

The Manor at Cloppers Mill, LLC

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

June 30, 2021 and 2020

The Manor at Cloppers Mill, LLC

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Independent Auditor's Report

To the 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 sheets as of June 30, 2021 and 2020, and the related statements of operations, member's equity (deficit) and cash flows for the years then 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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, 2021 and 2020, and the result of its operations and its cash flow for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 16 to 18 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
October 28, 2021

The Manor at Cloppers Mill, LLC

**Balance Sheets
June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 411,400	\$ 468,697
Due from affiliate	1,214	-
Accounts receivable and other assets, net of allowance	<u>383</u>	<u>6,344</u>
Total current assets	<u>412,997</u>	<u>475,041</u>
Restricted cash and cash equivalents		
Customer deposits - funded security deposits	47,302	33,241
Restricted cash and cash equivalents	<u>598,231</u>	<u>586,460</u>
Total restricted cash and cash equivalents	<u>645,533</u>	<u>619,701</u>
Noncurrent assets		
Rental property, net of accumulated depreciation	<u>16,726,706</u>	<u>17,033,287</u>
Total noncurrent assets	<u>16,726,706</u>	<u>17,033,287</u>
Total assets	<u><u>\$ 17,785,236</u></u>	<u><u>\$ 18,128,029</u></u>

The Manor at Cloppers Mill, LLC

**Balance Sheets
June 30, 2021 and 2020**

Liabilities and Member's Equity (Deficit)

	2021	2020
Current liabilities		
Accounts payable and accrued liabilities	\$ 51,382	\$ 38,487
First mortgage payable - current	10,361,160	218,233
Mortgage payable to Montgomery County, Maryland - current, net of unamortized debt issuance costs of \$0 and \$12,242	7,345,532	7,333,290
Accrued interest payable - first mortgage payable	36,067	36,611
Accrued interest payable - mortgage payable to Montgomery County, Maryland	614,062	428,219
Total current liabilities	18,408,203	8,054,840
Current liabilities payable from restricted cash and cash equivalents		
Customer deposits payable - tenant security deposits	32,752	31,692
Noncurrent liabilities		
First mortgage payable, net of unamortized debt issuance costs of \$0 and \$1,813	-	10,359,418
Due to affiliate	742,360	598,958
Total noncurrent liabilities	742,360	10,958,376
Total liabilities	19,183,315	19,044,908
Member's equity (deficit)	(1,398,079)	(916,879)
Total liabilities and member's equity (deficit)	\$ 17,785,236	\$ 18,128,029

See Notes to Financial Statements.

The Manor at Cloppers Mill, LLC
Statements of Operations
Years Ended June 30, 2021 and 2020

	2021	2020
Operating revenue		
Dwelling rental	\$ 1,415,574	\$ 1,435,426
Other income	22,423	16,299
Total operating revenue	1,437,997	1,451,725
Operating expenses		
Administration	210,344	206,095
Maintenance	235,735	223,046
Bad debt	4,458	8,021
Depreciation and amortization	380,872	379,499
Utilities	78,152	79,292
Fringe benefits	45,255	43,478
Interest expense	589,833	736,586
Other	193,123	161,997
Total operating expenses	1,737,772	1,838,014
Operating loss	(299,775)	(386,289)
Nonoperating revenues		
Investment income	156	2,956
Net loss	\$ (299,619)	\$ (383,333)

See Notes to Financial Statements.

The Manor at Cloppers Mill, LLC
Statements of Member's Equity (Deficit)
Years Ended June 30, 2021 and 2020

Balance, July 1, 2019	\$ (434,636)
Distributions	(98,910)
Net loss	<u>(383,333)</u>
Balance, June 30, 2020	(916,879)
Distributions	(181,581)
Net loss	<u>(299,619)</u>
Balance, June 30, 2021	<u><u>\$ (1,398,079)</u></u>

See Notes to Financial Statements.

The Manor at Cloppers Mill, LLC
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Net loss	\$ (299,619)	\$ (383,333)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	380,872	379,499
Amortization of debt issuance costs	14,055	42,168
Decrease (increase) in assets		
Accounts receivable and other assets	5,961	4,264
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	12,895	(3,406)
Accrued interest payable	185,299	256,434
Customer deposits payable	1,060	1,954
	300,523	297,580
Net cash provided by operating activities		
Cash flows from investing activities		
(Increase) decrease in due from affiliate	(1,214)	5,315
Purchase of rental property	(74,291)	(5,635)
	(75,505)	(320)
Net cash used in investing activities		
Cash flows from financing activities		
Payments on mortgages payable	(218,304)	(194,548)
Increase in due to affiliate	143,402	111,284
Distributions to member	(181,581)	(98,910)
	(256,483)	(182,174)
Net cash used in financing activities		
Net (decrease) increase in cash, cash equivalents, and restricted cash	(31,465)	115,086
Cash, cash equivalents, and restricted cash, beginning	1,088,398	973,312
Cash, cash equivalents, and restricted cash, end	\$ 1,056,933	\$ 1,088,398
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 390,479	\$ 437,984

See Notes to Financial Statements.

The Manor at Cloppers Mill, LLC

Notes to Financial Statements June 30, 2021 and 2020

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. The Company is wholly-owned by The Housing Opportunities Commission of Montgomery County, Maryland (the "Commission"). 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.

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, 2021 and 2020, the allowance was \$0, respectively.

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.

	<u>Method</u>	<u>Estimated useful lives</u>
Buildings	Straight-line	40 years
Site improvements	Straight-line	15 years
Furniture, fixtures, and equipment	Straight-line	10 years

The Manor at Cloppers Mill, LLC

Notes to Financial Statements June 30, 2021 and 2020

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 was recognized during the years ended June 30, 2021 and 2020.

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.

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 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, 2021 and 2020, there were no cash equivalents.

Note 3 - Financial dependency

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of the Company as a going concern. The Company has mortgages maturing within one year following the issuance of these financial statements. The acquisition of the Project was financed through a loan from PNC Bank, N.A. ("PNC") in the amount of \$10,880,000 which matures on November 1, 2021, and a HIF loan from Montgomery County in the amount of \$7,345,532 which matures on November 1, 2021. Currently, the Company and two other affiliated companies are expected to close with an investor member, PNC Bank, on December 6, 2021, which will be provided equity capital to rehabilitate the properties as one company in exchange for low-income housing tax credits, at which time the PNC loan will be fully repaid and a portion of the Montgomery County loan will be repaid. The remaining amount of the Montgomery County loan will be refinanced as part of the new company. If this does not occur the Company will work with Montgomery County and PNC on extending the terms of the loans to provide time for the Company to close with an LIHTC resyndication of the Project. If the Company is not able to extend the loans at the time of maturity, the Commission has committed to funding the repayment of the mortgage, as necessary.

The Manor at Cloppers Mill, LLC

Notes to Financial Statements June 30, 2021 and 2020

Note 4 - 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. 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, 2021 and 2020, the balance in the reserve was \$157,994 and \$146,340, respectively.

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, 2021 and 2020, the balance in the reserve was \$440,237 and \$440,120, respectively.

Note 5 - Statements of cash flows

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheets that sum to the total of the same such amounts in the statements of cash flows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 411,400	\$ 468,697
Customer deposits - funded security deposits	47,302	33,241
Replacement reserve	157,994	146,340
Debt service reserve	<u>440,237</u>	<u>440,120</u>
Total cash, cash equivalents, and restricted cash shown in statements of cash flows	<u>\$ 1,056,933</u>	<u>\$ 1,088,398</u>

Amounts included in restricted cash are comprised of security deposits held in trust for the future benefit of tenants upon moving out of the property, the replacement reserve used for paying the cost of any major repair and replacement to the property, and debt service reserve used in instances where the Company has failed to pay the debt reserve as required by the operating agreement.

The Manor at Cloppers Mill, LLC

Notes to Financial Statements June 30, 2021 and 2020

Note 6 - Rental property

Property held by the Company as of June 30, 2021 and 2020 consists of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 3,370,000	\$ 3,370,000
Buildings	13,764,899	13,764,899
Site improvements	525,000	525,000
Furniture, fixtures, and equipment	31,981	5,635
Construction in progress	47,945	-
Accumulated depreciation	<u>(1,013,119)</u>	<u>(632,247)</u>
	<u>\$ 16,726,706</u>	<u>\$ 17,033,287</u>

Note 7 - First mortgage payable

The Company obtained a mortgage from PNC in the amount of \$10,880,000 on November 1, 2018. The loan bore interest at 4.12% and was to mature on November 1, 2020. On November 1, 2020, the maturity date was extended through November 1, 2021 and the interest rate was reduced to 2.50% per annum. Payments of principal and interest are due monthly in the amount of \$52,711 through November 1, 2020. Beginning December 1, 2020, payments of principal and interest are due monthly in the amount of \$43,541. The Project serves as collateral for the loan. As of June 30, 2021 and 2020, the outstanding principal and accrued interest was \$10,361,160 and \$36,067, and \$10,579,464 and \$36,611, respectively. See Note 3 for the Company's plan for repayment.

Debt issuance costs, net of accumulated amortization, totaled \$0 and \$1,813 as of June 30, 2021 and 2020, respectively, 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 years ended June 30, 2021 and 2020, amortization expense related to debt issuance costs was \$1,813 and \$5,440, respectively, and is included in interest expense in the statements of operations.

Aggregate maturities of the mortgage payable for the year following June 30, 2021 are as follows:

FY2022	<u>\$ 10,361,160</u>
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Note 8 - Mortgage payable to Montgomery County, Maryland

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 not to exceed 50% of available net cash flow, as defined in the loan note. The loan originally was to mature on December 15, 2020, however, during 2020, the loan maturity date was extended to November 1, 2021. As of June 30, 2021 and 2020, the outstanding principal balance and accrued interest was \$7,345,532 and \$614,062 and \$7,345,532 and \$428,219, respectively. As of June 30, 2021, a debt service payment of \$69,294 is due from available for cash flow. See Note 3 for the Company's plan for repayment.

The Manor at Cloppers Mill, LLC

Notes to Financial Statements June 30, 2021 and 2020

Debt issuance costs, net of accumulated amortization, totaled \$0 and \$12,242 as of June 30, 2021 and 2020, respectively, 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 years ended June 30, 2021 and 2020, amortization expense related to debt issuance costs was \$12,242 and \$36,728, respectively, and is included in interest expense in the statements of operations.

Aggregate maturities of the mortgage payable for the year following June 30, 2021 are as follows:

FY2022	<u>\$ 7,345,532</u>
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Note 9 - 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, 2021 and 2020, \$1,214 and \$0, respectively, was due to the Company.

Advances from affiliate

The Company was advanced funds from an affiliate. The funds do not bear interest and are included in noncurrent liabilities on the balance sheet. As of June 30, 2021 and 2020, \$742,360 and \$598,958, respectively, 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 years ended June 30, 2021 and 2020, asset management fees of \$109,140 and \$109,200, respectively, were incurred and paid and are included in other expenses on the statements of operations.

Note 10 - 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 years ended June 30, 2021 and 2020 was \$55,860 and \$57,058, respectively, of which \$4,508 and \$4,606, respectively, remains payable and is included in accounts payable and other accrued liabilities on the balance sheets.

Note 11 - 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, 2021 and 2020

Note 12 - Risks and uncertainties

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity which could result in a loss of lease revenue and other material adverse effects to the Company's financial position, results of operations, and cash flows. The Company is not able to reliably estimate the length or severity of this outbreak and, therefore, the related financial impact.

Note 13 - 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 October 28, 2021 (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
Years Ended June 30, 2021 and 2020**

	2021	2020
Administration		
Advertising	\$ 9,106	\$ 12,978
Contract activity salary	-	275
Contract administration salary	90,666	88,975
Contract bonus/commission	675	975
Contract management fee	55,860	57,058
Postage	534	294
Printing/reproduction	1,697	655
Office supplies	3,148	2,023
Office equipment rental	14,178	15,704
Credit check services	1,103	668
Telephone	6,439	7,293
Travel and training	334	672
Software	4,096	5,845
License fees	4,794	5,410
Bank fees	177	369
Monitoring	8,950	-
Miscellaneous program supplies	6,017	4,760
Security deposit interest	450	328
Cable charges	937	685
Internet	1,183	1,128
	<u>\$ 210,344</u>	<u>\$ 206,095</u>
Total administration expenses		
Maintenance		
Contract maintenance salary	\$ 53,401	\$ 51,601
Electrical supplies	2,788	2,725
Electrical contracts	3,980	4,534
Appliance supplies	1,295	869
Appliance contracts	6,673	3,131
Plumbing supplies	4,207	4,840
Plumbing contracts	7,202	9,200
Cleaning and janitorial supplies	2,179	1,517
Cleaning and janitorial contracts	21,828	23,017
Grounds and landscaping supplies	555	294
Grounds and landscaping contracts	13,723	11,741
Health and safety supplies	3,866	2,398
Health and safety contracts	3,100	458
HVAC supplies	4,778	2,524
HVAC contracts	-	9,707
Locks and keys	645	1,208
Windows and glass supplies	1,903	1,247
Paint and wall coverings supplies	113	1,516
Paint and wall coverings contracts	12,540	12,395
Flooring and carpeting contracts	33,958	31,315

The Manor at Cloppers Mill, LLC

**Selected Line Item Detail
Years Ended June 30, 2021 and 2020**

	2021	2020
Asphalt and concrete contracts	-	3,500
Roofing and gutter contracts	1,295	990
Elevator contracts	8,507	9,134
Exterminating contracts	1,119	1,587
Snow removal contracts	7,526	330
Maintenance equipment	1,416	-
Miscellaneous equipment	9,348	-
Miscellaneous contracts	26,064	29,668
Miscellaneous supplies	1,726	1,600
	<u>\$ 235,735</u>	<u>\$ 223,046</u>
Utilities		
Water	\$ 34,047	\$ 37,432
Electric	32,976	35,067
Trash collection	11,129	6,793
	<u>\$ 78,152</u>	<u>\$ 79,292</u>
Fringe benefits		
Contract managed benefits	\$ 44,719	\$ 43,080
Contract other training	536	398
	<u>\$ 45,255</u>	<u>\$ 43,478</u>
Other		
Real estate taxes	\$ 11,478	\$ 8,695
Other taxes	9,224	4,333
Other insurance	31,904	25,397
Security contracts	880	-
Coronavirus expense	21,951	4,180
Professional services	8,546	10,192
Asset management fee	109,140	109,200
	<u>\$ 193,123</u>	<u>\$ 161,997</u>

See Independent Auditor's Report.

The Manor at Cloppers Mill, LLC

Cash Flow and Distribution June 30, 2021

Operating revenue	\$ 1,437,997
Additions (deductions)	
Change in accounts receivable and other assets	<u>5,961</u>
	<u>1,443,958</u>
Operating expenses	(1,737,772)
(Additions) deductions	
Change in accounts payable and accrued liabilities	12,895
Depreciation	380,872
Amortization of debt issuance costs	14,055
Interest expense - HIF loan	242,883
Scheduled debt service	<u>(218,304)</u>
	<u>(1,305,371)</u>
Cash flow	<u><u>\$ 138,587</u></u>
50% of cash flow or amortizing principal and interest payment amount to the County Loan	<u><u>\$ 69,294</u></u> *
Excess cash flow available to pay the sole member	<u><u>\$ 69,293</u></u>

* Cash flow payment of \$69,294 would be due during fiscal year 2022. The remaining accrued interest and outstanding principal of \$7,890,301 is due on November 1, 2021, the loan's maturity date.

See Independent Auditor's Report.



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