

**COMMUNITY DEVELOPMENT  
CORPORATION of BROWNSVILLE and  
AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS  
and SUPPLEMENTARY INFORMATION**

**September 30, 2017 and 2016**



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**Community Development Corporation of Brownsville and Affiliates  
Table of Contents**

<b>REPORT</b>	
INDEPENDENT AUDITORS' REPORT	1
<b>FINANCIAL STATEMENTS</b>	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities and Changes in Net Assets	5
Consolidated Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	9
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule of Loan Delinquency and Aging – Unaudited	28
Schedule of Activities – Natural Classification	29



**REPORT**



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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Community Development Corporation  
of Brownsville and Affiliates  
Brownsville, Texas

We have audited the accompanying consolidated financial statements of Community Development Corporation of Brownsville and Affiliates (a nonprofit organization, collectively CDCB), which comprise the consolidated statements of financial position as of September 30, 2017, and the related consolidated statements of activities and changes in net assets for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CDCB 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.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Activities – Natural Classification is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The Schedule of Loan Delinquency and Aging – Unaudited has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2018, on our consideration of CDCB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CDCB's internal control over financial reporting and compliance.

## **Prior Period Financial Statements**

The consolidated financial statements of CDCB as of September 30, 2016 were audited by other auditors whose report dated January 22, 2017 expressed an unmodified opinion on those statements. Net assets on these financial statements were modified to reflect released grant funds in the prior period.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Brownsville, Texas

January 22, 2018

The image features a central orange rectangular area with a subtle geometric pattern of overlapping triangles and lines. This central area is framed by dark blue horizontal bars at the top and bottom. The text 'FINANCIAL STATEMENTS' is centered within the orange area.

# FINANCIAL STATEMENTS

**Community Development Corporation of Brownsville and Affiliates  
Consolidated Statements of Financial Position**

<i>September 30,</i>	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents - unrestricted	\$ 2,632,645	\$ 2,844,411
Accounts receivable		
Mortgage loans receivable	603,008	1,702,910
Grants	464,030	1,043,863
Notes receivable	17,528	16,620
Other	570,157	132,812
Prepaid and other assets	235,582	78,441
Investments	743,795	1,994,000
Current investment in homes and land development projects	1,677,719	-
Restricted cash and cash equivalents	2,837,682	662,259
<b>Total current assets</b>	<b>9,782,146</b>	<b>8,475,316</b>
Noncurrent assets		
Mortgage loans receivable	11,430,803	10,736,147
Multifamily receivable	8,726	153,660
Notes receivable	1,535,701	1,553,119
Developer fee receivable	1,767,777	1,343,136
Investment in homes and land development projects	10,076,111	7,583,386
Rental properties - net	338,539	274,102
Long-term investments	3,553,772	1,090
Property and equipment - net	644,772	685,198
<b>Total noncurrent assets</b>	<b>29,356,201</b>	<b>22,329,838</b>
<b>Total assets</b>	<b>\$ 39,138,347</b>	<b>\$ 30,805,154</b>

*- Continued*

*The accompanying notes are an integral part of these financial statements.*

**Community Development Corporation of Brownsville and Affiliates**  
**Consolidated Statements of Financial Position - Continued**

<i>September 30,</i>	<b>2017</b>	<b>2016</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 153,344	\$ 158,690
Accrued expenses	196,692	195,521
Deferred revenue	325,422	170,258
Notes payable	4,777,261	690,672
Escrow deposits	603,855	602,034
<b>Total current liabilities</b>	<b>6,056,574</b>	<b>1,817,175</b>
Noncurrent liabilities		
Notes payable - less current maturities	10,872,946	6,296,371
Tenant security deposits	2,051	1,800
Revolving fund	717,741	778,565
Other liabilities - NSP2	2,257,652	2,363,102
<b>Total noncurrent liabilities</b>	<b>13,850,390</b>	<b>9,439,838</b>
<b>Total liabilities</b>	<b>19,906,964</b>	<b>11,257,013</b>
<b>NET ASSETS</b>		
Unrestricted	18,692,076	18,771,401
Temporarily restricted	29,307	266,740
Permanently restricted	510,000	510,000
<b>Total net assets</b>	<b>19,231,383</b>	<b>19,548,141</b>
<b>Total liabilities and net assets</b>	<b>\$ 39,138,347</b>	<b>\$ 30,805,154</b>

*The accompanying notes are an integral part of these financial statements.*



**Community Development Corporation of Brownsville and Affiliates**  
**Consolidated Statement of Activities and Changes in Net Assets**

<i>For the year ended September 30, 2017</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and support</b>				
Sales - home and lots	\$ 957,999	\$ -	\$ -	\$ 957,999
Net fees	215,711	-	-	215,711
Grants	677,597	3,117,939	-	3,795,536
Interest and investment income	544,174	4,794	-	548,968
Developer fee revenue	301,604	-	-	301,604
Management fees	259,995	-	-	259,995
RGV Casitas earnings	34,970	-	-	34,970
Multifamily- Los Olmos revenue	53,302	-	-	53,302
Other earned income	360,348	-	-	360,348
Net assets released from restrictions - restrictions satisfied by payments	3,317,939	(3,317,939)	-	-
<b>Total revenue and support</b>	<b>6,723,639</b>	<b>(195,206)</b>		<b>6,528,433</b>
<b>Expenses</b>				
Program services:				
Single Family	3,342,165	-	-	3,342,165
Youthbuild	626,377	-	-	626,377
Rehabs	681,113	-	-	681,113
Counseling	280,283	-	-	280,283
Multifamily	337,928	-	-	337,928
Special Service	706,339	-	-	706,339
Support services:				
General and administration expenses	870,986	-	-	870,986
<b>Total expenses</b>	<b>6,845,191</b>	<b>-</b>	<b>-</b>	<b>6,845,191</b>
<b>Change in net assets</b>	<b>(121,552)</b>	<b>(195,206)</b>	<b>-</b>	<b>(316,758)</b>
<b>Net assets – beginning of year</b>	<b>18,813,628</b>	<b>224,513</b>	<b>510,000</b>	<b>19,548,141</b>
<b>Net assets – end of year</b>	<b>\$ 18,692,076</b>	<b>\$ 29,307</b>	<b>\$ 510,000</b>	<b>\$ 19,231,383</b>

*The accompanying notes are an integral part of these financial statements.*

**Community Development Corporation of Brownsville and Affiliates**  
**Consolidated Statement of Activities and Changes in Net Assets**

<i>For the year ended September 30, 2016</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenue</b>				
Sales - home and lots	\$ 633,027	\$ -	\$ -	\$ 633,027
Net fees	173,480	-	-	173,480
Grants	250,944	3,293,409	235,000	3,779,353
Interest and investment income	181,940	2,715	-	184,655
Developer fee revenue	499,406	-	-	499,406
Management fees	236,149	-	-	236,149
RGV Casitas equity and earnings	22,269	-	-	22,269
Multifamily - Los Olmos revenue	124,069	-	-	124,069
Other earned income	323,828	-	-	323,828
Net assets released from restrictions - restrictions satisfied by payments	3,107,632	(3,107,632)	-	-
<b>Total support and revenue</b>	<b>5,552,744</b>	<b>188,492</b>	<b>235,000</b>	<b>5,976,236</b>
<b>Expenses</b>				
<b>Program services:</b>				
Single family	1,905,997	-	-	1,905,997
Youthbuild	611,424	-	-	611,424
Rehabs	1,476,541	-	-	1,476,541
Counseling	229,715	-	-	229,715
Multifamily	181,261	-	-	181,261
Special service	421,827	-	-	421,827
<b>Support services:</b>				
General and administrative expenses	949,305	-	-	949,305
<b>Total expenses</b>	<b>5,776,070</b>	<b>-</b>	<b>-</b>	<b>5,776,070</b>
<b>Change in net assets</b>	<b>(223,326)</b>	<b>188,492</b>	<b>235,000</b>	<b>200,166</b>
<b>Net assets – beginning of year</b>	<b>18,994,727</b>	<b>78,248</b>	<b>275,000</b>	<b>19,347,975</b>
<b>Prior period adjustment</b>	<b>42,227</b>	<b>(42,227)</b>	<b>-</b>	<b>-</b>
<b>Net assets – beginning of year as restated</b>	<b>19,036,954</b>	<b>36,021</b>	<b>275,000</b>	<b>19,347,975</b>
<b>Net assets – end of year</b>	<b>\$ 18,813,628</b>	<b>\$ 224,513</b>	<b>\$ 510,000</b>	<b>\$ 19,548,141</b>

*The accompanying notes are an integral part of these financial statements.*

**Community Development Corporation of Brownsville and Affiliates**  
**Consolidated Statements of Cash Flows**

<i>For the year ended September 30,</i>	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	<b>\$ (316,758)</b>	<b>\$ 200,166</b>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation - rental properties	<b>8,790</b>	<b>6,039</b>
Depreciation - property and equipment	<b>59,830</b>	<b>51,609</b>
Permanently restricted contributions	<b>-</b>	<b>(235,000)</b>
(Increase) decrease:		
Receivables:		
Grants	<b>579,833</b>	<b>(588,605)</b>
Developer fee	<b>(424,641)</b>	<b>(735,175)</b>
Multifamily	<b>144,934</b>	<b>97,610</b>
Other	<b>(413,712)</b>	<b>174,787</b>
Prepaid and other assets	<b>(157,141)</b>	<b>(20,414)</b>
Accounts payable	<b>(5,346)</b>	<b>8,905</b>
Accrued expenses	<b>1,171</b>	<b>31,221</b>
Deferred revenue	<b>155,164</b>	<b>(71,025)</b>
Tenant security deposits	<b>250</b>	<b>1,000</b>
Revolving fund	<b>(60,824)</b>	<b>3,430</b>
Escrow deposits	<b>1,821</b>	<b>83,327</b>
Other liabilities	<b>4,769,550</b>	<b>(110,812)</b>
<b>Net cash provided by (used in) operating activities</b>	<b>4,342,921</b>	<b>(1,102,937)</b>

*-Continued-*

*The accompanying notes are an integral part of these financial statements.*

**Community Development Corporation of Brownsville and Affiliates**  
**Consolidated Statements of Cash Flows - Continued**

<i>For the year ended September 30,</i>	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from investment in homes and land development projects	<b>1,618,684</b>	702,310
Payments for investment in homes and land development projects	<b>(6,714,474)</b>	(231,307)
Purchases of property and equipment	<b>(19,405)</b>	(18,044)
Purchases of rental property	-	(194,071)
Payment for investment in partnership	<b>(200,000)</b>	(1,090)
Issuance of notes receivable	<b>(494,096)</b>	(598,000)
Collections from notes receivable	<b>16,848</b>	15,562
Issuance of mortgage loans	<b>(305,564)</b>	(2,403,255)
Collections from mortgage loans	<b>590,141</b>	825,910
<b>Net cash provided by (used in) investing activities</b>	<b>(5,507,866)</b>	(1,901,985)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Permanently restricted contributions	-	235,000
Proceeds from notes payable	<b>4,059,800</b>	4,042,022
Payments made on notes payable	<b>(931,198)</b>	(3,486,931)
<b>Net cash provided by (used in) financing activities</b>	<b>3,128,602</b>	790,091
Net increase (decrease) in cash and cash equivalents	<b>1,963,657</b>	(2,214,831)
<b>Beginning cash and cash equivalents</b>	<b>3,506,670</b>	5,721,501
<b>Ending cash and cash equivalents</b>	<b>\$ 5,470,327</b>	<b>\$ 3,506,670</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid for interest	<b>\$ 305,589</b>	<b>\$ 82,743</b>

*The accompanying notes are an integral part of these financial statements.*

## Community Development Corporation of Brownsville and Affiliates Notes to Consolidated Financial Statements

### **Note 1: Organization and Significant Accounting Policies**

The Community Development Corporation of Brownsville and Affiliates (collectively, "CDCB") is a private, Section 501(c) (3) nonprofit community housing development organization. Founded in 1974, CDCB has been providing affordable housing to the citizens of primarily southern Cameron County, Texas. CDCB is one of the largest nonprofit producers of single-family affordable housing for homeownership in the state of Texas. CDCB is governed by 13-person community-based Board of Directors that serves on a volunteer basis to determine policy for CDCB.

CDCB assists low-income families in attaining home ownership through below-market financing, the construction and use of home designs, and targeted outreach. CDCB acquires and sells lots on which homes are built and sold by private contractors.

CDCB's mission statement reads, "CDCB is a multi-faceted affordable housing organization devoted to utilizing collaborative partnerships to create sustainable communities across the Rio Grande Valley through quality education, model financing, efficient home design, and superior construction."

CDCB is not considered a component unit of the City of Brownsville, Texas (the "City") or Cameron County, Texas.

### ***Affiliates (Partnerships)***

The accompanying consolidated financial statements also include three controlled affiliates: Paloma Living, GP, LLC ("Paloma Living"), which was formed on February 25, 2011; RGV Casitas, Inc. ("RGV Casitas"), which was formed on April 25, 2012; and Los Olmos, LLC ("Los Olmos"), which was formed on September 15, 2014.

Paloma Living (wholly owned by CDCB) was formed to be the general partner of CDCB/CCHA Paloma, LC (the "Paloma Partnership"), which was formed on February 25, 2011. The Paloma Partnership was formed to develop, construct, lease, maintain, and operate a multifamily apartment complex consisting of 56 single-family homes intended for rental to persons of low and moderate income, to be known as La Hacienda Casitas. The Paloma Partnership was also formed in order to obtain housing tax credits from the Texas Department of Housing and Community Affairs. The housing tax credits are given to encourage the development and preservation of appropriate type of rental housing for households that have difficulty finding suitable, accessible, and affordable rental property in the private marketplace. The limited partners are Hudson SLP, LLC (the Paloma special limited partner); Hudson La Hacienda, LLC (the Paloma investor limited partner); and Sandra Williams (the Class A limited partner). The Paloma Partnership will operate until December 31, 2072, or until its earlier dissolution or termination. Profits and losses from operations and low-income tax credits in any one year are allocated 99.97% to the investor limited partner and 0.01% to each other partner.

## Community Development Corporation of Brownsville and Affiliates Notes to Consolidated Financial Statements

### Note 1: Organization and Significant Accounting Policies (Continued)

#### *Affiliates (Partnerships) (Continued)*

Paloma Living's investment in the Paloma Partnership is accounted for using the equity method of accounting since the limited partners have substantive participating rights and, therefore, the general partner does not fully control the Paloma Partnership. Under the equity method of accounting, the Paloma Partnership's accounts are not reflected within CDCB's consolidated statements of financial position and consolidated statements of activities and changes in net assets; however, Paloma Living's share of the earnings or losses of the Paloma Partnership is reflected as investment income (loss) in the consolidated statements of activities and changes in net assets. Paloma Living's financial results are consolidated with CDCB's financial statements.

RGV Casitas was formed for the purpose of providing real estate brokerage services for low-to moderate-income level families. RGV Casitas is 100% owned by CDCB and its financial results are consolidated with CDCB's financial statements.

Los Olmos GP, LLC (wholly owned by CDCB) was formed to be the general partner of Los Olmos, LP (the "Los Olmos Partnership"), which was formed on September 15, 2014. The Los Olmos Partnership was formed to develop, construct, lease, maintain, and operate a multifamily apartment complex consisting of 80 single-family homes intended for rental to persons of low and moderate income, to be known as Casitas Los Olmos. The Los Olmos Partnership was also formed in order to obtain housing tax credits from the Texas Department of Housing and Community Affairs. The housing tax credits are given to encourage the development and preservation of appropriate type of rental housing for households that have difficulty finding suitable, accessible, and affordable rental property in the private marketplace. The limited partners are Hudson SLP LLC (the Los Olmos special limited partner) and Hudson Casitas LLC (the Los Olmos investor limited partner). The Los Olmos Partnership will operate until dissolution or termination. Profits and losses from operations and low-income tax credit in any one year are allocated 99.98% to the Los Olmos investor limited partner and 0.01% to each other partner.

Los Olmos GP, LLC's investment in the Los Olmos Partnership is accounted for using the equity method of accounting since the Los Olmos limited partners have substantive participating rights and, therefore, the general partner does not fully control the Los Olmos Partnership. Under the equity method of accounting, the Los Olmos Partnership's accounts are not reflected within CDCB's consolidated statements of financial position and consolidated statement of activities and changes in net assets; however, Los Olmos GP, LLC's share of the earnings or losses of the Los Olmos Partnership is reflected as investment income (loss) in the consolidated statements of activities and changes in net assets. Los Olmos GP, LLC's financial results are consolidated with CDCB's financial statements.

A summary of the significant accounting policies followed by CDCB in the preparation of the accompanying consolidated financial statements is set forth below.

## Community Development Corporation of Brownsville and Affiliates Notes to Consolidated Financial Statements

### Note 1: Organization and Significant Accounting Policies (Continued)

#### ***Basis of Presentation***

The consolidated financial statements of CDCB have been prepared on the accrual basis of accounting.

In accordance with the *Not-for-Profit Entities* topic of the Accounting Standards Codification ("ASC"), CDCB is required to report information regarding its financial position and activities according to the three classes of net assets, as follows.

**Unrestricted Net Assets** – Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restriction.

**Temporarily Restricted Net Assets** – Temporarily restricted net assets consist of contributed funds subject to specific donor-imposed restrictions. Use of these funds is contingent upon specific performances of a future event or a specific passage of time before CDCB may spend the funds.

**Permanently Restricted Net Assets** – Permanently restricted net assets are subject to irrevocable donor restrictions requiring the assets to be maintained in perpetuity, usually for the purpose of generating investment income to fund annual operations. As of September 30, 2017, there was \$510,000 in permanently restricted net assets (\$510,000 in 2016). During the year ended September 30, 2017, NeighborWorks America ("NeighborWorks") granted no permanently restricted grant funds with the purpose of building assets for CDCB and the community in which CDCB operates (\$235,000 in 2016). Permanently restricted capital grants funds require CDCB to establish and maintain a permanently restricted revolving loan and capital projects fund to account exclusively for its use.

#### ***Contributions***

In accordance with the *Not-for-Profit Entities* topic of the ASC, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

#### ***Cash and Cash Equivalents***

For purposes of the consolidated statements of cash flows, CDCB considers cash in bank deposit accounts, certificates of deposit, repurchase agreements, and money market accounts to be cash and cash equivalents.

CDCB entered into agreements with various banks, which allow excess cash funds to be transferred from CDCB's deposit accounts at the banks into overnight repurchase agreements. Transactions under these agreements are completely by the next business morning. As these short-term investments have original maturities of three months or less, these investments are considered to be cash equivalents.

## Community Development Corporation of Brownsville and Affiliates Notes to Consolidated Financial Statements

### Note 1: Organization and Significant Accounting Policies (Continued)

#### *Fair Value Measurements and Disclosures*

The requirements of *Fair Value Measurements and Disclosures* of the ASC apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. *Fair Value Measurement and Disclosures* also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

At September 30, 2017 and 2016, all short-term investments are money market accounts and CDs and were classified as Level 1.

#### *Mortgage Loans, Grants, and Other Receivables*

Mortgage loans and grants receivable are stated at the amount management expects to collect from outstanding balances. All mortgage loans are secured by first and/or second liens on the properties.

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for doubtful charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

At September 30, 2017, and 2016, an allowance for doubtful accounts was not established for mortgage loans, grants, and other receivables outstanding as management believes these amounts to be collectible.



## Community Development Corporation of Brownsville and Affiliates Notes to Consolidated Financial Statements

### **Note 1: Organization and Significant Accounting Policies (Continued)**

#### ***Notes Receivable***

In June 2014, CDCB entered into a note receivable totaling \$340,000 for the sale of commercial property. The note is due in June 2020 with an interest rate of 6.00%. In December 31, 2013, CDCB entered into a note receivable totaling \$665,603 as part of a match for a Community Development Financial Institution Program with an interest rate of 0.00% and is due in December 2043. In November 2015, CDCB entered into a note receivable totaling \$286,200 for the sale of commercial property. The note is due in December 2057 with an interest rate of 2.57%.

In November 2015, CDCB entered into a note receivable totaling \$180,000, as part of the Los Olmos Partnership agreement with interest rate of 0.00% and due in December 2057. In November 2015, CDCB entered into a note receivable totaling \$131,800 as part of the Los Olmos Partnership agreement with interest rate of 0.00% and is due in December 2057. The balance as of September 30, 2017 totaled \$1,553,229 (\$1,569,739 in 2016).

#### ***Developer Fee Receivable***

CDCB was the developer of La Hacienda Casitas apartment complex. The total developer fee was \$926,733, which is payable by the Paloma Partnership in accordance with the development agreement dated September 12, 2012. Total developer fee receivable was \$671,928 at September 30, 2017 and 2016.

CDCB was the developer of Los Olmos Casitas apartment complex. The development was still under construction as of September 30, 2017 and is expected to be completed by September 30, 2018. The total developer fee was \$1,095,849, which is payable by the Los Olmos Partnership in accordance with the development agreement dated September 15, 2014. As of September 30, 2017, total developer fee receivable was \$1,095,849 (\$ 671,208 in 2016).

#### ***Property and Equipment***

Property and equipment acquisitions are capitalized at cost when purchased. Depreciation is calculated on the straight-line method based on the following estimated useful lives: building and improvements – 25 to 30 years; vehicles – 3 years; computer equipment – 3 to 5 years; and furniture and fixtures – 3 to 10 years. CDCB follows a capitalization policy for fixed assets of \$5,000.

#### ***Investment in Homes and Land Development Projects***

Investment in homes and land development projects is reported at cost. A substantial portion of the costs capitalized pertain to the cost paid to acquire and develop the land. Other costs include interest capitalized during the development period and interim construction advances to homebuilders for home construction.

# Community Development Corporation of Brownsville and Affiliates

## Notes to Consolidated Financial Statements

### **Note 1: Organization and Significant Accounting Policies (Continued)**

#### ***Impairment of Long-Lived Assets***

CDCB reviews the carrying value of assets for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected cash flows are less than the carrying value, impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, completion, and other economic factors. CDCB did not recognize an impairment loss during the years ended September 30, 2017 and 2016.

#### ***Annual and Personal Leave***

Annual and personal leave is provided to all full-time employees. The amount of annual and personal days earned by and paid to the employee is based upon the number of years of service. Annual leave days earned range from 5 to 15 days. Personal leave days earned range from 0 to 8 days. At the end of each fiscal year, CDCB will pay the employee for any unused annual leave up to a maximum of 10 days and unused personal leave up to a maximum of 8 days. Accordingly, no accrual is reflected in the accompanying consolidated financial statements.

#### ***Federal Income Taxes***

CDCB is exempt from federal income taxes pursuant to provisions of Section 501(c)(3) of the Internal Revenue Code ("IRC"). Therefore, no provision for income taxes has been made in the consolidated financial statements.

#### ***Uses of Estimates***

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Revenue Recognition***

Revenue from home and lot sales used to fund home construction is recognized under the full accrual method when the sales are closed, title passes to the new owner, and the collectability of the remaining portion of the sales price is reasonably assured. Interest income revenue is recognized when earned. Grant revenues are considered to be earned to the extent of expenses made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenses have been made. Other earned revenue generally consist of other fees related to home sales and other miscellaneous income and is recognized as revenue based on the terms and conditions of the agreements or requirements.

## Community Development Corporation of Brownsville and Affiliates Notes to Consolidated Financial Statements

### Note 1: Organization and Significant Accounting Policies (Continued)

#### ***Revenue Recognition (Continued)***

Management fees are earned on a monthly basis for fees charged to Rio Grande Valley Multi Bank ("RGVMB") and Community Loan Center for salaries, fringe, and overhead. Developer fee revenue is recognized based on the percentage of completion of the multifamily apartment units.

#### ***Functional Allocation of Costs***

The costs of providing the program and other activities have been summarized based on programs administered by CDCB in the consolidated statements of activities and changes in net assets. Accordingly, costs are allocated based on actual use, or estimated use, if actual use is not readily determinable.

#### ***Deferred Revenue***

Deferred revenue represents grants for which the related grant expense has not been incurred during 2017. Deferred revenue at September 30, 2017 totaled \$325,422 (\$170,258 in 2016).

#### ***Commitments and Contingencies***

***General*** – In the ordinary course of business, CDCB may be subject to asserted and unasserted claims by third-party borrowers, vendors, and grantors. Should these matters arise, management will consult with legal counsel to determine the effects, if any, these claims may have on the consolidated financial statements. Further, liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable a liability has been incurred and the amount can be reasonably estimated.

***Grants*** – CDCB receives a portion of its funding from federal programs that are governed by various rules and regulations of the grantors. The ultimate determination of amounts received under these programs is generally based upon allowable costs reported to the government. Until such reviews have been completed and final settlement reached, there exists a contingency to refund and amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such reviews.

***Other*** – As of September 30, 2017, CDCB has \$12,033,811 in mortgage loans receivable outstanding (12,439,057 in 2016) and \$11,753,830 in investment in homes and land development projects (\$7,583,386 in 2016). Management is of the opinion that the net realizable values have not been impaired.

#### ***Subsequent Events***

In preparing the consolidated financial statements, CDCB has evaluated events and transactions for potential recognition through January 22, 2018 the date the consolidated financial statements were available to be issued.

## Community Development Corporation of Brownsville and Affiliates Notes to Consolidated Financial Statements

### Note 1: Organization and Significant Accounting Policies (Continued)

#### *Recent Accounting Pronouncements*

#### **Pending Adoption of Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842)**

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

#### **ASU No. 2016-14, Not-for Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities**

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A project to its agenda is to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's ("NFP") liquidity, financial performance, and cash flows. FASB's Not-for-Profit Advisory Committee and other stakeholders indicated that existing standards for financial statements of NFPs are sound but could be improved to provide more useful information to donors, grantors, creditors, and other users of financial statements. The amendments in this ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018.

#### **ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a Consensus of FASB Emerging Issues Task Force)**

In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a Consensus of the FASB Emerging Issues Task Force)*. Stakeholders indicated that diversity exists in the classification and presentation of changes in restricted cash on the statement of cash flows under *Topic 230, Statement of Cash Flows*. Entities classify transfers between cash and restricted cash as operating, investing, or financing activities, or as a combination of those activities, in the statement of cash flows. Also, some entities present direct cash receipts into, and direct cash payments made from, a bank account that holds restricted cash as cash inflows and cash outflows, which others disclose those cash flows as noncash investing or financing activities. This ASU addresses that diversity. The amendments in this ASU apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230.

## Community Development Corporation of Brownsville and Affiliates Notes to Consolidated Financial Statements

### Note 1: Organization and Significant Accounting Policies (Continued)

#### ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a Consensus of FASB Emerging Issues Task Force)

The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.

#### Pending Adoption of ASU No. 2014-09, Revenue From Contracts With Customers (Topic 606)

In May 2014, FASB issued ASU No. 2014-09, *Revenue From Contracts With Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standards will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, FASB issued ASU No. 2015-14 which defers the effective date of ASU No. 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. CDCB has not yet selected a transition method and is currently evaluating the effect the standard will have on its consolidated financial statements.

### NOTE 2: CASH AND CASH EQUIVALENTS

A summary of cash and cash equivalents is as follows:

<u>September 30,</u>	<u>2017</u>	<u>2016</u>
Bank deposits	\$ 3,072,592	\$ 795,215
Certificates of deposit	1,511,045	1,797,085
Repurchase agreements	826,466	753,401
Money Market Accounts	-	100,745
Tax guarantee reserve	60,224	60,224
<b>Total</b>	<b>\$ 5,470,327</b>	<b>\$ 3,506,670</b>

Restricted cash and cash equivalents represent escrow accounts relating to mortgage loans and cash held for deposit for property tax assessments for the La Hacienda Casitas apartment complex.

## Community Development Corporation of Brownsville and Affiliates

### Notes to Consolidated Financial Statements

#### NOTE 3: MORTGAGE LOANS RECEIVABLE

CDCB services different in-house loan products, the Affordable Housing Loan Program ("AHLP"), the Rural and Colonia Loan Program ("RCLP"), Neighborhood Stabilization Program ("NSP2"), and the CASA Loan ("CASA"). AHLP, CASA, and RCLP loan products are made to low-income individuals seeking new or replacement housing in conjunction with RGVMB, a United States Treasury Certified Community Development Financial Institution through which 9 stockholder institutions provide up to 80% to 85% of the permanent mortgage financing for each AHLP and CASA loan and 50% for each RCLP loan originated, with public funds providing the remaining 20%, 15%, and 50%, respectively. NSP2 loans are 0%, 30-year loans originated by CDCB utilizing NSP2 funds. All loans were for clients earning less than 50% of the area median family income.

CDCB prepares all security loan documentation, records, and sets up individual home mortgage loans on its computerized loan ledger system. All loan servicing, including receiving/recording payments, escrow collection, escrow tax and insurance payments, assessments, statements, and reconciliations are performed by CDCB. In addition, a Loan Servicing Administrator of CDCB, in conjunction with a HUD-certified housing counselor, issues letters of delinquency and negotiates special circumstance payment situations.

AHLP and CASA notes payable to participating financial institutions or the Federal Home Loan Bank ("FHLB") of Dallas are collateralized by whole mortgage loans, or first lien mortgage loans, based on 100% of the loan amount, of which financial institutions or the FHLB funds a maximum of 85% of the loan amount. On AHLP and RCLP, the federal, state, or local funds that provide for the other 20% of the mortgage to 50% of the mortgage funds is repayable, but the repayment is deferred until the financial institution has been paid. The financial institution receives all principal and interest from the payment stream first and an assignment of all collateral. Upon payoff of the financial institution's interest, the collateral is transferred back to CDCB for collection of the remaining balance. On the CASA, the 15% is fully repayable over the full 30-year amortization of the loan.

RCLP offers the client a 3.5%, twenty-year, fixed-rate loan. Four financial institutions, through RGVMB, each purchase participation shares in each loan pool, equal to 12.5% of the 50.0% of each loan pool.

Each loan pool is secured by the real estate collateral. In addition, each loan pool carries a fully funded "loan loss reserve" equal to 12% of the 50% of the financial institution's share in each pool, as well as a "payment reserve" equal to three months of principal and interest on each individual loan held in the pool. These reserves are held by RGVMB, as detailed in the program agreement.

**Community Development Corporation of Brownsville and Affiliates**  
**Notes to Consolidated Financial Statements**

**NOTE 3: MORTGAGE LOANS RECEIVABLE (Continued)**

Loans outstanding are as follows:

<i>September 30,</i>	<b>2017</b>	<b>2016</b>
AHLP	\$ 1,982,130	\$ 2,319,403
NSP2	2,255,831	2,362,969
CASA	7,517,628	7,431,404
Revolving loan fund	155,045	155,450
RCLP	123,177	169,831
<b>Mortgage loans</b>	<b>\$ 12,033,811</b>	<b>\$ 12,439,057</b>

**NOTE 4: INVESTMENT IN HOMES AND LAND DEVELOPMENT PROJECTS**

Rural and urban affordable housing subdivisions are developed by CDCB through raw land acquisition and infrastructure development, or CDCB acquiring improved lots from private-sector developers through multiphase purchase agreements.

Interim construction financing made available to CDCB is re-loaned by CDCB to its subdivision homebuilders at CDCB's pass-through interest rate. Investment in homes and land development projects is reported at cost. A substantial portion of the costs capitalized pertain to the cost paid to acquire and develop the land. Other costs include interest capitalized during the development period, grant advances, and interim construction advances to homebuilders for home construction.

Investment in home and land development projects by subdivision is as follows:

<i>September 30,</i>	<b>2017</b>	<b>2016</b>
California Crossing	\$ 407,931	\$ 7,501
El Naranjal Subdivision, Section III	113,416	-
El Naranjal Subdivision, Section IV	824,131	862,740
French River Valley Subdivision II	1,865,542	1,747,593
Campo Real Subdivision	206,762	274,993
Campo Real Subdivision II	309,675	309,675
Cisneros Estates	106,872	34,039
City of Brownsville Homes	27,245	141,415
Colonias Rehabilitation	2,489	195,919
HOP Homeownership Program	80,125	91,999
Inwood Subdivision II	113,416	214,632
Inwood Subdivision III	40,684	40,684
<i>(Continued)</i>		

**Community Development Corporation of Brownsville and Affiliates**  
**Notes to Consolidated Financial Statements**

**NOTE 4: INVESTMENT IN HOMES AND LAND DEVELOPMENT PROJECTS (Continued)**

<i>September 30,</i>	<b>2017</b>	<b>2016</b>
Mesquite Gardens Subdivision	\$ 659,669	\$ -
Harlingen CHDO HMS 187	52,736	-
Neighborhood Stabilization Program Homes I	-	6,084
Neighborhood Stabilization Program Homes II	-	325
Neighborhood Stabilization Program Homes III	19,540	940,272
Nonassisted lending	641,410	435,207
North Austin subdivision I	127,717	304,688
North Austin subdivision II	587,972	557,385
OCC Homes	-	250
Los Olmos Project Homes	652,979	524,838
Predevelopment Projects	65,531	186,223
Palo Alto Groves	3,098,878	-
Rapido Homes	-	7,193
TSACH Olmito Estates	496,297	-
Tradition Estates Subdivision	600,175	277,169
Villa Del Sur Subdivision II	290,119	60,359
Villa Del Sur Subdivision III	289,554	289,238
Commercial lots	72,965	72,965
<b>Total Investments</b>	<b>\$ 11,753,830</b>	<b>\$ 7,583,386</b>
<b>Less current portion</b>	<b>1,677,719</b>	<b>-</b>
<b>Long-term Investment</b>	<b>\$ 10,076,111</b>	<b>\$ 7,583,386</b>

Management has determined that \$1,677,719 are homes and lots currently in the process of being sold by year ending September 30, 2018.

**NOTE 5: INVESTMENT IN PARTNERSHIPS**

Pursuant to the Paloma Partnership and Los Olmos Partnership agreements described in Note 1, CDCB did not receive a capital distribution from the Partnership as of September 30, 2017 and 2016.

Investment in partnerships is accounted for under the equity method, the investment is initially recorded at cost, and is then increased or decreased by the proportionate share of the partnership's net earnings or losses.



## Community Development Corporation of Brownsville and Affiliates Notes to Consolidated Financial Statements

### **NOTE 5: INVESTMENT IN PARTNERSHIPS (Continued)**

#### ***Guarantees***

As also described in Note 1, CDCB is the sole member of Paloma Living. In accordance with the Paloma Partnership agreement, CDCB has the following guarantees:

- Funds necessary to pay operating deficits of no more than \$200,000 (\$0 in 2017 and 2016).
- Permanent loan in the amount of \$900,000 (\$703,085 and \$713,061, respectively, outstanding at September 30, 2017 and 2016).

As also described in Note 1, CDCB is the sole member of Los Olmos Partnership. In accordance with the Los Olmos Partnership agreement, CDCB has the following guarantees:

- Payment of excess development costs.
- Funds necessary to pay operating deficits of no more than \$352,353 (\$0 outstanding as of September 30, 2017).
- Bridge loan in the amount of \$118,368 (\$118,368 outstanding as of September 30, 2017).
- Permanent loan in the amount of \$2,525,000 (\$2,525,000 outstanding as of September 30, 2017).
- NeighborWorks in the amount of \$180,000 (\$180,000 outstanding at September 30, 2017).
- NSP Sponsor Loan in the amount of \$131,800 (\$131,800 outstanding at September 30, 2017).
- Seller loan in the amount of \$286,200 (\$286,200 outstanding at September 30, 2017).

### **NOTE 6: INVESTMENT IN JOINT VENTURE**

Community Development Corporation of Brownsville invested, along with two other Housing Partnership Network, Inc. members, in a partnership (HPN Leverage II, LLC) with 33.33% ownership to take advantage of New Market Tax Credit (NMTC) financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new market tax credits to be applied against their federal tax liability. As a result, the Organization has invested \$3,352,682 and was able to secure a 20-year loan in the amount of \$4,875,000 payable to a community development entity. The loan proceeds are to be used solely for the purpose of acquiring, rehabbing, and/or constructing single-family homes in qualified census tracts and selling at least 60% of such homes to low-income person. The loan accrues interest only for years 1 through 7 at a reduced rate of 0.6877985% per year. Beginning in year 8 through year 20, the principal balance of the loan is reduced by a twelve-year amortization at the same rate of 0.6877985%.

**Community Development Corporation of Brownsville and Affiliates**  
**Notes to Consolidated Financial Statements**

**NOTE 7: LONG-TERM INVESTMENTS**

Long-term investments consist of the following:

	2017	2016
Equity interest in Los Olmos Partnership	\$ 1,090	\$ 1,090
Investment in HPN Leverage II, L.L.C. (New Market Tax Credit Joint Venture)	3,352,682	
RGV Multibank Stock 95,538 shares	200,000	
<b>Long-term investments</b>	<b>\$ 3,553,772</b>	<b>\$ 1,090</b>

**NOTE 8: PROPERTY AND EQUIPMENT – NET**

Property and equipment – net consist of the following:

<i>September 30,</i>	2017	2016
Building and Improvements	\$ 1,373,596	\$ 1,373,594
Vehicles	143,627	140,132
Computer Equipment	236,002	228,535
Furniture and Fixtures	17,279	17,279
	<b>1,770,504</b>	<b>1,759,540</b>
 Less accumulated depreciation	 <b>1,125,732</b>	 <b>1,074,342</b>
	 <b>\$ 644,772</b>	 <b>\$ 685,198</b>

CDCB had depreciation expense of \$59,830 and \$51,609 for the years ended September 30, 2017 and 2016, respectively.

**NOTE 9: TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following:

<i>September 30,</i>	2017	2016
Grants- NEXT award	\$ -	\$ 200,000
Property and equipment - net (Youthbuild)	-	42,227
Colonia revolving	29,307	24,513
	<b>\$ 29,307</b>	<b>\$ 266,740</b>

**Community Development Corporation of Brownsville and Affiliates**  
**Notes to Consolidated Financial Statements**

**NOTE 9: TEMPORARILY RESTRICTED NET ASSETS (Continued)**

Net assets released from restrictions consist of the following:

<i>Years ended September 30,</i>	<b>2017</b>	2016
Grants	<b>\$ 3,117,939</b>	\$ 3,104,264
Neighborhood Stabilization Program Homes II	-	2,414
Property and Equipment - net (Youthbuild)	-	954
NEXT Award	<b>200,000</b>	-
	<b>\$ 3,317,939</b>	\$ 3,107,632

**NOTE 10: PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets consist of the following:

<i>September 30,</i>	<b>2017</b>	2016
NeighborWorks capital grant	<b>\$ 510,000</b>	\$ 510,000
	<b>\$ 510,000</b>	\$ 510,000

**NOTE 11: NOTES PAYABLE**

Area banks and RGVMB supply CDCB with various types of financing for its housing programs. For land acquisition of raw land or improved lots, the financial institutions provide funds for land/lot purchase (acquisition notes payable). For infrastructure development on raw land, the financial institutions provide infrastructure development financing (development notes payable), and for interim construction financing for the construction of new, single-family homes, the financial institutions provide interim construction financing (interim construction notes payable).

**Community Development Corporation of Brownsville and Affiliates**  
**Notes to Consolidated Financial Statements**

**NOTE 11: NOTES PAYABLE (Continued)**

Notes payable consist of the following:

<i>September 30,</i>	<b>2017</b>	2016
<b>Lines of Credit</b>		
\$500,000 line of credit payable to BBVA Compass interest at Compass Bank prime rate less .45%(3.80%), principal is due June 27, 2018 and interest is due monthly, starting on July 27, 2017	\$ 391,000	\$ -
\$8,000,000 line of credit payable to RGVMB, principal and interest at the FHLB 20-30 year rate plus 2.00%; due March 8, 2036	\$ 6,060,050	\$ 6,138,932
\$1,000,000 warehouse line of credit payable to International Bank of Commerce, principal and interest at the Wall Street Journal prime rate (3.25%) plus 1.00% due December 23, 2017, collateralized by assignment of notes	395,128	254,293
Total lines of credit	\$ 6,846,178	\$ 6,393,225

**Notes payable**

Various notes payable to RGVMB, due in monthly installments ranging from \$8,309 to \$10,510, interest at 7.00%, collateralized by mortgage loans receivable and a first lien against the underlying collateral due during fiscal years 2018-2019	\$ 260,229	\$ 593,818
\$1,300,000 note payable to Frost Bank, interest at the Wall Street Journal prime rate, principal is due March 7, 2018 and interest is due monthly, starting on October 7, 2017.	1,300,000	-



## Community Development Corporation of Brownsville and Affiliates Notes to Consolidated Financial Statements

### **NOTE 13: RETIREMENT PLAN**

CDCB has a defined contribution plan that covers all employees who have completed two years of service, as defined in the plan agreement. Contributions to the plan are at the discretion of the Board of Directors, subject to the maximum amount allowable pursuant to the provisions of the IRC. During the year ended September 30, 2017, contributions to the plan totaled \$138,196 (\$118,607 in 2016).

### **NOTE 14: CONCENTRATION OF CREDIT RISK**

Cash balances are maintained by CDCB at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to a maximum of \$250,000. At September 30, 2017, cash deposits exceeded this coverage limit by approximately \$250,000 (approximately \$250,000 in 2016).

Mortgage loans to purchase homes are made to low-income families located in Cameron County and Willacy County, Texas. To secure the mortgage loans, CDCB will accept a lien against the home. The borrower's ability to repay the mortgage loans and the value of the collateral are contingent upon a variety of economic factors affecting the area.

### **NOTE 15: REVOLVING FUND**

CDCB received monies from various sources, which were originally recorded as grant income. These monies were subsequently loaned to CDCB clients and recorded as mortgage loans and other liabilities in accordance with CDCB's RCLP. RCLP provides mortgage financing for low-income persons residing in rural and Colonia areas in combination with funds provided through RGVMB. Collection of these mortgage loans will commence after RGVMB's participation debt has been satisfied. Revolving fund liabilities for this program at September 30, 2017 totaled \$517,435 (\$502,393 for 2016).

CDCB received a Community Development Block Grant – State of Texas passed through Cameron County, Texas to fund minor repairs of homes for low-income families living in colonia areas. The funds were subsequently granted or loaned, with the loan amounts to be repaid over various maturities (five to ten years), interest-free. These funds, when repaid, are recorded in a revolving fund account. Accordingly, CDCB has recorded these as mortgage loans and a corresponding liability. Revolving fund liabilities at September 30, 2017 totaled \$200,306 (\$276,172 for 2016).

### **NOTE 16: OTHER LIABILITIES – NSP2**

CDCB received NSP2 monies for acquisition and rehabilitation of foreclosed homes. These NSP2 funds then provide mortgage financing for low-income families. Accordingly, CDCB has recorded these as mortgage loans and a corresponding liability. The other liabilities on these homes as of September 30, 2017 totaled \$2,257,652 (\$2,363,102 in 2016).



**Community Development Corporation of Brownsville and Affiliates**  
**Notes to Consolidated Financial Statements**

**NOTE 17: RELATED PARTY TRANSACTIONS**

On March 9, 2017, CDCB purchased 95,538 shares of RGV Multibank, essentially purchasing 6.7% of the company for \$200,000.

The CDCB services the loans the RGV Multibank owns and receives a servicing fee during the year for that service. In 2017, CDCB received a total of \$259,995 for servicing fees from RGV Multibank.

**NOTE 18: RECLASSIFICATION IN EQUITY**

Net assets as of the beginning of the fiscal year have been adjusted to increase Unrestricted Net Assets and decrease Temporarily Restricted Net Assets, due to a grant being released from restrictions in prior year, but had not been adjusted by prior auditors. The correction has no effect on the results of the current year's activities; however the cumulative effect increased Unrestricted Net Assets by \$42,227 and decreased Temporarily Restricted Net Assets by the same amount.



**SUPPLEMENTARY INFORMATION**



**Community Development Corporation of Brownsville and Affiliates**  
**Schedule of Loan Delinquency and Aging – Unaudited**  
**Year Ended September 30, 2017**

Loan Portfolio Products	Outstanding Principal Balance	Amount Delinquent	Percent Delinquent
AHLP	\$ 1,044,521	\$ 322,708	30.90%
CASA loan	7,517,628	556,890	7.41%
RCLP	379,251	65,563	17.29%
COLONIA	12,032	-	0.00%
NSP2	2,255,831	260,104	11.53%
Lots/other	337,153	46,372	13.75%
Commercial property	289,626	-	0.00%
<b>Totals</b>	<b>\$ 11,836,042</b>	<b>\$ 1,251,637</b>	<b>10.57%</b>

Bucket	Loan Count	Current Principal Amount	Delinquency Percent
Current loans	273	\$ 10,584,406	N/A
Over 30 days delinquent	25	704,808	5.95%
Over 60 days delinquent	13	502,920	4.25%
Over 90 days delinquent	3	43,909	0.37%
<b>Totals</b>	<b>314</b>	<b>\$ 11,836,043</b>	<b>10.57%</b>

**Community Development Corporation of Brownsville and Affiliates**  
**Schedule of Activities – Natural Classification**  
**Year Ended September 30, 2017**

	Single Family	Youthbuild	Rehabs	Counseling	Multi-Family	Special Service	General & Admin	Total
<b>REVENUES</b>								
Grants	\$ 203,741	\$ 508,902	\$ 70,559	\$ 164,806	\$ 105,716	\$ 145,945	\$ 171,613	\$ 1,371,282
Grants - Homes	1,845,634	-	578,620	-	-	-	-	2,424,254
Home & Lots Sales	957,999	-	-	-	-	-	-	957,999
Net Fees	215,711	-	-	-	-	-	-	215,711
Interest income	-	-	4,794	-	-	487,640	56,534	548,968
Contributions	-	-	-	-	-	-	-	-
Developer Fee	51,519	-	-	-	250,085	-	-	301,604
Equity in earnings - RGV Casitas	34,970	-	-	-	-	-	-	34,970
Multi-Family Revenue	-	-	-	-	53,302	-	-	53,302
Multi-Bank Management Fees	-	-	-	-	-	259,995	-	259,995
NSP/II Earned Income	-	-	-	-	-	47,974	-	47,974
Other Earned Income	19,904	1,093	5,000	23,492	72,630	58,874	131,381	312,374
<b>REVENUES</b>	<b>\$ 3,329,478</b>	<b>\$ 509,995</b>	<b>\$ 658,973</b>	<b>\$ 188,298</b>	<b>\$ 481,733</b>	<b>\$ 1,000,428</b>	<b>\$ 359,528</b>	<b>\$ 6,528,433</b>
<b>TOTAL INCOME</b>	<b>\$ 3,329,478</b>	<b>\$ 509,995</b>	<b>\$ 658,973</b>	<b>\$ 188,298</b>	<b>\$ 481,733</b>	<b>\$ 1,000,428</b>	<b>\$ 359,528</b>	<b>\$ 6,528,433</b>
<b>EXPENSES</b>								
Salaries	400,227	326,562	51,548	168,965	157,637	219,106	368,389	1,692,434
Student salaries & stipends	-	37,990	-	-	-	-	-	37,990
Fringe benefits	131,411	108,420	18,669	53,052	48,431	75,438	104,039	539,460
Travel	7,679	4,480	-	6,383	196	90	16,814	35,642
Equipment	489	17,953	-	-	-	-	6,518	24,960
Supplies	5,180	6,844	384	1,921	1,408	3,705	3,921	23,363
Contractual	27,478	12,278	9,544	7,730	5,233	9,818	24,759	96,840
Other	161,423	111,850	22,348	42,232	125,023	47,199	346,546	856,621
Interest Expense	-	-	-	-	-	350,983	-	350,983
Homes	1,845,634	-	578,620	-	-	-	-	2,424,254
Cost of Home & Lots Sales	762,644	-	-	-	-	-	-	762,644
<b>TOTAL EXPENSES</b>	<b>\$ 3,342,165</b>	<b>\$ 626,377</b>	<b>\$ 681,113</b>	<b>\$ 280,283</b>	<b>\$ 337,928</b>	<b>\$ 706,339</b>	<b>\$ 870,986</b>	<b>\$ 6,845,191</b>
<b>NET CHANGE</b>	<b>\$ (12,687)</b>	<b>\$ (116,382)</b>	<b>\$ (22,140)</b>	<b>\$ (91,985)</b>	<b>\$ 143,805</b>	<b>\$ 294,089</b>	<b>\$ (511,458)</b>	<b>\$ (316,758)</b>