

The Manor at Cloppers Mill, LLC

**Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

June 30, 2019

The Manor at Cloppers Mill, LLC

Index

	<u>Page</u>
Independent Auditor's Report	2
Financial Statements	
Balance Sheet	4
Statement of Operations	6
Statement of Member's Equity (Deficit)	7
Statement of Cash Flows	8
Notes to Financial Statements	9
Supplementary Information	
Selected Line Item Detail	15
Cash Flow and Distribution	17

Independent Auditor's Report

To Member
The Manor at Cloppers Mill, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of The Manor at Cloppers Mill, LLC, which comprise the balance sheet as of June 30, 2019, and the related statements of operations, member's equity (deficit) and cash flows for the period from September 19, 2018 (date of inception) through June 30, 2019, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Cloppers Mill, LLC as of June 30, 2019, and the result of its operations and its cash flow for the period from September 19, 2018 (date of inception) through June 30, 2019 in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. For the period from September 19, 2018 (date of inception) through June 30, 2019, accompanying supplementary information on pages 14 to 17 is presented for purposes of additional analysis and is 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.

CohnReznick LLP

Baltimore, Maryland
December 6, 2019

The Manor at Cloppers Mill, LLC

**Balance Sheet
June 30, 2019**

Assets

Current assets	
Cash and cash equivalents	\$ 347,044
Due from affiliate	5,315
Accounts receivable and other assets, net of allowance	<u>10,608</u>
Total current assets	<u>362,967</u>
Restricted cash and cash equivalents	
Customer deposits - funded security deposits	30,788
Restricted cash and cash equivalents	<u>595,480</u>
Total restricted cash and cash equivalents	<u>626,268</u>
Non-current assets	
Rental property, net of accumulated depreciation	<u>17,407,151</u>
Total non-current assets	<u>17,407,151</u>
Total assets	<u>\$ 18,396,386</u>

See Notes to Financial Statements.

The Manor at Cloppers Mill, LLC

**Balance Sheet
June 30, 2019**

Liabilities and Partners' Deficit

Current liabilities	
Accounts payable and accrued liabilities	\$ 41,893
Mortgage payable - current	192,132
Accrued interest payable - first mortgage payable	37,000
Accrued interest payable - mortgage payable to Montgomery County, MD	<u>4,379</u>
Total current liabilities	<u>275,404</u>
Current liabilities payable from restricted cash and cash equivalents	
Customer deposit payable - tenant security deposits	<u>29,738</u>
Non-current liabilities	
First mortgage payable, net of unamortized debt issuance costs of \$7,253	10,574,627
Mortgage payable to Montgomery County, MD, net of unamortized debt issuance costs of \$48,970	7,296,562
Due to affiliate	487,674
Accrued interest payable - mortgage payable to Montgomery County, MD	<u>167,017</u>
Total non-current liabilities	<u>18,525,880</u>
Total liabilities	<u>18,831,022</u>
Total member's equity (deficit)	<u>(434,636)</u>
Total liabilities and member's equity (deficit)	<u>\$ 18,396,386</u>

See Notes to Financial Statements.

The Manor at Cloppers Mill, LLC

Statement of Operations
September 19, 2018 (Date of Inception)
Through June 30, 2019

Operating revenue	
Dwelling rental	\$ 939,106
Other income	8,019
	<hr/>
Total operating revenue	947,125
	<hr/>
Operating expenses	
Administration	127,971
Maintenance	115,405
Bad debt	424
Depreciation and amortization	492,194
Utilities	53,349
Fringe benefits	27,275
Interest expense	499,508
Other	69,311
	<hr/>
Total operating expenses	1,385,437
	<hr/>
Operating loss	(438,312)
Nonoperating revenues	
Investment income	3,676
	<hr/>
Net loss	<u><u>\$ (434,636)</u></u>

See Notes to Financial Statements.

The Manor at Cloppers Mill, LLC

**Statement of Member's Equity (Deficit)
September 19, 2018 (Date of Inception)
Through June 30, 2019**

Balance, September 19, 2018	\$ -
Net loss	<u>(434,636)</u>
Balance, June 30, 2019	<u><u>\$ (434,636)</u></u>

See Notes to Financial Statements.

The Manor at Cloppers Mill, LLC

Statement of Cash Flows
September 19, 2018 (Date of Inception)
Through June 30, 2019

Cash flows from operating activities	
Net loss	\$ (434,636)
Adjustments to reconcile net loss to net cash provided by operating activities	
Depreciation and amortization	492,194
Amortization of debt issuance costs	28,112
Increase in assets	
Accounts receivable and other assets	(10,608)
Increase (decrease) in liabilities	
Accounts payable and accrued liabilities	41,893
Accrued interest payable	208,396
Customer deposits payable, net	<u>(1,050)</u>
Net cash provided by operating activities	<u>324,301</u>
Cash flows from investing activities	
Increase in due from affiliate	(5,315)
Increase in due to affiliate	487,674
Increase in restricted cash and cash equivalents	(595,480)
Purchase of rental property and in-place leases	<u>(17,899,345)</u>
Net cash used in investing activities	<u>(18,012,466)</u>
Cash flows from financing activities	
Payments on mortgages payable	(105,988)
Proceeds from mortgages payable	18,225,532
Payment of debt issuance costs	<u>(84,335)</u>
Net cash (used in) provided by financing activities	<u>18,035,209</u>
Net increase in cash and cash equivalents	347,044
Cash and cash equivalents, beginning	<u>-</u>
Cash and cash equivalents, ending	<u>\$ 347,044</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	<u>\$ 263,000</u>

See Notes to Financial Statements.

The Manor at Cloppers Mill, LLC

Notes to Financial Statements June 30, 2019

Note 1 - Organization

The Manor at Cloppers Mill, LLC (the "Company") was formed on September 19, 2018 under the laws of the State of Maryland for the purpose of acquiring and operating a housing property. On November 1, 2018, the Company acquired a project consisting of 102 units located in Germantown, Maryland. The project is currently operating under the name of Manor at Cloppers Mill (the "Project").

Cash distributions are limited by agreements between the Company and Montgomery County, Maryland to the extent of net cash flow as defined by Montgomery County, Maryland.

The Manor at Cloppers Mill, LLC has executed an Extended Low-income Housing Agreement Covenant which requires the utilization of the project pursuant to Internal Revenue Code Section 42 for a minimum of 30 years, even if the Company disposes of the project.

Note 2 - Summary of significant accounting policies

Use of estimates

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

Asset acquisition

The Company follows the provisions of Accounting Standards Codification ("ASC") Topic 805, *Business Combinations*, issued by the Financial Accounting Standards Board ("FASB"), but pursuant to the early application of Accounting Standards Update 2017-01 guidelines ("ASU 2017-01"), the purchase transaction is viewed as an asset acquisition. All assets acquired in an asset acquisition, are recorded at their relative fair value, determined as of the date of acquisition. The Manor at Cloppers Mill, was acquired on November 1, 2018 accounting for the transaction as an asset acquisition, as fully described in Note 10.

Accounts receivable and bad debts

Tenant receivables are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of tenant accounts receivable. It is reasonably possible that management's estimate of the allowance will change. As of June 30, 2019, the allowance was \$150.

Rental property

Rental property is carried at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives by use of the straight-line method for financial reporting purposes. For income tax purposes, accelerated lives and methods are used.

	Method	Estimated useful lives
Buildings	Straight-line	40 years
Site improvements	Straight-line	15 years

The Manor at Cloppers Mill, LLC

Notes to Financial Statements June 30, 2019

Impairment of long-lived assets

The Company reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the period from September 19, 2018 (date of inception) through June 30, 2019.

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the mortgage payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related mortgage.

In-place leases

As a result of the acquisition described in Note 10, management determined that the value of the in-place leases at November 1, 2018 was \$239,446. The value of the in-place leases is recovered over the terms of the respective lease acquired on a straight-line basis. During the period from September 19, 2018 (date of inception) through June 30, 2019 the value of the in-place leases were fully amortized and included in amortization expense.

Income taxes

The Company is considered a disregarded entity by the Internal Revenue Service ("IRS") and therefore has no individual tax filing requirement. All activity is consolidated with and reported by the Housing Opportunities Commission of Montgomery County, Maryland (the "Commission"), its sole member.

Rental income

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

Advertising costs

The Company's policy is to expense advertising costs when incurred.

Cash and cash equivalents

Short-term liquid investments with original maturities of less than three months are considered to be cash equivalents. As of June 30, 2019, there were no cash equivalents.

Note 3 - Restricted cash and cash equivalents

Replacement reserve

In accordance with the Company's loan agreements, the Company shall fund and thereafter 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 amount in the account is less than \$150,000, the Company shall deposit funds from available cash to restore to an amount equal to \$150,000. As of June 30, 2019, the balance in the reserve was \$157,558.

The Manor at Cloppers Mill, LLC

Notes to Financial Statements June 30, 2019

Other Reserves

In accordance with the Company's loan agreements, the Company shall fund a debt service reserve in the amount of \$435,200. Withdrawals from the account may be made by PNC in instances where the Company has failed to pay the debt service. As of June 30, 2019, the balance in the reserve was \$437,922.

Note 4 - Rental property

Property held by the Company as of June 30, 2019 consists of the following:

Land	\$	3,370,000
Buildings		13,764,899
Site improvements		525,000
Accumulated depreciation		<u>(252,748)</u>
	\$	<u>17,407,151</u>

Note 5 - First mortgage payable

The Company obtained a mortgage from PNC in the amount of \$10,880,000 on November 1, 2018. The loan bears interest at 4.12% and matures on November 1, 2020. The Company is planning to refinance the loan at maturity and is currently considering the options available. Payments of principal and interest are due monthly in the amount of \$52,711. The Project serves as collateral for the loan. As of June 30, 2019, the outstanding principal and accrued interest was \$10,774,012 and \$37,000, respectively.

As discussed in Note 2, debt issuance costs, net of accumulated amortization, totaled \$7,253 as of June 30, 2019, and are related to the above mortgage payable. Debt issuance costs on the above mortgage are being amortized using an imputed rate of 4.25%. For the period from September 19, 2018 (date of inception) through June 30, 2019, amortization expense related to debt issuance costs was \$3,627, and is included in interest expense in the statement of operations.

Aggregate maturities of the mortgage payable for the two years following June 30, 2019 are as follows:

FY2020	\$	192,132
FY2021		<u>10,581,880</u>
	\$	<u>10,774,012</u>

Note 6 - Mortgage payable to Montgomery County, MD

The Company obtained a mortgage from Montgomery County, Maryland in the amount of \$7,345,532. The note is collateralized by the Project. Beginning November 1, 2018, the note bears interest at a rate of 3.5% per annum and annual payments of interest are due through maturity, in an amount equal to the lesser of 50% of debt service cash flow as defined in the loan note. The loan matures on December 15, 2020. As of June 30, 2019, the outstanding principal balance and accrued interest was \$7,345,532 and \$171,396, respectively. As of June 30, 2019, a debt service payment of \$4,389 is due from available for cash flow.

The Manor at Cloppers Mill, LLC

Notes to Financial Statements June 30, 2019

As discussed in Note 2, debt issuance costs, net of accumulated amortization, totaled \$48,970 as of June 30, 2019, and are related to the above mortgage payable. Debt issuance costs on the above mortgage are being amortized using an imputed rate of 3.5%. For the period from September 19, 2018 (date of inception) through June 30, 2019, amortization expense related to debt issuance costs was \$24,485, and is included in interest expense in the statement of operations.

Note 7 - Related party transactions

Advances to affiliate

The Company made advances to affiliates which do not bear interest and are due on demand. Management closely monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. As of June 30, 2019, \$5,315 was due to the Company.

Advances from affiliate

The Company was advanced funds from an affiliate. The funds do not bear interest and are due on demand. As of June 30, 2019, \$487,674 remains payable.

Asset management fee

In accordance with agreements, the Company shall pay an annual asset management fee to the Commission equal to the proportionate share of the asset management agent's indirect overhead expense attributable to the Project for the preceding year as determined annually as part of the asset management agent's annual budget. For the period from September 19, 2018 (date of inception) through June 30, 2019, asset management fees of \$54,910, were incurred and paid.

Note 8 - Property management fee

The Company has an agreement with Habitat America LLC, an unrelated party, to provide property management services, for a period of one year, renewed on a month to month basis thereafter. The agreement provided for a fee of 4% of gross revenues per month. Management fees charged to operations under this agreement for the period from September 19, 2018 (date of inception) through June 30, 2019 was \$37,899, of which \$4,660 remains payable and is included in accounts payable and other accrued liabilities on the balance sheet.

Note 9 - Concentration of credit risk

The Company, at times, will have cash in banking institutions in excess of the \$250,000 insured by the Federal Deposit Insurance Company ("FDIC"). Cash balances in excess of the FDIC insured amounts are collateralized with the Federal Reserve Bank and, therefore, are not at risk.

The Manor at Cloppers Mill, LLC

Notes to Financial Statements June 30, 2019

Note 10 - Acquisition

On the November 1, 2018, the Company acquired the residential property known as The Manor at Cloppers Mill, LLC, in an arm's length transaction for an aggregate purchase price of \$17,899,345. In accordance with ASU 2017-01 the acquisition was accounted for as an asset acquisition. The following reflects the purchase price allocated to each major asset based on their respective fair values, as determined by management, as of November 1, 2018.

Buildings	\$	13,764,899
Land		3,370,000
Site improvements		525,000
In-place leases		239,446
		<hr/>
Total purchase price	\$	<u>17,899,345</u>

Note 11 - Subsequent events

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Company through December 6, 2019 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

Supplementary Information

The Manor at Cloppers Mill, LLC

**Selected Line Item Detail
June 30, 2019**

Administration		
Advertising	\$	3,267
Contract activity salary		331
Contract administration salary		57,191
Contract bonus/commission		375
Contract management fee		37,899
Postage		304
Printing/reproduction		475
Office supplies		1,158
Office equipment rental		10,981
Credit check services		545
Telephone		3,637
Travel and training		789
Software		2,535
License fees		25
Bank fees		439
Monitoring		2,835
Miscellaneous program supplies		3,699
Security deposit interest		325
Cable charges		408
Internet		753
		<hr/>
Total administration expenses	\$	<u>127,971</u>
Maintenance		
Contract maintenance salary	\$	29,417
Electrical supplies		820
Electrical contracts		4,694
Appliance supplies		216
Appliance contracts		296
Plumbing supplies		1,710
Plumbing contracts		908
Cleaning and janitorial supplies		775
Cleaning and janitorial contracts		11,575
Grounds and landscaping supplies		48
Grounds and landscaping contracts		9,717
Health and safety supplies		1,177
Health and safety contracts		6,902
HVAC supplies		2,341
HVAC contracts		6,448
Locks and keys		353
Windows and glass supplies		1,334
Paint and wall coverings supplies		415
Paint and wall coverings contracts		4,600
Flooring and carpeting contracts		8,369
Elevator contracts		1,755
Exterminating contracts		882
Snow removal contracts		4,174
Miscellaneous equipment		329
Miscellaneous contracts		15,141
Miscellaneous supplies		1,009
		<hr/>
Total maintenance expenses	\$	<u>115,405</u>

The Manor at Cloppers Mill, LLC

**Selected Line Item Detail
June 30, 2019**

Utilities		
Water	\$	22,500
Electric		26,939
Trash collection		<u>3,910</u>
Total utility expenses	\$	<u><u>53,349</u></u>
Fringe benefits		
Contract managed benefits	\$	26,790
Contract other training		<u>485</u>
Total fringe benefits	\$	<u><u>27,275</u></u>
Other		
Real estate taxes	\$	3,329
Other taxes		5,731
Other insurance		4,320
Security contracts		1,021
Asset management fee		<u>54,910</u>
Total other expenses	\$	<u><u>69,311</u></u>

The Manor at Cloppers Mill, LLC

**Cash Flow and Distribution
June 30, 2019**

Operating revenue	\$ 947,125
Additions (deductions)	
Change in accounts receivable and other assets	<u>(10,608)</u>
	<u>936,517</u>
Operating expenses	(1,385,437)
(Additions) Deductions	
Change in accounts payable and accrued liabilities	(41,893)
Depreciation	492,194
Amortization of debt issuance costs	28,112
interest expense - HIF loan	171,396
Scheduled debt service	<u>(192,132)</u>
	<u>(927,760)</u>
Cash shortfall	<u><u>\$ 8,757</u></u>

See Independent Auditor's Report.



Independent Member of Nexia International

cohnreznick.com