

MANOR AT COLESVILLE, LLC

**FINANCIAL STATEMENTS
EIGHT MONTHS ENDED JUNE 30, 2019
AND
INDEPENDENT AUDITORS' REPORT**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Management
The Manor at Colesville, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of The Manor at Colesville, LLC (the Corporation), which comprise the statements of financial position as of June 30, 2019 and the related statements of activities, changes in net deficit, and cash flows for the eight months ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of The Manor at Colesville, LLC as of June 30, 2019 and the changes in its net deficit and its cash flows for the eight months ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter – Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the June 30, 2019 financial statements as a whole. The accompanying schedule of excess cash and detailed schedule of revenues and expenses for the eight months ended June 30, 2019 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Rubins & Company". The signature is written in black ink and is positioned to the right of the date and location text.

January 23, 2019
Bethesda, Maryland

MANOR AT COLESVILLE, LLC
STATEMENTS OF FINANCIAL POSITION
June 30, 2019

ASSETS

	<u>2019</u>
Cash and cash equivalents	\$ 282,903
Accounts receivable, prepaids, and other assets, net	<u>17,909</u>
Total current assets	<u>300,812</u>
Restricted cash and equivalents	531,779
Customer deposits	<u>37,468</u>
Total deposits held in trust - funded	569,247
Property & equipment, net of depreciation	<u>13,327,350</u>
Total long term assets	<u>13,327,350</u>
Total assets	<u>\$ 14,197,409</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued liabilities	\$ 29,379
Accrued interest payable	164,315
Interfund payable	38,736
Mortgage notes and loans payable - current	<u>140,858</u>
Total current liabilities	<u>373,288</u>
Customer deposit payable	<u>36,468</u>
Total current liabilities payable from restricted assets	<u>36,468</u>
Loans payable to Montgomery County	5,879,550
Due to affiliate	319,057
PNC loan - net of unamortized issuance costs	7,713,354
Deferred revenue	<u>6,898</u>
Total non-current liabilities	<u>13,918,859</u>
Total liabilities	14,328,615
Deferred inflow of resources	
Net investment in capital assets	(450,926)
Restricted net assets	532,779
Unrestricted net assets	<u>(213,059)</u>
Total net assets (deficiency)	<u>(131,206)</u>
Total liabilities, deferred inflow of resources and net assets	<u>\$ 14,197,409</u>

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

MANOR AT COLESVILLE, LLC
STATEMENTS OF ACTIVITIES
EIGHT MONTHS ENDED JUNE 30, 2019

	<u>2019</u>
Operating Revenue	
Dwelling rental	\$ 769,768
Miscellaneous income	<u>4,348</u>
Total operating revenues	<u>774,116</u>
Operating Expenses	
Administrative	119,629
Maintenance	100,638
Depreciation	179,239
Utilities	46,572
Fringe Benefits	27,206
Interest expense	379,413
Other	<u>55,882</u>
Total operating expenses	<u>908,579</u>
Operating loss income	(134,463)
Non-Operating Revenue (Expenses)	
Investment income	<u>3,257</u>
Total non-operating revenue (expense)	<u>3,257</u>
Net Income (Loss)	<u>\$ (131,206)</u>

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

MANOR AT COLESVILLE, LLC
STATEMENT OF CHANGES IN NET DEFICIT
EIGHT MONTHS ENDED JUNE 30, 2019

Balance, June 30, 2018	-
Change in net deficit	<u>(131,206)</u>
Balance, June 30, 2019	<u><u>\$ (131,206)</u></u>

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

**MANOR AT COLESVILLE
STATEMENT OF CASH FLOWS
EIGHT MONTHS ENDED JUNE 30, 2019**

	<u>2019</u>
Cash flows from operating activities	
Change in deficit	\$ (131,206)
Reconciling adjustments:	
Depreciation	179,239
Amortization of debt issuance cost	22,258
Changes in operating assets and liabilities	
Accounts receivable and other assets	(17,909)
Customer deposits	(1,000)
Accounts payable and accrued expense	29,379
Accrued interest payable	164,315
Deferred revenue	6,898
Net cash provided by operating activities	<u>251,974</u>
 Cash flows from investing activities	
Increase in due to affiliate	357,758
Deposits into reserve for replacement	(210,743)
Deposits into debt service reserve	(321,036)
Purchase of property and equipment	<u>(13,506,554)</u>
Net cash (used) by investing activities	<u>(13,680,575)</u>
 Cash flows from financing activities	
Payments on mortgage payable	(77,703)
Payments on debt issuance cost	(66,772)
Proceeds from mortgage payable	<u>13,855,979</u>
Net cash provided by financing activities	<u>13,711,504</u>
 Net increase in cash and cash equivalents	282,903
 Cash and cash equivalents, beginning of year	<u>-</u>
 Cash and cash equivalents, end of year	<u>\$ 282,903</u>

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

MANOR AT COLESVILLE, LLC
NOTES TO FINANCIAL STATEMENTS
EIGHT MONTHS ENDED JUNE 30, 2019

1. Organization

Manor at Colesville, LLC, is a Limited Liability Corporation formed under the laws of the State of Maryland on September 19, 2018, whose principal asset is an apartment complex located at 601 E Randolph Rd, Silver Spring, MD 20904. The 83-unit property consists of 23 one-bedroom and 60 two-bedroom units. All units are restricted to households with incomes at or below 40% AMI or 60% AMI. Five units of the property are AHA accessible.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in Accounting Standards Codification (ASC) 205 *Presentation of Financial Statements*. Under ASC 205, the Corporation is required to report information regarding its financial position and activities. The Corporation elects to reflect its net position utilizing three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, so as to conform to the presentation of its related party, HOC.

Method of Accounting

The Corporation prepares its financial statements on the accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses are recognized when incurred. The accounting policies conform to accounting principles generally accepted in the United States of America.

Use of Estimates

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

MANOR AT COLESVILLE, LLC
NOTES TO FINANCIAL STATEMENTS
EIGHT MONTHS ENDED JUNE 30, 2019

2. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

Short-term liquid investments (including securities purchased under agreements to resell) with original maturities of less than three months are considered to be cash equivalents. The Property considers the following as cash and cash equivalents: the reserve for replacement, debt service reserve, customer deposit, and operating fund.

Rental Income

Rental income is recognized as rental payments become due. Rental payments received in advance are deferred until earned. All leases between the corporation and tenants of the property are operating leases.

Deferred Charges

Under ASC-835, Interest, as issued by the Financial Accounting Standards Board (FASB), the deferred charges are recorded as a reduction of the related debt balance and the amortization of the charges is included in interest expense.

Amortization included in interest expense for these loan and mortgage financing fees for the years ended June 30, 2019 is \$22,258, and accumulated amortization is \$22,258.

Accounts Receivable and Bad Debts

Accounts receivable are reported at their outstanding balances, reduced by an allowance for doubtful accounts.

Management periodically evaluates the need for an allowance for doubtful accounts by considering the Corporation's past receivables loss experience, known and inherent risks in the account receivables population, adverse situations that may affect a debtor's ability to pay, and current economic conditions.

The allowance for doubtful accounts is increased by charges to bad debt expense and decreased by charge offs of the account receivables balances. Account receivables are considered past due after the tenth of the month in which they were due. Accounts receivable are considered uncollectible if they are outstanding over 90 days.

There was no allowance for doubtful accounts as of June 30, 2019

MANOR AT COLESVILLE, LLC
NOTES TO FINANCIAL STATEMENTS
EIGHT MONTHS ENDED JUNE 30, 2019

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Land and building and improvements are recorded at cost. Building and improvements are depreciated over their estimated useful lives of 10 to 40 years using the straight-line method.

Property and equipment include property held for and under development, operating properties, and fixed assets used in operations that cost \$5,000 or more and have an estimated useful life of at least two years.

Maintenance, repairs, and minor renewals which do not significantly improve or extend the lives of the respective assets are charged against operations when incurred. Additions, improvements, and major renewals are capitalized.

Subsequent Events

Management has evaluated subsequent events through January 23, 2019, which is the date the financial statements were available to be issued. The accompanying financial statements recognize the effects of subsequent events that provide evidence about conditions that existed at the statement of position date, including the estimates inherent in the process of preparing financial statements. The accompanying financial statements do not recognize the effect of subsequent events with conditions that did not exist at the statement of position date, but disclosures of such events, if any, are included in the accompanying notes.

3. Cash and Cash Equivalents

Cash and cash equivalents, including restricted cash and cash equivalents, consist of the following as of June 30:

	<u>2019</u>
Operating cash and cash equivalents	\$ 282,903
Tenant security deposits	37,468
Replacement reserves	210,743
Debt service reserve	<u>321,036</u>
Total cash and cash equivalents	<u>\$ 852,150</u>

MANOR AT COLESVILLE, LLC
NOTES TO FINANCIAL STATEMENTS
EIGHT MONTHS ENDED JUNE 30, 2019

4. Property and Equipment

Property and equipment is comprised of the following at June 30:

Land	\$	2,750,000
Buildings and improvement		<u>10,756,589</u>
Subtotal	\$	13,506,589
Less: accumulated depreciation		<u>(179,239)</u>
Total	\$	<u><u>13,327,350</u></u>

Depreciation expense for the years ended June 30, 2019, totaled \$179,239.

4. Deferred Charges

Deferred charges consist of the following as of June 30:

		<u>2019</u>
Loan Origination fee	\$	7,976
Commitment fees		<u>58,796</u>
		66,772
Accumulated amortization		<u>22,258</u>
Total Deferred Charges	\$	<u><u>44,514</u></u>

With the implementation of FASB ASC 835-30 Interest – Imputation of Interest – Simplifying the Presentation of Debt Issuance Costs, the Property has set off these Deferred Charges from the Mortgage Note Payable (Refer Note 10). Amortization expense on commitment and loan fees for 2019 was \$22,258, and the accumulated amortization was \$22,258.

5. Income Taxes

The Property is a component unit of the Housing Opportunities Commission of Montgomery County, Maryland (H.O.C.) and is therefore exempt from income taxation. Therefore, the accompanying financial statements do not include a provision for income taxes.

MANOR AT COLESVILLE, LLC
NOTES TO FINANCIAL STATEMENTS
EIGHT MONTHS ENDED JUNE 30, 2019

6. Replacement Reserve

In accordance with the Company's loan agreement, the Company shall fund and therefore maintain, a replacement reserve account with an aggregate balance of not less than \$150,000 for the purpose of paying the cost of any major repair and replacement of the Company due to a casualty or condemnation or as otherwise permitted in writing by PNC Bank, N.A ('PNC'). If the account is less than \$150,000, the Company shall deposit funds from the available cash to restore to an amount equal to \$150,000. As of June 30, 2019, the Corporation has \$210,743 of replacement funds.

Restricted cash is held in escrow to be used for replacement of property with the approval of HOC. Below is the activity related to the replacement reserve accounts during fiscal year:

	<u>2019</u>
Beginning balance	\$ -
Deposit	224,256
Interest	1,279
Withdrawals	<u>(14,792)</u>
Ending balance	<u>\$ 210,743</u>

7. Debt Service Reserve Account

As of June 30, 2019, the Corporation has \$321,036 in its debt service reserve account. As per the note agreement with PNC, the Corporation has to maintain an aggregate balance in such an account of not less than \$319,057. Current year additions amount to \$1,979 which relate to interest income for 2019.

8. Mortgage Payable

Note payable consist of the following as of June 30:

<u>Loaned From</u>	<u>Beginning Balance</u>	<u>Additions to Loan</u>	<u>Principal Paid</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
PNC Loan	\$ -	\$ 7,976,429	\$ 77,703	\$ 7,898,726	\$ 140,858	\$ 7,757,868
Montgomery County Loan	-	5,879,550	-	5,879,550	-	5,879,550
Due to affiliate (Note 7)	<u>-</u>	<u>319,057</u>	<u>-</u>	<u>319,057</u>	<u>-</u>	<u>319,057</u>
Total long-term debt	<u>\$ -</u>	<u>\$ 14,175,036</u>	<u>\$ 77,703</u>	<u>\$ 14,097,333</u>	<u>\$ 140,858</u>	<u>\$ 13,956,475</u>

Mortgage loan payable to PNC bank consists of an original amount, \$7,976,429: requiring monthly principal and interest payments of \$ 38,644 with an interest rate of 4.122%, due November 2020. The note is secured by a mortgage on the buildings and improvements.

MANOR AT COLESVILLE, LLC
NOTES TO FINANCIAL STATEMENTS
EIGHT MONTHS ENDED JUNE 30, 2019

8. Mortgage Payable (continued)

Aggregate maturities required on mortgage payable, assuming no change in the current terms, consist of the following for each of the years ending June 30:

2020	\$ 140,857
2021	<u>7,757,869</u>
Less: Current portion	(140,858)
Less: Deferred charges	<u>(44,514)</u>
Total	<u><u>\$7,713,354</u></u>

Montgomery County Loan relates to a Subordination agreement dated September 24, 2018 between Montgomery County, Maryland and PNC Bank, National Association and is acknowledged and agreed by The Manor at Colesville, LLC in the amount \$5,879,550.

9. Net Assets

The net assets for the years ended June 30:

	<u>2019</u>
Invested in capital assets, net of related debt	(450,926)
Restricted net assets	532,779
Unrestricted net assets	<u>(213,059)</u>
	<u><u>\$ (131,206)</u></u>

10. Commitments and Contingencies

In October 2018, the Corporation entered into a management agreement with Habitat America. The term of the agreement shall commence in November 2018 and shall be in effect for a period of one year. Subsequent to the one year term, the agreement will continue on a month-to-month basis unless terminated in accordance with the agreement terms. Management fees during the year ended June 30, 2019 was \$30,867.

11. Building Acquisition

The Corporation financed the purchase of a 83-unit property in November 2018 for \$13,503,281. The purchase of the property consisted of Land and Building with certain improvements performed during the year amounting to \$3,307. This acquisition was financed through a Mortgage Payable with PNC and Montgomery County (DHCA loan) as discussed in Note 8.

SUPPLEMENTAL INFORMATION

MANOR AT COLESVILLE, LLC
DETAILED SCHEDULES OF REVENUE AND EXPENSES
EIGHT MONTHS ENDED JUNE 30, 2019

REVENUE

Rent: Current Residents	\$	646,581
Rent: Subsidies		151,963
Concessions		(3,394)
Vacancy Loss		(36,136)
Other Rent Fees		2,471
Late Fees/NSF		1,221
Laundry Income		7,062
Sales/Svcs To Residents		-
TOTAL DWELLING RENTAL INCOME	\$	<u>769,768</u>

ADMINISTRATIVE EXPENSES

Contract Admin Salary	\$	52,833
Contract Bonus/Commissions		400
Contract Management Fee		30,867
Misc Operating Expenses		2,900
Postage		542
Printing/Reproduction		772
Paper, Pads, Etc		987
Other Office Supplies		410
Mag. and Newspaper Subscription		374
Local Mileage and Travel		864
Gasoline		647
Vehicle Repairs and Maintenance		1,520
Legal Services-General		619
Other Operating Professional Services		113
Advertising		3,816
Credit Check Services		159
Office Equipment Rent		1,585
Furniture and Misc Equipment Rental		3,435
Local Phone Bill		3,797
Computer Software		2,335
Internet Access Charges		1,520
Other Licenses, Fees and Permits		425
Monitoring Fee		2,905
Bank Fees		220
Sec Dep Interest Expense		286
Misc Program Supplies		5,298
TOTAL ADMINISTRATIVE EXPENSES	\$	<u>119,629</u>

MANOR AT COLESVILLE, LLC
DETAILED SCHEDULES OF REVENUE AND EXPENSES
EIGHT MONTHS ENDED JUNE 30, 2019

MAINTENANCE	
Other Awards - Maintenance	\$ 400
Cntrct Maint/Jan Salary	33,930
Electrical Supplies	1,499
Appliance Supplies	137
Plumbing Supplies	876
Cleaning and Janitorial Supplies	669
Health and Safety Materials	279
Locks, Keys	1,023
Windows and Glass	147
HVAC Supplies	638
Flooring and Carpeting	20
Paint and Wallcoverings	483
Miscellaneous Supplies	547
Maintenance Equipment	694
Electrical Contracts	2,211
Cleaning and Janitorial Contracts	10,574
Grounds and Landscaping Contracts	4,434
Roofing and Gutter Contracts	1,700
HVAC Contracts	951
Flooring and Carpeting Contracts	665
Paint/Wallcoverings Int. Contracts	4,639
Elevator Contracts	1,371
Exterminating Contracts	1,149
Snow Removal Contracts	2,404
Miscellaneous Contracts	4,122
Health and Safety Materials-Capital	3,035
Miscellaneous Equipment-Capital	1,805
Appliance Contracts-Capital	1,643
Plumbing Contracts-Capital	424
HVAC Contracts-Capital	5,642
Flooring/Carpet Contracts-Capital	7,675
Miscellaneous Contracts-Capital	4,852
TOTAL MAINTENANCE EXPENSE	<u>\$ 100,638</u>

MANOR AT COLESVILLE, LLC
DETAILED SCHEDULES OF REVENUE AND EXPENSES
EIGHT MONTHS ENDED JUNE 30, 2019

UTILITIES

Water Bill	\$	18,933
Electric Bill		23,262
Trash Collection		4,377
TOTAL UTILITIES EXPENSE	\$	<u>46,572</u>

FRINGE BENEFITS

Contract Managed Benefits	\$	26,795
Contract Other Training		411
TOTAL FRINGE BENEFITS	\$	<u>27,206</u>

OTHER EXPENSES

Vehicle Insurance	\$	565
Bond Insurance		2,265
Real Estate Tax		2,525
Other Taxes		1,894
Solid Waste Tax		2,525
Security Contracts		1,418
Asset Management Fee Expense - Non-Federal		44,690
TOTAL OTHER EXPENSES	\$	<u>55,882</u>

**MANOR AT COLESVILLE, LLC
SCHEDULE OF EXCESS CASH
YEAR ENDED JUNE 30, 2019**

	2019
Net Income (Loss)	\$ (131,206)
Depreciation and amortization	201,497
Changes in (current assets)/current liabilities	11,470
Interest income - non-operating	(3,257)
Interest accrued on general partner loan	<u>164,315</u>
Net income before debt service and reserves	<u>242,819</u>
Debt service and replacement reserve	
Scheduled debt service	(140,858)
Deposits into reserve for replacement	<u>(16,600)</u>
Total	<u>(157,458)</u>
NET CASH FLOW (SURPLUS)	<u><u>\$ 85,361</u></u>