# REACH COMMUNITY DEVELOPMENT, INC.

**Financial Statements and Supplementary Information for the years ended December 31, 2015 and 2014 and Independent Auditor's Report and Single Audit Reports**

# CONTENTS

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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, 2015 and 2014, 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, 2015 and 2014, 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 30 through 39 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 June 17, 2016, 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
June 17, 2016

**REACH COMMUNITY DEVELOPMENT, INC.**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

| | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS:** | | |
| Cash | $ 5,503,211 | $ 2,893,945 |
| Short-term investments | 405,268 | 743,172 |
| Accounts receivable | 167,490 | 152,288 |
| Note and interest receivable | - | 864,300 |
| Grants and pledges receivable | 108,586 | 122,637 |
| Prepaid expenses | 232,383 | 278,870 |
| Total current assets | 6,416,938 | 5,055,212 |
| **NONCURRENT ASSETS:** | | |
| Tenant security deposits held in trust | 769,462 | 686,377 |
| Restricted deposits | 11,135,015 | 10,388,133 |
| Investments | 810,370 | 707,790 |
| Financing fees - net | 2,901,384 | 2,488,803 |
| Tax credit fees - net | 549,375 | 379,123 |
| Other assets | 604,431 | 1,144,023 |
| Fixed assets: | | |
| Land and land improvements | 22,558,174 | 20,908,338 |
| Offsite improvements | 263,483 | 263,483 |
| Buildings and improvements | 203,278,720 | 171,198,032 |
| Furnishings and equipment | 5,614,546 | 4,904,576 |
| Construction-in-progress | 12,427,968 | 19,258,651 |
| Total fixed assets | 244,142,891 | 216,533,080 |
| Less accumulated depreciation | (60,984,868) | (55,153,241) |
| Fixed assets - net | 183,158,023 | 161,379,839 |
| Total noncurrent assets | 199,928,060 | 177,174,088 |
| TOTAL | $ 206,344,998 | $ 182,229,300 |

(Continued)

**REACH COMMUNITY DEVELOPMENT, INC.**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

| | 2015 | 2014 |
|---|---|---|
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES:** | | |
| Accounts payable and other accrued liabilities | $ 940,406 | $ 717,309 |
| Accounts payable - construction | 1,972,188 | 3,370,087 |
| Accrued interest | 304,900 | 271,622 |
| Prepaid rents | 102,827 | 106,912 |
| Current portion of mortgages and bonds payable | 7,974,514 | 3,133,712 |
| Total current liabilities | 11,294,835 | 7,599,642 |
| **NONCURRENT LIABILITIES:** | | |
| Refundable security deposits | 722,016 | 623,453 |
| Interest rate swap liability | 107,968 | 93,020 |
| Mortgages and bonds payable | 134,390,493 | 125,004,389 |
| Deferred interest | 2,786,168 | 2,608,942 |
| Total noncurrent liabilities | 138,006,645 | 128,329,804 |
| Total liabilities | 149,301,480 | 135,929,446 |
| **NET ASSETS:** | | |
| Unrestricted: | | |
| Controlling interests | 2,079,156 | 955,509 |
| Noncontrolling interests | 40,866,203 | 31,521,186 |
| Total unrestricted | 42,945,359 | 32,476,695 |
| Temporarily restricted | 13,078,158 | 12,823,158 |
| Permanently restricted | 1,020,001 | 1,000,001 |
| Total net assets | 57,043,518 | 46,299,854 |
| TOTAL | $ 206,344,998 | $ 182,229,300 |

(Concluded)

See notes to consolidated financial statements.

**REACH COMMUNITY DEVELOPMENT, INC.**

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015 AND 2014

| | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **SUPPORT AND REVENUES:** | | | | | | | | |
| Support: | | | | | | | | |
| NeighborWorks® America grants | $ 181,200 | $ - | $ 275,000 | $ 456,200 | $ 286,447 | $ - | $ 304,334 | $ 590,781 |
| Other grants | 1,438,252 | - | - | 1,438,252 | 1,533,414 | - | - | 1,533,414 |
| Other contributions | 208,023 | - | - | 208,023 | 410,242 | - | - | 410,242 |
| Donated goods and services | 60,804 | - | - | 60,804 | 49,021 | - | - | 49,021 |
| Special events | 33,188 | - | - | 33,188 | - | - | - | - |
| NeighborWorks® America Capital Grant Fund reclassification | - | 255,000 | (255,000) | - | - | 256,919 | (256,919) | - |
| Total support | 1,921,467 | 255,000 | 20,000 | 2,196,467 | 2,279,124 | 256,919 | 47,415 | 2,583,458 |
| Revenues: | | | | | | | | |
| Net rental revenue | 15,382,880 | - | - | 15,382,880 | 14,318,549 | - | - | 14,318,549 |
| Laundry and tenant charges | 253,194 | - | - | 253,194 | 278,973 | - | - | 278,973 |
| Management fees | 101,488 | - | - | 101,488 | 105,416 | - | - | 105,416 |
| Program income | 31,837 | - | - | 31,837 | 32,722 | - | - | 32,722 |
| Gain on sale of assets | 5,983 | | | 5,983 | 666,494 | | | 666,494 |
| Loss on interest rate swap | (14,948) | | | (14,948) | (111,345) | | | (111,345) |
| Interest income | 58,697 | - | - | 58,697 | 98,690 | - | - | 98,690 |
| Other | 79,688 | - | - | 79,688 | 84,149 | - | - | 84,149 |
| Total revenues | 15,898,819 | - | - | 15,898,819 | 15,473,648 | - | - | 15,473,648 |
| Total support and revenues | 17,820,286 | 255,000 | 20,000 | 18,095,286 | 17,752,772 | 256,919 | 47,415 | 18,057,106 |

(Continued)

**REACH COMMUNITY DEVELOPMENT, INC.**

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015 AND 2014

| | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **EXPENSES:** | | | | | | | | |
| Program services: | | | | | | | | |
| Property operations and management | $ 17,746,863 | $ - | $ - | $ 17,746,863 | $ 16,231,722 | $ - | $ - | $ 16,231,722 |
| Housing development | 116,597 | - | - | 116,597 | 351,906 | - | - | 351,906 |
| Volunteer services | 43,802 | - | - | 43,802 | 40,936 | - | - | 40,936 |
| Resident services | 1,142,828 | - | - | 1,142,828 | 1,151,259 | - | - | 1,151,259 |
| Community builders | 513,115 | - | - | 513,115 | 739,150 | - | - | 739,150 |
| Total program services | 19,563,205 | - | - | 19,563,205 | 18,514,973 | - | - | 18,514,973 |
| Support services: | | | | | | | | |
| Management and general | 1,976,812 | - | - | 1,976,812 | 1,772,745 | - | - | 1,772,745 |
| Fundraising | 330,097 | - | - | 330,097 | 346,078 | - | - | 346,078 |
| Total support services | 2,306,909 | - | - | 2,306,909 | 2,118,823 | - | - | 2,118,823 |
| Total expenses | 21,870,114 | - | - | 21,870,114 | 20,633,796 | - | - | 20,633,796 |
| **CHANGE IN NET ASSETS** | $ (4,049,828) | $ 255,000 | $ 20,000 | $ (3,774,828) | $ (2,881,024) | $ 256,919 | $ 47,415 | $ (2,576,690) |

(Continued)

**REACH COMMUNITY DEVELOPMENT, INC.**

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015 AND 2014

| | Unrestricted | | | | | |
|---|---|---|---|---|---|---|
| | Controlling Interests | Noncontrolling Interests | Total Unrestricted | Temporarily Restricted | Permanently Restricted | Net Assets |
| **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** | 955,509 | 31,521,186 | 32,476,695 | 12,823,158 | 1,000,001 | 46,299,854 |
| Change in net assets for the year ended December 31, 2015 | 1,123,647 | (5,173,475) | (4,049,828) | 255,000 | 20,000 | (3,774,828) |
| Capital contributions | - | 14,697,290 | 14,697,290 | - | - | 14,697,290 |
| Syndication costs | - | (178,798) | (178,798) | - | - | (178,798) |
| **NET ASSETS, DECEMBER 31, 2015** | $ 2,079,156 | $ 40,866,203 | $ 42,945,359 | $ 13,078,158 | $ 1,020,001 | $ 57,043,518 |

See notes to consolidated financial statements.

(Concluded)

**REACH COMMUNITY DEVELOPMENT, INC.**

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

| | 2015 | 2014 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Change in net assets | $ (3,774,828) | $ (2,576,690) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 6,252,358 | 5,697,332 |
| Loss on write off of predevelopment costs | 27,798 | 234,543 |
| Gain on sale of assets | (5,983) | (666,494) |
| Unrealized loss on fair value of interest rate swap | 14,948 | 111,345 |
| (Increase) decrease in: | | |
| Receivables | 28,689 | 206,748 |
| Prepaid expenses | 53,674 | 148,910 |
| Tenant security deposits held in trust | (83,085) | 33,677 |
| Increase (decrease) in: | | |
| Accrued and deferred interest | 221,550 | 341,351 |
| Accounts payable and other accrued liabilities | 142,167 | 288,429 |
| Prepaid rents | (4,085) | 5,471 |
| Refundable security deposits | 98,563 | 33,171 |
| Net cash provided by operating activities | 2,971,766 | 3,857,793 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Increase in restricted deposits | (746,882) | (2,526,753) |
| Additions to fixed assets | (27,023,949) | (20,152,359) |
| Change in accounts payable - construction | (1,313,401) | 2,091,813 |
| Payment of accrued interest capitalized | (953) | - |
| Proceeds from sale of assets | - | 18,961 |
| Tax credit fees paid | (202,267) | (152,367) |
| Net change in investments | 235,324 | 147,035 |
| Collection of note receivable | 860,000 | - |
| Additions to other assets | (350,666) | (521,223) |
| Net cash used in investing activities | (28,542,794) | (21,094,893) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Borrowings | 30,886,152 | 15,310,375 |
| Repayments | (16,754,994) | (6,115,709) |
| Financing fees paid | (546,876) | (325,320) |
| Capital contributions | 14,774,810 | 8,701,563 |
| Syndication costs | (178,798) | (178,306) |
| Net cash provided by financing activities | 28,180,294 | 17,392,603 |

(Continued)

**REACH COMMUNITY DEVELOPMENT, INC.**

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

| | 2015 | 2014 |
|---|---|---|
| **NET CHANGE IN CASH** | $ 2,609,266 | $ 155,503 |
| **CASH AT BEGINNING OF YEAR** | 2,893,945 | 2,738,442 |
| **CASH AT END OF YEAR** | $ 5,503,211 | $ 2,893,945 |
| **SUPPLEMENTAL CASH FLOW DISCLOSURE-** | | |
| Cash paid for interest | $ 2,282,419 | $ 1,843,128 |
| **SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES-** | | |
| Additions to fixed assets through incurrence of- Change in accrued interest - capitalized | $ 7,054 | $ 64,653 |

(Concluded)

See notes to consolidated financial statements.

## 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 twenty-one limited liability companies ("LLCs"). Fifteen 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 | Limited Partnership/Limited Liability Company |
|---|---|
| Station Place LLC | SP Tower Limited Partnership ("SP Tower") |
| REACH McCuller, LLC | McCuller Associates Limited Partnership ("McCuller") |
| Crown Redevelopment LLC | Patton Square Partners Limited Partnership ("Patton") |
| REACH Walnut Park LLC | REACH Walnut Partners Limited Partnership ("Walnut Park") |
| REACH Block 49 LLC | REACH B49 Partners Limited Partnership ("Gray's Landing") |
| REACH Admiral LLC | Wheeldon Admiral LLC ("Admiral") |
| REACH Orchards LLC | REACH Orenco LLC ("Orchards at Orenco") |
| REACH Gateway LLC | REACH Gateway Senior Housing Limited Partnership ("Gilman Court") |
| REACH Bronaugh GP LLC | REACH Bronaugh Partners Limited Partnership ("Bronaugh Apartments") |
| REACH Twelfth Avenue Terrace, LLC | Elderhope Limited Partnership |
| AC Apartments LLC | Albina Corner Limited Partnership ("Albina") |
| REACH Floyd Light, LLC | Floyd Light Apartments LLC ("Floyd Light") |
| REACH Westshore, LLC | Pine Street Associates Limited Partnership ("Westshore") |
| REACH Orchards II LLC | REACH Orenco II LLC ("Orchards at Orenco II") |
| REACH IC LLC | REACH Isabella Court ("Isabella Court Phase I") |
| REACH Covington Commons LLC | Covington Commons, LP ("Covington Commons") |
| REACH Cascadia Village LLC | Cascadia Village Apartments LLC ("Cascadia Village") |

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

1. **ORGANIZATION AND NATURE OF ACTIVITIES** - Continued

REACH acquired a property site in Hillsboro, Oregon for $1,800,000 on March 28, 2013 that is being developed in three phases beginning in 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 was completed on June 2, 2015. REACH Orenco II LLC was formed March 6, 2014 for the purpose of developing the Orchards at Orenco II, a 58 residential unit affordable housing complex and is expected to be completed in June 2016. Phase III will be developed at a future date.

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

REACH Bronaugh LLC acquired the Bronaugh Apartments on March 29, 2013 for future rehabilitation. In June 2014, the Bronaugh Apartments were transferred to a newly formed limited partnership, REACH Bronaugh Partners Limited Partnership with REACH Bronaugh GP LLC as the general partner. The Partnership obtained funding to finance the rehabilitation that is expected to be completed in May 2016.

REACH Isabella Court LLC was formed on June 23, 2015 for the purpose of developing an affordable housing complex in Vancouver, Washington. REACH Isabella Court LLC admitted an investor member on November 1, 2015 and began the construction of Isabella Court Phase I concurrently. The construction of Isabella Court Phase I is expected to be completed in November 2016.

Effective January 1, 2015, REACH Covington Commons LLC acquired a 99.99% ownership interest in Covington Commons Limited Partnership and was admitted as the substitute limited partner. Affordable Community Environments ("ACE") is the general partner in Covington Commons Limited Partnership. See the following section under the heading Affordable Community Environments ("ACE") for discussion regarding the relationship between REACH and ACE.

Effective November 24, 2015, REACH Cascadia Village LLC acquired a 99.99% ownership interest in Cascadia Village Apartments LLC and was admitted as the substitute investor member. ACE is the managing member of Cascadia Village Apartments LLC.

See the following section under the heading Affordable Community Environments ("ACE") for discussion regarding the relationship between REACH and ACE.

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 ("Grays Landing") 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.

1. **ORGANIZATION AND NATURE OF ACTIVITIES** - Continued

**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. On February 17, 2016, ACE legally dissolved and all assets and liabilities of ACE were transferred to REACH. 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, 2015, ACE has acquired or completed development of six affordable housing communities which are each owned by a single purposes entity as follows:

| Entity | Number Of units | Percentage Ownership |
|---|---|---|
| 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.

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.

Consolidated financial statements and related reports for ACE for the years ended December 31, 2015 and 2014 prepared in accordance with government auditing standards and the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administration Requirements Cost Principles, and Audit Requirements for Federal Awards 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.

**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.

1. **ORGANIZATION AND NATURE OF ACTIVITIES** - Continued

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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administration Requirements Cost Principles 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 four 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%.).

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 |
| 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 Isabella Court LLC | ♦ | Isabella Court Phase I |
| REACH Orenco II LLC | ♦ | Orchards at Orenco II |
| REACH Bronaugh Partners LP | ♦ | Bronaugh Apartments |

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.

1. **ORGANIZATION AND NATURE OF ACTIVITIES** - Continued

**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 |
| McCuller Associates Limited Partnership | ♦ | McCuller Crossing Apartments |
| REACH Allen-Freemont LLC | | Allen Freemont Apartments |

The Bronaugh Apartments were sold to REACH Bronaugh Partners Limited Partnership on June 12, 2015.

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 Allen-Freemont LLC was formed on September 14, 2014 for the purpose of acquiring and operating a 64-unit senior housing complex in Portland, Oregon. REACH Allen-Freemont LLC acquired the Allen Freemont Apartments on April 23, 2015 for $3,200,000.

Elderhope, Albina, Floyd Light, McCuller, 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.

## 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. The consolidated financial statements include the accounts of certain limited partnerships or limited liability companies in which REACH or ACE has a minority interest ranging from 0.1% to 1%. These entities are included in the consolidated financial statements in accordance with generally accepted accounting principles because REACH or ACE is deemed to be in control of each of these entities. 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.

## 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 2,073 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 2,073 units of housing through renovation and new construction over its history.

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, 2015 and 2014 was $6,081,174 and $5,525,781, 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 2016 to 2020. 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, 2015 and 2014. 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 $796,549 and $748,628 at December 31, 2015 and 2014, respectively. Amortization expense was $134,202 and $147,182 for the years ended December 31, 2015 and 2014, respectively. Amortization of financing fees for each of the next five years are: $140,413 in 2016; $139,622 in 2017; $139,068 in 2018; $133,249 in 2019; and $130,061 in 2020.

***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 $138,918 and $106,901 at December 31, 2015 and 2014, respectively. Amortization was $32,017 and $22,242 for the years ended December 31, 2015 and 2014, respectively. Amortization of tax credit fees for each of the next five years will be $36,335 for years 2016 through 2020.

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

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Continued

***Tax Credits*** - 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 $133,024 and $174,942 at December 31, 2015 and 2014, respectively. Grants and pledges receivable within a year were $108,586 and $122,637 at December 31, 2015 and 2014, respectively. The remaining balances are receivable within 2 to 5 years. The discount on long-term grants and contributions at December 31, 2015 and 2014 is considered insignificant to the financial statements.

***Restricted Deposits*** – Restricted deposits at December 31, 2015 and 2014 include the following:

| | 2015 | 2014 |
|---|---|---|
| Operating reserves | $ 3,274,086 | $3,100,252 |
| Replacement reserves | 4,403,287 | 3,737,540 |
| Residual receipts accounts | 515,070 | 527,694 |
| Mortgage escrow deposits | 272,072 | 200,986 |
| Stabilization reserves | 256,983 | 256,851 |
| Re-leasing reserves | - | 147,739 |
| Debt service reserves | 1,294,050 | 1,310,222 |
| Community association dues reserve | 410,330 | 410,166 |
| Commercial tenant improvement reserve | 336,644 | 336,202 |
| Lease-up reserve | 13,529 | 13,529 |
| Bond fund | 32,438 | 36,858 |
| NeighborWorks® America | 114,103 | 156,791 |
| Other restricted deposits | 212,423 | 153,303 |
| Total | $11,135,015 | $10,388,133 |

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.

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.

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, 2015 and 2014. 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 2012 remain open and subject to examination.

***Reclassifications*** – Certain accounts in the prior year's financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications did not change the change in net assets for the year ended December 31, 2014 as previously reported.

## 3. NET ASSETS

***Board Designated*** – Unrestricted net assets as of December 31, 2015 and 2014 include $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, 2015 and 2014 include the following:

| | 2015 | 2014 |
|---|---|---|
| Capital advance mortgages | $ 7,512,100 | $ 7,512,100 |
| Grants from Oregon Housing Community Services ("OHCS") | 433,132 | 433,132 |
| NeighborWorks® America grants | 511,919 | 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 | 380,000 | 380,000 |
| Temporarily restricted net assets | $13,078,158 | $12,823,158 |

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 years ended December 31, 2015 and 2014, $255,000 and $256,919, respectively, of the permanent restricted grant 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.

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, 2015, $255,000 of capital grant funds classified as permanent restricted net assets were transferred to temporarily restricted net assets. 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. 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 $1,020,001.

## 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 2026. In addition to basic rents, tenants are responsible for common area maintenance charges based on leased square footage. During the years ended December 31, 2015 and 2014, rents received from these leases were $806,151 and $744,864, respectively. Future minimum lease receipts under the leases are as follows:

| **Year ending December 31,** | |
|---|---|
| 2016 | $ 740,685 |
| 2017 | 647,053 |
| 2018 | 468,291 |
| 2019 | 355,557 |
| 2020 | 138,874 |
| Thereafter | 670,783 |
| Total | $3,021,243 |

## 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 $257,937 and $224,054 to the plan for the years ended December 31, 2015 and 2014, respectively. The contribution percentage is six percent of eligible compensation.

## 6. MORTGAGES AND BONDS PAYABLE

Mortgages and bonds payable at December 31, 2015 and 2014 consist of the following:

| | 2015 | 2014 |
|---|---|---|
| ***US National Bank*** <br> Mortgages payable in aggregate monthly installments of $48,912 including interest ranging from 2.00% to 7.05%, maturing 2019-2041. | $ 11,436,291 | $ 11,764,635 |
| ***JPMorgan Chase*** - Mortgage payable in monthly installments of $2,441 including interest at 7.5%, maturing 2019. | 82,309 | 1,043,180 |

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

| | 2015 | 2014 |
|---|---|---|
| ***Wells Fargo Bank*** Mortgages payable in aggregate monthly installments of $15,313 including interest ranging from 2.00% to 3.40%, maturing 2017-2023. | $ 2,402,524 | $ 2,443,078 |
| Construction loans, interest only payable monthly at variable rates of 2.25% at December 31, 2015 and ranging from 2.19% to 2.29% at December 31, 2014. Loans at December 31, 2015 are to be converted to permanents loans in 2016 and 2017. | 11,773,559 | 4,440,781 |
| ***CW Capital LLC*** - Mortgages payable in aggregate monthly installments of $14,168 including interest ranging from 2.90% to 4.38%, maturing 2042-2046. | 3,252,408 | 3,314,709 |
| ***Portland Housing Bureau*** Mortgages payable in aggregate monthly installments of $24,262 including interest ranging from 0.00% to 7%, maturing 2018-2036. | 3,408,441 | 3,740,862 |
| 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%. | 65,980,167 | 61,903,071 |
| ***Oregon Housing and Community Services ("OHCS")*** Notes payable in aggregate monthly installments of $26,646, including interest ranging from 2.22% to 6.10%, maturing 2025-2028. | 2,735,295 | 2,922,892 |
| Housing Development Revenue Bonds, payable in aggregate monthly installments of $53,055, including interest ranging from 1.49% to 5.81%, maturing 2016-2036. | 7,001,928 | 7,325,763 |
| Note payable, due December 31, 2071, including interest at 1%. | 950,051 | 950,051 |
| ***NOAH*** - Mortgages payable in aggregate monthly installments of $32,139 including interest ranging from 2% to 6%, maturing 2019-2033. | 6,824,477 | 8,011,608 |
| ***Washington County*** - 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. | 3,634,971 | 2,485,000 |
| ***Washington County Reinvestment Association*** - Mortgages payable in aggregate monthly installments of $14,730 including interest ranging from 7% to 7.25%, maturing 2034-2042. | 1,967,536 | 2,003,164 |

## 6. MORTGAGES AND BONDS PAYABLE – Continued

| | 2015 | 2014 |
|---|---|---|
| ***Clark County*** - 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. | $ 1,938,146 | $ 1,936,980 |
| ***State of Washington Department of Commerce*** - 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. | 11,013,822 | 7,413,239 |
| ***Bank of America*** – Construction loan, interest only payable monthly at a variable rate (2.4239% at December 31, 2015). Loan at December 31, 2015 is to be converted to a permanent loan in 2017. | 2,592,129 | 2,622,138 |
| ***Key Bank National Association*** - Mortgage payable in monthly installments of $8,510 including interest at 6.75%, maturing March 31, 2031. | 972,848 | 1,007,102 |
| ***PNC*** - Mortgage payable in monthly installments of $9,356 including interest at 3.99%, maturing in 2025. | 1,956,545 | - |
| ***North Cascade Bank*** - Mortgage payable in monthly installments of $3,609 including interest at 5.3%, maturing in 2030. | 649,263 | - |
| ***Orenco III, Inc.*** – Note payable with zero interest. Paid in full April 2015. | - | 600,000 |
| ***Other mortgages*** Payable in aggregate monthly installments of $8,673 including interest ranging from 0% to 6% maturing 2015-2058. | 1,792,297 | 2,209,848 |
| Total | $142,365,007 | $128,138,101 |

Of the total mortgages and bonds payable at December 31, 2015, $141,365,007 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, 2015 and 2014 is as follows:

| | 2015 | 2014 |
|---|---|---|
| REACH | $ 2,330,564 | $ 3,108,601 |
| Other Nonprofit Corporations | 2,027,910 | 2,036,981 |
| LLC and Limit Partnership Entities | 97,105,582 | 84,802,490 |
| REACH Owned Subsidiaries | 33,749,610 | 31,772,110 |
| ACE | 15,830,593 | 14,224,806 |
| Eliminations | (8,679,252) | (7,806,887) |
| | $142,365,007 | $128,138,101 |

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

Interest incurred, expensed and capitalized for the years ended December 31, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---|---|---|
| Interest expense | $2,250,080 | $ 2,147,816 |
| Interest capitalized | 205,980 | 62,642 |
| Interest incurred | $2,456,060 | $ 2,210,458 |

***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 ($1,902,524 and $1,943,078 at December 31, 2015 and 2014, respectively), and to receive amounts in return equal to a variable interest rate (0.1875% at December 31, 2015 and 2014) 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, 2015 and 2014, the fair value of the interest rate swap asset (liability) was $(107,968) and ($93,020), respectively. For the years ended December 31, 2015 and 2014, $14,948 and $111,346 of unrealized loss 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, 2015 are as follows:

| **Year ending December 31,** | |
|---|---|
| 2016 | $ 7,974,514 |
| 2017 | 7,570,036 |
| 2018 | 1,486,823 |
| 2019 | 4,458,587 |
| 2020 | 1,772,176 |
| Thereafter | 119,102,871 |
| Total | $142,365,007 |

**Portland Housing Bureau**

- At December 31, 2015 and 2014, mortgages payable to PHB aggregating $65,980,167 and $61,903,071, 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 $130,320 and $82,693 at December 31, 2015 and 2014, respectively.

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

- 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 $7,279,030 at December 31, 2015.

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, 2015 and 2014.

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)

7. **FAIR VALUE MEASUREMENTS** - Continued

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.

The following table sets forth by level, within the fair value hierarchy, REACH's assets at fair value as of December 31, 2015:

| **Assets:** | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Short-term investment – certificate of deposits | $ - | $ 405,268 | $ - | $ 405,268 |
| Investment – certificate of deposits | - | 810,370 | - | 810,370 |
| Total assets at fair value | $ - | $1,215,638 | $ - | $1,215,538 |
| **Liabilities-** | | | | |
| Interest rate swap liability | $ - | $ 107,968 | $ - | $ 107,968 |

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

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

***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.

## 8. COMMITMENTS AND CONTINGENCIES - Continued

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

***Surplus Cash and Residual Receipts*** – 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 Orchards at Orenco II, Isabella Court Phase I, and Bronaugh Apartments, REACH and Affiliated Entities entered into construction contracts totaling \$22,894,461 of which \$8,868,533 has been incurred through December 31, 2015.

## 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, 2015 and 2014, REACH was awarded grants from NeighborWorks® as follows:

| | 2015 | 2014 |
|---|---|---|
| Capital grants, permanently restricted | \$275,000 | \$304,334 |
| Expendable grants, unrestricted | 181,200 | 286,447 |
| Total grants | \$456,200 | \$590,781 |

## 10. OTHER GRANTS

Other grants for the years ended December 31, 2015 and 2014 include the following:

| | 2015 | 2014 |
|---|---|---|
| Government grants: | | |
| Housing development grants | $ 826,000 | $ 248,663 |
| Community builders program | 471,062 | 625,455 |
| Other | 27,980 | 18,021 |
| Foundation grants | 113,210 | 641,275 |
| | $1,438,252 | $1,533,414 |

## 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 expensed $234,543 of predevelopment costs incurred for 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

Management of REACH and Affiliated Entities has evaluated events and transactions occurring after December 31, 2015 through June 17, 2016, the date the financial statements were available for issuance, for potential recognition or disclosure in the financial statements and has concluded that 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, 2015

| | Other Nonprofit Corporations | LLCs and Limited Partnerships | REACH Owned Subsidiaries | REACH Community Development, Inc. | Affordable Community Environments | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| **CURRENT ASSETS:** | | | | | | | |
| Cash | $ 85,316 | $ 1,623,825 | $ 1,162,691 | $ 2,125,611 | $ 505,768 | $ - | $ 5,503,211 |
| Short-term investment | - | - | - | 405,268 | - | - | 405,268 |
| Accounts receivable | 22,861 | 28,645 | 77,320 | 15,319 | 23,345 | - | 167,490 |
| Grants and pledges receivable | - | - | - | 106,259 | 2,327 | - | 108,586 |
| Prepaid expenses | 10,592 | 115,076 | 86,031 | 11,035 | 9,649 | - | 232,383 |
| Total current assets | 118,769 | 1,767,546 | 1,326,042 | 2,663,492 | 541,089 | - | 6,416,938 |
| **NONCURRENT ASSETS:** | | | | | | | |
| Tenant security deposits held in trust | 39,348 | 227,841 | 330,048 | 16,713 | 155,512 | - | 769,462 |
| Restricted deposits | 1,587,454 | 4,252,244 | 2,559,403 | 1,446,375 | 1,289,539 | - | 11,135,015 |
| Receivable from affiliates | - | - | 371,491 | 12,720,083 | 303 | (13,091,877) | - |
| Investments | - | - | - | 810,370 | - | - | 810,370 |
| Financing fees - net | 46,136 | 1,891,914 | 546,316 | - | 447,191 | (30,173) | 2,901,384 |
| Tax credit fees - net | - | 471,351 | - | - | 78,024 | - | 549,375 |
| Equity interest in limited partnerships | | | | 462,170 | | (462,170) | - |
| Other assets | - | 51,075 | 379,246 | 219,209 | 257 | (45,356) | 604,431 |
| Fixed assets: | | | | | | | |
| Land and land improvements | 787,530 | 13,684,716 | 3,734,574 | 600,000 | 4,129,421 | (378,067) | 22,558,174 |
| Offsite improvements | - | 108,615 | 154,868 | - | - | - | 263,483 |
| Buildings and improvements | 11,703,698 | 115,268,303 | 48,411,065 | 2,629,509 | 29,539,272 | (4,273,127) | 203,278,720 |
| Furnishings and equipment | 299,052 | 2,427,113 | 1,091,764 | 1,076,916 | 719,701 | - | 5,614,546 |
| Construction-in-progress | - | 13,776,845 | 65,999 | - | - | (1,414,876) | 12,427,968 |
| Total fixed assets | 12,790,280 | 145,265,592 | 53,458,270 | 4,306,425 | 34,388,394 | (6,066,070) | 244,142,891 |
| Less accumulated depreciation | (4,688,153) | (15,709,662) | (32,697,872) | (1,000,342) | (7,251,998) | 363,159 | (60,984,868) |
| Fixed assets - net | 8,102,127 | 129,555,930 | 20,760,398 | 3,306,083 | 27,136,396 | (5,702,911) | 183,158,023 |
| Total noncurrent assets | 9,775,065 | 136,450,355 | 24,946,902 | 18,981,003 | 29,107,222 | (19,332,487) | 199,928,060 |
| TOTAL | $ 9,893,834 | $138,217,901 | $ 26,272,944 | $ 21,644,495 | $ 29,648,311 | $ (19,332,487) | $206,344,998 |

(Continued)

**REACH COMMUNITY DEVELOPMENT, INC.**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015

| | 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 | $ 173,960 | $ 547,542 | $ 377,891 | $ 983,022 | $ 174,311 | $ (1,316,320) | $ 940,406 |
| Accounts payable - construction | - | 3,852,749 | 33,611 | - | - | (1,914,172) | 1,972,188 |
| Accrued interest | 117,659 | 72,947 | 56,756 | 1,218 | 56,320 | - | 304,900 |
| Prepaid rents | 10,122 | 27,719 | 47,766 | 8,860 | 8,360 | - | 102,827 |
| Current portion of mortgages and bonds payable | 12,575 | 6,903,503 | 646,845 | 270,617 | 140,974 | - | 7,974,514 |
| Total current liabilities | 314,316 | 11,404,460 | 1,162,869 | 1,263,717 | 379,965 | (3,230,492) | 11,294,835 |
| **NONCURRENT LIABILITIES:** | | | | | | | |
| Refundable security deposits | 39,158 | 216,866 | 312,637 | 16,056 | 137,299 | - | 722,016 |
| Interest rate swap liability | - | - | 107,968 | - | - | - | 107,968 |
| Deficit interest in partnership | | | | 10,718,370 | | (10,718,370) | - |
| Mortgages and bonds payable | 2,015,335 | 90,202,079 | 33,102,765 | 2,059,947 | 15,689,618 | (8,679,251) | 134,390,493 |
| Deferred interest | - | 2,267,752 | 1,632,418 | 11,375 | 56,757 | (1,182,134) | 2,786,168 |
| Total noncurrent liabilities | 2,054,493 | 92,686,697 | 35,155,788 | 12,805,748 | 15,883,674 | (20,579,755) | 138,006,645 |
| Total liabilities | 2,368,809 | 104,091,157 | 36,318,657 | 14,069,465 | 16,263,639 | (23,810,247) | 149,301,480 |
| **NET ASSETS:** | | | | | | | |
| Unrestricted: | | | | | | | |
| Controlling interests | (461,319) | 346,586 | (10,045,713) | 6,043,110 | 1,718,732 | 4,477,760 | 2,079,156 |
| Noncontrolling interests | - | 33,780,158 | - | - | 7,086,045 | - | 40,866,203 |
| Total unrestricted | (461,319) | 34,126,744 | (10,045,713) | 6,043,110 | 8,804,777 | 4,477,760 | 42,945,359 |
| Temporarily restricted | 7,986,344 | - | - | 511,919 | 4,579,895 | - | 13,078,158 |
| Permanently restricted | - | - | - | 1,020,001 | - | - | 1,020,001 |
| Total net assets | 7,525,025 | 34,126,744 | (10,045,713) | 7,575,030 | 13,384,672 | 4,477,760 | 57,043,518 |
| TOTAL | $ 9,893,834 | $138,217,901 | $ 26,272,944 | $ 21,644,495 | $ 29,648,311 | $ (19,332,487) | $206,344,998 |

(Concluded)

**REACH COMMUNITY DEVELOPMENT, INC.**

CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

| | 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 | $ - | $ - | $ - | $ 456,200 | $ - | $ - | $ 456,200 |
| Other grants | - | - | 28,095 | 1,405,157 | 5,000 | - | 1,438,252 |
| Other contributions | - | - | - | 208,023 | - | - | 208,023 |
| Donated goods and services | - | - | 532 | 60,272 | - | - | 60,804 |
| Total support | - | - | 28,627 | 2,162,840 | 5,000 | - | 2,196,467 |
| Revenues: | | | | | | | |
| Net rental revenue | 1,059,200 | 4,809,029 | 7,623,563 | 136,312 | 1,861,332 | (106,556) | 15,382,880 |
| Laundry and tenant charges | 13,044 | 73,998 | 106,351 | - | 59,801 | - | 253,194 |
| Equity in loss of affiliates | - | - | - | 90,497 | - | (90,497) | - |
| Management fees | - | - | - | 7,103,702 | - | (7,002,214) | 101,488 |
| Program income | - | - | - | 31,837 | - | - | 31,837 |
| Gain on sale of assets | - | - | 255,688 | - | 5,983 | (255,688) | 5,983 |
| Gain (loss) on interest rate swap | - | - | (14,948) | - | - | - | (14,948) |
| Interest income | 1,895 | 3,003 | 3,421 | 371,622 | 984 | (322,228) | 58,697 |
| Other income | - | 71,530 | 3,276 | 659 | 4,223 | - | 79,688 |
| Total revenues | 1,074,139 | 4,957,560 | 7,977,351 | 7,734,629 | 1,932,323 | (7,777,183) | 15,898,819 |
| Total support and revenues | 1,074,139 | 4,957,560 | 8,005,978 | 9,897,469 | 1,937,323 | (7,777,183) | 18,095,286 |
| **EXPENSES:** | | | | | | | |
| Program services: | | | | | | | |
| Property operations and management | 1,517,975 | 7,476,809 | 7,763,266 | 3,961,054 | 2,439,577 | (5,411,818) | 17,746,863 |
| Housing development | - | - | 27,798 | 457,486 | - | (368,687) | 116,597 |
| Volunteer services | - | - | - | 43,802 | - | - | 43,802 |
| Resident services | - | - | - | 1,045,496 | 97,332 | - | 1,142,828 |
| Community builders | - | - | - | 513,115 | - | - | 513,115 |
| Total program services | 1,517,975 | 7,476,809 | 7,791,064 | 6,020,953 | 2,536,909 | (5,780,505) | 19,563,205 |
| Support services: | | | | | | | |
| Management and general | - | - | - | 1,916,643 | 60,169 | - | 1,976,812 |
| Fundraising | - | - | - | 330,097 | - | - | 330,097 |
| Total support services | - | - | - | 2,246,740 | 60,169 | - | 2,306,909 |
| Total expenses | 1,517,975 | 7,476,809 | 7,791,064 | 8,267,693 | 2,597,078 | (5,780,505) | 21,870,114 |
| **CHANGE IN NET ASSETS** | $ (443,836) | $ (2,519,249) | $ 214,914 | $ 1,629,776 | $ (659,755) | $ (1,996,678) | $ (3,774,828) |

(Continued)

**REACH COMMUNITY DEVELOPMENT, INC.**

CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

| | Other Nonprofit Corporations | LLCs and Limited Partnerships | REACH Owned Subsidiaries | REACH Community Development, Inc. | Affordable Community Environments | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| **NET ASSETS, BEGINNING OF YEAR** | $ 7,968,861 | $ 23,285,852 | $ (9,214,057) | $ 5,945,254 | $ 12,808,556 | $ 5,505,388 | $ 46,299,854 |
| Change in net assets | (443,836) | (2,519,249) | 214,914 | 1,629,776 | (659,755) | (1,996,678) | (3,774,828) |
| Capital contributions | - | 13,538,939 | 100,000 | - | 1,235,871 | (177,520) | 14,697,290 |
| Syndication costs | - | (178,798) | - | - | - | - | (178,798) |
| Distributions | - | - | (1,146,570) | - | - | 1,146,570 | - |
| **NET ASSETS, END OF YEAR** | $ 7,525,025 | $ 34,126,744 | $ (10,045,713) | $ 7,575,030 | $ 13,384,672 | $ 4,477,760 | $ 57,043,518 |

(Concluded)

**REACH COMMUNITY DEVELOPMENT, INC.**

CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015

| | 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 | $ (443,836) | $ (2,519,249) | $ 214,914 | $ 1,629,776 | $ (659,755) | $(1,996,678) | $ (3,774,828) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | | | | | | |
| Depreciation and amortization | 368,361 | 3,040,374 | 1,846,350 | 215,492 | 877,650 | (95,869) | 6,252,358 |
| Loss on write off of predevelopment costs | - | - | 27,798 | | | - | 27,798 |
| Rent income - deferred | - | (5,333) | - | - | - | 5,333 | - |
| Gain on sale of assets | - | - | (255,688) | | (5,983) | 255,688 | (5,983) |
| Unrealized loss on fair value of interest rate swap | - | - | 14,948 | - | - | - | 14,948 |
| Equity in loss of affiliate | - | - | - | (90,497) | - | 90,497 | - |
| (Increase) decrease in: | | | | | | | |
| Receivables | (9,435) | 3,969 | (19,580) | 33,887 | 19,848 | - | 28,689 |
| Prepaid expenses | 4,633 | 9,618 | 29,777 | 1,570 | 8,076 | - | 53,674 |
| Tenant security deposits held in trust | (1,120) | (67,714) | (11,272) | (337) | (2,642) | - | (83,085) |
| Increase (decrease) in: | | | | | | | |
| Accrued and deferred interest | 14,534 | 433,949 | 25,531 | (2,911) | 28,192 | (277,745) | 221,550 |
| Accounts payable and other accrued liabilities | 20,427 | 66,320 | 42,212 | 83,194 | (9,774) | (60,212) | 142,167 |
| Prepaid rents | (427) | (10,773) | 9,103 | 7,065 | (9,053) | - | (4,085) |
| Refundable security deposits | 1,347 | 66,806 | 19,646 | - | 10,764 | - | 98,563 |
| Net cash provided by (used in) operating activities | (45,516) | 1,017,967 | 1,943,739 | 1,877,239 | 257,323 | (2,078,986) | 2,971,766 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | | | | | |
| Increase in restricted deposits | (7,461) | (449,833) | (36,592) | (28,934) | (224,062) | - | (746,882) |
| Additions to fixed assets | - | (27,923,236) | (4,082,031) | (96,408) | (2,631,429) | 7,709,155 | (27,023,949) |
| Change in accounts payable - construction | - | 105,192 | (150,544) | (29,550) | (694,457) | (544,042) | (1,313,401) |
| Payment of accrued interest capitalized | | | | | (953) | | (953) |
| Proceeds from sale of assets | - | - | 4,587,969 | 860,160 | - | (5,448,129) | - |
| Tax credit fees paid | - | (202,267) | - | - | - | - | (202,267) |
| Net change in investments | - | - | - | 235,324 | - | - | 235,324 |
| Collection of note receivable | - | - | - | 860,000 | - | - | 860,000 |
| Advance to (repayments from) affiliates | - | - | (56,059) | (1,725,225) | (303) | 1,781,587 | - |
| Contributions to affiliated entities | - | - | - | (177,520) | - | 177,520 | - |
| Distributions received from affiliated entities | - | - | - | 1,146,570 | - | (1,146,570) | - |
| Additions to other assets | - | (97) | (209,548) | (122,858) | (21,420) | 3,257 | (350,666) |
| Net cash provided by (used in) investing activities | (7,461) | (28,470,241) | 53,195 | 921,559 | (3,572,624) | 2,532,778 | (28,542,794) |

(Continued)

**REACH COMMUNITY DEVELOPMENT, INC.**

CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015

| | 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 | $ - | $ 22,443,455 | $ 6,173,003 | $ 400,000 | $ 2,998,007 | $(1,128,313) | $ 30,886,152 |
| Repayments | (9,071) | (7,697,064) | (6,638,803) | (1,178,037) | (940,900) | (291,119) | (16,754,994) |
| Financing fees paid | (3,541) | (371,304) | (138,531) | - | (33,500) | - | (546,876) |
| Advance from affiliates | - | - | - | - | 80,930 | (80,930) | - |
| Capital contributions | - | 13,538,939 | 100,000 | - | 1,235,871 | (100,000) | 14,774,810 |
| Syndication costs | - | (178,798) | - | - | - | - | (178,798) |
| Distributions | - | - | (1,146,570) | - | - | 1,146,570 | - |
| Net cash provided by (used in) financing activities | (12,612) | 27,735,228 | (1,650,901) | (778,037) | 3,340,408 | (453,792) | 28,180,294 |
| **NET CHANGE IN CASH** | (65,589) | 282,954 | 346,033 | 2,020,761 | 25,107 | - | 2,609,266 |
| **CASH AT BEGINNING OF YEAR** | 150,905 | 1,340,871 | 816,658 | 104,850 | 480,661 | - | 2,893,945 |
| **CASH AT END OF YEAR** | $ 85,316 | $ 1,623,825 | $ 1,162,691 | $ 2,125,611 | $ 505,768 | $ - | $ 5,503,211 |
| **SUPPLEMENTAL CASH FLOW DISCLOSURE-** | | | | | | | |
| Cash paid for interest | $ 38,675 | $ 974,550 | $ 878,234 | $ 42,488 | $ 364,377 | $ (15,905) | $ 2,282,419 |
| **SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:** | | | | | | | |
| Additions to fixed assets through incurrence of- Change in accrued interest - capitalized | $ - | $ 34,278 | $ - | $ - | $ - | $ (27,224) | $ 7,054 |
| Reduction of liabilities through the transfer of assets: | | | | | | | |
| Long-term debt | - | - | - | - | 451,324 | (451,324) | - |
| Accrued interest | - | - | - | - | 18,018 | (18,018) | - |
| Payable to affiliate | - | - | - | - | 84,509 | (84,509) | - |
| | $ - | $ - | $ - | $ - | $ 553,851 | $ (553,851) | $ - |

(Concluded)

**REACH COMMUNITY DEVELOPMENT, INC.**

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

| | Program Services | | | | | Support Services | | |
|---|---|---|---|---|---|---|---|---|
| | Property Operations and Management | Housing Development | Volunteer Services | Resident Services | Community Builders | Management & General | Fund-raising | Total |
| Salaries | $ 3,592,260 | $ 324,213 | $ 31,007 | $ 718,691 | $ 234,493 | $ 724,220 | $ 164,948 | $ 5,789,832 |
| Payroll taxes | - | 31,162 | 3,076 | 63,317 | 22,451 | 72,272 | 16,179 | 208,457 |
| Health insurance / employee benefits | - | 64,704 | 6,207 | 138,036 | 48,712 | 146,135 | 37,244 | 441,038 |
| Advertising | 169,396 | - | 200 | - | 4,201 | 17,796 | 2,264 | 193,857 |
| Management fees | 83,281 | - | - | - | - | 15,137 | - | 98,418 |
| WSHFC fee | 3,525 | - | - | - | - | - | - | 3,525 |
| Telecommunications | 207,173 | 2,496 | 735 | 31,282 | 5,795 | 75,206 | 617 | 323,304 |
| Legal expense | 53,722 | - | - | - | - | 21,454 | - | 75,176 |
| Audit | 180,295 | - | - | - | - | 38,500 | - | 218,795 |
| Other professional services | 41,730 | 10,000 | - | 6,736 | 238 | 70,692 | 33,907 | 163,303 |
| Contract services | 99,234 | 591 | 218 | 7,479 | 138,393 | 236,262 | 6,186 | 488,363 |
| Other administrative | 673,194 | 10,534 | 2,359 | 116,265 | 54,187 | 210,921 | 68,102 | 1,135,562 |
| Rent expense - commercial | - | - | - | 100 | - | - | - | 100 |
| Resident services | 30,689 | - | - | 41,232 | - | - | - | 71,921 |
| Program activity expense | - | - | - | 18,244 | - | - | - | 18,244 |
| Utilities | 1,719,598 | - | - | - | 1,138 | 26,128 | - | 1,746,864 |
| Operating and maintenance | 1,965,871 | - | - | 1,345 | 1,014 | 41,774 | - | 2,010,004 |
| Property tax | 154,985 | 911 | - | - | - | 1,989 | - | 157,885 |
| Other taxes, licenses and permits | 53,151 | - | - | 25 | 911 | 3,128 | 650 | 57,865 |
| Insurance | 417,609 | - | - | - | 1,582 | 37,537 | - | 456,728 |
| Interest | 2,218,758 | 21,250 | - | - | - | 15,072 | - | 2,255,080 |
| Line of credit and other fees | 17,762 | - | - | 76 | - | 2,000 | - | 19,838 |
| Limited partner fees | 34,571 | - | - | - | - | - | - | 34,571 |
| Loss on write off of predevelopment costs | - | 27,798 | - | - | - | - | - | 27,798 |
| Depreciation and amortization | 6,030,059 | - | - | - | - | 220,589 | - | 6,250,648 |
| Capitalized housing development costs | - | (377,062) | - | - | - | - | - | (377,062) |
| | $ 17,746,863 | $ 116,597 | $ 43,802 | $ 1,142,828 | $ 513,115 | $ 1,976,812 | $ 330,097 | $ 21,870,114 |

**REACH COMMUNITY DEVELOPMENT, INC.**

SCHEDULE OF FUNCTIONAL EXPENSES (REACH COMMUNITY DEVELOPMENT, INC. ONLY)
YEAR ENDED DECEMBER 31, 2015

| | Program Services | | | | | Support Services | | |
|---|---|---|---|---|---|---|---|---|
| | Property Operations and Management | Housing Development | Volunteer Services | Resident Services | Community Builders | Management & General | Fund-raising | Total |
| Salaries | $ 2,854,490 | $ 316,749 | $ 31,007 | $ 639,603 | $ 234,493 | $ 709,857 | $ 164,948 | $ 4,951,147 |
| Payroll taxes | 282,116 | 31,162 | 3,076 | 63,317 | 22,451 | 72,272 | 16,179 | 490,573 |
| Health insurance / employee benefits | 611,058 | 64,704 | 6,207 | 138,036 | 48,712 | 146,135 | 37,244 | 1,052,096 |
| Advertising | 1,086 | - | 200 | - | 4,201 | 17,796 | 2,264 | 25,547 |
| Telecommunications | 9,038 | 2,496 | 735 | 31,282 | 5,795 | 74,423 | 617 | 124,386 |
| Legal expense | 1,151 | - | - | - | - | 21,454 | - | 22,605 |
| Audit | - | - | - | - | - | 30,000 | - | 30,000 |
| Other professional services | 8,939 | 10,000 | - | 6,736 | 238 | 62,538 | 33,907 | 122,358 |
| Contract services | 32,989 | 591 | 218 | 7,479 | 138,393 | 236,262 | 6,186 | 422,118 |
| Other administrative | 49,031 | 10,534 | 2,359 | 116,265 | 54,187 | 210,612 | 68,102 | 511,090 |
| Rent expense - commercial | 101,223 | - | - | 100 | - | - | - | 101,323 |
| Resident services | - | - | - | 41,232 | - | - | - | 41,232 |
| Utilities | - | - | - | - | 1,138 | 26,217 | - | 27,355 |
| Operating and maintenance | 948 | - | - | 1,345 | 1,014 | 41,774 | - | 45,081 |
| Property tax | 3,399 | - | - | - | - | - | - | 3,399 |
| Other taxes, licenses and permits | 1,599 | - | - | 25 | 911 | 2,866 | 650 | 6,051 |
| Insurance | 456 | - | - | - | 1,582 | 32,148 | - | 34,186 |
| Interest | 3,531 | 21,250 | - | - | - | 14,797 | - | 39,578 |
| Line of credit and other fees | - | - | - | 76 | - | 2,000 | - | 2,076 |
| Depreciation and amortization | - | - | - | - | - | 215,492 | - | 215,492 |
| **TOTAL FUNCTIONAL EXPENSES** | $ 3,961,054 | $ 457,486 | $ 43,802 | $ 1,045,496 | $ 513,115 | $ 1,916,643 | $ 330,097 | $ 8,267,693 |

**REACH COMMUNITY DEVELOPMENT, INC.**

STATEMENT OF FINANCIAL POSITION - NeighborWorks® America Capital Grant Fund
DECEMBER 31, 2015

| | |
|---|---|
| **ASSETS** | |
| Restricted deposits | $ 114,103 |
| Notes receivable: | |
| The Maples Apartments | 50,000 |
| The Maples II Apartments | 70,667 |
| REACH Orenco LLC | 59,333 |
| REACH Orenco II LLC | 150,000 |
| REACH Isabella Court LLC | 150,000 |
| REACH Bronaugh LLC | 22,222 |
| Total notes receivable | 502,222 |
| Equity investment in affiliated entities: | |
| Investment in Towne Square Limited Partnership | 303,676 |
| Investment in REACH Allen-Freemont LLC | 100,000 |
| Total equity investment in affiliated entities | 403,676 |
| Total assets | $ 1,020,001 |
| **LIABILITIES AND NET ASSETS** | |
| Net assets | $ 1,020,001 |
| Total liabilities and net assets | $ 1,020,001 |

**REACH COMMUNITY DEVELOPMENT, INC.**

STATEMENT OF ACTIVITIES - NeighborWorks® America Capital Grant Fund
YEAR ENDED DECEMBER 31, 2015

**REVENUE, GAINS, AND OTHER SUPPORT**

| | |
|---|---|
| Capital grant - NeighborWorks® America | $ 275,000 |
| Released from restrictions (Capital Fund Balance Conversion Request) | (255,000) |
| CHANGE IN NET ASSETS | 20,000 |
| NET ASSETS AT BEGINNING OF YEAR | 1,000,001 |
| NET ASSETS AT END OF YEAR | $ 1,020,001 |

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 $1,020,001.

**REACH COMMUNITY DEVELOPMENT, INC.**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2015

| 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 | 32001108 | $ 100,670 |
| | 14.218 | 32001108 | 87,451 |
| Community Development Block Grant- Allen-Freemont | 14.218 | 3110013 | 1,760,000 |
| HOME Investment Partnership Program | 14.239 | 3110013 | 195,509 |
| Department of Treasury/ Passed-through NeighborWorks® Reinvestment Corporation- | | | |
| Section 607(e) of the Neighborhood Reinvestment Corporation Act, as amended | 21.000 | 2015-8501-0118-OU66 | 142,700 |
| | 21.000 | 2015-8501-0269-SUP13 | 25,000 |
| | 21.000 | 2015-8501-0031-CLOB65 | 275,000 |
| | 21.000 | 2015-8501-0116-SUP69 | 1,500 |
| | 21.000 | 2015-8501-0164-SUP39 | 10,000 |
| | 21.000 | 2015-8501-0103-CL110 | 2,000 |
| U.S. Department of Housing and Urban Development/ Passed-through from Enterprise – HUD Grant- | | | |
| Section 4 Grant Program | 14.252 | B-13-CB-MD-001 | 50,000 |
| U.S. Department of Housing and Urban Development- | | | |
| Section 8 Housing Assistance Payments | 14.195 | n/a | 128,410 |
| Total | | | $2,778,240 |

See notes to schedule of expenditures of federal awards.

**REACH COMMUNITY DEVELOPMENT, INC.**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2015

## 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of REACH Community Development, Inc. and Affiliated Entities, it is not intended to and does not present the financial position, changes in net assets, or cash flows of REACH Community Development, Inc. and Affiliated Entities.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Company has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

## 3. U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT LOAN PROGRAM

REACH Community Development, Inc. and Affiliated Entities has received loans funded by programs of U.S. Department of Housing and Urban Development. The loan balances outstanding at the beginning of the year are included in the federal expenditures presented in the Schedule. REACH Community Development, Inc. and Affiliated Entities received no additional loans during the year ended December 31, 2015. The balance of the loans outstanding at December 31, 2015 consists of:

| CFDA Number | Program Name | Outstanding Balance |
|---|---|---|
| 14.218 | Community Development Block Grants | $1,760,000 |
| 14.239 | HOME Investment Partnership Program | 195,509 |
| Total | | $1,955,509 |

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**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, 2015, 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 June 17, 2016.

**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.

Bjorklund & Montplaisir

Portland, Oregon
June 17, 2016

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# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 Compliance Supplement* that could have a direct and material effect on REACH's major federal program for the year ended December 31, 2015. 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 the Project'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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Project'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, 2015.

**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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Bjorklund & Montplaisir

Portland, Oregon
June 17, 2016

**REACH COMMUNITY DEVELOPMENT, INC.**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

## 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 2 CFR 200.516(a) | ____ Yes | X No |

### Identification of Major Programs

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 14.218 | Community Development Block Grant - Allen-Freemont |

| | | |
|---|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs | $750,000 | |
| Auditee qualified as low-risk auditee? | X Yes | ____ No |

## SECTION 2 - FINDINGS - FINANCIAL STATEMENT AUDIT

None

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

None