GaryMcGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

Portland Community Reinvestment Initiatives, Inc.

Consolidated Financial Statements, Single Audit Reports, and Other Information as of and for the Year Ended December 31, 2015 and Reports 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.:

Report on the Financial Statements

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, 2015, 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 consolidated 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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, 2015, 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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Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards on page 22 as required by Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Summarized Comparative Information

We have previously audited Portland Community Reinvestment Initiatives, Inc.'s 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 7, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2016 on our consideration of Portland Community Reinvestment Initiatives, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Portland Community Reinvestment Initiatives, Inc.'s internal control over financial reporting and compliance.

May 24, 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015

(WITH COMPARATIVE AMOUNTS FOR 2014)

	2015	2014
Assets:		
Cash and cash equivalents	$ 2,185,156	1,491,094
Tenant rents receivable *(note 4)*	50,654	45,100
Grants and contracts receivable *(note 5)*	163,822	99,844
Note receivable *(note 6)*	60,000	60,000
Other receivables	19,461	12,191
Prepaid expenses, deposits, and other assets	97,998	51,777
Restricted deposits and funded reserves *(note 7)*	1,162,894	1,150,842
Buildings, equipment, and furnishings *(note 8)*	770,149	815,034
Rental properties *(notes 9, 10, and 12)*	30,618,981	30,036,505
Total assets	$ 35,129,115	33,762,387
Liabilities:		
Accounts payable and accrued expenses	316,317	257,321
Construction payable	345,373	67,758
Rents and fees received in advance	31,261	27,143
Tenant security deposits	283,466	285,894
Long-term debt *(notes 10 and 11)*	13,616,195	11,753,959
Conditional liabilities *(note 12)*		
Total liabilities	14,592,612	12,392,075
Net assets:		
Unrestricted:		
Available for general operations and programs	1,689,852	1,251,000
Restricted deposits and funded reserves	920,075	844,498
Limited partner's interest in Park Terrace Community, LLC *(note 13)*	665,671	766,662
Net investment in capital assets	17,249,174	18,497,666
Total unrestricted	20,524,772	21,359,826
Temporarily restricted *(note 13)*	11,731	10,486
Total net assets	20,536,503	21,370,312
Other commitments and contingencies *(notes 15 and 17)*		
Total liabilities and net assets	$ 35,129,115	33,762,387

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	2015			
	Unrestricted	Temporarily Restricted	Total	2014
Operating revenues, gains, and other support:				
Rent revenue	$ 4,795,423	–	4,795,423	4,430,898
Private grants and contributions	96,886	33,601	130,487	52,845
Government grants and contracts	472,398	–	472,398	318,642
Special events, net of direct costs of $56,321 in 2015 and $82,285 in 2014	16,647	–	16,647	(8,872)
Property management fees	97,176	–	97,176	94,896
Development fees *(note 11)*	57,284		57,284	35,155
Gain on sale of capital assets	–	–	–	249,826
Interest income	4,199	–	4,199	4,705
Other income	102,004	–	102,004	90,420
Total operating revenues and gains	5,642,017	33,601	5,675,618	5,268,515
Net assets released from restrictions to fund operations *(note 14)*	32,356	(32,356)	–	–
Total operating revenues, gains, and other support	5,674,373	1,245	5,675,618	5,268,515
Expenses *(note 16)*:				
Program services:				
Property management	4,094,955	–	4,094,955	3,953,130
Housing development	205,290	–	205,290	194,207
Supportive programs	615,110	–	615,110	562,711
Total program services	4,915,355	–	4,915,355	4,710,048
Supporting services:				
Management and general	637,452	–	637,452	832,239
Fundraising	56,587	–	56,587	50,524
Total supporting services	694,039	–	694,039	882,763
Total expenses	5,609,394	–	5,609,394	5,592,811
Operating results	$ 64,979 [A]	1,245	66,224	(324,296)

[A] Includes depreciation and amortization expenses of $1,375,988.

Continued

CONSOLIDATED STATEMENT OF ACTIVITIES, CONTINUED

YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	2015			
	Unrestricted	Temporarily Restricted	Total	2014
Non-operating activities:				
Conversion of equity gap contributions into conventional debt *(note 11)*	$ (970,000)	–	(970,000)	–
Equity gap contribution – current capital projects	–	4,047	4,047	169,928
Private capital grants	–	60,713	60,713	–
Government capital grants	–	61,236	61,236	52,477
Increase in excess cash flow liability	(56,029)	–	(56,029)	–
Net assets released from restrictions for capital purposes *(note 14)*	125,996	(125,996)	–	–
Total non-operating activities	(900,033)	–	(900,033)	222,405
Increase (decrease) in net assets	(835,054)	1,245	(833,809)	(101,891)
Net assets at beginning of year	21,359,826	10,486	21,370,312	21,472,203
Net assets at end of year	$ 20,524,772	11,731	20,536,503	21,370,312

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

		Program services				
		Property management				
		Core properties	Maya Angelou	Park Terrace, LLC	Consoli-dation elimination entries	Total
Payroll and related expenses	$	579,741	110,127	114,230	(35,152)	768,946
Professional services		13,735	17,979	10,023	–	41,737
Contract services		93,655	50,437	127,659	(66,066)	205,685
Property maintenance		205,597	–	116,948	–	322,545
Subcontract awards		–	–	–	–	–
Occupancy		383,465	51,353	103,264	–	538,082
Office supplies		13,062	7,455	2,670	–	23,187
Postage		2,199	–	–	–	2,199
Telephone		7,772	5,330	6,117	–	19,219
Printing		2,568	–	–	–	2,568
Travel		33,007	–	–	–	33,007
Equipment rental and repairs		65	12,071	–	–	12,136
Financial assistance		–	–	–	–	–
Insurance		97,793	7,862	10,839	–	116,494
Interest		397,591	9,074	29,176	(6,000)	429,841
Marketing and advertising		9,312	–	1,406	–	10,718
Property taxes		137,000	–	490	–	137,490
Property management		8,685	–	4,400	–	13,085
Bank and loan charges		13,083	–	–	–	13,083
Provision for doubtful collection of tenant receivables		28,640	–	2,428	–	31,068
Other		4,328	11,779	11,503	–	27,610
Total expenses before depreciation and amortization		2,031,298	283,467	541,153	(107,218)	2,748,700
Depreciation and amortization expense		1,122,168	60,500	163,587	–	1,346,255
Total expenses	$	3,153,466	343,967	704,740	(107,218)	4,094,955

See accompanying notes to consolidated financial statements.

2015

Housing development	Supportive programs	Total	Supporting services: Management and general	Supporting services: Fundraising	Supporting services: Total	Total	2014
79,092	317,750	1,165,788	426,889	38,433	465,322	1,631,110	1,654,517
1,396	5,610	48,743	60,415	679	61,094	109,837	106,427
97,750	49,850	353,285	55,863	5,479	61,342	414,627	365,153
1,039	7,350	330,934	9,820	884	10,704	341,638	305,124
–	–	–	–	–	–	–	41,363
1,540	12,689	552,311	8,314	749	9,063	561,374	549,107
1,779	9,184	34,150	8,954	806	9,760	43,910	40,500
300	1,256	3,755	1,619	146	1,765	5,520	5,835
949	5,841	26,009	5,124	461	5,585	31,594	26,656
326	1,309	4,203	1,758	1,771	3,529	7,732	5,967
5,044	12,169	50,220	12,611	1,651	14,262	64,482	57,292
–	–	12,136	–	–	–	12,136	5,832
–	141,246	141,246	–	–	–	141,246	40,237
1,242	5,042	122,778	6,704	604	7,308	130,086	154,890
4,164	16,727	450,732	22,473	2,023	24,496	475,228	519,490
4,500	2,276	17,494	–	–	–	17,494	8,473
–	–	137,490	–	–	–	137,490	194,291
–	–	13,085	–	–	–	13,085	13,973
105	422	13,610	567	1,443	2,010	15,620	13,311
–	–	31,068	–	–	–	31,068	37,635
2,410	14,636	44,656	3,188	285	3,473	48,129	76,298
201,636	603,357	3,553,693	624,299	55,414	679,713	4,233,406	4,222,371
3,654	11,753	1,361,662	13,153	1,173	14,326	1,375,988	1,370,440
205,290	615,110	4,915,355	637,452	56,587	694,039	5,609,394	5,592,811

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	2015	2014
Cash flows from operating activities:		
Cash received from tenants, contractors, and donors	$ 5,601,135	5,148,839
Interest income received	4,199	4,705
Cash paid to employees and suppliers	(3,865,506)	(3,816,139)
Interest paid	(470,403)	(525,517)
Net cash provided by operating activities	1,269,425	811,888
Cash flows from investing activities:		
Capital expenditures	(1,609,379)	(1,218,694)
Proceeds received from the sale of capital assets	–	280,000
Net withdrawals from (deposits to) restricted deposits and funded reserves	(12,052)	469,504
Net cash used in investing activities	(1,621,431)	(469,190)
Cash flows from financing activities:		
Repayment of note principal	(579,524)	(351,869)
Proceeds received upon the issuance of debt	1,471,760	–
Grants and contributions restricted for capital investment	153,832	194,569
Net cash provided by (used in) financing activities	1,046,068	(157,300)
Net increase in cash and cash equivalents	694,062	185,398
Cash and cash equivalents at beginning of year	1,491,094	1,305,696
Cash and cash equivalents at end of year	$ 2,185,156	1,491,094

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

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, 2015, 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, PCRI Target Homes #1, LLC and Cascadian GP LLC. PCRI is the sole member of PCRI Target Homes #1, LLC and PCRI Cascadian GP LLC, which were established in December of 2009 and April of 2015, respectively.

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, 2015, revenues from these projects totaled $71,240, including $62,240 in resident service fees and $9,000 in oversight fees.

In April of 2015, PCRI Cascadian GP LLC entered into the Cascadian Affordable Limited Partnership as the nonprofit general partner. The financial statements of this partnership are not included in the accompanying consolidated financial statements because PCRI does not have exclusive control over this Project, nor does PCRI economically benefit from their operation

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. 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, 2015, $26,585 in donations of capitalized 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, 2015, no donations of equipment or other materials were recorded.

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, 2015.

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, 2015, advertising expenses totaled approximately $16,873.

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).

PCRI Target Homes #1 LLC and PCRI Cascadian GP LLC are disregarded entities for tax purposes. Park Terrace Community, LLC is a multiple-member, limited-liability company and Cascadian Affordable Limited Partnership is a multiple-member, limited partnership; in both cases, no provisions have been made for income taxes, which are the responsibility of the members.

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, 2015, uninsured cash balances, including restricted deposits and funded reserves, totaled $2,114,850.

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 24, 2016, which is the date the financial statements were available to be issued.

Summarized Financial Information for 2014 – The accompanying financial information as of and for the year ended December 31, 2014 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, 2015, tenant rents receivable is summarized as follows:

Tenant rents receivable	$	105,302
Less allowance for doubtful doubtful accounts		(54,648)
	$	50,654

5. Grants and Contracts Receivable

At December 31, 2015, grants and contracts receivable totaled $163,822, and are expected to be collected in less than one year.

6. Note Receivable

At December 31, 2015, 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 $1,162,894 at December 31, 2015. 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, 2015 primarily represent administrative offices, computers, and other equipment, as follows:

Buildings	$ 1,011,290
Equipment and furnishings	347,581
	1,358,871
Less accumulated depreciation	(588,722)
	$ 770,149

9. Rental Properties

Rental properties at December 31, 2015 are summarized as follows:

Rental properties	$ 47,383,728
Less accumulated depreciation	(16,764,747)
	$ 30,618,981

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 $13,582,466 at December 31, 2015. 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 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, 2015, 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, 2015.

10. Long-Term Debt

The following obligations were outstanding at December 31, 2015. 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	$ 5,785,348
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	457,665
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	132,010
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	87,895
Pre-development loan, 4.0% due in quarterly payments of $2,500 interest only, and maturing in June of 2021, unsecured	250,000
	927,570
Core Properties – City of Portland:	
Restructured loans, 3.0%, due in monthly payments of $1,054 through December of 2025 [1]	199,672
Installment loans, 3.0%, due in monthly payments ranging from $40 to $1,271 through January of 2034	243,749
	443,421
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	223,440
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	661,909
PCRI II Portfolio:	
U.S. Bank, 5.0%, due in monthly payments of $1,315 through September of 2022	91,855
U.S. Bank, 8.75%, due in monthly payments of $1,472 through September of 2022	92,619
Chase, 3.98%, due in monthly payments of $2,524 through May of 2021	358,787
City of Portland (HUD §108 loan), Variable rate, due in monthly payments of $4,902 through August of 2019	69,401

Continued

City of Portland (HUD §108 loan), Variable rate, due in monthly payments of $2,717 through August of 2019	134,090
City of Portland, 0.0%, due in monthly payments of $4,397 through April of 2077	263,818
City of Portland, 1.0%, due in monthly payments of $3,219 through January of 2036. (*note 11)*	700,000
City of Portland, 0.0%, payments due annually to the extent excess cash flows are generated, due in full December of 2075 (*note 11)* [2]	1,178,498
Grant Warehouse loan, 0.0%, due in November of 2016	16,037
Pacific Continental, 4.5%, due in November of 2016	13,406
	2,918,511
Maya Angelou:	
NOAH, 2.72%, due in monthly payments of $2,109 through April of 2026	227,721
City of Portland, 1.0%, Original note of $270,000 due in monthly payments of $1,242 through January of 2035 (*note 11)*	258,769
	486,490
Park Terrace Community, LLC:	
U.S. Bank, 3.85%, due in monthly payments of $3,696 through December of 2021	552,884
City of Portland, 3.0%, due in monthly payments of $1,517 through December of 2017	36,962
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
	2,169,506
Total long-term debt	$ 13,616,195

[1] During the year ended December 31, 2006, 20 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.

[2] These properties did not generate excess cash flow during the year ended December 31, 2015; therefore, no payments were required.

Aggregate maturities of note principal on all debt for the five years subsequent to December 31, 2015 and thereafter are as follows:

Years Ending December 31,	
2016	$ 1,456,631 [1]
2017	323,509
2018	387,522
2019	335,719
2020	302,879
Thereafter	10,809,935
	$ 13,616,195

[1] Subsequent to December 31, 2015, the 6.6% U.S. Bank note originally due in March of 2016 was renegotiated and extended for an additional five years, with a balloon payment of approximately $375,000 now due on April 1, 2021. In addition, although not yet finalized, the organization is also renegotiating the Albina Community Bank 4.25% note associated with the Urban League Building.

11. Debt Restructure

In 2015, PCRI entered into an agreement with the Portland Housing Bureau ("PHB") to restructure a certain equity gap agreement associated with the Maggie Gibson and Maya Angelou properties. The result of the restructure was the conversion of equity gap agreements totaling $8,048,985, previously disclosed as conditional liabilities, into five new agreements. Two new conventional loans totaling $970,000, two new equity gap financing agreements totaling $7,078,985, disclosed as a conditional liability, and one new loan in the amount up to $1,500,000 of which $1,235,782 had been drawn as of December 31, 2015. This activity is summarized as follows:

Conversion of equity gap contributions into conventional loans *(note 10)*	$ 970,000
Funds drawn for rehabilitation of Maggie Gibson *(note 10)*	1,178,498
Development fees earned for rehabilitation of Maggie Gibson	57,284
	2,205,782
New equity gap financing agreement *(note 12)*	7,078,985
	$ 9,284,767

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 the 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 $13,582,466 at December 31, 2015, if future performance or other actions of PCRI trigger these liability provisions, as follows:

Equity gap contributions received	$ 13,674,265
Less amounts payable at December 31, 2015	(91,799)
	$ 13,582,466

As of December 31, 2015, certain properties have generated cash flow in excess of the thresholds stated in the financing agreements, resulting in amounts payable to PHB totaling approximately $91,799. 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, 2015, temporarily restricted net assets are available for the following purposes and programs:

Black Women for Peace	$	5,431
Resident services		3,800
Transportation Justice		2,500
	$	11,731

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 $665,671 at December 31, 2015.

14. Net Assets Released from Restrictions

During the year ended December 31, 2015, 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	$	20,147
Black Women for Peace		12,209
		32,356
For capital purposes		125,996
	$	158,352

15. Commitments and 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.

During the year ended December 31, 2015, the organization entered into two construction contracts totaling $982,819 and $594,745, respectively. At December 31, 2015, the organization had remaining outstanding commitments for future expenditures related to these contracts totaling $156,382 and $494,005, respectively.

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 makes matching contributions to the plan up to an amount equal to 3.0% of total participating employees' compensation. Contributions to the plan from the organization vest as accrued. Contributions by the organization to the plan totaled $18,587 for the year ended December 31, 2015.

18. Reclassification of 2014 Comparative Totals

Certain 2014 amounts presented herein have been reclassified to conform to the 2015 presentation.

19. 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	$ (833,809)
Adjustments to reconcile the decrease in net assets to net cash provided by operating activities:	
Depreciation	1,335,148
Amortization of capitalized loan fees	40,840
Grants and contributions restricted to the acquisition of capital assets	(153,832)
In-kind donation of capital assets	(26,585)
Conversion of equity gap contributions into conventional loans	970,000
Net changes in:	
Tenant rents receivable	(5,554)
Grants and contracts receivable	(63,978)
Other receivables	(7,270)
Prepaid expenses, deposits, and other assets	(46,221)
Accounts payable and accrued expenses (including $4,825 in changes in accrued interest payable)	58,996
Rents and fees received in advance	4,118
Tenant security deposits	(2,428)
Total adjustments	2,103,234
Net cash provided by operating activities	$ 1,269,425

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2015

Federal grantor/pass-through grantor/program or cluster title	Pass-through entity identifying number	Federal CFDA number	Passed through to subrecipients	Total federal expenditures
U.S. Department of Housing and Urban Development:				
Passed through the City of Portland, Portland Housing Bureau:				
Community Development Block Grants/Entitlement Grants	311008	14.218	$ –	1,235,782
Community Development Block Grants/Entitlement Grants	32001217	14.218	–	85,186
Community Development Block Grants/Entitlement Grants	32001105	14.218	–	61,126
Total CFDA 14.218			–	1,382,094
Passed through the City of Portland, Portland Housing Bureau:				
HOME Investment Partnerships Program	32001136	14.239	–	119,903
Total expenditures of federal awards			**$ –**	**1,501,997**

See accompanying notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2015

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Portland Community Reinvestment Initiatives, Inc. under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Portland Community Reinvestment Initiatives, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Portland Community Reinvestment Initiatives, Inc.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Portland Community Reinvestment Initiatives, Inc. has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. Loan Programs

The City of Portland has issued a note to Portland Community Reinvestment Initiatives, Inc. in connection with the Community Development Block Grants/Entitlement Grants program. The note has a 60-year term. Payments are due annually to the extent excess cash flows are generated. All outstanding principal is due in full December of 2075. Of the $1,500,000 note, $1,235,782 was drawn down and remains outstanding at December 31, 2015.

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REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Portland Community Reinvestment Initiatives, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Portland Community Reinvestment Initiatives, Inc., which comprise the consolidated statement of financial position as of December 31, 2015, 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, and have issued our report thereon dated May 24, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Portland Community Reinvestment Initiatives, Inc.'s internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Portland Community Reinvestment Initiatives, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Portland Community Reinvestment Initiatives, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Portland Community Reinvestment Initiatives, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

May 24, 2016

GaryMcGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORTS OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Board of Directors
Portland Community Reinvestment Initiatives, Inc.:

Report on Compliance for Each Major Federal Program

We have audited Portland Community Reinvestment Initiatives, Inc.'s compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Portland Community Reinvestment Initiatives, Inc.'s major federal programs for the year ended December 31, 2015. Portland Community Reinvestment Initiatives, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Portland Community Reinvestment Initiatives, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Portland Community Reinvestment Initiatives, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Portland Community Reinvestment Initiatives, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Portland Community Reinvestment Initiatives, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

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Report on Internal Control Over Compliance

Management of Portland Community Reinvestment Initiatives, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Portland Community Reinvestment Initiatives, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Portland Community Reinvestment Initiatives, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Gray, Gray & Co. LLP

May 24, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2015

Section 1 – Summary of Auditor's Results

Financial Statements

1. Type of auditor's report issued on whether the audited consolidated financial statements were prepared in accordance with GAAP – **unmodified**

2. Significant deficiency(ies) in internal control identified in the audit of the consolidated financial statements – **none reported**

3. Material weakness(es) in internal control identified in the audit of the consolidated financial statements – **none**

4. Noncompliance that is material to the consolidated financial statements noted – **none**

Federal Awards

5. Significant deficiency(ies) in internal control over major federal programs identified in the audit – **none reported**

6. Material weakness(es) in internal control over major federal programs identified in the audit – **none**

7. The type of auditor's report issued on compliance for major federal programs – **unmodified**

8. Audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) – **none**

Identification of Major Federal Programs

- **U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants (CFDA No. 14.218)**

9. Dollar threshold used to distinguish between Type A and Type B programs – **$750,000**

10. Is the auditee qualified as a low-risk auditee under 2 CFR 200.520? – **no**

Section 2 – Financial Statement Findings

11. Findings relating to the consolidated financial statements reported in accordance with *Government Auditing Standards* – **none**

Section 3 – Federal Award Findings and Questioned Costs

12. Findings and questioned costs relating to federal awards – **none**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2015

There were no findings reported in the prior audit.

GOVERNING BOARD AND MANAGEMENT

Board of Directors

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Associate, Attorney-at-Law
Ball Janik, LLP

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Pacific Continental Bank

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Maxine Fitzpatrick
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Andrea Debnam
Manager of Resident Services

Debi Mansfield-Christensen
Senior Portfolio Manager

Mark Becket
Maintenance Supervisor

Travis Phillips
Housing Development Director

Tamara Trofimenko
Payroll/Human Resources

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