

REACH COMMUNITY DEVELOPMENT, INC.

**Financial Statements and Supplementary Information
for the years ended December 31, 2011 and 2010 and
Independent Auditors' Report and Single Audit Reports**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of REACH Community Development, Inc. (a nonprofit organization) and affiliated entities as of December 31, 2011 and 2010 and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of REACH Community Development, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of REACH Community Development, Inc. as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2012, on our consideration of REACH Community Development, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages 25 through 34 is presented for purposes of additional analysis, and is not a required part of the basic financial statements of REACH Community Development, Inc. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information is the responsibility of REACH Community Development, Inc.'s management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bjorklund & Montplaisir

May 31, 2012

REACH COMMUNITY DEVELOPMENT, INC.**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 2,238,371	\$ 1,804,091
Short-term investments	1,437,632	1,603,456
Receivables	239,386	362,191
Prepaid expenses	125,899	123,996
Total current assets	<u>4,041,288</u>	<u>3,893,734</u>
NON CURRENT ASSETS:		
Tenant security deposits held in trust	416,869	397,701
Restricted deposits	7,367,949	4,885,535
Receivable from affiliate	347,035	350,713
Investments	977,778	789,309
Financing fees - net	970,091	1,007,117
Tax credit fees - net	103,141	113,689
Other assets	927,378	802,049
Fixed assets:		
Land and land improvements	13,395,675	8,249,627
Offsite improvements	263,483	127,816
Buildings and improvements	97,257,080	91,115,832
Furnishings and equipment	2,909,122	2,383,552
Construction-in-progress	18,137,234	-
Total	131,962,594	101,876,827
Less accumulated depreciation	<u>(36,033,245)</u>	<u>(31,410,916)</u>
Fixed assets - net	<u>95,929,349</u>	<u>70,465,911</u>
Total noncurrent assets	<u>107,039,590</u>	<u>78,812,024</u>
TOTAL	<u><u>\$ 111,080,878</u></u>	<u><u>\$ 82,705,758</u></u>

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and other accrued liabilities	\$ 655,937	\$ 473,869
Accounts payable - construction	2,631,359	163,023
Accrued interest	667,798	441,868
Prepaid rents	37,950	45,446
Current portion of mortgages and bonds payable	1,140,320	3,913,495
Total current liabilities	<u>5,133,364</u>	<u>5,037,701</u>
NONCURRENT LIABILITIES:		
Refundable security deposits	389,985	356,484
Mortgages and bonds payable	77,654,278	64,112,082
Deferred interest	1,422,722	1,431,189
Total noncurrent liabilities	<u>79,466,985</u>	<u>65,899,755</u>
Total liabilities	<u>84,600,349</u>	<u>70,937,456</u>
NET ASSETS:		
Unrestricted:		
Controlling interests	4,264,293	(970,465)
Noncontrolling interests	14,156,890	11,082,155
Total unrestricted	18,421,183	10,111,690
Temporarily restricted	7,553,212	1,656,612
Permanently restricted	506,134	-
Net assets	<u>26,480,529</u>	<u>11,768,302</u>
TOTAL	<u>\$ 111,080,878</u>	<u>\$ 82,705,758</u>

(Concluded)

See notes to consolidated financial statements.

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011				2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
SUPPORT AND REVENUES:					
Support:					
NeighborWorks® America Grants	\$ 172,500	-	\$ 506,134	\$ 678,634	\$ 50,000
Other grants	6,224,421	-	-	6,224,421	1,126,324
Inherent contribution received in acquisition	(749,197)	5,896,600	-	5,147,403	-
Other contributions	111,960	-	-	111,960	107,180
Donated goods and services	165,268	-	-	165,268	108,367
Special events	105,803	-	-	105,803	68,597
Total support	<u>6,030,755</u>	<u>5,896,600</u>	<u>506,134</u>	<u>12,433,489</u>	<u>1,460,468</u>
Revenues:					
Net rental revenue	9,589,613	-	-	9,589,613	8,827,076
Laundry and tenant charges	171,081	-	-	171,081	186,402
Management fees	98,301	-	-	98,301	109,108
Guarantee fee	-	-	-	-	175,000
Development fee	-	-	-	-	(230,215)
Gain on sale of property rights	306,174	-	-	306,174	-
Equity in loss of affiliate	(5)	-	-	(5)	(1,148)
Interest income	95,610	-	-	95,610	146,657
Total revenues	<u>10,260,774</u>	<u>-</u>	<u>-</u>	<u>10,260,774</u>	<u>9,212,880</u>
Total support and revenues	<u>16,291,529</u>	<u>5,896,600</u>	<u>506,134</u>	<u>22,694,263</u>	<u>10,673,348</u>

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011			2010 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
EXPENSES:				
Program services:				
Property operations and management	\$ 10,612,895	\$ -	\$ -	\$ 9,859,896
Housing development	131,677	-	-	48,756
Volunteer services / public relations	148,221	-	-	129,522
Resident services	463,153	-	-	405,876
Community builders	542,775	-	-	419,214
Total program services	11,898,721	-	-	10,863,264
Support services:				
Management and general	1,041,268	-	-	954,298
Fundraising	162,310	-	-	162,325
Total support services	1,203,578	-	-	1,116,623
Total expenses	13,102,299	-	-	11,979,887
CHANGE IN NET ASSETS	\$ 3,189,230	\$ 5,896,600	\$ 506,134	\$ (1,306,539)

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

	Controlling Interests	Unrestricted Noncontrolling Interests	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Net Assets
NET ASSETS, DECEMBER 31, 2009	\$(1,002,251)	\$ 8,359,723	\$ 7,357,472	\$1,656,612	\$ -	\$ 9,014,084
Change in net assets for the year ended December 31, 2010	31,786	(1,338,325)	(1,306,539)	-	-	(1,306,539)
Capital contributions	-	4,060,757	4,060,757	-	-	4,060,757
NET ASSETS, DECEMBER 31, 2010	(970,465)	11,082,155	10,111,690	1,656,612	-	11,768,302
Change in net assets for the year ended December 31, 2011	5,367,758	(2,178,528)	3,189,230	5,896,600	506,134	9,591,964
Capital contributions	-	5,253,263	5,253,263	-	-	5,253,263
Amount paid to withdrawing noncontrolling interests	(133,000)	-	(133,000)	-	-	(133,000)
NET ASSETS, DECEMBER 31, 2011	\$ 4,264,293	\$ 14,156,890	\$ 18,421,183	\$7,553,212	\$ 506,134	\$ 26,480,529

See notes to consolidated financial statements.

(Concluded)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 9,591,964	\$ (1,306,539)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,421,206	3,058,191
Grant income - noncash	(4,999,999)	-
Inherent contribution received in acquisition	(5,147,403)	-
Equity in loss of affiliate	5	1,148
Development fee	-	230,215
(Increase) decrease in:		
Receivables	90,595	(156,708)
Prepaid expenses	4,434	(6,710)
Tenant security deposits held in trust	363	(30,824)
Increase (decrease) in:		
Accrued and deferred interest	159,825	38,466
Accounts payable and other accrued liabilities	150,110	82,180
Prepaid rents	(7,589)	7,609
Refundable security deposits	13,971	12,812
Net cash provided by operating activities	<u>3,277,482</u>	<u>1,929,840</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in other restricted deposits	(2,002,097)	(161,990)
Additions to fixed assets	(16,310,900)	(6,435,536)
Payment of accounts payable - construction	-	(667,779)
Payment of retainage payable	-	(127,648)
Net change in investments	(22,645)	(27,002)
Advance to affiliate	3,678	(91,820)
Cash received in acquisition	28,394	-
Other assets	(95,905)	(114,865)
Net cash used in investing activities	<u>(18,399,475)</u>	<u>(7,626,640)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings	17,043,096	6,171,610
Repayments	(6,581,313)	(4,336,623)
Financing fees paid	(25,773)	(3,894)
Capital contributions	5,253,263	4,060,757
Amounts paid to withdrawing noncontrolling interests	(133,000)	-
Net cash provided by financing activities	<u>15,556,273</u>	<u>5,891,850</u>
NET CHANGE IN CASH	434,280	195,050
CASH AT BEGINNING OF YEAR	<u>1,804,091</u>	<u>1,609,041</u>
CASH AT END OF YEAR	<u>\$ 2,238,371</u>	<u>\$ 1,804,091</u>

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE -		
Cash paid for interest	<u>\$ 1,335,456</u>	<u>\$ 1,212,033</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES -		
Additions to fixed assets through incurrence of:		
Accounts payable - construction	\$ 2,468,337	\$ -
Note payable	<u>5,000,000</u>	<u>-</u>
	<u>\$ 7,468,337</u>	<u>\$ -</u>
		(Concluded)

See notes to consolidated financial statements.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2011 AND 2010

1. ORGANIZATION AND NATURE OF ACTIVITIES

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

REACH

This group includes REACH and thirteen limited liability companies (“LLCs”). Ten 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

AC Apartments LLC
Station Place LLC
REACH McCuller, LLC
REACH Westshore, LLC
Crown Redevelopment LLC
REACH Floyd Light, LLC
REACH Walnut Park LLC
REACH Twelfth Avenue Terrace, LLC
REACH Admiral LLC
REACH Block 49 LLC
REACH Orenco LLC
REACH Development LLC
REACH Knoll, LLC
Patton Square Leasing LLC

Limited Partnership/Limited Liability Company

Albina Corner Limited Partnership (“Albina”)
SP Tower Limited Partnership (“SP Tower”)
McCuller Associates Limited Partnership (“McCuller”)
Pine Street Associates Limited Partnership (“Westshore”)
Patton Square Partners Limited Partnership (“Patton”)
Floyd Light Apartments LLC (“Floyd Light”)
REACH Walnut Partners Limited Partnership (“Walnut Park”)
Elderhope Limited Partnership
Wheeldon Admiral LLC (“Admiral”)
REACH B49 Partners Limited Partnership (“Gray’s Landing”)

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

REACH Block 49 LLC and REACH B49 Partners Limited Partnership were formed in January 2011 for the purpose of developing a 209-unit affordable housing complex with retail and office space located just south of downtown Portland. In April 2011, an affiliate of Enterprise Community Investments was admitted as the investment partner.

REACH Orenco LLC formed August 30, 2011 for the purpose of developing an affordable housing complex and has entered into a purchase and sale agreement for acquisition of a property site located in Hillsboro, Oregon.

REACH Development LLC is the development entity for REACH.

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

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2011 AND 2010

1. ORGANIZATION AND NATURE OF ACTIVITIES - Continued

Other Entities

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

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

Effective January 1, 2011, REACH acquired control of Community Housing, Inc., Community Housing II, Inc., and Community Housing III, Inc. through common board membership and an economic interest through a direct property management role. The amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed are as follows:

Cash	\$ 28,394
Restricted deposits	480,317
Working capital (deficit), net	(82,820)
Fixed assets, net	5,028,750
Long-term liabilities	<u>(307,238)</u>
Net assets received (inherent contribution received in acquisition)	<u>\$5,147,403</u>

The assets and liabilities received are included at net book value which approximates fair values as of the acquisition date. Such amount is included under the caption "inherent contribution received in acquisition" in the accompanying statement of activities and changes in net assets.

* Separate financial statements and related reports prepared in accordance with government auditing standards and the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement have been issued, as required by those standards. Those reports include consideration of the internal control over reporting and compliance with certain provisions of laws, regulations, contracts and grants.

Tax Credit Entities

Tax Credit Entities include seven limited partnerships and one limited liability company (hereafter referred to as "Limited Partnerships") in which REACH, or a single member LLC formed by REACH, is the general partner holding a controlling general partner interest (ranging from .01% to 1%). In accordance with generally accepted accounting principles, the Limited Partnerships have been included in the consolidated financial statements because REACH, as the general partner, is deemed to control the Limited Partnerships. In addition, REACH has a 100% ownership interest in one Tax Credit Entity

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2011 AND 2010

1. ORGANIZATION AND NATURE OF ACTIVITIES - Continued

Tax Credit Entities - Continued

The Tax Credit Entities in which REACH has a .01% to 1% ownership interest are as follows:

SP Tower Limited Partnership	◆	Station Place Tower
Albina Corner Limited Partnership	◆	Albina Corner Apartments
McCuller Associates Limited Partnership	◆	McCuller Crossing Apartments
Pine Street Associates Limited Partnership		Westshore Apartments
Patton Square Partners Limited Partnership	◆	Patton Park Apartments
REACH Walnut Partners Limited Partnership		Walnut Park Apartments
REACH B49 Partners Limited Partnership		Gray's Landing
Wheeldon Admiral LLC		Admiral Apartments

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

Tax Credit Entity in which REACH has a 100% ownership interest:

Elderhope Limited Partnership	Twelfth Avenue Terrace
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Effective April 1, 2011, the Limited Partner in Elderhope Limited Partnership transferred its limited partnership interest to a substitute limited partner formed by REACH in exchange for \$133,000. As a result of REACH's acquisition of the limited partners interest, approximately \$1,000,000 has been reclassified from noncontrolling interest to controlling interest in unrestricted net assets.

◆ Entities not audited in accordance with Government Auditing Standards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The accompanying financial statements include the accounts of REACH and its single member LLCs, Other Entities, and Tax Credit Entities that are controlled by REACH. The limited partnership interests generally range from .01% to 1.0% with the remainder of the partnership's equity generally held by a limited partner and shown as noncontrolling interests in the accompanying financial statements. All significant intercompany balances and transactions have been eliminated in consolidation.

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

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

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

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2011 AND 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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 recognizes development fees as earned over the period of development. Development fees earned cover REACH's development costs plus a profit margin. Development fees earned by REACH, which are included in development costs of consolidated low-income housing projects, have been eliminated in consolidation.

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

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

Functional Expenses – The costs of providing program services and supporting services have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among program services and supporting services based on an allocation of employees' time incurred and on usage of resources.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2011 AND 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

The descriptions of major programs are as follows:

- **Property Management and Asset Management** – REACH and Affiliates own and manage more than 1,400 units of affordable rental housing in Portland, Oregon. These units are in apartments, plexes and single-family houses, only available to households under certain income limits.
- **Housing Development** – REACH's Housing Development Program is committed to addressing a growing need for affordable housing in the Portland, Oregon metropolitan region. REACH has developed approximately 1,400 units of housing through renovation and new construction over its history.
- **Volunteer Services/Public Relations** - REACH's Volunteer Services/Public Relations Program offers volunteer positions in other REACH programs.
- **Resident (Tenant) Services** - REACH's Resident Services Program supports families and individuals living in REACH housing as they improve the social, economic, and environmental conditions affecting their lives. The program offers better access to community services, skill building workshops, a resident newsletter, and activities for REACH's youth and adult residents.
- **Community Builders** - REACH's Community Builders Program provides free home repairs for homeowners who need help due to age, disability and low income and help homeowners maintain their independence and stay safely in their homes and in their neighborhoods.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fixed Assets are recorded at cost. Depreciation is computed on the straight-line and accelerated methods over the estimated useful lives of the related assets, which are as follows: 15 to 40 years for buildings, 15 years for site improvements and 3 to 10 years for furnishings and equipment. Maintenance, repairs and minor replacements are charged to expense when incurred. Major replacements and betterments are capitalized. Interest capitalized as development costs was \$22,872 and \$140,768 for the years ended December 31, 2011 and 2010, 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.

REACH COMMUNITY DEVELOPMENT, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Investments – Investments consist of certificate of deposits with maturities ranging from 2012 to 2017. Investments in certificates of deposits with maturities less than one year are classified as short-term investments. Such investments are recorded at amortized costs which approximates fair value at December 31, 2011 and 2010.

Financing Fees - Financing fees are recorded at cost and amortized on the straight-line method over the life of the related loan. Accumulated amortization was \$419,559 and \$356,761 at December 31, 2011 and 2010, respectively. Amortization expense was \$62,798 and \$53,600 for the years ended December 31, 2011 and 2010, respectively.

Tax Credit Fees are recorded at cost and are amortized on the straight-line method over a 15 year period. Accumulated amortization was \$61,153 and \$50,605 at December 31, 2011 and 2010, respectively. Amortization was \$10,548 and \$9,278 for the years ended December 31, 2011 and 2010, respectively.

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

Grants and Pledges Receivable were \$315,002 and \$343,911 at December 31, 2011 and 2010, respectively. Grants and pledges receivable within a year were \$212,062 and \$273,712 at December 31, 2011 and 2010, respectively. The remaining balances are receivable within 2 to 5 years. The discount on long-term grants and contributions at December 31, 2011 and 2010 is considered insignificant to the financial statements.

Restricted Deposits – Restricted deposits at December 31, 2011 and 2010 include the following:

	<u>2011</u>	<u>2010</u>
Operating reserves	\$1,560,231	\$1,248,422
Replacement reserves	2,526,437	2,138,361
Residual receipts accounts	635,849	306,325
Mortgage escrow deposits	195,555	143,111
Equity reserves	240,000	500,000
Stabilization reserves	256,221	255,835
Construction reserves	1,000,368	-
Re-leasing reserves	120,726	112,969
Debt service reserves	34,358	72,641
OAHTC Fee reserves	13,048	7,456
Lease-up reserve	266,275	59,305
Bond fund	41,390	-
NeighborWorks® America	413,427	-
Other restricted deposits	<u>64,064</u>	<u>41,110</u>
Total	<u>\$7,367,949</u>	<u>\$4,885,535</u>

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Restricted Deposits – Continued

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

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

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

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

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

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

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

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

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.

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

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2011 AND 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Concluded

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

Management of REACH has analyzed the tax positions taken by REACH and has concluded that as of December 31, 2011 there are no uncertain positions taken or expected to be taken that would require disclosure in the financial statements. REACH is subject to routine audits by taxing jurisdictions; however there are currently no audits for any tax period in progress. REACH's management believes it is no longer subject to income tax examinations for years prior to December 31, 2008.

3. NET ASSETS

Board Designated – Unrestricted net assets includes \$706,552 that has been designated by the Board of Directors of REACH for potential acquisition of real property.

Temporarily Restricted Net Assets at December 31, 2011 and 2010 include the following:

	<u>2011</u>	<u>2010</u>
Capital advance mortgages	\$7,512,100	\$1,615,500
Land donated by Multnomah County	<u>41,112</u>	<u>41,112</u>
Temporarily restricted net assets	<u>\$7,553,212</u>	<u>\$1,656,612</u>

The capital advance mortgages have been recorded as temporarily restricted net assets because the likelihood of repayment is remote and the existence of continuing compliance requirements. The capital advance mortgages are generally due 40 years after initial occupancy, bear no interest and repayment is not required so long as the borrower is in compliance with the terms of the Capital Advance Mortgage and the Regulatory Agreement with HUD. The increase in capital advance mortgages in 2011 is due to the acquisitions discussed in Note 1 under the caption "Other Entities".

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.

Permanently Restricted Net Assets – REACH received a permanently restricted capital grant of \$506,134 from NeighborWorks® America during 2011. 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 \$506,134.

REACH COMMUNITY DEVELOPMENT, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

4. OPERATING LEASES

REACH and its Affiliated Entities have entered into various operating leases to lease commercial building space at properties held by REACH and the Limited Partnerships. The terms of the leases range from month to month through 25 years with the longest lease term expiring in 2031. In addition to basic rents, tenants are responsible for common area maintenance charges based on leased square footage. During the years ended December 31, 2011 and 2010, rents received from these leases were \$688,001 and \$686,559, respectively. Future minimum lease receipts under the leases are as follows:

Year ending December 31,	
2012	\$ 650,531
2013	473,675
2014	288,787
2015	87,964
2016	62,173
Thereafter	<u>387,975</u>
Total	<u>\$1,951,105</u>

5. PENSION PLAN CONTRIBUTIONS

All employees of REACH that meet certain requirements and complete one year of service are eligible to participate in REACH's pension plan under section 403(b) of the Internal Revenue Code. REACH contributed \$168,752 and \$146,855 to the plan for the years ended December 31, 2011 and 2010, respectively. The contribution percentage is six percent of eligible compensation.

6. MORTGAGES AND BONDS PAYABLE

Mortgages and bonds payable at December 31, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
<i>US National Bank</i>		
Mortgages payable in aggregate monthly installments of \$19,888 including interest ranging from 2.00% to 7.05%, maturing 2014-2027.	\$ 3,075,931	\$ 3,198,022
Mortgage payable, interest only at 3.18% payable monthly, maturing 2014.	3,588,814	-
<i>JPMorgan Chase</i> - Mortgages payable in aggregate monthly installments of \$24,775 including interest ranging from .75% to 7.5%, maturing 2013-2034.	2,857,401	3,004,292

REACH COMMUNITY DEVELOPMENT, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

6. MORTGAGES AND BONDS PAYABLE – Continued

	<u>2011</u>	<u>2010</u>
<i>Wells Fargo Bank</i>		
Mortgages payable in aggregate monthly installments of \$4,632 including interest ranging from 2.00% to 7.00%, maturing 2012-2014.	\$ 804,697	\$ 837,372
Mortgage payable due February 6, 2011. Interest accrues at 2.75% in excess of the one-month LIBOR Rate but not less than 4.75% per annum (4.75% at December 31, 2010) payable in arrears on the first day of each month. On January 27, 2011, the loan was paid down to \$1,949,653 and converted to a term loan payable to Network of Affordable Housing (“NOAH”).	-	2,146,384
<i>Portland Housing Bureau</i>		
Mortgages payable in aggregate monthly installments of \$24,470 including interest ranging from 0.00% to 8.02%, maturing 2012-2036.	3,559,366	3,743,860
Mortgages payable in annual amounts calculated based on income level in excess of allowable return on the related investment, maturing 2020-2071. Interest accrues at rates ranging from 0.00% to 3.0%.	47,735,118	37,295,351
<i>Oregon Housing and Community Services (“OHCS”)</i>		
Note payable, due May 15, 2025, payable in monthly installments of \$9,851, including interest at 2.22%.	1,370,483	1,457,219
Note payable, due January 15, 2028, payable in monthly installments of \$16,795, including interest at 6.10%.	2,071,308	2,144,072
Housing Development Revenue Bonds 2003, Series A, Portion 1 – due July 1, 2036, payable in 360 monthly installments of \$28,929, including interest at 5.81%.	4,537,739	4,618,675
Housing Development Revenue Bonds 2003, Series A, Portion 2 – due July 1, 2016, payable in 120 monthly installments of \$11,679, including interest at 5.12%.	571,436	679,306
Housing Development Revenue Bond (Patton Park Apartments Project), 2008 Series A-1B, due March 1, 2030, payable in 240 monthly installments of \$9,636, including interest at 1.49%.	2,626,845	2,702,725
Housing Development Revenue Bond (Patton Park Apartments Project), 2008 Series A-2B, due March 1, 2030, payable in 240 monthly installments of \$2,811, including interest at 5.49%.	479,966	487,128
Note payable, due December 31, 2071, including interest at 1% beginning January 1, 2014.	950,051	950,051

REACH COMMUNITY DEVELOPMENT, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

6. MORTGAGES AND BONDS PAYABLE – Continued

	<u>2011</u>	<u>2010</u>
<i>NOAH</i> - Mortgages payable in aggregate monthly installments of \$13,583 including interest ranging from 2.75% to 3.25%, maturing 2030.	\$ 2,857,587	\$ -
<i>Bank of America</i> - Mortgage payable due May 30, 2011. Interest at BBA LIBOR Daily Floating Rate for that day plus 3.2% per annum but not to be less than 4.25% per annum (4.5% at December 31, 2010) payable in arrears on the first day of each month. On February 9, 2011, the loan was paid down to \$957,084 and converted to a term loan payable to NOAH.	-	1,412,004
<i>Other mortgages</i> Payable in aggregate monthly installments of \$9,372 including interest ranging from 1.0% to 6.52% maturing 2013-2058.	<u>1,707,856</u>	<u>1,349,116</u>
Total	<u>\$78,794,598</u>	<u>\$68,025,577</u>

Of the total mortgages and bonds payable at December 31, 2011, \$77,794,598 is collateralized by investment in real estate and \$1,000,000 is unsecured. A summary of mortgages and bonds payable by group of entities at December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
REACH	\$16,537,201	\$17,031,075
Other Entities	1,400,620	894,664
Tax Credit Entities	67,038,908	50,954,676
Eliminations	<u>(6,182,131)</u>	<u>(854,838)</u>
	<u>\$78,794,598</u>	<u>\$68,025,577</u>

Annual maturities of mortgages and bonds payable for the years subsequent to December 31, 2011 are as follows:

Year ending December 31,	
2012	\$ 1,336,139
2013	1,592,297
2014	5,357,516
2015	1,108,128
2016	1,347,868
Thereafter	<u>68,052,650</u>
Total	<u>\$78,794,598</u>

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2011 AND 2010

6. MORTGAGES AND BONDS PAYABLE – Continued

Portland Housing Bureau

- At December 31, 2011 and 2010, mortgages payable to PHB aggregating \$47,735,118 and \$37,295,351, 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 \$227,000 and \$134,000 at December 31, 2011 and 2010, respectively.
- REACH has entered into four equity gap financing agreements with PHB, which were used to acquire various properties. These agreements are non-interest bearing and repayment is only required if the property is sold, used for purposes other than low income housing, or the property generates excess cash flow. The aggregate balance outstanding on the equity gap financing agreements was \$7,110,453 at December 31, 2011 and 2010.

7. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

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

8. COMMITMENTS AND CONTINGENCIES

Construction Commitment – In connection with the development of Gray's Landing, REACH B49 Partners Limited Partnership entered into a construction contract for \$32,539,159 of which \$12,029,258 had been incurred through December 31, 2011. Total development costs are estimated at approximately \$50,000,000 of which \$23,131,000 had been incurred through December 31, 2011.

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

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

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2011 AND 2010

8. COMMITMENTS AND CONTINGENCIES - Continued

Surplus Cash and Residual Receipts – The properties owned by the Other Entities and certain Tax Credit Entities are subject to Regulatory Agreements with HUD, which restrict the use of the property and limit the use of project cash. Under the terms of the Regulatory Agreements, the Other Entities are precluded from receiving any distributions of assets or operating cash and distributions from Tax Credit Entities are limited to surplus cash at the end of each semi-annual or annual period. A surplus cash calculation is required to be prepared annually and any surplus cash for the Other Entities is required to be deposited in a residual receipts account controlled by HUD.

Other – As the general partner in various Limited Partnerships, REACH may be subject to other liabilities, should an affected partnership's assets become insufficient to meet its obligations. This includes guarantees to fund future operating deficits of certain Tax Credit Entities over the periods as defined under the limited partnership agreements. The operating deficit guarantee periods typically require the Limited Partnerships to meet certain conditions based on the operational results. The maximum operating deficit guarantee amount as of December 31, 2011 was approximately \$527,000. REACH has not been required to fund any amounts associated with the operating deficit guarantees to date.

9. GUARANTEE FEE

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

10. NEIGHBORHOOD REINVESTMENT CORPORATION

The Neighborhood Reinvestment Corporation, d.b.a. NeighborWorks® America 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. REACH became a NeighborWorks® member organization during the year ended December 31, 2010 and received an unrestricted grant of \$50,000 in 2010. During the year ended December 31, 2011, REACH was awarded grants of \$678,634 of which \$506,134 were capital grants that are permanently restricted and \$172,500 were unrestricted expendable grants. 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.

REACH COMMUNITY DEVELOPMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2011 AND 2010

11. DEVELOPMENT FEE INCOME

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

12. OTHER GRANTS

Other grants for the years ended December 31, 2011 and 2010 include the following:

	<u>2011</u>	<u>2010</u>
Government grants:		
Housing development grants	\$ 607,842	\$ 422,624
Community builders program	485,130	395,425
Foundation grants	131,450	308,275
Land	<u>4,999,999</u>	<u>-</u>
	<u>\$6,224,421</u>	<u>\$1,126,324</u>

The land grant of \$4,999,999 represents the fair value in excess of the purchase price of \$1 for land acquired from the Portland Housing Bureau. The land was transferred to Gray's Landing in exchange for a note receivable of \$5,000,000 from Gray's Landing.

13. SUBSEQUENT EVENTS

Albina Corner Limited Partnership – Effective March 31, 2012, REACH acquired the Limited Partner's interest in Albina Corner Limited Partnership for \$1. At December 31, 2011, the Limited Partner's capital account was \$804,277. The net effect of this purchase will be to transfer \$804,276 from noncontrolling interest in net assets to controlling interest in net assets.

Floyd Light Apartments LLC – In March 2012 REACH acquired the Investor Member's interest in Floyd Light Apartments LLC in exchange for paying legal fees of approximately \$1,200. At December 31, 2011, the Investor Member's capital account was a deficit of \$614,662.

In July 2012, Floyd Light Apartments LLC is scheduled to close on a HUD insured mortgage. The mortgage loan proceeds will be used to repay the existing debt on the real property and pay planned rehabilitation costs of \$400,000 to \$500,000. Any remaining loan proceeds will be split between REACH and the current Co-Manager, Vernon L. Rifer Real Estate Development, Inc. ("Rifer"). Concurrent with the refinancing, Rifer will withdraw from the Company and REACH will be the sole member of Company.

REACH B49 Partners Limited Partnership – Construction of the 209-unit affordable housing complex with retail and office space to be known as Gray's Landing is approximately 70% complete at May 31, 2012. Construction is expected to be completed and the building placed in service prior to December 31, 2012.

REACH COMMUNITY DEVELOPMENT, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

13. SUBSEQUENT EVENTS - Continued

99th and Glisan – REACH has submitted an application for an allocation of Low-Income Housing and Tax Credits and loans through Oregon Housing and Community Services to obtain financing for a 60-unit senior affordable housing at this site location. The site is currently owned by the Portland Housing Bureau and will be leased to the housing development at the time of closing. The proposed development is currently in the planning stage.

REACH Orenco LLC – During 2011 REACH Orenco LLC acquired a site in Hillsboro, Oregon for a 55-unit affordable workforce housing project using the Passive construction methods which will reduce energy consumption for heating and cooling. In March 2012 REACH has submitted an application for an allocation of Low-Income Housing and Tax Credits and loans through Oregon Housing and Community Services. The proposed development is currently in the planning stage.

Elderhope Limited Partnership – On July 11, 2011 REACH approved the distribution to REACH of surplus cash and investments held by Elderhope Limited Partnership. On May 30, 2012 surplus cash and investments of \$1,791,681 held by Elderhope Limited Partnership at December 31, 2011 were distributed to REACH.

Other – Management of REACH has evaluated events and transactions occurring after December 31, 2011 through May 31, 2012, the date the financial statements were available for issuance, for potential recognition or disclosure in the financial statements and has concluded that, other than for the items discussed above, no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011**

	Other Entities	Tax Credit Entities	REACH Community Development, Inc.	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash	\$ 117,284	\$ 1,358,685	\$ 762,402	\$ -	\$ 2,238,371
Short-term investments	-	-	1,437,632	-	1,437,632
Receivables	110,318	18,511	110,557	-	239,386
Prepaid expenses	6,048	69,101	50,750	-	125,899
Total current assets	233,650	1,446,297	2,361,341	-	4,041,288
NONCURRENT ASSETS:					
Tenant security deposits held in trust	44,847	190,435	181,587	-	416,869
Other restricted deposits	1,590,917	3,695,524	2,081,508	-	7,367,949
Receivable from affiliates	-	-	7,583,816	(7,236,781)	347,035
Investments	-	29,436	948,342	-	977,778
Financing fees - net	49,002	893,318	65,736	(37,965)	970,091
Tax credit fees - net	-	103,141	-	-	103,141
Other assets	-	367,708	(631,586)	1,191,255	927,377
Fixed assets:					
Land and land improvements	599,764	10,440,680	2,355,231	-	13,395,675
Offsite improvements	-	263,483	-	-	263,483
Buildings and improvements	10,558,361	65,497,206	22,848,991	(1,647,478)	97,257,080
Furnishings and equipment	169,147	1,935,693	804,282	-	2,909,122
Work in progress	600,315	18,130,959	57,469	(651,509)	18,137,234
Total	11,927,587	96,268,021	26,065,973	(2,298,987)	131,962,594
Less accumulated depreciation	(3,254,666)	(16,780,081)	(16,071,885)	73,387	(36,033,245)
Fixed assets - net	8,672,921	79,487,940	9,994,088	(2,225,600)	95,929,349
Total noncurrent assets	10,357,687	84,767,502	20,223,491	(8,309,091)	107,039,589
TOTAL	\$ 10,591,337	\$ 86,213,799	\$ 22,584,832	\$ (8,309,091)	\$ 111,080,877

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011**

	Other Entities	Tax Credit Entities	REACH Community Development, Inc.	Eliminations	Consolidated
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable and other accrued liabilities	\$ 118,531	\$ 480,457	\$ 553,612	\$ (496,663)	\$ 655,937
Accounts payable - construction	308,655	2,648,879	54,438	(380,613)	2,631,359
Accrued interest	69,133	753,437	22,601	(177,373)	667,798
Prepaid rents	3,964	20,184	13,802	-	37,950
Current portion of mortgages and bonds payable	6,991	454,370	698,989	(20,030)	1,140,320
Total current liabilities	507,274	4,357,327	1,343,442	(1,074,679)	5,133,364
NONCURRENT LIABILITIES:					
Refundable security deposits	-	-	-	-	-
Mortgages and bonds payable	37,048	176,575	176,362	-	389,985
Deferred interest	1,393,629	66,584,538	15,838,212	(6,162,101)	77,654,278
	-	1,316,217	106,505	-	1,422,722
Total noncurrent liabilities	1,430,677	68,077,330	16,121,079	(6,162,101)	79,466,985
Total liabilities	1,937,951	72,434,657	17,464,521	(7,236,780)	84,600,349
NET ASSETS:					
Unrestricted:					
Controlling interests	1,100,174	(377,748)	4,614,177	(1,072,311)	4,264,292
Noncontrolling interests	-	14,156,890	-	-	14,156,890
Total unrestricted	1,100,174	13,779,142	4,614,177	(1,072,311)	18,421,182
Temporarily restricted	7,553,212	-	-	-	7,553,212
Permanently restricted	-	-	506,134	-	506,134
Net assets	8,653,386	13,779,142	5,120,311	(1,072,311)	26,480,528
TOTAL	\$ 10,591,337	\$ 86,213,799	\$ 22,584,832	\$ (8,309,091)	\$ 111,080,877

(Concluded)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2011**

	Other Entities	Tax Credit Entities	REACH Community Development, Inc.	Eliminations	Consolidated
SUPPORT AND REVENUES:					
Support:					
NeighborWorks America Grants	\$ -	-	\$ 678,634	-	\$ 678,634
Other grants	192,824	-	6,031,597	-	6,224,421
Inherent contributions received in acquisition	5,147,403	-	-	-	5,147,403
Other contributions	-	-	111,960	-	111,960
Donated goods and services	-	-	165,268	-	165,268
Special events	-	-	105,803	-	105,803
Total support	5,340,227	-	7,093,262	-	12,433,489
Revenues:					
Net rental revenue	960,052	4,820,847	3,888,136	(79,422)	9,589,613
Laundry and tenant charges	10,683	83,641	76,757	-	171,081
Equity in income (loss) of affiliates	-	-	(84,427)	84,422	(5)
Management fees	-	-	1,964,791	(1,866,490)	98,301
Development fee	-	-	998,493	(998,493)	-
Gain on sale of property rights	-	-	306,174	-	306,174
Interest income	3,252	36,236	247,495	(191,373)	95,610
Total revenues	973,987	4,940,724	7,397,419	(3,051,356)	10,260,774
Total support and revenues	6,314,214	4,940,724	14,490,681	(3,051,356)	22,694,263
EXPENSES:					
Program services:					
Property operations and management	1,198,519	6,179,065	5,239,255	(2,003,944)	10,612,895
Housing development	-	-	633,926	(502,249)	131,677
Volunteer services / public relations	-	-	148,221	-	148,221
Resident services	-	-	463,153	-	463,153
Community builders	-	-	542,775	-	542,775
Total program services	1,198,519	6,179,065	7,027,330	(2,506,193)	11,898,721
Support services:					
Management and general	-	-	1,041,268	-	1,041,268
Fundraising	-	-	162,310	-	162,310
Total support services	-	-	1,203,578	-	1,203,578
Total expenses	1,198,519	6,179,065	8,230,908	(2,506,193)	13,102,299
CHANGE IN NET ASSETS	\$ 5,115,695	\$ (1,238,341)	\$ 6,259,773	\$ (545,163)	\$ 9,591,964

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2011**

	Other Entities	Tax Credit Entities	REACH Community Development, Inc.	Eliminations	Consolidated
NET ASSETS, BEGINNING OF PERIOD	\$ 3,537,691	\$ 11,661,201	\$ (1,139,462)	\$ (2,291,129)	\$ 11,768,301
Change in net assets	5,115,695	(1,238,341)	6,259,773	(545,163)	9,591,964
Capital contributions	-	5,253,263	-	-	5,253,263
Amount paid to withdrawing noncontrolling interests	-	-	-	(133,000)	(133,000)
Distributions	-	(1,896,981)	-	1,896,981	-
NET ASSETS, END OF PERIOD	<u>\$ 8,653,386</u>	<u>\$ 13,779,142</u>	<u>\$ 5,120,311</u>	<u>\$ (1,072,311)</u>	<u>\$ 26,480,528</u>

(Concluded)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011**

	Other Entities	Tax Credit Entities	REACH Community Development, Inc.	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Change in net assets	\$ 5,115,695	\$ (1,238,341)	\$ 6,259,773	\$ (545,163)	\$ 9,591,964
Adjustments to reconcile change in net assets to net cash provided by operating activities:					
Depreciation and amortization	289,203	2,112,317	1,056,866	(37,180)	3,421,206
Grant income - noncash	-	-	(4,999,999)	-	(4,999,999)
Inherent contribution received in acquisition	(5,147,403)	-	-	-	(5,147,403)
Equity in loss of affiliate	-	-	84,427	(84,422)	5
(Increase) decrease in:					
Receivables	58,427	51,681	(19,513)	-	90,595
Prepaid expenses	4,896	(4,307)	3,845	-	4,434
Tenant security deposits held in trust	(2,773)	177	2,959	-	363
Increase (decrease) in:					
Accrued and deferred interest	7,868	311,879	3,821	(163,743)	159,825
Accounts payable and other accrued liabilities	17,653	95,308	140,037	(102,888)	150,110
Prepaid rents	463	(9,659)	1,607	-	(7,589)
Refundable security deposits	(609)	7,294	7,286	-	13,971
Net cash provided by (used in) operating activities	343,420	1,326,349	2,541,109	(933,396)	3,277,482
CASH FLOWS FROM INVESTING ACTIVITIES:					
Increase in other restricted deposits	(10,956)	(838,606)	(1,152,535)	-	(2,002,097)
Additions to fixed assets	(488,673)	(16,535,477)	(385,939)	1,099,189	(16,310,900)
Net change in investments	-	1,772,811	(1,795,456)	-	(22,645)
Advance to affiliate	-	-	(238,032)	241,710	3,678
Cash received in acquisition	28,394	-	-	-	28,394
Other assets	-	91,666	(107,362)	(80,209)	(95,905)
Net cash provided by (used in) investing activities	(471,235)	(15,509,606)	(3,679,324)	1,260,690	(18,399,475)

(Continued)

REACH COMMUNITY DEVELOPMENT, INC.

**CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011**

	Other Entities	Tax Credit Entities	REACH Community Development, Inc.	Eliminations	Consolidated
CASH FLOWS FROM FINANCING ACTIVITIES:					
Borrowings	\$ 211,906	\$ 17,284,443	\$ -	\$ (453,253)	\$ 17,043,096
Repayments	(13,188)	(6,200,210)	(493,874)	125,959	(6,581,313)
Financing fees paid	-	(25,773)	-	-	(25,773)
Capital contributions	-	5,253,263	-	-	5,253,263
Distributions	-	(1,896,981)	1,896,981	-	-
Amounts paid to withdrawing noncontrolling interests	-	-	(133,000)	-	(133,000)
Net cash provided by (used in) financing activities	198,718	14,414,742	1,270,107	(327,294)	15,556,273
NET CHANGE IN CASH	70,903	231,485	131,892	-	434,280
CASH AT BEGINNING OF YEAR	46,381	1,127,200	630,510	-	1,804,091
CASH AT END OF YEAR	\$ 117,284	\$ 1,358,685	\$ 762,402	\$ -	\$ 2,238,371
SUPPLEMENTAL CASH FLOW DISCLOSURE -					
Cash paid for interest	\$ 42,914	\$ 1,020,709	\$ 303,092	\$ (31,259)	\$ 1,335,456
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES -					
Additions to fixed assets through incurrence of:					
Accounts payable - construction	\$ 151,542	\$ 1,814,580	\$ 54,438	\$ 447,777	2,468,337
Note payable to REACH	-	5,000,000	-	-	5,000,000
	\$ 151,542	\$ 6,814,580	\$ 54,438	\$ 447,777	\$ 7,468,337

(Concluded)

REACH COMMUNITY DEVELOPMENT, INC.

**NOTE TO SUPPLEMENTAL CONSOLIDATING FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011**

DISTRIBUTION OF SURPLUS CASH

On July 11, 2011, REACH approved the distribution to REACH of surplus cash and investments held by Elderhope Limited Partnership. On May 30, 2012, surplus cash and investments of \$1,791,681 held by Elderhope Limited Partnership at December 31, 2011 were distributed to REACH. The distribution on May 30, 2012 has been reflected in the supplemental consolidating financial statements as of December 31, 2011. Since such transactions are eliminated in consolidation, there is no effect on the consolidated financial statements.

REACH COMMUNITY DEVELOPMENT, INC.

SUPPLEMENTAL CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2011

	Program Services					Support Services			Total
	Property Operations and Management	Housing Development	Volunteer Services / Public Relations	Resident Services	Community Builders	Management & General	Fund-raising		
Salaries	\$ 2,045,935	\$ 277,743	\$ 80,333	\$ 206,606	\$ 236,459	\$ 427,407	\$ 99,817	\$ 3,374,301	
Payroll taxes	203,681	29,124	8,643	41,681	25,668	45,665	10,991	365,454	
Health insurance / employee benefits	413,381	61,740	17,672	83,553	50,205	90,795	22,256	739,602	
Advertising	3,679	-	3,400	-	3,778	9,141	-	19,998	
Management fees	3,317	-	-	-	-	-	-	3,317	
Telecommunications	73,524	2,061	685	10,808	3,983	15,514	-	106,575	
Legal expense	26,415	2,211	-	-	105	2,277	-	31,008	
Audit	93,205	-	-	-	-	41,500	-	134,705	
Social service fee	26,028	-	-	-	-	-	-	26,028	
Other professional services	20,014	234,715	8,464	-	-	4,093	250	267,536	
Contract services	36,266	-	225	11,136	117,613	61,156	1,443	227,839	
Other administrative	359,927	4,975	22,070	50,465	15,378	136,152	23,264	612,231	
Rent expense - commercial	-	-	-	-	-	-	-	-	
Resident services	4,619	-	1,118	58,904	86,605	13,109	4,254	168,609	
Utilities	1,024,878	-	-	-	-	14,707	-	1,039,585	
Operating and maintenance	1,234,777	-	-	-	-	18,783	-	1,253,560	
Property tax	(17,518)	-	-	-	-	43	-	(17,475)	
Other taxes, licenses and permits	47,822	300	-	-	425	588	35	49,170	
Insurance	271,111	-	5,610	-	2,557	22,278	-	301,556	
Interest	1,421,005	21,056	-	-	-	8,235	-	1,450,296	
Line of credit and other fees	2,986	-	-	-	-	4,124	-	7,111	
Limited partner fees	22,334	-	-	-	-	-	-	22,334	
Depreciation and amortization	3,295,506	-	-	-	-	125,700	-	3,421,206	
Capitalized housing development costs	-	(502,247)	-	-	-	-	-	(502,247)	
	<u>\$ 10,612,893</u>	<u>\$ 131,679</u>	<u>\$ 148,221</u>	<u>\$ 463,153</u>	<u>\$ 542,776</u>	<u>\$ 1,041,268</u>	<u>\$ 162,310</u>	<u>\$ 13,102,299</u>	

REACH COMMUNITY DEVELOPMENT, INC.

**SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES (REACH COMMUNITY DEVELOPMENT, INC. ONLY)
YEAR ENDED DECEMBER 31, 2011**

	Program Services					Support Services			Total
	Property Operations and Management	Housing Development	Volunteer Services / Public Relations	Resident Services	Community Builders	Management & General	Fund-raising		
Salaries	\$ 2,028,670	\$ 277,743	\$ 80,333	\$ 206,606	\$ 236,459	\$ 427,407	\$ 99,817	\$ 3,357,036	
Payroll taxes	203,681	29,124	8,643	41,681	25,668	45,665	10,991	365,454	
Health insurance / employee benefits	413,381	61,740	17,672	83,553	50,205	90,795	22,256	739,602	
Advertising	1,708	-	3,400	-	3,778	9,141	-	18,027	
Telecommunications	41,133	2,061	685	10,808	3,983	15,514	-	74,184	
Legal expense	13,176	2,211	-	-	105	2,277	-	17,769	
Audit	740	-	-	-	-	41,500	-	42,240	
Other professional services	10,228	234,715	8,464	-	-	4,093	250	257,750	
Contract services	31,820	-	225	11,136	117,613	61,156	1,443	223,393	
Other administrative	108,237	4,975	22,070	50,465	15,378	136,152	23,264	360,541	
Rent expense - commercial	64,166	-	-	-	-	-	-	64,166	
Resident services	3,393	-	1,118	58,904	86,605	13,109	4,254	167,383	
Utilities	374,745	-	-	-	-	14,707	-	389,452	
Operating and maintenance	622,422	-	-	-	-	18,783	-	641,205	
Property tax	(20,009)	-	-	-	-	43	-	(19,966)	
Other taxes, licenses and permits	14,698	300	-	-	425	588	35	16,046	
Insurance	121,689	-	5,610	-	2,557	22,278	-	152,134	
Interest	277,623	21,056	-	-	-	8,235	-	306,913	
Line of credit and other fees	-	-	-	-	-	4,124	-	4,124	
Depreciation and amortization	927,755	-	-	-	-	125,700	-	1,053,455	
TOTAL FUNCTIONAL EXPENSES	\$ 5,239,255	\$ 633,926	\$ 148,221	\$ 463,153	\$ 542,776	\$ 1,041,268	\$ 162,310	\$ 8,230,908	

REACH COMMUNITY DEVELOPMENT, INC.

**SCHEDULE OF FINANCIAL POSITION - NeighborWorks® America Capital Grant Fund
YEAR ENDED DECEMBER 31, 2011**

ASSETS

Restricted deposits	\$ 365,913
Fixed assets - Construction in progress	<u>140,221</u>
Total assets	<u>\$ 506,134</u>

LIABILITIES AND NET ASSETS

Net assets	<u>\$ 506,134</u>
Total liabilities and net assets	<u>\$ 506,134</u>

REACH COMMUNITY DEVELOPMENT, INC.

**STATEMENT OF ACTIVITIES - NeighborWorks® America Capital Grant Fund
YEAR ENDED DECEMBER 31, 2011**

REVENUE, GAINS, AND OTHER SUPPORT

Capital grant - NeighborWorks® America	<u>\$ 506,134</u>
CHANGE IN NET ASSETS	506,134
NET ASSETS AT BEGINNING OF YEAR	<u>-</u>
NET ASSETS AT END OF YEAR	<u>\$ 506,134</u>

NeighborWorks® America Capital Grant Fund represents funds provided by NeighborWorks® America for capital projects. All resources granted to this fund must be maintained permanently. REACH is permitted to transfer or expend only the income (or other economic benefits) derived from capital assets in excess of the Capital Grant Fund corpus of \$506,134.

REACH COMMUNITY DEVELOPMENT, INC.**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2011**

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:		
Section 8 Housing Assistance Payments Program- Special Allocation	14.195	\$ 130,760
Passed-through from City of Portland, Oregon-		
Community Development Block Grants/Entitlement Grants (Community Builders Program)	14.218	278,524
Passed-through Portland Housing Bureau:		
HOME Investment Partnerships Program	14.239	254,000
HUD – Economic Development Initiative	14.239	370,500
Passed-through NeighborWorks® Reinvestment Corporation-		
Section 607(e) of the Neighborhood Reinvestment Corporation Act, as amended	21.000	<u>275,221</u>
Total		<u>\$1,309,005</u>

BASIS OF PRESENTATION

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of REACH Community Development, Inc. as of and for the year ended December 31, 2011, and have issued our report thereon dated May 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

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

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

Bjorklund & Montplaisir

May 31, 2012

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

COMPLIANCE

We have audited REACH Community Development, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2011. REACH Community Development, Inc.'s major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of REACH Community Development, Inc.'s management. Our responsibility is to express an opinion on REACH Community Development, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about REACH Community Development, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of REACH Community Development, Inc.'s compliance with those requirements.

In our opinion, REACH Community Development, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

INTERNAL CONTROL OVER COMPLIANCE

The management of REACH Community Development, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered REACH Community Development, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of REACH Community Development, Inc.'s internal control over compliance.

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

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

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

Bjorklund & Montplaisir

May 31, 2012

REACH COMMUNITY DEVELOPMENT, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011**

SECTION 1 - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued

Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

Yes No

Identification of Major Programs

CFDA Number(s)

Name of Federal Program or Cluster

14.251

HUD - Economic Development Initiative

21.000

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

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

\$300,000

Auditee qualified as low-risk auditee?

Yes No

SECTION 2 - FINDINGS - FINANCIAL STATEMENT AUDIT

None

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

None