

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

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2020

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS

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FINANCIAL SECTION



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 (MHA) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise MHA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

MHA'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. 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, the aggregate blended presented component units, of the MHA, as of June 30, 2020, 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

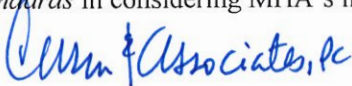
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise MHA's basic financial statements. The combining program schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule 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 included 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 the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2021, on our consideration of MHA'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 MHA'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 MHA's internal control over financial reporting and compliance.



Cascos & Associates, PC
Brownsville, Texas
March 4, 2021



Transforming Families, Strengthening Communities

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2020

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2020

Agency Overview

The Housing Authority of the City of McAllen (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 committed to exceptional performance 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 2019-2020, MHA's Public Housing program began and completed phase 1 of the Rental Assistance Demonstration (RAD) program conversion. Through RAD, MHA converted Vine Terrace and all assets to Project Based Vouchers. Construction on a 122-unit Multi-Family, Low Income Housing Tax Credit property known as Las Palomas was completed. Construction on a 120-unit Multi-Family, LIHTC property known as Green Jay Apartments began. MHA's overall HCV utilization average was 98% which, translates into additional HCV Program and Administrative funding for next fiscal year.

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

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2020

Program Summaries

Low Rent Public Housing

MHA currently operates 89 Public Housing units on 2 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

All two developments are represented by one Resident Council.

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 2019-2020, MHA expended a total of \$361,215.92

Capital Fund Grants expended during FY 2019- 2020

TX59R028501-17	\$ 114,135.67
TX59R028501-18	40,586.25
TX59R028501-19	<u>206,494.00</u>
Total	<u>\$ 361,215.92</u>

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 2019-2020, MHA received a perfect CFP score for obligation timeliness. Zero (0) points were earned for occupancy rate. This was due to the conversion of Vine Terrace from Public Housing to Project Based Vouchers Rental Assistance Demonstration (RAD).

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
 Management’s Discussion and Analysis
 For the Year Ended June 30, 2020

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 %	92.75	
4. Occupancy Rate Points	0	5
Total Capital Fund Score (Fund Obligation + Occupancy Rate):	5	10

Housing Choice Vouchers

MHA administers the Housing Choice Voucher (HCV) program which provides 1,259 rental vouchers to approximately 3,500 individuals. In addition, MHA continues to administer 10 vouchers under HUD’s HCV Veterans Affairs Supportive Vouchers (VASH). 49 project based vouchers were also added due to the Vine Terrace RAD conversion. The HCV program had an annual utilization average of 98%.

Unit Months	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Vouchers Leased	1,252	1,262	1,272	1,280	1,293	1,293	1,327	1,320	1,305	1,296	1,292	1,289
Voucher Available	1,318	1,318	1,318	1,318	1,318	1,318	1,318	1,318	1,318	1,318	1,318	1,318
Utilization %	95%	96%	97%	97%	98%	98%	101%	100%	99%	98%	98%	98%
Annual Average	98%											

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. However, in FY 2019-2020, COVID-19 changed the method in which the HCV program was scored. HUD made waivers available to housing authorities that opted to receive a carry-over of the prior year score. MHA opted for the carry-over and maintained a 99% score and was designated a “High Performer” PHA by HUD.

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
 Management’s Discussion and Analysis
 For the Year Ended June 30, 2020

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

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 2019-2020 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 increased by approximately 38% compared to the previous year. The increase was due to escrow deposits to FSS participants for earned income increases.

FYE 2018-2019	Total Tenant Escrow Funds	\$39,122.00
FYE 2019-2020	Total Tenant Escrow Funds	\$53,826.00

ANNUAL FINANCIAL AND COMPLIANCE REPORT

In this section of the analysis, we, the managers of the MHA, discuss and analyze MHA's financial performance for the fiscal year ended June 30, 2020. Please read it in conjunction with our independent auditor's report and MHA's Basic Financial Statements.

Financial Highlights

- Net position invested in capital assets, net of related, debt decreased by \$366 (in thousands) as compared to the previous year's end. Unrestricted net assets increased by \$1,499 (in thousands) as compared to the previous year. Restricted Net Assets decreased by \$892 (in thousands) as compared to the previous year.
- Total revenues for the fiscal year ending June 30, 2020 were \$10,043 (in thousands).
- Total expenses of all the MHA's programs were \$9,866 (in thousands) for the year ended June 30, 2020.
- Total debt for Bonds and Notes decreased during the fiscal year 19-20 by \$209 (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 Position, the Statement of Revenues, Expenses, and Changes in Net Position, 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 MHA'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 MHA 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, 2020

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 Position. Its primary purpose is to show whether MHA is improving or deteriorating financially as a result of the year's activities. The Statement of Net Position includes all of MHA's assets and liabilities at the end of the year while the Statement of Revenues, Expenses, and Changes in Net Position includes all the revenues and expenses generated by the Authority's operations during the year. The Statement of Cash Flows reports MHA'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 MHA's services, such as rental income. All of MHA'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 Position and the Statement of Revenues, Expenses, and Changes in Net Position reports MHA's net position and the changes in it for the year. MHA's net position (the difference between assets and liabilities) provides one measure of the Authority's financial health, or financial position. Over time, increases or decreases in MHA's net position is 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 MHA 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, 2020

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 Position and the Statement of Revenues, Expenses, and Changes in Net Position.

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

Net position increased by \$240 (in thousands) as compared to the previous year's end. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints by debt covenants, enabling legislation or other legal requirements – was \$5,052 (in thousands) at year-end.

Net investment in capital assets, net of related debt decreased by \$366 (in thousands) as compared to the previous year's end.

MHA's total debt for Bonds and Notes decreased during the current fiscal year by \$209 (in thousands) (Table IV).

Table I
HOUSING AUTHORITY OF THE CITY OF MCALLEN

NET POSITION				
in thousands				
	2020	2019	\$ Change	% Change
Current and Other Assets	\$ 7,842	\$ 5,780	\$ 2,062	35.7%
Capital Assets	9,358	9,934	(576)	-5.8%
Total Assets	17,200	15,714	1,486	9.5%
Deferred Financing Costs	13	14	(1)	-7.1%
Total Deferred Outflows	13	14	(1)	-7.1%
Current Liabilities	1,849	394	1,455	369.3%
Other Liabilities	2,960	3,171	(211)	-6.7%
Total Liabilities	4,809	3,565	1,244	34.9%
Net Position:				
Invested in Capital Assets,				
Net of Related Debt	6,223	6,589	(366)	-5.6%
Restricted	1,129	1,952	(823)	-42.2%
Unrestricted	5,052	3,622	1,430	39.5%
Total Net Position	\$ 12,404	\$ 12,163	\$ 241	2.0%

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2020

Table II
HOUSING AUTHORITY OF THE CITY OF MCALLEN

CHANGES IN NET POSITION				
in thousands				
	2020	2019	\$ Change	% Change
Operating Revenues:				
Tenant Revenues	\$ 1,506	\$ 1,332	\$ 174	13.1%
Operating and Capital Grants and Subsidies	7,619	6,994	625	8.9%
Other Revenue	849	612	237	38.7%
Total Operating Revenues	9,974	8,938	1,036	11.6%
Operating Expenses:				
Administrative	1,356	1,101	255	23.2%
Tenant Services	37	40	(3)	-7.5%
Utilities	110	108	2	1.9%
Ordinary Maintenance and Operations	690	560	130	23.2%
Protective Services	14	17	(3)	-17.6%
General Expenses	1,027	634	393	62.0%
Insurance Expenses	66	75	(9)	-3.3%
Housing Assistance Payments	6,044	5,545	499	9.0%
Depreciation	522	553	(31)	-5.6%
Total Operating Expenses	9,866	8,633	1,233	14.3%
Operating Income (Loss)	108	305	(197)	135.4%
Nonoperating Revenues (Expenses):				
Interest Income	69	86	(17)	-24.6%
Interest Expense	-	-	-	0.0%
Total Nonoperating Revenues (Expenses)	69	86	(17)	-19.8%
Income (Loss) Before Other Financing Sources (Uses)	177	391	(214)	-54.7%
Change in Net Position	177	391	(214)	-54.7%
Net Position - Beginning	12,163	11,810	353	3.0%
Adjustment to Net Position	63	(38)		
Net Position - Ending	\$ 12,403	\$ 12,163	\$ 240	2.0%

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
Management's Discussion and Analysis
For the Year Ended June 30, 2020

Capital Assets and Debt Administration

Capital Assets

At June 30, 2020, MHA had a total cost of \$18,981 (in thousands) invested in capital assets. This amount, not including depreciation, represents a decrease of \$77 (in thousands) from the prior year.

Table III
HOUSING AUTHORITY OF THE CITY OF MCALLEN

		CAPITAL ASSETS			
		in thousands			
		2020	2019	\$ Change	% Change
Land	\$	2,480	\$ 2,480	\$ -	0.0%
Construction in Progress		38	133	(95)	-71.4%
Buildings and Improvements		15,185	15,205	(20)	-0.1%
Furniture, Fixtures & Machinery - Admin		707	693	14	2.0%
Furniture, Fixtures & Machinery - Dwelling		572	546	26	4.8%
Total Capital Assets		18,982	19,057	(75)	-0.4%
Less: Accumulated Depreciation		(9,624)	(9,124)	(500)	5.5%
Total Capital Assets, Net	\$	<u>9,358</u>	<u>\$ 9,933</u>	<u>(575)</u>	<u>-5.8%</u>

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
 Management's Discussion and Analysis
 For the Year Ended June 30, 2020

Debt

At June 30, 2020, MHA had \$3,135 (in thousands) in long-term debt obligations outstanding. This represents a decrease of \$210 (in thousands) compared to the prior year.

Table IV
 HOUSING AUTHORITY OF THE CITY OF MCALLEN

		LONG TERM DEBT in thousands			
		2020	2019	\$ Change	% Change
Bonds Payable	\$	1,778	1,840	(62)	-3.4%
Notes Payable		1,357	1,505	(148)	-9.8%
Total Debt	\$	<u>3,135</u>	<u>3,345</u>	<u>(210)</u>	<u>-6.3%</u>

Economic Factors

HUD's Rental Assistance Demonstration (RAD) program provides a stable funding platform and method for PHAs to preserve their Public Housing stock. MHA has opted to convert all public housing units in inventory to RAD. Phase 1 began with the successful conversion of Vine Terrace in November 2019. Preparations and planning for Phase 2 and 3 are in progress to convert all public housing units at Retama Village within the next three years.

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 MHA'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 MHA's business office at The Housing Authority of the City of McAllen, Texas, 2301 Jasmine Avenue, McAllen, Texas 78501.

FINANCIAL STATEMENTS

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
STATEMENT OF NET POSITION
JUNE 30, 2020

	Primary Government
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 4,729,911
Restricted cash and cash equivalents	713,543
Investments	469,367
Accounts receivable, net	16,762
Accrued interest	182,226
Due from other funds	1,219,056
Prepaid expenses	18,861
Other assets	20,740
Total current assets	7,370,466
Noncurrent Assets:	
Notes receivable	471,903
Capital assets:	
Land	2,480,386
Construction in progress	37,758
Building and equipment	13,816,060
Leasehold improvements	1,369,242
Furniture and equipment	1,278,788
Less accumulated depreciation	(9,624,363)
Capital assets, net	9,357,871
Total noncurrent assets	9,829,774
Deferred Outflow of Resource:	
Deferred financing costs	12,848
LIABILITIES	
Current Liabilities:	
Accounts payable	113,785
Other accounts payable	15,842
Accrued liabilities	21,420
Compensated absences	18,496
Deferred revenues	154,530
Due to other funds	1,219,056
Tenant security deposits	69,601
Long-term debt due within one year	236,557
Total current liabilities	1,849,287
Noncurrent Liabilities:	
FSS escrow payable	53,826
ROSS escrow payable	7,556
Long-term debt due in more than one year	2,898,747
Total noncurrent liabilities	2,960,129
Total liabilities	4,809,416
NET POSITION	
Net investment in capital assets	6,222,567
Restricted	1,129,084
Unrestricted	5,052,021
Total net position	\$ 12,403,672

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, 2020

	Primary Government
OPERATING REVENUES	
Government operating grants	\$ 7,619,481
Dwelling rental	1,500,709
Non-dwelling rental	4,585
Service fees	191,192
Fraud recovery	15,966
Other revenue	642,524
Total Operating Revenues	9,974,457
OPERATING EXPENSES	
Administrative	1,356,119
Tenant services	37,314
Utilities	110,059
Maintenance	690,119
Protective services	14,426
General expenses	1,026,811
Dwelling units	65,750
Housing assistance payments	6,043,957
Depreciation expense	522,038
Total Operating Expenses	9,866,593
OPERATING INCOME (LOSS)	107,864
NON-OPERATING REVENUES	
Interest and investment revenue	69,434
Total Non-Operating Revenues	69,434
CHANGE IN NET POSITION	177,298
NET POSITION, BEGINNING OF YEAR	12,163,328
PRIOR PERIOD ADJUSTMENT	63,046
NET POSITION, END OF YEAR	\$ 12,403,672

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, 2020

	<u>Primary Government</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts of grants and contracts	\$ 7,619,481
Receipts of tenants	1,502,675
Other receipts	918,268
Payments to or on behalf of employees	(1,226,624)
Payments to suppliers for goods or services	(1,821,430)
Payment to housing assistance	<u>(6,117,073)</u>
Net cash provided (used) by operating activities	<u>875,297</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase/Sale of capital asset	63,638
Escrow payable	14,112
Loan repayment	(209,992)
Other revenues	2,073
Other expenses	<u>(77,414)</u>
Net cash provided (used) by capital and related financing activities	<u>(207,583)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	<u>69,434</u>
Net cash provided (used) by investing activities	<u>69,434</u>
Increase (decrease) in cash and cash equivalents	737,148
Cash and cash equivalents - Beginning of year	<u>5,112,627</u>
Cash and cash equivalents - End of year	<u>\$ 5,912,821</u>
Reconciliation of operating income (loss) to net cash provided by operating activities	
Operating income (loss)	\$ 107,864
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation expense	522,038
Changes in assets and liabilities	
(Increase) decrease in receivables, net	(9,970)
(Increase) decrease in accrued interest	(28,630)
(Increase) decrease in prepaid and other assets	3,240
Increase (decrease) in notes receivable - noncurrent	1,904
(Increase) decrease in deferred costs	741
Increase (decrease) in accounts payable	69,103
Increase (decrease) in due to federal or state agencies	(7,366)
Increase (decrease) in accrued liabilities	13,561
Increase (decrease) in deferred revenue	154,530
Increase (decrease) in tenant security deposits	7,351
Increase (decrease) in other current liabilities	<u>(15,306)</u>
Net cash provided (used) by operating activities	<u>\$ 875,297</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, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Housing Authority of the City of McAllen (MHA) 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 MHA 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 MHA 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 MHA. MHA 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 MHA's reporting entity.

B. THE COMPONENT UNITS

MCALLEN HOUSING FACILITY CORPORATION

The McAllen Housing Facility Corporation (MHFC), a blended component unit of MHA, was created and organized by action of MHA 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, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 MHA, is sponsored and created by MHA, 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 MHA. 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 MHA 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

MHA 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 MHA.

E. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, MHA 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, 2020**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2020 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, 2020</u>				
Equity Securities	\$ 469,367	\$ 469,367	\$ -	\$ -
Total	<u>\$ 469,367</u>	<u>\$ 469,367</u>	<u>\$ -</u>	<u>\$ -</u>

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. MHA has \$12,848 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 MHA'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 MHA'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

MHA 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.

M. CAPITAL ASSETS

Capital assets include land, buildings, furniture and equipment. Capital assets are defined by MHA 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 MHA 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, 2020**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 MHA 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 MHA's agent bank in an amount sufficient to protect MHA'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.

MHA 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 MHA'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, 2020**

III. DETAILED NOTES (continued)

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.

MHA 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 MHA 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. MHA’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, MHA 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 MHA’s name.

Concentration of Credit Risk – The investment of MHA 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 MHA’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 MHA 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 – MHA limits the risk that changes in exchange rates will adversely affect the fair value of an investment. At year-end, MHA was not exposed to foreign currency risk.

B. RESTRICTED CASH AND CASH EQUIVALENTS

MCALLEN HOUSING AUTHORITY

At June 30, 2020, MHA had cash and cash equivalents restricted as follows: under the Section 8 Housing Choice Voucher Program \$189,407 restricted and \$53,826 restricted escrow for the FSS program; under the ROSS Program, \$7,556 restricted as Tenant Securities, and \$462,754 are restricted for the properties Modernization & Development.

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

III. DETAILED NOTES (continued)

B. RESTRICTED CASH AND CASH EQUIVALENTS

MCALLEN HOUSING FACILITY CORPORATION

At June 30, 2020, the MHFC had cash and cash equivalents restricted as follows: (1) \$393,250 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 \$58,734.

MCALLEN HOUSING DEVELOPMENT CORPORATION

At June 30, 2020, the MHDC had cash and cash equivalents restricted as follows: (1) \$10,770 restricted for Tenant Securities.

C. CAPITAL ASSETS

Capital asset activity for MHA for the year ended June 30, 2020, was as follows:

	Beginning	Changes During Year				Ending
	Balance 7/1/2019	Additions	Retirements	Transfer/ Reclass	Adjustments	Balance 6/30/2020
Low Rent						
Capital assets not being depreciated:						
Land	\$ 1,577,842	\$ -	\$ -	\$ (328,500)	\$ -	\$ 1,249,342
Construction in progress	95,578	-	-	(95,578)	-	-
Total capital assets not being depreciated	1,673,420	-	-	(424,078)	-	1,249,342
Capital assets being depreciated:						
Buildings	3,757,796	-	-	(3,046,505)	-	711,291
Leasehold improvements	1,132,704	-	-	(1,036,298)	-	96,406
Furniture & equipment - Admin	457,718	35,029	(1,182)	(15,570)	(571)	475,424
Furniture & equipment - Dwelling	99,106	30,498	-	(90,625)	(3,255)	35,724
Total capital assets being depreciated	5,447,324	65,527	(1,182)	(4,188,998)	(3,826)	1,318,845
Less accumulated depreciation	(5,139,023)	(93,869)	-	3,999,333	3,282	(1,230,277)
Low Rent Capital Assets, Net	\$ 1,981,721	\$ (28,342)	\$ (1,182)	\$ (613,743)	\$ (544)	\$ 1,337,910
Section 8						
Capital assets being depreciated:						
Furniture & equipment - Admin	\$ 150,052	\$ 2,734	\$ -	\$ -	\$ (6,277)	\$ 146,509
Total capital assets being depreciated	150,052	2,734	-	-	(6,277)	146,509
Less accumulated depreciation	(45,006)	(21,251)	-	-	449	(65,808)
Section 8 Capital Assets, Net	\$ 105,046	\$ (18,517)	\$ -	\$ -	\$ (5,828)	\$ 80,701

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

III. DETAILED NOTES (continued)

C. CAPITAL ASSETS

	Beginning Balance <u>7/1/2019</u>	Changes During Year				Ending Balance <u>6/30/2020</u>
		<u>Additions</u>	<u>Retirements</u>	<u>Transfer/ Reclass</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	<u>702,544</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>702,544</u>
Capital assets being depreciated:						
Buildings	9,357,269	-	-	-	-	9,357,269
Leasehold improvements	127,508	8,150	-	-	-	135,658
Furniture & equipment - Admin	85,412	-	-	-	(814)	84,598
Furniture & equipment - Dwelling	374,460	-	-	-	(913)	373,547
Total capital assets being depreciated	<u>9,944,649</u>	<u>8,150</u>	<u>-</u>	<u>-</u>	<u>(1,727)</u>	<u>9,951,072</u>
Less accumulated depreciation	<u>(3,776,874)</u>	<u>(342,776)</u>	<u>-</u>	<u>-</u>	<u>10,521</u>	<u>(4,109,129)</u>
MHFC Capital Assets, Net	\$ <u>6,870,319</u>	\$ <u>(334,626)</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>8,794</u>	\$ <u>6,544,487</u>
McAllen Housing Development Corp (MHDC)						
Capital assets not being depreciated:						
Land	\$ 200,000	\$ -	\$ -	\$ 328,500	\$ -	\$ 528,500
Construction in progress	37,758	-	-	-	-	37,758
Total capital assets not being depreciated	<u>237,758</u>	<u>-</u>	<u>-</u>	<u>328,500</u>	<u>-</u>	<u>566,258</u>
Capital assets being depreciated:						
Buildings	700,995	-	-	3,046,505	-	3,747,500
Leasehold improvements	128,599	-	-	1,008,579	-	1,137,178
Furniture & equipment - Dwelling	72,361	-	-	90,625	-	162,986
Total capital assets being depreciated	<u>901,955</u>	<u>-</u>	<u>-</u>	<u>4,145,709</u>	<u>-</u>	<u>5,047,664</u>
Less accumulated depreciation	<u>(162,910)</u>	<u>(61,240)</u>	<u>-</u>	<u>(3,999,333)</u>	<u>4,334</u>	<u>(4,219,149)</u>
MHDC Capital Assets, Net	\$ <u>976,803</u>	\$ <u>(61,240)</u>	\$ <u>-</u>	\$ <u>474,876</u>	\$ <u>4,334</u>	\$ <u>1,394,773</u>
Summary Total						
Capital assets not being depreciated:						
Land	\$ 2,480,386	\$ -	\$ -	\$ -	\$ -	\$ 2,480,386
Construction in progress	133,336	-	-	(95,578)	-	37,758
Total capital assets not being depreciated	<u>2,613,722</u>	<u>-</u>	<u>-</u>	<u>(95,578)</u>	<u>-</u>	<u>2,518,144</u>
Capital assets being depreciated:						
Buildings	13,816,060	-	-	-	-	13,816,060
Leasehold improvements	1,388,812	8,150	-	(27,719)	-	1,369,243
Furniture & equipment - Admin	693,182	37,763	(1,182)	(15,570)	(7,662)	706,531
Furniture & equipment - Dwelling	545,927	30,498	-	-	(4,168)	572,257
Total capital assets being depreciated	<u>16,443,981</u>	<u>76,411</u>	<u>(1,182)</u>	<u>(43,289)</u>	<u>(11,830)</u>	<u>16,464,090</u>
Less accumulated depreciation	<u>(9,123,813)</u>	<u>(519,136)</u>	<u>-</u>	<u>-</u>	<u>18,586</u>	<u>(9,624,363)</u>
Total Capital Assets, Net	\$ <u>9,933,890</u>	\$ <u>(442,725)</u>	\$ <u>(1,182)</u>	\$ <u>(138,867)</u>	\$ <u>6,756</u>	\$ <u>9,357,871</u>

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

III. DETAILED NOTES (continued)

D. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2020 consisted of the following:

<u>Bonds & Notes</u>	<u>Interest Rate</u>	<u>Amount of Original Issue</u>	<u>Interest Current Year</u>	<u>Balance 6/30/19</u>	<u>Adjustments</u>	<u>Retired</u>	<u>Balance 6/30/20</u>	<u>Due Within One Year</u>
McAllen Housing Facility Corporation Multifamily Housing Revenue Refunding Bonds Series 2012	4.95%	\$ 2,172,000	\$ 91,068	\$ 1,839,625	\$ -	\$ (61,618)	\$ 1,778,007	\$ 64,916
McAllen Housing Facility Corporation Note Payable	6.56%	2,000,000	67,388	1,076,261	21	(143,745)	932,537	153,700
Villas at Beaumont, GP, LLC Note Payable (1st Lien)	10.50%	250,000	24,604	155,603	92	(2,838)	152,857	3,151
Villas at Beaumont, GP, LLC Note Payable (2nd Lien) to MHFC	8.00%	300,000	<u>21,347</u>	<u>273,807</u>	<u>-</u>	<u>(1,904)</u>	<u>271,903</u>	<u>14,790</u>
Totals			<u>\$ 204,407</u>	<u>\$ 3,345,296</u>	<u>\$ 113</u>	<u>\$ (210,105)</u>	<u>\$ 3,135,304</u>	<u>\$ 236,557</u>

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, 2020 was \$1,778,007.

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, 2020 was \$932,537.

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, 2020 was \$152,857.

On September 1, 2011, Villas at Beaumont, GP, LLC borrowed \$300,000 from McAllen Housing Facility Corporation to finance construction costs of Villas at Beaumont elderly apartment complex. The note is payable in monthly installments of \$2,201, including interest at a rate of 8.0%, and is secured by real property. The note matures on August 1, 2041. The principal amount outstanding at June 30, 2020 was \$271,903.

**HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

III. DETAILED NOTES (continued)

D. LONG TERM DEBT

DEBT SERVICE REQUIREMENTS

Total debt service requirements for the MHFC's debt at June 30, 2020 were as follows:

Year Ending June 30,	General Obligations		Total Requirements
	Principal	Interest	
2021	\$ 236,557	\$ 181,047	\$ 417,604
2022	252,327	165,328	417,655
2023	269,131	135,662	404,793
2024	289,058	128,597	417,655
2025	666,223	362,172	1,028,395
2026-2030	732,391	296,828	1,029,219
2031-2035	558,591	111,938	670,529
2036-2040	98,921	33,157	132,078
2041-2045	<u>32,105</u>	<u>1,488</u>	<u>33,593</u>
	<u>\$ 3,135,304</u>	<u>\$ 1,416,217</u>	<u>\$ 4,551,521</u>

E. DEFINED CONTRIBUTION PLAN

The Housing-Renewal and Local Agency Retirement Plan: MHA 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 MHA. 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. MHA's contributions for the year ended June 30, 2020 were \$70,807.

F. TRANSFERS

MHA recorded transfers of \$300,734 from Hibiscus to the Low Rent Public Housing program for a Tax Credit Deal with Hibiscus Village after the deal did not materialize and \$97,029 for its Capital Fund Program for public housing allowed capital expenses and other allowed expenses. MHA also transferred \$1,561,617 of RAD funds from its Low Rent Public Housing program to the McAllen Housing Development Corporation Vine Terrace and transferred \$30,971 of Capital Fund Money received for the purpose of funding RAD Voucher payments to Section 8 Vouchers. \$7,651,309 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, 2020.

**HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

III. DETAILED NOTES (continued)

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, 2020 was \$200,000. Interest payments received were \$0 and unpaid accrued interest receivable at June 30, 2020 was \$182,226.

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, 2020 was \$271,903.

The Inter-program eliminations during and as of June 30, 2020 was as follow:

	Inter-program Eliminations	
	<u>Revenues</u>	<u>Expenses</u>
Housing Choice Vouchers	\$ -	\$ 615,366
McAllen Facility Corp.	443,052	-
McAllen Development Corp.	<u>172,314</u>	<u>-</u>
Total	<u>\$ 615,366</u>	<u>\$ 615,366</u>

H. COMPENSATED ABSENCES

As of June 30, 2020, the accrued leave balance was \$18,496.

Balance 7/1/2019	Earned	Taken	Balance 6/30/2020
<u>\$ 34,281</u>	<u>\$ 41,871</u>	<u>\$ (57,656)</u>	<u>\$ 18,496</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 MHA expects such amounts, if any, to be immaterial.

J. SUBSEQUENT EVENTS

MCALLEN HOUSING AUTHORITY AND MCALLEN HOUSING FACILITY CORPORATION

MHA has evaluated subsequent events through March 4, 2021 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 MHA's evaluation that would require adjustment to, or disclosure in, the financial statements.

**HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

III. DETAILED NOTES (continued)

K. RISK MANAGEMENT

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

N. PRIOR PERIOD ADJUSTMENTS

Adjustments to net position during the 2019-2020 fiscal year consisted of adjustments to Low Rent Housing of (\$268), Section 8 Voucher of \$63,304, MHFC of (\$17,719), and MHDC of \$10 for a total of \$63,046. 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.

	Low Rent Housing	Section 8 Voucher	McAllen Development Corp.	Total
Prior period adjustments	<u>\$ (268)</u>	<u>\$ 63,304</u>	<u>\$ 10</u>	<u>\$ 63,046</u>

SUPPLEMENTARY INFORMATION SECTION

HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
SUPPLEMENTARY SCHEDULE
COMBINING BALANCE SHEET - PROGRAMS
JUNE 30, 2020

	Low Rent Housing	Section 8 Voucher	McAllen Facility Corp.	McAllen Development Corp.	Capital Fund Program	Total Programs
ASSETS						
Current assets						
Cash and cash equivalents	\$ 640,786	\$ 1,109,200	\$ 1,569,291	\$ 1,410,634	\$ -	\$ 4,729,911
Restricted cash and cash equivalents	7,556	243,233	451,984	10,770	-	713,543
Investments	469,367	-	-	-	-	469,367
Accounts receivable, net	-	-	16,762	-	-	16,762
Accrued interest	-	-	182,226	-	-	182,226
Due from other funds	-	56,237	1,162,819	-	-	1,219,056
Prepaid expenses	7,294	2,560	7,782	1,225	-	18,861
Other assets	-	-	20,740	-	-	20,740
Total current assets	<u>1,125,003</u>	<u>1,411,230</u>	<u>3,411,604</u>	<u>1,422,629</u>	<u>-</u>	<u>7,370,466</u>
Noncurrent assets						
Notes receivable	-	-	471,903	-	-	471,903
Capital assets						
Land	1,249,342	-	702,544	528,500	-	2,480,386
Construction in progress	0	-	-	37,758	-	37,758
Building and equipment	711,291	-	9,357,269	3,747,500	-	13,816,060
Leasehold improvements	96,406	-	135,658	1,137,178	-	1,369,242
Furniture and equipment	511,148	146,509	458,145	162,986	-	1,278,788
Less accumulated depreciation	<u>(1,230,277)</u>	<u>(65,808)</u>	<u>(4,109,129)</u>	<u>(4,219,149)</u>	<u>-</u>	<u>(9,624,363)</u>
Total capital assets	<u>1,337,910</u>	<u>80,701</u>	<u>6,544,487</u>	<u>1,394,773</u>	<u>-</u>	<u>9,357,871</u>
Total noncurrent assets	<u>1,337,910</u>	<u>80,701</u>	<u>7,016,390</u>	<u>1,394,773</u>	<u>-</u>	<u>9,829,774</u>
Deferred outflow of resources						
Deferred financing costs	-	-	12,848	-	-	12,848
LIABILITIES						
Current liabilities						
Accounts payable	54,106	11,184	41,289	7,206	-	113,785
Other accounts payable	-	-	15,842	-	-	15,842
Accrued liabilities	8,786	-	12,634	-	-	21,420
Compensated absences	4,387	10,291	3,561	257	-	18,496
Due to other funds	56,237	-	948,734	214,085	-	1,219,056
Deferred revenues	-	154,530	-	-	-	154,530
Tenant security deposits	242	-	58,589	10,770	-	69,601
Long-term debt due within one year	-	-	236,557	-	-	236,557
Total current liabilities	<u>123,758</u>	<u>176,005</u>	<u>1,317,206</u>	<u>232,318</u>	<u>-</u>	<u>1,849,287</u>
Noncurrent liabilities						
FSS escrow payable	-	53,826	-	-	-	53,826
ROSS escrow payable	7,556	-	-	-	-	7,556
Long-term debt due in more than one year	-	-	2,898,747	-	-	2,898,747
Total noncurrent liabilities	<u>7,556</u>	<u>53,826</u>	<u>2,898,747</u>	<u>-</u>	<u>-</u>	<u>2,960,129</u>
Total liabilities	<u>131,314</u>	<u>229,831</u>	<u>4,215,953</u>	<u>232,318</u>	<u>-</u>	<u>4,809,416</u>
NET POSITION						
Net investment in capital assets	1,337,910	80,701	3,409,183	1,394,773	-	6,222,567
Restricted	476,923	189,407	393,395	-	-	1,059,725
Unrestricted	516,766	991,992	2,422,311	1,190,311	-	5,121,380
Total net position	<u>\$ 2,331,599</u>	<u>\$ 1,262,100</u>	<u>\$ 6,224,889</u>	<u>\$ 2,585,084</u>	<u>\$ -</u>	<u>\$ 12,403,672</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, 2020

	Low Rent Housing	Section 8 Voucher	McAllen Facility Corp.	McAllen Development Corp.	Capital Fund Program	Total Programs
OPERATING REVENUES						
Government operating grants	\$ 415,132	\$ 6,843,133	\$ -	\$ -	\$ 361,216	\$ 7,619,481
Dwelling rental	59,299	-	1,089,858	351,552	-	1,500,709
Non-dwelling rental	-	-	3,725	860	-	4,585
Service fees	5,646	21,309	164,237	-	-	191,192
Fraud recovery	580	15,386	-	-	-	15,966
Other revenue	50,844	192,139	382,474	17,067	-	642,524
Total Operating Revenues	<u>531,501</u>	<u>7,071,967</u>	<u>1,640,294</u>	<u>369,479</u>	<u>361,216</u>	<u>9,974,457</u>
OPERATING EXPENSES						
Administrative	350,353	557,259	297,312	146,471	4,724	1,356,119
Tenant services	23,368	-	13,946	-	-	37,314
Utilities	34,060	8,063	55,516	12,420	-	110,059
Maintenance	178,993	37,902	397,581	75,643	-	690,119
Protective services	3,963	50	7,519	2,894	-	14,426
General expenses	405,778	136,476	337,196	147,326	35	1,026,811
Dwelling units	65,750	-	-	-	-	65,750
Housing assistance payments	-	6,043,957	-	-	-	6,043,957
Depreciation expense	94,429	27,080	343,630	56,899	-	522,038
Total Operating Expenses	<u>1,156,694</u>	<u>6,810,787</u>	<u>1,452,700</u>	<u>441,653</u>	<u>4,759</u>	<u>9,866,593</u>
OPERATING INCOME (LOSS)	<u>(625,193)</u>	<u>261,180</u>	<u>187,594</u>	<u>(72,174)</u>	<u>356,457</u>	<u>107,864</u>
NONOPERATING REVENUES						
Interest and investment revenue	10,422	8,107	50,878	-	27	69,434
Total Nonoperating Revenues	<u>10,422</u>	<u>8,107</u>	<u>50,878</u>	<u>-</u>	<u>27</u>	<u>69,434</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>(614,771)</u>	<u>269,287</u>	<u>238,472</u>	<u>(72,174)</u>	<u>356,484</u>	<u>177,298</u>
Transfers in	397,763	30,971	7,651,309	1,521,717	-	9,601,760
Transfers out (use)	(1,592,588)	-	(7,651,309)	-	(357,863)	(9,601,760)
CHANGES IN NET POSITION	<u>(1,809,596)</u>	<u>300,258</u>	<u>238,472</u>	<u>1,449,543</u>	<u>(1,379)</u>	<u>177,298</u>
NET POSITION, BEGINNING OF YEAR	4,141,463	898,538	5,986,417	1,135,531	1,379	12,163,328
PRIOR PERIOD ADJUSTMENT	(268)	63,304	-	10	-	63,046
NET POSITION, BEGINNING OF YEAR (RESTATED)	<u>4,141,195</u>	<u>961,842</u>	<u>5,986,417</u>	<u>1,135,541</u>	<u>1,379</u>	<u>12,226,374</u>
NET POSITION, END OF YEAR	<u>\$ 2,331,599</u>	<u>\$ 1,262,100</u>	<u>\$ 6,224,889</u>	<u>\$ 2,585,084</u>	<u>\$ -</u>	<u>\$ 12,403,672</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, the aggregate blended presented component units, of the Housing Authority of the City of McAllen (MHA), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise MHA's basic financial statements, and have issued our report thereon dated March 4, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered MHA'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 MHA's internal control. Accordingly, we do not express an opinion on the effectiveness of MHA's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MHA'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*.



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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 blue ink that reads "Cascos & Associates, PC". The signature is written in a cursive style.

Cascos & Associates, PC
Brownsville, Texas
March 4, 2021



Cascos & Associates, PC

Certified Public Accountants
Audit/Accounting/Tax/Consulting

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND 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 the Housing Authority of the City of McAllen's (MHA) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of MHA's major federal programs for the year ended June 30, 2020. MHA's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of MHA'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 MHA'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 MHA's compliance.

Opinion on Each Major Federal Program

In our opinion, MHA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of MHA 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 MHA'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 MHA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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
March 4, 2021

**HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

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	\$ 379,700
Housing Choice Vouchers	14.871	6,774,694
Public Housing Capital Fund Program	14.872	361,216
Public Housing Family Self-Sufficiency Program	14.896	68,439
Resident Opportunity and Supportive Services	14.870	35,432
Public Housing CARES Act Funding	14.PHC	-
HCV CARES Act Funding	14.HCC	-
Total U.S. Department of Housing and Urban Development		<u>7,619,481</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS		 <u><u>\$ 7,619,481</u></u>

**HOUSING AUTHORITY OF THE CITY OF MCALLEN, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

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, 2020.

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, 2020**

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)?	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. Financial Statement Findings

None reported.

III. Federal Award Findings and Questioned Costs.

None reported.