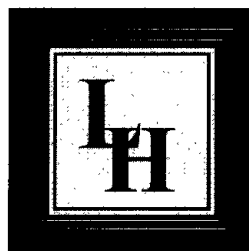


INNOVATIVE HOUSING, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

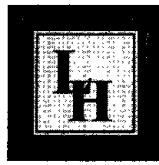
YEARS ENDED JUNE 30, 2011 AND 2010



Loveridge Hunt & Co., PLLC
CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS	1 - 2
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	3 - 4
CONSOLIDATED STATEMENTS OF ACTIVITIES	5 - 6
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES	7
CONSOLIDATED STATEMENTS OF CASH FLOWS	8 - 9
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	10 - 20
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	21
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	22
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	23 - 24
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	25 - 27
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	28 - 29
ADDITIONAL INFORMATION	30 - 34



Loveridge Hunt & Co., PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Board of Directors
Innovative Housing, Inc. and Affiliates
Portland, OR

We have audited the accompanying consolidated statements of financial position of Innovative Housing, Inc. and Affiliates and Affiliates (a not-for-profit corporation) (IHI), as of June 30, 2011 and 2010, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of Innovative Housing, Inc. and Affiliates's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform an 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.

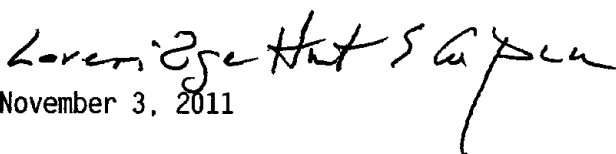
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Innovative Housing, Inc. and Affiliates, as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated November 03, 2011, on our consideration of Innovative Housing, Inc. and Affiliates's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our related audit.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS - (CONTINUED)

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for the purpose of additional analysis for the year ended June 30, 2011, and is not a required part of the basic financial statements. Such information has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements for that year.

Furthermore, the additional information shown on pages 30 to 34 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the audits of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


November 3, 2011

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2011	2010
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 2,963,499	\$ 2,350,579
Cash - restricted reserves	727,758	237,815
Prepaid expenses	22,446	14,752
Accounts receivable:		
Management fees	28,690	97,715
Development fees	101,353	168,580
Capital grants	-	7,084
Other	241,897	33,241
Investments - Certificate of Deposit	<u>104,461</u>	<u>103,837</u>
	4,190,104	3,013,603
Tenant trust - security deposits	131,273	96,948
Other restricted funds	-	<u>101</u>
	<u>131,273</u>	<u>97,049</u>
Property, leasehold improvements and equipment, at cost:		
Building, leasehold improvements and equipment	19,616,297	11,148,783
Accumulated depreciation	<u>(3,178,190)</u>	<u>(2,487,278)</u>
	16,438,107	8,661,505
Construction in Progress	69,414	-
Land	<u>1,912,686</u>	<u>1,778,973</u>
	18,420,207	10,440,478
Other assets:		
Notes receivable - partnerships	3,958,693	4,389,950
Notes receivable - shared appreciation mortgages	124,743	160,014
Notes receivable - employees	27,176	30,000
Investment in limited partnerships	739,887	2,350,615
Loan fees, net of amortization of \$136,102 and \$120,038	<u>401,783</u>	<u>331,902</u>
	<u>5,252,282</u>	<u>7,262,481</u>
	<u>\$ 27,993,866</u>	<u>\$ 20,813,611</u>

Continued on page 4.

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - (CONTINUED)

	June 30,	
	2011	2010
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 89,953	\$ 41,227
Deferred lease commissions	3,735	-
Accrued interest payable	30,314	9,313
Current portion of notes payable	<u>145,218</u>	<u>66,675</u>
	269,220	117,215
Other liabilities:		
Security deposits payable	131,273	96,948
Prepaid rent	<u>4,333</u>	<u>-</u>
	<u>135,606</u>	<u>96,948</u>
Long-term debt:		
Notes payable, net of current portion	<u>15,077,300</u>	<u>9,617,538</u>
Total liabilities	15,482,126	9,831,701
Net assets:		
Unrestricted undesignated	9,242,352	8,054,792
Temporarily restricted	<u>3,269,388</u>	<u>2,927,118</u>
Total net assets	<u>12,511,740</u>	<u>10,981,910</u>
	<u>\$ 27,993,866</u>	<u>\$ 20,813,611</u>

The accompanying notes are an integral part of these financial statements.

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2011 and 2010

	2011			2010
	Unrestricted	Temporarily Restricted	Total	
Support and Revenue:				
Rent	\$ 1,753,546	\$ -	\$ 1,753,546	\$ 1,031,582
Grants and contributions	138,389	-	138,389	2,070,938
Project related capital grants	766,913	372,270	1,139,183	3,989,152
Resident services fees	54,094	-	54,094	79,406
Property development fees	1,106,375	-	1,106,375	98,605
Partnership and asset management fees	138,472	-	138,472	136,805
Interest	111,292	-	111,292	122,166
Other	<u>271,486</u>	<u>-</u>	<u>271,486</u>	<u>68,721</u>
	4,340,567	372,270	4,712,837	7,597,375
Expenses:				
Program services:				
Asset management	63,359	-	63,359	25,147
Resident services	449,447	-	449,447	620,222
Housing development	242,055	-	242,055	218,937
Property ownership	<u>2,025,471</u>	<u>-</u>	<u>2,025,471</u>	<u>817,244</u>
	2,780,332	-	2,780,332	1,681,550
Management and general	60,507	-	60,507	67,776
Fundraising	<u>68,461</u>	<u>-</u>	<u>68,461</u>	<u>35,861</u>
	2,909,300	-	2,909,300	1,785,187
Change in net assets from operations	<u>1,431,267</u>	<u>372,270</u>	<u>1,803,537</u>	<u>5,812,188</u>
Gain (loss) from interests in limited partnerships	(120,279)	-	(120,279)	(12,406)
Loss on restructuring of partnership interest in IHI Kinnaman	<u>(153,428)</u>	<u>-</u>	<u>(153,428)</u>	<u>-</u>

Continued on page 6.

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

CONSOLIDATED STATEMENTS OF ACTIVITIES - (CONTINUED)

For the Years Ended June 30, 2011 and 2010

	2011			2010
	Unrestricted	Temporarily Restricted	Total	
Change in net assets	\$ 1,157,560	\$ 372,270	\$ 1,529,830	\$ 5,799,782
Net assets - beginning of year	<u>8,054,792</u>	<u>2,927,118</u>	<u>10,981,910</u>	<u>5,182,128</u>
Release of temporarily restricted funds	<u>30,000</u>	<u>(30,000)</u>	<u>-</u>	<u>-</u>
Net assets - end of year	<u>\$ 9,242,352</u>	<u>\$ 3,269,388</u>	<u>\$ 12,511,740</u>	<u>\$ 10,981,910</u>

The accompanying notes are an integral part of these financial statements.

INNOVATIVE HOUSING, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS
OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2011 and 2010

For the Year Ended June 30, 2011

	Program Services				Supporting Services				
	Asset Management	Resident Services	Housing Development	Property Ownership	Total Programs	Management	Fundraising		
						and General	Total		
Payroll	\$ 45,077	\$ 224,092	\$ 135,704	\$ -	\$ 404,873	\$ 31,103	\$ 42,900	\$ 478,876	\$ 446,669
Payroll taxes	4,009	21,309	11,877	-	37,195	2,846	3,855	43,896	37,056
Health benefits	3,145	28,707	10,064	-	41,916	3,145	5,661	50,722	43,993
Retirement	2,033	7,299	3,371	-	12,703	827	895	14,425	15,156
Grants and allocations	-	51,182	-	-	51,182	-	-	51,182	191,313
Travel, training, meetings	199	989	601	-	1,789	138	191	2,118	7,804
Printing	353	1,754	1,067	-	3,174	244	338	3,756	1,066
Telephone & utilities	711	3,533	2,149	-	6,393	492	681	7,566	7,723
Rent/occupancy	1,966	9,769	5,941	-	17,676	1,360	1,883	20,919	23,548
Advertising	-	-	-	-	-	-	-	-	155
Dues & subscriptions	-	-	-	-	-	-	-	-	-
Professional fees & consultants	2,556	12,699	7,723	-	22,978	1,768	2,447	27,193	30,608
Supplies	380	1,887	1,147	-	3,414	263	363	4,040	5,764
Insurance	455	2,261	1,375	-	4,091	315	435	4,841	6,626
Postage & shipping	139	689	419	-	1,247	96	133	1,476	1,404
Depreciation & amortization	1,383	6,870	4,178	605,834	618,265	956	1,324	620,545	183,852
Special events	-	-	-	-	-	-	6,442	6,442	-
Interest expense	-	-	4,000	378,501	382,501	-	-	382,501	185,590
Equipment rental & maintenance	953	4,736	2,880	221,675	230,244	659	913	231,816	224,130
Direct program expenses	-	71,671	49,559	819,461	940,691	16,295	-	956,986	372,730
Total	\$ 63,359	\$ 449,447	\$ 242,055	\$ 2,025,471	\$ 2,780,332	\$ 60,507	\$ 68,461	\$ 2,909,300	\$ 1,785,187

The accompanying notes are an integral part of these financial statements.

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2011 and 2010
Increase (Decrease) in Cash

	June 30,	
	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 1,529,830	\$ 5,799,782
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	620,545	183,852
Gain/loss from interest in limited partnerships	120,279	12,406
Donated land and building - Whitmarsh	-	(2,173,735)
Gain/loss, net on acquisition and disposition of fixed assets	128,428	-
Changes in certain assets and liabilities:		
Prepaid expenses	(7,694)	(14,752)
Accounts receivable	(65,320)	662,509
Other assets	-	8,110
Accounts payable	48,726	(48,690)
Accrued interest payable	21,001	(2,442)
Deferred liabilities and prepaid rent	4,333	-
Investments - Accrued interest	(624)	-
Deferred lease commissions	3,735	-
Capital grants payable	-	(163,236)
	2,403,239	4,263,804
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchase land, buildings, leasehold improvements and equipment	(1,379,617)	(5,390,672)
Sale of investments	-	(960)
Purchase/disposition of land	(119,520)	-
Notes receivable - shared appreciation mortgages	35,271	-
Notes receivable from partnerships	111,257	(188,218)
Acquisition and transfers to, and distributions from limited partnerships (net)	-	(1,148,169)
Repayment of loans to employees	2,824	3,333
Withdrawals from (deposits to) restricted reserves	(489,943)	(148,164)
Withdrawals from (deposits to) other restricted funds	101	-
	(1,839,627)	(6,872,850)
Net cash provided (used) by investing activities		

Continued on page 9.

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS - (CONTINUED)
For the Years Ended June 30, 2011 and 2010
Increase (Decrease) in Cash

	June 30,	
	2011	2010
Cash flows from financing activities:		
Payment of construction payables	\$ (781,378)	\$ -
Payments for loan fees	\$ (87,619)	\$ (340,859)
Net proceeds from (principal payments) on notes payable	918,305	4,305,851
Net cash provided (used) by financing activities	49,308	3,964,992
Net increase in cash	612,920	1,355,946
Cash, beginning of year	2,350,579	994,633
Cash, end of year	\$ 2,963,499	\$ 2,350,579
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 318,332	\$ 188,482
Supplemental schedule of noncash investing and financing activities:		
Additions to fixed assets by reclassification from:		
Construction-in-progress	\$ -	\$ 348,333
Reclassification from land into building, leasehold improvements and equipment	\$ 259,689	\$ -
Addition to accumulated depreciation on consolidation of the Clifford Apartments LLC	\$ 90,233	-
Adjustment to changes in investment in limited partnerships on consolidation of Clifford Apartments, LLC,	\$ 1,610,728	-
Adjustment to fixed assets on consolidation of the Clifford Apartments, LLC	\$ 6,116,244	-
Reduction in notes receivable on consolidation of the Clifford Apartments, LLC	\$ 320,000	-

The accompanying notes are an integral part of these financial statements.

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES

Innovative Housing, Inc. and Affiliates (IHI) is a nonprofit organization that develops, preserves and operates affordable housing for low and moderate-income households. IHI complements its housing with a Resident Services Program designed to help residents maintain their housing stability, improve their quality of life and break the cycle of poverty. IHI's affiliates include Bridgeview Housing LLC, 82nd & Broadway LLC, Innovative Village Square LLC, IHI/Musolf LLC, Whitmarsh Building LLC, Hewitt Place II GP LLC, ITH Inc., Innovative Kinnaman LLC, IHI/Clifford LLC and Clifford Apartments, LLC. (IHI and its affiliates are referred to throughout the notes as "IHI").

IHI's four major program areas include:

Housing Development-IHI creates and preserves affordable housing through new construction and the acquisition/rehabilitation of existing multifamily properties. IHI's rental housing serves low and very low income families and individuals, seniors, people with disabilities, formerly homeless people and households escaping domestic violence. The average income level of IHI's residents in 2010 was 29% of area median income. During 2010 IHI completed the historic renovation of the Clifford Apartments, an 88-unit building in southeast Portland. In June 2011 IHI purchased the Kinnaman Townhomes, a 40-unit property in Aloha, Oregon for low income families.

Resident Services-IHI complements its housing with Resident Services designed to help residents maintain their housing stability, improve their quality of life and break the cycle of poverty. Resident service staff connects residents with existing community resources and service providers, advocates for residents, sponsors community building activities, coordinates on-site classes and workshops, and offers site-based programs including an Eviction Prevention Program, an Emergency Fund, a comprehensive Youth and Family Program, a Benefits Specialist dedicated to helping disabled residents secure benefits and income, and financial education and counseling to help residents achieve financial stability.

Asset Management-IHI is the managing general partner or managing member of 10 Limited Partnerships/Limited Liability Companies that own 1,147 affordable rental units in Oregon and Washington. IHI manages this portfolio to ensure that each property is well-maintained, financially sustainable and makes a positive contribution to its neighborhood. Asset management includes hiring and supervising professional property managers, compliance and reporting, handling audits/tax matters, and structuring/refinancing debt.

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES - (CONTINUED)

Property Ownership - In addition to the properties owned by LP/LLC's, IHI directly owns 324 affordable rental units at seven Portland area properties. As such, the operating expenses for these properties are included in IHI's financial statements.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Innovative Housing Inc., 82nd & Broadway LLC, Bridgeview Housing LLC, Innovative Village Square LLC, IHI/Musolf LLC, Hewitt Place II GP LLC, the Whitmarsh Building LLC, Innovative Kinnaman LLC, ITH Inc., IHI Clifford and Clifford Apartments LLC. All entities but Clifford Apartments LLC are single member LLCs wholly controlled by IHI. IHI has a 90% ownership interest in Clifford Apartments LLC. All material inter-organization transactions have been eliminated.

Financial Statements

The financial statements are presented in accordance with Accounting Standards Codification 958, formerly Statement of Financial Accounting Standards No. 117, Financial Statements of Not-For-Profit Organizations, which requires the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Method of Accounting

The accrual method of accounting is used for financial statement purposes in accordance with generally accepted accounting principles.

Cash Equivalents

For purposes of the statement of cash flows, all investment instruments purchased with a maturity of three months or less are considered to be cash equivalents. At June 30, 2011 cash equivalents totaling \$350,202 were held by Innovative Housing, Inc. At June 30, 2010 there were no cash equivalents held.

Financial Instruments

All financial instruments are carried at amounts that approximate fair value.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING PRINCIPLES - (CONTINUED)

Concentration of Credit Risk

IHI maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. IHI has not experienced any losses in such accounts. Management believes that IHI is not exposed to any significant credit risk on cash and cash equivalents.

Investment in Property and Equipment

All expenditures for land, land improvements, buildings and equipment are capitalized at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the individual assets: 27.5 to 30 years for buildings, 7 to 15 years for land improvements, and 5 to 7 years for furnishings and equipment. For the years ended June 30, 2011 and 2010, depreciation expense was \$600,672 and \$168,095, respectively. Improvements, additions and replacements in excess of \$2,000 are generally capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of operations.

Management reviews investments in property and equipment for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. Management believes no such adjustment is required in the financial statements as of June 30, 2011.

Amortization

Amortization is computed on a straight-line basis for financial statement purposes. Loan origination fees are amortized over the lives of the underlying loans. Accumulated amortization as of June 30, 2011 and 2010 was \$136,102 and \$120,038, respectively. For the years ended June 30, 2011 and 2010, the amortization expense was \$19,865 and \$15,760, respectively. Organizational costs are expensed when incurred.

Advertising Expenses

Advertising costs are charged to expense as they are incurred.

Income Tax Status

Except for ITH, Inc. and Clifford Apartments, LLC, IHI is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no taxes have been provided for in the financial statements.

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING PRINCIPLES - (CONTINUED)

Revenue Recognition

Developer fees are earned on housing projects developed for affiliates or related entities (limited partnerships or limited liability companies in which IHI, through its affiliates, is either the general partner or the managing member). Revenue from developer fees is recognized over the development period of the project.

Accounts Receivable

Management fees receivable represents amounts due from multi-family housing projects (limited partnerships or limited liability companies) in which IHI has varying percentages, up to 1% interest. All management fees receivable are expected to be collected. Accordingly, no allowance for uncollectible amounts has been established. Accounts receivable are reported at the amount management expects to collect on balances outstanding at June 30, 2011 and 2010. Management closely monitors outstanding balances and writes off all balances deemed uncollectible.

Basis of Presentation

Net assets and all balances are presented based on the existence of donor-imposed restrictions. The net assets and changes in net assets are classified as follows:

Unrestricted net assets - Net assets not subject to donor-imposed restrictions.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that will be met either by the actions of IHI or by the passage of time. Temporarily restricted contributions are classified as unrestricted where the restriction is met in the same fiscal year the contribution is received. Temporarily restricted net assets are those associated with the acquisition of the Whitmarsh Building, the development of Hewitt Place Townhomes, and a HOPWA grant received in 1998.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by IHI. Generally, the donors of these assets permit the Organization to use all or part of the income earned on the related investments for general or specific purposes. At June 30, 2011 there were no permanently restricted net assets.

Subsequent Events

Management has evaluated events and transactions occurring after June 30, 2011 through November 3, 2011, the date the financial statements were available for issuance, for recognition or disclosure in the financial statements. There were no events and transactions that required recognition and disclosure in the financial statements.

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - RESTRICTED CASH

Loan agreements between IHI and Oregon Housing and Community Services, the Portland Development Commission and certain lenders require IHI to deposit funds into separate reserve accounts for each of the buildings financed. These funds are to be used for the purposes indicated below.

Restricted cash comprises the following as of June 30, 2011 and 2010:

	2011	2010
Capital asset replacement reserves - established to fund the replacement of capital assets	\$ 309,056	\$ 92,345
Other lender/funder required reserves	401,971	-
Tax & Insurance Reserves - established to fund the annual payment of insurance	16,731	-
Security Deposits - IHI is required to set up separate accounts in which tenant security deposits are held	131,273	96,948
Construction reserve for Hewitt Place II GP LLC	-	<u>145,470</u>
Total	<u>\$ 859,031</u>	<u>\$ 334,763</u>

NOTE 4 - NOTES RECEIVABLE - SHARED APPRECIATION MORTGAGES

Notes receivable include second mortgages on condominiums sold to eligible buyers. The notes carry no interest and are to be repaid only if and when the borrowers sell, transfer or cease to occupy the property as a primary residence. IHI collects a share of the appreciation in lieu of interest not being charged. The notes are subordinate to the first mortgages. At June 30, 2011 and 2010 the aggregate balances of the receivables were \$124,743 and \$160,014, respectively. Management expects all amounts to be collected. Accordingly, no allowances for uncollectible amounts have been established.

NOTE 5 - NOTES RECEIVABLE - EMPLOYEES

IHI has a note receivable in the original amount of \$30,000 from its executive director. The note accrued interest at 5% through January 1, 2011, when the principal and accrued interest became payable in five equal annual payments. The accrued principal and interest shall be forgiven in five equal installments for each year beginning January 1, 2011 through January 1, 2015 the executive director remains with IHI. If the executive director is terminated without cause before January 1, 2015, amounts due under the note along with any accrued interest shall be forgiven. If employment is terminated before that date either voluntarily or with cause, certain amounts will become due in 60 monthly installments.

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - NOTES RECEIVABLE - RELATED PARTIES

IHI held notes receivable from the following related parties as of June 30, 2011 and 2010:

	2011	2010
Notes Receivable - Musolf Manor LP, at 0% to 5.01% interest, maturing as of January 10, 2037	\$ 472,095	\$ 664,859
Note Receivable - Clifford Apartments LLC	-	5,000
Note Receivable - Clifford Apartments LLC at 5% interest, maturing as of March 31, 2014*	-	320,000
Note Receivable - 527 SE Morrison MT, LLC	5,400	5,000
Note Receivable - Kinnaman*	-	10,000
Note Receivable - Innovative Changes Inc. 0% interest, maturing April 15, 2012	75,000	75,000
Notes Receivable - 82nd Avenue LP, at 3% to 4.32% interest, including accrued interest, maturing as of December 31, 2040	<u>3,406,198</u>	<u>3,310,091</u>
Total	<u>\$ 3,958,693</u>	<u>\$ 4,389,950</u>

* Notes eliminated on consolidation of the entities Clifford Apartments, LLC and Innovative Kinnaman LLC. The two entities were not consolidated in the prior year.

NOTE 7 - LAND, PROPERTY AND EQUIPMENT

Changes in land, property and equipment are as follows:

	<u>2010</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Reclassification of Fixed Assets</u>	<u>2011</u>
Land and land improvements	\$ 1,778,973	\$ 527,810	\$ (134,408)	\$ (259,689)	\$ 1,912,686
Buildings and improvements	11,128,495	8,420,627	(290,592)	259,689	19,518,219
Furniture and equipment	20,288	77,790	-	-	98,078
Construction in progress	-	<u>69,414</u>	-	-	<u>69,414</u>
	<u>12,927,756</u>	<u>9,095,641</u>	<u>(425,000)</u>	<u>-</u>	<u>21,598,397</u>
Less accumulated depreciation	<u>(2,487,278)</u>	<u>(690,912)</u>	<u>-</u>	<u>-</u>	<u>(3,178,190)</u>
	<u>\$ 10,440,478</u>	<u>\$ 8,404,729</u>	<u>\$ (425,000)</u>	<u>\$ -</u>	<u>\$ 18,420,207</u>

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - INVESTMENT IN PARTNERSHIPS

IHI is the general partner and manager for several limited partnerships and limited liability companies that own and operate low income housing projects. These projects are owned by limited partnerships or limited liability companies (the Partnerships) in which IHI has varying ownership percentages, up to 1% interest. As general partner or member IHI accounts for its investment in partnerships in accord with Accounting Standards Codification 323 - 30, formerly AICPA Statement of Position No. 78-9, Accounting for Investments in Real Estate, which requires the use of the equity method unless IHI has a controlling interest or its interest is not deemed to be temporary. As a result, IHI's investments in partnerships are accounted for under the equity method. Under the equity method, the initial investment is recorded at cost and is increased or decreased by IHI's share of income or losses and is increased by contributions and decreased by distributions. IHI has also considered whether it has a controlling interest in the Partnerships, as discussed in the Accounting Standards Codification 323-30, formerly discussed in EITF 04-05, and has concluded that IHI does not have a controlling interest, and therefore is not required to consolidate the Partnerships.

The Partnerships have a calendar year end. As a result IHI records its interest in the Partnerships income or losses using information from the most recent year end. As of December 31, 2010, the Partnerships had total assets of \$80,702,103 and total liabilities of \$73,368,002 and incurred total losses of \$2,671,442 for the year then ended. As of December 31, 2009, the Partnerships had total assets of \$80,702,103 and total liabilities of \$73,368,002 and incurred total losses of \$2,671,442 for the year then ended. IHI's share of the partnership's losses for the calendar years 2010 and 2009 was \$120,279 and \$12,406, respectively.

IHI receives the following fees from the Partnerships:

Partnership Management Fees

IHI receives management fees from several partnerships in which IHI has an ownership interest. Management fee income for the years ended June 30, 2011 and 2010, was \$138,472 and \$136,805, respectively.

Property Development Fees

IHI enters into development services agreements whereby it acts as the developer on certain properties. Fees earned under these agreements during the years ended June 30, 2011 and 2010, were \$1,106,375 and \$98,605, respectively.

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - NOTES PAYABLE

Notes payable as of June 30, 2011 and 2010 consist of the following:

	2011	2010
Note payable to Portland Development Commission, secured by investment in real estate known as Bridgeview Apartments. The note carries no interest. Principal is payable in annual installments equal to 1/2 annual cash flow as defined in the loan agreement. The note matures on November 1, 2066, if not paid off earlier by annual cash flow payments.	\$ 904,320	\$ 904,320
Mortgage notes payable to Umpqua Bank, secured by investment in real estate known as Bridgeview Apartments. If no demand is made, principal and interest at 6.75% is payable in monthly installments of \$1,117 through June 1, 2021 when the remaining balance is due (estimated at \$126,540)	160,729	161,585
Note payable to Wells Fargo Community Development. The note carries interest at 2% which is payable quarterly. The note matures on May 7, 2017.	200,000	200,000
Note payable to Portland Development Commission, secured by investment in real estate known as Broadway Vantage Apartments. The note carries no interest. Principal is payable in annual installments equal to 1/2 annual cash flow as defined in the loan agreement. The note matures on February 1, 2038 if not paid off earlier by annual cash flow payments.	2,350,000	2,350,000
Mortgage note payable to Riverview Community Bank, secured by investment in real estate known as Village Square Apartments. Principal and interest at 7% is payable in monthly installments of \$12,097. The mortgage matures September 30, 2014.	\$ 1,766,963	\$ 1,786,703

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - NOTES PAYABLE - (CONTINUED)	<u>2011</u>	<u>2010</u>
Two mortgage notes payable to Capital Pacific Bank, secured by investment in real estate known as the Whitmarsh Building. Principal and interest on \$1,322,000 at 4.75% is payable in monthly installments of \$7,591 through March 2, 2020. Principal and interest on \$678,000 at 6.69% is payable in monthly installments of \$4,701 through March 2, 2020.	\$ 1,951,425	\$ 1,990,722
Note payable to Key Bank, secured by investment in real estate known as Hewitt Place Townhomes. Principal and interest at 6.82% are payable in monthly installments of \$10,209; the note matures September 30, 2025.	1,537,587	1,383,963
Mortgage note payable to Capital Pacific Bank secured by Kinnaman Townhomes. Principal and interest at 5.5% are payable in monthly installments of \$6,004. The balance of principal and interest is due June 1, 2021.	970,000	-
Note payable to Oregon Housing and Community Services secured by investment in real estate. The note includes 5% annual interest; there are no monthly payments. The full balance of principal and interest was paid in full on April 14, 2011.	-	323,000
Note payable to the Meyer Memorial Trust for a Program Related Investment at 3% simple interest. There are no monthly payments. The balance is due April 15, 2012.	75,000	75,000
Note payable to Portland Development Commission for equity gap contribution secured by investment in real estate known as Hewitt Place Townhomes. The note does not accrue interest and matures in 2070.	\$ 686,494	\$ 508,920

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - NOTES PAYABLE - (CONTINUED)	2011	2010
Note payable to Portland Development Commission for equity gap contribution secured by investment in real estate known as The Clifford Apartments. The note does not accrue interest and matures in 2070	\$ 3,350,000	-
Mortgage note payable to Network for Oregon Affordable Housing secured by investment in real estate known as the Clifford Apartments. The note includes 2.75% annual interest. Principal and interest are payable in monthly installments. The balance of principal and interest is due by April 2021, the date of maturity of the note payable.	1,270,000	-
	\$ 15,222,518	\$ 9,684,213

The following schedule outlines principal amounts due on the notes:

Year	Amount
2012	\$ 145,218
2013	74,480
2014	79,010
2015	1,730,210
2016	59,517
2017 and later years	13,134,083
	\$ 15,222,518

NOTE 10 - LEASE COMMITMENTS

IHI leases its office space and certain equipment under operating leases expiring through April 2013. Total rent expense for the years ended June 30, 2011 and 2010 was \$15,146 and \$12,513, respectively.

Total future minimum lease payments are as follows for years ending:

Year	Amount
2012	\$ 11,784
2013	3,928
	\$ 15,712

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent the remaining proceeds from grants restricted for the following purposes as of June 30, 2011 and 2010:

	2011	2010
Reconstruction and acquisition of Hewitt Place Townhomes - American Recovery and Reinvestment funding	\$ 2,669,388	\$ 2,297,118
Restricted grant assumed by IHI as part of donated land and building - Whitmarsh	300,000	300,000
Provision of emergency financial assistance to low- income households by IHI	-	30,000
Restricted HOPWA grant for construction of 6 units	300,000	300,000
Total	\$ 3,269,388	\$ 2,927,118

NOTE 12 - SECTION 403(B) SAVINGS PLAN

IHI maintains a qualified cash or deferred compensation plan (the "Plan") under Section 403(b) of the Internal Revenue Code. Under the Plan, employees may elect to defer up to 25% of their salary, subject to the Internal Revenue Service limitations. IHI matches employee contributions up to a maximum of 5% of the employee's eligible salary. Employees are immediately 100% vested in all employer contributions. For the years ended June 30, 2011 and 2010, IHI contributed \$10,328 and \$11,246 to the plan, respectively.

NOTE 13 - OTHER COMMITMENTS AND CONTINGENCIES

Operating Deficit Loans

IHI, as general partner of 82nd Ave LP and Musolf Manor LP, is obligated to fund operating deficits for the projects owned by these partnerships. These obligations range from \$112,000 to \$805,000 and expire in 2011. Operating deficit loans made by IHI are repayable in accordance with the terms of the partnership agreements.

INNOVATIVE HOUSING, INC. AND AFFILIATES
 (A Not-For-Profit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

Federal Grantor	Pass-Through Grantor	Program or Cluster Title	Federal		Pass-Through	
			CFDA	Number	Entity	Number
						Federal
						Expenditures
U.S. Dept. of Housing and Urban Development	Housing Authority of Portland	Section 8 - Rental Assistance	14.871			\$ 101,631
U.S. Dept. of Housing and Urban Development	City of Portland	Community Block Development Grant-R Capital Fund	14.253			177,574
U.S. Dept. of Housing and Urban Development	City of Portland	Community Block Development Grant	14.218			37,087
U.S Treasury	State of Oregon	American Recovery and Reinvestment Act	14.258			<u>437,546</u>
Total Expenditures of Federal Awards						\$ <u><u>753,838</u></u>

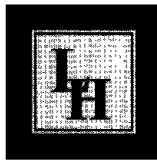
INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Innovative Housing, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.



Loveridge Hunt & Co., PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Innovative Housing, Inc. and Affiliates
Portland, Oregon

We have audited the financial statements of Innovative Housing, Inc. and Affiliates (a not-for-profit corporation) (the Organization), as of and for the year ended June 30, 2011, and have issued our report thereon dated November 03, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS - (CONTINUED)

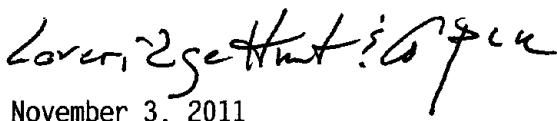
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

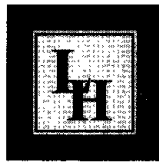
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Organization and its affiliates, management, the U.S. Department of Housing and Urban Development, the U.S. Department of Treasury and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.


November 3, 2011



Loveridge Hunt & Co., PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Innovative Housing, Inc. and Affiliates
Portland, Oregon

We have audited the compliance of Innovative Housing, Inc. and Affiliates (a not-for-profit corporation) (IHI) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal programs for the year ended June 30, 2011. IHI's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of IHI's management. Our responsibility is to express an opinion on IHI's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and, OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 - (CONTINUED)

In our opinion the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

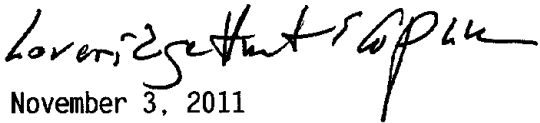
A control deficiency in Organization's internal control over compliance exists when exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance of a federal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

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 - (CONTINUED)

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

This report is intended solely for the information and use of the Organization's management, the U.S. Department of Housing and Urban Development, U.S. Department of Treasury and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.


November 3, 2011

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No

- Significant deficiency(ies) identified that
are not considered to be material weaknesses _____ Yes X No

Noncompliance material to financial statements
noted: _____ Yes X No

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No

- Significant deficiency(ies) identified that
are not considered to be material weaknesses _____ Yes X No

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

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

Identification of major program(s):

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.258	ARRA TCEP

INNOVATIVE HOUSING, INC. AND AFFILIATES
(A Not-For-Profit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS - (Continued)

Dollar threshold used to distinguish between
Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee:

_____ Yes X No

SECTION II - FINANCIAL STATEMENT FINDINGS

No findings were noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs were noted.

ADDITIONAL INFORMATION

INNOVATIVE HOUSING, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
As of June 30, 2011

	Innovative Housing	82nd & Broadway	Bridgeview	Hewitt Place II	Innovative Village Square	Whitmarsh Building	Clifford Apartments	ITH	IHI Musolf	Innovative Kinnaman	Eliminating Entries	Consolidated Total
Assets:												
Cash and cash equivalents	\$ 2,030,230	\$ 101,054	\$ 39,530	\$ 135,627	\$ 190,989	\$ 210,700	\$ 28,863	\$ -	\$ 197,397	\$ 29,108	\$ -	\$ 2,963,499
Restricted cash	-	-	44,509	254,580	-	-	427,768	-	-	901	-	727,758
Prepaid expenses	1,091	-	953	5,145	-	11,970	3,287	-	-	-	-	22,446
Receivables:												
Management fees	28,690	-	-	-	-	-	-	-	-	-	-	28,690
Development fees	964,282	-	-	-	-	-	-	-	-	-	(862,929)	101,353
Capital grants	-	-	-	-	-	-	-	-	-	-	-	-
Other	156,540	-	75	2,590	3,925	3,790	97,292	-	-	89,958	(112,273)	241,897
Investments - CD	104,461	-	-	-	-	-	-	-	-	-	-	104,461
Notes receivable from related parties	4,651,693	225,000	-	-	-	-	-	-	-	-	(918,000)	3,958,693
Notes receivable - shared appreciation mortgages	124,743	-	-	-	-	-	-	-	-	-	-	124,743
Notes receivable - employees	27,176	-	-	-	-	-	-	-	-	-	-	27,176
Investment in limited partnerships	4,419,375	214,880	-	-	-	-	-	2,223,680	314,979	-	(6,433,027)	739,887
Property and equipment, net	369,399	-	837,592	4,521,664	1,170,306	3,568,786	6,990,725	-	-	961,735	-	18,420,207
Financing fees, net	-	-	3,963	232,556	27,000	48,701	70,485	-	-	19,078	-	401,783
Security deposits	2,460	-	250	34,303	40,633	28,712	-	-	-	24,915	-	131,273
Total assets	12,880,141	540,934	926,871	5,186,465	1,432,853	3,872,660	7,618,419	2,223,680	512,376	1,125,695	(8,326,229)	27,993,866
Liabilities and net assets:												
Accounts payable and accrued liabilities	24,499	-	-	7,000	14,711	1,066	-	-	-	154,949	(112,273)	89,952
Accrued interest	-	-	-	9,071	-	8,799	12,444	-	-	-	-	30,314
Tenant security deposits	2,460	-	250	34,303	40,633	28,712	-	-	-	24,915	-	131,273
Capital grants payable	3,735	-	-	-	-	-	-	-	-	-	-	3,735
Deferred liabilities and prepaid rent	-	-	63,403	320,131	1,443	500	480,000	-	-	1,785	(862,929)	4,333
Notes payable	2,625,000	93,000	1,065,049	2,224,081	1,906,963	2,116,425	4,940,000	-	190,000	980,000	(918,000)	15,222,518
Total liabilities	2,655,694	93,000	1,128,702	2,594,586	1,963,750	2,155,502	5,432,444	-	190,000	1,161,649	(1,893,202)	15,482,125
Net assets	10,224,447	447,934	(201,831)	2,591,879	(530,897)	1,717,158	2,185,975	2,223,680	322,376	(35,954)	(6,433,027)	12,511,740
	\$ 12,880,141	\$ 540,934	\$ 926,871	\$ 5,186,465	\$ 1,432,853	\$ 3,872,660	\$ 7,618,419	\$ 2,223,680	\$ 512,376	\$ 1,125,695	\$ (8,326,229)	\$ 27,993,866

INNOVATIVE HOUSING, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
As of June 30, 2010

	Innovative Housing	82nd & Broadway	Bridgeview	Hewitt Place II	Innovative Village Square	Whitmarsh Building	IHI Clifford	IHI Musolf	Eliminating Entries	Consolidated Total
Assets:										
Cash and cash equivalents	\$ 1,505,835	\$ 100,864	\$ 17,243	\$ 184,032	\$ 262,786	\$ 29,600	\$ -	\$ 250,219	\$ -	\$ 2,350,579
Restricted cash	-	-	51,839	173,559	12,000	417	-	-	-	237,815
Prepaid expenses	2,448	-	1,051	6,029	-	5,224	-	-	-	14,752
Receivables:										
Management fees	97,715	-	-	-	-	-	-	-	-	97,715
Development fees	235,580	-	-	-	-	-	-	-	(67,000)	168,580
Capital grants	7,084	-	-	-	-	-	-	-	-	7,084
Other	3,319	-	1,253	1,435	8,511	18,723	-	-	-	33,241
Notes receivable from related parties	5,243,565	225,000	-	-	-	-	-	-	(1,078,615)	4,389,950
Notes receivable - shared appreciation mortgages	160,014	-	-	-	-	-	-	-	-	160,014
Notes receivable - employees	30,000	-	-	-	-	-	-	-	-	30,000
Investment in limited partnerships	3,616,350	214,929	-	-	-	-	-	306,873	(1,787,537)	2,350,615
Property and equipment, net	717,664	-	941,381	3,784,104	1,296,970	3,700,359	-	-	-	10,440,478
Financing fees, net	3,901	-	4,367	241,358	27,955	54,321	-	-	-	331,902
Other assets	<u>106,223</u>	-	<u>250</u>	<u>28,006</u>	<u>40,000</u>	<u>26,407</u>	-	-	-	<u>200,886</u>
Total assets	11,729,698	540,793	1,017,384	4,418,523	1,648,222	3,835,051	-	557,092	(2,933,152)	20,813,611
Liabilities and net assets:										
Accounts payable and accrued liabilities	27,750	-	1,839	2,025	9,588	25	-	-	-	41,227
Accrued interest	-	-	-	-	-	9,313	-	-	-	9,313
Tenant security deposits	2,285	-	250	28,006	40,000	26,407	-	-	-	96,948
Deferred developer fee payable	-	-	67,000	-	-	-	-	-	(67,000)	-
Notes payable	3,174,404	93,000	1,130,905	1,952,077	2,013,703	1,990,721	-	245,000	(915,597)	9,684,213
Total liabilities	3,204,439	93,000	1,199,994	1,982,108	2,063,291	2,026,466	-	245,000	(982,597)	9,831,701
Net assets	<u>8,525,259</u>	<u>447,793</u>	<u>(182,610)</u>	<u>2,436,415</u>	<u>(415,069)</u>	<u>1,808,585</u>	<u>-</u>	<u>312,092</u>	<u>(1,950,555)</u>	<u>10,981,910</u>
	\$ 11,729,698	\$ 540,793	\$ 1,017,384	\$ 4,418,523	\$ 1,648,222	\$ 3,835,051	\$ -	\$ 557,092	\$ (2,933,152)	\$ 20,813,611

INNOVATIVE HOUSING, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF UNRESTRICTED REVENUE AND FUNCTIONAL EXPENSES
For the year ended June 30, 2011

	Innovative Housing	82nd & Broadway	Bridgeview	Hewitt Place II	Innovative Village Square	Whitmarsh Building	Clifford Apartments	IHI Musolf	Innovative Kinnaman	ITH	Eliminating Entries	Consolidated Totals
SUPPORT AND REVENUE												
Grants and contributions	\$ 138,389	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 138,389
Project related/capital grants	766,913	-	-	-	-	-	-	-	-	-	-	766,913
Partnership and asset management fees	153,292	-	-	-	-	-	-	-	-	-	(14,820)	138,472
Property development fees	1,106,375	-	-	-	-	-	-	-	-	-	-	1,106,375
Rental income	34,392	-	93,437	466,636	542,196	589,873	-	-	27,012	-	-	1,753,546
Resident services fees	87,403	-	-	-	-	-	-	-	-	-	(33,309)	54,094
Interest income	104,336	291	100	863	2,143	1,289	91	2,178	1	-	-	111,292
Other	<u>265,841</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,645</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>271,486</u>
Total support and revenue	2,656,941	291	93,537	467,499	544,339	591,162	5,736	2,178	27,013	-	(48,129)	4,340,567
EXPENSES												
Program services:												
Asset management	63,359	-	-	-	-	-	-	-	-	-	-	63,359
Resident services	449,447	-	-	-	-	-	-	-	-	-	-	449,447
Housing development	242,055	-	-	-	-	-	-	-	-	-	-	242,055
Property ownership	156,179	-	112,758	482,437	609,367	529,159	159,812	-	23,888	-	(48,129)	2,025,471
Supporting services:												
Management & general	60,507	-	-	-	-	-	-	-	-	-	-	60,507
Fundraising	<u>68,461</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,461</u>
Total	<u>1,040,008</u>	<u>-</u>	<u>112,758</u>	<u>482,437</u>	<u>609,367</u>	<u>529,159</u>	<u>159,812</u>	<u>-</u>	<u>23,888</u>	<u>-</u>	<u>(48,129)</u>	<u>2,909,300</u>
Change in net assets from operations	\$ <u>1,616,933</u>	\$ <u>291</u>	\$ <u>(19,221)</u>	\$ <u>(14,938)</u>	\$ <u>(65,028)</u>	\$ <u>62,003</u>	\$ <u>(154,076)</u>	\$ <u>2,178</u>	\$ <u>3,125</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,431,267</u>

INNOVATIVE HOUSING, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF UNRESTRICTED REVENUE AND FUNCTIONAL EXPENSES
For the year ended June 30, 2010

	Innovative Housing	82nd & Broadway	Bridgeview	Hewitt Place II	Innovative Village Square	Whitmarsh Building	IHI Clifford	IHI Musolf	Eliminating Entries	Consolidated Totals
SUPPORT AND REVENUE										
Grants and contributions	\$ 2,070,938	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,070,938
Project related/capital grants	1,362,034	-	-	-	-	-	-	-	-	1,362,034
Partnership and asset management fees	160,965	-	-	-	-	-	-	-	(24,160)	136,805
Property development fees	165,605	-	-	-	-	-	-	-	(67,000)	98,605
Rental income	49,406	-	94,095	167,328	535,125	185,628	-	-	-	1,031,582
Resident services fees	79,406	-	-	-	-	-	-	-	-	79,406
Interest income	118,256	-	500	399	2,982	29	-	-	-	122,166
Other	<u>47,679</u>	<u>(52)</u>	<u>-</u>	<u>5,571</u>	<u>9,859</u>	<u>5,711</u>	<u>-</u>	<u>(47)</u>	<u>-</u>	<u>68,721</u>
Total support and revenue	4,054,289	(52)	94,595	173,298	547,966	191,368	-	(47)	(91,160)	4,970,257
EXPENSES										
Program services										
Asset management	25,147	-	-	-	-	-	-	-	-	25,147
Resident services	620,222	-	-	-	-	-	-	-	-	620,222
Housing development	285,937	-	-	-	-	-	-	-	(67,000)	218,937
Property ownership	15,615	-	111,030	98,984	469,099	146,676	-	-	(24,160)	817,244
Management & general	67,776	-	-	-	-	-	-	-	-	67,776
Fundraising	<u>35,861</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,861</u>
Total	<u>1,050,558</u>	<u>-</u>	<u>111,030</u>	<u>98,984</u>	<u>469,099</u>	<u>146,676</u>	<u>-</u>	<u>-</u>	<u>(91,160)</u>	<u>1,785,187</u>
Change in net assets from operations	\$ <u>3,003,731</u>	\$ <u>(52)</u>	\$ <u>(16,435)</u>	\$ <u>74,314</u>	\$ <u>78,867</u>	\$ <u>44,692</u>	\$ <u>-</u>	\$ <u>(47)</u>	\$ <u>-</u>	\$ <u>3,185,070</u>