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, 2011 and Report of Independent Accountants

TABLE OF CONTENTS

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 statement of financial position of Portland Community Reinvestment Initiatives, Inc. as of December 31, 2011, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended. These consolidated financial statements are the responsibility of Portland Community Reinvestment Initiatives, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the consolidated financial statements of Portland Community Reinvestment Initiatives, Inc. as of December 31, 2010 and, in our report dated May 20, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Portland Community Reinvestment Initiatives, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 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, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Gary McGee & Co. LLP

April 17, 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2011

(WITH COMPARATIVE AMOUNTS FOR 2010)

		2011	2010
Assets:			
Cash and cash equivalents	$	595,382	661,136
Tenant rents receivable *(note 4)*		19,293	38,206
Grants and contracts receivable *(note 5)*		60,902	236,387
Note receivable *(note 6)*		60,000	60,000
Other receivables		41,220	2,575
Prepaid expenses, deposits, and other assets		125,267	98,940
Properties held for sale *(notes 7 and 11)*		269,685	1,082,294
Restricted deposits and funded reserves *(note 8)*		870,915	858,429
Buildings, equipment, and furnishings *(note 9)*		908,589	920,031
Rental properties *(notes 10, 12, and 13)*		30,741,039	31,246,044
Total assets	$	33,692,292	35,204,042
Liabilities:			
Accounts payable and accrued expenses		404,114	594,316
Construction payable		8,454	168,366
Rents and fees received in advance		27,578	16,319
Tenant security deposits		250,777	229,839
Construction loan payable *(note 11)*		270,000	1,041,343
Long-term debt *(note 12)*		14,440,084	15,105,883
Conditional liabilities *(note 13)*			
Total liabilities		15,401,007	17,156,066
Net assets:			
Unrestricted:			
Available for general operations and programs		96,545	(63,826)
Restricted deposits and funded reserves		502,579	522,600
Limited partner's interest in Park Terrace Community, LLC *(note 15)*		1,217,265	1,286,177
Net investment in capital assets		16,354,892	16,129,639
Total unrestricted		18,171,281	17,874,590
Temporarily restricted *(note 15)*		120,004	173,386
Total net assets		18,291,285	18,047,976
Other commitments and contingencies *(notes 14 and 17)*			
Total liabilities and net assets	$	33,692,292	35,204,042

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	2011			
	Unrestricted	Temporarily Restricted	Total	2010
Operating revenues, gains, and other support:				
Rent revenue	$ 3,951,905	–	3,951,905	3,774,911
Private grants and contributions	2,757	30,802	33,559	180,728
Government grants and contracts	387,708	110,625	498,333	153,106
Property management fees	79,982	–	79,982	68,264
Gain on sale of capital assets	239,411	–	239,411	152,617
Interest income	1,514	–	1,514	2,767
Other income	103,742	–	103,742	118,143
Total operating revenues and gains	4,767,019	141,427	4,908,446	4,450,536
Net assets released from restrictions to fund operations *(note 16)*	223,821	(223,821)	–	–
Total operating revenues, gains, and other support	4,990,840	(82,394)	4,908,446	4,450,536
Expenses *(note 18)*:				
Program services:				
Property management	4,080,119	–	4,080,119	3,951,735
Housing development	114,518	–	114,518	105,290
Supportive programs	505,136	–	505,136	304,649
Total program services	4,699,773	–	4,699,773	4,361,674
Supporting services:				
Management and general	624,347	–	624,347	585,457
Fundraising	35,324	–	35,324	40,354
Total supporting services	659,671	–	659,671	625,811
Total expenses	5,359,444	–	5,359,444	4,987,485
Operating results	$ (368,604) [A]	(82,394)	(450,998)	(536,949)

[A] Includes depreciation and amortization expenses of $1,245,419.

Continued

CONSOLIDATED STATEMENT OF ACTIVITIES, CONTINUED

YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	2011			
	Unrestricted	Temporarily Restricted	Total	2010
Non-operating activities:				
Equity gap contributions for capital projects *(note 13)*	$ –	425,948	425,948	271,495
Forgiveness of debt *(note 11)*	172,867	–	172,867	–
Government capital grants	–	67,061	67,061	129,295
Private capital contributions	14,820	13,611	28,431	–
Net assets released from restrictions for capital purposes *(note 16)*	477,608	(477,608)	–	–
Total non-operating activities	665,295	29,012	694,307	400,790
Increase (decrease) in net assets	296,691	(53,382)	243,309	(136,159)
Net assets at beginning of year	17,874,590	173,386	18,047,976	18,184,135
Net assets at end of year	$ 18,171,281	120,004	18,291,285	18,047,976

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	2011	2010
Cash flows from operating activities:		
Cash received from tenants, contractors, and donors	$ 4,732,874	4,287,538
Interest income received	1,514	2,767
Cash paid to employees and suppliers	(3,798,219)	(3,204,777)
Interest paid	(511,397)	(542,458)
Net cash provided by operating activities	424,772	543,070
Cash flows from investing activities:		
Capital expenditures	(904,605)	(1,278,235)
Proceeds received from the sale of capital assets	445,428	207,741
Net withdrawals from (deposits to) restricted cash reserves	(12,486)	130,611
Net cash used in investing activities	(471,663)	(939,883)
Cash flows from financing activities:		
Repayment of note principal	(665,799)	(736,820)
Proceeds received from the issuance of debt	38,657	1,041,343
Grants and contributions restricted for capital investment	608,279	218,634
Net cash provided by (used in) financing activities	(18,863)	523,157
Net increase (decrease) in cash and cash equivalents	(65,754)	126,344
Cash and cash equivalents at beginning of year	661,136	534,792
Cash and cash equivalents at end of year	$ 595,382	661,136

Supplemental schedule of non-cash investing and financing activities:		
Retirement of debt upon sale of properties	$ 637,133	–

See accompanying notes to consolidated financial statements.

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

		Program services				
		Property management				
		Core properties	Maya Angelou	Park Terrace, LLC	Consoli-dation elimination entries	Total
Payroll and related expenses	$	604,652	70,104	110,779	(33,959)	751,576
Professional services		7,702	21,124	8,602	–	37,428
Contract services		138,422	33,211	96,172	(44,600)	223,205
Property maintenance		206,453	–	82,092	–	288,545
Subcontract awards		–	–	–	–	–
Occupancy		326,471	45,270	103,482	–	475,223
Office supplies		4,245	5,282	3,657	–	13,184
Postage		1,768	–	–	–	1,768
Telephone		8,124	3,210	3,922	–	15,256
Printing		1,839	–	–	–	1,839
Travel		17,553	–	–	–	17,553
Equipment rental and repairs		25,631	18,834	–	–	44,465
Insurance		121,412	8,222	15,738	–	145,372
Interest		453,427	10,485	34,209	(6,000)	492,121
Marketing and advertising		903	–	196	–	1,099
Property taxes		174,657	1,122	–	–	175,779
Property management		23,837	–	14,924	(14,924)	23,837
Bank and loan charges		59,099	–	–	–	59,099
Provision for doubtful collection of tenant receivables		53,512	–	2,638	–	56,150
Other		12,371	4,673	9,782	–	26,826
Total expenses before depreciation and amortization		2,242,078	221,537	486,193	(99,483)	2,850,325
Depreciation and amortization expense		1,016,702	59,817	153,275	–	1,229,794
Total expenses	$	3,258,780	281,354	639,468	(99,483)	4,080,119

See accompanying notes to consolidated financial statements.

2011

Housing development	Supportive programs	Total	Supporting services: Management and general	Fund-raising	Total	Total	2010
92,591	292,375	1,136,542	496,516	19,789	516,305	1,652,847	1,577,282
1,179	3,724	42,331	54,359	252	54,611	96,942	104,943
1,095	4,683	228,983	5,870	6,984	12,854	241,837	135,946
488	593	289,626	1,007	40	1,047	290,673	315,675
–	89,320	89,320	–	–	–	89,320	–
539	1,700	477,462	2,888	115	3,003	480,465	444,125
667	12,787	26,638	3,486	342	3,828	30,466	29,627
217	1,181	3,166	1,164	65	1,229	4,395	2,986
910	2,873	19,039	4,879	194	5,073	24,112	23,484
282	3,540	5,661	1,510	123	1,633	7,294	8,340
1,989	6,030	25,572	1,258	62	1,320	26,892	24,144
5,105	12,718	62,288	21,047	938	21,985	84,273	58,038
275	867	146,514	1,473	59	1,532	148,046	148,295
2,135	6,742	500,998	11,449	456	11,905	512,903	539,472
1,324	15,338	17,761	11	–	11	17,772	8,547
–	–	175,779	–	–	–	175,779	143,746
–	–	23,837	–	–	–	23,837	35,991
71	224	59,394	380	15	395	59,789	34,011
–	–	56,150	–	–	–	56,150	61,459
4,147	44,981	75,954	8,852	5,427	14,279	90,233	70,852
113,014	499,676	3,463,015	616,149	34,861	651,010	4,114,025	3,766,963
1,504	5,460	1,236,758	8,198	463	8,661	1,245,419	1,220,522
114,518	505,136	4,699,773	624,347	35,324	659,671	5,359,444	4,987,485

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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, 2011, PCRI provided services in the following major program areas:

Property Management – Property management represents that part of the organization responsible for maintaining the integrity of the organization's physical assets and the day-to-day management of rental operations. Activities include the processing of applications for housing, leasing available units, collection of rent, and monitoring court processes relating to lease violations. Property management also oversees the physical maintenance of PCRI's properties. This includes refurbishment of vacant units and emergency, routine, and preventative maintenance.

Housing Development – Housing development represents the administration and management of all new construction projects for PCRI. Activities include feasibility analyses of potential development projects, production and assembly of funding applications, selection and coordination of development team members, administration of construction draws, and the provision of due diligence documentation for lenders and funders.

Supportive Programs – PCRI's supportive programs provide a full array of culturally-specific services to residents. These services are mission and vision driven, and have been designed to move residents from surviving to thriving.

- *Homeownership Initiative* – A comprehensive program that includes intake and assessment, assistance with credit repair, individual counseling, monthly homebuyer club meetings, down payment or closing cost assistance, and HUD Certified homebuyer education. During the past year, 126 families participated in the program with 15 of those families purchasing their first home.

- *Homeownership Retention* – A program that provides an array of services to help families maintain homeownership and their equity position. Services are centered around the specific needs of a particular client and can include things such as loss mitigation, tax deferment, home repairs, and weatherization.

- *Individual Development Accounts (IDA)* – In partnership with CASA of Oregon, residents can participate in a 3 to 1 matched savings program designed to help families develop the habit of saving. Savings goals can be in one of four areas that include: homeownership, home repair, small business development or continuing education.

- *Small Business Development* – A comprehensive program designed to help residents start and maintain a small business.

- *Financial Education* – A well-rounded program that prepares individuals and families to better manage personal finances. The program has resulted in higher credit scores and an overall reduction in household debt.

- *Health Foods Access Initiative* – The Healthy Foods Access Initiative was implemented in 2010 for the purposes of identifying barriers PCRI residents experience in accessing healthy foods and to develop a strategic plan to address those barriers. In Phase I, a survey was completed by more than 300 residents addressing the issue of healthy foods access. Based on results of this survey, Phase II explores four areas to include: 1) Community Gardens as a vehicle for providing fresh fruits and vegetables; 2) Fresh Produce on Wheels; 3) Micro-Business Enterprise Development, related to fresh produce; and 4) solution-driven advocacy opportunities for PCRI residents.

- *Thriving Families* – A program that helps families with multiple challenges attain stability and become self-sufficient. Each family member develops goals and objectives to be reached within a specific timeframe. Families are connected with partner organizations that assist in the process.

- *Computer Labs* – Located in several PCRI apartment complexes, resident services coordinators are available to assist with job search, resume writing, information and referral, and provide training in basic computer skills.

- *Youth Services* – A multi-faceted program that supports youth in the development of educational, employment, and social skills. Services offered include a summer arts camp, youth fair, paid summer internships, homework assistance, and tutoring.

The Programs Department has been very successful in helping fulfill the PCRI vision of providing affordable housing and associated services that achieve family stability, self-sufficiency, and resident wealth creation.

3. Summary of Significant Accounting Policies

The significant accounting policies followed by PCRI are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

Basis of Presentation – PCRI has adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 958-605, *Revenue Recognition* and FASB ASC No. 958-205, *Presentation of Financial Statements*. Under these provisions, net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of PCRI and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations.

- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of PCRI and/or the passage of time.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Principles of Consolidation – The accompanying financial statements include the accounts and activities of PCRI and all entities over which PCRI has a controlling financial and economic interest. The latter category includes Park Terrace Community, LLC and PCRI Target Homes #1, LLC. PCRI is the sole member of PCRI Target Homes #1, LLC, which was established in December of 2009.

PCRI consolidates its 0.01% ownership interest in Park Terrace Community, LLC under standards promulgated under FASB ASC 810-20-25, *Investor's Accounting for an Investment in a Limited Partnership When the Investor is the Sole General Partner and the Limited Partners Have Certain Rights*. PCRI Target Homes #1, LLC is also fully consolidated in the accompanying financial statements.

All significant intercompany investments, accounts, and transactions between PCRI, PCRI Target Homes #1, LLC, and Park Terrace Community, LLC have been eliminated.

PCRI also is the sponsor of six "single asset" entities ("Projects") that receive financial support from the U.S. Department of Housing and Urban Development. The financial statements of these entities are not included in the accompanying consolidated financial statements because PCRI does not have exclusive control over these Projects nor does PCRI economically benefit from their operation. During the year ended December 31, 2011, revenues from these projects totaled $43,000, including $31,000 in resident service fees and $12,000 in oversight fees.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, such differences, if any, would not be significant.

Contributions – Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions of Long-Lived Assets – Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

In-Kind Contributions – A number of unpaid volunteers have made significant contributions of their time to develop and implement the organization's programs. In accordance with FASB ASC No. 958-605, significant services received which create or enhance a nonfinancial asset or require specialized skills that the organization would have purchased if not donated are recognized in the consolidated statement of activities. During the year ended December 31, 2011, $14,820 of contributed services in connection with capital improvements 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. No other in-kind contributions were recorded during the year ended December 31, 2011.

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, Plan and Equipment – Overall*. Under FASB ASC No. 360-10, impairment losses on long-lived assets, such as building, equipment, and furnishings, are recognized when events or changes in circumstances indicate that the undiscounted cash flows estimated to be generated by such assets are less than their carrying value and, accordingly, all or a portion of such carrying value may not be recoverable. Impairment losses are then measured by comparing the fair value of assets to their carrying amounts. No impairment losses were recorded during the year ended December 31, 2011.

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, 2011, advertising expenses totaled approximately $17,772.

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

A provision for income taxes on unrelated business income is recorded when required. PCRI Target Homes #1, LLC is a disregarded entity for tax purposes. Park Terrace Community, LLC is a multiple member, limited liability company. No provision has been made for income taxes, which are the responsibility of the members. For tax purposes, PCRI's open audit periods are for the years ended December 31, 2008 through 2010.

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, 2011.

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

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

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

Measure of Operations – The organization includes in its measure of operations all revenues and expenses that are integral to its programs and supporting activities, including net assets released from donor restrictions to support operating expenditures. The measure of operations excludes capital contributions, net assets released from donor restrictions for capital and other non-operating purposes, 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 17, 2012, which is the date the financial statements were available to be issued.

Summarized Financial Information for 2010 – The accompanying financial information as of and for the year ended December 31, 2010 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, 2011, tenant rents receivable is summarized as follows:

Tenant rents receivable	$	85,708
Less allowance for doubtful doubtful accounts		(66,415)
	$	19,293

5. Grants and Contracts Receivable

At December 31, 2011, grants and contracts receivable totaling $60,902 are expected to be collected in less than one year and are summarized as follows:

Government contracts	$	54,902
Foundation grants		6,000
	$	60,902

6. Note Receivable

At December 31, 2011, PCRI held a long-term, interest-free second mortgage in the amount of $60,000 issued to a low-income homebuyer. The note is due and payable upon either the unauthorized sale, refinancing, assignment, or conveyance of the property, or when the homeowner no longer utilizes the property as a primary residence. If in June of 2019, 2024, and 2029, no events have triggered repayment, the principal of the note is reduced to $45,000, $30,000 and $0, respectively. The note is not carried at present value due to the lack of a known or determinable repayment date.

7. Properties Held for Sale

During 2010, PCRI's efforts to provide affordable ownership opportunities to the community resulted in the development of four new homes. Construction of the homes was completed in 2010, and the homes were available for sale at December 31, 2010 to buyers earning 80% or less of the area's median income. During the year ended December 31, 2011, through PCRI Target Homes #1, LLC, three of the homes were sold to income-qualified buyers. In connection with the sale, $637,133 was used to repay a loan from the City of Portland and $172,867 of the long-term debt was converted to a grant (see note 11).

Properties held for sale totaled $269,685 at December 31, 2011, which include the final of the four homes developed through PCRI Target Homes #1, LLC and one former rental property. Both of these properties were sold subsequent to December 31, 2011.

8. Restricted Deposits and Funded Reserves

In accordance with the requirements of various agreements with its funders, PCRI maintains certain restricted cash reserves for the renewal and replacement of property, capital improvements, etc., totaling $870,915 at December 31, 2011. Generally, these reserves may only be used upon the authorization of the funders.

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

9. Buildings, Equipment, and Furnishings

Buildings, equipment, and furnishings at December 31, 2011 primarily represent administrative offices, computers, and other equipment, as follows:

Buildings	$ 1,009,945
Equipment and furnishings	264,997
	1,274,942
Less accumulated depreciation	(366,353)
	$ 908,589

10. Rental Properties

Rental properties at December 31, 2011 are summarized as follows:

Rental properties	$ 42,566,389
Less accumulated depreciation	(11,825,350)
	$ 30,741,039

PCRI also has entered into equity gap financing agreements with the Portland Development Commission ("PDC") and other governmental agencies for various rental properties. (The PDC agreements were subsequently assigned to, and assumed by, the Portland Housing Bureau). Under the terms of the agreements, if the properties are sold or transferred, PCRI will be contingently liable for the repayment of the equity gap contributions received up to an amount not to exceed $11,213,200 at December 31, 2011. See additional discussion in note 13.

In the aforementioned rental properties, several housing projects funded by restricted grants and contracts are represented. In accordance with contract stipulations, these properties must remain available to eligible low-income households in accordance with the *Low Income Housing Preservation and Resident Homeownership Act* and other standards. Failure to retain this housing exclusively for eligible low-income families and individuals could result in revocation of the grants and the return of all funds received plus interest since the date of the first advance.

In addition, in March of 2005, PCRI received donated land valued at $64,000 from Multnomah County, which is to be developed as affordable housing for qualifying tenants. As a condition of the donation, PCRI has signed a promissory note in the amount of $21,455, at 0.0% interest, due and payable on February 1, 2067. The obligation will be deemed to be satisfied in full on the maturity date without any repayment by PCRI, unless an event of default occurs prior to the maturity date. In the event of default, the entire principal on the note becomes due, with interest charged at 10% annually until the note is paid in full.

As of December 31, 2011, 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, 2011.

11. Construction Loan Payable

In 2010, PCRI (through PCRI Target Homes #1, LLC) obtained financing from the City of Portland in an amount not to exceed $1,100,000 for the rehabilitation and development of four units of single family housing to be held for sale (see note 7). $1,080,000 had been drawn as of December 31, 2011 for this purpose. During the year ended December 31, 2011 three of the four properties were sold to qualified buyers. As each property is sold, a portion of the sales proceeds received is used to repay a total of $810,000 of the funds borrowed, with the remaining balance converted into a grant, assuming the sale is to a qualified buyer. During the year ended December 31, 2011, $637,133 of the debt had been repaid and $172,867 of debt had been forgiven.

At December 31, 2011, one unit of single family housing remained with a loan payable balance of $270,000. The sale of the property closed on March 19, 2012.

12. Long-Term Debt

The following obligations were outstanding at December 31, 2011. All notes are secured by property unless otherwise noted.

Core Properties – U.S. Bank:

3.875%, due in monthly payments of $52,096 through August of 2013, with a balloon payment for the outstanding balance as of August of 2013 [1]	$	5,258,567
6.60%, due in monthly payments of $3,898 through March of 2016		513,044
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		151,013
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		95,364
Predevelopment loan, 4.0% due in quarterly payments of $2,500 interest only, and maturing in June of 2016, unsecured		250,000
	$	6,267,988

[1] Interest accrues at the rate of 7.875% annually, less 4.0%, for as long as the loan qualifies for the maximum State of Oregon housing loan tax credits provided under ORS 317.097. At December 31, 2011, the loan qualified for the housing tax credits. PCRI has granted a security interest in its properties to the City of Portland in exchange for the City agreeing to pay PCRI's obligations to U.S. Bank in the event of default. In addition, the note is secured by program revenues of certain community development block grants received from the federal government by the City of Portland, Bureau of Community Development. Net cash flow from funded properties and the proceeds received from property sales and property refinancing are used to repay principal.

Core Properties – City of Portland:

Restructured loans, 3.0%, due in monthly payments of $1,054 through December of 2025 [2]	$	224,739
Installment loans, 3.0%, due in monthly payments ranging from $40 to $1,271 through January of 2034		364,195
	$	588,934

[2] During the year ended December 31, 2006, twenty properties were refinanced through a note issued by PDC to provide funds for property renovation. A key element of the refinancing was the conversion of previously issued debt in the amount of $937,853 to a contingent liability financing agreement, resulting in a net recovery to the organization's net assets. The note is secured by trust deeds on the renovated properties. See additional discussion of conditional liabilities in note 13.

Core Properties – Key Bank:

4.55%, due in monthly payments of $1,825 through February of 2022, with a balloon payment for the outstanding balance as of February of 2022	$	264,835

Urban League Building:

Albina Community Bank, 8.14%, due in monthly payments of $6,471 through June of 2016, with a balloon payment for the outstanding balance as of June of 2016	$	762,163

Continued

PCRI II Portfolio:

City of Portland, 1.0%, due in monthly payments ranging from $1 to $271 through April of 2046	$	962,746
City of Portland, 1.0%, payments due annually to the extent excess cash flows are generated, due in full April of 2066 [3]		840,177
U.S. Bank, 5.0%, due in monthly payments of $1,315 through September of 2022		131,995
U.S. Bank, 8.75%, due in monthly payments of $1,472 through September of 2022		124,089
Chase, 3.58% to 8.00%, due in monthly payments ranging from $152 to $2,524 through March of 2036		854,521
City of Portland (HUD §108 loan), 5.50%, due in monthly payments of $5,369 through August of 2019		448,333
City of Portland (HUD §108 loan), 5.50%, due in monthly payments of $2,510 through August of 2019		231,667
	$	3,593,528

[3] Interest of 1.0% per annum is forgiven annually if certain reporting compliances are met. PCRI was in compliance with the reporting requirements for the year ended December 31, 2011. The properties did not generate excess cash flow during the year ended December 31, 2011; therefore, no payments were required.

Maya Angelou:

NOAH, 2.72%, due in monthly payments of $2,109 through April of 2026	$	300,072
City of Portland, 1.0%, due in monthly payments of $525 through April of 2046		183,568
City of Portland, 1.0%, payments due annually to the extent excess cash flows are generated, due in full April of 2066 [4]		159,823
	$	643,463

Park Terrace Community, LLC:

U.S. Bank, 3.85%, due in monthly payments of $3,696 through December of 2021	$	638,170
City of Portland, 3.0%, due in monthly payments of $1,517 through December of 2017		101,343
City of Portland, 0.0%, payments due annually to the extent excess cash flows are generated, due in full December of 2032 [4]		1,579,660
	$	2,319,173

[4] The property did not generate excess cash flow during the year ended December 31, 2011; therefore, no payments were required.

Total long-term debt	$14,440,084

Aggregate maturities of note principal on all debt for the five years subsequent to December 31, 2011 and thereafter are as follows:

Years Ending December 31,		
2012	$	689,173
2013		4,708,218
2014		296,112
2015		313,077
2016		331,901
Thereafter		8,101,603
	$	14,440,084

13. Conditional Liabilities

Throughout its history and that of its preceding organizations, PCRI has received significant financing in the form of contributions from PDC and other governmental agencies to assist in underwriting the acquisition, development, and renovation of its rental property portfolio. Many of these contributions are subject to "equity gap" financing agreements, which generally require that the funds be returned if the properties are sold or transferred. Additionally, if the operation of certain covered properties results in a surplus that exceeds a specific threshold (e.g., a specific debt service coverage ratio) in any single year, the excess must be shared equally with PDC. Accordingly, PCRI is contingently liable for the repayment of the "equity gap" contributions received up to an amount not to exceed $11,260,031 at December 31, 2011, if future performance or other actions of PCRI trigger these liability provisions, as follows:

Projects, Agreement Date	
N.E. Junior, February of 2002 [1]	$ 74,274
Emerson & Going, May of 2001 [2]	112,328
N.E. 24th & N.E. 127th, October of 2000 [3]	415,379
Scattered 8, June of 1999 [4]	202,301
20 scattered sites, April of 2007 [5]	1,308,149
Urban League building, June of 2006 [5]	1,615,697
ACDC transfer, March of 2006 [5]	5,476,756
Morris & Russet, March of 2005 [5]	286,500
Fab 4, June of 2003 [5]	316,833
Woolsey & Drummond, October of 2010 [6]	232,647
Alberta & Mason, October of 2010 [7]	464,796
OHCS	494,649
Multnomah County	224,568
Innovative Housing	35,154
	11,260,031
Less amounts payable at December 31, 2011 [8]	(46,831)
	$ 11,213,200

[1] Commitment to share in excess cash flow terminates at the earlier of when payments made to PDC under the agreement total the amounts originally disbursed or September of 2032.

[2] Commitment to share in excess cash flow terminates at the earlier of when payments made to PDC under the agreement total the amounts originally disbursed or December of 2031.

[3] Commitment to share in excess cash flow terminates at the earlier of when payments made to PDC under the agreement total the amounts originally disbursed or November of 2030.

[4] Commitment to share in excess cash flow terminates at the earlier of when payments made to PDC under the agreement total the amounts originally disbursed or October of 2029.

[5] Commitment to share in excess cash flow terminates when payments made to PDC under the agreement total the amounts originally disbursed by PDC.

[6] Commitment to share in excess cash flow terminates when payments made to PDC under the agreement total the amounts originally disbursed by PDC. Of the $133,427 received subject to an equity gap financing agreement during 2011, $9,548 was received as a development fee.

[7] Commitment to share in excess cash flow terminates when payments made to PDC under the agreement total the amounts originally disbursed by PDC. Of the $292,521 received subject to an equity gap financing agreement during 2011, $19,464 was received as a development fee.

[8] As of December 31, 2011, certain properties have generated cash flow in excess of the thresholds stated in the financing agreements, resulting in amounts payable to PDC totaling approximately $53,357. During 2009, $6,526 was paid to PDC and, upon the election of the funder, was reflected as a reduction in the principal balance of long-term debt. No other events have occurred that would cause the balance of these notes to become due and payable. Accordingly, no liability has been recorded in the accompanying financial statements beyond the cumulative cash flow sharing provision amount.

14. Lease Commitments

The organization leases office equipment under non-cancelable operating leases that expire in 2014. As of December 31, 2011, future minimum lease payments will total $4,196 each year from 2012 through 2014.

Lease expense for the year ended December 31, 2011 totaled $4,350.

15. Restrictions and Limitations on Net Asset Balances

At December 31, 2011, temporarily restricted net assets are available for the following purposes and programs:

Homeownership	$	98,130
Dancing with the Stars event		8,200
E-Newsletter		7,803
Resident services		5,871
	$	120,004

Limited Partner's Interest in Park Terrace Community, LLC

In 2006, PCRI adopted the requirements of FASB ASC No. 810-20-25, *Consolidation*. In accordance with this standard, the organization consolidates Park Terrace Community, LLC, an entity in which PCRI serves as managing member, with an ownership interest of 0.01%. The investor partner's interest in Park Terrace Community, LLC totaled $1,217,265 at December 31, 2011.

16. Net Assets Released from Restrictions

During the year ended December 31, 2011, 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:		
Property taxes	$	100,000
Healthy foods access		49,361
Project development		29,012
Mortgage assistance		12,438
Homeownership		9,896
Youth internship		8,139
Resident services		7,778
E-Newsletter		7,197
		223,821
For capital purposes		477,608
	$	701,429

17. Contingencies

Amounts received or receivable under PCRI's contracts with the City of Portland and other governmental agencies are subject to audit and adjustment by those agencies. Any expenditures or claims disallowed as a result of such audits would become a liability of PCRI's general operating funds. In the opinion of PCRI's management, any adjustments that might result from such audit would not be material to PCRI's overall financial statements.

In addition, PCRI has agreed to guarantee the obligations of Park Terrace Community, LLC to U.S. Bank in accordance with the guaranty terms, until Park Terrace Community, LLC satisfies certain conditions set forth in the guaranty agreement.

PCRI also has entered into a development guaranty agreement with Park Terrace Community, LLC, as described in the operating agreement. PCRI has agreed to assume all liabilities of development of the Park Terrace Apartments (the "Apartments") to the extent necessary to complete the rehabilitation of the Project. Payments made in accordance with the agreement are made without any right of repayment.

Additionally, PCRI has agreed to pay all operational and maintenance expenses of the Apartments in excess of gross collections to the extent necessary to maintain break-even operations, as defined in the agreement. Payments made in accordance with the agreement through the operating guaranty period are non-interest bearing and repayable in accordance with provisions established in the operating agreement.

18. Expenses

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

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

19. Retirement Plan

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

20. Statement of Cash Flows Reconciliation

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

Increase in net assets	$	243,309
Adjustments to reconcile the increase in net assets to net cash provided by operating activities:		
Depreciation		1,233,811
Amortization of capitalized loan fees		11,608
Grants and contributions restricted to the acquisition of capital assets		(608,279)
Gain on sale of capital assets		(239,411)
In-kind capital contributions		(14,820)
Forgiveness of debt		(172,867)
Net changes in:		
Tenant rents receivable		18,913
Grants and contracts receivable		175,485
Other receivables		(38,645)
Prepaid expenses, deposits, and other assets		(26,327)
Accounts payable and accrued expenses (including $1,506 in changes in accrued interest payable)		(190,202)
Rents and fees received in advance		11,259
Tenant security deposits		20,938
Total adjustments		181,463
Net cash provided by operating activities	$	424,772

■

GOVERNING BOARD AND MANAGEMENT

Board of Directors

Karen J. Gibson, *President*
Associate Professor of Urban Studies and Planning
Portland State University

Michael Parkhurst, *Vice President*
Senior Planner in Urban Renewal
City of Gresham

Gregory Brown, *Treasurer*
Vice President & Commercial
Relationship Manager
Albina Community Bank

Preston Greene, *Secretary*
Sales Associate
CB Richard Ellis

Algie Gatewood
President, Cascade Campus
Portland Community College

Melvin Oden-Orr,
Attorney-at-Law
Oden-Orr Law

Management and Staff

Maxine Fitzpatrick
Executive Director

Deborah Turner
Deputy Director

Lori Higgins
Fiscal Manager

Kim Tran
Accounts Payable/General Ledger

Tamara Trofimenko
Accounts Payable/Payroll

David Zimmerman
Asset Manager

Cyndi Natalello
Director of Property Management

Kimberley Mason
Property Management

Toi Hopson
Property Management

Ben Loftis
Housing Developer

Charles Funches
Homeownership Coordinator

Travis Phillips
Project Manager

INQUIRIES AND OTHER INFORMATION

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

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

Website
www.pcrihome.org