

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

For the years ended December 31, 2012 and 2011

EMERSON PLAZA AFFORDABLE HOUSING, INC,

INDEX

For the years ended December 31, 2012 and 2011

	PAGE
Independent Auditor's Report	1
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6-11
Supplemental Information	
Schedules of Operating Expenses	12

FRED L. CARTER
Certified Public Accountant
2300 SW First Avenue, Suite 100
Portland, Oregon 97201
(503) 241-2977
Fax (503) 224-9049
Email Address: fcarter@aracnet.com

Independent Auditor's Report

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

Report on the Financial Statements

I have audited the accompanying financial statements of Emerson 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 Emerson 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.


November 22, 2013

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

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash - operating	\$ 178,171	\$ 96,217
Tenant receivables	7	706
Prepaid assets	2,890	302
Cash - restricted	66,284	144,600
Property and Equipment		
Land	17,724	17,724
Buildings and improvements	394,715	356,535
	<u>412,439</u>	<u>374,259</u>
Less accumulated depreciation	<u>(218,554)</u>	<u>(210,405)</u>
Total property and equipment, net	<u>193,885</u>	<u>163,854</u>
Organization cost, net	11,392	11,857
Financing fees, net	<u>8,619</u>	<u>8,980</u>
	<u>\$ 461,248</u>	<u>\$ 426,516</u>
LIABILITIES AND NET ASSETS		
Mortgage payable	\$ 102,090	\$ 103,623
Note payable	18,600	18,600
Accounts payable	3,173	2,413
Accrued liabilities	15,868	8,040
Tenant security deposits	2,072	2,206
Money held in trust	10,688	10,668
Prepaid rents	<u>95</u>	<u>272</u>
Total liabilities	<u>152,586</u>	<u>145,822</u>
NET ASSETS		
Unrestricted:		
Undesignated	244,450	138,316
Designated	<u>64,212</u>	<u>142,378</u>
Total net assets	<u>308,662</u>	<u>280,694</u>
	<u>\$ 461,248</u>	<u>\$ 426,516</u>

See the notes to financial statements.

EMERSON 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	\$ 132,000	\$ 129,496
Less vacancy loss	<u>(4,744)</u>	<u>(7,402)</u>
Net rental income	<u>127,256</u>	<u>122,094</u>
Other revenue:		
Interest income	205	364
Laundry and vending income	851	868
Other	<u>229</u>	<u>455</u>
Total other revenue	<u>1,285</u>	<u>1,687</u>
Total revenue	<u>128,541</u>	<u>123,781</u>
OPERATING EXPENSES:		
Administrative	33,346	32,453
Utilities	10,120	9,147
Repairs and maintenance	31,797	31,381
Taxes and insurance	<u>6,055</u>	<u>4,925</u>
Total operating expenses	<u>81,318</u>	<u>77,906</u>
OPERATING INCOME	<u>47,223</u>	<u>45,875</u>
OTHER EXPENSES:		
Interest expense	10,280	10,468
Depreciation	8,149	13,614
Amortization	<u>826</u>	<u>826</u>
Total other expenses	<u>19,255</u>	<u>24,908</u>
INCREASE IN NET ASSETS	27,968	20,967
NET ASSETS, BEGINNING OF YEAR	<u>280,694</u>	<u>259,727</u>
NET ASSETS, END OF YEAR	<u><u>\$ 308,662</u></u>	<u><u>\$ 280,694</u></u>

See the notes to financial statements.

EMERSON 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	\$ 127,780	\$ 123,802
Interest income	205	364
Other income	<u>1,100</u>	<u>1,323</u>
Total receipts	<u>129,085</u>	<u>125,489</u>
Administrative	7,478	11,170
Management fee	9,519	10,751
Utilities	10,120	9,267
Salaries and wages	20,419	19,601
Operating and maintenance	20,029	22,200
Property Insurance	4,294	2,104
Miscellaneous taxes and insurance	2,666	2,471
Interest on mortgage note	11,075	9,716
Entity disbursements	<u>-</u>	<u>-</u>
Total disbursements	<u>(85,600)</u>	<u>(87,280)</u>
Net cash provided by operating activities	<u>43,485</u>	<u>38,209</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(38,180)	(11,505)
Reserve for insurance and taxes	15	(884)
Reserve for replacements	(77)	(2,425)
Residual receipt reserve	<u>78,244</u>	<u>(92)</u>
Net cash used by investing activities	<u>40,002</u>	<u>(14,906)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Mortgage principal payments	<u>(1,533)</u>	<u>(4,283)</u>
Net cash used by financing activities	<u>(1,533)</u>	<u>(4,283)</u>
NET INCREASE IN CASH	81,954	19,020
CASH AT BEGINNING OF YEAR	<u>96,217</u>	<u>77,197</u>
CASH AT END OF YEAR	<u>\$ 178,171</u>	<u>\$ 96,217</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	\$ 27,968	\$ 20,967
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	8,149	13,614
Amortization	826	826
Change in:		
Accounts receivable	699	1,476
Prepaid taxes and insurance	(2,588)	244
Accounts payable	780	(6,340)
Accrued expenses	7,828	7,189
Prepaid rent	<u>(177)</u>	<u>233</u>
Net cash provided by operating activities	<u>\$ 43,485</u>	<u>\$ 38,209</u>

See the notes to financial statements.

**EMERSON 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

Emerson Plaza Affordable Housing, Inc. (Emerson) is a not for profit organization formed exclusively to acquire, own, and operate a 16-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.

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

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

Emerson 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 Emerson 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 Emerson.

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 years for improvements and

**EMERSON 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

7 years for furnishings and equipment. Depreciation was \$8,149 and \$13,614 for the years ended December 31, 2012 and 2011, respectively.

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.

Organizational Costs

Organization costs of \$18,600 are recorded at cost and amortized over 40 years. Accumulated amortization was \$7,208 and \$6,743 as of December 31, 2012 and 2011, respectively.

Financing Fees

Financing fees of \$14,437 are recorded at cost and amortized over the 40 year term of the permanent loan. Accumulated amortization was \$5,818 and \$5,457, 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.

**EMERSON 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

Reclassifications

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

Income Taxes

Emerson 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.

Emerson 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 Emerson 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, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. Emerson 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.

Emerson files form 990 in the U.S. federal jurisdiction and the office of the state's attorney general for the State of Oregon. Emerson 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 reserves at December, 2012 and 2011 are as follows:

<u>Account</u>	<u>2012</u>	<u>2011</u>
Tenant Security Deposits	\$ 2,072	\$ 2,222
Tax and Insurance Escrow	4,353	4,352
Replacement Reserve	59,859	59,782
Residual Receipts	-	78,244
	<u>\$ 66,284</u>	<u>\$ 144,600</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 move-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.

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

NOTE 2 – RESTRICTED CASH - continued

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 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 \$943, maturing in June 2033. The interest is at 9.5% per year. The note is secured as by investment in real estate.	<u>\$102,090</u>	<u>\$103,623</u>

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

2012	\$ 1,690
2013	1,858
2014	2,042
2015	2,245
2016	2,728
Thereafter	<u>91,527</u>
	<u>\$ 102,090</u>

Interest expense for the years ended December 31, 2012 and 2011 was \$10,280 and \$10,468, respectively.

NOTE 4 – NOTE PAYABLE – PORTLAND DEVELOPMENT COMMISSION

Emerson has an \$18,600 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.

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

NOTE 5 – MANAGEMENT FEE

Emerson has engaged the services of Cascade Management Company to manage the daily operations of the Project. Under this agreement Emerson pays a monthly fee of approximately 8% of cash collected as defined in the management fee agreement. During the years ended December 31, 2012 and 2011, \$10,279 and \$9,988 was incurred as management fees respectively.

NOTE 6 – SECTION 8 HAP CONTRACT AND REGULATORY AGREEMENT

Emerson 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 corporation's revenue and there is no guarantee of future renewals.

NOTE 7 - CONCENTRATIONS

Emerson's most significant asset is a 16-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>\$ 1,875</u>	<u>\$ 1,875</u>

NOTE 9 – DESIGNATED 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	\$ 4,353	\$ 4,352
Replacement Reserve	59,859	59,782
Residual Receipts	<u>-</u>	<u>78,244</u>
	<u>\$ 64,212</u>	<u>\$ 142,378</u>

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

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. Emerson 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. Emerson'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

EMERSON 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	1,920	1,920
Asset management fee	1,875	1,875
Office Expenses	505	727
Management Fee	10,279	9,988
Manager's Salaries	8,651	10,193
Auditing Expenses	6,000	5,000
Telephone	695	558
Accounting	2,337	1,248
Bad debts	745	-
Miscellaneous	339	945
	<u>33,346</u>	<u>32,454</u>
Utilities:		
Electricity	1,596	1,732
Water	8,524	7,415
	<u>10,120</u>	<u>9,147</u>
Repair and Maintenance		
Payroll	11,768	9,408
Supplies and materials	5,636	2,644
Contracts	11,910	16,288
Garbage	2,479	2,466
Miscellaneous	4	574
	<u>31,797</u>	<u>31,380</u>
Taxes and Insurance		
Payroll taxes	2,044	1,832
Property and liability insurance	3,389	2,348
Worker's compensation	622	745
	<u>6,055</u>	<u>4,925</u>
Total Operating Expenses	<u><u>\$ 81,318</u></u>	<u><u>\$ 77,906</u></u>