

Pooks Hill Development Corporation

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

June 30, 2021 and 2020

Pooks Hill Development Corporation

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Independent Auditor's Report

To the Management
Pooks Hill Development Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Pooks Hill Development Corporation, which comprise the balance sheets as of June 30, 2021 and 2020, and the related statements of operations, changes in net assets 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 Pooks Hill Development Corporation as of June 30, 2021 and 2020, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The June 30, 2021 and 2020 accompanying supplementary information on pages 16 and 17 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CohnReznick LLP

Baltimore, Maryland
November 15, 2021

Pooks Hill Development Corporation

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

	<u>2021</u>	<u>2020</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 420,908	\$ 523,564
Interfund receivable	18,606	10,276
Accounts receivable and other assets, net	<u>139,359</u>	<u>58,571</u>
Total current assets	<u>578,873</u>	<u>592,411</u>
Restricted cash and cash equivalents		
Customer deposits - funded security deposits	63,100	66,582
Restricted cash and cash equivalents	<u>1,285,746</u>	<u>1,201,516</u>
Total restricted cash and cash equivalents	<u>1,348,846</u>	<u>1,268,098</u>
Noncurrent assets		
Rental property, net of accumulated depreciation	<u>14,549,048</u>	<u>15,076,891</u>
Total noncurrent assets	<u>14,549,048</u>	<u>15,076,891</u>
Total assets	<u><u>\$ 16,476,767</u></u>	<u><u>\$ 16,937,400</u></u>

Pooks Hill Development Corporation

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

Liabilities and Net Assets

	<u>2021</u>	<u>2020</u>
Current liabilities		
Accounts payable and accrued liabilities	\$ 112,964	\$ 215,141
Mortgage payable - current	479,862	464,654
Accrued interest payable	39,557	40,806
	<u>632,383</u>	<u>720,601</u>
Total current liabilities		
Current liabilities payable from restricted cash and cash equivalents		
Customer deposits payable - tenant security deposits	60,879	65,432
	<u>60,879</u>	<u>65,432</u>
Noncurrent liabilities		
Mortgage payable, net of unamortized debt issuance costs of \$39,569 and \$41,403 and net of current maturities, respectively	14,199,519	14,677,547
	<u>14,199,519</u>	<u>14,677,547</u>
Total noncurrent liabilities		
Total liabilities	14,892,781	15,463,580
Net assets	<u>1,583,986</u>	<u>1,473,820</u>
Total liabilities and net assets	<u>\$ 16,476,767</u>	<u>\$ 16,937,400</u>

See Notes to Financial Statements.

Pooks Hill Development Corporation

**Statements of Operations
Years Ended June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Operating revenue		
Dwelling rental	\$ 2,782,174	\$ 2,919,336
Commercial rental	34,604	33,760
Other income	12,868	945
	<u>2,829,646</u>	<u>2,954,041</u>
Total operating revenue		
Operating expenses		
Administration	310,573	325,609
Maintenance	309,807	341,075
Bad debt	3,448	16,874
Depreciation	527,843	527,058
Utilities	137,090	165,697
Fringe benefits	63,849	68,280
Interest expense	483,428	498,194
Other	883,463	963,167
	<u>2,719,501</u>	<u>2,905,954</u>
Total operating expenses		
Operating income	110,145	48,087
Nonoperating revenues		
Investment income	21	1,206
	<u>110,166</u>	<u>49,293</u>
Net income	<u>\$ 110,166</u>	<u>\$ 49,293</u>

See Notes to Financial Statements.

Pooks Hill Development Corporation

**Statements of Changes in Net Assets
Years Ended June 30, 2021 and 2020**

Balance, July 1, 2019	\$ 1,424,527
Net income	<u>49,293</u>
Balance, June 30, 2020	1,473,820
Net income	<u>110,166</u>
Balance, June 30, 2021	<u><u>\$ 1,583,986</u></u>

See Notes to Financial Statements.

Pooks Hill Development Corporation

**Statements of Cash Flows
Years Ended June 30, 2021 and 2020**

	2021	2020
Cash flows from operating activities		
Net income	\$ 110,166	\$ 49,293
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	527,843	527,058
Amortization of debt issuance costs	1,834	1,833
(Increase) decrease in assets		
Accounts receivable and other assets	(80,788)	(4,864)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	(102,177)	106,170
Accrued interest payable	(1,249)	(1,209)
Customer deposits payable	(4,553)	4,243
	<u>451,076</u>	<u>682,524</u>
Cash flows from investing activities		
(Increase) decrease in interfund receivable	(8,330)	21,300
Purchase of fixed asset property	-	(23,529)
	<u>(8,330)</u>	<u>(2,229)</u>
Cash flows from financing activities		
Payments on mortgage payable	(464,654)	(449,927)
	<u>(464,654)</u>	<u>(449,927)</u>
Net cash used in financing activities		
	<u>(464,654)</u>	<u>(449,927)</u>
Net (decrease) increase in cash, cash equivalents, and restricted cash	(21,908)	230,368
Cash, cash equivalents, and restricted cash, beginning	<u>1,791,662</u>	<u>1,561,294</u>
Cash, cash equivalents, and restricted cash, end	<u>\$ 1,769,754</u>	<u>\$ 1,791,662</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 482,843</u>	<u>\$ 497,570</u>

See Notes to Financial Statements.

Pooks Hill Development Corporation

Notes to Financial Statements June 30, 2021 and 2020

Note 1 - Organization

Pooks Hill Development Corporation (the "Corporation") was formed as a nonstock corporation under the laws of the State of Maryland on October 4, 2012. The Corporation is a component unit of the Housing Opportunities Commission of Montgomery County, Maryland (the "Commission"). It was formed for the purpose of acquiring a 190-unit apartment complex to provide rental housing to persons of low and moderate income and is located in Bethesda, Maryland operating under the name Pooks Hill Apartment Tower (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 \$46 and \$1,902, 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 and improvements	Straight-line	40 years
Site improvements	Straight-line	15 years
Furniture and equipment	Straight-line	10 years

Impairment of long-lived assets

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

Pooks Hill Development Corporation

Notes to Financial Statements June 30, 2021 and 2020

Income taxes

The Corporation is a component unit of the Commission and is therefore exempt from income taxation. Accordingly, the 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 Corporation to report information regarding its exposure to various tax positions taken by the Corporation. Management has determined whether any tax positions have met the recognition threshold and has measured the Corporation's exposure to those tax positions. Management believes that the Corporation has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. As of June 30, 2021, returns for the tax years 2018 through 2020 generally remain subject to examination by taxing authorities.

Rental income

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

Commercial lease income is recognized as earned in accordance with the respective lease terms. GAAP requires commercial lease income to be recognized on a straight-line basis over the terms of the respective leases. Rental income recorded on the straight-line method in excess of the rents billed is recognized as deferred rent asset.

Advertising costs

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

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 - Restricted cash and cash equivalents

Replacement reserve

In accordance with the Regulatory Agreement with the Commission, disbursements from the reserve for replacement for the purpose of maintenance, improvements, or renovations of the Project cannot be made without prior consent of the Commission. The reserve for replacement is pooled with other properties that are controlled by the Commission and deposited with Montgomery County, Maryland. Monthly deposits of \$65 per unit commenced on the date of the first installment of principal and interest. This amount shall be adjusted annually by 3%. As of June 30, 2021 and 2020, the balance in the reserve was \$952,683 and \$869,826, respectively.

Renovation reserve

The Corporation has an additional renovation reserve to be used to fund capital improvements or major repairs. As of June 30, 2021 and 2020, the balance in the reserve was \$285,063 and \$285,063, respectively.

Mortgage escrow

Under the agreements with the affiliate of the Commission, the Corporation is required to make monthly escrow deposits for mortgage insurance. As of June 30, 2021 and 2020, the escrow was \$48,000 and \$46,627, respectively.

Pooks Hill Development Corporation

Notes to Financial Statements June 30, 2021 and 2020

Note 4 - 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	\$ 420,908	\$ 523,564
Customer deposits - funded security deposits	63,100	66,582
Replacement reserve	952,683	869,826
Renovation escrow	285,063	285,063
Mortgage escrow	<u>48,000</u>	<u>46,627</u>
Total cash, cash equivalents, and restricted cash shown in statements of cash flows	<u>\$ 1,769,754</u>	<u>\$ 1,791,662</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, a renovation reserve used to fund capital improvements, and an escrow for mortgage insurance deposits.

Note 5 - Rental property

Property held by the Corporation at June 30, 2021 and 2020 consists of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 3,726,400	\$ 3,726,400
Buildings and improvements	19,405,185	19,405,185
Site improvements	426,732	426,732
Furniture and equipment	337,162	337,162
Accumulated depreciation	<u>(9,346,431)</u>	<u>(8,818,588)</u>
	<u>\$ 14,549,048</u>	<u>\$ 15,076,891</u>

Note 6 - Mortgage payable

The Corporation obtained financing from the Commission through the issuance of multi-family housing development bonds, in an aggregate amount not to exceed \$18,200,000. The loan converted to permanent financing on December 18, 2012, at which time monthly payments of principal and interest in the amount of \$78,958 commenced. The loan bears interest at 3.225% and matures on January 1, 2043. The Project serves as collateral for the loan. As of June 30, 2021 and 2020, the outstanding principal and accrued interest payable was \$14,718,950 and \$15,183,604, and \$39,557 and \$40,806, respectively.

As discussed in Note 2, debt issuance costs, net of accumulated amortization, totaled \$39,569 and \$41,403 as of June 30, 2021 and 2020, respectively, and are related to the mortgage payable. Debt issuance costs on the above mortgage are being amortized using an imputed rate of 3.249%. For

Pooks Hill Development Corporation

Notes to Financial Statements June 30, 2021 and 2020

the years ended June 30, 2021 and 2020, amortization expense related to debt issuance costs was \$1,834 and \$1,833, respectively, and is included in interest expense in the statements of operations.

Aggregate maturities of the mortgage payable for the five years following June 30, 2021 and every five years thereafter are as follows:

2022	\$	479,862
2023		495,568
2024		511,789
2025		528,540
2026		545,840
2027-2031		3,009,174
2032-2036		3,534,951
2037-2041		4,227,626
2042-2043		1,385,600
		<hr/>
	\$	14,718,950
		<hr/> <hr/>

Note 7 - Related party transactions

Development corporation fee payable

The Commission earns an annual noncumulative development corporation fee. The fee is based off of the property's annual budget and is payable from available cash flow. For the years ended June 30, 2021 and 2020, development corporation fees of \$482,349 and \$573,168, respectively, were incurred and are included in other expenses on the statements of operations. As of June 30, 2021 and 2020, development corporation fees of \$0 and \$100,000, respectively, remain payable and are included in accounts payable and other accrued liabilities on the balance sheets.

Intercompany receivable

The Corporation 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, \$18,606 and \$10,276, respectively, were due to the Corporation.

Asset management fee

Pursuant to Section 7 of the Asset Management Fee Agreement (the "Agreement"), the Corporation agreed to 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. The Agreement renews automatically without notice. For the years ended June 30, 2021 and 2020, asset management fees of \$202,210 and \$202,340, respectively, were incurred and paid and are included in other expenses on the statements of operations.

Loan management fees

In accordance with the Regulatory Agreement with the Commission, the Corporation is required to pay the Commission an annual monitoring fee of 0.25% of the original principal balance of the loan. For the years ended June 30, 2021 and 2020, loan management fees of \$45,500, respectively, were incurred and paid and are included in other expenses on the statements of operations.

Pooks Hill Development Corporation

Notes to Financial Statements June 30, 2021 and 2020

Shared expenses

The Corporation shares certain operating costs with affiliated projects within its geographical region. As of June 30, 2021 and 2020, the Organization has no amounts due to or from related parties for shared costs with affiliated projects.

Note 8 - Property management fee

The Corporation has an agreement with Vantage Management Inc., an unrelated party, to provide property management services, effective September 1, 2013 through September 30, 2016. After that date the agreement automatically renews annually unless terminated by the parties. The agreement provides for a fee of \$42 per unit per month increasing annually for the change in CPI. Effective January 2020 through December 2021, the fee was increased to \$44.10 per month per occupied unit. Management fees charged to operations under this agreement for the years ended June 30, 2021 and 2020 were \$94,198 and \$100,223, respectively. As of June 30, 2021 and 2020, \$8,026 and \$8,247, respectively, remained payable and are included in accounts payable and other accrued liabilities on the balance sheets.

Note 9 - Payment in lieu of taxes ("PILOT")

The Corporation entered into an agreement with Montgomery County, Maryland for a PILOT. Under the agreement, the Corporation received a 100% reduction of the county and special area real property taxes. The agreement may be terminated by the county as of June 30 of any tax year upon 30 days' written notice to the Corporation, as defined. During the years ended June 30, 2021 and 2020, the Corporation did not incur or pay property taxes to Montgomery County, Maryland under this agreement.

Note 10 - Net assets

The Commission, the Corporation's controlling entity, is required to report on a fund basis. The Corporation, therefore has reported net assets on a fund basis to conform to the Commission's presentation. This presentation does not conform with generally accepted accounting principles, but is not materially different. Below is a summary of the Corporation's net assets as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Investment in capital assets, net	\$ (169,902)	\$ (106,713)
Restricted net assets	1,287,967	1,202,666
Unrestricted net assets	<u>465,921</u>	<u>377,867</u>
	<u>\$ 1,583,986</u>	<u>\$ 1,473,820</u>

Pooks Hill Development Corporation

Notes to Financial Statements June 30, 2021 and 2020

Note 11 - Rental income under operating lease

The Project has a commercial lease that commenced on August 1, 2017 with the Celco Partnership for a term of five years. The Agreement shall automatically be extended for three additional five-year terms through August 1, 2037, unless terminated by the lessee, as defined. The following is a schedule of minimum future rental income on the commercial lease through the initial lease term:

2022	\$	<u>29,435</u>
	\$	<u><u>29,435</u></u>

Note 12 - Concentration of credit risk

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

Note 13 - 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 14 - 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 Corporation through November 15, 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

Pooks Hill Development Corporation

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

	2021	2020
Administration		
Marketing and lease-up	\$ 26,551	\$ 30,296
Contract administration salary	130,508	132,732
Professional association dues	504	560
Contract management fee	94,198	100,223
Miscellaneous operating expenses	1,741	1,972
Postage	490	525
Printing/reproduction	1,888	2,203
Office supplies	1,717	2,941
Auditing services	12,295	12,845
Legal services	4,031	3,154
Food and beverages	290	180
Credit check services	-	1,578
Telephone	11,909	11,918
Software	13,298	13,426
Rental license fees	9,609	8,986
Bank fees	394	281
Internet access charges	-	180
Security deposit interest	1,150	1,609
	<u>\$ 310,573</u>	<u>\$ 325,609</u>
Total administration expenses	<u>\$ 310,573</u>	<u>\$ 325,609</u>
Maintenance		
Contract maintenance salary	\$ 106,226	\$ 93,768
Electrical supplies	5,018	4,713
Appliance supplies	2,025	5,502
Plumbing supplies	2,761	3,506
Employee uniforms	4,897	3,605
Cleaning and janitorial supplies	669	1,410
Windows and glass	-	7
Doors	945	1,650
Hardware supplies	2,934	3,838
Locks and keys	-	-
HVAC supplies	3,708	9,399
Flooring and carpeting	7,215	16,034
Miscellaneous equipment	1,797	-
Kitchen and bath supplies	950	8,695
Appliance equipment	1,693	1,427
Plumbing contracts	3,356	1,710
Cleaning and janitorial contracts	72,024	75,249
Grounds and landscaping contracts	8,638	12,465
HVAC contracts	5,051	352
Paint and wall coverings contracts	28,052	37,820
Flooring and carpeting contracts	-	-
Elevator contracts	14,964	15,505
Exterminating contracts	5,354	5,926
Snow removal contracts	7,597	2,810
Swimming pool contracts	3,600	11,016
Miscellaneous contracts	12,381	15,541
Electrical contracts	4,354	3,962
Plumbing contracts capital	3,598	5,165
	<u>\$ 309,807</u>	<u>\$ 341,075</u>
Total maintenance expenses	<u>\$ 309,807</u>	<u>\$ 341,075</u>

Pooks Hill Development Corporation

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

	<u>2021</u>	<u>2020</u>
Utilities		
Water	\$ 50,831	\$ 62,159
Electric	47,038	57,642
Natural gas	21,516	26,689
Trash collection	17,705	19,207
	<u>137,090</u>	<u>165,697</u>
Total utility expenses	<u>\$ 137,090</u>	<u>\$ 165,697</u>
Fringe benefits		
Contract managed benefits	\$ 63,537	\$ 67,513
Contract other training	312	767
	<u>63,849</u>	<u>68,280</u>
Total fringe benefits	<u>\$ 63,849</u>	<u>\$ 68,280</u>
Other		
Mortgage insurance	\$ 74,657	\$ 76,946
Other taxes	3,071	3,035
Property insurance	54,554	36,021
Water quality protection charge	2,808	2,721
Security contracts	16,039	22,048
Asset management fee	202,210	202,340
Development corporation fee	482,349	573,168
Coronavirus expense	2,275	1,388
Loan management fee	45,500	45,500
	<u>883,463</u>	<u>963,167</u>
Total other expenses	<u>\$ 883,463</u>	<u>\$ 963,167</u>

See Independent Auditor's Report.



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