# 30 *years*

financing the places where people live and work

financial report 2004 colorado housing and finance authority

# Financial Statements for the Years Ended December 31, 2004 and 2003 and Independent Auditors' Reports

colorado housing and finance authority

this page left intentionally blank

# table of contents

this page left intentionally blank

## introductory section

The Colorado Housing and Finance Authority (the "Authority") is a public enterprise that finances affordable housing, business and economic growth opportunities for residents and businesses of Colorado. Its dual mission is to provide financial opportunities for affordable, decent, and accessible housing for lower- and moderate-income Coloradans, and to strengthen the state's economic development by financing the growth of Colorado-owned businesses.

Established by the Colorado General Assembly in 1973, the Authority raises funds through the sale of bonds and notes, which are not obligations of the State of Colorado, to individuals and organizations. The proceeds are loaned to eligible borrowers, primarily through private lending institutions across the state under the sound fiscal practices of the Authority. In 1982 the Colorado General Assembly passed legislation allowing the Authority to make loans to Colorado-owned small and medium-sized businesses. The Authority has provided home ownership, affordable multi-family housing or Colorado-owned business financing in every Colorado county.

As a self-sustaining organization, the Authority's operating revenues come from loan and program administration fees, interest charges, and investment income. The Authority receives no tax dollars, and its net revenues are reinvested in its service programs.

An independent 11-member board of directors governs the Authority. The board includes a member of the Colorado General Assembly, the state auditor, a member of the governor's cabinet, and eight individuals appointed by the governor and confirmed by the State Senate.

### Board of Directors

| | |
|---|---|
| Nancy McCallin | Chairperson |
| Joseph Garcia | Chair Pro Tem |
| Michele Dressel | Secretary/Treasurer |
| Joseph Blake | Board Member |
| John Blumberg | Board Member |
| M. Michael Cooke | Board Member |
| Jo Ellen Davidson | Board Member |
| John (Jay) Davidson | Board Member |
| Rick Grice | Board Member |
| Joanne Hill | Board Member |
| Jim Isgar | Board Member |

this page left intentionally blank

# independent auditors' report

The Board of Directors of
Colorado Housing and Finance Authority
Denver, Colorado

We have audited the accompanying statements of net assets of Colorado Housing and Finance Authority (the "Authority") as of December 31, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Hyland Park Centre Corporation, Tanglewood Oaks Apartments Corporation, and Village of Yorkshire Corporation, which statements reflect assets constituting 0.7% and 0.8%, respectively, of total assets at December 31, 2004 and 2003, and revenues constituting 4.2% and 4.6%, respectively, of total revenues for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Hyland Park Centre Corporation, Tanglewood Oaks Apartments Corporation, and Village of Yorkshire Corporation, are based solely on the reports of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting 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, based on our audits and the other reports of the other auditors, such financial statements present fairly, in all material respects, the financial position of the Authority, as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 1 through 6 are not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of management's discussion and analysis. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The accompanying Supplemental Statements of Net Assets by Program as of December 31, 2004, Supplemental Statements of Revenues, Expenses and Changes in Net Assets by Program and Supplemental Statements of Cash Flows by Program for the year ended December 31, 2004, are presented for the purpose of additional analysis and are not a required part of the 2004 financial statements of the Authority. These statements are the responsibility of the Authority's management. Such schedules have been subjected to the auditing procedures applied in our audit of the 2004 financial statements and, in our opinion are fairly stated in all material respects when considered in relation to the 2004 financial statements taken as a whole.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated June 24, 2005, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Deloitte & Touche LLP

Denver, Colorado
June 24, 2005

this page left intentionally blank

# management's discussion and analysis

December 31, 2004 (unaudited)

This section of the Colorado Housing and Finance Authority's (the "Authority") annual financial report presents management's discussion and analysis of the financial position and results of operations at and for the fiscal year ended December 31, 2004. This information is being presented to provide additional information regarding the activities of the Authority and to meet the disclosure requirements of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government*. This analysis should be read in conjunction with the Independent Auditors' Reports, the audited financial statements and accompanying notes. The Authority is entirely self – funded and does not draw upon the general taxing authority of the State of Colorado.

## Financial Position and Results of Operations

> Net assets as of December 31, 2004, were $227.5 million, an increase of $17.8 million, or 8.5%, compared to net assets of $209.8 million as of December 31, 2003.

> As reflected in the Statements of Revenues, Expenses and Changes in Net Assets, the change in net assets of $17.8 million for 2004 represents a 54.8% increase over the change in net assets for 2003 of $11.5 million. This was primarily due to a net increase of $1.2 million in the fair market value of long-term securities in 2004 compared to a net decrease of $3.6 million in 2003. Also contributing to the increase was a decline of $1.1 million, or 30.8%, in the provision for loan and other real estate owned losses. Profitability, as measured by return on average net assets, was 8.12% in 2004 compared to 5.62% in 2003. Excluding the effect of the change in fair market value of long-term securities, the return on average net assets was 7.56% in 2004 and 7.37% in 2003.

> Total loans receivable as of December 31, 2004, were $1.9 billion, an increase of $184.0 million, or 10.6%, compared to the amount outstanding as of December 31, 2003.

> The increase in loans receivable was funded by an increase in bonds and notes payable. As of December 31, 2004, bonds and notes payable were $2.6 billion, an increase of $193.9 million, or 8.1%, compared to the balance at December 31, 2003.

# management's discussion and analysis

December 31, 2004 (unaudited)

## Overview of the Financial Statements

The financial statements consist of three sections: management's discussion and analysis, the financial statements with notes, and supplementary schedules. The Authority, a corporate body and political subdivision of the State of Colorado, is a public purpose financial enterprise and therefore follows enterprise fund accounting. The financial statements offer information about the Authority's activities and operations.

The Statement of Net Assets includes all of the Authority's assets and liabilities, presented in order of liquidity. The resulting net assets presented in these statements are displayed as restricted or unrestricted. Under GASB Statement No. 34, assets are restricted when their use is subject to external limits such as bond resolutions, legal agreements or statutes. Assets falling outside this category are characterized as unrestricted. Please note, however, that unrestricted assets include assets that have been committed by the Authority for specific uses, but for which an agreement may not yet be in place.

All of the current year's revenues and expenses of the Authority are recorded in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the activities of the Authority's operations over the past year, and presents the income (loss) or change in net assets. Change in net assets is calculated as revenues less expenses.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments and net changes in cash resulting from operating, non-capital financing, investing and financing activities and provides information regarding the sources and uses of cash and the change in the cash balance during the reporting period.

Financial statements by program are presented as supplementary schedules. These statements separate the financial statements into three segments: Single Family Bond Programs, Multi-Family Bond Programs, and the General Fund, which includes all other Authority activities.

# management's discussion and analysis

December 31, 2004 (unaudited)

## Statements of Net Assets

### December 31, 2004 compared to December 31, 2003

The table on the following page presents condensed information about the financial position of the Authority as of December 31, 2004 and 2003, and changes in the balances of selected items during the fiscal year ended December 31, 2004.

Long-term investment securities increased $33.4 million, or 21.4%, compared to year-end 2003. This increase is the result of required debt service reserves arising from new debt issues and the reinvestment of the proceeds of certain maturing short-term securities in long-term securities.

Total loans receivable increased $184.0 million, or 10.6%, during the current year, of which the non-current portion of the increase was $177.8 million. The change is largely due to new loan purchases of approximately $526.1 million, offset by loan repayments and prepayments that resulted in total principal reductions of $330.1 million. This growth in loans receivable was funded by increases in bonds and notes payable, discussed further below.

New loan production, as measured by total loans funded, of $526.1 million was $109.6 million, or 17.2%, less than 2003 production. This decrease is primarily due to a decline in multi-family loan production due to adverse conditions affecting the rental market during 2004 and certain nonrecurring loan production activity during 2003. In addition, single family loan production decreased compared to 2003. Single family production in 2003 was at record levels due to historically low mortgage interest rates. Although production levels declined in 2004 compared to 2003, they were approximately 5% higher than 2002 production levels. Partially offsetting these decreases was an increase in business finance loan production.

# management's discussion and analysis

December 31, 2004 (unaudited)

| in thousands | as of December 31, 2004 | 2003 | $ Change | % Change |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current Assets** | $ **734,781** | $ 744,457 | $ (9,676) | (1.3)% |
| **Noncurrent Assets:** | | | | |
| Long-term investment securities | **189,702** | 156,290 | 33,412 | 21.4 % |
| Loans receivable, net | **1,851,859** | 1,674,010 | 177,849 | 10.6 % |
| Property and equipment, net | **39,813** | 34,358 | 5,455 | 15.9 % |
| Other assets | **29,245** | 26,613 | 2,632 | 9.9 % |
| Total Noncurrent Assets | **2,110,619** | 1,891,271 | 219,348 | 11.6 % |
| Total Assets | $ **2,845,400** | $ 2,635,728 | $ 209,672 | 8.0 % |
| **Liabilities** | | | | |
| **Current Liabilities** | $ **421,361** | $ 393,524 | $ 27,837 | 7.1 % |
| **Noncurrent Liabilities:** | | | | |
| Bonds and notes payable, net | **2,196,136** | 2,032,075 | 164,061 | 8.1 % |
| Deferred fee income | **382** | 362 | 20 | 5.5 % |
| Total Noncurrent Liabilities | **2,196,518** | 2,032,437 | 164,081 | 8.1 % |
| Total Liabilities | **2,617,879** | 2,425,961 | 191,918 | 7.9 % |
| **Net Assets** | | | | |
| Invested in capital assets, net of related debt | **7,093** | 6,636 | 457 | 6.9 % |
| Restricted | **91,042** | 78,563 | 12,479 | 15.9 % |
| Unrestricted | **129,386** | 124,568 | 4,818 | 3.9 % |
| Total Net Assets | **227,521** | 209,767 | 17,754 | 8.5 % |
| Total Liabilities and Net Assets | $ **2,845,400** | $ 2,635,728 | $ 209,672 | 8.0 % |

The accompanying notes are an integral part of these statements

The Authority's property and equipment includes land, buildings, office and computer equipment used both in its corporate activities and in its Rental Acquisition Program ("RAP"). The Authority owns 15 RAP multi-family rental properties which provide affordable housing to low and moderate income families. Total property and equipment increased $5.5 million, or 15.9%, during 2004. This increase was primarily the result of the acquisition of an additional RAP property during 2004. See Note (1)(k) to the financial statements for more details.

## management's discussion and analysis

December 31, 2004 (unaudited)

Current liabilities increased $27.8 million, or 7.1%, over 2003. Of this total increase, $17.4 million was due to an increase in current maturities of bonds payable. In addition, notes payable increased $12.5 million, primarily as a result of a higher level of borrowings under the Authority's line of credit for funding of loan purchases by the General Fund.

Bonds and notes payable increased $193.9 million, or 8.1%, over 2003, of which the non-current portion of the increase was $164.1 million. This increase was primarily the result of the issuance of $584.5 million in debt pursuant to the Authority's single family and multi-family/project bond programs. In addition, approximately $49.3 million in debt was issued pursuant to various private placements through the Authority's General Fund. This increase in debt outstanding was largely offset by repayments and early redemptions. More detail on the Authority's debt is presented in Note (4) to the financial statements.

Restricted net assets were $91.0 million as of December 31, 2004. The use of these amounts, recorded as net assets of the single family and multi-family bond funds, are directed by the related bond resolutions and trust indentures.

Total net assets of the Authority climbed $17.8 million, or 8.5%, to $227.5 million as of December 31, 2004, as a result of positive operating results for the year, discussed in more detail below and the footnotes to the financial statements beginning on page 15.

### December 31, 2003 compared to December 31, 2002

The table on the following page presents condensed information about the financial position of the Authority as of December 31, 2003 and 2002, and changes in the balances of selected items during the fiscal year ended December 31, 2003.

Current assets increased $35.9 million, or 5.1%, largely due to an increase in refunding activity and the reinvestment of the proceeds for purposes of preserving tax-exempt bond issuance capacity. A total of $268.1 million of line-of-credit borrowings and short-term debt obligations were outstanding related to the volume capacity preservation activity as of December 31, 2003.

Total loans receivable increased $147.9 million, or 9.3%, during 2003, of which the non-current portion increase was $142.9 million. The change was largely due to new loan purchases of approximately $635.8 million, offset by loan repayments and prepayments that resulted in total pay downs of $470.0 million. The ability to increase the loan portfolio in a year of rapid loan repayment activity was funded by the issuance of $642.5 million in new bond issues in 2003.

Current liabilities increased $66.7 million, or 20.4%, over 2002 primarily as a result of bond issuances raising the current bonds payable balance from $176.1 million as of year end 2002 to $273.0 million as of year end 2003, partially offset by the decrease of $31.0 million in notes and accrued interest payable. Notes payable decreased $26.8 million to $86.6 million from $113.4 million as a result of fewer borrowings from the lines of credit. Accrued interest payable decreased $4.2 million to $22.9 million from $27.1 million due to a significant increase in the level of low current rate variable bonds outstanding in 2003.

# management's discussion and analysis

December 31, 2004 (unaudited)

Noncurrent liabilities payable increased $109.9 million, or 5.7%, over 2002 principally due to the issuance of $642.5 million in new single family and multi-family bond issues, partially offset by repayments and early redemptions of $425.1 million as a result of a high level of loan prepayments. More detail on the Authority's debt is presented in Note 4 to the financial statements.

| in thousands | as of December 31, 2003 | 2002 | $ Change | % Change |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current Assets** | $ **744,457** | $ 708,512 | $ 35,945 | 5.1 % |
| **Noncurrent Assets:** | | | | |
| Long-term investment securities | **156,290** | 147,092 | 9,198 | 6.3 % |
| Loans receivable, net | **1,674,010** | 1,531,076 | 142,934 | 9.3 % |
| Property and equipment, net | **34,358** | 33,658 | 700 | 2.1 % |
| Other assets | **26,613** | 27,380 | (767) | (2.8)% |
| Total Noncurrent Assets | **1,891,271** | 1,739,206 | 152,065 | 8.7 % |
| Total Assets | $ **2,635,728** | $ 2,447,718 | $ 188,010 | 7.7 % |
| **Liabilities** | | | | |
| **Current Liabilities** | $ **393,524** | $ 326,841 | $ 66,683 | 20.4 % |
| **Noncurrent Liabilities:** | | | | |
| Bonds and notes payable, net | **2,032,075** | 1,922,221 | 109,854 | 5.7 % |
| Deferred fee income | **362** | 358 | 4 | 1.1 % |
| Total Noncurrent Liabilities | **2,032,437** | 1,922,579 | 109,858 | 5.7 % |
| Total Liabilities | **2,425,961** | 2,249,420 | 176,541 | 7.8 % |
| **Net Assets** | | | | |
| Invested in capital assets, net of related debt | **6,636** | 5,327 | 1,309 | 24.6 % |
| Restricted | **78,563** | 75,323 | 3,240 | 4.3 % |
| Unrestricted | **124,568** | 117,648 | 6,920 | 5.9 % |
| Total Net Assets | **209,767** | 198,298 | 11,469 | 5.8 % |
| Total Liabilities and Net Assets | $ **2,635,728** | $ 2,447,718 | $ 188,010 | 7.7 % |

The accompanying notes are an integral part of these statements

Total net assets of the Authority climbed $11.5 million, or 5.8%, to $209.8 million as a result of positive operating results for the year ending December 31, 2003, primarily due to revenues resulting from higher loan production volumes and other factors discussed below.

# management's discussion and analysis

December 31, 2004 (unaudited)

## Statements of Revenues, Expenses and Changes in Net Assets

### Year ending December 31, 2004 compared to year ending December 31, 2003

The table below presents condensed statements of revenues, expenses and changes in net assets for the years ended December 31, 2004 and 2003, and the change from the prior year.

Interest earned on loans of $99.5 million, interest income on investments of $23.9 million and interest expense on bonds and notes of $98.3 million are the primary components of total revenues and expenses of the Authority.

| in thousands | years ended December 31, 2004 | 2003 | $ Change | % Change |
|---|---|---|---|---|
| Operating Revenues: | | | | |
| Interest on loans receivable | $ **99,482** | $ 93,861 | $ 5,621 | 6.0 % |
| Investment income | **23,881** | 23,804 | 77 | 0.3 % |
| Net increase (decrease) in the fair market value of long-term investment securities | **1,233** | (3,578) | 4,811 | nm |
| Rental operations | **10,279** | 9,549 | 730 | 7.6 % |
| Other revenues | **12,756** | 14,058 | (1,302) | (9.3)% |
| Total Operating Revenues | **147,631** | 137,694 | 9,937 | 7.2 % |
| Operating Expenses: | | | | |
| Interest expense on bonds and notes | **98,257** | 92,629 | 5,628 | 6.1 % |
| Salaries and related benefits | **10,668** | 11,545 | (877) | (7.6)% |
| General operating | **14,227** | 14,411 | (184) | (1.3)% |
| Other interest expense | **1,711** | 1,688 | 23 | 1.4 % |
| Depreciation | **2,574** | 2,694 | (120) | (4.5)% |
| Provision for losses | **2,455** | 3,550 | (1,095) | (30.8)% |
| Total Operating Expenses | **129,892** | 126,517 | 3,375 | 2.7 % |
| Total Operating Income | **17,739** | 11,177 | 6,562 | 58.7 % |
| Nonoperating Revenues | **15** | 292 | (277) | (94.9)% |
| Change in Net Assets | **17,754** | 11,469 | 6,285 | 54.8 % |
| **Net Assets:** | | | | |
| Beginning of year | **209,767** | 198,298 | 11,469 | 5.8 % |
| End of year | $ **227,521** | $ 209,767 | $ 17,754 | 8.5 % |

The accompanying notes are an integral part of these statements

# management's discussion and analysis

December 31, 2004 (unaudited)

Total operating revenues were $147.6 million in 2004, an increase of $9.9 million, or 7.2%, compared to 2003. Interest on loans climbed $5.6 million over the 2003 amount, primarily the result of lower levels of amortization of capitalized down payment assistance balances and deferred fees. Amortization of these items was unusually large in 2003 due to the high levels of early payoffs of single family mortgage loans during that year. Excluding amortization of deferred loan fees and origination costs, in 2004 interest on loans increased $0.9 million, or 0.9%, compared to 2003. This relatively small increase, in light of a 10.6% increase in loans, is the result of early payoffs of loans with higher coupon rates as borrowers took advantage of historically low mortgage rates during 2003 and 2004.

The fair market value of long-term investment securities increased $1.2 million in 2004 compared to a $3.6 million decrease in 2003. This $4.8 million swing in the fair market value of long-term investment securities was the result of an increase in interest rates in the second half of 2003, followed by a slight decrease in long-term rates during 2004.

Rental operations revenue of $10.3 million was generated from the Authority's RAP operations. As discussed above, during 2004 the Authority purchased an additional RAP property, increasing its holdings to 15 properties with 1,586 units. Rental operations revenue was 7.6% above the 2003 level of $9.5 million, primarily due to the acquisition of the new RAP property during 2004.

Partially offsetting these positive changes was a $1.3 million, or 9.3%, decrease in other revenues. This decrease was primarily the result of certain nonrecurring income in 2003 and the end of a program in 2003 in which the Authority participated with the U.S. Department of Housing and Urban Development (HUD) in savings from refinancing debt that had been used to fund various mortgage loans subject to a HUD assistance program.

Total operating expenses of $129.9 million for 2004 increased $3.4 million, or 2.7%, compared to 2003. The rise was largely attributable to a $5.6 million, or 6.1%, increase in interest expense on bonds and notes. Partially offsetting this increase was a decrease in salaries and related benefits of $0.9 million, or 7.6%, as a result of reduced staffing levels. In addition, the provision for loan and other real estate owned losses decreased $1.1 million, or 30.8%, to $2.5 million in 2004 compared to 2003.

## Year ending December 31, 2003 compared to year ending December 31, 2002

The table on the following page presents condensed statements of revenues, expenses and changes in net assets for the years ended December 31, 2003 and 2002 and the change from the prior year.

Interest earned on loans of $93.9 million, interest income on investments of $23.8 million and interest expense on bonds and notes of $92.6 million were the primary components of total revenues and expenses of the Authority.

Total operating revenues were $137.7 million, which is $0.3 million, or 0.2%, greater than 2002. Interest on loans climbed $6.9 million, or 7.9%, as a result of the increase in loans held by the Authority, partially offset by declining interest rates and the effect of high single family loan prepayments, which increased amortization of capitalized fees and

## management's discussion and analysis

December 31, 2004 (unaudited)

down payment assistance balances. The Authority put more of its monies in short-term investments resulting in an increase of investment income of $0.3 million, or 1.2%, over the prior year. However, the increase in interest rates in the last six months of 2003 was responsible for the net decrease in the fair market value of long-term investment securities of $3.6 million, compared to a $3.9 million net increase in the fair market value of investment securities experienced in 2002. Additionally, other revenue grew $1.6 million, or 13.2%, to $14.1 million as a result of increased loan service fees due to higher loan levels and increases in certain program fees earned.

Rental Operations revenue of $9.5 million was generated primarily from the Authority's Rental Acquisition Program ("RAP"). Rental operations revenue was 10.4% below the 2002 level of $10.6 million due to lower revenue per rental unit realized and relatively high vacancy rates as a result of the economic downturn in the state throughout 2003.

| in thousands | years ended December 31, 2003 | 2002 | $ Change | % Change |
|---|---|---|---|---|
| Operating Revenues: | | | | |
| Interest on loans receivable | $ **93,861** | $ 86,960 | $ 6,901 | 7.9 % |
| Investment income | **23,804** | 23,521 | 283 | 1.2 % |
| Net increase (decrease) in the fair market value of long-term investment securities | **(3,578)** | 3,904 | (7,482) | (191.6) % |
| Rental operations | **9,549** | 10,569 | (1,020) | (9.7) % |
| Other revenues | **14,058** | 12,422 | 1,636 | 13.2 % |
| Total Operating Revenues | **137,694** | 137,376 | 318 | 0.2 % |
| Operating Expenses: | | | | |
| Interest expense on bonds and notes | **92,629** | 90,852 | 1,777 | 2.0 % |
| Salaries and related benefits | **11,545** | 10,869 | 676 | 6.2 % |
| General operating | **14,411** | 10,278 | 4,133 | 40.2 % |
| Other interest expense | **1,688** | 1,715 | (27) | (1.6) % |
| Depreciation | **2,694** | 2,246 | 448 | 19.9 % |
| Provision for losses | **3,550** | 4,147 | (597) | (14.4) % |
| Total Operating Expenses | **126,517** | 120,107 | 6,410 | 5.3 % |
| Total Operating Income | **11,177** | 17,269 | (6,092) | (35.3) % |
| Nonoperating Revenues | **292** | 222 | 70 | 31.5 % |
| Change in Net Assets | **11,469** | 17,491 | (6,022) | (34.4) % |
| **Net Assets:** | | | | |
| Beginning of year | **198,298** | 180,807 | 17,491 | 9.7 % |
| End of year | $ **209,767** | $ 198,298 | $ 11,469 | 5.8 % |

The accompanying notes are an integral part of these statements

# management's discussion and analysis

December 31, 2004 (unaudited)

Total operating expenses of $126.5 million increased $6.4 million, or 5.3%, from the $120.1 million incurred in 2002. The rise was largely attributable to high rates of prepayments of single family loans, increasing the amortization of deferred expenses of $2.8 million included in general operating costs, and an increase in interest expense of $1.8 million over the previous year as a result of higher bonds and notes payable balances.

## Economic Outlook

The Authority was created for the purpose of increasing the availability of affordable, decent, and accessible housing for low and moderate income Coloradans and strengthening the state's economy by providing financial assistance to businesses. Its primary business is funding the purchase of single family and the origination of multi-family home mortgages; however, the Authority also owns multi-family rental properties and provides loans for new construction and rehabilitation of existing facilities. In addition, the Business Finance Division provides a wide variety of programs, including loan programs specific to businesses located in rural communities, women- and minority-owned businesses, manufacturers in the state, and nonprofit organizations committed to better serving the needs of Colorado citizens.

The ability to provide funding is dependent upon the Authority's financing activities, which are sensitive to the level of interest rates, the spread between the rate available on Authority loans and conventional mortgages offered in the Colorado market and the availability of affordable housing. Other key elements include the availability of tax-exempt financing on favorable terms and the budget appropriations from the U.S. Department of Housing and Urban Development, as contained in the federal budget for related program activities.

Despite historically low interest rates and a sluggish economy, the Authority has maintained an active and continuous lending program with record production levels in recent years. The low interest rates provided more opportunities for those in the rental market to purchase their first home. The Authority remains committed to its business activities despite the current economic conditions.

## statements of net assets (in thousands)

| | | December 31, 2004 | | 2003 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current Assets:** | | | | |
| Cash and interest bearing accounts | $ | **8,750** | $ | 8,300 |
| Short-term investment securities (at amortized cost which approximates market) | | **635,805** | | 647,147 |
| Loans receivable | | **63,857** | | 57,725 |
| Accrued interest receivable | | **19,028** | | 19,539 |
| Deferred debt financing costs | | **640** | | 662 |
| Other assets | | **4,756** | | 9,160 |
| Federally assisted program advances | | **1,945** | | 1,924 |
| Total Current Assets | | **734,781** | | 744,457 |
| **Noncurrent Assets:** | | | | |
| Long-term investment securities - restricted (at fair value) | | **187,561** | | 149,461 |
| Long-term investment securities - unrestricted (at fair value) | | **2,141** | | 6,829 |
| Loans receivable, net | | **1,851,859** | | 1,674,010 |
| Property and equipment, net | | | | |
| Corporate facilities | | **5,883** | | 5,625 |
| Rental operations | | **33,930** | | 28,733 |
| Other real estate owned, net | | **6,601** | | 5,772 |
| Deferred debt financing costs, net | | **11,529** | | 11,923 |
| Other assets | | **11,115** | | 8,918 |
| Total Noncurrent Assets | | **2,110,619** | | 1,891,271 |
| Total Assets | $ | **2,845,400** | $ | 2,635,728 |
| **Liabilities** | | | | |
| **Current Liabilities:** | | | | |
| Bonds payable | $ | **290,370** | $ | 272,954 |
| Notes payable | | **99,060** | | 86,594 |
| Accrued interest payable | | **22,147** | | 22,882 |
| Accounts payable and other liabilities | | **7,658** | | 7,267 |
| Federally assisted program advances | | **1,945** | | 1,924 |
| Refundable deposits | | **181** | | 1,903 |
| Total Current Liabilities | | **421,361** | | 393,524 |
| **Noncurrent Liabilities:** | | | | |
| Bonds payable, net | | **2,183,137** | | 2,024,838 |
| Notes payable | | **12,999** | | 7,237 |
| Deferred fee income | | **382** | | 362 |
| Total Noncurrent Liabilities | | **2,196,518** | | 2,032,437 |
| Total Liabilities | | **2,617,879** | | 2,425,961 |
| **Net Assets** | | | | |
| Invested in capital assets, net of related debt | | **7,093** | | 6,636 |
| Restricted | | **91,042** | | 78,563 |
| Unrestricted | | **129,386** | | 124,568 |
| Total Net Assets | | **227,521** | | 209,767 |
| Total Liabilities and Net Assets | $ | **2,845,400** | $ | 2,635,728 |

The accompanying notes are an integral part of these statements

## statements of revenues, expenses and changes in net assets
(in thousands)

| | years ended December 31, 2004 | 2003 |
|---|---|---|
| **Operating Revenues:** | | |
| Interest on loans receivable | **$ 99,482** | $ 93,861 |
| Investment income | **23,881** | 23,804 |
| Net increase (decrease) in the fair market value of long-term investment securities | **1,233** | (3,578) |
| Rental operations | **10,279** | 9,549 |
| Other revenues | **12,756** | 14,058 |
| Total Operating Revenues | **147,631** | 137,694 |
| **Operating Expenses:** | | |
| Interest expense on bonds and notes | **98,257** | 92,629 |
| Salaries and related benefits | **10,668** | 11,545 |
| General operating | **14,227** | 14,411 |
| Other interest expense | **1,711** | 1,688 |
| Depreciation | **2,574** | 2,694 |
| Provision for losses | **2,455** | 3,550 |
| Total Operating Expenses | **129,892** | 126,517 |
| **Total Operating Income** | **17,739** | 11,177 |
| **Nonoperating Revenues:** | | |
| Grant income | **15** | 292 |
| Federal grant receipts | **87,473** | 83,210 |
| Federal grant payments | **(87,473)** | (83,210) |
| Total Nonoperating Revenues | **15** | 292 |
| **Change in Net Assets** | **17,754** | 11,469 |
| **Net Assets:** | | |
| Beginning of year | **209,767** | 198,298 |
| End of year | **$ 227,521** | $ 209,767 |

The accompanying notes are an integral part of these statements

## statements of cash flows (in thousands)

| | years ended December 31, 2004 | 2003 |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Interest received on loans receivable | $ 105,523 | $ 100,535 |
| Receipts from principal payments on loans | 330,062 | 469,979 |
| Interest received from investment securities | 23,378 | 24,290 |
| Receipts from rental operations | 10,233 | 9,577 |
| Receipts from other program revenues | 12,521 | 14,233 |
| Receipts from sales of other real estate owned | 4,717 | 2,040 |
| Receipts from loan fundings | 1,963 | 3,248 |
| (Payments) receipts from accounts payable and federally assisted programs | (1,449) | 969 |
| Payments for loan fundings | (526,149) | (635,780) |
| Interest paid on bonds and notes | (104,947) | (105,796) |
| Payments for salaries and related benefits | (10,511) | (11,323) |
| Payments for general operating expenses | (12,275) | (10,319) |
| Payments for other interest | (1,711) | (1,688) |
| Payments for loan funding fees | (866) | (2,483) |
| Payments from other assets | (1,238) | (4,818) |
| Net Cash Used in Operating Activities | (170,749) | (147,336) |
| **Cash Flows from Noncapital Financing Activities:** | | |
| Proceeds from issuance of notes | 4,097,670 | 3,416,716 |
| Proceeds from issuance of bonds | 633,821 | 642,488 |
| Receipts from grants | 15 | 292 |
| Receipts from federal grant programs | 87,473 | 83,210 |
| Payments for federal grant programs | (87,473) | (83,210) |
| Payments for notes | (4,079,442) | (3,440,106) |
| Payments for bonds | (449,080) | (425,058) |
| Payments for debt financing costs | (2,527) | (2,747) |
| Payments for bond call premiums | — | (227) |
| Net Cash Provided by Noncapital Financing Activities | 200,457 | 191,358 |
| **Cash Flows from Capital and Related Financing Activities:** | | |
| Sale of property and equipment - corporate facilities | 6 | — |
| Sale of property and equipment - rental operations | — | 5 |
| Purchase of property and equipment - corporate facilities | (1,235) | (875) |
| Purchase of property and equipment - rental operations | (6,927) | (2,575) |
| Net Cash Used in Capital and Related Financing Activities | (8,156) | (3,445) |
| **Cash Flows from Investing Activities:** | | |
| Proceeds from maturities and sales of long-term investment securities | 42,805 | 78,828 |
| Purchase of long-term investment securities | (75,249) | (91,552) |
| Net Cash Used in Investing Activities | (32,444) | (12,724) |
| Net increase (decrease) in cash and cash equivalents | (10,892) | 27,853 |
| Cash and cash equivalents at beginning of year | 655,447 | 627,594 |
| Cash and cash equivalents at end of year | $ 644,555 | $ 655,447 |

(continued)

The accompanying notes are an integral part of these statements

# statements of cash flows (in thousands)

| | years ended December 31, 2004 | 2003 |
|---|---|---|
| **Reconciliation of Operating Income to Net Cash Used in Operating Activities:** | | |
| Operating income | $ **17,739** | $ 11,177 |
| Adjustments to reconcile operating income to net cash used in operating activities: | | |
| (Increase) decrease in fair value of investments | **(1,233)** | 3,578 |
| Depreciation expense | **2,574** | 2,694 |
| Loss on sale of property and equipment | **124** | 51 |
| Accretion of capital appreciation term bonds | **596** | 641 |
| Amortization of: | | |
| Deferred debt financing costs | **3,444** | 5,278 |
| Premiums and discounts on bonds, net | **(9,994)** | (14,911) |
| Premiums and discounts on long-term investment securities, net | **265** | (51) |
| Deferred fee income | **(1,233)** | (2,406) |
| Deferred cash assistance expense | **5,995** | 11,500 |
| Service release premium expense | **1,845** | 4,352 |
| Provision for losses | **2,455** | 3,550 |
| Principal repayments on loans receivable | **330,062** | 469,978 |
| Sale of other real estate owned | **4,717** | 2,040 |
| New loan fundings | **(526,149)** | (635,781) |
| Deferred fee income | **1,963** | 3,247 |
| Deferred cash assistance expense | **(866)** | (2,484) |
| Changes in assets and liabilities: | | |
| Accrued interest receivable | **511** | (1,882) |
| Other assets | **(1,540)** | (4,548) |
| Accrued interest payable | **(736)** | (4,175) |
| Accounts payable and federally assisted programs | **(1,288)** | 816 |
| Net Cash Used in Operating Activities | $ **(170,749)** | $ (147,336) |
| Supplemental schedule of non-cash operating, noncapital financing, capital and related financing and investing activities: | | |
| Transfer of loans receivable to other real estate owned | **5,545** | 2,432 |
| Transfer of loans receivable to (from) other assets | **(1,880)** | 1,803 |
| Transfer of loans receivable to deferred debt financing | **129** | — |

(Concluded)

The accompanying notes are an integral part of these statements

# notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

## (1) Organization and Summary of Significant Accounting Policies

### (a) Authorizing Legislation

Colorado Housing and Finance Authority (the "Authority") is a corporate body and a political subdivision of the State of Colorado established pursuant to the Colorado Housing and Finance Authority Act, Title 29, Article 4, Part 7 of the Colorado Revised Statutes, as amended (the "Act"). The Authority is not a state agency and is not subject to administrative direction by the State. The governing body of the Authority is its board of directors. Operations of the Authority commenced in 1974.

The Authority was created for the purpose of making funds available to assist private enterprise and governmental entities in providing housing facilities for low and moderate income families. Under the Act, the Authority is also authorized to finance project and working capital loans to industrial and commercial enterprises of small and moderate size.

In 2001, the Colorado state legislature repealed the limitation on the amount of debt that the Authority can issue as well as removed the moral obligation of the State of Colorado on future debt issues of the Authority. The bonds, notes and other obligations of the Authority do not constitute debt of the State of Colorado.

In 1992, Colorado voters approved an amendment to the State Constitution, Article X, Section 20 which, among other things, imposes restrictions on increases in revenue and expenditures of state and local governments. In the opinion of its bond counsel, the Authority qualifies as an enterprise under the amendment and therefore is exempt from its provisions.

### (b) Reporting Entity

In accordance with governmental accounting standards applicable to the reporting entity, the Authority has included related entities in its financial statements. The reporting entity definition is based primarily on the concept of financial accountability. The Authority is financially accountable for those units that make up its legal entity as well as its legally separate organizations, because they have the same board of directors and management personnel, and their surplus assets are relinquished to the Authority.

Tanglewood Oaks Apartments Corporation ("Tanglewood"), Hyland Park Centre Corporation ("Hyland Park"), and Village of Yorkshire Corporation ("Yorkshire") have been designated as blended component units and included in the Authority's financial statements. Tanglewood, Hyland Park and Yorkshire are public, non-profit instrumentalities of the Authority, each of which owns and operates a single, separate multi-family rental housing project. Financial information pertaining to the blended component units is presented later in Note (1)(k). Separate financial statements for the individual component units may be obtained through the Authority.

Management also has concluded that the Authority is not a component unit of any other entity.

### (c) Fund Accounting

The financial activities of the Authority are recorded in the funds ("Bond Funds") established under various bond resolutions and in various subfunds established in connection with the administration of the Authority's programs. All activities of the Authority not performed pursuant to the Single Family and Multi-Family Funds are recorded in the General Fund. These Funds are combined for financial reporting purposes.

The Authority acts as a contract administrator of the U.S. Department of Housing and Urban Development's ("HUD") Section 8 subsidy program, administering the Housing Assistance Payments ("HAP") contracts for developments in the Authority's loan portfolio. Under the Section 8 subsidy program, tenants pay 30% of their income toward rent and the balance is paid by federal subsidy. Federally-assisted program accounts have also been established to record activities directly related to the federal Section 8 HAP program and other related programs funded by HUD. These accounts are primarily used for housing assistance pass-through funds and for properties owned and utilized in affordable housing programs, which are dependent on budget appropriations from HUD as contained in the Federal budget.

# notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

## (1) Organization and Summary of Significant Accounting Policies

### (c) Fund Accounting (continued)

The financial statements of the Authority are presented on the basis of the proprietary fund accounting concept. The Authority's Board of Directors (the "Board") has designated certain amounts of the unrestricted net assets of the General Fund as of December 31, 2004 and 2003, for various purposes, as indicated in the following table. These designations of net assets are not binding, and can be changed by the Board.

The amounts restricted for single and multi-family bonds are for the payment of principal, redemption premium, if any, or interest on all outstanding single family and multi-family bond issues, in the event that no other monies are legally available for such payments. The Board may withdraw all or part of this restricted balance if (1) the Authority determines that such monies are needed for the implementation or maintenance of any duly adopted program of the Authority; and (2) no default exists in the payment of the principal, redemption premium, if any, or interest on such bonds.

Revenues and expenses are recognized on an accrual basis. The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Authority's ongoing operations. The principal operating revenues of the Authority are interest income on loans and investment income. The Authority also recognizes revenues from rental operations and other revenues, which include loan servicing fees and other administrative fees. Operating expenses include interest expense, administrative expenses, depreciation, and the provision for losses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected not to adopt Financial Accounting and Standards Board statements and interpretations issued after November 30, 1989, unless so directed by the GASB.

| | | **2004** | | **2003** |
|---|---|---|---|---|
| **Appropriations for Loan Programs:** | | | | |
| Housing Opportunity loans | $ | **27,002** | $ | 29,458 |
| Housing loans | | **949** | | 2,555 |
| Business finance loans | | **15,080** | | 17,975 |
| Total Appropriations | | **43,031** | | 49,988 |
| **Designations:** | | | | |
| General obligation bonds | | **15,861** | | 18,939 |
| General operating and working capital | | **35,170** | | 14,300 |
| Unrealized appreciation of investments | | **257** | | 642 |
| Single and multi-family bonds | | **35,067** | | 40,699 |
| Total Designations | | **86,355** | | 74,580 |
| Total General Fund Unrestricted Net Assets | $ | **129,386** | $ | 124,568 |

# notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

## (1) Organization and Summary of Significant Accounting Policies

### (d) Budget Policies and Procedures

The Authority's budget year is the calendar year. A budget committee consisting of Finance and the Executive Committee reviews the initial draft, makes necessary changes and presents the budget to the Executive Director for further review and approval. The Board is typically presented with a draft in November, and a public hearing is conducted. Modifications are made reflecting Board and public input, and the final version is typically adopted by the Board in December. The Board may modify the budget at any point during the fiscal year, but has chosen to do so only twice in its history, in 1992 and in 2000. The budget is developed on a full accrual basis with estimations of revenue by source and expenses by object.

### (e) Cash

Cash at December 31, 2004 and 2003, primarily includes money market interest accounts of which approximately $1,785,000 and $1,423,000, respectively, is designated for various General Fund program purposes.

### (f) Investment Securities

The Authority is authorized by means of a Board-approved investment policy to invest in notes, bonds and other obligations issued or guaranteed by the U.S. government and certain governmental agencies. Additionally, the Authority is permitted to invest, with certain restrictions as to concentration of risk, collateralization levels, maximum periods to maturity, and/or underlying rating levels applied, in revenue or general obligations of states and their agencies, certificates of deposits, U.S. dollar denominated corporate or bank debt, commercial paper, repurchase agreements backed by U.S. government or agency securities, money market mutual funds and investment agreements. Each of the trust indentures established under the Authority's bond programs contains requirements as to permitted investments of bond fund proceeds, which may be more or less restrictive than the Authority's investment policy for General Fund monies.

Investments generally consist of unexpended bond proceeds, debt service reserve funds and revenue funds established under the provisions of various trust indentures, and investments of the Authority's General Fund.

In connection with the Authority's bond programs, unexpended bond proceeds are maintained in trust, put in various types of investments until such time as the proceeds can be used to purchase specific types of loans. As noted above, investments are subject in some cases to minimum collateralization levels. For uncollateralized investments, including guaranteed investment contracts, appropriate credit ratings are generally required.

The Authority accounts for its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which establishes accounting and financial reporting standards for investments held by governmental entities. GASB Statement No. 31 requires most investments to be recorded at fair value and the recognition of unrealized gains and losses in the statement of revenue and expenses. GASB Statement No. 31 allows money market investments and participating interest earning investment contracts that have a remaining maturity at the time of purchase of one year or less to be recorded at amortized cost. The net increase (decrease) in the fair value of long-term investment securities for 2004 and 2003 is reflected in the statements of revenues, expenses, and changes in net assets for the years presented.

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

### (1) Organization and Summary of Significant Accounting Policies (continued)

#### (g) Loans Receivable

Mortgage loans are carried net of deferred down payment assistance expense, deferred fee income and allowance for loan losses. Generally, single family first mortgage loans bear interest at rates ranging from 4.625% to 10.00% per annum, payable monthly over 30 years. Single family mortgage loans are collateralized by first liens on the related properties, except for $18.1 million of 0% second-lien mortgages at December 31, 2004, issued under the Authority's buyer assistance program. Generally, multi-family and business finance loans bear interest at rates ranging from 1.00% to 12.00% per annum, payable over terms from 7 to 40 years. Servicing of mortgage loans is provided by the Authority and various approved and qualified private lending institutions, on behalf of the Authority. The Authority services approximately 98% of its loans directly.

#### (h) Fee Income and Expense

Loan and commitment fees, net of related costs, are deferred and amortized into interest income using the effective interest method over the lives of the loans. Under the Authority's Single Family Bond Program, the borrower could choose a loan that provided a cash assistance payment of generally 3% of the loan amount. This program ended in 2003. These payments were deferred and are amortized into interest income using the effective interest method over the lives of the loans.

#### (i) Compensated Absences

Full-time employees accrue paid time off at the rate of between nineteen and twenty-nine days per year, depending on length of service. Partial full-time employees accrue vacation at 80% of full time employees, while part-time employees accrue vacation at 50%. The liability for compensated absences is based on current salary rates, and is included in the financial statements.

#### (j) Allowances for Losses

The allowances for losses on loans, other real estate owned and other assets are provided through charges against current operations based on management's periodic review of the loan and other real estate owned portfolios. This review considers such factors as the payment history of the loans, the projected cash flows of the borrowers, estimated value of the collateral, subsidies, historical loss experience for each type of insurance or guarantee (for losses particular to other real estate owned), additional guarantees provided by the borrowers and economic conditions. When this review determines that an exposure to loss is probable and can be reasonably estimated, a provision against current operations is made in the amount quantifiable. Loans receivable, other real estate owned and other assets are shown net of allowances for losses of $20,112,000, $1,038,000 and $0, respectively, for 2004, and $19,091,000, $1,601,000, and $40,000, respectively, for 2003.

#### (k) Property, Equipment and Rental Real Estate Operations

Office buildings, furniture and equipment used in the Authority's corporate operations are carried at $5,883,000 and $5,625,000 (net of accumulated depreciation) at December 31, 2004 and 2003, respectively.

The Authority commenced its Rental Acquisition Program ("RAP") in 1988, when the Board authorized the acquisition, rehabilitation and operation of multi-family properties to provide affordable housing to low and moderate income families. The Authority has acquired and rehabilitated these properties with a combination of funds, including (1) general obligation and multi-family bond proceeds, (2) seller-carry notes, and (3) contributions from the General Fund. As a policy matter, the Authority sells these properties from time to time to qualified non-profit sponsors. Further, it is the policy of the Authority to distribute excess surplus net assets from the component units semiannually. These distributions are reflected in the component unit's net assets. As of December 31, 2004, the Authority owned a total of 15 RAP projects, including its three component units, containing 1,586 units.

# notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

## (1) Organization and Summary of Significant Accounting Policies (continued)

Selected balance sheet items of the RAP are presented below.

| | 2004 | 2003 |
|---|---|---|
| **RAP Combined, Including Component Units:** | | |
| Property, net of accumulated depreciation of $14,507 and $12,777 | $ **33,930** | $ 28,733 |
| Total assets | **41,169** | 35,437 |
| Total liabilities | **28,225** | 23,120 |
| Net assets | **12,944** | 12,317 |
| **RAP Component Units Only:** | | |
| Property, net accumulated depreciation of $8,573 and $7,676 | $ **16,745** | $ 17,315 |
| Total assets | **19,914** | 20,594 |
| Total liabilities | **16,379** | 16,785 |
| Net assets | **3,535** | 3,809 |

All revenue and expenses of these properties, including depreciation and interest, are reflected in the operating results of the Authority's General Fund. RAP revenues are recorded as components of rental operations and other revenues, which include RAP interest income. Operating and other expenses are recorded in general operating expenses, and interest expense on notes payable and general obligation bond proceeds used to acquire the properties is recorded in other interest expense.

The following is a summary of the operating results of the RAP properties on a stand-alone basis before elimination of intercompany transactions.

| | 2004 | 2003 |
|---|---|---|
| **RAP Combined, Including Component Units:** | | |
| Rental operations | $ **10,279** | $ 9,549 |
| Other revenues | **68** | 57 |
| General operating expenses | **(5,716)** | (4,544) |
| Depreciation expense | **(1,730)** | (1,920) |
| Interest expense | **(1,711)** | (1,688) |
| Net Income | $ **1,190** | $ 1,454 |
| **RAP Component Units Only:** | | |
| Rental operations | $ **6,190** | $ 6,241 |
| Other revenues | **26** | 41 |
| General operating expenses | **(3,097)** | (2,585) |
| Depreciation expense | **(897)** | (1,227) |
| Interest expense | **(1,210)** | (1,229) |
| Net Income | $ **1,012** | $ 1,241 |

# notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

## (1) Organization and Summary of Significant Accounting Policies (continued)

The Authority uses the straight-line method of depreciation with estimated useful lives of three to thirty years. The capitalization threshold for corporate and RAP capital assets for 2003 was $1,000 and $500, respectively. As of January 1, 2004, the capitalization thresholds increased to $2,500 for corporate assets and $1,500 for RAP assets.

A summary of corporate and RAP property and equipment follows:

| | Balance Dec 31, 2003 | Additions | Disposals | Transfers | Balance Dec 31, 2004 |
|---|---|---|---|---|---|
| **Corporate** | | | | | |
| Computer equipment/software | $ 1,377 | $ 652 | $ (214) | $ — | $ 1,815 |
| Office equipment | 2,369 | 54 | (1,630) | 33 | 826 |
| Furniture and fixtures | 1,624 | — | (768) | (116) | 740 |
| Buildings | 3,377 | — | (37) | 83 | 3,423 |
| Land | 1,573 | — | — | — | 1,573 |
| Construction in progress | 152 | 529 | — | — | 681 |
| Sub-Total | 10,472 | 1,235 | (2,649) | — | 9,058 |
| Accumulated Depreciation | (4,847) | (844) | 2,516 | — | (3,175) |
| Net Book Value | 5,625 | 391 | (133) | — | 5,883 |
| **Rental Operations** | | | | | |
| Computer equipment/software | 71 | 13 | — | — | 84 |
| Office equipment | 3,271 | 193 | — | — | 3,464 |
| Furniture and fixtures | 3,039 | 120 | — | — | 3,159 |
| Buildings | 30,673 | 5,068 | — | — | 35,741 |
| Land | 4,456 | 1,500 | — | — | 5,956 |
| Construction in progress | — | 33 | — | — | 33 |
| Sub-Total | 41,510 | 6,927 | — | — | 48,437 |
| Accumulated Depreciation | (12,777) | (1,730) | — | — | (14,507) |
| Net Book Value | 28,733 | 5,197 | — | — | 33,930 |
| Consolidated Net Book Value | $ 34,358 | $ 5,588 | $ (133) | $ — | $ 39,813 |

| | Balance Dec 31, 2002 | Additions | Disposals | Transfers | Balance Dec 31, 2003 |
|---|---|---|---|---|---|
| **Corporate** | | | | | |
| Computer equipment/software | $ 965 | $ 564 | $ — | $ (152) | $ 1,377 |
| Office equipment | 2,286 | 33 | (14) | 64 | 2,369 |
| Furniture and fixtures | 1,604 | 2 | (260) | 278 | 1,624 |
| Buildings | 3,443 | 276 | — | (342) | 3,377 |
| Land | 1,573 | — | — | — | 1,573 |
| Construction in progress | — | — | — | 152 | 152 |
| Sub-Total | 9,871 | 875 | (274) | — | 10,472 |
| Accumulated Depreciation | (4,299) | (774) | 226 | — | (4,847) |
| Net Book Value | 5,572 | 101 | (48) | — | 5,625 |
| **Rental Operations** | | | | | |
| Computer equipment/software | 61 | 10 | — | — | 71 |
| Office equipment | 2,980 | 291 | — | — | 3,271 |
| Furniture and fixtures | 2,854 | 185 | — | — | 3,039 |
| Buildings | 28,592 | 2,089 | (8) | — | 30,673 |
| Land | 4,456 | — | — | — | 4,456 |
| Sub-Total | 38,943 | 2,575 | (8) | — | 41,510 |
| Accumulated Depreciation | (10,857) | (1,920) | — | — | (12,777) |
| Net Book Value | 28,086 | 655 | (8) | — | 28,733 |
| Consolidated Net Book Value | $ 33,658 | $ 756 | $ (56) | $ — | $ 34,358 |

# notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

## (1) Organization and Summary of Significant Accounting Policies (continued)

### (l) Deferred Debt Financing Costs and Bond Discounts and Premiums

Costs of debt issuance are deferred and amortized over the expected average lives of the bond issues using the effective interest method. Discounts and premiums on bonds payable are amortized over the expected average lives of the respective bond issues using the effective interest method.

### (m) Other Real Estate Owned

Other real estate owned represents real estate acquired through foreclosure and in-substance foreclosures. Other real estate owned is initially recorded at the lower of the investment in the loan or the estimated net realizable value.

### (n) Other Assets

Included in other assets are unamortized costs of mortgage servicing rights and amounts held by the Authority related to its multi-family programs.

### (o) Federally Assisted Program Advances

In accordance with and pursuant to contracts between the Authority and HUD, the Authority administers federally assisted programs in certain areas of the State of Colorado. Under these programs, housing assistance payments are made to the owners of rental housing developments on behalf of tenants of low and moderate income who meet the eligibility requirements. HUD advances funds to the Authority for the housing assistance payments and, for the majority of these developments, pays a monthly fee to the Authority for its administration of the subsidy contracts. The advanced funds held by the Authority are $1,945,000 and $1,924,000 for 2004 and 2003, respectively. The administrative fees for these federally assisted programs were approximately $3,644,000 and $3,663,000 in 2004 and 2003, respectively.

### (p) Interest Rate Swap Agreements

The Authority enters into interest rate swap agreements with rated swap counterparties in order to: (1) provide lower cost fixed rate financing for its loan production needs through synthetic fixed rate structures; and (2) utilize synthetic fixed rate structures with refunding bonds in order to generate cash flow savings. The interest differentials to be paid or received under such swaps are recognized as an increase or decrease in interest expense of the related bond liability. Additional information about the swap agreements is described in Note (5).

### (q) Other Revenue and Other Interest Expense

Other revenue includes administrative fees from federally assisted programs, tax credit program fees, mortgage loan servicing fees, and reimbursements and fees from other programs. Other interest expense includes interest costs on debt incurred to finance RAP properties.

### (r) Debt Refunding

For current and advance refundings resulting in defeasance of debt reported by the Authority, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old or new debt, whichever is shorter, using the effective interest method. The deferred refunding amounts are classified as a component of bonds payable in the financial statements.

# notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

## (1) Organization and Summary of Significant Accounting Policies (continued)

### (s) Risk Management

The Authority has a risk management program under which the various risks of loss associated with its business operations are identified and managed. The risk management techniques utilized include a combination of standard policies and procedures and purchased insurance. Commercial general liability, property losses, business automobile liability, worker's compensation and public officials' liability are all managed through purchased insurance. Through the end of 2003, for excess risk exposure, all employee medical claims in excess of $30,000 per individual and $896,000 aggregate per year were also covered by the purchase of stop-loss insurance. The Authority was partially self-insured to cover claims that fell below these limits.

Effective January 1, 2004, the Authority elected to discontinue the self-insured medical claims approach and the related stop-loss insurance was discontinued. Coverage has been moved to a fully-insured plan underwritten and administered by a major insurance underwriter. Under the new plan, periodic premiums are shared between the Authority and employees who elect to be covered under the plan.

The claim liability for the years ended December 31, 2004 and 2003, which is included in accounts payable and other liabilities, was as follows:

| | | 2004 | | 2003 |
|---|---|---|---|---|
| Beginning Claims Liability | $ | 76 | $ | 157 |
| Period claims | | — | | 1,045 |
| Estimated accrual changes, adjustments | | (11) | | (90) |
| Claims payments | | (65) | | (1,036) |
| Ending Claims Liability | $ | — | $ | 76 |

### (t) Use of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

### (u) Mortgage Escrows

Escrow funds held by the Authority on behalf of others of approximately $11,940,000 and $10,810,000 at December 31, 2004 and 2003, respectively, are not reflected in the accompanying balance sheets. The Authority is accountable for escrow funds and is contingently liable for them in the event of loss, but the funds are the assets of the parties that provided them. All escrow funds are held in financial institutions that are subject to the Public Deposit Protection Act and, as a result, are fully collateralized.

# notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(1) Organization and Summary of Significant Accounting Policies (continued)**

### (v) Reclassifications

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation.

### (w) New Accounting Pronouncements

In March 2003, GASB issued GASB Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*. GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed. GASB Statement No. 40 is required to be adopted for periods beginning after June 15, 2004. In management's opinion, it does not appear that GASB Statement No. 40 will have a material impact on the financial position, results of operations or cash flows of the Authority.

In November 2003, GASB issued GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this statement are effective for fiscal periods beginning after December 15, 2004. Management believes that GASB Statement No. 42 will not have a material impact on the financial position, results of operations or cash flows of the Authority.

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

### (2) Cash and Investment Securities

Investment of the Authority's monies is made in accordance with the Authority's investment guidelines, which have been approved by the Board and are in compliance with the Act and the laws of the State of Colorado. Permitted investments under these guidelines include obligations of the U.S. government, its agencies and instrumentalities, commercial paper rated A-1 or P-1, certificates of deposit, repurchase agreements, money market mutual funds and investment agreements.

The Authority categorizes its cash into three categories as to their risk. Category 1 includes insured deposits or deposits fully collateralized with securities held in the Authority's name. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution, or by its trust department or agent, in the Authority's name. Category 3 includes uninsured and uncollateralized cash and deposits. All Category 2 deposits are collateralized in accordance with the Public Deposit Protection Act.

At December 31, 2004, the Authority's deposits are categorized as follows:

| Risk Category | 2004 Carrying Balance | 2004 Bank Balance | 2003 Carrying Balance |
|---|---|---|---|
| 1 | **$ 571** | $ 607 | $ 531 |
| 2 | **8,146** | 6,186 | 7,371 |
| 3 | **33** | 33 | 398 |
| Total | **$ 8,750** | $ 6,826 | $ 8,300 |

In the following table, the Authority's investment securities (excluding money market mutual funds, certificates of deposit and uncollateralized investment agreements) are also categorized into three categories to provide an indication of the level of risk assumed as of December 31, 2004 and 2003, as follows. Category 1 includes those investments which are insured, or registered securities held by the Authority or its trustee in the Authority's name. Category 2 includes those investments which are uninsured and unregistered, with securities held by the counterparty's trust department or its agent in the Authority's name. Category 3 includes those investments which are uninsured and unregistered, with securities held by the counterparty or its agent, but not in the Authority's name. Amounts not subject to categorization include money market mutual funds and uncollateralized investment agreements because securities are not issued as evidence of these investments. Short-term investment securities are carried at amortized cost, which approximates market. Long-term investment securities are carried at fair value.

| Investment Type | Risk Category | 2004 | 2003 |
|---|---|---|---|
| Categorized: | | | |
| U.S. Government & agency obligations | 1 | **$ 159,518** | $ 156,118 |
| State & political subdivision obligations | 1 | **10,859** | 10,759 |
| Repurchase agreements | 2 | **29,193** | 28,264 |
| Uncategorized: | | | |
| Money market mutual funds | | **38,301** | 36,213 |
| Certificates of deposit | | — | 34,060 |
| Uncollateralized investment agreements | | **587,636** | 538,023 |
| Total | | **$ 825,507** | $ 803,437 |

Investment agreements meet the requirements of the rating agency providing the rating on the related debt issue, and of the Board, in accordance with the Act. Investment agreements generally provide for collateralization of balances in the event of a rating agency downgrade of the institution below certain rating requirements.

The repurchase agreements reflected in the table above, while legally structured as repurchase agreements, are in effect collateralized investment agreements. These investments are subject to long-term agreements with the counterparty with fixed rates of return.

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

### (3) Loans Receivable

Loans receivable at December 31, 2004 and 2003, consist of the following:

| | 2004 | 2003 |
|---|---|---|
| General Fund | $ **272,127** | $ 181,232 |
| Single Family bond programs: | | |
| Taxable Revenue | **2,446** | 3,289 |
| Revenue | **630** | 759 |
| Program | **9,268** | 11,290 |
| Program Senior and Subordinate | **187,209** | 276,922 |
| Revenue Refunding | — | 167 |
| Mortgage | **888,385** | 707,690 |
| Total Single Family Bond Program Loans | **1,087,938** | 1,000,117 |
| Multi-Family bond programs: | | |
| Housing Insured Mortgage Revenue | **204,794** | 228,409 |
| Mortgage Revenue | — | 1,170 |
| Project | **367,003** | 329,944 |
| Total Multi-Family Bond Program Loans | **571,797** | 559,523 |
| Total Loans Receivable | **1,931,862** | 1,740,872 |
| Deferred cash assistance expense | **13,661** | 18,919 |
| Deferred fee income | **(9,695)** | (8,965) |
| Allowance for loan losses | **(20,112)** | (19,091) |
| Total Loans Receivable, Net | $ **1,915,716** | $ 1,731,735 |

General Fund loans are made up of single family, multi-family and business finance loans acquired under various programs of the General Fund, warehoused loans to be acquired by the Bond Funds, loans held as investments, and loans backed by bonds within the General Fund. These loans are typically collateralized by mortgages on real property and improvements. At December 31, 2004 and 2003, $9,783,000 and $7,504,000 of these loans, respectively, are secured by first liens ahead of second liens from the Small Business Administration. Additionally, at December 31, 2004 and 2003, $23,632,000 and $19,136,000 of these loans, respectively, are secured by a guarantee of the Small Business Administration or Consolidated Farm Services, formerly the Farmers Home Administration.

Single family bond program loans are collateralized by first mortgages on applicable real property, and in the case of loans with a loan-to-value ratio of 80% or more, are either insured by private mortgage insurance or the Federal Housing Administration or guaranteed by the Veterans Administration or Rural Economic and Community Development Department.

Multi-family bond program loans are collateralized by first mortgages on applicable real estate, and, in some cases, are further insured by an agency of the United States government.

At December 31, 2004 and 2003, the amounts available in the Bond Funds for additional investments in new loans are as follows:

| | 2004 | 2003 |
|---|---|---|
| Single Family mortgage programs* | $ **168,436** | $ 148,956 |
| Multi-Family mortgages and projects | **31,291** | 42,388 |
| Total | $ **199,727** | $ 191,344 |

* These amounts will be used to acquire single family mortgage loans warehoused in the Authority's General Fund of $154,611,000 and $64,092,000 at December 31, 2004 and 2003, respectively.

# notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

## (4) Bonds and Notes Payable

The aggregate principal amounts of bonds and notes payable at December 31, 2004 and 2003, are shown on the following pages. Interest is payable semi-annually unless otherwise noted.

| Description and Due Date | | Interest Rate (%) | 2004 | 2003 |
|---|---|---|---|---|
| **Bonds Payable:** | | | | |
| General Fund: | | | | |
| General Obligation Bonds: | | | | |
| 1992 Series A | 2005-2030 | 9.125 | $ 3,220 | $ 3,245 |
| 1998 Series A | 2005-2017 | 4.55 to 5.25 | 1,280 | 1,345 |
| Total General Obligation Bonds | | | 4,500 | 4,590 |
| Business Finance: | | | | |
| ACCESS Program: | | | | |
| 1995 Series A | 2005-2015 | 7.67 | 443 | 2,485 |
| 1997 Series A | | 7.22 | — | 1,854 |
| 1999 Series A | 2005-2018 | 6.49 | 615 | 2,168 |
| Total ACCESS Program | | | 1,058 | 6,507 |
| QIC Program: (*principal and interest payable monthly) | | | | |
| 1999 Series A | 2005-2024 | 5.71 | 2,073 | 2,971 |
| 2000 Series A | 2005-2025 | 6.755 | 300 | 329 |
| 2003 Series A | 2005-2023 | 5.004 | 4,192 | 4,853 |
| 2004 Series A | 2005-2024 | 4.62 | 4,940 | — |
| 2004 Series B* | 2005-2024 | 4.88 | 9,832 | — |
| Total QIC Program | | | 21,337 | 8,153 |
| Total Business Finance | | | 22,395 | 14,660 |
| Single Family: | | | | |
| Taxable Mortgage Revenue: (principal and interest payable monthly) | | | | |
| 2000 Series A | 2005-2020 | 6.914 | 1,615 | 2,716 |
| 2000 Series B | 2005-2020 | 6.675 | 817 | 1,413 |
| 2001 Series AP | 2005-2021 | 6.135 | 3,576 | 5,372 |
| 2001 Series AV | 2005-2021 | 6.625 | 1,350 | 2,167 |
| 2002 Series AP | 2005-2021 | 5.662 | 1,455 | 2,400 |
| 2004 Series A | 2005-2024 | 4.95 | 2,010 | — |
| 2004 Series B | 2005-2035 | 4.98 | 5,000 | — |
| 2004 Series CV | 2005-2035 | 5.14 | 4,500 | — |
| Total Single Family | | | 20,323 | 14,068 |
| Multi-Family: | | | | |
| Smart Program: (*principal and interest payable monthly) | | | | |
| 2000 Series A | 2005-2020 | 6.152 | 5,227 | 8,234 |
| 2004 Series A* | 2005-2024 | 4.90 | 13,374 | — |
| Total Smart Program | | | 18,601 | 8,234 |
| Taxable Rental Project Revenue (principal and interest payable monthly) | | | | |
| 2002 Series AV | 2005-2022 | 5.55 | 6,692 | 6,893 |
| 2003 Series AV | 2005-2024 | 5.19 | 3,946 | 3,987 |
| 2004 Series AP | 2005-2024 | 4.90 | 8,183 | — |
| Total Taxable Rental Project Revenue | | | 18,821 | 10,880 |
| Total Multi-Family | | | 37,422 | 19,114 |
| **Total General Fund** | | | 84,640 | 52,432 |

# notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

## (4) Bonds and Notes Payable (continued)

| Description and Due Date | | Interest Rate (%) | 2004 | 2003 |
|---|---|---|---|---|
| Single Family Fund: | | | | |
| Taxable Single Family Mortgage Revenue Bonds: | | | | |
| 1998 Issue I | 2005-2018 | 6.65 | **430** | 2,315 |
| Single Family Revenue Bonds: | | | | |
| 1985 Series A | 2005-2009 | 11.125 | **618** | 777 |
| 1985 Series B | 2007 | 8.75 | **345** | 885 |
| 1993 Refunding Series A | 2005-2008 | 7.00 | **3,003** | 3,925 |
| Total Single Family Revenue Bonds | | | **3,966** | 5,587 |
| Single Family Program Bonds: | | | | |
| 1998 Series C | 2005-2029 | 4.70 to 5.625 | **9,202** | 11,740 |
| Single Family Program Senior and Subordinate Bonds: | | | | |
| 1994 Series B | 2005-2024 | 6.125 to 7.50 | **495** | 715 |
| 1994 Series C | 2005-2024 | 6.25 to 7.90 | **140** | 335 |
| 1994 Series D-I | | 5.90 to 8.00 | **—** | 290 |
| 1994 Series D-II | | 6.125 to 8.125 | **—** | 130 |
| 1994 Series F | | 6.75 to 8.625 | **—** | 125 |
| 1995 Series A | | 5.90 to 8.00 | **—** | 2,110 |
| 1995 Series B | 2005-2025 | 5.90 to 7.90 | **265** | 1,740 |
| 1995 Series C | 2005-2025 | 5.30 to 7.65 | **545** | 2,870 |
| 1995 Series D | 2005-2026 | 5.20 to 7.38 | **5,940** | 10,745 |
| 1996 Series A | 2005-2027 | 5.20 to 7.40 | **3,330** | 6,640 |
| 1996 Series B | 2005-2027 | 5.40 to 7.65 | **2,860** | 5,385 |
| 1996 Series C | 2005-2027 | 5.40 to 7.55 | **4,135** | 5,945 |
| 1997 Series A | 2005-2027 | 4.85 to 7.25 | **5,530** | 9,055 |
| 1997 Series B | 2005-2028 | 5.00 to 7.00 | **3,750** | 6,845 |
| 1997 Series C | 2005-2028 | 5.00 to 6.875 | **4,880** | 8,295 |
| 1998 Series A | 2005-2029 | 4.75 to 6.60 | **10,060** | 16,060 |
| 1998 Series B | 2005-2029 | 4.625 to 6.55 | **10,164** | 16,289 |
| 1998 Series D | 2005-2029 | 4.25 to 6.35 | **12,950** | 21,145 |
| 1999 Series A | 2005-2030 | 4.375 to 6.45 | **14,405** | 20,965 |
| 1999 Series B | 2005-2030 | 4.875 to 6.80 | **12,505** | 20,155 |
| 1999 Series C | 2005-2031 | 4.70 to 7.20 | **16,235** | 24,625 |
| 2000 Series A | 2005-2031 | 5.75 to 7.50 | **6,385** | 11,575 |
| 2000 Series B | 2005-2031 | 5.35 to 7.25 | **7,155** | 12,425 |
| 2000 Series C | 2005-2031 | 5.70 to 8.40 | **9,280** | 17,795 |
| 2000 Series D | 2005-2032 | 5.40 to 7.43 | **10,225** | 17,305 |
| 2000 Series E | 2005-2032 | 5.375 to 7.10 | **8,115** | 15,915 |
| 2001 Series A | 2005-2032 | 5.00 to 6.50 | **15,165** | 27,280 |
| 2001 Series B | 2005-2033 | 5.00 to 6.55 | **18,415** | 32,800 |
| 2001 Series C | 2005-2033 | 5.90 to 6.60 | **24,350** | 41,835 |
| Total Single Family Program Senior and Subordinate Bonds | | | **207,279** | 357,394 |

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

### (4) Bonds and Notes Payable (continued)

| Description and Due Date | | Interest Rate (%) | 2004 | 2003 |
|---|---|---|---|---|
| Single Family Revenue Refunding Bonds: | | | | |
| 1994 Series A | | 5.00 to 5.30 | — | 35 |
| Single Family Mortgage Bonds | | | | |
| 2001 Series AA | 2005-2041 | Variable & 5.25 | **131,840** | 131,840 |
| 2002 Series A | 2005-2032 | Variable & 4.55 to 5.65 | **84,855** | 90,305 |
| 2002 Series B | 2005-2032 | Variable & 4.80 to 5.40 | **129,655** | 135,000 |
| 2002 Series C | 2005-2036 | Variable & 4.40 to 4.95 | **169,900** | 172,000 |
| 2003 Series A | 2005-2032 | Variable & 4.75 to 5.15 | **76,350** | 106,000 |
| 2003 Series B | 2005-2033 | Variable & 5.00 | **198,260** | 254,000 |
| 2003 Series C | 2005-2032 | Variable & 5.00 | **121,695** | 223,275 |
| 2004 Series A | 2005-2034 | Variable & 1.75 to 5.25 | **312,000** | — |
| 2004 Series B | 2005-2034 | Variable & 1.99 to 5.25 | **183,335** | — |
| Total Single Family Mortgage Bonds | | | **1,407,890** | 1,112,420 |
| Total Single Family | | | **1,628,767** | 1,489,491 |
| Multi-Family Fund: | | | | |
| Multi-Family Housing Insured | | | | |
| Mortgage Revenue Bonds: | | | | |
| 1995 Series A | 2005-2037 | 5.90 to 6.80 | **11,380** | 11,495 |
| 1995 Series B | 2005-2037 | 5.70 to 6.75 | **13,735** | 13,840 |
| 1995 Series C | 2005-2015 | 5.30 to 6.50 | **12,520** | 12,615 |
| 1996 Series A | 2005-2037 | 5.20 to 7.20 | **21,435** | 21,900 |
| 1996 Series B | 2005-2037 | 5.75 to 8.00 | **8,510** | 8,605 |
| 1996 Series C | 2005-2038 | 5.40 to 8.10 | **14,780** | 14,895 |
| 1997 Series A | 2005-2038 | 4.90 to 7.125 | **10,505** | 12,715 |
| 1997 Series B | 2005-2038 | 4.80 to 7.25 | **22,715** | 22,925 |
| 1997 Series C | 2005-2039 | 4.90 to 6.75 | **28,565** | 36,650 |
| 1998 Series A | 2005-2039 | 5.35 to 6.70 | **19,975** | 20,145 |
| 1998 Series B | 2005-2040 | 5.45 to 7.00 | **7,195** | 7,220 |
| 1999 Series A | 2005-2041 | 4.15 to 6.65 | **33,590** | 33,950 |
| 1999 Series B | 2005-2041 | 5.25 to 5.85 | **5,435** | 5,475 |
| 1999 Series C | 2005-2041 | 5.05 to 7.10 | **16,215** | 16,350 |
| 2002 Series AA | 2005-2030 | Variable | **74,370** | 75,285 |
| Total Multi-Family Housing Insured | | | **300,925** | 314,065 |
| Multi-Family Mortgage Revenue Bonds: (principal and interest payable monthly) | | | | |
| Series 1978-3 | | 6.50 | — | 1,170 |
| Multi-Family/Project Bonds: (*principal and interest payable quarterly on some of the bonds) | | | | |
| 2000 Series A | 2005-2032 | Variable & 6.15 | **64,530** | 64,530 |
| 2000 Series B* | 2005-2042 | Variable & 5.90 to 6.10 | **30,950** | 31,175 |
| 2001 Series A | 2005-2043 | 3.50 to 5.65 | **28,310** | 37,670 |
| 2002 Series A | 2005-2042 | Variable & 3.60 to 5.70 | **33,810** | 41,720 |
| 2002 Series B | 2005-2032 | Variable | **13,260** | 57,295 |
| 2002 Series C | 2005-2042 | Variable & 2.85 to 5.30 | **142,645** | 142,720 |
| 2003 Series A | 2005-2033 | Variable | **48,780** | 48,780 |
| 2004 Series A | 2005-2045 | Variable & 1.70 to 4.80 | **89,115** | — |
| Total Multi-Family/Project Bonds | | | **451,400** | 423,890 |
| Total Multi-Family Fund | | | **752,325** | 739,125 |
| Total Bonds Payable | | | **2,465,732** | 2,281,048 |

# notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(4) Bonds and Notes Payable (continued)**

| Description and Due Date | Interest Rate (%) | 2004 | 2003 |
|---|---|---|---|
| Notes Payable: | | | |
| Line of Credit: | | | |
| January 7, 2005 | 2.12 and 2.24 | **98,945** | 85,821 |
| Mortgage Notes Payable: | | | |
| November 30, 2005 | — | **10** | 30 |
| January 2, 2006 | Variable | **6,000** | — |
| November 16, 2008 | 6.40 | **4,813** | — |
| July 1, 2014 | 4.50 | **672** | 693 |
| September 4, 2020 | 1.00 | **713** | 755 |
| June 16, 2024 | — | **247** | — |
| June 22, 2025 | 1.00 | **659** | 687 |
| September 12, 2007 | 6.50 | — | 1,679 |
| January 3, 2008 | 7.25 | — | 4,166 |
| Total Mortgage Notes Payable | | **13,114** | 8,010 |
| Total Notes Payable | | **112,059** | 93,831 |
| Total Bonds and Notes Payable | | **2,577,791** | 2,374,879 |
| Discounts/premiums, net | | **15,210** | 24,553 |
| Deferred losses on refunding amounts | | **(7,435)** | (7,809) |
| Total Bonds and Notes Payable, Net | | **$ 2,585,566** | $ 2,391,623 |

Included in several of the bond issues in the previous table are Capital Appreciation Term Bonds. The principal amounts of these bonds appreciate based on semiannual compounding of the original principal balances at the interest rates specified.

The appreciated balances of these bonds at maturity, and as reflected in the accompanying Statements of Net Assets at December 31, 2004 and 2003, are as follows:

| | | | | Appreciated Balances | |
|---|---|---|---|---|---|
| Description and Due Date | | Interest Rate (%) | Maturity | 2004 | 2003 |
| Single Family Revenue Bonds: | | | | | |
| 1985 Series A | 2005-2009 | 11.125 | $ 793 | **$ 618** | $ 777 |
| 1993 Refunding Series A | 2005-2008 | 7.00 | 3,402 | **3,003** | 3,925 |
| Single Family Senior and Subordinate Bonds: | | | | | |
| 1998 Series B | 2025-2029 | 5.5 | 6,053 | **1,804** | 1,709 |
| Single Family Program Bonds: | | | | | |
| 1998 Series C | 2020-2029 | 5.625 | 12,265 | **4,107** | 3,885 |

Also included in the table of bonds and notes payable outstanding on the preceding pages are certain Single Family and Multi-Family bonds which carry the Authority's general obligation pledge. These bonds have been issued as subordinate debt or Class III obligations and are presented in the table on the following page:

# notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

## (4) Bonds and Notes Payable (continued)

| Description | 2004 | 2003 |
|---|---|---|
| Single Family Program Subordinate Bonds | $ **4,695** | $ 8,860 |
| Single Family Mortgage Bonds, Class III | **98,000** | 74,000 |
| Multi-Family/Project Bonds, Class III | **21,100** | 34,320 |
| Total | $ **123,795** | $ 117,180 |

Bonds and notes payable activity for the years ended December 31, 2004 and 2003, were as follows:

| Description | Balance December 31, 2003 | Additions | Reductions | Balance December 31, 2004 |
|---|---|---|---|---|
| Bonds payable | $ 2,281,048 | $ 633,764 | $ 449,080 | $ 2,465,732 |
| Notes payable* | 93,831 | 4,097,670 | 4,079,442 | 112,059 |
| Unamortized premium/discount | 24,553 | 652 | 9,995 | 15,210 |
| Deferred losses on refunding | (7,809) | — | (374) | (7,435) |
| Total | $ 2,391,623 | $ 4,732,086 | $ 4,538,143 | $ 2,585,566 |

| Description | Balance December 31, 2002 | Additions | Reductions | Balance December 31, 2003 |
|---|---|---|---|---|
| Bonds payable | $ 2,064,424 | $ 641,682 | $ 425,058 | $ 2,281,048 |
| Notes payable* | 117,222 | 3,416,715 | 3,440,106 | 93,831 |
| Unamortized premium/discount | 38,016 | 1,448 | 14,911 | 24,553 |
| Deferred losses on refunding | (7,937) | (227) | (355) | (7,809) |
| Total | $ 2,211,725 | $ 4,059,618 | $ 3,879,720 | $ 2,391,623 |

* Amounts include the Authority's two lines of credit for 2004 and 2003

Bonds and notes payable sinking fund installments and maturities subsequent to December 31, 2004, are as follows:

| | General Fund Bonds | | Single Family Bonds | | Multi-Family Bonds | | Notes Payable | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Principal* | Interest | Principal | Interest | Principal | Interest |
| 2005 | $ 46 | $ 682 | $ 3,827 | $ 23,939 | $ 1,255 | $ 61,082 | $ 99,060 | $ 571 |
| 2006 | 171 | 4,518 | 282,904 | 44,801 | 8,635 | 120,321 | 6,107 | 403 |
| 2007 | 183 | 4,562 | 6,483 | 42,593 | 9,120 | 112,526 | 108 | 348 |
| 2008 | 190 | 4,552 | 6,478 | 42,277 | 9,595 | 103,622 | 4,924 | 346 |
| 2009 | 202 | 4,542 | 6,739 | 41,898 | 9,845 | 93,349 | 112 | 36 |
| 2010-2014 | 1,677 | 22,475 | 75,585 | 203,249 | 57,200 | 278,972 | 992 | 145 |
| 2015-2019 | 3,450 | 21,731 | 39,400 | 187,143 | 86,960 | 112,471 | 459 | 24 |
| 2020-2024 | 23,902 | 18,807 | 195,216 | 166,229 | 120,900 | 94,676 | 263 | 7 |
| 2025-2029 | 42,099 | 4,745 | 311,006 | 125,985 | 142,010 | 70,446 | 34 | — |
| 2030-2034 | 3,220 | 2,989 | 421,900 | 69,905 | 192,035 | 43,061 | — | — |
| 2035-2039 | 9,500 | 461 | 242,210 | 13,122 | 80,325 | 17,179 | — | — |
| 2040-2045 | — | — | 50,000 | 2,420 | 34,445 | 3,541 | — | — |
| Total | $ 84,640 | $ 90,064 | $ 1,641,748 | $ 963,561 | $ 752,325 | $ 1,111,246 | $ 112,059 | $ 1,880 |

* Includes $13.0 million of future accretion of principal value on capital appreciation bonds

# notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(4) Bonds and Notes Payable (continued)**

Assets of the various Bond Funds are pledged for payment of principal and interest on the applicable bonds. In addition, certain assets are further restricted by bond resolutions for payment of interest on and/or principal of bonds in the event that the related debt service funds and other available monies are insufficient. Such assets are segregated within the various Bond Funds and are held in cash or investment securities. At December 31, 2004 and 2003, these assets were at least equal to the amounts required to be restricted.

The Authority has an agreement with the Federal Home Loan Bank of Topeka (FHLB) for borrowings of up to $280,000,000. Amounts drawn under the agreement bear interest at the same rates charged by the FHLB to its member banks and are collateralized by certain mortgage loans and/or investment securities. There are no commitment fees associated with this agreement. As of December 31, 2004 and 2003, the outstanding borrowings under this agreement were $98,945,000 and $85,821,000, respectively.

The Authority also has a revolving, unsecured, commercial bank line of credit for borrowings of up to $20,000,000. Amounts drawn under the agreement bear interest fixed at 0.55% per annum above the London Interbank Offered Rate (LIBOR). This line of credit agreement terminates on July 25, 2005. The Authority pays an unused line fee at the rate of 0.15% per annum, payable in arrears on the last day of each calendar quarter until the Maturity Date, and on the Maturity Date. The fee is based upon the amount by which the daily average of the aggregate principal amount of the borrowings outstanding is less than the line of credit. As of December 31, 2004 and 2003, the Authority had no outstanding borrowings under this agreement.

The Authority has issued certain conduit bonds, the proceeds of which were made available to various developers and corporations for rental housing and commercial purposes. As of December 31, 2004, the amount outstanding on these bonds was $281,830,000. The corresponding amount outstanding as of December 31, 2003, was $277,792,000. The bonds are payable solely from amounts received by the trustees from the revenue earned by the developers and corporations. Loan and corresponding debt service payments are generally guaranteed by irrevocable direct-pay letters of credit, or other credit enhancement arrangements. The faith and credit of the Authority is not pledged for the payment of the principal or interest on the bonds. Accordingly, these obligations are excluded from the Authority's financial statements.

**(5) Interest Rate Swaps**

## Swaps in effect as of December 31, 2004

### Objective

The Authority has entered into pay-fixed receive-variable interest rate swaps in order to: (1) provide lower cost fixed rate financing for its production needs through synthetic fixed rate structures and (2) utilize synthetic fixed rates with refunding bonds in order to generate cash flow savings.

### Summary of Swap Transactions

The terms, including the fair values of the outstanding swaps as of December 31, 2004, are shown in the following table. In no case do the notional amounts of the swaps exceed the principal amounts of the associated debt. Except as discussed under amortization risk, the authority’s swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

# notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

## (5) Interest Rate Swaps (continued)

| Associated Bond Issue | Current Notional Amount | Effective Date | Termination Date | Fixed Rate Paid | Variable Rate Received (*) | Embedded Option | Fair Value (**) |
|---|---|---|---|---|---|---|---|
| Single Family 2001AA | $ 37,115 | 10/04/01 | 11/01/13 | 5.290% | VRDO's Rate | | $ (1,711) |
| Single Family 2001AA | 46,840 | 10/04/01 | 05/01/31 | 4.600% | VRDO's Rate, with tax event language | | (3,135) |
| Single Family 2002A | 36,685 | 04/25/02 | 11/01/13 | 5.499% | VRDO's Rate | | (1,862) |
| Single Family 2002A | 19,090 | 04/25/02 | 11/01/21 | 4.749% | VRDO's Rate | | (1,699) |
| Single Family 2002B | 14,620 | 10/24/02 | 05/01/22 | 5.529% | VRDO's Rate | | (939) |
| Single Family 2002B | 45,035 | 07/18/02 | 11/01/13 | 5.285% | VRDO's Rate | | (1,925) |
| Single Family 2002B | 40,000 | 07/18/02 | 11/01/21 | 4.506% | VRDO's Rate, with tax event language | | (2,636) |
| Single Family 2002C | 30,000 | 10/24/02 | 11/01/32 | 5.350% | VRDO's Rate | (1) | (658) |
| Single Family 2002C | 57,900 | 10/24/02 | 11/01/11 | 4.362% | VRDO's Rate | | (2,030) |
| Single Family 2002C | 40,000 | 10/24/02 | 05/01/22 | 4.422% | VRDO's Rate, with tax event language | | (1,815) |
| Single Family 2003A | 11,400 | 08/01/03 | 05/01/11 | 3.390% | LIBOR, plus .05% | | 150 |
| Single Family 2003A | 18,950 | 02/26/03 | 11/01/11 | 4.008% | LIBOR, plus .05% | | (62) |
| Single Family 2003A | 20,000 | 02/26/03 | 11/01/21 | 4.160% | VRDO's Rate, with tax event language | | (616) |
| Single Family 2003B | 40,000 | 08/01/03 | 11/01/26 | 4.851% | LIBOR, plus .05% | (2) | 393 |
| Single Family 2003B | 58,260 | 08/01/03 | 05/01/12 | 3.665% | LIBOR, plus .05% | | 505 |
| Single Family 2003B | 60,000 | 07/09/03 | 11/01/26 | 4.384% | BMA, plus .15% | (3) | (1,904) |
| Single Family 2003C | 58,695 | 12/03/03 | 05/01/12 | 4.033% | LIBOR, plus .05% | | (252) |
| Single Family 2003C | 40,000 | 11/13/03 | 11/01/26 | 4.595% | BMA, plus .15% | (4) | (2,040) |
| Single Family 2004A | 47,000 | 09/01/04 | 05/01/12 | 4.460% | LIBOR, plus .05% | | (795) |
| Single Family 2004A | 50,000 | 07/28/04 | 11/01/26 | 4.369% | Trigger, BMA, plus .15% or 68% LIBOR | (5) | (2,580) |
| Single Family 2004B | 40,000 | 12/01/04 | 05/01/12 | 4.052% | Trigger, BMA, plus .15% or 68% LIBOR | | (105) |
| Single Family 2004B | 40,000 | 11/10/04 | 11/01/26 | 4.122% | BMA, plus .15% | (6) | (1,115) |
| Multi-Family/Project 2000A | 12,750 | 03/21/00 | 10/01/20 | 5.235% | VRDO's Rate, with tax event language | | (1,800) |
| Multi-Family/Project 2000A | 18,500 | 03/21/00 | 04/01/25 | 5.225% | VRDO's Rate, with tax event language | | (2,181) |
| Multi-Family/Project 2000A | 11,545 | 02/01/00 | 04/01/15 | 5.800% | VRDO's Rate | | (1,788) |
| Multi-Family/Project 2000B | 7,225 | 10/19/00 | 07/01/20 | 7.390% | LIBOR, plus .25% | | (1,334) |
| Multi-Family/Project 2002A | 9,410 | 01/29/03 | 10/01/22 | 5.100% | VRDO's Rate | | (1,283) |
| Multi-Family 2002AA | 33,650 | 07/03/02 | 10/01/23 | 6.068% | VRDO's Rate | | (6,571) |
| Multi-Family/Project 2002C | 10,845 | 04/01/03 | 10/01/32 | 6.129% | VRDO's Rate | (7) | (903) |
| Multi-Family/Project 2002C | 70,715 | 10/01/03 | 10/01/32 | 5.124% | VRDO's Rate, with tax event language | (8) | (7,841) |
| Multi-Family/Project 2002C | 31,960 | 10/01/03 | 10/01/32 | 5.044% | VRDO's Rate, with tax event language | (9) | (3,267) |
| Multi-Family/Project 2003A | 25,495 | 10/01/03 | 04/01/26 | 4.555% | LIBOR, plus .05% | (10) | 994 |
| Multi-Family/Project 2004A | 51,100 | 11/01/04 | 10/01/25 | 5.528% | LIBOR, plus .05% | (11) | (2,128) |
| Multi-Family/Project 2004A | 10,785 | 09/22/04 | 04/01/45 | 4.884% | BMA, plus .15% | (12) | (529) |
| Total | $ 1,145,570 | | | | | | $ (55,462) |

(*) VRDO indicates a Variable Rate Demand Obligation and is the actual rate paid to bondholders. BMA is the Bond Market Association Municipal Swap Index. LIBOR is the London Interbank Offered Rate.

(**) The fair value of the outstanding swaps are presented for informational purposes only and do not impact the financial statements. All fair values have been calculated using the mark-to-market or par value method and include the valuation of any related embedded option. Additionally, eight of the tax-exempt swap agreements contain language which transfer the risk of tax event to the Authority. The fair value of these swaps if a tax event had occured on the valuation date would be an additional $17,841,208 negative.

(1) The Authority has the right to terminate the swap at no expense on or after 11/1/17 up to $21,765,000

(2) The Authority has the right to terminate the swap at no expense on or after 5/1/15 up to $27,305,000

(3) The Authority has the right to terminate the swap at no expense on or after 5/1/15 up to $43,170,000

(4) The Authority has the right to terminate the swap at no expense on or after 5/1/15 up to $28,780,000

(5) The Authority has the right to terminate the swap at no expense on or after 5/1/15 up to $35,970,000

(6) The Authority has the right to terminate the swap at no expense on or after 5/1/15 up to $28,780,000

(7) The Authority has the right to terminate the swap at no expense from 10/1/12 to 4/1/15 up to $4,375,000; 4/1/15 to 4/1/18 up to $6,575,000; and from 4/1/18 to 10/1/32 up to the remaining notional balance

(8) The Authority has the right to terminate the swap at no expense on or after 4/1/18 up to $59,340,000

(9) The Authority has the right to terminate the swap at no expense on or after 4/1/18 up to $26,785,000

(10) The Authority has the right to terminate the swap at no expense on or after 10/1/09 up to $16,576,000

(11) The Authority has the right to terminate the swap at no expense on or after 10/1/14

(12) The Authority has the right to terminate the swap at no expense on or after 10/1/19

# notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

## (5) Interest Rate Swaps (continued)

As of December 31, 2003, the current notional amount of swaps outstanding was $929,460,000 with a fair value of ($49,552,000) as of the same date.

### Swap Payments and Associated Debt

Using interest rates as of December 31, 2004, debt service requirements of the Authority's outstanding hedged variable-rate debt and net swap payments are as follows. As rates vary, variable interest rate payments on the bonds and net swap payments will vary.

| Year Ending December 31, | Principal | Interest | Swaps, Net | Total |
|---|---|---|---|---|
| 2005 | $ 56,655 | $ 26,201 | $ 24,786 | $ 107,642 |
| 2006 | 72,170 | 21,239 | 26,644 | 120,053 |
| 2007 | 73,160 | 19,527 | 25,056 | 117,743 |
| 2008 | 67,705 | 18,125 | 23,226 | 109,056 |
| 2009 | 62,820 | 16,893 | 21,458 | 101,171 |
| 2010-2014 | 244,240 | 68,922 | 85,132 | 398,294 |
| 2015-2019 | 238,900 | 45,596 | 55,065 | 339,561 |
| 2020-2024 | 190,705 | 22,372 | 25,837 | 238,914 |
| 2025-2029 | 95,050 | 8,411 | 8,576 | 112,037 |
| 2030-2034 | 39,480 | 1,610 | 1,960 | 43,050 |
| 2035-2039 | 1,720 | 295 | 545 | 2,560 |
| 2040-2045 | 2,965 | 151 | 304 | 3,420 |
| Total | $ 1,145,570 | $ 249,342 | $ 298,589 | $ 1,693,501 |

## Risk Disclosure

### Credit Risk

Because all of the Authority's swaps rely upon the performance of the third parties who serve as swap counterparties, the Authority is exposed to credit risk (i.e., the risk that a swap counterparty fails to perform according to its contractual obligations). The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the columns labeled "Fair Value" in the table of outstanding swaps. As of December 31, 2004, the Authority was not exposed to credit risk on any of its outstanding swaps as the net exposure to each counterparty, based on the fair value of the related swaps, was negative. However, should interest rates change and the fair values of the swaps increase, the Authority would be exposed to credit risk in the amount of any positive net fair value exposure to each counterparty. To mitigate credit risk, the Authority maintains strict credit standards for swap counterparties. All swap counterparties must be rated in the double-A or higher category by either Moody's or Standard & Poor's at the time the contract is entered into.

Although the Authority executes swap transactions with various counterparties, 26 swaps, representing approximately 73% of the notional amount of swaps outstanding, are held with two separate Aaa/AAA rated (Moody's and Standard & Poor's, respectively) special purpose vehicles, which are bankruptcy remote, both of which are affiliates of the same parent company (49% of the notional amount outstanding are held with a special purpose vehicle with a continuation structure and 24% are held with a special purpose vehicle with a terminating structure). The bankruptcy-remote nature of these special purpose vehicles makes them bankruptcy remote from each other as well as from their parent company. Thus they should be viewed as discrete credits. Of the remaining swaps, the Authority holds 8 agreements, representing approximately 27% of the notional amount outstanding, with four counterparties, three of which are rated AAA/Aaa (one of which operates as a special purpose vehicle with a terminating structure) and one rated Aa2/AA+. Subsequent to December 31, 2004, one of the Aaa/AAA counterparties to four swap transactions, approximating 13% of the notional amount outstanding, was downgraded to Aa/AA.

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(5) Interest Rate Swaps (continued)**

**Basis Risk**

The Authority is exposed to basis risk when the variable interest rate paid to the holders of its variable rate demand obligations ("VRDO's") is not equivalent to the variable interest rate received from its counterparties on the related swap agreements. When exposed to basis risk, the net interest expense incurred on the combination of the swap agreement and the associated variable rate debt may be higher or lower than anticipated. The Authority's tax-exempt variable-rate bond interest payments are substantially equivalent to the BMA rate (plus a trading spread). For the swaps in which the Authority is receiving its actual VRDO rate from the counterparty, the Authority is not exposed to basis risk. For the swaps in which the Authority can only receive a rate indexed on BMA, it is only exposed to basis risk to the extent that the Authority's bonds diverge from their historic trading relationship with BMA. Certain tax-exempt swaps, as indicated in the table of swaps outstanding, contain tax risk language where in the occurrence of a tax event as described in the underlying contracts, the Authority would receive an alternative variable rate pegged at a percentage of LIBOR. For those tax-exempt swaps containing tax event language for which the Authority could receive a variable-rate payment other than actual or BMA, the Authority would then be negatively exposed to basis risk should the relationship between LIBOR and BMA converge. Certain tax-exempt swaps, as indicated in the table of swaps outstanding, contain a trigger feature in which the Authority receives a rate indexed on BMA should LIBOR be less than a predetermined level (the trigger level), or a rate pegged at a percentage of LIBOR should LIBOR be equal to or greater than the predetermined trigger level. For these swaps, the Authority will be negatively exposed to basis risk during the time period it is receiving the rate based on a percentage of LIBOR should the relationship between LIBOR and BMA converge.

The Authority's taxable variable-rate bond interest payments are substantially equivalent to LIBOR (plus a trading spread). The Authority is receiving LIBOR (plus a trading spread) for all of its taxable swaps and therefore is only exposed to basis risk to the extent that the Authority's bonds diverge from their historic trading relationship with LIBOR.

**Termination Risk**

The Authority's swap agreements do not contain any out-of-the-ordinary termination events that would expose it to significant termination risk. In keeping with market standards, the Authority or the counterparty may terminate each swap if the other party fails to perform under the terms of the contract. In addition, the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. The Authority views the likelihood of an occurrence of such events to be remote at this time. If at the time of the termination a swap has a negative value, the Authority would be liable to the counterparty for a payment equal to the fair value of such swap.

There are certain termination provisions relevant to the Authority's counterparties operating as Special Purpose Vehicles ("SPV") with a terminating structure. In the case of certain events including the credit downgrade of the SPV or the failure of the parent company to maintain certain collateral levels, the SPV would be required to wind up its business and terminate all of its outstanding transactions with all clients, including the Authority. All such terminations would be at mid-market pricing. In the event of such termination, the Authority would be exposed to the risk of market re-entry and the cost differential between the mid-market termination and the offered price upon re-entry.

**Rollover Risk**

The Authority is exposed to rollover risk only on swaps that mature or may be terminated at the counterparty's option prior to the maturity of the associated debt. As of December 31, 2004, the Authority is not exposed to rollover risk.

# notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(5) Interest Rate Swaps (continued)**

**Amortization Risk**

The Authority is exposed to amortization risk in the event that the swap amortization schedules fail to match the actual amortization of the underlying bonds as a result of loan prepayments which significantly deviate from expectations. If prepayments are significantly higher than anticipated, the Authority would have the option of reinvesting or recycling the prepayments, or calling bonds which are not swapped. Alternatively, if the Authority chose to call bonds associated with the swap, the Authority could elect an early termination of the related portions of the swap at a potential cost to the Authority.

If prepayments are significantly lower than anticipated and the associated bonds remained outstanding longer than the relevant portion of the swap, the Authority could experience an increase in its exposure to unhedged variable rate bonds. Alternatively, the Authority could choose to enter into a new swap or an extension of the existing swap. If interest rates are higher at the time of entering into a new swap or swap extension, such action would result in a potential cost to the Authority.

**(6) Debt Refundings**

On September 22, 2004, the Authority issued its Multi-Family/Project Bonds 2004 Series A in the aggregate principal amount of $89,115,000. Proceeds of the bonds and other surpluses were used to refund the Authority's outstanding Project Loan Participation Purchase Bonds 1997 Series A in the amount of $1,730,000. Included in the refunding bond issue are variable rate bonds with interest rates during 2004 ranging from a weekly high of 2.42% which could result in a decrease in aggregate debt service requirements of $673,000 and an approximate economic gain to the Authority of $583,000, to a weekly low of 1.82% which could result in a decrease in aggregate debt service requirements of $761,000 and an approximate economic gain to the Authority of $680,000. At the time of this refunding there were no remaining deferred issuance costs on the 1997 Series A bonds.

On September 24, 2003, the Authority issued its Multi-Family/Project Bonds 2003 Series A in the aggregate principal amount of $48,780,000. Proceeds of the bonds and other surpluses were used to refund its outstanding Multi-Family Housing Insured Mortgage Revenue Bonds 1993 Series A in the amount of $11,365,000. Included in the refunding bond issue are variable rate bonds with interest rates during 2003 ranging from a weekly high of 1.25% which could result in a decrease in aggregate debt service requirements of $6,302,000 and an approximate economic gain to the Authority of $6,770,000, to a weekly low of 1.09% which could result in a decrease in aggregate debt service requirements of $6,866,000 and an approximate economic gain to the Authority of $7,187,000. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, $227,000 was deferred and is being amortized over the estimated remaining life of the old debt.

Economic gain or loss is calculated as the difference between the present value of the old debt service requirements and the present value of the new debt service requirements less related upfront costs of issuance, bond call premiums and bond insurance premiums, discounted at the effective interest rate.

# notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(7) Retirement Plans**

Employees of the Authority are members of the Public Employees' Retirement Association of Colorado ("PERA"), which is a cost-sharing multi-employer public employee retirement system plan.

Generally all employees are required to participate in PERA. Under the plan, State statute provides that members are eligible for full retirement benefits at age 50 with at least 30 years of service with a participating employer, at age 55 with at least 25 years of service, at age 65 with at least 5 years of service, or by earning 35 or more years of credited service. Reduced retirement benefits are available at age 50 with at least 25 years service, at age 55 with at least 20 years of service, and at age 60 with at least 5 years of service. Additionally, disability and survivors benefits are available. Benefits are vested after five years of service.

On May 6, 1997, the Governor signed into law House Bill 97-1082, which changed the benefit formula for each year of service over 20 from 1.5 percent of Highest Average Salary per year to 2.5 percent with a 100 percent maximum. All current benefit recipients with more than 20 years of service had their benefit recalculated. Benefit payments dated July 31, 1997, and later reflect this new calculation. The legislation also establishes a two-tier disability retirement program applicable to members who apply for disability on or after January 1, 1999.

House Bill 00-1458, passed in the 2000 legislative session, changed the retirement eligibility for members who are 55 years of age or older and retiring June 1, 2000, or later, with age plus years of service totaling 80 or more. These members may retire without a reduction for early retirement. The reduction for early retirement for some members with age plus years of service totaling less than 80 was also lowered. In addition, beginning March 1, 2000, the annual increase for PERA benefits was changed to 3.5 percent compounded annually, and was no longer tied to the Consumer Price Index.

Under the plan, State statute required the Authority and participating employees to contribute 10.0% and 8.0%, respectively, for 2004, and 9.6% and 8.0%, respectively, for 2003, of the employees' gross salaries, as defined by the plan. The Authority's total eligible payroll for participating employees was $7,849,000 and $8,497,000 for 2004 and 2003, respectively. Contributions by the Authority and employees approximated $792,000 and $630,000, respectively, for 2004, while for 2003 the amounts were $816,000 and $685,000, respectively.

The pension benefit obligation, which is the actuarial measure of the present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users of the Authority's financial statements assess PERA's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERA and other pension programs and among employees. As of December 31, 2003, the date of the latest available audited information, the total accrued liability and total net assets available for benefits of the Municipal Division of PERA, in which the Authority's pension contributions and benefits are included, were $2,379,229,000 and $1,819,240,000, respectively. The unfunded actuarial accrued liability in the Municipal Division as of December 31, 2003, was $471,443,000.

PERA, as a separate entity, issues its own annual financial statements, included in which is historical ten-year trend information for all contributions to the retirement system.

Included in bonds and notes payable are bonds payable to PERA of $47,509,000 and $29,941,000 at December 31, 2004 and 2003, respectively, that carry the Authority's general obligation pledge.

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(7) Retirement Plans (continued)**

An additional benefit offered to eligible Authority employees through PERA is a Voluntary Investment Program, established under Section 401(k) of the Internal Revenue Code. Participants may invest a percentage of their annual gross salaries up to the annual IRS limit of their gross salaries. The Authority contributes 1% of each participating employee's salary as part of the 401(k) Match and, in addition to the 1% contribution, the Authority matches half of the employee's 401(k) contribution up to 5% of the participating employee's gross salary. The Authority's match is a maximum of 3.5%, which includes the 1% contribution. Prior to 2004, the Authority participated in PERA's MatchMaker Program, which used a portion of the employer's contributions as a dollar-for-dollar match to the 401(k) plan, not to exceed 2% of the employee's gross salary. This program was discontinued by PERA in 2004. Contributions to the MatchMaker program were $29,000 and $141,000 for 2004 and 2003, respectively.

The Authority also offers a deferred compensation plan for the purpose of providing retirement income for employees. This defined contribution plan is qualified under Section 457 in the Internal Revenue Code. The Authority does not contribute to this plan. Any changes or modifications to the deferred compensation plan must be approved by the Board. The plan is administered by an independent trustee.

**(8) Contingencies**

There are a limited number of claims or suits pending against the Authority arising in the Authority's ordinary course of business. In the opinion of the Authority's management and counsel, any losses that might result from these claims and suits are either covered by insurance or, to the extent not covered by insurance, would not materially affect the Authority's financial position as of December 31, 2004 and December 31, 2003.

this page left intentionally blank

# supplemental information

as of December 31, 2004 with comparative totals for 2003 (in thousands)

## Statements of Net Assets by Program

| | General Fund | Single Family | Multi-Family | Eliminations | 2004 | 2003 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Current Assets:** | | | | | | |
| Cash and interest bearing accounts | $ 8,750 | $ — | $ — | $ — | $ **8,750** | $ 8,300 |
| Short-term investment securities | 43,391 | 497,766 | 94,648 | — | **635,805** | 647,147 |
| Loans receivable | 8,681 | 36,659 | 19,054 | (537) | **63,857** | 57,725 |
| Accrued interest receivable | 1,874 | 11,244 | 6,010 | (100) | **19,028** | 19,539 |
| Deferred debt financing costs | 22 | 488 | 130 | — | **640** | 662 |
| Other assets | 4,756 | — | — | — | **4,756** | 9,160 |
| Federally assisted program advances | 1,945 | — | — | — | **1,945** | 1,924 |
| Due to (from) other programs | (19,822) | 23,815 | (3,993) | — | — | — |
| Total Current Assets | 49,597 | 569,972 | 115,849 | (637) | **734,781** | 744,457 |
| **Noncurrent Assets:** | | | | | | |
| Long-term investment securities - restricted | 524 | 77,605 | 109,432 | — | **187,561** | 149,461 |
| Long-term investment securities - unrestricted | 2,141 | — | — | — | **2,141** | 6,829 |
| Loans receivable, net | 251,735 | 1,063,123 | 552,563 | (15,562) | **1,851,859** | 1,674,010 |
| Property and equipment, net | | | | | | |
| Corporate facilities | 5,883 | — | — | — | **5,883** | 5,625 |
| Rental operations | 33,930 | — | — | — | **33,930** | 28,733 |
| Other real estate owned, net | 3,814 | 2,787 | — | — | **6,601** | 5,772 |
| Deferred debt financing costs, net | 400 | 8,783 | 2,346 | — | **11,529** | 11,923 |
| Other assets | 11,115 | — | — | — | **11,115** | 8,918 |
| Total Noncurrent Assets | 309,542 | 1,152,298 | 664,341 | (15,562) | **2,110,619** | 1,891,271 |
| **Total Assets** | $ 359,139 | $ 1,722,270 | $ 780,190 | $ (16,199) | $ **2,845,400** | $ 2,635,728 |
| **Liabilities** | | | | | | |
| **Current Liabilities:** | | | | | | |
| Bonds payable | $ 166 | $ 283,019 | $ 7,185 | $ — | $ **290,370** | $ 272,954 |
| Notes payable | 99,060 | — | — | — | **99,060** | 86,594 |
| Accrued interest payable | 716 | 12,388 | 9,143 | (100) | **22,147** | 22,882 |
| Accounts payable and other liabilities | 6,638 | 196 | 824 | — | **7,658** | 7,267 |
| Federally assisted program advances | 1,945 | — | — | — | **1,945** | 1,924 |
| Refundable deposits | 181 | — | — | — | **181** | 1,903 |
| Total Current Liabilities | 108,706 | 295,603 | 17,152 | (100) | **421,361** | 393,524 |
| **Noncurrent Liabilities:** | | | | | | |
| Bonds payable, net | 84,474 | 1,360,026 | 738,637 | — | **2,183,137** | 2,024,838 |
| Notes payable | 29,098 | — | — | (16,099) | **12,999** | 7,237 |
| Deferred fee income | 382 | — | — | — | **382** | 362 |
| Total Noncurrent Liabilities | 113,954 | 1,360,026 | 738,637 | (16,099) | **2,196,518** | 2,032,437 |
| **Total Liabilities** | 222,660 | 1,655,629 | 755,789 | (16,199) | **2,617,879** | 2,425,961 |
| **Net Assets** | | | | | | |
| Invested in capital assets, net of related debt | 7,093 | — | — | — | **7,093** | 6,636 |
| Restricted | — | 66,641 | 24,401 | — | **91,042** | 78,563 |
| Unrestricted | 129,386 | — | — | — | **129,386** | 124,568 |
| **Total Net Assets** | 136,479 | 66,641 | 24,401 | — | **227,521** | 209,767 |
| **Total Liabilities and Net Assets** | $ 359,139 | $ 1,722,270 | $ 780,190 | $ (16,199) | $ **2,845,400** | $ 2,635,728 |

See the Independent Auditors' Reports, the audited financial statements and accompanying notes

# supplemental information

for the year ended December 31, 2004 with comparative totals for 2003 (in thousands)

## Statements of Revenues, Expenses and Changes in Net Assets by Program

| | General Fund | Single Family | Multi-Family | Eliminations | 2004 | 2003 |
|---|---|---|---|---|---|---|
| **Operating Revenues:** | | | | | | |
| Interest on loans | $ 10,454 | $ 55,653 | $ 34,585 | $ (1,210) | **$ 99,482** | $ 93,861 |
| Investment income | 1,744 | 14,488 | 7,649 | — | **23,881** | 23,804 |
| Net increase (decrease) in FMV of long-term investment securities | (392) | 1,419 | 206 | — | **1,233** | (3,578) |
| Rental operations | 10,279 | — | — | — | **10,279** | 9,549 |
| Other revenues | 12,756 | — | — | — | **12,756** | 14,058 |
| Total Operating Revenues | 34,841 | 71,560 | 42,440 | (1,210) | **147,631** | 137,694 |
| **Operating Expenses:** | | | | | | |
| Interest expense on bonds and notes | 5,799 | 58,354 | 35,699 | (1,595) | **98,257** | 92,629 |
| Salaries and related benefits | 10,668 | — | — | — | **10,668** | 11,545 |
| General operating | 13,462 | 560 | 205 | — | **14,227** | 14,411 |
| Other interest expense | 1,326 | — | — | 385 | **1,711** | 1,688 |
| Depreciation | 2,574 | — | — | — | **2,574** | 2,694 |
| Provision for losses | (816) | (18) | 3,289 | — | **2,455** | 3,550 |
| Total Operating Expenses | 33,013 | 58,896 | 39,193 | (1,210) | **129,892** | 126,517 |
| **Total Operating Income** | 1,828 | 12,664 | 3,247 | — | **17,739** | 11,177 |
| **Nonoperating Revenues:** | | | | | | |
| Grant income | 15 | — | — | — | **15** | 292 |
| Federal grant receipts | 87,473 | — | — | — | **87,473** | 83,210 |
| Federal grant payments | (87,473) | — | — | — | **(87,473)** | (83,210) |
| Total Nonoperating Revenues | 15 | — | — | — | **15** | 292 |
| **Income Before Transfers** | 1,843 | 12,664 | 3,247 | — | **17,754** | 11,469 |
| **Transfers (To) From Other Programs** | (3,432) | 3,554 | (122) | — | **—** | — |
| **Change in Net Assets** | 5,275 | 9,110 | 3,369 | — | **17,754** | 11,469 |
| **Net Assets:** | | | | | | |
| Beginning of year | 131,204 | 57,531 | 21,032 | — | **209,767** | 198,298 |
| End of year | $ 136,479 | $ 66,641 | $ 24,401 | $ — | **$ 227,521** | $ 209,767 |

See the Independent Auditors' Reports, the audited financial statements and accompanying notes

# supplemental information

for the year ended December 31, 2004 with comparative totals for 2003 (in thousands)

## Statements of Cash Flows by Program

| | General Fund | Single Family | Multi-Family | Eliminations | 2004 | 2003 |
|---|---|---|---|---|---|---|
| **Cash Flows From Operating Activities:** | | | | | | |
| Interest received on loans receivable | $ 9,823 | $ 60,638 | $ 36,272 | $ (1,210) | **$ 105,523** | $ 100,535 |
| Receipts from principal payments on loans | 27,549 | 232,537 | 69,976 | — | **330,062** | 469,979 |
| Interest received from investment securities | 1,815 | 14,261 | 7,302 | — | **23,378** | 24,290 |
| Receipts from rental operations | 10,233 | — | — | — | **10,233** | 9,577 |
| Receipts from other program revenues | 12,521 | — | — | — | **12,521** | 14,233 |
| Receipts from sales of other real estate owned | 4,717 | — | — | — | **4,717** | 2,040 |
| Receipts from loan fundings | 1,963 | — | — | — | **1,963** | 3,248 |
| (Payments) receipts from accounts payable and federally assisted programs | (1,956) | 10 | 497 | — | **(1,449)** | 969 |
| Payments for loan fundings | (480,056) | 26 | (46,119) | — | **(526,149)** | (635,780) |
| Interest paid on bonds and notes | (6,208) | (65,611) | (34,723) | 1,595 | **(104,947)** | (105,796) |
| Payments for salaries and related benefits | (10,511) | — | — | — | **(10,511)** | (11,323) |
| Payments for general operating expenses | (11,510) | (560) | (205) | — | **(12,275)** | (10,319) |
| Payments for other interest | (1,326) | — | — | (385) | **(1,711)** | (1,688) |
| Payments for loan fundings fees | (874) | 8 | — | — | **(866)** | (2,483) |
| Payments from other assets | (1,238) | — | — | — | **(1,238)** | (4,818) |
| Cash due to (from) | 355,505 | (319,091) | (36,414) | — | — | — |
| Net Cash Used in Operating Activities | (89,553) | (77,782) | (3,414) | — | **(170,749)** | (147,336) |
| **Cash Flows From Noncapital Financing Activities:** | | | | | | |
| Proceeds from issuance of notes | 4,097,670 | — | — | — | **4,097,670** | 3,416,716 |
| Proceeds from issuance of bonds | 48,719 | 495,974 | 89,128 | — | **633,821** | 642,488 |
| Receipts from grants | 15 | — | — | — | **15** | 292 |
| Receipts from federal grants programs | 87,473 | — | — | — | **87,473** | 83,210 |
| Equity transfers | 3,432 | (3,554) | 122 | — | — | — |
| Payments for federal grant programs | (87,473) | — | — | — | **(87,473)** | (83,210) |
| Payments for notes | (4,079,442) | — | — | — | **(4,079,442)** | (3,440,106) |
| Payments for bonds | (16,510) | (356,655) | (75,915) | — | **(449,080)** | (425,058) |
| Payments for debt financing costs | — | (2,147) | (380) | — | **(2,527)** | (2,747) |
| Payments for bond call premiums | — | — | — | — | — | (227) |
| Net Cash Provided by Noncapital Financing Activities | 53,884 | 133,618 | 12,955 | — | **200,457** | 191,358 |
| **Cash Flows From Capital and Related Financing Activities:** | | | | | | |
| Sale of property and equipment - corporate facilities | 6 | — | — | — | **6** | — |
| Sale of property and equipment - rental operations | — | — | — | — | — | 5 |
| Purchase of property and equipment - corporate facilities | (1,235) | — | — | — | **(1,235)** | (875) |
| Purchase of property and equipment - rental operations | (6,927) | — | — | — | **(6,927)** | (2,575) |
| Net Cash Used in Capital and Related Financing Activities | (8,156) | — | — | — | **(8,156)** | (3,445) |
| **Cash Flows From Investing Activities:** | | | | | | |
| Proceeds from maturities and sales of long-term investment securities | 10,427 | 25,107 | 7,271 | — | **42,805** | 78,828 |
| Purchase of long-term marketable securities | (6,118) | (22,658) | (46,473) | — | **(75,249)** | (91,552) |
| Net Cash Provided by (Used in) Investing Activities | 4,309 | 2,449 | (39,202) | — | **(32,444)** | (12,724) |
| **Net Increase (Decrease) in Cash and Cash Equivilants** | (39,516) | 58,285 | (29,661) | — | **(10,892)** | 27,853 |
| Cash and Cash Equivilants at Beginning of Year | 91,657 | 439,481 | 124,309 | — | **655,447** | 627,594 |
| Cash and Cash Equivilants at End of Year | $ 52,141 | $ 497,766 | $ 94,648 | $ — | **$ 644,555** | $ 655,447 |

See the Independent Auditors' Reports, the audited financial statements and accompanying notes

(continued)

## supplemental information

for the year ended December 31, 2004 with comparative totals for 2003 (in thousands)

### Statements of Cash Flows by Program (continued)

| | General Fund | Single Family | Multi-Family | Eliminations | 2004 | 2003 |
|---|---|---|---|---|---|---|
| **Reconciliation of Operating Income to Net Cash Used in Operating Activities:** | | | | | | |
| Operating income | $ 1,828 | $ 12,664 | $ 3,247 | $ — | **$ 17,739** | $ 11,177 |
| Adjustments to reconcile operating income to net cash used in operating activities: | | | | | | |
| (Increase) decrease in fair value of investments | 392 | (1,419) | (206) | — | **(1,233)** | 3,578 |
| Depreciation expense | 2,574 | — | — | — | **2,574** | 2,694 |
| Loss on sale of property and equipment | 124 | — | — | — | **124** | 51 |
| Accretion of capital appreciation term bonds | — | 596 | — | — | **596** | 641 |
| Amortization of: | | | | | | |
| Deferred debt financing costs | 17 | 3,025 | 402 | — | **3,444** | 5,278 |
| Premiums and discounts on bonds, net | — | (9,993) | (1) | — | **(9,994)** | (14,911) |
| Premiums and discounts on long-term investment securities, net | 7 | 147 | 111 | — | **265** | (51) |
| Deferred fee income | (1,017) | — | (216) | — | **(1,233)** | (2,406) |
| Deferred cash assistance expense | 150 | 5,845 | — | — | **5,995** | 11,500 |
| Service release premium expense | 1,845 | — | — | — | **1,845** | 4,352 |
| Provision for losses | (816) | (18) | 3,289 | — | **2,455** | 3,550 |
| Principal repayments on loans receivable | 27,549 | 232,537 | 69,976 | — | **330,062** | 469,978 |
| Sale of other real estate owned | 4,717 | — | — | — | **4,717** | 2,040 |
| New loan fundings | (480,056) | 26 | (46,119) | — | **(526,149)** | (635,781) |
| Deferred fee income | 1,963 | — | — | — | **1,963** | 3,247 |
| Deferred cash assistance expense | (874) | 8 | — | — | **(866)** | (2,484) |
| Changes in assets and liabilities: | | | | | | |
| Accrued interest receivable | 298 | (1,232) | 1,445 | — | **511** | (1,882) |
| Other assets | (1,540) | — | — | — | **(1,540)** | (4,548) |
| Accrued interest payable | (427) | (884) | 575 | — | **(736)** | (4,175) |
| Accounts payable and federally assisted programs | (1,792) | 7 | 497 | — | **(1,288)** | 816 |
| Cash due to (from) | 355,505 | (319,091) | (36,414) | — | **—** | — |
| Net Cash Used in Operating Activities | $ (89,553) | $ (77,782) | $ (3,414) | $ — | **$ (170,749)** | $ (147,336) |
| Supplemental schedule of non-cash operating, noncapital financing, capital and related financing and investing activities: | | | | | | |
| Transfer of loans receivable to other real estate owned | 81 | 1,187 | 4,277 | — | **5,545** | 2,432 |
| Transfer of loans receivable to (from) other assets | (102) | (1,778) | — | — | **(1,880)** | 1,803 |
| Transfer of loans receivable to deferred debt financing | 129 | — | — | — | **129** | — |

See the Independent Auditors' Reports, the audited financial statements and accompanying notes

(concluded)

# independent auditors' report on internal control over financial reporting and compliance and other matters based upon the audit performed in accordance with *Government Auditing Standards*

To the Board of Directors of
Colorado Housing and Finance Authority
Denver, Colorado

We have audited the financial statements of Colorado Housing and Finance Authority (the "Authority") as of and for the year ended December 31, 2004, and have issued our report thereon dated June 24, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and the use of the Board of Directors, audit committee, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

Denver, Colorado
June 24, 2005

this page left intentionally blank

Colorado Housing and Finance Authority

1981 Blake Street
Denver, Colorado 80202

303.297.2432
800.877.2432 toll free
303.297.7305 tdd

www.colohfa.org

CHFA is not a state agency. Its bonds and notes are not obligations of the state of Colorado, and are not repaid with tax dollars. CHFA is self supporting.

This report was designed by the CHFA Marketing and Strategic Development Team, and was printed without the use of general fund dollars.



CHFA
COLORADO HOUSING AND FINANCE AUTHORITY

*financing the places where people live and work*