EL PASO COLLABORATIVE FOR COMMUNITY AND ECONOMIC DEVELOPMENT

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

AND INDEPENDENT AUDITORS' REPORT

SBNG

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
El Paso Collaborative for Community
and Economic Development

We have audited the accompanying financial statements of El Paso Collaborative for Community and Economic Development (a nonprofit organization), which comprise the statement of financial position as of December 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.

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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To the Board of Directors
El Paso Collaborative for Community
and Economic Development

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of El Paso Collaborative for Community and Economic Development as of December 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.

SBNG, P.C.

El Paso, Texas
June 26, 2017

EL PASO COLLABORATIVE FOR COMMUNITY AND ECONOMIC DEVELOPMENT

STATEMENT OF FINANCIAL POSITION

December 31, 2017

ASSETS

Current assets:	
Cash	$ 65,729
Restricted cash	522,627
Current maturities of notes receivable	96,439
Current maturities of mortgages receivable	21,820
Current maturities of forgivable notes receivable	145,746
Prepaid expenses	8,268
Total current assets	860,629
Notes receivable, net of current maturities and loss reserve	54,048
Mortgages receivable, net of current maturities and loss reserve	119,360
Forgivable notes receivable, net of current maturities	546,397
Property and equipment, net	1,554,009
Deposits	3,200
Total assets	$3,137,643

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EL PASO COLLABORATIVE FOR COMMUNITY AND ECONOMIC DEVELOPMENT

STATEMENT OF FINANCIAL POSITION (CONTINUED)

December 31, 2017

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	$ 6,670
Accrued liabilities	6,120
Escrow liabilities	4,280
Total current liabilities	17,070
Notes payable	293,881
Total liabilities	310,951
Net assets:	
Unrestricted net assets	470,369
Temporarily restricted net assets	2,356,323
Total net assets	2,826,692
Total liabilities and net assets	$3,137,643

The accompanying notes are an integral part of these financial statements.

EL PASO COLLABORATIVE FOR COMMUNITY AND ECONOMIC DEVELOPMENT

STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Support, revenues and reclassifications:			
Program income	$	$ 164,925	$ 164,925
Government grants	117,108		117,108
Interest income	25,522		25,522
Foundation grants	20,000		20,000
Insurance reimbursement	11,978		11,978
In-kind donations	2,961		2,961
Application fees	2,873		2,873
Donations	30		30
Other income	4,815		4,815
Total support and revenues	185,287	164,925	350,212
Net assets released from restriction	760,379	(760,379)	
Total support, revenues and reclassifications	945,666	(595,454)	350,212
Expenses:			
Program services	576,176		576,176
Supporting services	49,349		49,349
Total expenses	625,525		625,525
Change in net assets	320,141	(595,454)	(275,313)
Net assets, beginning of year	150,228	2,951,777	3,102,005
Net assets, end of year	$ 470,369	$2,356,323	$2,826,692

The accompanying notes are an integral part of these financial statements.

EL PASO COLLABORATIVE FOR COMMUNITY AND ECONOMIC DEVELOPMENT

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017

	Program Services	Supporting Services	Total
Compensation and related expenses:			
Salaries	$ 91,433	$ 22,858	$114,291
Payroll taxes	11,302	2,825	14,127
Employee benefits	6,750	1,688	8,438
Payroll service fees	2,766	691	3,457
Total compensation and related expenses	112,251	28,062	140,313
NSP loan forgiveness	162,830		162,830
TDHCA home rehabiliations	117,483		117,483
Rental property maintenance	58,976		58,976
Depreciation	38,923	4,325	43,248
Rental property expenses, other	26,184		26,184
NSP acquisition and rehabilitation expenses	13,478		13,478
Professional fees	6,691	6,690	13,381
Rental property management fees	10,394		10,394
Office rent	5,823	1,456	7,279
IT services	5,382	1,345	6,727
Interest expense	5,988		5,988
Telephone	2,047	2,046	4,093
Office expenses	1,730	1,730	3,460
TSAHC - Critical Repair	2,444		2,444
Down-payment assistance	2,250		2,250
Insurance		1,731	1,731
Printing and publications	813	812	1,625
Revolving loan costs	1,615		1,615
Travel	874	46	920
Postage and shipping		117	117
Miscellaneous		989	989
	$576,176	$ 49,349	$625,525

The accompanying notes are an integral part of these financial statements.

EL PASO COLLABORATIVE FOR COMMUNITY AND ECONOMIC DEVELOPMENT

STATEMENT OF CASH FLOWS

Year Ended December 31, 2017

Cash flows from operating activities:	
Change in net assets	$ (275,313)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	43,248
NSP loan forgiveness	162,830
(Increase) decrease in:	
Grants receivable	5,312
Prepaid expenses	(1,121)
Increase (decrease) in:	
Accounts payable	(368)
Accrued liabilities	(5,586)
Escrow liabilities	865
Net cash used in operating activities	(70,133)
Cash flows from investing activities:	
Payments received on mortgages receivable	23,516
Advances on notes receivable	(38,260)
Payments received on notes receivable	74,115
Decrease in restricted cash, net	(6,274)
Net cash provided by investing activities	53,097
Net decrease in cash	(17,036)
Cash, beginning of year	82,765
Cash, end of year	$ 65,729
Supplemental Information:	
Cash paid during the year for interest	$ 5,988

The accompanying notes are an integral part of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – El Paso Collaborative for Community and Economic Development ("the Organization"), is a Texas non-profit corporation organized and operated for the purpose of increasing the availability and quality of affordable housing for lower income families in El Paso, Texas and surrounding communities, as a well as facilitating economic development for individuals, non-profit organizations and small businesses in the area. The Organization implements its community development mission by providing loan products and development services, as well as assistance to homeowners and potential homebuyers. In addition, the Organization serves as a resource organization that provides funding, technical support, and advocacy for community-based non-profit organizations, known as community development corporations (CDC's) that produce affordable housing for low-income families. Moreover, the Organization administers affordable housing programs. Sources of revenue include federal, state and private grants, donations, and program income.

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets, revenues and expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

> Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.
>
> Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets whose restrictions are satisfied in the same year of receipt are treated as unrestricted net assets.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Grants and Contracts – Revenue from grants and contracts is recognized to the extent of direct costs and allowable indirect expenses incurred under the terms of each agreement. Funds restricted by grantors for operating purposes are recognized as unrestricted revenue when the terms of the grant have been met. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result, adjustments may be required.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Notes and Mortgages Receivable – Notes and mortgages receivable are carried at their estimated collectible amounts. Interest income on notes and mortgages receivable is recognized using the interest method over the life of the loan. Loan origination costs are recognized at the time the loan is made since many of the loan terms are less than one year. Interest income on impaired loans is recognized as cash is collected or on a cost recovery basis. Provisions for losses on loans receivable are determined on the basis of loss experience, known and inherent risks in the loan portfolio, the estimated value of underlying collateral, and current economic conditions. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with contractual terms. Loans determined to be uncollectible are written-off.

The reserve for loan losses is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio, which is typically 5% of the total outstanding principal on notes and mortgages receivable. The reserve is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. The reserve for loan losses was $16,734 at December 31, 2017.

There were no loans on nonaccrual status as of December 31, 2017. Loans receivable in the amount of $4,040 were 90 days or more past due and $304,918 in loans was collateralized at December 31, 2017.

Property and Equipment – Expenditures for property and equipment are stated at cost. Donations received of property and equipment are recorded as support at the estimated fair value of the property at the time of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose. The Organization capitalizes all assets with a value over $5,000. Depreciation is computed using the straight-line method over the useful lives of the assets, which range from 5 to 40 years. Expenditures for repairs and maintenance are charged to expense as incurred. For assets retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the change in net assets for the period.

Impairment of Long-Lived Assets – Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. An impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets are less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on internal and external appraisals, discounted cash flows or other valuation techniques. No impairment loss was recognized during 2017.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and Unrestricted Revenue and Support – Contributions, including unconditional promises to give, are recorded as made. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or donor-restricted for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor-stipulated time restriction ends or a purpose restriction is accomplished, the restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restriction.

Donated Goods and Services – The Organization receives, without charge, in-kind contributions for goods and services. The estimated fair market value of these goods and certain services are reported as support and expenses in the period in which they are received.

Functional Expenses – Expenses are charged to each program based on direct expenditures incurred. Any expenditure not directly chargeable is allocated to programs based on a systematic apportionment method.

Federal Income Taxes – The Organization is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of 509(a) of the Code. Accordingly, no liability or provision for federal income taxes is included in the accompanying financial statements. There was no unrelated business income tax for the year ended December 31, 2017.

The Organization files a Return of Organization Exempt from Income Tax under Section 501(c)(3) of the Internal Revenue Code. The Organization is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before December 31, 2014. There are no examinations in progress at December 31, 2017.

Compensated Absences – Employees of the Organization are entitled to paid vacation, sick days, and other time, depending on their employment status, length of service and other factors. Any vacation time not taken during the calendar year is carried forward to the following year. The Company recognizes compensated absences at the time they are earned by employees. At December 31, 2017 accrued compensated absences were $3,557.

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CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at three financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. The Organization has not experienced any loss in such accounts. The Organization believes it is not exposed to any significant credit risk on its cash balances.

RESTRICTED CASH

The Organization participates in various programs that require separate cash accounts to be maintained in order to segregate program funds from operating funds. Restricted cash consisted of the following at December 31, 2017:

Board designated for lending	$412,074
NSP Program – Affordable Housing	100,580
NSP Program – City of El Paso	6,298
Escrows	3,650
Board designated reserve	25
	$522,627

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NOTES RECEIVABLE, NET

Notes receivable consist of loans made to individuals, businesses, and non-profit organizations for the purpose of purchasing real estate, obtaining operating capital, establishing credit history, or fulfilling short-term cash needs.

The loans range from $500 to $293,665, for terms ranging from 6 to 96 months, at annual interest rates ranging from 0% to 10.7%. Payments of principal and interest range from $17 to $3,552 per month. The Organization's loan review committee evaluates all loan applications to determine if collateral is required. For the year ended December 31, 2017, a substantial portion of the Organization's loan portfolio was secured by real estate, personal property or a personal guarantee from the borrower.

Notes receivable, net, consisted of the following at December 31, 2017:

Notes receivable	$159,122
Less notes receivable loss reserve	8,635
Less current maturities of notes receivable	96,439
Total notes receivable, net of current portion	$ 54,048

NOTES RECEIVABLE, NET (Continued)

Approximately 96% of total notes receivable consisted of four notes as follows:

The Organization has a note receivable due from a business with an effective date June 23, 2011. The loan is for the original principal amount of $293,665, for a term of seven years and ten months maturing on May 1, 2019, paid in monthly installments of $3,552 including interest. The loan balance at December 31, 2017 amounted to $53,049. The entire balance is secured by real estate.

The Organization has a note receivable due from a business with an effective date December 12, 2016. The loan is for $50,000 for a term of 5 years maturing on January 17, 2022, at 9% interest, paid in monthly installments of $1,308 including interest. The loan balance at December 31, 2017 amounted to $41,746. The entire balance is secured by commercial property.

The Organization has a note receivable due from another Organization. The loan is for $44,481 for a term of 5 years maturing on February 1, 2020, at 8% interest, paid in monthly installments of $1,086 including interest. The loan balance at December 31, 2017 amounted to $26,287. The entire balance is secured by a second lien on real estate.

The Organization has a note receivable due from a business. The loan is for $30,000 for a term of 5 years maturing on June 1, 2022, at 9% interest, paid in monthly installments of $623 including interest. The loan balance at December 31, 2017 amounted to $27,657. The entire balance is secured by a personal guarantee.

MORTGAGES RECEIVABLE, NET

Mortgages receivable net, consisted of the following at December 31, 2017:

Mortgage receivable, 4.3% interest, dated December 21, 2009, in the original amount of $89,200, from an individual, due in monthly installments of $596, including interest, until maturity in February 2030, collateralized by real estate.	$ 49,127

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MORTGAGES RECEIVABLE, NET (Continued)

Mortgage receivable, 5.5% interest, dated March 11, 2010, in the original amount of $66,000, from an individual, due in monthly installments of $454, including interest, until maturity in October 2030, collateralized by real estate.	$ 47,757
Mortgage receivable, 5.5% interest, dated December 21, 2009, in the original amount of $45,462, from an individual, due in monthly installments of $313, including interest, until maturity in February 2030, collateralized by real estate.	24,227
Mortgage receivable, 5% interest, dated August 11, 2010, in the original amount of $32,000, from an individual, due in monthly installments of $253, including interest, until maturity in June 2027, collateralized by real estate.	16,787
Mortgage receivable, 7% interest, dated June 3, 2008, in the original amount of $17,500, from an individual, due in monthly installments of $157, including interest, until maturity in June 2023, collateralized by real estate.	7,581

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MORTGAGES RECEIVABLE, NET (Continued)

Mortgage receivable, 6.25% interest, dated May 20, 2004, in the original amount of \$34,537, from an individual, due in monthly installments of \$45, including interest, until maturity in November 2019. The note is secured by real estate.	\$ 3,800
Total mortgages receivable	149,279
Less mortgages receivable loss reserve	8,099
	141,180
Less current maturities of mortgages receivable	21,820
Mortgages receivable, net of current maturities and loss reserve	\$119,360

PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31, 2017:

Furniture and equipment	\$ 37,781
Rental homes	1,730,195
	1,767,976
Less accumulated depreciation	213,967
Property and equipment, net	\$ 1,554,009

Depreciation expense for the year ended December 31, 2017, was \$43,248.

Sixteen of the Organization's rental homes were acquired as part of the Neighborhood Stabilization Program ("NSP"), which is a federal program administered by the U.S. Department of Housing and Urban Development ("HUD"). The Organization's houses are subject to covenants in favor of HUD, which require the homes be offered for rent to low, moderate and, median income families at rental rates not to exceed the High-HOME rent limits published by HUD. The requirements must remain in place during each property's minimum affordability period, the last of which expires in December 2031.

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PROPERTY AND EQUIPMENT, NET (Continued)

Two of the Organization's rental homes were acquired as part of the NSP Property Transfer program administered by the City of El Paso and are also subject to rental restrictions established by the HOME program. The affordability period for the two homes under the City of El Paso NSP program expires in February 2029.

FORGIVABLE NOTES RECEIVABLE

The Organization administers the NSP Homebuyer Assistance Program, the purpose of which was to stabilize distressed neighborhoods whose viability has been damaged by the effects of foreclosed or abandoned properties. Under the program, qualified homebuyers that purchased foreclosed properties acquired by the NSP Program obtained financial assistance in the form of a "soft second loan" to cover a portion of up-front costs of homeownership. The soft second loan was funded by the Organization and is to be completely forgiven if the owner occupies the home as a principal residence during the minimum period required by the program, which is known as the affordability period.

The Organization's policy is to recognize the forgiveness of the balances outstanding on NSP forgivable loans on a pro-rata basis over the term of their affordability period, which is typically between five to ten years. The Organization's policy became effective on January 1, 2016. NSP loan forgiveness expense at December 31, 2017 was $162,830.The forgiveness of expense related to forgiveness of debt is recognized as a program expense in the accompanying statement of financial activities.

Any property owner that fails to occupy their respective home as a principal residence during the affordability period is subject to a recapture provision for any remaining balance outstanding on their soft second loan. The Organization's policy is to recognize recaptured forgivable loans as program income in the year in which the recapture occurs. Any proceeds from recaptures are to be restricted for use in the NSP program.

At December 31, 2017, the balance outstanding in forgivable notes receivable was $692,143, of which $145,746 was current and $546,397 was net of current maturities. Forgivable notes receivable are secured by subordinated liens attached to residential homes.

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LONG-TERM DEBT

Notes payable consisted of the following at December 31, 2017:

Note payable to Wells Fargo Community Development Corporation in the amount of $200,000 at 2% per annum with a maturity date of February 1, 2019. The note requires quarterly interest-only payments with the entire outstanding principal payable at maturity. The note is unsecured.	$200,000
Note payable to the Community Development Financial Institutions Fund in the amount of $93,881 at 2% per annum with a maturity date of January 5, 2019. The note requires quarterly interest-only payments with the entire outstanding principal payable at maturity. The note is unsecured.	$ 93,881
Total notes payable	$293,881

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2017, consisted of funds temporarily restricted for the following purposes:

NSP rental homes	$1,359,535
NSP forgivable loans	692,143
NSP rental homes – City of El Paso	194,117
NSP restricted cash	100,580
NSP restricted cash – City of El Paso	6,298
Escrow	3,650
	$2,356,323

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TEMPORARILY RESTRICTED NET ASSETS (Continued)

Temporarily restricted net assets were released from restriction in the following amounts during the year ended December 31, 2017:

Revolving loan fund	$245,105
Community Development Financial Institutions Fund	166,969
NSP forgivable loans	162,830
Revolving loan fund and other lending	40,509
NSP restricted cash	88,248
NSP rental homes	36,326
NSP restricted cash - City of El Paso	14,846
NSP rental homes - City of El Paso	5,546
	$760,379

IN-KIND DONATIONS

In-kind donations consisted of the following at December 31, 2017:

Rental space	$ 2,441
Professional services	520
	$2,961

DEFINED CONTRIBUTION PLAN

In 2003, the Organization obtained a defined contribution plan for its leased employees. Employees are eligible to participate if they are reasonably expected to receive $5,000 in compensation for each calendar year and have received at least $5,000 in compensation in 2017. Total contributions made by the Organization in 2017, amounted to $3,454.

RELATED PARTY TRANSACTIONS

The Organization has a note receivable due from a Co-Interim Executive Director with an effective date July 19, 2017. The loan is for the original principal amount of $1,210, and matures on February 1, 2019, paid in monthly installments of $98 including interest at a 10%. The loan balance at December 31, 2017 amounted to $948. The entire balance is secured by a personal guarantee.

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RELATED PARTY TRANSACTIONS (Continued)

The Organization has a note receivable due from the second Co-Interim Executive Director with an effective date December 21, 2017. The loan is for the original principal amount of $1,500, and matures on July 1, 2019, paid in monthly installments of $90 including interest at a 10%. The loan balance at December 31, 2017 amounted to $1,500. The entire balance is secured by a personal guarantee.

Future maturities of notes receivable from related parties are included in the Notes Receivable disclosure in these notes to the financial statements.

COMMITMENTS AND CONTINGENCIES

Litigation

The Organization is the subject of pending threatened litigation. While it is not possible to predict with certainty the outcome of this matter, management does not believe that it will materially affect the financial position of the Organization.

Other Commitments

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability to the Organization. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

SUBSEQUENT EVENTS

Subsequent events were evaluated through June 26, 2018, the date the statements were available to be issued.