

**BRAZOS VALLEY
AFFORDABLE HOUSING CORPORATION
(A NONPROFIT ORGANIZATION)**

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
SEPTEMBER 30, 2017**

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BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Brazos Valley Affordable Housing Corporation
Bryan, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Brazos Valley Affordable Housing Corporation (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brazos Valley Affordable Housing Corporation as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
April 11, 2018

BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION

STATEMENT OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2017

ASSETS

Current assets:	
Cash and cash equivalents	\$ 4,117,832
Accounts receivable	33,922
Prepaid expenses	<u>575</u>
Total current assets	<u>4,152,329</u>
Noncurrent assets:	
Line-of-credit receivable	250,000
Notes receivable, net of allowance for doubtful accounts	332,055
Property and equipment, net of accumulated depreciation	8,392,985
Investment in property held for sale	<u>862,578</u>
Total noncurrent assets	<u>9,837,618</u>
Total assets	<u>\$ 13,989,947</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 201,807
Accrued liabilities	36,742
Unearned rental revenue	86,711
Refundable advances	302,861
Security deposits	94,122
Current portion of long-term debt	<u>249,645</u>
Total current liabilities	<u>971,888</u>
Long-term debt	<u>7,785,640</u>
Total liabilities	<u>8,757,528</u>
Net assets:	
Unrestricted	4,349,169
Temporarily restricted	<u>883,250</u>
Total net assets	<u>5,232,419</u>
Total liabilities and net assets	<u>\$ 13,989,947</u>

The notes to the financial statements are an integral part of this statement.

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BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and other support:			
Rental revenue	\$ 2,559,766	\$ -	\$ 2,559,766
Grant revenue	61,687	-	61,687
Service income	36,582	-	36,582
Administrative fees	24,031	-	24,031
Miscellaneous	136,589	-	136,589
Interest	38,791	-	38,791
Net gain on sale of housing	92,990	-	92,990
Net gain on sale of investments	5,124	-	5,124
Net assets released from restrictions	25,320	(25,320)	-
Total revenues, gains, and other support	2,980,880	(25,320)	2,955,560
Expenses:			
Program services:			
Owner occupied home repair	29,363	-	29,363
Rental opportunities	315,633	-	315,633
Homebuyer assistance and counseling	85,574	-	85,574
New home construction	97,780	-	97,780
Economic development	141,167	-	141,167
Supporting services:			
Management and general	9,873	-	9,873
Commercial real estate	1,759,891	-	1,759,891
Total expenses	2,439,281	-	2,439,281
CHANGE IN NET ASSETS	541,599	(25,320)	516,279
NET ASSETS, BEGINNING OF YEAR	3,604,009	908,570	4,512,579
PRIOR PERIOD ADJUSTMENT	203,561	-	203,561
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	3,807,570	908,570	4,716,140
NET ASSETS, END OF YEAR	\$ 4,349,169	\$ 883,250	\$ 5,232,419

The notes to the financial statements are an integral part of this statement.

BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Program Services		
	Owner Occupied Home Repair	Rental Opportunities	Homebuyer Assistance and Counseling
Personnel	\$ -	\$ 24,386	\$ 52,472
Professional services	1,823	3,684	5,597
Travel	-	3,409	6,624
Utilities	-	32,205	192
Maintenance and repairs	-	142,950	-
Insurance	-	30,883	525
Supplies	-	127	314
Printing and postage	-	1,935	628
Membership dues	625	368	100
Training	-	-	627
Depreciation	-	40,711	-
Interest	-	-	-
Property tax	-	-	-
Homebuyer assistance	26,397	-	-
Other	518	34,975	18,495
	<u>518</u>	<u>34,975</u>	<u>18,495</u>
TOTAL FUNCTIONAL EXPENSES	\$ <u>29,363</u>	\$ <u>315,633</u>	\$ <u>85,574</u>

<u>Program Services</u>		<u>Supporting Services</u>		
<u>New Home Construction</u>	<u>Economic Development</u>	<u>Management and General</u>	<u>Commercial Real Estate</u>	<u>Total</u>
\$ 33,491	\$ 88,473	\$ -	\$ 122,898	\$ 321,720
5,812	7,150	3,050	166,649	193,765
6,525	10,696	2,709	12,249	42,212
4,490	1,555	-	55,344	93,786
22,472	114	-	189,441	354,977
7,350	886	302	70,306	110,252
140	256	18	1,289	2,144
3,983	1,175	298	2,271	10,290
1,382	250	425	2,180	5,330
418	513	922	613	3,093
-	-	-	424,189	464,900
9	-	-	466,802	466,811
208	-	-	195,299	195,507
-	-	-	-	26,397
<u>11,500</u>	<u>30,099</u>	<u>2,149</u>	<u>50,361</u>	<u>148,097</u>
<u>\$ 97,780</u>	<u>\$ 141,167</u>	<u>\$ 9,873</u>	<u>\$ 1,759,891</u>	<u>\$ 2,439,281</u>

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BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from contributors and grantors	\$ 48,520
Cash received from tenants	2,645,181
Cash received from service recipients	182,523
Cash paid to suppliers and employees	(1,427,813)
Interest received	38,791
Interest paid	(466,811)
Net cash provided by operating activities	<u>1,020,391</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Cash received on notes receivable	252,706
Cash paid to originate notes receivable	(258,706)
Cash paid for improvement to property held for sale	(798,084)
Cash paid for property and equipment	(364,883)
Cash received from disposal of property held for sale	<u>575,329</u>
Net cash used by investing activities	<u>(593,638)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Principal repayments on debt	(235,801)
Net cash used by financing activities	<u>(235,801)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 190,952

CASH AND CASH EQUIVALENTS, BEGINNING 3,926,880

CASH AND CASH EQUIVALENTS, ENDING \$ 4,117,832

The notes to the financial statements are an integral part of this statement.

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BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

RECONCILIATION OF CHANGE IN NET ASSETS

TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Change in net assets	\$	516,279
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		464,900
Provision for bad debt	(19,658)
Loss on sale of real property	(92,990)
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(19,548)
Decrease (increase) in prepaid expenses		13,821
Increase (decrease) in accounts payable		78,628
Increase (decrease) in accrued liabilities		1,842
Increase (decrease) in unearned rental revenue		83,624
Increase (decrease) in refundable advances		<u>6,660</u>
Total adjustments		<u>504,112</u>
Net cash provided by operating activities	\$	<u><u>1,020,391</u></u>

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BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

1. ORGANIZATION

Brazos Valley Affordable Housing Corporation (the “Organization”) was incorporated in 1992. The Organization is a not-for-profit established to provide quality services and products to the residents and businesses in the Brazos Valley area in such a way as to maximize the affordability of safe and decent housing, especially for the low income; and to serve as a vehicle and assist in any way possible, through networking and/or forming of partnerships with other nonprofits, for-profits, and governmental entities, for the purpose of encouraging community development, economic growth, and general improvement to the standard of living for all the residents of the areas the Organization serves. In accomplishing this mission, the Organization provides rental opportunities, owner occupied home repair, homebuyer assistance and counseling, and new construction of affordable homes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 assets and liabilities.

Basis of Presentation

The Organization reports 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. A description of the three net asset categories follows:

Unrestricted Net Assets represent resources over which the Board of Directors has discretionary control and can be used currently for the general purposes of the Organization in accordance with its bylaws. The Board may voluntarily designate unrestricted resources for specific purposes, but this is a voluntary action of the governing Board that can be modified or reversed at its discretion. These designations of unrestricted resources by the governing Board do not have the same legal requirements as do restrictions of funds.

Temporarily Restricted Net Assets represent resources currently available for use, but expendable only for those operating purposes specified by the donor or grantor.

Permanently Restricted Net Assets represent principal amounts of gifts and bequests which have been accepted with the donor stipulation that the principal be maintained intact in perpetuity or a specified period, with only the income to be utilized.

Investment in Property Held for Sale

Investment property held for sale consists of the capitalized costs of those real estate projects undertaken to provide eligible homebuyers opportunities to purchase affordable housing. Capitalized costs include all costs that are directly associated with, and attributable to, the acquisition, development and construction of specific real estate projects.

Property and Equipment

The Organization capitalizes costs in excess of \$5,000 for property and equipment with a useful life of more than 1 year. Purchased property and equipment are carried at cost. Donated property and equipment are carried at fair value at the date of donation. Repair and maintenance expenditures are expensed in the period incurred when they either restore an asset to its original service capacity or maintain an asset for its expected useful life.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Buildings and improvements generally have a useful life of 40 years, but some improvements are estimated by management to have a shorter useful life of 7 to 20 years. The Organization currently has no equipment.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and by natural classification in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

3. TAX STATUS

The Organization is a tax-exempt nonprofit Organization under Internal Revenue Service Code Section 501(c)(3). The Organization files a Form 990 annually for informational purposes.

4. LINE OF CREDIT RECEIVABLE

In the current year, the Organization extended and modified the line of credit arrangement between itself and Brazos Valley Community Development Corporation (the “CDC”). The arrangement is primarily intended to further the expansion of the CDC’s Community Loan Center Small Dollar Loan program. Under the terms of the line of credit, the CDC may draw up to \$700,000. Interest is payable to the Organization quarterly at 2% per annum. Unless otherwise extended, the line of credit matures on December 31, 2018.

CDC borrowings against the line at September 30, 2017, were \$250,000.

5. NOTES RECEIVABLE

The Organization has notes receivable from residents of the Brazos Valley area for the down payment assistance to purchase low-income to moderate income housing. These notes receivable amounted to \$753,907 at September 30, 2017.

The Organization has notes receivable from residents of Brazos Valley for work performed on resident homes under the owner occupied home repair program. These notes receivable amounted to \$412,148 at September 30, 2017.

The Organization has notes receivable from a Carter Creek tenant for past due rent balance of \$9,376.

Notes receivable are reported net of an allowance for uncollectible accounts. Allowances for uncollectible accounts include \$678,517 for down payment assistance loans and \$164,859 for owner occupied home repair loans.

6. LONG-TERM DEBT

The Organization’s long-term debt at September 30, 2017, consists of the following:

BB&T	
Payments of \$58,550 monthly including interest, due November 19, 2020, and secured by Carter Creek Center. Interest rate is 5.64%.	\$ <u>8,035,285</u>
Total	\$ <u><u>8,035,285</u></u>

The future scheduled maturities of long-term debt are as follows:

<u>Years Ending September 30,</u>	<u>Principal</u>
2018	\$ 249,645
2019	264,301
2020	278,622
2021	296,174
2022	313,562
Thereafter	<u>6,632,982</u>
Total	<u>\$ 8,035,285</u>

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization estimates that the fair value of all financial instruments at September 30, 2017, does not differ from the aggregate carrying value of the financial instruments recorded in the accompanying statement of financial position.

8. PROPERTY AND EQUIPMENT

Changes in property and equipment for the year ended September 30, 2017, were as follows:

	<u>09/30/16</u>	<u>Additions</u>	<u>Retirements</u>	<u>09/30/17</u>
Land	\$ 2,253,747	\$ 37,207	\$ -	\$ 2,290,954
Buildings and improvements	<u>10,374,063</u>	<u>327,676</u>	<u>-</u>	<u>10,701,739</u>
	12,627,810	364,883	-	12,992,693
Less: accumulated depreciation	<u>(4,134,808)</u>	<u>(464,900)</u>	<u>-</u>	<u>(4,599,708)</u>
Net	<u>\$ 8,493,002</u>	<u>\$ (100,017)</u>	<u>\$ -</u>	<u>\$ 8,392,985</u>

Depreciation expense for the year ended September 30, 2017, was \$464,900.

9. GAIN ON SALE OF HOUSING

In the current fiscal year, real estate projects with capitalized costs of \$385,126 were sold for \$478,116, resulting in a gain of \$92,990. In 2017, \$25,320 of CHDO funds were removed from restriction and re-classed from temporarily restricted net position to unrestricted net position.

10. TEMPORARILY RESTRICTED NET ASSETS

At September 30, 2017, temporarily restricted net assets included \$168,374 of federal grant funds that have been invested in real estate projects that may only be sold to individuals meeting specified eligibility criteria. The remaining temporarily restricted net assets of \$714,876 have been restricted by the grantor to homeownership and home repair programs.

11. CONTINGENCIES

The Organization has received significant financial assistance from federal agencies in the form of grants. The disbursements of funds received under these programs requires compliance with terms and conditions specified in the grant agreements, and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Organization. In the opinion of management, liabilities resulting from disallowed claims, if any, will not have a material adverse effect on the Organization's financial position at September 30, 2017.

12. SUBSEQUENT EVENTS

In October 2017, the Organization extended a \$1,000,000 line of credit to the Brazos Valley Council of Governments for initial funding of the Council's BVCOGNET project. The note bears an interest rate of 4.0%.

In November 2017, the Organization secured a loan in the amount of \$5,000,000 for the purpose of funding project costs related to the BVCOGNET project. The note was secured by the real property and future rent revenues of the Carter Creek Center, owned by the corporation. The loan bears an interest rate of LIBOR plus 2.4% and will be due interest only payments for the first 36 months.

13. PRIOR PERIOD ADJUSTMENT

During the fiscal year, a prior period adjustment was made to refundable advances for revenue that had not been recognized in prior years. This resulted in an increase of beginning net position of \$203,561.

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