

**BRAZOS VALLEY COMMUNITY
DEVELOPMENT CORPORATION, INC.**

(A NONPROFIT CORPORATION)

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED
SEPTEMBER 30, 2017 AND 2016**

**BRAZOS VALLEY COMMUNITY
DEVELOPMENT CORPORATION, INC.**

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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Brazos Valley Community Development Corporation, Inc.
Bryan, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Brazos Valley Community Development Corporation, Inc. (the "Corporation") (a nonprofit corporation), which comprise the statements of financial position as of September 30, 2016 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 qualified audit opinion.

Basis for Qualified Opinion

The Corporation's loans receivable balance is carried at \$352,159 on the statement of financial position at September 30, 2017. The loans are originated and serviced by a service organization in Brownsville, Texas. The service organization did not engage a service auditor to express an opinion on the suitability of the design of controls for the fiscal year ended September 30, 2017. As such we were unable to obtain sufficient appropriate audit evidence about whether the service organization's internal controls are suitably designed to prevent or detect and correct errors that could result in material misstatements in the Corporation's financial statements. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of September 30, 2016 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Waco, Texas
April 11, 2018

BRAZOS VALLEY COMMUNITY DEVELOPMENT CORPORATION, INC.

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 1,644,400	\$ 1,224,322
Accrued interest receivable	2,426	8,331
Prepaid items	1,200	-
Loans receivable, net of allowance	352,159	343,610
Notes receivable, net of allowance	685,098	702,328
Total assets	<u>2,685,283</u>	<u>2,278,591</u>
LIABILITIES		
Accounts payable	36,831	12,956
Unearned revenue	933,357	870,206
Loan escrow payable	17,040	20,074
Notes payable	925,000	850,000
Total liabilities	<u>1,912,228</u>	<u>1,753,236</u>
NET ASSETS		
Unrestricted	<u>773,055</u>	<u>525,355</u>
Total net assets	<u>773,055</u>	<u>525,355</u>
Total liabilities and net assets	<u>\$ 2,685,283</u>	<u>\$ 2,278,591</u>

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

BRAZOS VALLEY COMMUNITY DEVELOPMENT CORPORATION, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	Unrestricted	
	2017	2016
REVENUES, GAINS, AND OTHER SUPPORT		
Interest revenue	\$ 122,767	\$ 113,014
Contributions	282,217	10,000
Lending fees	1,212	1,175
Other income	<u>2,702</u>	<u>2,022</u>
Total revenues, gains, and other support	<u>408,898</u>	<u>126,211</u>
EXPENSES		
Program services:		
Community development	140,750	113,444
Supporting services:		
General and administrative	<u>20,448</u>	<u>14,370</u>
Total expenses	<u>161,198</u>	<u>127,814</u>
CHANGE IN NET ASSETS	247,700	(1,603)
NET ASSETS, BEGINNING OF YEAR	<u>525,355</u>	<u>526,958</u>
NET ASSETS, END OF YEAR	<u>\$ 773,055</u>	<u>\$ 525,355</u>

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

BRAZOS VALLEY COMMUNITY DEVELOPMENT CORPORATION, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers - interest on loans	\$ 126,850	\$ 109,930
Cash received from contributors	348,070	866,310
Cash paid for interest on debt	(11,792)	(18,317)
Cash paid to suppliers for goods and services	(99,814)	(43,198)
Net cash provided by operating activities	<u>363,314</u>	<u>914,725</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received for repayment of financing notes	894,705	643,304
Cash paid for disbursement of financing notes	(912,941)	(928,408)
Net cash provided (used) by investing activities	<u>(18,236)</u>	<u>(285,104)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash paid for principal on debt	<u>75,000</u>	<u>150,000</u>
Net cash provided (used) by financing activities	<u>75,000</u>	<u>150,000</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	420,078	779,621
CASH, BEGINNING OF YEAR	<u>1,224,322</u>	<u>444,701</u>
CASH, END OF YEAR	<u>\$ 1,644,400</u>	<u>\$ 1,224,322</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 247,700	\$(1,603)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	26,917	60,508
Prepaid Expenses	(1,200)	-
Accrued interest receivable	5,905	(5,905)
Increase (decrease) in liabilities:		
Accounts payable	23,875	5,791
Loan escrow payable	(3,034)	1,646
Unearned revenue	<u>63,151</u>	<u>854,288</u>
Net cash provided (used) by operating activities	<u>\$ 363,314</u>	<u>\$ 914,725</u>

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

**BRAZOS VALLEY COMMUNITY
DEVELOPMENT CORPORATION, INC.**

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

1. NATURE OF BUSINESS

Brazos Valley Community Development Corporation, Inc. (the "Corporation") was formed to promote, develop, and improve the economic conditions of people in the Brazos Valley region of Texas. This is accomplished by loans, investments and other business transactions with individuals and small businesses that increase the supply of affordable housing and jobs for low and moderate income persons.

Subsequent to formation, the Corporation applied for and received tax exempt status under Code Section 501(c)(3) of the Internal Revenue Code. The effective date of exemption was October 18, 2000.

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 liabilities.

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions.

A description of the three net asset categories follows:

Unrestricted Net Assets

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 Corporation 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

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

Permanently Restricted Net Assets

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.

Cash and Cash Equivalents

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

Loans Receivable

Loans receivable are stated at the amount of unpaid principal reduced by an allowance for losses. Allowances for estimated losses are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Loan balances are written off only when they are deemed to be permanently uncollectible. Management uses the historical collectability of notes receivable to estimate the allowance.

Notes Receivable

Notes receivable are stated at the amount of unpaid principal reduced by an allowance for losses. Allowances for estimated losses are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Loan balances are written off only when they are deemed to be permanently uncollectible. Management uses the historical collectability of loans receivable to estimate the allowance.

Unearned Revenue

Unearned revenue represents revenues collected but not earned as of year-end. This is primarily composed of revenue from contributors for the Community Loan Center. These contributions are not earned until the funds are utilized for the purpose of the program.

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

4. LOANS RECEIVABLE

Loans receivable include fixed-rate payday loans of no more than \$1,000 per loan provided to low and moderate income persons, in accordance with the Corporation's stated mission. At September 30, 2017 and 2016, the entity charged off \$41,298 and \$14,716 of loans.

	<u>2017</u>	<u>2016</u>
Number of loans outstanding	611	539
Average balance at origination	\$ <u>939</u>	\$ <u>920</u>
Average balance at year-end	\$ <u>645</u>	\$ <u>671</u>
Average interest rate	18.000%	18.000%
Total dollar value of loans outstanding at year-end	\$ 394,002	\$ 358,610
Allowance for losses	(<u>41,843</u>)	(<u>15,000</u>)
Total carrying amount	\$ <u>352,159</u>	\$ <u>343,610</u>

5. NOTES RECEIVABLE

Notes receivable include fixed-rate mortgage loans provided to low and moderate income persons, in accordance with the Corporation's stated mission. At September 30, 2017 and 2016, all notes were current or not more than 90 days past due.

	<u>2017</u>	<u>2016</u>
Number of loans outstanding	13	13
Average balance at origination	\$ <u>74,521</u>	\$ <u>74,521</u>
Average balance at year-end	\$ <u>66,306</u>	\$ <u>67,532</u>
Average interest rate	6.781%	6.781%
Total dollar value of loans outstanding at year-end	\$ 860,751	\$ 878,265
Allowance for losses	(<u>175,653</u>)	(<u>175,937</u>)
Total carrying amount	\$ <u>685,098</u>	\$ <u>702,328</u>

6. UNEARNED REVENUE

The Corporation's unearned revenue was \$933,357 and \$870,206 at September 30, 2017 and 2016. During fiscal year 2016, the Corporation received a contribution of \$826,667. As of September 30, 2017, \$275,217 of those funds had been loaned out.

7. NOTES PAYABLE

The Corporation's notes payable at September 30, 2017 and 2016, consist of the following:

	<u>2017</u>	<u>2016</u>
Wells Fargo Bank		
Issued October 1, 2006, 2% interest payable quarterly, principal due June 7, 2019.	\$ 175,000	\$ 200,000
Citizens State Bank		
Issued December 23, 2014, 3% interest payable annually, principal due December 23, 2024.	100,000	100,000
TB&T		
Issued December 15, 2014, 3% interest payable quarterly, principal due December 15, 2019.	100,000	100,000
Brazos Valley Affordable Housing Corporation		
Line of credit not to exceed \$250,000, 2% interest payable quarterly, automatic renewal each October 1st, final maturity no later than December 31, 2018.	250,000	250,000
South Star Bank		
Issued May 17, 2016, 3% interest payable quarterly for the first five years, and thereafter a fixed interest rate equal to the greater of 2% or the Treasury Rate minus 3.5%, principal due May 17, 2026	200,000	200,000
Brenham National Bank		
Issued December 1, 2016, 3% interest payable quarterly for the first five years, and thereafter a fixed interest rate equal to the maximum of the five year US Treasury Securities rate plus 2%, principal due December 1, 2021	<u>100,000</u>	<u>-</u>
Total	<u>\$ 925,000</u>	<u>\$ 850,000</u>

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

<u>Years Ending September 30,</u>	<u>Principal</u>
2018	\$ 250,000
2019	175,000
2020	100,000
2021	-
2022	100,000
2023-2027	<u>300,000</u>
Total	<u>\$ 925,000</u>

8. SUBSEQUENT EVENTS

In October 2017, the Corporation extended a \$500,000 line of credit to the Brazos Valley Council of Governments for initial funding of the BVCOGNET project. The note bears an interest rate of 4.0% over a renewable 6-month term.

9. RELATED PARTY TRANSACTIONS

Five members of the board of directors of the Corporation are executives of financial institutions with which the Corporation holds notes and loans payable.