



Gary McGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

**Portland Community
Reinvestment Initiatives, Inc.**

Consolidated Financial Statements and Other
Information as of and for the Year Ended December 31, 2010
and Report of Independent Accountants

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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, 2010, 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 10.5% and total revenues constituting 11.9% 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, 2009 and, in our report dated July 14, 2010, 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 2010 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, 2010, 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. LLP

May 20, 2011

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2010

(WITH COMPARATIVE AMOUNTS FOR 2009)

	2010	2009
Assets:		
Cash and cash equivalents	\$ 661,136	534,792
Tenant rents receivable (<i>note 4</i>)	38,206	38,849
Grants and contracts receivable (<i>note 5</i>)	236,387	42,636
Note receivable (<i>note 6</i>)	60,000	60,000
Other receivables	2,575	2,985
Prepaid expenses, deposits, and other assets	98,940	79,162
Properties held for sale (<i>notes 7 and 11</i>)	1,082,294	-
Restricted deposits and funded reserves (<i>note 8</i>)	858,429	989,040
Buildings, equipment, and furnishings (<i>note 9</i>)	920,031	961,118
Rental properties (<i>notes 10, 12, and 13</i>)	31,246,044	32,116,296
Total assets	\$ 35,204,042	34,824,878
Liabilities:		
Accounts payable and accrued expenses	594,316	562,048
Construction payable	168,366	-
Rents and fees received in advance	16,319	13,391
Tenant security deposits	229,839	215,552
Reserves for property taxes and other governmental obligations	-	7,049
Construction loan payable (<i>note 11</i>)	1,041,343	-
Long-term debt (<i>note 12</i>)	15,105,883	15,842,703
Conditional liabilities (<i>note 13</i>)		
Total liabilities	17,156,066	16,640,743
Net assets:		
Unrestricted:		
Available for general operations and programs	(63,826)	16,421
Restricted deposits and funded reserves	522,600	631,390
Limited partner's interest in Park Terrace Community, LLC (<i>note 15</i>)	1,286,177	1,356,930
Net investment in capital assets	16,129,639	16,168,969
Total unrestricted	17,874,590	18,173,710
Temporarily restricted (<i>note 15</i>)	173,386	10,425
Total net assets	18,047,976	18,184,135
Other commitments and contingencies (<i>notes 14 and 17</i>)		
Total liabilities and net assets	\$ 35,204,042	34,824,878

See accompanying notes to consolidated financial statements.

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	2010			2009
	Unrestricted	Temporarily Restricted	Total	
Operating revenues, gains, and other support:				
Rent revenue	\$ 3,774,911	–	3,774,911	3,902,705
Private grants and contributions	1,928	178,800	180,728	83,394
Government grants	140,418	12,688	153,106	60,549
Property management fees	68,264	–	68,264	14,258
Gain on sale of property	152,617	–	152,617	207,625
Interest income	2,767	–	2,767	2,775
Other income	118,143	–	118,143	69,565
Total operating revenues and gains	4,259,048	191,488	4,450,536	4,340,871
Net assets released from restrictions to fund operations (<i>note 16</i>)	80,012	(80,012)	–	–
Total operating revenues, gains, and other support	4,339,060	111,476	4,450,536	4,340,871
Expenses (<i>note 18</i>):				
Program services:				
Property management	3,951,735	–	3,951,735	4,034,286
Housing development	105,290	–	105,290	47,964
Supportive programs	304,649	–	304,649	173,615
Total program services	4,361,674	–	4,361,674	4,255,865
Supporting services:				
Management and general	585,457	–	585,457	563,367
Fundraising	40,354	–	40,354	17,815
Total supporting services	625,811	–	625,811	581,182
Total expenses	4,987,485	–	4,987,485	4,837,047
Operating results	\$ (648,425)^[A]	111,476	(536,949)	(496,176)

^[A] Includes depreciation and amortization expenses of \$1,220,522.

Continued

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES, CONTINUED

YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	2010			2009
	Unrestricted	Temporarily Restricted	Total	
Non-operating activities:				
Equity gap contributions for capital projects (<i>note 13</i>)	\$ —	271,495	271,495	217,863
Capital contributions	—	129,295	129,295	160,071
In-kind donations of capital assets	—	—	—	26,706
Less excess cash flow obligations, net	—	—	—	(7,997)
Net assets released from restrictions for capital purposes (<i>note 16</i>)	349,305	(349,305)	—	—
Total non-operating activities	349,305	51,485	400,790	396,643
Increase (decrease) in net assets	(299,120)	162,961	(136,159)	(99,533)
Net assets at beginning of year	18,173,710	10,425	18,184,135	18,283,668
Net assets at end of year	\$ 17,874,590	173,386	18,047,976	18,184,135

See accompanying notes to consolidated financial statements.

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	2010	2009
Cash flows from operating activities:		
Cash received from tenants, contractors, and donors	\$ 4,287,538	4,344,781
Interest income received	2,767	2,775
Cash paid to employees and suppliers	(3,204,777)	(2,845,936)
Interest paid	(542,458)	(594,505)
Net cash provided by operating activities	543,070	907,115
Cash flows from investing activities:		
Capital expenditures	(1,278,235)	(549,750)
Proceeds received from the sale of capital assets	207,741	188,820
Net withdrawals from (deposits to) restricted cash reserves	130,611	(90,260)
Net cash used in investing activities	(939,883)	(451,190)
Cash flows from financing activities:		
Repayment of note principal	(736,820)	(663,693)
Proceeds received from the issuance of debt	1,041,343	-
Grants and contributions restricted for long-term capital investment	218,634	217,863
Net cash provided by (used in) financing activities	523,157	(445,830)
Net increase in cash and cash equivalents	126,344	10,095
Cash and cash equivalents at beginning of year	534,792	524,697
Cash and cash equivalents at end of year	\$ 661,136	534,792

Supplemental schedule of noncash investing and financing activities

Issuance of note receivable in connection with the sale of property	\$ -	60,000
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See accompanying notes to consolidated financial statements.

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	2010						
	Program services				Total	Housing development	
	Property management			Consolidation elimination entries			
	Core properties	Maya Angelou	Park Terrace, LLC	Consolidation elimination entries			
Payroll and related expenses	\$ 667,402	72,422	100,239	(33,800)	806,263	88,423	
Professional services	13,600	20,630	7,459	-	41,689	1,746	
Contract services	16,888	31,942	100,722	(44,600)	104,952	1,701	
Property maintenance	210,925	16,624	86,697	-	314,246	164	
Occupancy	293,839	43,518	102,176	-	439,533	527	
Office supplies	4,729	5,786	3,049	-	13,564	625	
Postage	1,308	-	-	-	1,308	173	
Telephone	8,123	3,634	4,007	-	15,764	885	
Printing	2,571	-	-	-	2,571	816	
Travel	17,504	-	-	-	17,504	537	
Equipment rental and repairs	26,915	-	-	-	26,915	3,557	
Insurance	123,701	8,931	13,007	-	145,639	305	
Interest	480,141	10,976	35,323	(6,000)	520,440	2,183	
Marketing and advertising	2,366	-	79	-	2,445	267	
Property taxes	143,746	-	-	-	143,746	-	
Property management	25,032	-	15,359	(4,400)	35,991	-	
Bank and loan charges	33,529	-	-	-	33,529	55	
Provision for doubtful collection of tenant receivables	58,197	-	3,262	-	61,459	-	
Other	12,148	4,333	2,208	-	18,689	1,720	
Total expenses before depreciation and amortization	2,142,664	218,796	473,587	(88,800)	2,746,247	103,684	
Depreciation and amortization expense	991,072	59,821	154,595	-	1,205,488	1,606	
Total expenses	\$ 3,133,736	278,617	628,182	(88,800)	3,951,735	105,290	

See accompanying notes to consolidated financial statements.

Supportive programs	Supporting services				Total	Total	2009
	Total	Management and general	Fund-raising	Total			
209,412	1,104,098	454,796	18,388	473,184	1,577,282	1,362,368	
4,135	47,570	57,010	363	57,373	104,943	89,658	
17,859	124,512	8,750	2,684	11,434	135,946	134,354	
388	314,798	843	34	877	315,675	398,570	
1,247	441,307	2,708	110	2,818	444,125	406,623	
12,091	26,280	3,217	130	3,347	29,627	31,214	
578	2,059	891	36	927	2,986	5,751	
2,097	18,746	4,554	184	4,738	23,484	19,526	
3,131	6,518	1,752	70	1,822	8,340	6,768	
3,543	21,584	2,453	107	2,560	24,144	24,824	
8,529	39,001	18,297	740	19,037	58,038	43,704	
721	146,665	1,567	63	1,630	148,295	158,003	
5,169	527,792	11,226	454	11,680	539,472	592,707	
5,116	7,828	634	85	719	8,547	6,293	
–	143,746	–	–	–	143,746	171,940	
–	35,991	–	–	–	35,991	31,471	
131	33,715	284	12	296	34,011	25,639	
–	61,459	–	–	–	61,459	8,869	
25,879	46,288	8,278	16,286	24,564	70,852	82,662	
300,026	3,149,957	577,260	39,746	617,006	3,766,963	3,600,944	
4,623	1,211,717	8,197	608	8,805	1,220,522	1,236,103	
304,649	4,361,674	585,457	40,354	625,811	4,987,485	4,837,047	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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, 2010, 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 specific services to residents. These services are mission and vision driven, and have been designed to move residents from surviving to thriving.

- *Homeownership Initiative* – A comprehensive program that includes intake and assessment, assistance with credit repair, individual counseling, monthly homebuyer club meetings, down payment or closing cost assistance, and HUD Certified homebuyer education. During the past year, 125 families participated in the program with 12 of those families purchasing their first home.
- *Homeownership Retention* – A program that provides an array of services to help families maintain homeownership and their equity position. Services are centered around the specific needs of a particular client and can include such things as loss mitigation, tax deferral, home repairs, and weatherization.
- *Individual Development Accounts (IDA)* – In partnership with CASA of Oregon, residents can participate in a 3 to 1 matched savings program designed to help families develop the habit of saving. Savings goals can be in one of four areas that include: homeownership, home repair, small business development or continuing education.
- *Small Business Development* - A comprehensive program designed to help residents start and maintain a small business.
- *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* – A program that 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 summer arts camp, youth fair, paid summer internships, homework assistance 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.

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.

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*. PCRI Target Homes #1, LLC is also fully consolidated in the accompanying financial statements.

All significant intercompany investments, accounts, and transactions between PCRI, PCRI Target Homes #1, LLC, 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. During the year ended December 31, 2010, revenues from these projects totaled \$37,035, including \$29,535 in resident service fees and \$7,500 in oversight fees.

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. Other 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 other in-kind contributions were recorded during the year ended December 31, 2010.

Properties Held for Sale – Properties held for sale are carried at the lower of cost or fair value.

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 5 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, Plant 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, 2010.

Revenue Recognition – All grants and contributions 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 relate. 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.

Advertising Expenses – Advertising costs are charged to expense as they are incurred. For the year ended December 31, 2010, advertising expenses totaled approximately \$8,547.

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. PCRI Target Homes #1, LLC is a disregarded entity for tax purposes. 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. For tax purposes, PCRI's open audit periods are for the years ended December 31, 2007 through 2009.

PCRI has adopted the recognition requirements for uncertain income tax positions as required by FASB ASC No. 740-10 (formerly known as FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). Under this standard, income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities.

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”).

All interest bearing checking and savings accounts, money market deposit accounts, and certificates of deposit are insured by the FDIC for up to \$250,000 per depositor, per insured bank, for each account ownership category. In addition, Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act provides depositors with temporary unlimited coverage for noninterest-bearing transaction accounts. This unlimited protection became effective on December 31, 2010 and terminates on December 31, 2012.

Certain receivables may also, from time to time, subject the Center to concentrations of credit risk. To minimize its exposure to significant losses from customer or donor insolvencies, management evaluates the financial condition of its customers and donors, and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics. When necessary, receivables are reported net of an allowance for uncollectible accounts.

Measure of Operations – The organization includes in its measure of operations all revenues 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 under equity gap financing arrangements.

Subsequent Events – As required by FASB ASC No. 855, *Subsequent Events*, subsequent events have been evaluated by management through May 20, 2011, which is the date the financial statements were available to be issued.

Summarized Financial Information for 2009 – The accompanying financial information as of and for the year ended December 31, 2009 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, 2010, tenant rents receivable is summarized as follows:

Tenant rents receivable	\$	126,057
Less allowance for doubtful accounts		(87,851)
	\$	38,206

5. Grants and Contracts Receivable

At December 31, 2010, grants and contracts receivable totaling \$ 236,387 are expected to be collected in less than one year and are summarized as follows:

Equity gap contributions ¹	\$	145,162
Other government grants		66,225
Foundation grants		25,000
		<hr/>
	\$	236,387

¹ PCRI has entered into equity gap financing agreements with the Portland Development Commission ("PDC") and other governmental agencies for various rental properties (see notes 10 and 13 for further discussion of these agreements). During the year ended December 31, 2010, PCRI obtained additional financing from the City of Portland in the form of equity gap contributions in an amount not to exceed \$707,506 for the rehabilitation of specific rental properties. As of December 31, 2010, PCRI had drawn down \$271,495 of these funds, with \$145,162 of this amount due and outstanding at December 31, 2010.

6. Note Receivable

At December 31, 2010, 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. Properties Held for Sale

During the year ended December 31, 2010, PCRI's efforts to provide affordable ownership opportunities to the community resulted in the development of four new homes. Construction of the homes was completed in 2010 and the homes were available for sale at December 31, 2010 to buyers earning 80% or less of area median income. Subsequent to December 31, 2010, PCRI, through PCRI Target Homes #1, LLC, sold one of the four homes for \$230,000. In connection with the sale, \$229,150 was used to repay a loan from the City of Portland and \$45,850 of long-term debt was converted to a grant (see note 11).

At December 31, 2010, PCRI also held two other homes (former rental properties) for sale. Both were sold subsequent to December 31, 2010.

Properties held for sale totaled \$1,082,294 at December 31, 2010.

8. 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 \$858,429. Certain reserves may only be used upon the authorization of the funders.

9. Buildings, Equipment, and Furnishings

Buildings, equipment, and furnishings at December 31, 2010 primarily represent administrative offices, computers, and other equipment, as follows:

Buildings	\$	1,009,945
Equipment and furnishings		229,593
		<hr/>
		1,239,538
Less accumulated depreciation		(319,507)
		<hr/>
	\$	920,031

10. Rental Properties

Rental properties at December 31, 2010 are summarized as follows:

Rental properties	\$ 41,871,351
Less accumulated depreciation	(10,625,307)
	<hr/>
	\$ 31,246,044

At December 31, 2010, the assessed values of the above properties based on Multnomah County property tax records totaled approximately \$83,000,000.

PCRI also has entered into equity gap financing agreements with the Portland Development Commission ("PDC") and other governmental agencies for various rental properties. (The PDC agreements were subsequently assigned to, and assumed by, the Portland Housing Bureau). 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 \$10,787,251 at December 31, 2010. See additional discussion in note 13.

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, 2010, 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, 2010.

11. Construction Loan Payable

During the year ended December 31, 2010, PCRI (through PCRI Target Homes #1, LLC) obtained financing from the City of Portland in an amount not to exceed \$1,100,000 for the rehabilitation and development of four units of single family housing to be held for sale (see note 7). \$1,041,343 had been drawn as of December 31, 2010 for this purpose. As each property is sold, a portion of the sales proceeds received will be used to repay a total of \$800,000 of the funds borrowed, with the remaining balance (\$241,343 at December 31, 2010) converted into a grant, assuming the sale is to a qualified buyer. Any loan amounts not repaid with the sales proceeds or not converted to a grant (e.g., if the home is sold to an unqualified buyer) as of August 31, 2011 (with an options to extend up to six months) will convert to a permanent loan accruing interest at 3.0%, with monthly payments of principal and interest determined by the lender and maturing in August of 2041. Also see note 7 for a discussion of loan activity subsequent to December 31, 2010 and prior to the issuance of the financial statements.

12. Long-Term Debt

The following obligations were outstanding at December 31, 2010. 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 of 2013 ¹	\$ 5,671,236
U.S. Bank, 6.60%, due in monthly payments of \$3,898 through March of 2016	525,027
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 of 2025	155,412
U.S. Bank, 7.0%, due in monthly payments of \$692 through April of 2025 with a balloon payment for the outstanding balance as of April of 2025	96,928
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
	\$ 6,698,603

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, 2010, 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 of 2025 ²	\$ 230,550
Installment loans, 3.0%, due in monthly payments ranging from \$40 to \$1,271 through January of 2034	386,546
	\$ 617,096

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 13.

Core Properties – Key Bank:

Key Bank, 4.55%, due in monthly payments of \$1,825 through February of 2022 with a balloon payment for the outstanding balance as of February of 2022	\$ 274,354
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Urban League Building:

Albina Community Bank, 8.14%, due in monthly payments of \$6,471 through June of 2016 with a balloon payment for the outstanding balance as of June of 2016	\$ 776,606
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Continued

PCRI II Portfolio:

City of Portland, 1.0%, due in monthly payments ranging from \$1 to \$271 through April of 2046	\$ 986,124
City of Portland, 1.0%, payments due annually to the extent excess cash flows are generated, due in full April of 2066 ³	840,177
U.S. Bank, 5.0%, due in monthly payments of \$1,315 through September of 2022	140,830
U.S. Bank, 8.75%, due in monthly payments of \$1,472 through September of 2022	130,415
Chase, 3.58% to 8.00%, due in monthly payments ranging from \$152 to \$2,524 through March of 2036	886,558
City of Portland (HUD §108 loan), 5.50%, due in monthly payments of \$5,369 through August of 2019	485,416
City of Portland (HUD §108 loan), 5.50%, due in monthly payments of \$2,510 through August of 2019	251,667
	\$ 3,721,187

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, 2010. The properties did not generate excess cash flow during the year ended December 31, 2010; therefore, no payments were required.

Maya Angelou:

NOAH, 2.72%, due in monthly payments of \$2,109 through April of 2026	\$ 316,964
City of Portland, 1.0%, due in monthly payments of \$525 through April of 2046	187,799
City of Portland, 1.0%, payments due annually to the extent excess cash flows are generated, due in full April of 2066 ⁴	159,823
	\$ 664,586

Park Terrace Community, LLC:

U.S. Bank, 3.85%, due in monthly payments of \$3,696 through December of 2021	\$ 657,523
City of Portland, 3.0%, due in monthly payments of \$1,517 through December of 2017	116,268
City of Portland, 0.0%, payments due annually to the extent excess cash flows are generated, due in full December of 2032 ⁴	1,579,660
	\$ 2,353,451

⁴ The property did not generate excess cash flow during the year ended December 31, 2010; therefore, no payments were required.

Total long-term debt	\$ 15,105,883
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Aggregate maturities of note principal on all debt for the five years subsequent to December 31, 2010 and thereafter are as follows:

<i>Years Ending December 31,</i>	
2011	\$ 659,845
2012	689,173
2013	5,120,887
2014	296,112
2015	313,077
Thereafter	8,026,789
	<hr/>
	\$ 15,105,883

13. 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 \$10,834,082 at December 31, 2010 if future performance or other actions of PCRI trigger these liability provisions, as follows:

<i>Projects, Agreement Date</i>	
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 ⁵	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
Woolsey & Drummond, October 2010 ⁶	99,220
Alberta & Mason, October 2010 ⁷	172,275
OHCS	494,649
Multnomah County	224,568
Innovative Housing	35,154
	<hr/>
	10,834,083
Less amounts payable at December 31, 2010 ⁸	(46,831)
	<hr/>
	\$ 10,787,252

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 of 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 of 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 of 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 of 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 \$99,220 received subject to an equity gap financing agreement during 2010, \$16,975 was received as a development fee.

⁷ 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 \$172,275 received subject to an equity gap financing agreement during 2010, \$34,510 was received as a development fee.

⁸ As of December 31, 2010, 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. During 2009, \$6,526 was paid to PDC and, upon the election of the funder, was reflected as a reduction in the principal balance of long-term debt. 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.

During the year ended December 31, 2010, the Woolsey & Drummond and Alberta & Mason projects were undertaken (with \$271,495 in total new equity gap financing received).

14. Lease Commitments

The organization leases office equipment under non-cancelable operating leases that expire in 2014. As of December 31, 2010, future minimum lease payments will total \$4,196 per year in 2011 through 2014.

Lease expense for the year ended December 31, 2010 totaled \$4,338.

15. Restrictions and Limitations on Net Asset Balances

At December 31, 2010, temporarily restricted net assets are available for the following purposes and programs:

Homeownership	\$	104,587
Healthy foods access		49,360
E-Newsletter		15,000
Other		4,439
		<hr/>
	\$	173,386

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 \$1,286,177 at December 31, 2010.

16. Net Assets Released from Restrictions

During the year ended December 31, 2010, 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:		
Development	\$	51,485
Homeownership		10,601
Thriving Families		6,205
Youth internship		5,861
Other programs		5,860
		<hr/>
		80,012
For capital purposes		349,305
		<hr/>
	\$	429,317

17. 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 "Apartments") 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 Apartments 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.

18. 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.

19. 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.

20. Reclassification of 2009 Comparative Totals

Certain 2009 balances presented herein have been reclassified to conform to the 2010 presentation.

21. 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	\$ (136,159)
<hr/>	
<i>Adjustments to reconcile the decrease in net assets to net cash provided by operating activities:</i>	
Depreciation	1,207,416
Amortization of capitalized loan fees	13,106
Grants and contributions restricted to the acquisition of capital assets	(218,634)
Gain on sale of capital assets	(152,617)
<i>Net changes in:</i>	
Tenant rents receivable	643
Grants and contracts receivable	(193,751)
Other receivables	410
Prepaid expenses, deposits, and other assets	(19,778)
Accounts payable and accrued expenses (including \$2,986 in changes in accrued interest payable)	32,268
Rents and fees received in advance	2,928
Tenant security deposits	14,287
Reserves for property taxes and other governmental obligations	(7,049)
<hr/>	
Total adjustments	679,229
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Net cash provided by operating activities	\$ 543,070
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GOVERNING BOARD AND MANAGEMENT

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PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

INQUIRIES AND OTHER INFORMATION

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