

REACH COMMUNITY DEVELOPMENT, INC.

**Financial Statements and Supplementary Information
for the years ended December 31, 2014 and 2013 and
Independent Auditor's Report and Single Audit Reports**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of REACH Community Development, Inc. (a nonprofit organization) and affiliated entities ("REACH and Affiliated Entities"), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of REACH and Affiliated Entities as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 29 through 37 is presented for purposes of additional analysis, and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2015, on our consideration of REACH and Affiliated Entities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering REACH and Affiliated Entities' internal control over financial reporting and compliance.

Bjorklund & Montplaisir

Portland, Oregon
May 28, 2015

REACH COMMUNITY DEVELOPMENT, INC.**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 3,653,945	\$ 2,738,442
Short-term investments	743,172	1,025,047
Accounts receivable	152,288	142,711
Note and interest receivable	864,300	-
Grants and pledges receivable	122,637	323,680
Prepaid expenses	278,870	427,780
Total current assets	<u>5,815,212</u>	<u>4,657,660</u>
NONCURRENT ASSETS:		
Tenant security deposits held in trust	686,377	720,054
Restricted deposits	9,628,133	7,861,380
Investments	707,790	572,950
Financing fees - net	2,488,803	2,310,661
Tax credit fees - net	379,123	249,001
Other assets	1,144,023	3,128,647
Fixed assets:		
Land and land improvements	20,908,338	20,511,761
Offsite improvements	263,483	263,483
Buildings and improvements	171,198,032	169,108,764
Furnishings and equipment	4,904,576	4,739,754
Construction-in-progress	19,258,651	55,730
Total fixed assets	216,533,080	194,679,492
Less accumulated depreciation	<u>(55,153,241)</u>	<u>(49,955,592)</u>
Fixed assets - net	<u>161,379,839</u>	<u>144,723,900</u>
Total noncurrent assets	<u>176,414,088</u>	<u>159,566,593</u>
TOTAL	<u><u>\$ 182,229,300</u></u>	<u><u>\$ 164,224,253</u></u>

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and other accrued liabilities	\$ 717,309	\$ 428,879
Accounts payable - construction	3,370,087	1,278,274
Accrued interest	271,622	226,656
Prepaid rents	106,912	101,441
Current portion of mortgages and bonds payable	3,133,712	5,524,661
Total current liabilities	<u>7,599,642</u>	<u>7,559,911</u>
NONCURRENT LIABILITIES:		
Refundable security deposits	623,453	590,282
Interest rate swap liability	93,020	-
Mortgages and bonds payable	125,004,389	113,418,775
Deferred interest	2,608,942	2,301,998
Total noncurrent liabilities	<u>128,329,804</u>	<u>116,311,055</u>
Total liabilities	<u>135,929,446</u>	<u>123,870,966</u>
NET ASSETS:		
Unrestricted:		
Controlling interests	955,509	1,295,068
Noncontrolling interests	31,521,186	25,539,394
Total unrestricted	32,476,695	26,834,462
Temporarily restricted	12,823,158	12,566,239
Permanently restricted	1,000,001	952,586
Total net assets	<u>46,299,854</u>	<u>40,353,287</u>
TOTAL	<u><u>\$ 182,229,300</u></u>	<u><u>\$ 164,224,253</u></u>

(Concluded)

See notes to consolidated financial statements.

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:								
Support:								
NeighborWorks® America grants	\$ 286,447	\$ -	\$ 304,334	\$ 590,781	\$ 180,700	\$ -	\$ 275,000	\$ 455,700
Other grants	1,533,414	-	-	1,533,414	1,260,913	-	-	1,260,913
Other contributions	410,242	-	-	410,242	173,447	-	-	173,447
Donated goods and services	49,021	-	-	49,021	120,597	-	-	120,597
NeighborWorks® America Capital Grant Fund reclassification	-	256,919	(256,919)	-	-	(327,586)	327,586	-
Total support	<u>2,279,124</u>	<u>256,919</u>	<u>47,415</u>	<u>2,583,458</u>	<u>1,735,657</u>	<u>(327,586)</u>	<u>602,586</u>	<u>2,010,657</u>
Revenues:								
Net rental revenue	14,318,549	-	-	14,318,549	13,295,331	-	-	13,295,331
Laundry and tenant charges	328,973	-	-	328,973	250,229	-	-	250,229
Management fees	105,416	-	-	105,416	37,199	-	-	37,199
Program income	32,722	-	-	32,722	13,533	-	-	13,533
Gain on sale of assets	666,494	-	-	666,494	-	-	-	-
Gain (loss) on interest rate swap	(111,345)	-	-	(111,345)	18,326	-	-	18,326
Interest income	98,690	-	-	98,690	55,920	-	-	55,920
Other	34,149	-	-	34,149	33,657	-	-	33,657
Total revenues	<u>15,473,648</u>	<u>-</u>	<u>-</u>	<u>15,473,648</u>	<u>13,704,195</u>	<u>-</u>	<u>-</u>	<u>13,704,195</u>
Total support and revenues	<u>17,752,772</u>	<u>256,919</u>	<u>47,415</u>	<u>18,057,106</u>	<u>15,439,852</u>	<u>(327,586)</u>	<u>602,586</u>	<u>15,714,852</u>

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES:								
Program services:								
Property operations and management	\$ 16,231,722	\$ -	\$ -	\$ 16,231,722	\$ 15,330,638	\$ -	\$ -	\$ 15,330,638
Housing development	351,906	-	-	351,906	145,870	-	-	145,870
Volunteer services	40,936	-	-	40,936	46,606	-	-	46,606
Resident services	1,151,259	-	-	1,151,259	902,501	-	-	902,501
Community builders	739,150	-	-	739,150	785,101	-	-	785,101
Total program services	18,514,973	-	-	18,514,973	17,210,716	-	-	17,210,716
Support services:								
Management and general	1,772,745	-	-	1,772,745	1,687,836	-	-	1,687,836
Fundraising	346,078	-	-	346,078	339,241	-	-	339,241
Total support services	2,118,823	-	-	2,118,823	2,027,077	-	-	2,027,077
Total expenses	20,633,796	-	-	20,633,796	19,237,793	-	-	19,237,793
CHANGE IN NET ASSETS	\$ (2,881,024)	\$ 256,919	\$ 47,415	\$ (2,576,690)	\$ (3,797,941)	\$ (327,586)	\$ 602,586	\$ (3,522,941)

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	Unrestricted			Temporarily Restricted	Permanently Restricted	Net Assets
	Controlling Interests	Noncontrolling Interests	Total Unrestricted			
NET ASSETS, DECEMBER 31, 2012	\$ 3,566,049	\$ 12,250,979	\$ 15,817,028	\$ 8,313,931	\$ 350,000	\$ 24,480,959
Change in net assets for the year ended December 31, 2013	(2,256,616)	(1,541,325)	(3,797,941)	(327,586)	602,586	(3,522,941)
Capital contributions	-	5,771,000	5,771,000	-	-	5,771,000
Distributions	-	(4,213)	(4,213)	-	-	(4,213)
Amount paid to withdrawing noncontrolling interests	(4,350)	-	(4,350)	-	-	(4,350)
Other transfer - ACE	(10,015)	9,062,953	9,052,938	4,579,894	-	13,632,832
NET ASSETS, DECEMBER 31, 2013	1,295,068	25,539,394	26,834,462	12,566,239	952,586	40,353,287
Change in net assets for the year ended December 31, 2014	(339,559)	(2,541,465)	(2,881,024)	256,919	47,415	(2,576,690)
Capital contributions	-	8,701,563	8,701,563	-	-	8,701,563
Syndication costs	-	(178,306)	(178,306)	-	-	(178,306)
NET ASSETS, DECEMBER 31, 2014	<u>\$ 955,509</u>	<u>\$ 31,521,186</u>	<u>\$ 32,476,695</u>	<u>\$ 12,823,158</u>	<u>\$ 1,000,001</u>	<u>\$ 46,299,854</u>

See notes to consolidated financial statements.

(Concluded)

REACH COMMUNITY DEVELOPMENT, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (2,576,690)	\$ (3,522,941)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,697,332	5,400,699
Loss on write off of predevelopment costs	234,543	-
Gain on sale of assets	(666,494)	-
Unrealized (gain) loss on fair value of interest rate swap	111,345	(18,326)
(Increase) decrease in:		
Receivables	206,748	(17,034)
Prepaid expenses	148,910	(7,715)
Tenant security deposits held in trust	33,677	(95,183)
Increase (decrease) in:		
Accrued and deferred interest	341,351	119,924
Accounts payable and other accrued liabilities	288,429	(621,398)
Prepaid rents	5,471	26,464
Refundable security deposits	33,171	42,285
Net cash provided by operating activities	<u>3,857,793</u>	<u>1,306,775</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in restricted deposits	(1,766,753)	(188,701)
Additions to fixed assets	(20,152,359)	(7,091,523)
Change in accounts payable - construction	2,091,813	(1,305,976)
Proceeds from sale of fixed assets	18,961	-
Advance to affiliate	-	-
Cash received in acquisition	-	480,970
Tax credit fees paid	(152,367)	-
Net change in investments	147,035	(300,905)
Other assets	(521,223)	(1,391,495)
Net cash used in investing activities	<u>(20,334,893)</u>	<u>(9,797,630)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings	15,310,375	20,577,658
Repayments	(6,115,709)	(16,758,083)
Financing fees paid	(325,320)	(190,533)
Deposits made for loan conversion	-	(260,253)
Capital contributions	8,701,563	5,771,000
Syndication costs	(178,306)	-
Distributions to non-controlling interests	-	(4,213)
Amounts paid to withdrawing noncontrolling interests	-	(4,350)
Net cash provided by financing activities	<u>17,392,603</u>	<u>9,131,226</u>

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
NET CHANGE IN CASH	\$ 915,503	\$ 640,371
CASH AT BEGINNING OF YEAR	<u>2,738,442</u>	<u>2,098,071</u>
CASH AT END OF YEAR	<u><u>\$ 3,653,945</u></u>	<u><u>\$ 2,738,442</u></u>
 SUPPLEMENTAL CASH FLOW DISCLOSURE-		
Cash paid for interest	<u><u>\$ 1,843,128</u></u>	<u><u>\$ 1,982,290</u></u>
		(Concluded)

See notes to consolidated financial statements.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

1. ORGANIZATION AND NATURE OF ACTIVITIES

Organization – REACH Community Development, Inc. (“REACH”) 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 nonprofit entities and limited partnerships/limited liability companies that have been included in the accompanying consolidated financial statements because REACH is deemed to be in control of each of these entities. The consolidated financial statements include five separate groups of entities that are more fully discussed in the following paragraphs.

REACH

This group includes REACH and eighteen limited liability companies (“LLCs”). Fourteen of the LLCs are or will be the sole general partner or managing member in a limited partnership/limited liability company that has been or will be 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

Station Place LLC
REACH McCuller, LLC
Crown Redevelopment LLC
REACH Walnut Park LLC
REACH Block 49 LLC
REACH Admiral LLC
REACH Orchards LLC
REACH Gateway LLC

REACH Bronaugh LLC
REACH Twelfth Avenue Terrace, LLC
AC Apartments LLC
REACH Floyd Light, LLC
REACH Westshore, LLC
REACH Orenco II LLC

REACH Development LLC
REACH Office LLC
Patton Square Leasing LLC
REACH B49 Leasing LLC

Limited Partnership/Limited Liability Company

SP Tower Limited Partnership (“SP Tower”)
McCuller Associates Limited Partnership (“McCuller”)
Patton Square Partners Limited Partnership (“Patton”)
REACH Walnut Partners Limited Partnership (“Walnut Park”)
REACH B49 Partners Limited Partnership (“Gray’s Landing”)
Wheeldon Admiral LLC (“Admiral”)
REACH Orenco LLC (“Orchards at Orenco”)
REACH Gateway Senior Housing Limited Partnership
 (“Gilman Court”)

Bronaugh Apartments
Elderhope Limited Partnership
Albina Corner Limited Partnership (“Albina”)
Floyd Light Apartments LLC (“Floyd Light”)
Pine Street Associates Limited Partnership (“Westshore”)
Orenco Station - Phase II

REACH acquired a property site in Hillsboro, Oregon for \$1,800,000 on March 28, 2013 that is being developed in three phases beginning 2014. REACH Orenco LLC was formed August 30, 2011 for the purpose of developing Orchards at Orenco, a 57 residential unit affordable housing complex (Phase I). The construction of Orchards at Orenco is expected to be completed in June 2015. REACH Orenco II LLC was formed March 6, 2014 for the purpose of developing the Orenco Station Phase II, a 58 residential unit affordable housing complex. Phase III will be developed at a future date.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

1. ORGANIZATION AND NATURE OF ACTIVITIES - Continued

REACH Gateway LLC was formed May 30, 2013 for the purpose of developing an affordable senior housing complex in Portland, Oregon. The construction of Gilman Court was completed and placed in service on April 14, 2015.

REACH Development LLC is the development entity for REACH.

REACH Office LLC was formed to acquire and hold a commercial office condo space included in the affordable housing complex developed by REACH B49 Partners Limited Partnership that is used as REACH's administrative offices.

Patton Square Leasing, LLC and REACH B49 Leasing LLC were formed to enter into a master lease covering the commercial space in the Patton and Gray's Landing buildings, respectively.

Effective January 1, 2013 REACH transferred the 466 affordable housing units that it owned directly to nine separate LLC's. The financial information for these operations is included in the REACH Owned Subsidiaries group.

Affordable Community Environments ("ACE") – Effective May 1, 2013, ACE became affiliated with REACH through common board membership and has been included in the consolidated financial statements since that date because REACH also has a financial interest in ACE. This group includes ACE and its six affiliated entities. ACE is a Washington nonprofit community development corporation with a mission to develop and nurture sustainable and affordable housing communities in Southwest Washington that provide residents with stability, support and opportunities for growth. Through December 31, 2014, ACE has acquired or completed development of six affordable housing communities which are each owned by a single purposes entity as follows:

<u>Entity</u>	<u>Number Of units</u>	<u>Percentage Ownership</u>
Covington Commons Limited Partnership ("Covington Commons")	40	0.01%
Cascadia Village Apartments LLC ("Cascadia Village")	51	0.01%
The Mews at Cascadia Village LLC ("The Mews")	24	0.01%
Fruit Valley Limited Partnership ("Fruit Valley")	48	0.01%
Towne Square Limited Partnership ("Towne Square")	40	0.01%
Addy Street Affordable Housing, LLC ("Addy Street")	32	100.00%

ACE has the option to purchase 100% of the ownership interest in each of the affordable housing communities at the end of the Compliance Period.

Effective January 1, 2015, the limited partner in Covington Commons Limited Partnership assigned its limited partnership interest to a substitute limited partner formed by REACH. As a result of REACH's acquisition of the limited partner's interest, approximately \$219,000 will be reclassified from non-controlling interest to controlling interest in unrestricted net assets.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

1. ORGANIZATION AND NATURE OF ACTIVITIES - Continued

Towne Square Limited Partnership was formed on May 14, 2014 for the purpose of developing a 40-unit multi-family rental housing in Washougal, Washington. In September 2014, the partnership admitted a limited partner and purchased Towne Square Apartments for \$1,700,000. The rehabilitation construction of Towne Square was completed in April 2015.

At December 31, 2014, ACE is developing an additional project that is in the pre-development stage. This includes Senior Housing which will be developed in two phases beginning in 2015. The first phase of Senior Housing is planned for 49 units with up to 100 total units in the two phases.

Consolidated financial statements and related reports for ACE for the years ended December 31, 2014 and 2013 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 internal control over reporting and compliance with certain provisions of laws, regulations, contracts and grants.

Effective May 1, 2013, the consolidated financial statements of ACE are included in the consolidated financial statements of REACH. The net effect of this addition was to increase net assets by \$13,632,832 at May 1, 2013.

Other Nonprofit Corporations

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 Nonprofit Corporations”). The Other Nonprofit Corporations 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 Nonprofit Corporations include the following:

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
Community Housing, Inc.	*	The Maples Apartments
Community Housing II, Inc.	*	The Maples II Apartments
Community Housing III, Inc.	*	Fir Grove Apartments

* 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 internal control over reporting and compliance with certain provisions of laws, regulations, contracts and grants.

LLC and Limited Partnership Entities – This group includes six limited partnerships and two limited liability companies (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%).

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

1. ORGANIZATION AND NATURE OF ACTIVITIES - Continued

The LLC and Limited Partnership Entities in which REACH has a .01% to 1% ownership interest are as follows:

SP Tower Limited Partnership	◆	Station Place Tower
McCuller Associates Limited Partnership	◆	McCuller Crossing Apartments
Patton Square Partners Limited Partnership	◆	Patton Park Apartments
REACH Walnut Partners Limited Partnership		Walnut Park Apartments
REACH B49 Partners Limited Partnership	◆	Gray's Landing
Wheeldon Admiral LLC		Admiral Apartments
REACH Gateway Senior Housing Limited Partnership		Gilman Court
REACH Orenco LLC		Orchards at Orenco

REACH has the option to purchase 100% of the ownership interest in each of the Limited Partnerships listed above at the end of the Tax Credit Compliance Period.

Effective January 1, 2015, the limited partner in McCuller Crossing Limited Partnership transferred its limited partnership interest to a substitute limited partner formed by REACH for \$1. As a result of REACH's acquisition of the limited partner's interest, approximately \$71,000 will be reclassified from non-controlling interest to controlling interest in unrestricted net assets.

REACH Owned Subsidiaries – This group includes all affordable housing units that are 100% owned by REACH either through sole member LLC's or through LLC's or limited partnerships in which REACH has a 100% ownership interest as follows:

REACH GOT LLC		Rex Arms Apartments, Grand Oaks Apartments, Wilshire Apartments
REACH Laurelhurst LLC		Laurelhurst Apartments
REACH Rose LLC		Rose Apartments
REACH Taft LLC		Taft Hotel
REACH Dresden LLC		Dresden Apartments
REACH Ritzdorf LLC		Ritzdorf Court
REACH Scattered Sites I LLC		Various
REACH Scattered Sites II LLC		Various
REACH Scattered Sites III LLC		Various
REACH Bronaugh LLC		Bronaugh Apartments
Elderhope Limited Partnership		Twelfth Avenue Terrace
Albina Corner Limited Partnership	◆	Albina Corner Apartments
Floyd Light Apartments, LLC		Floyd Light Apartments
Pine Street Associates Limited Partnership		Westshore Apartments

Effective January 1, 2013 REACH transferred the 466 affordable housing units that it owned directly to nine separate sole member LLC's that REACH formed to hold these assets.

REACH Bronaugh LLC acquired the Bronaugh Apartments on March 29, 2013 for \$3,900,000. REACH Bronaugh Partners Limited Partnership was formed in June 2014 and is in the process of admitting an investor partner. The rehabilitation construction will begin in June 2015.

Elderhope, Albina, Floyd Light and Westshore were tax credit entities in which REACH acquired the investor's ownership interest at the end of the tax credit compliance period.

◆ Entities not audited in accordance with Government Auditing Standards.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of REACH and corporations or investments in limited partnerships or limited liability companies in which REACH has a controlling interest. Additionally, the consolidated financial statements for the years ended December 31, 2014 and 2013 include the accounts of 12 and 7 limited partnerships or limited liability companies, respectively, in which REACH or ACE has an ownership interest. These entities are included in the consolidation according to generally accepted accounting principles which require that partnership accounts be consolidated for all limited partnerships or limited liability companies which are deemed to be controlled by REACH or ACE. All intercompany transactions and balances have been eliminated in consolidation.

Entities, other than REACH, included in the consolidated financials are collectively referred to as “Affiliated Entities” in these financial statements.

Noncontrolling Interest – The amounts shown as noncontrolling interest represent the aggregate balance of limited partner or investor member equity interests in the non-wholly owned limited partnerships or limited liability companies that are included in the consolidated financial statements.

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.

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. Furthermore, program service expenses must be segregated from management and general expenses.

Unrestricted net assets consist of all resources 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.

Accounts Receivable and Bad Debts – Accounts receivable are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 and ACE receive 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 or ACE 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 support in the period of receipt.

Development Fees – REACH and ACE earn fees for development of properties and generally recognize development fees as earned over the period of development. Development fees earned cover development costs plus a profit margin. Development fees earned, in excess of actual development costs incurred, have been eliminated in consolidation.

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 provided 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.

REACH provides property management, bookkeeping, asset management and tenant services for affiliated entities. 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.

Functional Expenses – The costs of providing program services and supporting services have been summarized on a functional basis in the statement of activities. 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.

The descriptions of major programs are as follows:

- **Property Management and Asset Management** – REACH and Affiliates own and manage more than 1,892 units of affordable rental housing in the Portland, Oregon metropolitan region and Southwest Washington. These units are in apartments, plexes and single-family houses, only available to households under certain income limits.
- **Housing Development** – This program is committed to addressing a growing need for affordable housing in the Portland, Oregon metropolitan region and Southwest Washington. REACH and Affiliated Entities have developed approximately 1,892 units of housing through renovation and new construction over its history.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- **Volunteer Services/Public Relations** – The Volunteer Services/Public Relations Program offers volunteer positions in other REACH programs.
- **Resident (Tenant) Services** – The Resident Services Program supports families and individuals living in REACH and Affiliated Entities 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 young and adult residents.
- **Community Builders** – The 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.

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: 5 to 40 years for buildings, 15 to 20 years for site improvements and 3 to 15 years for furnishings and equipment. Maintenance, repairs and minor replacements are charged to expense when incurred. Major replacements and betterments are capitalized. Depreciation expense for the years ended December 31, 2014 and 2013 were \$5,525,781 and \$5,230,840, 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 2015 to 2019. 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 approximate fair value at December 31, 2014 and 2013. REACH's intention is to hold the investments to maturity.

Financing Fees – Financing fees are recorded at cost and amortized on the straight-line method over the life of the related loan which approximates the effective interest method. Accumulated amortization was \$748,628 and \$609,694 at December 31, 2014 and 2013, respectively. Amortization expense was \$147,182 and \$101,750 for the years ended December 31, 2014 and 2013, respectively. Amortization of financing fees for each of the next five years are: \$116,710 in 2015; \$111,511 in 2016; \$110,720 in 2017; \$110,166 in 2018; and \$108,924 in 2019.

Tax Credit Fees are recorded at cost and are amortized on the straight-line method over the fifteen year tax credit compliance period. Accumulated amortization was \$106,901 and \$84,658 at December 31, 2014 and 2013, respectively. Amortization was \$22,242 and \$19,870 for the years ended December 31, 2014 and 2013, respectively. Amortization of tax credit fees for each of the next five years will be \$22,243 for years 2015 through 2018 and \$22,236 for 2019.

Note and Interest Receivable at December 31, 2014 includes \$860,000 of a note receivable due from the buyer of a real property sold during 2014 (Note 11). The promissory note provides for interest at 6% per annum. The note and interest receivable balance at December 31, 2014 was collected in March 2015.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Certain of the LLC and Limited Partnership 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 LLC and Limited Partnership Entities’ owners through the LLC and Limited Partnership 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 LLC and Limited Partnership 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 LLC and Limited Partnership 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 \$174,942 and \$395,568 at December 31, 2014 and 2013, respectively. Grants and pledges receivable within a year were \$122,637 and \$328,680 at December 31, 2014 and 2013, respectively. The remaining balances are receivable within 2 to 5 years. The discount on long-term grants and contributions at December 31, 2014 and 2013 is considered insignificant to the financial statements.

Restricted Deposits – Restricted deposits at December 31, 2014 and 2013 include the following:

	<u>2014</u>	<u>2013</u>
Operating reserves	\$3,100,252	\$2,608,233
Replacement reserves	3,737,540	3,498,663
Residual receipts accounts	527,694	589,308
Mortgage escrow deposits	200,986	229,535
Stabilization reserves	256,851	256,631
Re-leasing reserves	147,739	140,009
Debt service reserves	550,222	255,638
OAHTC Fee reserves	-	8,066
Community association dues reserve	410,166	-
Commercial tenant improvement reserve	336,202	-
Lease-up reserve	13,529	13,529
Bond fund	36,858	41,437
NeighborWorks® America	156,791	74,850
Other restricted deposits	<u>153,303</u>	<u>145,481</u>
Total	<u>\$9,628,133</u>	<u>\$7,861,380</u>

Operating reserves are required by certain organizational 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 investors.

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

Residual receipts – Each of the Other Nonprofit Corporations 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.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Concluded

Restricted Deposits – Continued

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

The stabilization, re-leasing, community association dues, commercial tenant improvement, lease-up, bond fund, and the debt service reserves are required by certain partnerships or loan agreements.

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”).

NeighborWorks[®] America – Proceeds of grants received from NeighborWorks[®] America are included in restricted deposits until expended in accordance with the specific terms of the grant agreement.

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 – REACH and its consolidated nonprofit corporations are exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state statutes and did not have any unrelated business income for the years ended December 31, 2014 and 2013. Due to their tax exempt status, REACH and its consolidated nonprofit corporations are not subject to income taxes. Accordingly, these financial statements do not reflect a provision for income taxes and there are no other tax positions which must be considered for disclosure. REACH and the consolidated nonprofit corporations are required to file tax returns with the IRS and other taxing authorities.

The limited partnerships and limited liability companies (hereafter referred to as “partnerships”), which are not 100% owned by either REACH or ACE, are taxable entities, however, each of the entities have elected to be treated as a pass-through entity for income tax purposes and, as such, are not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its partners on their respective income tax returns. The partnerships’ federal tax statuses are based on their legal status as a partnership. Accordingly, the partnerships are not required to take any tax positions in order to qualify as a pass-through entity. Accordingly, these financial statements do not reflect a provision for income taxes and the partnerships have no other tax positions which must be considered for disclosure. The partnerships are required to file and do file tax returns with the Internal Revenue Service and other taxing authorities.

Income tax returns filed by each of the entities are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2011 remain open and subject to examination.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

3. NET ASSETS

Board Designated – Unrestricted net assets as of December 2014 includes \$1,050,000 that has been designated by the Board of Directors of REACH as an operating reserve.

Temporarily Restricted Net Assets at December 31, 2014 and 2013 include the following:

	<u>2014</u>	<u>2013</u>
Capital advance mortgages	\$ 7,512,100	\$ 7,512,100
Grants from Oregon Housing Community Services (“OHCS”)	433,132	433,132
NeighborWorks® America grants	256,919	-
Land donated by Multnomah County	41,112	41,112
State of Washington – Washington State Affordable Housing Program	1,289,575	1,289,575
State of Washington – HOME Program	2,226,765	2,226,765
Clark County – HOME Program	683,555	683,555
City of Portland – HOPWA Program	<u>380,000</u>	<u>380,000</u>
Temporarily restricted net assets	<u>\$12,823,158</u>	<u>\$12,566,239</u>

The capital advance mortgages have been recorded as temporarily restricted net assets because the likelihood of repayment is remote and the existence of continuing compliance requirements. The capital advance mortgages are generally due 40 years after initial occupancy, bear no interest and repayment is not required so long as the borrower is in compliance with the terms of the Capital Advance Mortgage and the Regulatory Agreement with HUD.

The OHCS grant agreements provide that in consideration of the program funds, all of the units in The Maples II Apartments will be occupied by very low income persons and the project agrees to maintain affordability restrictions until June 1, 2072.

During the year ended December 31, 2014, \$256,919 of the permanent restricted grant received for the Wilshire project in 2011 from NeighborWorks® America was released from permanent restricted net assets and transferred to the temporarily restricted net assets.

The agreement covering the land donated by Multnomah County requires that the project be used for the housing of low-income individuals for 40 years from the date of first occupancy.

State of Washington – Washington Affordable Housing Program - ACE received recoverable grants of \$614,575 for use in the development of The Mews and \$675,000 for use in the development of Covington Commons from the State of Washington Affordable Housing Program. The recoverable grant agreements limit the use of the projects to households who meet certain income restrictions. The recoverable grants have no repayment terms; however if the property is sold, refinanced, or its use changes to something other than provided for in the recoverable grants, the amount of the grants plus an amount representing shared appreciation shall be due and payable to State of Washington within 30 days. The restrictive covenants for The Mews and Covington Commons expire on April 30, 2045 and September 30, 2049, respectively.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

3. NET ASSETS - Continued

State of Washington – HOME Program - ACE received recoverable grants of \$1,976,765 for use in the development of Addy Street and \$250,000 for use in the development of Cascadia Village. The recoverable grant agreements limit the use of the projects to households who meet certain income restrictions. The recoverable grants have no repayment terms; however if the property is sold, refinanced, or its use changes to something other than provided for in the recoverable grants, the amount of the grants plus an amount representing shared appreciation shall be due and payable to State of Washington within 30 days. The restrictive covenants for Addy Street and Cascadia Village expire on May 31, 2050 and January 1, 2054, respectively. The source of funding for the recoverable grants from the State of Washington was the HOME Investment Partnership Program.

Clark County – HOME Program - ACE received HOME loans of \$400,000 for the use in the development of Addy Street and \$283,555 for use in the development of Covington Commons. The HOME loans are non-interest bearing with no expectation of repayment as long as the property is not conveyed and meets the terms of the restrictive covenants until December 31, 2050 for Addy Street and December 31, 2032 for Covington Commons. The source of funding for the HOME loans from Clark County was the HOME Investment Partnership Program.

City of Portland – HOPWA Program - ACE received grants of \$225,000 and \$155,000 for use in the development of Fruit Valley and Cascadia Village, respectively, from the City of Portland. The source of funding for the grants was the U.S. Department of Housing and Urban Development – HOPWA Program which was established to provide affordable housing for persons with HIV/AIDS. The terms of the grant agreements provide that each project designate a number of units for occupancy by eligible persons pursuant to the terms of grant agreements during the terms of the compliance periods which are through April 7, 2071 for Fruit Valley and January 1, 2064 for Cascadia Village.

Permanently Restricted Net Assets consist of permanently restricted capital grants from NeighborWorks® America. During the year ended December 31, 2014, \$256,919 of capital grant funds classified as permanent restricted net assets were transferred to temporarily restricted net assets. During the year ended December 31, 2013, \$327,586 of capital grant funds classified as temporarily restricted net assets were transferred to permanently restricted net assets. The capital grant fund proceeds are to be used for real estate development. REACH is permitted to transfer or expend the income (or other economic benefits) derived from capital assets in excess of the Capital Grant Fund corpus of \$1,000,001.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

4. 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, 2014 and 2013, rents received from these leases were \$744,864 and \$744,445, respectively. Future minimum lease receipts under the leases are as follows:

Year ending December 31,	
2015	\$ 711,772
2016	513,702
2017	405,469
2018	413,861
2019	298,336
Thereafter	<u>518,977</u>
Total	<u>\$2,862,117</u>

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 simplified employee pension (SEP) plan under section 408(k) of the Internal Revenue Code. REACH contributed \$224,054 and \$201,676 to the plan for the years ended December 31, 2014 and 2013, respectively. The contribution percentage is six percent of eligible compensation.

6. MORTGAGES AND BONDS PAYABLE

Mortgages and bonds payable at December 31, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
<i>US National Bank</i>		
Mortgages payable in aggregate monthly installments of \$51,624 including interest ranging from 2.00% to 7.05%, maturing 2019-2041.	\$ 11,764,635	\$ 3,583,950
Construction loan, interest only payable monthly at one month LIBOR plus 3.5% (3.69% at December 31, 2013). Loan was reduced to \$8,500,000 and converted to a permanent loan on January 2, 2014.	-	10,988,000
<i>JPMorgan Chase</i> - Mortgages payable in aggregate monthly installments of \$13,015 including interest ranging from 5.66 to 7.5%, maturing 2019.	1,043,180	1,135,330

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

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

	2014	2013
<i>Wells Fargo Bank</i>		
Mortgages payable in aggregate monthly installments of \$15,313 including interest ranging from 2.00% to 3.32%, maturing 2019-2023.	\$ 2,443,078	\$ 2,481,388
Construction loans, interest only payable monthly at variable rates ranging from 2.19% to 2.29% at December 31, 2014. Loans are to be converted to permanent loans in 2015 and 2016.	4,440,781	-
<i>CW Capital LLC</i> - Mortgages payable in aggregate monthly installments of \$14,959 including interest ranging from 2.90% to 6.45%, maturing 2042-2046.	3,314,709	3,374,371
<i>Portland Housing Bureau</i>		
Mortgages payable in aggregate monthly installments of \$24,283 including interest ranging from 0.00% to 7%, maturing 2018-2036.	3,740,862	3,959,716
Predevelopment loan with zero interest maturing no later than October 1, 2014.	-	716,843
Mortgages payable in annual amounts calculated based on income level in excess of allowable return on the related investment, maturing 2021-2071. Interest accrues at rates ranging from 0.00% to 3.0%.	61,903,071	58,497,312
<i>Oregon Housing and Community Services (“OHCS”)</i>		
Notes payable in aggregate monthly installments of \$26,646, including interest ranging from 2.22% to 6.10%, maturing 2025-2028.	2,922,892	3,102,931
Housing Development Revenue Bonds, payable in aggregate monthly installments of \$53,055, including interest ranging from 1.49% to 5.81%, maturing 2016-2036.	7,325,763	7,635,594
Note payable, due December 31, 2071, including interest at 1% beginning January 1, 2014.	950,051	950,051
<i>NOAH</i> - Mortgages payable in aggregate monthly installments of \$18,496 including interest ranging from 2% to 6%, maturing 2016-2033.	8,011,608	7,670,324
<i>Washington County</i> - HOME loans with interest ranging from 1.00% to 3.00%, maturing 2043-2051. Annual installments begin in 2031 and any unpaid balances due at maturity.	2,485,000	1,015,000
<i>Washington County Reinvestment Association</i> - Mortgages payable in aggregate monthly installments of \$14,730 including interest ranging from 7% to 7.25%, maturing 2034-2042.	2,003,164	2,036,344

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

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

	<u>2014</u>	<u>2013</u>
<i>Clark County</i> - Mortgages payable in aggregate annual installments of \$26,137 and semi-annual installments of \$8,434, including interest ranging from 0% to 1%, maturing 2045-2052.	\$ 1,936,980	\$ 1,749,995
<i>State of Washington Department of Commerce</i> - Mortgages payable in aggregate annual installments of \$53,903 and quarterly installments of \$9,130, including interest ranging from 0.50% to 1%, maturing 2045-2054.	7,413,239	5,604,063
<i>Bank of America</i> – Construction loan, interest only payable monthly at a variable rate (2.42% at December 31, 2014). Loans are to be converted to a permanent loan in 2016.	2,622,138	-
<i>Key Bank National Association</i> - Mortgage payable in monthly installments of \$8,510 including interest at 6.75%, maturing March 31, 2031.	1,007,102	1,039,098
<i>Orengo III, Inc.</i> – Note payable with zero interest. Paid in full April 2015.	600,000	1,400,000
<i>Other mortgages</i> Payable in aggregate monthly installments of \$8,673 including interest ranging from 0% to 6% maturing 2015-2058.	<u>2,209,848</u>	<u>2,003,126</u>
Total	<u>\$128,138,101</u>	<u>\$118,943,436</u>

Of the total mortgages and bonds payable at December 31, 2014, \$127,138,101 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, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
REACH	\$ 3,108,601	\$ 4,465,791
Other Nonprofit Corporations	2,036,981	2,044,933
LLC and Limit Partnership Entities	84,802,490	75,417,695
REACH Owned Subsidiaries	31,772,110	31,982,472
ACE	14,224,806	11,417,623
Eliminations	<u>(7,806,887)</u>	<u>(6,385,078)</u>
	<u>\$128,138,101</u>	<u>\$118,943,436</u>

Interest incurred, expensed and capitalized for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Interest expense	\$2,147,816	\$2,346,741
Interest capitalized	<u>62,642</u>	<u>22,728</u>
Interest incurred	<u>\$2,210,458</u>	<u>\$2,369,469</u>

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

6. MORTGAGES AND BONDS PAYABLE – Continued

Interest Rate Swap – REACH entered into an interest rate swap agreement in 2013 for purposes of minimizing exposure to interest rate risk. Under the interest rate swap contract, REACH agreed to pay amounts equal to a specified interest rate of 2.645% multiplied by a notional principal amount (\$1,943,078 and \$1,981,388 at December 31, 2014 and 2013, respectively), and to receive amounts in return equal to a variable interest rate (0.1875% and 3.32% at December 31, 2014 and 2013, respectively) multiplied by the same notional principal amount. The differential between the variable interest rate and the fixed interest rate, which is to be paid or received, is recognized in interest expense. No other cash payments are made unless the contract is terminated prior to maturity, in which case the amount paid or received in settlement is established by a present value calculation of the variance between the fixed-rate and current market rate for the remaining term of the contract. At December 31, 2014 and 2013, the fair value of the interest rate swap asset (liability) was (\$93,020) and \$18,326, respectively. For the years ended December 31, 2014 and 2013, \$111,346 of unrealized loss and \$18,326 of unrealized gain on interest rate swap was recorded in the consolidated statement of activities, respectively.

Annual maturities of mortgages and bonds payable for the years subsequent to December 31, 2014 are as follows:

Year ending December 31,	
2015	\$ 3,133,712
2016	9,210,552
2017	1,966,411
2018	1,519,095
2019	1,993,624
Thereafter	<u>110,314,707</u>
Total	<u>\$128,138,101</u>

Portland Housing Bureau

- At December 31, 2014 and 2013, mortgages payable to PHB aggregating \$61,903,071 and \$58,497,312, 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 \$82,693 and \$233,127 at December 31, 2014 and 2013, 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 \$7,240,904 at December 31, 2014.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

7. FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements*, established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.

Level 2 Inputs to the valuation methodology include

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities at fair value. There have been no changes in the methodologies used at December 31, 2014 and 2013.

Certificate of deposits – recorded at amortized costs which approximate fair value. (Level 2)

Interest rate swap – recorded at the present value of expected cash flows based on market observable interest rate yield curve commensurate with the term of the instrument. (Level 2)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

7. FAIR VALUE MEASUREMENTS - Continued

The following table sets forth by level, within the fair value hierarchy, REACH's assets at fair value as of December 31, 2014:

Assets:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-term investment – certificate of deposits	\$ -	\$ 743,172	\$ -	\$ 743,172
Investment – certificate of deposits	-	707,790	-	707,790
Total assets at fair value	<u>\$ -</u>	<u>\$1,469,288</u>	<u>\$ -</u>	<u>\$1,469,288</u>
Liabilities-				
Interest rate swap liability	<u>\$ -</u>	<u>\$ 93,020</u>	<u>\$ -</u>	<u>\$ 93,020</u>

The following table sets forth by level, within the fair value hierarchy, REACH's assets at fair value as of December 31, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-term investment – certificate of deposits	\$ -	\$1,025,047	\$ -	\$1,025,047
Investment – certificate of deposits	-	572,950	-	572,950
Interest rate swap	-	18,326	-	18,326
Total assets at fair value	<u>\$ -</u>	<u>\$1,616,323</u>	<u>\$ -</u>	<u>\$1,616,323</u>

Disclosure of Fair Value – The carrying amounts for cash, receivables, prepaid expenses, restricted deposits, accounts payable and other accrued liabilities approximate their fair value due to their short maturities. It is impractical to estimate the fair value of financing fees, tax credit fees, and mortgages and bonds payable because there are no quoted market prices for transactions that are similar in nature.

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.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

8. COMMITMENTS AND CONTINGENCIES - Continued

Surplus Cash and Residual Receipts – Certain of the properties owned by Affiliated 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 Nonprofit Corporations are precluded from making any distributions of assets or operating cash and distributions from the partnerships 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 for the Other Nonprofit Corporations is required to be deposited in a residual receipts account controlled by HUD.

Other – As the general partner in various partnerships, REACH and ACE 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 partnerships over the periods as defined under the limited partnership agreements. The operating deficit guarantee periods typically require the partnerships to meet certain conditions based on the operational results. REACH and ACE has not been required to fund any amounts associated with the operating deficit guarantees to date.

Construction Commitments – In connection with the development of Gilman Court, Orchards at Orenco and Towne Square, REACH and affiliated Entities entered into construction contracts totaling \$22,920,452 of which \$14,165,566 has been incurred through December 31, 2014.

9. NEIGHBORHOOD REINVESTMENT CORPORATION

REACH is a NeighborWorks[®] member organization. The Neighborhood Reinvestment Corporation, d.b.a. NeighborWorks[®] America (“NeighborWorks[®]”) is a public, congressionally chartered 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. 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. During the years ended December 31, 2014 and 2013, REACH was awarded grants from NeighborWorks[®] as follows:

	<u>2014</u>	<u>2013</u>
Capital grants, permanently restricted	\$304,334	\$275,000
Expendable grants, unrestricted	<u>286,447</u>	<u>180,000</u>
Total grants	<u>\$590,781</u>	<u>\$455,700</u>

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014 AND 2013

10. OTHER GRANTS

Other grants for the years ended December 31, 2014 and 2013 include the following:

	<u>2014</u>	<u>2013</u>
Government grants:		
Housing development grants	\$ 248,663	\$ 268,200
Community builders program	625,455	800,762
Other	18,021	71,316
Foundation grants	<u>641,275</u>	<u>120,635</u>
	<u>\$1,533,414</u>	<u>\$1,260,913</u>

11. GAIN ON SALE OF ASSETS

REACH sold a real property that had been used as the former corporate office space for \$950,000 on May 9, 2014. The net book value on the date of sale was \$212,466 and the costs of sale totaled to \$71,040, resulting a gain on the sale of assets of \$666,494 for the year ended December 31, 2014.

12. WRITE-OFF OF PREDEVELOPMENT COSTS

In 2014, REACH has written off \$234,543 of predevelopment costs of a housing project that management determined not to pursue. Such amount was included as the housing development expense in the statement of activities for the year ended December 31, 2014.

13. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

REACH and Affiliated Entities' operations are concentrated in the multifamily real estate market in Oregon and Southwest Washington. 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.

14. SUBSEQUENT EVENTS

Allen Fremont – REACH acquired a 64-unit senior housing project on April 23, 2015 for \$3,000,000.

Management of REACH and Affiliated Entities has evaluated events and transactions occurring after December 31, 2014 through May 28, 2015, the date the financial statements were available for issuance, for potential recognition or disclosure in the financial statements and has concluded that, other than the item described 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, 2014

	Other Nonprofit Corporations	LLCs and Limited Partnerships	REACH Owned Subsidiaries	REACH Community Development, Inc.	Affordable Community Environments	Eliminations	Consolidated
ASSETS							
CURRENT ASSETS:							
Cash	\$ 150,905	\$ 1,372,708	\$ 784,821	\$ 864,850	\$ 480,661	\$ -	\$ 3,653,945
Short-term investment	-	-	-	743,172	-	-	743,172
Accounts receivable	13,426	59,603	30,751	24,796	23,712	-	152,288
Note and interest receivable	-	-	-	864,300	-	-	864,300
Grants and pledges receivable	-	-	-	100,829	21,808	-	122,637
Prepaid expenses	15,225	132,139	108,363	12,605	10,538	-	278,870
Total current assets	<u>179,556</u>	<u>1,564,450</u>	<u>923,935</u>	<u>2,610,552</u>	<u>536,719</u>	<u>-</u>	<u>5,815,212</u>
NONCURRENT ASSETS:							
Tenant security deposits held in trust	38,228	177,668	301,235	16,376	152,870	-	686,377
Restricted deposits	1,579,993	4,040,798	2,284,424	657,441	1,065,477	-	9,628,133
Receivable from affiliates	-	-	315,432	10,994,858	-	(11,310,290)	-
Investments	-	-	-	707,790	-	-	707,790
Financing fees - net	44,222	1,652,980	396,948	-	426,816	(32,163)	2,488,803
Tax credit fees - net	-	293,368	-	-	85,755	-	379,123
Other assets	-	47,770	688,212	(9,059,241)	129,659	9,337,623	1,144,023
Fixed assets:							
Land and land improvements	787,530	11,242,069	3,782,808	1,263,369	4,210,629	(378,067)	20,908,338
Offsite improvements	-	108,615	154,868	-	-	-	263,483
Buildings and improvements	11,703,697	90,358,427	44,264,166	2,629,509	25,424,593	(3,182,360)	171,198,032
Furnishings and equipment	299,051	1,984,781	923,294	997,016	700,434	-	4,904,576
Construction-in-progress	-	17,939,613	-	-	1,827,963	(508,925)	19,258,651
Total fixed assets	<u>12,790,278</u>	<u>121,633,505</u>	<u>49,125,136</u>	<u>4,889,894</u>	<u>32,163,619</u>	<u>(4,069,352)</u>	<u>216,533,080</u>
Less accumulated depreciation	<u>(4,321,417)</u>	<u>(14,906,811)</u>	<u>(28,994,701)</u>	<u>(801,082)</u>	<u>(6,398,510)</u>	<u>269,280</u>	<u>(55,153,241)</u>
Fixed assets - net	<u>8,468,861</u>	<u>106,726,694</u>	<u>20,130,435</u>	<u>4,088,812</u>	<u>25,765,109</u>	<u>(3,800,072)</u>	<u>161,379,839</u>
Total noncurrent assets	<u>10,131,304</u>	<u>112,939,278</u>	<u>24,116,686</u>	<u>7,406,036</u>	<u>27,625,686</u>	<u>(5,804,902)</u>	<u>176,414,088</u>
TOTAL	<u>\$ 10,310,860</u>	<u>\$114,503,728</u>	<u>\$ 25,040,621</u>	<u>\$ 10,016,588</u>	<u>\$ 28,162,405</u>	<u>\$ (5,804,902)</u>	<u>\$ 182,229,300</u>

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014

	Other Nonprofit Corporations	LLCs and Limited Partnerships	REACH Owned Subsidiaries	REACH Community Development, Inc.	Affordable Community Environments	Eliminations	Consolidated
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES:							
Accounts payable and other accrued liabilities	\$ 153,533	\$ 499,042	\$ 317,859	\$ 899,828	\$ 103,155	\$ (1,256,108)	\$ 717,309
Accounts payable - construction	-	3,747,557	184,155	29,550	778,955	(1,370,130)	3,370,087
Accrued interest	103,125	44,937	60,376	1,646	61,538	-	271,622
Prepaid rents	10,549	40,187	36,968	1,795	17,413	-	106,912
Current portion of mortgages and bonds payable	8,480	663,631	647,522	641,371	1,197,917	(25,209)	3,133,712
Total current liabilities	275,687	4,995,354	1,246,880	1,574,190	2,158,978	(2,651,447)	7,599,642
NONCURRENT LIABILITIES:							
Refundable security deposits	37,811	164,934	278,117	16,056	126,535	-	623,453
Interest rate swap liability	-	-	93,020	-	-	-	93,020
Mortgages and bonds payable	2,028,501	84,138,859	31,124,588	2,467,230	13,026,889	(7,781,678)	125,004,389
Deferred interest	-	1,830,653	1,600,149	13,858	41,447	(877,165)	2,608,942
Total noncurrent liabilities	2,066,312	86,134,446	33,095,874	2,497,144	13,194,871	(8,658,843)	128,329,804
Total liabilities	2,341,999	91,129,800	34,342,754	4,071,334	15,353,849	(11,310,290)	135,929,446
NET ASSETS:							
Unrestricted:							
Controlling interests	(17,483)	286,114	(9,302,133)	4,688,334	(204,711)	5,505,388	955,509
Noncontrolling interests	-	23,087,814	-	-	8,433,372	-	31,521,186
Total unrestricted	(17,483)	23,373,928	(9,302,133)	4,688,334	8,228,661	5,505,388	32,476,695
Temporarily restricted	7,986,344	-	-	256,919	4,579,895	-	12,823,158
Permanently restricted	-	-	-	1,000,001	-	-	1,000,001
Total net assets	7,968,861	23,373,928	(9,302,133)	5,945,254	12,808,556	5,505,388	46,299,854
TOTAL	\$ 10,310,860	\$ 114,503,728	\$ 25,040,621	\$ 10,016,588	\$ 28,162,405	\$ (5,804,902)	\$ 182,229,300

(Concluded)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014

	Other Nonprofit Corporations	LLCs and Limited Partnerships	REACH Owned Subsidiaries	REACH Community Development, Inc.	Affordable Community Environments	Eliminations	Consolidated
SUPPORT AND REVENUES:							
Support:							
NeighborWorks® America Grants	\$ -	\$ -	\$ -	\$ 590,781	\$ -	\$ -	\$ 590,781
Other grants	-	-	68,663	1,368,461	96,290	-	1,533,414
Other contributions	-	-	-	394,550	15,692	-	410,242
Donated goods and services	-	-	-	49,021	-	-	49,021
Total support	-	-	68,663	2,402,813	111,982	-	2,583,458
Revenues:							
Net rental revenue	1,037,699	4,533,643	7,114,573	108,738	1,601,504	(77,608)	14,318,549
Laundry and tenant charges	10,792	129,606	132,106	-	56,469	-	328,973
Equity in loss of affiliates	-	-	-	(325,598)	-	325,598	-
Management fees	-	-	-	6,375,092	-	(6,269,676)	105,416
Program income	-	-	-	32,722	-	-	32,722
Gain on sale of assets	-	-	-	666,494	-	-	666,494
Gain (loss) on interest rate swap	-	-	(111,345)	-	-	-	(111,345)
Interest income	2,124	2,899	2,615	362,048	915	(271,911)	98,690
Other income	-	25,556	658	3,926	4,009	-	34,149
Total revenues	1,050,615	4,691,704	7,138,607	7,223,422	1,662,897	(6,293,597)	15,473,648
Total support and revenues	1,050,615	4,691,704	7,207,270	9,626,235	1,774,879	(6,293,597)	18,057,106
EXPENSES:							
Program services:							
Property operations and management	1,401,908	6,641,243	7,532,673	3,843,709	2,209,568	(5,397,379)	16,231,722
Housing development	-	-	-	741,356	-	(389,450)	351,906
Volunteer services	-	-	-	40,936	-	-	40,936
Resident services	-	-	-	1,064,114	87,145	-	1,151,259
Community builders	-	-	-	650,421	88,729	-	739,150
Total program services	1,401,908	6,641,243	7,532,673	6,340,536	2,385,442	(5,786,829)	18,514,973
Support services:							
Management and general	-	-	-	1,698,188	74,557	-	1,772,745
Fundraising	-	-	-	346,078	-	-	346,078
Total support services	-	-	-	2,044,266	74,557	-	2,118,823
Total expenses	1,401,908	6,641,243	7,532,673	8,384,802	2,459,999	(5,786,829)	20,633,796
CHANGE IN NET ASSETS	\$ (351,293)	\$ (1,949,539)	\$ (325,403)	\$ 1,241,433	\$ (685,120)	\$ (506,768)	\$ (2,576,690)

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014

	Other Nonprofit Corporations	LLCs and Limited Partnerships	REACH Owned Subsidiaries	REACH Community Development, Inc.	Affordable Community Environments	Eliminations	Consolidated
NET ASSETS, BEGINNING OF YEAR	\$ 8,320,154	\$ 17,156,851	\$ (8,262,215)	\$ 4,703,821	\$ 13,137,035	\$ 5,297,641	\$ 40,353,287
Change in net assets	(351,293)	(1,949,539)	(325,403)	1,241,433	(685,120)	(506,768)	(2,576,690)
Capital contributions	-	8,257,134	-	-	444,429	-	8,701,563
Syndication costs	-	(90,518)	-	-	(87,788)	-	(178,306)
Distributions	-	-	(714,515)	-	-	714,515	-
NET ASSETS, END OF YEAR	<u>\$ 7,968,861</u>	<u>\$ 23,373,928</u>	<u>\$ (9,302,133)</u>	<u>\$ 5,945,254</u>	<u>\$ 12,808,556</u>	<u>\$ 5,505,388</u>	<u>\$ 46,299,854</u>
							(Concluded)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

	Other Nonprofit Corporations	LLCs and Limited Partnerships	REACH Owned Subsidiaries	REACH Community Development, Inc.	Affordable Community Environments	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:							
Change in net assets	\$ (351,293)	\$ (1,949,539)	\$ (325,403)	\$ 1,241,433	\$ (685,120)	\$ (506,768)	\$ (2,576,690)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:							
Depreciation and amortization	366,895	2,665,914	1,744,330	215,951	781,868	(77,626)	5,697,332
Loss on write off of predevelopment costs	-	-	-	234,543	-	-	234,543
Rent income - deferred	-	(4,605)	-	-	-	4,605	-
Gain on sale of assets	-	-	-	(666,494)	-	-	(666,494)
Unrealized loss on fair value of interest rate swap	-	-	111,345	-	-	-	111,345
Equity in loss of affiliate	-	-	-	325,598	-	(325,598)	-
(Increase) decrease in:							
Receivables	(2,690)	(16,646)	7,308	219,990	(1,214)	-	206,748
Prepaid expenses	(9,453)	198,874	(37,505)	2,146	(5,152)	-	148,910
Tenant security deposits held in trust	8,048	30,814	24,921	(2,791)	(27,315)	-	33,677
Increase (decrease) in:							
Accrued and deferred interest	15,549	428,808	116,410	4,634	27,174	(251,224)	341,351
Accounts payable and other accrued liabilities	34,308	75,536	(22,903)	(100,428)	(16,877)	318,793	288,429
Prepaid rents	363	1,585	(3,659)	(1,158)	8,340	-	5,471
Refundable security deposits	61	(1,665)	2,884	2,548	29,343	-	33,171
Net cash provided by (used in) operating activities	61,788	1,429,076	1,617,728	1,475,972	111,047	(837,818)	3,857,793
CASH FLOWS FROM INVESTING ACTIVITIES:							
Increase in restricted deposits	43,876	(1,678,090)	288,434	(337,799)	(83,174)	-	(1,766,753)
Additions to fixed assets	(61,172)	(18,784,840)	(768,005)	(190,869)	(3,443,520)	3,096,047	(20,152,359)
Change in accounts payable - construction	-	2,298,632	184,155	(863,778)	536,799	(63,995)	2,091,813
Proceeds from sale of fixed assets	-	-	-	662,022	-	(643,061)	18,961
Tax credit fees paid	-	(138,498)	-	-	(13,869)	-	(152,367)
Net change in investments	-	-	-	147,035	-	-	147,035
Advance to affiliate	-	-	69,514	(1,487,747)	-	1,418,233	-
Change in other assets	-	(8,048)	(300,093)	2,097,789	(48,758)	(2,262,113)	(521,223)
Net cash provided by (used in) investing activities	(17,296)	(18,310,844)	(525,995)	26,653	(3,052,522)	1,545,111	(20,334,893)

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014**

	Other Nonprofit Corporations	LLCs and Limited Partnerships	REACH Owned Subsidiaries	REACH Community Development, Inc.	Affordable Community Environments	Eliminations	Consolidated
CASH FLOWS FROM FINANCING ACTIVITIES:							
Borrowings	\$ -	\$ 12,556,004	\$ 431,764	\$ 800,000	\$ 3,008,875	\$(1,486,268)	\$ 15,310,375
Repayments	(7,954)	(3,171,207)	(642,126)	(2,157,190)	(201,692)	64,460	(6,115,709)
Financing fees paid	-	(146,591)	-	-	(178,729)	-	(325,320)
Capital contributions	-	8,257,134	-	-	444,429	-	8,701,563
Syndication costs	-	(90,518)	-	-	(87,788)	-	(178,306)
Distributions	-	-	(714,515)	-	-	714,515	-
Net cash provided by (used in) financing activities	(7,954)	17,404,822	(924,877)	(1,357,190)	2,985,095	(707,293)	17,392,603
NET CHANGE IN CASH	36,538	523,054	166,856	145,435	43,620	-	915,503
CASH AT BEGINNING OF YEAR	114,367	849,654	617,965	719,415	437,041	-	2,738,442
CASH AT END OF YEAR	<u>\$ 150,905</u>	<u>\$ 1,372,708</u>	<u>\$ 784,821</u>	<u>\$ 864,850</u>	<u>\$ 480,661</u>	<u>\$ -</u>	<u>\$ 3,653,945</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE-							
Cash paid for interest	<u>\$ 41,335</u>	<u>\$ 727,579</u>	<u>\$ 805,966</u>	<u>\$ 58,707</u>	<u>\$ 247,265</u>	<u>\$ (37,724)</u>	<u>\$ 1,843,128</u>

(Concluded)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2014

	Program Services					Support Services		Total
	Property Operations and Management	Housing Development	Volunteer Services	Resident Services	Community Builders	Management & General	Fund- raising	
Salaries	\$ 3,305,014	\$ 407,983	\$ 28,498	\$ 708,045	\$ 288,042	\$ 641,824	\$ 165,023	\$ 5,544,429
Payroll taxes	-	34,693	2,883	63,492	25,252	63,004	16,371	205,695
Health insurance / employee benefits	-	79,429	6,647	147,228	65,804	136,259	37,444	472,811
Advertising	2,361	-	-	44	5,124	4,010	7,818	19,357
Management fees	68,727	-	-	-	-	22,989	-	91,716
WSHFC fee	3,525	-	-	-	-	-	-	3,525
Telecommunications	173,171	2,960	758	26,524	6,537	60,219	758	270,927
Legal expense	69,196	-	-	-	-	92,317	-	161,513
Audit	173,479	-	-	-	966	31,000	-	205,445
Other professional services	30,160	2,791	-	9,385	130	66,131	17,115	125,712
Contract services	68,274	-	203	3,040	276,163	95,911	7,400	450,991
Other administrative	563,509	11,917	1,937	135,084	66,624	203,160	93,461	1,075,692
Rent expense - commercial	700	-	-	-	-	-	-	700
Resident services	26,027	-	-	39,992	-	-	-	66,019
Program activity expense	-	-	-	18,247	-	-	-	18,247
Utilities	1,565,663	-	-	-	873	30,591	-	1,597,127
Operating and maintenance	1,892,131	-	10	122	903	40,004	-	1,933,170
Property tax	157,875	-	-	-	-	8,511	-	166,386
Other taxes, licenses and permits	65,132	-	-	-	1,130	4,158	650	71,070
Insurance	419,863	-	-	-	1,602	31,550	-	453,015
Interest	2,110,418	20,000	-	-	-	17,343	-	2,147,761
Line of credit and other fees	18,482	-	-	56	-	2,436	38	21,012
Limited partner fees	42,012	-	-	-	-	-	-	42,012
Loss on write off of predevelopment costs	-	234,543	-	-	-	-	-	234,543
Depreciation and amortization	5,476,003	-	-	-	-	221,328	-	5,697,331
Capitalized housing development costs	-	(442,410)	-	-	-	-	-	(442,410)
	<u>\$ 16,231,722</u>	<u>\$ 351,906</u>	<u>\$ 40,936</u>	<u>\$ 1,151,259</u>	<u>\$ 739,150</u>	<u>\$ 1,772,745</u>	<u>\$ 346,078</u>	<u>\$ 20,633,796</u>

REACH COMMUNITY DEVELOPMENT, INC.

SCHEDULE OF FUNCTIONAL EXPENSES (REACH COMMUNITY DEVELOPMENT, INC. ONLY)
YEAR ENDED DECEMBER 31, 2014

	Program Services					Support Services		Total
	Property Operations and Management	Housing Development	Volunteer Services	Resident Services	Community Builders	Management & General	Fund-raising	
Salaries	\$ 2,749,236	\$ 355,023	\$ 28,498	\$ 640,455	\$ 245,489	\$ 609,113	\$ 165,023	\$ 4,792,837
Payroll taxes	273,479	34,693	2,883	63,492	25,252	63,004	16,371	479,174
Health insurance / employee benefits	636,647	79,429	6,647	147,228	65,804	136,259	37,444	1,109,458
Advertising	467	-	-	44	5,124	4,010	7,818	17,463
Telecommunications	9,990	2,960	758	26,524	6,537	58,009	758	105,536
Legal expense	8,149	-	-	-	-	92,317	-	100,466
Audit	-	-	-	-	966	31,000	-	31,966
Other professional services	18,119	2,791	-	9,385	130	66,131	17,115	113,671
Contract services	9,713	-	203	3,040	229,987	95,911	7,400	346,254
Other administrative	56,168	11,917	1,937	133,776	66,624	200,898	93,461	564,781
Rent expense - commercial	73,703	-	-	-	-	-	-	73,703
Resident services	-	-	-	39,992	-	-	-	39,992
Utilities	-	-	-	-	873	29,913	-	30,786
Operating and maintenance	144	-	10	122	903	40,004	-	41,183
Property tax	1,149	-	-	-	-	5,430	-	6,579
Other taxes, licenses and permits	1,520	-	-	-	1,130	3,736	650	7,036
Insurance	26	-	-	-	1,602	28,868	-	30,496
Interest	5,019	20,000	-	-	-	15,198	-	40,217
Line of credit and other fees	180	-	-	56	-	2,436	38	2,710
Loss on write off of predevelopment costs	-	234,543	-	-	-	-	-	234,543
Depreciation and amortization	-	-	-	-	-	215,951	-	215,951
TOTAL FUNCTIONAL EXPENSES	\$ 3,843,709	\$ 741,356	\$ 40,936	\$ 1,064,114	\$ 650,421	\$ 1,698,188	\$ 346,078	\$ 8,384,802

REACH COMMUNITY DEVELOPMENT, INC.**SCHEDULE OF FINANCIAL POSITION - NeighborWorks® America Capital Grant Fund
DECEMBER 31, 2014**

ASSETS

Restricted deposits	\$ 156,791
Fixed assets:	
Building	477,586
Transfer to temporarily restricted net assets	<u>(256,919)</u>
Total fixed assets	220,667
Other assets	<u>622,543</u>
Total assets	<u><u>\$ 1,000,001</u></u>

LIABILITIES AND NET ASSETS

Net assets	<u>\$ 1,000,001</u>
Total liabilities and net assets	<u><u>\$ 1,000,001</u></u>

REACH COMMUNITY DEVELOPMENT, INC.**STATEMENT OF ACTIVITIES - NeighborWorks® America Capital Grant Fund
YEAR ENDED DECEMBER 31, 2014**

REVENUE, GAINS, AND OTHER SUPPORT

Capital grant - NeighborWorks® America	\$ 350,000
Released from restrictions (Capital Fund Balance Conversion Request)	(45,666)
Reclassification to temporarily restricted from permanently restricted net assets	<u>(256,919)</u>
CHANGE IN NET ASSETS	47,415
NET ASSETS AT BEGINNING OF YEAR	<u>952,586</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 1,000,001</u></u>

NeighborWorks® America Capital Grant Fund represents funds provided by NeighborWorks® America for capital projects. All resources granted to this fund must be maintained permanently. REACH is permitted to transfer or expend only the income (or other economic benefits) derived from capital assets in excess of the Capital Grant Fund corpus of \$1,000,001.

REACH COMMUNITY DEVELOPMENT, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2014**

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Subgrant Award Number	Federal Expenditures
U.S. Department of Housing and Urban Development/ Passed-through City of Portland, Portland Housing Bureau:			
Community Development Block Grants/ Entitlement Grants (Community Builders Program)	14.218	32000954	\$ 88,645
	14.218	32000995	19,248
	14.218	32001108	69,330
HUD Healthy Homes Grant (Community Builders Program)	14.905	32000995	136,836
Department of Treasury/ Passed-through NeighborWorks® Reinvestment Corporation-			
Section 607(e) of the Neighborhood Reinvestment Corporation Act, as amended	21.000	2014-8501-0016-CLOB92	202,613
	21.000	2014-8501-0062-OU93	144,075
	21.000	2014-8501-0124-SUP94	5,000
	21.000	2014-8501-0819-SUP18	50,000
	21.000	2014-8501-0683-SUP7	37,706
	21.000	2014-8501-0703-SUP13	4,000
	21.000	2013-8501-0011-CLOB42	74,850
U.S. Department of Housing and Urban Development/ Passed-through from Enterprise – HUD Grant-			
Section 4 Grant Program	14.252	13SG2869	460
U.S. Department of Housing and Urban Development			
Section 8 Housing Assistance Payments	14.195	n/a	128,603
Corporation for Enterprise Development (CFED)	99.999	CFED 2014-01	<u>10,000</u>
Total			<u>\$971,366</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.

INDEPENDENT AUDITOR’S 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, in accordance with the 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 REACH Community Development, Inc. and affiliated entities (“REACH”), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 28, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered REACH’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of REACH’s internal control. Accordingly, we do not express an opinion on the effectiveness of REACH’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

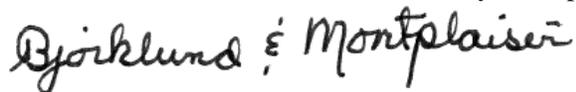
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether REACH's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Portland, Oregon
May 28, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Major Federal Program

We have audited REACH Community Development, Inc. and affiliated entities' ("REACH") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on REACH's major federal program for the year ended December 31, 2014. REACH's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for REACH's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States 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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of REACH's compliance.

Opinion on the Major Federal Program

In our opinion, REACH complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

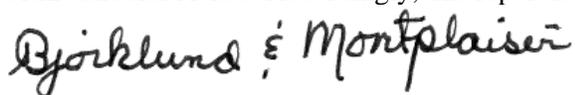
Report on Internal Control Over Compliance

Management of REACH is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered REACH's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Portland, Oregon
May 28, 2015

REACH COMMUNITY DEVELOPMENT, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2014**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued Unmodified

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 Unmodified

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>
21.000	Section 607(e) of the Neighborhood Reinvestment Corporation Act, as amended
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