

**BEAUMONT MULTI-
FAMILY HOUSING
DEVELOPMENT
CORPORATION**
(A Blended Component
Unit of the
Housing Authority of the
City of Beaumont, Texas)

Basic Financial Statements

**For the Year Ended
September 30, 2019**

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INDEPENDENT AUDITOR'S REPORT

To the Chairman and Members of the Board of Directors
Beaumont Multi-Family Housing Development Corporation
Beaumont, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Beaumont Multi-Family Housing Development Corporation ("BMHDC"), a component unit of the Housing Authority of the City of Beaumont, Texas, as of and for the year ended September 30, 2019, which collectively comprise BMHDC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessments 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 controls relevant to the entity's preparation and fair presentation of the financial statement 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 financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 BMHDC, as of September 30, 2019, and the 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

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.

June 30, 2020
Melbourne, Florida

*Berman Hopkins Wright & LaHam
CPAs and Associates, LLP*

Beaumont Multi-Family Housing Development Corporation
(A Blended Component Unit of the Housing Authority of the City of Beaumont, Texas)

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2019

As management of the Beaumont Multi-Family Housing Development Corporation (the "Project" or "BMHDC"), we offer the readers of the BMHDC financial statements this narrative overview and analysis of the financial activities of BMHDC for the year ended September 30, 2019. We encourage readers to consider the information presented here in conjunction with BMHDC's financial statements.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to Allison Landrum, CEO, the Housing Authority of the City of Beaumont at 1980 Laurel Street, Texas 77701.

Financial Highlights

- The assets were less than liabilities as of September 30, 2019 by \$973,500 (net position). This represented an increase of \$264,823 from 2018.
- Cash and cash equivalents balance as of September 30, 2019 was \$1,419,459 representing an increase of \$115,518 from 2018.
- Capital asset balance as of September 30, 2019 was \$2,961,592 representing a decrease of \$233,266.
- Operating revenues of \$1,559,367 which represents an increase of \$141,398 from 2018.

Overview of Financial Statements

BMHDC is a nonprofit organization that is considered a blended component unit of the Housing Authority of the City of Beaumont and is therefore presented under the same governmental basis of accounting as the Authority.

The financial statements included in this annual report are those of a special-purpose government engaged in a single business-type activity prepared on an accrual basis. Over time, significant changes in BMHDC's net position serve as a useful indicator of whether its financial health is improving or deteriorating. To fully assess the financial health of BMHDC, the reader must also consider other non-financial factors such as fluctuations in the local economy and the physical condition of capital assets. The following statements are included:

- **Statement of Net Position** - This statement reports BMHDC's assets less its liabilities at the end of the fiscal year. Net position is the difference between BMHDC's rights (assets) and BMHDC's obligations (liabilities).
- **Statement of Revenues, Expenses, and Changes in Net Position** - This statement presents information showing how BMHDC's net position increased or decreased during the current fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will result in cash inflows and cash outflows in other reporting periods.
- **Statement of Cash Flows** - This statement presents information showing the total cash receipts and cash disbursements of BMHDC during the current fiscal year. The statement reflects the net changes in cash resulting from operations plus any other cash requirements during the current year (i.e. capital additions, debt service, prior period obligations, etc.). In addition, the statement reflects the receipt of cash that was obligated to BMHDC in prior periods and subsequently received during the current fiscal year (i.e. accounts receivable, notes receivable etc.).

Beaumont Multi-Family Housing Development Corporation
(A Blended Component Unit of the Housing Authority of the City of Beaumont, Texas)

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2019

Overview of Financial Statements (continued)

- **Notes to Basic Financial Statements** - The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided. These notes give greater understanding on the overall activity of BMHDC and how values are assigned to certain assets and liabilities and the longevity of these values. In addition, notes reflect the impact, if any, of any uncertainties BMHDC may face.

Financial Analysis

Statement of Net Position

	2019	2018	Net Change
Current assets	\$ 1,490,989	\$ 109,951	\$ 1,381,038
Capital assets, net	2,961,592	3,194,858	(233,266)
Other noncurrent assets	-	1,204,410	(1,204,410)
Total assets	4,452,581	4,509,219	(56,638)
Current liabilities	5,420,631	765,375	4,655,256
Long-term debt	-	4,980,000	(4,980,000)
Other noncurrent liabilities	5,450	2,167	3,283
Total liabilities	5,426,081	5,747,542	(321,461)
Net investment in capital assets	(2,013,408)	(2,105,142)	91,734
Restricted net position	1,229,750	1,204,410	25,340
Unrestricted net position	(189,842)	(337,591)	147,749
Total net position	\$ (973,500)	\$ (1,238,323)	\$ 264,823

Current Assets increased by \$1,381,038 caused primarily from the classification to short term of previous restricted cash of debt service and bond fund escrow accounts, and increase in operating income. Unrestricted cash increased due to an increase in tenant revenue, and prepaid expenses increased due to a prepayment for insurance expenses.

Net Capital Assets decreased by \$233,266 due to current year depreciation expense.

Other Noncurrent Assets decreased by \$1,204,410 due to the classification of the debt service reserve and bond fund escrow accounts classified in restricted cash to short term.

Total Liabilities decreased by \$321,461 primarily due to the payment of current year portion of long-term debt of \$320,000 and accrued interest offset.

Beaumont Multi-Family Housing Development Corporation
(A Blended Component Unit of the Housing Authority of the City of Beaumont, Texas)

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2019

Financial Analysis (continued)

Net Position is the difference between an organization's assets and its liabilities. Net position is categorized into three components.

1. **Net investment in capital assets** - capital assets, net of accumulated depreciation and related debt is reflective of the capital asset and long-term debt activity;
2. **Restricted** - the component of BMHDC's net position which is subject to constraints imposed by law or agreement consisting primarily of debt service reserves;
3. **Unrestricted** - the component of BMHDC's net position that is neither invested in capital assets nor restricted, which change principally due to operations. These resources are available to meet BMHDC's ongoing obligations to its residents and creditors.

Statement of Revenues, Expenses and Changes in Net Position

	2019	2018	Net Change
Operating revenues			
Rental revenue, net	\$ 1,449,542	\$ 1,343,163	\$ 106,379
Tenant and other revenues	109,825	74,806	35,019
Total operating revenues	1,559,367	1,417,969	141,398
Operating expenses			
General and administrative	180,447	151,743	28,704
Repairs and maintenance	263,309	272,297	(8,988)
Depreciation	233,266	218,348	14,918
Utilities	115,720	176,801	(61,081)
Property taxes and insurance	71,258	100,039	(28,781)
Protective services	28	3,412	(3,384)
Tenant services	-	1,310	(1,310)
Total operating expenses	864,028	923,950	(59,922)
Operating income	695,339	494,019	201,320
Nonoperating revenues (expenses)			
Interest income	-	1,022	(1,022)
Interest expense	(430,516)	(450,450)	19,934
Total nonoperating revenues (expenses)	(430,516)	(449,428)	18,912
Change in net position	264,823	44,591	220,232
Net position, beginning of year	(1,238,323)	(1,352,524)	114,201
Prior period adjustment	-	69,610	(69,610)
Net position, beginning as restated	(1,238,323)	(1,282,914)	44,591
Net position, end of year	\$ (973,500)	\$ (1,238,323)	\$ 264,823

Beaumont Multi-Family Housing Development Corporation
(A Blended Component Unit of the Housing Authority of the City of Beaumont, Texas)

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2019

Financial Analysis (continued)

Total Operating Revenue increased \$141,398 primarily due to the Authority taking over management of the property and additional utility charges classified in tenant and other revenues.

Total Operating Expenses decreased by \$59,922. Utilities had a decrease of \$61,081 due to higher than average water expense caused by a hurricane in the prior year.

Capital Asset and Debt Activity

At the end of fiscal year 2019, BMHDC's capital assets decreased \$233,266. The decrease was attributed to current year depreciation expense of \$233,266.

At the end of fiscal year 2019, BMHDC had total debt of \$4,975,000. This balance represents a decrease from that of the previous year-end of \$325,000. The net decrease in debt was the result of bond principal payments. The Authority sold the property of Lexington in January 2020, and used the proceeds to repay the entire outstanding bond amount. As such the entire balance is considered short term, see Note B-6.

Economic Factors

Conditions that may have a significant effect on the financial position of BMHDC or the results of operations include any items that will affect the rental market, such as personal employment, family incomes, interest rates, property values and property taxes.

The recent COVID-19 pandemic may have an impact on the resources and the allocation of those resources depending on the severity and duration of the pandemic. As funding and other factors (including economic and budgetary) change, BMHDC will do what is necessary to carry out its mission.

Beaumont Multi-Family Housing Development Corporation
(A Blended Component Unit of the Housing Authority of the City of Beaumont, Texas)

STATEMENT OF NET POSITION

September 30, 2019

ASSETS

CURRENT ASSETS

Cash and cash equivalents - unrestricted	\$ 124,086
Cash and cash equivalents - restricted	1,295,373
Tenant accounts receivable, net	9,102
Prepaid insurance	62,428
Total current assets	<u>1,490,989</u>

NONCURRENT ASSETS

Capital assets, net	2,961,592
Total assets	<u>4,452,581</u>

LIABILITIES

CURRENT LIABILITIES

Bonds payable, net	4,975,000
Accrued liabilities	4,348
Accrued interest	128,522
Unearned revenue	3,805
Tenant security deposits	65,623
Due to related party	243,333
Total current liabilities	<u>5,420,631</u>

NONCURRENT LIABILITIES

Accrued compensated absences	5,450
Total liabilities	<u>5,426,081</u>

NET POSITION

Net investment in capital assets	(2,013,408)
Restricted	1,229,750
Unrestricted	(189,842)
Total net position	<u>\$ (973,500)</u>

The accompanying notes are an integral part of this financial statement.

Beaumont Multi-Family Housing Development Corporation
(A Blended Component Unit of the Housing Authority of the City of Beaumont, Texas)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended September 30, 2019

OPERATING REVENUES

Rental income, net	\$ 1,449,542
Tenant and other revenues	109,825
Total operating revenues	<u>1,559,367</u>

OPERATING EXPENSES

General and administrative	180,447
Repairs and maintenance	263,309
Depreciation	233,266
Utilities	115,720
Taxes and insurance	71,258
Protective services	28
Total operating expenses	<u>864,028</u>

OPERATING INCOME

695,339

NONOPERATING REVENUES (EXPENSES)

Interest expense	<u>(430,516)</u>
Change in net position	264,823
Net position, beginning of year	<u>(1,238,323)</u>
Net position, end of year	<u>\$ (973,500)</u>

The accompanying notes are an integral part of this financial statement.

Beaumont Multi-Family Housing Development Corporation
(A Blended Component Unit of the Housing Authority of the City of Beaumont, Texas)

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Collections from tenants	\$ 1,443,263
Collections from other sources	109,825
Payments to employees	(158,596)
Payments to suppliers	<u>(556,913)</u>
Net cash provided by operating activities	<u>837,579</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Payments on bonds payable	(325,000)
Interest paid	<u>(397,061)</u>
Net cash used in capital and related financing activities	<u>(722,061)</u>

NET INCREASE IN CASH 115,518

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 1,303,941

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 1,419,459

AS PRESENTED IN THE STATEMENT OF NET POSITION

Cash and cash equivalents - unrestricted	\$ 124,086
Cash and cash equivalents - restricted	<u>1,295,373</u>
	<u><u>\$ 1,419,459</u></u>

The accompanying notes are an integral part of this financial statement.

Beaumont Multi-Family Housing Development Corporation
(A Blended Component Unit of the Housing Authority of the City of Beaumont, Texas)

STATEMENT OF CASH FLOWS (continued)

For the Year Ended September 30, 2019

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 695,339
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	233,266
Provision for bad debts	65,045
(Increase) decrease in assets:	
Tenant accounts receivable, net	(72,557)
Prepaid insurance	(53,598)
Increase (decrease) in liabilities:	
Accounts payable	(30,144)
Accrued liabilities	(1,698)
Accrued compensated absences	4,091
Unearned revenue	(3,398)
Tenant security deposits	1,233
Net cash provided by operating activities	<u>\$ 837,579</u>

The accompanying notes are an integral part of this financial statement.

Beaumont Multi-Family Housing Development Corporation
(A Blended Component Unit of the Housing Authority of the City of Beaumont, Texas)

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

Beaumont Multi-Family Housing Development Corporation (the "Organization" or "BMHDC"), a nonprofit Texas corporation, is a blended component unit of the Housing Authority of the City of Beaumont, Texas (the "Authority"). BMHDC was created as an instrumentality of the Authority to aid in the Authority's mission of providing and developing affordable housing opportunities and implementing housing policies and programs. BMHDC's activities consist of the operation of a multi-family development in Beaumont, Texas. As of September 30, 2019, 149 of the 152 units were occupied by residents.

2. Government-wide and fund financial statements

Generally under the governmental presentation, the government-wide financial statements report information about the reporting government as a whole excluding fiduciary activities. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities rely to a significant extent on fees and charges for support.

Governments use fund accounting whereby funds are organized into three major categories: governmental, proprietary, and fiduciary. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenses.

As previously mentioned, BMHDC is a nonprofit that is considered a blended component unit of the Authority and accordingly follows the same governmental basis of presentation as the Authority. For financial reporting purposes, BMHDC reports all of its operations as a single business activity in a single enterprise fund. Therefore, the government-wide and the fund financial statements are the same.

Enterprise funds are proprietary funds. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating activity generally arises from providing services in connection with a proprietary fund's principal activity. The operating revenues of BMHDC consist primarily of rental charges to tenants. Operating expenses for BMHDC include the cost of general and administrative operations, property taxes, utilities, repairs and maintenance, protective services, depreciation and tenant services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When restricted resources meet the criteria to be available for use and unrestricted resources are also available for use, it is BMHDC's policy to use restricted resources first, and then unrestricted resources, as needed.

Beaumont Multi-Family Housing Development Corporation
(A Blended Component Unit of the Housing Authority of the City of Beaumont, Texas)

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement focus and basis of accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. The proprietary fund utilizes an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported in the statement of net position. Proprietary fund equity is classified as components of net position.

Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied. The basis of accounting used is similar to businesses in the private sector; thus these funds are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or the economic asset is used. As provided by GASB Codification Section P80.115, *Proprietary Fund Accounting and Financial Reporting: Defining Operating Revenues and Expenses*, and related guidance, tenant revenue is reported net of \$65,045 in accounts written off.

4. Budgets

Budgets are prepared on an annual basis, approved by the Board of Directors, and are used as a management tool throughout the accounting cycle. Budgets are not legally adopted nor required for financial statement presentation.

5. Assets, liabilities and net position

a. *Cash and cash equivalents*

For financial statement purposes cash and cash equivalents are considered to be cash on hand, demand deposits, bond reserve funds and short-term investments with original maturities of three months or less from the date of acquisition.

Funded reserves related to BMHDC's Series 2006 Multi-Family Housing Revenue Bonds are classified as restricted cash and cash equivalents on the statement of net position because they are held in trust with a fiscal agent and their use is limited by applicable bond covenants.

b. *Tenant accounts receivable*

Tenant accounts receivable primarily consist of rental income earned during the fiscal year and not yet received. As of September 30, 2019, tenant accounts receivables were reported net of allowance for doubtful accounts of \$9,102. The allowance for uncollectible amounts is based on periodic aging of tenant accounts receivable.

c. *Prepays*

Prepays consist of payments to vendors for costs applicable to future accounting periods. As of September 30, 2019, prepays were in the amount of \$62,428 and consist of prepaid insurance.

Beaumont Multi-Family Housing Development Corporation
(A Blended Component Unit of the Housing Authority of the City of Beaumont, Texas)

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Assets, liabilities and net position (continued)

d. *Capital assets*

BMHDC's policy is to capitalize assets with a value in excess of \$5,000 and a useful life in excess of one year. BMHDC capitalizes the costs of site acquisition and improvement, structures, furniture and equipment and vehicles meeting the capitalization policy. Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are recorded at fair value on the date contributed.

The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend the assets lives are not capitalized.

Depreciation has been calculated using the straight-line method over the estimated useful lives, which range as follows:

Buildings and improvements	5 - 40 years
Furniture, equipment and machinery	3 - 7 years

e. *Impairment of long-lived assets*

BMHDC evaluates events or changes in circumstances affecting long-lived assets to determine whether an impairment of its assets has occurred. If BMHDC determines that a long-lived asset is impaired, and that the impairment is significant and other-than-temporary, then an impairment loss will be recorded in BMHDC's financial statements. In the current year, BMHDC did not recognize any loss on impairment related to its capital assets.

f. *Tenant security deposits*

Tenant security deposits are deposits held by BMHDC that are required of tenants before they are allowed to move into a BMHDC owned unit. BMHDC records these deposits as restricted cash, as this is money that may be reimbursable to the tenant when they move out.

g. *Due to related party*

Due to related party consist of one note payable to Golden Triangle Redevelopment Corporation, a blended component unit of the Authority, in the amount of \$243,333.

Beaumont Multi-Family Housing Development Corporation
(A Blended Component Unit of the Housing Authority of the City of Beaumont, Texas)

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Assets, liabilities and net position (continued)

h. Net position

In accordance with GASB Codification Section 1800.155, *Reporting Net Position in Government-Wide Financial Statements*, total equity as of September 30, 2019, is classified into three components of net position:

i.) *Net investment in capital assets*

This category consists of capital assets (including restricted capital assets), net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction and improvements of those assets.

ii.) *Restricted component of net position*

The component of BMHDC's net position which is subject to constraints imposed by law or agreement consisting primarily of debt service reserves.

iii.) *Unrestricted component of net position*

The component of BMHDC's net position that is neither invested in capital assets nor restricted, which change principally due to operations. These resources are available to meet BMHDC's ongoing obligations to its residents and creditors.

6. Use of estimates

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

Beaumont Multi-Family Housing Development Corporation
(A Blended Component Unit of the Housing Authority of the City of Beaumont, Texas)

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Income taxes

BMHDC accounts for income taxes in accordance with Financial Accounting Standards Board Accounting Codification Topic 740, *Income Taxes*, which clarifies the accounting disclosure requirements for uncertainty in tax position. It requires a two-step approach to evaluate tax positions and determine if they should be recognized in the financial statements. The two-step approach involves recognizing any tax positions that are "more likely than not" to occur and then measuring those positions to determine if they are recognizable in the financial statements. Management regularly reviews and analyzes all tax positions and has determined no aggressive tax positions have been taken.

BMHDC did not incur taxes for the fiscal year ended September 30, 2019. The income tax filing of BMHDC are subject to audit by various taxing authorities. The open audit period for BMHDC is 2016 through 2019.

8. Leasing activities

BMHDC is the lessor of dwelling units to low-income residents. Leases may be cancelled by the lessee at any time or renewed every year. BMHDC may cancel the leases only for cause. Revenues associated with these leases are recorded in the accompanying financial statements and related schedules within rental income.

NOTE B - DETAILED NOTES

1. Deposits

As of September 30, 2019, BMHDC's cash and cash equivalents consist of demand deposits with financial institutions of \$1,419,459.

BMHDC maintains its cash balances in bank deposit accounts which, at times, may exceed federally insured limits. The Bank participates in the Federal Deposit Insurance Corporation ("FDIC"). Custodial credit risk is the risk that in the event of a bank failure, BMHDC's deposits may not be returned. BMHDC's deposit policy for custodial credit risk requires collateral to be held in BMHDC's or the Authority's name by its agent or by the bank's trust department. As of September 30, 2019, none of BMHDC's total bank balance was exposed to custodial credit risk.

Beaumont Multi-Family Housing Development Corporation
(A Blended Component Unit of the Housing Authority of the City of Beaumont, Texas)

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

NOTE B - DETAILED NOTES (continued)

1. Deposits (continued)

Restricted cash and cash equivalents

As of September 30, 2019, restricted cash and cash equivalents consist of the following:

Trustee funds:	
Debt service fund	\$ 746,449
Bond fund	424,342
Surplus	25,575
Maintenance reserve	33,384
Tenant security deposits	<u>65,623</u>
Total	<u>\$ 1,295,373</u>

Bond and Debt Services Fund - Amounts held in the bond fund and debt service fund are restricted for debt service to the extent required by the Trust Indenture. The funds are invested by the Trustee, the Bank of New York Mellon and JP Morgan Institutional Trust Services. As of September 30, 2019, the bond and debt service funds are invested in One Group Treasury Money Market Fund Class I Investment.

Surplus Fund - Amounts held in the surplus fund are used to remedy any shortfall in the bond fund and any shortfall in the debt service fund.

Maintenance Reserve Fund - Amounts held in the maintenance reserve fund are used to fund the replacement of capital assets.

**Beaumont Multi-Family Housing Development Corporation
(A Blended Component Unit of the Housing Authority of the City of Beaumont, Texas)**

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

NOTE B - DETAILED NOTES (continued)

2. Capital assets, net

A summary of changes in capital assets is as follows:

	Balance at October 1, 2018	Additions	Deletions	Balance at September 30, 2019
Non-depreciable:				
Land	\$ 429,866	\$ -	\$ -	\$ 429,866
Depreciated:				
Buildings and improvements	6,970,608	-	-	6,970,608
Furniture, equipment and machinery	52,158	-	-	52,158
Total depreciated	7,022,766	-	-	7,022,766
Less accumulated depreciation for:				
Buildings and improvements	(4,205,616)	(233,266)	-	(4,438,882)
Furniture, equipment and machinery	(52,158)	-	-	(52,158)
Total accumulated depreciation	(4,257,774)	(233,266)	-	(4,491,040)
Total capital assets, being depreciated, net	2,764,992	(233,266)	-	2,531,726
Total capital assets, net	<u>\$ 3,194,858</u>	<u>\$ (233,266)</u>	<u>\$ -</u>	<u>\$ 2,961,592</u>

3. Bonds payable

A summary of changes in bonds payable is as follows:

	Payable at October 1, 2018	Additions	Reductions	Payable at September 30, 2019	Current Portion
Multi-Family Housing Revenue Refunding Bonds, Series 1998	<u>\$ 5,300,000</u>	<u>\$ -</u>	<u>\$ (325,000)</u>	<u>\$ 4,975,000</u>	<u>4,975,000</u>

On December 1, 1998, BMHDC issued \$8,280,000 of Series 1998 Multi-Family Housing Revenue Refunding Bonds bearing an interest rate of 7.5% per annum maturing on December 1, 2028. Interest is due semi-annually on December 1 and June 1 commencing December 1, 1998 through maturity. During January 2020 Beaumont Housing Authority sold the Lexington on the Lake property and used the proceeds to pay the entirety of the outstanding bonds (see Note B-6). The entire balance of \$4,980,000 is considered current as of September 30, 2019.

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NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

NOTE B - DETAILED NOTES (continued)

3. Noncurrent liabilities (continued)

Covenants of the loan agreement

- a. Payment of Bonds - BMHDC will promptly pay, when due, the principal and interest on the Bonds from the revenues and assets specifically pledged thereto pursuant to the indenture. Further, the Trustee shall not provide funds or pay principal of or interest on the bonds except from the revenues and receipts derived from the Deed Trust and the other security therefore pledged under the Indenture.
- b. No Modification of Security: Additional Indebtedness - BMHDC shall not, without written consent of the Trustee, alter, modify, or cancel, or agree to consent to alter, modify, or cancel an agreement which relates to or affects the security of the Bonds. BMHDC shall not incur any additional indebtedness prior to or on a parity with the Bonds, except as permitted by the Trustee.
- c. Tax Covenants - BMHDC shall not knowingly engage in any activities or take any action which might result in (a) any Bond becoming an "arbitrage bond" within the meaning of Section 148 of the Code; (b) interest on any Bond otherwise becoming includible for federal income tax purposes in the gross income of the recipients thereof; (c) action that would cause the Series 1998 Bonds to be private activity bonds as described in section 141 of the Code; and (d) shall not permit any non-governmental unit, as that term is used in the Code, to carry on a trade or business at the Organization, to the extent that such trade or business would adversely affect the exclusion from gross income of the interest paid on the Bonds. BMHDC will establish reasonable procedures to comply with this covenant.
- d. No Assignment - BMHDC shall not sell, transfer, assign, pledge, or otherwise dispose of or encumber all or part of its interest in the Organization in Gross Revenues, except as expressly provided in the Deed Trust.
- e. Insurance - BMHDC is required to hold insurance appropriate for facilities of the size and character of the Organization. All such insurance required by the casualty and liability insurance covenant shall be maintained with an "A" rating or better and a financial size category of XII or better from A.M. Best & Co. Starting in fiscal year 1999, at the end of every fiscal year BMHDC shall employ or cause to be employed an Insurance Consultant for the purpose of reviewing the insurance coverage.

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NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

NOTE B - DETAILED NOTES (continued)

3. Noncurrent liabilities (continued)

Covenants of the loan agreement (continued)

- f. Annual Budget - BHMDC shall cause an Annual Budget of all anticipated gross revenues and operating expenses with respect to the Organization to be completed no later than March 1 of each year.
- g. Rate Covenant - BMHDC covenants, subject to applicable law, to set rents, fees, and charges for the Organization each year such that the income available for debt service after payment of all expenses (other than debt service on the Bonds) is at least 125% of the debt service for the year unless waived by the financial institution for the year.

BMHDC was in compliance with all covenants as of September 30, 2019, except for the Rate Covenant which was waived.

4. Risk management

BMHDC is exposed to various risks of loss related to torts; theft of, damages to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. BMHDC's risk management program encompasses obtaining property, flood, auto, and general and professional liability insurance. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the prior three years.

5. Commitments and contingencies

In the normal course of operations BMHDC may be party to various pending or threatened legal actions. As of the date of this report, management is not aware of any such instances that have a material impact to BMHDC.

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NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

NOTE B - DETAILED NOTES (continued)

6. Subsequent events

BMHDC has evaluated subsequent events through June 30, 2020, the date that the financial statements were available to be issued, and has determined that no additional material events occurred that would require disclosure.

During January 2020 Beaumont Housing Authority sold the property Lexington on the Lake and used the proceeds to pay the remaining amount of outstanding bonds to the Bank of New York, See Note B-3.

Subsequent to year end, BMHDC, like most other businesses, was faced with the COVID-19 pandemic. The overall impact and duration of COVID-19 is uncertain as of the date of this report, however with the unemployment rate on the rise, BMHDC will be significantly impacted as residents may have a loss of income and related evictions are placed on temporary hold. BMHDC has revised operational activities to conform to the current guidelines.