

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

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2019

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 and the aggregate blended presented component units of the Housing Authority of the City of McAllen as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Housing Authority of the City of McAllen's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Housing Authority of the City of McAllen'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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Housing Authority of the City of McAllen as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof 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 as listed in the table of contents 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 opinions on the financial statements that collectively comprise the Housing Authority of the City of McAllen'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 basic financial statements.

The supplementary information and single audit section, which includes the combining program schedules and the 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 supplementary information and single audit section 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 our report dated January 16, 2020, on our consideration of the Housing Authority of the City of McAllen's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Housing Authority of the City of McAllen's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Authority of the City of McAllen's internal control over financial reporting and compliance.



Cascos & Associates, PC
Brownsville, Texas
January 16, 2020



Transforming Families, Strengthening Communities

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR-END JUNE 30, 2019

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS

Management's Discussion and Analysis

For the Year Ended June 30, 2019

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 2018-2019, MHA's Public Housing program continued phase 3 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 including the conversion of Public Housing Assets to HUD's Rental Assistance Demonstration (RAD) program. 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, 2019

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 2018-2019

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, 2019

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 2018-2019, MHA expended a total of \$ 271,950.

Capital Fund Grants expended during FY 2018- 2019

TX59P028501-17 \$ 183,483.28

TX59R028501-18 \$ 88,467.15

Total \$ 271,950.43

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 2018-2019, 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, 2019

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 99.4% .

Unit Months	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Vouchers Leased	1,244	1,234	1,234	1,237	1,245	1,244	1,245	1,239	1,230	1,228	1,238	1,247
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%	97.2%	97.2%	97.4%	98.1%	98%	98.1%	97.6%	96.9%	96.7%	97.5%	98.2%
Annual Average	99.4%											

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 2018-2019, MHA received a score of 99% and was designated a "High Performer" PHA by HUD.

McAllen Housing Authority SEMAP Certification Final Score: **99 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	9

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS

Management's Discussion and Analysis

For the Year Ended June 30, 2019

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 2018-2019 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 2017-2018	Total Tenant Escrow Funds	\$40,043.00
FYE 2018-2019	Total Tenant Escrow Funds	\$39,122.00

Component Units

In FY 2018-2019 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.

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, 2019. 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 decreased by \$158 (in thousands) as compared to the previous year's end. Unrestricted net assets increased by \$551 (in thousands) as compared to the previous year. Restricted Net Assets decreased by \$40 (in thousands) as compared to the previous year.
- Total revenues for the fiscal year ending June 30, 2019 were \$9,024 (in thousands).
- Total expenses of all the MHA's programs were \$8,633 (in thousands) for the year ended June 30, 2019.
- Total debt for Bonds and Notes decreased during the fiscal year 18-19 by \$201 (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, 2019

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, 2019

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 \$353 (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 \$3,622 (in thousands) at year-end.

Net Assets invested in capital assets, net of related debt decreased by \$158 (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 \$201 (in thousands) (Table IV).

Table I
HOUSING AUTHORITY OF THE CITY OF MCALLEN

NET ASSETS in thousands				
	2019	2018	\$ Change	% Change
Current and Other Assets	\$ 5,794	\$ 4,799	\$ 995	20.7%
Capital Assets	9,934	10,785	(851)	-7.9%
Total Assets	15,728	15,584	144	0.9%
Current Liabilities	394	390	4	1.0%
Other Liabilities	3,171	3,384	(213)	-6.3%
Total Liabilities	3,565	3,774	(209)	-5.5%
Net Assets:				
Invested in Capital Assets,				
Net of Related Debt	6,589	6,747	(158)	-2.3%
Restricted	1,952	1,992	(40)	-2.0%
Unrestricted	3,622	3,071	551	17.9%
Total Net Assets	\$ 12,163	\$ 11,810	\$ 353	3.0%

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2019

Table II
HOUSING AUTHORITY OF THE CITY OF MCALLEN

CHANGES IN NET ASSETS				
in thousands				
	2019	2018	\$ Change	% Change
Operating Revenues:				
Tenant Revenues	\$ 1,332	\$ 1,332	\$ -	0.0%
Operating and Capital Grants and Subsidies	6,994	6,961	33	0.5%
Other Revenue	612	518	94	18.1%
Total Operating Revenues	8,938	8,811	127	1.4%
Operating Expenses:				
Administrative	1,101	1,124	(23)	-2.0%
Tenant Services	40	32	8	25.0%
Utilities	108	124	(16)	-12.9%
Ordinary Maintenance and Operations	560	395	165	41.8%
Protective Services	17	15	2	13.3%
General Expenses	634	687	(53)	-7.7%
Insurance Expenses	75	62	13	21.0%
Housing Assistance Payments	5,545	5,747	(202)	-3.5%
Other Expenses	-	-	-	0.0%
Depreciation	553	630	(77)	-12.2%
Total Operating Expenses	8,633	8,816	(183)	-2.1%
Operating Income (Loss)	305	(5)	310	6000.0%
Nonoperating Revenues (Expenses):				
Insurance Proceeds	-	-	-	0.0%
Restoration of Property	-	-	-	0.0%
Interest Income	86	69	17	19.8%
Interest Expense	-	-	-	0.0%
Gain (Loss) on Disposal of Fixed Assets	-	-	-	0.0%
Total Nonoperating Revenues (Expenses)	86	69	17	24.6%
Income (Loss) Before Other Financing Sources (Uses)	391	64	327	510.9%
Other Financing Sources (Uses):				
Operating Transfer In/Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Change in Net Assets	391	64	327	510.9%
Net Assets - Beginning	11,810	11,505	305	2.7%
Adjustment to Net Assets	(38)	241		
Net Assets - Ending	\$ 12,163	\$ 11,810	353	3.0%

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2019

Capital Assets and Debt Administration

Capital Assets

At June 30, 2019, MHA had a total cost of \$19,058 (in thousands) invested in capital assets. This amount, not including depreciation, represents an increase of \$147 (in thousands) from the prior year.

Table III
HOUSING AUTHORITY OF THE CITY OF MCALLEN

CAPITAL ASSETS in thousands				
	2019	2018	\$ Change	% Change
Land	\$ 2,480	\$ 2,480	\$ -	0.0%
Buildings and Improvements	15,339	15,296	43	0.3%
Furniture, Fixtures & Machinery - Admin	693	607	86	14.2%
Furniture, Fixtures & Machinery - Dwelling	546	528	18	3.4%
Total Capital Assets	19,058	18,911	147	0.8%
Less: Accumulated Depreciation	(9,124)	(8,619)	(505)	5.9%
Total Capital Assets, Net	\$ 9,934	\$ 10,292	\$ (358)	\$ -3.5%

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2019

Debt

At June 30, 2019, MHA had \$3,345 (in thousands) in long-term debt obligations outstanding. This represents a decrease of \$201 (in thousands) compared to the prior year.

Table IV
HOUSING AUTHORITY OF THE CITY OF MCALLEN

DEBT in thousands				
	2019	2018	\$ Change	% Change
Bonds Payable	\$ 1,840	\$ 1,898	\$ (58)	-3.1%
Notes Payable	1,505	1,648	(143)	-8.7%
Total Debt	\$ 3,345	\$ 3,546	\$ (201)	-5.7%

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 2018-2019 MHA has continued to search for affordable housing options to apply the remaining RHF funds. Additionally, MHA will possibly convert all public housing assets to HUD's Rental Assistance Demonstration (RAD) program.

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.

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2019

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FINANCIAL STATEMENTS

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS

STATEMENT OF NET POSITION

JUNE 30, 2019

	Primary Government
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 3,121,262
Restricted cash and cash equivalents	512,592
Investments	1,478,773
Accounts receivable, net	7,841
Accrued interest	153,596
Other receivable	1,031
Prepaid expenses and other assets	22,101
Other assets	9,647
Total current assets	<u>5,306,843</u>
Noncurrent Assets:	
Notes receivable	473,807
Capital assets:	
Land	2,480,386
Construction in progress	133,336
Building and equipment	13,816,060
Leasehold improvements	1,388,812
Furniture and equipment	1,239,109
Less accumulated depreciation	<u>(9,123,812)</u>
Capital assets, net	<u>9,933,891</u>
Total noncurrent assets	<u>10,407,698</u>
Deferred Outflow of Resource:	
Deferred financing costs	<u>13,589</u>
Total assets and deferred outflow of resources	<u>15,728,130</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 49,305
Other accounts payable	11,219
Accrued liabilities	7,380
Compensated absences	34,281
Due to other governments	7,366
Tenant security deposits	62,250
Other current liabilities	435
Long-term debt due within one year	<u>221,493</u>
Total current liabilities	<u>393,729</u>
Noncurrent Liabilities:	
FSS escrow payable	39,122
ROSS escrow payable	8,148
Long-term debt due in more than one year	<u>3,123,803</u>
Total noncurrent liabilities	<u>3,171,073</u>
Total liabilities	<u>3,564,802</u>
NET POSITION	
Net investment in capital assets	6,588,595
Restricted	1,952,243
Unrestricted	<u>3,622,490</u>
Total net position	<u>\$ 12,163,328</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, 2019

	Primary Government
OPERATING REVENUES	
Government operating grants	\$ 6,993,760
Dwelling rental	1,324,002
Non-dwelling rental	7,307
Service fees	206,452
Fraud recovery	71,197
Other revenue	334,973
Total Operating Revenues	<u>8,937,691</u>
OPERATING EXPENSES	
Administrative	1,100,601
Tenant services	40,473
Utilities	107,547
Maintenance	559,753
Protective services	16,582
General expenses	643,495
Dwelling units	66,448
Housing assistance payments	5,544,948
Depreciation expense	552,581
Total Operating Expenses	<u>8,632,428</u>
OPERATING INCOME (LOSS)	<u>305,263</u>
NONOPERATING REVENUES	
Interest and investment revenue	85,830
Total Nonoperating Revenues	<u>85,830</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	<u>391,093</u>
CHANGE IN NET POSITION	<u>391,093</u>
NET POSITION, BEGINNING OF YEAR	11,810,076
ADJUSTMENT TO NET ASSETS	<u>(37,841)</u>
NET POSITION, END OF YEAR	<u><u>\$ 12,163,328</u></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, 2019

	Primary Government
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts of grants and contracts	\$ 6,993,760
Receipts of tenants	1,379,036
Other receipts	601,148
Payments to or on behalf of employees	(1,101,647)
Payments to suppliers for goods or services	(1,389,060)
Payment to housing assistance	(5,604,030)
Net cash provided (used) by operating activities	<u>879,207</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase/Sale of capital asset	(227,814)
Escrow payable	250
Loan repayment	(200,393)
Other revenues	70,624
Other expenses	(75,392)
Net cash provided (used) by capital and related financing activities	<u>(432,725)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	<u>85,830</u>
Net cash provided (used) by investing activities	<u>85,830</u>
Increase (decrease) in cash and cash equivalents	532,312
Cash and cash equivalents - Beginning of year	<u>4,580,315</u>
Cash and cash equivalents - End of year	<u>\$ 5,112,627</u>
Reconciliation of operating income (loss) to net cash provided by operating activities	
Operating income (loss)	\$ 305,263
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation expense	552,581
Changes in assets and liabilities	
(Increase) decrease in receivables, net	42,390
(Increase) decrease in accrued interest	(15,996)
(Increase) decrease in prepaid and other assets	(1,028)
Increase (decrease) in notes receivable - noncurrent	4,322
(Increase) decrease in deferred costs	741
Increase (decrease) in accounts payable	(22,371)
Increase (decrease) in due to federal or state agencies	7,366
Increase (decrease) in accrued liabilities	(1,044)
Increase (decrease) in deferred revenue	200
Increase (decrease) in tenant security deposits	5,337
Increase (decrease) in other current liabilities	1,446
Net cash provided (used) by operating activities	<u>\$ 879,207</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
FOR THE YEAR ENDED JUNE 30, 2019

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.

**HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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.

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

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, 2019 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, 2019</u>				
Equity Securities	\$ 1,478,773	\$ 1,478,773	\$ -	\$ -
Total	<u>\$ 1,478,773</u>	<u>\$ 1,478,773</u>	<u>\$ -</u>	<u>\$ -</u>

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

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 \$13,589 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 \$1,256 for Low Rent Public Housing and \$16,376 for Housing Choice Vouchers for a total of \$17,632.

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

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

N. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2019 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.

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

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, 2019, the Housing Authority had cash and cash equivalents restricted as follows: under the Section 8 Housing Choice Voucher Program \$60,450 restricted and \$39,122 restricted escrow for the FSS program; under the Low Rent program \$8,148 restricted for the ROSS Program, \$7,550 restricted as Tenant Securities, and \$1,478,773 are restricted for the properties Modernization & Development; \$1,379 are for the CPF program.

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES

B. RESTRICTED CASH AND CASH EQUIVALENTS

MCALLEN HOUSING FACILITY CORPORATION

At June 30, 2019, the MHFC had cash and cash equivalents restricted as follows: (1) \$363,412 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 \$50,621

MCALLEN HOUSING DEVELOPMENT CORPORATION

At June 30, 2019, the MHDC had cash and cash equivalents restricted as follows: (1) \$4,900 restricted for Tenant Securities.

C. CAPITAL ASSETS

Capital asset activity for the Housing Authority for the year ended June 30, 2019, was as follows:

	Beginning Balance <u>7/1/2018</u>	Changes During Year			Ending Balance <u>6/30/2019</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	<u>-</u>	<u>-</u>	<u>-</u>	<u>95,578</u>	<u>95,578</u>
Total capital assets not being depreciated	<u>1,577,842</u>	<u>-</u>	<u>-</u>	<u>95,578</u>	<u>1,673,420</u>
Capital assets being depreciated:					
Buildings	3,757,796	-	-	-	3,757,796
Leasehold improvements	1,295,640	4,000	-	(166,936)	1,132,704
Furniture & equipment - Admin	424,218	33,500	-	-	457,718
Furniture & equipment - Dwelling	<u>99,106</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>99,106</u>
Total capital assets being depreciated	<u>5,576,760</u>	<u>37,500</u>	<u>-</u>	<u>(166,936)</u>	<u>5,447,324</u>
Less accumulated depreciation	<u>(4,988,313)</u>	<u>(150,710)</u>	<u>-</u>	<u>-</u>	<u>(5,139,023)</u>
Low Rent Capital Assets, Net	<u>\$ 2,166,289</u>	<u>\$ (113,210)</u>	<u>\$ -</u>	<u>\$ (71,358)</u>	<u>\$ 1,981,722</u>
Section 8					
Capital assets being depreciated:					
Furniture & equipment - Admin	\$ 85,862	\$ 100,500	\$ (36,310)	\$ -	\$ 150,052
Total capital assets being depreciated	<u>85,862</u>	<u>100,500</u>	<u>(36,310)</u>	<u>-</u>	<u>150,052</u>
Less accumulated depreciation	<u>(76,450)</u>	<u>(4,866)</u>	<u>36,310</u>	<u>-</u>	<u>(45,006)</u>
Section 8 Capital Assets, Net	<u>\$ 9,412</u>	<u>\$ 95,634</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,046</u>

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES

C. CAPITAL ASSETS

	Beginning Balance <u>7/1/2018</u>	Changes During Year			Ending Balance <u>6/30/2019</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	\$ 9,313,848	\$ 43,421	\$ -	\$ -	\$ 9,357,269
Leasehold improvements	127,508	-	-	-	127,508
Furniture & equipment - Admin	97,333	-	(11,921)	-	85,412
Furniture & equipment - Dwelling	356,860	17,600	-	-	374,460
Total capital assets being depreciated	9,895,549	61,021	(11,921)	-	9,944,649
Less accumulated depreciation	(3,437,958)	(350,837)	11,921	-	(3,776,874)
MHFC Capital Assets, Net	\$ 7,160,135	\$ (289,816)	\$ -	\$ -	\$ 6,870,320
McAllen Housing Development Corp (MHDC)					
Capital assets not being depreciated:					
Land	\$ 200,000	\$ -	\$ -	\$ -	\$ 200,000
Construction in progress	-	-	-	37,758	37,758
Total capital assets not being depreciated	200,000	-	-	37,758	237,758
Capital assets being depreciated:					
Buildings	700,995	-	-	-	700,995
Leasehold improvements	99,806	28,793	-	-	128,599
Furniture & equipment - Dwelling	72,361	-	-	-	72,361
Total capital assets being depreciated	873,162	28,793	-	-	901,955
Less accumulated depreciation	(116,742)	(46,168)	-	-	(162,910)
MHDC Capital Assets, Net	\$ 956,420	\$ (17,375)	\$ -	\$ 37,758	\$ 976,804

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES

C. CAPITAL ASSETS

	Beginning Balance 7/1/2018	Changes During Year			Ending Balance 6/30/2019
		Additions	Retirements	Adjustments	
Summary Total					
Capital assets not being depreciated:					
Land	\$ 2,480,386	\$ -	\$ -	\$ -	\$ 2,480,386
Construction in progress	-	-	-	133,336	133,336
Total capital assets not being depreciated	\$ 2,480,386	\$ -	\$ -	\$ 133,336	\$ 2,613,722
Capital assets being depreciated:					
Buildings	\$ 13,772,639	\$ 43,421	\$ -	\$ -	\$ 13,816,060
Leasehold improvements	1,522,954	32,794	-	(166,936)	1,388,812
Furniture & equipment - Admin	607,414	134,000	(48,231)	-	693,182
Furniture & equipment - Dwelling	528,327	17,600	-	-	545,927
Total capital assets being depreciated	16,431,334	227,814	(48,231)	(166,936)	16,443,981
Less accumulated depreciation	(8,619,463)	(552,580)	48,231	-	(9,123,812)
Total Capital Assets, Net	\$ 10,292,257	\$ (324,766)	\$ -	\$ (33,600)	\$ 9,933,891

D. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2019 consisted on the following:

Bonds & Notes	Interest Rate	Amount of Original Issue	Interest Current Year	Balance 6/30/18	Adjustments	Retired	Balance 6/30/19	Due Within One Year
McAllen Housing Facility Corporation Multifamily Housing Revenue Refunding Bonds Series 2012	4.95%	\$ 2,172,000	\$ 93,825	\$ 1,898,473	\$ 2	\$ (58,850)	\$ 1,839,625	\$ 61,507
McAllen Housing Facility Corporation Note Payable	6.56%	2,000,000	76,446	1,210,957	(30)	(134,666)	1,076,261	143,666
Villas at Beaumont, GP, LLC Note Payable (1st Lien)	10.50%	250,000	24,886	158,159	-	(2,556)	155,603	11,640
Villas at Beaumont, GP, LLC Note Payable (2nd Lien) to MHFC	8.00%	300,000	22,094	278,129	-	(4,321)	273,808	4,680
Totals			\$ 217,251	\$ 3,545,718	\$ (28)	\$ (200,393)	\$ 3,345,297	\$ 221,493

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

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, 2019 was \$1,839,625.

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, 2019 was \$1,076,261.

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, 2019 was \$155,602.

DEBT SERVICE REQUIREMENTS

Total debt service requirements for the MHFC's debt at June 30, 2019 were as follows:

Year Ending	General Obligations		Total
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2020	\$ 221,493	\$ 196,162	\$ 417,655
2021	236,558	181,047	417,605
2022	252,327	165,328	417,655
2023	270,281	135,662	405,943
2024	287,302	128,597	415,900
2025-2029	815,733	443,815	1,259,548
2030-2034	626,813	270,885	897,698
2035-2039	582,402	86,037	668,438
2040-2044	52,388	4,845	57,234
	<u>\$ 3,345,296</u>	<u>\$ 1,612,379</u>	<u>\$ 4,957,675</u>

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

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, 2019 were \$80,056.

F. TRANSFERS

The Housing Authority recorded transfers of \$228,694 from its Capital Fund Program to the Low Rent Public Housing program for capital improvements, \$73,600 from its Low Rent Public Housing program to the McAllen Development Corporation for the development of Hibiscus Village (a multi-family mixed finance development), \$3,835,179 from its McAllen Facilities Corporation to Brownstone Construction for construction of Las Palomas Village (a multi-family LIHTC development) during the fiscal year ending June 30, 2019.

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, 2019 was \$200,000. Interest payments received were \$0 and unpaid accrued interest receivable at June 30, 2019 was \$153,596.

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, 2019 was \$273,807.

The Inter-program eliminations during and as of June 30, 2019 was as follow:

	Inter-program Eliminations	
	Revenues	Expenses
Housing Choice Vouchers	\$ -	\$ 553,609
McAllen Facility Corp.	515,307	-
McAllen Development Corp.	38,302	-
Total	<u>\$ 553,609</u>	<u>\$ 553,609</u>

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES

H. ACCRUED LEAVE

As of June 30, 2019, the accrued leave balance was \$34,281.

Balance 7/1/2018	Earned	Taken	Balance 6/30/2019
<u>\$ 32,833</u>	<u>\$ 38,324</u>	<u>\$ (36,876)</u>	<u>\$ 34,281</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 January 16, 2020 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.

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

III. DETAILED NOTES

N. PRIOR PERIOD ADJUSTMENTS

Adjustments to net position during the 2018-2019 fiscal year consisted of adjustments to Low Rent Housing of (\$498), Section 8 Voucher of (\$21,081), MHFC of (\$17,719), MHDC of (\$387), and Capital Fund Program of \$1,844 for a total of (\$37,841). These are offsetting adjustments for internal variances between the Public Housing Agency (PHA) projects, payroll corrections, reclassification of Housing Choice Voucher (HCV) restricted and un-restricted equity, and voiding of prior years' outstanding checks.

	Low Rent	Section 8	McAllen	McAllen	Capital Fund	
	Housing	Voucher	Facility Corp.	Development	Program	Total
				Corp.		
Prior period adjustments	<u>\$ (498)</u>	<u>\$(21,081)</u>	<u>\$ (17,719)</u>	<u>\$ (387)</u>	<u>\$ 1,844</u>	<u>\$(37,841)</u>

SUPPLEMENTARY INFORMATION SECTION

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS

SUPPLEMENTARY SCHEDULE

COMBINING BALANCE SHEET - PROGRAMS

JUNE 30, 2019

	Low Rent Housing	Section 8 Voucher	McAllen Facility Corp.	McAllen Development Corp.	Capital Fund Program	Total Programs
ASSETS						
Current assets						
Cash and cash equivalents	727,738	776,005	1,304,463	\$ 313,056	\$ -	\$ 3,121,262
Restricted cash and cash equivalents	15,698	76,582	414,033	4,900	1,379	512,592
Investments, restricted	1,478,773	-	-	-	-	1,478,773
Accounts receivable, net	15	-	7,761	65	-	7,841
Accrued interest receivable	-	-	153,596	-	-	153,596
Other receivable	1,025	-	-	6	-	1,031
Due from other funds	-	-	1,103,601	-	-	1,103,601
Prepaid items	6,733	2,582	11,577	1,209	-	22,101
Other Assets	-	-	9,647	-	-	9,647
Total current assets	<u>2,229,982</u>	<u>855,169</u>	<u>3,004,678</u>	<u>319,236</u>	<u>1,379</u>	<u>6,410,444</u>
Noncurrent assets						
Related party notes receivable	-	-	473,807	-	-	473,807
Capital assets						
Land	1,577,842	-	702,544	200,000	-	2,480,386
Construction in progress	95,578	-	-	37,758	-	133,336
Buildings	3,757,796	-	9,357,269	700,995	-	13,816,060
Leasehold improvements	1,132,705	-	127,508	128,599	-	1,388,812
Furniture and equipment	556,824	150,052	459,872	72,361	-	1,239,109
Less accumulated depreciation	(5,139,023)	(45,006)	(3,776,874)	(162,909)	-	(9,123,812)
Total capital assets	<u>1,981,722</u>	<u>105,046</u>	<u>6,870,319</u>	<u>976,804</u>	<u>-</u>	<u>9,933,891</u>
Total noncurrent assets	<u>1,981,722</u>	<u>105,046</u>	<u>7,344,126</u>	<u>976,804</u>	<u>-</u>	<u>10,407,698</u>
Deferred outflow of resources						
Deferred financing costs	-	-	13,589	-	-	13,589
Total Assets and Deferred Outflow of Resources	<u>4,211,704</u>	<u>960,215</u>	<u>10,362,393</u>	<u>1,296,040</u>	<u>1,379</u>	<u>16,831,731</u>
LIABILITIES						
Current liabilities						
Accounts payable	39,782	391	9,132	-	-	49,305
Other accounts payable	-	-	11,219	-	-	11,219
Accrued liabilities	1,788	-	5,592	-	-	7,380
Compensated absences	12,973	14,798	5,774	736	-	34,281
Due to other funds	-	-	948,728	154,873	-	1,103,601
Due to other governments	-	7,366	-	-	-	7,366
Tenant security deposits	7,550	-	49,800	4,900	-	62,250
Other current liabilities	-	-	435	-	-	435
Long-term debt due within one year	-	-	221,493	-	-	221,493
Total current liabilities	<u>62,093</u>	<u>22,555</u>	<u>1,252,173</u>	<u>160,509</u>	<u>-</u>	<u>1,497,330</u>
Noncurrent liabilities						
FSS escrow payable	-	39,122	-	-	-	39,122
ROSS escrow payable	8,148	-	-	-	-	8,148
Long-term debt due in more than one year	-	-	3,123,803	-	-	3,123,803
Total noncurrent liabilities	<u>8,148</u>	<u>39,122</u>	<u>3,123,803</u>	<u>-</u>	<u>-</u>	<u>3,171,073</u>
Total Liabilities	<u>70,241</u>	<u>61,677</u>	<u>4,375,976</u>	<u>160,509</u>	<u>-</u>	<u>4,668,403</u>
NET POSITION						
Net investment in capital assets	1,981,722	105,046	3,525,023	976,804	-	6,588,595
Restricted	1,494,471	37,460	364,233	-	1,379	1,897,543
Unrestricted	<u>665,270</u>	<u>756,032</u>	<u>2,097,161</u>	<u>158,727</u>	<u>-</u>	<u>3,677,190</u>
Total Net Position	<u>\$ 4,141,463</u>	<u>\$ 898,538</u>	<u>\$ 5,986,417</u>	<u>\$ 1,135,531</u>	<u>\$ 1,379</u>	<u>\$ 12,163,328</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, 2019

	Low Rent Housing	Section 8 Voucher	McAllen Facility Corp.	McAllen Development Corp.	Capital Fund Program	Total Programs
OPERATING REVENUES						
Government operating grants	\$ 583,135	\$ 6,149,004	\$ -	\$ -	\$ 261,621	\$ 6,993,760
Dwelling rental	137,879	-	1,055,214	130,909	-	1,324,002
Non-dwelling rental	14	-	6,187	1,106	-	7,307
Service fees	13,551	16,339	176,562	-	-	206,452
Fraud recovery	921	70,276	-	-	-	71,197
Other revenue	125,997	142,914	66,035	27	-	334,973
Total Operating Revenues	<u>861,497</u>	<u>6,378,533</u>	<u>1,303,998</u>	<u>132,042</u>	<u>261,621</u>	<u>8,937,691</u>
OPERATING EXPENSES						
Administrative	353,783	466,625	188,705	62,869	28,619	1,100,601
Tenant services	26,539	938	12,996	-	-	40,473
Utilities	37,449	7,894	51,847	10,357	-	107,547
Maintenance	150,329	4,702	380,343	17,178	7,201	559,753
Protective services	4,845	264	9,317	2,156	-	16,582
General expenses	195,985	123,210	315,532	6,446	2,322	643,495
Dwelling units	66,448	-	-	-	-	66,448
Housing assistance payments	-	5,544,948	-	-	-	5,544,948
Depreciation expense	150,710	4,866	350,837	46,168	-	552,581
Total Operating Expenses	<u>986,088</u>	<u>6,153,447</u>	<u>1,309,577</u>	<u>145,174</u>	<u>38,142</u>	<u>8,632,428</u>
OPERATING INCOME (LOSS)	<u>(124,591)</u>	<u>225,086</u>	<u>(5,579)</u>	<u>(13,132)</u>	<u>223,479</u>	<u>305,263</u>
NONOPERATING REVENUES						
Interest and investment revenue	<u>16,271</u>	<u>9,518</u>	<u>59,913</u>	<u>-</u>	<u>128</u>	<u>85,830</u>
Total Nonoperating Revenues	<u>16,271</u>	<u>9,518</u>	<u>59,913</u>	<u>-</u>	<u>128</u>	<u>85,830</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>(108,320)</u>	<u>234,604</u>	<u>54,334</u>	<u>(13,132)</u>	<u>223,607</u>	<u>391,093</u>
Transfers in	228,694	-	3,835,179	73,600	-	4,137,473
Transfers out (use)	<u>(73,600)</u>	<u>-</u>	<u>(3,835,179)</u>	<u>-</u>	<u>(228,694)</u>	<u>(4,137,473)</u>
CHANGES IN NET POSITION	<u>46,774</u>	<u>234,604</u>	<u>54,334</u>	<u>60,468</u>	<u>(5,087)</u>	<u>391,093</u>
NET POSITION, BEGINNING OF YEAR	4,095,187	685,015	5,949,802	1,075,450	4,622	11,810,076
PRIOR PERIOD ADJUSTMENT	<u>(498)</u>	<u>(21,081)</u>	<u>(17,719)</u>	<u>(387)</u>	<u>1,844</u>	<u>(37,841)</u>
NET POSITION, BEGINNING OF YEAR (RESTATED)	<u>4,094,689</u>	<u>663,934</u>	<u>5,932,083</u>	<u>1,075,063</u>	<u>6,466</u>	<u>11,772,235</u>
NET POSITION, END OF YEAR	<u>\$ 4,141,463</u>	<u>\$ 898,538</u>	<u>\$ 5,986,417</u>	<u>\$ 1,135,531</u>	<u>\$ 1,379</u>	<u>\$ 12,163,328</u>

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

SINGLE AUDIT SECTION



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 the 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 and the aggregate blended presented component units of the Housing Authority of the City of McAllen as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Housing Authority of the City of McAllen's basic financial statements, and have issued our report thereon dated January 16, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Housing Authority of the City of McAllen'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 of the City of McAllen's internal control. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority of the City of McAllen'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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

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
January 16, 2020



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 REQUIRED BY 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 Housing Authority of the City of McAllen's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Housing Authority of the City of McAllen's major federal programs for the year ended June 30, 2019. The Housing Authority of the City of McAllen'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 and statutes, regulations, 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 of the City of McAllen'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* 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 of the City of McAllen'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 of the City of McAllen's compliance.

Opinion on Each Major Federal Program

In our opinion, the Housing Authority of the City of McAllen 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 and state programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the Housing Authority of the City of McAllen 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 of the City of McAllen'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 of the City of McAllen'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 or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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.



Cascos & Associates, PC
Brownsville, Texas
January 16, 2020

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2019

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	\$ 527,101
Housing Choice Vouchers	14.871	6,114,433
Public Housing Capital Fund Program	14.872	261,621
Public Housing Family Self-Sufficiency Program	14.896	34,571
Resident Opportunity and Supportive Services	14.870	56,034
Total U.S. Department of Housing and Urban Development		<u>6,993,760</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$ 6,993,760</u></u>

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

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, 2019.

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, 2019

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?	Yes

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.

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