

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

**For the years ended December 31, 2012 and 2011**

**ESTATES PLAZA AFFORDABLE HOUSING, INC,**

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**For the years ended December 31, 2012 and 2011**

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**Independent Auditor's Report**

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

**Report on the Financial Statements**

I have audited the accompanying financial statements of Estates 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 Estates 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 10 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

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

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash - operating	\$ 103,194	\$ 20,582
Tenant receivables	534	238
Prepaid assets	1,457	-
Cash - restricted	63,322	116,104
Property and equipment		
Land	10,000	10,000
Buildings and improvements	225,232	225,232
Furnishings and equipments	19,921	19,921
	<u>255,153</u>	<u>255,153</u>
Less accumulated depreciation	<u>(155,903)</u>	<u>(146,918)</u>
 Total property and equipment	 <u>99,250</u>	 <u>108,235</u>
	 <u>\$ 267,757</u>	 <u>\$ 245,159</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 1,935	\$ 2,188
Accrued liabilities	11,953	6,085
Tenant security deposits	1,515	1,487
	<u>15,403</u>	<u>9,760</u>
 Total liabilities	 <u>15,403</u>	 <u>9,760</u>
 <b>NET ASSETS</b>		
Unrestricted:		
Undesignated	190,547	120,782
Designated	61,807	114,617
	<u>252,354</u>	<u>235,399</u>
 Total net assets	 <u>252,354</u>	 <u>235,399</u>
	 <u>\$ 267,757</u>	 <u>\$ 245,159</u>

See the notes to financial statements.

**ESTATES PLAZA APARTMENTS  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>REVENUE:</b>		
Rental income	\$ 79,446	\$ 79,392
Other income	1,581	759
Interest income	<u>168</u>	<u>207</u>
Total revenue	<u>81,195</u>	<u>80,358</u>
<b>OPERATING EXPENSES:</b>		
Administrative	22,042	21,010
Utilities	7,065	5,320
Repairs and maintenance	22,674	19,666
Taxes and insurance	<u>3,474</u>	<u>3,263</u>
Total operating expenses	<u>55,255</u>	<u>49,259</u>
<b>OPERATING INCOME</b>	<u>25,940</u>	<u>31,099</u>
<b>OTHER EXPENSES:</b>		
Depreciation	<u>8,985</u>	<u>8,985</u>
Total other expenses	<u>8,985</u>	<u>8,985</u>
<b>INCREASE IN NET ASSETS</b>	16,955	22,114
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>235,399</u>	<u>213,285</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 252,354</u></u>	<u><u>\$ 235,399</u></u>

See the notes to financial statements.

**ESTATES PLAZA APARTMENTS  
STATEMENTS OF CASH FLOW  
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Rental receipts	\$ 79,150	\$ 79,218
Interest income	168	207
Other income	<u>1,581</u>	<u>759</u>
Total receipts	<u>80,899</u>	<u>80,184</u>
Administrative	5,459	8,546
Management fee	5,990	6,128
Utilities	6,891	5,423
Salaries and wages	13,789	12,041
Operating and maintenance	14,311	14,025
Property Insurance	2,824	937
Miscellaneous taxes and insurance	<u>1,834</u>	<u>1,525</u>
Total disbursements	<u>(51,098)</u>	<u>(48,625)</u>
Net cash provided by operating activities	<u>29,801</u>	<u>31,559</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	-	(11,990)
Reserve for insurance and taxes	(2,527)	(2,527)
Reserve for replacements	(3,462)	(3,476)
Residual receipt reserve	<u>58,800</u>	<u>(117)</u>
Net cash used by investing activities	<u>52,811</u>	<u>(18,110)</u>
<b>NET INCREASE IN CASH</b>	82,612	13,449
<b>CASH AT BEGINNING OF YEAR</b>	<u>20,582</u>	<u>7,133</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 103,194</u>	<u>\$ 20,582</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 16,955	\$ 22,114
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	8,985	8,985
Change in:		
Accounts receivable	(297)	(159)
Prepaid taxes and insurance	(1,457)	179
Accounts payable	(253)	279
Accrued expenses	5,868	176
Prepaid rent	<u>-</u>	<u>(15)</u>
Net cash provided by operating activities	<u>\$ 29,801</u>	<u>\$ 31,559</u>

See the notes to financial statements.

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

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations

Estates Plaza Affordable Housing, Inc. (Estates) is a not for profit organization formed exclusively to acquire, own and operate a 9-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 agreements with HUD.

Estates is owned by Sabin Community Development Corporation, Inc. (Sabin) a not for profit organization in Portland, Oregon. Estate'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

Estates 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 Estates 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 Estates.

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: 27.5 years for buildings, 15 years for improvements and 7 years for furnishings and equipment. Depreciation was \$8,985 and \$8,985 for the years ended December 31, 2012 and 2011, respectively.



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

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**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.

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 differences 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

Estates 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.

Estates 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 Estates 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. Estates is subject to routine audits by taxing jurisdictions;

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

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however there are currently no audits for any tax period in progress. In the event penalties and interest  
**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Income Taxes - continued

are assessed by income taxing authorities, it is management's policy to include these in operating expenses. Estates files form 990 in the U.S. federal jurisdiction and the office of the state's attorney general for the State of Oregon. Estates is generally no longer subject to examination by the 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 31, 2012 and 2011 are as follows:

<u>Account</u>	<u>2012</u>	<u>2011</u>
Tenant Security Deposits	\$ 1,515	\$ 1,487
Tax and Insurance Escrow	8,197	5,671
Replacement Reserve	53,610	50,146
Residual Receipts	<u>-</u>	<u>58,800</u>
	<u>\$ 63,322</u>	<u>\$ 116,104</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 in operating cash on the statement of financial position.

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

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**NOTE 3 – MANAGEMENT FEE**

Estates has engaged the services of Cascade Management Company to manage the daily operations of the Project. Under this agreement Estates pays a monthly fee of approximately 7.5% of cash collected as defined in the management fee agreement. During the years ended December 31, 2012 and 2011, \$6,127 and \$6,132 was incurred as management fees, respectively.

**NOTE 4 – CONCENTRATIONS**

Estate's most significant asset is the 9-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 5 – 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>\$ 1,054</u>	<u>\$ 1,055</u>

**NOTE 6 – 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	\$ 8,197	\$ 5,671
Replacement Reserve	53,610	50,146
Residual Receipts	-	58,800
	<u>\$ 61,807</u>	<u>\$ 114,617</u>

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

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**NOTE 7 – 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. Estates 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. Estate'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 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**

**ESTATES PLAZA APARTMENTS**  
**SCHEDULES OF OPERATING EXPENSES**  
**For the year ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b><u>EXPENSES</u></b>		
Administrative:		
Occupancy Clerk	1,080	1,001
Asset management fee	1,054	1,055
Office Expenses	313	358
Management Fee	6,127	6,132
Manager's Salaries	5,051	6,013
Auditing Expenses	5,000	5,000
Telephone	382	358
Accounting	1,791	702
Bad debts	925	-
Miscellaneous	319	391
	<u>22,042</u>	<u>21,010</u>
Utilities:		
Electricity	1,208	992
Water	5,857	4,328
	<u>7,065</u>	<u>5,320</u>
Repair and Maintenance		
Payroll	8,738	6,028
Supplies and materials	2,575	3,686
Contracts	9,554	8,320
Garbage	1,804	1,570
Miscellaneous	3	62
	<u>22,674</u>	<u>19,666</u>
Taxes and Insurance		
Payroll taxes	1,347	1,131
Property and liability insurance	1,703	1,674
Worker's compensation	424	458
	<u>3,474</u>	<u>3,263</u>
Total Operating Expenses	<u><u>\$ 55,255</u></u>	<u><u>\$ 49,259</u></u>