

Colorado Housing Assistance Corporation

Financial Statements

June 30, 2013 and 2012

(With Independent Auditor's Report Thereon)

Independent Auditor's Report

Board of Directors Colorado Housing Assistance Corporation:

We have audited the accompanying financial statements of Colorado Housing Assistance Corporation (CHAC), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, 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 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.

**Board of Directors
Colorado Housing Assistance Corporation**

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Colorado Housing Assistance Corporation as of June 30, 2013 and 2012, 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.

Kundingel, Cordes & Engle, P.C.

October 24, 2013

Colorado Housing Assistance Corporation
Statements of Financial Position
June 30, 2013 and 2012

	2013	2012
Assets:		
Cash and cash equivalents (note 7)	\$ 2,478,908	1,821,200
Accounts receivable	30,912	24,144
Grants receivable	216,357	213,292
Accrued interest receivable	337,711	299,131
Loans receivable, less allowance for loan loss of \$950,305 and \$995,284 (notes 2, 3, 4 and 7)	8,302,477	8,928,443
Other assets	11,318	12,113
Property and equipment, net (note 6)	640,181	638,971
Total assets	\$ 12,017,864	11,937,294
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued liabilities	\$ 77,695	24,901
Notes payable (note 7)	503,257	557,186
Other liabilities (note 8)	900,000	900,000
Total liabilities	1,480,952	1,482,087
Net assets:		
Unrestricted:		
Designated - loan capital (note 9)	2,413,380	2,723,451
Designated - other (note 9)	142,864	142,864
Undesignated	896,048	642,117
Total unrestricted net assets	3,452,292	3,508,432
Temporarily restricted (note 10)	7,084,620	6,946,775
Total net assets	10,536,912	10,455,207
Commitments (notes 4, 7, 8, 11, 12, and 13)		
Total liabilities and net assets	\$ 12,017,864	11,937,294

See accompanying notes to financial statements.

Colorado Housing Assistance Corporation
Statement of Activities
Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, gains and support:			
Grants and contributions	\$ 180,150	616,380	796,530
Return of grant (note 13)	-	(333,321)	(333,321)
Loan origination and servicing fees	151,455	-	151,455
Interest income on loans	101,414	98,643	200,057
Counseling and education fees	82,450	-	82,450
Other program income	147,702	-	147,702
Rental income	10,156	-	10,156
Bank interest and other income	3,232	25	3,257
Net assets released from restrictions due to satisfaction of expenditure requirements	243,882	(243,882)	-
Total revenue, gains and support	<u>920,441</u>	<u>137,845</u>	<u>1,058,286</u>
Expenses:			
Program services:			
Loan origination	194,689	-	194,689
Loan servicing	506,545	-	506,545
Counseling and education	191,469	-	191,469
Total program services	<u>892,703</u>	<u>-</u>	<u>892,703</u>
Management and general	83,878	-	83,878
Total expenses	<u>976,581</u>	<u>-</u>	<u>976,581</u>
Change in net assets	(56,140)	137,845	81,705
Net assets, beginning of year	<u>3,508,432</u>	<u>6,946,775</u>	<u>10,455,207</u>
Net assets, end of year	<u>\$ 3,452,292</u>	<u>7,084,620</u>	<u>10,536,912</u>

See accompanying notes to financial statements.

Colorado Housing Assistance Corporation
Statement of Activities
Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Total
Revenue, gains and support:			
Grants and contributions	\$ 157,440	733,264	890,704
Loan origination and servicing fees	130,852	-	130,852
Interest income on loans	98,233	84,990	183,223
Counseling and education fees	55,750	-	55,750
Other program income	100,320	-	100,320
Rental income	9,068	-	9,068
Bank interest and other income	7,786	70	7,856
Net assets released from restrictions due to satisfaction of expenditure requirements	478,737	(478,737)	-
Total revenue, gains and support	<u>1,038,186</u>	<u>339,587</u>	<u>1,377,773</u>
Expenses:			
Program services:			
Loan origination	180,994	-	180,994
Loan servicing	744,065	-	744,065
Counseling and education	180,181	-	180,181
Total program services	<u>1,105,240</u>	<u>-</u>	<u>1,105,240</u>
Management and general	89,919	-	89,919
Total expenses	<u>1,195,159</u>	<u>-</u>	<u>1,195,159</u>
Change in net assets	(156,973)	339,587	182,614
Net assets, beginning of year	<u>3,665,405</u>	<u>6,607,188</u>	<u>10,272,593</u>
Net assets, end of year	<u>\$ 3,508,432</u>	<u>6,946,775</u>	<u>10,455,207</u>

See accompanying notes to financial statements.

Colorado Housing Assistance Corporation
Statement of Functional Expenses
Year Ended June 30, 2013

	Program Services					Total Expenses
	Loan Origination	Loan Servicing	Counseling and Education	Program Services	Management and General	
Expenses:						
Salaries	\$ 112,332	84,249	115,843	312,424	38,614	351,038
Payroll taxes	8,342	6,256	8,602	23,200	2,867	26,067
Benefits	11,976	8,982	12,350	33,308	4,117	37,425
Provision for loan losses	-	265,952	-	265,952	-	265,952
Forgivable loan grants	-	68,731	-	68,731	-	68,731
Refunded grant expense	-	34,743	-	34,743	-	34,743
General loan expenses	5,030	4,115	-	9,145	-	9,145
Interest expense	16,584	2,575	3,541	22,700	1,180	23,880
Professional services and contract labor	5,734	4,426	13,779	23,939	25,320	49,259
Conferences and meetings	241	180	1,130	1,551	83	1,634
Occupancy expense	8,600	6,454	8,855	23,909	2,958	26,867
Telephone	4,077	3,051	4,229	11,357	1,399	12,756
Insurance expense	3,329	2,498	3,433	9,260	1,144	10,404
Equipment rental and maintenance	2,456	1,848	2,508	6,812	846	7,658
Office supplies	2,092	1,567	2,171	5,830	718	6,548
Postage and shipping	1,336	1,002	1,377	3,715	459	4,174
Bank and other fees	1,682	1,262	1,735	4,679	578	5,257
Other	3,863	3,393	4,682	11,938	1,184	13,122
Depreciation	7,015	5,261	7,234	19,510	2,411	21,921
Total expenses	\$ 194,689	506,545	191,469	892,703	83,878	976,581

See accompanying notes to financial statements.

Colorado Housing Assistance Corporation
Statement of Functional Expenses
Year Ended June 30, 2012

	Program Services				Total Program Services	Management and General	Total Expenses
	Loan Origination	Loan Servicing	Counseling and Education				
Expenses:							
Salaries	\$ 105,391	77,606	108,286		291,283	36,470	327,753
Payroll taxes	7,611	5,604	7,821		21,036	2,634	23,670
Benefits	11,913	8,772	12,241		32,926	4,122	37,048
Provision for loan losses	-	471,847	-		471,847	-	471,847
Forgivable loan grants	-	127,184	-		127,184	-	127,184
Refunded grant expense	-	21,160	-		21,160	-	21,160
General loan expenses	3,897	3,745	-		7,642	-	7,642
Interest expense	17,996	3,307	4,614		25,917	1,554	27,471
Professional services and contract labor	500	-	11,550		12,050	32,145	44,195
Conferences and meetings	1,150	846	1,181		3,177	397	3,574
Occupancy expense	10,476	7,714	10,764		28,954	3,625	32,579
Telephone	4,173	3,073	4,288		11,534	1,444	12,978
Insurance expense	2,016	1,485	2,071		5,572	698	6,270
Equipment rental and maintenance	2,889	2,167	2,979		8,035	993	9,028
Office supplies	1,761	1,297	1,809		4,867	609	5,476
Postage and shipping	1,043	768	1,071		2,882	361	3,243
Bank and other fees	2,270	1,672	2,332		6,274	786	7,060
Other	1,864	1,369	2,965		6,198	1,989	8,187
Depreciation	6,044	4,449	6,209		16,702	2,092	18,794
Total expenses	\$ 180,994	744,065	180,181		1,105,240	89,919	1,195,159

See accompanying notes to financial statements.

Colorado Housing Assistance Corporation
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 81,705	182,614
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	21,921	18,794
Amortization of loan fees	708	2,734
Provision for loan losses	265,952	471,847
Return of grant	333,321	-
Noncash grants - forgivable loans	68,731	127,184
(Increase) decrease in operating assets:		
Accounts receivable	(6,768)	47,870
Grants receivable	(3,065)	(23,751)
Accrued interest receivable	(38,580)	(45,647)
Other assets	87	(10,226)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	52,794	(58)
Net cash provided by operating activities	776,806	771,361
Cash flows from investing activities:		
Purchases of property and equipment	(23,131)	(13,749)
Loan payments received and other reductions	1,001,262	735,374
Loans disbursed	(1,044,300)	(1,281,100)
Net cash used in investing activities	(66,169)	(559,475)
Cash flows from financing activities:		
Payments on notes payable	(53,929)	(355,531)
Proceeds from notes payable	-	263,276
Net cash used in financing activities	(53,929)	(92,255)
Net increase in cash and cash equivalents	656,708	119,631
Cash and cash equivalents, beginning of year	1,821,200	1,701,569
Cash and cash equivalents, end of year	\$ 2,477,908	1,821,200
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 23,880	27,471

See accompanying notes to financial statements.

Colorado Housing Assistance Corporation

Notes to Financial Statements

June 30, 2013 and 2012

(1) Summary of Significant Accounting Policies

(a) General

Colorado Housing Assistance Corporation (CHAC) was established in 1982 as a non-profit corporation to further the development of affordable housing by offering programs that create and preserve homeownership for low and moderate income families, prevent displacement of long-term neighborhood residents, stabilize neighborhoods, and introduce innovative ways to mobilize private and public investment to achieve these goals. CHAC activities include originating and servicing second mortgage loans and grants, and counseling and education to increase and maintain home ownership opportunities throughout the State of Colorado. CHAC has been certified as a Community Development Financial Institution (CDFI) by the United States Department of the Treasury and is also designated as an approved Housing Counseling Agency by the Department of Housing and Urban Development.

(b) Basis of Accounting

The accompanying financial statements of CHAC have been prepared on the accrual basis of accounting, and accordingly reflect all significant receivables, payables, and other liabilities.

(c) Financial Statement Presentation

Information regarding the financial position and activities of CHAC is reported according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. There are no permanently restricted net assets at June 30, 2013 and 2012.

(d) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Colorado Housing Assistance Corporation

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(e) Contributions and Contributions Receivable

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

(f) Cash and Cash Equivalents

For purposes of the statement of cash flows, CHAC considers all unrestricted highly liquid investments with an original maturity of three months or less to be cash equivalents.

(g) Accounts and Grants Receivable

Receivables represent claims for reimbursement and other fees earned under contracts and grant agreements. The allowance for doubtful accounts is based on past collection experience and on analysis of current accounts receivable collectibility. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible. Receivable balances are considered to be past due based on contractual terms.

(h) Property and Equipment

Property and equipment is stated at cost or, if donated, at the fair value at the date of donation. CHAC capitalizes all fixed assets with a cost, or fair value at the date of donation, over \$1,000 and with an estimated useful life of three years or more. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to forty years.

(i) Concentrations of Credit Risk

Financial instruments which potentially subject CHAC to concentrations of credit risk consist of cash accounts and second mortgage loans receivable. Cash accounts may, during the year, exceed the federally insured limit set by the Federal Deposit Insurance Corporation (FDIC). CHAC reduces credit risk by placing its cash and money market accounts with creditworthy, high quality financial institutions as determined by management.

Colorado Housing Assistance Corporation

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(i) Concentrations of Credit Risk, Continued

Credit risk with respect to CHAC's second mortgage loans receivable is considered high due to the type of loan and population of the borrowers. Though the loans are secured by a second deed of trust, it is CHAC's policy to not foreclose on the properties which secures the loans.

Also, CHAC receives a substantial amount of its revenue from the federal government. Should a significant reduction in the level of this funding occur, it could affect CHAC's programs and activities. Claims for reimbursement filed by CHAC are subject to audit and possible retroactive adjustment or disallowance. In 2013, CHAC was requested by Arapahoe County to return their grant at the end of the grant period. This request was not the result of an audit or disallowed amounts (see note 13). No claims for reimbursement have been adjusted or disallowed, and management does not anticipate this happening in the future.

(j) Allowance for Loan Loss

Management provides an allowance for loan losses based upon estimated collectibility as determined for the various mortgage assistance and foreclosure prevention second mortgages that CHAC services. Loans which are determined to be impaired are reflected at their fair value. Management's determination of the adequacy of the allowance is based upon past loss experience, economic conditions, and other relevant factors that in management's judgment deserve recognition.

All loans are secured by second deeds of trust. CHAC's policy is to make several attempts to collect delinquent loans, but not to foreclose on the properties to obtain repayment. The fair value of a loan with no payments for one year is therefore deemed to be zero for financial statement reporting purposes. The date of future repayment on the loan at that time cannot be determined and could be a number of years, if ever.

(k) Revenue Recognition

Contracts and Grants

A substantial portion of CHAC's revenue is derived from cost-reimbursable contracts and grants. Amounts received are deemed to be earned and are reported as revenue when CHAC has incurred expenditures in compliance with specific contract or grant restrictions. Amounts earned but not yet received are reported as accounts or grants receivable.

Loan Origination Fees

Loan origination fees are recognized as earned. Due to the small size of the loans and limited origination fees charged, CHAC incurs costs to originate the second mortgage loans in excess of the fees earned.

Colorado Housing Assistance Corporation

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(k) Revenue Recognition, Continued

Loan Servicing Fees

A monthly service fee is charged by CHAC to each individual second mortgage loan. Fees collected are used to partially recover CHAC's servicing costs.

Interest Income

Interest income on mortgage assistance loans and reverse equity loans is recognized when earned. Loans past due 120 days or more are placed on non-accrual status. Interest income is recognized on most foreclosure prevention loans when collected due to the higher-risk nature of the loans. These foreclosure prevention loans are considered to be on a non-accrual status. A portion of the foreclosure prevention loans in the amount of \$43,545 and \$60,481 as of June 30, 2013 and 2012, respectively, was funded by a promissory note. Interest income is accrued to offset the interest expense payable related to these loans.

(l) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(m) Income Tax Status

CHAC is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and it qualifies for the charitable contribution deduction. However, income from activities not directly related to its tax-exempt purpose is subject to taxation as unrelated business income.

CHAC is required to report uncertain tax positions. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of June 30, 2013 and 2012. If incurred, interest and penalties associated with uncertain tax positions would be recorded in the period assessed as other operating expenses. No interest and penalties have been assessed as of June 30, 2013 and 2012. The three previous tax years (years ended June 30, 2010 through 2012) remain subject to examination, generally for three years after they are filed.

(n) Subsequent Events

Management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. CHAC's financial statements were available to be issued October 24, 2013 and this is the date through which subsequent events were evaluated.

Colorado Housing Assistance Corporation

Notes to Financial Statements, Continued

(2) Loans Receivable

Loans receivable consist of simple interest mortgage loans to low and moderate income individuals and families that are collateralized by second deeds of trust. Certain loans are set up to be due upon sale or transfer, or are deemed to be grants to the borrowers if certain terms are met. Interest rates range from 0% to 6.00% per annum, depending upon the type of loan and the dates originated. CHAC's second mortgage loans receivable have been issued in conjunction with first mortgage loans originated by various lenders.

Balances outstanding for loans and allowance for loan losses are as follows at June 30, 2013:

	<u>Mortgage Assistance</u>	<u>Foreclosure Prevention</u>	<u>Reverse Equity</u>	<u>Total</u>
Second mortgage loans	\$ 9,146,407	60,799	45,576	9,252,782
Less allowance for loan loss	<u>(933,700)</u>	<u>(9,738)</u>	<u>(6,867)</u>	<u>(950,305)</u>
Net loans receivable	\$ <u>8,212,707</u>	<u>51,061</u>	<u>38,709</u>	<u>8,302,477</u>

Balances outstanding for loans and allowance for loan losses are as follows at June 30, 2012:

	<u>Mortgage Assistance</u>	<u>Foreclosure Prevention</u>	<u>Reverse Equity</u>	<u>Total</u>
Second mortgage loans	\$ 9,795,104	78,816	49,807	9,923,727
Less allowance for loan loss	<u>(975,533)</u>	<u>(12,280)</u>	<u>(7,471)</u>	<u>(995,284)</u>
Net loans receivable	\$ <u>8,819,571</u>	<u>66,536</u>	<u>42,336</u>	<u>8,928,443</u>

CHAC has a first time home buyer's mortgage assistance program that has been established with funds borrowed by CHAC from Colorado Housing and Finance Authority (CHFA) (see note 7). CHAC has loaned these funds to borrowers as provided under the terms of each program. Prior year loans from CHFA allowed for any bad debt losses to reduce the principal due from CHAC to CHFA. Repayment to CHFA is solely from loan repayments of principal and interest received by CHAC from the various borrowers on these loans.

During 2007, CHAC borrowed \$250,000 from CHFA. Terms of the loan provide that CHAC must repay the full amount borrowed to CHFA unless there is a loss on a loan for which CHFA carries the first mortgage. In that instance, the amount outstanding on the loan to CHFA is forgiven by the amount of the second mortgage loan loss.

CHAC had a reverse equity mortgage loan program that provided gap funding to assist recipients of reverse equity mortgages to fully payoff the existing mortgages on their homes. Loans issued under this program are still held by CHAC, but the program has ceased issuing new loans.

Colorado Housing Assistance Corporation

Notes to Financial Statements, Continued

(2) Loans Receivable, Continued

An analysis of the second mortgage loans receivable for the years ended June 30, 2013 and 2012 is as follows:

	<u>Mortgage Assistance</u>	<u>Foreclosure Prevention</u>	<u>Reverse Equity</u>	<u>Total</u>
Balance, June 30, 2011	\$ 9,783,865	131,783	53,833	9,969,481
Add:				
New loans	1,281,100	-	-	1,281,100
Less:				
Payments received	(679,528)	(12,452)	(4,026)	(696,006)
Loans written off/adjustments	(466,149)	(40,515)	-	(506,664)
Loans forgiven, grants	<u>(124,184)</u>	<u>-</u>	<u>-</u>	<u>(124,184)</u>
Balance, June 30, 2012	9,795,104	78,816	49,807	9,923,727
Add:				
New loans	1,044,300	-	-	1,044,300
Less:				
Payments received	(958,648)	(8,834)	(4,231)	(971,713)
Loans returned to grantor (note 13)	(365,319)	-	-	(365,319)
Loans written off/adjustments	(301,343)	(9,183)	-	(310,526)
Loans forgiven, grants	<u>(67,687)</u>	<u>-</u>	<u>-</u>	<u>(67,687)</u>
Balance, June 30, 2013	\$ <u>9,146,407</u>	<u>60,799</u>	<u>45,576</u>	<u>9,252,782</u>

Allowance for Loan Loss

CHAC provides loans to individuals who cannot obtain financing through normal lending channels and provides closing cost assistance to qualifying first time home buyers. As such there is considerable risk in the repayment of the loans, and management considers a substantial allowance for potential loan losses to be necessary.

Management has determined that mortgage insurance for second mortgages is not economically feasible; accordingly, these mortgage loans are uninsured. Therefore, management has established an allowance for possible losses on second mortgage loans based on management's evaluation of the loan portfolio and on estimated recoverability of individual loans.

Colorado Housing Assistance Corporation

Notes to Financial Statements, Continued

(2) Loans Receivable, Continued

The following is an aging of CHAC's loans at June 30, 2013:

	<u>Current</u>	<u>30-60 days</u>	<u>60-90 days</u>	<u>Over 90 days</u>	<u>Total</u>
Loan type:					
Mortgage Assistance	\$ 8,602,983	73,989	68,849	400,586	9,146,407
Foreclosure Prevention	42,067	2,771	-	15,961	60,799
Reverse Equity	<u>45,576</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,576</u>
Total	\$ <u>8,690,626</u>	<u>76,760</u>	<u>68,849</u>	<u>416,547</u>	<u>9,252,782</u>

The following is an aging of CHAC's loans at June 30, 2012:

	<u>Current</u>	<u>30-60 days</u>	<u>60-90 days</u>	<u>Over 90 days</u>	<u>Total</u>
Loan type:					
Mortgage Assistance	\$ 9,679,331	10,143	6,575	99,055	9,795,104
Foreclosure Prevention	64,581	1,073	1,013	12,149	78,816
Reverse Equity	<u>49,807</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,807</u>
Total	\$ <u>9,793,719</u>	<u>11,216</u>	<u>7,588</u>	<u>111,204</u>	<u>9,923,727</u>

Loans for which no payments are due are considered current.

A summary of the activity in the allowance for loan loss for the years ended June 30, 2013 and 2012 is as follows:

	<u>Mortgage Assistance</u>	<u>Foreclosure Prevention</u>	<u>Reverse Equity</u>	<u>Total</u>
Balance, June 30, 2011	\$ 963,622	15,126	8,985	987,733
Add:				
Bad debt provision	459,574	13,787	(1,514)	471,847
Recoveries of amounts written off	1,814	-	-	1,814
Less:				
Loans written off	(449,477)	(16,633)	-	(466,110)
Balance, June 30, 2012	975,533	12,280	7,471	995,284
Add:				
Bad debt provision (reversal)	224,930	4,607	(604)	228,933
Recoveries of amounts written off	34,583	2,034	-	36,617
Less:				
Loans written off	(301,346)	(9,183)	-	(310,529)
Balance, June 30, 2013	\$ <u>933,700</u>	<u>9,738</u>	<u>6,867</u>	<u>950,305</u>

Colorado Housing Assistance Corporation

Notes to Financial Statements, Continued

(2) Loans Receivable, Continued

Credit Quality

A committee from the CHAC Board of Directors and management meet on a regular basis to review the portfolio and assess the risk based on the types of loans in the portfolio, which include: Mortgage Assistance, Foreclosure Prevention, and Reverse Equity mortgage loans. The loan loss reserve is established based upon this assessment of risk, type of loan, the collectability of the loans based on past experience and assessment of current economic conditions and other external factors that may impact the future collectability of the loans. To estimate the loan loss reserve mortgages are assessed from 0% to 25% of their portfolio balance based on the above factors. The loans that are assessed at 0% are forgivable loans which are discussed in note 4. The loan loss reserved calculation is reviewed and approved by the board committee and management and revised based on actual losses and assessment of future collectability of loans.

The following is the credit quality classification of the loans by loan type at June 30, 2013:

	<u>Mortgage Assistance</u>	<u>Foreclosure Prevention</u>	<u>Reverse Equity</u>	<u>Total</u>
0%	\$ 305,341	–	–	305,341
1 - 10%	8,455,958	–	–	8,455,958
11 - 15%	–	46,151	45,576	91,727
16% - 25%	<u>385,108</u>	<u>14,648</u>	<u>–</u>	<u>399,756</u>
	<u>\$ 9,146,407</u>	<u>60,799</u>	<u>45,576</u>	<u>9,252,782</u>

The following is the credit quality classification of the loans by loan type at June 30, 2012:

	<u>Mortgage Assistance</u>	<u>Foreclosure Prevention</u>	<u>Reverse Equity</u>	<u>Total</u>
0%	\$ 288,963	–	–	288,963
1 - 10%	9,215,574	–	–	9,215,574
11 - 15%	–	66,153	49,807	115,960
16% - 25%	<u>290,567</u>	<u>12,663</u>	<u>–</u>	<u>303,230</u>
	<u>\$ 9,795,104</u>	<u>78,816</u>	<u>49,807</u>	<u>9,923,727</u>

Colorado Housing Assistance Corporation

Notes to Financial Statements, Continued

(2) Loans Receivable, Continued

Nonaccrual loans

Loans are considered in default if they are 120 days or more past due or if the borrower is no longer residing in the home, or foreclosure on the secured property has been completed. A loan is placed on nonaccrual when management believes, after considering economic conditions, business conditions, and collection efforts that the loan is impaired or collection of interest is doubtful. Uncollected interest previously accrued, if any, is reversed from income. Interest on nonaccrual loans is recognized as income only when received. Reverse equity loans totaling \$45,576 and \$49,807 at June 30, 2013 and 2012, respectively, do not accrue interest, based on the loan terms. Other loans that are on nonaccrual at June 30, 2013 and 2012 total \$63,299 and \$111,189, respectively.

(3) Below Market Interest Rate Loans

Generally accepted accounting principles require not-for-profit organizations to record interest expense (income) and contribution revenue (expense) in connection with loans that are interest free or that have below-market interest rates. CHAC believes there is no material difference between community development finance market rates and the stated rates of loans in CHAC's portfolio. Consequently no adjustments have been made to the financial statements to reflect rate differentials.

(4) Forgivable Loans

The Hope-3 Home Ownership for Developmentally Disabled and Chronically Mentally Ill Program provides that the related loans will be forgiven over a period of time. The loans are due on sale of the underlying collateral prior to the period the loans are forgiven. One-half of any repayments are to be returned to HUD, with the balance retained by CHAC.

Certain other second mortgage receivables under other loan programs are also scheduled to be forgiven in future years if the borrower continues to live in the residence. If the borrower vacates the house prior to the end of the required period of residency, the remaining principal is to be repaid to CHAC.

For the years ended June 30, 2013 and 2012, \$14,959 and \$22,448 of loans were repaid, respectively. Loan amounts forgiven in 2013 and 2012 due to the passage of time were \$68,731 and \$127,184, respectively. These amounts were included in grant expense in the statement of functional expenses. The remaining balance of these loans total \$220,271 and \$288,963 at June 30, 2013 and 2012, respectively.

Colorado Housing Assistance Corporation

Notes to Financial Statements, Continued

(4) Forgivable Loans, Continued

Amounts to be forgiven over future years are as follows:

Year Ending <u>June 30,</u>	
2014	\$ 46,153
2015	93,209
2016	38,592
2017	12,831
2018	4,584
Thereafter	<u>24,902</u>
	<u>\$ 220,271</u>

(5) Loan Servicing

CHAC originates and services loans for other organizations. At June 30, 2013, a total of 98 loans with an outstanding balance of \$1,588,438, and at June 30, 2012, a total of 89 loans with an outstanding amount of \$1,533,933 were being serviced by CHAC under four loan originating/servicing arrangements. The outstanding loans issued under the arrangements are not reflected in these financial statements since they are assets of other organizations. Fees earned under these arrangements totaled \$1,490 and \$1,265 during the years ended June 30, 2013 and June 30, 2012, respectively.

(6) Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2013</u>	<u>2012</u>
Land	\$ 190,000	190,000
Building and improvements	596,051	596,051
Software	23,131	-
Furniture and equipment	<u>68,222</u>	<u>68,222</u>
	877,404	854,273
Less accumulated depreciation	<u>(237,223)</u>	<u>(215,302)</u>
Net property and equipment	\$ <u>640,181</u>	<u>638,971</u>

(7) Notes Payable

CHAC has four notes payable from Colorado Housing and Finance Authority (CHFA) that are all required to be used for CHAC's loan programs with different requirements on the maximum loan amounts, terms and types of borrowers. These notes are collateralized by assignment of promissory notes and second deeds of trust to CHFA.

Colorado Housing Assistance Corporation

Notes to Financial Statements, Continued

(7) Notes Payable, Continued

Notes payable related to CHAC's loan programs consists of the following at June 30:

	<u>2013</u>	<u>2012</u>
<p>Note payable to CHFA, dated August 5, 1994, proceeds used to fund \$5,000 mortgage loans to participants in the HUD "Hope-3 Home Ownership for Developmentally Disabled and Chronically Mentally Ill Program"; with 0% interest and payments due upon receipt by CHAC of principal payments on the related loans over 30 years, upon sale of the properties financed by such loans, or payment of the first mortgage loans on such properties, to the extent received.</p>	\$ 118,550	133,550
<p>Note payable to CHFA, dated October 1, 2001, proceeds used to originate mortgage loans for low-income households for the purpose of down payment assistance and closing costs under CHAC's mortgage assistance program; payments due monthly in the aggregate amounts of principal collected and 1.5% of the interest collected by CHAC on the related loans by CHAC to borrowers with the proceeds of the note. The balance, less the principal of any bad debt write-offs, matures thirty days after the final scheduled maturity or payment in full of the mortgage loans.</p>	7,504	11,862
<p>Note payable to CHFA, dated July 15, 2002, proceeds used to originate mortgage loans for low-income households for the purpose of down payment assistance and closing costs under CHAC's mortgage assistance program; payments due monthly in the aggregate amounts of principal collected and 1.5% of the interest collected by CHAC on the related loans by CHAC to borrowers with the proceeds of the note. The balance, less the principal of any bad debt write-offs, matures thirty days after the final scheduled maturity or payment in full of the mortgage loans.</p>	41,188	44,554
<p>Note payable to CHFA, dated December 1, 2007, proceeds used to originate foreclosure prevention loans for eligible homeowners in Colorado; 3% interest payments due on the outstanding balance and principal payments due as each of CHAC's foreclosure prevention loans made using the proceeds of the note mature. Any unpaid principal and accrued interest matures December 1, 2019.</p>	<u>95,683</u>	<u>103,944</u>
<p>Total notes payable for loan programs</p>	<u>262,925</u>	<u>293,910</u>

Colorado Housing Assistance Corporation

Notes to Financial Statements, Continued

(7) Notes Payable, Continued

	<u>2013</u>	<u>2012</u>
Mortgage note payable to FirstBank, secured by a deed of trust on CHAC's office building, dated December 28, 2011, requires monthly payments of \$2,806, including interest at 4.15%, with unpaid principal and accrued interest due January 1, 2022. CHAC granted a security interest in the balances of all of its accounts held at FirstBank, which totaled \$1,329,543 and \$1,171,209 at June 30, 2013 and 2012, respectively.	<u>240,332</u>	<u>263,276</u>
Total notes payable for mortgages	<u>240,332</u>	<u>263,276</u>
Total notes payable	<u>\$ 503,257</u>	<u>557,186</u>

Required future annual principal payments are as follows for each of the years ending June 30:

2014	\$ 31,622
2015	34,807
2016	36,442
2017	39,339
2018	42,600
Thereafter	<u>318,447</u>
	<u>\$ 503,257</u>

(8) Other Liabilities

“Other liabilities” is comprised of equity equivalent investments. An equity equivalent investment has an indefinite term and is fully subordinate to all other CHAC liabilities.

Following is a summary of the equity equivalent investments at June 30:

<u>Lender</u>	<u>Repayment terms</u>	<u>Interest rate</u>		<u>2013</u>	<u>2012</u>
Wells Fargo Community Development Corporation	Quarterly interest only	2%	\$	200,000	200,000
Wells Fargo Community Investment Holdings	Quarterly interest only	2%		200,000	200,000
FirstBank	None in first 5 years*	0%		<u>500,000</u>	<u>500,000</u>
			\$	<u>900,000</u>	<u>900,000</u>

* After March 2014, the rate will be negotiated and it is not to exceed the average weekly yield on U.S. Treasury securities.

Colorado Housing Assistance Corporation

Notes to Financial Statements, Continued

(8) Other Liabilities, Continued

Performance Covenants

CHAC is required to meet certain performance covenants as specified in the individual financing agreements, including, among other requirements maintaining: a specified maximum senior debt and specified subordinated debt to total assets. At June 30, 2013, CHAC's management was not aware of any violations of the loan covenants and reporting requirements.

Other

CHAC's board of directors include: an officer of FirstBank and a director with the Colorado Housing and Finance Authority.

(9) Designations of Unrestricted Net Assets

A portion of unrestricted net assets has been designated by the Board of Directors for various purposes as follows at June 30:

	<u>2013</u>	<u>2012</u>
Lending activity	\$ 2,413,380	2,723,451
Other:		
Building fund for future debt reduction and/or major improvements	75,000	75,000
Building maintenance fund	35,000	35,000
Future operating expenses	<u>32,864</u>	<u>32,864</u>
	<u>142,864</u>	<u>142,864</u>
Designated unrestricted net assets	2,556,244	2,866,315
Undesignated unrestricted net assets	<u>896,048</u>	<u>642,117</u>
	<u>\$ 3,452,292</u>	<u>3,508,432</u>

(10) Restrictions on Net Assets

At June 30, 2013 and 2012, temporarily restricted net assets consisted of amounts for funding of future second mortgage loans.

For the years ended June 30, 2013 and 2012, net assets of \$243,882 and \$478,737, respectively, were released from restrictions due to the purpose restrictions of loan origination and service being met.

Colorado Housing Assistance Corporation

Notes to Financial Statements, Continued

(11) Operating Leases

CHAC leases certain office equipment under various non-cancelable operating lease agreements which expire on various dates. Future minimum lease payments under the non-cancelable operating leases for the years ending June 30 are:

2014	\$ 4,689
2015	4,689
2016	4,689
2017	<u>3,126</u>
Total minimum lease payments	\$ <u>17,193</u>

CHAC's rent expense for operating leases in 2013 and 2012 was \$7,769 and \$11,468, respectively.

(12) Retirement Plan

CHAC has a Savings Incentive Match Plan (SIMPLE IRA), in which all full-time and eligible part-time employees are eligible to participate. CHAC may match employee's contributions up to 3% of the employees' annual salary. The board approves the match on an annual basis. During the year ended June 30, 2013 and 2012, CHAC contributed \$9,712 and \$8,110, respectively, to the Plan.

(13) Commitments and Return of Grant

CHAC receives several federal grants each year that are passed through from other grantor agencies, such as different Colorado counties. These grant agreements include a clause that the agreement may be terminated by the grantor. Generally, at the end of the grant period, the grantor allows CHAC to continue to maintain the loan funds, and any program income (interest and principal payments) is used for loans to new borrowers under the same conditions as the original grant agreement.

In 2013, Arapahoe County requested that all funds related to their grant agreement be returned. As a result of that request, CHAC paid \$4,087 in cash and transferred loans with a net book value totaling \$329,234 (which were originally funded by the grant) to the county. This resulted in a loss from the return of grant totaling \$333,321 on the statement of activities.