Development Corporation of Tarrant County

Independent Auditor’s Report and Consolidated Financial Statements

December 31, 2019

Development Corporation of Tarrant County
December 31, 2019

Contents

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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, 2019, 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 31% of consolidated total assets at December 31, 2019, total net assets constituting 35% of consolidated total net assets at December 31, 2019, and total revenues, gains and other support constituting 33% 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. 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, 2019, 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.

Consolidating Information

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual entities 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 audits 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 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.

Emphasis of Matters

As described in *Note 1* to the consolidated financial statements, in 2019, the Organization adopted Accounting Standards Update 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* and Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606).* Our opinion is not modified with respect to these matters.

BKD, LLP

Dallas, Texas
June 24, 2020

Development Corporation of Tarrant County

Consolidated Statement of Financial Position

December 31, 2019

	Development Corporation of Tarrant County	Sansom Ridge, LP	Sansom Bluff, LP	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 346,101	$ 34,581	50,827	$ -	$ 431,509
Restricted cash	27,997	144,281	16,071,851	-	16,244,129
Investments	215,614	-	-	-	215,614
Restricted investments	-	-	4,874,051	-	4,874,051
Accounts receivable	101,000	19,117	-	-	120,117
Notes receivable	2,651,029	-	-	(1,700,000)	951,029
Accrued interest	629,928	-	-	-	629,928
Prepaid expenses and other	24,825	38,948	-	-	63,773
Due from LDG Multifamily	-	-	269	-	269
Due from Sansom Pointe Senior, LP	-	16,772	-	-	16,772
House inventory	607,507	-	-	-	607,507
Property and equipment, net	1,095,850	17,188,611	13,241,360	-	31,525,821
Total assets	$ 5,699,851	$ 17,442,310	$ 34,238,358	$ (1,700,000)	$ 55,680,519
Liabilities and Net Assets					
Liabilities					
Accounts payable and accrued expenses	$ 165,249	$ 157,221	830,773	$ -	$ 1,153,243
Line of credit	150,000	-	-	-	150,000
Contractor and retainage payable	-	-	816,880	-	816,880
Security deposits	12,905	-	-	-	12,905
Due to related parties	-	1,398,449	-	-	1,398,449
Development fee payable	-	2,351,540	-	-	2,351,540
Note payable	-	800,000	900,000	(1,700,000)	-
Bonds payable	-	7,578,980	27,689,284	-	35,268,264
Total liabilities	328,154	12,286,190	30,236,937	(1,700,000)	41,151,281
Net Assets					
Without donor restrictions					
Undesignated	5,343,700	-	-	-	5,343,700
Noncontrolling interest	-	5,156,120	4,001,421	-	9,157,541
With donor restrictions	27,997	-	-	-	27,997
Total net assets	5,371,697	5,156,120	4,001,421	-	14,529,238
Total liabilities and net assets	$ 5,699,851	$ 17,442,310	$ 34,238,358	$ (1,700,000)	$ 55,680,519

Development Corporation of Tarrant County

Consolidated Statement of Activities

Year Ended December 31, 2019

	Development Corporation of Tarrant County	Sansom Ridge, LP	Sansom Bluff, LP	Eliminations	Consolidated
Revenues, Gains and Other Support					
Federal grants	$ 148,668	$ -	$ -	$ -	$ 148,668
Other non-federal grants	5,875	-	-	-	5,875
Developer fees	107,005	-	-	-	107,005
Sale of property	1,144,239	-	-	-	1,144,239
Rental income	578,631	984,681	-	-	1,563,312
Investment return, net	71,748	20,287	556,720	-	648,755
Other income	384	278,529	-	-	278,913
Total revenues, gains and other support	2,056,550	1,283,497	556,720	-	3,896,767
Expenses					
Program expenses					
Housing	1,854,427	1,676,352	-	-	3,530,779
Supporting service expenses					
Management and general	475,527	266,933	-	-	742,460
Total expenses	2,329,954	1,943,285	-	-	4,273,239
Change in Net Assets from Operating Activities	(273,404)	(659,788)	556,720	-	(376,472)
Non-operating Income					
Capital contributions	-	1,307,285		-	1,307,285
Change in Net Assets from Non-operating Activities	-	1,307,285	-	-	1,307,285
Change in Net Assets	(273,404)	647,497	556,720	-	930,813
Net Assets, Beginning of Year	5,645,101	4,508,623	3,444,701	-	13,598,425
Net Assets, End of Year	$ 5,371,697	$ 5,156,120	$ 4,001,421	$ -	$ 14,529,238

Development Corporation of Tarrant County

Consolidated Statement of Cash Flows

Year Ended December 31, 2019

	Development Corporation of Tarrant County	Sansom Ridge, LP	Sansom Bluff, LP	Eliminations	Consolidated
Operating Activities					
Change in net assets	$ (273,404)	$ (659,788)	$ 556,720	$ -	$ (376,472)
Items not requiring (providing) operating cash flows					
Depreciation and amortization	129,491	638,868	-	-	768,359
Interest reinvested	(4,315)	-	-	-	(4,315)
Realized/unrealized (gain) loss on investments	-	-	(6,365)	-	(6,365)
Interest expense - debt issuance costs	-	70,071	-	-	70,071
Changes in					
Accounts receievable	(21,000)	(17,671)	-	-	(38,671)
Prepaid expenses and other	(7,367)	(5,151)	(269)	-	(12,787)
Accrued interest	(47,872)	(15,056)	-	-	(62,928)
House inventory	257,796	-	-	-	257,796
Retainage payable	-	-	816,880	-	816,880
Accounts payable and accrued expenses	45,829	(168,667)	426,516	-	303,678
Security deposits	(2,920)	(237)	-	-	(3,157)
Net cash provided by (used in) operating activites	76,238	(157,631)	1,793,482	-	1,712,089
Investing Activities					
Purchase of property and equipment	(55,619)	-	(9,983,355)	-	(10,038,974)
Proceeds from sale of property and equipment	231,297	-	-	-	231,297
Purchase of investments	-	-	(4,867,686)	-	(4,867,686)
Net cash provided by (used in) investing activities	175,678	-	(14,851,041)	-	(14,675,363)
Financing Activities					
Repayment on lines of credit and bonds payable	(350,000)	(4,450,000)		-	(4,800,000)
Advance from related parties, net	-	920,344	-	-	920,344
Capital contributions	-	1,307,285	-	-	1,307,285
Net cash used in financing activities	(350,000)	(2,222,371)	-	-	(2,572,371)
Decrease in Cash, Cash Equivalents and Restricted Cash	(98,084)	(2,380,002)	(13,057,559)	-	(15,535,645)
Cash, Cash Equivalents and Restricted Cash, Beginning of Year, As Restated	472,182	2,558,864	29,180,237	-	32,211,283
Cash, Cash Equivalents and Restricted Cash, End of Year	$ 374,098	$ 178,862	$ 16,122,678	$ -	$ 16,675,638
Reconciliation to Statement of Financial Position					
Cash and cash equivalents	$ 346,101	$ 34,581	$ 50,827	$ -	$ 431,509
Restricted cash	27,997	144,281	16,071,851	-	16,244,129
Total Cash, Cash Equivalents, and Restricted Cash, End of Year	$ 374,098	$ 178,862	$ 16,122,678	$ -	$ 16,675,638
Supplemental Cash Flows Information					
Interest paid	$ 10,521	$ 463,195	$ -	$ -	$ 473,716

Development Corporation of Tarrant County

Notes to Consolidated Financial Statements

December 31, 2019

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, 2019, the Limited Partner had provided cumulative capital contributions in the amount of $7,172,393.

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, 2019, 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, 2019, the Organization's cash accounts did not exceed federally insured limits.

Restricted Cash and Investments

Restricted cash and investments include cash and investments held with financial institutions for construction of the projects and administration of bond proceeds.

Investments and Net Investment Return

Investments consist of certificates of deposits with original maturities of six months and treasury securities. These investments are valued at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value, less external investment expenses.

Notes Receivable

Notes receivable is 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, 2019.

Government Grants

Support funded by grants is recognized as the Organization meets the conditions prescribed by the grant agreement, 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. No adjustments have been required during 2019.

Rental Income

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

Development Corporation of Tarrant County

Notes to Consolidated Financial Statements

December 31, 2019

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 2016.

Income taxes on partnership income for Sansom Ridge, LP and Sansom Bluff, LP 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.

Change in Accounting Principles

In 2019, the Organization changed its method of accounting for restricted cash by adopting the provisions of Accounting Standards Update No. 2016-18 (ASU 2016-18), *Statement of Cash Flows (Topic 230): Restricted Cash*. The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning and end of the period balances on the consolidated statement of cash flows. This change was applied retrospectively which resulted in the following changes within the consolidated statement of cash flows:

Cash and Cash Equivalents at December 31, 2018, As Previously Reported	$ 531,335
Inclusion of:	
Sansom Ridge, LP - Restricted Cash	2,499,711
Sansom Bluff, LP - Restricted Cash	29,180,237
Cash, Cash Equivalents and Restricted Cash at December 31, 2018, As Restated	$ 32,211,283

On January 1, 2019, the Organization adopted the Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606*), (ASU 2014-09) using a modified prospective method of adoption to all contracts with customers at January 1, 2019.

The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the Organization expects to be entitled in exchange for those goods or services.

The amount to which the Organization expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing goods or services.

Adoption of ASU 2014-09 resulted in no changes in the presentation of the consolidated financial statements but added new disclosures in the notes to the consolidated financial statements.

Note 2: Restricted Cash and Investments

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, 2019, the balance in this account totaled $27,997.

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, 2019, the balance of the bond funds of Sansom Ridge, LP and Sansom Bluff, LP were $77,072 and $20,945,902, 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, 2019, the balance of the replacement reserve was $29,382.

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. During 2019, the LDG Development, LLC ("LDG Development"), a related party of the Class B Limited Partner, obtained an irrevocable letter of credit from Republic Bank & Trust Company in the amount of $485,494, to the benefit of the Trustee, to be used to fund operating deficits of the Partnership, in lieu of funding the operating reserve account. The irrevocable letter of credit renews annually on June 28, 2020, in successive one-year periods unless otherwise cancelled, until the final expiry date of June 28, 2034. As of December 31, 2019, the balance of the operating reserve was $20.

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. During 2019, funds were disbursed in relation to the redemption of Series B bonds, as described in *Note 7.* As of December 31, 2019, the balance of the earn-out reserve was $1,477.

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, 2019:

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 $629,928 as of December 31, 2019. 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, 2019, DCTC has completed and sold homes with costs as detailed below:

Inventory, at beginning of year	$ 865,574
Property purchased and constructed	474,089
Rehabilitation expenses	130,460
Sale of homes	(862,616)
Balance, at end of year	$ 607,507

Note 5: Property and Equipment

Property and equipment as of December 31, 2019, consists of:

Land	$ 260,000
Building	14,408,517
Building improvements	4,429,842
Furniture, equipment, and software	1,062,330
Construction in progress	13,256,828
	33,417,517
Less accumulated depreciation	(1,891,696)
	$ 31,525,821

Note 6: Lines of Credit

DCTC has a line of credit of $150,000 to accommodate cash flow needs expiring on March 16, 2021. At December 31, 2019, there was $150,000 borrowed against the line of credit. The line of credit is collateralized by a certificate of deposit. Interest on this line is 4.85% and is payable monthly.

DCTC has a second line of credit of $1,000,000 used to pay for the Cornerstone Apartments expiring on May 14, 2023. At December 31, 2019 there was $0, 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, 2019, and is payable monthly.

Note 7: 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, which expired on July 15, 2019. Letter of credit fees equal to 1.25% annually of the Letter of Credit Amount are due and payable monthly. During 2019, letter of credit fees of $75,012 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 2019, interest of $400,944 was incurred. As of December 31, 2019, outstanding principal and accrued interest were $7,900,000 and $29,570, respectively.

As of December 31, 2019, bonds payable – Series A consisted of:

Principal balance	$ 7,900,000
Less: unamortized debt issuance costs	(321,020)
	$ 7,578,980

Debt issuance costs associated with the Series A Bonds are being amortized to interest expense over the term of the bonds. During 2019, the average effective interest rate was 4.90%. During 2019, interest expense for debt issuance costs associated with the Series A Bonds was $25,682.For each of the next five years and thereafter, future minimum principal payments are due as follows:

2020	$ 85,000
2021	90,000
2022	95,000
2023	100,000
2024	100,000
Thereafter	7,430,000
	$ 7,900,000

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.

During 2019, the Series B Bonds were repaid with funds from Earn-out reserve and from the Investor Limited Partner's Fourth Federal Payment Contribution.

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 2019, interest of $47,195 was incurred. As of December 31, 2019, no amounts remained outstanding.

Debt issuance costs associated with the Series B Bonds were amortized to interest expense over the term of the bonds. During 2019, the average effective interest rate was 8.51%. During 2019, interest expense for debt issuance costs associated with the Series B Bonds was $44,389.

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. During 2019, interest of $1,588,499 was capitalized to property and equipment. As of December 31, 2019, outstanding principal was $28,865,000.

As of December 31, 2019, Series 2018 bonds consisted of:

Principal balance	$ 28,865,000
Less: unamortized debt issuance costs	(1,175,716)
	$ 27,689,284

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

2020	$ -
2021	-
2022	165,000
2023	215,000
2024	225,000
Thereafter	28,260,000
	$ 28,865,000

Note 8: 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 9: 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, 2019, 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, 2019, no operating deficit loans were provided.

Due to LDG Development, LLC

Sansom Ridge, LP received advances from LDG for various working capital needs. The advances are non-interest bearing, unsecured, and repayable from available cash flow. As of December 31, 2019, 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, for various working capital needs. The advances are non-interest bearing, unsecured, and repayable from available cash flow. As of December 31, 2019, 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 for various working capital needs. The advances are non-interest bearing, unsecured, and repayable from available cash flow. As of December 31, 2019, advances due to the Developer were $1,155,854, which are included in due to related parties in the accompanying consolidated statement of financial position.

Note 10: Defined Contribution Plan

The Organization has a defined contribution plan, which allows its employees to elect to have a portion of their salary deposited directly into a 401(k) account on their behalf. In addition to their own salary deferrals, they may be eligible to receive an additional employer contribution under the Plan. The Organization contributed $14,841, as employer contributions for the year ended December 31, 2019.

Note 11: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Investments				
U.S. Treasury Securities	$ 4,874,051	$ 4,874,051	$ -	$ -
Certificates of Deposits	215,614	215,614	-	-
Total Investments	$ 5,089,665	$ 5,089,665	$ -	$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statement of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2019.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Organization did not hold any Level 2 or Level 3 investments at December 31, 2019.

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	$ 116,250	$ 358,427	$ 474,677
Rent and utilities	292,733	23,881	316,614
Property taxes and fees	155,782	80,444	236,226
Insurance	48,092	10,477	58,569
Dues and subscriptions	694	-	694
Office supplies and equipment	-	8,281	8,281
Marketing and advertising	-	60,723	60,723
Legal and other professional fees	-	103,444	103,444
Bank charges and service fees	118,846	7,123	125,969
Cost of property sold	1,075,150	-	1,075,150
Closing costs and other program expenses	232,763	-	232,763
Repairs and maintenance	263,425	13,828	277,253
Depreciation	724,750	43,609	768,359
Interest expense	502,294	32,223	534,517
	$ 3,530,779	$ 742,460	$ 4,273,239

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, 2019, is $767,240. 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 began in 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:

Investments

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated statement of financial position.

Note 16: Revenue from Contracts with Customers

Sale of Property

Performance obligations related to the sale of property are determined based on the date of closing in accordance with the contract. Revenue for performance obligations satisfied at a point in time is generally recognized on the date of closing at a single point in time, and the Organization does not believe it is required to provide any additional obligations related to that sale.

Transaction Price and Recognition

The Organization determines the transaction price based on each property for sale. There are no explicit or implicit price concessions and the contracts do not contain a significant financing component or variable consideration.

The Organization has not incurred material refunds in the past, and accordingly, has not provided for a refund liability at December 31, 2019.

For the year ended December 31, 2019, the Organization recognized no revenue from goods or services that transfer to the customer over time.

Note 17: Subsequent Events

As a result of the occurrence and spread of the COVID-19, global economic uncertainties have arisen which may negatively affect the financial position and cash flows of the Organization. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Subsequent events have been evaluated through June 24, 2020, which is the date the consolidated financial statements were available to be issued.

Note 18: Future Change in Accounting Principle

Accounting for Leases

The FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement.

On June 3, 2020, the FASB issued an ASU that grants a delay in the effective date. As a result, the new lease standard is effective for the Organization for fiscal year 2022.

The Organization is evaluating the impact the standard will have on the consolidated financial statements.