CLACKAMAS COUNTY BOARD OF COUNTY COMMISSIONERS
Sitting/Acting as:
Board of Commissioners of the Housing Authority of Clackamas County

Study Session Worksheet

Presentation Date: 11/3/2015 **Approximate Start Time:** 1:30 PM

Approximate Length: 1 Hour

Presentation Title: Easton Ridge Renovation Project: Final Financial Report

Department: Health, Housing & Human Services

Presenters: Richard Swift, Chuck Robbins

Other Invitees:

WHAT ACTION ARE YOU REQUESTING FROM THE BOARD?

We are not seeking any action from the Board. This is intended as an informational meeting explaining the final financial summary of the Easton Ridge Renovation Project.

EXECUTIVE SUMMARY:

Property Description

Easton Ridge is located at SE 90th Avenue and SE Causey Avenue approximately one-quarter mile north of Clackamas Town Center. The property is within a short walk of the region's transportation system including the Clackamas Town Center Max Station. The close proximity to the Town Center area also provides ready access for residents to a wide range of goods and services, as well as education and employment opportunities.

Easton Ridge was constructed in 1989 by Bowen Hunt Development, and purchased by the Housing Authority of Clackamas County (HACC) in 1996. The property is sited on 8.8 acres and consists of 264 units in 11 three-story buildings and a single-story community building with an on-site property management office.

Due to poor site design decisions and substandard construction practices of Bowen Hunt Development a number of physical problems began appearing at Easton Ridge. On September 20, 2011 staff presented to the HACC Commissioners a briefing on the physical conditions at Easton Ridge and potential financing strategies for addressing the problems. On January 17, 2013 the HACC Board approved an "Omnibus" Resolution authorizing HACC to execute required legal and financial documents to move from pre-development to construction.

Walsh Construction Co. was selected through a competitive RFP process and was awarded the renovation contract. Walsh entered into 2 separate contracts for this project. The first contract was for preconstruction services and was awarded on January 19, 2012. This contract included cost estimating, value engineering, constructability reviews and destructive testing. The second contract was for construction.

The renovation work began in March 2013 work was completed on July 30, 2014. The Tax credit Allocation final cost certification was completed on December 17, 2014 (report attached). Also attached is a copy of the Easton Ridge Financial Statement audit for the 3 years ending

December 31, 2014. Information from these two documents were used to compile the Expenses and Revenues table below.

Project Financing Structure

The financing plan employed Short-Term and Long-Term tax-exempt bonds and Low Income Housing Tax Credits (LIHTC) to generate sufficient funds for renovations. The property was originally income-restricted to households earning 80% Area Median Income (AMI) and below. Use of LIHTC will further restrict 80% (211) of the units to households earning 60% of area median income or below. The balance of the units, 20%, would remain restricted to households earning 80% of area median income or below. Currently HUD set 60% AMI for a family of 3 at $39,720 ($3,310/month).

Renovation of Easton Ridge Apartments was completed on July 30, 2014. Below are the actual Expenses and Revenues that were reported as of August 31, 2014. This is a point-in-time that reflects all of the development and construction costs that have been incurred as of that date. Expenses and Revenues will change over time as additional funds are used to complete the remodel of all of the remaining bathrooms.

EXPENSES[1]

Acquisition	
Land	$ 3,170,000
Building	$ 15,340,000
Other Acquisition Costs	$ 225,301
Sub Total	$ 18,735,301
Construction	
Renovation	$ 11,230,023
Appliances	$ 418,917
Other Renovation Costs	$ 148,687
Sub Total	$ 11,797,627
Contractor Overhead/Profit	$ 1,091,443
Design Costs	
Architect	$ 625,526
Other Design Costs	$ 794,335
Sub Total	$ 1,419,861
Interim Costs	
Bond Interest	$ 1,662,023
Other Interim Costs	$ 618,656
Sub Total	$ 2,280,679
Developer Fee	$ 3,290,000
Tax Credit fees/Bond Costs	$ 393,474
Reserves	
Replacement Reserve	$ 400,000
Debt Service Reserve	$ 866,375
Operating Reserve	$ 624,000
Sub Total	$ 1,890,375
Total Cost	$ 40,898,760

REVENUES[2] (See notes below)

A & B Bonds[A]	$ 16,550,000
Mortgage Due to HACC[B]	$ 12,235,000
HOME Funds[C]	$ 817,000
Tax Credit Investment	$ 8,309,000
Deferred Developers Fee[D]	$ 1,300,000
Capitalized Interest (Operations)[E]	$ 1,662,023
Misc Income	$ 25,737
Total Revenue	$ 40,898,760

Notes:

A. A portion of the A Bonds were used to retire the Bonds from the original purchase. B Bonds were used as short term construction financing and were repaid from Tax Credit Equity.

B. The Mortgage Due is the difference between the value of Easton Ridge and the Bond funds used to retire the original loan. Repayment to HACC is made from excess cash flow beginning year 7.

C. A total of $865,000 of HOME funds is allocated to this project. The unexpended balance of $48,000 will be used to complete construction of bathrooms over the next 3 years.

D. Developers fees are paid to HACC from excess cash flow from year 1 thru year 6.

E. Capitalized Interest is for the Bond and is included in the Operating Budget.

Project Outcome

Overall, the complex looks brand new with a new life cycle of over 30 years and a post-renovation property value of $23,970,000 (2013 Kidder Matthew appraisal). The pre-renovation was $18,510,00.

1. Exterior work included:

   - the renovation of all 11 building envelopes with new hardi-board siding including installation of rain screen venting to insure air and water tightness, new windows and exterior doors
   - site excavation and re-grading; 6 new ADA compliant units; construction of wheelchair accessible routes throughout the property
   - demolition of existing garages and carports; landscaping and courtyard improvements
   - parking lot resurfacing

   Interior work included:

   - installation of a whole house ventilation system with heat recovery to increase fresh air in the units while decreasing moisture build-up
   - replacement of all existing kitchen cabinetry, appliances, lighting and flooring
   - replacement of bathroom cabinets, fixtures, flooring.

2. The new operating budget for Easton Ridge ensures adequate funding of the reserve account to complete all items included on the 30-Year replacement schedule while still generating over $250,000 of excess operating revenue. These funds will be used to fund HACC Public Housing and Section 8 Voucher programs which HUD currently underfunds at about 85% of actual cost.

3. Vacancy rate during construction was around 3%, considerably lower than had been projected. We were able to maintain this vacancy rate, in part, by:

   - Hiring a Tenant Liaison. This individual was on site 40 hours a week and was in constant contact with the residents; keeping them informed of the construction schedule and addressing all tenant questions, comments and issues. It is estimated that the Liaison send out over 10,000 notices to the tenants.
   - Providing residents with food vouchers while their kitchens were being remodeled. These vouchers were purchased through the script program at Lewelling Elementary. The school was able to keep 5% of the proceeds.

4. Working with Community Solutions and their job partners, 13 low-income individuals were employed at the construction site. Of this group 6 were offered full-time employment after completion of the Easton Ridge project.

5. During a time of escalating rents Easton Ridge has been able to maintain rent levels well below similar market units. A 1-bedroom apartment rents for $760 at Easton Ridge while 1-bedroom market units are renting in excess of $1,200.

LEGAL/POLICY REQUIREMENTS:

N/A : Update only

PUBLIC/GOVERNMENTAL PARTICIPATION:

N/A: Update only

OPTIONS:

N/A: Update only

RECOMMENDATION:

N/A: Update only

ATTACHMENTS:

- Easton Ridge LLC – Financial Statement Audit Report
- Easton Ridge LLC – Tax Credit Final Cost Certification Audit Report

SUBMITTED BY:

Division Director/Head Approval ____________

Department Director/Head Approval ____________

County Administrator Approval ____________

For information on this issue or copies of attachments, please contact Chuck Robbins @ 503-650-5666

EASTON RIDGE LLC

Financial Statements and Supplementary Information
for the years ended December 31, 2014 and
2013 and Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To the Members of
Easton Ridge LLC
Oregon City, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of Easton Ridge LLC (the "Company"), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, members' equity 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.

Auditor's Responsibility

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

An audit involves 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 assessments, 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of its operations 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

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on page 16 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 audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information for is fairly stated in all material respects in relation to the financial statements as a whole.

Bjorklund & Montplaisir

Portland, Oregon
April 2, 2015

EASTON RIDGE LLC
(An Oregon Limited Liability Company)

BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
INVESTMENT IN REAL ESTATE:		
Land	$ 3,229,376	$ 3,229,376
Land improvements	1,635,687	-
Buildings and improvements	31,923,956	15,627,326
Furniture and equipment	728,403	142,622
Construction in progress	-	12,010,452
Total investment in real estate	37,517,422	31,009,776
Less accumulated depreciation	(1,157,719)	(337,815)
Investment in real estate - net	36,359,703	30,671,961
OTHER ASSETS:		
Cash	849,860	293,307
Tenant deposits held in trust	112,180	90,835
Restricted deposits	1,704,082	3,836,699
Accounts receivable	26,205	7,255
Prepaid expenses	14,394	4,751
Other assets, net	352,573	428,019
Total other assets	3,059,294	4,660,866
TOTAL	$ 39,418,997	$ 35,332,827
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES APPLICABLE TO INVESTMENT IN REAL ESTATE:		
Notes payable	$ 29,615,506	$ 29,396,633
Accrued interest - notes payable	701,981	309,749
Development fee payable - General Partner	2,890,000	2,042,628
Accrued interest - development fee	16,250	-
Accounts payable - construction	-	1,029,229
Construction retainage payable	-	403,999
Total liabilities applicable to investment in real estate	33,223,737	33,182,238
OTHER LIABILITIES:		
Accounts payable	64,148	36,031
Unearned rent	6,338	7,110
Refundable security deposits	111,044	90,835
Total other liabilities	181,530	133,976
Total liabilities	33,405,267	33,316,214
MEMBERS' EQUITY	6,013,730	2,016,613
TOTAL	$ 39,418,997	$ 35,332,827

See notes to financial statements.

EASTON RIDGE LLC
(An Oregon Limited Liability Company)

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
REVENUES:		
Gross potential tenant rent	$ 2,162,037	$ 1,718,517
Less vacancy loss and concessions	(123,614)	(195,701)
Total rental income	2,038,423	1,522,816
Garage rent	2,516	9,051
Tenant charges	44,324	41,569
Interest income	1,603	2,819
Total revenues	2,086,866	1,576,255
OPERATING EXPENSES (Schedule I):		
Administrative	297,382	222,228
Utilities	222,660	157,007
Operations and maintenance	310,077	271,066
Insurance	30,524	-
Total operating expenses	860,643	650,301
OPERATING INCOME BEFORE COMPANY AND FINANCIAL EXPENSE	1,226,223	925,954
COMPANY AND FINANCIAL EXPENSE:		
Interest expense - notes payable	774,377	666,034
Interest expense - development fee	16,250	-
Amortization of bond premium / discount - net	(21,728)	(18,107)
Investor services fee - Investor Partner	5,150	4,110
Total company and financial expense	774,049	652,037
INCOME (LOSS) BEFORE DEPRECIATION AND AMORTIZATION	452,174	273,917
Depreciation	(819,904)	(337,815)
Amortization	(24,556)	(16,346)
NET LOSS	$ (392,286)	$ (80,244)

EASTON RIDGE LLC
(An Oregon Limited Liability Company)

STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2014 AND 2013

	Managing Member	Investor Member	Investor Member	Investor Member	Total
	Housing Authority of Clackamas County	Wincopin Circle LLLP	Enterprise Housing Partners XXIV Limited Partnership	Enterprise Housing Partners XXV Limited Partnership	
BALANCE - December 31, 2012	$ -	$ -	$ -	$ -	$ -
Capital contributions	100	2,123,757	-	-	2,123,857
Syndication costs	-	(18,630)	(8,370)	-	(27,000)
Assignment of interest	-	(643,821)	643,821	-	-
Net loss	(8)	(69,906)	(10,330)	-	(80,244)
BALANCE - December 31, 2013	92	1,391,400	625,121	-	2,016,613
Assignment of interest		(1,460,327)	-	1,460,327	-
Capital contributions	-	-	1,360,715	3,028,688	4,389,403
Net income (loss)	(39)	68,927	(121,596)	(339,578)	(392,286)
BALANCE - December 31, 2014	$ 53	$ -	$ 1,864,240	$ 4,149,437	$ 6,013,730

See notes to financial statements.

EASTON RIDGE LLC
(An Oregon Limited Liability Company)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from rental operations	$ 2,037,661	$ 1,522,672
Interest received	1,603	2,819
Other receipts	46,840	50,620
Cash paid to suppliers and employees	(874,172)	(623,132)
Interest paid, net of interest capitalized	(401,105)	(356,285)
Cash provided by operating activities	810,827	596,694
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net changes in restricted deposits	2,132,617	(3,836,700)
Additions to investment in real estate	(5,577,508)	(15,258,171)
Payment of accounts payable - construction	(1,029,229)	-
Payment of construction retainage payable	(403,999)	-
Tax credit fees paid	(6,158)	(67,940)
Net cash used in investing activities	(4,884,277)	(19,162,811)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital contributions	4,389,403	2,123,857
Syndication costs	-	(27,000)
Proceeds from borrowings	4,240,600	17,179,741
Financing costs paid	(4,000,000)	(417,174)
Net cash provided by financing activities	4,630,003	18,859,424
CHANGE IN CASH	556,553	293,307
CASH AT BEGINNING OF YEAR	293,307	-
CASH AT END OF YEAR	$ 849,860	$ 293,307
RECONCILIATION OF NET LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net loss	$ (392,286)	$ (80,244)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	844,460	354,161
Amortization of bond premium	(21,728)	(18,107)
Changes in:		
Accounts receivable	(18,950)	(7,255)
Tenant deposits held in trust	(21,345)	(90,835)
Prepaid expenses	(9,643)	(4,751)
Accounts payable	2,400	36,031
Unearned rent	(772)	7,110
Accrued interest	408,482	309,749
Refundable security deposits	20,209	90,835
Net cash provided by operating activities	$ 810,827	$ 596,694

(Continued)

EASTON RIDGE LLC
(An Oregon Limited Liability Company)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of project through seller financing	$ -	$ 12,235,000
Additions to construction in progress through:		
Development fee	$ 847,587	$ 2,042,628
Accounts payable - construction	25,718	1,029,229
Construction retainage	-	403,999
Amortization of construction loan fees	57,048	40,749
	$ 930,353	$ 3,516,605
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest incurred	$ 1,164,030	$ 826,570
Interest paid	$ 774,509	$ 516,821
Interest capitalized	(373,404)	(160,536)
Interest paid, net of interest capitalized	$ 401,105	$ 356,285

(Concluded)

See notes to financial statements.

EASTON RIDGE LLC
(An Oregon Limited Liability Company)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Easton Ridge LLC (the "Company") is an Oregon limited liability company formed to acquire, rehabilitate, own and operate Easton Ridge Apartments, a 264-unit low-income housing community (the "Project") that was purchased for $18,650,000 on March 6, 2013 from the Housing Authority of Clackamas County ("Housing Authority"), the Managing Member of the Company. The Project is located in Clackamas County, Oregon and is being rehabilitated in conformity with the provisions of Section 42 of the Internal Revenue Code which include, but are not limited to, compliance with tenant eligibility and rent restrictions. The Company was formed July 23, 2012 and shall continue in perpetuity, unless sooner terminated in accordance with the terms of the Restated Operating Agreement dated and effective March 6, 2013 ("Operating Agreement").

Basis of Presentation – The financial statements are presented on the accrual basis and include only those assets, liabilities, revenues, and expenses which relate to the business of the Company. The financial statements do not include any assets, liabilities, revenues, or expenses attributable to activities of the managing member, investor member or substitute investor member.

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

Investment in Real Estate is recorded at cost. Maintenance, repairs, and minor replacements are charged to expense when incurred. Major replacements are capitalized. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives as follows:

	Estimated Life	Method
Land	-	None
Land improvements	15	Declining balance
Building and improvements	40	Straight-line
Furniture and fixtures	5	Double declining balance

Management evaluates the investment in real estate for financial impairment and will continue to evaluate the assets if events or changes in circumstances indicate the carrying amount of an asset may not be fully recoverable.

Definitions – The terms "Completion Date"; "Stabilization Date"; "Designated Proceeds"; "Development Advances"; "Loan Conversion"; "Operating Deficit"; "Operating Deficit Contribution"; "Required Debt Service Coverage"; "Cash Flow"; and "Net Cash Flow" used in these financial statements have the meaning as defined in the Operating Agreement.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Continued

Economic Concentrations – The Partnership operates an affordable housing property in Clackamas County, Oregon. Future operations could be affected by changes in the economic or other conditions in that geographical area or by changes in federal affordable housing subsidies or the demand for such housing.

Restricted Deposits at December 31, 2014 and 2013 include the following:

	2014	2013
Bond Accounts	$ 945,030	$3,199,565
Operating reserve	-	-
Replacement reserve	190,316	69,304
Development reserve	568,736	567,830
	$1,704,082	$3,836,699

- ***Bond Accounts*** – The Trust Indenture for the issuance of $16,550,000 Housing Authority of Clackamas County Multifamily Housing Revenue Bonds, Series 2013A (Easton Ridge Apartments Project) (the "Bonds") issued by the Housing Authority required the establishment of various bond accounts to service the Bonds. Bond accounts at December 31, 2014 and 2013 were as follows:

	2014	2013
Project account	$ -	$2,333,124
Principal and interest account	78,332	-
Series 2013A reserve account	866,698	866,441
Total	$ 945,030	$3,199,565

The bond proceeds were deposited into the project account are were used to pay construction draws during the rehabilitation of the Project. The principal and interest account is used to record loan payments received from the Project and to make principal and interest payments on the Bonds. The Series 2013A reserve account was established from the bond proceeds to provide reserves in the event that the amount in the principal and interest account is insufficient to pay the principal and interest on the Bonds when due.

- ***Operating Reserve*** – The Company is required to establish an operating reserve of at least $624,000 from the Third Installment of the Investor Member's Capital Contribution. In addition, the Company shall fund the operating reserve from Cash Flow in order to maintain, to the extent possible, a balance at all times in the operating reserve of at least $624,000. The Managing Member may use funds in the operating reserve, (but only after the later of the Stabilization Date or Loan Conversion) with the consent of the Investor Member, for any Company purpose, but only to the extent the revenues of the Company are insufficient to accomplish such purpose. However, to the extent the Managing Member has not funded the Maximum Operating Deficit Contribution Amount, the Managing Member shall fund Operating Deficits fifty percent (50%) from the operating reserve and fifty percent (50%) as an Operating Deficit Contribution. At December 31, 2014, the operating reserve was not yet required.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Continued

Restricted Deposits – Continued:

- ***Replacement Reserve*** – In accordance with the terms of the Operating Agreement, the Company is required to establish a replacement reserve with an initial deposit of $400,000 from the Third Installment of the Investor Member's Capital Contribution and to make monthly deposit of $9,900 ($118,800 annually) beginning in June 2013 and increasing by 3% annually thereafter. Funds in the replacement reserve can be used to fund major repairs, capital expenditures and replacement of capital items. Withdrawals from the replacement reserve in excess of $5,000 during any calendar year require the consent of the Investor Member unless such capital improvements are specifically described in the capital replacement plan approved by the Investor Member. The Investor Member's approval of the budget showing such capital expenditures shall constitute the consent of the Investor Member for such purposes. At December 31, 2014, the replacement reserve was funded as required.

- ***Development Reserve*** – The Company was required to establish a development reserve of $567,000 to be used in the event of unanticipated Project rehabilitation costs. Any funds remaining in the development reserve at completion of the rehabilitation will be released to the Company. The development reserve was funded from the proceeds of the first installment of the Investor Member's Capital Contribution by reducing the amount of the initial scheduled payment due on the development fee.

Tenant Accounts Receivable and Bad Debts – Tenant accounts receivable are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would be obtained under the allowance method.

Other Assets include bond issuance costs, construction loan fees and tax credit fees which are recorded at cost. Bond issuance costs will be amortized over the terms of the Bonds using the interest method. Tax credit fees are being amortized using the straight-line method over 15 years beginning January 1, 2014. Construction loan fees were amortized during the period of development and related amortization was included in development costs.

Other assets at December 31, 2014 and 2013 are comprised of the following:

	2014	2013
Bond issuance costs	$319,376	$319,376
Construction loan fees	-	97,797
Tax credit fees	74,098	67,941
Total	393,474	485,114
Accumulated amortization	(40,901)	(57,095)
Other assets - net	$352,573	$428,019

Amortization for bond issuance costs is: $19,616 for 2015; $17,361 for 2016; $16,128 for 2017; $15,136 for 2018; and $14,298 for 2019.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Continued

Tax Credits – The Company received an allocation of Low-Income Housing Tax Credits ("LIHTC") for its qualifying rental property and expects to generate an aggregate of $8,744,778 of LIHTC. The benefits of the LIHTC are provided to the Company's Members through the Company's annual federal income tax return filing and are not reflected in the accompanying financial statements. The LIHTC is a 15-year credit that is generally claimed by the Company over a 10-year period. The credit is a certain percentage (as determined by the Internal Revenue Service) of the qualified basis of the property. The Company may only lease qualified units to tenants who meet certain income restrictions and whose rent payments also are restricted under guidelines set by the Internal Revenue Service. Pursuant to Section 42, the Company is subject to an extended use agreement that requires the Company to comply with the tenant eligibility and rent restrictions for an additional 15-year period after the initial compliance period.

Because the LIHTC is subject to complying with certain requirements, there can be no assurance that the aggregate amount of LIHTC will be realized. Failure to maintain compliance with occupant eligibility, and/or unit gross rent, or to correct noncompliance within a specified time period could result in the loss of LIHTC and the recapture of previously claimed LIHTC plus interest.

Bond Premiums and Discounts – Bond premiums are being amortized and bond discounts are being accreted over the terms of the individual bonds using the interest method. Balances at December 31, 2014 were as follows:

	Bond Premium	Bond Discount	Net
Original issue	$250,373	$(197,033)	$ 53,340
Accretion (amortization) 2013	(24,137)	6,030	(18,107)
Balance – December 31, 2013	226,236	(191,003)	35,233
Accretion (amortization) 2014	(28,965)	7,237	(21,728)
Balance – December 31, 2014	$197,271	$(183,766)	$ 13,505

Concentrations of Credit Risk – The Company maintains their cash balances which, from time to time, may exceed the federal insurance limits. The Company has not experienced any losses from these accounts and does not believe they are exposed to significant credit risk.

Income Taxes – The Company was organized as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and reported by its Members on their income tax returns. Accordingly, there is no provision for income taxes included in the accompanying financial statements.

Management of the Company has analyzed the tax positions taken by the Company and has concluded that as of December 31, 2014 there are no uncertain positions taken or expected to be taken that would require disclosure in the financial statements. The Company is subject to routine audits by taxing jurisdictions; however there are currently no audits for any tax period in progress. The Company's management believes it is subject to income tax examinations for all prior periods.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Continued

Property Management Fee – The Company has engaged the services of a property management company to manage the daily operations of the low-income housing project and pays a management fee equal to 3.5% of gross monthly receipts. The monthly fee will be reduced to 3.25% of gross monthly receipts at the conclusion of the rehabilitation of the Project. Property management fees for the year ended December 31, 2013 were $72,660 and $54,241, respectively.

Rental Income and Refundable Security Deposits – Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. Tenant security deposits are refundable and are recognized as liabilities when received.

Property Taxes – The Project is exempt from county property taxes.

2. **LONG-TERM NOTES PAYABLE**

At December 31, 2014 and 2013 long-term notes payable consisted of the following:

	2014	2013
Housing Authority:		
Term Loan	$16,550,000	$16,550,000
Unamortized bond premiums / discounts – net	13,506	35,233
Acquisition Loan	12,235,000	12,235,000
Enterprise Community Loan Fund - Construction Loan	-	55,000
Clackamas County	817,000	521,400
	$29,615,506	$29,396,633

Housing Authority – The proceeds of the Bonds issued by the Housing Authority ("Bond Loan") were loaned to the Company on substantially the same terms of the Bonds. The Bonds mature in varying amounts beginning September 1, 2015 and each year thereafter through September 1, 2049. Stated interest rates range from 2% to 4% per annum with a weighted average interest rate of 3.93% over the term of the Bonds. The Term Loan is payable in interest only payments of $52,300 per month through August 2014 and $71,883 per month thereafter.

The Acquisition Loan in the original amount of $12,235,000 is due on December 31, 2054 and provides for interest at 3.10% per annum compounded annually. Interest shall be paid annually on March 15 of each year, but only to the extent of Cash Flow as defined in and in the order of priority set forth in the Operating Agreement.

Enterprise Community Loan Fund – The construction loan agreement provides for borrowings of up to $4,000,000 with interest at the greater of 5.5% or the 30-Day London Inter-Bank Offered Rate (the "30-day LIBOR Rate") plus 4.75%. The note was paid in full on December 31, 2014.

Clackamas County – The loan agreement with Clackamas County provides for borrowings of up to $860,000 with simple interest at 1% per annum with the accrual of interest beginning on the Project Completion Date. The note is due on December 1, 2054 and is payable in annual principal and interest payments equal to 100% of the Project's Cash Flow as defined and in the order of priority set forth in the Operating Agreement.

2. **LONG-TERM NOTES PAYABLE** – Continued

Substantially all assets of the Project are pledged as collateral for long-term notes payable with the Bond Loan in first position, the note payable to Clackamas County in second position and the Acquisition Loan in third position.

Principal payments due over the next five years and thereafter are as follows:

Year Ending December 31,	
2015	$ 235,000
2016	240,000
2017	245,000
2018	250,000
2019	255,000
Thereafter	28,390,506
Total	$29,615,506

Since the principal payments on the acquisition loan and the note payable to Clackamas County are dependent upon Cash Flow, which cannot be determined in advance, the balances are classified as being due in 2054.

A summary of accrued interest at December 31, 2014 and 2013 and interest expense for the years then ended is as follows:

	12/31/14	12/31/13
Accrued interest		
Acquisition Loan	$ 698,637	$ 309,749
Development fee	16,250	-
Clackamas County	3,344	-
	$ 718,231	$ 309,749

	2014	2013
Interest expense		
Bond loan	$ 627,600	$ 514,283
Construction loan	127,949	2,538
Acquisition Loan	388,888	309,749
Development fee	16,250	-
Clackamas County	3,344	-
	1,164,031	826,570
Less interest capitalized	(373,404)	(160,536)
	$ 790,627	$ 666,034

3. **RELATED PARTY TRANSACTIONS**

The Company has entered into agreements with affiliates of the Managing Member and the Investor Members as follows:

Investor Services Fee – The Company is required to pay Wincopin Circle LLLP a cumulative annual investor services fee of $5,000, beginning in 2013 (prorated for 2013) and increasing by 3% per annum each year thereafter. The fee is payable from Cash Flow in the order of priority set forth in the Operating Agreement.

Development Fee – The Development Services Agreement provides for a development fee of $3,290,000 to be paid to the Housing Authority, all of which has been earned. Approximately $1,990,000 of the development fee shall be paid from capital contributions by the Investor Members and approximately $1,300,000 ("deferred development fee") shall be paid from Cash Flow in the order of priority set forth in the Operating Agreement, however any deferred development fee must be paid in full on or before December 31, 2028. Any deferred development fee shall bear interest at three percent (3%) per annum. The Company made a $400,000 payment on the development fee concurrent with the admission of the Investor Member.

Obligations of the Managing Member – Prior to the later of the Stabilization Date or Loan Conversion, if Designated Proceeds are insufficient to meet all obligations of the Company, the Managing Member is required to pay or provide Development Advances sufficient to pay those costs and expenses as they become due and payable. Any such Development Advances shall be deemed a loan to the Company and shall be repayable in the order of priority set forth in the Operating Agreement.

If at any time or from time to time after the later of the (i) Stabilization Date or (ii) Loan Conversion, an Operating Deficit exists, then the Managing Member shall advance funds (an "Operating Deficit Contribution") to the Company as a contribution to capital in an amount equal to the amount of the Operating Deficit. The Managing Member's obligation to make an Operating Deficit Contribution after such date to fund Operating Deficits, which are not funded from the operating reserve, shall be limited to $922,000. The Managing Member's obligation to make Operating Deficit Contributions shall terminate when the following has occurred simultaneously: (i) the Project has operated at the Required Debt Service Coverage for a period of at least two (2) consecutive years, which two (2) year period shall have commenced no earlier than three (3) years after the achievement of the Stabilization Date; and (ii) and the balance in the operating reserve equals or exceeds $624,000. Operating Deficit Contributions are repayable, without interest, from Cash Flow in the order of priority set forth in the Operating Agreement.

See Note 2 for description of notes and related accrued interest payable to the Housing Authority at December 31, 2014 and 2013 and interest incurred on these notes for the years then ended.

4. **MEMBERS' CAPITAL**

The Company was initially formed with the Housing Authority as the Managing Member. Effective March 6, 2013, Wincopin Circle LLLP was admitted as the Investor Member with a 99.99% membership interest. Pursuant to the transfer agreement dated August 29, 2013, Wincopin Circle LLLP assigned a 30.9969% membership interest to Enterprise Housing Partners XXIV Limited Partnership whereupon Enterprise Housing Partners XXIV Limited Partnership was admitted as a Substitute Investor Member.

Pursuant to the transfer agreement dated July 16, 2014, Wincopin Circle LLLP assigned its remaining 68.9931% membership interest to Enterprise Housing Partners XXV Limited Partnership whereupon Enterprise Housing Partners XXV Limited Partnership was admitted as a Substitute Investor Member and Wincopin Circle LLLP withdrew from the Company.

The following summarizes the profit, losses and low-income housing tax credit allocations, cash distributions, and capital contribution requirements set forth in the Operating Agreement, as amended through December 31, 2014.

Profit and Loss Allocation – Profits, losses and low-income housing tax credits in any one year shall be allocated .01% to the Managing Member and 99.99% to the Investor Members.

Cash Distributions – Net Cash Flow is allocated .01% to the Managing Member and 99.99% to the Investor Members.

Capital Contributions – Since the formation of the Company, total capital contributions of $100, and $6,613,660 have been received from the Managing Member and the Investor Members, respectively. Additional capital contributions of $1,795,840 are due from the Investor Members.

Buyout Option and Right of First Refusal – The Managing Member has the right of first refusal to purchase the Investor Member's interest at the end of the low income housing tax compliance period at the greater of the fair market value or an amount determined under the provisions of the Operating Agreement.

5. **SUBSEQUENT EVENTS**

Management of the Company has evaluated events and transactions occurring after December 31, 2014 through April 2, 2015, the date the financial statements were available for issuance, for potential recognition or disclosure in the financial statements and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

EASTON RIDGE LLC
(An Oregon Limited Liability Company)

SCHEDULE I

OPERATING EXPENSES
YEARS ENDED DECEMBER 31, 2014 AND 2013

	Total		Per Unit	
	2014	2013	2014	2013
ADMINISTRATIVE:				
Advertising / marketing	$ 21,354	$ 4,602	$ 81	$ 17
Management fees	72,660	54,241	275	205
Management payroll costs	132,987	108,129	504	410
Employee occupied unit	-	7,257	-	27
Office expense	19,536	20,763	74	79
Audit	5,000	-	19	-
LIHTC fees	16,835	-	64	-
Organizational expenses	-	2,400	-	9
Bad debts	10,838	14,797	41	56
Miscellaneous	18,172	10,039	69	38
Total administrative	297,382	222,228	1,126	842
UTILITIES:				
Electricity	21,447	23,823	81	90
Water	51,318	32,472	194	123
Sewer	149,895	100,712	568	381
Total utilities	222,660	157,007	843	595
OPERATIONS AND MAINTENANCE:				
Maintenance payroll	84,397	86,509	320	328
Supplies	32,116	33,068	122	125
Contracts	146,903	111,309	556	422
Trash removal	46,661	40,180	177	152
Total operations and maintenance	310,077	271,066	1,175	1,027
INSURANCE-				
Property insurance	30,524	-	116	-
Total insurance	30,524	-	116	-
Total operating expenses	$ 860,643	$ 650,301	$ 3,260	$ 2,463

EASTON RIDGE LLC

Tax Credit Allocation Agency Final Cost Certification as of August 31, 2014 and Independent Auditor's Report

BJORKLUND
MONTPLAISIR

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Portland, Oregon 97223

Tel (503) 643-6400
Fax (503) 641-4345

INDEPENDENT AUDITOR'S REPORT

Owner's Name: Easton Ridge LLC

Project Names: Easton Ridge Apartments

We have audited the accompanying Tax Credit Allocation Agency ("TCAA") Final Cost Certification (the "Final Cost Certification") of Easton Ridge LLC (the "Company") for the Easton Ridge Apartments (the "Project") as of August 31, 2014 and the related notes to the Final Cost Certification.

Management's Responsibility for the Final Cost Certification

Management is responsible for the preparation and fair presentation of the Final Cost Certification in accordance with the financial reporting provisions of the TCAA. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Final Cost Certification that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Final Cost Certification based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Final Cost Certification is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Final Cost Certification. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Final Cost Certification, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Final Cost Certification 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, we 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 Final Cost Certification.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

We were unable to examine evidence to support the actual funding for the replacement reserve and the operating reserve. As of the date of our report, the Project had not funded these reserves. However, management has informed us that they intend to fund $1,024,000 in these reserves at the time that the remaining syndication proceeds are received. We have included the replacement reserve and the operating reserve in total Project costs as these are a future cost of the Company.

Qualified Opinion

In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph, the Final Cost Certification referred to above presents fairly, in all material respects, the actual costs and eligible basis for the Projects as of August 31, 2014, in accordance with the financial reporting provisions of the TCAA.

Basis of Accounting

We draw your attention to Note 1 to the Final Cost Certification, which describes the basis of accounting. The accompanying Final Cost Certification was prepared in conformity with the accounting practices prescribed by the Internal Revenue Service, under the accrual method of accounting, and in conformity with the format and qualified allocation plan rules set by TCAA, which is the comprehensive basis of accounting other than generally accepted accounting principles in the United States of America. The accompanying Final Cost Certification was also prepared with consideration of all guidance issued from the Internal Revenue Service including but not limited to any rule changes, Private Letter Ruling, Technical Assistance Memoranda, considerations, IRS guidelines, etc., that the eligible basis as reported herein is consistent with such guidance. Our opinion is not modified with respect to this matter.

Restrictions on Use

Our report is intended solely for the information and use of management of the Project and for filing with TCAA and is not intended to be and should not be used by anyone other than these specified parties. For purposes of complying with the requirements of TCAA, we confirm that:

- The designated costs contained in the Final Cost Certification are properly includable in eligible basis, as that term is defined in Internal Revenue Code Section 42, as amended, and are presented in accordance with the accounting principles referenced herein; and

- We have no financial interest in the Project other than in the practice of our profession.

Bjorklund & Montplaisir

Portland, Oregon
December 17, 2014

EASTON RIDGE LLC

TAX CREDIT ALLOCATION AGENCY FINAL COST CERTIFICATION
AUGUST 31, 2014

Owner: Easton Ridge LLC
Address: 9009 SE Causey Avenue, Happy Valley Oregon 97086

		Eligible Basis	
	Actual Costs	Acquisition Cost	Rehab/New Construction
CALCULATION OF ELIGIBLE BASIS			
ACQUISITION:			
Land	$ 3,170,000	$ -	$ -
Residential building	15,340,000	15,340,000	-
Furniture and equipment	140,000	140,000	-
Legal	11,600	9,628	-
Title insurance and closing costs	73,701	61,174	-
Subtotal	18,735,301	15,550,802	-
CONSTRUCTION:			
Rehabilitation - General Contractor	11,230,023	-	11,230,023
Appliances	418,917	-	418,917
Other rehabilitation costs	148,687	-	148,687
Subtotal	11,797,627	-	11,797,627
CONTRACTOR OVERHEAD AND PROFIT:			
General requirements	612,967	-	612,967
Liability insurance	125,371	-	125,371
Performance bond	77,412	-	77,412
Overhead and profit	275,693	-	275,693
Subtotal	1,091,443	-	1,091,443
ARCHITECTURAL, ENGINEERING AND OTHER FEES:			
Architectural	625,526	-	625,526
Environmental site assessment	14,316	-	14,316
Environmental abatement	185,574	-	185,574
Soils report	7,558	-	7,558
Pre-development assessment	100,982	-	100,982
Legal	69,889	-	40,489
Cost certification	5,000	-	5,000
Building permits	102,353	-	102,353
Survey	15,725	-	15,725
Development consultant fees	272,438	-	272,438
Market study	6,000	-	6,000
Appraisal and review fee	14,500	-	14,500
Subtotal	1,419,861	-	1,390,461

(Continued)

EASTON RIDGE LLC

TAX CREDIT ALLOCATION AGENCY FINAL COST CERTIFICATION
AUGUST 31, 2014

Owner: Easton Ridge LLC
Address: 9009 SE Causey Avenue, Happy Valley Oregon 97086

	Actual Costs	Eligible Basis: Acquisition Cost	Eligible Basis: Rehab/New Construction
CALCULATION OF ELIGIBLE BASIS			
INTERIM COSTS:			
Builders risk insurance	$ 57,927	$ -	$ 57,927
Construction period insurance	23,756	-	23,756
Interest	1,662,023	-	533,939
Loan inspection fees	24,139	-	24,139
Advertising and marketing	16,922	-	-
Relocation costs	229,478	-	99,816
Tenant relocation liaison	105,566	-	105,566
Construction management liaison	42,448	-	42,448
Construction loan costs	97,797	-	-
Testing and inspections	20,623	-	20,623
Subtotal	2,280,679	-	908,214
RESERVES:			
Replacement reserve	400,000	-	-
Debt Service Reserve	866,375	-	-
Operating reserve	624,000	-	-
Subtotal	1,890,375	-	-
SOFT COSTS:			
Tax credit fees	74,098	-	-
Bond issuance costs	319,376	-	-
Subtotal	393,474	-	-
FEES:			
Developer fee	3,290,000	219,147	3,025,977
TOTAL	$ 40,898,760	$15,769,949	$18,213,722

(Concluded)

See accompanying notes to tax credit allocation agency final cost certification.

1. BASIS OF PRESENTATION

The accompanying Tax Credit Allocation Agency ("TCAA") Final Cost Certification ("Final Cost Certification") of Easton Ridge LLC (the "Company") for Easton Ridge Apartments (the "Project") was prepared in conformity with the accounting practices prescribed by the Internal Revenue Service, under the accrual method of accounting, and in conformity with the format and qualified allocation plan rules set by the TCAA, which is a comprehensive basis of accounting other than accounting principles generally accepted by the United States of America. The accompanying Final Cost Certification was also prepared with consideration of all guidance issued from the Internal Revenue Service ("IRS") including, but not limited to, any rule changes, Private Letter Rulings, Technical Assistance Memoranda, and IRS guidance. The accompanying Final Cost Certification is not intended to be a complete presentation of the Project's financial statements in accordance with accounting principles generally accepted in the United States of America.

Actual costs include all costs incurred by the Projects as of August 31, 2014. Eligible basis costs represent residential rental property costs as defined by the Internal Revenue Service.

2. CONSTRUCTION CONTRACT

The Company entered into a construction contract that provides for total construction costs of $12,740,383, all of which has been incurred at August 31, 2014. The final completion notice was received July 30, 2014.

3. RELATED PARTIES

The Development Oversight Agreement provides for a development oversight fee of $3,290,000 to be paid to an affiliate of the Managing Member in consideration of its consultation, advice and other services in connection with the construction and development of the Project.