# WARREN VILLAGE, INC.

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

AS OF AND FOR THE YEAR ENDED

MARCH 31, 2017

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WHIPPLEWOOD CPAs

# INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Warren Village, Inc.
Denver, Colorado

We have audited the accompanying financial statements of Warren Village, Inc., which comprise the statement of financial position as of March 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

WHIPPLEWOOD CPAs

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Warren Village, Inc. as of March 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Financial Information as of and For the Year Ended March 31, 2016***

The summarized financial statements of Warren Village, Inc. as of and for the year ended March 31, 2016 are presented for comparative purposes only, and were extracted from financial statements on which we expressed an unmodified opinion dated July 25, 2016. In our opinion, the summarized financial information as of and for the year ended March 31, 2016 presented herein is consistent, in all material respects, with the audited financial statements from which it was derived.

Whipple Wood CPAs, PC

August 2, 2017

Warren Village, Inc.
Statement of Financial Position

| | | As of March 31, 2017 | | Summarized Financial Information As of March 31, 2016 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets | | | | |
| Unrestricted cash and equivalents | $ | 1,276,274 | $ | 1,268,826 |
| Restricted cash | | 425,802 | | 441,957 |
| Accounts receivable, net | | 178,534 | | 139,852 |
| Grants receivable | | 27,700 | | 45,195 |
| Prepaid expenses and other assets | | 56,042 | | 92,385 |
| Total current assets | | 1,964,352 | | 1,988,215 |
| Restricted cash - tenant security deposits | | 27,330 | | 23,848 |
| Investments | | 2,278,210 | | 2,043,869 |
| Property and equipment, net | | 4,138,249 | | 4,328,139 |
| Escrow deposits | | 362,533 | | 360,614 |
| | $ | 8,770,674 | $ | 8,744,685 |
| **LIABILITIES AND NET ASSETS** | | | | |
| Current liabilities | | | | |
| Accounts payable and other accrued liabilities | $ | 126,190 | $ | 142,752 |
| Accrued payroll costs | | 178,442 | | 201,364 |
| Total current liabilities | | 304,632 | | 344,116 |
| Long-term liabilities | | | | |
| Notes payable, net of current portion | | 300,000 | | 300,000 |
| Accrued management fees | | 12,644 | | 28,815 |
| Total long-term liabilities | | 312,644 | | 328,815 |
| Total liabilities | | 617,276 | | 672,931 |
| Net Assets | | | | |
| Unrestricted | | | | |
| Designated by Board of Trustees | | | | |
| Waddell fund | | 119,072 | | 104,846 |
| Operating reserves | | 453,132 | | 465,805 |
| Investment in property and equipment, net of related debt | | 4,138,249 | | 4,328,139 |
| Undesignated | | 3,282,439 | | 3,012,698 |
| Total unrestricted net assets | | 7,992,892 | | 7,911,488 |
| Temporarily restricted | | - | | 12,820 |
| Permanently restricted | | 160,506 | | 147,446 |
| Total net assets | | 8,153,398 | | 8,071,754 |
| | $ | 8,770,674 | $ | 8,744,685 |

The accompanying notes are an integral part of these financial statements.
See independent auditors' report.

Warren Village, Inc.
Statement of Activities

| | For the Year Ended March 31, 2017 | | | | Summarized Financial Information |
|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Year Ended March 31, 2016 |
| Support, revenues and gains | | | | | |
| Gifts and grants | $ 1,910,618 | $ - | $ - | $ 1,910,618 | $ 1,769,734 |
| Program service revenue | | | | | |
| Housing | 1,102,729 | - | - | 1,102,729 | 1,078,822 |
| Learning center | 1,183,242 | - | - | 1,183,242 | 1,209,517 |
| In-kind contributions | 161,745 | - | - | 161,745 | 188,990 |
| Special events net of direct costs of of $113,772 and $123,985 | 142,643 | - | - | 142,643 | 226,858 |
| | 4,500,977 | - | - | 4,500,977 | 4,473,921 |
| Net assets released from restrictions | 12,820 | (12,820) | - | - | - |
| Total support, revenues and gains | 4,513,797 | (12,820) | - | 4,500,977 | 4,473,921 |
| Expenses | | | | | |
| Program services | | | | | |
| Housing | 867,655 | - | - | 867,655 | 898,314 |
| Learning center | 1,658,390 | - | - | 1,658,390 | 1,533,585 |
| Family services | 744,826 | - | - | 744,826 | 582,837 |
| First step | 193,379 | - | - | 193,379 | 176,126 |
| Volunteers | 119,480 | - | - | 119,480 | 81,154 |
| Without Walls, Friends & Alumni | 34,506 | - | - | 34,506 | 41,105 |
| Total program services | 3,618,236 | - | - | 3,618,236 | 3,313,121 |
| Supporting services | | | | | |
| Management and general | 270,450 | - | - | 270,450 | 296,718 |
| Communications | 109,855 | - | - | 109,855 | 78,678 |
| Development | 380,701 | - | - | 380,701 | 392,611 |
| Total supporting services | 761,006 | - | - | 761,006 | 768,007 |
| Total expenses | 4,379,242 | - | - | 4,379,242 | 4,081,128 |
| Change in net assets before depreciation and amortization, and investment gains | 134,555 | (12,820) | - | 121,735 | 392,793 |
| Depreciation and amortization | (239,432) | - | - | (239,432) | (241,472) |
| Investment gains (losses) | 186,281 | - | 13,060 | 199,341 | (81,119) |
| Change in net assets | 81,404 | (12,820) | 13,060 | 81,644 | 70,202 |
| Net assets, beginning of year | 7,911,488 | 12,820 | 147,446 | 8,071,754 | 8,001,552 |
| Net assets, end of year | $ 7,992,892 | $ - | $ 160,506 | $ 8,153,398 | $ 8,071,754 |

The accompanying notes are an integral part of these financial statements.
See independent auditors' report.

Waren Village
Statement of Functional Expenses
For the Year Ended March 31, 2017

| | Program Expenses | | | | | | | Supporting Services | | | | Summarized Financial Information |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Housing | Learning Center | Family Services | First Step | Volunteers | WV Without Walls & Alumni | Total | Management & General | Communications | Development | For the Year Ended March 31, 2017 | For the Year Ended March 31, 2016 |
| Salaries, payroll taxes, and employee benefits | $ 276,430 | $ 1,289,248 | $ 431,222 | $ 103,775 | $ 105,943 | $ 33,661 | $ 2,240,279 | $ 192,814 | $ 88,848 | $ 307,710 | $ 2,829,651 | $ 2,570,817 |
| Contract Labor | | | | | | | | | | | | |
| Maintenance | 211,621 | 72,478 | 2,779 | 13,038 | - | - | 299,916 | - | 269 | - | 300,185 | 353,873 |
| Management | 32,449 | - | - | - | - | - | 32,449 | - | - | - | 32,449 | 31,845 |
| Professional Fees | 6,500 | 112,515 | 1,505 | 245 | 3,925 | - | 124,690 | 32,066 | 1,958 | 9,470 | 168,184 | 175,058 |
| Security | 105,333 | - | - | 901 | - | - | 106,234 | - | - | - | 106,234 | 106,514 |
| In-Kind/Volunteer services | - | 9,461 | 132,792 | 8,999 | - | - | 151,252 | 5,181 | - | 5,312 | 161,745 | 188,990 |
| General | 9,057 | 1,994 | 8,608 | 1,138 | 654 | - | 21,451 | - | - | 31 | 21,482 | 22,309 |
| Program Expenses | | | | | | | | | | | | |
| Supplies | 49,727 | 112,526 | 75,620 | 19,957 | 2,030 | 19 | 259,879 | 8,907 | 2,249 | 9,296 | 280,331 | 238,240 |
| Scholarships | 1,000 | - | 38,905 | - | - | - | 39,905 | - | - | - | 39,905 | 3,600 |
| General | 13,813 | 31,134 | 41,783 | 1,263 | 4,706 | 509 | 93,208 | 12,620 | 11,029 | 25,849 | 142,706 | 110,654 |
| Occupancy and Other Expenses | | | | | | | | | | | | |
| Interest | - | - | - | - | - | - | - | - | - | - | - | - |
| Utilities | 143,702 | 5,123 | 5,762 | 18,482 | 361 | - | 173,430 | 3,074 | 207 | 1,230 | 177,941 | 164,776 |
| General | 18,023 | 23,911 | 5,850 | 25,581 | 1,861 | 317 | 75,543 | 15,788 | 5,295 | 21,803 | 118,429 | 114,452 |
| Subtotal | 867,655 | 1,658,390 | 744,826 | 193,379 | 119,480 | 34,506 | 3,618,236 | 270,450 | 109,855 | 380,701 | 4,379,242 | 4,081,128 |
| Depreciation | 188,705 | 21,778 | 15,856 | - | 613 | 613 | 227,564 | 6,967 | 613 | 4,289 | 239,432 | 241,472 |
| Total Functional Expenses | $ 1,056,360 | $ 1,680,168 | $ 760,682 | $ 193,379 | $ 120,093 | $ 35,119 | $ 3,845,800 | $ 277,417 | $ 110,468 | $ 384,990 | $ 4,618,674 | $ 4,322,600 |

The accompanying notes are an integral part of these financial statements.
See independent auditors' report

Warren Village, Inc.
Statement of Cash Flows

| | For the Year Ended March 31, 2017 | Summarized Financial Information Year Ended March 31, 2016 |
|---|---|---|
| Cash flows from operating activities | | |
| Change in net assets | $ 81,644 | $ 70,202 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | | |
| Depreciation and amortization | 239,432 | 241,472 |
| Net realized and unrealized gain on investments | (234,341) | 90,390 |
| Changes in: | | |
| Accounts receivable | (38,682) | (3,584) |
| Grants receivable | 17,495 | (20,315) |
| Prepaid expenses and other assets | 36,343 | (58,113) |
| Accounts payable and accruals | (55,655) | (83,662) |
| Cash provided by operating activities | 46,236 | 236,390 |
| Cash flows used in investing activities | | |
| Change in restricted cash - committed reserves | 16,155 | 15,610 |
| Change in restricted cash - tenant security deposits | (3,482) | (2,791) |
| Change in escrow deposits | (1,919) | (8,260) |
| Purchase of property and equipment | (49,542) | (86,658) |
| Cash used in investing activities | (38,788) | (82,099) |
| Net change in cash | 7,448 | 154,291 |
| Cash and equivalents, at beginning of period | 1,268,826 | 1,114,535 |
| Cash and equivalents, at end of period | $ 1,276,274 | $ 1,268,826 |

Supplemental information:

Cash paid for interest during the year ended March 31, 2017 was $0.
The amount is net of interest reduction subsidies received during the year totaled $0.

## NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Warren Village, Inc. (the “Organization”) is a Colorado non-profit corporation formed in 1969 and tax exempt under Section 501(c)(3) of the United States Internal Revenue Code (the “Code”). The Organization operates an apartment building under Sections 236 and 8 of the National Housing Act (the “Project”). The Project is regulated by the United States Department of Housing and Urban Development (“HUD”). The Organization also operates an on-site children’s learning center and provides comprehensive family services for single-parent family tenants.

Basis of Presentation

The Organization reports its activities and financial position according to classes of net assets. Unrestricted net assets are available for use at the discretion of the Organization. Temporarily restricted net assets are subject to donor imposed restrictions for certain time periods, purposes, or programs. When donor imposed restrictions end or are otherwise satisfied, the assets are reclassified to unrestricted net assets and recorded in the statement of activities as assets released from restriction. Permanently restricted net assets must be permanently maintained in accordance with the requirements of the donor.

Cash

The Organization maintains cash in accounts which may, at times, exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, unless held for reinvestment as part of the investment portfolio or otherwise encumbered.

Restricted Cash

Restricted Cash - Committed Reserves as of March 31, 2017 consist of reserves required by the Colorado Housing and Finance Authority (“CHFA”) Tax Credit Exchange Program (“TCEP”) (See Note 11) in the amount of $425,802.

As of March 31, 2017, the Organization also had accrued management fees due to CHFA in the amount $12,644.

HUD requires security deposits collected from tenants to be held in separate accounts and considered restricted cash. Restricted cash arising from tenant security deposits held at March 31, 2017 totaled $27,330.

## NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

Accounts receivable arise in the ordinary course of renting housing units and providing learning and family services. Contributions receivable may arise from unconditional promises to give, which are recognized when the promise is received, or from conditional contributions whose conditions have been satisfied.

The Organization uses the allowance method of accounting for doubtful accounts, estimating the amounts of uncollectible receivable and recording allowances based upon historical bad debt experience and management's assessment of collectability. No allowances were deemed necessary by management as of March 31, 2017.

Investments

Investments are carried at fair value. Net realized and unrealized gains and losses on investments are included in the statement of activities.

Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements with a value greater than $5,000 are recorded at cost or, if donated, at the fair value at the date of receipt. Depreciation and amortization are computed using the straight-line method based on estimated useful lives ranging from three to seven years. Property and equipment and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying values of an asset or asset group may not be recoverable. The amount of potential impairment loss is calculated by the excess of fair value over the assets carrying value. Fair value is generally determined using a discounted cash flow analysis. No impairments were recognized for the year ended March 31, 2017.

Revenue Recognition

Unrestricted contributions are recognized when delivered or unconditionally promised to the Organization. Restricted contributions are recognized when the conditions upon which they depend are satisfied.

Program service revenues are recognized monthly when earned. Prepaid rental or service payments received are initially recorded as deferred revenue and recognized when earned.

In-kind donations of property, materials, and personal services are recorded at estimated fair value on date of receipt.

## NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional expenses

The costs of providing programs and activities have been summarized on a functional basis in the statement of functional expenses. Certain overhead costs are allocated to functions based on estimated use of resources. In-kind donations other than long lived assets are included in program costs.

Income Taxes

The Organization is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code and is classified as a publicly supported organization under Section 509(a). Accordingly, no provision is made for federal, state, or local income taxes.

The Organization has adopted accounting guidance related to uncertainty in income taxes. After evaluating the tax positions taken, management of the Organization has determined no amounts are required to be recognized related to uncertain tax positions as of March 31, 2017.

With few exceptions, income tax years returns filed more than 3 years ago are no longer subject to examination by federal, state, or local taxing authorities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated for potential recognition and disclosure through the date of the auditors' report, which is the date the financial statements were available to be issued. Management has identified no subsequent events that require modification of the financial statements or related disclosures.

## NOTE 2 FAIR VALUE OF INVESTMENTS

The Organization has adopted an established framework for measuring fair value that requires enhanced disclosure regarding fair value measurements. Fair value is an exit price, representing the amount that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a three-level valuation hierarchy for disclosure based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). An asset's fair value measurement level within the hierarchy is based on the lowest level of input that is significant to the valuation.

The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs require management to make certain assumptions about the information that would be used by market participants in pricing an asset or liability.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value. There were no changes in the methodologies used during the year ended March 31, 2017.

Equities, mutual funds and money market funds are valued at the closing price reported on the active market on which the securities are traded. In determining fair value, the Organization utilizes valuation techniques maximizing use of observable inputs and minimizing unobservable inputs to the extent possible. Counterparty credit risk is also considered in assessing fair value.

Investments by private foundations are valued based upon information reported by the foundations and corroborated by management with monthly statements provided by the foundations.

**NOTE 2 FAIR VALUE OF INVESTMENTS (CONTINUED)**

The following sets forth by level, within the fair value hierarchy, the Organization's investment assets at fair value, as described above, on a recurring basis as of March 31, 2017:

| | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Equities & mutual funds | $ 1,925,301 | $ 1,925,301 | $ - | $ - |
| Investments held by private foundations | 352,909 | - | - | 352,909 |
| Total Investments | $ 2,278,210 | $ 1,925,301 | $ - | $ 352,909 |

Investment income for the year ended March 31, 2017 consists of $45,176 in dividends and interest reinvested and $154,165 in net realized and unrealized net losses on investments.

The activity in investments held by private foundations is as follows:

| | |
|---|---|
| Beginning balance | $ 285,994 |
| New investments | 35,000 |
| Total realized and unrealized losses | 31,915 |
| Ending balance | $ 325,909 |

**NOTE 3 PROPERTY AND EQUIPMENT, NET**

Property, equipment, and leasehold improvements at March 31, 2019 are as follows:

| | |
|---|---|
| Building and improvements | $ 7,010,382 |
| Furnishings and equipment | 145.876 |
| Vehicles | 148,435 |
| Website and software | 165,847 |
| | 7,470,540 |
| Less accumulated depreciation and amortization | (3,478,736) |
| | 3,991,804 |
| Land | 146,445 |
| | $ 4,138,249 |

**NOTE 4 ESCROW DEPOSITS**

In accordance with HUD requirements, monthly deposits are placed in escrow accounts The funds are restricted and may only be used for their specified purposes. Escrow balances consist of the following at March 31, 2016:

| | |
|---|---|
| Replacement reserve | $ 318,244 |
| Mortgage and property insurance | 44,289 |
| | $ 362,533 |

## NOTE 5 LINE OF CREDIT

The Organization maintains a $200,000 line of credit agreement with a financial institution. The line of credit accrues interest at a variable rate and expires in August 2017. No amounts were due under the line of credit agreement as of March 31, 2017.

## NOTE 6 NOTES PAYABLE

The Organization has a note payable to the City and County of Denver at 0% per annum (the “Note”). The Note is to be forgiven if the property at 1323 Gilpin Street maintains compliance with term of the agreement through 2025 (see Note 11). The note is collateralized by a deed of trust on property at 1323 Gilpin Street. This note requires certain rental occupancy rules, and was used to fund a portion of prior year rehabilitation project. The Organization intends to maintain compliance with the terms of the Note. Accordingly, the Note is expected to be forgiven at maturity in 2025, with no cash payments due at or prior to maturity.

## NOTE 7 RETIREMENT PLAN

The Organization sponsors a tax deferred annuity plan (the “Plan”) under provisions of United States Internal Revenue Code Section 403(b). The Plan is open to all employees of the Organization. Participants may contribute a portion of earnings annually, not to exceed the annual limits established the United States Internal Revenue Code. The Organization may elect to make annual discretionary matching contributions. Matching contributions for the year ended March 31, 2017 totaled $34,756.

## NOTE 8 NET ASSETS

Permanently Restricted Net Assets

Permanently restricted net assets, which may only be used to fund Learning Center programs, were as follows as of March 31, 2017:

| | |
|---|---|
| Hope Endowment Fund – Learning Center | $ 25,000 |
| Young Endowment Fund – Learning Center | 100,695 |
| Unutilized Earnings | 34,811 |
| | $ 160,506 |

## NOTE 9 INVESTMENT IN ENDOWMENTS

The Organization's endowments consist of the Patricia A. Young Warren Village Learning Center Endowment Fund (established in December 2010) and the Warren Village Hope Endowment Fund (established in May 2012). The endowments can be used for the Organization's Learning Center operations and programs and the Organization's programs that further children's education and enrichment activities. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

## NOTE 9 INVESTMENT IN ENDOWMENTS (CONTINUED)

Interpretation of Relevant Law

The Board of Trustees of the Organization has interpreted the Colorado Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which requires the preservation of the fair value of the original gifts as of the gift dates of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization has determined that it is not subject to UPMIFA rules as the donors have given explicit instruction as to the appropriation of funds from the endowments. The Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowments, (b) the original value of subsequent gifts to the permanent endowments, (c) accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, (d) investment gains and losses, and (e) appropriations for expenditure from the funds.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and general operations supported by its endowments, while seeking to maintain the purchasing power of the endowments' assets. Endowment assets include those assets of a donor-restricted fund that the Organization must hold in perpetuity or for a period specified by the donor. Under this policy, as approved by the Board of Trustees, the endowment assets are invested to provide safety through diversification in a portfolio of money market funds, mutual funds including equity securities, and bonds, which may reflect varying risks and rates of return. The Organization expects its endowment funds, over time, to provide a reasonable rate of return.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

The donors have stipulated policies of appropriating monies for distribution each year at the greater of 1) 4.5% of its trailing 36-month average fair market value or 2) 4% of the current fair market value of the endowments or a separate option of distributing only the interest earned on the principal from the prior fiscal year. During 2014, the spending policy was changed to distribute up to 6% of the market value of the endowment based on the four-quarter trailing average value, net of annual administrative fees of 1%.

**NOTE 9 INVESTMENT IN ENDOWMENTS (CONTINUED)**

Endowment net assets as of March 31, 2017 consist of $147,446 permanently restricted for use in Learning Center Programs.

Changes in invested endowment net assets for the year ended March 31, 2017 were as follows:

| | |
|---|---|
| Beginning balance | $ 147,545 |
| Net changes in investment value | 13,060 |
| Ending balance | $ 160,506 |

**NOTE 10 DONATED GOODS AND SERVICES**

The value of donated goods and services included in the financial statements for the year ended March 31, 2017 are as follows:

| | Goods & Supplies | Volunteer Services | Total |
|---|---|---|---|
| First Step | $ 350 | $ 8,649 | $ 8,999 |
| Volunteer | 269 | - | 269 |
| Management/general | 5,181 | - | 5,181 |
| Learning Center | 2,686 | - | 2,686 |
| Development | 5,312 | - | 5,312 |
| Family Services | 57,540 | 65,193 | 122,733 |
| Total | $ 71,337 | $ 73,842 | $ 145,179 |

Expenditures for donated goods and services are included in the expenses and losses section of the statement of activities in the corresponding functional categories noted above. In addition, numerous individuals volunteer their time in support of the Organization. These volunteer hours were not recognized in the financial statements because they did not meet the recognition criteria.

**NOTE 11 COMMITMENTS AND CONTINGENCIES**

Housing Renovation Grants

In September 2010, the Organization signed an agreement with the CHFA to exchange low-income housing tax credits awarded in April 2009 for a federal grant under the TCEP. The amount of the TCEP grant was $5,401,172. The Organization is required to maintain the Project as housing for low-income persons and meet other compliance requirements per the grant from CHFA.

## NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Housing Renovation Grants (Continued)

If the Organization falls out of compliance, it is subject to a recapture agreement whereby they may have to repay a portion of the grant. The grant was used for major rehabilitation work on the Project, including air conditioning and new energy-efficient windows throughout. This grant also included a developer fee paid to the Organization of approximately $600,000.

In addition, the Organization has received a $300,000 grant from the state of Colorado as part of the Federal Home Investment Partnership Program (HOME). The proceeds of the grant were used for the rehabilitation project noted above.

Contracts

The Organization receives certain revenue from contracts with various governmental agencies. If the Organization does not meet the requirements of the contracts, it may have to return the funds received from these agencies
.

Housing

The Organization has entered into a Housing Assistance Payments ("HAP") contract with HUD through August 31, 2033. Under the terms of this contract, the Organization agrees to operate a subsidized housing project with a gross potential rent of approximately $1,064,669 per year. Maximum payments are subject to change periodically by amendment to the HAP contract.

As a portion of the Organization's operations is concentrated in the multi-family HUD-subsidized real estate market, which inherently is a heavily regulated environment, such operations are subject to the administrative directives, rules, and regulations of federal agencies, including, but not limited to HUD. Such administrative directives, rules, and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. The disbursement of funds received under these contracts generally requires compliance with terms and conditions specified in the contracts and are subject to audit by the contracting agencies. The amount of charges to these contracts that may be disallowed, if any, by such audits cannot be presently determined, and no provision for any liability that may result has been made in the financial statements. However, management believes that the effect, if any, of such audits would not have a significant impact on the financial statements; accordingly, no provision has been made in the financial statements for any liability that may result.