

Colorado Enterprise Fund, Inc.
Financial Statements
September 30, 2018 and 2017
(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Independent Auditor's Report

Board of Directors Colorado Enterprise Fund, Inc.:

We have audited the accompanying financial statements of Colorado Enterprise Fund, Inc. (the Fund), which comprise the statement of financial position as of September 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

**Board of Directors
Colorado Enterprise Fund, Inc.**

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Colorado Enterprise Fund, Inc. as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kennedys, Cordia & Congle, P.C.

January 22, 2019

Colorado Enterprise Fund, Inc.
Statements of Financial Position
September 30, 2018 and 2017

	2018	2017
Assets:		
Current assets:		
Cash and cash equivalents (note 2)	\$ 8,166,957	9,609,874
Grants receivable (note 3)	109,222	120,274
Accrued interest receivable	155,440	105,668
Loans receivable, less allowance for loan loss of \$287,116 and \$238,766 (note 4)	4,208,884	3,571,802
Other assets	6,183	15,416
Total current assets	12,646,686	13,423,034
Noncurrent assets:		
Restricted cash and cash equivalents (note 2)	1,005,835	697,620
Loans receivable, less allowance for loan loss of \$1,263,187 and \$878,790 (note 4)	18,517,302	13,146,207
Furniture and equipment, net of accumulated depreciation of \$101,232 and \$80,873	32,761	53,120
Total noncurrent assets	19,555,898	13,896,947
Total assets	\$ 32,202,584	27,319,981
Liabilities and Net Assets:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 149,514	145,699
Deferred rent	25,757	26,754
Current portion of notes payable (note 7)	3,404,830	1,279,476
Total current liabilities	3,580,101	1,451,929
Noncurrent liabilities:		
Guarantee liabilities (note 6)	139,757	—
Notes payable (note 7)	13,370,921	10,807,834
Other liabilities (note 8)	5,313,000	5,313,000
Total noncurrent liabilities	18,823,678	16,120,834
Total liabilities	22,403,779	17,572,763
Net assets:		
Unrestricted	8,344,633	6,637,065
Temporarily restricted (note 9)	1,454,172	3,110,153
Total net assets	9,798,805	9,747,218
Commitments (notes 6, 7, 8, 10 and 11)		
Total liabilities and net assets	\$ 32,202,584	27,319,981

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

Colorado Enterprise Fund, Inc.
Statement of Activities
Year Ended September 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, gains and support:			
Support:			
Grants and contributions for operating	\$ 660,448	351,475	1,011,923
Grants and contributions for loan capital	–	140,947	140,947
Grants and contributions for loan loss reserve	–	428,481	428,481
Net assets released from restrictions for operating	291,114	(291,114)	–
Net assets released from restrictions for loan capital	2,194,984	(2,194,984)	–
Net assets released from restrictions for loan loss reserve	90,786	(90,786)	–
Total support	<u>3,237,332</u>	<u>(1,655,981)</u>	<u>1,581,351</u>
Earned revenue			
Loan origination and servicing fees	478,668	–	478,668
Interest income on loans	1,924,095	–	1,924,095
Other income	813	–	813
Total earned revenue	<u>2,403,576</u>	<u>–</u>	<u>2,403,576</u>
Total revenue, gains and support	<u>5,640,908</u>	<u>(1,655,981)</u>	<u>3,984,927</u>
Expenses:			
Loan program services	3,458,403	–	3,458,403
Supporting services:			
Management and general	333,979	–	333,979
Financial development	140,958	–	140,958
Total supporting services	<u>474,937</u>	<u>–</u>	<u>474,937</u>
Total expenses	<u>3,933,340</u>	<u>–</u>	<u>3,933,340</u>
Change in net assets	1,707,568	(1,655,981)	51,587
Net assets at beginning of year	<u>6,637,065</u>	<u>3,110,153</u>	<u>9,747,218</u>
Net assets at end of year	<u>\$ 8,344,633</u>	<u>1,454,172</u>	<u>9,798,805</u>

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

Colorado Enterprise Fund, Inc.
Statement of Activities
Year Ended September 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, gains and support:			
Support:			
Grants and contributions for operating	\$ 376,466	787,000	1,163,466
Grants and contributions for loan capital	–	1,575,646	1,575,646
Grants and contributions for loan loss reserve	–	802,360	802,360
Net assets released from restrictions for operating	778,283	(778,283)	–
Net assets released from restrictions for loan capital	578,529	(578,529)	–
Net assets released from restrictions for loan loss reserve	755,955	(755,955)	–
Total support	<u>2,489,233</u>	<u>1,052,239</u>	<u>3,541,472</u>
Earned revenue			
Loan origination and servicing fees	355,981	–	355,981
Interest income on loans	1,558,019	–	1,558,019
Other income	721	–	721
Total earned revenue	<u>1,914,721</u>	<u>–</u>	<u>1,914,721</u>
Total revenue, gains and support	<u>4,403,954</u>	<u>1,052,239</u>	<u>5,456,193</u>
Expenses:			
Loan program services	2,628,008	–	2,628,008
Supporting services:			
Management and general	422,344	–	422,344
Financial development	209,752	–	209,752
Total supporting services	<u>632,096</u>	<u>–</u>	<u>632,096</u>
Total expenses	<u>3,260,104</u>	<u>–</u>	<u>3,260,104</u>
Change in net assets	1,143,850	1,052,239	2,196,089
Net assets at beginning of year	<u>5,493,215</u>	<u>2,057,914</u>	<u>7,551,129</u>
Net assets at end of year	<u>\$ 6,637,065</u>	<u>3,110,153</u>	<u>9,747,218</u>

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

Colorado Enterprise Fund, Inc.
Statement of Functional Expenses
Year Ended September 30, 2018

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total Supporting Services</u>	<u>Total Expenses</u>
	<u>Loan Program</u>	<u>Management and General</u>	<u>Financial Development</u>			
Expenses:						
Personnel	\$ 1,505,216	195,020	107,180		302,200	1,807,416
Provision for loan loss	917,456	-	-		-	917,456
Interest expense	449,121	-	-		-	449,121
Professional fees	272,895	83,652	1,667		85,319	358,214
Occupancy	117,448	22,560	13,258		35,818	153,266
Office expenses	79,654	15,300	8,991		24,291	103,945
Telephone	16,705	3,209	1,886		5,095	21,800
Printing and postage	5,081	976	574		1,550	6,631
Meetings and travel	54,829	7,104	3,904		11,008	65,837
Bank charges	24,397	3,161	1,737		4,898	29,295
Depreciation	15,601	2,997	1,761		4,758	20,359
Total expenses	<u>\$ 3,458,403</u>	<u>333,979</u>	<u>140,958</u>		<u>474,937</u>	<u>3,933,340</u>

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

Colorado Enterprise Fund, Inc.
Statement of Functional Expenses
Year Ended September 30, 2017

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total Supporting Services</u>	<u>Total Expenses</u>
	<u>Loan Program</u>	<u>Management and General</u>	<u>Financial Development</u>			
Expenses:						
Personnel	\$ 1,361,796	274,483	134,586		409,069	1,770,865
Provision for loan loss	433,237	-	-		-	433,237
Interest expense	338,534	-	-		-	338,534
Professional fees	236,715	79,714	23,394		103,108	339,823
Occupancy	102,164	29,864	25,148		55,012	157,176
Office expenses	46,029	13,482	11,330		24,812	70,841
Telephone	14,035	4,103	3,455		7,558	21,593
Printing and postage	6,677	1,951	1,644		3,595	10,272
Meetings and travel	64,589	13,020	6,383		19,403	83,992
Bank charges	14,613	2,915	1,444		4,359	18,972
Depreciation	9,619	2,812	2,368		5,180	14,799
Total expenses	<u>\$ 2,628,008</u>	<u>422,344</u>	<u>209,752</u>		<u>632,096</u>	<u>3,260,104</u>

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

Colorado Enterprise Fund, Inc.
Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 51,587	2,196,089
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	20,359	14,799
Provision for loan losses	774,263	433,237
Guarantee liabilities	139,757	-
Decrease (increase) in operating assets:		
Grants receivable	11,052	276,185
Accrued interest receivable	(49,772)	280
Other assets	9,233	33,703
Change in restricted cash	(308,215)	(339,871)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(135,942)	57,663
Deferred rent	(997)	24,064
Net cash provided by operating activities	<u>511,325</u>	<u>2,696,149</u>
Cash flows from investing activities:		
Purchase of furniture and equipment	-	(27,068)
Loan payments received	8,511,686	7,503,814
Loans disbursed	(15,154,369)	(9,630,222)
Net cash used in investing activities	<u>(6,642,683)</u>	<u>(2,153,476)</u>
Cash flows from financing activities:		
Proceeds from notes payable	5,526,229	3,288,837
Payments on notes payable	(837,788)	(973,821)
Net cash provided by financing activities	<u>4,688,441</u>	<u>2,315,016</u>
Net increase in cash and cash equivalents	(1,442,917)	2,857,689
Cash and cash equivalents at beginning of year	<u>9,609,874</u>	<u>6,752,185</u>
Cash and cash equivalents at end of year	<u>\$ 8,166,957</u>	<u>9,609,874</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	<u>\$ 413,214</u>	<u>330,158</u>

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

Colorado Enterprise Fund, Inc.

Notes to Financial Statements

September 30, 2018 and 2017

(1) Summary of Significant Accounting Policies

(a) General

Colorado Enterprise Fund, Inc. (the Fund) was founded in 1976 as a not-for-profit corporation. The Fund has been certified as a community development financial institution (CDFI) by the U.S. Department of Treasury since 1996. The Fund specializes in loans for small and emerging businesses unable to receive traditional bank financing. By offering flexible financing options, personalized customer service, one-on-one business advising, and access to entrepreneurial resources statewide, the Fund enhances the long-term prosperity of local communities and contributes to the success of economic development in Colorado.

(b) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, and accordingly reflect all significant receivables, payables, and other liabilities.

(c) Financial Statement Presentation

Information regarding the financial position and activities of the Fund is reported according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. There are no permanently restricted net assets at September 30, 2018 and 2017.

(d) Use of Estimates

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

(e) Contributions and Contributions Receivable

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Unconditional contributions receivable are recognized as revenues in the period the promise is received. Conditional contributions receivable are recognized when the conditions on which they depend are substantially met.

(f) Cash and Cash Equivalents

The Fund considers all unrestricted highly liquid financial instruments with an original maturity of three months or less to be cash equivalents.

Colorado Enterprise Fund, Inc.
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(g) Accounts and Grants Receivable

Receivables represent claims for reimbursement and other fees earned under contracts and grant agreements. The allowance for doubtful accounts is based on past collection experience and on analysis of current accounts receivable collectability. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible. Receivable balances are considered to be past due based on contractual terms.

(h) Furniture and Equipment

Furniture and equipment is stated at cost, or if donated, at the fair value at the date of donation. The Fund capitalizes all fixed assets with a cost, or fair value at the date of donation, over \$500 and with an estimated useful life of three years or more. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to eight years.

(i) Concentrations of Credit Risk

Financial instruments which potentially subject the Fund to concentrations of credit risk consist principally of cash accounts which may, during the year, exceed the federally insured limit set by the Federal Deposit Insurance Corporation (FDIC). The Fund reduces credit risk by placing its cash with creditworthy, high quality financial institutions.

The Fund provides financing to small business owners. Concentrations of credit risk with respect to loans receivable is limited due to the Fund's loan policies, such as limiting loans to one borrower to no greater than 5% of loan capital, revolving lines-of-credit to no greater than 25% of outstanding loans, and loans to a specific industry to no greater than 25% of outstanding loans.

Also, the Fund receives a substantial amount of its revenue from the federal government. Should a significant reduction in the level of this funding occur, it could affect the Fund's programs and activities. Claims for reimbursement filed by the Fund are subject to audit and possible retroactive adjustment or disallowance.

(j) Loans Receivable and Allowance for Loan Loss

Management provides an allowance for loan losses based upon estimated collectability as determined based upon past loss experience, specific impaired loans, adverse conditions that may affect the borrower's ability to repay, estimated value of any underlying collateral, economic conditions, and other relevant factors that in management's judgment deserve consideration.

Most loans are secured by business property, equipment, and personal property. The Fund's policy is to make attempts to collect on delinquent loans through phone calls and site visits; mailing past-due statements, right-to-cure letters and demand letters; and if necessary, taking legal action to repossess or foreclose on collateral.

Colorado Enterprise Fund, Inc.
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(k) Revenue Recognition

Grants

A substantial portion of the Fund's revenue is derived from cost-reimbursable grants. Amounts received are deemed to be earned and are reported as revenue when the Fund has incurred expenditures in compliance with specific grant restrictions. Amounts earned but not yet received are reported as accounts or grants receivable.

Loan Origination and Servicing Fees

Loan origination and servicing fees are recognized as received. The difference between recognizing these fees at the time received compared to over the term of the loan is not considered significant.

Interest Income

Interest income is recognized when earned, over the term of the loan. Interest on impaired loans is recognized when received, and interest on non-accrual loans is recognized as income only when the loan is paid in full.

(l) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

(m) Income Tax Status

The Fund is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and it qualifies for the charitable contribution deduction. However, income from activities not directly related to its tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income during the years ended September 30, 2018 and 2017. Accordingly, the accompanying financial statements do not include a provision for income taxes.

Management is required to evaluate tax positions taken by the Fund and to recognize a tax liability if the Fund has taken an uncertain tax position that probably would not be sustained upon examination by taxing authorities. The Fund believes that it has appropriate support for any tax positions taken and that none would require recognition of a liability or disclosure in the financial statements. If incurred, interest and penalties associated with uncertain tax positions would be recorded in the period assessed. No interest or penalties have been assessed as of September 30, 2018 and 2017. The three previous tax years (years ended September 30, 2015 through 2017) remain subject to examination by the IRS, generally for three years after initial filing.

(n) Subsequent Events

Management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. The Fund's financial statements were available to be issued on January 22, 2019, and this is the date through which subsequent events were evaluated. Subsequent to year end, the Fund entered into a \$1,000,000 debt agreement.

Colorado Enterprise Fund, Inc.
Notes to Financial Statements, Continued

(2) Cash and Cash Equivalents and Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are restricted to use by formal agreement and are required by a third party to be held in a separate bank account. Limited in use cash and cash equivalents have donor or contract-imposed limitations on use but remain in the sole control of the Fund. Cash and cash equivalents are available for the following uses at September 30:

	<u>2018</u>	<u>2017</u>
Unrestricted	\$ 3,764,223	3,597,371
Limited in use:		
Temporarily restricted grant funds for loan capital (note 9)	107,633	1,977,169
Temporarily restricted grant funds (note 9)	968,477	983,078
Lending and/or investor repayments (c)	2,605,708	2,434,004
Loan loss reserve fund (d)	<u>720,916</u>	<u>618,252</u>
	<u>8,166,957</u>	<u>9,609,874</u>
Restricted:		
SBA loan program loan loss reserve fund (a)	483,672	480,558
Other loan loss reserve fund (b)	<u>522,163</u>	<u>217,062</u>
	<u>1,005,835</u>	<u>697,620</u>
	<u>\$ 9,172,792</u>	<u>10,307,494</u>

- (a) Under the Small Business Administration (SBA) Microloan Program, the Fund is required to place an amount equal to 15% of total outstanding loans under the Microloan Program in a restricted cash account to secure payment back on the SBA loan. When a loan in this program becomes over 120 days past due, the Fund is required to charge-off the loan. At September 30, 2018, the Fund has met this restricted cash account requirement. Under the SBA Community Advantage Program, a federal program that guarantees a portion of loans that meet the program requirements, the Fund is required to place an amount equal to 5% of the outstanding unguaranteed loan balance in a restricted cash account within 45 days of disbursing a new loan. At September 30, 2018, the Fund met this restricted cash account requirement.
- (b) Colorado Housing and Finance Authority (CHFA) administers the Colorado Credit Reserve Program (CCR) for which the Fund may register loans that meet the program's criteria and deposit a certain percentage of those loans to a restricted cash account. Additionally, Goldman Sachs Bank deposits grant funds into a restricted cash account for loan loss reserves up to 5% of the amount of loan capital drawn from the Goldman Sachs Bank investment in the Fund. During 2018 and 2017, a matching contribution for the program was provided from CHFA totaling \$278,648 and \$153,237, respectively and from Goldman Sachs totaling \$90,294 and \$31,623, respectively. When CCR registered loans or Goldman capitalized loans are charged off, the Fund may use this restricted cash to recover against loan losses up to the balance in the account with approval from the respective contributor.
- (c) Lending and investor repayments include cash received for loan capital that has not been disbursed, repayments from borrowers under loan capital agreements that require principal payments be redeployed as loan capital, and repayments from borrowers from certain loan funding sources that will be used by the Fund to pay off debt owed to those specific lenders.
- (d) Loan loss reserves are funded mainly through CDFI grants and are available to offset losses when loans are charged-off.

Colorado Enterprise Fund, Inc.
Notes to Financial Statements, Continued

(3) Grants Receivable

Management has determined that unconditional grants receivable are fully collectible; therefore no allowance for uncollectible accounts are considered necessary. Amounts due in the future have not been discounted to their present value because the effect on the financial statements is not significant.

Conditional grants

During fiscal year 2016, the Fund was awarded a \$1,920,146 grant from the U.S. Treasury CDFI Fund of which \$1,895,146 was received in cash and recorded as revenue during 2017. The remaining \$25,000 is conditioned upon the Fund disbursing ninety percent of \$1,895,146 for authorized financial assistance or technical assistance activity. Accordingly, the balance of the grant has not been recorded because the condition has not been met.

(4) Loans Receivable

Loans receivable generally consist of business term loans, revolving lines-of-credit, commercial mini mortgages, and commercial “gap” real estate loans. The Fund does not assess credit risk by these loan types.

The Fund’s portfolio includes primarily secured loans. Some loans under \$10,000 may be unsecured. The Fund also utilizes various government guarantee loan programs. Interest rates range from 2% to 18% per annum, and loan terms range from 12 to 300 months.

Loans receivable are presented on the statement of financial position, net of related loan loss reserves at September 30:

	<u>2018</u>	<u>2017</u>
Current assets	\$ 4,496,000	3,810,568
Non-current assets	<u>19,780,489</u>	<u>14,024,997</u>
	24,276,489	17,835,565
Allowance for loan loss	<u>(1,550,303)</u>	<u>(1,117,556)</u>
Net loans receivable	\$ <u>22,726,186</u>	<u>16,718,009</u>

Allowance for Loan Loss

Management calculates the allowance for loan loss based on many factors including: scoring individual loans with a risk rating system, collectability of the loans based on past experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of the underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as information becomes available.

Colorado Enterprise Fund, Inc.
Notes to Financial Statements, Continued

(4) Loans Receivable, Continued

Loans are considered past due depending on the contractual terms, generally when payments are over 31 days past due. The following is an aging of the Fund's loans at September 30:

	<u>2018</u>	<u>2017</u>
Current	\$ 23,199,064	17,164,982
31-60 days	328,054	99,415
61-90 days	33,807	170,485
Over 90 days	<u>715,564</u>	<u>400,863</u>
Total	\$ <u>24,276,489</u>	<u>17,835,565</u>

A summary of the activity in the allowance for loan loss for the years ended September 30, 2018 and 2017 is as follows:

Balance at September 30, 2016	\$ 1,261,572
Provision for loan loss	433,237
Charge-offs	(672,239)
Loan recoveries	<u>94,986</u>
Balance at September 30, 2017	\$ 1,117,556
Provision for loan loss	774,263
Charge-offs	(529,834)
Loan recoveries	<u>188,318</u>
Balance at September 30, 2018	\$ <u>1,550,303</u>

Credit Risk Quality

The Fund assesses the credit quality of loans in their portfolio using a risk rating system under the following categories: low, low-moderate, moderate, high-moderate, high, and very high depending on the following risk factors: start up business or existing business, collateral coverage, strength of balance sheet figures to determine tangible net worth and working capital, credit score and guarantor, the type of collateral and secondary source of repayment, management's experience level, and other factors when applicable. Each loan is individually assessed for credit quality when the loan is closed, then assessed annually based on payment history and current knowledge of borrower activities. The credit quality, payment history, and current knowledge of borrower activities help determine the loan loss reserve for the loans in the portfolio.

Impaired Loans

Loans are considered in default if they are sixty days or more past due. Late payment is often the first indication that a loan may be impaired. A loan is considered impaired after 90 days past due at which point management writes off any amounts they believe are uncollectible. Impaired loans are placed on non-accrual status on a case by case determination made by management. When a loan is considered impaired, payments received are applied first to fees, then interest, and any remainder to principal. Impaired loans at September 30, 2018 and 2017 total \$715,564 and \$400,683, respectively, of which \$279,538 were guaranteed through a government loan program at end of both years. Interest recognized on impaired loans during 2018 and 2017 totaled \$12,892 and \$5,620, respectively. Loans on non-accrual status at September 30, 2018 and 2017 total \$715,564 and \$400,683 respectively.

Colorado Enterprise Fund, Inc.
Notes to Financial Statements, Continued

(4) Loans Receivable, Continued

Loan Participations

The Fund participates in a loan with other not-for-profit lenders. Only the Fund's share of this participation loan is recorded on the statement of financial position. At September 30, 2018 the Fund had one outstanding participation loans receivable. The Fund's participation in this loan was 28.57%.

Other

The Fund had \$895,953 in outstanding loan commitments and undisbursed loans at September 30, 2018.

(5) Below Market Interest Rate Loans

Generally accepted accounting principles require not-for-profit organizations to record interest expense (income) and contribution revenue (expense) in connection with loans that are interest free or that have below-market interest rates. The Fund believes there is no significant difference between community development finance market rates and the standard rates of loans in the Fund's portfolio. Consequently, no adjustments have been made to the financial statements to reflect rate differentials.

(6) Guarantee Liabilities

The Fund established "The Rural Impact Guaranteed Loan Program" in 2017 for the purpose of stimulating access to capital in rural areas of Colorado by partnering with local lending institutions (the Lender) to leverage their mutual efforts to help small businesses grow and thrive in underserved areas. The Fund will guarantee eligible loans the lender registers within the program at 45% of each eligible loan that is approved by the Lender up to \$100,000 and thirty-six months per registered loan. Total loan guarantees in the program shall not exceed \$300,000. The Lender may submit a claim to the Fund equal to the total amount of the remaining principal and accrued interest, expenses related to pursuing recovery, but shall not exceed the original principal loan amount, and shall not include legal fees or the Lender's unpaid late charges or default interest charges. The maximum amount of the accrued interest cannot exceed 90-days of interest on the loan at the original interest rate of the loan. The claim may only be submitted once the loan has officially been charged off and all collection efforts have been exhausted, including liquidation of collateral. If the Lender receives subsequent payments on a submitted claim on a registered loan, the Lender will provide a prorated share of the recovered funds to the Fund.

This loan program has five registered loans under this program with a guarantee liability balance of \$139,757 and a remaining commitment of \$160,243 at September 30, 2018. All registered loans are current on payments.

(7) Notes Payable

The Fund has multiple notes payable from banks, government agencies and other not-for-profit organizations. Many of these loans are unsecured; however, the following loan agreements have security interests: Bank of America is secured by certain assets; CHFA is secured by certain revenue; Goldman Sachs is secured by funds held in the loan loss reserve fund; and U.S. Small Business Administration loans are secured by funds held in the Microloan Revolving Fund, the Loan Loss Reserve Fund, and all microloan notes made through the Microloan Program.

Colorado Enterprise Fund, Inc.
Notes to Financial Statements, Continued

(7) Notes Payable, Continued

Notes payable consists of the following at September 30:

<u>Lender</u>	<u>Repayment terms</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2018</u>	<u>2017</u>
Bank of America	Quarterly interest only until 2021	3.25%	March 29, 2023	750,000	750,000
Bank of America*	Quarterly interest only until 2026	1.00%	September 27, 2028	750,000	-
Calvert Foundation	Quarterly interest only	4.25%	August 30, 2019	1,000,000	1,000,000
Catholic Health Initiatives	Annual interest only	2.00%	January 9, 2022	500,000	500,000
Colorado East Bank & Trust	Quarterly interest only	2.00%	January 10, 2024	100,000	100,000
Colorado Federal Savings Bank**	Monthly interest only	3.25	June 29, 2025	1,500,000	-
Colorado Housing and Finance Authority***	Quarterly principal and interest	2.00%	December 31, 2018	54,817	251,260
Citywide Banks	Quarterly interest only	2.00%	September 3, 2025	99,856	99,856
First Bank	Quarterly interest only	2.50%	May 17, 2021	75,000	75,000
Goldman Sachs Bank	Monthly interest and quarterly principal	4.25%	July 8, 2022	3,000,000	1,629,835
Guaranty Bank	Annual interest only	2.00%	March 14, 2026	350,000	350,000
Mercy Investment Services Inc. ****	Quarterly interest only	3.00%	March 15, 2020	439,122	500,000
Opportunity Finance Network	Quarterly interest only	3.75%	December 31, 2019	320,000	320,000
U.S. Bancorp Community Development Corp.	Quarterly principal and interest	3.00%	August 31, 2018	-	100,000
U.S. Treasury Community Development Financial Institutions (CDFI) Fund	Quarterly interest only	2.30%	April 30, 2019	724,000	724,000
U.S. Treasury CDFI Fund	Semi-annual interest only	2.31%	February 12, 2022	1,036,652	1,036,652
U.S. Treasury CDFI Fund	Quarterly interest only	2.00%	December 17, 2022	550,208	550,208
U.S. Treasury CDFI Fund	Semi-annual interest only until 2027	2.50%	June 12, 2030	450,000	450,000
U.S. Treasury CDFI Fund	Semi-annual interest only until 2027	2.20%	August 7, 2030	479,854	479,854
U.S. Treasury CDFI Fund	Semi-annual interest only until 2031	1.90%	May 31, 2031	559,539	-
U.S. SBA	Monthly principal and interest	0.50%	May 13, 2021	-	111,990
U.S. SBA	Monthly principal and interest	0.00%	May 4, 2022	298,611	381,945
U.S. SBA	Monthly principal and interest	0.00%	June 24, 2023	659,722	798,612
U.S. SBA	Monthly principal and interest	0.25%	June 24, 2025	996,845	1,143,098
U.S. SBA	Monthly principal and interest	0.75%	August 1, 2027	<u>2,081,525</u>	<u>735,000</u>
				<u>\$16,775,751</u>	<u>12,087,310</u>

Colorado Enterprise Fund, Inc.
Notes to Financial Statements, Continued

(7) Notes Payable, Continued

- * The full note is \$2,000,000; however, only \$750,000 has been drawn down as of September 30, 2018.
- ** The full note is \$2,000,000; however, only \$1,500,000 has been drawn down as of September 30, 2018.
- *** This note was subsequently paid after year end.
- **** This note was originally due during fiscal year 2018; however due to modified agreement, the maturity date has been extended as noted in the table above.

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

2019	\$ 3,404,830
2020	1,870,336
2021	1,696,962
2022	2,938,646
2023	2,808,634
Thereafter	<u>4,056,343</u>
	<u>\$ 16,775,751</u>

(8) Other Liabilities

“Other liabilities” is comprised of equity equivalent investments. An equity equivalent investment has an indefinite term and is fully subordinated to all other Fund liabilities. Following is a summary of the equity equivalents at September 30:

<u>Lender</u>	<u>Payment terms</u>	<u>Interest Rate</u>	<u>2018</u>	<u>2017</u>
Bank of the West	Quarterly interest only	3.00%	\$ 750,000	750,000
CoBiz Bank	Quarterly interest only	2.50%	150,000	150,000
CoBiz Bank	Quarterly interest only	2.00%	100,000	100,000
FirstBank of Colorado	None	0.00%	100,000	100,000
First National Bank of Nebraska	Quarterly interest only	2.00%	2,000,000	2,000,000
Guaranty Bank	Annual interest only	2.00%	100,000	100,000
Guaranty Bank	Quarterly interest only	2.00%	250,000	250,000
U.S. Bancorp Community Development Corporation	Quarterly interest only	3.00%	300,000	300,000
U.S. Treasury-Small Business Lending Fund	Quarterly interest only	2.00%	463,000	463,000
Wells Fargo Community Development Corporation	Quarterly interest only	2.00%	100,000	100,000
Wells Fargo Community Development Corporation	Quarterly interest only	2.00%	500,000	500,000
Wells Fargo Community Development Corporation	Quarterly interest only	2.00%	<u>500,000</u>	<u>500,000</u>
			<u>\$ 5,313,000</u>	<u>5,313,000</u>

Colorado Enterprise Fund, Inc.
Notes to Financial Statements, Continued

(8) Other Liabilities, Continued

Performance Covenants

The Fund is required to meet certain performance covenants as specified in the individual financing agreements, including, among other requirements, maintaining: specified subordinated debt to loan capital ratios, specified unrestricted net assets to total assets ratios, and maintaining a loan loss reserve in accordance with the Fund's loan loss reserve policy. All covenants have been satisfied at September 30, 2018.

(9) Restrictions on Net Assets

Temporarily restricted net assets consist of the following at September 30:

	<u>2018</u>	<u>2017</u>
Loan capital	\$ 50,000	558,195
Loan loss reserves (restricted cash)	378,062	99,907
Loan capital, loan loss reserves, or operations:		
CDFI Financial Assistance (a)	791,110	2,162,608
CO4F Fund (b)	-	124,443
Future operations	-	80,000
Other program services	<u>235,000</u>	<u>85,000</u>
	<u>\$ 1,454,172</u>	<u>3,110,153</u>

(a) The U.S. Treasury CDFI Fund's Financial Assistance grants require the Fund to serve certain target markets including the Healthy Food Financing Initiatives, which targets businesses that provide healthy food alternatives in "food deserts", and serving persistent poverty counties.

(b) The CO4F Fund, Colorado Fresh Food Financing Fund, is a partnership with CHFA to improve access to healthy foods in underserved neighborhoods in Colorado through financing grocery retail outlets.

For the years ended September 30, 2018 and 2017, net assets released from restriction due to purpose restrictions being met totaled \$2,576,884 and \$2,112,767, respectively.

(10) Operating Lease

The Fund has a non-cancelable operating lease for office space that can be terminated in April 2019 and office equipment through June 2021. Future minimum lease payments required under these agreements is as follows at September 30:

2019	\$ 73,538
2020	17,481
2021	<u>1,170</u>
	<u>\$ 92,189</u>

The Fund's rental expense for operating leases in 2018 and 2017 total \$124,932 and \$126,599, respectively.

Colorado Enterprise Fund, Inc.
Notes to Financial Statements, Continued

(11) Retirement Plan

The Fund has a 403(b) retirement plan (the Plan), which covers substantially all employees. The Fund may match an employee's contributions up to 3% of the employee's annual salary. The employee will be 100% vested in the employer match after three years. During the year ended September 30, 2018 and 2017, the Fund contributed \$34,075 and \$33,213, respectively, to the Plan.

(12) Related Party Transactions

Six limited liability corporations were formed on March 18, 2016 as community development entities (CDEs) to facilitate new market tax credit (NMTC) transactions when the Fund receives an allocation. No allocations were received for new market tax credits in 2018 and 2017, thus there was no activity in these corporations during those periods.

In December 2017, the Fund created a new LLC to facilitate a significant loan participation agreement under the Healthy Foods Financing Initiative. The loan closed in December 2017 totaling \$3,500,000 for which the Fund's share is \$1,000,000.

In the ordinary course of business, the Fund may have lending transactions with entities and their affiliates for which the Fund's directors serve as officers or directors. The Fund had notes payable and other liabilities to organizations for which a board member was an officer of the organizations totaling \$175,000 at both September 30, 2018 and 2017. Additionally, there is a board member that owns 10% minority interest in a borrower with an outstanding loan receivable balance of \$61,746 at September 30, 2018.