

REACH COMMUNITY DEVELOPMENT, INC.

**Financial Statements and Supplementary Information
for the year ended December 31, 2009 and six-month
period ended December 31, 2008 and Independent
Auditors' Report and Single Audit Reports**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
REACH Community Development, Inc.
Portland, Oregon

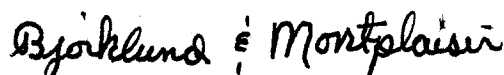
We have audited the accompanying consolidated statements of financial position of REACH Community Development, Inc. (a nonprofit organization) and affiliated entities as of December 31, 2009 and 2008 and the related consolidated statements of activities and changes in net assets and cash flows for the year ended December 31, 2009 and the six-month period ended December 31, 2008. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of certain consolidated limited partnerships listed in Note 1 were not audited in accordance with *Government Auditing Standards*. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of REACH Community Development, Inc. as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the year ended December 31, 2009 and the six-month period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 13, 2010 on our consideration of REACH Community Development, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports 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 the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplementary information on pages 21 through 27 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is also not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.


May 13, 2010

REACH COMMUNITY DEVELOPMENT, INC.**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
ASSETS		
INVESTMENT IN REAL ESTATE:		
Land	\$ 6,418,524	\$ 6,016,313
Site improvements	1,632,948	942,624
Buildings	81,054,500	69,320,013
Furnishings and equipment	1,941,306	1,730,883
Construction-in-progress	<u>4,524,714</u>	<u>9,920,849</u>
Total	95,571,992	87,930,682
Less accumulated depreciation	<u>(28,549,624)</u>	<u>(25,768,001)</u>
Total investment in real estate - net	<u>67,022,368</u>	<u>62,162,681</u>
OTHER ASSETS:		
Cash	1,633,039	1,135,519
Short-term investments	1,779,602	2,155,236
Tenant security deposits held in trust	366,877	314,838
Other restricted deposits	5,285,708	5,132,849
Receivables	205,483	232,461
Prepaid expenses	117,286	70,816
Receivable from affiliate	258,893	4,585
Investment in affiliate	236,069	236,850
Financing fees - net	1,056,826	831,417
Tax credit fees - net	122,968	94,524
Other assets	<u>685,793</u>	<u>735,387</u>
Total other assets	<u>11,748,544</u>	<u>10,944,482</u>
TOTAL	<u>\$78,770,912</u>	<u>\$73,107,163</u>

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
LIABILITIES APPLICABLE TO INVESTMENT IN REAL ESTATE:		
Mortgages and bonds payable	\$66,190,589	\$62,880,229
Accrued interest	222,016	106,361
Deferred interest	1,612,575	1,447,922
Accounts payable - construction	830,802	1,307,523
Retainage payable	127,648	-
Total liabilities applicable to investment in real estate	<u>68,983,630</u>	<u>65,742,035</u>
OTHER LIABILITIES:		
Accounts payable and other accrued liabilities	391,689	369,948
Prepaid rents	37,837	39,554
Refundable security deposits	343,672	311,504
Total other liabilities	<u>773,198</u>	<u>721,006</u>
Total liabilities	<u>69,756,828</u>	<u>66,463,041</u>
NET ASSETS:		
Unrestricted:		
Controlling interests	(1,002,251)	(880,681)
Noncontrolling interests	8,359,723	5,868,191
Total unrestricted	7,357,472	4,987,510
Temporarily restricted	1,656,612	1,656,612
Net assets	<u>9,014,084</u>	<u>6,644,122</u>
TOTAL	<u>\$78,770,912</u>	<u>\$73,107,163</u>

(Concluded)

See notes to consolidated financial statements.

REACH COMMUNITY DEVELOPMENT, INC.**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2009 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2008**

	<u>2009</u>	<u>2008</u>
SUPPORT AND REVENUES:		
Support:		
Grants	\$ 918,160	\$ 18,183
Contributions	122,443	58,526
Donated goods and services	81,983	1,805
Special events	26,997	31,906
Total support	<u>1,149,583</u>	<u>110,420</u>
Revenues:		
Net rental revenue	8,380,295	3,859,262
Laundry and tenant charges	200,418	117,641
Equity in income (loss) of affiliate	-	(592)
Management fees	5,249	-
Development fees	230,215	-
Interest income	149,527	82,937
Total revenues	<u>8,965,704</u>	<u>4,059,248</u>
Total support and revenues	<u>10,115,287</u>	<u>4,169,668</u>
EXPENSES:		
Program services:		
Property operations and management	9,193,865	4,294,078
Housing development	141,881	173,094
Volunteer services / public relations	97,596	52,849
Resident services	439,616	189,695
Community builders	452,454	204,789
Total program services	<u>10,325,412</u>	<u>4,914,505</u>
Support services:		
Management and general	886,912	400,060
Fundraising	175,921	78,981
Total support services	<u>1,062,833</u>	<u>479,041</u>
Total expenses	<u>11,388,245</u>	<u>5,393,546</u>
CHANGE IN NET ASSETS	<u><u>\$ (1,272,958)</u></u>	<u><u>\$ (1,223,878)</u></u>

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2009 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2008**

	Unrestricted			Temporarily Restricted	Net Assets
	Controlling Interests	Noncontrolling Interests	Total Unrestricted		
NET ASSETS, JUNE 30, 2008	\$ (479,601)	\$ 6,700,489	\$ 6,220,888	\$ 1,656,612	\$ 7,877,500
Change in net assets for the six-month period ended December 31, 2008	(401,079)	(822,799)	(1,223,878)	-	(1,223,878)
Syndication costs	(1)	(9,499)	(9,500)	-	(9,500)
NET ASSETS, DECEMBER 31, 2008	(880,681)	5,868,191	4,987,510	1,656,612	6,644,122
Change in net assets for the year ended December 31, 2009	(121,570)	(1,151,388)	(1,272,958)	-	(1,272,958)
Capital contributions	-	3,748,967	3,748,967	-	3,748,967
Syndication costs	-	(106,047)	(106,047)	-	(106,047)
NET ASSETS, DECEMBER 31, 2009	<u><u>\$(1,002,251)</u></u>	<u><u>\$ 8,359,723</u></u>	<u><u>\$ 7,357,472</u></u>	<u><u>\$ 1,656,612</u></u>	<u><u>\$ 9,014,084</u></u>

See notes to consolidated financial statements.

(Concluded)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2009 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,272,958)	\$ (1,223,878)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,867,227	1,265,287
Amortization	55,206	27,851
Equity in loss of affiliate	-	592
(Increase) decrease in:		
Receivables	26,978	(27,964)
Prepaid expenses	(46,470)	(18,190)
Tenant security deposits held in trust	(52,039)	(4,232)
Increase (decrease) in:		
Accrued and deferred interest	280,308	274,411
Accounts payable and other accrued liabilities	21,741	(241,825)
Prepaid rents	(1,717)	18,487
Refundable security deposits	32,168	9,773
Net cash provided by operating activities	<u>1,910,444</u>	<u>80,312</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (increase) in restricted deposits	(152,859)	5,009,970
Additions to investment in real estate	(7,599,265)	(9,138,880)
Payment of accounts payable - construction	(476,721)	-
Net change in short-term investments	375,634	(112,434)
Investment in affiliate	781	(237,442)
Tax credit fees paid	(34,803)	(33,525)
Advance to affiliate	(254,308)	-
Change in other assets	49,594	(14,704)
Net cash used in investing activities	<u>(8,091,947)</u>	<u>(4,527,015)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings	13,050,906	4,712,650
Repayments	(9,740,546)	(443,396)
Financing fees paid	(274,257)	(18,035)
Capital contribution	3,748,967	-
Syndication costs	(106,047)	(9,500)
Net cash provided by financing activities	<u>6,679,023</u>	<u>4,241,719</u>
NET CHANGE IN CASH	497,520	(204,984)
CASH AT BEGINNING OF PERIOD	<u>1,135,519</u>	<u>1,340,503</u>
CASH AT END OF PERIOD	<u>\$ 1,633,039</u>	<u>\$ 1,135,519</u>

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2009 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2008**

	<u>2009</u>	<u>2008</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE -		
Cash paid for interest	<u>\$ 1,257,480</u>	<u>\$ 686,823</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES -		
Investment in real estate through incurrence of :		
Accounts payable - construction	<u>\$ -</u>	<u>\$ 559,537</u>
Retainage payable	<u>\$ 127,648</u>	<u>\$ -</u>
		(Concluded)

See notes to consolidated financial statements.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2008

1. ORGANIZATION AND NATURE OF ACTIVITIES

Organization – REACH Community Development, Inc. (“REACH” or the “Organization”) is a private, nonprofit community development corporation with a mission to develop and maintain a permanent resource of affordable housing, promote healthy neighborhoods, and provide opportunities for low-income people through partnerships and community involvement. Affordable housing projects have been organized through various not-for-profit entities and limited partnerships/limited liability companies that have been included in the accompanying consolidated financial statements as follows:

REACH

This group includes REACH and nine limited liability companies (“LLCs”). Eight of the LLCs are or will be the sole general partner or managing member in a limited partnership/limited liability company that has been formed to develop, own and operate a low income housing project. LLCs and related limited partnership/limited liability company are as follows:

Limited Liability Company

AC Apartments LLC
Station Place LLC
REACH McCuller, LLC
REACH Westshore, LLC
Crown Redevelopment LLC
REACH Floyd Light, LLC
REACH Walnut Park LLC

REACH Admiral LLC
REACH Development LLC

Limited Partnership/Limited Liability Company

Albina Corner Limited Partnership (“Albina”)
SP Tower Limited Partnership (“SP Tower”)
McCuller Associates Limited Partnership (“McCuller”)
Pine Street Associates Limited Partnership (“Westshore”)
Patton Square Partners Limited Partnership (“Patton”)
Floyd Light Apartments LLC (“Floyd Light”)
REACH Walnut Partners Limited Partnership
 (“Walnut Park”)
Wheeldon Admiral LLC (“Admiral”)

Albina, SP Tower, McCuller, Westshore and Patton own completed low income housing developments. The development of Patton Park Apartments was completed on January 26, 2009.

REACH Floyd Light, LLC became the co-managing member in Floyd Light on June 30, 2008. Because REACH is not deemed to be in control of Floyd Light, REACH’s investment in Floyd Light has been accounted for under the equity method.

REACH Walnut Park LLC was incorporated on August 27, 2008 and acquired Walnut Park Apartments in March 2009. On December 2, 2009, REACH Walnut Park LLC sold Walnut Park Apartments to REACH Walnut Partners Limited Partnership, in which REACH Walnut Park LLC is the general partner.

REACH Admiral LLC was incorporated on May 1, 2008 and acquired the Admiral Apartments on November 11, 2008. On August 6, 2009, REACH Admiral LLC sold the Admiral Apartments to Wheeldon Admiral LLC, in which REACH Admiral LLC is the managing member.

REACH Development LLC is the development entity for REACH.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2008

1. ORGANIZATION AND NATURE OF ACTIVITIES - Continued

Other Entities

REACH is affiliated with and under common board control with other not-for-profit organizations which have been formed to develop, own and operate apartment complexes ("Other Entities"). The Other Entities have been included in the consolidated financial statements of REACH because REACH is deemed to control these entities through common board members. Other Entities include the following not-for-profit entities.

REACH Apartments, Inc.	Prescott Place Apartments
BMA, Inc.	Beacon Manor Apartments
Marion Street Apartments, Inc.	Marion Street Apartments
Taylor Apartments, Inc.	Taylor Street Apartments
Powell Boulevard Apartments, Inc.	Powell Boulevard Apartments

Tax Credit Entities

Tax Credit Entities include seven limited partnerships and one limited liability company (hereafter referred to as "Limited Partnerships") in which REACH, or a single member LLC formed by REACH, is the general partner holding a controlling general partner interest (ranging from .01% to 1%). In accordance with generally accepted accounting principles, the Limited Partnerships have been included in the consolidated financial statements because REACH, as the general partner, is deemed to control the Limited Partnerships.

The Tax Credit Entities are as follows:

SP Tower Limited Partnership *	Station Place Tower
Elderhope Limited Partnership	Twelfth Avenue Terrace
Albina Corner Limited Partnership *	Albina Corner Apartments
McCuller Associates Limited Partnership *	McCuller Crossing Apartments
Pine Street Associates Limited Partnership	Westshore Apartments
Patton Square Partners Limited Partnership *	Patton Park Apartments
REACH Walnut Partners Limited Partnership	Walnut Park Apartments
Wheeldon Admiral LLC	Admiral Apartments

REACH has or will have the option to purchase 100% of the ownership interest in each of the Limited Partnerships at the end of the Compliance Period.

* Entities not audited in accordance with Government Auditing Standards.

Principles of Consolidation - The accompanying financial statements include the accounts of REACH and its single member LLCs, other not-for-profit entities that are majority controlled by REACH's Officers or Board of Directors, and Tax Credit Entities that are controlled by REACH. The limited partnership interests generally range from .01% to 1.0% with the remainder of the partnership's equity generally held by a limited partner and shown as noncontrolling interests in the accompanying financial statements. All significant intercompany balances and transactions have been eliminated in consolidation.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Other Entities and Tax Credit Entities included in the consolidated financial statements are collectively referred to as “Affiliated Entities” in these financial statements.

Basis of Presentation – In accordance with generally accepted accounting principles for not-for-profit organizations, the financial statements are presented on the basis of unrestricted, temporarily restricted and permanently restricted net assets predicted on the existence of donor-imposed restrictions.

Unrestricted net assets consist of all resources of REACH which have not been specifically restricted by a donor.

Temporarily restricted net assets consist of cash and other assets received with donor stipulations that limit their use. Donor restrictions are stipulated by either a time restriction or a purpose restriction. Upon expiration of a time restriction or completion of a purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets consist of assets whose use has been restricted for investment in perpetuity. REACH has no permanently restricted net assets.

In accordance with generally accepted accounting principles for not-for-profit organizations, contributions received are recorded as unrestricted, temporarily or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Revenue Recognition

Rental income, principally short-term leases on apartment units and commercial space, is recognized as the rentals become due.

Grants and Contributions – REACH receives grants from private foundations and government sources. Government grants, which generally reflect cost reimbursement agreements are recognized when earned. Unconditional promises to give are recorded as revenue at estimated net realizable value. Conditional promises to give are not included as revenue until the conditions are substantially met. Grants and contributions whose restrictions, if any, are met in the same reporting period are reported as unrestricted revenue in the period of receipt.

Development Fees - REACH earns fees for development of properties and generally recognizes development fees as earned over the period of development. Developer fees earned cover REACH’s development costs plus a profit margin. Development fees earned by REACH, which are included in development costs of consolidated low-income housing projects, have been eliminated in consolidation.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Revenue Recognition - Continued

REACH provides property management, bookkeeping, asset management and tenant services. Income is earned in accordance with the terms of the agreements and recorded as revenue when earned. Such intercompany revenue has been eliminated in the consolidated financial statements.

Donated Goods and Services – Donated goods and services are provided in a number of ways by volunteers and other friends of the Organization. Valuation of donated goods, if any, is based on an estimate of fair value of the goods. No amounts have been reflected in the financial statements for donated services by the Board members involved in Board activities or from unpaid volunteers because the criteria for recognition has not been met.

Functional Expenses - The costs of providing program services and supporting services have been summarized on a functional basis in the Statement of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among program services and supporting services based on an allocation of employees' time incurred and on usage of resources.

Costs allocated to the property operations and management program include an allocation of operating costs of REACH and all of the expenses of the Affiliated Entities that have been included in the consolidated financial statements. Amounts allocated to other programs and support services represent allocations of the operating costs of REACH.

The descriptions of major programs are as follows:

- **Property Management and Asset Management** - REACH and Affiliates own and manage more than 1,300 units of affordable rental housing in Portland, Oregon. These units are in apartments, plexes and single-family houses, only available to households under certain income limits.
- **Housing Development** - REACH's Housing Development Program is committed to addressing a growing need for affordable housing in the Portland, Oregon metropolitan region. REACH has developed approximately 1,300 units of housing through renovation and new construction over its history.
- **Volunteer Services/Public Relations** - REACH's Volunteer Services/Public Relations Program offers volunteer positions in other REACH programs.
- **Resident (Tenant) Services** - REACH's Resident Services Program supports families and individuals living in REACH housing as they improve the social, economic, and environmental conditions affecting their lives. The Program offers better access to community services, skill building workshops, a resident newsletter, and activities for REACH's youth and adult residents.
- **Community Builders** - REACH's Community Builders Program provides free home repairs for homeowners who need help due to age, disability and low income to help homeowners maintain their independence and stay safely in their homes and in their neighborhoods.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2009 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Investment in Real Estate - Investment in real estate is recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, which are as follows: 27.5 to 40 years for buildings, 15 years for site improvements and 5 to 10 years for furnishings and equipment. Maintenance, repairs and minor replacements are charged to expense when incurred. Major replacements and betterments are capitalized. Interest capitalized as development costs was \$181,205 for the year ended December 31, 2009 and \$177,172 for the six-month period ended December 31, 2008.

Management reviews investment in rental property for financial impairment and will continue to evaluate assets if events or circumstances indicate the carrying amount of an asset may not be fully recoverable.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, cash deposited with banks and financial institutions and money market funds. Cash equivalents are recorded at cost, which approximates market value.

Change in Year End – Effective December 31, 2008, REACH and each of the other entities that were on June 30 year end changed to a December 31 year end.

Short-Term Investments - Investments in certificates of deposits with maturities greater than 90 days but less than one year are classified as short-term investments. Such investments are recorded at amortized costs which approximates fair value at December 31, 2009 and 2008.

Financing Fees - Financing fees are recorded at cost and amortized on the straight-line method over the life of the related loan. Accumulated amortization was \$303,159 and \$254,310 at December 31, 2009 and 2008, respectively. Amortization expense was \$48,846 for the year ended December 31, 2009 and \$25,396 for the six-month period ended December 31, 2008.

Tax Credit Fees are recorded at cost and are amortized over a 15 year period. Accumulated amortization was \$41,327 and \$34,969 at December 31, 2009 and 2008, respectively. Amortization was \$6,360 for the year ended December 31, 2009 and \$2,455 for the six-month period ended December 31, 2008.

Certain of the consolidated real estate entities have received an allocation of Low-Income Housing Tax Credits (“LIHTC”) for their qualifying rental property. The benefits of the LIHTC are provided to the real estate entities’ owners through the real estate entities’ annual federal income tax return filing and are not reflected in the accompanying financial statements. The LIHTC is a 15-year credit that is generally claimed by the real estate entity over a 10-year period. The credit is a certain percentage (as determined by the Internal Revenue Service) of the qualified basis of the property. The real estate entities may only lease qualified units to tenants who meet certain income restrictions and whose rent payments also are restricted under guidelines set by the Internal Revenue Service.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2009 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Concentration of Credit Risk – REACH and Affiliated Entities maintain cash balances with banks and other financial institutions, which may exceed depository insurance limits. REACH and Affiliated Entities have not experienced any losses from these accounts and do not believe that they are exposed to significant credit risk.

Federal and State Taxes – No provision for income taxes has been provided because REACH and the Other Entities are exempt from paying income taxes under Internal Revenue Code 501(c)(3). The income or loss from limited partnerships is reported by the partners on their income tax returns.

Noncontrolling Interests – This amount represents the aggregate balances of limited partner equity (deficit) interests in the non-wholly owned limited partnerships that are included in the consolidated financial statements.

Restricted Deposits – Restricted deposits at December 31, 2009 and 2008 include the following:

	<u>2009</u>	<u>2008</u>
Bond funds	\$ -	\$ 90,203
Operating reserve	1,424,311	1,232,680
Replacement reserve	2,027,946	1,750,957
Residual receipts account	238,190	199,685
Mortgage escrow deposits	130,539	101,464
Equity reserves	684,942	236,764
Board designated	200,000	998,309
Stabilization reserve	255,225	253,976
Construction reserve	104,130	102,992
Re-leasing reserve	105,255	97,398
Debt service reserves	72,279	68,421
OAHTC Fee reserves	1,864	-
Other restricted deposits	<u>41,027</u>	<u>-</u>
Total	<u>\$5,285,708</u>	<u>\$5,132,849</u>

Bond funds – The proceeds from the issuance of Housing Development Revenue Bonds (Patton Park Apartments Project), 2008 Series A were being held in the bond fund to pay construction costs, interest during construction and other costs. The construction was completed during 2009 and the reserve was not required at December 31, 2009.

Operating reserves are required by certain limited partnership agreements. Such funds are available to pay operating expenses to the extent that collected gross revenues are insufficient for such purposes. Withdrawals from operating reserves generally require the approval and consent of the Investor Limited Partner.

Replacement reserves are required by various loan and regulatory agreements and are to be used for the replacement or repair of capital assets.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Concluded

Residual receipts - Each of the Other Entities and certain Tax Credit Entities are subject to regulatory agreements with the Department of Housing and Urban Development (“HUD”). The Regulatory Agreements require that any cash, less current liabilities, remaining at the end of annual fiscal period be deposited into a residual receipts account that is under the control of HUD. Any withdrawals from residual receipts must be approved in advance by HUD.

Mortgage escrow deposits are required by certain loan and regulatory agreements sufficient to pay annual property taxes and insurance when due.

Equity reserves – REACH is required to maintain equity reserves by certain lenders equal to the amount of borrowings for developments in progress.

Board designated – These funds have been restricted by the Board of REACH for a potential acquisition of real property.

The stabilization, re-leasing and the debt service reserves are required by certain partnerships or loan agreements.

Construction reserve – Proceeds from the borrowings from PDC have been deposited in a construction reserve and are restricted for identified future tenant improvements and construction costs.

OAHTC Fee Reserves are required by certain loan and regulatory agreements sufficient to pay estimated annual OAHTC monitoring fees payable to Oregon Housing and Community Services (“OHCS”).

3. OPERATING LEASES

REACH and its Affiliated Entities have entered into various operating leases to lease commercial building space at properties held by REACH and the limited partnerships. The terms of the leases range from month to month through 25 years with the longest lease term expiring in 2031. In addition to basic rents, tenants are responsible for common area maintenance charges based on leased square footage. During the year ended December 31, 2009 and the six-month period ended December 31, 2008, rents received from these leases were \$620,693 and \$324,264, respectively. Future minimum lease receipts under the leases are as follows:

Year ending December 31,	
2010	\$ 578,324
2011	481,002
2012	348,564
2013	302,822
2014	232,462
Thereafter	<u>219,150</u>
Total	<u>\$2,162,324</u>

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2008

4. **NET ASSETS**

Temporarily Restricted Net Assets - Temporarily restricted net assets at December 31, 2009 and 2008 relates to a capital advance of \$1,615,500 received from HUD and land valued at \$41,112 donated by Multnomah County for the Powell Boulevard Apartments. The capital advance and the agreement for the land require that Powell Boulevard Apartments be used for the housing of low-income individuals for 40 years from the date of first occupancy.

5. **PENSION PLAN CONTRIBUTIONS**

All employees of REACH that meet certain requirements and complete one year of service are eligible for REACH's pension plan. REACH contributed \$113,560 and \$35,664 to the plan for the year ended December 31, 2009 and six-month period ended December 31, 2008, respectively. The contribution percentage is six percent of eligible compensation.

6. **MORTGAGES AND BONDS PAYABLE**

Mortgages and bonds payable at December 31, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
<i>US National Bank</i> - Mortgages payable in aggregate monthly installments of \$19,888 including interest ranging from 2.00% to 7.05%, maturing 2014-2027.	\$ 3,315,134	\$ 3,427,516
<i>Wells Fargo Bank</i> Mortgages payable in aggregate monthly installments of \$4,632 including interest ranging from 2.00% to 7.00%, maturing 2012-2014.	867,801	896,148
Mortgage payable due February 6, 2011. Interest accrues at 2.75% in excess of the one-month LIBOR Rate but not less than 4.75% per annum (4.75% at December 31, 2009) payable in arrears on the first day of each month.	2,180,818	-
<i>JPMorgan Chase</i> - Mortgages payable in aggregate monthly installments of \$24,774 including interest ranging from .75% to 7.5%, maturing 2013-2034.	3,144,004	3,277,011
<i>Bank of America</i> - Mortgage payable due May 30, 2011. Interest at BBA LIBOR Daily Floating Rate for that day plus 3.2% per annum but not to be less than 4.25% per annum (4.5% at December 31, 2009) payable in arrears on the first day of each month.	1,384,406	-
<i>Portland Housing Bureau</i> - Mortgage payable in annual payments based on excess cash flow, maturing May 1, 2071. Interest accrues at 0.50% beginning on completion of construction.	1,041,000	-

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2008

6. **MORTGAGES AND BONDS PAYABLE** – Continued

	<u>2009</u>	<u>2008</u>
<i>Portland Development Commission</i>		
Mortgages payable in aggregate monthly installments of \$22,074 including interest ranging from 0.00% to 8.02%, maturing 2012-2036.	\$ 4,169,137	\$ 4,318,437
Mortgages payable in annual amounts calculated based on income level in excess of allowable return on the related investment, maturing 2020-2070. Interest accrues at rates ranging from 0.00% to 3.0%.	35,323,536	32,849,131
<i>Oregon Housing and Community Services (“OHCS”)</i>		
Note payable, due May 15, 2025, payable in monthly installments of \$9,851, including interest at 2.2%.	1,542,053	1,625,025
Note payable, due January 15, 2028, payable in monthly installments of \$16,795, including interest at 7.25%.	2,212,540	2,276,966
Housing Development Revenue Bonds 2003, Series A, Portion 1 – due July 1, 2036, payable in 360 monthly installments of \$28,929, including interest at 5.81%.	4,695,052	4,767,128
Housing Development Revenue Bonds 2003, Series A, Portion 2 – due July 1, 2016, payable in 120 monthly installments of \$11,679, including interest at 5.12%.	781,803	879,195
Housing Development Revenue Bond (Patton Park Apartments Project), 2008 Series A, due March 1, 2010, including interest at 3.4% payable monthly.	-	6,000,000
Housing Development Revenue Bond (Patton Park Apartments Project), 2008 Series A-1B, due March 1, 2030, payable in 240 monthly installments of \$9,636, including interest at 1.49%.	2,777,484	-
Housing Development Revenue Bond (Patton Park Apartments Project), 2008 Series A-2B, due March 1, 2030, payable in 240 monthly installments of \$2,811, including interest at 5.49%.	493,908	-
Note payable, due December 31, 2071, including interest at 1% beginning January 1, 2014.	851,050	-
Note payable, due March 15, 2011, payable in monthly installments of \$7,680, including interest at 7.25%.	-	191,094
<i>Other mortgages</i>		
Payable in aggregate monthly installments of \$12,600 including interest ranging from 2.5% to 8.5% maturing 2010-2058.	<u>1,410,863</u>	<u>2,372,578</u>
Total	<u>\$66,190,589</u>	<u>\$62,880,229</u>

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2009 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2008

6. MORTGAGES AND BONDS PAYABLE – Continued

Of the total mortgages and bonds payable at December 31, 2009, \$65,190,589 is collateralized by investment in real estate and \$1,000,000 is unsecured. A summary of mortgages and bonds payable by group of entities at December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
REACH	\$17,444,549	\$18,800,430
Other Entities	935,555	977,653
Tax Credit Entities	48,572,123	43,768,776
Eliminations	<u>(760,638)</u>	<u>(666,630)</u>
	<u>\$66,191,589</u>	<u>\$62,880,229</u>

Annual maturities of mortgages and bonds payable for the years subsequent to December 31, 2009 are as follows:

Year ending December 31,	
2010	\$ 2,580,652
2011	3,395,556
2012	1,282,554
2013	992,844
2014	1,983,866
Thereafter	<u>55,955,117</u>
Total	<u>\$66,191,589</u>

Portland Development Commission

- At December 31, 2009 and 2008, mortgages payable to Portland Development Commission (“PDC”) aggregating \$35,323,536 and \$32,849,131, respectively, require the calculation of an annual allowable return on investment. When the properties income level exceeds the allowable return on investment, additional payments are required. The additional required payments were approximately \$113,000 and \$119,000 at December 31, 2009 and 2008, respectively.
- REACH has entered into four equity gap financing agreements with PDC, which were used to acquire various properties. These agreements are non-interest bearing and repayment is only required if the property is sold, used for purposes other than low income housing, or the property generates excess cash flow. The aggregate balance outstanding on the equity gap financing agreements was \$7,069,967 at December 31, 2009 and 2008.

7. OTHER

Powell Boulevard Apartments, Inc. and REACH Apartments, Inc. are not-for-profit entities for which separate financial statements and related reports prepared in accordance with government auditing standards and the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement have been issued, as required by those standards. Those reports include consideration of the internal control over reporting and compliance with certain provisions of laws, regulations, contracts and grants.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2009 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2008

8. COMMITMENTS AND CONTINGENCIES

Grant and Property Use Restrictions – Certain of the properties operated by REACH and Affiliated Entities were developed using funds provided by grants and low interest rate loans. The terms of these grants and loans restrict the use of the property and generally require the property to be rented to low-income qualified tenants for the period of the grant or related loan term. Failure to comply with the terms of the grants or the loans may result in a requirement to repay a portion or all of the proceeds received.

Rental Assistance Contracts – Certain of the properties owned by Affiliated Entities have entered into rental assistance contracts with HUD. The rental assistance contracts require that the property be operated as low-income housing and that any rent increases be approved by HUD.

Surplus Cash and Residual Receipts – The properties owned by the Other Entities and certain Tax Credit Entities are subject to Regulatory Agreements with HUD, which restrict the use of the property and limit the use of project cash. Under the terms of the Regulatory Agreements, these entities are precluded from receiving any distributions of operating cash. A surplus cash calculation is required to be prepared annually and any surplus cash, as defined, is required to be deposited in a residual receipts account controlled by HUD.

Other – As the general partner in various limited partnerships, REACH may be subject to other liabilities, should an affected partnership's assets become insufficient to meet its obligations. This includes guarantees to fund future operating deficits of certain Tax Credit Entities over the periods as defined under the limited partnership agreements. The operating deficit guarantee periods typically require the limited partnerships to meet certain conditions based on the operational results. The maximum operating deficit guarantee amount as of December 31, 2009 was approximately \$527,000. REACH has not been required to fund any amounts associated with the operating deficit guarantees to date.

Construction Commitments – In connection with the construction of Walnut Park Apartments, outstanding construction commitments were approximately \$2,000,000 at December 31, 2009.

9. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Organization's operations are concentrated in the multifamily real estate market. In addition, the projects operate in a heavily regulated environment. The operations of the projects are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

10. GRANTS

During the six month period ended December 31, 2008, grant income was reduced by \$225,520 to eliminate grant income that had been recorded in a prior period for the Patton Park Apartments. The amount had initially been recorded as a waiver of system development charges resulting in the reporting as grant income. It was subsequently determined that the reduction in system development charges was due to an exemption from charges rather than a waiver.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2008

11. ACQUISITIONS

REACH Admiral LLC was incorporated in May 2008 to acquire, rehabilitate, own and operate the Admiral Apartments, which was acquired in November 2008 for a total consideration of \$3,052,000. In conjunction with the rehabilitation of the project, all of the residential tenants were relocated from the project after the purchase by REACH Admiral LLC. In August 2009, REACH Admiral LLC sold the Admiral Apartments to Wheeldon Admiral LLC (incorporated in May 2009), in which REACH Admiral LLC is the managing member.

REACH Walnut Park LLC was incorporated in August 2008 to acquire, rehabilitate, own and operate Walnut Park Apartments, which was acquired in March 2009 for a total consideration of \$2,400,000. In December 2009, REACH Walnut Park LLC sold the Walnut Park Apartments to REACH Walnut Partners Limited Partnership (incorporated in September 2009), in which REACH Walnut Park LLC is a general partner.

The acquisitions of real estate projects were accounted under the purchase method. The consolidated statement of activities for the year ended December 31, 2009 and for the six month period ended December 31, 2008 included the operational results of the acquired real estate projects since the acquisition date. Any gains incurred as a result of sales between affiliates were eliminated in the consolidation.

12. SUBSEQUENT EVENTS

Management of REACH has evaluated events and transactions occurring after December 31, 2009 through May 13, 2010, the date of the financial statements were available for issuance, for potential recognition or disclosure in the financial statements.

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009**

	Other Entities	Tax Credit Entities	REACH Community Development, Inc.	Eliminations	Consolidated
ASSETS					
INVESTMENT IN REAL ESTATE:					
Land	\$ 319,874	\$ 3,743,419	\$ 2,355,231	\$ -	\$ 6,418,524
Site improvements	-	1,632,948	-	-	1,632,948
Buildings	4,249,804	55,143,195	22,624,459	(962,958)	81,054,500
Furnishings and equipment	104,357	1,426,882	410,067	-	1,941,306
Construction-in-progress	-	4,524,714	-	-	4,524,714
Total	4,674,035	66,471,158	25,389,757	(962,958)	95,571,992
Less accumulated depreciation	(1,564,252)	(12,834,786)	(14,161,716)	11,130	(28,549,624)
Total investment in real estate - net	3,109,783	53,636,372	11,228,041	(951,828)	67,022,368
OTHER ASSETS:					
Cash	108,932	1,182,449	341,658	-	1,633,039
Short-term investments	-	1,779,602	-	-	1,779,602
Tenant security deposits held in trust	20,635	167,545	178,697	-	366,877
Other restricted deposits	1,047,840	2,835,147	1,402,721	-	5,285,708
Receivables	1,967	12,098	192,213	(795)	205,483
Prepaid expenses	2,513	61,442	53,331	-	117,286
Receivable from affiliates	-	115,465	1,710,464	(1,567,036)	258,893
Investment in affiliates	-	-	832,295	(596,226)	236,069
Financing fees - net	52,190	961,765	82,660	(39,789)	1,056,826
Tax credit fees - net	-	122,968	-	-	122,968
Other assets	-	454,643	334,934	(103,784)	685,793
Total other assets	1,234,077	7,693,124	5,128,973	(2,307,630)	11,748,544
TOTAL	\$ 4,343,860	\$ 61,329,496	\$ 16,357,014	\$ (3,259,458)	\$ 78,770,912

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009**

	Other Entities	Tax Credit Entities	REACH Community Development, Inc.	Eliminations	Consolidated
LIABILITIES AND NET ASSETS					
LIABILITIES APPLICABLE TO INVESTMENT IN REAL ESTATE:					
Mortgages and bonds payable	\$ 935,555	\$ 48,571,123	\$ 17,444,549	\$ (760,638)	\$ 66,190,589
Accrued interest	3,906	198,726	25,482	(6,098)	222,016
Deferred interest	-	1,448,394	164,181	-	1,612,575
Accounts payable - construction	-	1,079,002	-	(248,200)	830,802
Retainage payable	-	127,648	-	-	127,648
Total liabilities applicable to investment in real estate	939,461	51,424,893	17,634,212	(1,014,936)	68,983,630
OTHER LIABILITIES:					
Accounts payable and other accrued liabilities	38,014	568,170	317,701	(532,196)	391,689
Payable to affiliate	-	116,260	-	(116,260)	-
Prepaid rents	68	23,174	14,595	-	37,837
Refundable security deposits	18,295	161,200	164,177	-	343,672
Total other liabilities	56,377	868,804	496,473	(648,456)	773,198
Total liabilities	995,838	52,293,697	18,130,685	(1,663,392)	69,756,828
NET ASSETS:					
Unrestricted:					
Controlling interests	1,691,410	730,700	(1,773,671)	(1,650,690)	(1,002,251)
Noncontrolling interests	-	8,305,099	-	54,624	8,359,723
Total unrestricted	1,691,410	9,035,799	(1,773,671)	(1,596,066)	7,357,472
Temporarily restricted	1,656,612	-	-	-	1,656,612
Net assets	3,348,022	9,035,799	(1,773,671)	(1,596,066)	9,014,084
TOTAL	\$ 4,343,860	\$ 61,329,496	\$ 16,357,014	\$ (3,259,458)	\$ 78,770,912

(Concluded)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2009

	Other Entities	Tax Credit Entities	REACH Community Development, Inc.	Eliminations	Consolidated
SUPPORT AND REVENUES:					
Support					
Grants	\$ -	\$ -	\$ 918,160	\$ -	\$ 918,160
Contributions	-	-	122,443	-	122,443
Donated goods and services	-	-	81,983	-	81,983
Special events	-	-	26,997	-	26,997
Total support	-	-	1,149,583	-	1,149,583
Revenues					
Net rental revenue	595,280	4,225,044	3,627,442	(67,471)	8,380,295
Laundry and tenant charges	22,941	93,002	84,475		200,418
Equity in income (loss) of affiliates	-	-	53,270	(53,270)	-
Management fees	-	-	1,372,557	(1,367,308)	5,249
Development fees	-	-	1,274,791	(1,044,576)	230,215
Gain on sale of investments in real estate	-	233,222	-	(233,222)	-
Interest income	25,688	77,917	92,429	(46,507)	149,527
Total revenues	643,909	4,629,185	6,504,964	(2,812,354)	8,965,704
Total support and revenues	643,909	4,629,185	7,654,547	(2,812,354)	10,115,287
EXPENSES:					
Program services:					
Property operations and management	602,197	5,636,555	4,437,648	(1,482,535)	9,193,865
Housing development	-	-	378,800	(236,919)	141,881
Voluntary services / public relations	-	-	97,596	-	97,596
Resident services	-	-	439,616	-	439,616
Community builders	-	-	452,454	-	452,454
Total program services	602,197	5,636,555	5,806,114	(1,719,454)	10,325,412
Support services:					
Management and general	-	-	886,912	-	886,912
Fundraising	-	-	175,921	-	175,921
Total support services	-	-	1,062,833	-	1,062,833
Total expenses	602,197	5,636,555	6,868,947	(1,719,454)	11,388,245
CHANGE IN NET ASSETS	\$ 41,712	\$ (1,007,370)	\$ 785,600	\$ (1,092,900)	\$ (1,272,958)

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2009**

	Other Entities	Tax Credit Entities	REACH Community Development, Inc.	Eliminations	Consolidated
NET ASSETS, BEGINNING OF PERIOD	\$ 3,306,310	\$ 6,479,024	\$ (2,519,791)	\$ (621,421)	\$ 6,644,122
Change in net assets	41,712	(1,007,370)	785,600	(1,092,900)	(1,272,958)
Capital contributions	-	3,749,461	-	(494)	3,748,967
Syndication costs	-	(145,836)	-	39,789	(106,047)
Distributions	-	(39,480)	-	39,480	-
NET ASSETS, END OF PERIOD	\$ 3,348,022	\$ 9,035,799	\$ (1,734,191)	\$ (1,635,546)	\$ 9,014,084

(Concluded)

REACH COMMUNITY DEVELOPMENT, INC.

**SUPPLEMENTAL CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2009**

	Program Services					Support Services			Total
	Property Operations and Management	Housing Development	Volunteer Services / Public Relations	Resident Services	Community Builders	Management & General	Fund-raising		
Salaries	\$ 1,500,197	\$ 241,465	\$ 64,628	\$ 262,003	\$ 154,741	\$ 341,788	\$ 107,600	\$ 2,672,422	
Payroll taxes	181,317	26,076	6,863	29,114	18,385	41,382	12,084	315,221	
Health insurance / employee benefits	241,242	37,717	8,776	38,248	27,145	51,472	16,287	420,887	
Pension plan contributions	63,582	10,493	2,442	10,641	7,552	14,320	4,531	113,561	
Advertising	38,943	-	-	-	4,074	8,698	2,707	54,422	
Management fees	32,175	-	-	-	-	-	-	32,175	
Telephone and answering service	57,583	931	-	6,527	1,513	20,340	100	86,994	
Legal expense	28,098	5,466	-	-	-	13,304	-	46,868	
Audit	63,975	-	-	-	-	33,610	-	97,585	
Social service fee	6,429	-	-	-	-	-	-	6,429	
Other professional services	11,168	10,442	3,900	97	-	10,185	4,700	40,492	
Contract services	74,945	-	-	19,064	159,829	102,632	5,387	361,857	
Other administrative	270,124	4,672	9,572	46,127	36,281	133,996	21,219	521,991	
Residential services	7,905	-	1,235	24,285	35,884	7,815	706	77,830	
Utilities	880,448	-	-	-	-	14,225	-	894,673	
Operating and maintenance	901,282	-	-	3,510	-	19,922	-	924,714	
Property tax	123,610	-	-	-	-	-	-	123,610	
Other taxes, licenses and permits	30,572	1,719	180	-	296	625	600	33,992	
Insurance	280,495	500	-	-	6,754	18,031	-	305,780	
Interest	1,481,528	39,319	-	-	-	9,885	-	1,530,732	
Line of credit and other fees	31,880	-	-	-	-	2,720	-	34,600	
Limited partner fees	4,421	-	-	-	-	-	-	4,421	
Depreciation and amortization	2,881,946	-	-	-	-	41,962	-	2,923,908	
Capitalized housing development costs	-	(236,919)	-	-	-	-	-	(236,919)	
	<u>\$ 9,193,865</u>	<u>\$ 141,881</u>	<u>\$ 97,596</u>	<u>\$ 439,616</u>	<u>\$ 452,454</u>	<u>\$ 886,912</u>	<u>\$ 175,921</u>	<u>\$ 11,388,245</u>	

REACH COMMUNITY DEVELOPMENT, INC.

**SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES (REACH COMMUNITY DEVELOPMENT, INC. ONLY)
YEAR ENDED DECEMBER 31, 2009**

	Program Services						Support Services		
	Property Operations and Management	Housing Development	Volunteer Services / Public Relations	Resident Services	Community Builders	Management & General	Fund-raising	Total	
Salaries	\$ 1,484,700	\$ 241,465	\$ 64,628	\$ 262,003	\$ 154,741	\$ 341,788	\$ 107,600	\$ 2,656,925	
Payroll taxes	166,282	26,076	6,863	29,114	18,385	41,382	12,084	300,186	
Health insurance / employee benefits	228,549	37,717	8,776	38,248	27,145	51,472	16,287	408,194	
Pension plan contributions	63,582	10,493	2,442	10,641	7,552	14,320	4,531	113,561	
Advertising	827	-	-	-	4,074	8,698	2,707	16,306	
Management fees	-	-	-	-	-	-	-	-	
Telephone and answering service	28,670	931	-	6,527	1,513	20,340	100	58,081	
Legal expense	11,352	5,466	-	-	-	13,304	-	30,122	
Audit	851	-	-	-	-	33,610	-	34,461	
Social service fee	-	-	-	-	-	-	-	-	
Other professional services	5,668	10,442	3,900	97	-	10,185	4,700	34,992	
Contract services	67,838	-	-	19,064	159,829	102,632	5,387	354,750	
Other administrative	75,576	4,672	9,572	46,127	36,281	133,996	21,219	327,443	
Rent expense - commercial	59,247	-	-	-	-	-	-	59,247	
Residential services	2,054	-	1,235	24,285	35,884	7,815	706	71,979	
Utilities	370,823	-	-	-	-	14,225	-	385,048	
Operating and maintenance	399,987	-	-	3,510	-	19,922	-	423,419	
Property tax	46,600	-	-	-	-	-	-	46,600	
Other taxes, licenses and permits	2,598	1,719	180	-	296	625	600	6,018	
Insurance	146,790	500	-	-	6,755	18,031	-	172,076	
Interest	313,011	39,319	-	-	-	9,885	-	362,215	
Line of credit and other fees	-	-	-	-	-	2,720	-	2,720	
Depreciation and amortization	962,643	-	-	-	-	41,962	-	1,004,605	
Capitalized housing development costs	-	-	-	-	-	-	-	-	
TOTAL FUNCTIONAL EXPENSES	\$ 4,437,648	\$ 378,800	\$ 97,596	\$ 439,616	\$ 452,455	\$ 886,912	\$ 175,921	\$ 6,868,948	

REACH COMMUNITY DEVELOPMENT, INC.**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2009**

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:		
Mortgage Insurance Rental and Cooperative Housing for Moderate Income Families and Elderly, Market Interest Rate	14.135	\$ 21,693
Section 8 Housing Assistance Payments Program- Special Allocation	14.195	119,113
Passed-through from City of Portland, Oregon:		
Community Development Block Grants/Entitlement Grants	14.218	82,651
Community Development Block Grants/Entitlement Grants (State-Administered Small Cities Programs)	14.228	252,952
HOME Investment Partnerships Program	14.239	9,562
Passed-through Portland Development Commission-		
HOME Investment Partnerships Program	14.239	254,000
Passed-through Enterprise Community Partners, Inc.-		
Capacity Building for Community Development and Affordable Housing	14.252	<u>30,952</u>
Total		<u>\$770,923</u>

BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes the federal grant activity of REACH Community Development, Inc. and Affiliated Entities, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

REACH COMMUNITY DEVELOPMENT, INC.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2009**

Finding No. 2008A-01 CFDA No. 14.228 – Community Development Block Grants/Entitlement Grants

Condition – The required written demographic and income information is included on the application for assistance. During the six month period ended December 31, 2008 we noted that one of the applications for assistance was not signed by the client.

Recommendation – The failure to obtain the required signature of the client seeking assistance appears to be an isolated instance, however in the future the Subrecipient should consider making a final review of the client file when closing the work order to determine that the file includes all the documentation required by the subrecipient contract.

Status – The Organization has initiated procedures to ensure all client signatures on applications are obtained.

REPORT 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*

To the Board of Directors of
REACH Community Development, Inc.

We have audited the financial statements of REACH Community Development, Inc. as of and for the year ended December 31, 2009, and have issued our report thereon dated May 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered REACH Community Development, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of REACH Community Development, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of REACH Community Development, Inc.'s internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether REACH Community Development, Inc.'s financial statements are free of 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*.

This report is intended solely for the information and use of the board of directors, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bjorklund & Montplaisir

May 13, 2010

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
REACH Community Development, Inc.

COMPLIANCE

We have audited the compliance of REACH Community Development, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. REACH Community Development, Inc.'s major federal programs are identified in the summary of auditors' reports section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of REACH Community Development, Inc.'s management. Our responsibility is to express an opinion on REACH Community Development, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 REACH Community Development, 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. Our audit does not provide a legal determination on REACH Community Development, Inc.'s compliance with those requirements.

In our opinion, REACH Community Development, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

INTERNAL CONTROL OVER COMPLIANCE

The management of REACH Community Development, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered REACH Community Development, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 REACH Community Development, Inc.'s internal control over compliance.

A *deficiency in internal control* 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, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of directors, management, others within REACH Community Development, Inc., and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bjorklund & Montplaisir

May 13, 2010

REACH COMMUNITY DEVELOPMENT, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009**

SECTION 1 - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X No

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X No

Type of auditor's report issued on compliance for Major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? _____ Yes X No

Identification of Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants/Entitlement Grants
Dollar threshold used to distinguish between Type A and Type B programs	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> Yes <u> </u> No

SECTION 2 - FINDINGS - FINANCIAL STATEMENT AUDIT

None

SECTION 3 - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM

None