markets. Based on the best available information, at this time, the Organization has made changes to further diversify its bond holdings by moving into bond funds rather than purchasing individual bonds.

**NOTE 4 – BONDS PAYABLE**

The State Treasurer of the State of Oregon, acting on behalf of the State of Oregon and the Oregon Facilities Authority (the Issuer), issued \$18,610,000 in federally tax-exempt 2005 Series A bonds, \$475,000 in federally tax-exempt Series B bonds, and \$235,000 in federally taxable 2005 Series One bonds (collectively referred to as the 2005 bonds) under a trust indenture as of April 15, 2005, between the Issuer and Wells Fargo Bank Northwest, National Association, as Trustee (Trustee). The Issuer loaned the proceeds of the bonds to the Organization pursuant to a loan agreement dated April 15, 2005. The 2005 bonds were issued to finance the renovation of a student housing complex located on the north end of the OSU campus in Corvallis, Oregon.

The 2005 bonds were issued at a premium of \$187,809, which is being amortized to interest expense over the life of the bonds, using the effective interest method. Debt financing costs associated with the 2005 bonds had an unamortized balance of \$907,903 and \$960,658 at June 30, 2009 and 2008, respectively. The costs are being amortized over the life of the bonds.

**COLLEGE HOUSING NORTHWEST – CORVALLIS, L.L.C.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 4 – BONDS PAYABLE – (continued)**

Bonds payable consist of the following:

	<u>2009</u>	<u>2008</u>
Bonds payable	\$ 18,760,000	\$ 18,950,000
Premium on bonds payable	<u>158,358</u>	<u>167,625</u>
Total bonds payable	18,918,358	19,117,625
Less current portion	<u>(200,000)</u>	<u>(190,000)</u>
Bonds payable, net of current portion	<u>\$ 18,718,358</u>	<u>\$ 18,927,625</u>

The following is a summary of scheduled redemptions of bonds payable:

<u>Redemption for</u>	<u>Principal Amount to Redeem</u>
Year ended June 30, 2010	\$ 200,000
2011	400,000
2012	325,000
2013	290,000
2014	330,000
Thereafter	<u>17,215,000</u>
	<u>\$ 18,760,000</u>

**COLLEGE HOUSING NORTHWEST – CORVALLIS, L.L.C.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 4 – BONDS PAYABLE – (continued)**

The 2005 Series One bonds bear interest at rates ranging from 4.45% for the 2008 maturity to 4.75% for the 2010 maturity. The 2005 Series A bonds bear interest at rates ranging from 3.75% for the 2010 maturity to 5.25% for the 2030 maturity. The 2005 Series B bonds bear interest rates at 6.25% and are due in 2011. Interest payments on all outstanding bonds are due on January 1 and July 1 of each year through July 1, 2038. Commencing July 1 of each fiscal year, the Organization is required to make payments to the Trustee equal to one-sixth of the scheduled interest payment due on the next interest due date. Commencing July 1, the Organization is also required to make payments to the Trustee equal to one-twelfth of the scheduled principal payment due on the next principal due date.

In accordance with the borrowing agreement for the 2005 bonds, the Organization is required to meet certain reporting, insurance, and financial covenants. As of June 30, 2009, the Organization is considered to be in compliance with all covenants.

**NOTE 5 – COMMITMENTS AND CONTINGENCIES**

**Lease Contingencies** – Effective July 19, 2004, the Organization entered into a lease agreement with the State of Oregon, acting by and through its State Board of Higher Education, on behalf of Oregon State University (OSU), whereby the Organization will receive management fees based on the gross revenues for The Gem’s units. As part of the agreement, the Organization will receive a property management fee of 5% of gross rent revenue and an asset management fee of 1% of gross revenues.

The current lease agreement is effective through June 30, 2041, 35 years following the completion date of the renovation of The Gem. Payments by the Organization for the lease will be calculated as 85% of net cash flow after all expenses. No lease payments were required for the year ended June 30, 2009. A lease payment of \$36,506 was required for the year ended June 30, 2008.

**Legal Contingencies** – From time to time, the Organization finds itself, in the normal course of business, named in various lawsuits. It is the opinion of management that the lawsuits are without merit and the Organization intends to vigorously defend such claims. No amounts have been accrued in these financial statements since the outcome of such matters is uncertain and the amount of liability, if any, cannot be determined including any insurance recovery.

**NOTE 6 – CONCENTRATION OF CREDIT RISK**

The Organization maintains cash and cash equivalent balances which may occasionally exceed federally insured depository insurance limits at local banking institutions in Portland, Oregon.

**SUPPLEMENTAL INFORMATION**

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**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION**

To the Board of Directors  
College Housing Northwest – Corvallis, L.L.C.

Our report on the audit of the basic financial statements of College Housing Northwest – Corvallis, L.L.C. for the year ended June 30, 2009, appears on page one. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on the following page is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the basic financial statements and, in our opinion, is fairly stated in all material respects to the basic financial statements taken as a whole.

*Moss Adams LLP*

Portland, Oregon  
September 24, 2009

**COLLEGE HOUSING NORTHWEST – CORVALLIS, L.L.C.**  
**STATEMENT OF OPERATIONS – THE 2005 BOND PROJECT**  
**JUNE 30, 2009**

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Gross revenues	\$ 1,855,449
Expenses (excluding depreciation, amortization, interest, and lease expense)	<u>694,496</u>
Cash generated	1,160,953
Debt service reserve earnings	<u>34,643</u>
Net cash available for Debt service	1,195,596
Debt service on Series A debt	<u>(876,598)</u>
Cash flow before subordinated debt service	318,998
Debt service on Series One debt	<u>(84,149)</u>
Cash flow after debt service	<u>\$ 234,849</u>
Debt service coverage (net cash available for debt service before overhead divided by debt service)	<u>1.24</u>