Oaks at Four Corner Development Corporation

Financial Statements

For The Years Ended
June 30, 2019 And 2018

Oaks at Four Corner Development Corporation

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For the Years Ended June 30, 2019 and 2018

Independent Auditor's Report

To the Board of Commissioners
Oaks at Four Corner Development Corporation
10400 Detrick Avenue
Kensington, MD 20895

Report on the Financial Statements

We have audited the accompanying financial statements of Oaks at Four Corner Development Corporation (The Corporation), which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of operations, changes in net assets (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 balance sheets of Oaks at Four Corner Development Corporation as of June 30, 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.

Hertzbach & Company, P.A.

Owings Mills, Maryland
October 10, 2019

Oaks at Four Corner Development Corporation

Balance Sheets
As of June 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	$ 149,870	$ 279,338
Accounts receivable, net and other assets	39,214	33,471
Interfund receivable	9,915	8,970
Total unrestricted current assets	198,999	321,779
Restricted cash and cash equivalents		
Tenants' security deposits	122,405	114,619
Replacement reserve	486,286	352,845
Mortgage Escrow	11,229	11,031
Total restricted cash and cash equivalents	619,920	478,495
Property and equipment		
Property and equipment, net of accumulated depreciation	2,859,499	2,995,210
Total assets	$ 3,678,418	$ 3,795,484

See independent auditor's report and notes to financial statements.

Oaks at Four Corner Development Corporation

Balance Sheets (Continued)
As of June 30, 2019 and 2018

	2019	2018
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 66,515	$ 75,122
Accrued interest payable	8,444	9,252
Mortgage payable - current	179,143	168,233
Prepaid rent	11,811	11,286
Total current liabilities	265,913	263,893
Current liabilities payable from restricted assets		
Tenants' security deposits	120,224	109,945
Total current liabilities payable from restricted assets	120,224	109,945
Long-term liabilities		
First mortgage, net of current maturities and unamortized financing fees of $16,786 - 2019 and $19,369 - 2018	1,398,093	1,574,654
Note payable	1,580,714	1,685,905
Deferred revenue	600	1,200
Total long-term liabilities	2,979,407	3,261,759
Total liabilities	3,365,544	3,635,597
Net assets		
Investment in capital assets, net of related debt	(315,237)	(452,951)
Restricted net assets	499,696	368,550
Unrestricted net assets	128,415	244,288
Total net assets	312,874	159,887
Total liabilities and net assets	$ 3,678,418	$ 3,795,484

See independent auditor's report and notes to financial statements.

Oaks at Four Corner Development Corporation

Statements of Operations
For the Years Ended June 30, 2019 and 2018

	2019	2018
Operating revenues		
Dwelling rental income	$ 1,367,278	$ 1,361,873
Other income	6,962	6,934
Total operating revenues	1,374,240	1,368,807
Operating expenses		
Administrative	230,898	231,977
Operating and maintenance	349,905	322,901
Depreciation	190,638	188,837
Utilities	82,941	84,048
Interest expense	107,995	118,219
Other	182,820	179,928
Bad debt expense	4,304	536
Fringe benefits	79,020	100,029
Total operating expenses	1,228,521	1,226,475
Operating income	145,719	142,332
Nonoperating revenue		
Interest income	7,268	1,640
Total nonoperating revenue	7,268	1,640
Net income	$ 152,987	$ 143,972

See independent auditor's report and notes to financial statements.

Oaks at Four Corner Development Corporation

Statements of Changes in Net Assets (Deficit)
For the Years Ended June 30, 2019 and 2018

Balance - July 1, 2017	$	15,915
Net income - June 30, 2018		143,972
Balance - June 30, 2018		159,887
Net income - June 30, 2019		152,987
Balance - June 30, 2019	$	312,874

See independent auditor's report and notes to financial statements.

Oaks at Four Corner Development Corporation

Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Net income	$ 152,987	$ 143,972
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	190,638	188,837
Amortization of financing fees (debt issuance cost)	2,583	2,583
Bad debt expense	4,304	536
(Increase) decrease in operating assets:		
Accounts receivable, net and other assets	(10,047)	(15,320)
Interfund receivable	(945)	(5,636)
Tenant security deposits	2,493	(3,892)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(8,607)	(494)
Accrued interest payable	(808)	(829)
Prepaid rents	525	234
Deferred revenue	(600)	(600)
Net cash provided by operating activities	332,523	309,391
Cash flows from investing activities		
Deposits to reserve for replacements, net	(133,441)	(49,314)
Deposits to mortgage escrows	(198)	(200)
Acquisition of property and equipment	(54,927)	-
Net cash used in investing activities	(188,566)	(49,514)
Cash flows from financing activities		
Mortgage principal payments	(273,425)	(157,987)
Net cash used in financing activities	(273,425)	(157,987)
Net increase (decrease) in cash	(129,468)	101,890
Cash, beginning of year	279,338	177,448
Cash, end of year	$ 149,870	$ 279,338
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 106,220	$ 116,465

See independent auditor's report and notes to financial statements.

1) Nature of Business and Summary of Significant Accounting Policies

Nature of Business
Oaks at Four Corner Development Corporation (the Corporation) is a nonprofit, nonstock corporation formed in the State of Maryland on August 21, 1996 to acquire, develop and manage a 120-unit moderately priced housing property (the Project). The units are located in Silver Spring, Montgomery County, Maryland.

Housing projects undertaken, financed, or assisted by the Corporation and the projects' related expenditures must be approved by the Housing Opportunities Commission of Montgomery County, Maryland, (a component unit of Montgomery County, Maryland) (HOC). The Corporation is legally separate from HOC, but the Corporation's financial statements are included in the Opportunity Housing Fund of HOC as a blended component unit. The Corporation's directors must be commissioners of HOC and, therefore, HOC can significantly influence the programs, projects, activities of, and the level of service performed by the Corporation.

Method of Accounting
The Corporation's financial statements are prepared on the accrual method of accounting which recognizes income when it is earned and expenses when they are incurred.

Cash and Cash Equivalents
The Corporation considers all highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents. There were no cash equivalents as of June 30, 2019 and 2018.

Rents Receivable and Bad Debts
Accounts receivable are reported at their outstanding balances, reduced by an allowance for doubtful accounts.

Management periodically evaluates the need for an allowance for doubtful accounts by considering the Corporation's past receivables loss experience, known and inherent risks in the accounts receivable population, adverse situations that may affect a debtor's ability to pay, and current economic conditions.

The allowance for doubtful accounts is increased by charges to bad debt expense and decreased by charge offs of the accounts receivable balances. Accounts receivable are considered past due after the tenth of the month in which they were due. Accounts receivable are considered uncollectible if they are outstanding over 90 days. There was no allowance as of June 30, 2019 and 2018.

Property and Equipment
Land, buildings and improvements are recorded at cost. Building and improvements are depreciated over their estimated useful lives of 5 to 40 years using the straight-line method.

1) Nature of Business and Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets
The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. There were no asset impairments during the years ended June 30, 2019 and 2018.

Interfund Receivable
The Corporation has numerous transactions with HOC to finance operations and provide services. To the extent that funds to finance certain transactions of the Corporation has not been paid or collected as of year-end, interfund payables and receivables are recorded. The balance of the interfund receivable as of June 30, 2019 and 2018 was $9,915 and $8,970, respectively.

Net Assets
HOC, the Corporation's principal investor, is required to report on a fund basis and categorize net assets as the following:

Investment in capital assets represents the total of property and equipment, net less mortgage payable.

Restricted net assets represents the sum of total restricted cash and cash equivalents and tenant security deposits less the tenant security deposit liability.

Unrestricted net assets represents the balance remaining after investment in capital assets and restricted net assets.

Interest
The Corporation has adopted the FASB ASC Section 835, *Interest*, which states that debt issuance costs related to a note shall be reported on the balance sheet as a direct deduction from the face amount of that note, and any amortization of debt issuance costs shall be reported as interest expense. Accordingly, the Corporation is reporting loan fees related to its mortgages payable as a direct deduction from the principal balances of the mortgages, and is reporting amortization of the loan fees as interest expense on the mortgages payable. See Note 5 for more information.

Income Taxes
The Corporation is exempt from income taxes under Section 115 of the Internal Revenue Code, which excludes from gross income amounts earned by state and local governments.

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.

1) Nature of Business and Summary of Significant Accounting Policies (Continued)

Rental Revenue
Rental income is recognized as rentals become due from residential tenants. Rental payments received in advance are deferred until earned. All leases between the Project and tenants of the properties are operating leases.

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

2) Concentration of Risk

The Corporation maintains its cash balances in several accounts at various financial institutions. At times, these balances may exceed the federal insured limits; however, the Corporation has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at June 30, 2019 and 2018.

3) Restricted Cash and Cash Equivalents

Mortgage Escrows
Pursuant to the terms of the mortgage note, the Corporation is required to make monthly deposits with the mortgagee for payment of mortgage insurance premium so that a sufficient amount is on deposit with the mortgagee when the actual payment of such expenses is due.

The activity of these funds for the years ended June 30, 2019 and 2018 is as follows:

	2019	2018
Balance beginning of year	$ 11,031	$ 10,831
Withdrawals	(8,148)	(8,978)
Deposits	8,346	9,178
Balance end of year	$ 11,229	$ 11,031

Replacement Reserve
Pursuant to the regulatory agreement with HUD, the Corporation is required to maintain a replacement reserve escrow account with HOC as trustee. The replacement reserve is set aside for future maintenance of the property.

See independent auditor's report.

3) Restricted Cash and Cash Equivalents (Continued)

Replacement Reserve (Continued)

Details of the reserve for replacement account during the years ended June 30 were as follows:

	2019	2018
Balance beginning of year	$ 352,845	$ 303,531
Monthly deposits*	171,996	171,996
Reserve releases	(46,895)	(125,792)
Interest earned	8,340	3,110
Balance end of year	$ 486,286	$ 352,845

*In July 2011, the Corporation began contributing monthly payments of $2,792 to the replacement reserve. Annually the monthly payment is scheduled to increase by 2.5%, and may be modified as needed by HOC. However, HOC reviews the capital needs of the Corporation on an annual basis and approves an annual deposit amount based on those needs. Monthly deposits for the years 2019 and 2018 were $14,333 for each year.

4) Property and Equipment

Property and equipment detail for the years ended June 30 was as follows:

	2019	2018
Buildings	$ 6,950,447	$ 6,895,520
Furniture and equipment	174,890	174,890
Site improvements	105,946	105,946
Total property and equipment	7,231,283	7,176,356
Less: accumulated depreciation	4,371,784	4,181,146
Property and equipment, net	$ 2,859,499	$ 2,995,210

See independent auditor's report.

Oaks at Four Corner Development Corporation

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

5) Long-Term Debt

Mortgage Payable

The Corporation is obligated to repay a mortgage to HOC. On September 3, 1996, the Corporation assumed the HUD regulatory agreement from HOC in conjunction with execution of a mortgage loan from HOC for $3,695,000. The note is secured by a promissory note, deed of trust, security and assignment of rent agreements, and substantially all assets. Financing fees related to the mortgage were $73,900 and are being amortized to interest expense on a straight-line basis, the results of which are not materially different than that of the effective interest method, over the term of the loan. The loan provides for interest at a nominal rate of 6.30% per annum and an effective interest rate of 6.40% per annum, to accrue until maturity, with the final balance of principal and accrued interest due September 1, 2026. The outstanding principal and accrued interest balances as of June 30, 2019 and 2018 are $1,594,022 and $8,444, respectively, for 2019 and $1,762,256 and $9,252, respectively, for 2018. Unamortized financing fees for the years ended June 30, 2019 and 2018 were $16,786 and $19,369, respectively. For the years ended June 30, 2019 and 2018, interest incurred on the mortgage was $107,995 and $118,219, respectively, including amortized financing fees of $2,583 for each of the years.

Maturities of the mortgage payable are as follows:

2020	$ 179,143
2021	190,761
2022	203,132
2023	216,305
2024	230,333
2025 - 2027	574,348
Total	$ 1,594,022

Estimated financing fees being amortized to interest expense for each of the next five years are $2,583. The liability of the Corporation under the mortgages is limited to the underlying value of the real estate collateral and an assignment of rents, plus other amounts deposited with the lender.

Note Payable

The Corporation assumed a note payable, Deed of Trust Security Agreement, and Regulatory Agreement with Montgomery County, Maryland. The original amount of the note is $2,349,725 and is non-interest bearing. There were no financing fees incurred on the note. An annual payment of principal is due on July 1 and is paid from the net cash flow from the Property. The note matures on the termination of the ground lease on December 31, 2035. As of June 30, 2019 and 2018 the loan balance was $1,580,714 and $1,685,905, respectively.

6) Real Estate Taxes

The Corporation has entered into a Payment In Lieu Of Taxes (PILOT) agreement for the 120 units whereby a portion of Montgomery County real estate tax and special area taxes are abated.

See independent auditor's report.

7) Property Management Fee

The Project is managed by Edgewood Management Corporation pursuant to a management agreement. The fee is calculated at a flat rate of $36 per unit per month, or $51,840 annually with an incentive bonus of $2 per unit per month when the property is operating at or above 96.5% occupancy, per the monthly compliance report. For the years ended June 30, 2019 and 2018, management fees of $54,720 were incurred.

8) Related Party Transactions

Ground Lease
The Corporation assumed a ground lease from HOC which was entered into with Montgomery County, Maryland. The ground lease provides for a rent payment of $100 per year payable due on the anniversary date of the agreement and provides that the premises be used solely for housing the elderly and handicapped. The ground lease terminates on December 31, 2035.

Asset Management Fee
The Corporation was charged an asset management fee of $135,670 and $129,210, respectively, for the years ended June 30, 2019 and 2018, by HOC.

9) Housing Assistance Payment Contract

Effective June 17, 2010, the Corporation assumed from HOC the Assignment, Assumption and Amendment Agreement of the Section 8 Housing Assistance Payment Contract. The agreement was renewed on December 1, 2016 and is renewable annually. Tenant assistance payments for the years ended June 30, 2019 and 2018 were $122,931 and $136,225, respectively.

10) Subsequent Events

Management has evaluated events and transactions subsequent to the balance sheet date for potential recognition or disclosure through the independent auditor's report date, the date the financial statements were available to be issued. There were no events that required recognition or disclosure in the financial statements.

HERTZBACH
certified public accountants · consultants

Independent Auditor's Report on Supplementary Information

We have audited the financial statements of Oaks at Four Corner Development Corporation as of and for the years ended June 30, 2019 and 2018, and our report thereon dated October 10, 2019, expressed an unmodified opinion on those financial statements, which appears on pages one and two. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules are presented for the purpose of additional analysis and are 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 presented in all material respects in relation to the financial statements as a whole.

Hertzbach & Company, P.A.

Owings Mills, Maryland
October 10, 2019

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Oaks at Four Corner Development Corporation

Detail of Selected Balance Sheet Accounts
As of June 30, 2019 and 2018

	2019	2018
Accounts receivable, net and other assets		
Rents receivable	$ 4,915	$ 225
Prepaid insurance	4,236	3,732
Prepaid mortgage insurance premium	2,037	2,244
Insurance claims receivable	26,802	26,802
Other receivable	1,224	468
Total accounts receivable, net and other assets	$ 39,214	$ 33,471
Accounts payable and accrued expenses		
Accounts payable	$ 25,001	$ 51,903
Accrued salaries	4,532	4,826
Accrued utility payments	5,301	7,990
Clearing resident refunds	12,679	10,278
Other accrued liabilities	19,002	125
Total accounts payable and accrued expenses	$ 66,515	$ 75,122

See independent auditor's report on supplementary information.

Oaks at Four Corner Development Corporation

Detailed Statements of Operations
For the Years Ended June 30, 2019 and 2018

	2019	2018
Dwelling rental income		
Rent	$ 1,401,673	$ 1,392,527
Vacancies and concessions	(53,863)	(47,656)
Tenant charges	11,860	8,956
Laundry income	7,608	8,046
Total dwelling rental income	$ 1,367,278	$ 1,361,873
Other income		
User fees	$ 1,545	$ 1,534
Miscellaneous	137	120
Rental license	5,280	5,280
Total other income	$ 6,962	$ 6,934
Administrative expenses		
Advertising and marketing	$ 2,954	$ 2,720
Property management fees	54,720	54,720
Miscellaneous	3,530	1,385
Salaries	77,734	86,930
Office supplies and expense	11,300	9,027
Licenses and fees	5,553	5,697
Professional fees	11,877	10,686
Resident service fee	55,380	53,297
Telephone	7,850	7,515
Total administrative expenses	$ 230,898	$ 231,977

See independent auditor's report on supplementary information.

Oaks at Four Corner Development Corporation

Detailed Statements of Operations (Continued)
For the Years Ended June 30, 2019 and 2018

	2019	2018
Operating and maintenance expenses		
Contracts	$ 75,324	$ 71,912
Exterminating	7,973	8,168
Grounds maintenance	28,081	27,800
HVAC repairs and maintenance	9,944	19,532
Janitorial	9,228	3,596
Salaries	136,710	132,420
Snow removal	3,621	2,965
Supplies and repairs	79,024	56,508
Total operating and maintenance expenses	$ 349,905	$ 322,901
Utilities expense		
Gas	$ 4,616	$ 6,616
Electric	40,888	38,973
Trash removal	8,433	8,833
Water	29,004	29,626
Total utilities expense	$ 82,941	$ 84,048
Other expenses		
Asset management fees	$ 135,670	$ 129,210
Insurance - property	21,513	23,559
Ground rent	200	-
Mortgage insurance premium	8,369	9,173
Security contracts	11,345	12,263
Taxes	5,723	5,723
Total other expenses	$ 182,820	$ 179,928

See independent auditor's report on supplementary information.

Oaks at Four Corner Development Corporation

Distribution of Net Cash Flow
For the Year Ended June 30, 2019 and 2018

Calculation of NCF per terms of Montgomery County loan agreement:

	2019	2018
Net cash provided by operating activities	$ 332,523	$ 309,391
Add: Replacement reserve releases	46,895	125,783
Less: Purchase of building and equipment	(54,927)	-
Deposits to replacement reserve	(171,996)	(171,996)
Mortgage principal payments	(168,234)	(157,987)
Cash flow available for Montgomery County note payment	$ (15,739)	$ 105,191

See independent auditor's report on supplementary information.