GaryMcGee & 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, 2013 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, 2013, 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, 2013, 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.

808 SW Third Avenue, Suite 700 Portland, Oregon 97204 p: 503 222 2515 f: 503 222 6401 www.garymcgee.com

Summarized Comparative Information

We have previously audited Portland Community Reinvestment Initiatives, Inc.'s 2012 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 24, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

May 29, 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2013

(WITH COMPARATIVE AMOUNTS FOR 2012)

	2013	2012
Assets:		
Cash and cash equivalents	$ 644,184	588,566
Tenant rents receivable *(note 4)*	30,007	32,857
Grants and contracts receivable *(note 5)*	143,828	171,088
Note receivable *(note 6)*	60,000	60,000
Other receivables	9,360	9,050
Prepaid expenses, deposits, and other assets	65,814	81,427
Properties held for sale	–	24,108
Restricted deposits and funded reserves *(note 7)*	2,281,858	867,117
Buildings, equipment, and furnishings *(note 8)*	884,815	901,437
Rental properties *(notes 9, 10, and 12)*	30,096,717	30,533,516
Total assets	$ 34,216,583	33,269,166
Liabilities:		
Accounts payable and accrued expenses	315,270	482,086
Construction payable	15,831	77,124
Rents and fees received in advance	28,469	15,273
Tenant security deposits	278,982	261,324
Long-term debt *(note 10)*	12,105,828	13,685,533
Conditional liabilities *(note 12)*		
Total liabilities	12,744,380	14,521,340
Net assets:		
Unrestricted:		
Available for general operations and programs	232,471	52,935
Restricted deposits and funded reserves	1,982,658	469,530
Limited partner's interest in Park Terrace Community, LLC *(note 13)*	1,048,464	1,138,301
Net investment in capital assets	18,137,580	17,003,228
Total unrestricted	21,401,173	18,663,994
Temporarily restricted *(note 13)*	71,030	83,832
Total net assets	21,472,203	18,747,826
Other commitments and contingencies *(note 15)*		
Total liabilities and net assets	$ 34,216,583	33,269,166

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013			
	Unrestricted	Temporarily Restricted	Total	2012
Operating revenues, gains, and other support:				
Rent revenue	$ 4,275,706	–	4,275,706	4,182,897
Private grants and contributions	1,794	34,293	36,087	68,405
Government grants and contracts	339,393	–	339,393	338,874
Special events, net of direct costs of $72,966 in 2013 and $48,997 in 2012	353	–	353	26,571
Property management fees	91,007	–	91,007	95,389
Gain on sale of capital assets	176,481	–	176,481	141,121
Interest income	2,089	–	2,089	658
Other income	157,457	–	157,457	118,059
Total operating revenues and gains	5,044,280	34,293	5,078,573	4,971,974
Net assets released from restrictions to fund operations *(note 14)*	62,722	(62,722)	–	–
Total operating revenues, gains, and other support	5,107,002	(28,429)	5,078,573	4,971,974
Expenses *(note 16)***:**				
Program services:				
Property management	4,016,278	–	4,016,278	3,860,498
Housing development	118,274	–	118,274	163,006
Supportive programs	513,462	–	513,462	442,488
Total program services	4,648,014	–	4,648,014	4,465,992
Supporting services:				
Management and general	678,053	–	678,053	683,316
Fundraising	49,676	–	49,676	46,097
Total supporting services	727,729	–	727,729	729,413
Total expenses	5,375,743	–	5,375,743	5,195,405
Operating results	$ (268,741)[A]	(28,429)	(297,170)	(223,431)

[A] Includes depreciation and amortization expenses of $1,312,092.

Continued

CONSOLIDATED STATEMENT OF ACTIVITIES, CONTINUED

YEAR ENDED DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013			
	Unrestricted	Temporarily Restricted	Total	2012
Non-operating activities:				
Equity gap contribution – debt restructure *(notes 11 and 12)*	$ 2,587,861	–	2,587,861	–
Equity gap contribution – current capital projects *(note 12)*	–	168,908	168,908	490,647
Government capital grants	–	16,305	16,305	146,561
Government grant – reimburse historical operating deficits	248,473	–	248,473	–
Forgiveness of debt	–	–	–	61,810
Private capital contributions	–	–	–	16,154
Net assets released from restrictions for capital purposes *(note 14)*	169,586	(169,586)	–	–
Total non-operating activities	3,005,920	15,627	3,021,547	715,172
Increase (decrease) in net assets	2,737,179	(12,802)	2,724,377	491,741
Net assets at beginning of year	18,663,994	83,832	18,747,826	18,256,085
Net assets at end of year	$ 21,401,173	71,030	21,472,203	18,747,826

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

		2013					
		Program services					
		Property management					
		Core properties	Maya Angelou	Park Terrace, LLC	Consoli-dation elimination entries	Total	Housing develop-ment
Payroll and related expenses	$	519,965	77,040	114,598	(35,152)	676,451	77,625
Professional services		29,260	18,756	9,880		57,896	4,238
Contract services		91,952	43,664	107,788	(50,249)	193,155	14,710
Property maintenance		223,167	–	86,926	–	310,093	653
Subcontract awards		–	–	–	–	–	–
Occupancy		334,663	53,816	99,814	–	488,293	1,362
Office supplies		8,726	4,262	2,823	–	15,811	1,348
Postage		1,998	–	–	–	1,998	196
Telephone		7,671	4,275	5,077	–	17,023	863
Printing		2,568	–	–	–	2,568	383
Travel		10,890	–	–	–	10,890	3,572
Equipment rental and repairs		606	3,367	–	–	3,973	52
Financial assistance		25	–	–	–	25	–
Insurance		111,833	8,434	14,450	–	134,717	1,140
Interest		397,110	7,428	31,826	(6,000)	430,364	2,416
Marketing and advertising		5,471	–	25	–	5,496	–
Property taxes		246,106	–	–	–	246,106	–
Property management		4,930	–	18,018	(13,618)	9,330	544
Bank and loan charges		36,762	–	–	–	36,762	877
Provision for doubtful collection of tenant receivables		76,822	–	7,153	–	83,975	–
Other		8,523	5,397	8,902	–	22,822	4,125
Total expenses before depreciation and amortization		2,119,048	226,439	507,280	(105,019)	2,747,748	114,104
Depreciation and amortization expense		1,050,821	60,604	157,105	–	1,268,530	4,170
Total expenses	$	3,169,869	287,043	664,385	(105,019)	4,016,278	118,274

See accompanying notes to consolidated financial statements.

Supportive programs	Total	Supporting services: Management and general	Fund-raising	Total	Total	2012
231,094	985,170	468,768	33,423	502,191	1,487,361	1,618,762
14,213	76,347	25,595	1,825	27,420	103,767	146,509
44,376	252,241	82,931	5,913	88,844	341,085	200,444
2,344	313,090	3,943	281	4,224	317,314	279,751
63,016	63,016	–	–	–	63,016	57,259
4,055	493,710	8,225	586	8,811	502,521	514,982
15,545	32,704	8,138	618	8,756	41,460	37,769
789	2,983	1,184	84	1,268	4,251	4,249
2,570	20,456	5,213	372	5,585	26,041	25,470
1,239	4,190	2,315	242	2,557	6,747	12,635
9,428	23,890	9,178	1,823	11,001	34,891	43,784
156	4,181	317	23	340	4,521	6,191
69,698	69,723	–	–	–	69,723	24,974
7,259	143,116	6,885	491	7,376	150,492	141,089
7,191	439,971	14,588	1,040	15,628	455,599	457,552
1,186	6,682	–	–	–	6,682	7,008
–	246,106	–	–	–	246,106	227,543
1,619	11,493	3,285	234	3,519	15,012	12,133
2,622	40,261	5,294	377	5,671	45,932	34,255
–	83,975	–	–	–	83,975	14,915
22,648	49,595	7,012	548	7,560	57,155	63,504
501,048	3,362,900	652,871	47,880	700,751	4,063,651	3,930,778
12,414	1,285,114	25,182	1,796	26,978	1,312,092	1,264,627
513,462	4,648,014	678,053	49,676	727,729	5,375,743	5,195,405

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

		2013	2012
Cash flows from operating activities:			
Cash received from tenants, contractors, and donors	$	5,245,543	4,909,978
Interest income received		2,089	658
Cash paid to employees and suppliers		(3,788,669)	(3,431,191)
Interest paid		(470,074)	(451,423)
Net cash provided by operating activities		988,889	1,028,022
Cash flows from investing activities:			
Capital expenditures		(919,964)	(1,017,196)
Proceeds received from the sale of capital assets		163,610	141,225
Net withdrawals from (deposits to) restricted cash reserves		(1,414,741)	3,798
Net cash used in investing activities		(2,171,095)	(872,173)
Cash flows from financing activities:			
Repayment of note principal		(4,992,384)	(681,354)
Proceeds received upon the issuance of debt		6,000,000	–
Grants and contributions restricted for capital investment		230,208	518,689
Net cash provided by (used in) financing activities		1,237,824	(162,665)
Net increase (decrease) in cash and cash equivalents		55,618	(6,816)
Cash and cash equivalents at beginning of year		588,566	595,382
Cash and cash equivalents at end of year	$	644,184	588,566

Supplemental schedule of non-cash investing and financing activities:			
Retirement of debt upon sale of properties	$	36,979	281,387

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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, 2013, 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. Over the course of our 20-year history, PCRI has stabilized thousands of families by providing them with affordable rental housing and asset building programs and services.

- *Homebuyer Education and Counseling* – This program provides homebuyer counseling and education to low to moderate-income, first-time homebuyers. Our comprehensive program includes individual counseling, financial education, peer homebuyer club meetings, down payment or closing cost assistance, and HUD-certified homebuyer education. Services are delivered in both one-on-one and group settings.

- *Homeownership Retention* – This program provides an array of services to help low to moderate-income homeowners aged 55 and over maintain homeownership. Services include post-purchase counseling, loss mitigation counseling, information and referrals, financial education, tax-deferment assistance, and urgent home repairs. We also offer a wide array of classes and workshop on topics such as preventative maintenance, elder fraud, and estate planning.

- *Financial Education* – This program is designed to help participants manage their personal finances effectively and make wise financial decisions. Our program assists clients with establishing personal budgets, evaluating debt loads, setting financial goals, and developing a plan of action. Services are delivered in both one-on-one and group settings.

- *Individual Development Accounts (IDA)* – In partnership with CASA of Oregon, PCRI 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: homeownership, home repair, small business development or education.

- *Career Development* – Our career development program provides assistance with job searching, resume writing, and interview preparation. We offer classes and workshops in English language learning, basic computer skills, financial education, and soft skills for the workplace. We also offer some transportation assistance and childcare during interviews. Services are delivered in both one-on-one and group settings.

- *Youth Development* – Our youth program offers educational and arts enrichment activities to K-12 youth. Activities include after-school tutoring, summer arts and health camps, community gardening and nutrition classes, youth financial education workshops, summer internships, and many other supplemental activities for youth and families.

- *Healthy Foods Access Initiative* – Our Healthy Foods Access Initiative provides PCRI residents with access to community gardens. We offer fresh produce and bulk dry goods through our food pantry, classes and workshops in gardening and nutrition education, and collaborate with community partners on service learning projects to benefit the wider community.

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 among 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, 2013, revenues from these projects totaled $53,240, including $44,240 in resident service fees and $9,000 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, 2013, no donations of 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, 2013, no donations of equipment or other 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, 2013.

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, 2013, advertising expenses totaled approximately $6,682.

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, 2010 through 2012.

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, 2013.

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

All checking and savings accounts, money market deposit accounts, and certificates of deposit are insured by the FDIC for up to $250,000 for each depositor, for each insured bank, for each account ownership category. At December 31, 2013, uninsured cash balances, including restricted deposits and funded reserves, totaled $1,840,731.

Certain receivables may also, from time to time, subject the organization to concentrations of credit risk. To minimize its exposure to significant losses from customer or donor insolvencies, the organization's 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 29, 2014 which is the date the financial statements were available to be issued.

Summarized Financial Information for 2012 – The accompanying financial information as of and for the year ended December 31, 2012 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, 2013, tenant rents receivable is summarized as follows:

Tenant rents receivable	$	155,009
Less allowance for doubtful doubtful accounts		(125,002)
	$	30,007

5. Grants and Contracts Receivable

At December 31, 2013, grants and contracts receivable total $143,828 and are expected to be collected in less than one year.

6. Note Receivable

At December 31, 2013, 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. 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 $2,281,858 at December 31, 2013. 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.

8. Buildings, Equipment, and Furnishings

Buildings, equipment, and furnishings at December 31, 2013 primarily represent administrative offices, computers, and other equipment, as follows:

Buildings	$ 1,011,290
Equipment and furnishings	325,475
	1,336,765
Less accumulated depreciation	(451,950)
	$ 884,815

9. Rental Properties

Rental properties at December 31, 2013 are summarized as follows:

Rental properties	$ 44,303,159
Less accumulated depreciation	(14,206,442)
	$ 30,096,717

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 $14,460,776 at December 31, 2013. See additional discussion in note 12.

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, 2013, 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, 2013.

10. Long-Term Debt

The following obligations were outstanding at December 31, 2013. All notes are secured by property unless otherwise noted.

Core Properties – Capital Pacific:

5.125%, due in monthly payments of $32,946 through July of 2028, interest rate is subject to change every five years at 3.25% over the index and a 4.5% floor, with a balloon payment for the outstanding balance as of July 31, 2028	$ 5,965,666

Core Properties – U.S. Bank:

6.60%, due in monthly payments of $3,898 through March of 2016	$ 486,655
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	141,795
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	91,890
Predevelopment loan, 4.0% due in quarterly payments of $2,500 interest only, and maturing in June of 2021, unsecured	250,000
	$ 970,340

Core Properties – City of Portland:

Restructured loans, 3.0%, due in monthly payments of $1,054 through December of 2025 [1]	$ 212,581
Installment loans, 3.0%, due in monthly payments ranging from $40 to $1,271 through January of 2034	317,431
	$ 530,012

[1] During the year ended December 31, 2006, twenty properties were refinanced through a note issued by PDC to provide funds for property renovation. A key element of the refinancing was the conversion of previously issued debt in the amount of $937,853 to a contingent liability financing agreement, resulting in a net recovery to the organization's net assets. The note is secured by trust deeds on the renovated properties. See additional discussion of conditional liabilities in note 12.

Continued

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	$ 244,656

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	$ 716,546

PCRI II Portfolio:	
U.S. Bank, 5.0%, due in monthly payments of $1,315 through September of 2022	112,951
U.S. Bank, 8.75%, due in monthly payments of $1,472 through September of 2022	109,669
Chase, 3.98%, due in monthly payments of $2,524 through May of 2021	389,634
City of Portland (HUD §108 loan), Variable rate, due in monthly payments of $4,902 through August of 2019	362,871
City of Portland (HUD §108 loan), Variable rate, due in monthly payments of $2,717 through August of 2019	191,667
	$ 1,166,792

Maya Angelou:	
NOAH, 2.72%, due in monthly payments of $2,109 through April of 2026	$ 264,879

Park Terrace Community, LLC:	
U.S. Bank, 3.85%, due in monthly payments of $3,696 through December of 2021	$ 597,161
City of Portland, 3.0%, due in monthly payments of $1,517 through December of 2017	70,116
City of Portland, 0.0%, payments due annually to the extent excess cash flows are generated, due in full December of 2032 [2]	1,579,660
	$ 2,246,937

[2] The property did not generate excess cash flow during the year ended December 31, 2013; therefore, no payments were required.

Total long-term debt	$ 12,105,828

Aggregate maturities of note principal on all debt for the five years subsequent to December 31, 2013 and thereafter are as follows:

Years Ending December 31,	
2014	$ 341,072
2015	360,731
2016	1,010,432
2017	356,787
2018	366,935
Thereafter	9,669,871
	$ 12,105,828

11. Debt Restructure

In 2013, PCRI entered into an agreement with the Portland Housing Bureau ("PHB") to restructure certain debt associated with the Albina portfolio of properties acquired by PCRI in 2006 (described in note 1). PHB provided a new equity gap contribution in the amount of $8,053,358 to fund the payoff of certain existing loans held by a third party, to convert two existing loans held by PHB into an equity gap contribution, and to modify the terms of a prior equity gap financing agreement. This activity is summarized as follows:

Conversion of PHB loans to an equity gap contribution	$ 2,136,973
Fund payoff of third-party loans	413,369
Fund fees, interest, and closing costs	26,100
Conversion of amount payable under prior equity gap agreement to a contingent liability	11,419
	2,587,861
Modify terms of a prior equity gap financing agreement	5,465,497
	$ 8,053,358

The result of the restructure is the consolidation of prior financing agreements into a single equity gap financing agreement. Under the new agreement, no payments are due as long as the properties are held by PCRI for low income housing for a period of 60 years, pursuant to the terms of the agreement. The total contingent liability under this agreement is $8,053,358 at December 31, 2013 and is included in the total conditional liabilities presented in note 12.

12. Conditional Liabilities

Throughout its history and that of its preceding organizations, PCRI has received significant financing in the form of contributions from PHB 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 PHB. The commitment to share in excess cash flow under the majority of agreements terminates when payments made to PHB under the agreement total the amounts originally disbursed by PHB. However, under certain agreements, the commitment to share in excess cash flow terminates at the earlier of when payments made to PHB 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 $14,460,776 at December 31, 2013, if future performance or other actions of PCRI trigger these liability provisions, as follows:

Equity gap contributions received	$ 14,496,188
Less amounts payable at December 31, 2013	(35,412)
	$ 14,460,776

Of the $168,908 received for new capital projects subject to equity gap financing agreements during the year ended December 31, 2013, $15,627 was received as a development fee.

As of December 31, 2013, certain properties have generated cash flow in excess of the thresholds stated in the financing agreements, resulting in amounts payable to PDC totaling approximately $35,412. 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.

13. Restrictions and Limitations on Net Asset Balances

At December 31, 2013, temporarily restricted net assets are available for the following purposes and programs:

Healthy Foods Access Initiative	$	22,534
Homebuyer education		20,000
Homeownership		14,005
Black Women for Peace		10,423
Resident services		4,068
	$	71,030

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 $1,048,464 at December 31, 2013.

14. Net Assets Released from Restrictions

During the year ended December 31, 2013, 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	$	31,043
Project development		15,627
Healthy Foods Access Initiative		13,203
Resident services		2,208
Black Women for Peace		641
		62,722
For capital purposes		169,586
	$	232,308

15. 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.

16. Expenses

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

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

17. Retirement Plan

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

18. Reclassification of 2012 Comparative Totals

Certain 2012 amounts presented herein have been reclassified to conform to the 2013 presentation.

19. 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	$ 2,724,377
Adjustments to reconcile the increase in net assets to net cash provided by operating activities:	
Depreciation	1,290,575
Amortization of capitalized loan fees	21,517
Equity gap contribution for debt restructure and liability conversion	(2,561,761)
Grants and contributions restricted to the acquisition of capital assets	(230,208)
Gain on sale of capital assets	(176,481)
Net changes in:	
Tenant rents receivable	2,850
Grants and contracts receivable	27,260
Other receivables	(310)
Prepaid expenses, deposits, and other assets	15,613
Accounts payable and accrued expenses (including $(14,475) in changes in accrued interest payable)	(155,397)
Rents and fees received in advance	13,196
Tenant security deposits	17,658
Total adjustments	(1,735,488)
Net cash provided by operating activities	$ 988,889

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INQUIRIES AND OTHER INFORMATION

Administrative offices
PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.
6329 N.E. Martin Luther King, Jr. Boulevard
Portland, Oregon 97211

(503) 288-2923
(503) 288-2891 Fax

Web site
www.pcrihome.org