Development Corporation of Tarrant County

Independent Auditor's Reports and Consolidated Financial Statements

December 31, 2018

BKD
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Development Corporation of Tarrant County

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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 subsidiaries, Sansom Ridge, LP and Sansom Bluff, LP (collectively, the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities and cash flows 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 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 Sansom Ridge, LP which statements reflect total assets constituting 35% of consolidated total assets at December 31, 2018, total net assets constituting 33% of consolidated total net assets at December 31, 2018, and total revenues, gains and other support constituting 25% of consolidated total revenues, gains, and other support for the year 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 Sansom Ridge, LP 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 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 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, 2018, 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.

Emphasis of Matter

As described in *Note 2* to the consolidated financial statements, in 2018, the Organization adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2019, on our consideration of the Organization'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 solely 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 the effectiveness of the Organization's 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 the Organization's internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
September 26, 2019

Development Corporation of Tarrant County

Consolidated Statement of Financial Position

December 31, 2018

	Development Corporation of Tarrant County	Sansom Ridge, LP	Sansom Bluff, LP	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 310,822	$ 59,153	$ -	$ -	$ 369,975
Cash held in separate account	161,360	-	-	-	161,360
Total cash and cash equivalents	472,182	59,153	-	-	531,335
Restricted cash	-	2,499,711	29,180,237	-	31,679,948
Investments	211,299	-	-	-	211,299
Accrued interest	582,056	-	-	-	582,056
Prepaid expenses and other	17,458	33,797	-	-	51,255
Accounts receivable	80,000	1,446	-	-	81,446
Note receivable	2,651,029	-	-	(1,700,000)	951,029
Due from Sansom Pointe Senior, LP	-	16,772	-	-	16,772
House inventory	865,572	-	-	-	865,572
Property and equipment, net	1,400,750	17,827,479	4,433,721	-	23,661,950
Total assets	$ 6,280,346	$ 20,438,358	$ 33,613,958	$ (1,700,000)	$ 58,632,662
Liabilities and Net Assets					
Liabilities					
Accounts payable and accrued expenses	$ 119,420	$ 341,181	$ 404,257	$ -	$ 864,858
Line of credit	500,000	-	-	-	500,000
Security deposits	15,825	-	-	-	15,825
Due to related parties		478,105	-	-	478,105
Development fee payable	-	2,351,540	-	-	2,351,540
Note payable	-	800,000	900,000	(1,700,000)	-
Bonds payable	-	11,958,909	28,865,000	-	40,823,909
Total liabilities	635,245	15,929,735	30,169,257	(1,700,000)	45,034,237
Net Assets Without Donor Restrictions					
Undesignated	5,645,101	-	-	-	5,645,101
Noncontrolling interest	-	4,508,623	3,444,701	-	7,953,324
Total net assets	5,645,101	4,508,623	3,444,701	-	13,598,425
Total liabilities and net assets	$ 6,280,346	$ 20,438,358	$ 33,613,958	$ (1,700,000)	$ 58,632,662

Development Corporation of Tarrant County

Consolidated Statement of Activities

Year Ended December 31, 2018

	Development Corporation of Tarrant County	Sansom Ridge, LP	Sansom Bluff, LP	Eliminations	Consolidated
Revenues, Gains and Other Support					
Federal grants	$ 1,183,578	$ -	$ -	$ -	$ 1,183,578
Other non-federal grants	1,236	-	-	-	1,236
Developer fees	84,421	-	-	-	84,421
Construction management fees	307,157	-	-	(74,470)	232,687
Sale of property	729,500	-	-	-	729,500
Rental income	569,291	861,496	-	-	1,430,787
Interest income	53,943	39,310	4,101	-	97,354
Other income	1,236	101,310	-	-	102,546
Total revenues, gains and other support	2,930,362	1,002,116	4,101	(74,470)	3,862,109
Expenses					
Program expenses					
Housing	1,394,336	1,945,367	-	-	3,339,703
Supporting service expenses					
Management and general	496,701	233,493	-	(74,470)	655,724
Total expenses	1,891,037	2,178,860	-	(74,470)	3,995,427
Change in Net Assets from Operating Activities	1,039,325	(1,176,744)	4,101	-	(133,318)
Non-operating Income					
Capital contributions	-	1,379,229	3,440,600	-	4,819,829
Change in Net Assets from Non-operating Activities	-	1,379,229	3,440,600	-	4,819,829
Change in Net Assets	1,039,325	202,485	3,444,701	-	4,686,511
Net Assets, Beginning of Year	4,605,776	4,306,138	-	-	8,911,914
Net Assets, End of Year	$ 5,645,101	$ 4,508,623	$ 3,444,701	$ -	$ 13,598,425

Development Corporation of Tarrant County

Consolidated Statement of Cash Flows

Year Ended December 31, 2018

	Development Corporation of Tarrant County	Sansom Ridge, LP	Sansom Bluff, LP	Eliminations	Consolidated
Operating Activities					
Change in net assets	$ 1,039,325	$ (1,176,744)	$ 4,101	$ -	$ (133,318)
Items not requiring (providing) operating cash flows					
Depreciation and amortization	113,892	606,872	-	-	720,764
Interest reinvested	(2,988)	155,493	-	-	152,505
Changes in					
Accounts receievable	(80,000)	(606)	-	-	(80,606)
Prepaid expenses and other	(1,575)	-	-	-	(1,575)
Accrued interest	(33,011)	-	-	-	(33,011)
House inventory	(445,157)	-	-	-	(445,157)
Accounts payable and accrued expenses	84,996	155,370	-	-	240,366
Security deposits	2,185	12,350	-	-	14,535
Net cash provided by (used in) operating activites	677,667	(247,265)	4,101	-	434,503
Investing Activities					
Purchase of property and equipment	(128,406)	(1,127,543)	(4,029,464)	-	(5,285,413)
Net (deposits to) withdrawals from restricted cash - investing	-	1,133,400	(29,180,237)	-	(28,046,837)
Net cash provided by (used in) investing activities	(128,406)	5,857	(33,209,701)	-	(33,332,250)
Financing Activities					
Net repayments/draws on lines of credit	144,181	-		-	144,181
Proceeds from issuance of bonds payable	-		28,865,000	-	28,865,000
Note receivable advance/proceeds from HOME note payable	(900,000)	-	900,000	-	-
Payment of contractor and retainage payable	-	(1,401,767)	-	-	(1,401,767)
Payment of construction management fee payable	-	(14,862)	-	-	(14,862)
Advance from related parties, net	-	272,180	-	-	272,180
Capital contributions	-	1,379,229	3,440,600	-	4,819,829
Net cash provided by (used in) financing activities	(755,819)	234,780	33,205,600	-	32,684,561
Decrease in Cash and Cash Equivalents	(206,558)	(6,628)	-	-	(213,186)
Cash and Cash Equivalents, Beginning of Year	678,740	65,781	-	-	744,521
Cash and Cash Equivalents, End of Year	$ 472,182	$ 59,153	$ -	$ -	$ 531,335
Reconciliation to Statement of Financial Position					
Cash and cash equivalents	$ 310,822	$ 59,153	$ -	$ -	$ 369,975
Cash held in separate account	161,360	-	-	-	161,360
Cash and Cash Equivalents, End of Year	$ 472,182	$ 59,153	$ -	$ -	$ 531,335

Development Corporation of Tarrant County

Consolidated Statement of Cash Flows (Continued)

Year Ended December 31, 2018

	Development Corporation of Tarrant County	Sansom Ridge, LP	Sansom Bluff, LP	Eliminations	Consolidated
Supplemental Cash Flows Information					
Interest paid	$ 16,655	$ 555,609	$ -	$ -	$ 572,264
Supplemental Disclosure of Noncash Investing and Financing Activities					
Increase in fixed assets attributable to					
Reclassification from construction in progress	$ -	$ 3,922,358	$ -	$ -	$ 3,922,358
Development fee payable	$ -	$ 64,056	$ -	$ -	$ 64,056

Development Corporation of Tarrant County

Notes to Consolidated Financial Statements

December 31, 2018

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), Sansom Ridge, LP, and Sansom Bluff, LP (collectively the "Organization"). 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.

Sansom Ridge, LP was formed on January 26, 2016 to construct, develop and operate a 100-unit apartment project, known as Sansom Ridge Apartments (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 (IRC). The general partner is Sansom Ridge GP, LLC (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 (Investor Limited Partner). After the transfer on August 1, 2016, Sansom Ridge SLP, LLC became the Class B limited partner (Class B Limited Partner). The special limited partner is Transamerica Affordable Housing, Inc. (Special Limited Partner). Sansom Ridge, LP 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. 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 Sansom Ridge, LP 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, 2018, the Limited Partner had provided cumulative capital contributions in the amount of $5,865,108.

Sansom Bluff, LP was formed on October 19, 2017, to construct, develop and operate a 256-unit apartment project, known as Sansom Bluff Apartments in Sansom Park, Texas. The apartments are 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 Bluff GP, LLC (General Partner) and is solely owned by DCTC. The Investor Limited Partner is BF Sansom Bluff, LLC (Investor Limited Partner). Sansom Bluff LDG SLP, LLC is the Class B limited partner (Class B Limited Partner). The special limited partner is BFIM Special Limited Partner, Inc. (Special Limited Partner). Sansom Bluff, LP 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 November 1, 2018, and amendments thereon. 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 and 0.01% to the Class B Limited Partner.

Pursuant to the Sansom Bluff, LP Partnership Agreement, the Investor Limited Partner is required to provide capital contributions to the Partnership totaling $17,203,000, 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, 2018, the Limited Partner had provided capital contributions in the amount of $3,440,600.

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, 2018, 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, 2018, the balance in this account totaled $161,360.

Restricted Cash

Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions for construction of the projects 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 year ended December 31, 2018.

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 IRC 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 2015.

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.

Note 2: Change in Accounting Principle

In 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entitles*. A summary of the changes is as follows:

Statement of Financial Position

The statement of financial position distinguishes between two new classes of net assets –those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Notes to the Consolidated Financial Statements

- Expenses are reported by nature and function.
- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows to meet operating expenses for one year from the date of the consolidated statement of financial position.

These changes had no impact on previously reported total change in net assets.

Note 3: Restricted Cash

Bond Funds

Sansom Ridge, LP and Sansom Bluff, LP established various funds and accounts held with the Bank of Texas, N.A. and BOKF, NA (Trustees), respectively. The bond funds are used for payments including, but not limited to, construction of the Projects, interest, fees and repayment of the bonds. As of December 31, 2018, the balance of the bond funds of Sansom Ridge, LP and Sansom Bluff, LP were $1,702,361 and $29,180,237, respectively.

Replacement Reserve

Pursuant to the Sansom Ridge, LP 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, 2018, the requirement to fund the replacement reserve had not been met, and the replacement reserve had not been funded.

Operating Reserve

Pursuant to the Sansom Ridge, LP 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, 2018, 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 Sansom Ridge, LP 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, 2018, the balance of the earn-out reserve was $775,000.

Note 4: 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, 2018:

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 $582,056 as of December 31, 2018. 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 5: House Inventory

DCTC constructs and rehabilitates housing units with the intent of reselling them to low-income families. As of December 31, 2018, DCTC has completed and sold homes with costs as detailed below:

Inventory, at beginning of year	$	419,801
Property purchased and constructed		670,315
Rehabilitation expenses		504,956
Sale of homes		(729,500)
Balance, at end of year	$	865,572

Note 6: Property and Equipment

Property and equipment as of December 31, 2018, consists of:

Land	$	278,000
Building		14,621,814
Building improvements		4,386,998
Furniture, equipment, and software		1,089,762
Construction in progress		4,423,721
		24,800,295
Less accumulated depreciation		1,138,345
	$	23,661,950

Note 7: Line 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, 2018 there was $500,000, borrowed against this line. The line is collateralized by the Cornerstone Apartments. Interest varies based on the Wall Street Journal prime rate, which was 5.50% on December 31, 2018, and is payable monthly. Interest of $16,655 was paid during 2018.

Note 8: Bonds Payable

Series 2016A

In order to provide funds for Sansom Ridge, LP to finance the construction of the Project, Tarrant County Housing Finance Corporation (TCHFC) issued Multi-Family Housing Revenue Bonds (Sansom Ridge Apartments) Series 2016A (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 (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 2018, letter of credit fees of $114,882 were incurred.

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 2018, interest of $441,147 was incurred. As of December 31, 2018, outstanding principal and accrued interest were $9,500,000 and $35,625, respectively.

The Partnership executed a memorandum of understanding agreement (MOU Agreement) with Red Stone Servicer, LLC (Servicer), the servicer of the Series A Bonds. 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. As of December 31, 2018, bonds payable – Series A consisted of:

Principal balance	$	9,500,000
Less: unamortized debt issuance costs		(346,702)
	$	9,153,298

Debt issuance costs associated with the Series A Bonds are being amortized to interest expense over the term of the bonds. During 2018, the average effective interest rate was 5.27%. During 2018, interest expense for debt issuance costs associated with the Series A Bonds was $59,317.

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

2019	$	25,000
2020		85,000
2021		90,000
2022		95,000
2023		100,000
Thereafter		9,105,000
	$	9,500,000

Series 2016B

In order to provide funds for Sansom Ridge, LP to finance the construction of the Project, TCHFC also issued Multi-Family Housing Revenue Bonds (Sansom Ridge Apartments) Series 2016 B (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 2018, interest of $114,462 was incurred. As of December 31, 2018, outstanding principal and accrued interest was $2,850,000 and $9,001, respectively.

As of December 31, 2018, bonds payable – Series B consisted of:

Principal balance	$	2,850,000
Less: unamortized debt issuance costs		(44,389)
	$	2,805,611

Debt issuance costs associated with the Series B Bonds are being amortized to interest expense over the term of the bonds. During 2018, the average effective interest rate was 7.39%. During 2018, interest expense for debt issuance costs associated with the Series B Bonds was $96,176. Future minimum principal payments are $2,850,000 for the year ending December 31, 2019.

Series 2018

In order to provide funds for Sansom Bluff, LP to finance the construction of the Project, Tarrant County Housing Finance Corporation (TCHFC) issued Multi-Family Housing Revenue Bonds (Sansom Bluff Apartments) Series 2018 (Bonds) on November 1, 2018, in the principal amount of $28,865,000, which are secured by the Project. The bonds will bear compound interest at 5.225% annum and require interest-only payments through 2021. As of December 31, 2018, outstanding principal was $28,865,000.

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

2019	$	-
2020		-
2021		-
2022		165,000
2023		215,000
Thereafter		28,485,000
	$	28,865,000

Note 9: Application and Distribution of Operating Cash Flow

Pursuant to the Sansom Ridge, LP 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; and
8. The remaining balance to the partners in accordance with their respective partnership interests.

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

1. To the Investor Limited Partner in an amount equal to the Asset Management Fee (including any accrued but unpaid Asset Management Fee from prior fiscal years);
2. To the payment of all amounts due and owing to the Investor Limited Partner, including without limitation, any theretofore unpaid Tax Credit Shortfall Payments;
3. Prior to the end of the Operating Obligation Period, to replenish the Operating Reserve up to its initial balance;
4. To the payment of the Deferred Development Fee Note;
5. To pay principal and interest on the HOME Loan up to an amount of $54,635;
6. To the repayment of any Voluntary Loans then outstanding which the General Partner is entitled to receive;
7. To payment of the Deferred Property Management Fee (if any) and any outstanding Operating Expense Loans (pro rata); and
8. 9% to the General Partner and 81% to the Class B Limited Partner (first, as payment of the Supervisory Management Fee and, thereafter, as a distribution), and 10% to the Investor Limited Partner.

Note 10: Related Party Transactions

Development Fee Payable

Pursuant to the Development Services Agreement between LDG Multifamily, LLC (Developer), a related party of the Class B Limited Partner and Sansom Ridge, LP, 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 15th year following the year in which Substantial Completion occurs. As of December 31, 2018, the development fee payable was $2,351,540.

Operating Deficit Loans

Pursuant to the Sansom Ridge, LP 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, 2018, no operating deficit loans were provided.

Due to LDG Development, LLC

Sansom Ridge, LP received advances from LDG to fund construction expenses. As of December 31, 2018, advances due to LDG were $86,228, which are included in due to related parties in the accompanying consolidated statement of financial position.

Due to Xpert Design and Construction, LLC

Sansom Ridge, LP 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, 2018, advances due to Xpert were $156,367, which are included in due to related parties in the accompanying consolidated statement of financial position.

Due to Developer

Sansom Ridge, LP received advances from the Developer to fund construction expenses. As of December 31, 2018, advances due to the Developer were $235,510, which are included in due to related parties in the accompanying consolidated statement of financial position.

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, 2018. The retirement allowance was $12,708 during the year ended December 31, 2018.

Note 12: Functional Allocation of Expenses

Certain costs attributable to more than one function have been allocated amount the program and supporting services based on the direct identification, square footage and other methods. The following schedule presents the natural classification of expenses by function as follows:

	Housing	Management and General	Total Expenses
Salaries and benefits	$ 133,392	$ 379,777	$ 513,169
Rent and utilities	272,858	23,897	296,755
Property taxes and fees	184,043	17,944	201,987
Insurance	80,182	14,248	94,430
Dues and subscriptions	1,332	-	1,332
Office supplies and equipment	-	7,553	7,553
Marketing and advertising	-	50,687	50,687
Legal and other professional fees	-	53,143	53,143
Bank charges and service fees	183,443	10,447	193,890
Cost of property sold	743,315	-	743,315
Closing costs and other program expenses	167,310	-	167,310
Repairs and maintenance	205,177	10,748	215,925
Depreciation	677,282	43,482	720,764
Interest expense	691,369	43,798	735,167
	$ 3,339,703	$ 655,724	$ 3,995,427

Note 13: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018, is $824,080. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

Note 14: Low-Income Housing Tax Credits

Sansom Ridge, LP 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.

Sansom Bluff, LP expects to generate an aggregate of $18,300,590 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 will begin January 2019. 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 15: 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 year ended December 31, 2018, approximately 40% of DCTC's total support was received from these grants.

Note 16: Subsequent Events

Subsequent events have been evaluated through September 26, 2019, which is the date the financial statements were available to be issued.

Supplementary Information

Development Corporation of Tarrant County

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2018

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Department of Housing & Urban Development				
Passed through Tarrant County				
HOME Investment Partnerships Program	14.239	M17-DC-48-0200	$ -	$ 350,000
		M18-DC-48-0200	-	450,000
		128557	-	17,151
Passed through City of Arlington				
HOME Investment Partnerships Program	14.239	PY2016	-	138,924
		PY2017	-	111,970
Total HOME Investment Partnerships Program			-	1,068,045
Total Federal Awards Expended			$ -	$ 1,068,045

Development Corporation of Tarrant County

Notes to the Schedule of Expenditures of Federal Awards

Year Ended December 31, 2018

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the Development Corporation of Tarrant County (DCTC) under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of DCTC, it is not intended to and does not present the financial position, changes in net assets or cash flows of DCTC.

2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. DCTC has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. DCTC did not have any federal loan programs during the year ended December 31, 2108.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, 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, the consolidated financial statements of Development Corporation of Tarrant County (DCTC) and its subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 26, 2019, which contained an emphasis of matter paragraph regarding a change in accounting principle and reference to other auditors. The financial statements of Sansom Ridge, LP, which is included in DCTC's financial statements, were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered DCTC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of DCTC's internal control. Accordingly, we do not express an opinion on the effectiveness of DCTC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DCTC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Dallas, Texas
September 26, 2019

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Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

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

Report on Compliance for the Major Federal Program

We have audited Development Corporation of Tarrant County's (DCTC) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on DCTC's major federal program for the year ended December 31, 2018. DCTC's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for DCTC's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about DCTC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of DCTC's compliance.

Opinion on Major Federal Program

In our opinion, DCTC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

Report on Internal Control Over Compliance

Management of DCTC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered DCTC's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of DCTC's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Dallas, Texas
September 26, 2019

Development Corporation of Tarrant County

Schedule of Findings and Questioned Costs

Year Ended December 31, 2018

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

   Significant deficiency(ies)? ☐ Yes ☒ None reported

   Material weakness(es)? ☐ Yes ☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

Federal Awards

4. The independent auditor's report on internal control over compliance for the major federal award program disclosed:

   Significant deficiency(ies)? ☐ Yes ☒ None reported

   Material weakness(es)? ☐ Yes ☒ No

5. The opinion expressed in the independent auditor's report on compliance for the major federal award was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?

   ☐ Yes ☒ No

Development Corporation of Tarrant County
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2018

7. DCTC's major program was:

Cluster/Program	CFDA Number
HOME Investment Partnerships Program	14.239

8. The threshold used to distinguish between Type A and Type B programs was $750,000.

9. DCTC qualified as a low-risk auditee? ☐ Yes ☒ No

Development Corporation of Tarrant County
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2018

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding

No matters are reportable.

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding

No matters are reportable.

Development Corporation of Tarrant County

Summary Schedule of Prior Year Audit Findings

Year Ended December 31, 2018

Reference Number	Summary of Finding	Status

No matters are reportable.