Portland Community Reinvestment Initiatives, Inc.

Consolidated Financial Statements and Other
Information as of and for the Year Ended December 31, 2009
and Report of Independent Accountants

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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, 2009, 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 11.0% and total revenues constituting 11.4% 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, 2008 and, in our report dated June 9, 2009, 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 2009 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, 2009, 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.

July 14, 2010

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2009

(WITH COMPARATIVE AMOUNTS FOR 2008)

	2009	2008
Assets:		
Cash and cash equivalents	$ 534,792	524,697
Tenant rents receivable *(note 4)*	38,849	41,958
Grants and contracts receivable *(note 5)*	42,636	123,567
Note receivable *(note 6)*	60,000	–
Other receivables	2,985	13,000
Prepaid expenses, deposits and other assets	79,162	28,738
Restricted deposits and funded reserves *(note 7)*	989,040	898,780
Buildings, equipment and furnishings *(note 8)*	961,118	985,903
Rental properties *(notes 9, 10, 11 and 12)*	32,116,296	32,792,353
Total assets	$ 34,824,878	35,408,996
Liabilities:		
Accounts payable and accrued expenses	562,048	357,722
Rents received in advance	13,391	14,684
Tenant security deposits	215,552	230,295
Reserves for property taxes and other governmental obligations *(note 10)*	7,049	16,231
Long-term debt *(note 11)*	15,842,703	16,506,396
Conditional liabilities *(note 12)*		
Total liabilities	16,640,743	17,125,328
Net assets:		
Unrestricted:		
Available for general operations and programs	16,421	(7,153)
Restricted deposits and funded reserves	631,390	500,213
Limited partner's interest in Park Terrace Community, LLC *(note 14)*	1,356,930	1,501,579
Net investment in capital assets	16,168,969	16,171,195
Total unrestricted	18,173,710	18,165,834
Temporarily restricted *(note 14)*	10,425	117,834
Total net assets	18,184,135	18,283,668
Other commitments and contingencies *(notes 13 and 16)*		
Total liabilities and net assets	$ 34,824,878	35,408,996

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	2009			
	Unrestricted	Temporarily Restricted	Total	2008
Operating revenues, gains and other support:				
Rent revenue	$ 3,902,705	–	3,902,705	3,937,312
Private grants and contributions	6,024	77,370	83,394	234,598
Government grants	12,620	208,000	220,620	168,850
Property management fees	14,258	–	14,258	22,995
Gain on sale of property	207,625	–	207,625	–
Interest income	2,775	–	2,775	5,494
Other income	31,042	–	31,042	86,001
Total operating revenues and gains	4,177,049	285,370	4,462,419	4,455,250
Net assets released from restrictions to fund operations *(note 15)*	392,779	(392,779)	–	–
Total operating revenues, gains and other support	4,569,828	(107,409)	4,462,419	4,455,250
Expenses *(note 17)***:**				
Program services:				
Property management	3,995,763	–	3,995,763	4,254,277
Housing development	47,964	–	47,964	33,239
Supportive programs	173,615	–	173,615	76,299
Total program services	4,217,342	–	4,217,342	4,363,815
Supporting services:				
Management and general	563,367	–	563,367	458,671
Fundraising	17,815	–	17,815	45,128
Total supporting services	581,182	–	581,182	503,799
Total expenses	4,798,524	–	4,798,524	4,867,614
Operating results	$ (228,696) [A]	(107,409)	(336,105)	(412,364)

[A] Includes depreciation expense of $1,223,470

Continued

CONSOLIDATED STATEMENT OF ACTIVITIES, CONTINUED

YEAR ENDED DECEMBER 31, 2009

(WITH COMPARATIVE TOTALS FOR 2008)

	2009			
	Unrestricted	Temporarily Restricted	Total	2008
Non-operating activities:				
Equity gap contributions for new project developments *(note 12)*	$ 217,863	–	217,863	31,952
Less excess cash flow obligations, net *(note 12)*	(7,997)	–	(7,997)	(6,834)
In-kind donations of capital assets	26,706	–	26,706	–
Total non-operating activities	236,572	–	236,572	25,118
Increase (decrease) in net assets	7,876	(107,409)	(99,533)	(387,246)
Net assets at beginning of year	18,165,834	117,834	18,283,668	18,670,914
Net assets at end of year	$ 18,173,710	10,425	18,184,135	18,283,668

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	2009	2008
Cash flows from operating activities:		
Cash received from tenants, contractors and donors	$ 4,344,781	4,389,283
Interest income received	2,775	5,494
Cash paid to employees and suppliers	(2,845,936)	(3,104,284)
Interest paid	(594,505)	(574,956)
Net cash provided by operating activities	907,115	715,537
Cash flows from investing activities:		
Capital expenditures	(549,750)	(301,006)
Proceeds received from the sale of capital assets	188,820	–
Net withdrawals from (deposits to) restricted cash reserves	(90,260)	14,128
Net cash used in investing activities	(451,190)	(286,878)
Cash flows from financing activities:		
Repayment of note principal	(663,693)	(578,354)
Proceeds received from the issuance of debt	–	25,000
Grants and contributions restricted for long-term capital investment	217,863	31,952
Net cash used in financing activities	(445,830)	(521,402)
Net increase (decrease) in cash and cash equivalents	10,095	(92,743)
Cash and cash equivalents at beginning of year	524,697	617,440
Cash and cash equivalents at end of year	$ 534,792	524,697

Supplemental schedule of noncash investing and financing activities		
Issuance of note receivable in connection with the sale of property	$ 60,000	–

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

		2009				
		Program services				
		Property management				
		Core properties	Maya Angelou	Park Terrace, LLC	Consolidation elimination entries	Total
Payroll and related expenses	$	635,794	47,449	86,922	(15,000)	755,165
Professional services		30,248	20,984	8,928	–	60,160
Contract services		19,133	46,501	71,966	(33,313)	104,287
Property maintenance		176,889	14,037	175,744	(3,000)	363,670
Occupancy		268,236	37,766	90,895	–	396,897
Office supplies		7,973	6,947	2,572	(900)	16,592
Postage		2,786	–	–	–	2,786
Telephone		6,442	2,254	4,340	–	13,036
Printing		3,219	–	–	–	3,219
Travel		15,242	–	–	–	15,242
Equipment rental and repairs		21,838	–	–	–	21,838
Insurance		129,999	9,800	15,999	–	155,798
Interest		542,004	11,249	36,484	(6,000)	583,737
Marketing and advertising		1,646	–	26	–	1,672
Property taxes		164,670	–	7,270	–	171,940
Property management		6,992	–	11,105	–	18,097
Bank and loan charges		25,346	–	–	–	25,346
Provision for doubtful collection of tenant receivables		1,392	–	7,477	–	8,869
Other		50,378	10,516	3,736	(7,114)	57,516
Total expenses before depreciation		2,110,227	207,503	523,464	(65,327)	2,775,867
Depreciation and amortization expense		1,001,279	59,647	158,970	–	1,219,896
Total expenses	$	3,111,506	267,150	682,434	(65,327)	3,995,763

See accompanying notes to consolidated financial statements.

Housing development	Supportive programs	Total	Supporting services: Management and general	Fund-raising	Total	Total	2008
38,525	105,900	899,590	448,469	14,309	462,778	1,362,368	1,200,624
1,807	5,983	67,950	21,037	671	21,708	89,658	219,458
1,159	12,680	118,126	13,496	432	13,928	132,054	330,836
234	837	364,741	2,724	87	2,811	367,552	292,054
260	1,010	398,167	3,028	97	3,125	401,292	442,483
483	8,336	25,411	5,624	179	5,803	31,214	16,147
169	768	3,723	1,965	63	2,028	5,751	5,066
390	1,411	14,837	4,544	145	4,689	19,526	21,069
195	1,012	4,426	2,270	72	2,342	6,768	5,972
452	3,699	19,393	5,263	168	5,431	24,824	27,867
1,311	4,805	27,954	15,263	487	15,750	43,704	44,400
146	510	156,454	1,695	54	1,749	158,203	179,014
567	1,598	585,902	6,595	210	6,805	592,707	604,735
100	3,323	5,095	1,161	37	1,198	6,293	6,822
–	–	171,940	–	–	–	171,940	55,284
–	–	18,097	–	–	–	18,097	26,656
8	184	25,538	98	3	101	25,639	24,419
–	–	8,869	–	–	–	8,869	63,598
1,493	19,024	78,033	17,375	554	17,929	95,962	94,429
47,299	171,080	2,994,246	550,607	17,568	568,175	3,562,421	3,660,933
665	2,535	1,223,096	12,760	247	13,007	1,236,103	1,206,681
47,964	173,615	4,217,342	563,367	17,815	581,182	4,798,524	4,867,614

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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, 2009, 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. These programs include:

- *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 their personal finances. The program has resulted in higher credit scores and an overall reduction in household debt for participants.

- *Thriving Families* – helps families with multiple challenges attain financial 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 searches, resume writing, information and referral, and to 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 study, a summer arts camp, a youth fair, summer internship, and tutoring.

The Programs Department has been very successful in helping fulfill the PCRI vision to provide 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.

Basis of Presentation – PCRI has adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 958-605, *Revenue Recognition* and FASB ASC No. 958-205, *Presentation of Financial Statements*. 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.

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 and PCRI Target Homes #1, LLC. PCRI is the sole member of PCRI Target Homes #1, LLC, which was established in December of 2009 and was not yet active during 2009.

PCRI consolidates its 0.01% ownership interest in Park Terrace Community, LLC under standards promulgated under FASB ASC 810-20-25, *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 also is 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.

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. In-kind contributions of capital assets totaling $26,706 were recorded during the year ended December 31, 2009.

Capital 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 five years for office equipment and furnishings, 39 years for the office building, and 25 years for 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, also are capitalized. Costs incurred for such items after the property has been substantially completed and made ready for its intended use are charged to expense when incurred.

The organization has adopted the provisions of FASB ASC No. 360-10, *Property, Plan and Equipment – Overall*. Under FASB ASC No. 360-10, impairment losses on long-lived assets, such as building, 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, 2009.

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 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, are 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, 2009 total $151,559 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, 2009, advertising expenses totaled approximately $6,293.

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. Park Terrace Community, LLC is a multiple member limited liability company. No provision has been made for income taxes, which are the responsibility of the members.

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).

The Emergency Economic Stabilization Act of 2008 temporarily raises the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. The temporary increase will remain in effect through December 31, 2013. In addition, unlimited deposit insurance coverage is provided through June 30, 2010 by the FDIC for non-interest bearing transaction accounts at institutions participating in the FDIC's Transaction Guaranty 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, net assets released from donor restrictions for capital and other non-operating purposes, and excess cash flow obligations.

Subsequent Events – As required by FASB ASC No. 855, *Subsequent Events*, subsequent events have been evaluated by management through July 14, 2010, which is the date the financial statements were available to be issued.

Summarized Financial Information for 2008 – The accompanying financial information as of and for the year ended December 31, 2008 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, 2009, tenant rents receivable is summarized as follows:

Tenant rents receivable	$	68,430
Less allowance for doubtful accounts		(29,581)
	$	38,849

5. Grants and Contracts Receivable

At December 31, 2009, grants and contracts receivable totaling $42,636 represent various grants from the City of Portland that are expected to be collected in less than one year.

6. Note Receivable

At December 31, 2009, PCRI held a long-term, interest-free second mortgage in the amount of $60,000 issued to a low-income homebuyer. The note is due and payable upon either the unauthorized sale, refinancing, assignment or conveyance of the property, or when the homeowner no longer utilizes the property as a primary residence. If in June 2019, 2024, and 2029 no events have triggered repayment, the principal of the note is reduced to $45,000, $30,000 and $0, respectively. The note is not carried at present value due to the lack of a known or determinable repayment date.

7. 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 $989,040. Certain reserves may only be used upon the authorization of the funders.

8. Buildings, Equipment and Furnishings

Buildings, equipment and furnishings at December 31, 2009 primarily represent administrative offices, computers and other equipment, as follows:

Buildings	$	1,009,945
Equipment and furnishings		220,824
		1,230,769
Less accumulated depreciation		(269,651)
	$	961,118

9. Rental Properties

Rental properties at December 31, 2009 are summarized as follows:

Rental properties	$	41,682,277
Less accumulated depreciation		(9,565,981)
	$	32,116,296

At December 31, 2009, the assessed values of the above properties based on Multnomah County property tax records totaled $88,460,002.

PCRI also has entered into equity gap financing agreements with the Portland Development Commission ("PDC") and other governmental 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 $10,515,757 at December 31, 2009. See additional discussion in note 12.

In the aforementioned 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, 2009, 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, 2009.

10. 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 that were 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 also has 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, 2009, PCRI's net reserves for governmental obligations totaled $7,049.

11. Long-Term Debt

The following obligations were outstanding at December 31, 2009. All notes are secured by property unless otherwise noted.

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]	$	6,145,291
U.S. Bank, 6.60%, due in monthly payments of $3,898 through March 2016		536,235
U.S. Bank, 3.0%, due in monthly payments of $750 through April of 2025 with a balloon payment for the outstanding balance as of April 2025		159,680
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		98,387
U.S. Bank, predevelopment loan, 4.0% due in quarterly payments of $2,500 interest only, and maturing in June of 2016, unsecured		250,000
	$	7,189,593

[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, 2009, 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]	$	236,190
Installment loans, 3.0%, due in monthly payments ranging from $40 to $1,271 through October 2034 [3]		408,238
	$	644,428

[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 12.

[3] During the year ended December 31, 2009, in addition to the minimum debt service obligations, an additional principal payment of $6,526 was paid to the lender, triggered by the generation of excess cash flow in a previous year.

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	$	283,355

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	$	789,385

Core Properties – Enterprise Community Loan Fund

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

PCRI II Portfolio:

City of Portland, 1.0%, due in monthly payments ranging from $1 to $271 through April 2046	$	1,009,282
City of Portland, 1.0%, payments due annually to the extent excess cash flows are generated, due in full April 2066 [4]		840,177
U.S. Bank, 5.0%, due in monthly payments of $1,315 through September 2022		149,227
U.S. Bank, 8.75%, due in monthly payments of $1,472 through September 2022		136,206
Chase, 3.58% to 8.00%, due in monthly payments ranging from $152 to $2,524 through March 2036		915,106
City of Portland (HUD §108 loan), 5.50%, due in monthly payments of $5,369 through August 2019		520,417
City of Portland (HUD §108 loan), 5.50%, due in monthly payments of $2,510 through August 2019		268,750
	$	3,839,165

[4] 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, 2009. The properties did not generate excess cash flow during the year ended December 31, 2009; therefore, no payments were required.

Park Terrace Community, LLC:

U.S. Bank, 3.85%, due in monthly payments of $3,696 through December 2021	$	676,146
City of Portland, 3.0%, due in monthly payments of $1,517 through December 2017		130,753
City of Portland, 0.0%, payments due annually to the extent excess cash flows are generated, due in full December 2032 [5]		1,579,660
	$	2,386,559

[5] The property did not generate excess cash flow during the year ended December 31, 2009; therefore, no payments were required.

Maya Angelou:

NOAH, 2.72%, due in monthly payments of $2,109 through April 2026	$	333,403
City of Portland, 1.0%, due in monthly payments of $525 through April 2046		191,992
City of Portland, 1.0%, payments due annually to the extent excess cash flows are generated, due in full April 2066 [4]		159,823
	$	685,218
	$	15,842,703

Aggregate maturities of note principal on all debt for the five years subsequent to December 31, 2009 and thereafter are as follows:

Years Ending December 31,	
2010	$ 657,120
2011	659,850
2012	688,379
2013	5,200,719
2014	291,553
Thereafter	8,345,082
	$ 15,842,703

12. Conditional Liabilities

Over its history and that of its preceding 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 $10,562,588 at December 31, 2009 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]	1,615,697
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
	10,562,588
Less amounts payable at December 31, 2009 [7]	(46,831)
	$ 10,515,757

[1] Commitment to share in excess cash flow terminates at the earlier of when payments made to PDC under the agreement total the 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 the 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 the 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 the amounts originally disbursed or October 2029.
[5] Commitment to share in excess cash flow terminates when payments made to PDC under the agreement total the amounts originally disbursed by PDC.
[6] Commitment to share in excess cash flow terminates when payments made to PDC under the agreement total the amounts originally disbursed by PDC. Of the $1,615,697 received subject to an equity gap financing agreement, $217,863 was received in 2009.
[7] As of December 31, 2009, certain properties have generated cash flow in excess of the thresholds stated in the financing agreements, resulting in amounts payable to PDC totaling approximately $53,300, including $14,523 recorded in 2009. During 2009, $6,526 was paid to PDC and, upon the election of the funder, has been reflected as a reduction in the principal balance of long-term debt. See note 11. The net of these two figures ($7,997) has been reported on the accompanying consolidated statement of activities as a non-operating reduction of equity gap contributions received in 2009 for new project developments. 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.

13. Lease Commitments

The organization leases office equipment under non-cancelable operating leases that expires in f2014. As of December 31, 2009, future minimum lease payments will total $3,720 per year in 2010 through 2014.

Lease expense for the year ended December 31, 2009 totaled $3,329.

14. Restrictions and Limitations on Net Asset Balances

At December 31, 2009, temporarily restricted net assets are available for the following purposes and programs:

Thriving families	$	6,205
Unrestricted pledges		3,000
Other		1,220
	$	10,425

Limited Partner's Interest in Park Terrace Community, LLC

In 2006, PCRI adopted the requirements of FASB ASC No. 810-20-25. 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 $1,356,930 at December 31, 2009.

15. Net Assets Released from Restrictions

During the year ended December 31, 2009, 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	$	156,344
Homeownership Initiative		67,010
Thriving Families		44,511
Other programs		124,914
	$	392,779

16. Contingencies

Amounts received or receivable under PCRI's contracts with the City of Portland, 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 also has 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.

Continued

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.

17. 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.

18. 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.

19. Subsequent Event

In March of 2010, the organization, through a wholly owned and controlled subsidiary established in December of 2009, PCRI Target Homes #1 LLC, entered into a loan agreement with the City of Portland in the amount of $1,000,000 for the development of affordable residential housing. Upon receiving the financing, the organization also entered into a construction agreement for the same development totaling $767,887. PCRI Target Homes #1 LLC was not yet active during 2009.

20. 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	$ (99,533)
Adjustments to reconcile the decrease in net assets to net cash provided by operating activities:	
Depreciation	1,223,470
Amortization of capitalized loan fees	12,633
Grants and contributions restricted to the acquisition of capital assets	(217,863)
In-kind contribution of capital assets	(26,706)
Gain on sale of capital assets	(207,625)
Net changes in:	
Tenant rents receivable	3,109
Grants and contracts receivable	80,931
Other receivables	10,015
Prepaid expenses, deposits and other assets	(50,424)
Accounts payable and accrued expenses	204,326
Rents received in advance	(1,293)
Tenant security deposits	(14,743)
Reserves for property taxes and other governmental obligations	(9,182)
Total adjustments	1,006,648
Net cash provided by operating activities	$ 907,115

21. Reclassification of 2008 Comparative Totals

Certain 2008 balances presented herein have been reclassified to conform to the 2009 presentation.

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GOVERNING BOARD AND MANAGEMENT

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Ben Loftis
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Charles Funches
Homeownership Program Manager

Travis Phillips
Project Manager

Ron Young
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