

REACH COMMUNITY DEVELOPMENT, INC.

**Financial Statements and Supplementary Information
for the years ended December 31, 2010 and 2009 and
Independent Auditors' Report and Single Audit Reports**

CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT.....	1-2
FINANCIAL STATEMENTS:	
Consolidated Statements of Financial Position	3-4
Consolidated Statements of Activities and Changes in Net Assets	5-6
Consolidated Statements of Cash Flows.....	7-8
Notes to Consolidated Financial Statements	9-21
SUPPLEMENTARY INFORMATION:	
Consolidating Statement of Financial Position.....	22-23
Consolidating Statement of Activities and Changes in Net Assets	24-25
Supplemental Consolidated Schedule of Functional Expenses	26
Supplemental Schedule of Functional Expenses (REACH Community Development, Inc.)	27
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	28
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	29-30
REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	31-32
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	33

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, 2010 and 2009 and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2011 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is 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 audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages 22 through 27 is presented for purposes of additional analysis, and is not a required part of the basic financial statements of REACH Community Development, Inc. 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 Organizations*, and is also not a required part of the basic financial statements. Such information is the responsibility of REACH Community Development, Inc.'s management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Byorklund & Montplaisir

May 13, 2011

REACH COMMUNITY DEVELOPMENT, INC.**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,563,632	\$ 1,633,039
Short-term investments	1,194,795	1,681,602
Receivables	362,191	205,483
Prepaid expenses	123,996	117,286
Total current assets	<u>3,244,614</u>	<u>3,637,410</u>
NON CURRENT ASSETS:		
Tenant security deposits held in trust	397,701	366,877
Other restricted deposits	5,716,512	5,285,708
Receivable from affiliate	350,713	258,893
Investments	607,452	98,000
Financing fees - net	1,007,117	1,056,826
Tax credit fees - net	113,689	122,968
Other assets	802,049	921,862
Fixed assets:		
Land and land improvements	8,249,627	7,923,656
Offsite improvements	127,816	127,816
Buildings and improvements	91,115,832	81,054,500
Furnishings and equipment	2,383,552	1,941,306
Construction-in-progress	-	4,524,714
Total	101,876,827	95,571,992
Less accumulated depreciation	<u>(31,410,916)</u>	<u>(28,549,624)</u>
Fixed assets - net	<u>70,465,911</u>	<u>67,022,368</u>
Total noncurrent assets	<u>79,461,144</u>	<u>75,133,502</u>
TOTAL	<u>\$ 82,705,758</u>	<u>\$ 78,770,912</u>

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and other accrued liabilities	\$ 473,869	\$ 391,689
Accounts payable - construction	163,023	830,802
Retainage payable	-	127,648
Accrued interest	441,868	222,016
Prepaid rents	45,446	37,837
Current portion of mortgages and bonds payable	<u>3,913,495</u>	<u>2,580,652</u>
Total current liabilities	<u>5,037,701</u>	<u>4,190,644</u>
NONCURRENT LIABILITIES:		
Refundable security deposits	356,484	343,672
Mortgages and bonds payable	64,112,082	63,609,937
Deferred interest	<u>1,431,189</u>	<u>1,612,575</u>
Total noncurrent liabilities	<u>65,899,755</u>	<u>65,566,184</u>
Total liabilities	<u>70,937,456</u>	<u>69,756,828</u>
NET ASSETS:		
Unrestricted:		
Controlling interests	(970,465)	(1,002,251)
Noncontrolling interests	<u>11,082,155</u>	<u>8,359,723</u>
Total unrestricted	10,111,690	7,357,472
Temporarily restricted	<u>1,656,612</u>	<u>1,656,612</u>
Net assets	<u>11,768,302</u>	<u>9,014,084</u>
TOTAL	<u><u>\$ 82,705,758</u></u>	<u><u>\$ 78,770,912</u></u>

(Concluded)

See notes to consolidated financial statements.

REACH COMMUNITY DEVELOPMENT, INC.**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
SUPPORT AND REVENUES:		
Support:		
Grants and contributions	\$ 1,233,504	\$ 1,040,603
NeighborWorks America Expendable Grant	50,000	-
Donated goods and services	108,367	81,983
Special events	68,597	26,997
Total support	<u>1,460,468</u>	<u>1,149,583</u>
Revenues:		
Net rental revenue	8,827,076	8,380,295
Laundry and tenant charges	186,402	200,418
Equity in loss of affiliate	(1,148)	(781)
Management fees	109,108	6,030
Guarantee fee	175,000	-
Development fee	(230,215)	230,215
Interest income	146,657	149,527
Total revenues	<u>9,212,880</u>	<u>8,965,704</u>
Total support and revenues	<u>10,673,348</u>	<u>10,115,287</u>
EXPENSES:		
Program services:		
Property operations and management	9,859,896	9,193,865
Housing development	48,756	141,881
Volunteer services / public relations	129,522	97,596
Resident services	405,876	439,616
Community builders	419,214	452,454
Total program services	<u>10,863,264</u>	<u>10,325,412</u>
Support services:		
Management and general	954,298	886,912
Fundraising	162,325	175,921
Total support services	<u>1,116,623</u>	<u>1,062,833</u>
Total expenses	<u>11,979,887</u>	<u>11,388,245</u>
CHANGE IN NET ASSETS	<u>\$ (1,306,539)</u>	<u>\$ (1,272,958)</u>

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	Controlling Interests	Unrestricted Noncontrolling Interests	Total Unrestricted	Temporarily Restricted	Net Assets
NET ASSETS, DECEMBER 31, 2008					
Change in net assets for the year ended December 31, 2009	\$ (880,681)	\$ 5,868,191	\$ 4,987,510	\$1,656,612	\$ 6,644,122
Capital contributions	(121,570)	(1,151,388)	(1,272,958)	-	(1,272,958)
Syndication costs	-	3,748,967	3,748,967	-	3,748,967
	-	(106,047)	(106,047)	-	(106,047)
NET ASSETS, DECEMBER 31, 2009	(1,002,251)	8,359,723	7,357,472	1,656,612	9,014,084
Change in net assets for the year ended December 31, 2010	31,786	(1,338,325)	(1,306,539)	-	(1,306,539)
Capital contributions	-	4,060,757	4,060,757	-	4,060,757
NET ASSETS, DECEMBER 31, 2010	\$ (970,465)	\$ 11,082,155	\$ 10,111,690	\$1,656,612	\$ 11,768,302

See notes to consolidated financial statements.

(Concluded)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,306,539)	\$ (1,272,958)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,991,995	2,867,227
Amortization	66,196	55,206
Equity in loss of affiliate	1,148	781
Development fee	230,215	(230,215)
(Increase) decrease in:		
Receivables	(156,708)	26,978
Prepaid expenses	(6,710)	(46,470)
Tenant security deposits held in trust	(30,824)	(52,039)
Increase (decrease) in:		
Accrued and deferred interest	38,466	280,308
Accounts payable and other accrued liabilities	82,180	21,741
Prepaid rents	7,609	(1,717)
Refundable security deposits	12,812	32,168
Net cash provided by operating activities	<u>1,929,840</u>	<u>1,681,010</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in other restricted deposits	(430,804)	(152,859)
Additions to fixed assets	(6,435,536)	(7,599,265)
Payment of accounts payable - construction	(667,779)	(476,721)
Payment of retainage payable	(127,648)	-
Net change in investments	(22,645)	375,634
Tax credit fees paid	-	(34,803)
Advance to affiliate	(91,820)	(24,093)
Other assets	(114,865)	49,594
Net cash used in investing activities	<u>(7,891,097)</u>	<u>(7,862,513)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings	6,171,610	13,050,906
Repayments	(4,336,623)	(9,740,546)
Financing fees paid	(3,894)	(274,257)
Capital contributions	4,060,757	3,748,967
Syndication costs	-	(106,047)
Net cash provided by financing activities	<u>5,891,850</u>	<u>6,679,023</u>
NET CHANGE IN CASH	(69,407)	497,520
CASH AT BEGINNING OF YEAR	<u>1,633,039</u>	<u>1,135,519</u>
CASH AT END OF YEAR	<u>\$ 1,563,632</u>	<u>\$ 1,633,039</u>

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE -		
Cash paid for interest	<u>\$ 1,212,033</u>	<u>\$ 1,257,480</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES -		
Additions to fixed assets through incurrence of retainage payable	<u>\$ -</u>	<u>\$ 127,648</u>
		(Concluded)

See notes to consolidated financial statements.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2010 AND 2009

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 eleven 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
REACH Knoll, LLC
Patton Square Leasing 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”)

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. The rehabilitation of Walnut Park Apartments was completed on June 1, 2010.

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. The rehabilitation of the Admiral Apartments was completed on May 2, 2010.

REACH Development LLC is the development entity for REACH.

REACH Knoll, LLC is the special limited partner in a limited partnership in which it has guaranteed certain obligations of the general partner and the sponsor.

REACH COMMUNITY DEVELOPMENT, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

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 and REACH has an economic interest in each of the entities. 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

In addition to the entities listed above, REACH became affiliated with three additional single-asset not-for-profit corporations, each of which owns a HUD Section 202 multifamily housing complex designed to serve very-low income elderly persons. REACH was approved as the HUD-designated "Project Sponsor" on September 8, 2010 and appointed five REACH board members to the seven member board. REACH assumed direct property management for each of these properties in the first quarter of 2011 and will include the accounts of each of the corporations in the consolidated financial statements beginning January 1, 2011. These entities are as follows:

Community Housing, Inc.	The Maples
Community Housing II, Inc.	Maples II
Community Housing III, Inc.	Fir Grove 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 COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2010 AND 2009

1. ORGANIZATION AND NATURE OF ACTIVITIES - Continued

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. See Note 12 for information on the acquisition of the limited partner's interest in Elderhope Limited Partnership effective April 1, 2011.

* Entities not audited in accordance with Government Auditing Standards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The accompanying financial statements include the accounts of REACH and its single member LLCs, Other Entities, 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.

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 predicated 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.

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 and contributions from private foundations and government sources. Government grants, which generally reflect cost reimbursement agreements are recognized when earned. Contributions, which include unconditional promises to give, are recorded as revenue at estimated net realizable value in the period REACH is notified of the commitment. 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.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2010 AND 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Revenue Recognition - Continued

Development Fees – REACH earns fees for development of properties and generally recognizes development fees as earned over the period of development. Development 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 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 recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the use of donated goods to a specific purpose. REACH recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are proved by individually possessing those skills, and would typically need to be purchased if not provided by donation. No amounts have been reflected in the financial statements for donated services by the Board members involved in Board activities or from unpaid volunteers unless the criteria for recognition has 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 1,400 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 1,400 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.

REACH COMMUNITY DEVELOPMENT, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Functional Expenses - Continued

- **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 and help homeowners maintain their independence and stay safely in their homes and in their neighborhoods.

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.

Fixed Assets are recorded at cost. Depreciation is computed on the straight-line and accelerated methods 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 \$140,768 and \$181,205 for the years ended December 31, 2010 and 2009, respectively.

Management reviews fixed assets 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.

Investments - Investments consist of certificate of deposits with maturities ranging from 2011 to 2013. Investments in certificates of deposits with maturities less than one year are classified as short-term investments. Such investments are recorded at amortized costs which approximates fair value at December 31, 2010 and 2009.

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 \$356,761 and \$303,159 at December 31, 2010 and 2009, respectively. Amortization expense was \$53,600 and \$48,846 for the years ended December 31, 2010 and 2009, respectively.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Tax Credit Fees are recorded at cost and are amortized over a 15 year period. Accumulated amortization was \$50,605 and \$41,327 at December 31, 2010 and 2009, respectively. Amortization was \$9,278 and \$6,360 for the years ended December 31, 2010 and 2009, respectively.

Certain of the Tax Credit 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 Tax Credit Entities’ owners through the Tax Credit 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 Tax Credit Entities 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 Tax Credit 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.

Grants and Pledges Receivable were \$343,911 and \$178,139 at December 31, 2010 and 2009, respectively. Grants and pledges receivable within a year were \$273,712 and \$135,461 at December 31, 2010 and 2009, respectively. The remaining balances are receivable within 2 to 5 years. The discount on long-term grants and contributions at December 31, 2010 and 2009 is considered insignificant to the financial statements.

Restricted Deposits – Restricted deposits at December 31, 2010 and 2009 include the following:

	<u>2010</u>	<u>2009</u>
Operating reserves	\$1,429,951	\$1,424,311
Replacement reserves	2,238,057	2,027,946
Residual receipts accounts	306,325	238,190
Mortgage escrow deposits	143,111	130,539
Equity reserves	649,752	684,942
Board designated	400,000	200,000
Stabilization reserves	255,835	255,225
Construction reserves	-	104,130
Re-leasing reserves	112,969	105,255
Debt service reserves	72,641	72,279
OAHTC Fee reserves	7,456	1,864
Lease-up reserve	59,305	-
Other restricted deposits	<u>41,110</u>	<u>41,027</u>
Total	<u>\$5,716,512</u>	<u>\$5,285,708</u>

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
YEARS ENDED DECEMBER 31, 2010 AND 2009**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Concluded

Restricted Deposits – Continued

Residual receipts - Each of the Other 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.

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

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

Construction reserve – Proceeds of borrowings from Portland Housing Bureau (“PHB”) were deposited in a construction reserve and were restricted for tenant improvements and construction costs which have been completed.

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”).

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.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2010 AND 2009

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 years ended December 31, 2010 and 2009, rents received from these leases were \$686,559 and \$620,693, respectively. Future minimum lease receipts under the leases are as follows:

Year ending December 31,	
2011	\$ 554,458
2012	411,323
2013	366,886
2014	253,418
2015	57,486
Thereafter	<u>421,442</u>
Total	<u>\$2,065,013</u>

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2010 and 2009 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 to participate in REACH's pension plan under section 403(b) of the Internal Revenue Code. REACH contributed \$146,855 and \$113,560 to the plan for the years ended December 31, 2010 and 2009, respectively. The contribution percentage is six percent of eligible compensation.

6. MORTGAGES AND BONDS PAYABLE

Mortgages and bonds payable at December 31, 2010 and 2009 consist of the following:

	2010	2009
<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.	\$ 3,198,022	\$ 3,315,134
<i>JPMorgan Chase</i> - Mortgages payable in aggregate monthly installments of \$24,775 including interest ranging from .75% to 7.5%, maturing 2013-2034.	3,004,292	3,144,004

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

6. MORTGAGES AND BONDS PAYABLE – Continued

	<u>2010</u>	<u>2009</u>
<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.	\$ 837,372	\$ 867,801
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, 2010) payable in arrears on the first day of each month. On January 27, 2011, the loan was paid down to \$1,949,653 and converted to a term loan payable to Network of Affordable Housing (“NOAH”).	2,146,384	2,180,818
<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, 2010) payable in arrears on the first day of each month. On February 9, 2011, the loan was paid down to \$957,084 and converted to a term loan payable to NOAH.	3,412,004	1,384,406
<i>Portland Housing Bureau</i>		
Mortgages payable in aggregate monthly installments of \$24,470 including interest ranging from 0.00% to 8.02%, maturing 2012-2036.	3,743,860	4,169,137
Mortgages payable in annual amounts calculated based on income level in excess of allowable return on the related investment, maturing 2020-2071. Interest accrues at rates ranging from 0.00% to 3.0%.	37,295,351	36,364,536
<i>Oregon Housing and Community Services (“OHCS”)</i>		
Note payable, due May 15, 2025, payable in monthly installments of \$9,851, including interest at 2.22%.	1,457,219	1,542,053
Note payable, due January 15, 2028, payable in monthly installments of \$16,795, including interest at 6.10%.	2,144,072	2,212,540
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%.	4,618,675	4,695,052
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%.	679,306	781,803
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%.	2,702,725	2,777,484

REACH COMMUNITY DEVELOPMENT, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

6. MORTGAGES AND BONDS PAYABLE – Continued

	<u>2010</u>	<u>2009</u>
<i>OHCS</i>		
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%.	\$ 487,128	\$ 493,908
Note payable, due December 31, 2071, including interest at 1% beginning January 1, 2014.	950,051	851,050
<i>Other mortgages</i>		
Payable in aggregate monthly installments of \$10,733 including interest ranging from 1.0% to 8.5% maturing 2011-2058.	<u>1,349,116</u>	<u>1,410,863</u>
Total	<u>\$68,025,577</u>	<u>\$66,190,589</u>

Of the total mortgages and bonds payable at December 31, 2010, \$67,025,577 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, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
REACH	\$17,031,075	\$17,444,549
Other Entities	894,664	935,555
Tax Credit Entities	50,954,676	48,571,123
Eliminations	<u>(854,838)</u>	<u>(760,638)</u>
	<u>\$68,025,577</u>	<u>\$66,190,589</u>

Annual maturities of mortgages and bonds payable for the years subsequent to December 31, 2010 are as follows:

Year ending December 31,	
2011	\$ 3,913,495
2012	1,347,798
2013	1,059,807
2014	2,303,980
2015	1,109,065
Thereafter	<u>58,291,432</u>
Total	<u>\$68,025,577</u>

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2010 AND 2009

6. MORTGAGES AND BONDS PAYABLE – Continued

Portland Housing Bureau

- At December 31, 2010 and 2009, mortgages payable to PHB aggregating \$37,295,351 and \$36,364,536, 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 \$134,000 and \$113,000 at December 31, 2010 and 2009, respectively.
- REACH has entered into four equity gap financing agreements with PHB, 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, 2010 and 2009.

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.

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, the Other Entities are precluded from receiving any distributions of assets or operating cash and distributions from Tax Credit Entities are limited to surplus cash at the end of each semi-annual or annual period. 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.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2010 AND 2009

8. COMMITMENTS AND CONTINGENCIES - Continued

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, 2010 was approximately \$527,000. REACH has not been required to fund any amounts associated with the operating deficit guarantees to date.

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. ACQUISITIONS

REACH Admiral LLC was formed 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 (formed in May 2009), in which REACH Admiral LLC is the managing member.

REACH Walnut Park LLC was formed 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 (formed 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 statements of activities for the years ended December 31, 2010 and 2009 included the operational results of the acquired real estate projects since the acquisition date. Any gains realized as a result of sales between affiliates were eliminated in the consolidation.

11. DEVELOPMENT FEE INCOME

During the year ended December 31, 2009, a development fee of \$230,215 was recognized in connection with REACH's investment in Floyd Light. Subsequent to completing the financial statements for the year ended December 31, 2009, it was determined that the development fee should not have been recognized. Such amount was corrected during the year ended December 31, 2010.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2010 AND 2009

12. GUARANTEE FEE

REACH Knoll, LLC is the special limited partner and a guarantor of certain of the general partner's and the sponsor's obligations in an otherwise unaffiliated partnership formed to develop an affordable housing project in Tigard, Oregon (the "Project"). The guaranteed obligations include, jointly and severally with the general partner and the sponsor, a guaranty of lien-free completion, timely lease-up of the Project, conversion to permanent financing and the obligation to repurchase the investment partner's interest in the partnership under certain conditions. In the event of the failure of the general partner or the sponsor to satisfy their obligations under the agreement, REACH Knoll, LLC has the option to convert its special limited partnership interest to a general partner interest, with a simultaneous conversion of the prior general partner's interest to a special limited partnership interest. In exchange for the guaranty, REACH Knoll, LLC received a guarantee fee of \$175,000.

13. NEIGHBORHOOD REINVESTMENT CORPORATION

The Neighborhood Reinvestment Corporation, d.b.a. NeighborWorks® America is a public, congressionally charged nonprofit organization that receives funding through annual congressional appropriations. It is not a federal agency, but a recipient of federal funds that was organized for the purpose of receiving federal funds and making sub-grants to NeighborWorks® member organizations. During the year ended December 31, 2010, REACH became a NeighborWorks® member and received an unrestricted grant of \$50,000. As a member organization, REACH must comply with the terms of the Investment and Grant Agreement including financial reporting and will be eligible for additional grants to support operations and development of affordable housing.

14. SUBSEQUENT EVENTS

Effective April 1, 2011, the Limited Partner in Elderhope Limited Partnership assigned its entire limited partnership interest to a substitute limited partner owned by REACH in exchange for \$133,000. The net effect on the consolidated financial statements will be to reclassify approximately \$1,000,000 from noncontrolling interests in unrestricted net assets to controlling interests in unrestricted net assets.

On January 21, 2011, REACH formed REACH B49 Partners Limited Partnership ("REACH B49") for the purpose of developing a 209-unit affordable housing complex with retail and office space located just south of downtown Portland. The development site, which has an appraised value of \$5,000,000 was donated to REACH by the Portland Housing Bureau. In April 2011, an affiliate of Enterprise Community Investments, Inc. was admitted as the investment partner and on April 14, 2011 REACH B49 entered into a construction contract for \$31,659,953. Total development costs will approximate \$50,000,000. Construction and permanent financing for the development are being provided by U.S Bank, Enterprise Community Investments, Inc., Portland Housing Bureau and the Oregon Housing and Community Services Department.

Management of REACH has evaluated events and transactions occurring after December 31, 2010 through May 13, 2011, the date the financial statements were available for issuance, for potential recognition or disclosure in the financial statements and has concluded that, other than for the items discussed above, no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010**

	Other Entities	Tax Credit Entities	REACH Community Development, Inc.	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash	\$ 46,381	\$ 1,127,200	\$ 390,051	\$ -	\$ 1,563,632
Short-term investments	-	1,194,795	-	-	1,194,795
Receivables	168,214	70,192	123,785	-	362,191
Prepaid expenses	4,607	64,794	54,595	-	123,996
Total current assets	219,202	2,456,981	568,431	-	3,244,614
NONCURRENT ASSETS:					
Tenant security deposits held in trust	22,543	190,612	184,546	-	397,701
Other restricted deposits	1,099,644	2,856,918	1,759,950	-	5,716,512
Receivable from affiliates	-	-	2,345,785	(1,995,072)	350,713
Investments	-	607,452	-	-	607,452
Financing fees - net	50,596	922,112	74,198	(39,789)	1,007,117
Tax credit fees - net	-	113,689	-	-	113,689
Other assets	-	459,374	1,080,129	(737,454)	802,049
Fixed assets:					
Land and land improvements	319,874	5,574,522	2,355,231	-	8,249,627
Offsite improvements	-	127,816	-	-	127,816
Buildings and improvements	4,549,224	65,442,689	22,771,396	(1,647,477)	91,115,832
Furnishings and equipment	109,835	1,774,749	498,968	-	2,383,552
Total	4,978,933	72,919,776	25,625,595	(1,647,477)	101,876,827
Less accumulated depreciation	(1,687,368)	(14,734,689)	(15,026,890)	38,031	(31,410,916)
Fixed assets - net	3,291,565	58,185,087	10,598,705	(1,609,446)	70,465,911
Total noncurrent assets	4,464,348	63,335,244	16,043,313	(4,381,761)	79,461,144
TOTAL	\$ 4,683,550	\$ 65,792,225	\$ 16,611,744	\$ (4,381,761)	\$ 82,705,758

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010**

	Other Entities	Tax Credit Entities	REACH Community Development, Inc.	Eliminations	Consolidated
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable and other accrued liabilities	\$ 68,920	\$ 385,149	\$ 413,575	\$ (393,775)	\$ 473,869
Accounts payable - construction	157,113	834,300	-	(828,390)	163,023
Accrued interest	3,627	427,844	24,027	(13,630)	441,868
Prepaid rents	3,408	29,843	12,195	-	45,446
Current portion of mortgages and bonds payable	13,188	3,260,516	658,343	(18,552)	3,913,495
Total current liabilities	<u>246,256</u>	<u>4,937,652</u>	<u>1,108,140</u>	<u>(1,254,347)</u>	<u>5,037,701</u>
NONCURRENT LIABILITIES:					
Refundable security deposits	18,127	169,281	169,076	-	356,484
Mortgages and bonds payable	881,476	47,694,160	16,372,732	(836,286)	64,112,082
Deferred interest	-	1,329,931	101,258	-	1,431,189
Total noncurrent liabilities	<u>899,603</u>	<u>49,193,372</u>	<u>16,643,066</u>	<u>(836,286)</u>	<u>65,899,755</u>
Total liabilities	<u>1,145,859</u>	<u>54,131,024</u>	<u>17,751,206</u>	<u>(2,090,633)</u>	<u>70,937,456</u>
NET ASSETS:					
Unrestricted:					
Controlling interests	1,881,079	633,670	(1,139,462)	(2,345,752)	(970,465)
Noncontrolling interests	-	11,027,531	-	54,624	11,082,155
Total unrestricted	<u>1,881,079</u>	<u>11,661,201</u>	<u>(1,139,462)</u>	<u>(2,291,128)</u>	<u>10,111,690</u>
Temporarily restricted	1,656,612	-	-	-	1,656,612
Net assets	<u>3,537,691</u>	<u>11,661,201</u>	<u>(1,139,462)</u>	<u>(2,291,128)</u>	<u>11,768,302</u>
TOTAL	<u>\$ 4,683,550</u>	<u>\$ 65,792,225</u>	<u>\$ 16,611,744</u>	<u>\$ (4,381,761)</u>	<u>\$ 82,705,758</u>

(Concluded)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2010**

	Other Entities	Tax Credit Entities	REACH Community Development, Inc.	Eliminations	Consolidated
SUPPORT AND REVENUES:					
Support:					
Grants and contributions	\$ 237,572	\$ -	\$ 995,932	\$ -	\$ 1,233,504
NeighborWorks America Expendable Grant	-	-	50,000	-	50,000
Donated goods and services	-	15,429	92,938	-	108,367
Special events	-	-	68,597	-	68,597
Total support	<u>237,572</u>	<u>15,429</u>	<u>1,207,467</u>	<u>-</u>	<u>1,460,468</u>
Revenues:					
Net rental revenue	596,547	4,524,530	3,768,905	(62,906)	8,827,076
Laundry and tenant charges	11,668	89,801	84,933	-	186,402
Equity in income (loss) of affiliates	-	-	(3,183)	2,035	(1,148)
Management fees	-	-	1,662,971	(1,553,863)	109,108
Guarantee fee	-	-	175,000	-	175,000
Development fee	-	-	810,520	(1,040,735)	(230,215)
Interest income	16,600	35,515	129,095	(34,553)	146,657
Total revenues	<u>624,815</u>	<u>4,649,846</u>	<u>6,628,241</u>	<u>(2,690,022)</u>	<u>9,212,880</u>
Total support and revenues	<u>862,387</u>	<u>4,665,275</u>	<u>7,835,708</u>	<u>(2,690,022)</u>	<u>10,673,348</u>
EXPENSES:					
Program services:					
Property operations and management	672,718	6,005,635	4,859,767	(1,678,224)	9,859,896
Housing development	-	-	404,971	(356,215)	48,756
Volunteer services / public relations	-	-	129,522	-	129,522
Resident services	-	-	405,876	-	405,876
Community builders	-	-	419,214	-	419,214
Total program services	<u>672,718</u>	<u>6,005,635</u>	<u>6,219,350</u>	<u>(2,034,439)</u>	<u>10,863,264</u>
Support services:					
Management and general	-	-	954,298	-	954,298
Fundraising	-	-	162,325	-	162,325
Total support services	<u>-</u>	<u>-</u>	<u>1,116,623</u>	<u>-</u>	<u>1,116,623</u>
Total expenses	<u>672,718</u>	<u>6,005,635</u>	<u>7,335,973</u>	<u>(2,034,439)</u>	<u>11,979,887</u>
CHANGE IN NET ASSETS	<u>\$ 189,669</u>	<u>\$ (1,340,360)</u>	<u>\$ 499,735</u>	<u>\$ (655,583)</u>	<u>\$ (1,306,539)</u>

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2010**

	Other Entities	Tax Credit Entities	REACH Community Development, Inc.	Eliminations	Consolidated
NET ASSETS, BEGINNING OF PERIOD	\$ 3,348,022	\$ 8,940,804	\$ (1,639,197)	\$ (1,635,545)	\$ 9,014,084
Change in net assets	189,669	(1,340,360)	499,735	(655,583)	(1,306,539)
Capital contributions	-	4,060,757	-	-	4,060,757
NET ASSETS, END OF PERIOD	<u>\$ 3,537,691</u>	<u>\$11,661,201</u>	<u>\$ (1,139,462)</u>	<u>\$ (2,291,128)</u>	<u>\$ 11,768,302</u>

(Concluded)

REACH COMMUNITY DEVELOPMENT, INC.

**SUPPLEMENTAL CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2010**

	Program Services					Support Services			Total
	Property Operations and Management	Housing Development	Volunteer Services / Public Relations	Resident Services	Community Builders	Management & General	Fund-raising		
Salaries	\$ 1,927,858	\$ 253,122	\$ 73,666	\$ 186,757	\$ 194,923	\$ 428,985	\$ 92,208	\$ 3,157,519	
Payroll taxes	187,932	26,354	8,061	38,645	22,015	23,747	10,372	317,126	
Health insurance / employee benefits	358,976	51,832	15,298	71,017	41,760	69,885	20,268	629,036	
Advertising	23,648	-	1,850	-	2,113	5,891	-	33,502	
Management fees	15,368	-	-	-	-	-	-	15,368	
Telecommunications	70,691	-	-	7,201	1,701	16,019	-	95,612	
Legal expense	28,487	33,619	-	-	1,321	3,462	-	66,889	
Audit	89,152	660	-	-	-	40,000	-	129,812	
Social service fee	9,223	-	-	-	-	-	-	9,223	
Other professional services	12,837	15,450	9,108	-	-	10,717	1,191	49,303	
Contract services	35,334	-	15	5,725	53,393	102,379	1,137	197,983	
Other administrative	284,905	1,805	20,804	39,748	9,147	124,973	34,737	516,119	
Resident services	6,949	-	720	56,773	91,167	16,121	1,812	173,542	
Utilities	871,480	-	-	-	-	12,642	-	884,122	
Operating and maintenance	1,066,481	-	-	10	-	15,121	-	1,081,612	
Property tax	150,193	-	-	-	-	-	-	150,193	
Other taxes, licenses and permits	32,917	490	-	-	854	1,310	600	36,171	
Insurance	257,097	-	-	-	820	22,944	-	280,861	
Interest	1,396,451	21,639	-	-	-	9,091	-	1,427,181	
Line of credit and other fees	3,019	-	-	-	-	1,749	-	4,768	
Limited partner fees	21,970	-	-	-	-	-	-	21,970	
Depreciation and amortization	3,008,929	-	-	-	-	49,262	-	3,058,191	
Capitalized housing development costs	-	(356,215)	-	-	-	-	-	(356,215)	
	<u>\$ 9,859,896</u>	<u>\$ 48,756</u>	<u>\$ 129,522</u>	<u>\$ 405,876</u>	<u>\$ 419,214</u>	<u>\$ 954,298</u>	<u>\$ 162,325</u>	<u>\$ 11,979,887</u>	

REACH COMMUNITY DEVELOPMENT, INC.

**SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES (REACH COMMUNITY DEVELOPMENT, INC. ONLY)
YEAR ENDED DECEMBER 31, 2010**

	Program Services						Support Services		
	Property Operations and Management	Housing Development	Volunteer Services / Public Relations	Resident Services	Community Builders	Management & General	Fund-raising	Total	
Salaries	\$ 1,845,973	\$ 253,122	\$ 73,666	\$ 186,757	\$ 194,923	\$ 428,985	\$ 92,208	\$ 3,075,634	
Payroll taxes	187,932	26,354	8,061	38,645	22,015	23,747	10,372	317,126	
Health insurance / employee benefits	358,976	51,832	15,298	71,017	41,760	69,885	20,268	629,036	
Advertising	376	-	1,850	-	2,113	5,891	-	10,230	
Telecommunications	31,895	-	-	7,201	1,701	16,019	-	56,816	
Legal expense	21,005	33,619	-	-	1,321	3,462	-	59,407	
Audit	7,000	660	-	-	-	40,000	-	47,660	
Other professional services	2,711	15,450	9,108	-	-	10,717	1,191	39,177	
Contract services	23,559	-	15	5,725	53,393	102,379	1,137	186,208	
Other administrative	87,516	1,805	20,804	39,748	9,147	124,973	34,737	318,730	
Rent expense - commercial	62,906	-	-	-	-	-	-	62,906	
Resident services	4,548	-	720	56,773	91,167	16,121	1,812	171,141	
Utilities	367,673	-	-	-	-	12,642	-	380,315	
Operating and maintenance	452,336	-	-	10	-	15,121	-	467,467	
Property tax	93,926	-	-	-	-	-	-	93,926	
Other taxes, licenses and permits	2,275	490	-	-	854	1,310	600	5,529	
Insurance	129,963	-	-	-	820	22,944	-	153,727	
Interest	224,111	21,639	-	-	-	9,091	-	254,841	
Line of credit and other fees	10	-	-	-	-	1,749	-	1,759	
Depreciation and amortization	955,076	-	-	-	-	49,262	-	1,004,338	
TOTAL FUNCTIONAL EXPENSES	\$ 4,859,767	\$ 404,971	\$ 129,522	\$ 405,876	\$ 419,214	\$ 954,298	\$ 162,325	\$ 7,335,973	

REACH COMMUNITY DEVELOPMENT, INC.**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2010**

<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:		
Section 8 Housing Assistance Payments Program- Special Allocation	14.195	\$121,445
Section 236 Interest Reduction Payments, Rental and Cooperative Housing for Lower Income Families	14.103	10,918
Passed-through from City of Portland, Oregon:		
Community Development Block Grants/Entitlement Grants (Development of Walnut Park Apartments)	14.218	26,899
Community Development Block Grants/Entitlement Grants (Community Builders Program)	14.218	269,798
HOME Investment Partnerships Program	14.239	5,898
Passed-through Portland Housing Bureau-		
HOME Investment Partnerships Program	14.239	254,000
Passed-through Enterprise Community Partners, Inc.-		
Capacity Building for Community Development and Affordable Housing	14.252	30,000
Passed-through NeighborWorks Reinvestment Corporation-		
Capacity Building for Community Development and Affordable Housing	21.000	<u>50,000</u>
Total		<u>\$768,958</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.

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, 2010, and have issued our report thereon dated May 13, 2011. 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, 2011

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 could have a direct and material effect on its major federal program for the year ended December 31, 2010. REACH Community Development, Inc.'s major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program 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 could have a direct and material effect on its major federal program for the year ended December 31, 2010.

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, 2011

REACH COMMUNITY DEVELOPMENT, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2010**

SECTION 1 - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued

Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major programs:

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

Identification of Major Programs

CFDA Number(s)

14.218

Name of Federal Program or Cluster

Community Development Block Grants/Entitlement Grants (Community Builders Program)

Dollar threshold used to distinguish between Type A and Type B programs

\$300,000

Auditee qualified as low-risk auditee?

Yes No

SECTION 2 - FINDINGS - FINANCIAL STATEMENT AUDIT

None

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

None