ROSE COMMUNITY DEVELOPMENT CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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WINKEL | CPA

ACCOUNTING AND ADVISORY SERVICES

Independent Auditor's Report

To the Board of Directors
ROSE Community Development Corporation
Portland, Oregon

I have audited the accompanying consolidated statements of financial position of ROSE Community Development Corporation. (a non-profit corporation) as of June 30, 2012, and the related consolidated statements of activities functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit. The prior year summarized comparative information has been derived from the Organization's June 30, 2011 consolidated financial statements and, in my report dated October 10, 2011, I expressed an unqualified opinion on those consolidated financial statements.

I conducted my audit 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, I express no such opinion. 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ROSE Community Development Corporation as of June 30, 2012, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Richard Winkel, CPA

November 13, 2012

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ROSE Community Development Corporation

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2012

(WITH COMPARATIVE TOTALS FOR 2011)

	2012	2011
ASSETS		
Current Assets		
Cash in Banks	$ 513,378	$ 401,107
Cash Held by Property Managers	122,995	95,323
Grants & Contracts Receivable *(note 4)*	227,953	321,847
Other Receivables	11,123	6,903
Homes Held for Sale	-	658,976
Rental Deposits Held	78,646	58,364
Replacement Reserves & Escrow Accounts *(note 5)*	877,603	785,671
Prepaid Expenses & Deposits	2,648	2,767
Total Current Assets	1,834,346	2,330,958
Other Assets		
Notes & Loans Receivable *(note 18)*	848,686	832,364
Investments in Partnerships *(note 6)*	1,593,565	1,594,486
Office Building, Furniture & Equipment-Net *(note 7)*	217,816	206,473
Total Other Assets	2,660,067	2,633,323
Assets Used in Operations *(note 8)*		
Predevelopment Assets	42,903	32,024
Rental Properties-Net	13,104,849	9,908,535
Total Assets Used in Operations	13,147,752	9,940,559
Total Assets	$ 17,642,165	$ 14,904,840
LIABILITIES & NET ASSETS		
Current Liabilities		
Current Portion - Long Term Liabilities *(note 9)*	$ 183,762	$ 805,951
Accounts Payable	428,507	221,941
Prepaid Rent	71	8
Accrued Interest Payable	20,253	18,462
Payroll Liabilities and Vacation Accruals	22,049	18,133
Rental Deposits Held	74,841	57,869
Total Current Liabilities	729,483	1,122,364
Long Term Liabilities- Less Current Portion *(note 9)*	14,030,312	11,361,167
Total Liabilities	14,759,795	12,483,531
Net Assets		
Unrestricted	2,756,488	2,031,330
Temporarily Restricted- Net Assets *(note 14)*	125,882	389,979
Total Net Assets	2,882,370	2,421,309
Commitments & Contingencies *(notes 10, 11 & 12)*		
Total Liabilities & Net Assets	$ 17,642,165	$ 14,904,840

See accompanying notes to the consolidated financial statements and the independent auditor's report

ROSE Community Development Corporation

CONSOLIDATED STATEMENT OF ACTIVITIES

For The Fiscal Year Ended June 30, 2012

(WITH COMPARATIVE TOTALS FOR 2011)

Support & Revenues	Unrestricted	Temporarily Restricted	2012 Total	2011 Total
Support				
Grants	$ 547,872	$ 125,000	$ 672,872	$ 689,008
Contributions	49,604	882	50,486	207,564
Total Support	597,476	125,882	723,358	896,572
Revenues				
Rental Income	1,223,044	-	1,223,044	1,089,855
Interest Income	21,567	-	21,567	22,182
Contract Revenues	105,349	-	105,349	107,549
Sales of homes	1,079,700	-	1,079,700	-
Other Income	45,317	-	45,317	38,579
Total Revenues	2,474,977	-	2,474,977	1,258,165
Assets Released from Restrictions				
Satisfaction of Program Restrictions *(note*	389,979	(389,979)	-	-
Total Support & Revenues	3,462,432	(264,097)	3,198,335	2,154,737
Expenses *(note 17)*				
Program Services				
Child Care Networks	12,294	-	12,294	65,196
Community Development	41,172	-	41,172	30,449
Rental Development	84,524	-	84,524	103,486
For Sale Development	1,014,825	-	1,014,825	25,778
Rental Operations	1,325,569	-	1,325,569	1,129,024
Resident Services	141,566	-	141,566	106,292
Total Program Services	2,619,950	-	2,619,950	1,460,225
Support Services				
Management and General	72,118	-	72,118	69,997
Fundraising	45,206	-	45,206	35,152
Total Support Services	117,324	-	117,324	105,149
Total Expenses	2,737,274	-	2,737,274	1,565,374
Change in Net Assets	725,158	(264,097)	461,061	589,363
Beginning Net Assets	2,031,330	389,979	2,421,309	1,831,946
Net Assets at End of Year	$ 2,756,488	$ 125,882	$ 2,882,370	$ 2,421,309

See accompanying notes to the consolidated financial statements and the independent auditor's report

ROSE Community Development Corporation

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For The Fiscal Year Ended June 30, 2012

(WITH COMPARATIVE TOTALS FOR 2011)

	PROGRAM SERVICES						SUPPORT SERVICES		Total	Total
Expenses	Child Care Networks	Community Developmen t	Rental Development	For Sale Development	Rental Operations	Resident Services	Management and General	Fundraising	2012	2011
Salaries & Related	10,056	31,274	70,149	28,170	132,541	103,964	59,235	32,351	467,740	445,721
Professional Services	115	2,140	1,437	710	9,060	10,048	1,924	296	25,730	18,811
Occupancy & Telephone	450	1,369	3,611	1,396	4,997	5,556	3,036	1,581	21,996	23,519
Postage & Printing	53	350	647	205	836	1,059	1,142	3,098	7,390	8,667
Insurance	88	274	714	275	1,054	1,314	587	301	4,607	4,310
Supplies	225	2,842	1,559	637	4,482	7,548	1,900	2,061	21,254	15,962
Professional Dues & Newsletter	-	146	413	239	369	446	282	123	2,018	3,037
Training	771	93	1,003	41	277	3,074	137	407	5,803	13,800
Depreciation Expense	177	1,587	3,445	1,020	291,850	4,676	2,473	1,238	306,466	244,272
Property Management	-	-	-	-	216,979	-	-	-	216,979	174,222
Maintenance and Repair	-	-	-	-	208,543	-	-	-	208,543	163,825
Property Insurance	-	-	-	-	23,907	-	-	-	23,907	23,660
Utilities	-	-	-	-	173,289	-	-	-	173,289	165,012
Interest	-	-	-	-	233,964	-	-	-	233,964	230,085
Bad Debt					14,365				14,365	6,003
Asset Impairment	-	-	-	-	-	-	-	-	-	-
For Sale Asset Costs				981,909					981,909	-
Other Expenses	359	1,097	1,546	223	9,056	3,881	1,402	3,750	21,314	24,468
Total Expenses	12,294	41,172	84,524	1,014,825	1,325,569	141,566	72,118	45,206	2,737,274	1,565,374

See accompanying notes to the consolidated financial statements and the independent auditor's report

ROSE Community Development Corporation

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2012

(WITH COMPARATIVE TOTALS FOR 2011)

Cash Flows from Operating Activities	2012	2011
Cash Received from Tenants	$ 1,219,734	$ 1,090,919
Cash Received from Contractors and Contributors	885,062	492,822
Cash Received for Interest	3,494	4,182
Cash Received from Others	39,872	33,028
Cash Paid to Employees and Suppliers	(1,120,409)	(885,055)
Cash Paid for Interest	(232,173)	(239,119)
Net Cash Flows from Operating Activities *(Note 23)*	795,580	496,777
Cash Flows from Investing Activities		
Purchase of Office Building, Furniture and Equipment	(14,306)	(783)
Capital Expenditures	(2,417,667)	(456,375)
Proceeds from (payments to) Replacement Reserves	(91,932)	(6,539)
Repayment (Issuance) of Note Receivable	25,002	26,700
Proceeds from sale of homes	42,415	-
Net Cash Flows from Investing Activities	(2,456,488)	(436,997)
Cash Flows from Financing Activities		
Payments of Debt Principal	(152,098)	(153,840)
Proceeds from Long-Term Debt	1,925,277	135,716
Net Cash Flows from Financing Activities	1,773,179	(18,124)
Net Increase (Decrease) in Cash in Banks	**112,271**	**41,656**
Cash at Beginning of Year	401,107	359,451
Cash at End of Year	$ 513,378	$ 401,107

Supplemental schedule of non-cash operating, investing and financing activities:

Proceeds from sales of homes used for principal payments on loans	$ 722,116	$ -
Purchase of property financed with loan	1,330,893	650,000
Loan forgiveness	335,000	-
Rehabilitation of rental property financed with loan	-	896,545

See accompanying notes to the consolidated financial statements and the independent auditor's report

1. Organization

ROSE Community Development Corporation (ROSE) is a private, nonprofit organization founded in 1991 to improve the housing, physical environment, and social and economic conditions of neighborhoods located within outer southeast Portland, Oregon, and to develop other programs that benefit low- and moderate-income residents of the region.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by ROSE are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation – The accompanying financial statements include the accounts of ROSE Housing, Inc.

ROSE Housing Inc. is a nonprofit organization which acquired the Marla Manor Apartments and related net assets on June 12, 1996. ROSE CDC controls ROSE Housing, Inc. All significant inter-company investments, accounts and transactions have been eliminated in the consolidated financial statements.

Basis of Presentation – The financial statements of the Organization have been prepared on the accrual basis of accounting and in accordance with Accounting Standards Codification (ASC) of the Financial Accounting Standards Board 958. ASC 958 is the standard for external financial reporting for not-for-profit organizations. Under these provisions, net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of ROSE and changes therein are classified and reported as follows:

- *Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.

- *Temporarily restricted net assets* – Assets subject to donor-imposed stipulations that will be met either by actions of ROSE and/or the passage of time. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Contributions – Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions of Long-Lived Assets – Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings and equipment, or to rehabilitate existing properties, with specific donor-imposed stipulations concerning the use of such long-lived assets are reported as revenues of the temporarily restricted net asset class and are considered to be released when the funds are expended for the purposes given.
Cash Equivalents – For purposes of the financial statements, ROSE considers all liquid investments having initial maturities of three months or less to be cash equivalents.

Accounts Receivable – Management believes the amount of any uncollectible accounts included in accounts receivable to be immaterial. Therefore, no provision for uncollectible accounts has been made.

Fixed Assets and Depreciation – Property and equipment over $3,000 is capitalized and carried at cost, or at estimated market value when acquired by gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which are generally 25 to 40 years for buildings and 3 to 5 years for equipment and furnishings. All expenditures for repair and maintenance that do not appreciably extend the useful life or increase the value of the assets are expensed when incurred.

Interest Expense – During the year ended June 30, 2012, total interest incurred was $241,425, of which $233,964 was expensed under rental operations, and $7,461 was expensed under occupancy.

Investment in Partnerships – ROSE accounts for its investments in partnerships using the equity method. Accordingly, the accompanying financial statements include ROSE's share of the partnership's net income or loss.

Fundraising Expenses – ROSE follows the guidance in ASC 958-720, *Accounting for Costs of Activities That Include Fundraising*. As a result, if a fundraising activity contains joint costs that might be allocated to programs or other activities, specific criteria regarding the audience and purpose of activity will be considered before costs will be allocated. If the criteria are not met, all costs are reported as fundraising expenses. During the year ended June 30, 2012 no joint costs were allocated to programs or other activities. Total fundraising expenses for the year totaled $ 45,206.

Revenue Recognition – All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions. Service revenues are recognized at the time services are provided and the revenues are earned.

Income Taxes – ROSE is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law. ROSE is also exempt from county property taxes under ORS 307.130. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Summarized Financial Information for 2011 – The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Other Significant Accounting Policies – Other significant accounting policies are set forth in the financial statements and in the following notes.

3. Program Services

During the year ended June 30, 2012, ROSE incurred program service expenses in the following major categories:

- *Rental Housing Development* – ROSE designs, finances and manages construction of affordable apartment communities for low-income families, seniors and people with disabilities.

- *Rental Operations* – The organization works with property managers and residents to ensure that ROSE rental properties are maintained properly and perform financially.

- *For-Sale Development* – ROSE develops homes for sale to moderate-income first-time homebuyers. Support is provided to help prospects successfully complete the home buying process.

- *Early Childhood Education* – This program helps children to succeed in school by training parents in child development and supporting in-home child care providers.

- *Community Development* – ROSE promotes economic opportunities and community building activities designed to improve outer southeast Portland neighborhoods.

- *Resident Services* – This program aims to help residents of ROSE rental housing to improve their financial and social assets. Projects included leadership development, resource and referral, asset building and children's activities

4. Grants and Contracts Receivable

Grants and contracts receivable at June 30, 2012 are summarized as follows:

Meyer Memorial Trust	125,000
Oregon Housing & Community Services	102,953
	$227,953

5. Replacement Reserves and Escrow Accounts

ROSE maintains several separate accounts that are either required by various lenders or have been established by ROSE to meet future capital expense needs for rental properties that are in operation. At June 30, 2012 these accounts totaled $877,603. Most of these funds require approval from a third party before the funds can be utilized.

6. Investments in Partnerships

ROSE serves as the general partner for three IRS Code Section 42 Tax Credit Projects through three single-member LLC's created for that purpose. ROSE uses the equity method of accounting for the investments in the partnerships because, after reviewing the partnership agreements ROSE concluded that they do not exert sufficient control of the partnerships to consolidate the financial statements as per guidance from the Emerging Issues Task Force Issue No. 04-5.

The investments in these partnerships are recorded in ROSE's books at the following amounts at June 30, 2012:

Lents Village, LP through Holgate-ROSE, LLC	(1% interest)	$	324,620
Lents 2000, LP through ROSE-Lents, LLC	(0.01% interest)		1,134,720
Leander Court, LP through ROSE 122nd, LLC	(0.01% interest)		134,225
Total		$	1,593,565

Lents Village Limited Partnership operates Lents Village Apartments, a 63-unit apartment project for seniors. Construction of the housing project was completed in 1997. During the Limited Partnership's year ended December 31, 2011, ROSE recorded a $ 892 loss from the partnership.

Lents 2000 Limited Partnership is a tax credit partnership that was created to develop and rent 36 units of affordable housing located on four different sites that the partnership owns. Construction of the housing project was completed in December 2003. During the Limited Partnership's year ended December 31, 2011, ROSE recorded a $8 loss from the partnership.

Leander Court Limited Partnership is a tax credit partnership created to develop and rent a 37-unit affordable housing apartment building. Construction was completed and operations began fall of 2007. During the Limited Partnership's year ended December 31, 2011, ROSE recorded a $ 21 loss from the partnership.

The following is summarized financial information for Lents Village Limited Partnership, Lents 2000 Limited Partnership and Leander Court Limited Partnership at December 31, 2011. The information was obtained from their latest audited financial statements.

Balance Sheet	12/31/2011 **Lents Village, LP**	12/31/2011 **Lents 2000, LP**	12/31/2011 **Leander Court, LP**
Assets			
Cash	$ 61,310	$ 84,043	$ 39,261
Restricted Deposits & Funded Reserves	240,824	168,295	139,396
Fixed Assets - Net of Accumulated Depreciation	2,312,492	4,303,045	6,734,247
Other Assets	59,233	35,075	40,955
Total Assets	2,673,859	4,590,458	6,953,859
Liabilities & Partners' Equity			
Accounts Payable	9,029	3,880	5,413
Other liabilities	58,120	31,224	118,725
Mortgages & Notes Payable	1,733,703	1,202,559	2,987,072
Total Liabilities	1,800,852	1,237,663	3,111,210
Capital:			
General Partner	324,620	1,134,720	134,225
Limited Partner	548,387	2,218,075	3,708,424
Total Capital	873,007	3,352,795	3,842,649
Total Liabilities & Partners' Equity	2,673,859	4,590,458	6,953,859
Statement of Operations			
Revenues	416,830	285,713	340,557
Expenses	348,686	229,422	313,345
Net Profit (Loss) before Depreciation & Amortization	68,144	56,291	27,212
Depreciation & Amortization	157,350	131,632	239,063
Net Loss	$ (89,206)	$ (75,341)	$ (211,851)

7. Office Building, Furniture and Equipment

A summary of land, office building, furniture and equipment at June 30, 2012 is as follows:

Land	$	72,000
Office building		167,778
Office equipment and furnishings		50,791
	$	290,569
Less accumulated depreciation		(72,753)
	$	217,816

Total depreciation expense during the year was $19,399.

8. Assets Used in Operations

A summary of rental properties used in operations and properties being developed at June 30, 2012, is as follows:

Land	$	2,278,242
Buildings and improvements		13,724,611
	$	16,002,853
Less accumulated depreciation		(2,855,101)
	$	13,147,752

Total depreciation expense for assets used in operations during the year was $287,067.

9. Long-Term Liabilities

The acquisition and rehabilitation of ROSE's rental and development properties include costs financed through loans received from the Portland Housing Bureau and through other borrowings from private individuals and organizations. The following obligations were outstanding at June 30, 2012:

Portland Housing Bureau: $ 749,744
A series of notes at interest rates ranging from 3.00% to 7.00%, with payments of principal and interest due at various dates through 2036, secured by rental properties.

Portland Housing Bureau-Equity Gap Financing: $ 9,814,857
ROSE has also entered into a series of equity gap financing agreements with the Portland Housing Bureau (PHB). These agreements provided interest-free funds to acquire

and rehabilitate various properties. Repayment would only be required if the property were sold or used for another purpose, or if the individual property demonstrated program revenue in excess of 1.15 debt service coverage ratio in any single year of its operation. Then, one half of the excess would be applied to reduce the outstanding equity gap balance.

US Bank: $ 103,353
March 3, 2011 a 5-year extension on loan for office was issued at 6.5% and secured by the ROSE office building. The note requires monthly payments of $814.52 for principal and interest, and there will be a balloon payment estimated at $ 96,400 on March 1, 2015.

KeyBank Corporation: $ 287,758
The Beyer Court Apartments were refinanced in August 2000. The 20-year mortgage has a fixed interest rate of 4.72%, monthly principal and interest payments of $1,987, and a balloon payment upon maturity. The loan is secured by the apartments.

Network for Oregon Affordable Housing: $ 308,357
A 30-year note at 7.24% is secured by eleven single-family homes. This note provided the majority of the permanent financing for the acquisition and construction work necessary to place these units into service. Monthly payments of $2,849 in principal and interest are due through February 2027.

Chase Bank: $ 934,412
A 30-year note at 4.91% is secured by the Country Squire Apartment building. Monthly payments of $6,522 in principal and interest are due through June 30, 2030.

One PacificCoast Bank: $ 1,977,933
A 20-year note at 6.50% secured by the Johnson Creek Commons Apartment building. Monthly payments of $1,820 in principal and interest are due through October 1, 2018, with a final balloon payment of approximately $ 63,000 on November 1, 2018.

A 15-year note at 7.30% secured by Jim and Salle's Apartment complex. Monthly payments of $2,420 in principal and interest are due through November 1, 2023, with a final balloon payment of approximately $264,988 on December 1, 2023.

A 15-year note at 7% secured by Bellrose Station Apartment complex. Monthly payments of $7,329 in principal and interest are due through March 1, 2025, with a final balloon payment of approximately $635,692 on April 1, 2025.

A 10-year note at 6% secured by Firland Apartments. Monthly payments of $ 3,250 in principal and interest are due through November 1, 2021, with a final balloon payment of approximately $ 380,566 on December 1, 2021.

Albina Community Bank: $ 37,660

A 10-year note is secured by a second lien on property at 334 SE 80th Avenue. Monthly payments of $324.70 in principal and interest (8.50%) are due the first five years, followed by monthly payments of $336.75 (9.00% interest) through June 25, 2018 and one balloon payment of approximately $33,278 on July 25, 2018.

Total Long Term Debt	$ 14,214,074

Aggregate maturities of note principal for the five years subsequent to June 30, 2012 and thereafter are as follows:

Years ending June 30,

2013	$ 183,762
2014	191,590
2015	258,287
2016	191,548
2017	199,545
Thereafter	13,189,342
	$ 14,214,074

10. Government Liens and Promissory Notes

At June 30, 2012, ROSE held certain properties donated by Multnomah County, each having been acquired by the County through tax foreclosure.

In the past, a lien has been filed with the property which represents the total canceled property taxes and other costs incurred by the County in obtaining the properties and making them available to ROSE. Following rehabilitation by ROSE, each property is to be occupied for a period of five to thirty years by low-income individuals or families as defined in Section 3(b) of the United States Housing Act of 1937. At the end of the agreed-upon period, 5 to 30 years depending on the property, the County will cancel the obligation. Liens on these properties total $76,648 at June 30, 2012.

In October 2006 ROSE entered into a $250,000 promissory note with Bank of America at zero percent interest. The funds represent money that was loaned to Leander Court, LP and becomes due and payable on December 31, 2025. However, should ROSE comply with the terms and conditions of the award of funds contained in the Affordable Housing Program Regulatory Agreement, the full amount hereof shall be forgiven.

ROSE has complied with all asset restrictions for the liens and the promissory note, and has the intention and ability to continue to comply with those restrictions. Accordingly, no liability for these liens or promissory notes has been recorded at June 30, 2012.

11. Other Contingencies and Commitments

ROSE has received various grants and loans for use in housing projects that contain regulatory agreements, or various conditions and obligations to develop and operate housing that is affordable to households earning less than the Median Family Income for the area. These commitments are for varying time periods and extend up to 60 years.

ROSE has complied with all asset restrictions and commitments mentioned above, and has the intention and ability to continue to comply with those restrictions. Accordingly, no liabilities have been recorded at June 30, 2012.

Amounts received or receivable under ROSE's governmental contracts are subject to audit and adjustment by the contractor and by various agencies of the state and federal governments. Any expenditures or claims disallowed as a result of such audits would become a liability on ROSE's overall financial statements.

12. Financial Instruments with Concentrations of Credit Risk

ROSE has cash deposits at several financial institutions. The balances at all financial institutions are insured by the Federal Deposit Insurance Corporation.

The property manager for Rose Housing, Inc. has funds in four accounts at the same institution. The total of these four accounts do not exceed the FDIC insured limit.

Financial instruments that potentially subject ROSE to concentrations of credit risk consist primarily of accounts receivable. ROSE's receivables are mostly with our partnerships, grantors, and governmental institutions, and are considered to be low in risk.

13. In-Kind Contributions

In-kind contributions of property and other materials are recorded where there is an objective basis upon which to value these contributions and where the contributions are an essential part of the organization's activities. During the year ended June 30, 2012, $16,436 of computer software donations were recorded.

14. Restrictions and Limitations on Net Asset Balances

At June 30, 2012, there were $125,882 of temporarily restricted net assets.

15. Net Assets Released From Restrictions

During the year ended June 30, 2012, $ 389,979 was released from restriction as there are no additional restrictions from the donor.

16. Line of Credit

ROSE maintains an unsecured bank line of credit for $ 50,000 at a variable rate of interest. At June 30, 2012, the full balance remained available.

17. Expenses

The costs of providing the various programs and other activities of ROSE have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses by natural classification are presented in the consolidated statement of functional expenses.

18. Notes and Loans Receivable

As part of the Leander Court, LP financing structure, ROSE was given funds from Bank of America and the Portland Housing Bureau with the provision that the funds would be loaned to the partnership as long term financing.

ROSE issued a promissory note to the Leander Court Limited Partnership in the amount of $ 250,000 with the Bank of America funds. The note is at zero percent interest and payments are deferred until November 1, 2046 when the entire unpaid principal balance is due and payable to ROSE.

ROSE also issued a promissory note to the partnership in the amount of $ 600,000 which was the amount of the PHB grant. The note accrues interest at 3 percent per annum from the date of each advance. At June 30, 2012, the total accrued interest for the note is $ 116,947. Accrued interest and principal are payable to ROSE annually based upon the cash flow priorities stated in the partnership agreement, but the entire unpaid balance of principal is expected to be due and payable no later than December 31, 2037.

Long-term notes and loans receivable are discounted to their net present value and consists of the following at June 30, 2012:

Leander Court developer and partnership fees	$	88,683
Leander Court promissory note		250,000
Leander Court promissory note		716,947
		1,055,630
Less discount on long-term receivables		(206,944)
Notes & Loans Receivable	$	848,686

19. Unemployment Coverage

As a 501(c)(3) organization, ROSE CDC has elected not to participate in the State Unemployment Tax system. However, ROSE does participate in the 501(c) Agencies Trust program. Under the trust program, ROSE CDC makes contributions based primarily upon prior years' experience. Unemployment claims are paid to the state by the trust from our reserve account. The reserve account balance at June 30, 2012 was $ 8,063. The reserve balance is not recognized as an asset in the accompanying financial statements, since the account is to be used to pay future unemployment claims. ROSE CDC can be required to make additional contributions in case of unusually large claims; however, stop-loss insurance protects the trust and its participating agencies in the event of catastrophic losses.

20. Subsequent Events

ROSE Community Development Corporation did not have any subsequent events which require recording or disclosure in the financial statements through November 13, 2012, which is the date the financial statements were available to be issued, for the year ended June 30, 2012.

21. Related Party Transactions

A ROSE Board Member is a free lance writer. ROSE engaged his services to assist in the writing and editing of several grant proposals that ROSE applied for. The Board Member was compensated $ 760 for his services in the fiscal year ending June 30, 2012.

22. Reclassification of 2011 Comparative Totals

Certain 2011 amounts presented herein have been reclassified to conform to the 2012 presentation.

23. Reconciliation of Statement of Cash Flows

Change in net assets	$	461,061
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation		306,466
Gain on sale of rental property		(47,764)
Gain on sale of homes held for sale		(138,491)
Equity in earnings of partnerships		921
Accrued Income		(41,324)
In-kind contributions		(16,436)
Net changes in:		
Cash held by property managers		(27,672)
Grants and contracts receivable		93,894
Other receivables		(4,220)
Rental deposits held		(20,282)
Prepaid expenses		119
Accounts payable		206,629
Accrued interest payable		1,791
Payroll liabilities		3,916
Rental deposits held payable		16,972
Total adjustments		334,519
Net Cash Flows from Operating Activities	$	795,580