

**AVENUE PLAZA AFFORDABLE HOUSING, INC,
FINANCIAL STATEMENTS with INDEPENDENT
AUDITOR'S REPORT**

For the years ended December 31, 2012 and 2011

AVENUE PLAZA AFFORDABLE HOUSING, INC,

INDEX

For the years ended December 31, 2012 and 2011

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Independent Auditor's Report

To the Board of Directors
Avenue Plaza Affordable Housing, Inc
Portland, Oregon

Report on the Financial Statements

I have audited the accompanying financial statements of Avenue Plaza Affordable Housing, Inc., which comprise the statements of financial position as of December 31, 2012 and 2011, and the related 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes 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 assessment, 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, I 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Avenue Plaza Affordable Housing, Inc. as of December 31, 2012, and 2011, 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.

Report on Supplementary Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information shown on page 11 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Fred Carter

November 22, 2013

AVENUE PLAZA AFFORDABLE HOUSING, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash - operating	\$ 189,876	\$ 113,678
Tenant receivables	435	565
Prepaid assets	2,349	2,496
Cash - restricted	41,100	33,867
Property and equipment		
Land	28,236	28,236
Buildings and improvements	475,907	475,907
Furnishings and equipment	<u>28,271</u>	<u>28,271</u>
	532,414	532,414
Less accumulated depreciation	<u>(286,538)</u>	<u>(269,006)</u>
Total property and equipment, net	<u>245,876</u>	<u>263,408</u>
Financing fees	<u>8,437</u>	<u>8,812</u>
	<u><u>\$ 488,073</u></u>	<u><u>\$ 422,826</u></u>
LIABILITIES AND NET ASSETS		
Mortgage payable	\$ 202,328	\$ 205,366
Note payable	20,045	20,045
Accounts payable	3,476	4,123
Accrued liabilities	10,164	2,957
Tenant security deposits	3,935	3,557
Prepaid rents	<u>15</u>	<u>15</u>
Total liabilities	<u>239,963</u>	<u>236,063</u>
NET ASSETS		
Unrestricted:		
Undesignated	210,945	156,453
Designated	<u>37,165</u>	<u>30,310</u>
Total net assets	<u>248,110</u>	<u>186,763</u>
	<u><u>\$ 488,073</u></u>	<u><u>\$ 422,826</u></u>

See the notes to financial statements.

AVENUE PLAZA AFFORDABLE HOUSING, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
REVENUE		
Rental Revenue:		
Gross potential rent	\$ 191,076	\$ 187,237
Less vacancy loss	<u>(1,054)</u>	<u>(8,107)</u>
Net rental income	<u>190,022</u>	<u>179,130</u>
Other revenue:		
Interest income	51	152
Laundry and vending income	506	583
Other	<u>1,052</u>	<u>595</u>
Total other revenue	<u>1,609</u>	<u>1,330</u>
Total revenue	<u>191,631</u>	<u>180,460</u>
OPERATING EXPENSES:		
Administrative	42,540	43,145
Utilities	15,966	13,969
Repairs and maintenance	25,053	39,944
Taxes and insurance	<u>8,444</u>	<u>9,958</u>
Total operating expenses	<u>92,003</u>	<u>107,016</u>
OPERATING INCOME	<u>99,628</u>	<u>73,444</u>
OTHER EXPENSES:		
Interest expense	20,374	20,665
Depreciation	17,532	16,974
Amortization	<u>375</u>	<u>375</u>
Total other expenses	<u>38,281</u>	<u>38,014</u>
INCREASE IN NET ASSETS	61,347	35,430
NET ASSETS, BEGINNING OF YEAR	<u>186,763</u>	<u>151,333</u>
NET ASSETS, END OF YEAR	<u><u>\$ 248,110</u></u>	<u><u>\$ 186,763</u></u>

See the notes to financial statements.

AVENUE PLAZA AFFORDABLE HOUSING, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Rental receipts	\$ 190,152	\$ 179,239
Interest income	51	152
Other income	<u>1,558</u>	<u>1,178</u>
Total receipts	<u>191,761</u>	<u>180,569</u>
Administrative	9,147	16,590
Management fee	14,083	12,107
Utilities	16,973	14,137
Salaries and wages	22,145	29,167
Operating and maintenance	15,070	25,034
Property Insurance	2,627	4,484
Miscellaneous taxes and insurance	5,232	7,046
Interest on mortgage note	<u>20,393</u>	<u>20,681</u>
Total disbursements	<u>(105,670)</u>	<u>(129,246)</u>
Net cash provided by operating activities	<u>86,091</u>	<u>51,323</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	-	(7,146)
Reserve for insurance and taxes	(2,238)	658
Reserve for replacements	(4,740)	(4,868)
Residual receipt reserve	<u>123</u>	<u>-</u>
Net cash used by investing activities	<u>(6,855)</u>	<u>(11,356)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Mortgage principal payments	<u>(3,038)</u>	<u>(2,763)</u>
Net cash used by financing activities	<u>(3,038)</u>	<u>(2,763)</u>
NET INCREASE IN CASH	76,198	37,204
CASH AT BEGINNING OF YEAR	<u>113,678</u>	<u>76,474</u>
CASH AT END OF YEAR	<u>\$ 189,876</u>	<u>\$ 113,678</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	\$ 61,347	\$ 35,430
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	17,532	16,974
Amortization	375	375
Change in:		
Accounts receivable	130	830
Prepaid taxes and insurance	147	(1,580)
Accounts payable	(647)	(1,261)
Accrued expenses	7,207	1,273
Prepaid rent	<u>-</u>	<u>(718)</u>
Net cash provided by operating activities	<u>\$ 86,091</u>	<u>\$ 51,323</u>

See the notes to financial statements.

**AVENUE PLAZA AFFORDABLE HOUSING, INC,
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Avenue Plaza Affordable Housing, Inc. (Avenue) is a not for profit organization formed exclusively to develop, own, and operate a 22-unit multifamily apartment building (the Project) located in Portland, Oregon. The project is operated under Section 221(d)(4) of the National Housing Act and regulated by the U.S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The Project also is subject to a Section 8 Housing Assistance Payments agreement with HUD.

Avenue is owned by Sabin Community Development Corporation, Inc. (Sabin) a not for profit organization in Portland, Oregon. Avenue's bylaws indicate that the directors of Sabin shall act as/or elect the directors of Avenue.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded as incurred.

Basis of Presentation

Avenue is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent net assets not subject to donor-imposed restrictions.
- Temporarily restricted net assets represent net assets subject to donor-imposed restrictions that may or will be met by the actions of Avenue and/or the passage of time.
- Permanently restricted net assets represent net assets subject to donor-imposed restrictions that neither expire with the passage of time nor can be fulfilled or otherwise removed by the actions of Avenue.

Cash and Cash Equivalents

Avenue considers all unrestricted highly-liquid investments with maturities at acquisition of three months or less to be cash equivalents.

Property, Equipment and Depreciation

Real estate is recorded at cost. Depreciation is computed on the straight-line method, based on the estimated useful lives of the individual assets: 33 years for buildings, 10-20 years for improvements and 5-7 years for furnishings and equipment. Depreciation was \$17,532 and \$16,974 for the years ended December 31, 2012 and 2011, respectively.

**AVENUE PLAZA AFFORDABLE HOUSING, INC,
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property, Equipment and Depreciation- continued

Improvements, additions and major replacements in excess of \$1,000 are generally capitalized, while expenditures for maintenance, repairs and routine replacements are charged to expense as incurred.

Management reviews its property and equipment for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. Management believes no adjustments for impairment is required in the financial statement at December 31, 2012.

Financing Fees

Financing fees of \$15,000 are recorded at cost and amortized over the 40 year term of the permanent loan. Accumulated amortization was \$6,563 and \$6,188 as of December 31, 2012 and 2011, respectively.

Rental Income

Rental income is recognized as rents become due. Rental payments received in advance are deferred until earned. All leases between the Project and the tenants are operating leases.

Tenant Receivables

Tenant receivables are reported at the amount management expects to collect from outstanding balances. The difference between the amount due and the amount management expects to collect is reported in the allowance for doubtful accounts. At December 31, 2012, management expects all receivables to be collected and accordingly, has not established an allowance for doubtful accounts.

Estimates

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.

Reclassifications

Certain reclassifications were made to the prior-year financial statements in order to be comparable to the current financial statement presentation.

Income Taxes

Avenue is exempt from income taxes under Section 501(c) 3 of the Internal Revenue Code. Thus no provision for income taxes is included in the accompanying statements.

Avenue adopted the provisions of FASB ASC 740-10-25, which requires management to evaluate tax positions taken and recognize a tax liability (or asset) if Avenue has taken an uncertain position that more-likely-than-not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken and has concluded that as of December 31, 2012,

**AVENUE PLAZA AFFORDABLE HOUSING, INC,
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Income Taxes - continued

there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements, is subject to routine audits by taxing jurisdictions; however there are currently no audits for any tax period in progress. In the event penalties and interest are assessed by income taxing authorities, it is management’s policy to include these in operating expenses.

Avenue Plaza files form 990 in the U.S. federal jurisdiction and the office of the state’s attorney general for the State of Oregon. Avenue Plaza is generally no longer subject to examination by Internal Revenue Service for the years before 2009.

NOTE 2 – RESTRICTED CASH

In accordance with the provision of the Regulatory Agreement, security deposits and cash reserves are held at federally insured financial institutions. Restricted cash and funded reserves at December 31, 2012 and 2011 are as follows:

<u>Account</u>	<u>2012</u>	<u>2011</u>
Tenant Security Deposits	\$ 3,935	\$ 3,557
Tax and Insurance Escrow	5,547	3,309
Replacement Reserve	31,618	26,878
Residual Receipts	<u>-</u>	<u>123</u>
	<u>\$ 41,100</u>	<u>\$ 33,867</u>

Tenant Security Deposits – Upon moving into the project, tenants are required to deposit funds for potential damages to the property. The amounts held on deposits represent a liability until the deposit is used to pay for damages or returned to the tenant upon moving out.

Tax and insurance escrow - A tax and insurance escrow account is held by the mortgage company to be used for annual property tax and liability insurance premiums.

Replacement Reserve - The project is required to set aside amounts monthly for the replacement of property and other expenditures approved by HUD. Interest earned is required to be retained in the reserve. These funds are not generally available for day-to-day operations and may only be used with prior HUD approval.

Residual Receipts - Under the regulatory agreement with HUD, the project was required to deposit surplus cash as defined by HUD, to the residual receipts account annually. These funds were not generally available for day-to-day operations and could only be used with prior HUD approval. During 2012, it was determined that this reserve was no longer required, and amounts held in the reserve are no longer restricted and can be used for general operations. Accordingly, these amounts are now included

**AVENUE PLAZA AFFORDABLE HOUSING, INC,
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011**

in operating cash on the statement of financial position.

NOTE 3 – MORTGAGE PAYABLE

	<u>2012</u>	<u>2011</u>
Mortgage payable to WMF/ Hunton, Paige Associates Limited. Payable in monthly installments of \$1,868, maturing in June 2033. The interest is at 9.5% per year. The note is secured by property and equipment.	<u>\$202,328</u>	<u>\$205,366</u>

Maturities of the mortgage notes in each of the next five years are as follows:

2013	\$ 3,339
2014	3,671
2015	4,035
2016	4,446
2017	4,920
Thereafter	<u>181,917</u>
	<u>\$ 202,328</u>

Interest expense for the years ended December 31, 2012 and 2011 was \$20,374 and \$20,665, respectively.

NOTE 4 – NOTE PAYABLE-PORTLAND DEVELOPMENT COMMISSION

Avenue has a \$20,045 note payable to Portland Development Commission. Interest is at 0%, and the note is payable only in the event the Project is refinanced or ownership is transferred.

NOTE 5 – MANAGEMENT FEE

Avenue Plaza has engaged the services of Cascade Management Company to manage the daily operations of the Project. Under this agreement Avenue pays a monthly fee of approximately 7.29% of cash collected as defined in the management fee agreement. During the years ended December 31, 2012 and 2011, \$14,159 and \$13,343 was incurred as management fees respectively.

NOTE 6 – SECTION 8 HAP CONTRACT AND REGULATORY AGREEMENT

Avenue has a section 8 Housing assistance payments contract for 14 units. The contract comes up for renewal annually in September. This contract represents a material portion of the Avenue's revenue and

**AVENUE PLAZA AFFORDABLE HOUSING, INC,
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011**

there is no guarantee of future renewals.

NOTE 7 – CONCENTRATIONS

Avenue's most significant asset is a 22-unit apartment project. The Project's operations are concentrated in the multifamily real estate market. In addition, the Project operates in a heavily regulated environment whereby, it is subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including but not limited to HUD.

Such regulations are subject to change by an act of congress or an administrative change mandated by HUD. Such changes may occur with little notice and/or inadequate funding to pay for complying with such a change.

NOTE 8 – RELATED PARTY TRANSACTIONS

The following amounts were paid to Sabin during the years ended December 31, 2012 and 2011:

<u>Purpose</u>	<u>2012</u>	<u>2011</u>
Asset management fee	<u>\$ 2,578</u>	<u>\$ 2,577</u>

NOTE 9 – DESIGNATED NET ASSETS

Board designated net assets consist of the following at December 31, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Tax and Insurance Escrow	\$ 5,547	\$ 3,309
Replacement Reserve	31,618	26,878
Residual Receipts	-	123
	<u>\$ 37,165</u>	<u>\$ 30,310</u>

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. Avenue recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. Avenue's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued. Management has evaluated subsequent events through November 22, 2013, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

AVENUE PLAZA AFFORDABLE HOUSING, INC.
SCHEDULES OF OPERATING EXPENSES
For the year ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>EXPENSES</u>		
Administrative:		
Occupancy clerk	2,640	2,640
Asset management fee	2,578	2,577
Office expenses	904	1,187
Management fee	14,159	13,343
Manager's salaries	12,671	13,809
Legal expenses	-	1,505
Auditing expenses	5,500	5,000
Telephone	821	765
Accounting	2,806	1,793
Miscellaneous	461	526
	<u>42,540</u>	<u>43,145</u>
Utilities:		
Electricity	3,905	3,636
Water	3,224	3,073
Sewer	8,837	7,260
	<u>15,966</u>	<u>13,969</u>
Repair and Maintenance		
Payroll	10,222	15,744
Supplies and materials	3,127	6,338
Contracts	7,007	12,615
Garbage	3,814	3,973
Miscellaneous	883	1,274
	<u>25,053</u>	<u>39,944</u>
Taxes and Insurance		
Payroll taxes	2,565	3,052
Property and liability insurance	2,774	2,904
Worker's compensation	779	1,257
Health insurance and other employee benefits	2,201	2,620
Miscellaneous	125	125
	<u>8,444</u>	<u>9,958</u>
Total Operating Expenses	<u><u>\$ 92,003</u></u>	<u><u>\$ 107,016</u></u>