

**Portland Community
Reinvestment Initiatives, Inc.**

Consolidated Financial Statements and Other
Information as of and for the Year Ended December 31, 2007
and Report of Independent Accountants

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

TABLE OF CONTENTS

	Page
Report of Independent Accountants	3
Financial Statements:	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities	5
Consolidated Statement of Cash Flows	7
Consolidated Statement of Functional Expenses	8
Notes to Consolidated Financial Statements	10
Other Information:	
Governing Board and Management	21
Inquiries and Other Information	22

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, 2007, 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. We did not audit the financial statements of certain consolidated entities, which reflect total assets constituting 11.4% and total revenues constituting 9.7% of the related consolidated totals. Those statements were audited by other auditors whose reports have been provided to us, and our opinion, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors. The prior year summarized comparative information has been derived from the consolidated financial statements of Portland Community Reinvestment Initiatives, Inc. as of December 31, 2006 and, in our report dated August 31, 2007, 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 2007 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, 2007, 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.



June 6, 2008

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2007

(WITH COMPARATIVE AMOUNTS FOR 2006)

	2007	2006
Assets:		
Cash and cash equivalents	\$ 617,440	1,025,566
Tenant rents receivable (<i>note 4</i>)	79,486	84,544
Grants and contracts receivable (<i>note 5</i>)	58,947	171,674
Prepaid expenses and deposits	18,133	28,319
Restricted deposits and funded reserves (<i>note 6</i>)	912,908	801,993
Building, equipment and furnishings (<i>note 7</i>)	1,030,419	1,046,037
Rental properties (<i>notes 8, 9 and 10</i>)	33,653,512	34,266,733
Total assets	\$ 36,370,845	37,424,866
Liabilities:		
Accounts payable and accrued expenses	358,667	304,026
Construction payable	-	152,238
Rents received in advance	35,065	20,779
Tenant security deposits	220,722	218,116
Reserves for property taxes and other governmental obligations (<i>note 11</i>)	25,727	32,803
Long-term debt (<i>note 9</i>)	17,059,750	18,542,551
Conditional liabilities (<i>note 10</i>)		
Total liabilities	17,699,931	19,270,513
Net assets:		
Unrestricted:		
Available for general operations and programs	266,066	815,589
Restricted deposits and funded reserves	512,587	433,311
Limited partner's interest in Park Terrace Community, LLC (<i>note 13</i>)	1,430,931	1,487,933
Net investment in capital assets	16,432,587	15,308,425
Total unrestricted	18,642,171	18,045,258
Temporarily restricted (<i>note 13</i>)	28,743	109,095
Total net assets	18,670,914	18,154,353
Other commitments and contingencies (<i>notes 12, 15 and 18</i>)		
Total liabilities and net assets	\$ 36,370,845	37,424,866

See accompanying notes to consolidated financial statements.

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

	2007			2006
	Unrestricted	Temporarily Restricted	Total	
Operating revenues, gains and other support:				
Rent revenue	\$ 3,881,128	–	3,881,128	3,388,496
Private grants and contributions	1,604	33,500	35,104	169,211
Government grants	13,568	117,860	131,428	330,187
Property management fees	15,677	–	15,677	12,439
Gain (loss) on property sales and disposals	–	–	–	294,192
Interest income	31,710	–	31,710	21,685
Other income	97,527	–	97,527	302,228
Total operating revenues and gains	4,041,214	151,360	4,192,574	4,518,438
Net assets released from restrictions to fund operations (<i>note 14</i>)	231,712	(231,712)	–	–
Total operating revenues, gains and other support	4,272,926	(80,352)	4,192,574	4,518,438
Expenses (<i>note 16</i>):				
Program services:				
Property management	4,275,198	–	4,275,198	3,537,504
Housing development	32,503	–	32,503	156,130
Supportive programs	106,613	–	106,613	46,606
Total program services	4,414,314	–	4,414,314	3,740,240
Supporting services:				
Management and general	385,601	–	385,601	496,961
Fundraising	38,999	–	38,999	22,378
Total supporting services	424,600	–	424,600	519,339
Total expenses	4,838,914	–	4,838,914	4,259,579
Operating results	\$ (565,988)^[A]	(80,352)	(646,340)	258,859

^[A] Includes depreciation expense of \$1,143,362.

Continued

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES, CONTINUED

YEAR ENDED DECEMBER 31, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

	2007			2006
	Unrestricted	Temporarily Restricted	Total	
Non-operating activities:				
Contribution of the net assets of Albina Community Development Corporation	\$ -	-	-	11,706,423
Equity gap contributions for new project developments (<i>note 10</i>)	187,048	-	187,048	1,178,834
Restructure of long-term debt portfolio with PDC (<i>notes 9 and 10</i>)	937,853	-	937,853	-
Grants and contributions restricted to the acquisition of capital assets	-	70,000	70,000	-
Excess cash flow obligations (<i>note 10</i>)	(32,000)	-	(32,000)	-
Net assets released from restrictions for capital purposes (<i>note 14</i>)	70,000	(70,000)	-	-
Total non-operating activities	1,162,901	-	1,162,901	12,885,257
Increase (decrease) in net assets	596,913	(80,352)	516,561	13,144,116
Cumulative effect of a change in accounting principle	-	-	-	1,587,638
Net assets at beginning of year, as restated (<i>note 20</i>)	18,045,258	109,095	18,154,353	3,422,599
Net assets at end of year	\$ 18,642,171	28,743	18,670,914	18,154,353

See accompanying notes to consolidated financial statements.

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

	2007	2006
Cash flows from operating activities:		
Cash received from tenants, contractors and donors	\$ 4,292,935	3,889,854
Interest income received	31,710	24,882
Cash paid to employees and suppliers	(3,040,051)	(2,574,690)
Interest paid	(616,120)	(575,420)
Net cash provided by operating activities	668,474	764,626
Cash flows from investing activities:		
Capital expenditures	(677,785)	(2,248,738)
Proceeds from the sale of property	-	406,602
Net deposits to restricted cash reserves	(110,915)	(309,302)
Cash received in the contribution of Albina Community Development Corporation net assets	-	160,090
Cash resulting from the consolidation of Park Terrace Community, LLC	-	10,097
Proceeds received from escrow deposit	-	17,000
Net cash used in investing activities	(788,700)	(1,964,251)
Cash flows from financing activities:		
Repayment of note principal	(544,948)	(507,080)
Proceeds received on the issuance of debt	-	1,079,252
Grants and contributions restricted for long-term capital investment	257,048	1,338,834
Net cash provided by (used in) financing activities	(287,900)	1,911,006
Net increase (decrease) in cash and cash equivalents	(408,126)	711,381
Cash and cash equivalents at beginning of year	1,025,566	314,185
Cash and cash equivalents at end of year	\$ 617,440	1,025,566

See accompanying notes to consolidated financial statements.

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

	2007					
	Property management					Program services
	Core properties	Maya Angelou	Infinity properties	Park Terrace, LLC	Consolidation elimination entries	Total
Payroll and related expenses	\$ 733,527	29,819	-	49,357	-	812,703
Professional services	60,475	18,950	100,686	10,988	-	191,099
Contract services	62,532	23,600	174,191	-	-	260,323
Property maintenance	120,754	6,235	114,350	133,727	-	375,066
Occupancy	-	32,624	94,026	6,300	-	132,950
Office supplies	10,841	-	-	2,482	-	13,323
Postage	2,412	-	1,494	-	-	3,906
Telephone	8,132	1,589	1,647	4,690	-	16,058
Printing	5,884	-	-	-	-	5,884
Travel	23,600	-	-	-	-	23,600
Equipment rental and repairs	926	-	-	-	-	926
Insurance	71,706	9,940	44,738	16,446	-	142,830
Interest	419,834	12,297	136,335	38,629	(6,000)	601,095
Marketing and advertising	7,214	103	-	294	-	7,611
Property taxes	39,665	-	7,293	-	-	46,958
Property management	261,248	-	-	146,918	(4,152)	404,014
Bank and loan charges	23,775	-	-	-	-	23,775
Provision for doubtful collection of tenant receivables	-	287	-	4,797	-	5,084
Other	42,772	1,882	71,344	-	(42,741)	73,257
Total expenses before depreciation	1,895,297	137,326	746,104	414,628	(52,893)	3,140,462
Depreciation and amortization expense	571,623	59,647	337,967	165,499	-	1,134,736
Total expenses	\$ 2,466,920	196,973	1,084,071	580,127	(52,893)	4,275,198

See accompanying notes to consolidated financial statements.

Housing development	Supportive programs	Supporting services				Total	Total	2006
		Total	Management and general	Fund-raising	Total			
15,830	72,038	900,571	260,637	26,334	286,971	1,187,542	1,107,264	
2,705	5,939	199,743	21,488	2,171	23,659	223,402	214,063	
1,350	6,141	267,814	22,219	2,245	24,464	292,278	184,867	
–	–	375,066	–	–	–	375,066	494,076	
–	–	132,950	–	–	–	132,950	112,749	
234	1,065	14,622	3,852	389	4,241	18,863	13,236	
52	237	4,195	857	86	943	5,138	5,140	
176	799	17,033	2,890	292	3,182	20,215	16,905	
127	578	6,589	2,091	211	2,302	8,891	8,004	
509	2,318	26,427	8,385	847	9,232	35,659	22,013	
20	127	1,073	329	47	376	1,449	15,248	
1,547	7,042	151,419	25,479	2,574	28,053	179,472	170,151	
481	2,188	603,764	7,917	800	8,717	612,481	586,052	
–	–	7,611	–	–	–	7,611	14,220	
–	–	46,958	–	–	–	46,958	59,415	
–	–	404,014	–	–	–	404,014	161,420	
79	358	24,212	1,295	158	1,453	25,665	23,508	
–	–	5,084	–	–	–	5,084	38,092	
8,563	4,007	85,827	14,499	1,464	15,963	101,790	50,522	
31,673	102,837	3,274,972	371,938	37,618	409,556	3,684,528	3,296,945	
830	3,776	1,139,342	13,663	1,381	15,044	1,154,386	962,634	
32,503	106,613	4,414,314	385,601	38,999	424,600	4,838,914	4,259,579	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

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 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, 2007, 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 variety of services to residents. These include a homeownership initiative, financial education, and other self-development workshops. PCRI’s family services division includes a parent network, childcare scholarship fund, and school supply drive. Multiplex site services focus on food/clothing closets, and computer classes. PCRI also develops long-term alliances with agencies to meet the needs of specific populations, including Cascade AIDS Project (clients living with HIV/AIDS), Child Care Improvement Project (family-based childcare services), and Portland Housing Center (individual development accounts for homeownership).

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.

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 consolidates its .01% ownership interest in Park Terrace Community, LLC under standards promulgated under EITF Issue No. 04-5, *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*. All significant intercompany investments, accounts and transactions between PCRI and Park Terrace Community, LLC have been eliminated.

PCRI is also 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.

Basis of Presentation – PCRI has adopted the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 116, *Accounting for Contributions Received and Contributions Made*, and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. 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.

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.

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 – No amounts have been recorded in the accompanying financial statements for contributed services, as PCRI provides compensation for most services requiring specific expertise. 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 PCRI's activities. No in-kind contributions of equipment or other materials were recorded during the year ended December 31, 2007.

Fixed Assets and Depreciation – Building, 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 and 25 years for buildings.

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, are also capitalized. Costs incurred for such items after the property has been substantially completed and made ready for its intended use are charged to expense as incurred.

The organization has adopted the provisions of SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of*. Under SFAS No. 121, impairment losses on long-lived assets, such as 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, 2007.

Revenue Recognition – All contributions and grants are considered available for unrestricted use unless specifically restricted by a donor. Service revenues are recognized at the time services are provided and the 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, were capitalized and allocated to the properties to which the costs related. 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. Cash equivalents at December 31, 2007 total \$207,006 and represent investments in money market funds.

Advertising Expenses – Advertising costs are charged to expense as they are incurred. For the year ended December 31, 2007, advertising expenses totaled approximately \$7,611.

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 is a publicly supported organization as defined in Sections 170(b)(1)(A)(vi) and 509(a)(1). Contributions to the organization qualify for applicable charitable contribution deductions. A provision for income taxes on unrelated business income is recorded when required.

Concentrations of Credit Risk – The organization’s short-term investments 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. Certain receivables also subject the organization to concentrations of credit risk.

Summarized Financial Information for 2006 – The accompanying financial information as of and for the year ended December 31, 2006 is presented for comparative purposes only and is not intended to represent a complete financial statement presentation.

Measure of Operations – The organization includes in its measure of operations all revenue 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 and net assets released from donor restrictions for capital and other non-operating purposes.

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, 2007, tenant rents receivable is summarized as follows:

Tenant rents receivable	\$	80,811
Less allowance for doubtful accounts		(1,325)
	\$	<u>79,486</u>

5. Grants and Contracts Receivable

At December 31, 2007, grants and contracts receivable totaling \$58,947 represent various grants from the city of Portland and are expected to be collected in less than one year.

6. Restricted Deposits and Funded Reserves

In accordance with the requirements of various agreements with funders, PCRI maintains certain restricted cash reserves for the renewal and replacement of property, capital improvements, etc. totaling \$912,908. Certain reserves may only be used upon the authorization of the funders.

7. Building, Equipment and Furnishings

Building, equipment and furnishings at December 31, 2007 represents primarily computers and other office equipment, as follows:

Building	\$	1,009,945
Equipment and furnishings		171,403
		<u>1,181,348</u>
Less accumulated depreciation		(150,929)
	\$	<u>1,030,419</u>

8. Rental Properties

Rental properties at December 31, 2007 are summarized as follows:

Rental properties	\$ 40,936,576
Less accumulated depreciation	(7,283,064)
	\$ 33,653,512

At December 31, 2007, the assessed values of the above properties totaled \$70,463,690.

PCRI has also entered into equity gap financing agreements with the Portland Development Commission (“PDC”) and other government agencies for various rental properties. 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 \$10,280,773 at December 31, 2007. See additional discussion at note 10.

In the above 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% 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, 2007, 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, 2007.

9. Long-Term Debt

The following obligations were outstanding at December 31, 2007. All notes are secured by property.

Core Properties – U.S. Bank:

U.S. Bank, 3.875%, due in monthly payments of \$52,096 through August 2013 ¹	\$ 6,939,159
U.S. Bank, 6.60%, Due in monthly payments of \$1,825 through March 2016	556,438
U.S. Bank, 3.0%, due in monthly payments of \$750 through April 2025	167,845
U.S. Bank, 7.0% due in monthly payments of \$692 through April 2025	101,017
U.S. Bank predevelopment loan, 4.0% due in quarterly payments of \$2,500 interest only, and maturing in June of 2016	250,000
	\$ 8,014,459

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, 2007 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 2025 ²	\$	246,974
Installment loans, 3.0%, due in monthly payments ranging from \$40 to \$1,271 through October 2034		455,958
	\$	702,932

² During the year ended December 31, 2007, 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 of the renovated properties. See additional discussion of conditional liabilities at note 10.

Core Properties – Key Bank:

Key Bank, 4.55%, due in monthly payments of \$1,825 through February 2022	\$	300,127
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Urban League Building:

Albina Community Bank, 8.14%, due in monthly payments of \$6,471 through June 2016	\$	812,317
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Infinity Management Portfolio:

City of Portland, 1.0%, due in monthly payments ranging from \$1 to \$271 through April 2046	\$	1,054,902
City of Portland, 1.0%, payments due annually to the extent excess cash flows are generated, due in full April 2066 ³		840,177
U.S. Bank, 5.0%, due in monthly payments of \$1,315 through September 2022		164,781
U.S. Bank, 8.75%, due in monthly payments of \$1,472 through September 2022		146,329
Washington Mutual, 3.58% to 8.00%, due in monthly payments ranging from \$512 to \$11,400 through March 2036		970,495
City of Portland (HUD \$108 loan), 5.50%, due in monthly payments of \$4,902 through August 2019		579,583
City of Portland (HUD \$108 loan), 5.50%, due in monthly payments of \$2,717 through August 2019		298,750
	\$	4,055,017

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, 2007. The properties did not generate excess cash flow during the year ended December 31, 2007; therefore, no payments were required.

Park Terrace Community, LLC:

U.S. Bank, 3.85%, due in monthly payments of \$3,696 through December 2021	\$ 711,320
City of Portland, 3.0%, due in monthly payments of \$1,517 through December 2017	158,452
City of Portland, 0.0%, payments due annually to the extent excess cash flows are generated, due in full December 2032	1,579,660
	\$ 2,449,432

Maya Angelou:

NOAH, 2.72%, due in monthly payments of \$2,109 through April 2026	\$ 364,972
City of Portland, 1.0%, due in monthly payments of \$525 through April 2046	200,671
City of Portland, 1.0%, payments due annually to the extent excess cash flows are generated, due in full April 2066 ³	159,823
	\$ 725,466
	\$ 17,059,750

Aggregate maturities of note principal on all debt for the five years subsequent to December 31, 2007 and thereafter are as follows:

<i>Years Ending December 31,</i>	
2008	\$ 578,891
2009	605,526
2010	633,948
2011	661,751
2012	690,352
Thereafter	13,889,282
	\$ 17,059,750

10. Conditional Liabilities

Over its history and that of its predecessor organizations, PCRI has received significant financing in the form of contributions from PDC and other government 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 \$10,312,773 at December 31, 2007 if future performance or other actions of PCRI trigger these liability provisions, as follows:

Projects, agreement date

N.E. Junior, February 2002 ¹	\$ 74,274
Emerson & Going, May 2001 ²	112,328
N.E. 37th & N.E. 127th, October 2000 ³	415,379
Scattered 8, June 1999 ⁴	202,301
20 scattered sites, April 2007 ⁵	1,308,149
Urban League building, June 2006 ⁶	1,365,882
ACDC transfer, March 2006 ⁷	5,476,756
Morris & Russet, March 2005 ⁷	286,500
Fab 4, June 2003 ⁷	316,833
OHCS	494,649
Multnomah County	224,568
Innovative Housing	35,154

10,312,773

Less amounts payable at December 31, 2007 ⁸	(32,000)
	\$ 10,280,773

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

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

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

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

⁵ Commitment to share in excess cash flow terminates when payments made to PDC under the agreement total amounts originally disbursed by PDC. Of the \$1,308,148, \$370,295 was received by PCRI in 1997. The balance of \$937,853 was converted from amortizing debt to a cash flow note during 2007.

⁶ Commitment to share in excess cash flow terminates when payments made to PDC under the agreement total amounts originally disbursed by PDC. Of the \$1,365,882, \$1,178,384 was received by PCRI in 2006. The balance of 187,048 was received by PCRI during 2007.

⁷ Commitment to share in excess cash flow terminates when payments made to PDC under the agreement total amounts originally disbursed by PDC.

⁸ As of December 31, 2007, certain properties have generated cash flow in excess of the thresholds stated in the financing agreements, resulting in amounts payable to PDC totaling approximately \$32,000. 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 current year cash flow sharing provision amount.

11. Reserves for Property Taxes and Other Government Obligations

PCRI has recorded various reserves for property tax liabilities relating to rental properties owned and operated by the organization and for property tax liabilities past due and outstanding on the properties underlying certain land sale contracts. These reserves have been reduced, where appropriate, for the obligations of land sale contract vendees and investors incurred and unpaid subsequent to the acquisition of the contracts by PCRI, and for partial property tax exemptions that have been granted by the City of Portland under Chapter 3.101 of the Portland City Code for low-income housing held by nonprofit charitable organizations. PCRI has also recorded various reserves for liens placed on various Dominion properties by the City of Portland for the construction of local improvements, abatements of nuisances, removal of dangerous buildings, repairs of sidewalks, and enforcement of other City codes. At December 31, 2007, PCRI's net reserves for government obligations totaled \$25,727.

12. Lease Commitments

The organization leases office equipment under non-cancelable operating leases which expire in 2010.

As of December 31, 2007, the future minimum lease commitments under these leases are as follows:

<i>Years ending December 31,</i>	
2008	\$ 3,270
2009	3,270
2010	2,649
	\$ 9,189

Lease expense for the year ended December 31, 2007 totaled \$3,524.

13. Restrictions and Limitations on Net Asset Balances

At December 31, 2007, temporarily restricted net assets are available for the following purposes and programs:

Thriving families grant	\$ 13,000
Homeownership initiative	12,511
Childcare program	3,232
	\$ 28,743

Limited Partner's Interest in Park Terrace Community, LLC

In 2006, PCRI adopted the requirements of EITF Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*. 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 \$1,430,931 at December 31, 2007.

14. Net Assets Released from Restrictions

During the year ended December 31, 2007, 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:

<i>Satisfaction of restrictions</i>	
<i>for operating purposes:</i>	
Homeownership initiative	\$ 61,699
Living Cities grant	80,000
Lead risk assessment	60,000
Other programs	30,013
	231,712
Satisfaction of restrictions for capital purposes	70,000
	\$ 301,712

15. Contingencies

Amounts received or receivable under PCRI's contracts with the City of Portland, Oregon 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 has also 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 Project) 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 Project in excess of gross collections to the extent necessary to maintain break-even operations, as defined in the agreement. Payments made in accordance with the agreement through the operating guaranty period are non-interest bearing and repayable in accordance with provisions established in the operating agreement.

16. Expenses

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

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

17. Retirement Plan

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

18. Master Lease Agreement

Effective April 1, 2005, PCRI entered into a series of master lease agreements with the Housing Authority of Portland to rent 16 units of housing for periods of up to two years, with the option to renew annually for an additional three years. Annual lease commitments under these agreements total approximately \$44,000, which includes annual transfers of \$7,000 to a capital replacement reserve fund for the Housing Authority of Portland held by the State of Oregon.

These units of housing have been reserved for clients of Cascade AIDS Project's Housing Opportunities for People With Aids (HOPWA) program. Effective April 1, 2005, PCRI entered into an interagency agreement with Cascade AIDS Project that will remain in effect until a new agreement is negotiated, unless otherwise terminated or amended by mutual agreement of the parties. Annual rental income under this arrangement totals approximately \$110,000.

19. Statement of Cash Flows Reconciliation

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

Increase in net assets	\$	516,561
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<i>Adjustments to reconcile the increase in net assets to net cash provided by operating activities:</i>		
Depreciation		1,143,362
Amortization of capitalized loan fees		11,024
Contributions restricted to the acquisition of capital assets		(257,048)
Restructure of long-term debt portfolio with PDC		(937,853)
<i>Net changes in:</i>		
Tenant rents receivable		4,358
Grants and contracts receivable		113,427
Prepaid expenses and deposits		10,186
Accounts payable and accrued expenses		54,641
Rents received in advance		14,286
Tenant security deposits		2,606
Reserves for property taxes and other governmental obligations		(7,076)
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Total adjustments		151,913
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Net cash provided by operating activities	\$	668,474
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20. Restatement of Net Assets at December 31, 2006 and Other Reclassifications

During the year ended December 31, 2007, PCRI revisited its accounting for “equity gap” contributions and the associated conditional liabilities described in note 10. In previous years, certain contribution revenues subject to the conditional liability and cash flow sharing provisions described in these agreements had been reported as long-term debt payable. However, as discussed in note 10, management has determined that these amounts actually represent contribution revenues and will only become refundable or otherwise payable if PCRI ceases to utilize the financed properties for low-income housing or if the operation of the properties themselves generates surplus cash flow. Both are future events that may or may not occur. Accordingly, PCRI has recorded an adjustment in the amount of \$7,544,858 to the net assets and the change in net assets as of and for the year ended December 31, 2006. These adjustments are summarized as follows:

Net assets at December 31, 2006, as previously reported	\$ 10,609,495
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<i>Adjustments:</i>	
Adjustment to report amounts contributed to PCRI	6,366,024
Grants in support of the Urban League building subject to conditional repayment terms	1,178,834
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Total adjustments	7,544,858
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Net assets at December 31, 2006, as restated	\$ 18,154,353
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In addition, certain restricted deposits and funded reserves, previously reported as cash and cash equivalents and have been reclassified. Certain other 2006 amounts presented herein have been reclassified to conform to the 2007 presentation.

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PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

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Tamara Trofimenko
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HR Administrator

Kimberley Mason
Property Management

Delane Guild
Building Inspector

Marvin Dean
Maintenance Supervisor

Margaret Beasley
Park Terrace Resident Services Coordinator

PORTLAND COMMUNITY REINVESTMENT INITIATIVES, INC.

INQUIRIES AND OTHER INFORMATION

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