

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

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
SEPTEMBER 30, 2019

**THIS PAGE LEFT BLANK INTENTIONALLY**

**BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION**

TABLE OF CONTENTS

SEPTEMBER 30, 2019

**Page  
Number**

**FINANCIAL SECTION**

Independent Auditor’s Report.....	1 – 2
Statement of Financial Position.....	3
Statement of Activities .....	4
Statement of Functional Expenses .....	5 – 6
Statement of Cash Flows .....	7 – 8
Notes to the Financial Statements.....	9 – 13

**THIS PAGE LEFT BLANK INTENTIONALLY**



## INDEPENDENT AUDITOR'S REPORT

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, 2019, 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.

### Auditor's 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.

### OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston  
NEW MEXICO | Albuquerque



## 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, 2019, 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.

### ***Effect of Adopting New Accounting Standard***

As discussed in Note 1, Brazos Valley Affordable Housing Corporation adopted the provisions of Financial Accounting Standards Board Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended September 30, 2019. Our opinion is not modified with respect to this matter.

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

Waco, Texas  
June 1, 2020

**BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION**

STATEMENT OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2019

**ASSETS**

Current assets:	
Cash and cash equivalents	\$ 2,524,438
Accounts receivable	499,655
Prepaid expenses	<u>575</u>
Total current assets	<u>3,024,668</u>
Noncurrent assets:	
Line-of-credit receivable	4,400,000
Notes receivable, net of allowance for doubtful accounts	5,091,002
Property and equipment, net of accumulated depreciation	7,282,667
Investment in property held for sale	<u>1,078,798</u>
Total noncurrent assets	<u>17,852,467</u>
Total assets	\$ <u>20,877,135</u>

**LIABILITIES AND NET ASSETS**

Current liabilities:	
Accounts payable	\$ 306,110
Accrued liabilities	36,717
Unearned rental revenue	96,061
Refundable advances	266,985
Security deposits	74,620
Current portion of long-term debt	<u>278,622</u>
Total current liabilities	<u>1,059,115</u>
Long-term debt	<u>12,052,016</u>
Total liabilities	<u>13,111,131</u>
Net assets:	
Without donor restrictions	<u>7,766,004</u>
Total net assets	<u>7,766,004</u>
Total liabilities and net assets	\$ <u>20,877,135</u>

**THIS PAGE LEFT BLANK INTENTIONALLY**



**BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains, and other support:			
Rental revenue	\$ 2,452,029	\$ -	\$ 2,452,029
Service income	8,370	-	8,370
Administrative fees	20,532	-	20,532
Miscellaneous	256,790	-	256,790
Interest	98,389	-	98,389
Net gain on sale of fixed assets	907,956	-	907,956
Net gain on sale of property held for sale	<u>142,827</u>	<u>-</u>	<u>142,827</u>
Total revenues, gains, and other support	<u>3,886,893</u>	<u>-</u>	<u>3,886,893</u>
Expenses:			
Program services:			
Owner occupied home repair	1,234	-	1,234
Rental opportunities	452,923	-	452,923
Homebuyer assistance and counseling	9,342	-	9,342
New home construction	79,555	-	79,555
Economic development	94,041	-	94,041
Commercial real estate	1,811,466	-	1,811,466
Supporting services:			
Management and general	<u>11,851</u>	<u>-</u>	<u>11,851</u>
Total expenses	<u>2,460,412</u>	<u>-</u>	<u>2,460,412</u>
<b>CHANGE IN NET ASSETS</b>	1,426,481	-	1,426,481
<b>NET ASSETS, BEGINNING OF YEAR</b>	5,561,337	778,186	6,339,523
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>778,186</u>	<u>( 778,186)</u>	<u>-</u>
<b>NET ASSETS, BEGINNING, AS RESTATED</b>	<u>6,339,523</u>	<u>-</u>	<u>6,339,523</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 7,766,004</u>	<u>\$ -</u>	<u>\$ 7,766,004</u>

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

**THIS PAGE LEFT BLANK INTENTIONALLY**

**BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION**

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Program Services		
	Owner Occupied Home Repair	Rental Opportunities	Homebuyer Assistance and Counseling
Personnel	\$ -	\$ 91,995	\$ 4,804
Professional services	780	20,403	289
Travel	-	3,872	846
Utilities	-	17,517	-
Maintenance and repairs	-	14,379	1,136
Insurance	-	12,252	-
Supplies	-	91	10
Printing and postage	-	116	10
Membership dues	454	368	-
Training	-	3	134
Depreciation	-	32,577	-
Interest	-	180,663	-
Property tax	-	-	-
Other	-	78,687	2,113
	-	78,687	2,113
<b>TOTAL EXPENSES</b>	<b>\$ 1,234</b>	<b>\$ 452,923</b>	<b>\$ 9,342</b>

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

Program Services			Support Services	
New Home Construction	Economic Development	Commercial Real Estate	Management and General	Total
\$ 33,907	\$ 55,613	\$ 209,321	\$ -	\$ 395,640
4,080	5,465	131,732	257	163,006
2,479	6,179	14,913	2,224	30,513
2,716	570	45,915	-	66,718
10,222	238	121,193	423	147,591
9,767	-	48,917	3,224	74,160
41	122	489	-	753
467	337	3,345	25	4,300
241	1,361	1,977	2,265	6,666
566	503	5,008	1,614	7,828
-	-	490,961	-	523,538
-	-	438,197	40	618,900
-	-	196,797	-	196,797
<u>15,069</u>	<u>23,653</u>	<u>102,701</u>	<u>1,779</u>	<u>224,002</u>
\$ <u>79,555</u>	\$ <u>94,041</u>	\$ <u>1,811,466</u>	\$ <u>11,851</u>	\$ <u>2,460,412</u>

**BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from tenants	\$ 2,288,682
Cash received from service recipients	285,692
Cash paid to suppliers and employees	( 1,172,035)
Interest received	98,389
Interest paid	( 618,900)
Net cash provided by operating activities	<u>881,828</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Cash received on notes receivable	55,380
Cash paid to originate notes receivable	( 2,240,583)
Cash paid for improvement to property held for sale	( 1,103,286)
Cash paid for property and equipment	( 373,339)
Cash draws disbursed on line-of-credit arrangement	( 3,000,000)
Cash received as proceeds from sale of fixed assets	1,988,164
Cash received from disposal of property held for sale	<u>630,017</u>
Net cash used by investing activities	<u>( 4,043,647)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Principal repayments on debt	( 264,407)
Proceeds from issuance of note payable	<u>1,674,830</u>
Net cash provided by financing activities	<u>1,410,423</u>

**NET DECREASE IN CASH AND CASH EQUIVALENTS**

( 1,751,396)

**CASH AND CASH EQUIVALENTS, BEGINNING**

4,275,834

**CASH AND CASH EQUIVALENTS, ENDING**

\$ 2,524,438

**BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION**

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

**RECONCILIATION OF CHANGE IN NET ASSETS  
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Change in net assets	\$ 1,426,481
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	523,538
Gain on sale of real property	( 1,050,783)
Change in assets and liabilities:	
Decrease (increase) in accounts receivable	( 208,171)
Increase (decrease) in accounts payable	147,078
Increase (decrease) in accrued liabilities	( 426)
Increase (decrease) in unearned rental revenue	67,319
Increase (decrease) in refundable advances	<u>( 23,208)</u>
Total adjustments	<u>( 544,653)</u>
Net cash provided by operating activities	\$ <u>881,828</u>

# BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

### 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

#### **Change in Accounting Principle**

On August 18, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation of the financial statements accordingly.

#### **Basis of Presentation**

Net assets, revenues, gains and losses are classified on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and the changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Such net assets are available for any purpose consistent with the Organization's mission. Designations of net assets by the governing board do not have the same legal requirements as do restrictions of funds and are included in this category.

*Net Assets With Donor Restrictions* – Net assets subject to specific, donor-imposed restrictions that must be met by actions of the Organization and/or passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

#### **Revenues and Expenses**

Contributions received and unconditional promises to give are measured at their fair values and are recognized as an increase in net assets when the donor makes a promise to give that is, in substance, unconditional. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets or are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

The Organization reports gifts of goods and equipment as unrestricted revenue unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted revenue. Absent donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

#### **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. Contracted accounting services and shared facilities costs are allocated based upon the number of journal entries and square footage used by each function, respectively.

#### **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"). 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. During the fiscal year ended September 30, 2019, the line was extended to mature in September 2022. CDC borrowings against the line at September 30, 2019, 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. The line was subsequently extended over several additional 6-month terms and, in September 2019, the line was extended to mature September 2020 and the amount was increased from \$1,000,000 to \$4,000,000. As of September 30, 2019, borrowings against the line of credit were \$4,000,000.

**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 \$75,390 at September 30, 2019, net of an allowance for uncollectable accounts of \$678,517.

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 \$211,413 at September 30, 2019, net of an allowance for uncollectable accounts of \$140,942.

The Organization has notes receivable from a Carter Creek tenant for past due rent balance of \$2,131.

The Organization has notes receivable from Brazos Valley Council of Governments related to the ongoing fiber project. These notes receivable amounted to \$4,802,068 at September 30, 2019. This note receivable relates to the Council's pledge of revenues to pay the note jointly issued by each entity for the debt. See Note 6 for more information relating to the note payable.

**6. LONG-TERM DEBT**

The Organization's long-term debt at September 30, 2019, 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%.	\$ 7,521,233
Amount of \$5,000,000 with \$190,595 unissued. Interest only payments for 36 months. Interest rate is 2.24%, plus Libor.	<u>4,809,405</u>
Total	<u>\$ 12,330,638</u>

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

<u>Years Ending September 30,</u>	<u>Principal</u>
2020	\$ 5,088,027
2021	296,174
2022	313,561
2023	<u>6,632,876</u>
Total	<u>\$ 12,330,638</u>

During fiscal year 2018, the Organization secured a note payable with the Brazos Valley Council of Governments for the purpose of advancing the construction of the Council's fiber communications infrastructure project. The 36-month note is due at maturity and interest-only payments of 2.24% plus LIBOR are due monthly. The note is secured by the Carter Creek Center and is expected to be repaid with revenues generated by the infrastructure at the project's completion. As such, the note payable to the lending institution is offset by a corresponding receivable from the Council.

## 7. CASH AND CASH EQUIVALENTS

At September 30, 2019, the Corporation's cash and cash equivalents balances consisted entirely of demand deposits. The Corporation maintains its cash balances in local financial institutions. All accounts, interest bearing and noninterest bearing, per depositor at each separately chartered Federal Deposit Insurance Corporation (FDIC) insured depository institution are insured by the FDIC up to \$250,000. As of September 30, 2019, all cash balances in excess of FDIC insurance limits were fully collateralized.

## 8. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Organization's financial assets as of September 30, 2019, reduced by amounts not available for general use because of donor-imposed restrictions within one year of the statement of financial position date.

Cash	\$ 2,524,438
Accounts receivable	<u>499,655</u>
	3,024,093
Less:	
Security deposits	( 74,620)
Unearned rental revenue	<u>( 96,061)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>2,853,412</u>

As part of the liquidity management plan, the Organization utilizes cash in excess of operating requirements to increase operating reserves. As of September 30, 2019, these net reserves approached 1 year of operating expenses.

## 9. PROPERTY AND EQUIPMENT

Changes in property and equipment for the year ended September 30, 2019, were as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
Land	\$ 2,290,954	\$ -	\$ 92,667	\$ 2,198,287
Buildings and improvements	<u>11,320,796</u>	<u>373,340</u>	<u>1,438,220</u>	<u>10,255,916</u>
	13,611,750	373,340	1,530,887	12,454,203
Less: accumulated depreciation	<u>( 5,098,677)</u>	<u>( 523,538)</u>	<u>( 450,679)</u>	<u>( 5,171,536)</u>
Net	\$ <u>8,513,073</u>	\$( <u>150,198</u> )	\$ <u>1,080,208</u>	\$ <u>7,282,667</u>

Depreciation expense for the year ended September 30, 2019, was \$523,538.

**12. 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, 2019.

**13. PRIOR PERIOD ADJUSTMENT**

During the fiscal year ended September 30, 2019, it was determined through a revised calculation of CHDO restricted proceeds that all donor restrictions had been satisfied in prior years. Thus, an adjustment was made to beginning net assets with donor restrictions that decreased the restriction by \$778,186.

**THIS PAGE LEFT BLANK INTENTIONALLY**