Portland Community Reinvestment Initiatives, Inc.

Consolidated Financial Statements and Other
Information as of and for the Year Ended December 31, 2008
and Report of Independent Accountants

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

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GaryMcGee & Co.
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
Portland Community Reinvestment Initiatives, Inc.:

We have audited the accompanying consolidated statement of financial position of Portland Community Reinvestment Initiatives, Inc. as of December 31, 2008, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended. These consolidated financial statements are the responsibility of Portland Community Reinvestment Initiatives, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of certain consolidated entities, which reflect total assets constituting 11.2% and total revenues constituting 11.8% of the related consolidated totals. Those statements were audited by other auditors whose reports have been provided to us, and our opinion, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors. The prior year summarized comparative information has been derived from the consolidated financial statements of Portland Community Reinvestment Initiatives, Inc. as of December 31, 2007 and, in our report dated June 6, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 Portland Community Reinvestment Initiatives, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2008 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Portland Community Reinvestment Initiatives, Inc. as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Gary McGee & Co.

June 9, 2009

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PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2008

(WITH COMPARATIVE AMOUNTS FOR 2007)

	2008	2007
Assets:		
Cash and cash equivalents	$ 524,697	617,440
Tenant rents receivable *(note 4)*	41,958	79,486
Grants and contracts receivable *(note 5)*	123,567	58,947
Other receivables	13,000	–
Prepaid expenses and deposits	28,738	18,133
Restricted deposits and funded reserves *(note 6)*	898,780	912,908
Buildings, equipment and furnishings *(note 7)*	985,903	1,030,419
Rental properties *(notes 8, 9 and 10)*	32,792,353	33,653,512
Total assets	$ 35,408,996	36,370,845
Liabilities:		
Accounts payable and accrued expenses	357,722	358,667
Rents received in advance	14,684	35,065
Tenant security deposits	230,295	220,722
Reserves for property taxes and other governmental obligations *(note 11)*	16,231	25,727
Long-term debt *(note 9)*	16,506,396	17,059,750
Conditional liabilities *(note 10)*		
Total liabilities	17,125,328	17,699,931
Net assets:		
Unrestricted:		
Available for general operations and programs	144,624	266,066
Restricted deposits and funded reserves	500,213	512,587
Limited partner's interest in Park Terrace Community, LLC *(note 13)*	1,349,802	1,430,931
Net investment in capital assets	16,171,195	16,432,587
Total unrestricted	18,165,834	18,642,171
Temporarily restricted *(note 13)*	117,834	28,743
Total net assets	18,283,668	18,670,914
Other commitments and contingencies *(notes 12 and 15)*		
Total liabilities and net assets	$ 35,408,996	36,370,845

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2008
(WITH COMPARATIVE TOTALS FOR 2007)

	2008			
	Unrestricted	Temporarily Restricted	Total	2007
Operating revenues, gains and other support:				
Rent revenue	$ 3,937,312	–	3,937,312	3,881,128
Private grants and contributions	112,098	122,500	234,598	35,104
Government grants	12,633	156,217	168,850	131,428
Property management fees	22,995	–	22,995	15,677
Interest income	5,494	–	5,494	31,710
Other income	86,001	–	86,001	97,527
Total operating revenues and gains	4,176,533	278,717	4,455,250	4,192,574
Net assets released from restrictions to fund operations *(note 14)*	189,626	(189,626)	–	–
Total operating revenues, gains and other support	4,366,159	89,091	4,455,250	4,192,574
Expenses *(note 16)*:				
Program services:				
Property management	4,254,277	–	4,254,277	4,275,198
Housing development	33,239	–	33,239	32,503
Supportive programs	76,299	–	76,299	106,613
Total program services	4,363,815	–	4,363,815	4,414,314
Supporting services:				
Management and general	458,671	–	458,671	385,601
Fundraising	45,128	–	45,128	38,999
Total supporting services	503,799	–	503,799	424,600
Total expenses	4,867,614	–	4,867,614	4,838,914
Operating results	$ (501,455) [A]	89,091	(412,364)	(646,340)

[A] Includes depreciation expense of $1,194,048

Continued

CONSOLIDATED STATEMENT OF ACTIVITIES, CONTINUED

YEAR ENDED DECEMBER 31, 2008

(WITH COMPARATIVE TOTALS FOR 2007)

	2008			
	Unrestricted	Temporarily Restricted	Total	2007
Non-operating activities:				
Equity gap contributions for new project developments *(note 11)*	$ 31,952	–	31,952	187,048
Restructure of long-term debt portfolio with the Portland Development Commission	–	–	–	937,853
Grants and contributions restricted to the acquisition of capital assets	–	–	–	70,000
Excess cash flow obligations *(note 10)*	(6,834)	–	(6,834)	(32,000)
Total non-operating activities	25,118	–	25,118	1,162,901
Increase (decrease) in net assets	(476,337)	89,091	(387,246)	516,561
Net assets at beginning of year	18,642,171	28,743	18,670,914	18,154,353
Net assets at end of year	$ 18,165,834	117,834	18,283,668	18,670,914

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2008
(WITH COMPARATIVE TOTALS FOR 2007)

	2008	2007
Cash flows from operating activities:		
Cash received from tenants, contractors and donors	$ 4,389,283	4,292,935
Interest income received	5,494	31,710
Cash paid to employees and suppliers	(3,104,284)	(3,040,051)
Interest paid	(574,956)	(616,120)
Net cash provided by operating activities	715,537	668,474
Cash flows from investing activities:		
Capital expenditures	(301,006)	(677,785)
Net withdrawals from (deposits to) restricted cash reserves	14,128	(110,915)
Net cash used in investing activities	(286,878)	(788,700)
Cash flows from financing activities:		
Repayment of note principal	(578,354)	(544,948)
Proceeds received from the issuance of debt	25,000	–
Grants and contributions restricted for long-term capital investment	31,952	257,048
Net cash used in financing activities	(521,402)	(287,900)
Net decrease in cash and cash equivalents	(92,743)	(408,126)
Cash and cash equivalents at beginning of year	617,440	1,025,566
Cash and cash equivalents at end of year	$ 524,697	617,440

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2008
(WITH COMPARATIVE TOTALS FOR 2007)

		2008					
		Program services					
		Property management					
		Core properties	Maya Angelou	Infinity properties	Park Terrace, LLC	Consolidation elimination entries	Total
Payroll and related expenses	$	635,015	45,098	–	88,314	(12,000)	756,427
Professional services		35,173	21,003	90,470	48,058	–	194,704
Contract services		7,927	38,968	209,670	68,726	–	325,291
Property maintenance		100,663	12,492	113,530	70,909	(8,800)	288,794
Occupancy		180,057	34,003	120,184	101,098	–	435,342
Office supplies		6,619	–	–	2,754	–	9,373
Postage		1,734	–	1,909	–	–	3,643
Telephone		7,948	1,602	1,770	4,190	–	15,510
Printing		2,515	–	–	–	–	2,515
Travel		13,763	–	–	–	–	13,763
Equipment rental and repairs		25,678	–	606	–	–	26,284
Insurance		114,160	10,001	41,014	12,151	–	177,326
Interest		401,982	11,721	131,148	37,575	(6,000)	576,426
Marketing and advertising		5,880	–	–	54	–	5,934
Property taxes		34,899	–	20,385	–	–	55,284
Property management		23,480	–	954	2,222	–	26,656
Bank and loan charges		22,858	–	–	–	–	22,858
Provision for doubtful collection of tenant receivables		10,957	–	41,009	11,632	–	63,598
Other		38,848	10,234	102,589	3,805	(91,852)	63,624
Total expenses before depreciation		1,670,156	185,122	875,238	451,488	(118,652)	3,063,352
Depreciation and amortization expense		636,361	59,647	338,185	156,732	–	1,190,925
Total expenses	$	2,306,517	244,769	1,213,423	608,220	(118,652)	4,254,277

See accompanying notes to consolidated financial statements.

Housing development	Supportive programs	Total	Supporting services: Management and general	Supporting services: Fund-raising	Supporting services: Total	Total	2007
25,225	48,037	829,689	337,758	33,177	370,935	1,200,624	1,194,326
1,397	2,811	198,912	18,708	1,838	20,546	219,458	244,878
315	600	326,206	4,216	414	4,630	330,836	337,066
232	347	289,373	2,441	240	2,681	292,054	311,183
406	772	436,520	5,430	533	5,963	442,483	431,308
263	2,645	12,281	3,521	345	3,866	16,147	19,776
69	341	4,053	922	91	1,013	5,066	5,138
316	601	16,427	4,227	415	4,642	21,069	20,214
100	1,888	4,503	1,338	131	1,469	5,972	8,891
547	5,517	19,827	7,321	719	8,040	27,867	36,289
1,020	2,096	29,400	13,658	1,342	15,000	44,400	20,826
96	183	177,605	1,283	126	1,409	179,014	176,265
1,608	3,061	581,095	21,526	2,114	23,640	604,735	612,481
14	663	6,611	192	19	211	6,822	8,643
–	–	55,284	–	–	–	55,284	46,958
–	–	26,656	–	–	–	26,656	86,386
88	169	23,115	1,187	117	1,304	24,419	24,540
–	–	63,598	–	–	–	63,598	14,971
1,543	6,568	71,735	20,664	2,030	22,694	94,429	84,389
33,239	76,299	3,172,890	444,392	43,651	488,043	3,660,933	3,684,528
–	–	1,190,925	14,279	1,477	15,756	1,206,681	1,154,386
33,239	76,299	4,363,815	458,671	45,128	503,799	4,867,614	4,838,914

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

1. Organization

Portland Community Reinvestment Initiatives, Inc. ("PCRI") is a public benefit corporation founded in 1991 to acquire, own, develop, manage, and otherwise deal with residential and other real estate property in the State of Oregon for the benefit of very low, low and moderate income persons of all races within the Portland Metropolitan area.

PCRI was created to take advantage of an opportunity presented by the 1990 bankruptcy of Dominion Capital, Inc. ("Dominion"), a mortgage broker and real estate finance company operating in the lower-income neighborhoods of North and Northeast Portland. Supported by the City of Portland, Bureau of Community Development, and local community housing advocates, PCRI obtained private financing under the Oregon Lender's Tax Credit Program to purchase selected Dominion properties from the Bankruptcy Trustee and to retain these properties for the public benefit.

On April 1, 2006, PCRI acquired one hundred percent of the net assets of Albina Community Development Corporation ("Albina") through a contribution transaction. Albina was founded as a nonprofit corporation in 1987 to develop and operate a housing rehabilitation program in the inner city areas of Portland, Oregon. The contribution of Albina's net assets was effected in order to broaden the scope of housing services available to local residents, and to offer services more efficiently.

PCRI serves the region as an advocate for low-income housing, as well as a low-income property manager, community developer, and catalyst for useful and innovative community development initiatives in lower-income neighborhoods.

2. Program Services

During the year ended December 31, 2008, PCRI provided services in the following major program areas:

Property Management – Property management represents that part of the organization responsible for maintaining the integrity of the organization's physical assets and the day-to-day management of rental operations. Activities include the processing of applications for housing, leasing available units, collection of rent, and monitoring court processes relating to lease violations. Property management also oversees the physical maintenance of PCRI's properties. This includes refurbishment of vacant units and emergency, routine and preventative maintenance.

Housing Development – Housing development represents the administration and management of all new construction projects for PCRI. Activities include feasibility analyses of potential development projects, production and assembly of funding applications, selection and coordination of development team members, administration of construction draws, and the provision of due diligence documentation for lenders and funders.

Supportive Programs – PCRI's supportive programs provide a full array of culturally competent services to residents. These services are mission and vision driven, and have been designed to move residents from surviving to thriving:

- *Homeownership Initiative* – provides intake and assessment, credit repair, individual counseling, and HUD Certified homebuyer education. During the past year, five PCRI families became first time homebuyers.

- *Financial Education* – a well rounded program that prepares individuals and families to better manage personal finances. The program has resulted in higher credit scores and an overall reduction in household debt.

- *Thriving Families* – helps families with multiple challenges attain stability and become self-sufficient. Each family member develops goals and objectives to be reached within a specific timeframe. Families are connected with partner organizations that assist in the process.

- *Computer Labs* – located in several PCRI apartment complexes, resident services coordinators are available to assist with job search, resume writing, information and referral, and provide training in basic computer skills.

- *Youth Services* – a multi-faceted program that supports youth in the development of educational, employment, and social skills. Services offered include robotics, summer arts camp, youth fair, summer internship, and tutoring.

The Programs Department has been very successful in helping to fulfill the PCRI vision of providing affordable housing and associated services that achieve family stability, self-sufficiency and resident wealth creation.

3. Summary of Significant Accounting Policies

The significant accounting policies followed by PCRI are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

Principles of Consolidation – The accompanying financial statements include the accounts and activities of PCRI and all entities over which PCRI has a controlling financial and economic interest. The latter category includes Park Terrace Community, LLC. PCRI consolidates its 0.01% ownership interest in Park Terrace Community, LLC under standards promulgated under EITF Issue No. 04-5, *Investor's Accounting for an Investment in a Limited Partnership When the Investor is the Sole General Partner and the Limited Partners Have Certain Rights*. All significant intercompany investments, accounts and transactions between PCRI and Park Terrace Community, LLC have been eliminated.

PCRI is also the sponsor of six "single asset" entities ("Projects") that receive financial support from the U.S. Department of Housing and Urban Development. The financial statements of these entities are not included in the accompanying consolidated financial statements because PCRI does not have exclusive control over these Projects nor does PCRI economically benefit from their operation.

Basis of Presentation – PCRI has adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 116, *Accounting for Contributions Received and Contributions Made*, and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. Under these provisions, net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of PCRI and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations.

- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of PCRI and/or the passage of time.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Contributions – Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions of Long-Lived Assets – Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings and equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

In-Kind Contributions – No amounts have been recorded in the accompanying financial statements for contributed services, as PCRI provides compensation for most services requiring specific expertise. In-kind contributions of equipment and other materials are recorded where there is an objective basis upon which to value these contributions and where the contributions are an essential part of PCRI's activities. No in-kind contributions of equipment or other materials were recorded during the year ended December 31, 2008.

Fixed Assets and Depreciation – Buildings, equipment and furnishings are carried at cost and at fair value when acquired by gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which is generally 5 years for office equipment and furnishings and 25 years for buildings and rental properties.

Rental properties are recorded at cost plus an amount equal to delinquent property taxes and any other liens assumed by PCRI at the time of acquisition. Costs incurred to acquire rental properties and to make the properties ready for their intended use, including insurance, and certain costs associated with property repair and rehabilitation, are also capitalized. Costs incurred for such items after the property has been substantially completed and made ready for its intended use are charged to expense as incurred.

The organization has adopted the provisions of SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of*. Under SFAS No. 121, impairment losses on long-lived assets, such as equipment and furnishings, are recognized when events or changes in circumstances indicate that the undiscounted cash flows estimated to be generated by such assets are less than their carrying value and, accordingly, all or a portion of such carrying value may not be recoverable. Impairment losses are then measured by comparing the fair value of assets to their carrying amounts. No impairment losses were recorded during the year ended December 31, 2008.

Revenue Recognition – All contributions and grants are considered available for unrestricted use unless specifically restricted by a donor. Service revenues are recognized at the time services are provided and the revenues are earned.

Indirect Acquisition Costs – Indirect costs associated with the acquisition of land sale contracts and the acquisition, development and rehabilitation of rental properties, including legal costs, were capitalized and allocated to the properties to which the costs related. Indirect costs that do not relate to the property acquired, including general and administrative expenses, are charged to expense as incurred.

Cash Equivalents – For purposes of the financial statements, the organization considers all liquid investments having initial maturities of three months or less to be cash equivalents. Cash equivalents at December 31, 2008 total $135,472 and represent investments in money market funds.

Advertising Expenses – Advertising costs are charged to expense as they are incurred. For the year ended December 31, 2008, advertising expenses totaled approximately $6,822.

Income Taxes – PCRI is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law, and is a publicly supported organization as defined in Sections 170(b)(1)(A)(vi) and 509(a)(1). Contributions to the organization qualify for applicable charitable contribution deductions. A provision for income taxes on unrelated business income is recorded when required.

Concentrations of Credit Risk – The organization's short-term investments consist primarily of cash equivalents. These financial instruments may subject the organization to concentrations of credit risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC).

On October 3, 2008, President George W. Bush signed the Emergency Economic Stabilization Act of 2008, which temporarily raises the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. The temporary increase became effective immediately upon the President's signature and will remain in effect through December 31, 2013. In addition, unlimited deposit insurance coverage is provided through December 31, 2009 by the FDIC for non-interest-bearing transaction accounts at institutions participating in the FDIC's Transaction Account Guarantee Program.

Certain receivables also subject the organization to concentrations of credit risk.

Measure of Operations – The organization includes in its measure of operations all revenue and expenses that are integral to its programs and supporting activities, including net assets released from donor restrictions to support operating expenditures. The measure of operations excludes capital contributions and net assets released from donor restrictions for capital and other non-operating purposes.

Summarized Financial Information for 2007 – The accompanying financial information as of and for the year ended December 31, 2007 is presented for comparative purposes only and is not intended to represent a complete financial statement presentation.

Other Significant Accounting Policies – Other significant accounting policies are set forth in the financial statements and the following notes.

4. Tenant Rents Receivable

At December 31, 2008, tenant rents receivable is summarized as follows:

Tenant rents receivable	$	53,729
Less allowance for doubtful accounts		(11,771)
	$	41,958

5. Grants and Contracts Receivable

At December 31, 2008, grants and contracts receivable totaling $123,567 represent various grants from the City of Portland and are expected to be collected in less than one year.

At December 31, 2008, the organization held conditional grants in the amount of $67,225. The grants are conditioned upon the organization performing certain work necessary for properties to obtain clearance by a Certified Lead Paint Risk Assessor. The grants have not been included in the accompanying financial statements, because the associated conditions have not been satisfied as of December 31, 2008.

6. Restricted Deposits and Funded Reserves

In accordance with the requirements of various agreements with funders, PCRI maintains certain restricted cash reserves for the renewal and replacement of property, capital improvements, etc. totaling $898,780. Certain reserves may only be used upon the authorization of the funders.

7. Buildings, Equipment and Furnishings

Buildings, equipment and furnishings at December 31, 2008 represent primarily administrative offices, computers and other equipment, as follows:

Buildings	$	989,439
Equipment and furnishings		199,706
		1,189,145
Less accumulated depreciation		(203,242)
	$	985,903

8. Rental Properties

Rental properties at December 31, 2008 are summarized as follows:

Rental properties	$ 41,065,568
Less accumulated depreciation	(8,273,215)
	$ 32,792,353

At December 31, 2008, the assessed values of the above properties based on Multnomah County property tax records totaled $86,228,561.

PCRI has also entered into equity gap financing agreements with the Portland Development Commission ("PDC") and other government agencies for various rental properties. Under the terms of the agreements, if the properties are sold or transferred, PCRI will be contingently liable for the repayment of the equity gap contributions received up to an amount not to exceed $10,305,891 at December 31, 2008. See additional discussion in note 10.

In the above rental properties, several housing projects funded by restricted grants and contracts are represented. In accordance with contract stipulations, these properties must remain available to eligible low-income households in accordance with the Low Income Housing Preservation and Resident Homeownership Act and other standards. Failure to retain this housing exclusively for eligible low-income families and individuals could result in revocation of the grants and the return of all funds received plus interest since the date of the first advance.

In addition, in March of 2005, PCRI received donated land valued at $64,000 from Multnomah County, which is to be developed as affordable housing for qualifying tenants. As a condition of the donation, PCRI has signed a promissory note in the amount of $21,455, at 0.0% interest, due and payable on February 1, 2067. The obligation will be deemed to be satisfied in full on the maturity date without any repayment by PCRI, unless an event of default occurs prior to the maturity date. In the event of default, the entire principal on the note becomes due, with interest charged at 10% annually until the note is paid in full.

As of December 31, 2008, PCRI has complied with all asset restrictions referred to above, and also has the intention and ability to continue to comply with those restrictions. Accordingly, no liability has been recorded at December 31, 2008.

9. Long-Term Debt

The following obligations were outstanding at December 31, 2008. All notes are secured by property.

Core Properties – U.S. Bank:

U.S. Bank, 3.875%, due in monthly payments of $52,096 through August 2013 with a balloon payment for the outstanding balance as of August 2013 [1]	$	6,576,504
U.S. Bank, 6.60%, Due in monthly payments of $3,898 through March 2016		546,722
U.S. Bank, 3.0%, due in monthly payments of $750 through April 2025 with a balloon payment for the outstanding balance as of April 2025		163,823
U.S. Bank, 7.0% due in monthly payments of $692 through April 2025 with a balloon payment for the outstanding balance as of April 2025		99,747
U.S. Bank, predevelopment loan, 4.0% due in quarterly payments of $2,500 interest only, and maturing in June of 2016		250,000
	$	7,636,796

[1] Interest accrues at the rate of 7.875% annually, less 4.0% for as long as the loan qualifies for the maximum State of Oregon housing loan tax credits provided under ORS 317.097. At December 31, 2008, the loan qualified for the housing tax credits. PCRI has granted a security interest in its properties to the City of Portland in exchange for the City agreeing to pay PCRI's obligations to U.S. Bank in the event of default. In addition, the note is secured by program revenues of certain community development block grants received from the federal government by the City of Portland, Bureau of Community Development. Net cash flow from funded properties and the proceeds received from property sales and property refinancing are used to repay principal.

Core Properties – City of Portland:

Restructured loans, 3.0%, due in monthly payments of $1,054 through December 2025 [2]	$	241,663
Installment loans, 3.0%, due in monthly payments ranging from $40 to $1,271 through October 2034		435,718
	$	677,381

[2] During the year ended December 31, 2006, twenty properties were refinanced through a note issued by PDC to provide funds for property renovation. A key element of the refinancing was the conversion of previously issued debt in the amount of $937,853 to a contingent liability financing agreement, resulting in a net recovery to the organization's net assets. The note is secured by trust deeds on the renovated properties. See additional discussion of conditional liabilities in note 10.

Core Properties – Key Bank:

Key Bank, 4.55%, due in monthly payments of $1,825 through February 2022 with a balloon payment for the outstanding balance as of February 2022	$	291,953

Urban League Building:

Albina Community Bank, 8.14%, due in monthly payments of $6,471 through June 2016 with a balloon payment for the outstanding balance as of June 2016	$	801,516

Core Properties – Enterprise Community Loan Fund

Enterprise Community Loan Fund, 0.0%, due in full June, 2010	$	25,000

Infinity Management Portfolio:

City of Portland, 1.0%, due in monthly payments ranging from $1 to $271 through April 2046	$	1,032,216
City of Portland, 1.0%, payments due annually to the extent excess cash flows are generated, due in full April 2066 [3]		840,177
U.S. Bank, 5.0%, due in monthly payments of $1,315 through September 2022		157,211
U.S. Bank, 8.75%, due in monthly payments of $1,472 through September 2022		141,508
Washington Mutual, 3.58% to 8.00%, due in monthly payments ranging from $512 to $11,400 through March 2036		942,270
City of Portland (HUD §108 loan), 5.50%, due in monthly payments of $4,902 through August 2019		552,500
City of Portland (HUD §108 loan), 5.50%, due in monthly payments of $2,717 through August 2019		283,750
	$	3,949,632

[3] Interest of 1.0% per annum is forgiven annually if certain reporting compliances are met. PCRI was in compliance with the reporting requirements for the year ended December 31, 2008. The properties did not generate excess cash flow during the year ended December 31, 2008; therefore, no payments were required.

Park Terrace Community, LLC:

U.S. Bank, 3.85%, due in monthly payments of $3,696 through December 2021	$	694,070
City of Portland, 3.0%, due in monthly payments of $1,517 through December 2017		144,810
City of Portland, 0.0%, payments due annually to the extent excess cash flows are generated, due in full December 2032 [4]		1,579,660
	$	2,418,540

[4] The property did not generate excess cash flow during the year ended December 31, 2008; therefore, no payments were required.

Maya Angelou:

NOAH, 2.72%, due in monthly payments of $2,109 through April 2026	$	349,402
City of Portland, 1.0%, due in monthly payments of $525 through April 2046		196,353
City of Portland, 1.0%, payments due annually to the extent excess cash flows are generated, due in full April 2066 [3]		159,823
	$	705,578
	$	16,506,396

Aggregate maturities of note principal on all debt for the five years subsequent to December 31, 2008 and thereafter are as follows:

Years Ending December 31,	
2009	$ 603,767
2010	657,120
2011	659,850
2012	688,379
2013	5,254,972
Thereafter	8,642,308
	$ 16,506,396

10. Conditional Liabilities

Over its history and that of its predecessor organizations, PCRI has received significant financing in the form of contributions from PDC and other government agencies to assist in underwriting the acquisition, development and renovation of its rental property portfolio. Many of these contributions are subject to "equity gap" financing agreements, which generally require that the funds be returned if the properties are sold or transferred. Additionally, if the operation of certain covered properties results in a surplus that exceeds a specific threshold (e.g., a specific debt service coverage ratio) in any single year, the excess must be shared equally with PDC. Accordingly, PCRI is contingently liable for the repayment of the "equity gap" contributions received up to an amount not to exceed $10,344,725 at December 31, 2008 if future performance or other actions of PCRI trigger these liability provisions, as follows:

Projects, agreement date	
N.E. Junior, February 2002 [1]	$ 74,274
Emerson & Going, May 2001 [2]	112,328
N.E. 37th & N.E. 127th, October 2000 [3]	415,379
Scattered 8, June 1999 [4]	202,301
20 scattered sites, April 2007 [5]	1,308,149
Urban League building, June 2006 [6]	1,397,834
ACDC transfer, March 2006 [5]	5,476,756
Morris & Russet, March 2005 [5]	286,500
Fab 4, June 2003 [5]	316,833
OHCS	494,649
Multnomah County	224,568
Innovative Housing	35,154
	10,344,725
Less amounts payable at December 31, 2008 [7]	(38,834)
	$ 10,305,891

[1] Commitment to share in excess cash flow terminates at the earlier of when payments made to PDC under the agreement total amounts originally disbursed or September 2032.
[2] Commitment to share in excess cash flow terminates at the earlier of when payments made to PDC under the agreement total amounts originally disbursed or December 2031.
[3] Commitment to share in excess cash flow terminates at the earlier of when payments made to PDC under the agreement total amounts originally disbursed or November 2030.
[4] Commitment to share in excess cash flow terminates at the earlier of when payments made to PDC under the agreement total amounts originally disbursed or October 2029.
[5] Commitment to share in excess cash flow terminates when payments made to PDC under the agreement total amounts originally disbursed by PDC.
[6] Commitment to share in excess cash flow terminates when payments made to PDC under the agreement total amounts originally disbursed by PDC. Of the $1,397,834 received subject to an equity gap financing agreement, $31,952 was received in 2008.
[7] As of December 31, 2008, certain properties have generated cash flow in excess of the thresholds stated in the financing agreements, resulting in amounts payable to PDC totaling approximately $38,789, including $6,834 recorded in 2008. No other events have occurred that would cause the balance of these notes to become due and payable. Accordingly, no liability has been recorded in the accompanying financial statements beyond the cumulative cash flow sharing provision amount.

11. Reserves for Property Taxes and Other Governmental Obligations

PCRI has recorded various reserves for property tax liabilities relating to rental properties owned and operated by the organization and for property tax liabilities past due and outstanding on the properties underlying certain land sale contracts. These reserves have been reduced, where appropriate, for the obligations of land sale contract vendees and investors incurred and unpaid subsequent to the acquisition of the contracts by PCRI, and for partial property tax exemptions that have been granted by the City of Portland under Chapter 3.101 of the Portland City Code for low-income housing held by nonprofit charitable organizations. PCRI has also recorded various reserves for liens placed on various Dominion properties by the City of Portland for the construction of local improvements, abatements of nuisances, removal of dangerous buildings, repairs of sidewalks, and enforcement of other City codes. At December 31, 2008, PCRI's net reserves for governmental obligations totaled $16,231.

12. Lease Commitments

The organization leases office equipment under non-cancelable operating leases which expire in 2010.

As of December 31, 2008, the future minimum lease commitments under these leases are as follows:

Years ending December 31,		
2009	$	3,270
2010		2,649
	$	5,919

Lease expense for the year ended December 31, 2008 totaled $3,463.

13. Restrictions and Limitations on Net Asset Balances

At December 31, 2008, temporarily restricted net assets are available for the following purposes and programs:

Homeownership initiative	$	17,010
Unrestricted pledges		100,000
Other		824
	$	117,834

Limited Partner's Interest in Park Terrace Community, LLC

In 2006, PCRI adopted the requirements of EITF Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*. In accordance with this standard, the organization consolidates Park Terrace Community, LLC, an entity in which PCRI serves as managing member with an ownership interest of 0.01%. The investor partner's interest in Park Terrace Community, LLC totaled $1,349,802 at December 31, 2008.

14. Net Assets Released from Restrictions

During the year ended December 31, 2008, the sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes, or by the occurrence of events specified by the donor, were as follows:

Satisfaction of restrictions for operating purposes:		
Lead risk assessment	$	98,105
Homeownership initiative		56,831
Thriving families		12,284
Home buyers program		11,652
Other programs		10,754
	$	189,626

15. Contingencies

Amounts received or receivable under PCRI's contracts with the City of Portland, Oregon and other governmental agencies are subject to audit and adjustment by those agencies. Any expenditures or claims disallowed as a result of such audits would become a liability of PCRI's general operating funds. In the opinion of PCRI's management, any adjustments that might result from such audit would not be material to PCRI's overall financial statements.

In addition, PCRI has agreed to guarantee the obligations of Park Terrace Community, LLC to U.S. Bank in accordance with the guaranty terms, until Park Terrace Community, LLC satisfies certain conditions set forth in the guaranty agreement.

PCRI has also entered into a development guaranty agreement with Park Terrace Community, LLC as described in the operating agreement. PCRI has agreed to assume all liabilities of development of the Park Terrace Apartments (the "Project") to the extent necessary to complete the rehabilitation of the Project. Payments made in accordance with the agreement are made without any right of repayment.

Additionally, PCRI has agreed to pay all operational and maintenance expenses of the Project in excess of gross collections to the extent necessary to maintain break-even operations, as defined in the agreement. Payments made in accordance with the agreement through the operating guaranty period are non-interest bearing and repayable in accordance with provisions established in the operating agreement.

16. Expenses

The costs of providing the various programs and other activities of PCRI have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Expenses by natural classification are presented in the consolidated statement of functional expenses.

17. Retirement Plan

PCRI provides all employees with the opportunity to contribute to a tax-sheltered annuity plan as described in Section 403(b) of the Internal Revenue Code. All employees may make voluntary contributions to the plan on a pre-tax basis, up to the limits allowed by law, from their first day of employment. Employees select among several investment options. The organization does not make any contributions to the plan.

18. Reclassification of 2007 Comparative Totals

Certain 2007 amounts presented herein have been reclassified to conform to the 2008 presentation.

19. Statement of Cash Flows Reconciliation

The following presents a reconciliation of the decrease in net assets (as reported on the consolidated statement of activities) to net cash provided by operating activities (as reported on the consolidated statement of cash flows):

Decrease in net assets	$	(387,246)
Adjustments to reconcile the decrease in net assets to net cash provided by operating activities:		
Depreciation		1,194,048
Amortization of capitalized loan fees		12,633
Grants and contributions restricted to the acquisition of capital assets		(31,952)
Net changes in:		
Tenant rents receivable		37,528
Grants and contracts receivable		(64,620)
Other receivables		(13,000)
Prepaid expenses and deposits		(10,605)
Accounts payable and accrued expenses		(945)
Rents received in advance		(20,381)
Tenant security deposits		9,573
Reserves for property taxes and other governmental obligations		(9,496)
Total adjustments		1,102,783
Net cash provided by operating activities	$	715,537

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GOVERNING BOARD AND MANAGEMENT

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City of Gresham

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Accounts Payable/Payroll/
HR Administrator

Kimberley Mason
Property Management

Delane Guild
Building Inspector

Marvin Dean
Maintenance Supervisor

Margaret Beasley
Park Terrace Resident Services Coordinator

INQUIRIES AND OTHER INFORMATION

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