

SEACLIFF APARTMENTS
FINANCIAL STATEMENTS
December 31, 2019 and 2018

SEACLIFF APARTMENTS
PROJECT NO. ME36-H017-408
FINANCIAL STATEMENTS
December 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Bath Housing Development Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Seacliff Apartments, which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, 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 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 Seacliff Apartments as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As discussed in Note 14 to the financial statements, certain errors resulting in various misstatements of amounts previously reported for accounts receivable, buildings and improvements, depreciation and gain on involuntary conversion as of December 31, 2018, were discovered by management of the Project during the current year. Accordingly, amounts reported for accounts receivable, buildings and improvements, depreciation and gain on involuntary conversion have been restated in the 2019 financial statements now presented, and an adjustment has been made to the applicable accounts on the Statements of Financial Position and to net assets without donor restrictions as of December 31, 2019, to correct the error. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included on pages 17 through 24 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.



Certified Public Accountants

May 28, 2020
South Portland, Maine

SEACLIFF APARTMENTS
STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

ASSETS

| | <u>2019</u> | <u>(Restated) 2018</u> |
|---|---------------------|----------------------------|
| CURRENT ASSETS | | |
| 1120 Cash - Operations | \$ 61,379 | \$ 5,948 |
| 1130 Tenant Accounts Receivable | 17,073 | 14,258 |
| 1131 Allowance for Doubtful Accounts | (15,213) | (12,844) |
| 1140 Accounts Receivable - Other (Notes 5 and 10) | <u>-</u> | <u>152,904</u> |
| 1100T Total Current Assets | <u>63,239</u> | <u>160,266</u> |
| DEPOSITS HELD IN TRUST | | |
| 1191 Tenant Security Deposits | <u>11,116</u> | <u>17,597</u> |
| RESTRICTED DEPOSITS | | |
| 1310 Tax and Insurance Escrow | 15,438 | 13,705 |
| 1320 Replacement Reserve (Note 4) | 120,144 | 193,143 |
| 1340 Residual Receipts Reserve (Note 4) | <u>12,589</u> | <u>12,561</u> |
| 1300T Total Restricted Deposits | <u>148,171</u> | <u>219,409</u> |
| FIXED ASSETS (Notes 2 and 4) | | |
| 1410 Land and Improvements | 1,318,647 | 1,280,947 |
| 1420 Buildings and Improvements | 2,127,449 | 1,756,408 |
| 1460 Furnishings and Equipment | 133,329 | 133,329 |
| 1490 Construction in Progress | <u>6,422</u> | <u>179,485</u> |
| 1400T Total Fixed Assets | <u>3,585,847</u> | <u>3,350,169</u> |
| 1495 Less Accumulated Depreciation | <u>449,467</u> | <u>361,513</u> |
| 1400N Net Fixed Assets | <u>3,136,380</u> | <u>2,988,656</u> |
| 1000T TOTAL ASSETS | <u>\$ 3,358,906</u> | <u>\$ 3,385,928</u> |

See accompanying notes to the financial statements.

SEACLIFF APARTMENTS
STATEMENTS OF FINANCIAL POSITION
(Continued)

December 31, 2019 and 2018

LIABILITIES AND NET ASSETS

LIABILITIES

| | <u>2019</u> | <u>(Restated) 2018</u> |
|---|---------------------|----------------------------|
| CURRENT LIABILITIES | | |
| 2110 Accounts Payable - Operations (Note 5) | \$ 29,467 | \$ 31,710 |
| 2131 Accrued Interest Payable | 530 | 3,118 |
| 2170 Current Portion of Mortgage Notes Payable (Note 2) | 101,991 | 100,373 |
| 2210 Prepaid Rent | 489 | 73 |
| | <u>132,477</u> | <u>135,274</u> |
| 2122T Total Current Liabilities | | |
| DEPOSIT LIABILITIES | | |
| 2191 Tenant Security Deposits (Contra) | <u>11,343</u> | <u>10,323</u> |
| LONG-TERM LIABILITIES | | |
| 2320 Mortgage Notes Payable (Note 2) | 1,780,914 | 1,886,511 |
| 2340 Less Debt Issuance Costs | <u>(32,803)</u> | <u>(35,342)</u> |
| 2300T Total Long-term Liabilities | <u>1,748,111</u> | <u>1,851,169</u> |
| 2000T TOTAL LIABILITIES | <u>1,891,931</u> | <u>1,996,766</u> |
| | | |
| NET ASSETS | | |
| 3130/3131 Net Assets Without Donor Restrictions | <u>1,466,975</u> | <u>1,389,162</u> |
| 2033T TOTAL LIABILITIES AND NET ASSETS | <u>\$ 3,358,906</u> | <u>\$ 3,385,928</u> |

See accompanying notes to the financial statements.

SEACLIFF APARTMENTS

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2019 and 2018

| | 2019 | (Restated) 2018 |
|---|----------------|--------------------|
| REVENUES | | |
| 5120 Rent Revenue - Gross Potential | \$ 273,456 | \$ 236,990 |
| 5121 Tenant Assistance Payments (Note 3) | 504,423 | 392,024 |
| 5190 Miscellaneous Rent Revenue (Note 4) | - | 137,834 |
| 5100T Total Rent Revenue | <u>777,879</u> | <u>766,848</u> |
| 5220/5200T Total Vacancies | <u>56,150</u> | <u>16,167</u> |
| 5152N Net Rental Revenue | <u>721,729</u> | <u>750,681</u> |
| 5410 Financial Revenue - Project Operations | 1,932 | 1,793 |
| 5430 Revenue from Investments - Residual Receipts | 28 | 54 |
| 5440 Revenue from Investments - Replacement Reserve | <u>2,613</u> | <u>234</u> |
| 5400T Total Financial Revenue | <u>4,573</u> | <u>2,081</u> |
| 5910 Laundry and Vending | 2,626 | 3,686 |
| 5920 Tenant Charges | 5,721 | 2,308 |
| 5990 Gain on Involuntary Conversion (Note 9) | - | 81,742 |
| 5990 Miscellaneous Revenue | <u>1,065</u> | <u>1,135</u> |
| 5900T Total Other Revenue | <u>9,412</u> | <u>88,871</u> |
| 5000T Total Revenue | <u>735,714</u> | <u>841,633</u> |
| EXPENSES | | |
| 6311 Office Expenses | 1,546 | 841 |
| 6320 Management Fee (Note 5) | 87,194 | 90,252 |
| 6340 Legal Expense | 5,101 | 4,414 |
| 6350 Audit Expense | 5,400 | 5,300 |
| 6351 Bookkeeping Fees/Accounting Services | 7,071 | 5,651 |
| 6370 Bad Debts | 8,983 | 7,907 |
| 6390 Miscellaneous Administrative Expenses | <u>872</u> | <u>1,124</u> |
| 6263T Total Administrative Expenses | <u>116,167</u> | <u>115,489</u> |
| 6420 Fuel | 2,476 | 585 |
| 6450 Electricity | 45,981 | 44,371 |
| 6451 Water | 6,771 | 5,295 |
| 6453 Sewer | <u>10,705</u> | <u>10,856</u> |
| 6400T Total Utilities Expense | <u>65,933</u> | <u>61,107</u> |
| 6510 Payroll | 67,640 | 53,128 |
| 6515 Supplies | 52,614 | 50,789 |
| 6520 Contracts | 47,920 | 95,910 |
| 6525 Garbage and Trash Removal | 2,752 | 2,088 |
| 6570 Vehicle Maintenance and Repairs | - | 3,467 |
| 6590 Miscellaneous Operating and Maintenance Expenses | <u>13,069</u> | <u>27,998</u> |
| 6500T Total Operating and Maintenance Expenses | <u>183,995</u> | <u>233,380</u> |

See accompanying notes to the financial statements.

SEACLIFF APARTMENTS
STATEMENTS OF ACTIVITIES
(Continued)

For the Years Ended December 31, 2019 and 2018

| | 2019 | (Restated) 2018 |
|---|---------------------|---------------------|
| | <u>2019</u> | <u>2018</u> |
| 6710 Real Estate Taxes | 35,000 | 35,000 |
| 6720 Property and Liability Insurance | 21,259 | 20,708 |
| 6723 Health Insurance and Other Employee Benefits | <u>30,664</u> | <u>22,820</u> |
| 6700T Total Taxes and Insurance | <u>86,923</u> | <u>78,528</u> |
| 6820 Interest on Mortgages Payable | 102,139 | 107,069 |
| 6890 Miscellaneous Financial Expenses (Note 4) | <u>-</u> | <u>137,834</u> |
| 6800T Total Financial Expenses | <u>102,139</u> | <u>244,903</u> |
| 6990 Tenant Service Payroll | <u>14,790</u> | <u>26,210</u> |
| 6900T Total Resident Services Expenses | <u>14,790</u> | <u>26,210</u> |
| 6000T Total Cost of Operations Before Depreciation | <u>569,947</u> | <u>759,617</u> |
| 5060T Income Before Depreciation and Other Revenue | 165,767 | 82,016 |
| 6600 Depreciation Expense | <u>87,954</u> | <u>78,032</u> |
| 5060N/3247/3250 Change in Net Assets | 77,813 | 3,984 |
| S1100-050/060 NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR | <u>1,389,162</u> | <u>1,385,178</u> |
| 3130/3131 NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR | <u>\$ 1,466,975</u> | <u>\$ 1,389,162</u> |

See accompanying notes to the financial statements.

SEACLIFF APARTMENTS
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2019

| | Rental Housing Program | Management and General Administrative | Fundraising | Total |
|---|------------------------------|---|-------------|-------------------|
| 6311 Office Expenses | \$ 1,546 | \$ - | \$ - | \$ 1,546 |
| 6320 Management Fee (Note 5) | - | 87,194 | - | 87,194 |
| 6340 Legal Expense | 5,101 | - | - | 5,101 |
| 6350 Audit Expense | - | 5,400 | - | 5,400 |
| 6351 Bookkeeping Fees/Accounting Services | 7,071 | - | - | 7,071 |
| 6370 Bad Debts | 8,983 | - | - | 8,983 |
| 6390 Miscellaneous Administrative Expenses | 872 | - | - | 872 |
| 6420 Fuel | 2,476 | - | - | 2,476 |
| 6450 Electricity | 45,981 | - | - | 45,981 |
| 6451 Water | 6,771 | - | - | 6,771 |
| 6453 Sewer | 10,705 | - | - | 10,705 |
| 6510 Payroll | 67,640 | - | - | 67,640 |
| 6515 Supplies | 52,614 | - | - | 52,614 |
| 6520 Contracts | 47,920 | - | - | 47,920 |
| 6525 Garbage and Trash Removal | 2,752 | - | - | 2,752 |
| 6590 Miscellaneous Operating and Maintenance Expenses | 13,069 | - | - | 13,069 |
| 6710 Real Estate Taxes | 35,000 | - | - | 35,000 |
| 6720 Property and Liability Insurance | 21,259 | - | - | 21,259 |
| 6723 Health Insurance and Other Employee Benefits | 30,664 | - | - | 30,664 |
| 6820 Interest on Mortgages Payable | 102,139 | - | - | 102,139 |
| 6990 Tenant Service Payroll | 14,790 | - | - | 14,790 |
| 6600 Depreciation Expense | 87,954 | - | - | 87,954 |
| Total | <u>\$ 565,307</u> | <u>\$ 92,594</u> | <u>\$ -</u> | <u>\$ 657,901</u> |

See accompanying notes to the financial statements.

SEACLIFF APARTMENTS
STATEMENT OF FUNCTIONAL EXPENSES
(Continued)

For the Year Ended December 31, 2018

| | Rental Housing Program | Management and General Administrative | Fundraising | Total |
|---|------------------------------|---|-------------|-------------------|
| 6311 Office Expenses | \$ 841 | \$ - | \$ - | \$ 841 |
| 6320 Management Fee (Note 5) | - | 90,252 | - | 90,252 |
| 6340 Legal Expense | 4,414 | - | - | 4,414 |
| 6350 Audit Expense | - | 5,300 | - | 5,300 |
| 6351 Bookkeeping Fees/Accounting Services | 5,651 | - | - | 5,651 |
| 6370 Bad Debts | 7,907 | - | - | 7,907 |
| 6390 Miscellaneous Administrative Expenses | 1,124 | - | - | 1,124 |
| 6420 Fuel | 585 | - | - | 585 |
| 6450 Electricity | 44,371 | - | - | 44,371 |
| 6451 Water | 5,295 | - | - | 5,295 |
| 6453 Sewer | 10,856 | - | - | 10,856 |
| 6510 Payroll | 53,128 | - | - | 53,128 |
| 6515 Supplies | 50,789 | - | - | 50,789 |
| 6520 Contracts | 95,910 | - | - | 95,910 |
| 6525 Garbage and Trash Removal | 2,088 | - | - | 2,088 |
| 6570 Vehicle Maintenance and Repairs | 3,467 | - | - | 3,467 |
| 6590 Miscellaneous Operating and Maintenance Expenses | 27,998 | - | - | 27,998 |
| 6710 Real Estate Taxes | 35,000 | - | - | 35,000 |
| 6720 Property and Liability Insurance | 20,708 | - | - | 20,708 |
| 6723 Health Insurance and Other Employee Benefits | 22,820 | - | - | 22,820 |
| 6820 Interest on Mortgages Payable | 107,069 | - | - | 107,069 |
| 6890 Miscellaneous Financial Expenses (Note 4) | 137,834 | - | - | 137,834 |
| 6990 Tenant Service Payroll | 26,210 | - | - | 26,210 |
| 6600 Depreciation Expense | 78,032 | - | - | 78,032 |
| Total | <u>\$ 742,097</u> | <u>\$ 95,552</u> | <u>\$ -</u> | <u>\$ 837,649</u> |

See accompanying notes to the financial statements.

SEACLIFF APARTMENTS
STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2019 and 2018

| | 2019 | (Restated) 2018 |
|---|-------------------|--------------------|
| | <u>2019</u> | <u>2018</u> |
| Cash Flows from Operating Activities: | | |
| Rental Receipts | \$ 758,356 | \$ 577,135 |
| Interest Receipts | 4,573 | 2,081 |
| Other Operating Receipts | <u>9,412</u> | <u>7,129</u> |
| Total Receipts | <u>772,341</u> | <u>586,345</u> |
| Administrative | (10,825) | (21,469) |
| Management Fee | (84,183) | (100,508) |
| Utilities | (70,731) | (59,914) |
| Operating and Maintenance | (174,062) | (258,638) |
| Real Estate Taxes | (35,000) | (35,000) |
| Property Insurance | (25,319) | (16,648) |
| Miscellaneous Taxes and Insurance | (30,664) | (20,287) |
| Tenant Security Deposits | 1,020 | (2,831) |
| Other Operating Expenses | (11,443) | (15,551) |
| Interest on Mortgages | <u>(102,188)</u> | <u>(104,691)</u> |
| Total Disbursements | <u>(543,395)</u> | <u>(635,537)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>228,946</u> | <u>(49,192)</u> |
| Cash Flows from Investing Activities: | | |
| Net Purchases of Fixed Assets | (247,804) | (308,334) |
| Insurance Proceeds | <u>100,549</u> | <u>254,946</u> |
| Net Cash Used by Investing Activities | <u>(147,255)</u> | <u>(53,388)</u> |
| Cash Flows from Financing Activities: | | |
| Payment of Mortgage Principal | <u>(103,979)</u> | <u>(95,416)</u> |
| Net Cash Used by Financing Activities | <u>(103,979)</u> | <u>(95,416)</u> |
| Net Decrease in Cash, Cash Equivalents and Restricted Cash | (22,288) | (197,996) |
| Cash, Cash Equivalents and Restricted Cash at Beginning of Year | <u>242,954</u> | <u>440,950</u> |
| Cash, Cash Equivalents and Restricted Cash at End of Year | <u>\$ 220,666</u> | <u>\$ 242,954</u> |

See accompanying notes to the financial statements.

SEACLIFF APARTMENTS

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Seacliff Apartments (the Project) was acquired by Bath Housing Development Corporation on November 29, 2012 to own and operate a 50-unit low-income apartment complex in Bath, Maine, MSHA Project No. ME36-H017-408.

Method of Accounting - The financial statements of the Project are prepared on the accrual basis of accounting, and include only those assets, liabilities and results of operations which relate to the business of Seacliff Apartments.

Property and Equipment - Property and equipment are stated at cost. Buildings, improvements, and equipment are being depreciated using the straight-line method over their estimated useful lives (generally 3 to 40 years). Repairs and maintenance are expensed and betterments and renewals are capitalized as incurred. When assets are retired or disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains and losses are reflected in income.

Debt Issuance Costs - Debt issuance costs incurred in connection with the issuance of long-term debt are capitalized and amortized to interest expense over the term of the debt using the straight-line method, which approximates the effective interest method. The unamortized amount is presented as a reduction of long-term debt on the statement of financial position.

Income Taxes - No provision for taxes on income is made in the Project's financial statements since it is wholly owned by Bath Housing Development Corporation, a not-for-profit corporation, and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

In accordance with accounting principles generally accepted in the United States of America, management has evaluated its exposure to material tax positions and determined that there are no such tax positions requiring accounting recognition. Informational returns filed by the Corporation are subject to examination by the Internal Revenue Service for a period of three years. While no informational returns are currently being examined by the Internal Revenue Service, the three previous tax years remain open. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Cash - For the purposes of reporting cash flows, cash, cash equivalents and restricted cash includes cash on hand and amounts due from banks.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

SEACLIFF APARTMENTS
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Tenant Receivables and Bad Debt - Tenant rent charges for the current month are due on the first of the month. Tenants who are evicted or move out are charged with damages or cleaning fees, if applicable. Tenant receivables consist of amounts due for rental income, charges for damages and cleaning fees. The Project does not accrue interest on the tenant receivable balances.

Management estimates the allowance for doubtful accounts 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.

Revenue Recognition - The Project recognizes net rental revenue in the period in which the rent is earned. Leases are for periods of up to one year, with rent and associated payments due monthly. Payments collected in advance are deferred until the rental income is earned. Other revenue can include fees for late payment, damages, laundry, and other charges and is recorded when earned.

Advertising - The Project expenses advertising costs as they incur.

Impairment of Long-Lived Assets - In accordance with the provisions of accounting for the impairment or disposal of long-lived assets, management reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified.

Subsequent Events - Subsequent events have been evaluated through May 28, 2020, the date the financial statements were available to be issued.

NOTE 2 - MORTGAGE NOTES PAYABLE

A mortgage note is payable to Bath Savings Institution and is secured by the real estate and personal property. The note bears interest at 5.86% per annum, with monthly payments of principal and interest of \$10,616 until November 29, 2032. The mortgage note balances at December 31, 2019 and 2018 were \$1,150,308 and \$1,208,335, respectively.

A second mortgage note is payable to Bath Housing Authority, a related party through common management, and is secured by the real estate and personal property. The note bears interest at 4.00% per annum, with monthly payments of principal and interest of \$6,060 until November 29, 2032. The mortgage note balances at December 31, 2019 and 2018 were \$732,597 and \$778,549, respectively.

SEACLIFF APARTMENTS
 NOTES TO THE FINANCIAL STATEMENTS
 (Continued)

NOTE 2 - MORTGAGE NOTES PAYABLE (Continued)

The liability of the Project under the mortgage notes is limited to the underlying value of the real estate collateral.

The mortgage notes payable will be amortized as follows:

| | |
|------------|----------------------------|
| 2020 | \$ 101,991 |
| 2021 | 111,101 |
| 2022 | 116,903 |
| 2023 | 123,018 |
| 2024 | 129,508 |
| Thereafter | <u>1,300,384</u> |
| | <u><u>\$ 1,882,905</u></u> |

NOTE 3 - HOUSING ASSISTANCE AGREEMENT

The U.S. Department of Housing and Urban Development (HUD) has contracted with the Project under Section 8 of Title II of the Housing and Community Development Act of 1974, to make housing assistance payments to the Project on behalf of qualified tenants. The contract, dated October 1, 2012, is for a twenty-year period with two (2) five-year renewals. Effective October 1, 2019, gross contract rents equal \$790,560 and may not be increased without HUD approval.

NOTE 4 - COMMITMENTS

The Project makes deposits to an escrow account to fund expected future costs as determined by the Housing Assistance Payments contract:

| <u>Escrow Account</u> | <u>Amount</u> |
|-----------------------|---------------------------|
| Replacement Reserve | Currently \$3,142 monthly |

Under the terms of the Housing Assistance Agreement with HUD, the Project is required to deposit annual surplus cash into a residual receipts account. Use of residual receipt funds is contingent upon HUD's prior written approval.

In accordance with HUD Housing Notice H-2012-14, the Project is required to use funds in the residual receipts account to offset project based Section 8 housing assistance payments. The Project is allowed to maintain \$250 per unit to use for project purposes, subject to agency approval. The excess balance will be used to reduce project based Section 8 housing assistance payments until the excess is used. During 2018, the Project used \$137,834 of residual receipts to offset housing assistance payments. No funds were used during 2019. Net housing assistance payments earned during 2019 and 2018 totaled \$504,423 and \$392,024, respectively.

During 2018, the Project entered into a construction contract with Elite Construction for contractor services related to fire damages. The total cost of the contract was \$234,808. As of December 31, 2019, all costs had been incurred under the contract.

SEACLIFF APARTMENTS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 4 - COMMITMENTS (Continued)

During 2019, the Project entered into a construction contract with Dean and Allyn, Inc. for contractor services related to the sprinkler system. The total cost of the contract is \$86,945. As of December 31, 2019, costs incurred on the contract totaled \$6,422 and is recorded in construction in process.

NOTE 5 - TRANSACTIONS WITH RELATED PARTIES

The Project has entered into a management agreement with Bath Housing Authority, an entity related to Bath Housing Development Corporation through common management, and is required to pay a management fee equal to 12% of collected rents. Management fees of \$87,194 and \$90,252 were incurred during 2019 and 2018, respectively.

Bath Housing Authority charged the Project for resident services and accounting fees. Total expenses incurred by the Project totaled \$25,151 and \$39,134 during 2019 and 2018, respectively.

In addition, Bath Housing Authority provides maintenance services to the Project. Maintenance services incurred totaled \$95,014 and \$68,675 during 2019 and 2018, respectively.

Amounts due from Bath Housing Authority and its affiliates as of December 31, 2018 were \$15,698.

Amounts due to Bath Housing Authority and its affiliates as of December 31, 2019 were \$21,916.

NOTE 6 - PAYMENT IN LIEU OF TAXES

The Project has an agreement with the City of Bath to pay \$35,000 annually as a payment in lieu of taxes.

NOTE 7 - METHOD USED FOR ALLOCATION OF EXPENSES AMONG PROGRAM AND SUPPORTING SERVICES

The cost of providing various program and supporting activities have been included on a functional and natural basis. These expenses require allocation on a reasonable basis that is consistently applied, which is on the basis of time and effort studies.

NOTE 8 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Project's working capital and cash flows are derived from monthly revenue consisting mostly of rent revenue and housing assistance payments. The Project is regulated by the U.S. Department of Housing and Urban Development (HUD). Any surplus cash at the end of a year, subject to approval of HUD, may be deposited to the residual receipts account.

SEACLIFF APARTMENTS
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

NOTE 8 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued)

The following reflects the Project's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations. Amounts not available include amounts set-aside to offset project based Section 8 housing assistance payments that could be drawn upon if approved by the U.S. Department of Housing and Urban Development.

| | 2019 | 2018 |
|---|------------|------------|
| Cash | \$ 209,550 | \$ 225,357 |
| Accounts Receivable (Net of Allowance) | 1,860 | 154,318 |
| Total Financial Assets | 211,410 | 379,675 |
| Contractual (Regulatory) Restrictions: | | |
| Restricted Deposits: | | |
| Replacement Reserve | (120,144) | (193,143) |
| Residual Receipts | (12,589) | (12,561) |
| Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year | \$ 78,677 | \$ 173,971 |

NOTE 9 - GAIN ON INVOLUNTARY CONVERSION

During 2018 the Project suffered fire damage. The estimated damage to the property totaled \$273,753 (depreciated value) and insurance proceeds totaled \$355,495. During 2018, the Project recognized \$355,495 in construction and repair costs related to the rehabilitation.

NOTE 10 - INSURANCE CLAIM RECEIVABLE

During 2019 and 2018, the Project submitted an insurance claims for lost rents and rehabilitation costs due to fire damage to several units. The insurance company has agreed to reimburse the project \$36,657 for lost rent related to 2018 and \$46,435 for lost rent related to 2019. As of December 31, 2018, the project was owed \$137,206 for lost rents and rehabilitation costs. All funds due as part of the claim were received in 2019.

NOTE 11 - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Project operates in a heavily regulated environment. The operations of the Project are subject to the administrative directives of federal, state and local agencies, including but not limited to the U.S. Department of Housing and Urban Development and MaineHousing. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by the agencies or other situation. Such changes may occur with little notice or with inadequate funding to pay for the related cost, including the additional burden to comply with the change.

SEACLIFF APARTMENTS
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

NOTE 12 - CASH, CASH EQUIVALENTS AND RESTRICTED CASH

The following provides a reconciliation of cash, cash equivalents and restricted cash reported within the Statements of Financial Position that sum to the total of the same such amounts shown in the Statements of Cash Flows.

| | 2019 | 2018 |
|---|------------|------------|
| Cash - Operations | \$ 61,379 | \$ 5,948 |
| Tax and Insurance Escrow | 15,438 | 13,705 |
| Replacement Reserves | 120,144 | 193,143 |
| Tenant Security Deposits | 11,116 | 17,597 |
| Residual Receipts Escrow | 12,589 | 12,561 |
| Total Cash, Cash Equivalents and Restricted Cash Accounts | \$ 220,666 | \$ 242,954 |

NOTE 13 - ADOPTION OF ACCOUNTING PRONOUNCEMENTS

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The new standard is effective for annual reporting periods beginning after December 15, 2018. Any adjustments must be reflected as of the beginning of the fiscal year.

The Project adopted ASU 2016-18 effective January 1, 2019, which resulted in an increase of \$2,134 in net cash flows provided by operating activities, a decrease of \$34,912 in net cash flows provided by investing activities, a decrease of \$32,778 in net cash flows for the year, an increase in cash of \$269,784 at the beginning of the year, and an increase in cash of \$237,006 at the end of the year from what was previously reported for the year ended December 31, 2018.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) and all related amendments. ASU 2014-09 provides a principles-based framework for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects in exchange for the goods or services provided and supersedes most existing revenue recognition guidance. The Project believes that rent and other lease related revenue are exempt from ASU 2014-09 due to their inclusion under current and future lease standards. The new standard is effective for annual reporting periods beginning after December 15, 2018.

SEACLIFF APARTMENTS
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

NOTE 13 - ADOPTION OF ACCOUNTING PRONOUNCEMENTS (continued)

The Project adopted ASU 2014-09 effective January 1, 2019 retrospectively for non-lease associated revenue with the cumulative effect of initially applying the Update recognized on the date of initial application. The adoption of this Update did not result in an adjustment to the opening net assets or any other account balance and no account has been affected in the current period by the application of the guidance.

NOTE 14 - PRIOR PERIOD ADJUSTMENT

During 2019, management discovered that certain prior year transactions related to a fire casualty had not been correctly reported. To correct the issue, management made the following adjustments:

| | As Originally Reported (2018) | Corrected Amount 2018 (Restated) |
|---|-------------------------------------|--|
| Accounts Receivable – Other | \$ 36,657 | \$ 152,904 |
| Buildings and Improvements | \$ 1,850,670 | \$ 1,756,408 |
| Accumulated Depreciation | \$ (375,379) | \$ (361,513) |
| Accounts Payable | \$ 16,012 | \$ 31,710 |
| Gain on Involuntary Conversion | \$ (62,373) | \$ (81,742) |
| Depreciation Expense | \$ 78,816 | \$ 78,032 |
| Increase in Net Assets | \$ (16,169) | \$ 3,984 |
| Net Assets Without Donor Restrictions, Beginning of Year | \$ 1,385,178 | \$ 1,385,178 |
| New Assets Without Donor Restrictions, End Of Year | \$ 1,369,009 | \$ 1,389,162 |

SEACLIFF APARTMENTS

SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2019

SEACLIFF APARTMENTS
SUPPORTING DATA REQUIRED BY HUD

For the Year Ended December 31, 2019

Reserve for Replacements:

| | |
|---------------------------------|--------------------------|
| 1320 Balance, December 31, 2018 | \$ 193,143 |
| 1320DT Total Monthly Deposits | 37,708 |
| 1320INT Interest Income | 2,613 |
| 1320WT Approved Withdrawals | <u>(113,320)</u> |
| 1320 Balance, December 31, 2019 | <u><u>\$ 120,144</u></u> |

Residual Receipts Reserve:

| | |
|---------------------------------|-------------------------|
| 1340 Balance, December 31, 2018 | \$ 12,561 |
| 1340INT Interest Income | <u>28</u> |
| 1340 Balance, December 31, 2019 | <u><u>\$ 12,589</u></u> |

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING-FEDERAL HOUSING COMMISSIONER
OFFICE OF MULTIFAMILY HOUSING MANAGEMENT AND OCCUPANCY

**COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS AND
RESIDUAL RECEIPTS**

| Electronic Filing # | Project Name | Fiscal Period Ended | Project Number |
|---|---|--------------------------|----------------------|
| | Seacliff Apartments | December 31, 2019 | ME36-H017-408 |
| PART A - COMPUTE SURPLUS CASH | | | |
| S1300-010 | 1. Cash (Accounts 1110, 1120, 1191, 1192) | \$ | 72,495 |
| 1135 | 2. Tenant subsidy vouchers due for period covered by financial statement. | \$ | - |
| S1300-030 | 3. Other (describe) | \$ | - |
| S1300-040 | (a) Total Cash (Add Lines 1, 2, and 3) | | \$ 72,495 |
| S1300-050 | 4. Accrued mortgage interest payable | \$ | 530 |
| S1300-060 | 5. Delinquent mortgage principal payments | \$ | - |
| S1300-070 | 6. Delinquent deposits to reserve for replacements | \$ | - |
| S1300-075 | 7. Accounts payable (due within 30 days) | \$ | 29,467 |
| S1300-080 | 8. Loans and notes payable -- (due within 30 days) | \$ | - |
| S1300-090 | 9. Deficient Tax Insurance or MIP Escrow Deposits | \$ | 11,654 |
| S1300-100 | 10. Accrued expenses (not escrowed) | \$ | - |
| 2210 | 11. Prepaid Rents (Account 2210) | \$ | 489 |
| 2191 | 12. Tenant security deposits liability (Account 2191) | \$ | 11,343 |
| S1300-110 | 13. Other (describe) | \$ | - |
| S1300-140 | (b) Less Total Current Obligations (Add Lines 4 through 13) | | \$ 53,483 |
| S1300-150 | (c) Surplus Cash (Deficiency)(Line (a) minus Line (b)) | | \$ 19,012 |
| PART B - COMPUTE DISTRIBUTIONS TO OWNERS AND REQUIRED DEPOSIT TO RESIDUAL RECEIPTS | | | |
| S1300-160 | 1. Surplus Cash | | \$ 19,012 |
| S1300-170 | 2a. Annual Distribution Earned During Fiscal Period Covered by the Statement | \$ | - |
| S1300-180 | 2b. Distribution Accrued and Unpaid as of the End of the Prior Fiscal Period | \$ | - |
| S1300-190 | 2c. Distributions Paid During Fiscal Period Covered by Statement | \$ | - |
| S1300-200 | 3. Amount to be Carried on Balance Sheet as Distribution Earned but Unpaid (Line 2a plus 2b minus 2c) | \$ | - |
| S1300-210 | 4. Amount Available for Distribution During Next Fiscal Period | | \$ - |
| S1300-210 | 5. Deposit Due Residual Receipts (Must be deposited with Mortgagee within 90 days after Fiscal Period ends) | | \$ 19,012 |
| PREPARED BY | | REVIEWED BY | |
| LOAN TECHNICIAN | | LOAN SERVICER | |
| DATE | | DATE | |

HUD-93486 (12-80)

SEACLIFF APARTMENTS
SUPPORTING DATA REQUIRED BY HUD
For the Year Ended December 31, 2019

Schedule of Changes in Fixed Asset Accounts:

| | 14XXP Balances 12/31/18 | 14XXAT Additions | 14XXDT Deductions | 14XX Balances 12/31/19 |
|---------------------------------|-------------------------------|---------------------|----------------------|------------------------------|
| 1410 Land and Improvements | \$ 1,280,947 | \$ 37,700 | \$ - | \$ 1,318,647 |
| 1420 Buildings and Improvements | 1,756,408 | 371,041 | - | 2,127,449 |
| 1460 Furnishings | 133,329 | - | - | 133,329 |
| 1490 Construction in Progress | 179,485 | 6,422 | 179,485 | 6,422 |
| 1400PT Totals | <u>\$ 3,350,169</u> | <u>\$ 415,163</u> | <u>\$ 179,485</u> | <u>\$ 3,585,847</u> |
| | 1495P | 6600 | 1400ADT | 1495 |
| Accumulated Depreciation | <u>\$ 361,513</u> | <u>\$ 87,954</u> | <u>\$ -</u> | <u>\$ 449,467</u> |
| 1400N Total Net Book Value | | | | <u>\$ 3,136,380</u> |

Schedule of Additions to Land and Improvements Account

| 1410A-010 Description | 1410A-030 Amount |
|--------------------------|---------------------|
| Parking Lot Improvements | <u>\$ 37,700</u> |

Schedule of Additions to Buildings and Improvements Account

| 1420A-010 Description | 1420A-030 Amount |
|--------------------------|---------------------|
| Unit Rehab - Fire | \$ 364,857 |
| Flooring | 6,184 |
| | <u>\$ 371,041</u> |

Schedule of Deductions from Construction in Progress Account

| 1490D-010 Description | 1490D-030 Amount |
|--------------------------|---------------------|
| Unit Rehab - Fire | <u>\$ 179,485</u> |

Schedule of Additions to Construction in Progress Account

| 1490A-010 Description | 1490A-030 Amount |
|--------------------------|---------------------|
| Sprinkler System | <u>\$ 6,422</u> |

SEACLIFF APARTMENTS
SUPPLEMENTAL STATEMENT OF CASH FLOWS REQUIRED BY HUD
For the Year Ended December 31, 2019

| | |
|--|-------------------------|
| Cash Flows from Operating Activities: | |
| S1200-010 Rental Receipts | \$ 758,356 |
| S1200-020 Interest Receipts | 4,573 |
| S1200-030 Other Operating Receipts | <u>9,412</u> |
| S1200-040 Total Receipts | <u>772,341</u> |
| S1200-050 Administrative | (10,825) |
| S1200-070 Management Fee | (84,183) |
| S1200-090 Utilities | (70,731) |
| S1200-110 Operating and Maintenance | (174,062) |
| S1200-120 Real Estate Taxes | (35,000) |
| S1200-140 Property Insurance | (25,319) |
| S1200-150 Miscellaneous Taxes and Insurance | (30,664) |
| S1200-160 Tenant Security Deposits | 7,501 |
| S1200-170 Other Operating Expenses | (11,443) |
| S1200-180 Interest on Mortgages | <u>(102,188)</u> |
| S1200-230 Total Disbursements | <u>(536,914)</u> |
| S1200-240 Net Cash Provided by Operating Activities | <u>235,427</u> |
| Cash Flows from Investing Activities: | |
| S1200-250 Net Withdrawals from the Reserve for Replacement Account | 72,999 |
| S1200-255 Net Deposits to the Tax and Insurance Escrow | (1,733) |
| S1200-260 Net Deposits to the Residual Receipts Reserve | (28) |
| S1200-330 Net Purchases of Fixed Assets | (247,804) |
| S1200-340 Insurance Proceeds | <u>100,549</u> |
| S1200-350 Net Cash Used by Investing Activities | <u>(76,017)</u> |
| Cash Flows from Financing Activities: | |
| S1200-360 Payment of Mortgage Principal | <u>(103,979)</u> |
| S1200-460 Net Cash Used by Financing Activities | <u>(103,979)</u> |
| S1200-470 Net Increase in Cash | 55,431 |
| S1200-480 Cash at Beginning of Year | <u>5,948</u> |
| S1200T Cash at End of Year | <u><u>\$ 61,379</u></u> |

SEACLIFF APARTMENTS

SCHEDULE OF RECEIPTS AND DISBURSEMENTS / DEVELOPMENT OPERATING FUND

For the Years Ended December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--|------------------|------------------|
| SOURCE OF FUNDS | | |
| Rental Operations | | |
| Receipts | | |
| Tenant Rent | \$ 253,933 | \$ 185,111 |
| Housing Assistance Payments | <u>504,423</u> | <u>392,024</u> |
| Total Rental Receipts | 758,356 | 577,135 |
| Other | <u>11,344</u> | <u>8,922</u> |
| Total Rental Operations Receipts | <u>769,700</u> | <u>586,057</u> |
| DISBURSEMENTS | | |
| Administrative | 95,008 | 121,977 |
| Operating | 70,731 | 59,914 |
| Maintenance | 174,062 | 258,638 |
| Interest | 102,188 | 104,691 |
| General | 90,983 | 71,935 |
| Resident Services | <u>11,443</u> | <u>15,551</u> |
| Total Rental Operations Disbursements | <u>544,415</u> | <u>632,706</u> |
| Cash Provided (Used) by Rental Operations Before Amortization of Mortgage | 225,285 | (46,649) |
| Amortization of Mortgages | <u>103,979</u> | <u>95,416</u> |
| Cash Provided (Used) by Rental Operations After Debt Service | 121,306 | (142,065) |
| OTHER RECEIPTS | | |
| Insurance Proceeds | 100,549 | 254,946 |
| Transfers from Restricted Cash Reserves and Escrows | 169,623 | 303,075 |
| Transfers from Tenant Security Deposit Account | 7,501 | - |
| OTHER DISBURSEMENTS OR TRANSFERS | | |
| Transfers to Tenant Security Deposit Account | - | (4,965) |
| Transfers to Restricted Cash Reserves and Escrows | (95,744) | (267,875) |
| Purchases of Fixed Assets | <u>(247,804)</u> | <u>(308,334)</u> |
| Increase (Decrease) in Development Fund Cash | 55,431 | (165,218) |
| Development Fund Cash Balance at Beginning of Year | <u>5,948</u> | <u>171,166</u> |
| Development Fund Cash Balance at End of Year | <u>\$ 61,379</u> | <u>\$ 5,948</u> |

SEACLIFF APARTMENTS

SCHEDULE OF RECEIPTS AND DISBURSEMENTS / DEVELOPMENT OPERATING FUND
(Continued)

For the Years Ended December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|------------------|-----------------|
| COMPOSITION OF DEVELOPMENT FUND CASH BALANCE AT END OF YEAR: | | |
| Development Operations Account | <u>\$ 61,379</u> | <u>\$ 5,948</u> |

SEACLIFF APARTMENTS

SCHEDULE OF RESTRICTED CASH RESERVES AND ESCROWS

For the Year Ended December 31, 2019

| Description of Fund | Balance Beginning of Year | Deposits | | Withdrawals | Balance End of Year |
|--|---------------------------------|--|--------------------|--|---------------------------|
| | | Transfers from Operations Account | Interest Earned | Transfers to Operations Account | |
| Restricted Accounts: | | | | | |
| Tax and Insurance Reserve | \$ 13,705 | \$ 58,036 | \$ - | \$ 56,303 | \$ 15,438 |
| Replacement Reserve | 193,143 | 37,708 | 2,613 | 113,320 | 120,144 |
| Residual Receipts Reserve | <u>12,561</u> | <u>-</u> | <u>28</u> | <u>-</u> | <u>12,589</u> |
| TOTAL RESTRICTED CASH RESERVES AND ESCROWS | <u>\$ 219,409</u> | <u>\$ 95,744</u> | <u>\$ 2,641</u> | <u>\$ 169,623</u> | <u>\$ 148,171</u> |

SEACLIFF APARTMENTS
SCHEDULE OF CASH IN FINANCIAL INSTITUTIONS

December 31, 2019

| Account Name | Account Number | Financial Institution | Account Type | Interest Rate | Maturity Date | Signatory Control | Balances |
|---------------------------------|----------------|--------------------------|--------------|---------------|---------------|-------------------|-------------------|
| Development Operations Account | 1371738 | Bath Savings Institution | Checking | 0.00% | N/A | Sole | <u>\$ 61,379</u> |
| Tax and Insurance Reserve | 1371835 | Bath Savings Institution | Checking | 0.00% | N/A | Either/Or | <u>\$ 15,438</u> |
| Replacement Reserve | 1371649 | Bath Savings Institution | Checking | 1.53% | N/A | Either/Or | <u>\$ 120,144</u> |
| Residual Receipts Reserve | 103140251 | Federated | Money Market | 0.15% | N/A | MaineHousing | <u>\$ 12,589</u> |
| Tenant Security Deposit Account | 1371851 | Bath Savings Institution | Checking | 0.00% | N/A | Sole | <u>\$ 11,116</u> |

SEACLIFF APARTMENTS

December 31, 2019

CERTIFICATE OF CORPORATE OFFICERS

We certify that we have examined the accompanying financial statements and supplemental data of Seacliff Apartments and, to the best of our knowledge and belief, the same are complete and accurate.

Catherine Powers
Corporate Officer
Seacliff Apartments

MAY 28, 2020
Date

CATHERINE POWERS
Print Name

Mary Terry
Corporate Officer
Seacliff Apartments

MAY 28, 2020
Date

MARY TERRY
Print Name

Federal Identification No. 22-2618694

SEACLIFF APARTMENTS

December 31, 2019

CERTIFICATE OF MANAGING AGENT

I certify that I have examined the accompanying financial statements and supplemental data of Seaclyff Apartments and, to the best of my knowledge and belief, the same are complete and accurate.

Dle
Signature

EXECUTIVE DIRECTOR
Title

BATA HOUSING AUTHORITY
Management Company

5/28/2020
Date

Federal Identification No. 22-2618694