

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

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
SEPTEMBER 30, 2013**

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Brazos Valley Affordable Housing Corporation (a nonprofit corporation), which comprise the statement of financial position as of September 30, 2013, 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.

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, 2013, 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 8, 2014

BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION

STATEMENT OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2013

ASSETS

Current assets:		\$ 1,894,190
Cash and cash equivalents		8,952
Accounts receivable		77,152
Grants receivable		23,443
Prepaid expenses		<u>2,003,737</u>
Total current assets		
Noncurrent assets:		593,594
Notes receivable, net of allowance for doubtful accounts		9,254,152
Property and equipment, net of accumulated depreciation		<u>1,478,174</u>
Investment in property held for sale		
Total noncurrent assets		<u>11,325,920</u>
Total assets		<u>\$ 13,329,657</u>

LIABILITIES AND NET ASSETS

Current liabilities:		\$ 93,496
Accounts payable		35,429
Accrued liabilities		551,965
Deferred revenue		87,839
Security deposits		206,134
Current portion of long-term debt		<u>974,863</u>
Total current liabilities		
Long-term debt		<u>8,889,649</u>
Total liabilities		<u>9,864,512</u>
Net assets:		2,532,475
Unrestricted		932,670
Temporarily Restricted		<u>3,465,145</u>
Total net assets		
Total liabilities and net assets		<u>\$ 13,329,657</u>

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

BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION

STATEMENT OF ACTIVITIES

AS OF SEPTEMBER 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
Rental revenue	\$ 2,218,105	\$ -	\$ 2,218,105
Grant revenue	164,701	104,526	269,227
Contributions	50,000	-	50,000
Service income	2,322	-	2,322
Administrative fees	21,001	-	21,001
Miscellaneous	3,540	-	3,540
Interest	11,646	-	11,646
Net assets released from restrictions	<u>22,321</u>	<u>(22,321)</u>	<u>-</u>
Total revenues and other support	<u>2,493,636</u>	<u>82,205</u>	<u>2,575,841</u>
Expenses and losses:			
Program services:			
Owner occupied home repair	9,901	-	9,901
Rental opportunities	201,880	-	201,880
Homebuyer assistance	132,619	-	132,619
New home construction	175,233	-	175,233
Economic development	28,876	-	28,876
Disaster recovery	1,729	-	1,729
Supporting services:			
Management and general	32,686	-	32,686
Investment in commercial real estate	<u>1,593,605</u>	<u>-</u>	<u>1,593,605</u>
Total expenses	<u>2,176,529</u>	<u>-</u>	<u>2,176,529</u>
Loss on sale of housing	<u>31,952</u>	<u>-</u>	<u>31,952</u>
Total expenses and losses	<u>2,208,481</u>	<u>-</u>	<u>2,208,481</u>
CHANGE IN NET ASSETS	285,155	82,205	367,360
NET ASSETS, BEGINNING OF YEAR	<u>2,247,320</u>	<u>850,465</u>	<u>3,097,785</u>
NET ASSETS END OF YEAR	<u>\$ 2,532,475</u>	<u>\$ 932,670</u>	<u>\$ 3,465,145</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, 2013**

	Program Services		
	Owner		
	Occupied Home Repair	Rental Opportunities	Homebuyer Assistance
Personnel	\$ 6,192	\$ 10,352	\$ 84,756
Professional services	511	40,921	4,626
Travel	161	90	2,031
Utilities	91	15,285	596
Maintenance and repairs	1,505	44,411	-
Insurance	282	36,137	-
Supplies	81	4,435	174
Printing and postage	374	310	2,009
Membership dues	23	-	562
Training	1	27	665
Depreciation	-	29,808	-
Interest	-	1,715	-
Property tax	-	-	-
Homebuyer assistance	-	-	27,600
Other	680	18,389	9,600
	<u>\$ 9,901</u>	<u>\$ 201,880</u>	<u>\$ 132,619</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 9,901</u>	<u>\$ 201,880</u>	<u>\$ 132,619</u>

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

Program Services			Supporting Services		Total
New Home Construction	Economic Development	Disaster Recovery	Management and General	Investment in Commercial Real Estate	
\$ 99,253	\$ 24,606	\$ 1,586	\$ 1,708	\$ 71,717	\$ 300,170
11,864	981	-	-	101,258	160,161
7,939	1,377	105	3,350	4,299	19,352
7,331	58	-	-	54,786	78,147
-	-	-	14,630	163,709	224,255
7,524	-	-	3,215	31,295	78,453
323	189	-	12	1,901	7,115
10,973	200	38	333	1,947	16,184
1,042	-	-	4,622	-	6,249
686	335	-	2,155	20	3,889
-	-	-	-	427,934	457,742
13,129	-	-	-	514,848	529,692
-	-	-	-	196,038	196,038
-	-	-	-	-	27,600
15,169	1,130	-	2,661	23,853	71,482
<u>\$ 175,233</u>	<u>\$ 28,876</u>	<u>\$ 1,729</u>	<u>\$ 32,686</u>	<u>\$ 1,593,605</u>	<u>\$ 2,176,529</u>

BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from contributors and grants	\$ 915,382
Cash received from service recipients	2,243,971
Cash received for interest on financing notes	11,646
Cash paid for interest on long-term debt	(529,692)
Cash paid to suppliers for goods and services	<u>(1,381,386)</u>
Net cash provided by operating activities	<u>1,259,921</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash received from loan repayments	18,429
Cash paid for loan disbursements	(40,700)
Cash paid for improvement to property held for sale	(474,377)
Cash received from disposal of property held for sale	312,865
Cash paid for property and equipment	<u>(3,452)</u>
Net cash used by investing activities	<u>(187,235)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal repayments on debt	<u>(524,284)</u>
Net cash used by financing activities	<u>(524,284)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	548,402
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,345,788</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 1,894,190</u>
RECONCILIATION OF CHANGE IN NET ASSETS	
TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Change in net assets	\$ 367,360
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	457,742
Loss on sale of real property	31,952
Change in assets and liabilities:	
Decrease (increase) in accounts receivable	25,009
Decrease (increase) in grants receivable	576,155
Decrease (increase) in prepaid expenses	18,515
Increase (decrease) in accounts payable	(208,903)
Increase (decrease) in accrued liabilities	(1,903)
Increase (decrease) in customer deposits	6,689
Increase (decrease) in unearned revenue	<u>(12,695)</u>
Total adjustments	<u>892,561</u>
Net cash provided by operating activities	<u>\$ 1,259,921</u>

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

BRAZOS VALLEY AFFORDABLE HOUSING CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

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 (through down payment assistance and mortgages) and new construction.

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

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.

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

Investments in Property for Resale are composed of land and improvement purchases by the Organization for resale. These investments are reported at fair value which approximates cost of the investment.

Property and Equipment

The Organization capitalizes expenditures in excess of \$500 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 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. NOTES RECEIVABLE

The Organization loaned Brazos Valley Community Development Corporation, Inc. \$173,800 in a prior fiscal year under a line of credit. This line of credit is not to exceed \$500,000 and has a final maturity no later than October 1, 2015. The interest rate on the line of credit is 2% payable quarterly.

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 are \$730,084 as of September 30, 2013.

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 \$492,133 as of September 30, 2013.

Notes receivable are reported net of an allowance for uncollectible accounts. Allowances for uncollectible accounts include \$646,438 for down payment assistance loans and \$156,289 for owner occupied home repair loans.

5. NOTES PAYABLE

The Organization's notes payable at September 30, 2013, consist of the following:

Citibank, N.A.	
Payments of \$3,684 monthly including interest, due November 16, 2013, and secured by Oakcreek Condominiums. Interest rate is 5.52%.	\$ 7,356
Texas Mezzanine Fund	
Payments made on a monthly basis include only interest at 6.0% per annum. Principal and all accrued interest is due on January 1, 2015.	186,667
Citibank, N.A.	
Payments of \$58,550 monthly including interest, due December 19, 2020, and secured by Carter Creek Center. Interest rate is 5.64%.	<u>8,901,760</u>
Total	<u>\$ 9,095,783</u>

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

<u>Years Ending September 30,</u>	<u>Principal</u>
2014	\$ 206,134
2015	397,114
2016	221,447
2017	235,802
2018	249,645
Thereafter	<u>7,785,641</u>
Total	<u>\$ 9,095,783</u>

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization estimates that the fair value of all financial instruments at September 30, 2013, does not differ from the aggregate carrying value of the financial instruments recorded in the accompanying statement of financial position.

7. PROPERTY AND EQUIPMENT

Changes in property and equipment for the year ended September 30, 2013, were as follows:

	<u>09/30/12</u>	<u>Additions</u>	<u>Retirements</u>	<u>09/30/13</u>
Land	\$ 2,253,747	\$ -	\$ -	\$ 2,253,747
Buildings and improvements	<u>9,658,876</u>	<u>3,452</u>	<u>-</u>	<u>9,662,328</u>
	11,912,623	3,452	-	11,916,075
Less: accumulated depreciation	<u>(2,204,181)</u>	<u>(457,742)</u>	<u>-</u>	<u>(2,661,923)</u>
Net	<u>\$ 9,708,442</u>	<u>\$(454,290)</u>	<u>\$ -</u>	<u>\$ 9,254,152</u>

Depreciation expense for the year ended September 30, 2013, was \$457,742.

8. LOSS ON SALE OF HOUSING

In the current fiscal year, \$344,817 of assets were sold for \$312,865, resulting in a loss of \$31,952. The funds comprising the \$344,817 invested in the assets sold consisted of \$144,817 of local unrestricted funds and \$200,000 of grant funds. The grant funds used are specifically intended to subsidize the cost of construction so that the house may be sold to a low-income individual at less than cost. When this grant revenue is considered together with the loss on sale of housing, the construction and sale of these assets resulted in a positive change in net assets of \$168,048.

9. TEMPORARILY RESTRICTED NET ASSETS

As of September 30, 2013, temporarily restricted net assets consisted of \$409,000 of grant funding that is currently invested in property that may only be sold to individuals meeting specified eligibility criteria. The remaining balance of temporarily restricted net assets represents funds that the grantor agency has restricted to specific housing activities.

10. 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, 2013.

11. SUBSEQUENT EVENTS

In preparing these financial statements, subsequent events were evaluated through April 8, 2014, which is the date the financial statements were available to be issued.