Development Corporation of Tarrant County

Independent Auditor’s Report and Consolidated Financial Statements

December 31, 2017

BKD LLP
CPAs & Advisors

Development Corporation of Tarrant County
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Contents

BKD LLP
CPAs & Advisors

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Independent Auditor's Report

Board of Directors
Development Corporation of Tarrant County
Fort Worth, Texas

We have audited the accompanying consolidated financial statements of the Development Corporation of Tarrant County (DCTC) and its subsidiary - Sansom Ridge, LP (the Partnership), collectively the "Organization", which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and cash flows for the periods 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 consolidated 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 consolidated financial statements based on our audit. We did not audit the financial statements of the Partnership, which statements reflect total assets constituting 83% of consolidated total assets at December 31, 2017, total net assets constituting 48% of consolidated total net assets at December 31, 2017, and total revenues, gains, and other support constituting 1% of consolidated total revenues, gains, and other support for the period then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Partnership, is based solely on the report of the other auditors. 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 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 auditor's 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 based on our audit and the report of the other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2017, and the changes in its net assets and its cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Dallas, Texas
June 19, 2018

Development Corporation of Tarrant County

Consolidated Statement of Financial Position

December 31, 2017

	Development Corporation of Tarrant County	Sansom Ridge, LP	Eliminations	Consolidated
Assets				
Cash and cash equivalents	$ 236,421	$ 65,781	$ -	$ 302,202
Cash held in separate account	442,319	-	-	442,319
Total cash and cash equivalents	678,740	65,781	-	744,521
Restricted cash	-	3,610,761	-	3,610,761
Investments	208,311	-	-	208,311
Accrued interest	534,183	-	-	534,183
Prepaid expenses and other	15,883	-	-	15,883
Accounts receivable	14,862	840	(14,862)	840
Note receivable	1,751,029	-	(800,000)	951,029
Due from Sansom Pointe Senior, LP	-	16,772	-	16,772
House inventory	420,415	-	-	420,415
Property and equipment, net	1,386,236	17,242,752	-	18,628,988
Total assets	$ 5,009,659	$ 20,936,906	$ (814,862)	$ 25,131,703
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	$ 34,424	$ 132,176	$ (14,862)	$ 151,738
Lines of credit	355,819	-	-	355,819
Contractor and retainage payable	-	1,401,767	-	1,401,767
Security deposits	13,640	-	-	13,640
Due to developer	-	44,639	-	44,639
Due to LDG Development, LLC	-	86,228	-	86,228
Due to Xpert Design and Construction, LLC	-	75,058	-	75,058
Development fee payable	-	2,287,484	-	2,287,484
Note payable	-	800,000	(800,000)	-
Bonds payable	-	11,803,416	-	11,803,416
Total liabilities	403,883	16,630,768	(814,862)	16,219,789
Net Assets				
Unrestricted	4,605,776	-	-	4,605,776
Noncontrolling interest	-	4,306,138	-	4,306,138
Total net assets	4,605,776	4,306,138	-	8,911,914
Total liabilities and net assets	$ 5,009,659	$ 20,936,906	$ (814,862)	$ 25,131,703

Development Corporation of Tarrant County

Consolidated Statement of Activities

Period Ended December 31, 2017

	Development Corporation of Tarrant County	Sansom Ridge, LP	Eliminations	Consolidated
Revenues, Gains and Other Support				
Federal grants	$ 377,791	$ -	$ -	$ 377,791
Other non-federal grants	20,029	-	-	20,029
Developer fees	84,883	-	-	84,883
Construction management fees	218,862	-	(14,862)	204,000
Sale of property	448,385	-	-	448,385
Rental income	654,343	11,318	-	665,661
Interest income	61,332	-	-	61,332
Other income	30	1,721	-	1,751
Total revenues, gains and other support	1,865,655	13,039	(14,862)	1,863,832
Expenses				
Program services:				
Cost of property sold	580,909	-	-	580,909
Closing costs and other program expenses	141,737	-	-	141,737
Dues	1,963	-	-	1,963
Insurance	6,096	-	-	6,096
Rental expenses	543,821	21,250	-	565,071
Total program expenses	1,274,526	21,250	-	1,295,776
Supporting services:				
Management and general	430,980	112,423	(14,862)	528,541
Total expenses	1,705,506	133,673	(14,862)	1,824,317
Change in Net Assets from Operating Activities	160,149	(120,634)	-	39,515
Non-operating Income				
Capital contributions	-	3,047,543	-	3,047,543
Change in Net Assets from Non-operating Activities	-	3,047,543	-	3,047,543
Change in Net Assets	160,149	2,926,909	-	3,087,058
Net Assets, Beginning of Period	4,445,627	1,379,229	-	5,824,856
Net Assets, End of Period	$ 4,605,776	$ 4,306,138	$ -	$ 8,911,914

Development Corporation of Tarrant County

Consolidated Statement of Cash Flows

Period Ended December 31, 2017

	Development Corporation of Tarrant County	Sansom Ridge, LP	Eliminations	Consolidated
Operating Activities				
Change in net assets	$ 160,149	$ 2,926,909	$ -	$ 3,087,058
Items not requiring (providing) operating cash flows				
Depreciation and amortization	98,498	28,746	-	127,244
Interest reinvested	(1,483)	-	-	(1,483)
Capital contributions	-	(3,047,543)	-	(3,047,543)
Changes in				
Accounts receievable	(14,862)	(840)	14,862	(840)
Grants receivable	693,915	-	-	693,915
Prepaid expenses and other	5,781	-	-	5,781
Accrued interest	(59,775)	-	-	(59,775)
House inventory	(141,132)	-	-	(141,132)
Accounts payable and accrued expenses	(13,947)	8,242	(14,862)	(20,567)
Security deposits	3,740	10,000	-	13,740
Net cash provided by (used in) operating activites	730,884	(74,486)	-	656,398
Investing Activities				
Purchase of property and equipment	(61,986)	(11,040,277)	-	(11,102,263)
Net deposits to restricted cash - investing	-	8,116,726	-	8,116,726
Net cash used in investing activities	(61,986)	(2,923,551)	-	(2,985,537)
Financing Activities				
Net repayments/draws on lines of credit	(284,402)	-	-	(284,402)
Capital contributions	-	3,047,543	-	3,047,543
Net cash provided by (used in) financing activities	(284,402)	3,047,543	-	2,763,141
Increase in Cash and Cash Equivalents	384,496	49,506	-	434,002
Cash and Cash Equivalents, Beginning of Period	294,244	16,275	-	310,519
Cash and Cash Equivalents, End of Period	$ 678,740	$ 65,781	$ -	$ 744,521
Reconciliation to Statements of Financial Position				
Cash and cash equivalents	$ 236,421	$ 65,781	$ -	$ 302,202
Cash held in separate account	442,319	-	-	442,319
Cash and Cash Equivalents, End of Period	$ 678,740	$ 65,781	$ -	$ 744,521

Development Corporation of Tarrant County

Consolidated Statement of Cash Flows (Continued)

Period Ended December 31, 2017

	Development Corporation of Tarrant County	Sansom Ridge, LP	Eliminations	Consolidated
Supplemental Cash Flows Information				
Interest paid	$ 16,318	$ 17,096	$ -	$ 33,414
Interest paid - capitalized	$ -	$ 519,919	$ -	$ 519,919
Supplemental Disclosure of Noncash Investing and Financing Activities				
Increase in fixed assets attributable to:				
Reclassification from construction in progress	$ -	$ 317,230	$ -	$ 317,230
Accounts payable	$ -	$ 8,149	$ -	$ 8,149
Contractor payable	$ -	$ 830,039	$ -	$ 830,039
Retainage payable	$ -	$ 714,856	$ -	$ 714,856
Due to developer	$ -	$ 8,879	$ -	$ 8,879
Due to LDG Development, LLC	$ -	$ 27,342	$ -	$ 27,342
Due to Xpert Design and Construction, LLC	$ -	$ 75,058	$ -	$ 75,058
Construction management fee payable	$ -	$ 43,569	$ -	$ 43,569
Development fee payable	$ -	$ 1,817,176	$ -	$ 1,817,176
Capitalization/amortization of debt issuance costs, net	$ -	$ 184,322	$ -	$ 184,322

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of The Development Corporation of Tarrant County (DCTC) and Sansom Ridge, LP (the Partnership), collectively the "Organization". The fiscal year end of DCTC was changed from September 30 to December 31. Accordingly, the accompanying financial statements of DCTC are prepared for the fifteen month period of October 1, 2016 through December 31, 2017. The Partnership's fiscal year end is December 31. All significant interorganization balances and transactions have been eliminated in consolidation.

Nature of Operations

DCTC was incorporated in 1998 and is a not-for-profit organization whose mission is to lessen the burden of government, combat community deterioration, and relieve the poor and distressed by performing activities to ensure that low and moderate income residents of Tarrant County, Texas have access to decent, affordable housing and community-based facilities in all areas of the county. DCTC also manages and operates a multi-family rental property for low-to-moderate income residents. DCTC is primarily supported by grant funds which are passed through Tarrant County from the U.S. Department of Housing and Urban Development and the proceeds from the sale of those grant-funded houses.

The Partnership was formed on January 26, 2016 to construct, develop and operate a 100-unit apartment project, known as Sansom Ridge Apartments (the Project), in Sansom Park, Texas. The Project is to be rented to low income tenants and is operated in a manner necessary to qualify for federal low-income housing tax credits as provided for in Section 42 of the Internal Revenue Code. The general partner is Sansom Ridge GP, LLC (the General Partner) and is solely owned by DCTC. The initial investor limited partner was Sansom Ridge SLP, LLC; however, on August 1, 2016, Sansom Ridge SLP, LLC transferred 99.98% of its interest in the Partnership to Garnet LIHTC Fund XLVIII, LLC (the Investor Limited Partner). After the transfer on August 1, 2016, Sansom Ridge SLP, LLC became the Class B limited partner (the Class B Limited Partner). The special limited partner is Transamerica Affordable Housing, Inc. (the Special Limited Partner). The Partnership will operate until December 31, 2070, or until its earlier dissolution or termination.

Profits, losses, and tax credits are allocated in accordance with the Amended and Restated Limited Partnership Agreement, dated August 1, 2016 and amendments thereon (the Partnership Agreement). Profits and losses from operations and low-income housing tax credits are allocated 0.01% to the General Partner, 99.98% to the Investor Limited Partner, 0.00% to the Special Limited Partner and 0.01% to the Class B Limited Partner.

Pursuant to the Partnership Agreement, the Investor Limited Partner is required to provide capital contributions to the Partnership totaling $7,735,538, subject to adjustments based on the amount and timing of low-income housing tax credits allocated to the Project in addition to other occurrences which are fully explained in the Partnership Agreement. As of December 31, 2017, the Limited Partner had provided cumulative capital contributions in the amount of $4,485,879.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents.

At December 31, 2017, the Organization's cash accounts exceeded federally insured limits by approximately $245,000.

Cash Held in Separate Account

DCTC receives grant funds to acquire and rehabilitate housing units for resale to eligible homebuyers. The grant agreement requires that the unspent grant proceeds and proceeds from the sale of houses be placed in a separate bank account. At December 31, 2017, the balance in this account totaled $442,319.

Restricted Cash

Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions for construction of the Project and administration of bond proceeds.

Investments

Investments consist of two certificates of deposits with original maturities of six months. The certificates of deposits are valued at cost which approximates fair value.

Notes Receivable

Notes receivable are reported at their outstanding principal balance. Notes receivable represents a loan made to a partnership to provide financing to construct two apartment complexes for low-to-moderate income family households. Interest income on the notes receivable is recognized when earned.

House Inventory

Houses that are purchased or constructed with the intent to resell to low-income families are recorded at cost including any needed repairs.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building and improvements	3 - 40 years
Furniture and equipment	3 - 10 years

Long-lived Asset Impairment

Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount. No asset impairment was recognized during the period ended December 31, 2017.

Government Grants

Support funded by grants is recognized as DCTC performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Rental Income

Rental income is recognized as rent becomes due. All leases between the Organization and the tenants of the property are operating leases.

Developer Fees

Developer Fees are generally earned by DCTC at a rate of either 15% of the sales price on all projects funded by Tarrant County or 15% of the development cost on all City of Arlington projects.

Income Taxes

DCTC is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, DCTC is subject to federal income tax on any unrelated business taxable income. DCTC files tax returns in the U.S. federal jurisdiction.

With a few exceptions, DCTC is no longer subject to U.S. federal examinations by tax authorities for years before 2014.

Income taxes on partnership income are levied on the partners at the partner level. Accordingly, all profits and losses of the Partnership are recognized by each partner on its respective tax return. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Partnership to report information regarding its exposure to various tax positions taken by the Partnership. Management has determined whether any tax positions have met the recognition threshold and has measured the Partnership's exposure to those tax positions. Management believes that the Partnership has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Partnership are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying consolidated financial statements.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the program and management and general categories.

Note 2: Restricted Cash

Bond Funds

Pursuant to the Trust Indentures, the Partnership established various funds and accounts held with the Bank of Texas, N.A. (the "Trustee"). The bond funds are used for payments including, but not limited to, construction of the Project, interest, fees, and repayment of the bonds. As of December 31, 2017, the balance of the bond fund was $3,610,761.

Replacement Reserve

Pursuant to the Partnership Agreement, beginning in the month in which the last unit is leased to a tenant, the Partnership is required to make annual deposits equal to $250 per unit, increasing annually by 3% beginning on January 1 of the first fiscal year following the initial funding of the replacement reserve. Withdrawals from the replacement reserve greater than $10,000 require the approval of the Investor Limited Partner, Special Limited Partner and Class B Limited Partner. As of December 31, 2017, the requirement to fund the replacement reserve had not been met, and the replacement reserve had not been funded.

Operating Reserve

Pursuant to the Partnership Agreement, upon the receipt of the Investor Limited Partner's Fourth Federal Payment contribution, the Partnership is required to deposit $485,494 into an operating reserve account in order to fund operating deficits through the compliance period of the Partnership.

Disbursements from the operating reserve require the approval of the Investor Limited Partner and Class B Limited Partner. As of December 31, 2017, the Investor Limited Partner's Fourth Federal Payment contribution had not been provided and the operating reserve had not been funded.

Earn-out Reserve

Pursuant to the Partnership Agreement, upon the receipt of the Investor Limited Partner's Third Federal Payment contribution, the Partnership is required to deposit $775,000 into an earn-out reserve account in accordance with the Trust Indentures. Disbursements from the earn-out reserve require the approval of the Investor Limited Partner and Special Limited Partner. As of December 31, 2017, the Investor Limited Partner's Third Federal Payment contribution had not been provided and the earn-out reserve had not been funded.

Note 3: Notes Receivable

DCTC made a loan to a partnership to provide financing to construct two apartment complexes for low-to-moderate income family households. This action furthers its mission to supply affordable housing. This loan is detailed below as of December 31, 2017:

Annual payments of $61,404 including interest of 5.02% to begin after the borrower's 2009 fiscal year-end, subject to available net cash flow, maturing October 27, 2036, secured by the complex, subordinated to a first lien holder.	$ 951,029

Interest is recognized when earned. Accrued interest on this note receivable was $534,183 as of December 31, 2017. Based upon evaluation of the property's operations, management considers the note and accrued interest fully collectable and no allowance is necessary. Since the loan is fully collateralized by the properties, management considers the credit risk to be minimal.

Note 4: House Inventory

DCTC constructs and rehabilitates housing units with the intent of reselling them to low-income families. As of December 31, 2017, DCTC has completed and sold homes with costs as detailed below:

Inventory at beginning of period	$ 510,580
Property purchased and constructed	176,058
Rehabilitation expenses	636,040
Sale of homes	(902,263)
Balance at end of period	$ 420,415

Note 5: Property and Equipment

Property and equipment as of December 31, 2017 consists of:

Land	$ 268,000
Building	12,280,431
Building improvements	2,028,951
Furniture, equipment, and software	548,793
Construction in progress	3,922,358
Less accumulated depreciation	419,545
	$ 18,628,988

Note 6: Lines of Credit

DCTC has a $500,000 line of credit used to pay for the Cornerstone Apartments expiring on May 14, 2023. At December 31, 2017 there was $249,861, borrowed against this line. The line is collateralized by the Cornerstone Apartments. Interest varies based on the Wall Street Journal prime rate, which was 4.50% on December 31, 2017 and is payable monthly. Interest of $13,035 was paid during 2017.

DCTC has a second line of credit of $150,000 to accommodate cash flow needs expiring on March 16, 2019. At December 31, 2017 there was $105,958 borrowed against this line. The line is collateralized by a certificate of deposit. Interest on this line is 2.70% and is payable monthly. Interest of $3,283 was paid during 2017.

Note 7: Bonds Payable

Series A

In order to provide funds for the Partnership to finance the construction of the Project, Tarrant County Housing Finance Corporation (TCHFC) issued Multi-Family Housing Revenue Bonds (Sansom Ridge Apartments) Series 2016A (the “Series A Bonds”) in the principal amount of $9,500,000, which are secured by the Project. On August 1, 2016, FMSbonds, Inc. entered into a purchase agreement with TCHFC whereby it agreed to purchase the bonds and lend the proceeds to the Partnership.

The Partnership executed a note with TCHFC which set forth the Partnership’s obligation to pay to the Trustee sufficient funds to enable the Trustee to pay any principal, premiums, and interest due on the Bonds. TCHFC assigned its rights, title and interest, subject to certain contingency claims, in the notes to the Trustee.

The Partnership executed an agreement with JP Morgan Chase Bank, N.A. (JP Morgan) whereby JP Morgan issued an irrevocable letter of credit related to the Series A Bonds in the total amount of $9,542,487 (the "Letter of Credit Amount") for the benefit of the Trustee. Letter of credit fees equal to 1.25% annually of the Letter of Credit Amount are due and payable monthly. During 2017, letter of credit fees of $111,263 were incurred and capitalized to property and equipment.

The Series A Bonds mature on July 1, 2056. The Series A Bonds bear interest at the rate of 4.50% per annum. The Series A Bonds are subject to optional redemption in whole or in part on or after January 1, 2033.

During 2017, interest of $427,800 was incurred, of which $414,153 was capitalized to property and equipment and $13,647 was expensed. As of December 31, 2017, outstanding principal and accrued interest were $9,500,000 and $35,625, respectively.

The Partnership executed a memorandum of understanding agreement (the "MOU Agreement") with Red Stone Servicer, LLC, the servicer of the Series A Bonds (the "Servicer"). Under the MOU Agreement, if the Series A Bonds interest rate is greater than the sum of the Securities Industry and Financial Markets Association Municipal Swap Index rate plus 2.85%, the Servicer pays the Partnership the difference between the two rates multiplied by the outstanding principal amount of the Series A Bonds. If the Series A Bonds interest rate is less than the sum of the Securities Industry and Financial Markets Association Municipal Swap Index rate plus 2.85%, the Partnership pays the Servicer the difference between the two rates multiplied by the outstanding principal amounts of the Series A Bonds. During 2017, the Partnership received net funds from the Servicer of $77,894. As of December 31, 2017, net funds received from the Servicer totaled $101,056, which are included in construction in progress on the accompanying consolidated statement of financial position.

As of December 31, 2017, bonds payable – Series A consisted of:

Principal balance	$ 9,500,000
Less: unamortized debt issuance costs	(406,019)
	$ 9,093,981

Debt issuance costs associated with the Series A Bonds are being amortized to interest expense over the term of the bonds. During 2017, the average effective interest rate was 5.42%. During 2017, interest expense for debt issuance costs associated with the Series A Bonds was $88,146, and was capitalized to property and equipment.

For each of the next five years and thereafter, future minimum principal payments are due as follows:

2018	$ -
2019	-
2020	25,000
2021	85,000
2022	90,000
Thereafter	9,300,000
	$ 9,500,000

Series B

In order to provide funds for the Partnership to finance the construction of the Project, TCHFC also issued Multi-Family Housing Revenue Bonds (Sansom Ridge Apartments) Series 2016B (the Series B Bonds) in the principal amount of $2,850,000, which are secured by the Project. On August 1, 2016, JP Morgan entered into a purchase agreement with TCHFC whereby it agreed to purchase the bonds and lend the proceeds to the Partnership.

The Series B Bonds mature on July 1, 2019 and bear interest at the rate of 3.79% per annum. The Series B Bonds are subject to optional redemption in whole or in part on or after August 25, 2017.

The Partnership executed a note with TCHFC which set forth the Partnership's obligation to pay to the Trustee sufficient funds to enable the Trustee to pay any principal, premiums, and interest due on the Bonds. TCHFC assigned its rights, title and interest, subject to certain contingency claims, in the notes to the Trustee.

During 2017, interest of $109,215 was incurred, of which $105,766 was capitalized to property and equipment and $3,449 was expensed. As of December 31, 2017, outstanding principal and accrued interest was $2,850,000 and $9,001, respectively.

As of December 31, 2017, bonds payable – Series B consisted of:

Principal balance	$ 2,850,000
Less: unamortized debt issuance costs	(140,565)
	$ 2,709,435

Debt issuance costs associated with the Series B Bonds are being amortized to interest expense over the term of the bonds. During 2017, the average effective interest rate was 7.21%. During 2017, interest expense for debt issuance costs associated with the Series B Bonds was $96,176, and was capitalized to property and equipment. Future minimum principal payments are $0 for year ending 2018 and $2,850,000 for the year ending December 31, 2019.

Note 8: Application and Distribution of Operating Cash Flow

Pursuant to the Partnership Agreement, operating cash flow is distributable as follows:

1. To the Investor Limited Partner to pay any unpaid Excess Federal Adjuster and/or any Capital Adjuster Distribution;
2. To AEGON USA Realty Advisors, LLC ("AEGON") to pay any unpaid asset management fees;
3. $50 per unit into the replacement reserve, increased annually by 3%;
4. To the payment of the Development Fee Note until it is paid in full;
5. $15,000 to LDG Development, LLC ("LDG"), to pay the annual rent pursuant to the ground lease agreement;
6. To the repayment of any Operating Deficit Loans;
7. 90% of the remaining balance to pay the Incentive Management Fee, and thereafter as a distribution;
8. The remaining balance to the partners in accordance with their respective partnership interests.

Note 9: Related Party Transactions

Asset Management Fee

Pursuant to the Partnership Agreement, AEGON, a related party of the Investor Limited Partner and the Special Limited Partner, is entitled to receive an asset management fee in the amount of $7,500 for an annual review of the operations of the Partnership commencing in the year of the Completion Date, and increasing by 3% on the first day of each subsequent year. The asset management fee is payable from operating cash flow, and is due on the Completion Date, is not subject to proration for the first year and is due on January 1 each subsequent year after the Completion Date. As of December 31, 2017, the Completion Date had not occurred and there were no asset management fees incurred or paid.

Development Fee Payable

Pursuant to the Development Services Agreement between LDG Multifamily, LLC (the Developer), a related party of the Class B Limited Partner and the Partnership, the Developer is entitled to earn a development fee in the amount of $2,351,540 for services rendered to the Partnership for overseeing the construction of the Project, payable from capital contributions and operating cash flow.

The development fee payable does not bear interest. The development fee payable is required to be paid in full by December 31 of the fifteenth year following the year in which Substantial Completion occurs. During 2017, development fees of $1,817,176 were incurred and capitalized into property and equipment. As of December 31, 2017, the development fee payable was $2,287,484.

Ground Lease

On August 1, 2016, the Partnership entered into a 75-year ground lease agreement (the “Ground Lease”) with LDG Development, LLC (“LDG”), a related party of the Class B Limited Partner. The Partnership is bound by the responsibilities and obligations in the Ground Lease. Annual rent in the amount of $15,000 is required to be paid from operating cash flow. During 2017, ground lease rent expense of $21,250 was incurred. As of December 31, 2017, ground lease rent payable to LDG was $21,250. For each of the next five years, future minimum lease payments are $15,000 per year.

Operating Deficit Loans

Pursuant to the Partnership Agreement, if the Partnership requires any funds to cover operating deficits during the Operating Deficit Guaranty Period, the General Partner is required to provide operating deficit loans up to $1,900,000. The Operating Deficit Guaranty Period begins on the Rent-Up Date and ends on fifth anniversary of the Investor Limited Partner’s Fourth Federal Payment contribution. As of December 31, 2017, no operating deficit loans were provided.

Incentive Management Fee

An annual incentive management fee is payable to the General Partner and Class B Limited Partner for providing services to the Partnership, as described in the incentive management fee agreement. Incentive management fees are calculated as 90% of available operating cash flow, are not cumulative and are payable from operating cash flow. The General Partner is entitled to receive 10.9% of the incentive management fee and the Class B Limited Partner is entitled to receive 89.1% of the incentive management fee. The incentive management fee commences in the first fiscal year that the Partnership generates low-income housing tax credits (“Tax Credits”), and is only payable after all required annual financial reports and tax returns have been delivered to the Investor Limited Partner. As of December 31, 2017, the Partnership had not generated Tax Credits and there were no incentive management fees incurred or paid.

Due from Sansom Pointe Senior, LP

The Partnership advanced funds to Sansom Pointe Senior, LP, a related party of the Class B Limited Partner. As of December 31, 2017, receivables of $16,772 remained outstanding.

Contractor and Retainage Payable

The Partnership entered into a construction agreement for a stipulated amount of $12,877,303 on July 7, 2016. As of December 31, 2017, contractor payable and retainage on construction of $453,512 and $948,255, respectively, were outstanding.

Due to LDG Development, LLC

The Partnership received advances from LDG to fund construction expenses. As of December 31, 2017, advances due to LDG were $86,228.

Due to Xpert Design and Construction, LLC

The Partnership received advances from Xpert Design and Construction, LLC (“Xpert”), a related party of the Class B Limited Partner, to fund construction expenses. As of December 31, 2017, advances due to Xpert were $75,058.

Due to Developer

The Partnership received advances from the Developer to fund construction expenses. As of December 31, 2017, advances due to the Developer were $44,639.

Note 10: Property Management Fee

The Partnership entered into an agreement with Capstone Real Estate Services, Inc. (the Property Manager) to provide services in connection with the rent-up, leasing and operation of the Project. Management fees are calculated as the greater of 3.5% of total monthly gross receipts from the Project or $1,500 per month. In addition, the Property Manager earns a leasing fee equal to $150 per unit until occupancy in the Project reaches 90%. The term of the management agreement is for a minimum of 12 months and begins 120 days prior to the first certificate of occupancy or upon hiring on-site staff, whichever is earlier to occur. During 2017, property management fees of $6,000 were incurred.

Note 11: Pension Benefit Plans

DCTC pays eligible employees an annual retirement allowance subject to annual adjustments to pay into their own retirement accounts. There is not a pension plan in effect for DCTC as of December 31, 2017. The retirement allowance was $15,062 during the period ended December 31, 2017.

Note 12: Rental Expenses

Rental expenses are comprised of the following for the period ended December 31, 2017:

Utilities	$	152,120
Salaries, taxes, and benefits		11,975
Maintenance and repair		158,329
Depreciation		96,413
Management fee		30,260
Insurance		29,585
Property tax		38,563
Interest		13,035
Office		13,506
Marketing		35
Total rental expense	$	543,821

Note 13: Low-Income Housing Tax Credits

The Partnership expects to generate an aggregate of $7,382,660 of Tax Credits. Generally, such Tax Credits are expected to become available for use by its partners' pro-rata over a ten-year period that began in 2017. The year in which the credit period begins is determined on a building-by-building basis within the Partnership. In order to qualify for these credits, the Project must comply with various federal and state requirements. These requirements include, but are not limited to, renting to low-income tenants at rental rates which do not exceed specified percentages of area median gross income for the first 15 years of operation. The Partnership has also agreed to maintain and operate the Project as low-income housing for an additional 15 years beyond the initial 15 year compliance period. Because the Tax Credits are subject to compliance with certain requirements, there can be no assurance that the aggregate amount of Tax Credits will be realized, and failure to meet all such requirements or to correct noncompliance within a specified time period may result in generating a lesser amount of Tax Credits than expected in future years, and/or recapture of Tax Credits previously allocated. A reduction of future credits or recapture would require credit deficit payments to the Investor Limited Partner under the terms of the Partnership Agreement.

Note 14: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Contributions

A significant portion of support and revenues for DCTC is received through grants from the U.S. Department of Housing and Urban Development passed through from the City of Arlington and Tarrant County.

For the period ended December 31, 2017, approximately 23% of DCTC's total support was received from these grants.

Note 15: Subsequent Events

Subsequent events have been evaluated through June 19, 2018, which is the date the financial statements were available to be issued.