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, 2016 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, 2016, 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, 2016, 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 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 24, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 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 June 5, 2017 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.

Gary & Coe + Co. LLP

June 5, 2017

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016

(WITH COMPARATIVE AMOUNTS FOR 2015)

	2016	2015
Assets:		
Cash and cash equivalents	$ 2,840,810	2,185,156
Tenant rents receivable *(note 4)*	103,083	50,654
Grants and contracts receivable *(note 5)*	388,178	163,822
Note receivable *(note 6)*	60,000	60,000
Other receivables	9,101	19,461
Prepaid expenses, deposits, and other assets	169,467	97,998
Restricted deposits and funded reserves *(note 7)*	1,349,465	1,162,894
Buildings, equipment, and furnishings *(note 8)*	753,358	770,149
Rental properties *(notes 9, 10, and 11)*	31,934,248	30,506,887
Total assets	$ 37,607,710	35,017,021
Liabilities:		
Accounts payable and accrued expenses	357,811	316,317
Construction payable	280,592	345,373
Rents and fees received in advance	44,491	31,261
Tenant security deposits	291,505	283,466
Long-term debt *(note 10)*	15,534,870	13,504,101
Conditional liabilities *(note 11)*		
Total liabilities	16,509,269	14,480,518
Net assets:		
Unrestricted:		
Available for general operations and programs	2,291,795	1,689,852
Restricted deposits and funded reserves	1,075,189	920,075
Limited partner's interest in Park Terrace Community, LLC *(note 12)*	609,767	665,671
Net investment in capital assets	16,742,890	17,249,174
Total unrestricted	20,719,641	20,524,772
Temporarily restricted *(note 12)*	378,800	11,731
Total net assets	21,098,441	20,536,503
Other commitments and contingencies *(notes 14 and 16)*		
Total liabilities and net assets	$ 37,607,710	35,017,021

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	2016			
	Unrestricted	Temporarily Restricted	Total	2015
Operating revenues, gains, and other support:				
Rent revenue	$ 4,995,969	–	4,995,969	4,795,423
Private grants and contributions	27,576	63,810	91,386	130,487
Government grants and contracts	6,061	516,389	522,450	529,682
Special events, net of direct costs of $87,759 in 2016 and $56,321 in 2015	7,296	–	7,296	16,647
Property management fees	91,624	–	91,624	97,176
Loss on disposal of capital assets	(13,080)	–	(13,080)	–
Interest income	5,860	–	5,860	4,199
Other income	269,707	–	269,707	102,004
Total operating revenues and gains	5,391,013	580,199	5,971,212	5,675,618
Net assets released from restrictions to fund operations *(note 13)*	563,130	(563,130)	–	–
Total operating revenues, gains, and other support	5,954,143	17,069	5,971,212	5,675,618
Expenses *(note 15)*:				
Program services:				
Property management	4,212,439	–	4,212,439	4,094,955
Housing development	218,546	–	218,546	205,290
Supportive programs	659,867	–	659,867	615,110
Total program services	5,090,852	–	5,090,852	4,915,355
Supporting services:				
Management and general	610,322	–	610,322	637,452
Fundraising	58,100	–	58,100	56,587
Total supporting services	668,422	–	668,422	694,039
Total expenses	5,759,274	–	5,759,274	5,609,394
Operating results	$ 194,869 [A]	17,069	211,938	66,224

[A] Includes depreciation and amortization expenses of $1,443,284.

Continued

CONSOLIDATED STATEMENT OF ACTIVITIES, CONTINUED

YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	2016			
	Unrestricted	Temporarily Restricted	Total	2015
Non-operating activities:				
Conversion of equity gap contributions into conventional debt	$ –	–	–	(970,000)
Equity gap contribution – current capital projects	–	–	–	4,047
Private capital grants	–	350,000	350,000	60,713
Government capital grants	–	–	–	61,236
Increase in excess cash flow liability	–	–	–	(56,029)
Total non-operating activities	–	350,000	350,000	(900,033)
Increase (decrease) in net assets	194,869	367,069	561,938	(833,809)
Net assets at beginning of year	20,524,772	11,731	20,536,503	21,370,312
Net assets at end of year	$ 20,719,641	378,800	21,098,441	20,536,503

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

		Program services				
		Property management				
		Core properties	Maya Angelou	Park Terrace, LLC	Consoli-dation elimination entries	Total
Payroll and related expenses	$	726,841	109,404	100,880	(35,152)	901,973
Professional services		53,192	19,468	9,997	–	82,657
Contract services		57,837	38,107	131,518	(67,499)	159,963
Property maintenance		180,895	–	102,515	–	283,410
Occupancy		401,047	58,304	101,224	–	560,575
Office supplies		21,062	4,389	2,787	–	28,238
Postage		1,824	–	–	–	1,824
Telephone		11,176	5,706	5,892	–	22,774
Printing		3,155	–	–	–	3,155
Travel		23,614	–	–	–	23,614
Equipment rental and repairs		–	5,688	–	–	5,688
Financial assistance		–	–	–	–	–
Insurance		103,120	7,414	10,158	–	120,692
Interest		412,311	8,441	27,704	(6,000)	442,456
Marketing and advertising		40,726	–	1,785	–	42,511
Property taxes		100,066	–	350	–	100,416
Property management		2,601	–	4,400	–	7,001
Bank and loan charges		3,225	–	–	–	3,225
Provision for doubtful collection of tenant receivables		–	12,650	3,050	–	15,700
Other		8,207	6,343	8,125	–	22,675
Total expenses before depreciation and amortization		2,150,899	275,914	510,385	(108,651)	2,828,547
Depreciation and amortization expense		1,159,041	60,626	164,225	–	1,383,892
Total expenses	$	3,309,940	336,540	674,610	(108,651)	4,212,439

See accompanying notes to consolidated financial statements.

2016

Housing develop-ment	Supportive programs	Total	Supporting services: Management and general	Supporting services: Fundraising	Supporting services: Total	Total	2015
109,407	254,765	1,266,145	444,831	39,731	484,562	1,750,707	1,631,110
8,668	15,173	106,498	26,493	2,366	28,859	135,357	109,837
57,158	27,234	244,355	36,985	3,903	40,888	285,243	414,627
909	2,117	286,436	3,697	330	4,027	290,463	341,638
3,342	8,988	572,905	5,218	466	5,684	578,589	561,374
2,894	7,789	38,921	11,725	1,047	12,772	51,693	43,910
271	630	2,725	1,101	98	1,199	3,924	5,520
1,287	3,595	27,656	5,231	467	5,698	33,354	31,594
475	1,654	5,284	1,931	565	2,496	7,780	7,732
4,469	13,377	41,460	13,867	1,239	15,106	56,566	64,482
–	–	5,688	–	–	–	5,688	12,136
–	268,939	268,939	–	–	–	268,939	141,246
997	2,323	124,012	4,055	362	4,417	128,429	130,086
4,513	10,509	457,478	18,349	1,639	19,988	477,466	475,228
15,002	723	58,236	7	911	918	59,154	17,494
3	8	100,427	14	1	15	100,442	137,490
301	701	8,003	1,224	109	1,333	9,336	13,085
344	820	4,389	1,397	1,811	3,208	7,597	15,620
–	–	15,700	–	–	–	15,700	31,068
854	22,671	46,200	3,087	276	3,363	49,563	48,129
210,894	642,016	3,681,457	579,212	55,321	634,533	4,315,990	4,233,406
7,652	17,851	1,409,395	31,110	2,779	33,889	1,443,284	1,375,988
218,546	659,867	5,090,852	610,322	58,100	668,422	5,759,274	5,609,394

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	2016	2015
Cash flows from operating activities:		
Cash received from tenants, contractors, and donors	$ 6,002,246	5,601,135
Interest income received	5,860	4,199
Cash paid to employees and suppliers	(3,909,040)	(3,865,506)
Interest paid	(455,895)	(470,403)
Net cash provided by operating activities	1,643,171	1,269,425
Cash flows from investing activities:		
Capital expenditures	(2,931,286)	(1,609,379)
Net deposits to restricted deposits and funded reserves	(186,571)	(12,052)
Net cash used in investing activities	(3,117,857)	(1,621,431)
Cash flows from financing activities:		
Repayment of note principal	(830,213)	(579,524)
Proceeds received upon the issuance of debt	2,860,553	1,471,760
Grants and contributions restricted for capital investment	100,000	153,832
Net cash provided by financing activities	2,130,340	1,046,068
Net increase in cash and cash equivalents	655,654	694,062
Cash and cash equivalents at beginning of year	2,185,156	1,491,094
Cash and cash equivalents at end of year	$ 2,840,810	2,185,156

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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, 2016, 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, 2016, revenues from these projects totaled $53,240, including $44,240 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 its 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, 2016, no donations of in-kind 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, 2016, 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 these provisions, 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, 2016.

Debt Issuance Costs — Costs related to the issuance of debt are amortized over the terms of the various loans. Unamortized debt issuance costs are reported as a direct reduction of the associated debt liability

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, 2016, advertising expenses totaled approximately $59,154.

Income Taxes – PCRI is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law, and derives its public charity status as an organization described in Sections 170(b)(1)(A)(vi) and 509(a)(1) of the Internal Revenue Code.

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, 2016, uninsured cash balances, including restricted deposits and funded reserves, totaled $3,057,201.

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 June 5, 2017, which is the date the financial statements were available to be issued.

Summarized Financial Information for 2015 – The accompanying financial information as of and for the year ended December 31, 2015 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, 2016, tenant rents receivable is summarized as follows:

Tenant rents receivable	$ 157,731
Less allowance for doubtful accounts	(54,648)
	$ 103,083

5. Grants and Contracts Receivable

At December 31, 2016, grants and contracts receivable totaled $388,178, and are expected to be collected in less than one year.

6. Note Receivable

At December 31, 2016, 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 $1,349,465 at December 31, 2016. 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, 2016 primarily represent administrative offices, computers, and other equipment, as follows:

Buildings	$ 1,016,750
Equipment and furnishings	372,794
	1,389,544
Less accumulated depreciation	(636,186)
	$ 753,358

9. Rental Properties

Rental properties at December 31, 2016 are summarized as follows:

Rental properties	$ 49,990,931
Less accumulated depreciation	(18,056,683)
	$ 31,934,248

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, 2016. See additional discussion in note 11.

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

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

As of December 31, 2016, 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, 2016.

10. Long-Term Debt

The following obligations were outstanding at December 31, 2016. 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	$ 5,697,784
Core Properties – U.S. Bank:	
4.95%, due in monthly payments of $3,520 through August of 2031	437,825
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	127,330
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	85,675
Pre-development loan, 4.0% due in quarterly payments of $2,500 interest only, and maturing in June of 2021, unsecured	250,000
	900,830
Core Properties – City of Portland:	
Restructured loans, 3.0%, due in monthly payments of $1,054 through December of 2025 [1]	192,922
Installment loans, 3.0%, due in monthly payments ranging from $40 to $1,271 through January of 2034	230,303
	423,225
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	211,656
Urban League Building:	
Albina Community Bank, 4.95%, due in monthly payments of $5,123 through August of 2031	638,830
PCRI II Portfolio:	
U.S. Bank, 5.0%, due in monthly payments of $1,315 through September of 2022	80,480
U.S. Bank, 8.75%, due in monthly payments of $1,472 through September of 2022	82,719
Chase, 3.98%, due in monthly payments of $2,524 through May of 2021	341,088

Continued

City of Portland (HUD §108 loan), Variable rate, due in monthly payments of $2,717 through August of 2019	122,917
City of Portland, 0.0%, payments due annually to the extent excess cash flows are generated, due in full April of 2077	1,387,833
City of Portland, 1.0%, due in monthly payments of $3,219 through January of 2036	676,201
City of Portland, 0.0%, payments due annually to the extent excess cash flows are generated, due in full March of 2076	1,428,494
Grant Warehouse loan, 0.0%, due in June of 2017	871,050
Pacific Continental, 4.72%, due in monthly payments of $1,142 through September of 2031	199,935
	5,190,717
Maya Angelou:	
NOAH, 2.72%, due in monthly payments of $2,109 through April of 2026	208,370
City of Portland, 1.0%, Original note of $270,000 due in monthly payments of $1,242 through January of 2035	246,400
	454,770
Park Terrace Community, LLC:	
U.S. Bank, 3.85%, due in monthly payments of $3,696 through December of 2021	529,439
City of Portland, 3.0%, due in monthly payments of $1,517 through December of 2017	19,624
City of Portland, 0.0%, payments due annually to the extent excess cash flows are generated, due in full December of 2032	1,579,660
	2,128,723
Total long-term debt	15,646,535
Less capitalized debt issuance costs, net [2]	(111,665)
	$ 15,534,870

[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 11.

[2] Financing fees associated with the permanent financing have been recorded at cost and are being amortized over the term of the note. Accumulated amortization at December 31, 2016 totaled $103,885.

Aggregate maturities of note principal on all debt for the five years subsequent to December 31, 2016 and thereafter are as follows:

Years Ending December 31,	
2017	$ 1,250,940
2018	445,979
2019	365,244
2020	376,352
2021	333,423
Thereafter	12,874,597
	$ 15,646,535

11. Conditional Liabilities

Throughout its history and that of its preceding organizations, PCRI has received significant financing in the form of contributions from PHB and other governmental agencies to assist in underwriting the acquisition, development, and renovation of its rental property portfolio. Many of these contributions are subject to "equity gap" financing agreements, which generally require that the funds be returned if the properties are sold or transferred. Additionally, if the operation of certain covered properties results in a surplus that exceeds a specific threshold (e.g., a specific debt service coverage ratio) in any single year, the excess must be shared equally with PHB. The commitment to share in excess cash flow under the majority of agreements terminates when payments made to PHB under the agreement total the amounts originally disbursed by PHB. However, under certain agreements, the commitment to share in excess cash flow terminates at the earlier of when payments made to the PHB under the agreement equal 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, 2016, if future performance or other actions of PCRI trigger these liability provisions, as follows:

Equity gap contributions received	$ 13,613,515
Less amounts payable at December 31, 2016	(31,049)
	$ 13,582,466

As of December 31, 2016, certain properties have generated cash flow in excess of the thresholds stated in the financing agreements, resulting in amounts payable to PHB totaling approximately $31,049. No other events have occurred that would cause the balance of these notes to become due and payable. Accordingly, no liability has been recorded in the accompanying financial statements beyond the cumulative cash flow sharing provision amount.

12. Restrictions and Limitations on Net Asset Balances

At December 31, 2016, temporarily restricted net assets are available for the following purposes and programs:

Grant Warehouse Project	$ 250,000
Pathways 1000 Project	100,000
Other programs	6,300
Future periods	22,500
	$ 378,800

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 limited investor partner's interest in Park Terrace Community, LLC totaled $609,767 at December 31, 2016.

13. Net Assets Released from Restrictions

During the year ended December 31, 2016, $563,130 of net assets were released from temporary restrictions for operating purposes by incurring expenses in satisfaction of the restricted purposes specified by the organization's donors, or by the occurrence of other events specified by donors.

14. 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.

15. Expenses

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

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

16. Retirement Plan

PCRI provides all employees with the opportunity to contribute to a tax-sheltered annuity plan, as described in Section 403(b) of the Internal Revenue Code. All employees may make voluntary contributions to the plan on a pre-tax basis, up to the limits allowed by law, from their first day of employment. Employees select among several investment options. The organization 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 $22,869 for the year ended December 31, 2016.

17. Reclassification of 2015 Comparative Totals

Effective January 1, 2016, PCRI adopted FASB ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, a new standard which requires that debt issuance costs be presented in the statement of financial position as a direct reduction of the associated debt liability. Prior to this change, debt issuance costs were reported in the statement of financial position as a deferred charge (i.e., an asset). In addition to this change for the year ended December 31, 2016, comparative 2015 amounts have also been reclassified by $112,094 to conform with the 2015 presentation.

Certain other 2015 amounts presented herein have been reclassified to conform to the 2016 presentation.

18. 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	$ 561,938
Adjustments to reconcile the increase in net assets to net cash provided by operating activities:	
Depreciation	1,427,053
Amortization of capitalized interest	11,602
Amortization of capitalized loan fees	4,629
Provision for doubtful collection of tenant receivables	15,700
Grants and contributions restricted to the acquisition of capital assets	(100,000)
Loss on the disposal of capital assets	13,080
Net changes in:	
Tenant rents receivable	(68,129)
Grants and contracts receivable	(224,356)
Other receivables	10,360
Prepaid expenses, deposits, and other assets	(71,469)
Accounts payable and accrued expenses (including $21,571 in changes in accrued interest payable)	41,494
Rents and fees received in advance	13,230
Tenant security deposits	8,039
Total adjustments	1,081,233
Net cash provided by operating activities	$ 1,643,171

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2016

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:				
Housing Counseling Assistance Program	n/a	14.169	$ –	15,000
Passed through the City of Portland, Portland Housing Bureau:				
Community Development Block Grants/Entitlement Grants	311008	14.218	–	1,428,494
Community Development Block Grants/Entitlement Grants	32001217	14.218	–	137,432
Community Development Block Grants/Entitlement Grants	32001384	14.218	–	79,714
Total CFDA 14.218			–	1,645,640
Passed through the City of Portland, Portland Housing Bureau:				
HOME Investment Partnerships Program	3110020	14.239	–	1,387,833
HOME Investment Partnerships Program	32001241	14.239	–	28,000
Total CFDA 14.239			–	1,415,833
Total expenditures of federal awards			**$ –**	**3,076,473**

See accompanying notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2016

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, 2016. 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

PCRI has issued a note to the City of Portland 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 in December of 2075. Of the $1,500,000 note, $1,371,210 has been drawn down and remains outstanding at December 31, 2016.

In addition, PCRI has issued a note to the City of Portland in connection with the HOME Investment Partnerships 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 in April of 2077. Of the $1,486,254 note, $1,387,833 has been drawn down and $1,257,733 remains outstanding at December 31, 2016.

Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule of Expenditures of Federal Awards. The following summarizes the organization's loan program-related activities for the year ended December 31, 2016:

Community Development Block Grants/ Entitlement Grants program, CFDA 14.218:		
Balance at December 31, 2015	$	1,235,782
Expenditures in 2016		192,712
Balance at December 31, 2016		1,428,494
HOME Investment Partnerships Program, CFDA 14.239:		
Balance at December 31, 2015	$	–
Expenditures in 2016		1,387,833
Balance at December 31, 2016		1,387,833
Total loan programs	$	2,816,327

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GaryMcGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

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, 2016, 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 June 5, 2017.

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 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.

June 5, 2017

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, 2016. 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, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item no. 2016-001. Our opinion on each major federal program is not modified with respect to these matters.

Portland Community Reinvestment Initiatives, Inc.'s response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Portland Community Reinvestment Initiatives, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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, we identified a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item no. 2016-001, that we considered to be a significant deficiency.

Portland Community Reinvestment Initiatives, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Portland Community Reinvestment Initiatives, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Guy i Cox & Co. LLP

June 5, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2016

Section 1 – Summary of Auditors' Results

Financial Statements

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

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

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

4. Noncompliance that is material to the 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) – **yes**

Identification of Major Federal Programs

- **U.S. Department of Housing and Urban Development, HOME Investment Partnership Program (CFDA No. 14.239)**

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 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 – **finding no. 2016-001**

Continued

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

YEAR ENDED DECEMBER 31, 2016

Finding number:	**2016-001**
CFDA numbers:	**All**
Program name:	**n/a**
Federal agency:	**U.S. Department of Housing and Urban Development**
Pass-through entity:	**n/a**
Grant number:	**n/a**
Federal award year:	**n/a**
Finding type:	**Significant deficiency**
Compliance requirement:	**Subpart D – Post Federal Awards Requirements, Standards for Financial and Program Management, §200.302 (b) Financial Management, & Subpart F – Audit Requirements, and §200.510, Financial Statements**
Questioned costs:	**None**
Repeat finding:	**n/a**

Criteria: 2 CFR Part 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart D – *Post Federal Awards Requirements, Standards for Financial and Program Management*, and §200.302 (b), *Financial Management*. Identification, in its accounts, of all federal awards received and expended and the federal program under which they were received. Federal program and federal award identification must include, as applicable, the CFDA title and number, federal award identification number, name of the federal agency, and name of the pass-through entity, if any.

Additional criteria: 2 CFR Part 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart F – *Audit Requirements*, §200.510, *Financial Statements*. Schedule of Expenditures of Federal Awards – The auditee also must prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements, which must include the total federal awards expended as determined in accordance with §200.502, *Basis for Determining Federal Awards Expended*. At a minimum, the schedule must provide total federal awards expended for each individual federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs, also provide the total for the cluster.

Condition: During the audit, we noted that the organization did not maintain a complete schedule of expenditures of federal awards.

Effect: Failure to prepare an accurate and complete schedule of expenditures of federal awards results in noncompliance with 2 CFR Part 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart D – *Post Federal Awards Requirements, Standards for Financial and Program Management*, §200.302, *Financial Management*, and Subpart F – *Audit Requirements*, §200.510, *Financial Statements*.

Continued

Audit Recommendation: We recommend that the organization document and implement policies and procedures to ensure the schedule of expenditures of federal awards is accurate and complete in accordance with 2 CFR Part 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart D – *Post Federal Awards Requirements, Standards for Financial and Program Management*, §200.302, *Financial Management* and Subpart F – *Audit Requirements*, §200.510, *Financial Statements*, in order to obtain accurate calculations of major federal programs for the single audit and to ensure the organization is in compliance with all of the reporting requirements as to identify the source and application of funds for federally-funded activities.

Management's Response: Finding 2016-001 has been resolved. PCRI has implemented procedures to ensure that the schedule of expenditures of federal awards is accurate and complete. Upon award of all grant funds, PCRI staff determine the source of the funding and, when federally sourced, document the grant's CFDA # and Pass Through #. Allowable expenses are tracked by grant at the time of entry and reviewed by accounting staff monthly. The schedule of expenditures of federal awards is updated periodically and with new additions to ensure completeness and accuracy.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2016

There were no findings reported in the prior audit.

GOVERNING BOARD AND MANAGEMENT

Board of Directors

Dr. T. Allen Bethel, *President*

Andy Cotugno, *Vice-President*
Chief Operating Officer/Senior Policy Advisor
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Kathy Swift
Senior Vice President and Commercial Banking
Pacific Continental Bank

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