

TIMBERLAWN POMANDER PROPERTIES LLC
FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION
For the year ended June 30, 2018
with
Independent Auditors' Report



**NOVOGRADAC
& COMPANY** LLP®
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Management of
Timberlawn Pomander Properties LLC:

Report on the Financial Statements

We have audited the accompanying financial statements of Timberlawn Pomander Properties LLC (the "Company"), a Maryland limited liability company, which comprise the balance sheet as of June 30, 2018, and the related statements of operations, changes in net assets and cash flows for the year 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.

Auditors' 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 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 auditors' 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 Timberlawn Pomander Properties LLC as of June 30, 2018, and the results of its operations and its cash flows for the year then ended 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. The supplemental information 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.

Navigradac & Company LLP

Dover, Ohio

November 14, 2018

TIMBERLAWN POMANDER PROPERTIES LLC
BALANCE SHEET
June 30, 2018

ASSETS

Current Assets	
Cash and Cash Equivalents	\$ 1,947,233
Accounts Receivable and Other Assets, Net of Allowance for Doubtful Accounts	107,496
Total Current Assets	2,054,729
Restricted Assets	
Restricted Cash and Cash Equivalents	1,678,311
Customer Deposits - Funded Security Deposits	78,598
Total Restricted Assets	1,756,909
Non-Current Assets	
Construction in Progress	540,671
Property and Equipment, Net of Accumulated Depreciation	17,217,896
Total Non-Current Assets	17,758,567
TOTAL ASSETS	\$ 21,570,205

LIABILITIES AND NET ASSETS

LIABILITIES

Current Liabilities	
Accounts Payable and Accrued Liabilities	\$ 94,444
Prepaid Rent	20,225
Accrued Interest Payable	47,823
Interfund Payable	1,716,779
Mortgage Notes Payable - Current Portion	221,101
Total Current Liabilities	2,100,372
Current Liabilities Payable from Restricted Assets	
Customer Deposits Payable	75,689
Total Current Liabilities Payable from Restricted Assets	75,689
Non-Current Liabilities	
Mortgage Note Payable, Net of Unamortized Debt Issuance Costs	19,244,463
Total Non-Current Liabilities	19,244,463
TOTAL LIABILITIES	21,420,524

NET ASSETS

Investment in Capital Assets, Net	(1,706,997)
Restricted Net Assets	1,681,220
Unrestricted Surplus	175,458
TOTAL NET ASSETS	149,681
TOTAL LIABILITIES AND NET ASSETS	\$ 21,570,205

See Accompanying Notes to Financial Statements.

TIMBERLAWN POMANDER PROPERTIES LLC
STATEMENT OF OPERATIONS
For the year ended June 30, 2018

OPERATING REVENUES:	
Dwelling Revenue	\$ 2,110,649
Other Income	<u>6,128</u>
Total Operating Revenues	<u>2,116,777</u>
OPERATING EXPENSES:	
Administration	367,597
Maintenance	235,339
Depreciation	262,061
Utilities	118,020
Fringe Benefits	59,937
Interest	467,587
Other	449,504
Bad Debt Expense	8,408
Total Operating Expenses	<u>1,968,453</u>
Operating Income	148,324
NONOPERATING REVENUES:	
Investment Income	<u>1,357</u>
Net Income	<u>\$ 149,681</u>

See Accompanying Notes to Financial Statements.

TIMBERLAWN POMANDER PROPERTIES LLC
STATEMENT OF CHANGES IN NET ASSETS
For the year ended June 30, 2018

BALANCE, JULY 1, 2017	\$ -
Net Income	<u>149,681</u>
BALANCE, JUNE 30, 2018	<u><u>\$ 149,681</u></u>

See Accompanying Notes to Financial Statements.

TIMBERLAWN POMANDER PROPERTIES LLC
STATEMENT OF CASH FLOWS
For the year ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Net Income	\$	149,681
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation		262,061
Amortization of Debt Discount		8,334
Increase in Accounts Receivable and Other Assets		(107,496)
Increase in Customer Deposits - Funded Security Deposits		(78,598)
Increase in Accounts Payable and Accrued Liabilities		94,444
Increase in Prepaid Rent		20,225
Increase in Accrued Interest Payable		47,823
Increase in Customer Deposits Payable		75,689
Total Adjustments		<u>322,482</u>
Net Cash Provided by Operating Activities		<u>472,163</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Increase in Restricted Cash and Cash Equivalents		(1,678,311)
Increase in Construction in Progress		(540,671)
Purchase of Property and Equipment		(17,479,957)
Net Cash Used in Investing Activities		<u>(19,698,939)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Increase in Interfund Payable		1,716,779
Proceeds from Mortgage Payable		19,857,230
Increase in Debt Issuance Costs		(400,000)
Net Cash Provided by Financing Activities		<u>21,174,009</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 1,947,233

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR -

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 1,947,233

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash Paid During the Year for Interest	\$	<u>411,430</u>
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TIMBERLAWN POMANDER PROPERTIES LLC

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

1. Organization

Timberlawn Pomander Properties LLC (the "Company") was formed by the Housing Opportunities Commission of Montgomery County, Maryland ("HOC") under the laws of the state of Maryland on February 8, 2017. The Company is a nonprofit company and is not authorized to issue stock. The Company was formed for the purpose of acquiring, owning, constructing, operating, and providing multifamily housing in Montgomery County. The Company acquired 131 apartment units and townhomes to provide rental housing (the "Properties"). The Properties known as Timberlawn Crescent and Pomander Court are located in Montgomery County, Maryland.

2. Summary of significant accounting policies and nature of operations

Basis of accounting

The Company prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Economic concentrations

The Company operates Properties in North Bethesda and Silver Spring, Maryland. Future operations could be affected by changes in the economic or other conditions in those geographical area or the demand for such housing.

Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions for refunds of tenant security deposits, repairs or improvements to the buildings which extend their useful lives, annual mortgage insurance premium payments, and reserves for debt service shortfalls.

Concentration of credit risk

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Construction in progress

Ongoing construction of the Properties relate to the rehabilitation of 131-apartment units and townhomes to provide rental housing. Construction in progress was comprised of costs incurred as of June 30, 2018, but not yet placed in service, for the rehabilitation of the Properties, which totaled \$540,671.

TIMBERLAWN POMANDER PROPERTIES LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

2. Summary of significant accounting policies and nature of operations (continued)

Depreciation

Fixed assets are recorded at cost. Buildings are depreciated over their estimated useful lives of 40 years using the straight-line method. Building renovations are depreciated over their estimated useful lives of 10 years using the straight-line method. Site improvements are depreciated over their estimated useful lives of 15 years using the straight-line method. Depreciation expense for the year ended June 30, 2018 was \$262,061.

Impairment of long-lived assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flows analysis, or other valuation technique. There were no impairment losses for the year ended June 30, 2018.

Income taxes

The Company is a component unit of HOC and is therefore exempt from income taxation. Accordingly, the accompanying financial statements do not include a provision for income taxes.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Company to report information regarding its exposure to various tax positions taken by the Company. The Company has determined whether any tax positions have met the recognition threshold and has measured the Company's exposure to those tax positions. Management believes that the Company has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Company are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Revenue recognition

Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other income includes fees for late payments, cleaning, damages, laundry facilities and other charges and is recorded when earned. Rental revenue received before the payment is due is recorded as a prepaid rent liability.

Advertising

Advertising costs are expensed as incurred. For the year ended June 30, 2018, the Company incurred \$38,887 in advertising costs.

TIMBERLAWN POMANDER PROPERTIES LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

2. Summary of significant accounting policies and nature of operations (continued)

Allowance for doubtful accounts

The allowance for doubtful accounts is maintained at a level which, in management's judgement, is adequate to absorb valuation losses on tenant and other receivables. The amount of the allowance is based on management's evaluation of the collectability of the Company's receivables. As of June 30, 2018, the allowance for doubtful accounts was \$4,647.

Acquisition of property

In January 2017, the Financial Account standards Board issued Accounting Standards Update No 2017-011, *Business Combinations* (the "ASU"). The ASU is effective for entities for annual periods beginning after December 31, 2018 and interim periods within annual periods beginning after December 31, 2019. Early adoption is permitted, including early adoption in an interim period. The ASU clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions of assets or businesses. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not considered a business. The Company considers the acquisition of land and building as a group of similar identifiable assets and thus the group is not a business.

On August 30, 2017, the Company acquired the Properties located in North Bethesda and Silver Spring, Maryland for \$17,468,807, which includes the purchase price \$17,364,105 and acquisition costs of \$104,702. The acquired assets at cost are as follows:

Land	\$	4,921,100
Buildings		12,547,707
Total	\$	<u>17,468,807</u>

Net assets

HOC, the Company's principal investor, is required to report on a fund basis and replace the owner's equity section with the following as of June 30, 2018:

Investment in capital assets, net	\$	(1,706,997)
Restricted net assets		1,681,220
Unrestricted surplus		175,458
Total net assets	\$	<u>149,681</u>

Subsequent events

Subsequent events have been evaluated through November 14, 2018, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Restricted cash

Tenant security deposits

Tenant security deposits are placed into an interest-bearing account and are generally held until termination of the lease, at which time some or all deposits may be returned to the lessee. As of June 30, 2018, the balance was \$78,598.

TIMBERLAWN POMANDER PROPERTIES LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

3. Restricted cash (continued)

Renovation escrow

The Company has deposited funds into an interest-bearing account known as the renovation escrow (“Renovation Escrow”). The Renovation Escrow will be used to fund capital improvements, major repairs, and the rehabilitation of the Properties. As of June 30, 2018, the balance was \$645,106.

Mortgage escrow

The Company has funded a mortgage escrow account with deposits in order to pay annual mortgage insurance premiums. As of June 30, 2018, the balance was \$22,230.

Mortgage loan reserve

During loan closing, the Company was required to fund a mortgage loan reserve. The purpose of the reserve is to fund any debt service shortfalls that the Company may experience. As of June 30, 2018, the balance was \$164,209.

Reserve for replacement – held by HOC

In accordance with the Regulatory Agreement with HOC, disbursements from the reserve for replacement for the purpose of maintenance, improvements, or renovations of the Properties cannot be made without prior consent of HOC. The reserve for replacement is pooled with other properties that are controlled by HOC and deposited with Montgomery County, Maryland. As of June 30, 2018, the Company’s balance was \$846,766.

4. Property and equipment

Property and equipment consisted of the following as of June 30, 2018:

Land	\$	4,921,100
Buildings		12,547,707
Building renovations		11,150
Accumulated depreciation		(262,061)
Property and equipment, net	\$	17,217,896

5. Related party transactions

Mortgage note payable

On August 30, 2017, the Company obtained a loan from HOC in an amount of \$20,000,000. The loan bears interest at 2.89% and matures on October 1, 2057. Principal and interest payments are due at the beginning of each month. The loan is secured by the Properties. As of June 30, 2018, the principal balance outstanding was \$19,857,230, and accrued interest was \$47,823.

The mortgage payable consists of the following as of June 30, 2018:

Principal balance	\$	19,857,230
Less: unamortized debt issuance costs		(391,666)
Mortgage payable, net of unamortized debt issuance costs	\$	19,465,564

TIMBERLAWN POMANDER PROPERTIES LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

5. Related party transactions (continued)

Mortgage note payable (continued)

Debt issuance costs are being amortized to interest expense over the term of the loan. For the year ended June 30, 2018, the effective interest rate was 2.35%, and amortization of debt issuance costs was \$8,334. Future aggregate minimum principal payment requirements over each of the next five years and thereafter are as follows:

Year ending June 30,		
	2019	\$ 221,101
	2020	229,720
	2021	238,678
	2022	247,984
	2023	257,652
	2024 through 2028	1,447,016
	2029 through 2033	1,751,984
	2034 through 2038	2,121,225
	2039 through 2043	2,568,285
	2044 through 2048	3,109,567
	2049 through 2053	3,764,926
	2054 through 2058	3,899,092
	Total	<u>\$ 19,857,230</u>

Interfund payable

During the year ended June 30, 2018, HOC paid for the Properties' expenses from a central cash account under HOC's control. As of June 30, 2018, \$1,716,779 is payable to HOC.

Related party fees

During the course of operations, the Company paid fees to HOC for services related to the operation of the Company. Significant related party transactions with HOC consist of the following for the year ended June 30, 2018:

Asset management fees	\$ 115,210
Development corporation fee	<u>220,679</u>
Total	<u>\$ 335,889</u>

6. Real estate taxes

HOC, on behalf of the Company, entered into a payment in lieu of taxes agreement (the "PILOT Agreement") on June 2, 2017 with Montgomery County, whereby the Montgomery County portion of the Properties' real estate tax is abated. The abatement will remain in effect unless terminated pursuant to Paragraph 5 of the PILOT Agreement.

TIMBERLAWN POMANDER PROPERTIES LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

7. Construction contract

During 2018, the Company entered into a construction contract with the Bozzuto Construction Company in the amount of \$627,921 including change orders in the amount of \$30,138. As of June 30, 2018, approximately 85% of the construction was completed. As of June 30, 2018, there are no construction costs payable.

SUPPLEMENTAL INFORMATION

TIMBERLAWN POMANDER PROPERTIES LLC
SUPPLEMENTAL INFORMATION
For the year ended June 30, 2018

Administration

Security Deposit Interest Expense	\$ 1,376
Contract Admin Salary	90,133
Contract Bonus and Commissions	12,808
Auditing Services	10,903
Contract Management Fee	66,455
Property Assistance Contract Fee	6,210
Miscellaneous Operating Expenses	67,348
Postage	960
Printing and Reproduction	1,073
Paper, Pads, Etc.	1,039
Food and Beverages	14
Gasoline	284
Vehicle Repairs and Maintenance	514
Legal Services - General	3,991
Temp Agency Services	54
Other Operating Professional Services	222
Training Program	88
Advertising	38,887
Credit Check Services	2,433
Office Equipment Rent	1,905
Local Phone Bill	6,940
Cellular Phone Charges	9
Computer Software	10,415
Cable Charges	1,137
On-Line Information Services	1
Rental License Fees	4,708
Vehicle Lease and Rent	1,233
Bank Fees	823
Allocated Overhead	25,683
Salaries for Tenant Services	1,612
Resident Gifts	4,181
Miscellaneous Program Supplies	4,158
Total Administration	\$ 367,597

See Independent Auditors' Report.

TIMBERLAWN POMANDER PROPERTIES LLC
SUPPLEMENTAL INFORMATION (CONTINUED)
For the year ended June 30, 2018

Maintenance

Maintenance Salary	\$ 4,893
Overtime and On-Call	495
Contract Maintenance and Janitor Salary	96,330
Kitchen and Bath Supplies	194
Electrical Supplies	2,264
Appliance Supplies	1,794
Plumbing Supplies	2,683
Employee Uniforms	333
Cleaning and Janitorial Supplies	177
Health and Safety Material	(19)
Locks and Keys	36
Windows and Glass	221
Doors	221
Hardware Supplies	933
HVAC Supplies	437
Paint and Wallcoverings	54
Miscellaneous Supplies	2,665
HVAC Equipment	42
Appliance Equipment	343
Tools	28
Electrical Contracts	6,153
Plumbing Contracts	924
Cleaning and Janitorial Contracts	4,687
Grounds and Landscaping Contracts	38,053
Windows and Glass Contracts	295
Roofing and Gutter Contracts	3,385
Flooring and Carpeting Contracts	3,363
Paint and Wallcoverings Interior Contracts	26,259
Exterminating Contracts	6,574
Snow Removal Contracts	14,156
Miscellaneous Contracts	7,458
Appliance Equipment - Capital	3,783
Plumbing Contracts - Capital	585
Grounds and Landscaping Contracts - Capital	785
Windows and Glass Contracts - Capital	2,280
Flooring and Carpeting Contracts - Capital	2,475
Total Maintenance	\$ 235,339

See Independent Auditors' Report.

TIMBERLAWN POMANDER PROPERTIES LLC
SUPPLEMENTAL INFORMATION (CONTINUED)
For the year ended June 30, 2018

Utilities

Water	\$ 84,574
Electric	19,506
Natural Gas	2,640
Trash Collection	11,300
Total Utilities	<u>\$ 118,020</u>

Fringe Benefits

Contract Managed Benefits	\$ 52,254
Contract Employee Appreciation	2,842
Contract Other Training	480
FICA - Maintenance	507
Workers' Compensation	566
Health Insurance	1,349
Deferred Contribution Plan	419
Other Post Employment Benefits	1,520
Total Fringe Benefits	<u>\$ 59,937</u>

Other

Security Contracts	\$ 11,323
Fire and Hazard Insurance	13,117
Vehicle Insurance	589
Other Taxes	300
Solid Waste Tax	7,625
Water Quality Protect Charge (RFSA)	6,843
Financing Expense	32,151
Asset Management Fees	115,210
Development Corporation Fee	220,679
Mortgage Insurance	41,667
Total Other	<u>\$ 449,504</u>

See Independent Auditors' Report.