

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

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
SEPTEMBER 30, 2018**

BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION

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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, 2018, 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.

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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, 2018, 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.

Waco, Texas
April 9, 2019

BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION

STATEMENT OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2018

ASSETS

Current assets:	
Cash and cash equivalents	\$ 4,275,834
Accounts receivable	331,292
Prepaid expenses	575
Total current assets	<u>4,607,701</u>
Noncurrent assets:	
Line-of-credit receivable	1,400,000
Notes receivable, net of allowance for doubtful accounts	2,898,793
Property and equipment, net of accumulated depreciation	8,513,073
Investment in property held for sale	462,702
Total noncurrent assets	<u>13,274,568</u>
Total assets	<u>\$ 17,882,269</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 159,032
Accrued liabilities	37,143
Unearned rental revenue	28,742
Refundable advances	299,786
Security deposits	97,828
Current portion of long-term debt	264,301
Total current liabilities	<u>886,832</u>
Long-term debt	<u>10,655,914</u>
Total liabilities	<u>11,542,746</u>
Net assets:	
Unrestricted	5,561,337
Temporarily restricted	778,186
Total net assets	<u>6,339,523</u>
Total liabilities and net assets	<u>\$ 17,882,269</u>

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

BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains, and other support:			
Rental revenue	\$ 2,532,863	\$ -	\$ 2,532,863
Contributions	6,100	-	6,100
Service income	590,103	-	590,103
Administrative fees	22,312	-	22,312
Miscellaneous	114,413	-	114,413
Interest	84,543	-	84,543
Net gain on sale of housing	139,724	-	139,724
Net assets released from restrictions	<u>(52,133)</u>	<u>52,133</u>	<u>-</u>
Total revenues, gains, and other support	<u>3,437,925</u>	<u>52,133</u>	<u>3,490,058</u>
Expenses:			
Program services:			
Owner occupied home repair	1,107	-	1,107
Rental opportunities	331,030	-	331,030
Homebuyer assistance and counseling	7,573	-	7,573
New home construction	51,258	-	51,258
Economic development	142,710	-	142,710
Supporting services:			
Management and general	8,437	-	8,437
Commercial real estate	<u>1,840,839</u>	<u>-</u>	<u>1,840,839</u>
Total expenses	<u>2,382,954</u>	<u>-</u>	<u>2,382,954</u>
CHANGE IN NET ASSETS	1,054,971	52,133	1,107,104
NET ASSETS, BEGINNING OF YEAR	4,349,169	883,250	5,232,419
PRIOR PERIOD ADJUSTMENT	<u>157,197</u>	<u>(157,197)</u>	<u>-</u>
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	<u>4,506,366</u>	<u>726,053</u>	<u>5,232,419</u>
NET ASSETS, END OF YEAR	<u>\$ 5,561,337</u>	<u>\$ 778,186</u>	<u>\$ 6,339,523</u>

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, 2018

	Program Services		
	Owner Occupied Home Repair	Rental Opportunities	Homebuyer Assistance and Counseling
Personnel	\$ -	\$ 32,677	\$ 4,749
Professional services	653	10,628	283
Travel	-	4,403	592
Utilities	-	23,640	-
Maintenance and repairs	-	141,480	18
Insurance	-	32,680	-
Supplies	-	77	12
Printing and postage	-	1,317	211
Membership dues	454	451	-
Training	-	158	-
Depreciation	-	45,084	-
Interest	-	-	-
Property tax	-	-	-
Other	-	38,435	1,708
TOTAL FUNCTIONAL EXPENSES	\$ 1,107	\$ 331,030	\$ 7,573

Program Services		Supporting Services		
New Home Construction	Economic Development	Management and General	Commercial Real Estate	Total
\$ 18,081	\$ 88,638	\$ -	\$ 224,051	\$ 368,196
9,822	4,213	3,670	126,106	155,375
1,460	7,896	1,739	15,427	31,517
1,638	799	-	57,007	83,084
8,224	574	8	169,615	319,919
3,749	-	-	59,617	96,046
108	315	-	645	1,157
180	7,143	-	3,658	12,509
651	1,361	475	3,201	6,593
139	578	1,790	667	3,332
-	-	-	453,885	498,969
-	-	-	452,958	452,958
-	-	-	193,721	193,721
<u>7,206</u>	<u>31,193</u>	<u>755</u>	<u>80,281</u>	<u>159,578</u>
<u>\$ 51,258</u>	<u>\$ 142,710</u>	<u>\$ 8,437</u>	<u>\$ 1,840,839</u>	<u>\$ 2,382,954</u>

BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from contributors and grantors	\$ 4,763
Cash received from tenants	2,429,779
Cash received from service recipients	726,828
Cash paid to suppliers and employees	(1,474,114)
Interest received	84,543
Interest paid	(452,958)
Net cash provided by operating activities	<u>1,318,841</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Cash received on notes receivable	5,125
Cash paid to originate notes receivable	(2,572,888)
Cash paid for improvement to property held for sale	(19,982)
Cash paid for property and equipment	(619,057)
Cash draws disbursed on line-of-credit arrangement	(1,150,000)
Cash received from disposal of property held for sale	311,033
Net cash used by investing activities	<u>(4,045,769)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Principal repayments on debt	<u>2,884,930</u>
Net cash provided by financing activities	<u>2,884,930</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

158,002

CASH AND CASH EQUIVALENTS, BEGINNING

4,117,832

CASH AND CASH EQUIVALENTS, ENDING

\$ 4,275,834

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	\$	1,107,104
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		498,969
Provision for bad debt	(2,050)
Loss on sale of real property	(139,724)
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(48,821)
Decrease (increase) in prepaid expenses		-
Increase (decrease) in accounts payable	(42,775)
Increase (decrease) in accrued liabilities		401
Increase (decrease) in unearned rental revenue	(57,969)
Increase (decrease) in refundable advances		<u>3,706</u>
Total adjustments		<u>211,737</u>
Net cash provided by operating activities	\$	<u>1,318,841</u>

BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

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, 2018, were \$400,000.

In October 2017, the Organization extended a line of credit to the Brazos Valley Council of Governments for \$1,000,000. The line bears interest at 4% per annum over a 6-month term. In April 2018, the Organization renewed the line of credit for an additional 6-month term. As of September 30, 2018, borrowings against the line of credit were \$1,000,000.

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, 2018.

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 \$407,023 at September 30, 2018.

The Organization has notes receivable from a Carter Creek tenant for past due rent balance of \$4,297.

The Organization has notes receivable from Brazos Valley Council of Governments related to the ongoing fiber project. These notes receivable amounted to \$2,574,892 at September 30, 2018.

Notes receivable are reported net of an allowance for uncollectible accounts. Allowances for uncollectible accounts include \$678,517 for down payment assistance loans and \$162,809 for owner occupied home repair loans.

6. LONG-TERM DEBT

The Organization's long-term debt at September 30, 2018, 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%. \$ 7,785,640

Amount of \$5,000,000 with \$1,865,425 unissued. Payments for 36 months, including interest. Interest rate is 2.24%, plus Libor. 3,134,575

Total \$ 10,920,215

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

<u>Years Ending September 30,</u>	<u>Principal</u>
2019	\$ 264,301
2020	278,622
2021	3,430,749
2022	313,561
2023	<u>6,632,982</u>
Total	<u>\$ 10,920,215</u>

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization estimates that the fair value of all financial instruments at September 30, 2018, 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, 2018, were as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
Land	\$ 2,290,954	\$ -	\$ -	\$ 2,290,954
Buildings and improvements	<u>10,701,739</u>	<u>619,057</u>	<u>-</u>	<u>11,320,796</u>
	12,992,693	619,057	-	13,611,750
Less: accumulated depreciation	<u>(4,599,708)</u>	<u>(498,969)</u>	<u>-</u>	<u>(5,098,677)</u>
Net	<u>\$ 8,392,985</u>	<u>\$ 120,088</u>	<u>\$ -</u>	<u>\$ 8,513,073</u>

Depreciation expense for the year ended September 30, 2018, was \$498,969.

9. GAIN ON SALE OF HOUSING

In the current fiscal year, real estate projects with capitalized costs of \$407,536 were sold for \$559,582, resulting in a gain of \$139,724. In 2018, \$52,133 of CHDO funds were restricted and re-classed from unrestricted net assets to temporarily restricted net assets.

10. TEMPORARILY RESTRICTED NET ASSETS

At September 30, 2018, temporarily restricted net assets included \$778,186 that have been restricted CHDO funds to be used for 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, 2018.

12. SUBSEQUENT EVENTS

In January 2019, the Organization extended its 6-month line of credit with the Brazos Valley Council of Governments and Brazos Valley CDC for an additional term. The lines are expected to mature in August 2019.

13. PRIOR PERIOD ADJUSTMENT

During fiscal year 2018, adjustments were made to the measurement of temporarily restricted net assets that determined additional amounts could be released from restriction. This resulted in a reclassification of \$157,197 of beginning net assets from temporarily restricted to unrestricted.