

**HOUSING AUTHORITY OF
THE CITY OF MCALLEN, TEXAS**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS

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FINANCIAL SECTION

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Cascos & Associates, PC

Certified Public Accountants

Audit/Accounting/Tax/Consulting

Independent Auditors' Report

To the Board of Commissioners
Housing Authority of the City of McAllen
McAllen, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Housing Authority of the City of McAllen (the "Housing Authority"), as of and for the year ended June 30, 2018, which collectively comprise the statement of net position, the statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Housing Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Housing Authority as of June 30, 2018, and the respective changes in financial position and, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Housing Authority's basic financial statements. The combining program schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basis financial statements.

The combining program schedules and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining program schedules and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 4, 2019, on our consideration of the Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Housing Authority's internal control over financial reporting and compliance.



Brownsville, Texas
March 4, 2019



Transforming Families, Strengthening Communities

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR-ENDED JUNE 30, 2018

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Agency Overview

The McAllen Housing Authority (MHA) was created in 1939 by the City of McAllen with a mutual promise to eliminate unsafe and insanitary dwellings by promoting the creation of safe, decent and affordable housing. This promise sets our mission "*Transforming Families- Strengthening Community*" and drives our commitment to meet the housing needs of our community.

Through our monthly service to over 3,500 family members through Public Housing and Tenant Based Section 8 Housing programs we recognize that housing is the beginning step toward transforming families. Our resident services also provide access to social services and educational opportunities. It is through our partnerships with community stake holders that we are able to provide family self-sufficiency and mobility opportunities.

MHA provides a variety of programs through partnerships with Texas Workforce, McAllen I.S.D., South Texas College, Texas Agri-Life and Frost Bank. These partnerships assist MHA in providing job skills training, financial literacy, computer skills, health and wellness, and citizenship opportunities to our residents. MHA is committed to the continuation and expansion of these types of partnerships that will advance every resident's opportunity to become self-sufficient.

MHA remains a high performing agency with exceptional performance evaluation scores in the Public Housing Assessment System (PHAS) and in the Section Eight Management Assessment Program. Our Staff members work proactively to ensure these programs are administered professionally and are committed to delivering quality housing opportunities and services to our residents. In Fiscal Year 2017-2018, MHA's Public Housing program continued phase 2 of the Resident Opportunity for Self-Sufficiency (ROSS-SC) program. MHA's overall HCV utilization average was 100% which, translates into additional HCV Program and Administrative funding for next fiscal year.

Looking ahead, we are anticipating an exciting future for McAllen Housing Authority. We are committed to providing quality affordable housing within the City of McAllen. We will continue to expand our current housing programs, will identify new and creative ways to address the needs of the affordable housing market of McAllen, and will remain committed to our goal of Transforming Families, Strengthening Communities.

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Program Summaries

Low Rent Public Housing

MHA currently operates 138 Public Housing units on 3 developments throughout the City of McAllen, Texas. These units provide housing to approximately 410 individuals.

Retama Village Phase I - 64 units
Retama Village Phase II – 25 units
Vine Terrace – 49 units

All three developments are represented by one Resident Council.

Low Rent Public Housing REAC Score Report for FY 2017-2018

REAC Physical Inspection ensures that families have housing that is decent, safe, sanitary and in good repair.

McAllen Housing Authority REAC Physical Inspection Final Scores:

Retama Village I Final Score: 93 HIGH PERFORMER

		Possible Points	Score
Indicator 1	Site	17.10	17.10
Indicator 2	Building Exterior	19.00	19.00
Indicator 3	Building Systems	16.49	16.12
Indicator 4	Common Areas	4.85	4.74
Indicator 5	Unit	42.56	36.39

Retama Village II Final Score: 93 HIGH PERFORMER

		Possible Points	Score
Indicator 1	Site	19.58	19.58
Indicator 2	Building Exterior	19.58	19.58
Indicator 3	Building Systems	16.24	12..88
Indicator 4	Common Areas	1.25	1.22
Indicator 5	Unit	43.36	39.31

Vine Terrace Final Score: 92 HIGH PERFORMER

		Possible Points	Score
Indicator 1	Site	19.69	19.69
Indicator 2	Building Exterior	18.03	17.08
Indicator 3	Building Systems	14.22	14.22
Indicator 4	Common Areas	.99	.99
Indicator 5	Unit	47.07	40.36

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Low Rent Public Housing Cont.

Capital Fund Program

Each year MHA receives financial support from the U.S. Department of Housing and Urban Development (HUD) through the Capital Fund Program (CFP). This program permits Housing Authorities to make physical improvements to public housing, develop new public housing units, and with HUD approval, use Capital Funds for debt service on private market borrowing

In FY 2017-2018, MHA expended a total of \$ 233,341.

Capital Fund Grants expended during FY 2017- 2018

TX59P028501-17 \$ 73,076.35
TX59R028501-13 \$ 160,264.29
Total \$ 233,340.64

The Capital Fund Program is assessed and scored each year by HUD. A favorable CFP score reflects the agency is eligible for future grants. In FY 2017-2018, MHA received a perfect CFP score and was designated as a High Performer.

Capital Fund Score Details	Score	Maximum Score
Timeliness of Fund Obligation:		
1. Timeliness of Fund Obligation %	90.00	
2. Timeliness of Fund Obligation Points	5	5
Occupancy Rate:		
3. Occupancy Rate %	100.00	
4. Occupancy Rate Points	5	5
Total Capital Fund Score (Fund Obligation + Occupancy Rate):	10	10

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Housing Choice Vouchers

MHA administers the Housing Choice Voucher (HCV) program which provides 1,259 rental vouchers to 3,186 individuals. In addition, MHA continues to administer 10 vouchers under HUD's HCV Veterans Affairs Supportive Vouchers (VASH). The HCV program had an annual utilization average of 100.7% .

Unit Months	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
Vouchers Leased	1,254	1,255	1,263	1,291	1,308	1,280	1,285	1,290	1,297	1,286	1,269	1,249
Voucher Available	1,269	1,269	1,269	1,269	1,269	1,269	1,269	1,269	1,269	1,269	1,269	1,269
Utilization %	98.8%	98.9%	99.5%	101.7%	103.1%	100.9%	101.3%	101.7%	102.2%	101.3%	100%	98.4%
Annual Average	100.7%											

HCV Section Eight Management Assessment Program (SEMAP)

Each year MHA's HCV Program undergoes an independent performance review by the U.S. Department of Housing and Urban Development. Fourteen components of the program are scored on a 100 point scale. In FY 2017-2018, MHA received a perfect score of 100% and was designated a "High Performer" PHA by HUD.

McAllen Housing Authority SEMAP Certification Final Score: **100 HIGH PERFORMER**

		Possible Points	Score
Indicator 1	Selection from Waiting List	15	15
Indicator 2	Reasonable Rent	20	20
Indicator 3	Determination of Adjusted Income	20	20
Indicator 4	Utility Allowance Schedule	5	5
Indicator 5	Housing Quality Standards (HQS) Quality Control	5	5
Indicator 6	HQS Enforcement	10	10
Indicator 7	Expanding Housing Opportunities	5	5
Indicator 8	Payment Standards	5	5
Indicator 9	Timely Annual Reexaminations	10	10
Indicator 10	Correct Tenant Rent Calculations	5	5
Indicator 11	Pre-Contract HQS Inspections	5	5
Indicator 12	Annual HQS Inspections	10	10
Indicator 13	Lease-Up	20	20
Indicator 14	Family Self-Sufficiency	10	10

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

HCV Family Self-Sufficiency (FSS)

Under the FSS program, low-income families are provided opportunities for education, job training, homeownership counseling, and other forms of social service assistance, while living in assisted housing, so they can obtain skills necessary to achieve self-sufficiency.

Once an eligible family is selected to participate in the program, MHA, and the head of each participating family execute a 5-year FSS Contract of Participation that specifies the rights and responsibilities of both parties and the goals and services for the family. The family works with our Resident Services Department to be connected to services to assist with completing their goals.

An interest-bearing escrow account is established by MHA on behalf of the participant, where monthly deposits are made throughout the duration of the family's participation in the program. The escrow account funds are paid to the participant upon successful completion of all FSS program goals.

Fiscal Year 2017-2018 reflected favorable results for the HCV FSS program. Participants in the program completed financial literacy classes, financial credit counseling classes, employment interview skills classes, and complete life skills classes. Overall tenant escrow funds decreased by 9% compared to the previous year. The decrease was due to escrow disbursements to FSS participants for completing their program goals and graduating from the FSS Program.

FYE 2016-2017	Total Tenant Escrow Funds	\$44,335.54
FYE 2017-2018	Total Tenant Escrow Funds	\$40,043.00

Component Units

In FY 2017-2018 all developments within the McAllen Housing Development Corporation – Hibiscus Apartments and McAllen Housing Facility Corporation – Orchid Place and Sunset Gardens continue to perform well with high lease up activity and continue to provide affordable rental rates while maintaining quality safe housing for the low-income community.

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

ANNUAL FINANCIAL AND COMPLIANCE REPORT

In this section of the analysis, we, the managers of the McAllen Housing Authority (MHA), discuss and analyze the Authority's financial performance for the fiscal year ended June 30, 2018. Please read it in conjunction with our independent auditor's report and the Authority's Basic Financial Statements.

Financial Highlights

- Net assets invested in capital assets, net of related debt increased by \$46 (in thousands) as compared to the previous year's end. Unrestricted net assets increased by \$320 (in thousands) as compared to the previous year. Restricted Net Assets decreased by \$61 (in thousands) as compared to the previous year.
- Total revenues for the fiscal year ending June 30, 2018 were \$8,880 (in thousands).
- Total expenses of all the MHA's programs were \$8,816 (in thousands) for the year ended June 30, 2018.
- Total debt for Bonds and Notes decreased during the fiscal year 17-18 by \$178 (in thousands).

Using This Annual Report

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These statements provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the MHA's operations in more detail than the government-wide statements by providing information about the Authority's most significant funds. The fund financial statements tell how the services of MHA were provided to departments within the MHA or to external customers and how the rent revenues covered the expenses of providing these services.

The Notes to the Financial Statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements and the fund financial statements.

The sections labeled Single Audit Compliance Section and Supplemental Schedule contain data used by monitoring or regulatory agencies for assurance that the Authority is using funds supplied in compliance with the terms of grants.

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Financial Analysis

Government-Wide Financial Statements

The financial statements of the MHA included in this report are those of a special-purpose government engaged solely in business-type activities. The U.S. Department of Housing and Urban Development (HUD) requires that activities it funds be reported as business-type activities.

The analysis of MHA's overall financial condition and operations begins with the Statement of Net Assets. Its primary purpose is to show whether the Authority is improving or deteriorating financially as a result of the year's activities. The Statement of Net Assets includes all the Authority's assets and liabilities at the end of the year while the Statement of Revenues, Expenses, and Changes in Net Assets includes all the revenues and expenses generated by the Authority's operations during the year. The Statement of Cash Flows reports the Authority's cash flows from operating, investing, and capital and non-capital financing activities. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. MHA's revenues are divided into those provided by outside parties who share the costs of some programs, such as the U.S. Department of Housing and Urban Development, and those provided by users of the Authority's services, such as rental income. All of the Authority's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report MHA's net assets and the changes in them for the year. MHA's net assets (the difference between assets and liabilities) provide one measure of the Authority's financial health, or financial position. Over time, increases or decreases in MHA's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of MHA, however, you should consider nonfinancial factors as well, such as changes in the condition of MHA's facilities and external economic influences.

Reporting the Authority's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not MHA as a whole. Laws and contracts require the Authority to establish funds to account for resources received from HUD. MHA's administration establishes additional funds to help it control and manage money for particular purposes.

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Proprietary funds – MHA reports the activities for which it charges users (whether outside customers or other units or departments of MHA) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the MHA's business-type activities.

Net assets increased by \$305 (in thousands) as compared to the previous year's end. Unrestricted net assets – the part of net assets that can be used to finance day-to day operations without constraints by debt covenants, enabling legislation or other legal requirements – was \$3,071 (in thousands) at year-end.

Net Assets invested in capital assets, net of related debt increased by \$46 (in thousands) as compared to the previous year's end.

The Authority's total debt for Bonds and Notes decreased during the current fiscal year by \$178 (in thousands) (Table IV).

Table I
HOUSING AUTHORITY OF THE CITY OF MCALLEN

NET ASSETS				
in thousands				
	2018	2017	\$ Change	% Change
Current and Other Assets	\$ 5,292	\$ 4,499	\$ 793	6.7%
Capital Assets	10,292	10,921	(629)	-5.8%
Total Assets	15,584	15,420	164	1.1%
Current Liabilities	390	291	99	34.0%
Other Liabilities	3,384	3,624	(240)	-6.6%
Total Liabilities	3,774	3,915	(141)	-3.6%
Net Assets:				
Invested in Capital Assets,				
Net of Related Debt	6,747	6,701	46	0.7%
Restricted	1,992	2,053	(61)	-3.0%
Unrestricted	3,071	2,751	320	11.6%
Total Net Assets	\$ 11,810	\$ 11,505	\$ 305	2.7%

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Table II
HOUSING AUTHORITY OF THE CITY OF MCALLEN

CHANGES IN NET ASSETS				
in thousands				
	2018	2017	\$ Change	% Change
Operating Revenues:				
Tenant Revenues	\$ 1,332	\$ 1,403	\$ (71)	-5.1%
Operating and Capital Grants and Subsidies	6,961	7,067	(106)	-1.5%
Other Revenue	518	1,080	(562)	-52.0%
Total Operating Revenues	8,811	9,550	(739)	-7.7%
Operating Expenses:				
Administrative	1,124	989	135	13.7%
Tenant Services	32	30	2	6.7%
Utilities	124	145	(21)	-14.5%
Ordinary Maintenance and Operations	395	401	(6)	-1.5%
Protective Services	15	18	(3)	-16.7%
General Expenses	622	972	(350)	-36.0%
Insurance Expenses	66	66	-	0.0%
Housing Assistance Payments	5,747	5,584	163	2.9%
Other Expenses	61	85	(24)	-28.2%
Depreciation	630	752	(122)	-16.2%
Total Operating Expenses	8,816	9,042	(226)	-2.5%
Operating Income (Loss)	(5)	508	(513)	-101.0%
Nonoperating Revenues (Expenses):				
Insurance Proceeds	-	-	-	0.0%
Restoration of Property	-	-	-	0.0%
Interest Income	69	38	31	44.9%
Interest Expense	-	(272)	272	-100.0%
Gain (Loss) on Disposal of Fixed Assets	-	-	-	0.0%
Total Nonoperating Revenues (Expenses)	69	(234)	303	-129.5%
Income (Loss) Before Other Financing				
Sources (Uses)	64	274	(210)	-76.6%
Other Financing Sources (Uses):				
Operating Transfer In/Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Change in Net Assets	64	274	(210)	-76.6%
Net Assets - Beginning	11,505	11,360	145	1.3%
Adjustment to Net Assets	241	(129)		
Net Assets - Ending	\$ 11,810	\$ 11,505	305	2.7%

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Capital Assets and Debt Administration

Capital Assets

At June 30, 2018, MHA had a total cost of \$18,911 (in thousands) invested in capital assets. This amount, not including depreciation, represents an increase of \$602 (in thousands) from the prior year.

Table III
HOUSING AUTHORITY OF THE CITY OF MCALLEN

CAPITAL ASSETS in thousands				
	2018	2017	\$ Change	% Change
Land	\$ 2,480	\$ 2,480	\$ -	0.0%
Buildings and Improvements	15,296	14,775	521	3.5%
Furniture, Fixtures & Machinery - Admin	607	590	17	2.9%
Furniture, Fixtures & Machinery - Dwelling	528	464	64	13.8%
Total Capital Assets	18,911	18,309	602	3.3%
Less: Accumulated Depreciation	(8,619)	(7,885)	(734)	9.3%
Total Capital Assets, Net	\$ 10,292	\$ 10,424	\$ (132)	\$ -1.3%

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Debt

At June 30, 2018, MHA had \$3,546 (in thousands) in long-term debt obligations outstanding. This represents a decrease of \$178 (in thousands) compared to the prior year.

Table IV
HOUSING AUTHORITY OF THE CITY OF MCALLEN

DEBT in thousands				
	2018	2017	\$ Change	% Change
Bonds Payable	\$ 1,898	\$ 1,954	\$ (56)	-2.9%
Notes Payable	1,648	1,770	(122)	-6.9%
 Total Debt	 \$ 3,546	 \$ 3,724	 \$ (178)	 -4.8%

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Economic Factors

In the past, the Authority demolished and reconstructed its Retama Village public housing complex due to the age of the property. However, of the original 150 units demolished, 61 have yet to be reconstructed. HUD makes funding available for demolition and reconstruction of public housing through its Replacement Housing Factor (RHF) Funds grant program. This grant is available in 5-year increments. The Authority reached the end of its first 5-year increment in 2013 and at FYE 2017-2018 MHA has continued to apply a second 5-year increment towards the development of Hibiscus Village. Hibiscus Village, a mixed finance affordable housing development will contain ten (10) Public Housing units, twenty-five (25) HCV Project Based Vouchers and thirteen (13) market based units.

Contacting the Authority and Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority's business office at The Housing Authority of the City of McAllen, Texas, 2301 Jasmine Avenue, McAllen, Texas 78501.

FINANCIAL STATEMENTS

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HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS

STATEMENT OF NET POSITION

FOR THE YEAR ENDED JUNE 30, 2018

	Primary Government
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 2,588,628
Restricted cash and cash equivalents	476,323
Investments	1,515,364
Accounts receivable, net	42,033
Accrued interest	137,600
Other receivable	7,149
Prepaid expenses and other assets	21,073
Other assets	10,993
Total current assets	<u>4,799,163</u>
Noncurrent Assets:	
Notes receivable	478,129
Capital assets:	
Land	2,480,386
Building and equipment	13,772,639
Leasehold improvements	1,522,954
Furniture and equipment	1,135,740
Less accumulated depreciation	<u>(8,619,462)</u>
Capital assets, net	<u>10,292,257</u>
Total noncurrent assets	<u>10,770,386</u>
Deferred Outflow of Resource:	
Deferred financing costs	<u>14,330</u>
Total assets and deferred outflow of resources	<u>15,583,879</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 74,035
Other accounts payable	8,860
Accrued liabilities	8,426
Compensated absences	32,833
Tenant security deposits	56,913
Long-term debt due within one year	<u>209,016</u>
Total current liabilities	<u>390,083</u>
Noncurrent Liabilities:	
FSS escrow payable	40,043
ROSS escrow payable	6,977
Long-term debt due in more than one year	<u>3,336,701</u>
Total noncurrent liabilities	<u>3,383,721</u>
Total liabilities	<u>3,773,804</u>
NET POSITION	
Net investment in capital assets	6,746,540
Restricted	1,991,687
Unrestricted	<u>3,071,848</u>
Total net position	<u>\$ 11,810,075</u>

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

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

FOR THE YEAR ENDED JUNE 30, 2018

	Primary Government
OPERATING REVENUES	
Government operating grants	\$ 6,960,535
Dwelling rental	1,331,724
Non-dwelling rental	15,137
Service fees	214,886
Fraud recovery	11,725
Other revenue	276,774
Total Operating Revenues	<u>8,810,781</u>
OPERATING EXPENSES	
Administrative	1,124,229
Tenant services	32,437
Utilities	123,735
Maintenance	395,252
Protective services	15,154
General expenses	687,258
Dwelling units	61,429
Housing assistance payments	5,746,748
Depreciation expense	629,917
Total Operating Expenses	<u>8,816,159</u>
OPERATING INCOME (LOSS)	<u>(5,378)</u>
NONOPERATING REVENUES	
Interest and investment revenue	<u>69,477</u>
Total Nonoperating Revenues	<u>69,477</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	<u>64,099</u>
CHANGE IN NET POSITION	<u>64,099</u>
NET POSITION, BEGINNING OF YEAR	11,504,881
ADJUSTMENT TO NET ASSETS	<u>241,095</u>
NET POSITION, END OF YEAR	<u>\$ 11,810,075</u>

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

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

	Primary Government
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts of grants and contracts	\$ 6,960,535
Receipts of tenants	1,319,801
Other receipts	498,096
Payments to or on behalf of employees	(1,155,877)
Payments to suppliers for goods or services	(1,149,789)
Payment to housing assistance	(5,808,177)
Net cash provided (used) by operating activities	<u>664,589</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase/Sale of capital asset	(289,327)
Escrow payable	(28,777)
Other revenues	2,296
Loan repayment	(177,637)
Net cash provided (used) by capital and related financing activities	<u>(493,445)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	<u>69,477</u>
Net cash provided (used) by investing activities	<u>69,477</u>
Increase (decrease) in cash and cash equivalents	240,621
Cash and cash equivalents - Beginning of year	<u>4,339,694</u>
Cash and cash equivalents - End of year	<u>\$ 4,580,315</u>
Reconciliation of operating income (loss) to net cash provided by operating activities	
Operating income (loss)	\$ (5,377)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation expense	629,917
Changes in assets and liabilities	
(Increase) decrease in receivables, net	(29,706)
(Increase) decrease in accrued interest	(17,329)
(Increase) decrease in due from other funds	12,240
(Increase) decrease in prepaid and other assets	(2,781)
(Increase) decrease in deferred costs	(741)
Increase (decrease) in accounts payable	61,735
Increase (decrease) in accrued liabilities	(19,645)
Increase (decrease) in deferred revenue	(200)
Increase (decrease) in intergovernmental payables	(12,240)
Increase (decrease) in tenant security deposits	2,646
Increase (decrease) in other current liabilities	46,070
Net cash provided (used) by operating activities	<u>\$ 664,589</u>

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

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Housing Authority of the City of McAllen (the Housing Authority) is a governmental entity created by the City of McAllen, Texas for the acquisition, development, modernization, operation, and administration of public housing programs. The primary purpose of the Housing Authority is to provide safe, decent, sanitary, and affordable housing to low income and elderly families in the City of McAllen, Texas. The housing programs are operated in accordance with the Housing and Urban Development guidelines.

The governing body of the Housing Authority is the Board of Commissioners which consists of five members appointed by the Mayor of the City of McAllen, Texas who have decision making authority. The Board of Commissioners appoints an Executive Director to administer the daily affairs of the Housing Authority. The Housing Authority is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board (GASB) in its Statement No. 14, as amended by GASB Statement No. 39, GASB Statement No. 61, and GASB Statement No. 80. There are two component units included within the Housing Authority's reporting entity.

B. THE COMPONENT UNITS

MCALLEN HOUSING FACILITY CORPORATION

The McAllen Housing Facility Corporation (MHFC), a blended component unit of the Housing Authority, was created and organized by action of the Housing Authority under the provisions of Chapter 303, Texas Local Government Code, for the purpose of providing a means of financing the costs of residential ownership and development that will provide decent, safe and sanitary housing for persons of low and moderate income at prices they can afford.

MHFC is the sole member of Retama Village GP, LLC, a Texas limited liability company, which is the general partner of Retama Village, Ltd., a Texas limited partnership. Retama Village GP, LLC possesses an interest of .01% and the responsibility for the day to day operations. Brownstone Affordable Housing, Ltd., a Texas limited partnership, is the Class B limited partner owning a .01% interest and is the guarantor of this project. MMA Financial Affordable Housing Fund VII, L.P. is the investor possessing 99.98% interest in this project. BFIM Special Limited Partner, Inc., a Florida corporation, is the special limited partner. Retama Village, Ltd. was organized to acquire, develop and operate 138 residential units for rental to low-income tenants in McAllen, Texas.

MHFC is the sole member of Retama Village Phase II GP, LLC, a Texas limited liability company, which is the general partner of Retama Village Phase II, Ltd., a Texas limited partnership. Retama Village Phase II GP, LLC possesses an interest of .01 % and the responsibility for the day to day operations. PNC Multifamily Capital Institutional Fund VLI Limited Partnership, a Massachusetts limited partnership, is the investor possessing 99.99% interest in this project. Columbia Housing SLP Corporation, an Oregon corporation, is the special limited partner. Retama Village Phase II, Ltd. was organized to acquire, develop and operate 74 residential units for rental to low-income tenants in McAllen, Texas.

MHFC is the sole member of The Villas at Beaumont GP, LLC, a Texas limited liability company, which develops and operates 36 residential units for rental to elderly low-income tenants in McAllen, Texas. Accordingly, the financial statements of the Villas at Beaumont GP, LLC are consolidated into the financial statements of the McAllen Housing Facility Corporation.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. THE COMPONENT UNITS

MCALLEN HOUSING FACILITY CORPORATION

MHFC is the sole member of La Vista Housing Associates GP, LLC, a Texas limited liability company, which is the general partner of the La Vista Housing Associates, Ltd., a Texas limited partnership. La Vista Housing Associates, GP, LLC possesses an interest of .005% and the responsibility for the day to day operations. Madhouse Development Services, Inc. is the Class B limited partner and possesses a .005% interest. PNC Multifamily Capital Institutional Fund XXXVI Limited Partnership, a Texas limited partnership, is the investor limited partner possessing a 99.99% interest. Columbia Housing SLP Corporation is the special limited partner. La Vista Housing Association, Ltd. was organized to acquire, rehabilitate and operate a 48 -unit apartment project known as La Vista Apartments.

MCALLEN HOUSING DEVELOPMENT CORPORATION

In February 2015, McAllen Housing Development Corporation (MHDC), a blended component unit of the Housing Authority, is sponsored and created by the Housing Authority of the City of McAllen, Texas, under the Public Facility Corporation Act with the broadest possible powers to assist it to acquire, construct, rehabilitate, renovate, repair, equip, furnish, finance, refinance, and place on service public facilities of the Housing Authority of the City of McAllen, Texas. MHDC is non-federally funded, and via a contribution from MHFC, the McAllen Housing Development Corporation purchased a 20-unit Multi-family development - Hibiscus Apartments.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made.

The financial statements of the Housing Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Government Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the governmental accounting policies are described below.

D. ADOPTED GASB STATEMENTS

The Housing Authority adopted GASB Statement No. 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The implementation of this statement did not have a significance impact on the Housing Authority.

E. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Housing Authority considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. INTERFUND ACTIVITY

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Interfund activity has been eliminated in the government wide statement of activities.

G. LONG-TERM DEBT

Long-term debt is reported as noncurrent liabilities in the statement of net position.

H. ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. FAIR VALUE MEASUREMENTS

The fair value framework uses a hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The fair value hierarchy is as follow;

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability at the measurement date.
- Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liability (for example interest rates, volatilities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs - Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

Fair value of assets and liabilities measured on a recurring basis at June 30, 2018 is as follows:

	Fair Value	Quoted Priced in Active Marketsfor Identical Assets/Liabilities (Level 1)	Signigicant Other Obervable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2018</u>				
Equity Securities	\$ 1,515,364	\$ 1,515,364	\$ -	\$ -
Total	<u>\$ 1,515,364</u>	<u>\$ 1,515,364</u>	<u>\$ -</u>	<u>\$ -</u>

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

J. DEFERRED OUTFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resource, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Housing Authority has \$14,330 in deferred financing costs. This amount is deferred and recognized as outflows of resources the appropriated future period when the outflow occurs.

K. ACCRUED COMPENSATED ABSENCES AND ACCRUED SICK LEAVE

It is the Housing Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. Vacation pay is accumulated by regular full-time employees as follow:

1	Year - 12 Work Days per Year
6-9	Years - 13 Work Days per Year
10+	Years - 15 Work Days per Year

It is the Housing Authority's policy that employees are allowed to carry over a maximum of ten work days per year of accumulated vacation leave into the following year. Any amount in excess of this limit is forfeited. Unused accumulated vacation leave is payable to an employee (or their beneficiary) upon termination, resignation, retirement, or death.

Sick leave credits are earned at eight hours per month for regular full-time employees and four hours per month for regular part-time employees. Employees may accumulate an unlimited amount of sick leave credits; however, accumulated unused sick leave is not payable to an employee upon separation of employment, unless the employee is a regular full-time employee with continuous service of ten years or more. Such payment is contingent upon approval of the Executive Director. A liability is recorded in the financial statements for accumulated sick leave of employees with continuous service of ten years or more.

L. ACCOUNTS RECEIVABLE AND ALLOWANCES FOR UNCOLLECTIBLE ACCOUNTS

The Housing Authority believes that sufficient detail of accounts receivable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation; therefore, no disclosure is provided which disaggregates those balances.

The Housing Authority records an allowance for accounts it deems uncollectible. The allowance for uncollectible accounts receivable was \$1,104 for Low Rent Public Housing and \$18,891 for Housing Choice Vouchers for a total of \$19,995.

M. CAPITAL ASSETS

Capital assets include land, buildings, furniture and equipment. Capital assets are defined by the Housing Authority as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the Housing Authority and the component units are depreciated using the straight-line method over the following estimated useful lives:

Building and Improvements	7-30 Years
Motor Vehicles	5-7 Years
Office Furniture and Equipment	2-5 Years

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

N. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2018 are recorded as prepaid items.

O. NET POSITION

Net Position, the difference between assets and liabilities, are classified into three parts: (1) *invested in capital assets, net of related debt*, which is the balance of fixed assets less accumulated depreciation, net of outstanding debt; (2) *restricted*, which are net assets subject to constraints externally imposed by funding agencies, creditors, or enabling legislation; and (3) *unrestricted*, which are net assets that do not conform to the previous two classifications. Restricted resources are used first when an expense is incurred for purposes for which both restricted and unrestricted are available.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY DATA

At least ninety days before June 30, the annual operating budget is adopted by the Board of Commissioners for the following year. The budget is legally adopted through the passage of a resolution. The budget's final approval rests with the Housing and Urban Development Authority, when it reviews the prior year's final operations and the subsequent year's budget information.

III. DETAILED NOTES

A. DEPOSITS AND INVESTMENTS

• MCALLEN HOUSING AUTHORITY

The funds of the Housing Authority must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the Housing Authority's agent bank in an amount sufficient to protect the Housing Authority's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

The Housing Authority maintains cash accounts at financial institutions that are insured by the Federal Deposit Insurance Company (FDIC). At times, balances deposited with financial institutions have exceeded FDIC coverage; however, the deposits are secured by approved securities pledged as collateral.

• MCALLEN HOUSING FACILITY CORPORATION (MHFC)

The funds of the MHFC must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the Housing Authority's agent bank in an amount sufficient to protect the MHFC's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of FDIC insurance.

The MHFC maintains cash accounts at financial institutions that are insured by the Federal Deposit Insurance Company (FDIC). At times, balances deposited with financial institutions have exceeded FDIC coverage; however, the deposits are secured by approved securities pledged as collateral.

III. DETAILED NOTES

A. DEPOSITS AND INVESTMENTS

- **MCALLEN HOUSING DEVELOPMENT CORPORATION (MHDC)**

The MHDC maintains cash accounts at financial institutions that are insured by the Federal Deposit Insurance Company (FDIC). At times, balances deposited with financial institutions have exceeded FDIC coverage; however, the deposits are secured by approved securities pledged as collateral.

The Housing Authority reports investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Under the provisions of GASB Statement No. 31, governmental entities should report investments at fair value on the statement of net position. Investment income should include unrealized gains and losses (representing the change in market value) and be reported as revenue in the operating statement. Additionally, investments may be reported at amortized cost if the remaining maturity at time of purchase is one year or less, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

Additional policies and contractual provisions governing deposits and investments for the Housing Authority are specified below:

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Housing Authority's only investment at year end was a certificate of deposit mentioned above.

Custodial Risk for Investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the Housing Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments held by third parties were fully collateralized and held in the Housing Authority's name.

Concentration of Credit Risk – The investment of the Housing Authority contains no limitations on the amount that can be invested in any one issuer beyond stipulated by the Public Funds Investment Act. The certificate of deposit mentioned above, represents 100% of the Housing Authority's total investments.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Housing Authority manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Foreign Currency Risk for Investments – The Housing Authority limits the risk that changes in exchange rates will adversely affect the fair value of an investment. At year-end, the Housing Authority was not exposed to foreign currency risk.

B. RESTRICTED CASH AND CASH EQUIVALENTS

MCALLEN HOUSING AUTHORITY

At June 30, 2018, the Housing Authority had cash and cash equivalents restricted as follows: under the Section 8 Housing Choice Voucher Program \$60,450 restricted \$40,043 restricted escrow for the FSS program; under the Low Rent program \$6,977 restricted for the ROSS Program, \$7,350 restricted as Tenant Securities, and \$1,515,364 are restricted for the properties Modernization & Development; \$4,621 are for the CPF program.

III. DETAILED NOTES

B. RESTRICTED CASH AND CASH EQUIVALENTS

MCALLEN HOUSING FACILITY CORPORATION

At June 30, 2018, the MHFC had cash and cash equivalents restricted as follows: (1) \$306,219 restricted for capital improvements to financed properties; (2) \$0 restricted for debt service as required by the MHFC's debt covenants and (3) restricted Tenant Securities of \$45,613

MCALLEN HOUSING DEVELOPMENT CORPORATION

At June 30, 2018, the MHDC had cash and cash equivalents restricted as follows: (1) \$5,050 restricted for Tenant Securities.

C. CAPITAL ASSETS

Capital asset activity for the Housing Authority for the year ended June 30, 2018, was as follows:

	Beginning Balance <u>7/1/2017</u>	Changes During Year			Ending Balance <u>6/30/2018</u>
		<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	
Low Rent					
Capital assets not being depreciated:					
Land	\$ 1,577,842	\$ -	\$ -	\$ -	\$ 1,577,842
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	<u>1,577,842</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,577,842</u>
Capital assets being depreciated:					
Buildings	3,757,796	-	-	-	3,757,796
Leasehold improvements	1,128,704	166,936	-	-	1,295,640
Furniture & equipment - Admin	414,064	10,154	-	-	424,218
Furniture & equipment - Dwelling	<u>99,106</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>99,106</u>
Total capital assets being depreciated	<u>5,399,670</u>	<u>177,090</u>	<u>-</u>	<u>-</u>	<u>5,576,760</u>
Less accumulated depreciation	<u>(4,784,437)</u>	<u>(198,429)</u>	<u>-</u>	<u>(5,447)</u>	<u>(4,988,313)</u>
Low Rent Capital Assets, Net	<u>\$ 2,193,075</u>	<u>\$ (21,339)</u>	<u>\$ -</u>	<u>\$ (5,447)</u>	<u>\$ 2,166,289</u>
Section 8					
Capital assets being depreciated:					
Furniture & equipment - Admin	\$ 86,284	\$ -	\$ -	\$ (422)	\$ 85,862
Total capital assets being depreciated	<u>86,284</u>	<u>-</u>	<u>-</u>	<u>(422)</u>	<u>85,862</u>
Less accumulated depreciation	<u>(77,673)</u>	<u>(1,961)</u>	<u>-</u>	<u>3,184</u>	<u>(76,450)</u>
Section 8 Capital Assets, Net	<u>\$ 8,611</u>	<u>\$ (1,961)</u>	<u>\$ -</u>	<u>\$ 2,762</u>	<u>\$ 9,412</u>

III. DETAILED NOTES

C. CAPITAL ASSETS

	Beginning Balance <u>7/1/2017</u>	Changes During Year			Ending Balance <u>6/30/2018</u>
		<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	
McAllen Housing Facility Corporation (MHFC)					
Capital assets not being depreciated:					
Land	\$ 702,544	\$ -	\$ -	\$ -	\$ 702,544
Total capital assets not being depreciated	\$ 702,544	\$ -	\$ -	\$ -	\$ 702,544
Capital assets being depreciated:					
Buildings	\$ 8,972,630	\$ 25,784	\$ -	\$ 315,434	\$ 9,313,848
Leasehold improvements	119,185	8,323	-	-	127,508
Furniture & equipment - Admin	89,851	-	-	7,482	97,333
Furniture & equipment - Dwelling	292,330	74,130	-	(9,600)	356,860
Total capital assets being depreciated	9,473,996	108,237	-	313,316	9,895,549
Less accumulated depreciation	(2,955,005)	(381,293)	-	(101,659)	(3,437,958)
MHFC Capital Assets, Net	\$ 7,221,535	\$ (273,056)	\$ -	\$ 211,657	\$ 7,160,135
McAllen Housing Development Corp (MHDC)					
Capital assets not being depreciated:					
Land	\$ 200,000	\$ -	\$ -	\$ -	\$ 200,000
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	200,000	-	-	-	200,000
Capital assets being depreciated:					
Buildings	700,995	-	-	-	700,995
Leasehold improvements	95,806	4,000	-	-	99,806
Furniture & equipment - Dwelling	72,361	-	-	-	72,361
Total capital assets being depreciated	869,162	4,000	-	-	873,162
Less accumulated depreciation	(68,377)	(48,365)	-	-	(116,742)
MHDC Capital Assets, Net	\$ 1,000,785	\$ (44,365)	\$ -	\$ -	\$ 956,420

III. DETAILED NOTES

C. CAPITAL ASSETS

	Beginning Balance <u>7/1/2017</u>	Changes During Year			Ending Balance <u>6/30/2018</u>
		<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	
Summary Total					
Capital assets not being depreciated:					
Land	\$ 2,480,386	\$ -	\$ -	\$ -	\$ 2,480,386
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	\$ 2,480,386	\$ -	\$ -	\$ -	\$ 2,480,386
Capital assets being depreciated:					
Buildings	\$ 13,431,421	\$ 25,784	\$ -	\$ 315,434	\$ 13,772,639
Leasehold improvements	1,343,695	179,259	-	-	1,522,954
Furniture & equipment - Admin	590,199	10,154	-	7,060	607,412
Furniture & equipment - Dwelling	463,797	74,130	-	(9,600)	528,327
Total capital assets being depreciated	15,829,112	289,327	-	312,894	16,431,332
Less accumulated depreciation	(7,885,492)	(630,048)	-	(103,922)	(8,619,462)
Total Capital Assets, Net	\$ 10,424,006	\$ (340,721)	\$ -	\$ 208,972	\$ 10,292,257

D. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2018 consisted on the following:

Bonds & Notes	Interest Rate	Amount of Original Issue	Interest Current Year	Balance 6/30/17	Adjustments	Retired	Balance 6/30/18	Due Within One Year
McAllen Housing Facility Corporation Multifamily Housing Revenue Refunding Bonds Series 2012	4.95%	\$ 2,172,000	\$ 96,762	\$ 1,954,183	\$ 213	\$ (55,923)	\$ 1,898,473	\$ 58,788
McAllen Housing Facility Corporation Note Payable	6.56%	2,000,000	77,766	1,326,590	120	(115,753)	1,210,957	134,666
Villas at Beaumont, GP, LLC Note Payable (1st Lien)	10.50%	250,000	25,122	160,148	-	(1,989)	158,159	11,241
Villas at Beaumont, GP, LLC Note Payable (2nd Lien) to MHFC	8.00%	300,000	22,400	282,433	-	(4,304)	278,129	4,321
Totals			\$ 222,050	\$ 3,723,354	\$ 333	\$ (177,970)	\$ 3,545,718	\$ 209,016

III. DETAILED NOTES

D. LONG-TERM DEBT

DESCRIPTION OF DEBT

McAllen Housing Facility Corporation Multifamily Housing Revenue Refunding Bonds Series 2012

On November 1, 2012, MHFC Multifamily Housing Revenue Refunding Bonds, Series 2012 were issued in the amount of \$2,172,000 to refund the MHFC Multifamily Housing Revenue Bonds, Series 2002. The bonds bear interest at 4.95% and are due in monthly installments of principal and interest totaling \$12,724 through November 20, 2037. The bonds are payable pursuant to a debt agreement with Frost Bank. The principal amount outstanding at June 30, 2018 was \$1,898,473.

McAllen Housing Facility Corporation Note Payable

On September 9, 2010, the McAllen Housing Facility Corporation borrowed \$2,000,000 from Frost National Bank: to assist in the purchase of a residential rental project named Orchid Place Apartments. The note is payable in monthly installments of \$17,593, including interest at 6.56%, and is secured by real property. The note matures on September 10, 2025. The principal amount outstanding at June 30, 2018 was \$1,210,957.

Villas at Beaumont, GP, LLC Mortgage Payable

On August 1, 2011, Villas at Beaumont, GP, LLC borrowed \$250,000 from Brownstone Affordable Housing, Ltd. to finance construction costs of the Villas at Beaumont elderly apartment complex. The note is payable in monthly installments of \$2,287, including interest at a rate of 10.5%, and is secured by real property. The note matures on February 1, 2042. The principal amount outstanding at June 30, 2018 was \$158,159.

DEBT SERVICE REQUIREMENTS

Total debt service requirements for the MHFC's debt at June 30, 2018 were as follows:

Year Ending	General Obligations		Total
	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
June 30,			
2019	\$ 209,016	\$ 208,639	\$ 417,655
2020	222,333	195,322	417,655
2021	237,540	180,115	417,655
2022	253,362	164,293	417,655
2023	270,281	134,513	404,794
2024-2028	1,079,753	551,103	1,630,856
2029-2033	620,868	270,442	891,310
2034-2038	578,885	93,995	672,880
2039-2043	73,679	11,168	84,847
	<u>\$ 3,545,717</u>	<u>\$ 1,809,590</u>	<u>\$ 5,355,307</u>

III. DETAILED NOTES

E. DEFINED CONTRIBUTION PLAN

The Housing-Renewal and Local Agency Retirement Plan: The Housing Authority sponsors a defined contribution plan (the plan) that covers regular full-time and part-time employees. Temporary employees are not eligible to participate in the plan. Employees may participate in the plan on the first day of the month after attaining age 18 and completing one full year of continuous and uninterrupted employment with the Housing Authority. Employees are not required to make any contributions to the plan unless the employee elects to make a voluntary employee contribution. The employer is required to make a contribution of 13% of the basic employee compensation. Employees are vested at a rate of 20% for each full year of continuous employment. The Housing Authority's contributions for the year ended June 30, 2018 were \$77,879.

F. TRANSFERS

The Housing Authority recorded a transfer of \$224,975 from its Capital Fund Program to the Low Rent Public Housing program during the fiscal year ending June 30, 2018. This transfer represents the costs of capital improvements expended by the Capital Fund Program for the improvement of the Low Rent Public Housing program's capital assets.

G. RELATED-PARTY TRANSACTIONS

MCALLEN HOUSING FACILITY CORPORATION

On June 17, 2008, MHFC entered into an agreement with Retama Village Phase II, Ltd. to loan \$200,000 for the purpose of demolition and construction of new housing. The loan bears interest of 8% per annum. The note matures on July 1, 2048. The note is payable only from the Retama Village Phase II, Ltd.'s available cash flows, as defined by the limited partnership agreement and, as such, unpaid interest accrues. Payments on this note are first applied to accrued interest, then principal. Upon maturity, all unpaid principal and all accrued and unpaid interest will become due and payable. The outstanding amount receivable at June 30, 2018 was \$200,000. Interest payments received were \$0 and unpaid accrued interest receivable at June 30, 2018 was \$137,600.

On May 11, 2010 the MHFC (the sole member) entered into a loan agreement with the Villas at Beaumont GP LLC, in the amount of \$300,000. The finance was secured by a subordinate deed of the property. During construction, interest accrued at 8% and was paid at construction completion. Commencing with the fifth day of the first calendar month following the funding of the loan (September 2011) the loan is payable in monthly installments of \$2,201, including interest at 8%, until the maturity date fifteen years later, at which time, all remaining unpaid principal and interest is due. The loan balance as of June 30, 2018 was \$278,129.

The Inter-program eliminations during and as of June 30, 2018 was as follow:

	Inter-program Eliminations	
	Revenues	Expenses
Housing Choice Vouchers	\$ -	\$ 433,073
McAllen Facility Corp.	363,602	-
McAllen Development Corp.	69,471	-
Total	<u>\$ 433,073</u>	<u>\$ 433,073</u>

III. DETAILED NOTES

H. ACCRUED LEAVE

As of June 30, 2018, the accrued leave balance was \$32,833.

Balance 6/30/2017	Earned	Taken	Balance 6/30/2018
<u>\$ 12,662</u>	<u>\$ 32,833</u>	<u>\$ (12,662)</u>	<u>\$ 32,833</u>

I. CONTINGENT

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor, cannot be determined at this time although the Housing Authority of the City of McAllen expects such amounts, if any, to be immaterial.

J. SUBSEQUENT EVENTS

MCALLEN HOUSING AUTHORITY AND MCALLEN HOUSING FACILITY CORPORATION

The Housing Authority has evaluated subsequent events through March 4, 2019 the date which the financial statements were available to be issued. No such events have occurred subsequent to the balance sheet date and through the date of the Housing Authority's evaluation that would require adjustment to, or disclosure in, the financial statements.

K. RISK MANAGEMENT

The Housing Authority is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; workers compensation losses; errors and omissions; and natural disasters. The Housing Authority covers these risks through the purchase of commercial insurance. Settlement amounts have not exceeded insurance coverage.

L. CONTINGENT LIABILITIES

In the normal course of business, the Housing Authority is subject to certain contingent liabilities and un-asserted claims. These contingencies are evaluated in light of asserted claims being probable and estimable. Those claims that are probable and estimable have been accrued in the accompanying financial statements. Claims that are possible and/or not estimable are disclosed herein. Remote claims are monitored until such time as they are resolved, disclosed, or accrued.

M. CONCENTRATIONS

A significant portion of the revenues of the Housing Authority are received from programs directed by the United States Department of Housing and Urban Development. Receipt of these funds is contingent upon the Housing Authority's continued compliance with grant provisions and the continuance of the grant programs by the United States Governmental agency.

III. DETAILED NOTES

N. PRIOR PERIOD ADJUSTMENTS

Adjustments to net position during the 2017-2018 fiscal year consisted of adjustments to Low Rent Housing of (\$3,604), Section 8 Voucher of \$2,452, MHFC of \$241,277, and MHDC of \$970 for a total of \$241,095. These include adjustments to payroll due to a timing and setup issue when the Housing Authority was exporting and importing data from the old system into the new system, adjustments to Villas at Beaumont in order to match their the entity's books, adjustments to remove excess accrued compensated absences, and to adjust capital assets accumulated depreciation which was not properly recognized in the books.

	Low Rent	Section 8	McAllen	McAllen	Capital Fund	
	Housing	Voucher	Facility Corp.	Development	Program	Total
				Corp.		
Prior period adjustments	<u>\$ (3,604)</u>	<u>\$ 2,452</u>	<u>\$ 241,277</u>	<u>\$ 970</u>	<u>\$ -</u>	<u>\$241,095</u>

SUPPLEMENTARY INFORMATION

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HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS

SUPPLEMENTARY SCHEDULE

COMBINING BALANCE SHEET - PROGRAMS

FOR THE YEAR ENDED JUNE 30, 2018

	Low Rent Housing	Section 8 Voucher	McAllen Facility Corp.	McAllen Development Corp.	Capital Fund Program	Total Programs
ASSETS						
Current assets						
Cash and cash equivalents	\$ 427,032	\$ 626,718	\$ 1,265,274	\$ 269,604	\$ -	\$ 2,588,628
Restricted cash and cash equivalents	14,327	100,493	351,832	5,050	4,621	476,323
Investments, restricted	1,515,364	-	-	-	-	1,515,364
Accounts receivable, net	-	-	42,033	-	-	42,033
Accrued interest receivable	-	-	137,600	-	-	137,600
Other receivable	-	3,103	50	3,996	-	7,149
Due from other funds	-	-	1,103,601	-	-	1,103,601
Prepaid items	7,253	1,657	11,133	1,030	-	21,073
Other Assets	-	-	10,993	-	-	10,993
Total current assets	<u>1,963,976</u>	<u>731,971</u>	<u>2,922,516</u>	<u>279,680</u>	<u>4,621</u>	<u>5,902,764</u>
Noncurrent assets						
Related party notes receivable	-	-	478,129	-	-	478,129
Capital assets						
Land	1,577,842	-	702,544	200,000	-	2,480,386
Buildings	3,757,796	-	9,313,848	700,995	-	13,772,639
Leasehold improvements	1,295,640	-	127,508	99,806	-	1,522,954
Furniture and equipment	523,324	85,862	454,193	72,361	-	1,135,740
Less accumulated depreciation	(4,988,313)	(76,450)	(3,437,958)	(116,741)	-	(8,619,462)
Total capital assets	<u>2,166,289</u>	<u>9,412</u>	<u>7,160,135</u>	<u>956,421</u>	<u>-</u>	<u>10,292,257</u>
Total noncurrent assets	<u>2,166,289</u>	<u>9,412</u>	<u>7,638,264</u>	<u>956,421</u>	<u>-</u>	<u>10,770,386</u>
Deferred outflow of resources						
Deferred financing costs	-	-	14,330	-	-	14,330
Total Assets and Deferred Outflow of Resources	<u>4,130,265</u>	<u>741,383</u>	<u>10,575,110</u>	<u>1,236,101</u>	<u>4,621</u>	<u>16,687,480</u>
LIABILITIES						
Current liabilities						
Accounts payable	5,959	1,493	66,583	-	-	74,035
Other accounts payable	1,750	-	7,110	-	-	8,860
Accrued liabilities	317	-	8,109	-	-	8,426
Compensated absences	12,725	14,832	4,542	734	-	32,833
Due to other funds	-	-	948,734	154,867	-	1,103,601
Tenant security deposits	7,350	-	44,513	5,050	-	56,913
Long-term debt due within one year	-	-	209,016	-	-	209,016
Total current liabilities	<u>28,101</u>	<u>16,325</u>	<u>1,288,607</u>	<u>160,651</u>	<u>-</u>	<u>1,493,684</u>
Noncurrent liabilities						
FSS escrow payable	-	40,043	-	-	-	40,043
ROSS escrow payable	6,977	-	-	-	-	6,977
Long-term debt due in more than one year	-	-	3,336,701	-	-	3,336,701
Total noncurrent liabilities	<u>6,977</u>	<u>40,043</u>	<u>3,336,701</u>	<u>-</u>	<u>-</u>	<u>3,383,721</u>
Total Liabilities	<u>35,078</u>	<u>56,368</u>	<u>4,625,308</u>	<u>160,651</u>	<u>-</u>	<u>4,877,405</u>
NET POSITION						
Net investment in capital assets	2,166,289	9,412	3,614,418	956,421	-	6,746,540
Restricted	1,529,691	100,493	351,832	5,050	4,621	1,991,687
Unrestricted	<u>399,207</u>	<u>575,110</u>	<u>1,983,552</u>	<u>113,979</u>	<u>-</u>	<u>3,071,848</u>
Total Net Position	<u>\$ 4,095,187</u>	<u>\$ 685,015</u>	<u>\$ 5,949,802</u>	<u>\$ 1,075,450</u>	<u>\$ 4,621</u>	<u>\$ 11,810,075</u>

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

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS

SUPPLEMENTARY SCHEDULE

COMBINING INCOME STATEMENT - PROGRAMS

FOR THE YEAR ENDED JUNE 30, 2018

	Low Rent Housing	Section 8 Voucher	McAllen Facility Corp.	McAllen Development Corp.	Capital Fund Program	Total Programs
OPERATING REVENUES						
Government operating grants	\$ 529,441	\$ 6,197,753	\$ -	\$ -	\$ 233,341	\$ 6,960,535
Dwelling rental	130,183	-	1,069,541	132,000	-	1,331,724
Non-dwelling rental	-	-	13,608	1,529	-	15,137
Service fees	27,102	23,129	164,655	-	-	214,886
Fraud recovery	3,708	8,017	-	-	-	11,725
Other revenue	99,908	157,701	19,165	-	-	276,774
Total Operating Revenues	<u>790,342</u>	<u>6,386,600</u>	<u>1,266,969</u>	<u>133,529</u>	<u>233,341</u>	<u>8,810,781</u>
OPERATING EXPENSES						
Administrative	298,964	517,496	258,299	14,234	35,235	1,124,229
Tenant services	24,737	415	7,285	-	-	32,437
Utilities	51,727	10,291	51,974	9,743	-	123,735
Maintenance	120,846	4,140	253,945	13,610	2,711	395,252
Protective services	5,225	282	7,872	1,775	-	15,154
General expenses	251,899	107,356	323,239	3,805	959	687,258
Dwelling units	61,429	-	-	-	-	61,429
Housing assistance payments	-	5,746,748	-	-	-	5,746,748
Depreciation expense	198,429	1,831	381,293	48,364	-	629,917
Total Operating Expenses	<u>1,013,256</u>	<u>6,388,559</u>	<u>1,283,907</u>	<u>91,531</u>	<u>38,905</u>	<u>8,816,159</u>
OPERATING INCOME (LOSS)	<u>(222,914)</u>	<u>(1,959)</u>	<u>(16,938)</u>	<u>41,998</u>	<u>194,436</u>	<u>(5,378)</u>
NONOPERATING REVENUES						
Interest and investment revenue	19,357	4,505	45,539	-	76	69,477
Total Nonoperating Revenues	<u>19,357</u>	<u>4,505</u>	<u>45,539</u>	<u>-</u>	<u>76</u>	<u>69,477</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>(203,557)</u>	<u>2,546</u>	<u>28,601</u>	<u>41,998</u>	<u>194,512</u>	<u>64,099</u>
Transfers in	224,162	-	-	-	-	224,162
Transfers out (use)	-	-	-	-	(224,162)	(224,162)
CHANGES IN NET POSITION	<u>20,605</u>	<u>2,546</u>	<u>28,601</u>	<u>41,998</u>	<u>(29,650)</u>	<u>64,099</u>
NET POSITION, BEGINNING OF YEAR	4,078,186	680,017	5,679,924	1,032,482	34,272	11,504,881
PRIOR PERIOD ADJUSTMENT	<u>(3,604)</u>	<u>2,452</u>	<u>241,277</u>	<u>970</u>	<u>-</u>	<u>241,095</u>
NET POSITION, BEGINNING OF YEAR (RESTATED)	<u>4,074,582</u>	<u>682,469</u>	<u>5,921,201</u>	<u>1,033,452</u>	<u>34,272</u>	<u>11,745,976</u>
NET POSITION, END OF YEAR	<u>\$ 4,095,187</u>	<u>\$ 685,015</u>	<u>\$ 5,949,802</u>	<u>\$ 1,075,450</u>	<u>\$ 4,622</u>	<u>\$ 11,810,075</u>

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

SINGLE AUDIT SECTION

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Cascos & Associates, PC

Certified Public Accountants

Audit/Accounting/Tax/Consulting

**INDEPENDENT AUDITORS' 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**

To the Board of Commissioners
Housing Authority of the City of McAllen
McAllen, 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 financial statements of the business-type activities of the Housing Authority of the City of McAllen (the "Housing Authority") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements, and have issued our report thereon dated March 4, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Housing Authority'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority'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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 the Housing Authority'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 Standard*.

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.

Cunt Associates, PC

Brownsville, Texas

March 4, 2019



Cascos & Associates, PC

Certified Public Accountants

Audit/Accounting/Tax/Consulting

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

To the Board of Commissioners
Housing Authority of the City of McAllen
McAllen, Texas

Report on Compliance for Each Major Federal Program

We have audited the Housing Authority of the City of McAllen's (the "Housing Authority") compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Housing Authority's major federal programs for the year ended June 30, 2018. The Housing Authority's major federal programs are 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, contracts, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Housing Authority's major federal programs 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* (CFR) 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Authority'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 each major federal program. However, our audit does not provide a legal determination of the Housing Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Housing Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Housing Authority 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 the Housing Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 the Housing Authority'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.

Camt Associate, PC

Brownsville, Texas
March 4, 2019

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2018

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE/	CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
<i>Direct Programs:</i>		
Low Rent Public Housing	14.850	\$ 481,883
Housing Choice Vouchers	14.871	6,152,106
Public Housing Capital Fund Program	14.872	233,341
Public Housing Family Self-Sufficiency Program	14.896	45,647
Resident Opportunity and Supportive Services	14.870	43,562
Total U.S. Department of Housing and Urban Development		<u>6,956,539</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$ 6,956,539</u></u>

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Housing Authority and is presented on the accrual basis of accounting, which is the same basis as was used to prepare the financial statements. The information in this Schedule is presented in accordance with the requirements of the *Title 2 U.S. Code of Federal Regulations Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Programs*.

2. SUBRECIPIENTS

The Housing Authority did not provide any federal awards to subrecipients during the year.

3. LOANS

The Housing Authority did not have any loans or loan guarantee programs outstanding at June 30, 2018.

4. INDIRECT COST RATE

The Housing Authority has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

I. Summary of the Auditors' Results:

Financial Statements:

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	None noted
Significant deficiency(ies) identified?	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards:

Internal control over Major Programs:	
Material weakness(es) identified?	None noted
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified

Any audit findings disclosed that are required
to be reported in accordance with 2 CFR 200.516(a), Uniform Guidance? None noted

Identification of major programs:

<u>CFDA Numbers:</u>	<u>Name of Federal Program or Cluster:</u>
14.871	Housing Choice Voucher
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

**II. Findings relating to the Financial Statements which are required to be reported in Accordance with
*Generally Accepted Government Auditing Standards.***

None reported.

III. Federal Award Findings and Questioned Costs.

None reported.

(Last Page.)



Cascos & Associates, PC

Certified Public Accountants
Audit/Accounting/Tax/Consulting

March 4, 2019

To the Board of Commissioners of the
Housing Authority of the City of McAllen

We have audited the financial statements of the Housing Authority of the City of McAllen (the "Housing Authority"), for the year ended June 30, 2018 and have issued our report thereon dated March 4, 2019. As part of our examination, we made a study and evaluation of the Authority's system of internal accounting control to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole, and we do not express such an opinion.

However, during our audit we became aware of several matters that, while not involving material weaknesses in internal accounting control, are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated March 4, 2019, on the financial statements of the Authority. Additionally, this letter does not include reportable conditions reported as part of the annual financial report in accordance with *Government Auditing Standards*.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various personnel of the Authority, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Yours truly,

A handwritten signature in black ink that reads 'Cascos & Associates, PC'. The signature is written in a cursive, flowing style.

Cascos & Associates, PC
Brownsville, Texas

Enclosure

765 East 7th Street / Brownsville, Texas 78520
Phone (956) 544-7778 Fax (956) 544-8465
Email: ccascos@cascoscpa.com

HOUSING AUTHORITY OF THE CITY OF MCALLEN

COMMENTS AND RECOMMENDATIONS

FOR THE YEAR ENDED JUNE 30, 2018

OVERALL INTERNAL ACCOUNTING CONTROL

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

During our audit of the Housing Authority, we observed internal accounting control weaknesses due primarily to the fact that the number of personnel within the office staff prohibits the complete coverage of all aspects of internal control. We believe that the existing policies and procedures employed by the Housing Authority represent available alternatives for adequate internal controls, except for those noted below. Nonetheless, it is important to understand that there is little opportunity to improve efficiency due to the number of employees available to perform these tasks. These problems can be solved as the organization continues to grow and can economically employ additional help.

CURRENT YEAR COMMENTS

GENERAL LEDGER

Comment:

During our review of the general ledger, there were 17 journal entries made in order to properly reconcile the books to the supporting documentation.

Recommendation:

We recommend the Housing Authority to properly reconcile accounts and review transactions before posting.

Management Response:

Journal entries were due to ongoing financial data migration into Lindsey software.

CASH DISBURSEMENTS

Comment:

During our testing of cash disbursements, we found 3 instances where the cash disbursement did not have a purchase order. These were processed as check requests after the fact.

Recommendation:

We recommend the Housing Authority to follow established policies and procedures for purchase orders. These policies require that a purchase order be created for all purchases prior to a purchase being made.

Management Response:

A check request is a valid form of cash disbursement in the PHA's Accounting Policies and Procedures Manual. A check request is the standard cash disbursement protocol for vendors that do not accept purchase orders and have an automated invoicing system.

FIXED ASSETS

Comment:

During our testing of fixed asset additions, we found 2 instances where the Housing Authority was not able to provide bidding documentation.

Recommendation:

We recommend the Housing Authority to follow the established policies and procedures for purchases/services greater than or equal to \$25,000 and ensure that proper bidding documentation is maintained in their records.

Management Response:

Fixed assets check # 1973 and # 1985 were the result of A&E services that were already under contract with ROFA Architects as of Aug. 2015 therefore, the disbursement of these individual checks do not require a formal bidding process. The bidding process for A&E services back in 2015 was properly advertised in the form of a Request for Qualifications (RFQ). However, because this RFQ occurred back in 2015 the legal advertisement records are located in our offsite storage warehouse. Retrieving hard copies will take additional time. Board approval for payment disbursements is only required for the small purchase extended threshold (over \$10,000 but not exceeding \$25,000). This type of threshold is only used when the RFQ/RFP process is not applicable and where the PHA obtains quotes directly from vendors. In addition, invoicing and payment terms are disclosed in the contract with ROFA and both checks 1973 & 1985 were reviewed and signed by at least one Board Commissioner.

We appreciate the opportunity to be of service to the Housing Authority. If you should have any questions or require further information, please do not hesitate to call.

PRIOR YEAR COMMENTS

FINANCIAL STATEMENTS

Comment:

A significant amount of time lapsed after year-end before the financial statements were properly closed-out.

Recommendation:

We recommend the Housing Authority review its internal controls relating to financial statement accounting and reporting to ensure that timely financial statements in accordance with GAAP are prepared and available for management use, as well as for audit purposes.

Current Year Status:

Item corrected.

GENERAL LEDGER

Comment:

During our review of the general ledger, we found several instances of abnormal balances.

Recommendation:

We recommend the Housing Authority review all journal entries posted to ensure errors and irregularities are not made.

Current Year Status:

Item corrected.

FIXED ASSETS

Comment:

During our review of fixed assets, we found several instances where depreciation was not properly calculated.

Recommendation:

We recommend that the Housing Authority's staff review its policies and procedures when calculating fixed assets depreciation. Additionally, all depreciation schedules should be periodically reviewed for accuracy.

Current Year Status:

Item corrected.

INTERFUND ACCOUNTING AND REPORTING

Comment:

During our review of the interfund balances, we noted several instances where the interfund accounts were out of balance.

Recommendation:

We recommend the Authority devote the necessary resources to ensure interfund activity be reconciled on a monthly basis.

Current Year Status:

Item corrected.

We appreciate the opportunity to be of service to Webb County, Texas. If you should have any questions or require further information, please do not hesitate to call.