# COLORADO HOUSING AND FINANCE AUTHORITY
# ANNUAL FINANCIAL REPORT
## For the Year Ended December 31, 2005
***(With Summarized Financial Information for 2004)***

colorado housing and finance authority

*financing the places where people live and work*

***Prepared by:***
***Finance Division***

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colorado housing and finance authority

*financing the places where people live and work*

## 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 Coloradoans, 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 public and private sale of bonds and notes, which are not obligations of the State of Colorado. The proceeds are loaned to eligible borrowers, including Colorado-owned small and medium-sized businesses, primarily through private lending institutions across the state under the sound fiscal practices of the Authority. 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 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

| | |
|---|---|
| Dr. Nancy McCallin | Board Chair |
| Joseph A. Garcia | Board Chair Pro-Tem |
| Michele Dressel | Board Secretary/Treasurer |
| John Blumberg | Board Member |
| M. Michael Cooke | Board Member |
| John (Jay) Davidson | Board Member |
| Rick Grice | Board Member |
| Joanne Hill, CPA | Board Member |
| Senator Jim Isgar | Board Member |
| Eric Moore | Board Member |
| Joel Rosenstein | Board Member |

Clifton Gunderson LLP
Certified Public Accountants & Consultants

## Independent Auditor's Report

Board of Directors
Colorado Housing and Finance Authority
Denver, Colorado

We have audited the accompanying financial statements of the business-type activities and each major fund of Colorado Housing and Finance Authority as of and for the year ended December 31, 2005 which collectively comprise Colorado Housing and Finance Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Colorado Housing and Finance Authority's management. Our responsibility is to express opinons on these financial statements based on our audit. We did not audit the financial statements of Hyland Park Centre Corporation, Tanglewood Oaks Apartments Corporation, and Village of Yorkshire Corporation, which represent 0.6% of total assets at December 31, 2005 and 2.5% of total revenues for the year then ended. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate 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. The prior year summarized comparative information has been derived from the Authority's December 31, 2004 basic financial statements which were audited by other auditors whose report dated June 24, 2005 expressed an unqualified opinion on the basic financial statements.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Colorado Housing and Finance Authority as of December 31, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2006 on our consideration of Colorado Housing and Finance Authority's internal control over financial reporting and on 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 *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 7 and is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The introductory section listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Clifton Gunderson LLP

Greenwood Village, Colorado
March 3, 2006

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, 2005. This analysis should be read in conjunction with the Authority's financial statements and accompanying notes.

## Financial Highlights

- Net assets as of December 31, 2005, were $242.9 million, an increase of $15.3 million, or 6.7%, compared to net assets of $227.5 million as of December 31, 2004, strengthening the Authority's capital position. Net assets as a percent of total assets increased from 7.95% as of December 31, 2004, to 8.20% as of December 31, 2005.

- As reflected in the Statement of Revenues, Expenses and Changes in Net Assets, the change in net assets of $15.3 million for 2005 represents a 13.6% decrease compared to the change in net assets for 2004 of $17.8 million. This decrease was primarily due to an increase in interest expense on debt, discussed in more detail below. Profitability, as measured by return on average net assets, was 6.52% in 2005 compared to 8.12% in 2004. Excluding the effect of the change in fair value of investments, the return on average net assets was 6.18% in 2005 and 7.56% in 2004.

- Total net loans receivable as of December 31, 2005, were $2.1 billion, an increase of $187.7 million, or 9.8%, compared to the amount outstanding as of December 31, 2004.

- The increase in loans receivable was funded by an increase in debt and use of bond proceeds held at December 31, 2004, for loan acquisitions in short-term investments. As of December 31, 2005, debt outstanding was $2.7 billion, an increase of $82.1 million, or 3.2%, compared to the balance at December 31, 2004. Investments as of December 31, 2005, were $735.9 million, a decrease of $89.6 million, or 10.9%, compared to the prior year-end balance.

## Overview of the Financial Statements

The basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, a Statement of Cash Flows and the notes thereto. 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. Net assets are restricted when their use is subject to external limits such as bond indentures, legal agreements or statutes. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

All the Authority's current year revenues and expenses 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 resulting change in net assets - 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, noncapital financing, capital financing and investing activities. The statement provides information regarding the sources and uses of cash and the change in the cash balance during the reporting period.

The notes to the financial statements provide additional information that is essential to a full understanding of the information provided in the financial statements. The notes follow the Statement of Cash Flows.

*Authority Funds* – The Authority's financial statements present the activities of its three funds – the General Fund, the Single Family Fund and the Multi-Family/Business Fund. A description of each of these funds is provided in the notes to the financial statements. Interfund activity is eliminated.

## Analysis of Financial Activities

### Statement of Net Assets

The following table presents condensed information about the financial position of the Authority as of December 31, 2005, and 2004, and changes in the balances of selected items during the fiscal year ended December 31, 2005.

| As of December 31, (in thousands) | 2005 | 2004 | $ Change | % Change |
|---|---|---|---|---|
| Assets | | | | |
| Current assets | $ 674,717 | $ 750,438 | $ (75,721) | -10.1% |
| Noncurrent assets: | | | | |
| Investments | 181,735 | 189,702 | (7,967) | -4.2% |
| Loans receivable, net | 2,035,553 | 1,854,120 | 181,433 | 9.8% |
| Capital assets, net | 39,883 | 39,813 | 70 | 0.2% |
| Other assets | 28,857 | 29,244 | (387) | -1.3% |
| Total noncurrent assets | 2,286,028 | 2,112,879 | 173,149 | 8.2% |
| Total assets | $ 2,960,745 | $ 2,863,317 | $ 97,428 | 3.4% |
| Liabilities | | | | |
| Current liabilities | $ 336,333 | $ 432,826 | $ (96,493) | -22.3% |
| Noncurrent liabilities: | | | | |
| Bonds and notes payable, net | 2,373,247 | 2,196,136 | 177,111 | 8.1% |
| Other liabilities | 8,312 | 6,834 | 1,478 | 21.6% |
| Total noncurrent liabilities | 2,381,559 | 2,202,970 | 178,589 | 8.1% |
| Total liabilities | 2,717,892 | 2,635,796 | 82,096 | 3.1% |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | 7,831 | 7,093 | 738 | 10.4% |
| Restricted by bond indentures | 93,609 | 91,042 | 2,567 | 2.8% |
| Unrestricted | 141,413 | 129,386 | 12,027 | 9.3% |
| Total net assets | 242,853 | 227,521 | 15,332 | 6.7% |
| Total liabilities and net assets | $ 2,960,745 | $ 2,863,317 | $ 97,428 | 3.4% |

Total loans receivable increased $187.7 million, or 9.8%, during the current year, of which the noncurrent portion of the increase was $181.4 million. This increase is largely due to new loan purchases and originations of approximately $482.3

million, offset by loan repayments and prepayments that resulted in total principal reductions of $286.9 million. This growth in loans receivable was funded by use of bond proceeds held in short-term investments at December 31, 2004, for loan acquisitions (reflected in the decrease in current assets) and increases in bonds and notes payable, discussed further below.

New loan production, as measured by total loans funded, of $482.3 million was $43.8 million, or 8.3%, less than 2004 production. This decrease in production is primarily due to a decline in single family loan production as a result of increases in mortgage loan rates.

Current liabilities decreased $96.5 million, or 22.3%, compared to 2004. This decrease was primarily the result of the maturity of certain short-term bonds payable related to the Authority's private activity bond volume cap preservation program. Partially offsetting this decrease was a $21.5 million increase in amounts outstanding under the Authority's borrowing agreements with the Federal Home Loan Bank. Noncurrent bonds and notes payable increased $177.1 million, or 8.1%, compared to December 31, 2004, as a result of various new bond issues. Additional information on the Authority's debt activities is provided under "Debt Administration".

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

The following table presents condensed statements of revenues, expenses and changes in net assets for the years ended December 31, 2005, and 2004, and the change from the prior year.

| For the years ended December 31, (in thousands) | 2005 | 2004 | $ Change | % Change |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Interest on loans receivable | $ 111,337 | $ 99,482 | $ 11,855 | 11.9% |
| Investment income | 30,628 | 23,881 | 6,747 | 28.3% |
| Net increase in the fair value of investments | 788 | 1,233 | (445) | -36.1% |
| Rental income | 10,902 | 10,463 | 439 | 4.2% |
| Other revenues | 14,097 | 12,756 | 1,341 | 10.5% |
| Total operating revenues | 167,752 | 147,815 | 19,937 | 13.5% |
| Operating expenses: | | | | |
| Interest on debt | 120,371 | 98,257 | 22,114 | 22.5% |
| Salaries and related benefits | 11,322 | 10,668 | 654 | 6.1% |
| General operating | 15,485 | 14,411 | 1,074 | 7.5% |
| Other interest expense | 1,848 | 1,711 | 137 | 8.0% |
| Depreciation | 2,679 | 2,574 | 105 | 4.1% |
| Provision for losses | 715 | 2,455 | (1,740) | -70.9% |
| Total operating expenses | 152,420 | 130,076 | 22,344 | 17.2% |
| Total operating income | 15,332 | 17,739 | (2,407) | -13.6% |
| Nonoperating revenues and expenses, net | - | 15 | (15) | -100.0% |
| Change in net assets | 15,332 | 17,754 | (2,422) | -13.6% |
| Net assets: | | | | |
| Beginning of year | 227,521 | 209,767 | 17,754 | 8.5% |
| End of year | $ 242,853 | $ 227,521 | $ 15,332 | 6.7% |

Interest earned on loans of $111.3 million, interest income on investments of $30.6 million and interest expense on debt of $120.4 million are the primary components of total revenues and expenses of the Authority.

Total operating revenues were $167.8 million in 2005, an increase of $19.9 million, or 13.5%, compared to 2004. Interest on loans climbed $11.9 million, or 11.9%, over the 2004 amount. This increase is primarily the result of increased loan volumes. Investment income increased $6.7 million, or 28.3%, compared to the prior year. This increase was due primarily to increases in yields earned on investments, approximately 75% of which are short-term in nature. The $1.3 million, or 10.5%, increase in other revenues was primarily the result of increased levels of loan servicing income. The Authority services in excess of 99% of its loans receivable, for which it receives a monthly fee.

Total operating expenses of $152.4 million for 2005 increased $22.3 million, or 17.2%, compared to 2004. The rise was largely attributable to a $22.1 million, or 22.5%, increase in interest expense on debt. The majority of this increase was due to a 12.2% increase in average debt volumes from 2004 to 2005. In addition, amortization of premiums on bonds declined $6.3 million compared to 2004, reflecting the payoff and early redemption of various bond issues issued from 1995 to 2003. These premiums were used in part to fund the Authority's down-payment assistance program, which was subsequently replaced with a second mortgage program.

Partially offsetting this increase was a decrease in the provision for losses on loans and other real estate owned of $1.7 million, or 70.9%, due in part to improved credit quality in various multi-family loans.

## Capital Assets

Capital assets, net of accumulated depreciation, as of December 31, 2005, totaled $39.9 million, essentially unchanged from the $39.8 million as of December 31, 2004. The majority of this investment in capital assets is related to the Authority's ownership of 15 apartment complexes that provide housing to lower and moderate income families. The only significant activity during 2005 was certain improvements to the Authority's corporate offices. To provide for long-term growth, an adjacent building was purchased in 2001. Various improvements were made to the building in 2004 and 2005 totaling approximately $2 million. Additional information regarding the Authority's capital assets can be found in the notes to the financial statements.

## Debt Administration

As of December 31, 2005, the Authority had $2.5 billion in bonds and notes payable outstanding and $120.4 million outstanding under borrowing agreements with the Federal Home Loan Bank. This debt is secured by various assets and, in certain cases, the general obligation pledge of the Authority. The ratings on the debt of the Single Family Fund and the Multi-Family/Business Fund range from A1 to Aaa by Moody's Investors Service (Moody's) and A+ to AAA by Standard & Poor's (S&P), depending on the underlying collateral. The ratings on the general obligation debt of the Authority are A1/A+ by Moody's and S&P, respectively. There were no changes in ratings during 2005.

In 2005 the Authority issued $597.4 million in debt related to its lending programs. Of this amount, $442.9 million was issued pursuant to the Authority's single family lending program and is reflected in the Single Family Fund, $129.6 million was for the multi-family/business lending program and is reflected in the Multi-Family/Business Fund and $24.9 million was issued in the form of private placements of debt to finance single family and business loans – reflected in the General Fund. Partially offsetting these new debt issues were maturities of short-term debt related to the Authority's private activity bond volume cap preservation program, scheduled debt payments, early redemptions and refundings of various debt issues.

Additional information of the Authority's long-term and short-term debt can be found in the notes to the financial statements.

## Colorado Housing and Finance Authority
## Statement of Net Assets

December 31, 2005

*(with summarized financial information for December 31, 2004)*

*(in thousands of dollars)*

| | General Fund | Single Family | Multi-Family/ Business | Eliminations | 2005 | 2004 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Current assets: | | | | | | |
| Cash | $ 24,024 | $ - | $ - | $ - | $ 24,024 | $ 22,469 |
| Investments | 127,410 | 298,056 | 128,672 | - | 554,138 | 635,805 |
| Loans receivable | 7,496 | 43,412 | 20,322 | (1,039) | 70,191 | 63,935 |
| Accrued interest receivable | 2,139 | 11,584 | 5,382 | (265) | 18,840 | 19,028 |
| Deferred debt financing costs, net | 21 | 540 | 133 | - | 694 | 640 |
| Federally assisted program advances | 838 | - | - | - | 838 | 1,945 |
| Other assets | 5,982 | 10 | - | - | 5,992 | 6,616 |
| Due to (from) other funds | (13,651) | 18,754 | (5,103) | - | - | - |
| Total current assets | 154,259 | 372,356 | 149,406 | (1,304) | 674,717 | 750,438 |
| Noncurrent assets: | | | | | | |
| Investments | 4,200 | 74,407 | 103,128 | - | 181,735 | 189,702 |
| Loans receivable, net | 217,375 | 1,258,961 | 589,345 | (30,128) | 2,035,553 | 1,854,120 |
| Capital assets - non-depreciable | 7,991 | - | - | - | 7,991 | 8,242 |
| Capital assets - depreciable, net | 31,892 | - | - | - | 31,892 | 31,571 |
| Other real estate owned, net | 175 | 3,830 | - | - | 4,005 | 6,601 |
| Deferred debt financing costs, net | 374 | 9,721 | 2,396 | - | 12,491 | 11,529 |
| Other assets | 12,361 | - | - | - | 12,361 | 11,114 |
| Total noncurrent assets | 274,368 | 1,346,919 | 694,869 | (30,128) | 2,286,028 | 2,112,879 |
| **Total assets** | $ 428,627 | $ 1,719,275 | $ 844,275 | $ (31,432) | $ 2,960,745 | $ 2,863,317 |
| **Liabilities** | | | | | | |
| Current liabilities: | | | | | | |
| Short-term debt | $ 120,405 | $ - | $ - | $ - | $ 120,405 | $ 98,945 |
| Bonds payable, current portion | 75 | 167,700 | 6,135 | - | 173,910 | 290,370 |
| Notes payable, current portion | 107 | - | - | - | 107 | 115 |
| Accrued interest payable | 893 | 13,273 | 9,787 | (265) | 23,688 | 22,147 |
| Federally assisted program advances | 838 | - | - | - | 838 | 1,945 |
| Accounts payable and other liabilities | 16,677 | 445 | 263 | - | 17,385 | 19,304 |
| Total current liabilities | 138,995 | 181,418 | 16,185 | (265) | 336,333 | 432,826 |
| Noncurrent liabilities: | | | | | | |
| Bonds payable, net | 99,905 | 1,477,975 | 793,288 | - | 2,371,168 | 2,183,137 |
| Notes payable | 33,246 | - | - | (31,167) | 2,079 | 12,999 |
| Other liabilities | 7,237 | 199 | 876 | - | 8,312 | 6,834 |
| Total noncurrent liabilities | 140,388 | 1,478,174 | 794,164 | (31,167) | 2,381,559 | 2,202,970 |
| **Total liabilities** | 279,383 | 1,659,592 | 810,349 | (31,432) | 2,717,892 | 2,635,796 |
| **Net assets** | | | | | | |
| Invested in capital assets, net of related debt | 7,831 | - | - | - | 7,831 | 7,093 |
| Restricted by bond indentures | - | 59,683 | 33,926 | - | 93,609 | 91,042 |
| Unrestricted | 141,413 | - | - | - | 141,413 | 129,386 |
| **Total net assets** | 149,244 | 59,683 | 33,926 | - | 242,853 | 227,521 |
| **Total liabilities and net assets** | $ 428,627 | $ 1,719,275 | $ 844,275 | $ (31,432) | $ 2,960,745 | $ 2,863,317 |

The accompanying notes are an integral part of these statements

# Colorado Housing and Finance Authority
## Statement of Revenues, Expenses and Changes in Net Assets

For the year ended December 31, 2005

*(with summarized financial information for the year ended December 31, 2004)*

*(in thousands of dollars)*

| | General Fund | Single Family | Multi-Family/ Business | Eliminations | 2005 | 2004 |
|---|---|---|---|---|---|---|
| Operating revenues: | | | | | | |
| Interest on loans receivable | $ 11,241 | $ 64,129 | $ 37,902 | $ (1,935) | $ 111,337 | $ 99,482 |
| Investment income | 2,016 | 19,130 | 9,482 | - | 30,628 | 23,881 |
| Net increase (decrease) in the fair value of investments | 441 | 728 | (381) | - | 788 | 1,233 |
| Rental income | 10,902 | - | - | - | 10,902 | 10,463 |
| Loan servicing income | 7,826 | - | - | - | 7,826 | 7,091 |
| Section 8 administration fees | 3,976 | - | - | - | 3,976 | 3,644 |
| Other revenues | 2,295 | - | - | - | 2,295 | 2,021 |
| Total operating revenues | 38,697 | 83,987 | 47,003 | (1,935) | 167,752 | 147,815 |
| Operating expenses: | | | | | | |
| Interest on debt | 7,681 | 74,614 | 40,011 | (1,935) | 120,371 | 98,257 |
| Salaries and related benefits | 11,322 | - | - | - | 11,322 | 10,668 |
| General operating | 14,724 | 530 | 231 | - | 15,485 | 14,411 |
| Other interest expense | 1,848 | - | - | - | 1,848 | 1,711 |
| Depreciation | 2,679 | - | - | - | 2,679 | 2,574 |
| Provision for losses | 870 | 2,881 | (3,036) | - | 715 | 2,455 |
| Total operating expenses | 39,124 | 78,025 | 37,206 | (1,935) | 152,420 | 130,076 |
| Total operating income (loss) | (427) | 5,962 | 9,797 | - | 15,332 | 17,739 |
| Nonoperating revenues and expenses | | | | | | |
| Grant income | - | - | - | - | - | 15 |
| Federal grant receipts | 92,479 | - | - | - | 92,479 | 87,473 |
| Federal grant payments | (92,479) | - | - | - | (92,479) | (87,473) |
| Total nonoperating revenues | - | - | - | - | - | 15 |
| Income (loss) before transfers | (427) | 5,962 | 9,797 | - | 15,332 | 17,754 |
| Transfers from (to) other funds | 13,192 | (12,920) | (272) | - | - | - |
| Change in net assets | 12,765 | (6,958) | 9,525 | - | 15,332 | 17,754 |
| Net assets: | | | | | | |
| Beginning of year | 136,479 | 66,641 | 24,401 | - | 227,521 | 209,767 |
| End of year | $ 149,244 | $ 59,683 | $ 33,926 | $ - | $ 242,853 | $ 227,521 |

The accompanying notes are an integral part of these statements

## Colorado Housing and Finance Authority
## Statement of Cash Flows
For the year ended December 31, 2005

*(with summarized financial information for the year ended December 31, 2004)*

*(in thousands of dollars)*

| | General Fund | Single Family | Multi-Family/ Business | Eliminations | 2005 | 2004 |
|---|---|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | | | |
| Principal payments received on loans receivable | $ 21,799 | $ 212,256 | $ 53,417 | $ - | $ 287,472 | $ 330,062 |
| Interest payments received on loans receivable | 10,954 | 66,906 | 38,303 | (1,929) | 114,234 | 105,523 |
| Payments for fundings of loans receivable | (429,681) | - | (53,253) | - | (482,934) | (526,149) |
| Receipt (payment) for loan transfers between funds | 451,788 | (417,767) | (34,021) | - | - | - |
| Receipts from rental operations | 10,880 | - | - | - | 10,880 | 10,233 |
| Receipts from other revenues | 14,057 | - | - | - | 14,057 | 12,521 |
| Receipts from dispositions of other real estate owned | 2,177 | 2,605 | - | - | 4,782 | 4,717 |
| Payments for salaries and related benefits | (11,294) | - | - | - | (11,294) | (10,511) |
| Payments for goods and services | (12,151) | (530) | (231) | - | (12,912) | (12,275) |
| All other, net | (3,905) | 116 | 8 | - | (3,781) | (281) |
| Net cash provided (used) by operating activities | 54,624 | (136,414) | 4,223 | (1,929) | (79,496) | (86,160) |
| **Cash flows from noncapital financing activities:** | | | | | | |
| Proceeds from issuance of short-term debt | 4,805,225 | - | - | - | 4,805,225 | 4,086,597 |
| Proceeds from issuance of bonds | 24,845 | 443,197 | 129,620 | - | 597,662 | 633,821 |
| Proceeds from issuance of notes payable | - | - | - | - | - | 4,814 |
| Receipts from grants | - | - | - | - | - | 15 |
| Receipts from federal grant programs | 91,372 | - | - | - | 91,372 | 87,473 |
| Payments for federal grant programs | (91,372) | - | - | - | (91,372) | (87,473) |
| Principal paid on short-term debt | (4,783,765) | - | - | - | (4,783,765) | (4,073,473) |
| Principal paid on bonds | (9,504) | (437,463) | (75,456) | - | (522,423) | (449,080) |
| Principal paid on notes payable | (3,942) | | | | (3,942) | (5,915) |
| Interest paid on short-term debt | (2,475) | - | - | - | (2,475) | (1,685) |
| Interest paid on bonds | (4,605) | (74,099) | (38,649) | 1,565 | (115,788) | (102,808) |
| Interest paid on notes payable | (14) | - | - | - | (14) | (452) |
| Transfers (to) from other funds | 13,192 | (12,920) | (272) | - | - | - |
| All other, net | - | (2,976) | (1,073) | - | (4,049) | (2,527) |
| Net cash provided (used) by noncapital financing activities | 38,957 | (84,261) | 14,170 | 1,565 | (29,569) | 89,307 |
| **Cash flows from capital and related financing activities:** | | | | | | |
| Purchase of capital assets | (3,042) | - | - | - | (3,042) | (8,162) |
| Proceeds from the disposal of capital assets | - | - | - | - | - | 6 |
| Proceeds from issuance of capital-related debt | - | - | - | - | - | 6,259 |
| Principal paid on capital-related debt | (6,044) | | | | (6,044) | (53) |
| Interest paid on capital-related debt | (2,212) | - | - | 364 | (1,848) | (1,711) |
| Net cash provided (used) by capital and related financing activities | (11,298) | - | - | 364 | (10,934) | (3,661) |
| **Cash flows from investing activities:** | | | | | | |
| Proceeds from maturities and sales of investments | 2,026,021 | 2,148,663 | 887,103 | - | 5,061,787 | 6,022,810 |
| Purchase of investments | (2,108,333) | (1,947,308) | (914,591) | - | (4,970,232) | (6,043,518) |
| Income received from investments | 1,584 | 19,320 | 9,095 | | 29,999 | 22,981 |
| Net cash provided (used) by investing activities | (80,728) | 220,675 | (18,393) | - | 121,554 | 2,273 |
| Net increase in cash | 1,555 | - | - | - | 1,555 | 1,759 |
| Cash at beginning of year | 22,469 | - | - | - | 22,469 | 20,710 |
| Cash at end of year | $ 24,024 | $ - | $ - | $ - | $ 24,024 | $ 22,469 |

The accompanying notes are an integral part of these statements

Continued on the next page.

## Statement of Cash Flows *(continued)*

For the year ended December 31, 2005

*(with summarized financial information for the year ended December 31, 2004)*

*(in thousands of dollars)*

| | General Fund | Single Family | Multi-Family/ Business | Eliminations | 2005 | 2004 |
|---|---|---|---|---|---|---|
| Reconciliation of operating income to net cash provided (used) by operating activities: | | | | | | |
| Operating income | $ (427) | $ 5,962 | $ 9,797 | $ - | $ 15,332 | $ 17,739 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | | | |
| Depreciation expense | 2,679 | - | - | - | 2,679 | 2,574 |
| Provision for losses | 870 | 2,881 | (3,036) | - | 715 | 2,455 |
| Loss on disposition of capital assets | 292 | - | - | - | 292 | 124 |
| Amortization/accretion of premiums and discounts on investments, net | (302) | (209) | (620) | - | (1,131) | (132) |
| Amortization of deferred loan fees/costs, net | (309) | 3,513 | (48) | - | 3,156 | 5,995 |
| Amortization of premiums on bonds | - | (3,734) | (2) | - | (3,736) | (9,994) |
| Amortization of bond issuance costs | 18 | 2,498 | 458 | - | 2,974 | 3,444 |
| Accretion of capital appreciation term bonds | - | 422 | - | - | 422 | 596 |
| Amortization of service release premiums | 2,077 | - | - | - | 2,077 | 1,845 |
| (Increase) decrease in fair value of investments | (441) | (728) | 381 | - | (788) | (1,233) |
| Income received from investments | (1,584) | (19,320) | (9,095) | - | (29,999) | (22,981) |
| Interest paid on bonds, notes and short-term debt | 9,306 | 74,099 | 38,649 | (1,929) | 120,125 | 106,656 |
| Changes in assets and liabilities: | | | | | | |
| Loans receivable | 44,866 | (205,511) | (33,857) | - | (194,502) | (194,990) |
| Accrued interest receivable | (101) | (339) | 629 | - | 189 | 511 |
| Other real estate owned | 2,177 | 2,605 | - | - | 4,782 | 4,717 |
| Other assets | (4,682) | 116 | 8 | - | (4,558) | (2,771) |
| Accrued interest payable | 196 | 885 | 645 | - | 1,726 | (736) |
| Accounts payable and federally assisted programs | (11) | 446 | 314 | - | 749 | 21 |
| Net cash provided (used) by operating activities | $ 54,624 | $ (136,414) | $ 4,223 | $ (1,929) | $ (79,496) | $ (86,160) |

The accompanying notes are an integral part of these statements

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

### (a) Authorizing Legislation and Reporting Entity

*Authorizing Legislation* - The Colorado Housing and Finance Authority (the "Authority") is a body corporate and a political subdivision of the State of Colorado (the "State") 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 is not a component unit of the State or any other entity.

The Authority was created for the purpose of making funds available to assist private enterprise and governmental entities in providing housing facilities for lower and moderate income families. Under the Act, the Authority is also authorized to finance project and working capital loans to industrial and commercial enterprises (both for-profit and non-profit) 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 on future debt issues of the Authority. The bonds, notes and other obligations of the Authority do not constitute debt of the State.

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.

*Blended Component Units* - Hyland Park Centre Corporation ("Hyland Park"), Tanglewood Oaks Apartments Corporation ("Tanglewood"), and Village of Yorkshire Corporation ("Yorkshire") have been designated as blended component units and included in the Authority's financial statements. Hyland Park, Tanglewood and Yorkshire are public, non-profit instrumentalities of the Authority, each of which owns and operates a single, separate multi-family rental housing project. The Authority is financially accountable for these units because they have the same board of directors and management personnel, and their surplus assets are relinquished to the Authority. Separate financial statements for the individual component units may be obtained through the Authority.

### (b) Measurement Focus, Basis of Accounting and Financial Statement Presentation

*Measurement Focus and Basis of Accounting* - The Authority's funds are accounted for as enterprise funds for financial reporting purposes. All funds utilize the economic resource measurement focus and accrual basis of accounting wherein revenues are recognized when earned and expenses when incurred. The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements for its funds, as well as those of the Financial Accounting Standards Board issued before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements. After November 30, 1989, the Authority only applies applicable GASB pronouncements.

*Financial Statement Presentation* – The Authority's financial statements include a classified Statement of Net Assets, a Statement of Revenues, Expenditures and Changes in Net Assets formatted to report operating and nonoperating revenues and expenses, a Statement of Cash Flows presented using the direct method and notes to the financial statements. The Authority's financial statements present its funds in separate columns. Summarized financial information for 2004 has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position, results of operations and cash flows on an entity-wide basis. However, the summarized financial information is not intended to present the financial position, results of operations or cash flows in accordance with accounting principles generally accepted in the United States of America.

The financial activities of the Authority are recorded in three funds which are consolidated for reporting purposes and are described below.

*General Fund* – The General Fund is the Authority's primary operating fund. It accounts for all financial activity not specifically pledged for the repayment of bonds in the other funds.

*Single Family Fund* – The Single Family Fund accounts for bonds issued and assets pledged for payment of the bonds under the related indentures. Loans acquired by this fund with the proceeds of single family bond issues include FHA, conventional, USDA Rural Development and VA loans made under various loan programs.

*Multi-Family/Business Fund* – The Multi-Family/Business Fund accounts for bonds issued and assets pledged for payment of the bonds under the related indentures. Loans acquired by this fund with the proceeds of multi-family and business (sometimes referred to as project) bond issues include loans made for the purchase, construction or rehabilitation of multi-family rental housing. In addition, business loans are made to both for-profit and non-profit organizations primarily for the purpose of acquisition or expansion of their facilities or for the purchase of equipment.

Interfund activity is eliminated, reflected in the "Eliminations" column of the statements.

### (c) Summary of Significant Accounting Policies

*Investments* – Investments of the Authority, with the exception of nonparticipating investment agreements which are reported at cost, are carried at fair value based on quoted market prices. Investments with a maturity of one year or less are valued at amortized cost, which approximates fair value.

*Loans Receivable* – Mortgage loans receivable are carried at their unpaid principal balance net of deferred down payment assistance expense, deferred fee income and an allowance for estimated loan losses. Deferred down payment assistance expense and deferred fee income are capitalized and amortized over the life of the loan using the effective interest method. Virtually all mortgage loans receivable are serviced by the Authority.

*Allowance for Loan Losses* - The allowance for loan losses is provided through charges against current operations based on management's periodic review of the loan portfolio. 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, guarantees, mortgage insurance, historical loss experience for each loan type, 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.

*Capital Assets* – The Authority's capital assets consist of two components. Corporate capital assets include those capital assets other than those used in its Rental Acquisition Program (RAP) activities. The Authority commenced its RAP operations in 1988 when the Board authorized the acquisition, rehabilitation and operation of multi-family properties to provide affordable housing to lower 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. As of December 31, 2005, the Authority owned a total of 15 RAP projects, including its three component units, containing 1,586 units.

Capital assets are defined by the Authority as assets with an initial, individual cost of $2,500 in the case of corporate capital assets and $1,500 in the case of RAP capital assets. Capital assets are depreciated or amortized using the straight-line method over their estimated useful lives, ranging from 3-30 years.

*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.

*Bond and Note Issuance Costs* - Costs of debt issuance are deferred and amortized over the lives of the bond issues using the effective interest method.

*Other Assets* - Included in other assets are unamortized costs of mortgage servicing rights. Mortgage servicing rights are amortized over the life of the related loans using the effective interest method.

*Bond Discounts and Premiums* - Discounts and premiums on bonds payable are amortized over the lives of the respective bond issues using the effective interest method.

*Debt Refundings* - 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.

*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 provided in Note 7.

*Compensated Absences* - Employees accrue paid time off at a rate based on length of service. Employees may accrue and carry over 150% of their annual paid time off benefit. The liability for compensated absences is based on current salary rates and is reflected in the financial statements.

*Operating and Nonoperating Revenues and Expenses* - The Authority distinguishes operating revenues and expenses from nonoperating 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 loan losses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Authority's nonoperating revenues and expenses consist primarily of pass-through amounts related to the Authority's role as a contract administrator of the U.S. Department of Housing and Urban Development's Section 8 subsidy program. Under the Section 8 subsidy program, tenants pay 30% of their income toward rent and the balance is paid by federal subsidy.

*Budget Policies* - The Authority's budget year is the calendar year. The budget is developed on a full accrual basis with estimations of revenue by source and expenses by object. The Authority is not subject to the Local Budget Government Law of Colorado pursuant to Title 29, Article 1, Part 1 of the Colorado Revised Statutes.

*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.

*Reclassifications* - Certain prior year amounts have been reclassified to conform to current year presentation.

## (2) Cash and Investments

For General Fund investments, 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. The Authority is also subject to permissible investments as authorized by Title 24, Article 75, Part 6 of the Colorado Revised Statutes (CRS). Permissible investments pursuant to the CRS are either identical to or less restrictive than the Authority's investment policy. In addition, each of the trust indentures established under the Authority's bond programs contain 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.

*Colorado Housing and Finance Authority – Notes to Financial Statements (tabular amounts are in thousands)*

As of December 31, 2005, the Authority had the following investments:

| | Investment Maturities (In Years) | | | | | |
|---|---|---|---|---|---|---|
| Investment Type | Less Than 1 | 1-5 | 6-10 | More Than 10 | Total | 2004 |
| Money market mutual fund | $ 15,350 | $ - | $ - | $ - | $ 15,350 | $ 7,262 |
| External investment pool | 28,241 | - | - | - | 28,241 | 30,347 |
| Certificate of deposit | 84,390 | - | - | - | 84,390 | - |
| Repurchase agreement | 263 | - | - | - | 263 | 692 |
| U.S. Treasury | - | - | 2,946 | 566 | 3,512 | 4,392 |
| U.S. Government agencies | 74,805 | 28,603 | - | 73,703 | 177,111 | 155,126 |
| State & political subdivision obligations | - | - | - | 10,761 | 10,761 | 10,859 |
| Investment agreements - uncollateralized | 338,158 | - | - | 50,348 | 388,506 | 587,636 |
| Investment agreements - collateralized | 12,931 | - | - | 14,808 | 27,739 | 29,193 |
| Total | $ 554,138 | $ 28,603 | $ 2,946 | $ 150,186 | $ 735,873 | $ 825,507 |

*Interest Rate Risk* – The Authority manages interest rate risk in the General Fund by generally limiting the maximum maturity date of an investment to seven years. Of the General Fund's $131,610,000 in investments, 97% have maturities of less than one year.

In the Single Family and Multi-Family/Business Funds, the Authority matches maturities to anticipated cash flows. Of the $149,070,000 in investments with a maturity of more than ten years held by these funds, over 99% are debt service reserves.

*Credit Risk* – The following table provides credit ratings of the Authority's investments as determined by Moody's Investors Service and/or Standard and Poor's.

| Investment Type | Rating |
|---|---|
| Money market mutual fund | AAAm |
| External investment pool | AAAm |
| Certificate of deposit | AAA |
| Repurchase agreement | AAA |
| U.S. Government agencies | AAA |
| State & political subdivision obligations | AA-AAA |
| Investment agreements - uncollateralized | Unrated |
| Investment agreements - collateralized | Unrated |

Colorado Housing and Finance Authority – Notes to Financial Statements (tabular amounts are in thousands)

The rating for the certificate of deposit in the above table is for the issuer – the Federal Home Loan Bank. This certificate of deposit is pledged as collateral to an advance from the Federal Home Loan Bank (see Note 5 for more information). The rating for the repurchase agreement is the rating of the underlying security. 96% of the investments in securities issued by state and political subdivisions are rated AAA.

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

As of December 31, 2005, the Authority had invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local governmental entities in Colorado to pool funds available for investment. COLOTRUST is reflected in the above tables as an external investment pool. The State Securities Commissioner administers and enforces all State statutes governing COLOTRUST. COLOTRUST operates similar to a money market fund and each share's fair value is $1.00.

*Concentration of Credit Risk* – The Authority has various maximum investment limits both by type of investment and by issuer to prevent inappropriate concentration of credit risk. The following table provides information on issuers in which the Authority has investments representing more than 5% of its total investments or of the respective funds.

| Issuer | Total | General Fund | Single Family | Multi-Family/ Business |
|---|---|---|---|---|
| Federal Home Loan Bank | 14.5% | 64.2% | | 9.6% |
| Freddie Mac | 12.6% | | 8.4% | 24.4% |
| Fannie Mae | 8.5% | 8.0% | | 14.3% |

*Custodial Credit Risk – Investments* – For an investment, custodial credit risk is the risk that, in the event of the failure of the issuer, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All securities owned by the Authority are either in the custody of the related bond indenture trustees or held in the name of the Authority by a party other than the issuer of the security.

*Custodial Credit Risk - Cash Deposits* – In the case of cash deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. At December 31, 2005, the Authority's cash deposits had a carrying amount of $24,024,000 and a bank balance of $20,470,000, of which $9,000 was held in an uninsured and uncollateralized account with the Federal Home Loan Bank (FHLB). The FHLB is rated AAA by both Standard and Poor's and Moody's. With the exception of the FHLB account, it is the Authority's policy to ensure that all deposit accounts are either covered by the Federal Deposit Insurance Corporation or collateralized in accordance with the PDPA.

Included in cash deposits are escrow deposits in the amount of $14,499,000 held in a fiduciary capacity. These escrow deposits are primarily held for the payment of property taxes and insurance for the Authority's mortgagors.

Colorado Housing and Finance Authority – Notes to Financial Statements (tabular amounts are in thousands)

## (3) Loans Receivable, Other Real Estate Owned and Related Allowances

Loans receivable at December 31, 2005, and 2004, consist of the following:

| | 2005 | 2004 |
|---|---|---|
| General Fund | $ 237,765 | $ 272,127 |
| Single Family Fund: | | |
| Taxable Mortgage Revenue | - | 2,446 |
| Revenue | - | 630 |
| Program Senior and Subordinate | 146,239 | 196,477 |
| Mortgage | 1,149,545 | 888,385 |
| Total Single Family Fund loans | 1,295,784 | 1,087,938 |
| Multi-Family/Business Fund: | | |
| Insured Mortgage Revenue | 173,907 | 204,794 |
| Multi-Family/Project | 417,494 | 367,003 |
| Total Multi-Family/Business Fund loans | 591,401 | 571,797 |
| Total loans receivable | 2,124,950 | 1,931,862 |
| Payments in process | (3,583) | - |
| Deferred cash assistance expense | 10,136 | 13,661 |
| Deferred fee income | (7,572) | (7,356) |
| Allowance for loan losses | (18,187) | (20,112) |
| Total loans receivable, net | $ 2,105,744 | $ 1,918,055 |

Loans in the Single Family Fund and the Multi-Family/Business Fund in the table are grouped based on the related bond type (see Note 6 for additional information).

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 Single Family and Multi-Family/Business 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. Certain of these loans are also guaranteed by agencies of the United States government.

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

Activity in the allowance for loan losses for the year ended December 31, 2005, was as follows:

| Beginning Balance | Provision | Net Charge-offs | Ending Balance |
|---|---|---|---|
| $ (20,112) | $ (610) | $ 2,535 | $ (18,187) |

Colorado Housing and Finance Authority – Notes to Financial Statements (tabular amounts are in thousands)

Other real estate owned of $4,005,000 as of December 31, 2005, consisted entirely of foreclosures of single-family residences. Activity in the allowance for losses on other real estate for the year ended December 31, 2005, was as follows:

| Beginning Balance | Provision | Net Charge-offs | Ending Balance |
|---|---|---|---|
| $ (1,038) | $ (105) | $ 1,143 | $ - |

## (4) Capital Assets and Rental Acquisition Program (RAP)

Capital assets activity for the year ended December 31, 2005, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| Non-depreciable capital assets: | | | | |
| Land | $ 7,529 | $ - | $ - | $ 7,529 |
| Construction in progress | 713 | 2,406 | (2,657) | 462 |
| Total non-depreciable capital assets | 8,242 | 2,406 | (2,657) | 7,991 |
| Depreciable capital assets: | | | | |
| Cost: | | | | |
| Computer equipment/software | 1,900 | 383 | (24) | 2,259 |
| Office equipment | 4,290 | 93 | (878) | 3,505 |
| Furniture amd fixtures | 3,899 | 367 | (606) | 3,660 |
| Buildings | 39,164 | 2,450 | (30) | 41,584 |
| Total depreciable capital assets | 49,253 | 3,293 | (1,538) | 51,008 |
| Less accumulated depreciation: | | | | |
| Computer equipment/software | (959) | (646) | 22 | (1,583) |
| Office equipment | (3,328) | (348) | 727 | (2,949) |
| Furniture amd fixtures | (2,108) | (346) | 490 | (1,964) |
| Buildings | (11,287) | (1,339) | 6 | (12,620) |
| Total accumulated depreciation | (17,682) | (2,679) | 1,245 | (19,116) |
| Total depreciable capital assets, net | 31,571 | 614 | (293) | 31,892 |
| Total capital assets, net | $ 39,813 | $ 3,020 | $ (2,950) | $ 39,883 |

Colorado Housing and Finance Authority – Notes to Financial Statements (tabular amounts are in thousands)

As discussed in Note 1(c), the Authority's capital assets consist of two components, corporate capital assets and RAP capital assets. Summary capital assets activity for these two components for the year ended December 31, 2005, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| Corporate activities: | | | | |
| Cost | $ 9,058 | $ 5,264 | $ (2,623) | $ 11,699 |
| Accumulated depreciation | (3,175) | (970) | - | (4,145) |
| Net | 5,883 | 4,294 | (2,623) | 7,554 |
| RAP activities: | | | | |
| Cost | 48,437 | 435 | (1,572) | 47,300 |
| Accumulated depreciation | (14,507) | (1,709) | 1,245 | (14,971) |
| Net | 33,930 | (1,274) | (327) | 32,329 |
| Total capital assets, net | $ 39,813 | $ 3,020 | $ (2,950) | $ 39,883 |

Summary financial information for the Authority's RAP activities as of December 31, 2005, and for the year then ended is provided below:

| As of December 31, 2005 | |
|---|---|
| Property, net of accumulated depreciation of $14,971 | $ 32,329 |
| Total assets | $ 39,952 |
| Total liabilities | $ 27,812 |
| Net assets | $ 12,140 |

| For the year ended December 31, 2005 | |
|---|---|
| Rental income | $ 10,902 |
| Other revenues | 105 |
| General operating expenses | (6,939) |
| Depreciation expense | (1,709) |
| Interest expense | (1,848) |
| Operating income | $ 511 |

Colorado Housing and Finance Authority – Notes to Financial Statements (tabular amounts are in thousands)

## (5) Short-term Debt

The Authority has agreements with the Federal Home Loan Bank of Topeka (FHLB) for borrowings of up to $280,000,000. Borrowings under these agreements are used to support the Authority's various lending programs, including warehousing of loans in the General Fund, and activities related to the Authority's private activity bond volume cap preservation program. Amounts drawn under the agreements bear interest at the same rates charged by the FHLB to its member banks and are collateralized by certain mortgage loans and/or investments. There are no commitment fees associated with these agreements.

The Authority also has a revolving, unsecured, commercial bank line of credit for borrowings of up to $15,000,000. Amounts drawn under the agreement bear interest fixed at 0.55% per annum above the London Interbank Offered Rate. This line of credit agreement terminates on July 25, 2006. 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. There were no borrowings under this line of credit during 2005.

Short-term debt activity for the year ended December 31, 2005, was as follows:

| Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|
| $ 98,945 | $ 4,805,225 | $ 4,783,765 | $ 120,405 |

## (6) Long-term Liabilities

The Authority issues bonds and notes payable to finance its lending programs. Proceeds from long-term debt of the Single Family and Multi-Family/Business Funds are used for funding of single family, multi-family and business loans. Long-term debt of the General Fund (including notes payable) is used to finance single family and business loans related to various private placements, the Authority's RAP activities and for general corporate purposes. The aggregate principal amounts of bonds and notes payable outstanding as of December 31, 2005, and 2004, are shown in the table on the following pages. Interest is payable semi-annually unless otherwise noted. Interest rates on variable debt are reset on a weekly basis by the remarketing agents.

*Colorado Housing and Finance Authority – Notes to Financial Statements (tabular amounts are in thousands)*

| Descripton and due date | | Interest rate (%) | 2005 | 2004 |
|---|---|---|---|---|
| Bonds payable: | | | | |
| General Fund: | | | | |
| General Obligation Bonds: | | | | |
| 1992 Series A | 2006-2030 | 9.125 | $ 3,190 | $ 3,220 |
| 1998 Series A | 2006-2017 | 4.60 to 5.25 | 1,210 | 1,280 |
| Total General Obligation Bonds | | | 4,400 | 4,500 |
| Single Family: | | | | |
| Taxable Mortgage Revenue Bonds: (* *principal and interest payable monthly* ) | | | | |
| 2000 Series A* | 2006-2020 | 6.914 | 1,549 | 1,615 |
| 2000 Series B* | 2006-2020 | 6.675 | 436 | 817 |
| 2001 Series AP* | 2006-2021 | 6.135 | 2,265 | 3,576 |
| 2001 Series AV* | 2006-2021 | 6.625 | 705 | 1,350 |
| 2002 Series AP* | 2006-2022 | 5.662 | 936 | 1,455 |
| 2004 Series A* | 2006-2024 | 4.95 | 1,840 | 2,010 |
| 2004 Series B* | 2006-2035 | 4.98 | 4,470 | 5,000 |
| 2004 Series CV* | 2006-2035 | 5.14 | 2,840 | 4,500 |
| 2005 Series A * | 2006-2035 | 5.17 | 10,249 | - |
| 2005 Series B* | 2006-2036 | 5.32 | 10,100 | - |
| Total Single Family | | | 35,390 | 20,323 |
| Multi-Family/Business Finance: | | | | |
| ACCESS Program Bonds: | | | | |
| 1995 Series A | 2006-2015 | 7.67 | 362 | 443 |
| 1999 Series A | | 6.49 | - | 615 |
| Total ACCESS Program Bonds | | | 362 | 1,058 |
| Guaranteed Loan Participation Purchase Bonds: *(* principal and interest payable monthly)* | | | | |
| 1999 Series A | 2006-2024 | 5.71 | 1,198 | 2,073 |
| 2000 Series A | 2006-2025 | 6.755 | 281 | 300 |
| 2003 Series A* | 2006-2023 | 5.004 | 3,996 | 4,192 |
| 2004 Series A* | 2006-2024 | 4.62 | 4,529 | 4,940 |
| 2004 Series B* | 2006-2024 | 4.88 | 9,103 | 9,832 |
| 2005 Series A* | 2006-2025 | 4.81 | 4,176 | - |
| Total Guaranteed Loan Participation Purchase Bonds | | | 23,283 | 21,337 |
| Project Loan Participation Purchase Bonds: *(* principal and interest payable monthly)* | | | | |
| 2004 Series AP* | 2006-2024 | 4.90 | 7,948 | 8,183 |
| Taxable Rental Project Revenue Bonds: *(* principal and interest payable monthly)* | | | | |
| 2000 Series A | 2006-2020 | 6.152 | 4,918 | 5,227 |
| 2002 Series AV* | 2006-2022 | 5.55 | 6,571 | 6,692 |
| 2003 Series AV* | 2006-2024 | 5.19 | 3,892 | 3,946 |
| 2004 Series A* | 2006-2024 | 4.90 | 13,216 | 13,374 |
| Total Taxable Rental Project Revenue Bonds | | | 28,597 | 29,239 |
| Total Multi-Family/Business Finance | | | 60,190 | 59,817 |
| Total General Fund | | | 99,980 | 84,640 |

*Colorado Housing and Finance Authority – Notes to Financial Statements (tabular amounts are in thousands)*

| Descripton and due date | | Interest rate (%) | 2005 | 2004 |
|---|---|---|---|---|
| Single Family Fund: | | | | |
| Taxable Single Family Mortgage Revenue Bonds: | | | | |
| 1998 Issue I | | 6.65 | - | 430 |
| Single Family Revenue Bonds: | | | | |
| 1985 Series A | | 11.125 | - | 618 |
| 1985 Series B | | 8.75 | - | 345 |
| 1993 Refunding Series A | | 7.00 | - | 3,003 |
| Total Single Family Revenue Bonds | | | - | 3,966 |
| Single Family Program Senior and Subordinate Bonds: | | | | |
| 1994 Series B | 2006-2024 | 6.125 to 7.50 | 420 | 495 |
| 1994 Series C | | 6.25 to 7.90 | - | 140 |
| 1995 Series B | | 5.90 to 7.90 | - | 265 |
| 1995 Series C | | 5.30 to 7.65 | - | 545 |
| 1995 Series D | 2006-2026 | 5.625 to 7.375 | 1,410 | 5,940 |
| 1996 Series A | 2006-2027 | 5.35 to 7.40 | 1,570 | 3,330 |
| 1996 Series B | 2006-2027 | 7.45 to 7.65 | 1,390 | 2,860 |
| 1996 Series C | 2006-2027 | 5.50 to 7.55 | 1,760 | 4,135 |
| 1997 Series A | 2006-2027 | 4.95 to 7.25 | 3,170 | 5,530 |
| 1997 Series B | 2006-2028 | 5.10 to 7.00 | 2,480 | 3,750 |
| 1997 Series C | 2006-2028 | 6.75 to 6.875 | 2,910 | 4,880 |
| 1998 Series A | 2006-2029 | 6.50 to 6.60 | 7,285 | 10,060 |
| 1998 Series B | 2006-2029 | 5.50 to 6.55 | 7,145 | 10,164 |
| 1998 Series C | 2006-2029 | 5.15 to 5.625 | 7,586 | 9,202 |
| 1998 Series D | 2006-2029 | 4.25 to 6.35 | 9,060 | 12,950 |
| 1999 Series A | 2006-2030 | 4.375 to 6.45 | 10,695 | 14,405 |
| 1999 Series B | 2006-2029 | 4.875 to 6.80 | 8,300 | 12,505 |
| 1999 Series C | 2006-2031 | 5.25 to 7.20 | 11,155 | 16,235 |
| 2000 Series A | 2006-2031 | 5.75 to 7.50 | 5,015 | 6,385 |
| 2000 Series B | 2006-2031 | 5.35 to 7.25 | 5,520 | 7,155 |
| 2000 Series C | 2006-2031 | 5.70 to 8.40 | 6,175 | 9,280 |
| 2000 Series D | 2006-2032 | 5.40 to 6.90 | 7,120 | 10,225 |
| 2000 Series E | 2006-2032 | 5.375 to 7.10 | 5,835 | 8,115 |
| 2001 Series A | 2006-2032 | 5.00 to 6.50 | 11,110 | 15,165 |
| 2001 Series B | 2006-2033 | 5.00 to 6.80 | 14,370 | 18,415 |
| 2001 Series C | 2006-2033 | 4.875 to 6.60 | 18,470 | 24,350 |
| Total Single Family Program Senior and Subordinate Bonds | | | 149,951 | 216,481 |
| Single Family Mortgage Bonds: | | | | |
| 2001 Series AA | 2006-2041 | Variable & 5.25 | 131,840 | 131,840 |
| 2002 Series A | 2006-2032 | Variable & 4.55 to 5.65 | 73,740 | 84,855 |
| 2002 Series B | 2006-2032 | Variable & 4.80 to 5.40 | 116,295 | 129,655 |
| 2002 Series C | 2006-2036 | Variable & 4.40 to 4.95 | 142,550 | 169,900 |
| 2003 Series A | 2006-2032 | Variable & 4.75 to 5.15 | 65,665 | 76,350 |
| 2003 Series B | 2006-2033 | Variable & 5.00 | 182,710 | 198,260 |
| 2003 Series C | 2006-2032 | Variable & 5.00 | 114,230 | 121,695 |
| 2004 Series A | 2006-2034 | Variable & 5.25 | 116,875 | 312,000 |
| 2004 Series B | 2006-2034 | Variable & 5.25 | 97,870 | 183,335 |
| 2005 Series A | 2006-2035 | Variable & 2.50 to 5.25 | 124,395 | - |
| 2005 Series B | 2006-2036 | Variable & 2.75 to 5.22 | 318,500 | - |
| Total Single Family Mortgage Bonds | | | 1,484,670 | 1,407,890 |
| Total Single Family Fund | | | 1,634,621 | 1,628,767 |

Colorado Housing and Finance Authority – Notes to Financial Statements (tabular amounts are in thousands)

| Descripton and due date | | Interest rate (%) | 2005 | 2004 |
|---|---|---|---|---|
| Multi-Family/Business Fund: | | | | |
| Multi-Family Housing Insured - Mortgage Revenue Bonds: | | | | |
| 1995 Series A | | 5.90 to 6.80 | - | 11,380 |
| 1995 Series B | | 5.70 to 6.75 | - | 13,735 |
| 1995 Series C | | 5.30 to 6.50 | - | 12,520 |
| 1996 Series A | 2006-2037 | 5.40 to 7.20 | 20,945 | 21,435 |
| 1996 Series B | 2006-2037 | 5.75 to 8.00 | 8,410 | 8,510 |
| 1996 Series C | 2006-2038 | 5.50 to 8.10 | 14,660 | 14,780 |
| 1997 Series A | 2006-2038 | 5.00 to 7.125 | 10,340 | 10,505 |
| 1997 Series B | 2006-2038 | 4.90 to 7.25 | 22,495 | 22,715 |
| 1997 Series C | 2006-2039 | 4.95 to 6.75 | 25,240 | 28,565 |
| 1998 Series A | 2006-2039 | 5.45 to 6.70 | 19,790 | 19,975 |
| 1998 Series B | 2006-2040 | 5.45 to 7.00 | 7,170 | 7,195 |
| 1999 Series A | 2006-2041 | 4.25 to 6.65 | 33,320 | 33,590 |
| 1999 Series B | 2006-2041 | 5.25 to 5.85 | 5,390 | 5,435 |
| 1999 Series C | 2006-2041 | 5.15 to 7.10 | 16,070 | 16,215 |
| 2002 Series AA | 2006-2030 | Variable | 59,820 | 74,370 |
| Total Multi-Family Housing Insured - Mortgage Revenue Bonds | | | 243,650 | 300,925 |
| Multi-Family/Project Bonds: *(* principal and interest payable quarterly on some of the bonds)* | | | | |
| 2000 Series A | 2006-2032 | Variable & 6.15 | 64,070 | 64,530 |
| 2000 Series B* | 2006-2042 | Variable & 5.90 to 6.10 | 30,710 | 30,950 |
| 2001 Series A | 2006-2043 | 3.80 to 5.65 | 26,565 | 28,310 |
| 2002 Series A | 2006-2042 | Variable & 3.90 to 5.70 | 33,010 | 33,810 |
| 2002 Series B | 2006-2032 | Variable | 6,495 | 13,260 |
| 2002 Series C | 2006-2042 | Variable & 2.85 to 5.30 | 140,020 | 142,645 |
| 2003 Series A | 2006-2033 | Variable | 45,255 | 48,780 |
| 2004 Series A | 2006-2045 | Variable & 1.95 to 4.80 | 87,095 | 89,115 |
| 2005 Series A | 2006-2040 | Variable | 96,250 | - |
| 2005 Series B | 2006-2040 | Variable | 33,370 | - |
| Total Multi-Family/Project Bonds | | | 562,840 | 451,400 |
| Total Multi-Family/Business Fund | | | 806,490 | 752,325 |
| Total bonds payable | | | 2,541,091 | 2,465,732 |
| Notes payable: | | | | |
| No payments, principal forgiven annually, 2005 | | 0.00 | - | 10 |
| Quarterly interest payments, principal due 2006 | | Variable | - | 6,000 |
| Annual payments, 2005-2008 | | 6.40 | - | 4,813 |
| Monthly payments, 2005-2014 | | 4.50 | 650 | 672 |
| Annual payments, 2005-2020 | | 1.00 | 671 | 713 |
| No payments, principal forgiven annually, 2005-2024 | | 0.00 | 234 | 247 |
| Annual payments, 2005-2025 | | 1.00 | 631 | 659 |
| Total notes payable | | | 2,186 | 13,114 |
| Total bonds and notes payable | | | 2,543,277 | 2,478,846 |
| Deferred premiums | | | 11,776 | 15,210 |
| Deferred losses on refunding amounts | | | (7,789) | (7,435) |
| Total bonds and notes payable, net | | | $ 2,547,264 | $ 2,486,621 |

Colorado Housing and Finance Authority – Notes to Financial Statements (tabular amounts are in thousands)

A breakdown of bonds payable as of December 31, 2005, and 2004 by fixed and variable interest rates follows in the table below. Certain of the Authority's variable rate debt has been converted to fixed rate debt by entering into pay fixed/receive variable rate interest rate swap agreements as further described in Note 7. Such debt is referred to in the table as synthetic fixed rate debt.

| Description | 2005 | 2004 |
|---|---|---|
| Fixed rate debt | $ 935,536 | $ 1,053,922 |
| Synthetic fixed rate debt | 1,344,355 | 1,145,570 |
| Variable rate debt | 261,200 | 266,240 |
| Total | $ 2,541,091 | $ 2,465,732 |

Included in certain of the bond issues shown 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 Statement of Net Assets at December 31, 2005, and 2004, are as follows:

| | | Appreciated Balances | | |
|---|---|---|---|---|
| Description and due date | Interest Rate (%) | Maturity | 2005 | 2004 |
| Single Family Revenue Bonds: | | | | |
| 1985 Series A | 11.125 | $ - | $ - | $ 618 |
| 1993 Refunding Series A | 7.00 | - | - | 3,003 |
| Single Family Program Senior and Subordinate Bonds: | | | | |
| 1998 Series B - 2025-2029 | 5.50 | 6,053 | 1,904 | 1,804 |
| 1998 Series C - 2020-2029 | 5.625 | 12,265 | 4,341 | 4,107 |

Also included in the table of bonds and notes payable outstanding are certain Single Family and Multi-Family/Project bonds which carry the Authority's general obligation pledge. These bonds are presented in the following table:

| Description | 2005 | 2004 |
|---|---|---|
| Single Family Program Subordinate Bonds | $ 3,050 | $ 4,695 |
| Single Family Mortgage Bonds, Class III | 91,330 | 98,000 |
| Multi-Family/Project Bonds, Class I | 149,760 | 103,695 |
| Multi-Family/Project Bonds, Class III | 20,300 | 21,100 |
| Total | $ 264,440 | $ 227,490 |

Colorado Housing and Finance Authority – Notes to Financial Statements (tabular amounts are in thousands)

Long-term liability activity for the year ended December 31, 2005, was as follows:

| Description | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable | $ 2,465,732 | $ 597,360 | $ 522,001 | $ 2,541,091 | $ 173,910 |
| Notes payable | 13,114 | - | 10,928 | 2,186 | 107 |
| Unamortized premium | 15,210 | 302 | 3,736 | 11,776 | - |
| Deferred losses on refunding | (7,435) | (753) | (399) | (7,789) | - |
| Total bonds and notes payable | 2,486,621 | 596,909 | 536,266 | 2,547,264 | 174,017 |
| Arbitrage rebate payable | 1,021 | 891 | 837 | 1,075 | - |
| Compensated absences | 487 | 664 | 658 | 493 | 93 |
| Deferred income | 2,339 | 543 | 226 | 2,656 | 177 |
| Other long-term liabilities | 3,579 | 782 | 3 | 4,358 | - |
| Total long-term liabilities | $ 2,494,047 | $ 599,789 | $ 537,990 | $ 2,555,846 | $ 174,287 |

Bonds and notes payable sinking fund installments and maturities subsequent to December 31, 2005, using rates in effect as of that date are as follows:

| Year Ending | General Fund | | Single Family | | Multi-Family/Business | | Notes Payable | |
|---|---|---|---|---|---|---|---|---|
| December 31, | Principal | Interest | Principal * | Interest | Principal | Interest | Principal | Interest |
| 2006 | $ 75 | $ 5,326 | $ 167,770 | $ 68,170 | $ 6,135 | $ 35,817 | $ 107 | $ 42 |
| 2007 | 78 | 5,323 | 5,165 | 65,027 | 6,530 | 35,867 | 108 | 40 |
| 2008 | 198 | 5,317 | 6,185 | 64,719 | 6,705 | 35,583 | 110 | 38 |
| 2009 | 212 | 5,306 | 6,275 | 64,358 | 7,045 | 35,245 | 112 | 36 |
| 2010 | 224 | 5,294 | 7,365 | 63,985 | 7,395 | 34,900 | 114 | 34 |
| 2011-2015 | 1,730 | 26,185 | 192,095 | 304,074 | 52,185 | 168,462 | 968 | 117 |
| 2016-2020 | 6,303 | 25,504 | 220,700 | 258,896 | 56,270 | 155,551 | 448 | 20 |
| 2021-2025 | 60,311 | 18,387 | 207,446 | 211,822 | 100,180 | 138,867 | 219 | 5 |
| 2026-2030 | 3,190 | 8,634 | 257,256 | 169,725 | 191,525 | 116,020 | - | - |
| 2031-2035 | 17,559 | 6,727 | 467,747 | 91,355 | 222,775 | 69,572 | - | - |
| 2036-2040 | 10,100 | 45 | 58,690 | 12,992 | 128,300 | 23,683 | - | - |
| 2041-2045 | - | - | 50,000 | 1,103 | 21,445 | 2,431 | - | - |
| Total | $ 99,980 | $ 112,048 | $ 1,646,694 | $ 1,376,226 | $ 806,490 | $ 851,998 | $ 2,186 | $ 332 |

* Includes $12.1 million of future accretion of principal value on capital appreciation bonds.

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, 2005, the amount outstanding on these bonds was $356,615,000. 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.

## (7) Interest Rate Swap Agreements

*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 rate structures with refunding bonds in order to generate cash flow savings.

*Summary of Swap Transactions* - The key terms, including the fair values and counterparty ratings of the outstanding swaps as of December 31, 2005, are shown in the table on the following page. The notional amounts of the swaps match the principal amounts of the associated debt. Except as discussed under amortization risk below, 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.

### *Risk Disclosure*

*Credit Risk:* All of the Authority's swaps rely upon the performance of the third parties who serve as swap counterparties, and as a result 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 column labeled "Fair Value" in the table on the following page. The Authority is exposed to credit risk in the amount of any positive net fair value exposure to each counterparty. As of December 31, 2005, the Authority was exposed to a total of $5,357,000 of credit risk to 3 counterparties. 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 Investors Service (Moody's) or Standard & Poor's (S&P) at the time the contract is entered into.

The Authority has executed 48 swap transactions with 7 counterparties of which 27 swaps, representing approximately 60% of the notional amount of swaps outstanding, are held with 2 separate Aaa/AAA rated (Moody's and S&P respectively) special purpose vehicles, which are bankruptcy remote, both of which are affiliates of the same parent company (40% of the notional amount outstanding are held with the special purpose vehicle with a continuation structure and 20% are held with the 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 21 swaps, the Authority holds 13 swaps, approximately 25% of the notional amount outstanding, with a single counterparty rated Aa/AA. The remaining 8 swaps, approximately 15% of the notional amount outstanding, are held with 4 counterparties, 2 of which are rated Aaa/AAA (one of which operates as a special purpose vehicle with a terminating structure), and 2 of which are rated in the double-A category by both Moody's and S&P.

Additionally, the Authority has entered into 4 letter agreements (agreements to enter into a swap contract on a future date) with 2 counterparties for a notional amount of $79,955,000. The fair value of these swaps as of December 31, 2005, was a negative $1,763,000. As of December 31, 2005, the bonds relating to these future swap contracts had not been issued.

*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 Bond Market Association Municipal Swap Index (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

*Colorado Housing and Finance Authority – Notes to Financial Statements (tabular amounts are in thousands)*

| Associated Bond Issue | Current Notional Amount | Effective Date | Termination Date | Fixed Rate Paid | Variable Rate Received * | Optional Termination Date, at Par | Optional Termination Amount | Counterparty Rating Moody's/S&P | Fair Value ** |
|---|---|---|---|---|---|---|---|---|---|
| Single Family: | | | | | | | | | |
| 2001 Series AA1 | 31,940 | 10/04/01 | 11/01/13 | 5.290% | VRDO's Rate | | | Aaa/AAA | $ (478) |
| 2001 Series AA2 | 46,840 | 10/04/01 | 05/01/31 | 4.600% | VRDO's Rate, with tax event language | | | Aaa/AAA | (3,057) |
| 2002 Series A1 | 30,980 | 04/25/02 | 11/01/13 | 5.499% | VRDO's Rate | | | Aaa/AAA | (601) |
| 2002 Series A3 | 19,090 | 04/25/02 | 11/01/21 | 4.749% | VRDO's Rate | | | Aaa/AAA | (1,383) |
| 2002 Series B1 | 13,825 | 10/24/02 | 05/01/22 | 5.529% | VRDO's Rate | | | Aaa/AAA | (527) |
| 2002 Series B2 | 37,660 | 07/18/02 | 11/01/13 | 5.285% | VRDO's Rate | | | Aaa/AAA | (463) |
| 2002 Series B3 | 40,000 | 07/18/02 | 11/01/21 | 4.506% | VRDO's Rate, with tax event language | | | Aaa/AAA | (2,125) |
| 2002 Series C1 | 29,770 | 10/24/02 | 11/01/32 | 5.350% | VRDO's Rate | 11/01/17 | 21,765 | Aaa/AAA | (158) |
| 2002 Series C2 | 49,470 | 10/24/02 | 11/01/11 | 4.362% | VRDO's Rate | | | Aaa/AAA | 575 |
| 2002 Series C3 | 40,000 | 10/24/02 | 05/01/22 | 4.422% | VRDO's Rate, with tax event language | | | Aaa/AAA | (1,482) |
| 2003 Series A1 | 9,750 | 08/01/03 | 05/01/11 | 3.390% | LIBOR plus .05% | | | Aaa/AAAt | 337 |
| 2003 Series A1 | 16,140 | 02/26/03 | 11/01/11 | 4.008% | LIBOR plus .05% | | | Aaa/AAAt | 343 |
| 2003 Series A2 | 20,000 | 02/26/03 | 11/01/21 | 4.160% | BMA plus .05%, with tax event language | | | Aaa/AAAt | (451) |
| 2003 Series B1 | 40,000 | 08/01/03 | 11/01/26 | 4.851% | LIBOR plus .05% | 05/01/15 | 27,305 | Aaa/AAAt | 1,158 |
| 2003 Series B2 | 51,945 | 08/01/03 | 05/01/12 | 3.665% | LIBOR plus .05% | | | Aaa/AAAt | 1,653 |
| 2003 Series B3 | 60,000 | 07/09/03 | 11/01/26 | 4.384% | BMA plus .15% | 05/01/15 | 43,170 | Aaa/AAAt | (972) |
| 2003 Series C1 | 52,380 | 12/03/03 | 05/01/12 | 4.033% | LIBOR plus .05% | | | Aaa/AAA | 1,135 |
| 2003 Series C2 | 40,000 | 11/13/03 | 11/01/26 | 4.595% | BMA plus .15% | 05/01/15 | 28,780 | Aaa/AAAt | (1,335) |
| 2004 Series A1 | 42,055 | 09/01/04 | 05/01/12 | 4.460% | LIBOR plus .05% | | | Aaa/AAA | 493 |
| 2004 Series A2 | 50,000 | 07/28/04 | 11/01/26 | 4.369% | Trigger, BMA plus .15% or 68% LIBOR | 05/01/15 | 35,970 | Aa2/AA | (2,277) |
| 2004 Series B1 | 36,870 | 12/01/04 | 05/01/12 | 4.052% | LIBOR plus .05% | | | Aa2/AA+ | 840 |
| 2004 Series B2 | 40,000 | 11/01/04 | 11/01/26 | 4.122% | Trigger, BMA plus .15% or 68% LIBOR | 05/01/15 | 28,780 | Aa2/AA | (948) |
| 2005 Series A1 | 40,000 | 05/01/05 | 05/01/13 | 4.356% | LIBOR plus .05% | | | Aa2/AA+ | 713 |
| 2005 Series A2 | 40,000 | 03/16/05 | 11/01/27 | 4.071% | Trigger, BMA plus .15% or 68% LIBOR | 05/01/15 | 32,290 | Aa2/AA | (791) |
| 2005 Series B2 | 80,000 | 05/01/05 | 05/01/34 | 4.169% | Trigger, BMA plus .15% or 68% LIBOR | 05/01/15 | 48,650 | Aa2/AA | (2,453) |
| Total Single Family | 958,715 | | | | | | | | (12,254) |
| Multi-Family/Business: | | | | | | | | | |
| 2000 Series A1 | 12,750 | 03/21/00 | 10/01/20 | 5.235% | VRDO's Rate, with tax event language | | | Aaa/AAA | (1,571) |
| 2000 Series A1 | 18,040 | 03/21/00 | 04/01/25 | 5.225% | VRDO's Rate, with tax event language | | | Aaa/AAA | (1,778) |
| 2000 Series A2 | 11,545 | 02/01/00 | 04/01/15 | 5.800% | VRDO's Rate | | | Aaa/AAA | (1,349) |
| 2000 Series B1 | 6,985 | 10/19/00 | 07/01/20 | 7.390% | LIBOR plus .25% | | | Aaa/AAAt | (1,055) |
| 2002 Series A1 | 9,410 | 01/29/03 | 10/01/22 | 5.100% | VRDO's Rate | | | Aaa/AAA | (1,052) |
| 2002 Series AA | 32,675 | 07/03/02 | 10/01/23 | 6.068% | VRDO's Rate | | | Aaa/AAA | (5,662) |
| 2002 Series AA | 10,000 | 10/01/05 | 04/28/08 | 3.345% | BMA plus .05% | | | Aaa/AAA | 35 |
| 2002 Series C1 | 10,690 | 04/01/03 | 10/01/32 | 6.129% | VRDO's Rate | As of:<br>1) 10/1/2012<br>2) 4/1/2015<br>3) 4/1/2018 | Up to:<br>1) 4,375<br>2) 6,575<br>3) all remaining | Aaa/AAA | (581) |
| 2002 Series C2 | 70,715 | 10/01/03 | 10/01/32 | 5.124% | VRDO's Rate, with tax event language | 04/01/18 | 59,340 | Aaa/AAA | (6,619) |
| 2002 Series C4 | 31,960 | 10/01/03 | 10/01/32 | 5.044% | VRDO's Rate, with tax event language | 04/01/18 | 26,785 | Aaa/AAA | (2,736) |
| 2003 Series A1 | 24,655 | 10/01/03 | 04/01/26 | 4.555% | LIBOR plus .05% | 10/01/09 | 16,576 | Aaa/AAAt | 1,443 |
| 2004 Series A1 | 49,990 | 11/01/04 | 10/01/25 | 5.528% | LIBOR plus .05% | 10/01/14 | all remaining | Aa2/AA | (744) |
| 2004 Series A2 | 10,785 | 09/22/04 | 04/01/45 | 4.884% | BMA plus .15% | 10/01/19 | all remaining | Aa2/AA | (418) |
| 2005 Series A1 (A) | 5,210 | 08/01/05 | 10/01/35 | 5.820% | LIBOR plus .05% | 04/01/15 | all remaining | Aa2/AA | (122) |
| 2005 Series A1 (B) | 3,340 | 08/01/05 | 10/01/20 | 5.205% | LIBOR plus .05% | | | Aa2/AA | (60) |
| 2005 Series A1 (C) | 10,930 | 08/01/05 | 10/01/25 | 5.712% | LIBOR plus .05% | 04/01/15 | all remaining | Aa2/AA | (233) |
| 2005 Series A1 (D) | 4,765 | 08/01/05 | 10/01/25 | 5.573% | LIBOR plus .05% | 10/01/11 | all remaining | Aa2/AA | (17) |
| 2005 Series A2 | 22,200 | 07/01/05 | 04/01/36 | 4.285% | BMA plus .05% | 04/01/15 | all remaining | Aa2/AA | (182) |
| 2005 Series A3 (A) | 6,875 | 04/13/05 | 04/01/40 | 4.656% | BMA plus .15% | 10/01/20 | all remaining | Aa2/AA | (243) |
| 2005 Series A3 (B) | 6,930 | 10/01/05 | 04/01/32 | 4.480% | BMA plus .15% | 04/01/15 | all remaining | Aa2/AA | (56) |
| 2005 Series B1 | 15,275 | 03/01/06 | 04/01/36 | 5.235% | LIBOR plus .05% | 10/01/15 | 11,125 | Aa2/AA | 77 |
| 2005 Series B2 (A) | 3,690 | 01/02/06 | 10/01/40 | 4.735% | BMA plus .15% | 10/01/15 | 3,305 | Aa2/AA | (53) |
| 2005 Series B2 (B) | 6,225 | 09/01/06 | 10/01/38 | 4.527% | BMA plus .15% | 10/01/21 | 4,520 | Aa2/AA | (91) |
| Total Multi-Family/Business | 385,640 | | | | | | | | (23,067) |
| Total | $ 1,344,355 | | | | | | | | $ (35,321) |

* 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 a tax event to the Authority. The fair value of these swaps would decrease an additional $7,187,797 if a tax event had occurred on the valuation date.

with BMA. Certain tax-exempt swaps, as indicated in the table above, 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 the London Interbank Offered Rate (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 above, 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 would 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 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, 2005, the Authority is not exposed to rollover risk.

*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 unhedged bonds. 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.

Colorado Housing and Finance Authority – Notes to Financial Statements (tabular amounts are in thousands)

*Swap Payments and Associated Debt* - Using interest rates as of December 31, 2005, debt service requirements of the Authority's outstanding variable-rate debt and net swap payments are as follows. As rates vary, variable rate interest rate payments on the bonds and net swap payments will vary.

| Year Ending December 31, | Principal | Interest | Swaps, Net | Total |
|---|---|---|---|---|
| 2006 | $ 76,940 | $ 52,041 | $ 10,346 | $ 139,327 |
| 2007 | 81,435 | 49,133 | 10,451 | 141,019 |
| 2008 | 86,915 | 45,449 | 10,340 | 142,704 |
| 2009 | 71,825 | 41,903 | 10,242 | 123,970 |
| 2010 | 66,380 | 38,813 | 10,096 | 115,289 |
| 2011-2015 | 299,970 | 155,551 | 45,318 | 500,839 |
| 2016-2020 | 299,000 | 98,916 | 29,227 | 427,143 |
| 2021-2025 | 211,840 | 49,290 | 15,020 | 276,150 |
| 2026-2030 | 91,385 | 19,340 | 6,456 | 117,181 |
| 2031-2035 | 48,995 | 4,835 | 1,543 | 55,373 |
| 2036-2040 | 7,090 | 1,062 | 335 | 8,487 |
| 2041-2045 | 2,580 | 276 | 94 | 2,950 |
| Total | $ 1,344,355 | $ 556,609 | $ 149,468 | $ 2,050,432 |

## (8) Debt Refundings

On April 13, 2005, the Authority issued its Multi-Family/Project Bonds 2005 Series A, in the aggregate principal amount of $96,250,000. A portion of the proceeds of the these bonds were used to refund its outstanding Multi-Family Housing Insured Mortgage Revenue Bonds 1995 Series A, 1995 Series B, and 1995 Series C, in the amount of $37,635,000. Included in the refunding bond issue are variable rate bonds with interest rates during 2005 ranging from a weekly high of 3.60% which could result in a decrease in aggregate debt service requirement of $20,835,000 and an approximate economic gain to the Authority of $11,622,000, to a weekly low of 2.05% which could result in a decrease in aggregate debt service requirement of $30,226,000 and an approximate economic gain to the Authority of $20,151,000. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, $753,000 was deferred and is being amortized over the estimated 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.

## (9) Restricted Net Assets and Transfers

Restricted Net Assets - The amounts restricted for the Single Family Fund and the Multi-Family/Business Fund are for the payment of principal, redemption premium, if any, or interest on all outstanding single family and multi-family/business 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) updated cash flow projections indicate that adequate resources will exist after any withdrawal to service the outstanding debt, subject to approval by the bond trustee; (2) the Authority determines that such monies are needed for the implementation or maintenance of any duly adopted program of the Authority; and (3) no default exists in the payment of the principal, redemption premium, if any, or interest on such bonds.

Colorado Housing and Finance Authority – Notes to Financial Statements (tabular amounts are in thousands)

Assets of the Single Family and Multi-Family/Business 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 Single Family and Multi-Family/Business Funds and are held in cash or investments. At December 31, 2005, and 2004, these assets were at least equal to the amounts required to be restricted.

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, 2005, for various purposes, as indicated in the following table. These designations of net assets are not binding, and can be changed by the Board.

| | |
|---|---|
| Appropriations for loan programs: | |
| Housing Opportunity loans | $ 42,999 |
| Housing loans | 469 |
| Business finance loans | 17,521 |
| Total appropriations | 60,989 |
| Designations: | |
| General obligation bonds | 16,616 |
| General operating and working capital | 39,476 |
| Unrealized appreciation of investments | 713 |
| Single and multi-family bonds | 23,619 |
| Total designations | 80,424 |
| Total General Fund unrestricted net assets | $ 141,413 |

Transfers – The Authority makes transfers between funds primarily for the purpose of (1) making initial contributions from the General Fund to new bond series to cover bond issuance costs and (2) transferring amounts to the General Fund that are no longer restricted by bond resolutions or indentures.

## (10) Retirement Plans

Employees of the Authority are members of the Municipal Division Trust Fund, a cost-sharing multi-employer public defined benefit plan administered by the Public Employees' Retirement Association of Colorado (PERA). Changes to the plan, including benefits and contribution requirements, require legislation by the General Assembly of the State of Colorado.

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. Benefits are calculated as a percentage of the highest average salary on which contributions were paid associated with three periods of consecutive 12 months of service credit.

Under the plan, for 2005 and 2004 State statute required the Authority and participating employees to contribute 10% and 8%, respectively, of the employees' gross salaries, as defined by the plan. Contributions by the Authority for the years ended December 31, 2005, 2004 and 2003 were $827,000, $792,000 and $816,000, respectively. These contributions equaled the contribution requirements for each year.

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. The Municipal Division plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203 or from PERA's web site at www.copera.org.

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 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. Contributions by the Authority for the years ended December 31, 2005, and 2004 were $234,000 and $231,000, respectively. Contributions by participating employees for the year ended December 31, 2005, was $551,000.

Included in bonds and notes payable are bonds payable to PERA of $42,212,000 at December 31, 2005, that carry the Authority's general obligation pledge.

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 of 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.

## (11) 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. There were no significant reductions or changes in insurance coverage from the prior year. Settled claims did not exceed insurance coverage in any of the past three fiscal years.

## (12) Commitments and Contingencies

The Authority had outstanding commitments to make or acquire single family and multi-family/business loans of $37,471,000 and $77,206,000, respectively, as of December 31, 2005.

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.

## (13) Subsequent Event

On January 18, 2006, the Authority issued $180,700,000 of Single Family Mortgage Bonds, Series 2006A. The proceeds from this bond issue will be used to finance new loan purchases and for the refunding of advances under the Authority's borrowing agreements with the Federal Home Loan Bank related to the its private activity bond volume cap preservation program.

*Colorado Housing and Finance Authority – Notes to Financial Statements (tabular amounts are in thousands)*

## (14) Accounting Policy Changes and Restatements

**Mortgage Escrow Accounts -** An accounting policy change was adopted by the Authority during the year ended December 31, 2005 to record mortgage escrow account deposits that were previously not recorded in the basic financial statements. These deposits primarily represent cash collected from borrowers and held by the Authority to make property tax and insurance payments when due. A retroactive adjustment of $13,719,089 was applied to December 31, 2004, increasing both assets and liabilities.

**Cash Equivalents -** Prior to 2005, the Authority defined cash equivalents as cash deposits and highly liquid investments with a maturity of three months or less when purchased. During 2005 the Authority changed its definition of cash and cash equivalents for the presentation of the statement of cash flows to include only cash deposits and exclude highly liquid investments. A retroactive adjustment was applied to the December 31, 2004, cash equivalents as follows:

| | |
|---|---|
| Cash equivalents at December 31, 2004, as originally stated | $ 644,555 |
| Less short term highly liquid investments December 31, 2004 | (635,805) |
| Add mortgage escrow accounts (per above) | 13,719 |
| Cash equivalents at December 31, 2004, as restated | $ 22,469 |

Certain other summarized financial information for the year ended December 31, 2004, has been modified for the retrospective impact of these changes for basic financial statement presentation purposes.