REACH COMMUNITY DEVELOPMENT, INC.

Financial Statements and Supplementary Information for the years ended December 31, 2016 and 2015 and Independent Auditor's Report and Single Audit Reports

CONTENTS

BJORKLUND & MONTPLAISIR

One Embassy Centre, Suite 460
9020 S.W. Washington Square Road
Portland, Oregon 97223

Tel (503) 643-6400
Fax (503) 641-4345

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, 2016 and 2015, 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, 2016 and 2015, 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 32 through 41 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 August 23, 2017, 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
August 23, 2017

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash	$ 7,036,936	$ 5,503,211
Short-term investments	700,454	405,268
Accounts receivable	304,937	167,490
Grants and pledges receivable	312,209	108,586
Prepaid expenses	343,412	232,383
Total current assets	8,697,948	6,416,938
NONCURRENT ASSETS:		
Tenant security deposits held in trust	863,997	769,462
Restricted deposits	11,870,978	11,135,015
Investments	767,729	810,370
Tax credit fees - net	509,141	549,375
Other assets	1,618,560	991,632
Fixed assets:		
Land and land improvements	23,623,134	22,558,174
Offsite improvements	140,816	263,483
Buildings and improvements	231,743,710	203,278,720
Furnishings and equipment	6,299,724	5,614,546
Construction-in-progress	10,500	12,427,968
Total fixed assets	261,817,884	244,142,891
Less accumulated depreciation	(67,531,247)	(60,984,868)
Fixed assets - net	194,286,637	183,158,023
Total noncurrent assets	209,917,042	197,413,877
TOTAL	$ 218,614,990	$ 203,830,815

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and other accrued liabilities	$ 1,210,867	$ 940,406
Accounts payable - construction	517,653	1,972,188
Accrued interest	453,310	304,900
Prepaid rents	133,617	102,827
Current portion of mortgages and bonds payable	11,548,134	7,974,514
Total current liabilities	13,863,581	11,294,835
NONCURRENT LIABILITIES:		
Refundable security deposits	786,505	722,016
Interest rate swap liability	75,960	107,968
Mortgages and bonds payable - net of unamortized debt issuance costs	134,410,453	131,876,310
Deferred interest	2,986,876	2,786,168
Total noncurrent liabilities	138,259,794	135,492,462
Total liabilities	152,123,375	146,787,297
NET ASSETS:		
Unrestricted:		
Controlling interests	1,126,215	2,079,156
Noncontrolling interests	50,660,321	40,866,203
Total unrestricted	51,786,536	42,945,359
Temporarily restricted	13,403,542	13,078,158
Permanently restricted	1,301,537	1,020,001
Total net assets	66,491,615	57,043,518
TOTAL	$ 218,614,990	$ 203,830,815

(Concluded)

See notes to consolidated financial statements.

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:								
Support:								
NeighborWorks® America grants	$ 234,600	$ -	$ 350,000	$ 584,600	$ 181,200	$ -	$ 275,000	$ 456,200
Other grants	964,546	-	-	964,546	1,438,252	-	-	1,438,252
Other contributions	210,457	-	-	210,457	208,023	-	-	208,023
Donated goods and services	36,474	-	-	36,474	60,804	-	-	60,804
Special events	23,400	-	-	23,400	33,188	-	-	33,188
NeighborWorks® America Capital Grant Fund reclassification	(256,920)	325,384	(68,464)	-	-	255,000	(255,000)	-
Total support	1,212,557	325,384	281,536	1,819,477	2,279,124	255,000	20,000	2,196,467
Revenues:								
Net rental revenue	16,530,569	-	-	16,530,569	15,382,880	-	-	15,382,880
Laundry and tenant charges	241,341	-	-	241,341	253,194	-	-	253,194
Management fees	103,917	-	-	103,917	101,488	-	-	101,488
Program income	69,486	-	-	69,486	31,837	-	-	31,837
Gain on sale of assets	-	-	-	-	5,983	-	-	5,983
Gain (loss) on interest rate swap	32,008			32,008	(14,948)	-	-	(14,948)
Interest income	25,380	-	-	25,380	58,697	-	-	58,697
Other	246,315	-	-	246,315	79,688	-	-	79,688
Total revenues	17,249,016	-	-	17,249,016	15,898,819	-	-	15,898,819
Total support and revenues	18,461,573	325,384	281,536	19,068,493	18,177,943	255,000	20,000	18,095,286

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES:								
Program services:								
Property operations and management	$ 18,924,752	$ -	$ -	$ 18,924,752	$ 17,746,863	$ -	$ -	$ 17,746,863
Housing development	60,574	-	-	60,574	116,597	-	-	116,597
Volunteer services	43,163	-	-	43,163	43,802	-	-	43,802
Resident services	1,029,989	-	-	1,029,989	1,142,828	-	-	1,142,828
Community builders	626,761	-	-	626,761	513,115	-	-	513,115
Total program services	20,685,239	-	-	20,685,239	18,514,973	-	-	19,563,205
Support services:								
Management and general	1,821,300	-	-	1,821,300	1,976,812	-	-	1,976,812
Fundraising	368,307	-	-	368,307	330,097	-	-	330,097
Total support services	2,189,607	-	-	2,189,607	2,306,909	-	-	2,306,909
Total expenses	22,874,846	-	-	22,874,846	20,821,882	-	-	21,870,114
CHANGE IN NET ASSETS	$ (4,413,273)	$ 325,384	$ 281,536	$ (3,806,353)	$ (2,643,939)	$ 255,000	$ 20,000	$ (3,774,828)

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	Unrestricted					
	Controlling Interests	Noncontrolling Interests	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Net Assets
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
Change in net assets for the year ended December 31, 2016	(952,941)	(3,460,332)	(4,413,273)	325,384	281,536	(3,806,353)
Capital contributions	-	13,254,450	13,254,450	-	-	13,254,450
NET ASSETS, DECEMBER 31, 2016	$ 1,126,215	$ 50,660,321	$ 51,786,536	$ 13,403,542	$ 1,301,537	$ 66,491,615

See notes to consolidated financial statements.

(Concluded)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (3,806,353)	$ (3,774,828)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,552,129	6,081,174
Amortization - tax credits and other	49,606	38,284
Interest expense - amoritzation of debt issuance costs	139,815	132,900
Loss on write off of predevelopment costs	-	27,798
Loss on damaged property	85,950	-
Gain on sale of assets	-	(5,983)
Unrealized loss (gain) on fair value of interest rate swap	(32,008)	14,948
(Increase) decrease in:		
Receivables	(321,570)	28,689
Prepaid expenses	(111,029)	53,674
Tenant security deposits held in trust	(94,535)	(83,085)
Increase (decrease) in:		
Accrued and deferred interest	304,232	221,550
Accounts payable and other accrued liabilities	264,293	142,167
Prepaid rents	30,790	(4,085)
Refundable security deposits	64,489	98,563
Net cash provided by operating activities	3,125,809	2,971,766
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in restricted deposits	(735,963)	(746,882)
Additions to fixed assets	(17,182,384)	(27,023,949)
Change in accounts payable - construction	(1,941,902)	(1,313,401)
Payment of accrued interest capitalized	(11,625)	(953)
Tax credit fees paid	-	(202,267)
Net change in investments	(252,545)	235,324
Collection of note receivable	-	860,000
Additions to other assets	(769,297)	(350,666)
Net cash used in investing activities	(20,893,716)	(28,542,794)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings	23,321,048	30,886,152
Repayments	(17,251,149)	(16,754,994)
Financing fees paid	(22,718)	(546,876)
Capital contributions	13,254,451	14,774,810
Syndication costs	-	(178,798)
Net cash provided by financing activities	19,301,632	28,180,294

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
NET CHANGE IN CASH	$ 1,533,725	$ 2,609,266
CASH AT BEGINNING OF YEAR	5,503,211	2,893,945
CASH AT END OF YEAR	$ 7,036,936	$ 5,503,211
SUPPLEMENTAL CASH FLOW DISCLOSURE-		
Cash paid for interest	$ 2,027,406	$ 2,282,419
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES-		
Additions to fixed assets through incurrence of:		
Accounts payable - construction	$ 421,321	$ -
Accrued interest - capitalized	27,555	7,054
Reclassification of other assets	135,888	-
Total	$ 584,764	$ 7,054

(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 four separate groups of entities that are more fully discussed in the following paragraphs.

Affordable Community Environments ("ACE") was 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. ACE became affiliated with REACH through common board membership in 2013. Prior to December 31, 2015, ACE acquired or completed development of six affordable housing communities which are each owned by a single purposes entity which were included in the consolidated financial statements of ACE. On February 17, 2016, ACE legally dissolved and all assets and liabilities of ACE were transferred to REACH. As the consolidated financial statements of ACE were included in the consolidated financial statements of REACH, there is no significant impact on the consolidated financial statements of REACH in 2016 as a result of the dissolution. The single purpose entities that were originally affiliated with ACE are regrouped in the following paragraphs.

REACH

This group includes REACH and twenty-four limited liability companies ("LLCs"). Nineteen 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")

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

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")
Fruit Valley GP, LLC	Fruit Valley Limited Partnership ("McCallister")
Towne Square GP, LLC	Towne Square Limited Partnership ("Towne Square")

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

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 2015. 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 in June 2015. REACH Orenco II LLC was formed March 6, 2015 for the purpose of developing the Orchards at Orenco II, a 58 residential unit affordable housing complex and was completed in June 2016. The construction of Phase III is expected to begin in July 2017.

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 2015, 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 was 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 was 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. ACE was the general partner of Covington Commons LP. With the dissolution of ACE, REACH effectively acquired 100% ownership interest in Covington Commons LP.

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 was the managing member of Cascadia Village Apartments LLC. With the dissolution of ACE, REACH effectively acquired 100% ownership interest in Cascadia Village Apartments LLC.

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

Towne Square Limited Partnership was formed on May 14, 2014 for the purpose of developing a 40-unit multi-family rental housing in Washougal, Washington. In September 2015, 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.

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.

Other Nonprofit Corporations

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

Other Nonprofit Corporations include the following:

REACH Apartments, Inc.	*	Prescott Place Apartments
BMA, Inc.		Beacon Manor Apartments
Marion Street Apartments, Inc.	*	Marion Street Apartments
Taylor Apartments, Inc.		Taylor Street Apartments
Powell Boulevard Apartments, Inc.	*	Powell Boulevard Apartments
Community Housing, Inc.	*	The Maples Apartments
Community Housing II, Inc.	*	The Maples II Apartments
Community Housing III, Inc.	*	Fir Grove Apartments

* Separate financial statements and related reports prepared in accordance with government auditing standards and the 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.

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

LLC and Limited Partnership Entities – This group includes eight limited partnerships and five 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
The Mews at Cascadia Village LLC		The Mews
Fruit Valley Limited Partnership		Fruit Valley
Towne Square Limited Partnership		Towne Square

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.

♦ Entities not audited in accordance with Government Auditing Standards.

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
Covington Commons Limited Partnership		Covington Commons
Cascadia Village Apartments LLC		Cascadia Village
Addy Street Affordable Housing, LLC		Addy Street

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

Development Fees – REACH earns 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 acquired and/or developed 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, 2016 and 2015 was $6,552,129 and $6,081,174, 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 2017 to 2021. Investments in certificates of deposits with maturities less than one year are classified as short-term investments. Such investments are recorded at fair value at December 31, 2016 and 2015. REACH's intention is to hold the investments to maturity.

Change in Accounting **–** In April 2015, the Financial Accounting Standards Board issued an Accounting Standards Update ("Update") to simplify presentation of debt issuance costs. The Update, which is effective for fiscal years beginning after December 15, 2015 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the reporting of debt discounts. The Update also requires that amortization of debt issuance costs shall be reported as interest expense. Such change in accounting has been applied retroactively to prior years.

Debt Issuance Costs **–** Debt issuance costs are being amortized using the straight-line method over the terms of the related notes. Accounting principles generally accepted in United States of America require the effective yield method be used to amortize debt issuance costs; however, the effect of using the straight-line method is not materially different from the results that would be obtained using the effective yield method. Amortization of debt issuance costs of $141,976 and $132,900 for the years ended December 31, 2016 and 2015, respectively, is included in interest expense. Accumulated amortization of debt issuance costs was $925,948 and $796,549 at December 31, 2016 and 2015, respectively.

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

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 $179,253 and $138,918 at December 31, 2016 and 2015, respectively. Amortization was $40,235 and $32,017 for the years ended December 31, 2016 and 2015, respectively. Amortization of tax credit fees for each of the next five years will be $45,886 for years 2017 and 2018, $45,879 for 2019, $42,195 for 2020 and $41,484 for 2021.

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 $319,475 and $133,024 at December 31, 2016 and 2015, respectively. Grants and pledges receivable within a year were $312,209 and $108,586 at December 31, 2016 and 2015, respectively. The remaining balances are receivable within 2 to 5 years. The discount on long-term grants and contributions at December 31, 2016 and 2015 is considered insignificant to the financial statements.

Restricted Deposits – Restricted deposits at December 31, 2016 and 2015 include the following:

	2016	2015
Operating reserves	$ 3,609,758	$ 3,274,086
Replacement reserves	4,793,928	4,403,287
Residual receipts accounts	510,039	515,070
Mortgage escrow deposits	315,879	272,072
Stabilization reserves	257,142	256,983
Debt service reserves	1,014,203	1,294,050
Community association dues reserve	410,494	410,330
Commercial tenant improvement reserve	337,072	336,644
Lease-up reserve	13,529	13,529
Bond fund	32,293	32,438
NeighborWorks® America	119,973	114,103
Other restricted deposits	456,668	212,423
Total	$11,870,978	$11,135,015

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.

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

Restricted Deposits – Continued

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.

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, 2016 and 2015. 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 REACH, 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 2013 remain open and subject to examination.

3. NET ASSETS

Board Designated – Unrestricted net assets as of December 31, 2016 and 2015 include $1,901,755 that has been designated by the Board of Directors of REACH as an operating reserve.

Temporarily Restricted Net Assets at December 31, 2016 and 2015 include the following:

	2016	2015
Capital advance mortgages	$ 7,512,100	$ 7,512,100
Grants from Oregon Housing Community Services ("OHCS")	433,132	433,132
NeighborWorks® America grants	837,303	511,919
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	$13,403,542	$13,078,158

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, 2016 and 2015, $325,384 and $255,000, 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, 2016, $325,384 of capital grant funds classified as permanent restricted net assets were transferred to temporarily restricted net assets, and $256,950 of unrestricted net assets were transferred to permanently restricted net assets. 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. 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 $1,301,537.

4. **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, 2015 as previously reported.

5. 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, 2016 and 2015, rents received from these leases were $841,413 and $806,151, respectively. Future minimum lease receipts under the leases are as follows:

Year ending December 31,	
2017	$ 757,698
2018	561,484
2019	444,101
2020	193,665
2021	166,934
Thereafter	521,887
Total	$2,645,769

6. PENSION PLAN CONTRIBUTIONS

All employees of REACH that meet certain requirements and completed one year of service were eligible to participate in REACH'S simplified employee pension (SEP) plan under section 408(k) of the Internal Revenue Code ("IRC"). The SEP plan provided for employer contributions equal to six percent of eligible compensation. During 2016, the SEP plan was terminated and a new defined contribution plan under Section 401(k) of the IRC was adopted. The 401(k) plan provides that all REACH employees (other than union employees, certain nonresident aliens and leased employees) who have completed one year of service are eligible to participate. Eligible employees can elect to defer a percentage of their compensation each year up to the dollar limit set by law. In addition, employees who are at least age 50 or will attain age 50 before the end of the calendar may elect to defer additional amounts (called "catch-up contributions") to the Plan as of the 1st of January of that year up to the dollar limit set by law.

The Plan further provides that REACH will make safe harbor nonelective contributions each year equal to 3% of eligible compensation. In addition, REACH may make discretionary matching contributions equal to a uniform percentage of each tier of salary deferrals.

Employer contributions to the benefit plans were $229,452 and 257,937 for the years ended December 31, 2016 and 2015 respectively. There were no discretional marching contributions to the 401(k) plan for the year ended December 31, 2016.

7. MORTGAGES AND BONDS PAYABLE

	2016	2015
US National Bank		
Mortgages payable in aggregate monthly installments of $48,912 including interest ranging from 2.00% to 7.05%, maturing 2019-2041.	$ 11,099,245	$ 11,436,291
Unamortized debt issuance costs	(896,462)	(935,846)
	10,202,783	10,500,445
Wells Fargo Bank		
Mortgages payable in aggregate monthly installments of $15,313 including interest ranging from 2.00% to 3.40%, maturing 2017-2023.	2,359,594	2,402,524
Construction loans, interest only payable monthly at variable rates of 2.69% at December 31, 2016 and 2.25% at December 31, 2015. The balance at December 31, 2015 includes $8,757,311 that was converted to a permanent loan with NOAH in 2016. Loans at December 31, 2016 will be paid down to $2,730,000 and converted to a 20-year term loan with NOAH payable in monthly installments, including interest at 3.48% per annum based on an amortization schedule of 30 years in 2017.	9,016,953	11,773,559
	11,376,547	14,176,083
Unamortized debt issuance costs	(31,150)	(36,004)
	11,345,397	14,140,079
CW Capital LLC		
Mortgages payable in aggregate monthly installments of $14,168 including interest ranging from 2.90% to 4.38%, maturing 2042-2046.	3,185,037	3,252,408
Unamortized debt issuance costs	(193,419)	(200,224)
	2,991,618	3,052,184

(Continued)

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

	2016	2015
Portland Housing Bureau		
Mortgages payable in aggregate monthly installments of $24,262 including interest ranging from 0.00% to 7%, maturing 2018-2036.	$ 4,582,033	$ 3,408,441
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%.	64,634,444	65,980,167
	69,216,477	69,388,608
Unamortized debt issuance costs	(142,245)	(146,130)
	69,074,232	69,242,478
NOAH		
Mortgages payable in aggregate monthly installments of $55,167 including interest ranging from 2.74% to 6%, maturing 2019-2036.	11,027,807	6,824,477
Unamortized debt issuance costs	(234,418)	(154,622)
	10,793,389	6,669,855
Oregon Housing Community Services ("OHCS")		
Notes payable in aggregate monthly installments of $26,646, including interest ranging from 2.22% to 6.10%, maturing 2025-2028.	2,539,750	2,735,295
Housing Development Revenue Bonds, payable in aggregate monthly installments of $41,376, including interest ranging from 1.49% to 5.81%, maturing 2030-2036.	6,722,252	7,001,928
Note payable, due December 31, 2071, including interest at 1%.	950,051	950,051
	10,212,053	10,687,274
Unamortized debt issuance costs	(439,663)	(472,558)
	9,772,390	10,214,716

(Continued)

7. MORTGAGES AND BONDS PAYABLE – Continued

	2016	2015
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.	$ 3,685,000	$ 3,634,971
Unamortized debt issuance costs	(3,510)	-
	3,681,490	3,634,971
Washington Community Reinvestment Association		
Mortgages payable in aggregate monthly installments of $14,730 including interest ranging from 7% to 7.25%, maturing 2034-2042.	1,929,282	1,967,536
Unamortized debt issuance costs	(47,688)	(49,960)
	1,881,594	1,917,576
Clark County		
Mortgages payable in aggregate annual installments of $27,637 and semi-annual installments of $8,434, including interest ranging from 0% to 1%, maturing 2045-2056.	2,217,307	1,938,146
Unamortized debt issuance costs	(50,104)	(51,830)
	2,167,203	1,886,316
State of Washington Department of Commerce		
Mortgages payable in aggregate annual installments of $12,986 and quarterly installments of $9,130, including interest ranging from 0.50% to 1%, maturing 2045-2056.	12,612,803	11,013,822
Unamortized debt issuance costs	(159,465)	(147,348)
	12,453,338	10,866,474
Bank of America		
Construction loan, interest only payable monthly at a variable rate (2.4239% at December 31, 2015). Loan at December 31, 2015 was converted to a permanent loan with NOAH in 2016.	-	2,592,129

(Continued)

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

	2016	2015
Citi Bank		
Construction loan, provides for borrowings of up to $7,000,000, interest only payable monthly at a variable rate (3.22% and 2.51% at December 31, 2016 and 2015, respectively). Loan at December 31, 2016 will be paid down to $3,100,000 and converted to a 20-year term loan with NOAH payable in monthly installments, including interest at 4.7% per annum, based on an amortization schedule of 35 years in 2017.	$ 6,194,384	$ 55,000
Key Bank National Association		
Mortgage payable in monthly installments of $8,510 including interest at 6.75%, maturing March 31, 2031.	936,363	972,848
Unamortized debt issuance costs	(79,377)	(85,040)
	856,986	887,808
PNC		
Mortgage payable in monthly installments of $9,356 including interest at 3.99%, maturing in 2025.	1,923,028	1,956,545
Unamortized debt issuance costs	(83,387)	(92,962)
	1,839,641	1,863,583
North Cascade Bank		
Mortgage payable in monthly installments of $3,609 including interest at 5.30%, maturing in 2030.	640,139	649,263
Unamortized debt issuance costs	(98,282)	(105,387)
	541,857	543,876
Other Mortgages		
Payable in aggregate monthly installments of $8,436 including interest ranging from 0% to 7.5% maturing 2019-2058.	2,179,429	1,819,606
Unamortized debt issuance costs	(17,144)	(36,272)
	2,162,285	1,783,334
Total mortgages and bonds payable	148,434,901	142,365,007
Total unamortized debt issuance costs	(2,476,314)	(2,514,183)
Mortgages and bonds payable, net	$ 145,958,587	$ 139,850,824

(Concluded)

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

Of the total mortgages and bonds payable at December 31, 2016, $145,008,877 is collateralized by investment in real estate and $950,000 is unsecured. A summary of mortgages and bonds payable, net of unamortized debt issuance costs, by group of entities at December 31, 2016 and 2015 is as follows:

	2016	2015
REACH	$ 3,719,208	$ 3,364,021
Other Nonprofit Corporations	1,970,924	1,981,774
LLC and Limit Partnership Entities	111,336,966	104,799,739
REACH Owned Subsidiaries	39,663,099	40,394,958
Eliminations	(10,731,610)	(10,689,668)
	$145,958,587	$139,850,824

Interest expense including amortization of debt issuance costs, interest capitalized, and interest incurred for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Interest expense	$ 2,409,338	$ 2,250,080
Interest capitalized	314,308	205,980
Interest incurred	$ 2,723,646	$ 2,456,060

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 ($1,859,594 and $1,902,524 at December 31, 2016 and 2015, respectively), and to receive amounts in return equal to a variable interest rate (0.6875% at December 31, 2016 and 0.1875% at December 31, 2015) 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, 2016 and 2015, the fair value of the interest rate swap asset (liability) was $(75,960) and $(107,968), respectively. For the years ended December 31, 2016 and 2015, $32,008 of unrealized gain and $14,948 of unrealized loss on interest rate swap was recorded in the consolidated statement of activities, respectively.

Portland Housing Bureau

- At December 31, 2016 and 2015, mortgages payable to PHB aggregating $64,634,444 and $65,980,167, 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 $164,000 and $130,000 at December 31, 2016 and 2015, respectively.

7. **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 $7,250,968 at December 31, 2016.

Annual maturities of mortgages and bonds payable for the years subsequent to December 31, 2016 are as follows:

Year ending December 31,	
2017	$ 11,548,134
2018	1,565,042
2019	2,482,335
2020	1,897,158
2021	2,195,845
Thereafter	128,746,387
Total	$148,434,901

8. **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.

8. **FAIR VALUE MEASUREMENTS** - Continued

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, 2016 and 2015.

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

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

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

The following table sets forth by level, within the fair value hierarchy, REACH's assets at fair value as of December 31, 2016:

Assets:	Level 1	Level 2	Level 3	Total
Short-term investment – certificate of deposits	$ -	$ 700,454	$ -	$ 700,454
Investment – certificate of deposits	-	767,729	-	767,729
Total assets at fair value	$ -	$1,468,183	$ -	$1,468,183
Liabilities-				
Interest rate swap liability	$ -	$ 75,960	$ -	$ 75,960

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

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.

9. COMMITMENTS AND CONTINGENCIES

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

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

Surplus Cash and Residual Receipts – 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 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 has not been required to fund any amounts associated with the operating deficit guarantees to date.

10. 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, 2016 and 2015, REACH was awarded grants from NeighborWorks® as follows:

	2016	2015
Capital grants, permanently restricted	$350,000	$275,000
Expendable grants, unrestricted	234,600	181,200
Total grants	$584,600	$456,200

11. OTHER GRANTS

Other grants for the years ended December 31, 2016 and 2015 include the following:

	2016	2015
Government grants:		
Housing development grants	$103,510	$ 826,000
Community builders program	568,956	471,062
Other	39,500	27,980
Foundation grants	252,580	113,210
	$964,546	$1,438,252

12. 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.

13. SUBSEQUENT EVENTS

Management of REACH and Affiliated Entities has evaluated events and transactions occurring after December 31, 2016 through August 23, 2017, 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, 2016

	Other Nonprofit Corporations	LLCs and Limited Partnerships	REACH Owned Subsidiaries	REACH Community Development, Inc.	Eliminations	Consolidated
ASSETS						
CURRENT ASSETS:						
Cash	$ 145,771	$ 2,416,942	$ 1,858,263	$ 2,615,960	$ -	$ 7,036,936
Short-term investment	-	-	-	700,454	-	700,454
Accounts receivable	72,494	59,495	136,508	36,440	-	304,937
Grants and pledges receivable	-	-	-	312,209	-	312,209
Prepaid expenses	30,458	199,350	103,914	9,690	-	343,412
Total current assets	248,723	2,675,787	2,098,685	3,674,753	-	8,697,948
NONCURRENT ASSETS:						
Tenant security deposits held in trust	40,207	349,999	457,704	16,087	-	863,997
Restricted deposits	1,691,667	5,845,175	2,992,008	1,342,128	-	11,870,978
Receivable from affiliates	-	-	356,047	16,239,345	(16,595,392)	-
Investments	-	-	-	767,729	-	767,729
Tax credit fees - net	-	509,141	-	-	-	509,141
Equity interest in limited partnerships				1,704,272	(1,704,272)	-
Other assets	-	248,558	374,751	1,041,261	(46,010)	1,618,560
Fixed assets:						
Land and land improvements	792,804	17,032,579	5,247,859	927,959	(378,067)	23,623,134
Offsite improvements	-	108,615	32,201	-	-	140,816
Buildings and improvements	11,617,747	163,369,224	62,949,411	2,730,111	(8,922,783)	231,743,710
Furnishings and equipment	319,178	3,423,614	1,432,629	1,124,303	-	6,299,724
Construction-in-progress	-	-	10,500	-	-	10,500
Total fixed assets	12,729,729	183,934,032	69,672,600	4,782,373	(9,300,850)	261,817,884
Less accumulated depreciation	(5,052,940)	(22,694,314)	(39,526,289)	(1,174,222)	916,518	(67,531,247)
Fixed assets - net	7,676,789	161,239,718	30,146,311	3,608,151	(8,384,332)	194,286,637
Total noncurrent assets	9,408,663	168,192,591	34,326,821	24,718,973	(26,730,006)	209,917,042
TOTAL	$ 9,657,386	$170,868,378	$ 36,425,506	$ 28,393,726	$ (26,730,006)	$218,614,990

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

	Other Nonprofit Corporations	LLCs and Limited Partnerships	REACH Owned Subsidiaries	REACH Community Development, Inc.	Eliminations	Consolidated
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES:						
Accounts payable and other accrued liabilities	$ 269,636	$ 925,940	$ 582,686	$ 1,117,937	$ (1,685,332)	$ 1,210,867
Accounts payable - construction	-	2,946,186	-	75,707	(2,504,240)	517,653
Accrued interest	133,359	92,575	224,378	2,998	-	453,310
Prepaid rents	9,271	31,020	84,253	9,073	-	133,617
Current portion of mortgages and bonds payable	13,137	10,051,048	782,485	701,464	-	11,548,134
Total current liabilities	425,403	14,046,769	1,673,802	1,907,179	(4,189,572)	13,863,581
NONCURRENT LIABILITIES:						
Refundable security deposits	39,488	316,940	414,021	16,056	-	786,505
Interest rate swap liability	-	-	75,960	-	-	75,960
Mortgages and bonds payable - net of unamortized debt issuance costs	1,957,786	101,285,918	38,880,615	3,017,744	(10,731,610)	134,410,453
Deferred interest	-	2,854,158	1,740,921	35,209	(1,643,412)	2,986,876
Total noncurrent liabilities	1,997,274	104,457,016	41,111,517	3,069,009	(12,375,022)	138,259,794
Total liabilities	2,422,677	118,503,785	42,785,319	4,976,188	(16,564,594)	152,123,375
NET ASSETS:						
Unrestricted:						
Controlling interests	(751,635)	1,704,272	(8,736,578)	19,075,568	(10,165,412)	1,126,215
Noncontrolling interests	-	50,660,321	-	-	-	50,660,321
Total unrestricted	(751,635)	52,364,593	(8,736,578)	19,075,568	(10,165,412)	51,786,536
Temporarily restricted	7,986,344	-	2,376,765	3,040,433	-	13,403,542
Permanently restricted	-	-	-	1,301,537	-	1,301,537
Total net assets	7,234,709	52,364,593	(6,359,813)	23,417,538	(10,165,412)	66,491,615
TOTAL	$ 9,657,386	$170,868,378	$ 36,425,506	$ 28,393,726	$ (26,730,006)	$218,614,990

(Concluded)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	Other Nonprofit Corporations	LLCs and Limited Partnerships	REACH Owned Subsidiaries	REACH Community Development, Inc.	Eliminations	Consolidated
SUPPORT AND REVENUES:						
Support:						
NeighborWorks® America Grants	$ -	$ -	$ -	$ 584,600	$ -	$ 584,600
Other grants	-	-	-	964,546	-	964,546
Other contributions	-	-	-	210,457	-	210,457
Donated goods and services	-	-	2,135	34,339	-	36,474
Special events	-	-	-	23,400	-	23,400
Total support	-	-	2,135	1,817,342	-	1,819,477
Revenues:						
Net rental revenue	1,166,188	6,588,185	8,739,148	156,692	(119,644)	16,530,569
Laundry and tenant charges	13,447	104,170	123,724	-	-	241,341
Equity in loss of affiliates	-	-	-	(348)	348	-
Management fees	-	-	-	4,925,560	(4,821,643)	103,917
Development fee	-	-	-	1,855,048	(1,855,048)	-
Program income	-	-	-	69,486	-	69,486
Gain on interest rate swap	-	-	32,008	-	-	32,008
Distribution income from subsidiaries	-	-	-	1,723,193	(1,723,193)	-
Interest income	94	2,638	3,052	19,596	-	25,380
Other income	1,821	60,638	52,108	131,748	-	246,315
Total revenues	1,181,550	6,755,631	8,950,040	8,880,975	(8,519,180)	17,249,016
Total support and revenues	1,181,550	6,755,631	8,952,175	10,698,317	(8,519,180)	19,068,493
EXPENSES:						
Program services:						
Property operations and management	1,471,866	10,216,311	8,543,970	4,143,255	(5,450,650)	18,924,752
Housing development	-	-	-	478,984	(418,410)	60,574
Volunteer services	-	-	-	43,163	-	43,163
Resident services	-	-	-	1,029,989	-	1,029,989
Community builders	-	-	-	626,761	-	626,761
Total program services	1,471,866	10,216,311	8,543,970	6,322,152	(5,869,060)	20,685,239

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	Other Nonprofit Corporations	LLCs and Limited Partnerships	REACH Owned Subsidiaries	REACH Community Development, Inc.	Eliminations	Consolidated
Support services:						
Management and general	$ -	$ -	$ -	$ 1,821,300	$ -	$ 1,821,300
Fundraising	-	-	-	368,307	-	368,307
Total support services	-	-	-	2,189,607	-	2,189,607
Total expenses	1,471,866	10,216,311	8,543,970	8,511,759	(5,869,060)	22,874,846
CHANGE IN NET ASSETS	(290,316)	(3,460,680)	408,205	2,186,558	(2,650,120)	(3,806,353)
NET ASSETS, BEGINNING OF YEAR	7,525,025	42,570,822	(5,432,343)	21,230,980	(8,850,967)	57,043,517
Capital contributions	-	13,254,451	-	-	-	13,254,451
Distributions	-	-	(1,335,675)	-	1,335,675	-
NET ASSETS, END OF YEAR	$ 7,234,709	$ 52,364,593	$ (6,359,813)	$ 23,417,538	$ (10,165,412)	$ 66,491,615

(Concluded)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

	Other Nonprofit Corporations	LLCs and Limited Partnerships	REACH Owned Subsidiaries	REACH Community Development, Inc.	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Change in net assets	$ (290,316)	$ (3,460,680)	$ 408,205	$ 2,186,558	$ (2,650,120)	$ (3,806,353)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:						
Depreciation and amortization	366,512	4,234,642	2,163,297	154,766	(177,667)	6,741,550
Rent income - deferred	-	(3,268)	-	-	3,268	-
Loss on damaged assets	85,950	-	-	-	-	85,950
Unrealized loss on fair value of interest rate swap	-	-	(32,008)	-	-	(32,008)
Equity in loss of affiliate	-	-	-	348	(348)	-
(Increase) decrease in:						
Receivables	(49,633)	(18,319)	(48,374)	(205,244)	-	(321,570)
Prepaid expenses	(19,866)	(80,664)	(11,844)	1,345	-	(111,029)
Tenant security deposits held in trust	(859)	(44,055)	(50,247)	626	-	(94,535)
Increase (decrease) in:						
Accrued and deferred interest	15,700	458,440	121,312	23,760	(314,980)	304,232
Accounts payable and other accrued liabilities	89,508	317,199	156,938	51,480	(350,832)	264,293
Prepaid rents	(851)	(1,070)	32,498	213	-	30,790
Refundable security deposits	330	33,861	30,298	-	-	64,489
Net cash provided by (used in) operating activities	196,475	1,436,086	2,770,075	2,213,852	(3,490,679)	3,125,809
CASH FLOWS FROM INVESTING ACTIVITIES:						
Increase in restricted deposits	(104,213)	(696,248)	(39,749)	104,247	-	(735,963)
Additions to fixed assets	(19,231)	(16,631,201)	(77,232)	(71,533)	(383,187)	(17,182,384)
Payments of accounts payable - construction	-	(3,333,830)	(33,611)	-	1,425,539	(1,941,902)
Payment of accrued interest capitalized		(11,625)				(11,625)
Net change in investments	-	-	-	(252,545)	-	(252,545)
Advance to (repayments from) affiliates	-	-	15,444	(1,156,912)	1,141,468	-
Additions to other assets	-	(13,755)	-	(765,588)	10,046	(769,297)
Net cash provided by (used in) investing activities	(123,444)	(20,686,659)	(135,148)	(2,142,331)	2,193,866	(20,893,716)

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

	Other Nonprofit Corporations	LLCs and Limited Partnerships	REACH Owned Subsidiaries	REACH Community Development, Inc.	Eliminations	Consolidated
CASH FLOWS FROM FINANCING ACTIVITIES:						
Borrowings	$ -	$ 22,794,127	$ -	$ 630,431	$ (103,510)	$ 23,321,048
Repayments	(12,576)	(16,245,101)	(781,875)	(275,245)	63,648	(17,251,149)
Financing fees paid	-	(22,718)	-	-	-	(22,718)
Capital contributions	-	13,254,451	-	-	-	13,254,451
Distributions	-	-	(1,336,675)	-	1,336,675	-
Net cash provided by (used in) financing activities	(12,576)	19,780,759	(2,118,550)	355,186	1,296,813	19,301,632
NET CHANGE IN CASH	60,455	530,186	516,377	426,707	-	1,533,725
CASH AT BEGINNING OF YEAR	85,316	1,886,756	1,341,886	2,189,253	-	5,503,211
CASH AT END OF YEAR	$ 145,771	$ 2,416,942	$ 1,858,263	$ 2,615,960	$ -	$ 7,036,936
SUPPLEMENTAL CASH FLOW DISCLOSURE-						
Cash paid for interest	$ 27,260	$ 1,166,436	$ 844,994	$ 42,488	$ (53,772)	$ 2,027,406
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:						
Additions to fixed assets through incurrence of-						
Accounts payable - construction	$ 6,168	$ 415,153	$ -	$ -	$ -	$ 421,321
Developer fee payable	-	1,855,048	-	-	(1,855,048)	-
Accrued interest - capitalized	-	44,886	-	-	(17,331)	27,555
Reclassification of other assets	-	135,888	-	-	-	135,888
	$ 6,168	$ 2,450,975	$ -	$ -	$ (1,872,379)	$ 584,764

(Concluded)

REACH COMMUNITY DEVELOPMENT, INC.

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services					Support Services		
	Property Operations and Management	Housing Development	Volunteer Services	Resident Services	Community Builders	Management & General	Fund-raising	Total
Salaries, payroll taxes and benefits	$ 3,916,297	$ 390,473	$ 39,962	$ 856,942	$ 287,796	$ 1,031,675	$ 240,747	$ 6,763,892
Advertising	52,347	-	200	-	1,889	2,833	2,650	59,919
Management fees	26,878	-	-	-	-	-	-	26,878
WSHFC fee	3,525	-	-	-	-	-	-	3,525
HOPWA management fee	1,101	-	-	-	-	-	-	1,101
Telecommunications	197,028	2,754	619	37,446	8,928	66,745	579	314,099
Legal expense	65,246	11,875	-	-	-	28,129	156	105,406
Audit	188,518	-	-	-	725	44,515	-	233,758
Other professional services	62,744	6,256	-	2,707	1,967	2,604	7,605	83,883
Contract services	95,675	-	33	7,509	266,963	168,069	7,197	545,446
Other administrative	766,281	45,267	2,349	119,382	54,393	228,603	107,869	1,324,144
Resident services	18,270	-	-	5,666	-	-	-	23,936
Utilities	2,043,716	-	-	-	1,812	26,480	-	2,072,008
Operating and maintenance	1,889,581	-	-	337	2,491	37,394	-	1,929,803
Property tax	207,537	-	-	-	-	-	-	207,537
Other taxes, licenses and permits	38,938	154	-	-	(229)	2,866	1,504	43,233
Insurance	455,936	-	-	-	-	9,992	-	465,928
Interest	2,232,928	22,205	-	-	-	14,390	-	2,269,523
Interest - amortization of deferred financing cost	139,815	-	-	-	-	-	-	139,815
Line of credit and other fees	17,424	-	-	-	26	2,239	-	19,689
Limited partner fees	60,733	-	-	-	-	-	-	60,733
Depreciation and amortization	6,444,234	-	-	-	-	154,766	-	6,599,000
Capitalized housing development costs	-	(418,410)	-	-	-	-	-	(418,410)
	$ 18,924,752	$ 60,574	$ 43,163	$ 1,029,989	$ 626,761	$ 1,821,300	$ 368,307	$ 22,874,846

REACH COMMUNITY DEVELOPMENT, INC.

SCHEDULE OF FUNCTIONAL EXPENSES (REACH COMMUNITY DEVELOPMENT, INC. ONLY)
YEAR ENDED DECEMBER 31, 2016

	Program Services					Support Services		
	Property Operations and Management	Housing Development	Volunteer Services	Resident Services	Community Builders	Management & General	Fund-raising	Total
Salaries, payroll taxes and benefits	$ 3,858,414	$ 390,473	$ 39,962	$ 856,942	$ 287,796	$ 1,031,675	$ 240,747	$ 6,706,009
Advertising	1,125	-	200	-	1,889	2,833	2,650	8,697
Telecommunications	17,800	2,754	619	37,446	8,928	66,745	579	134,871
Legal expense	518	11,875	-	-	-	28,129	156	40,678
Audit	-	-	-	-	725	44,515	-	45,240
Other professional services	8,741	6,256	-	2,707	1,967	2,604	7,605	29,880
Contract services	35,830	-	33	7,509	266,963	168,069	7,197	485,601
Other administrative	86,852	45,267	2,349	119,382	54,393	228,603	107,869	644,715
Rent expense - commercial	116,376	-	-	-	-	-	-	116,376
Resident services	-	-	-	5,666	-	-	-	5,666
Utilities	-	-	-	-	1,812	26,480	-	28,292
Operating and maintenance	1,598	-	-	337	2,491	37,394	-	41,820
Property tax	4,369	-	-	-	-	-	-	4,369
Other taxes, licenses and permits	2,057	154	-	-	(229)	2,866	1,504	6,352
Insurance	7,551	-	-	-	-	9,992	-	17,543
Interest	2,024	22,205	-	-	-	14,390	-	38,619
Line of credit and other fees	-	-	-	-	26	2,239	-	2,265
Depreciation	-	-	-	-	-	154,766	-	154,766
TOTAL FUNCTIONAL EXPENSES	$ 4,143,255	$ 478,984	$ 43,163	$ 1,029,989	$ 626,761	$ 1,821,300	$ 368,307	$ 8,511,759

REACH COMMUNITY DEVELOPMENT, INC.

STATEMENT OF FINANCIAL POSITION - NeighborWorks® America Capital Grant Fund
DECEMBER 31, 2016

ASSETS	
Restricted deposits	$ 119,973
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 Partners LP	256,920
Total notes receivable	736,920
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
Predevelopment costs	40,968
Total assets	$ 1,301,537
LIABILITIES AND NET ASSETS	
Net assets	$ 1,301,537
Total liabilities and net assets	$ 1,301,537

REACH COMMUNITY DEVELOPMENT, INC.

STATEMENT OF ACTIVITIES - NeighborWorks® America Capital Grant Fund
YEAR ENDED DECEMBER 31, 2016

REVENUE, GAINS, AND OTHER SUPPORT

Capital grant - NeighborWorks® America	$ 350,000
Released from restrictions (Capital Fund Balance Conversion Request)	(325,384)
Reclassification to permanently restricted net assets	256,920
CHANGE IN NET ASSETS	281,536
NET ASSETS AT BEGINNING OF YEAR	1,020,001
NET ASSETS AT END OF YEAR	$ 1,301,537

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 $1,301,537.

REACH COMMUNITY DEVELOPMENT, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2016

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Subgrant Award Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
HOME Investment Partnerships Program:			
Passed-through from State of Washington:			
Cascadia Village	14.239	02-40420-008	$ 250,000
Addy Street	14.239	09-47104-001	2,958,541
Passed-through from Clark County:			
Covington Commons	14.239	2011-HOME-11H01	283,555
Addy Street	14.239	2008-HOME-08H15	556,322
Passed-through City of Portland:			
Portland Housing Bureau - Allen Freemont	14.239	3110013	195,509
			4,243,927
Community Development Block Grants / Entitlement Grants (Community Builders Program)- Passed-through City of Portland,			
Portland Housing Bureau	14.218	32001388	93,089
	14.218	32001222	82,549
Community Development Block Grant-Allen-Freemont Passed-through City of Portland,			
Portland Housing Bureau	14.218	3110013	1,760,000
			1,935,638
Section 4 Grant Program			
Passed-through from Enterprise - HUD Grant	14.252	B-13-CB-MD-001	40,000
Section 8 Housing Assistance Payments	14.195	n/a	349,572
Housing Opportunities for Persons with AIDS - Passed-through from City of Portland, Oregon:			
Cascadia Village	14.241	34327	155,000
Fruit Village	14.241	37968	225,000
			380,000
Low Income Housing Preservation and Resident Homeownership ACT of 1990 - Capital Grant:			
Beacon Manor	99.999	n/a	520,192
Taylor	99.999	n/a	444,763
			964,955

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2016

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Subgrant Award Number	Federal Expenditures
Department of Treasury/			
Passed-through NeighborWorks® Reinvestment Corporation-			
Section 607(e) of the Neighborhood Reinvestment			
Corporation Act, as amended	21.000	2016-8501-0118-OU66	$ 141,600
	21.000	2016-8501-0269-SUP13	2,500
	21.000	2016-8501-0031-CLOB65	350,000
	21.000	2016-8501-0164-SUP39	15,000
	21.000	2016-8501-0103-CL110	500
			509,600
Total			$ 8,423,692

(Concluded)

See notes to schedule of expenditures of federal awards.

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 in 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 have 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, 2016. The balance of the loans outstanding at December 31, 2016 consists of:

CFDA Number	Program Name	Outstanding Balance
14.218	Community Development Block Grants	$1,760,000
14.239	HOME Investment Partnership Program	1,303,775
Total		$3,063,775

BJORKLUND & MONTPLAISIR

One Embassy Centre, Suite 460
9020 S.W. Washington Square Road
Portland, Oregon 97223

Tel (503) 643-6400
Fax (503) 641-4345

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, 2016, 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 August 23, 2017.

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
August 23, 2017

BJORKLUND & MONTPLAISIR

One Embassy Centre, Suite 460
9020 S.W. Washington Square Road
Portland, Oregon 97223

Tel (503) 643-6400
Fax (503) 641-4345

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR MAJOR FEDERAL PROGRAMS 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 Programs

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 programs for the year ended December 31, 2016. REACH's major federal programs are 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 federal statues, regulations, and the terms and conditions of its federal awards application to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Project's major federal programs 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 Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the 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 the major federal programs occurred. An audit includes examining, on a test basis, evidence about the REACH's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Programs

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 programs for the year ended December 31, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-001. Our opinion on the major federal program is not modified with respect to these matters.

REACH's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. REACH's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs 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
August 23, 2017

REACH COMMUNITY DEVELOPMENT, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016

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
14.239	HOME Investment Partnership
99.999	Low Income Housing Preservation and Resident Homeownership ACT of 1990 – Capital Grant

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

Finding No. 2016-001 – CFDA 14.239 – HOME Investment Partnership Program

Criteria or Specific Condition – During the period of affordability (i.e., the period for which the non-Federal entity must maintain subsidized housing) for HOME assisted rental housing, the participating jurisdiction must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners no less than (a) every 3 years for projects containing 1 to 4 units, (b) every 2 years for projects containing 5 to 25 units, and (c) every year for projects containing 26 or more units. The participating jurisdiction must perform on-site inspections of rental housing occupied by tenants receiving HOME-assisted tenant-based rental assistance to determine compliance with housing quality standards (24 CFR sections 92.209(i), 92.251(f), and 92.504(d)). As a subreceipient, REACH is required to provide its responses to the findings from the inspection timely.

Condition – The State of Washington performed the onsite inspection for Gateway Garden (also known as Addy Street) on July 26, 2016. The exit report for this inspection listed the discrepancies noted in Site, Building Exterior, Common Areas, Dwelling Unit, and Property Management for which the initial responses from REACH were due September 8, 2016. REACH does not have any record of the responses provided to the State of Washington.

Effect – REACH may not be in compliance with the HOME contract and regulatory agreement with the State of Washington.

Cause – It was due to change in staffing during the year and an oversight of management that the responses to the findings per the state inspection were not provided timely.

Recommendation – We recommend management to design and implement a system to track the compliance audit findings, responses and corrective actions for the programs funded with federal awards.

Response – Our Chief Finance Officer reached out to the State of Washington to clarify the status of the inspection results and determine required corrective actions on the discrepancies noted in the exit report.

REACH COMMUNITY DEVELOPMENT, INC.
4150 5312 NE 148th Avenue
Portland, OR 97230

CORRECTIVE ACTION PLAN

Department of Housing and Urban Development

REACH Community Development, Inc. respectfully submits the following corrective action plan for the year ended December 31, 2016.

Name and address of Independent Public Accounting Firm:

> Bjorklund & Montplaisir
> One Embassy Centre, Suite 460
> 9020 SW Washington Square Road
> Portland, Oregon 97223

Audit period: January 1, 2016 through December 31, 2016

The finding from the December 31, 2016 schedule of findings and questioned costs is discussed below. The finding is numbered consistently with the number assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT

None

FINDINGS - FEDERAL AWARD PROGRAMS AUDIT

Department of Housing and Urban Development

Finding No. 2016-001 – CFDA 14.239 – HOME Investment Partnership Program

> *Recommendation:* We recommend management to design and implement a system to track the compliance audit findings, responses and corrective actions for the programs funded with federal awards.
>
> *Planned Corrective Action:* Our Chief Finance Officer reached out to the State of Washington to clarify the status of the inspection results and determine required corrective actions on the discrepancies noted in the exit report.

If the Department of Housing and Urban Development has questions regarding this plan, please call Pamela Benoit (503) 403-1830.

Sincerely,

Pamela Benoit
Chief Financial Officer

8/23/17
Date