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, 2014 and Report of Independent Accountants

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GaryMcGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

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, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated 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, 2014, 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.

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Summarized Comparative Information

We have previously audited Portland Community Reinvestment Initiatives, Inc.'s 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 29, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Gary Capen & Co. LLP

April 7, 2015

P O R T L A N D   C O M M U N I T Y   R E I N V E S T M E N T   I N I T I A T I V E S ,   I N C .

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

D E C E M B E R   3 1 ,   2 0 1 4

(W I T H   C O M P A R A T I V E   A M O U N T S   F O R   2 0 1 3)

	2014	2013
Assets:		
Cash and cash equivalents	$ 792,228	644,184
Tenant rents receivable *(note 4)*	45,100	30,007
Grants and contracts receivable *(note 5)*	99,844	143,828
Note receivable *(note 6)*	60,000	60,000
Other receivables	12,191	9,360
Prepaid expenses, deposits, and other assets	51,777	65,814
Restricted deposits and funded reserves *(note 7)*	1,849,708	2,281,858
Buildings, equipment, and furnishings *(note 8)*	815,034	884,815
Rental properties *(notes 9, 10, and 11)*	30,036,505	30,096,717
Total assets	$ 33,762,387	34,216,583
Liabilities:		
Accounts payable and accrued expenses	257,321	315,270
Construction payable	67,758	15,831
Rents and fees received in advance	27,143	28,469
Tenant security deposits	285,894	278,982
Long-term debt *(note 10)*	11,753,959	12,105,828
Conditional liabilities *(note 11)*		
Total liabilities	12,392,075	12,744,380
Net assets:		
Unrestricted:		
Available for general operations and programs	473,890	232,471
Restricted deposits and funded reserves	1,543,395	1,982,658
Limited partner's interest in Park Terrace Community, LLC *(note 12)*	944,805	1,048,464
Net investment in capital assets	18,397,736	18,137,580
Total unrestricted	21,359,826	21,401,173
Temporarily restricted *(note 12)*	10,486	71,030
Total net assets	21,370,312	21,472,203
Other commitments and contingencies *(note 14)*		
Total liabilities and net assets	$ 33,762,387	34,216,583

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

(WITH COMPARATIVE TOTALS FOR 2013)

	2014			
	Unrestricted	Temporarily Restricted	Total	2013
Operating revenues, gains, and other support:				
Rent revenue	$ 4,430,898	–	4,430,898	4,275,706
Private grants and contributions	27,720	25,125	52,845	36,087
Government grants and contracts	318,642	–	318,642	339,393
Special events, net of direct costs of $82,285 in 2014 and $72,966 in 2013	(8,872)	–	(8,872)	353
Property management fees	94,896	–	94,896	91,007
Gain on sale of capital assets	249,826	–	249,826	176,481
Interest income	4,705	–	4,705	2,089
Other income	90,420	–	90,420	157,457
Total operating revenues and gains	5,208,235	25,125	5,233,360	5,078,573
Net assets released from restrictions to fund operations *(note 13)*	120,824	(120,824)	–	–
Total operating revenues, gains, and other support	5,329,059	(95,699)	5,233,360	5,078,573
Expenses *(note 15)***:**				
Program services:				
Property management	3,953,130	–	3,953,130	4,016,278
Housing development	194,207	–	194,207	118,274
Supportive programs	562,711	–	562,711	513,462
Total program services	4,710,048	–	4,710,048	4,648,014
Supporting services:				
Management and general	832,239	–	832,239	678,053
Fundraising	50,524	–	50,524	49,676
Total supporting services	882,763	–	882,763	727,729
Total expenses	5,592,811	–	5,592,811	5,375,743
Operating results	$ (263,752) [A]	(95,699)	(359,451)	(297,170)

[A] Includes depreciation and amortization expenses of $1,370,440.

Continued

CONSOLIDATED STATEMENT OF ACTIVITIES, CONTINUED

YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

	2014			
	Unrestricted	Temporarily Restricted	Total	2013
Non-operating activities:				
Equity gap contribution – debt restructure	$ –	–	–	2,587,861
Equity gap contribution – current capital projects *(note 11)*	–	205,083	205,083	168,908
Government capital grants	–	52,477	52,477	16,305
Government grant – reimburse historical operating deficits	–	–	–	248,473
Net assets released from restrictions for capital purposes *(note 13)*	222,405	(222,405)	–	–
Total non-operating activities	222,405	35,155	257,560	3,021,547
Increase (decrease) in net assets	(41,347)	(60,544)	(101,891)	2,724,377
Net assets at beginning of year	21,401,173	71,030	21,472,203	18,747,826
Net assets at end of year	$ 21,359,826	10,486	21,370,312	21,472,203

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

		Program services				
		Property management				
		Core properties	Maya Angelou	Park Terrace, LLC	Consoli-dation elimination entries	Total
Payroll and related expenses	$	459,485	100,303	115,888	(35,152)	640,524
Professional services		24,085	19,727	12,599	–	56,411
Contract services		64,991	19,191	106,070	(46,384)	143,868
Property maintenance		180,493	–	112,420	–	292,913
Subcontract awards		–	–	–	–	–
Occupancy		370,926	53,936	103,329	–	528,191
Office supplies		9,299	3,499	2,259	–	15,057
Postage		1,816	–	–	–	1,816
Telephone		5,469	4,757	5,792	–	16,018
Printing		1,808	–	–	–	1,808
Travel		17,225	–	–	–	17,225
Equipment rental and repairs		405	5,351	–	–	5,756
Financial assistance			–	–	–	–
Insurance		109,232	9,042	13,927	–	132,201
Interest		458,907	6,936	30,522	(6,000)	490,365
Marketing and advertising		7,449	–	181	–	7,630
Property taxes		194,291	–	–	–	194,291
Property management		4,162	–	4,400	–	8,562
Bank and loan charges		4,631	–	–	–	4,631
Provision for doubtful collection of tenant receivables		34,347	–	3,288	–	37,635
Other		13,749	2,943	8,182	–	24,874
Total expenses before depreciation and amortization		1,962,770	225,685	518,857	(87,536)	2,619,776
Depreciation and amortization expense		1,112,428	60,854	160,072	–	1,333,354
Total expenses	$	3,075,198	286,539	678,929	(87,536)	3,953,130

See accompanying notes to consolidated financial statements.

2014

Housing develop-ment	Supportive programs	Total	Supporting services: Management and general	Fundraising	Total	Total	2013
77,513	311,831	1,029,868	589,246	35,403	624,649	1,654,517	1,487,361
3,823	15,381	75,615	29,066	1,746	30,812	106,427	103,767
87,661	45,270	276,799	83,346	5,008	88,354	365,153	341,085
934	3,755	297,602	7,096	426	7,522	305,124	317,314
–	41,363	41,363	–	–	–	41,363	63,016
1,338	8,798	538,327	10,169	611	10,780	549,107	502,521
1,671	12,240	28,968	10,878	654	11,532	40,500	41,460
307	1,236	3,359	2,336	140	2,476	5,835	4,251
757	3,774	20,549	5,761	346	6,107	26,656	26,041
475	1,227	3,510	2,318	139	2,457	5,967	6,747
8,439	11,663	37,327	18,784	1,181	19,965	57,292	34,891
6	23	5,785	44	3	47	5,832	4,521
–	40,237	40,237	–	–	–	40,237	69,723
1,734	6,978	140,913	13,185	792	13,977	154,890	150,492
2,226	8,957	501,548	16,925	1,017	17,942	519,490	455,599
–	843	8,473	–	–	–	8,473	6,682
–	–	194,291	–	–	–	194,291	246,106
414	1,664	10,640	3,144	189	3,333	13,973	15,012
628	2,525	7,784	4,771	756	5,527	13,311	45,932
–	–	37,635	–	–	–	37,635	83,975
3,472	33,305	61,651	13,817	830	14,647	76,298	57,155
191,398	551,070	3,362,244	810,886	49,241	860,127	4,222,371	4,063,651
2,809	11,641	1,347,804	21,353	1,283	22,636	1,370,440	1,312,092
194,207	562,711	4,710,048	832,239	50,524	882,763	5,592,811	5,375,743

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2014

(WITH COMPARATIVE TOTALS FOR 2013)

	2014	2013
Cash flows from operating activities:		
Cash received from tenants, contractors, and donors	$ 5,148,839	5,245,543
Interest income received	4,705	2,089
Cash paid to employees and suppliers	(3,816,139)	(3,788,669)
Interest paid	(525,517)	(470,074)
Net cash provided by operating activities	811,888	988,889
Cash flows from investing activities:		
Capital expenditures	(1,218,694)	(919,964)
Proceeds received from the sale of capital assets	280,000	163,610
Net withdrawals from (deposits to) restricted cash reserves	432,150	(1,414,741)
Net cash used in investing activities	(506,544)	(2,171,095)
Cash flows from financing activities:		
Repayment of note principal	(351,869)	(4,992,384)
Proceeds received upon the issuance of debt	–	6,000,000
Grants and contributions restricted for capital investment	194,569	230,208
Net cash provided by (used in) financing activities	(157,300)	1,237,824
Net increase in cash and cash equivalents	148,044	55,618
Cash and cash equivalents at beginning of year	644,184	588,566
Cash and cash equivalents at end of year	$ 792,228	644,184

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

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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, 2014, 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 a 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. PCRI also offers a wide array of classes and workshop on topics, such as preventative maintenance, elder fraud, and estate planning

- *Financial Education* – Designed to help participants manage their personal finances effectively and make wise financial decisions, this 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, 2014, revenues from these projects totaled $48,500, including $39,500 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, 2014, 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, 2014, 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 buildings, 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, 2014.

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, 2014, advertising expenses totaled approximately $8,473.

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, in which case 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, 2011 through 2013.

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, 2014.

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, 2014, uninsured cash balances, including restricted deposits and funded reserves, totaled $1,484,209.

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 April 7, 2015, which is the date the financial statements were available to be issued.

Summarized Financial Information for 2013 – The accompanying financial information as of and for the year ended December 31, 2013 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, 2014, tenant rents receivable is summarized as follows:

Tenant rents receivable	$	73,051
Less allowance for doubtful doubtful accounts		(27,951)
	$	45,100

5. Grants and Contracts Receivable

At December 31, 2014, grants and contracts receivable total $99,844 and are expected to be collected in less than one year.

6. Note Receivable

At December 31, 2014, 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 $1,849,708 at December 31, 2014. 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, 2014 primarily represent administrative offices, computers, and other equipment, as follows:

Buildings	$ 1,011,290
Equipment and furnishings	342,708
	1,353,998
Less accumulated depreciation	(538,964)
	$ 815,034

9. Rental Properties

Rental properties at December 31, 2014 are summarized as follows:

Rental properties	$ 45,475,024
Less accumulated depreciation	(15,438,519)
	$ 30,036,505

PCRI has entered into equity gap financing agreements with the Portland Development Commission ("PDC") and other governmental agencies for various rental properties. (The PDC agreements subsequently were 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 $14,630,704 at December 31, 2014. See additional discussion in note 11.

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 these properties 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, 2014, 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, 2014.

10. Long-Term Debt

The following obligations were outstanding at December 31, 2014. 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 in July of 2028	$ 5,878,220
Core Properties – U.S. Bank:	
6.60%, due in monthly payments of $3,898 through March of 2016, with a balloon payment for the outstanding balance in March of 2016	471,935
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	137,388
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	90,132
Predevelopment loan, 4.0% due in quarterly payments of $2,500 interest only, and maturing in June of 2021, unsecured	250,000
	949,455

Continued

Core Properties – City of Portland:	
Restructured loans, 3.0%, due in monthly payments of $1,054 through December of 2025 [1]	206,224
Installment loans, 3.0%, due in monthly payments ranging from $40 to $1,271 through January of 2034	292,907
	499,131
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	234,732
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	688,506
PCRI II Portfolio:	
U.S. Bank, 5.0%, due in monthly payments of $1,315 through September of 2022	103,546
U.S. Bank, 8.75%, due in monthly payments of $1,472 through September of 2022	102,114
Chase, 3.98%, due in monthly payments of $2,524 through May of 2021	374,579
City of Portland (HUD §108 loan), Variable rate, due in monthly payments of $4,902 through August of 2019	304,098
City of Portland (HUD §108 loan), Variable rate, due in monthly payments of $2,717 through August of 2019	164,134
	1,048,471
Maya Angelou:	
NOAH, 2.72%, due in monthly payments of $2,109 through April of 2026	246,552
Park Terrace Community, LLC:	
U.S. Bank, 3.85%, due in monthly payments of $3,696 through December of 2021	575,445
City of Portland, 3.0%, due in monthly payments of $1,517 through December of 2017	53,787
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
	2,208,892
Total long-term debt	$ 11,753,959

[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 11.

[2] The property did not generate excess cash flow during the year ended December 31, 2014; therefore, no payments were required.

Aggregate maturities of note principal on all debt for the five years subsequent to December 31, 2014 and thereafter are as follows:

Years Ending December 31,	
2015	$ 361,022
2016	1,440,664
2017	335,467
2018	318,033
2019	327,287
Thereafter	8,971,486
	$ 11,753,959

11. 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 $14,630,704 at December 31, 2014, if future performance or other actions of PCRI trigger these liability provisions, as follows:

Equity gap contributions received	$ 14,666,116
Less amounts payable at December 31, 2014	(35,412)
	$ 14,630,704

Of the $205,083 received for new capital projects subject to equity gap financing agreements during the year ended December 31, 2014, $35,155 was received as a development fee.

As of December 31, 2014, 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. 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.

12. Restrictions and Limitations on Net Asset Balances

At December 31, 2014, temporarily restricted net assets are available for the following purposes and programs:

Black Women for Peace	$	4,186
Resident services		3,800
Transportation Justice		2,500
	$	10,486

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 $944,805 at December 31, 2014.

13. Net Assets Released from Restrictions

During the year ended December 31, 2014, 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	$	49,830
Project development		35,155
Healthy Foods Access Initiative		25,534
Black Women for Peace		6,237
Resident services		4,068
		120,824
For capital purposes		222,405
	$	343,229

14. 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.

15. 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.

16. 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.

17. Statement of Cash Flows Reconciliation

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

Decrease in net assets	$	(101,891)
Adjustments to reconcile the decrease in net assets to net cash provided by operating activities:		
Depreciation		1,351,373
Amortization of capitalized loan fees		19,067
Grants and contributions restricted to the acquisition of capital assets		(194,569)
Gain on sale of capital assets		(249,826)
Net changes in:		
Tenant rents receivable		(15,093)
Grants and contracts receivable		43,984
Other receivables		(2,831)
Prepaid expenses, deposits, and other assets		14,037
Accounts payable and accrued expenses (including $(6,027) in changes in accrued interest payable)		(57,949)
Rents and fees received in advance		(1,326)
Tenant security deposits		6,912
Total adjustments		913,779
Net cash provided by operating activities	$	811,888

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