

# **Colorado Housing Assistance Corporation**

## **Financial Statements**

**June 30, 2012 and 2011**

**(With Independent Auditor's Report Thereon)**

**Independent Auditor's Report**

**Board of Directors  
Colorado Housing Assistance Corporation:**

We have audited the accompanying statements of financial position of Colorado Housing Assistance Corporation (CHAC) as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of CHAC's management. 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 of material misstatement. 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. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Kundinger, Corder & Engle, P.C.*

October 18, 2012

**Colorado Housing Assistance Corporation**  
**Statements of Financial Position**  
**June 30, 2012 and 2011**

	2012	2011
<b>Assets:</b>		
Cash and cash equivalents (note 7)	\$ 1,821,200	1,701,569
Accounts receivable	24,144	72,014
Grants receivable	213,292	189,541
Accrued interest receivable	299,131	253,484
Loans receivable, less allowance for loan loss of \$995,284 and \$987,733 (notes 2, 3, 4 and 7)	8,928,443	8,981,748
Other assets	12,113	4,621
Property and equipment, net (note 6)	638,971	644,016
Total assets	\$ 11,937,294	11,846,993
<b>Liabilities and Net Assets:</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 24,901	24,959
Notes payable (note 7)	557,186	649,441
Other liabilities (note 8)	900,000	900,000
Total liabilities	1,482,087	1,574,400
<b>Net assets:</b>		
<b>Unrestricted:</b>		
Designated - loan capital (note 9)	2,723,451	2,594,789
Designated - other (note 9)	142,864	142,864
Undesignated	642,117	927,752
Total unrestricted net assets	3,508,432	3,665,405
Temporarily restricted (note 10)	6,946,775	6,607,188
Total net assets	10,455,207	10,272,593
Commitments (notes 4, 7, 8, 11, and 12 )		
Total liabilities and net assets	\$ 11,937,294	11,846,993

See accompanying notes to financial statements.

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

	Unrestricted	Temporarily Restricted	Total
<b>Revenue, gains and support:</b>			
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>
<b>Expenses:</b>			
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>
<b>Change in net assets</b>	(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>
<b>Net assets, end of year</b>	<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 Activities**  
**Year Ended June 30, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenue, gains and support:</b>			
Grants and contributions	\$ 235,405	401,899	637,304
Loan origination and servicing fees	113,756	-	113,756
Interest income on loans	92,977	82,229	175,206
Counseling and education fees	51,700	-	51,700
Other program income	71,778	-	71,778
Rental income	7,902	-	7,902
Bank interest and other income	5,299	85	5,384
Net assets released from restrictions due to satisfaction of expenditure requirements	320,658	(320,658)	-
<b>Total revenue, gains and support</b>	<u>899,475</u>	<u>163,555</u>	<u>1,063,030</u>
<b>Expenses:</b>			
Program services:			
Loan origination	189,235	-	189,235
Loan servicing	635,200	-	635,200
Counseling and education	163,980	-	163,980
Total program services	988,415	-	988,415
Management and general	82,961	-	82,961
<b>Total expenses</b>	<u>1,071,376</u>	<u>-</u>	<u>1,071,376</u>
<b>Change in net assets</b>	(171,901)	163,555	(8,346)
Net assets, beginning of year	3,837,306	6,443,633	10,280,939
<b>Net assets, end of year</b>	<u>\$ 3,665,405</u>	<u>6,607,188</u>	<u>10,272,593</u>

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				
<b>Expenses:</b>							
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
<b>Total expenses</b>	<b>\$ 180,994</b>	<b>744,065</b>	<b>180,181</b>		<b>1,105,240</b>	<b>89,919</b>	<b>1,195,159</b>

See accompanying notes to financial statements.

**Colorado Housing Assistance Corporation**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2011**

	Program Services					Total Expenses
	Loan Origination	Loan Servicing	Counseling and Education	Total Program Services	Management and General	
<b>Expenses:</b>						
Salaries	\$ 114,171	73,571	98,732	286,474	43,750	330,224
Payroll taxes	8,374	5,396	7,241	21,011	3,209	24,220
Benefits	11,374	7,330	9,836	28,540	4,359	32,899
Provision for loan losses	-	457,642	-	457,642	-	457,642
Forgivable loan grants	-	40,778	-	40,778	-	40,778
Refunded grant expense	-	18,535	-	18,535	-	18,535
General loan expenses	6,443	4,217	-	10,660	-	10,660
Interest expense	17,723	3,443	4,682	25,848	1,239	27,087
Professional services and contract labor	-	-	10,440	10,440	20,150	30,590
Conferences and meetings	1,140	891	1,211	3,242	321	3,563
Occupancy expense	9,598	7,498	10,197	27,293	2,699	29,992
Telephone	4,215	3,293	4,479	11,987	1,185	13,172
Insurance expense	1,415	1,106	1,504	4,025	398	4,423
Equipment rental and maintenance	2,575	2,012	2,737	7,324	724	8,048
Office supplies	1,773	1,386	1,884	5,043	499	5,542
Postage and shipping	1,197	935	1,272	3,404	337	3,741
Bank and other fees	2,428	1,897	2,581	6,906	683	7,589
Other	1,252	928	1,280	3,460	1,845	5,305
Depreciation	5,557	4,342	5,904	15,803	1,563	17,366
<b>Total expenses</b>	<b>\$ 189,235</b>	<b>635,200</b>	<b>163,980</b>	<b>988,415</b>	<b>82,961</b>	<b>1,071,376</b>

See accompanying notes to financial statements.

**Colorado Housing Assistance Corporation**  
**Statements of Cash Flows**  
**Years Ended June 30, 2012 and 2011**

	2012	2011
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 182,614	(8,346)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18,794	17,366
Amortization of loan fees	2,734	236
Provision for loan losses	471,847	457,642
Noncash grants - forgivable loans	127,184	40,778
(Increase) decrease in operating assets:		
Accounts receivable	47,870	(39,131)
Grants receivable	(23,751)	218,204
Accrued interest receivable	(45,647)	(39,346)
Other assets	(10,226)	3,176
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(58)	(56,046)
Net cash provided by operating activities	771,361	594,533
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(13,749)	-
Loan payments received and other reductions	735,374	788,548
Loans disbursed	(1,281,100)	(969,600)
Net cash used in investing activities	(559,475)	(181,052)
<b>Cash flows from financing activities:</b>		
Payments on notes payable	(355,531)	(65,562)
Proceeds from notes payable	263,276	-
Proceeds from equity equivalent investments	-	200,000
Net cash provided by (used in) financing activities	(92,255)	134,438
<b>Net increase in cash and cash equivalents</b>	119,631	547,919
<b>Cash and cash equivalents, beginning of year</b>	1,701,569	1,153,650
<b>Cash and cash equivalents, end of year</b>	\$ 1,821,200	1,701,569
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the year for interest	\$ 27,471	27,087

See accompanying notes to financial statements.

# Colorado Housing Assistance Corporation

## Notes to Financial Statements

June 30, 2012 and 2011

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### (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, 2012 and 2011.

#### (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

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### (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

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### (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 it serves. 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. To date, 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

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### (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 \$60,481 and \$111,075 as of June 30, 2012 and 2011, 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, 2012 and 2011. 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, 2012 and 2011. The three previous tax years (years ended June 30, 2009 through 2011) remain subject to examination.

#### (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 18, 2012 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, 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>

Balances outstanding for loans and allowance for loan losses are as follows at June 30, 2011:

	<u>Mortgage Assistance</u>	<u>Foreclosure Prevention</u>	<u>Reverse Equity</u>	<u>Total</u>
Second mortgage loans	\$ 9,783,865	131,783	53,833	9,969,481
Less allowance for loan loss	<u>(963,622)</u>	<u>(15,126)</u>	<u>(8,985)</u>	<u>(987,733)</u>
Net loans receivable	\$ <u>8,820,243</u>	<u>116,657</u>	<u>44,848</u>	<u>8,981,748</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, 2012 and 2011 is as follows:

	<u>Mortgage Assistance</u>	<u>Foreclosure Prevention</u>	<u>Reverse Equity</u>	<u>Total</u>
Balance, June 30, 2010	\$ 10,042,713	180,038	59,898	10,282,649
Add:				
New loans	969,600	-	-	969,600
Less:				
Payments received	(735,054)	(12,488)	(3,865)	(751,407)
Loans written off/adjustments	(453,716)	(35,767)	(2,200)	(491,683)
Loans forgiven, grants	<u>(39,678)</u>	<u>-</u>	<u>-</u>	<u>(39,678)</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	\$ <u>9,795,104</u>	<u>78,816</u>	<u>49,807</u>	<u>9,923,727</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.

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.

# Colorado Housing Assistance Corporation

## Notes to Financial Statements, Continued

### (2) Loans Receivable, Continued

A summary of the activity in the allowance for loan loss for the years ended June 30, 2012 and 2011 is as follows:

	<u>Mortgage Assistance</u>	<u>Foreclosure Prevention</u>	<u>Reverse Equity</u>	<u>Total</u>
Balance, June 30, 2010	\$ 951,861	22,450	8,985	983,296
Add:				
Bad debt provision	437,460	17,982	2,200	457,642
Recoveries of amounts written off	1,609	-	-	1,609
Less:				
Loans written off	<u>(427,308)</u>	<u>(25,306)</u>	<u>(2,200)</u>	<u>(454,814)</u>
Balance, June 30, 2011	<u>963,622</u>	<u>15,126</u>	<u>8,985</u>	<u>987,733</u>
Add:				
Bad debt provision (reversal)	459,574	13,787	(1,514)	471,847
Recoveries of amounts written off	1,814	-	-	1,814
Less:				
Loans written off	<u>(449,477)</u>	<u>(16,633)</u>	<u>-</u>	<u>(466,110)</u>
Balance, June 30, 2012	\$ <u>975,533</u>	<u>12,280</u>	<u>7,471</u>	<u>995,284</u>

#### 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, 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

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### (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 the loan is paid in full. Reverse equity loans totaling \$49,807 do not accrue interest, based on the loan terms. Other loans that are on nonaccrual at June 30, 2012 total \$111,189.

### (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, 2012 and 2011, \$22,448 and \$15,471 of loans were repaid respectively. Loan amounts forgiven in 2012 and 2011 due to the passage of time were \$127,184 and \$40,778 respectively. These amounts were included in grant expense in the statement of functional expenses. The remaining balance of these loans total \$288,963 and \$441,441 at June 30, 2012 and 2011, respectively.

# Colorado Housing Assistance Corporation

## Notes to Financial Statements, Continued

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### (4) Forgivable Loans, Continued

Amounts to be forgiven over future years are as follows:

Year Ending <u>June 30,</u>	
2013	\$ 31,937
2014	84,007
2015	92,563
2016	37,424
2017	16,421
Thereafter	<u>26,611</u>
	\$ <u>288,963</u>

### (5) Loan Servicing

CHAC originates and services loans for other organizations. At June 30, 2012, a total of 89 loans with an outstanding balance of \$1,533,933, and at June 30, 2011, a total of 93 loans with an outstanding amount of \$1,626,944 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 \$1,265 and \$919 during the years ended June 30, 2012 and June 30, 2011, respectively.

### (6) Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 190,000	190,000
Building and improvements	596,051	596,051
Furniture and equipment	<u>68,222</u>	<u>54,474</u>
	854,273	840,525
Less accumulated depreciation	<u>(215,302)</u>	<u>(196,509)</u>
Net property and equipment	\$ <u>638,971</u>	<u>644,016</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>2012</u>	<u>2011</u>
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.	\$ 133,550	153,550
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.	11,862	12,818
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.	44,554	65,330
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.	<u>103,944</u>	<u>138,160</u>
Total notes payable for loan programs	<u>293,910</u>	<u>369,858</u>

# Colorado Housing Assistance Corporation

## Notes to Financial Statements, Continued

### (7) Notes Payable, Continued

	<u>2012</u>	<u>2011</u>
<p>In 2011, CHAC had two mortgage note agreements, both of which were secured by deeds of trust on real property used for CHAC's administrative offices. These notes were paid off and one new mortgage note agreement, also secured by a deed of trust on the same real property was entered into in 2012 with FirstBank. In addition, CHAC also granted a security interest in the balances of all of its accounts held at FirstBank, which totaled \$1,171,209 at June 30, 2012. Notes payable related to CHAC's mortgages consist of the following:</p>		
Mortgage note payable to CHF A, as amended effective May 1, 2005, required monthly payments of \$1,883, including interest at 6.49%; with any unpaid principal and accrued interest due September 1, 2021, paid in fully in fiscal 2012.	-	167,856
Mortgage note payable to City and County of Denver, dated October 1, 2002, required monthly payments of \$711, including interest at 3%, beginning May 1, 2004, with any unpaid principal and accrued interest due October 1, 2012, paid in fully in fiscal 2012.	-	111,727
Mortgage note payable to FirstBank, 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.	<u>263,276</u>	<u>-</u>
Total notes payable for mortgages	<u>263,276</u>	<u>279,583</u>
Total notes payable	<u>\$ 557,186</u>	<u>649,441</u>

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

2013	\$ 32,658
2014	35,753
2015	37,206
2016	39,877
2017	42,828
Thereafter	<u>368,864</u>
	<u>\$ 557,186</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.

# Colorado Housing Assistance Corporation

## Notes to Financial Statements, Continued

### (8) Other Liabilities, Continued

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

<u>Lender</u>	<u>Repayment terms</u>	<u>Interest rate</u>	<u>2012</u>	<u>2011</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%	500,000 \$ 900,000	500,000 900,000

\* After March 2013, the rate will be negotiated and it is not to exceed the average weekly yield on U.S. Treasury securities.

#### 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, 2012, 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>2012</u>	<u>2011</u>
Lending activity	\$ 2,723,451	2,594,789
Other:		
Building fund for future debt reduction and/or major improvements	75,000	75,000
Building maintenance fund	35,000	10,000
Future operating expenses	32,864	32,864
Loan balloon payment	-	25,000
	<u>142,864</u>	<u>142,864</u>
Designated unrestricted net assets	2,866,315	2,737,653
Undesignated unrestricted net assets	642,117	927,752
	<u>\$ 3,508,432</u>	<u>3,665,405</u>

# Colorado Housing Assistance Corporation

## Notes to Financial Statements, Continued

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### (10) Restrictions on Net Assets

At June 30, 2012 and 2011, temporarily restricted net assets consisted of amounts for funding of future second mortgage loans.

For the years ended June 30, 2012 and 2011, net assets of \$478,737 and \$320,658, respectively, were released from restrictions due to the purpose restrictions of loan origination and service being met.

### (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:

2013	\$ 6,168
2014	4,689
2015	4,689
2016	4,689
2017	<u>3,126</u>
Total minimum lease payments	\$ <u>23,361</u>

CHAC's rent expense for operating leases in 2012 and 2011 was \$11,468 and \$11,034, 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 in the plan. 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, 2012 and 2011, CHAC contributed \$8,110 and \$6,543 respectively to the Plan.