



Report of Independent Auditors
and Financial Statements for

**Oregon Affordable Housing
Assistance Corporation**

A component unit of the Oregon Housing and
Community Services Department

December 31, 2011 and 2010

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Oregon Affordable Housing Assistance Corporation

We have audited the accompanying statements of financial position of the Oregon Affordable Housing Assistance Corporation (OAHAC) as of December 31, 2011 and for the period ended December 31, 2010, and the related statements of activities, functional expenses and cash flows for the year ended December 31, 2011 and the period ended December 31, 2010. These financial statements are the responsibility of OAHAC'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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OAHAC's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 OAHAC as of December 31, 2011 and 2010, and the respective changes in financial position for the year ended December 31, 2011 and the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2012, on our consideration of OAHAC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing 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* and should be considered in assessing the results of our audit.

Moss Adams LLP

Portland, Oregon
May 30, 2012

OREGON AFFORDABLE HOUSING ASSISTANCE CORPORATION
A Component Unit of the Oregon Housing and Community Services Department
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 10,912,665	\$ 3,363,715
Accounts receivable	270,325	-
Prepaid expenses	450,000	-
TOTAL CURRENT ASSETS	\$ 11,632,990	\$ 3,363,715

LIABILITIES AND NET ASSETS

LIABILITIES		
Current Liabilities		
Accounts payable	\$ 483,043	\$ 1,009,792
Deferred revenue	11,149,947	2,353,923
TOTAL CURRENT LIABILITIES	11,632,990	3,363,715
NET ASSETS	-	-
TOTAL LIABILITIES AND NET ASSETS	\$ 11,632,990	\$ 3,363,715

OREGON AFFORDABLE HOUSING ASSISTANCE CORPORATION
A Component Unit of the Oregon Housing and Community Services Department
STATEMENTS OF ACTIVITIES

	<u>Year Ended</u> <u>December 31,2011</u>	<u>Period Ended</u> <u>December 31,2010</u>
REVENUES		
Federal grant income	\$ 45,203,975	\$ 3,147,148
Interest income	2,069	-
	<hr/>	<hr/>
TOTAL REVENUES	<u>\$ 45,206,044</u>	<u>\$ 3,147,148</u>
EXPENSES		
Mortgage payment assistance program	\$ 44,616,218	\$ 2,791,900
Loan refinance assistance pilot program	564,153	70,217
Loan preservation program	10,278	158,761
Loan modifcaiton program	5,464	72,581
Traiditional assistance program	9,931	53,689
	<hr/>	<hr/>
TOTAL EXPENSES	<u>45,206,044</u>	<u>3,147,148</u>
Change in net assets	0	0
Net assets beginning	<hr/> -	<hr/> -
Net assets ending	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

OREGON AFFORDABLE HOUSING ASSISTANCE CORPORATION
A Component Unit of the Oregon Housing and Community Services Department
STATEMENTS OF CASH FLOWS

	Year Ended December 31,2011	Period Ended December 31,2010
CASH FLOW FROM OPERATING ACTIVITIES		
Change in net assets	\$ 0	\$ 0
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash from operating activities		
Increase in operating assets:		
Accounts receivable	(270,325)	-
Prepaid expenses	(450,000)	-
(Increase)decrease in operating liabilities:		
Accounts payable	(526,749)	1,009,792
Deferred revenue	8,796,024	2,353,923
	7,548,950	3,363,715
Net cash from operating activities	7,548,950	3,363,715
NET CHANGE IN CASH AND CASH EQUIVALENTS	7,548,950	3,363,715
CASH AND CASH EQUIVALENTS, beginning of year	3,363,715	-
CASH AND CASH EQUIVALENTS, end of year	\$ 10,912,665	\$ 3,363,715

OREGON AFFORDABLE HOUSING ASSISTANCE CORPORATION
A Component Unit of the Oregon Housing and Community Services Department
STATEMENT OF FUNCTIONAL EXPENSES 2011

For the year ended December 31, 2011

	Mortgage Payment Assistance Program	Loan Refinance Assistance Pilot Program	Loan Preservation Program	Loan Modification Program	Transitional Assistance Program	TOTAL
EXPENSES						
Professional Services	\$ 3,968,537	\$ 564,016	\$ 9,496	\$ 5,107	\$ 9,827	\$ 4,556,983
Recording fees	284,315	-	-	-	-	284,315
Other services	27,097	137	782	357	104	28,477
Intake agency contracts	4,186,644	-	-	-	-	4,186,644
Program payments	36,149,625	-	-	-	-	36,149,625
TOTAL EXPENSES	<u>\$ 44,616,218</u>	<u>\$ 564,153</u>	<u>\$ 10,278</u>	<u>\$ 5,464</u>	<u>\$ 9,931</u>	<u>\$ 45,206,044</u>

OREGON AFFORDABLE HOUSING ASSISTANCE CORPORATION
A Component Unit of the Oregon Housing and Community Services Department
STATEMENT OF FUNCTIONAL EXPENSES 2010

For the period ended December 31, 2010

	Mortgage Payment Assistance Program	Loan Refinance Assistance Pilot Program	Loan Preservation Program	Loan Modification Program	Transitional Assistance Program	TOTAL
EXPENSES						
Professional services	\$ 710,619	\$ 70,217	\$ 158,761	\$ 72,581	\$ 53,689	\$ 1,065,867
Other services	2,681					2,681
Intake agency contracts	2,078,600					2,078,600
TOTAL EXPENSES	<u>\$ 2,791,900</u>	<u>\$ 70,217</u>	<u>\$ 158,761</u>	<u>\$ 72,581</u>	<u>\$ 53,689</u>	<u>\$ 3,147,148</u>

OREGON AFFORDABLE HOUSING ASSISTANCE CORPORATION
A Component Unit of the Oregon Housing and Community Services Department
NOTES TO FINANCIAL STATEMENTS

Note 1 – Background and Nature of Activities

Oregon Affordable Housing Assistance Corporation (OAHAC) was established in July 2010. OAHAC is an Oregon nonprofit public benefit corporation. The primary purpose of OAHAC is to administer programs targeted to help prevent or mitigate the impact of foreclosures on low and moderate income persons, to help stabilize housing markets in Oregon, to provide resources for affordable or subsidized housing and to develop and administer programs related to housing permitted under the Emergency Economic Stabilization Act of 2008, as amended (“EESA”), and act as an institution eligible to receive Troubled Asset Relief Program Funds under EESA.

During the fiscal year ended December 31, 2011 and the period ended December 31, 2010 (from inception on July 29, 2010 to December 31, 2010), OAHAC administered only the Hardest Hit Fund programs which are part of the Troubled Asset Relief Program Funds under EESA. All revenue during these periods was received from the U.S. Treasury. The Hardest Hit Fund programs must be completed by December 31, 2017.

OAHAC contracts with Oregon Housing and Community Services Department to provide the administrative support to carry out these activities. OAHAC is a blended component unit of the State of Oregon included within the financial activity of the Oregon Housing and Community Services Department.

Description of Programs

Mortgage Payment Assistance Program: The Mortgage Payment Assistance Program assists unemployed or financially distressed homeowners by providing full monthly mortgage payments. Funds are paid to lenders/servicers for up to 12 months or \$20,000, whichever is reached first. Program payments of \$36,149,626 were made during the fiscal year ended December 31, 2011, and no program payments were made during the period ended December 31, 2010.

Loan Preservation Assistance Program: The Loan Preservation Assistance Program will assist homeowners who have regained employment or recovered from financial distress to ensure their home loans become, or remain, affordable. Up to \$20,000 will be paid to lenders/servicers to ensure successful modification and pay arrearages or fees incurred during a period of unemployment or financial distress. The program will serve as an exit path for recipients of Mortgage Payment Assistance Program. No program payments were made during the fiscal year ended December 31, 2011 and the period ended December 31, 2010.

OREGON AFFORDABLE HOUSING ASSISTANCE CORPORATION
A Component Unit of the Oregon Housing and Community Services Department
NOTES TO FINANCIAL STATEMENTS

Note 1 – Background and Nature of Activities (continued)

Loan Refinancing Assistance Pilot Project in Jackson and Deschutes Counties: The Loan Refinancing Assistance Pilot Project will assist underwater homeowners in Deschutes and Jackson counties who have regained employment or recovered from financial distress, and demonstrate the ability to afford a loan reflective of the current value of their home. Existing home loans will be purchased by the Oregon Affordable Housing Assistance Corporation at or below the current appraised value of the home and at least 10 percent below the outstanding principal balance. The loans will then be refinanced to an amount equal to the home's current appraised value. As of December 31, 2011, no loans had been purchased.

Loan Modification Assistance Program: The Loan Modification Assistance Program will assist financially distressed homeowners who are in the process of modifying their home loans. Up to \$10,000 will be paid to lenders/servicers to fill a financial gap that limits a homeowner's eligibility for a loan modification. Funds may be used to reduce the outstanding principal balance, pay arrearages, or ensure a positive Net Present Value test. This program is not yet available and no program payments were made during the fiscal year ended December 31, 2011 and the period ended December 31, 2010.

Transition Assistance Program: The Transition Assistance Program was developed to assist financially distressed homeowners for whom foreclosure is inevitable. As designed, a single payment of \$3,000 would be paid to homeowners to assist with the cost of moving to affordable housing. Management has decided not to offer this program for the foreseeable future.

Note 2 – Summary of Significant Accounting Policies

Significant accounting policies are presented to assist the reader in evaluating the financial statements and other data in the report.

Basis of Accounting and Revenue Recognition

OAHAC prepares its financial statements on the accrual basis of accounting, whereby revenues are recognized when earned and expenditures are recognized when incurred.

Cash and Cash Equivalents

All moneys held in demand accounts and investments which mature within 90 days are considered to be cash equivalents.

OREGON AFFORDABLE HOUSING ASSISTANCE CORPORATION
A Component Unit of the Oregon Housing and Community Services Department
NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable, consisting of an overpayment to servicers was \$270,325 as of December 31, 2011. There was no accounts receivable at December 31, 2010. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. As of December 31, 2011 and 2010, no allowance for uncollectible amounts was considered necessary.

Prepaid Expenses

Payments for expenditures made prior to the recognition of expenditures are reported as prepaid expenses. Prepaid expenses totaled \$450,000 at December 31, 2011 and represent payments to the Oregon Housing and Community Services Department. There were no prepaid expenses as of December 31, 2010.

Accounts Payable

Accounts payable consisted of amounts due for banking services totaling \$25,473 and \$2,862 and at December 31, 2011 and 2010, respectively. Amounts due to OHCSA for services related to administering the HHF Programs totaled \$457,570 and \$1,007,110 at December 31, 2011 and 2010, respectively.

Deferred Revenue

Revenue is recognized when earned. Funds received but not earned are reported as Deferred Revenue. Deferred Revenue representing moneys drawn from the U.S. Treasury but for which expenditures were not incurred totaled \$11,149,947 and \$2,353,923 at December 31, 2011 and 2010, respectively.

Interest Income

Interest income earned on the commercial checking accounts is retained in the account and used for the Hardest Hit Fund Programs. Interest income totaled \$2,069 at December 31, 2011. There was no interest income at December 31, 2010.

OREGON AFFORDABLE HOUSING ASSISTANCE CORPORATION
A Component Unit of the Oregon Housing and Community Services Department
NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Financial Statement Presentation

OAHAC has adopted FASB ASC 958-205-05 (previously Statement of Financial Standards (SFAS) No. 117, Financial Statements for Not-for-Profit Organizations). As permitted by the statement, OAHAC does not use fund accounting. FASB ASC 958-205-05 requires that an Organization present information regarding its financial position and activities according to three classifications of net assets described as follows:

Unrestricted – All resources over which the governing board has discretionary control. The governing board of the Organization may elect to designate such resources for specific purposes. Funding for all of OAHAC's activities during the period ending December 31, 2011 was received from the U.S. Treasury for administration of the Hardest Hit Program. All net assets are required to be returned to the U.S. Treasury upon the completion of the program which ends no later than December 31, 2017.

Temporarily Restricted – Resources accumulated through donations for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor have been satisfied through expenditure for the specified purpose or program or through the passage of time. No temporarily restricted net assets were held during the year and, accordingly, these financial statements do not reflect any activity related to this class of assets.

Permanently Restricted Net Assets – Net assets subject to donor imposed restrictions that they be maintained permanently by the Organization. No permanently restricted net assets were held during the year and, accordingly, these financial statements do not reflect any activity related to this class of assets.

Functional Expenses

OAHAC allocates its expenses on a functional basis among various programs. Expenses that can be identified with a specific program are allocated directly to their natural expenditure classification. Start up expenses were allocated among the programs based upon the total amount budgeted to each program.

Income Taxes

OAHAC is exempt from federal and state income taxes under Internal Revenue Code Section 501 (c) (3) except to the extent of unrelated business taxable income as defined under IRC sections 511 through 515. The Corporation recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. OAHAC recognizes interest and penalties related to income tax matters in operating expenses. As of December 31, 2011 and 2010, OAHAC had no uncertain tax positions nor did they recognize interest or penalties.

OREGON AFFORDABLE HOUSING ASSISTANCE CORPORATION
A Component Unit of the Oregon Housing and Community Services Department
NOTES TO FINANCIAL STATEMENTS

Note 3 – Cash and Cash Equivalents

Cash and cash equivalents include amounts held in demand accounts and invested in the Dreyfus Treasury Cash Management Fund.

	<u>Year Ended</u> <u>December 31, 2011</u>	<u>Period Ended</u> <u>December 31, 2010</u>
Cash management fund	\$ 10,735,000	\$ -
Checking account	140,945	3,363,715
ACH prefunded account	<u>36,720</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 10,912,665</u>	<u>\$ 3,363,715</u>

Note 4 – Commitments and Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims and amounts already collected could become a liability of the restricted funds. Management believes that adjustments, if any, will not materially affect OAHAC's financial position as of December 31, 2011 and 2010.

Note 5 – Related Parties

OAHAC was included in the State of Oregon Comprehensive Annual Report for the Fiscal Year Ended June 30, 2011, as a financial activity of the Oregon Housing and Community Services Department (OHCS). The Director of OHSC appoints two of the five OAHAC board directors and approves the candidacy of the remaining at-large directors.

OAHAC also contracts with OHCS to provide the following services related to the development, implementation, and administration of the Hardest Hit Fund Program including general oversight, financial management, procurement and contracting, information technology support, research and analysis, monitoring of contracted providers coordination with OAHAC to obtain approval of grant loans and other funding awards, and other services as determined necessary.

OHCS provided contract services totaling \$3,486,145 during the fiscal year ended December 2011. The cost of providing services during the period ended December 31, 2010 totaled \$1,007,110.

OREGON AFFORDABLE HOUSING ASSISTANCE CORPORATION
A Component Unit of the Oregon Housing and Community Services Department
NOTES TO FINANCIAL STATEMENTS

Note 6 – Subsequent Events

FASB ASC 855-20-50 (Formally, SFAS No. 165, Subsequent Events) codifies the guidance regarding the disclosure of events occurring subsequent to the balance sheet date. FASB ASC 855-10-50 does not change the definition of a subsequent event (i.e. an event or transaction that occurs after the statement of financial position date but before the financial statements are issued) but requires disclosure of the date through which subsequent events were evaluated when determining whether adjustment to or disclosure in the financial statements is required. OAHAC evaluated subsequent events through May 30, 2012, which is the date the financial statements were available to be issued. Since the codification requires only additional disclosures concerning subsequent events, adoption of the codification did not affect OAHAC's statement of financial position or statement of activities.

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

To the Board of Directors
Oregon Affordable Housing Assistance Corporation

We have audited the financial statements of the Oregon Affordable Housing Assistance Corporation (OAHAC) as of and for the year ended December 31, 2011 and the period ended December 31, 2010, and have issued our report thereon dated May 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as Finding 2011-1 to be a material weakness

**REPORT OF INDEPENDENT AUDITORS 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)**

COMPLIANCE AND OTHER MATTERS

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

We noted certain matters that we reported to management of OAHAC in a separate letter dated May 30, 2012.

OAHAC's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit OAHAC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, others within OAHAC, and the US Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams LLP

Portland, Oregon
May 30, 2012

OREGON AFFORDABLE HOUSING ASSISTANCE CORPORATION
A Component Unit of the Oregon Housing and Community Services Department
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

FINDING 2011-01 - Reporting Entity - Financial Close and Reporting - Material Weakness in Internal Control Over Financial Reporting

Criteria: Governmental entities are subject to generally accepted accounting principles (GAAP) for state and local governments. Public corporations and bodies corporate and politic are governmental entities. Other entities are governmental if they have one or more of the following characteristics:

- Popular election of officers or appointment (or approval) of a controlling majority of the members of the organization's governing body by officials of one or more state or local governments.
- The potential for unilateral dissolution by a government with the net assets reverting to a government; or
- The power to enact and enforce a tax levy.

The fact that an entity is incorporated as a not-for-profit organization and exempt from federal income taxation under the provisions of Section 501 of the Internal Revenue Code is not a criterion in determining whether an entity is governmental or nongovernmental for accounting, financial reporting, and auditing purposes.

Condition: Upon receipt of OAHAC's draft financial statements, prepared according to the Financial Accounting Standard Board (FASB) for non-for-profits, we inquired of OAHAC management for their determination of the proper reporting standards applicable to OAHAC. After additional research and advice from legal counsel, management determined the correct reporting standards to be that of a governmental entity engaging only in governmental activities within a single-program. Subsequently, management modified its financial statements to reflect that of a not-for-profit reporting as a governmental entity under the Governmental Accounting Standards Board (GASB). Subsequent to that determination, OAHAC management performed further research and reversed its conclusion.

Context: OAHAC was established as a not-for-profit benefit corporation in the State of Oregon in July 2010. As OAHAC is a component unit of the Oregon Housing and Community Services Department, the interpretation of OAHAC's bylaws regarding the governing body appointment and approval required legal interpretation in determining whether or not OAHAC qualified as a FASB or GASB reporter for financial statement purposes.

Cause: Management assumed that being incorporated as a not-for-profit entity that the financial reporting would follow FASB standards. As such, management had not performed an analysis against GASB and FASB standards to determine the correct reporting.

In addition, management has not yet fully developed and formalized its financial close and reporting process. Had that process been in place, management may have made the reporting entity determination well in advance of the financial statement preparation process.

Effect: There is no monetary effect. All changes to the financial statements presentation and notes to the financial statements were made by OAHAC management.

Recommendation: We recommend OAHAC management further develop and formalize their financial close and reporting process.

Management Response: Management concurs with the finding and recommendation. OAHAC will formalize processes by July 31, 2012 regarding the annual financial close and reporting process.