COMMUNITY HOUSING CAPITAL AND SUBSIDIARY

CONSOLIDATED FINANCIAL REPORT

SEPTEMBER 30, 2013

MAULDIN & JENKINS

COMMUNITY HOUSING CAPITAL AND SUBSIDIARY

CONSOLIDATED FINANCIAL REPORT SEPTEMBER 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Housing Capital and Subsidiary
Decatur, Georgia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Community Housing Capital and Subsidiary, a nonprofit public benefit corporation, which comprise the consolidated statements of financial position as of September 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Housing Capital and Subsidiary as of September 30, 2013 and 2012, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 8, 2013, on our consideration of Community Housing Capital and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Community Housing Capital and Subsidiary's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Atlanta, Georgia
November 8, 2013

COMMUNITY HOUSING CAPITAL
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2013 AND 2012

Assets	2013	2012
Cash and cash equivalents	**$ 4,953,191**	$ 6,004,088
Restricted cash	**947,514**	894,724
Equity securities	**720,000**	720,000
Receivables		
Loans - net	**50,697,499**	45,866,188
Interest	**312,270**	430,652
Origination and other fees	**92,816**	77,524
Grants	**-**	1,453,806
Premises and equipment - net	**1,095,191**	1,107,094
Foreclosed assets	**279,799**	133,310
Prepaid expenses	**41,326**	39,312
Deferred debt costs, net	**85,496**	87,798
Other assets	**6,503**	29,775
Total assets	**$ 59,231,605**	$ 56,844,271
Liabilities and Net Assets		
Accounts payable and accrued expenses	**$ 194,153**	$ 143,319
Interest payable	**168,813**	252,918
Borrower funds held in trust	**946,811**	894,724
Secured borrowings	**224,080**	227,205
Notes payable	**37,112,312**	36,612,312
Total liabilities	**38,646,169**	38,130,478
Net assets:		
Unrestricted	**8,227,052**	8,024,992
Temporarily restricted (Note 10)	**4,541,998**	4,972,415
Permanently restricted (Note 11)	**7,816,386**	5,716,386
Total net assets	**20,585,436**	18,713,793
Total liabilities and net assets	**$ 59,231,605**	$ 56,844,271

See Notes to Consolidated Financial Statements.

COMMUNITY HOUSING CAPITAL
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Interest income	$ 3,226,364	$ -	$ -	$ 3,226,364
Loan origination fees and other income	513,902	-	-	513,902
Contributed grant revenue	245,205	-	2,100,000	2,345,205
Net assets released from restrictions	430,417	(430,417)	-	-
Total revenue and support	4,415,888	(430,417)	2,100,000	6,085,471
Expenses				
Program services:				
Personnel	1,046,941	-	-	1,046,941
Consultants and legal services	112,782	-	-	112,782
Travel and occupancy	152,458	-	-	152,458
Advertising and promotion	65,103	-	-	65,103
Conferences and meetings	39,333	-	-	39,333
Miscellaneous	7,335	-	-	7,335
Interest	1,242,936	-	-	1,242,936
Amortization	43,605	-	-	43,605
Provision for loan losses	487,000	-	-	487,000
Foreclosed properties expense	13,788	-	-	13,788
Support services:				
Personnel	614,867	-	-	614,867
Management and general	250,501	-	-	250,501
Audit and accounting	105,320	-	-	105,320
Depreciation	31,859	-	-	31,859
Total expenses	4,213,828	-	-	4,213,828
Change in net assets	202,060	(430,417)	2,100,000	1,871,643
Net assets, beginning of year	8,024,992	4,972,415	5,716,386	18,713,793
Net assets, end of year	$ 8,227,052	$ 4,541,998	$ 7,816,386	$ 20,585,436

See Notes to Consolidated Financial Statements.

COMMUNITY HOUSING CAPITAL
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CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Interest income	$ 2,705,189	$ -	$ -	$ 2,705,189
Loan origination fees and other income	601,625	-	-	601,625
Contributed grant revenue	503,690	1,626,306	2,743,134	4,873,130
Non-cash contributions	720,000	-	-	720,000
Gain on purchase of loans	184,285	-	-	184,285
Net assets released from restrictions	1,551,506	(1,551,506)	-	-
Total revenue and support	6,266,295	74,800	2,743,134	9,084,229
Expenses				
Program services:				
Personnel	961,340	-	-	961,340
Consultants and legal services	138,319	-	-	138,319
Travel and occupancy	164,046	-	-	164,046
Advertising and promotion	37,815	-	-	37,815
Conferences and meetings	13,458	-	-	13,458
Miscellaneous	7,215	-	-	7,215
Interest	996,071	-	-	996,071
Amortization	111,566	-	-	111,566
Provision for loan losses	667,500	-	-	667,500
Foreclosed properties expense	94,287	-	-	94,287
Support services:				
Personnel	564,596	-	-	564,596
Management and general	281,688	-	-	281,688
Audit and accounting	86,656	-	-	86,656
Depreciation	18,664	-	-	18,664
Total expenses	4,143,221	-	-	4,143,221
Change in net assets	2,123,074	74,800	2,743,134	4,941,008
Net assets, beginning of year	5,901,918	4,897,615	2,973,252	13,772,785
Net assets, end of year	$ 8,024,992	$ 4,972,415	$ 5,716,386	$ 18,713,793

See Notes to Consolidated Financial Statements.

COMMUNITY HOUSING CAPITAL
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CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
OPERATING ACTIVITIES		
Change in net assets	$ 1,871,643	$ 4,941,008
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	31,859	18,664
Provision for loan losses	487,000	667,500
Amortization of debt costs	43,605	111,566
Contributed grant revenue permanently restricted	(2,100,000)	(2,743,134)
Writedown of foreclosed assets	-	80,801
(Increase) decrease in assets:		
Interest receivable	118,382	(172,486)
Prepaid expenses	(2,014)	12,600
Grant receivable	1,453,806	1,046,194
Deferred loan costs	(41,303)	(113,931)
Origination and other fees receivable	(15,292)	(20,740)
Other assets	23,272	(29,375)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	50,835	(74,122)
Interest payable	(84,105)	181,039
Borrower funds held in trust	52,088	503,113
Net cash provided by operating activities	1,889,776	4,408,697
INVESTING ACTIVITIES		
Increase in restricted cash	(52,790)	(111,438)
Increase in equity securities	-	(720,000)
Net increase in loans	(5,498,311)	(6,120,771)
Purchase of property and equipment	(19,956)	(270,894)
Proceeds from the sale of foreclosed assets	33,511	60,974
Net cash used in investing activities	(5,537,546)	(7,162,129)
FINANCING ACTIVITIES		
Net decrease in secured borrowings	(3,125)	(2,927)
Proceeds from contributed grant revenue permanently restricted	2,100,000	2,743,134
Proceeds from notes payable	15,000,000	14,200,000
Payment of notes payable	(14,500,000)	(16,358,154)
Net cash provided by financing activities	2,596,875	582,053
Decrease in cash and cash equivalents	(1,050,897)	(2,171,379)
Cash and cash equivalents, beginning of year	6,004,088	8,175,467
Cash and cash equivalents, end of year	$ 4,953,191	$ 6,004,088
SUPPLEMENTARY INFORMATION		
Cash paid for interest	$ 1,327,041	$ 815,032
NONCASH INVESTING AND FINANCING ACTIVITIES		
Principal balances of loans transferred to foreclosed assets	$ 180,000	$ -

See Notes to Consolidated Financial Statements.

NOTE 1. ORGANIZATION AND NATURE OF ACTIVITIES

Community Housing Capital ("CHC") was incorporated in California on November 7, 2000 and is a not-for-profit corporation that uses private and public support to make loans to NeighborWorks® network organizations, a national network of local affordable housing not-for-profit organizations.

CHC's mission is to develop and enhance the social, economic, and charitable welfare of under-served residents of inner-city neighborhoods, as well as suburban and rural communities across the country. CHC's target market is designated as the low-income target population as defined by its Community Development Financial Institution ("CDFI") certification. CHC reaches this target market exclusively through the NeighborWorks® network organization customer base.

CHC provides primarily multifamily and interim real estate acquisition and development financing to NeighborWorks® network organizations. With respect to development services, CHC provides technical assistance to NeighborWorks® network organizations seeking financing.

REL Property Holdings, LLC, ("REL") a Georgia limited liability Company, is included in the consolidated financial statements of CHC. REL was formed in March 2013 in Atlanta, GA, for the purpose of holding certain foreclosed assets of CHC. As of September 30, 2013, REL holds $180,000 of the foreclosed assets recorded in the consolidated statements of financial position.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments. The consolidated financial statements of CHC include the accounts of REL. Intercompany accounts and all significant intercompany transactions have been eliminated in consolidation.

CHC follows the requirements of Financial Accounting Standards Board's Accounting Standards Codification (ASC) 958, *Financial Statements for Not-for-Profit Organizations*. Under ASC 958, CHC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Estimates

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

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. CHC maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. CHC has not experienced any losses in such accounts. CHC believes it is not exposed to any significant credit risk on cash.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition and Donor-Imposed Restrictions

In accordance with ASC 958-605, *Accounting for Contributions Received and Contributions Made*, unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. All contributions and investment income are available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support that increases those net asset classes. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other 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.

Capital grants received from NeighborWorks® America are presented in a manner consistent with GAAP and the grantor's grant agreement as temporarily restricted or permanently restricted grant funds. Adjustments to the aggregate Capital Fund balance are only made with the consent of the grantor. The supplemental schedules: Financial Position by Type (page 25) and Activities by Type (page 26) provide detail reconciliations of NeighborWorks® America Capital Fund grants.

Equity Securities

CHC was the recipient of common stock in a privately held financial institution. The common stock is not publicly traded and does not have a readily determinable fair value. The stock is therefore carried at cost and is periodically reviewed for impairment of the cost basis.

Loans Receivable and Allowance for Loan Losses

Loans receivable consist of interim, permanent, and direct loans made to NeighborWorks® network organizations and are carried at their outstanding principal balances, net of an allowance for loan losses. Interest income is accrued on the principal balance. Origination fees are recognized immediately, which management has determined is not materially different from GAAP. With the exception of two credit facilities, all interim, permanent and direct loans are secured by an assignment in the underlying collateral. Management has the intent and ability to hold these loans for the foreseeable future or until maturity or payoff.

Accrual of interest is discontinued on loans that become past due 90 days or more and for which collateral is inadequate to cover principal and interest, or immediately if management believes, after considering economic and business conditions and collection efforts, that a borrower's financial condition is such that collection is doubtful. When a loan is placed on nonaccrual status, all previously accrued but uncollected interest is reversed against current period interest income. Future collections are applied first to principal and then to interest until such loans are brought current, at which time, loans may be returned to accrual status.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Receivable and Allowance for Loan Losses (Continued)

A loan is considered impaired when it is probable, based on current information and events, CHC will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest when due. Loans that experience insignificant payment delays and payment shortfalls are not classified as impaired. Impaired loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries are credited to the allowance.

The allowance for loan losses is evaluated on a quarterly basis by management and is based upon management's monthly review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revisions as more information becomes available.

The allowance consists of general, specific and unallocated reserves. The general reserve applies to groups of loans with similar risk characteristics and is based on historical loss experience, adjusted for environmental and qualitative factors. The specific reserves relate to individual loans that are identified as impaired. The need for specific reserves is evaluated on all impaired loans and all loans modified in troubled debt restructurings. The specific reserves are determined on an individual loan basis based on management's evaluation of the circumstances and the value of any underlying collateral. Loans that have been identified as impaired are excluded from the calculation of general reserves. An unallocated reserve may be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Management believes the allowance for loan losses is adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions.

Deferred Debt Costs

Deferred debt costs are costs relating to the notes payables and are being amortized using the straight-line method over the life of the note payable. The use of the straight-line method versus the interest method required under GAAP is not materially different for the year ended September 30, 2013.

Foreclosed Assets

Foreclosed assets acquired through loan foreclosure are held for sale and is initially recorded at fair value less selling costs. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Costs of improvements are capitalized, whereas costs relating to holding foreclosed assets and subsequent write-downs to the value are expensed.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from CHC, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) CHC does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

At September 30, 2013 and 2012, CHC has a loan participation totaling $224,080 and $227,205, respectively, which contains repurchase provisions that preclude CHC from accounting for the loan participation as a sale. This participation is classified in the liabilities section of the consolidated statements of financial position as secured borrowings.

Premises and Equipment

Premises and equipment is carried at cost less accumulated depreciation. CHC capitalizes significant purchases of fixed assets and all expenditures for repairs, maintenance, renewals and betterments that prolong the useful lives of assets. Depreciation is computed by the straight-line method over the estimated useful life of the assets.

Income Taxes

CHC qualifies as a charitable organization as defined by Internal Revenue Code Section 501(c)(3) and, accordingly, is generally exempt from federal income taxes under Internal Revenue Code Section 501(a). CHC is however, required to file Federal Form 990 – Return of Organization Exempt from Income Tax. This is an informational return only. Accordingly, no provision for income taxes is made in the financial statements. Management evaluated CHC's tax positions and concluded that CHC had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions on accounting for uncertainty in income taxes. With few exceptions, CHC is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2009.

Functional Expense Allocation

The cost of providing CHC's various programs, as described in Note 1, have been summarized on a functional basis in the consolidated statements of activities on the basis of specific identification of time spent by personnel. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 3. RESTRICTED CASH

Restricted cash consists of borrower funds held in trust (see Note 7) of $947,514 and $894,724, respectively as of September 30, 2013 and 2012.

NOTE 4. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable consist of notes secured by real estate with interest rates ranging from 3% to 7.4% as of September 30, 2013.

The composition of loans is summarized as follows:

	September 30,	
	2013	2012
Real estate:		
Acquisition – land and buildings	**$ 15,570,943**	$ 11,943,662
Construction – 1-4 and multifamily	**14,754,369**	14,562,926
Permanent mortgage – multifamily rental	**18,159,802**	17,447,465
Permanent mortgage – 1-4 family direct serviced	**2,397,877**	2,337,420
Credit lines	**809,807**	507,712
Total loans, gross	**51,692,798**	46,799,185
Less:		
Allowance for loan losses	**995,299**	932,997
Loans, net	**$ 50,697,499**	$ 45,866,188

For purposes of the disclosures required pursuant to ASC 310, the loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for loan losses. There are three loan portfolio segments that include acquisition and construction, permanent mortgage, and credit lines. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and CHC's method for monitoring and assessing credit risk.

The following describe risk characteristics relevant to each of the portfolio segments:

Real estate - As discussed below, CHC offers various types of real estate loan products. All loans within this portfolio segment are particularly sensitive to the valuation of real estate:

- Loans for real estate acquisition and construction are repaid through cash flow related to the operations, sale or refinance of the underlying property. This portfolio segment includes extensions of credit to non-profit real estate developers where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.
- Permanent mortgages include loans secured by first and junior liens on multifamily and 1-4 family residential properties. These loans are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property.
- Credit lines are warehouse facilities for table funding single family mortgages for non-profit real estate developers.

NOTE 4. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

The loan committee, credit department and the executive management team as a whole are involved in the credit risk management process and assess the accuracy of loan risk ratings, the quality of the portfolio and the estimation of inherent credit losses in the loan portfolio. This process also assists in the prompt identification of problem credits. CHC has implemented many processes and procedures to manage the portfolios and reduce risk.

CHC's credit risk management process includes defined policies, accountability and routine reporting to manage credit risk in the loan portfolio segments. Credit risk management is guided by loan policies that provide for a consistent and prudent approach to underwriting and approvals of credits. Within the loan policy, procedures exist that elevate the approval requirements as credits become larger and more complex. All loans are individually underwritten, risk-rated, approved, and monitored.

Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. The risk management process focuses on managing customers who become delinquent in their payments. To insure problem credits are identified on a timely basis, independent loan reviews are performed to assess the adversely rated credits for proper risk rating and accrual status and, if necessary, to ensure such individual credits are properly graded by management. All loans are graded on a five-point scale and reviewed monthly for compliance with the defined criteria for each grade level.

Credit quality and trends in the loan portfolio segments are measured and monitored monthly. Detailed reports by product, past due status, grade and accrual status are reviewed by executive management, loan committee and the Board of Directors.

The allowance for loan losses is a valuation reserve allowance established through provisions for loan losses charged against income. The allowance for loan losses, which is evaluated quarterly, is maintained at a level that management deems sufficient to absorb probable losses inherent in the loan portfolio. Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses. The allowance for loan losses is comprised of specific valuation allowances for loans evaluated individually for impairment, general allocations for pools of homogeneous loans with similar risk characteristics and trends, and an unallocated component that reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The allowance for loan losses related to specific loans is based on management's estimate of potential losses on impaired loans as determined by (1) the present value of expected future cash flows; (2) the fair value of collateral if the loan is determined to be collateral dependent or (3) the loan's observable market price. The general allocations to these loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors. The total allowance established for each homogeneous loan pool represents the product of the historical loss ratio and the total dollar amount of the loans in the pool adjusted to reflect management's estimate of the effect of the various qualitative factors as noted above.

NOTE 4. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table details activity in the allowance for loan losses by portfolio segment for the year ended September 30, 2013. Allocation of a portion of the reserve to one category of loans does not preclude its availability to absorb losses in other categories.

	Acquisition & Construction	Permanent Mortgage	Credit Lines	Total
Allowance for loan losses:				
Beginning balance	$ 620,689	$ 304,490	$ 7,818	$ 932,997
Charge-offs	(383,670)	(41,028)	-	(424,698)
Provision for loan losses	346,705	132,515	7,780	487,000
Ending balance	$ 583,724	$ 395,977	$ 15,598	$ 995,299
Ending balance – individually evaluated for impairment	$ -	$ -	$ -	$ -
Ending balance – collectively evaluated for impairment	$ 583,724	$ 395,977	$ 15,598	$ 995,299
Loans:				
Ending balance	$ 30,325,312	$ 20,557,679	$ 809,807	$ 51,692,798
Ending balance - individually evaluated for impairment	$ 1,970,573	$ -	$ -	$ 1,970,573
Ending balance – collectively evaluated for impairment	$ 28,354,739	$ 20,557,679	$ 809,807	$ 49,722,225

Activity in the allowance for loan losses for the year ended September 30, 2012 was as follows:

	Acquisition & Construction	Permanent Mortgage	Credit Lines	Total
Allowance for loan losses:				
Beginning balance	$ 1,433,796	$ 356,121	$ 27,086	$ 1,817,003
Charge-offs	(1,275,201)	(276,305)	-	(1,551,506)
Provision for loan losses	462,094	224,674	(19,268)	667,500
Ending balance	$ 620,689	$ 304,490	$ 7,818	$ 932,997
Ending balance – individually evaluated for impairment	$ 149,507	$ -	$ -	$ 149,507
Ending balance – collectively evaluated for impairment	$ 471,182	$ 304,490	$ 7,818	$ 783,490
Loans:				
Ending balance	$ 26,506,588	$ 19,784,885	$ 507,712	$ 46,799,185
Ending balance - individually evaluated for impairment	$ 846,885	$ 203,958	$ -	$ 1,050,843
Ending balance – collectively evaluated for impairment	$ 25,659,703	$ 19,580,927	$ 507,712	$ 45,748,342

NOTE 4. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

A description of the general characteristics of the risk grades used by CHC is as follows:

- Pass - includes loans with low or average risk qualities where the probability of default is considered low.
- Special Mention - includes loans which are considered collectible at present, but have credit weaknesses which, if not addressed, could deteriorate into serious credit problems. This classification signifies the first sign of a loan problem ranging from adverse financial trends to major technical deficiencies. These loans may also be designated to identify potential weaknesses associated with large, complex or early development stage credits requiring intense supervision.
- Impaired - includes loans with credit weaknesses or collateral deficiency such that repayments as originally contemplated are no longer assured. Intensive and constructive loan supervision is necessary to effect collection. The credit risk in this situation relates to the possibility of loss of principal or interest. An impairment analysis is performed and a reserve set aside as appropriate.

The following table summarizes the risk category of CHC's loan portfolio by class as of September 30, 2013:

	Pass	Special Mention	Impaired	Total
Real estate:				
Acquisition – land and buildings	$ 11,412,670	$ 2,187,700	$ 1,970,573	$ 15,570,943
Construction – 1-4 and multifamily	13,994,405	759,964	-	14,754,369
Permanent mortgage – multifamily rental	18,159,802	-	-	18,159,802
Permanent mortgage – 1-4 family direct serviced	2,397,877	-	-	2,397,877
Credit lines	809,807	-	-	809,807
Total	$ 46,774,561	$ 2,947,664	$ 1,970,573	$ 51,692,798

The following table summarizes the risk category of CHC's loan portfolio by class as of September 30, 2012:

	Pass	Special Mention	Impaired	Total
Real estate:				
Acquisition – land and buildings	$ 9,896,777	$ 1,200,000	$ 846,885	$ 11,943,662
Construction – 1-4 and multifamily	14,259,305	303,621	-	14,562,926
Permanent mortgage – multifamily rental	16,932,776	514,689	-	17,447,465
Permanent mortgage – 1-4 family direct serviced	2,133,462	-	203,958	2,337,420
Credit lines	507,712	-	-	507,712
Total	$ 43,730,032	$ 2,018,310	$ 1,050,843	$ 46,799,185

NOTE 4. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally, accrual of interest is discontinued on loans that become past due 90 days or more and for which collateral is inadequate to cover principal and interest, or immediately if management believes, after considering economic and business conditions and collection efforts, that a borrower's financial condition is such that collection is doubtful. The following table presents the aging of the recorded investment in loans by class as of September 30, 2013:

	Past Due Status (Accruing Loans)					
	Current	**30-89 Days**	**90+ Days**	**Total Past Due**	**Non-Accrual**	**Total**
Real estate:						
Acquisition – land and buildings	$ 14,539,903	$ -	$ -	$ -	$ 1,031,040	$ 15,570,943
Construction – 1-4 and multifamily	14,754,369	-	-	-	-	14,754,369
Permanent mortgage – multifamily rental	18,159,802	-	-	-	-	18,159,802
Permanent mortgage – 1-4 family direct serviced	2,208,166	69,245	120,466	189,711	-	2,397,877
Credit lines	809,807	-	-	-	-	809,807
Total	$ 50,472,047	$ 69,245	$ 120,466	$ 189,711	$ 1,031,040	$ 51,692,798

The following table presents the aging of the recorded investment in loans by class as of September 30, 2012:

	Past Due Status (Accruing Loans)					
	Current	**30-89 Days**	**90+ Days**	**Total Past Due**	**Non-Accrual**	**Total**
Real estate:						
Acquisition – land and buildings	$ 11,096,777	$ -	$ -	$ -	$ 846,885	$ 11,943,662
Construction – 1-4 and multifamily	14,562,926	-	-	-	-	14,562,926
Permanent mortgage – multifamily rental	17,447,465	-	-	-	-	17,447,465
Permanent mortgage – 1-4 family direct serviced	1,652,339	481,123	-	481,123	203,958	2,337,420
Credit lines	507,712	-	-	-	-	507,712
Total	$ 45,267,219	$ 481,123	$ -	$ 481,123	$ 1,050,843	$ 46,799,185

NOTE 4. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired loans exhibit credit weaknesses or collateral deficiencies such that repayment as originally contemplated is no longer assured. Intensive and constructive loan supervision is necessary to effect collection. The credit risk in this situation relates to the possibility of loss of principal or interest. An impairment analysis is performed and a reserve set aside as appropriate. The following table details our impaired loans, by portfolio class, as of September 30, 2013:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate:					
Acquisition – land and buildings	$ 1,970,573	$ -	$ -	$ 1,970,573	$ -
Construction – 1-4 and multifamily	-	-	-	-	-
Permanent mortgage – multifamily rental	-	-	-	-	-
Permanent mortgage – 1-4 family direct serviced	-	-	-	-	-
Credit lines	-	-	-	-	-
Total with no related allowance recorded	1,970,573	-	-	1,970,573	-
With an allowance recorded:					
Real estate:					
Acquisition – land and buildings	-	-	-	-	-
Construction – 1-4 and multifamily	-	-	-	-	-
Permanent mortgage – multifamily rental	-	-	-	-	-
Permanent mortgage – 1-4 family direct serviced	-	-	-	-	-
Credit lines	-	-	-	-	-
Total with an allowance recorded	-	-	-	-	-
Total impaired loans:	$ 1,970,573	$ -	$ -	$ 1,970,573	$ -

NOTE 4. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table details our impaired loans, by portfolio class, as of September 30, 2012:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate:					
Acquisition – land and buildings	$ -	$ -	$ -	$ -	$ -
Construction – 1-4 and multifamily	-	-	-	-	-
Permanent mortgage – multifamily rental	-	-	-	-	-
Permanent mortgage – 1-4 family direct serviced	203,958	203,958	-	203,958	4,151
Credit lines	-	-	-	-	-
Total with no related allowance recorded	203,958	203,958	-	203,958	4,151
With an allowance recorded:					
Real estate:					
Acquisition – land and buildings	846,885	846,885	149,507	846,885	-
Construction – 1-4 and multifamily	-	-	-	-	-
Permanent mortgage – multifamily rental	-	-	-	-	-
Permanent mortgage – 1-4 family direct serviced	-	-	-	-	-
Credit lines	-	-	-	-	-
Total with an allowance recorded	846,885	846,885	149,507	846,885	-
Total impaired loans:	$ 1,050,843	$ 1,050,843	$ 149,507	$ 1,050,843	$ 4,151

The restructuring of a loan is considered a troubled debt restructuring ("TDR") if both (i) the borrower is experiencing financial difficulties and (ii) CHC has granted a concession. In assessing whether or not a borrower is experiencing financial difficulties, CHC considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the debtor is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the debtor has declared or is in the process of declaring bankruptcy and (iv) the debtor's projected cash flow is sufficient to satisfy contractual payments due under the original terms of the loan without a modification. There were no troubled debt restructurings as of September 30, 2013 and 2012.

Future maturities on loans receivable within the next five years are as follows:

Fiscal Year Ending September 30,	
2014	$ 14,223,451
2015	7,848,492
2016	10,652,301
2017	310,483
2018	3,328,374
Thereafter	15,329,697
	$ 51,692,798

NOTE 5. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	September 30, 2013	September 30, 2012
Land and improvements	**$ 425,000**	$ 425,000
Building and improvements	**666,694**	659,329
Furniture and equipment	**74,112**	55,346
Construction in progress	**-**	6,175
	1,165,806	1,145,850
Less accumulated depreciation	**(70,615)**	(38,756)
	$ 1,095,191	$ 1,107,094

NOTE 6. FORECLOSED ASSETS

A summary of foreclosed assets for the years ended September 30, 2013 and 2012 is as follows:

	2013	2012
Balance, beginning of the year	**$ 133,310**	$ 275,085
Additions	**180,000**	-
Write-downs	**-**	(80,801)
Externally financed sales	**(33,511)**	(60,974)
Balance, end of the year	**$ 279,799**	$ 133,310

NOTE 7. BORROWER FUNDS HELD IN TRUST

As a requirement for certain loans extended to borrowers, CHC holds an operating/debt service reserve, a replacement reserve in trust or escrows for single family mortgages for the borrowers. The reserves are required to be funded at certain levels based on the provisions of the security agreement between the borrower and CHC. The funds serve as security for the prompt payment of the borrower's indebtedness and the performance of all the terms and conditions of the loan.

NOTE 8. UNUSED LINES OF CREDIT

On September 20, 2013, CHC renewed a $1,000,000 revolving line of credit with Fidelity Bank that matures on October 28, 2014. Interest accrued is due monthly commencing October 20, 2013 with any outstanding principal plus accrued and unpaid interest due upon maturity. The line of credit is collateralized by the operations building of CHC as well as one permanent mortgage, loan number 71549, with an outstanding principal balance of $310,483. The line of credit bears interest at a variable rate of prime (3.25%) plus 0.75% subject to an interest rate floor of 5.50%. No amounts were outstanding on this committed line of credit at September 30, 2013.

NOTE 9. NOTES PAYABLE

A summary of notes payable follows:

	September 30, 2013	September 30, 2012
Morgan Stanley Bank, in the original line of credit amount of $20,000,000, bears interest at 2.50% plus the 30/60/90 day LIBOR Daily Floating Rate. Monthly payment of interest is due and payable on first business day of each month, commencing on October 1, 2010. The line of credit expires on October 1, 2014 and any funds advanced are subject to the maturity of the underlying notes, which is forty-two (42) months after fund date. The loan is secured by the underlying loans receivable. Accrued interest was $12,163 and $16,747 as of September 30, 2013 and 2012, respectively, and is included in interest payable.	**$ 5,786,436**	$ 10,286,436
Deutsche Bank, in the original line of credit amount of $15,000,000, bears interest at LIBOR plus 2.00% per annum. Interest is due quarterly with any outstanding principal plus accrued and unpaid interest due upon maturity. The loan is secured by the underlying loans receivable. Principal is due on October 1, 2014. Accrued interest was $0 as of September 30, 2013 and 2012.	**10,000,000**	10,000,000
Bank of America, in the original loan amount of $10,000,000, bears interest 4.00% per annum. Interest is due and payable at the end of each calendar quarter. Principal is due in $2,000,000 installments on June 28, 2014 and June 28, 2015, and the remaining balance at maturity on June 28, 2016. The loan is secured by the underlying loans receivable. Accrued interest was $0 and $100,442 as of September 30, 2013 and 2012, respectively, and is included in interest payable.	**9,825,876**	9,825,876
Calvert Foundation, in the original loan amount of $1,500,000, bears interest 4.50% per annum. Payments of interest are due semi-annually. Principal is due on October 1, 2016. The loan is unsecured. Accrued interest was $0 and $10,200 as of September 30, 2013 and 2012, respectively, and is included in interest payable.	**1,500,000**	1,500,000
Calvert Foundation, in the original loan amount of $3,500,000, bears interest 4.50% per annum. Payments of interest are due semi-annually. Principal is due on July 1, 2018. The loan is unsecured. Accrued interest was $21,000 and $0 as of September 30, 2013 and 2012, respectively, and is included in interest payable.	**3,500,000**	-

NOTE 9. NOTES PAYABLE (Continued)

		September 30,		
		2013		2012
Opportunity Finance Network, in the original loan amount of $1,500,000, bears interest 4.25% per annum. Payments of interest are due quarterly. Principal is due on August 31, 2018. The loan is secured by the underlying loans receivable. Accrued interest was $1,417 and $0 as of September 30, 2013 and 2012, respectively, and is included in interest payable.	**$**	**1,500,000**	$	-
PNC Community Development Banking, in the original amount of $5,000,000, bears interest at 3.50% annum, payment of interest accrued is due quarterly with any outstanding principal plus accrued and unpaid interest due upon maturity. Principal is due on August 31, 2014. The loan is secured by the underlying loans receivable. Accrued interest was $0 and $44,236 as of September 30, 2013 and 2012, respectively, and is included in interest payable. This loan was refinanced and increased to a $7,000,000 loan on unsecured terms in October 2013, due to mature three years after refinance date, at 3%.		**5,000,000**		5,000,000
Total	**$**	**37,112,312**	$	36,612,312

The proceeds from these notes are for interim and permanent development loans to NeighborWorks® network organizations. The notes payable are either secured or unsecured depending on the specific investors' requirements and various debt covenants.

Scheduled principal repayments on notes payable for the next five years are as follows:

Fiscal Year Ending September 30,		
2014	$	7,000,000
2015		12,000,000
2016		9,825,876
2017		3,286,436
2018		5,000,000
	$	37,112,312

NOTE 10. TEMPORARILY RESTRICTED NET ASSETS

	September 30, 2013	September 30, 2012
U.S. Department of Treasury CDFI Fund[(1)]	**$ 750,000**	$ 750,000
NeighborWorks® America capital grant[(2)]	**2,171,412**	2,596,109
U.S. Department of Treasury CDFI Fund[(3)]	**1,448,086**	1,453,806
Opportunity Finance Network[(4)]	**172,500**	172,500
	$ 4,541,998	$ 4,972,415

(1) These grant funds are provided through the CDFI program and are designated for the origination of affordable housing loans and for further strengthening CHC's balance sheet and net asset position. The funds are included in loans receivable on the Statement of Financial Position.

(2) These grant funds are to be used for the purpose of being loaned as end borrower loans, recourse loan purchases, credit enhancements, interest rate write downs or for use as a loan loss reserve all in accordance with CHC's business plan and mission. The funds are included in loans receivable on the Statement of Financial Position.

(3) These grant funds are provided through the CDFI program and are designated for the origination of affordable housing loans and for further strengthening CHC's balance sheet and net asset position. The funds are included in loans receivable on the Statement of Financial Position.

(4) These grant funds are to be used for the purpose of making loans to Community Businesses to assist in job creation and retention, consistent with CHC's tax-exempt status and stated charitable purpose. The grants cannot be used to fund CHC's operations, including loans loss reserve expenses. The funds are included in loans receivable on the Statement of Financial Position.

NOTE 11. PERMANENTLY RESTRICTED NET ASSETS

	September 30, 2013	September 30, 2012
NeighborWorks® America capital grant[(1)]	**$ 973,252**	$ 973,252
NeighborWorks® America capital grant[(2)]	**2,000,000**	2,000,000
NeighborWorks® America capital grant [(2)]	**2,000,000**	2,000,000
NeighborWorks® America capital grant [(2)]	**2,100,000**	-
NeighborWorks® America capital grant [(3)]	**743,134**	743,134
	$ 7,816,386	$ 5,716,386

(1) These grant funds are to be used for purposes that will build assets for CHC and support rehabilitation lending of affordable housing units. These funds cannot be used to absorb loan losses or for any other operational purpose. The funds are included in loans receivable on the Statement of Financial Position.

(2) These grant funds are to be used for the purpose of being loaned as end borrower loans, recourse loan purchases, credit enhancements, interest rate write downs or for use as a loan loss reserve all in accordance with CHC's business plan and mission. In accordance with the master fund agreement, these funds are subordinated to investments in CHC made by third party investors and can also be used to absorb loan losses. The funds are included in loans receivable on the Statement of Financial Position.

(3) These grant funds are in the form of outstanding single family mortgages which were originally funded by NeighborWorks® America through a grant to Wichita / Sedgewick County NHS and transferred to CHC when that entity dissolved.

NOTE 12. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions of $424,697 and $1,551,506, respectively, were released from NeighborWorks® America donor restrictions during the years ended September 30, 2013 and 2012 by incurring expenses or fulfilling use requirements thereby satisfying the restrictions specified by the donors.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Concentrations of Credit Risk

Financial instruments that potentially subject CHC to concentrations of credit risk consist principally of cash and cash equivalents. CHC places its cash and cash equivalents and restricted cash with several high-credit quality financial institutions all of which are "well-capitalized" under federal regulatory standards. Cash balances are federally insured up to FDIC limits based on the type of account. CHC maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. CHC has not experienced any losses in such accounts. CHC believes it is not exposed to any significant credit risk on cash.

Loan Commitments

At September 30, 2013, CHC has commitments to fund approximately $23,600,000 in loans.

Leases

CHC leased its former office facility under a non-cancelable operating lease agreement. The lease has a current lease term ending June 30, 2014. On April 1, 2012, CHC entered into a sublease agreement through the remaining lease term in 2014.

Rental expense amounted to $28,329 and $42,844 for the years ended September 30, 2013 and 2012, respectively. The September 30, 2013 rental expense includes rental receipts during the year.

Future minimum lease commitments on non-cancelable operating leases for the year 2014 are $47,503, excluding any renewal options. Future minimum lease receipts on noncancelable operating leases for the year 2014 are $26,613, excluding any renewal options.

NOTE 14. GRANTS RECEIVABLE

During fiscal year 2012, CHC was the direct recipient of a temporarily restricted grant in the amount of $1,453,806 from the Community Development Financial Institutions Fund. There were no grants receivable as of September 30, 2013.

NOTE 15. FAIR VALUES OF ASSETS AND LIABILITIES

Determination of Fair Value

CHC uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic (ASC 820), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for CHC's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, CHC groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

NOTE 15. FAIR VALUES OF ASSETS AND LIABILITIES (Continued)

Assets Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances we make adjustments to fair value for our assets although they are not measured at fair value on a recurring basis. The following table presents the financial instruments carried on the statement of financial position by caption and by level in the fair value hierarchy for which a nonrecurring change in fair value has been recorded:

	Fair Value Measurements Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
September 30,2013:				
Impaired loans	**$ -**	**$ -**	**$ 1,031,040**	**$ (174,095)**
Foreclosed assets	**-**	**-**	**279,799**	**-**
Equity securities	**-**	**-**	**720,000**	**-**
September 30, 2012:				
Impaired loans	$ -	$ -	$ 1,050,843	$ (149,507)
Foreclosed assets	-	-	133,310	(80,801)
Equity securities	-	-	720,000	-

Nonrecurring fair value adjustments to impaired loans reflect full or partial write-downs or an allocation of the allowance for loan losses that are based on the loan's observable market price or current appraised value of the collateral. Loans subjected to nonrecurring fair value adjustments based on the current appraised value of the collateral may be classified as Level 2 or Level 3 depending on the type of asset and the inputs to the valuation. When appraisals are used to determine impairment, and these appraisals require significant adjustments to market-based valuation inputs or apply an income approach based on unobservable cash flows to measure fair value, the related loans subjected to nonrecurring fair value adjustments are typically classified as Level 3 due to the fact that Level 3 inputs are significant to the fair value measurement. The total losses on impaired loans of $174,095 consist of $174,095 of confirmed losses and $0 of allocations of the allowance for loan losses at September 30, 2013. The total losses on impaired loans of $149,507 consist of $0 of confirmed losses and $149,507 of allocations of the allowance for loan losses at September 30, 2012.

Nonrecurring fair value adjustments to foreclosed assets are based on the current appraised value of the property and may be classified as Level 2 or Level 3 depending on the type of property and the inputs to the valuation. When appraisals are used to determine impairment, and these appraisals require significant adjustments to market-based valuation inputs or apply an income approach based on unobservable cash flows to measure fair value, the related foreclosed assets subjected to nonrecurring fair value adjustments are typically classified as Level 3 due to the fact that Level 3 inputs are significant to the fair value measurement.

NOTE 16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 8, 2013, the date the consolidated financial statements were available to be issued, and no additional disclosures are necessary.

SUPPLEMENTARY INFORMATION

COMMUNITY HOUSING CAPITAL
AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF FINANCIAL POSITION BY TYPE
YEAR ENDED SEPTEMBER 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Total cash	$ 5,900,705	$ -	$ -	$ 5,900,705
Equity securities	720,000	-	-	720,000
Receivables:				
Loans - net	38,339,115	4,541,998	7,816,386	50,697,499
Interest	312,270	-	-	312,270
Origination and other fees	92,816	-	-	92,816
Premises and equipment	1,095,191	-	-	1,095,191
Foreclosed assets	279,799	-	-	279,799
Prepaid expenses	41,326	-	-	41,326
Deferred debt costs, net	85,496	-	-	85,496
Other assets	6,503	-	-	6,503
Total assets	$ 46,873,221	$ 4,541,998	$ 7,816,386	$ 59,231,605
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	$ 194,153	$ -	$ -	$ 194,153
Interest payable	168,813	-	-	168,813
Notes payable	37,112,312	-	-	37,112,312
Secured borrowings	224,080	-	-	224,080
Borrower funds held in trust	946,811	-	-	946,811
Total liabilities	38,646,169	-	-	38,646,169
Net assets:				
Unrestricted	8,227,052	-	-	8,227,052
Temporarily restricted	-	4,541,998	-	4,541,998
Permanently restricted	-	-	7,816,386	7,816,386
Total net assets	8,227,052	4,541,998	7,816,386	20,585,436
Total liabilities and net assets	$ 46,873,221	$ 4,541,998	$ 7,816,386	$ 59,231,605

COMMUNITY HOUSING CAPITAL
AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF ACTIVITIES BY TYPE
YEAR ENDED SEPTEMBER 30, 2013

	Unrestricted - Expendable Grant	Unrestricted - Other	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:						
Interest income	$ -	$ 3,226,364	$ 3,226,364	$ -	$ -	$ 3,226,364
Loan origination fees and other income	-	513,902	513,902	-	-	513,902
Contributed grant revenue	245,205	-	245,205	-	2,100,000	2,345,205
Net assets released from restrictions	-	430,417	430,417	(430,417)	-	-
Total revenues and other support	245,205	4,170,683	4,415,888	(430,417)	2,100,000	6,085,471
Expenses:						
Interest expense	148,868	1,094,068	1,242,936	-	-	1,242,936
Personnel cost	226,562	1,435,246	1,661,808	-	-	1,661,808
Consulting and legal services	33,624	79,158	112,782	-	-	112,782
Travel and occupancy	15,859	136,599	152,458	-	-	152,458
Equipment	10,493	13,965	24,458	-	-	24,458
Telecommunications	5,792	28,740	34,532	-	-	34,532
Other operating and administrative	40,111	357,021	397,132	-	-	397,132
Supplies	4,602	6,868	11,470	-	-	11,470
Provision for loan losses	-	487,000	487,000	-	-	487,000
Foreclosed properties expense	-	13,788	13,788	-	-	13,788
Amortization	-	43,605	43,605	-	-	43,605
Depreciation	-	31,859	31,859	-	-	31,859
Total expenses	485,911	3,727,917	4,213,828	-	-	4,213,828
Change in net assets	(240,706)	442,766	202,060	(430,417)	2,100,000	1,871,643
Net assets, beginning of year	1,940,475	6,084,517	8,024,992	4,972,415	5,716,386	18,713,793
Net assets, end of year	$ 1,699,769	$ 6,527,283	$ 8,227,052	$ 4,541,998	$ 7,816,386	$ 20,585,436

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Community Housing Capital and Subsidiary
Decatur, Georgia

We have audited, in accordance with the 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, the consolidated financial statements of Community Housing Capital and Subsidiary, a nonprofit public benefit corporation, which comprise the consolidated statement of financial position as of September 30, 2013, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 8, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Community Housing Capital and Subsidiary's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Housing Capital and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Atlanta, Georgia
November 8, 2013

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MAULDIN & JENKINS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Community Housing Capital and Subsidiary
Decatur, Georgia

Report on Compliance for Each Major Federal Program

We have audited Community Housing Capital and Subsidiary's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Community Housing Capital and Subsidiary's major federal programs for the year ended September 30, 2013. Community Housing Capital and Subsidiary's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Community Housing Capital and Subsidiary's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Community Housing Capital and Subsidiary's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Community Housing Capital and Subsidiary's compliance.

Opinion on Each Major Federal Program

In our opinion, Community Housing Capital and Subsidiary complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

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Report on Internal Control Over Compliance

Management of Community Housing Capital and Subsidiary is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Community Housing Capital and Subsidiary's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Community Housing Capital and Subsidiary's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Atlanta, Georgia
November 8, 2013

COMMUNITY HOUSING CAPITAL
AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2013

Federal Grantor/Program Title/Pass-Through Grantor	*Federal CFDA Number*	*Authorized Disbursements/ Expenditures*
U.S. Department of Treasury:		
Community Development Financial Institutions Program (CDFI):		
Awards made in prior years with continuing compliance:		
Direct-funded awards:		
CDFI Grant Program - Award No. 121AF010850	21.020	$ 1,448,086
CDFI Grant Program - Award No. 101FA008976	21.020	750,000
NeighborWorks® America:		
Awards made in current year with continuing compliance:		
Direct-funded awards	21.020	2,100,000
Awards made in prior years with continuing compliance:		
Direct-funded awards	21.020	9,475,472
TOTAL FEDERAL AWARDS		$ 13,773,558

COMMUNITY HOUSING CAPITAL
AND SUBSIDIARY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2013

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

NOTE 2. PRIOR YEARS' EXPENDITURES

The accompanying schedule of expenditures of federal awards includes $11,673,558 in expenditures from prior years for which continuing compliance is required.

COMMUNITY HOUSING CAPITAL
AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	_____Yes	__X__No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____Yes	__X__No
Noncompliance material to financial statements noted?	_____Yes	__X__No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	_____Yes	__X__No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____Yes	__X__No
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____Yes	__X__No

Identification of major programs	*Name of Federal Program of Cluster*
CFDA #21.020	U.S. Department of Treasury - Community Development Financial Institutions Program
	NeighborWorks® America

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?	__X__Yes	_____No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

MAULDIN & JENKINS

COMMUNITY HOUSING CAPITAL AND SUBSIDIARY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

I. FINANCIAL STATEMENT FINDINGS:

NONE REPORTED

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE REPORTED