



BROWN, GRAHAM & COMPANY
PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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JULY 3, 2020

MCKINNEY HOUSING FINANCE CORPORATION
406 N. TENNESSEE STREET
MCKINNEY, TEXAS 75069

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide. So that we can meet your expectations related to the services we will provide.

Preparation of the Financial Statements

You have requested that we prepare the monthly financial statements of McKinney Housing Finance Corporation (McKinney HFC), which include the following four (4) limited liabilities companies (“LLCs”) whose sole member is McKinney HFC (collectively “the Corporation”), which comprise statement of net position as of each month-end effective on the month we are engaged through September 30, 2020, September 30, 2021 and September 30, 2022, and the related statement of revenues, expenses and change in net position for each month then ended. We are pleased to confirm our acceptance and our understanding of this engagement to prepare the financial statements of the Corporation by means of this letter. The services address in this engagement letter does not include annual tax or compilation engagements.

- McKinney Flats GP LLC (MF GP)
- McKinney Flats Holdings LLC (MF Holdings)
- McKinney Flats Development LLC (MF Development)
- McKinney Flats Contractor LLC (MF Contractor)

Our Responsibilities

The objective of our engagement is to prepare financial statements in accordance with the accounting principles generally accepted in the U.S. (GAAP) based on information provided by you. We will conduct our engagement in accordance with Statements on Standards for Accounting and Review Services (SSARSS) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA’s Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to, and will not, verify the accuracy or completeness of the information you will provide to us for the engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion or a conclusion nor provide any assurance on the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the Corporation or noncompliance with laws and regulations.

Management Responsibilities

The engagement to be performed is conducted on the basis that you acknowledge and understand that our role is to prepare financial statements in accordance with GAAP. You have the following overall responsibilities that are fundamental to our undertaking the engagement in accordance with SSARs:

- a. The selection of GAAP as the financial reporting framework to be applied in the preparation of the financial statements.
- b. The prevention and detection of fraud.
- c. To ensure that the Corporation complies with the laws and regulations applicable to its activities.
- d. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement.
- e. To provide us with:
 - i. Access to all information of which you are aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - ii. Additional information that we may request from you for the purpose of the preparation of the financial statements, and
 - iii. Unrestricted access to persons within the Corporation of whom we determine it necessary to make inquiries.

The financial statements will not be accompanied by a report. However, you agree that the financial statements will clearly indicate that no assurance is provided on them.

Bookkeeping and Other Accounting Services

We will provide the various accounting and consulting services as specified in Exhibit A accompanying this letter.

We will not perform management functions or make management decisions for you. However, we may provide advice, research materials, and recommendations to assist you in performing your functions and making decisions. You must agree to perform the following functions in connection with our bookkeeping and other services engagements:

- Make all management decisions and perform all management functions;
- Designate an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management, to oversee the services;
- Evaluate the adequacy and results of the services performed;
- Accept responsibility for the results of the services; and
- Establish and maintain internal controls, including monitoring ongoing activities.

Other Relevant Information

Jessica Chen is the engagement shareholder and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

Our fee estimate is based on the number of hours (including travel time) required by the level of the staff assigned to complete the engagement plus actual out-of-pocket expenditures. Our billing rate is subject to annual increase for at least cost of living increment. Our current hourly rate is as follows:

Staff Level	Hour Rate
Shareholder	\$315
Senior Manager	\$195
Associate	\$120

The fee estimates as outlined on the accompany Exhibit A are based on our experience in working with other similar clients as the Corporation and are assuming that (1) we will have anticipated cooperation from the Corporation's personnel by providing us the information timely, (2) the McKinney HFC's accounting records for prior years are maintained in accordance with the generally accepted accounting principles and are accurate and reconciled up to the date, and (3) the business activities are minimal in the McKinney HFC's normal operations.

We will bill once a month and is payable when billed.

In accordance with our firm policies, work may be suspended if your account becomes thirty (30) days or more overdue and will not be resumed until your account is paid in full. A finance charge of 1% per month, which is an annual rate of 12%, will be added to all invoices that remain unpaid for more than 60 days. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination. The suspension or termination of our work may result in adverse consequences to you including your failure to meet deadlines imposed by governments, lenders, or other third parties. You agree that we will not be responsible for your failure to meet such deadlines, or for penalties or interest that may be assessed against you resulting from such failure.

You agree to release, indemnify, defend, and hold us harmless from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentations to us.

We look forward to a continued relationship with your organization, and we are available to discuss the contents of this letter or other professional services you may desire.

We appreciate the opportunity to be of service to you and believe that this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If the foregoing terms are in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Respectfully,

Brown, Graham & Company, P.C.

Brown, Graham & Company, P.C.
Austin, Texas

RESPONSE:

This letter correctly sets forth our understanding.

McKinney Housing Finance Corporation

Acknowledged and agreed by:

- McKinney Housing Finance Corporation
- McKinney Flats GP LLC
- McKinney Flats Holdings LLC
- McKinney Flats Development LLC
- McKinney Flats Contractor LLC

Signature: _____

Print Name: _____

Title: _____

Date: _____

EXHIBIT A

ACCOUNTING AND CONSULTING SERVICES OUTLINE AND ESTIMATED FEES

- I. One-time upfront services (this one-time upfront fee can be built in and to be paid from the closing of the new deals in the future):**
- a. Accounting and consulting services attributable to the project/partnership (*Estimated cost \$5,200 for the partnership that is to be formed for the McKinney Flats project*):**
- i. Read the Limited Partnership Agreement, Ground Lease Agreement and its related MOU, Development and Co-Development Agreements, Consulting Agreement, Master Contract and Sub-contractor Agreement, Partnership Management Fee Agreement and Incentive Management Fee Agreement and other significant agreements that HFC is involved through its wholly owned LLCs;
 - ii. Reconcile initial loan & equity closing statement as compared to the above agreements;
 - iii. Summarize all significant related party transactions between the HFC (or through its LLCs) and the partnership, and
 - iv. Meeting with the Board to go over component unit evaluation, ground lease evaluation and related party transaction summary between the HFC and the limited partnership.
- b. Accounting and consulting services attributable to the current existing LLCs that are created for the McKinney Flats project (Estimated cost for all tasks below is to be \$4,900):**
- i. Read all organizational documents for the LLCs;
 - ii. Create an organizational chart to track all the LLCs in relation with the HFC and the partnership;
 - iii. Initial set up of accounting files and records for the LLCs in QuickBooks;
 - iv. Write up accounting considerations of the blended/discretely presented component unit (all LLCs in relationship to the HFC, and the partnership in relationship to GP LLC);
 - v. Write up accounting consideration of the ground lease (operating lease vs. capital lease);
 - vi. Reconciled significant transactions per the land purchase closing statement or per the initial loan & equity closing statement to all agreements and recorded them in QuickBooks accordingly, and
 - vii. Prepare cash flow analysis due to the HFC and its wholly owned LLCs for the next five years per the above agreements.
- c. Accounting and consulting services related to the conversion from Special Revenue Fund to Enterprise Fund (*Estimated cost \$1,200*)**
- II. Recurring services:**
- a. Annual ongoing services (*Estimated cost \$1,200 for the first year and \$800 thereafter for each partnership*):**
- i. Assist the GP LLC to review the audit draft report and draft tax return of the partnership prior to the President of the GP LLC signs the management representation letter for the audit and signs the tax return.

- b. Monthly recurring accounting, consulting services and financial statements preparation services for the HFC and current existing LLCs (Estimated monthly cost \$1,400):**
- i. Monthly accounts receivable function to prepare invoices for various fees when they become due as well as recording cash receipts and tracking the payment status accordingly;
 - ii. Monthly accounts payable function to enter the vendor bills into QuickBooks and process payments accordingly upon the authorization and approval by McKinney HFC's personnel for payment processing;
 - iii. Preparation and maintenance of monthly reconciliation schedules;
 - iv. Reconciliation of amount recorded in the trial balance to the supporting schedules;
 - v. Periodic adjustments, among others, as wells as certain other services;
 - vi. Preparation of monthly combined financial statements (without statement of cash flow and notes to the financial statements) including a supplemental schedule of a combining financial statements (with individual columns for each entity), and
 - vii. Monitor the various fees due to LLCs.
- c. Annual recurring services for the assistance to interact and provide the information to the external auditor (Estimated annual cost \$2,400 - \$4,600 – The fee estimate is going to depend on the level of the assistance the external auditor needs. A more accurate estimate can be provided after we have experience in working with the external auditor):**
- i. Provide and update the reconciliation schedules to suit the needs of the external auditor;
 - ii. Prepare annual financial statements to include statement of cash flows, and
 - iii. Prepare notes related to the HFC, the LLCs and the partnership to be included in CAFR.
- III. Other accounting functions as requested (charged on our currently hourly rate):**
- i. Monthly tele-conference with the Board of Directors to discuss monthly financial statements;
 - ii. Preparation of annual budget or cash flow analysis, and
 - iii. Any other services that are not included as part of the monthly or annual recurring services.
- IV. Tax services:**
- i. One-time service - Entity Election and 168(h) election for the GP LLC (*Estimated cost - \$450 for the GP LLC*);
 - ii. One-time services – Set up Texas Franchise account with the Texas Comptroller's Office for the LLCs, if needed (*Estimated cost - \$1,200 for four LLC*);
 - iii. Annual service – Preparation of federal return for the GP LLC (*Estimated cost - \$400*);
 - iv. Annual services – Preparation of Texas franchise return filings for all LLCs (*Estimated cost - \$1,000 for four LLC*), and
 - v. Annual services – Preparation of Form W-2s/W-3s, Form 1099s, if required (**Will be billed at our standard hourly rate**).