



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, 2012
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 financial statements of Portland Community Reinvestment Initiatives, Inc., which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 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, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Summarized Comparative Information

We have previously audited Portland Community Reinvestment Initiatives, Inc.'s 2011 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 17, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

A handwritten signature in black ink that reads "Amy C. Co. LLP". The signature is written in a cursive, flowing style.

May 24, 2013

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2012

(WITH COMPARATIVE AMOUNTS FOR 2011)

	2012	2011
Assets:		
Cash and cash equivalents	\$ 588,566	595,382
Tenant rents receivable (<i>note 4</i>)	32,857	19,293
Grants and contracts receivable (<i>note 5</i>)	171,088	60,902
Note receivable (<i>note 6</i>)	60,000	60,000
Other receivables	9,050	41,220
Prepaid expenses, deposits, and other assets	81,427	125,267
Properties held for sale (<i>notes 7 and 11</i>)	24,108	269,685
Restricted deposits and funded reserves (<i>note 8</i>)	867,117	870,915
Buildings, equipment, and furnishings (<i>note 9</i>)	901,437	908,589
Rental properties (<i>notes 10, 12, and 13</i>)	30,533,516	30,741,039
Total assets	\$ 33,269,166	33,692,292
Liabilities:		
Accounts payable and accrued expenses	482,086	439,314
Construction payable	77,124	8,454
Rents and fees received in advance	15,273	27,578
Tenant security deposits	261,324	250,777
Construction loan payable (<i>note 11</i>)	-	270,000
Long-term debt (<i>note 12</i>)	13,685,533	14,440,084
Conditional liabilities (<i>note 13</i>)		
Total liabilities	14,521,340	15,436,207
Net assets:		
Unrestricted:		
Available for general operations and programs	52,935	74,544
Restricted deposits and funded reserves	469,530	502,579
Limited partner's interest in Park Terrace Community, LLC (<i>note 15</i>)	1,138,301	1,204,066
Net investment in capital assets	17,003,228	16,354,892
Total unrestricted	18,663,994	18,136,081
Temporarily restricted (<i>note 15</i>)	83,832	120,004
Total net assets	18,747,826	18,256,085
Other commitments and contingencies (<i>notes 14 and 17</i>)		
Total liabilities and net assets	\$ 33,269,166	33,692,292

See accompanying notes to consolidated financial statements.

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012			2011
	Unrestricted	Temporarily Restricted	Total	
Operating revenues, gains, and other support:				
Rent revenue	\$ 4,182,897	–	4,182,897	3,951,905
Private grants and contributions	12,636	55,769	68,405	33,559
Government grants and contracts	288,599	50,275	338,874	498,333
Special events, net of direct costs of \$48,997 in 2012	26,571	–	26,571	–
Property management fees	95,389	–	95,389	79,982
Gain on sale of capital assets	141,121	–	141,121	239,411
Interest income	658	–	658	1,514
Other income	118,059	–	118,059	103,742
Total operating revenues and gains	4,865,930	106,044	4,971,974	4,908,446
Net assets released from restrictions to fund operations (<i>note 16</i>)	199,962	(199,962)	–	–
Total operating revenues, gains, and other support	5,065,892	(93,918)	4,971,974	4,908,446
Expenses (<i>note 18</i>):				
Program services:				
Property management	3,860,498	–	3,860,498	4,084,519
Housing development	163,006	–	163,006	114,518
Supportive programs	442,488	–	442,488	505,136
Total program services	4,465,992	–	4,465,992	4,704,173
Supporting services:				
Management and general	683,316	–	683,316	624,347
Fundraising	46,097	–	46,097	35,324
Total supporting services	729,413	–	729,413	659,671
Total expenses	5,195,405	–	5,195,405	5,363,844
Operating results	\$ (129,513)^[A]	(93,918)	(223,431)	(455,398)

^[A] Includes depreciation and amortization expenses of \$1,264,627.

Continued

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES, CONTINUED

YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012			2011
	Unrestricted	Temporarily Restricted	Total	
Non-operating activities:				
Equity gap contributions for capital projects (<i>note 13</i>)	\$ —	490,647	490,647	425,948
Forgiveness of debt (<i>note 11</i>)	61,810	—	61,810	172,867
Government capital grants	—	146,561	146,561	67,061
Private capital contributions	—	16,154	16,154	28,431
Net assets released from restrictions for capital purposes (<i>note 16</i>)	595,616	(595,616)	—	—
Total non-operating activities	657,426	57,746	715,172	694,307
Increase (decrease) in net assets	527,913	(36,172)	491,741	238,909
Net assets at beginning of year, as restated (<i>note 20</i>)	18,136,081	120,004	18,256,085	18,017,176
Net assets at end of year	\$ 18,663,994	83,832	18,747,826	18,256,085

See accompanying notes to consolidated financial statements.

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	Property management			Program services	Total
	Core properties	Maya Angelou	Park Terrace, LLC	Consolidation elimination entries	
Payroll and related expenses	\$ 545,962	72,770	115,019	(35,152)	698,599
Professional services	22,073	18,218	9,002	—	49,293
Contract services	34,978	28,701	104,010	(46,384)	121,305
Property maintenance	213,030	—	69,086	—	282,116
Subcontract awards	—	—	—	—	—
Occupancy	326,896	50,141	96,152	—	473,189
Office supplies	5,058	3,400	2,841	—	11,299
Postage	2,138	—	—	—	2,138
Telephone	7,671	3,835	4,233	—	15,739
Printing	3,864	—	—	—	3,864
Travel	21,201	—	—	—	21,201
Equipment rental and repairs	24,310	3,967	—	—	28,277
Financial assistance	—	—	—	—	—
Insurance	118,080	8,074	12,166	—	138,320
Interest	408,440	8,369	33,053	(6,000)	443,862
Marketing and advertising	3,598	—	59	—	3,657
Property taxes	227,283	260	—	—	227,543
Property management	27,052	—	29,925	(25,525)	31,452
Bank and loan charges	33,807	—	—	—	33,807
Provision for doubtful collection of tenant receivables	8,712	—	6,203	—	14,915
Other	(7,186)	9,938	7,748	—	10,500
Total expenses before depreciation and amortization	2,026,967	207,673	489,497	(113,061)	2,611,076
Depreciation and amortization expense	1,034,148	60,422	154,852	—	1,249,422
Total expenses	\$ 3,061,115	268,095	644,349	(113,061)	3,860,498

See accompanying notes to consolidated financial statements.

2012

Housing development	Supportive programs	Total	Supporting services		Total	Total	2011
			Management and general	Fund-raising			
133,237	244,977	1,076,813	508,466	33,483	541,949	1,618,762	1,652,847
5,066	21,455	75,814	74,751	1,273	76,024	151,838	96,942
4,214	10,748	136,267	16,084	1,059	17,143	153,410	241,837
577	509	283,202	1,057	70	1,127	284,329	290,673
–	57,259	57,259	–	–	–	57,259	89,320
861	1,584	475,634	3,287	216	3,503	479,137	480,465
1,234	6,335	18,868	4,711	338	5,049	23,917	30,466
349	663	3,150	1,031	68	1,099	4,249	4,395
1,409	2,591	19,739	5,377	354	5,731	25,470	24,112
943	3,937	8,744	3,598	293	3,891	12,635	7,294
2,862	4,090	28,153	1,339	1,313	2,652	30,805	26,892
7,113	11,232	46,622	22,640	1,491	24,131	70,753	84,273
–	24,974	24,974	–	–	–	24,974	2,905
401	737	139,458	1,530	101	1,631	141,089	148,046
1,982	3,645	449,489	7,565	498	8,063	457,552	512,903
–	3,335	6,992	–	16	16	7,008	17,772
–	–	227,543	–	–	–	227,543	175,779
–	–	31,452	–	–	–	31,452	28,237
65	119	33,991	247	17	264	34,255	59,789
–	–	14,915	–	–	–	14,915	56,150
836	39,258	50,594	23,850	4,982	28,832	79,426	87,328
161,149	437,448	3,209,673	675,533	45,572	721,105	3,930,778	4,118,425
1,857	5,040	1,256,319	7,783	525	8,308	1,264,627	1,245,419
163,006	442,488	4,465,992	683,316	46,097	729,413	5,195,405	5,363,844

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012	2011
Cash flows from operating activities:		
Cash received from tenants, contractors, and donors	\$ 4,909,978	4,732,874
Interest income received	658	1,514
Cash paid to employees and suppliers	(3,431,191)	(3,798,219)
Interest paid	(451,423)	(511,397)
Net cash provided by operating activities	1,028,022	424,772
Cash flows from investing activities:		
Capital expenditures	(1,017,196)	(904,605)
Proceeds received from the sale of capital assets	141,225	445,428
Net withdrawals from (deposits to) restricted cash reserves	3,798	(12,486)
Net cash used in investing activities	(872,173)	(471,663)
Cash flows from financing activities:		
Repayment of note principal	(681,354)	(665,799)
Proceeds received from the issuance of debt	-	38,657
Grants and contributions restricted for capital investment	518,689	608,279
Net cash used in financing activities	(162,665)	(18,863)
Net decrease in cash and cash equivalents	(6,816)	(65,754)
Cash and cash equivalents at beginning of year	595,382	661,136
Cash and cash equivalents at end of year	\$ 588,566	595,382

Supplemental schedule of non-cash investing and financing activities:

Retirement of debt upon sale of properties	\$ 281,387	637,133
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See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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’s 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, 2012, 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, 126 families participated in the program with 15 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 things such 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.
- *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.
- *Healthy Foods Access Initiative* – The Healthy Foods Access Initiative was implemented for the purposes of identifying barriers PCRI residents experience in accessing healthy foods and to develop a strategic plan to address those barriers. In Phase I, a survey was completed by more than 300 residents addressing the issue of healthy foods access. Based on results of this survey, Phase II explores two areas, to include: 1) Community Gardens as a vehicle for providing fresh fruits and vegetables; and 2) solution-driven advocacy opportunities for PCRI residents.
- *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 a summer arts camp, youth fair, paid summer internships, homework assistance, and tutoring.

The Programs Department has been very successful in helping 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, 2012, revenues from these projects totaled \$44,000, including \$32,000 in resident service fees and \$12,000 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. In the opinion of management, such differences, if any, would not be significant.

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 – A number of unpaid volunteers have made significant contributions of their time to develop and implement the organization's programs. In accordance with FASB ASC No. 958-605, significant services received which create or enhance a nonfinancial asset or require specialized skills that the organization would have purchased if not donated are recognized in the consolidated statement of activities. During the year ended December 31, 2012, \$2,962 of contributed advertising services were recorded.

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 the organization's activities. During the year ended December 31, 2012, \$12,050 of contributed materials were recorded.

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, 2012.

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, 2012, advertising expenses totaled approximately \$7,008.

Income Taxes – PCRI is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (“IRC”) and comparable state law. In addition, PCRI has been recognized as a public charity under IRC Sections 170(b)(1)(A)(vi) and 509(a)(1).

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, 2009 through 2011.

PCRI has adopted the recognition requirements for uncertain income tax positions as required by FASB ASC No. 740-10, *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.

PCRI has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. PCRI believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on PCRI's financial condition, results of operations, or cash flows. Accordingly, PCRI has not recorded any reserves or related accruals for interest and penalties for uncertain tax positions at December 31, 2012.

Concentrations of Credit Risk – The organization's financial instruments 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 terminated 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, the forgiveness of debt, 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 24, 2013, which is the date the financial statements were available to be issued.

Summarized Financial Information for 2011 – The accompanying financial information as of and for the year ended December 31, 2011 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, 2012, tenant rents receivable is summarized as follows:

Tenant rents receivable	\$	80,547
Less allowance for doubtful doubtful accounts		(47,690)
	\$	32,857

5. Grants and Contracts Receivable

At December 31, 2012, grants and contracts receivable total \$171,088 and are expected to be collected in less than one year.

6. Note Receivable

At December 31, 2012, 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 of 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 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 the area's median income. During the year ended December 31, 2011, through PCRI Target Homes #1, LLC, three of the homes were sold to income-qualified buyers. In connection with the sale, \$637,133 was used to repay a loan from the City of Portland and \$172,867 of the long-term debt was converted to a grant. During the year ended December 31, 2012 (also through PCRI Target Homes #1, LLC), the final of the four homes was sold. In connection with the sale, \$281,387 was used to repay a loan from the City of Portland and \$61,810 of long-term debt was converted to a grant (see note 11).

The book value of properties held for sale totaled \$24,108 at December 31, 2012, which consists of one former rental property. The property was sold subsequent to December 31, 2012.

8. Restricted Deposits and Funded Reserves

In accordance with the requirements of various agreements with its funders, PCRI maintains certain restricted cash reserves for the renewal and replacement of property, capital improvements, and etc., totaling \$867,117 at December 31, 2012. Generally, these reserves may only be used upon the authorization of the funders.

Annual deposits to restricted cash reserves are subject to the availability of sufficient annual cash flows.

9. Buildings, Equipment, and Furnishings

Buildings, equipment, and furnishings at December 31, 2012 primarily represent administrative offices, computers, and other equipment, as follows:

Buildings	\$ 1,011,290
Equipment and furnishings	294,194
	<hr/>
	1,305,484
Less accumulated depreciation	(404,047)
	<hr/>
	\$ 901,437

10. Rental Properties

Rental properties at December 31, 2012 are summarized as follows:

Rental properties	\$ 43,396,230
Less accumulated depreciation	(12,862,714)
	<hr/>
	\$ 30,533,516

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 \$11,750,678 at December 31, 2012. See additional discussion in note 13.

Among 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, 2012, 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, 2012.

11. Construction Loan Payable

In 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). As of December 31, 2012, \$1,080,000 had been drawn for this purpose. During the year ended December 31, 2011, three of the four properties were sold to qualified buyers. The fourth property was sold to a qualified buyer in 2012. As each property is sold, a portion of the sales proceeds received is used to repay a total of \$810,000 of the funds borrowed, with the remaining balance converted into a grant, assuming the sale is to a qualified buyer. During the year ended December 31, 2012, \$208,190 of the debt had been repaid and \$61,810 of debt had been forgiven.

12. Long-Term Debt

The following obligations were outstanding at December 31, 2012. All notes are secured by property unless otherwise noted.

Core Properties – U.S. Bank:

3.875%, due in monthly payments of \$53,745 through July of 2013, with a balloon payment for the outstanding balance as of August 1 of 2013 ¹ \$ 4,754,826

6.60%, due in monthly payments of \$3,898 through March of 2016 500,335

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 146,480

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 93,687

Predevelopment loan, 4.0% due in quarterly payments of \$2,500 interest only, and maturing in June of 2021, unsecured 250,000

\$ 5,745,328

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, 2012, 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. PCRI is currently negotiating the refinancing of this loan with another financial institution.

Core Properties – City of Portland:

Restructured loans, 3.0%, due in monthly payments of \$1,054 through December of 2025 ² \$ 218,751

Installment loans, 3.0%, due in monthly payments ranging from \$40 to \$1,271 through January of 2034 341,164

\$ 559,915

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:

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 \$ 254,995

Urban League Building:

Albina Community Bank, 4.25%, due in monthly payments of \$4,838 through June of 2016, with a balloon payment for the outstanding balance as of June of 2016 \$ 743,183

PCRI II Portfolio:

City of Portland, 1.0%, due in monthly payments ranging from \$1 to \$271 through April of 2046 \$ 954,898

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	122,722
U.S. Bank, 8.75%, due in monthly payments of \$1,472 through September of 2022	117,212
Chase, 3.58% to 8.00%, due in monthly payments ranging from \$152 to \$2,524 through March of 2036	820,894
City of Portland (HUD §108 loan), Variable rate, due in monthly payments of \$4,902 through August of 2019	406,250
City of Portland (HUD §108 loan), Variable rate, due in monthly payments of \$2,717 through August of 2019	211,666
	\$ 3,473,819

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, 2012. The properties did not generate excess cash flow during the year ended December 31, 2012; therefore, no payments were required.

Maya Angelou:

NOAH, 2.72%, due in monthly payments of \$2,109 through April of 2026	\$ 282,714
City of Portland, 1.0%, due in monthly payments of \$525 through April of 2046	182,075
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
	\$ 624,612

Park Terrace Community, LLC:

U.S. Bank, 3.85%, due in monthly payments of \$3,696 through December of 2021	\$ 618,058
City of Portland, 3.0%, due in monthly payments of \$1,517 through December of 2017	85,963
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
	\$ 2,283,681

⁴ The property did not generate excess cash flow during the year ended December 31, 2012; therefore, no payments were required.

Total long-term debt \$ 13,685,533

Aggregate maturities of note principal on all debt for the five years subsequent to December 31, 2012 and thereafter are as follows:

Years Ending December 31,

2013	\$ 5,044,150
2014	304,904
2015	321,839
2016	340,256
2017	360,566
Thereafter	7,313,818
	\$ 13,685,533

PCRI currently is negotiating with a financial institution the refinancing of their existing U.S. Bank loan of \$4,754,826, due in August of 2013.

13. Conditional Liabilities

Throughout its history and that of its preceding organizations, PCRI has received significant financing in the form of contributions from PDC and other governmental 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. The commitment to share in excess cash flow under the majority of agreements terminates when payments made to PDC under the agreement total the amounts originally disbursed by PDC. However, under certain agreements, the 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 on a specified date. Accordingly, PCRI is contingently liable for the repayment of the “equity gap” contributions received up to an amount not to exceed \$11,750,678 at December 31, 2012, if future performance or other actions of PCRI trigger these liability provisions, as follows:

Equity gap contributions received	\$ 11,750,678
Less amounts payable at December 31, 2012	(46,831)
	<hr/>
	\$ 11,703,847

Of the \$490,647 received subject to an equity gap financing agreement during 2012, \$57,746 was received as a development fee.

As of December 31, 2012, certain properties have generated cash flow in excess of the thresholds stated in the financing agreements, resulting in amounts payable to PDC totaling approximately \$46,831. 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.

14. Lease Commitments

The organization leases office equipment under non-cancelable operating leases that expire in 2014. As of December 31, 2012, future minimum lease payments will total \$4,196 each year in 2013 and 2014.

Lease expense for the year ended December 31, 2012 totaled \$4,307.

15. Restrictions and Limitations on Net Asset Balances

At December 31, 2012, temporarily restricted net assets are available for the following purposes and programs:

Healthy Foods Initiative	\$ 35,737
Homeownership	31,035
Black Women for Peace	11,063
Resident services	5,997
	<hr/>
	\$ 83,832

Limited Partner's Interest in Park Terrace Community, LLC

In 2006, PCRI adopted the requirements of FASB ASC No. 810-20-25, *Consolidation*. 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 \$1,138,301 at December 31, 2012.

16. Net Assets Released from Restrictions

During the year ended December 31, 2012, 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:	
Homeownership	\$ 69,741
Project development	57,746
Black Women for Peace	39,212
Special events	8,200
E-Newsletter	7,803
Resident services	5,984
Healthy foods access	4,263
Youth internship	3,000
Mortgage assistance	2,013
Summer HEAL camp	2,000
	199,962
For capital purposes	595,616
	\$ 795,578

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. Restatement of Net Assets at December 31, 2011

During the year ended December 31, 2012, management determined that the investor member of Park Terrace Community, LLC was entitled to annual management fees totaling \$35,200 for the years 2003 through 2010. As a result, the asset management fee payable to the investor member was understated, and Park Terrace Community, LLC's member's equity at December 31, 2011 was overstated by \$35,200. Accordingly, PCRI's net assets as of December 31, 2011 and 2010 have been restated for these corrections as follows:

Net assets at December 31, 2010, as previously reported	\$ 18,047,976
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<i>Adjustment:</i>	
To record a liability for asset management fees to be paid to the investor member of Park Terrace, LLC	(30,800)
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Net assets at December 31, 2010, as restated	18,017,176
Increase in net assets in 2011, as previously reported	243,309
<i>Adjustment:</i>	
To record a liability for asset management fees to be paid to the investor member of Park Terrace, LLC	(4,400)
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Net assets at December 31, 2011, as restated	\$ 18,256,085
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In addition to the above, certain 2011 amounts presented herein have been reclassified to conform to the 2012 presentation.

21. Statement of Cash Flows Reconciliation

The following presents a reconciliation of the increase 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):

Increase in net assets	\$ 491,741
<hr/>	
<i>Adjustments to reconcile the increase in net assets to net cash provided by operating activities:</i>	
Depreciation	1,252,445
Amortization of capitalized loan fees	12,182
Grants and contributions restricted to the acquisition of capital assets	(518,689)
Gain on sale of capital assets	(141,121)
Forgiveness of debt	(61,810)
<i>Net changes in:</i>	
Tenant rents receivable	(13,564)
Grants and contracts receivable	(110,186)
Other receivables	32,170
Prepaid expenses, deposits, and other assets	43,840
Accounts payable and accrued expenses (including \$(6,053) in changes in accrued interest payable)	42,772
Rents and fees received in advance	(12,305)
Tenant security deposits	10,547
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Total adjustments	536,281
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Net cash provided by operating activities	\$ 1,028,022
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PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

INQUIRIES AND OTHER INFORMATION

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