

COLONIAL OAKS, LLC

Financial Statements

For the year ended June 30, 2018



SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

COLONIAL OAKS, LLC

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SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

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A VETERAN OWNED BUSINESS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Colonial Oaks, LLC
Ann Arbor, MI

We have audited the accompanying balance sheet of the *Colonial Oaks, LLC* as of June 30, 2018, and the related income statement and statement of cash flows for the year then ended. These financial statements are the responsibility of the *Colonial Oaks, LLC's* management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the *Colonial Oaks, LLC* as of June 30, 2018, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Smith + Klaczkiwicz PC

Saginaw, Michigan

October 24, 2018

Colonial Oaks
Balance Sheet
June 30, 2018

Assets

Current assets:	
Cash and cash equivalents	\$ 147,195
Cash - tenant security deposits	8,429
Accounts receivable	4,577
Prepaid expenses	1,898
Total current assets	<u>162,099</u>
Noncurrent assets:	
Construction in progress	<u>1,338,753</u>
Total assets	<u><u>\$ 1,500,852</u></u>

Liabilities and Equity

Current liabilities:	
Accounts payable	\$ 11,572
Accrued liabilities	3,659
Tenant security deposits	8,429
Unearned revenue	1,392
Total liabilities	<u>25,052</u>
Total equity	<u>1,475,800</u>
Total liabilities and equity	<u><u>\$ 1,500,852</u></u>

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

Colonial Oaks
Income Statement
For the year ended June 30, 2018

Revenues

Tenant revenue	\$ 58,643
Rent subsidies	129,587
Interest revenue	820
Contributions from FHLB	189,220
Other revenue	5,609
	383,879
Total revenue	383,879

Expenses

Property management salaries	29,223
Asset management fees	21,227
Professional services	3,507
Utilities	19,696
Maintenance	67,398
Insurance	12,727
Supplies	21,825
Reimbursement to AAHC	84,227
Miscellaneous	3,765
	263,595

Total cost of operations	263,595
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Net income (loss)	120,284
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Beginning of the year equity	1,355,516
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End of year equity	\$ 1,475,800
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The accompanying notes are an integral part of these financial statements.

Colonial Oaks
Statement of Cash Flows
For the year ended June 30, 2018

Cash flows from operating activities	
Change in equity	\$ 120,284
Adjustments to reconcile change in equity to net cash provided by (used in) operating activities:	
(Increase) decrease in operating assets	
Accounts receivable	1,223
Prepaid expenses	(10)
Increase (decrease) in operating liabilities	
Accounts payable	(1,697)
Accrued liabilities	529
Tenant security deposits	2,799
Unearned revenue	(578)
Net cash provided by (used in) operating activities	<u>122,550</u>
 Cash flows from capital and related financing activities	
Purchase of property and equipment	<u>(495,085)</u>
 Net increase (decrease) in cash	(372,535)
 Cash - beginning of year	<u>528,159</u>
Cash - end of year	<u><u>\$ 155,624</u></u>
 Reconciliation of cash and cash equivalents per the Balance Sheet to the Statement of Cash Flows	
Cash and cash equivalents	\$ 147,195
Cash - tenant security deposits	<u>8,429</u>
 Cash and cash equivalents - end of year	<u><u>\$ 155,624</u></u>

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

COLONIAL OAKS, LLC
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Colonial Oaks, LLC (the “*Company*”) was organized in 2014 under the laws of the State of Michigan to develop, own, operate and rehabilitate 25-units of affordable housing located within the boundaries of the City of Ann Arbor, Michigan. The Company has one member, the Ann Arbor Housing Development Corporation (the “*AAHDC*”), a Michigan nonprofit corporation. The Company commenced operations in June 2015.

Operating profits and losses from operations are determined and allocated to the AAHDC at the end of the fiscal year.

Basis of Presentation

The financial statements of the Company are prepared on the accrual basis of accounting and include the assets, liabilities and changes in equity relating to the business of the Company. The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Assets and Liabilities

Cash

Cash consists of cash on deposit and short-term investments with maturities of three months or less. The Company's cash accounts are subject to the Federal Deposit Insurance Corporation (FDIC) insurance limit of \$250,000 per financial institution.

Receivables and Payables

All receivables and payables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses.

Properties and Depreciation

Buildings and improvements are recorded at cost, improvements are capitalized and expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of operations. The rental property will be depreciated over estimated service lives using the straight-line method as follows when completed:

Buildings	40 years
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COLONIAL OAKS, LLC
Notes to Financial Statements
For the Year Ended June 30, 2018

Rental Income and Security Deposits

Rental income is recorded as earned and amounts received in advance are classified as deferred rent revenue. Security deposits are segregated from rental income. All leases between the tenants and the Company are operating leases.

Income Taxes

The Company is a pass-through entity for income tax purposes and, as such, is not subject to income taxes. The Company's federal tax status as a pass-through entity is based on its legal status as a LLC. The Company is required to file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Company has no other tax positions which must be considered for disclosure.

The Company has implemented the Financial Accounting Standards Board (FASB) provisions regarding accounting for uncertainty in income taxes, which had no material effect on the financial statements. Management records contingent liabilities in accordance with U.S. GAAP and believes the Company has no material uncertain tax positions.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

Ground Lease

The Company has entered into a ground lease with the Ann Arbor Housing Commission (the "AAHC") for the two separate existing apartment complexes that are considered one development project. The term of the lease is 50 years with annual installments of \$1 per year.

NOTE B: RELATED PARTY TRANSACTIONS

The AAHC manages the project for certain fees. The AAHC commenced management of the project in June 2015. The AAHC received management fees of \$21,227 during the year ended June 30, 2018.

NOTE C: CONCENTRATIONS OF CREDIT RISK

The Company maintains its cash accounts in a national bank and does not consider there to be a significant credit risk arising from deposits in excess of federally insured limits.

COLONIAL OAKS, LLC
Notes to Financial Statements
For the Year Ended June 30, 2018

NOTE D: SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2018 have been evaluated for possible adjustment to the financial statements or disclosure is October 24, 2018 which is the date on which the financial statements were available to be issued.

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