

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

ALEXANDER HOUSE DEVELOPMENT CORPORATION
(A MARYLAND CORPORATION)

FOR YEAR ENDED JUNE 30, 2020

Alexander House Development Corporation
(A Maryland Corporation)

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Alexander House Development Corporation,
Housing Opportunities Commission of Montgomery County

Report on the Financial Statements

We have audited the accompanying financial statements of Alexander House Development Corporation, which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, changes in net position and statement of cash flows for the year then ended, and the related notes to the financial statements. The financial statements of Alexander House Development Corporation as of June 30, 2019 were audited by other auditors whose report, dated March 23, 2020 expressed an unqualified opinion on those statements before restatement.

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 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 Alexander House Development Corporation'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 Alexander House Development Corporation'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 Alexander House Development Corporation, as of June 30, 2020, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the financial statements for the year ended June 30, 2019 have been restated to correct an error. Our opinion is not modified with respect to this matter.

As part of our audit of June 30, 2020 financial statements of Alexander House Development Corporation, we also audited the adjustments described in Note 12 that were applied to restate the June 30, 2019 financial statements of Alexander House Development Corporation. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the June 30, 2019 financial statements of Alexander House Development Corporation other than with respect to the adjustment(s) and accordingly, we do not express an opinion or any other form of assurance on the June 30, 2019 financial statements.

Other Matters – Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 24 – 27 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.

MK Group CPAs & Consultants LLC
MK Group CPAs & Consultants LLC
Certified Public Accountants
Oakbrook, Illinois

December 17, 2020

Alexander House Development Corporation
(A Maryland Corporation)

STATEMENT OF FINANCIAL POSITION

June 30, 2020

ASSETS

	<u>2020</u>
<u>CURRENT ASSETS</u>	
Unrestricted:	
Cash and cash equivalents	\$ 581,105
Accounts Receivable and other assets, net	<u>252,877</u>
Total Unrestricted current assets	<u>833,982</u>
Restricted Assets:	
Restricted cash and cash equivalents	1,285,805
Restricted for tenant security deposits	<u>53,561</u>
Total Restricted assets	<u>1,339,366</u>
Total Current Assets	<u>2,173,348</u>
<u>NONCURRENT ASSETS</u>	
Capital Assets, net of depreciation (Restated)	28,105,429
Interest receivable	2,543,568
Seller note receivable	<u>14,218,641</u>
Total Noncurrent Assets	<u>44,867,638</u>
Total assets	<u><u>\$ 47,040,986</u></u>

See notes to financial statements

Alexander House Development Corporation
(A Maryland Corporation)

STATEMENT OF FINANCIAL POSITION - CONTINUED

June 30, 2020

LIABILITIES AND NET POSITION

	<u>2020</u>
<u>CURRENT LIABILITIES</u>	
Current Unrestricted Liabilities:	
Accounts payable and accrued liabilities	\$ 106,389
Accrued interest	146,812
Accounts payable - related parties	809,599
Mortgage payable - current	<u>623,809</u>
Total Current unrestricted liabilities	<u>1,686,609</u>
Current Liabilities payable from Restricted Assets:	
Tenant security deposits	<u>46,029</u>
Total current liabilities payable from restricted assets	<u>46,029</u>
Total current liabilities	<u>1,732,638</u>
<u>NONCURRENT LIABILITIES</u>	
Mortgage payable	50,626,628
Less: Debt issuance cost	<u>(1,989,103)</u>
Total noncurrent liabilities	<u>48,637,525</u>
Total liabilities	<u><u>50,370,163</u></u>
<u>NET POSITION</u>	
Net Investment in capital assets:	(23,145,008)
Restricted net position	1,293,339
Unrestricted net position	<u>18,522,492</u>
Total net position (Restated)	<u>(3,329,177)</u>
Total liabilities and total net position (restated)	<u><u>\$ 47,040,986</u></u>

See notes to financial statements

Alexander House Development Corporation
(A Maryland Corporation)

STATEMENT OF ACTIVITIES

Year ended June 30, 2020

	<u>2020</u>
Operating Revenue	
Dwelling rental	\$ 3,401,277
Management fees and other income	19,344
	<hr/>
Total operating revenues	3,420,621
	<hr/>
Operating expenses	
Administrative	380,614
Maintenance	396,557
Utilities	219,635
Fringe benefits	48,606
Other	616,804
Bad debt expense	18,587
	<hr/>
Total operating expenses	1,680,803
	<hr/>
Operating income before financial income & expenses and depreciation	1,739,818
Financial income (expenses)	
Interest income	763,103
Interest expense	(2,402,003)
	<hr/>
Income before depreciation	100,918
Depreciation	(1,245,652)
	<hr/>
Change in net assets	<u>\$ (1,144,734)</u>

See notes to financial statements

Alexander House Development Corporation
(A Maryland Corporation)

STATEMENT OF CHANGES IN NET POSITION

Year ended June 30, 2020

	<u>Contributed Capital</u>	<u>Retained earnings (deficit)</u>	<u>Total</u>
Balance July 01, 2019 (Restated)	834,077	7,371,276	8,205,353
Distributions	-	(10,389,796)	(10,389,796)
Net Income	-	(1,144,734)	(1,144,734)
Balance June 30, 2020	<u>\$ 834,077</u>	<u>\$ (4,163,254)</u>	<u>\$ (3,329,177)</u>

See notes to financial statements

Alexander House Development Corporation
(A Maryland Corporation)

STATEMENT OF CASH FLOWS

Year ended June 30, 2020

	2020
Cash flows from operating activities	
Changes in net position	\$ (1,144,734)
Adjustments to reconcile changes in net position to net cash used in operating activities	
Depreciation	1,245,652
Amortization of debt issuance cost	504,655
Changes in asset and liability accounts	
(Increase) decrease in assets and increase (decrease) in liabilities	
Accounts receivable and other assets	(89,390)
Accrued interest receivable	(751,809)
Customer deposit, net	7,752
Accounts payable and accrued expense	(145,249)
Accrued interest payable	(136,833)
Accounts payable - related parties	(383,378)
Deferred revenue	(1,555)
	(894,889)
Net cash used in operating activities	
Cash flows from investing activities	
Net purchases of capital assets	(625,787)
Proceeds from notes receivable	2,274,865
Advances on notes receivable	(675,511)
	973,567
Net cash provided by (used in) investing activities	
Cash flows from financing activities	
Mortgage repayments	(48,075,353)
Proceeds from construction loan	2,594,058
Proceeds from mortgage loan	51,604,559
Principal payment on mortgage	(354,122)
Debt issuance costs	(2,010,438)
Construction cost paid	(1,681,475)
Distributions to owners	(10,389,796)
	(8,312,567)
Net cash (used in) provided by financing activities	
Net decrease in cash, cash equivalents and restricted cash	(8,233,889)
Cash, cash equivalents, and restricted cash at beginning of year	10,154,360
Cash, cash equivalents, and restricted cash at end of year	\$ 1,920,471
 <u>Supplemental disclosure of cash flow information:</u>	
Significant noncash investing and financing activities	
Cash paid for interest, net of amount capitalized	\$ 2,034,181

See notes to financial statements

Alexander House Development Corporation
(A Maryland Corporation)

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Alexander House Development Corporation (the Corporation) was formed on November 6, 1996 as a non-stock corporation under the laws of the State of Maryland for the purpose of acquiring a 311-unit apartment complex to provide rental housing for the elderly and disabled, some of which are low and moderate-income families. The Corporation began operations in January 1997. The contributed capital to establish the Corporation was all paid in by the Housing Opportunities Commission of Montgomery County, Maryland (HOC).

On January 31, 2017, the Corporation sold 122 units to Alexander Housing Limited Partnership for \$27,757,128. The Corporation's dwelling units are located in Montgomery County, Maryland which constitutes a concentration of credit risk. The Corporation's collateral for rents receivable is one month's rent held as a security deposit.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Capital Assets

Land, buildings and building renovations, equipment and furniture and fixtures will be recorded at cost. Improvements are to be capitalized, while expenditures for maintenance and repairs will be expensed. Upon disposal of depreciable property, the appropriate property accounts are to be reduced by the related costs and accumulated depreciation.

The assets are depreciated over their estimated service lives. The estimated service lives of the assets for depreciation purposes may be different than their actual economic useful lives.

	<u>Estimated life</u>	<u>Method</u>
Buildings	40 years	Straight-line
Building renovations	10 years	Straight-line
Equipment	10 years	Straight-line
Furniture & fixtures	5 years	Straight-line

See notes to financial statements

Alexander House Development Corporation
(A Maryland Corporation)

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accounts Receivable and Bad Debts

Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts. 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.

Financing Receivables and Allowance for credit losses:

Financing receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of an allowance for credit losses, if any. Interest is accrued on the unpaid principal balance and recorded as interest income.

The allowance for credit losses is a valuation allowance for probable incurred credit losses. Credit losses are charged against the allowance when management believes the collectability of a financing receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates allowance required using experience, nature and volume of the financing receivable, information about specific borrower situations, estimated collateral values, economic conditions, and other factors.

Revenue Recognition

The Project's primary revenue stream is rent charges for residential units under leases with durations of one year or less. The Project records revenue for such leases at gross potential rent subject to restrictions imposed by the Montgomery County Government. The rental value of vacancies and other concessions are stated separately to present net rental income on accrual basis. Tenant subsidy revenue represents rent received from the tenants possessing Housing Choice Vouchers.

Subsidy income is considered part of the lease and is not considered a contribution under ASC 958. This standard indicates that government payments to specifically identified participants are to be considered exchange transactions and potentially subject to ASC 606. The Project believes that such both rental and subsidy income streams are exempted from compliance with ASC 606 due to their inclusion under current and future lease standards. Revenue streams subject to ASC 606 include: tenant reimbursement of consumption-based costs paid by the Project on behalf of the tenant, such as utilities and other monthly fees.

Additional revenue includes laundry, vending, pet and parking fees as well as damages. Such fees are ancillary to the lease process and are recognized as revenue at the point in time such fees are incurred. Rental income is recognized as income as it is earned. Rental payment received in advance are deferred until earned.

All leases between the Corporation and the tenants of the property are operating leases.

See notes to financial statements

Alexander House Development Corporation
(A Maryland Corporation)

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred Costs and Amortization

In accordance with ASC-835 "*Interest*", issued by the Financial Accounting Standards Board (FASB), the deferred costs are recorded as a reduction of the related debt balance and the amortization of these costs are included in interest expense.

Advertising

Advertising costs are charged to operations when incurred.

Income Taxes

The Corporation excludes its income from income taxes in accordance with the Internal Revenue Code Section 115. Therefore, no income tax provision has been recorded.

The preparation of financial statements in conformity with the 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 addressed all relevant tax positions and there are no unrecorded tax liabilities.

Federal and state tax authorities have the right to examine and audit the previous three years of tax returns filed. Any interest and penalties assessed to the Company are recorded as expenses of the Company. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Off-balance sheet risk

The Corporation extends unsecured credit to its tenants for its rental units. Accordingly, the risk exists that the ability to collect amounts due from tenants could be affected if tenants become insolvent.

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.

See notes to financial statements

Alexander House Development Corporation
(A Maryland Corporation)

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the year ended June 30, 2020.

Cash, Cash Equivalents and Restricted Cash

Short-term liquid investments (including securities purchased under agreements to resell) with original maturities of less than three months are considered to be cash equivalents. Cash, tenant security deposits and restricted cash are presented as a sum and reported as cash and cash equivalents on the Balance Sheet.

NOTE 3 – POOLED INVESTMENTS

The Corporation has replacement reserve cash in a pooled fund with other properties that are controlled by HOC and are deposited with the Montgomery County Government. HOC monitors the funds in this pooled account on a regular basis and maintains records and support with regard to funds belonging to each property. HOC has records and support to identify the funds belonging to each property at any given point of time. HOC ensures that the pooled funds are not used to fund operations of the non-performing properties.

NOTE 4 – CONCENTRATION OF CREDIT RISK

The Corporation maintains its operating cash and cash reserve balances in several accounts in one bank. The operating cash and cash reserve balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, these balances may exceed the federal insurance 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 operating cash and cash reserve balances during the year ended June 30, 2020. Cash deposits in excess of the FDIC limit of \$250,000 are collateralized with securities held by the pledging financial institution's trust department or agent.

NOTE 5 – TENANT SECURITY DEPOSIT

The Maryland Real Property Code requires that security deposits from residential tenants be segregated from general funds of the Corporation. Accordingly, the Corporation holds all security deposit funds from residential tenants in a separate, interest-bearing account.

See notes to financial statements

Alexander House Development Corporation
(A Maryland Corporation)

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 6 – CAPITAL ASSETS

As of June 30, 2020, capital assets consisted of the following:

	<u>2020</u>
Land	991,336
Buildings and building renovations	37,524,863
Miscellaneous capital assets	<u>2,273,965</u>
Subtotal	40,790,164
Less: Accumulated depreciation	<u>(12,684,735)</u>
Total	<u>\$ 28,105,429</u>

NOTE 7 - RESTRICTED DEPOSITS AND FUNDED RESERVES

According to the Deed of Trust, Loan and other Regulatory Agreements, the Corporation is required to maintain certain escrow deposits and restricted reserves.

Replacement Reserve

The Corporation is required to maintain a separate account entitled Reserve Fund for Replacements with the Housing Opportunities Commission (HOC) by depositing to such Reserve fund \$5,337.50 per month commencing on November 01, 2019 and shall thereafter increase annually by 3%. Such account shall at all times be under the sole control and direction of HOC. Disbursements from such fund may be made only after receiving the written direction or consent of HOC. During the year ended June 30, 2020, the reserve was funded as required.

Renovation Escrow

The Corporation is required to maintain a Renovation Escrow Fund under the terms of the note agreement entered into as part of the sale and renovation of the property. During the prior years, this escrow was funded in the amount of \$8,718,924. During the year ended June 30, 2020, deposits to this escrow were made in the amount of \$4,679,797. Any withdrawals from this escrow shall be made upon written consent from the HOC. During the year ended June 30, 2020, the Corporation made withdrawals from this escrow in the amount of \$13,178,850.

See notes to financial statements

Alexander House Development Corporation
(A Maryland Corporation)

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 7 - RESTRICTED DEPOSITS AND FUNDED RESERVES – CONTINUED

US Bank – Mortgage Escrow and Replacement Reserve - Restricted Account

Mortgage Escrow

The Corporation is required to fund an escrow account in connection with the mortgage to pay for mortgage insurance. The Corporation has mortgage insurance escrow cash in a pooled fund with Alexander Housing Limited Partnership that is controlled by HOC and deposited with the US Bank. During the year ended June 30, 2020, this escrow was funded in the amount of \$410,594. During the year ended June 30, 2020, the Corporation earned interest in this escrow in the amount of \$2,743.

Replacement Reserve - Restricted

The Corporation has mortgage replacement reserve cash in an escrow account that is controlled by HOC and deposited with the US Bank. This reserve was funded in prior years in the amount of \$424,819. During the year ended June 30, 2020 the Corporation earned interest on this reserve in the amounts of \$7,167.

The following schedule shows the activity in such accounts during the year ended June 30, 2020:

	Balance July 1, 2019	Additions and Interest	Withdrawals and Transfers	Balance June 30, 2020
Replacement reserve	\$ 69,217	\$ 42,700	\$ -	\$ 111,917
Renovation Escrow	\$ 8,718,924	\$ 4,679,797	\$ 13,178,850	\$ 219,871
Mortgage Escrow	\$ 108,694	\$ 413,337	\$ -	\$ 522,031
Replacement reserve - restricted	\$ 424,819	\$ 7,167	\$ -	\$ 431,986

NOTE 8 – NOTES RECEIVABLE

Seller Note Receivable

On January 31, 2017, the Corporation entered into a Purchase Money Loan Promissory Note (the “Note”) with Alexander House Apartments LP, a related party (the “Borrower”), in the amount of \$14,218,641. Under the terms of the agreement, the note bore interest of 5.5% per annum compounded annually and matures forty-two years from commencement of amortization, which is expected to be December 31, 2059. Payments of principal and interest are to be made from available cash flow as defined in the partnership agreement of Alexander House Apartments LP. As per the terms of the Note, the Borrower may prepay this note in whole or in part at any time or from time to time without penalty or premium. On September 11, 2019, the Corporation amended the terms of the Note by adjusting the interest rate from 5.5% to 4.45% which was to be effective January 1, 2019.

See notes to financial statements

Alexander House Development Corporation
(A Maryland Corporation)

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 8 – NOTES RECEIVABLE – CONTINUED

Seller Note Receivable - continued

Management believes that the collectability of the note is reasonably certain having regard to the projections of net cash flows, economic turnaround and financial stability of the Borrower and the possible sale of the Project at its fair value. The management believes there does not arise the need for an allowance of credit losses for the said Note. As of June 30, 2020, the principal balance of the Note was \$14,218,641 and accrued interest receivable thereon was in the amount of \$2,479,118 and is included in Interest Receivable.

Bridge Note Receivable

During 2018, the Corporation entered into a promissory note (the “Note”) with Alexander House Apartments LP, a related party (the “Borrower”), in the original amount of \$2,274,872. The bridge loan bears interest at 2.75% per annum, compounding annually, and matures on or before the first day of the thirty-first full calendar month, which is July 1, 2019. Payments of principal and interest are made from available cash flow as defined in the partnership agreement of Alexander House Apartments LP. As per the terms of the Note, the borrower may prepay this Note in whole or in part at any time or from time to time without penalty or premium. As of June 30, 2019, the principal balance outstanding on this note was in the amount of \$1,599,353. During the year ended June 30, 2020, the Corporation made additional advances to the borrower in the amount of \$675,512. During the year ended June 30, 2020, the Corporation received \$2,274,872 from Alexander House Apartments LP. The entire principal balance on this note was received during the year ended June 30, 2020. As of June 30, 2020, the accrued interest on this Note was in the amount of \$64,450 and is included in Interest Receivable.

NOTE 9 - MORTGAGE LOANS PAYABLE

Construction Funding Agreement

On January 1, 2017, the Corporation entered into a loan agreement with HOC for up to \$48,788,075 through a funding loan originated with Citibank for the renovation. The loan matured on February 1, 2020 with interest according to the terms of the funding agreement. The agreement had a repayment date of August 1, 2019 but had an option to extend the mandatory prepayment date to the earlier of the required closing date of the permanent loan under HOC’s commitment or the maturity date. As of June 30, 2019, the principal balance outstanding was in the amount of \$45,481,295. During the year ended June 30, 2020, additional amount borrowed was in the amount of \$2,594,058. During the year ended June 30, 2020, this loan along with interest was fully repaid in the amount of \$48,075,353. During the year ended June 30, 2020, interest paid on this loan was in the amount of \$840,757.

Deed of Trust Note

The Corporation entered into a Deed of Trust Note with HOC (the “Beneficiary”) in the original amount of \$51,604,559 and bears interest at the rate of 3.4375% per annum. Interest only at the interest rate on the principal outstanding for the period beginning on the date of disbursement and ending on and including the last day of the month in which such disbursement is made shall be prepaid upon delivery of this Note. Thereafter an interest only payment at the Interest Rate shall be payable on November 01, 2019. Thereafter, consecutive monthly installments of principal and interest in the amount of \$197,982 commencing on November 01, 2019 and will continue through October 01, 2059. Any remaining principal and interest shall be due and payable on October

See notes to financial statements

Alexander House Development Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 9 - MORTGAGE LOANS PAYABLE – CONTINUED

Deed of Trust Note – continued

01, 2059 or any earlier date on which the unpaid principal balance of this Note becomes due and payable, by acceleration or otherwise.

The note is secured by deed of trust, assignment of leases and rents, security agreement and fixture filing agreement. Except as expressly provided in the Note, the Corporation shall be prohibited prepayment of the note for the first ten years of the note.

On September 23, 2019, the Corporation entered into a Deed of trust, assignment of leases and rents, security agreement and fixture filing with Lawyers Title Realty Services Inc (the “Trustee”) for the benefit of Housing Opportunities Commission of Montgomery County (the “Beneficiary”). The loan is financed from funds provided from the sale of the beneficial ownership of the Loan to the Federal Financing Bank (“FFB”) pursuant to a Purchase and Sale Agreement between the Beneficiary and FFB.

During the year ended June 30, 2020, interest incurred on this note was in the amount of \$1,340,237. During the year ended June 30, 2020, interest paid on this note was in the amount of \$1,193,425. As of June 30, 2020, the accrued interest on the note was in the amount of \$146,812. As of June 30, 2020, the principal balance outstanding on the note was in the amount of \$51,250,437.

Aggregate annual maturities of long-term debt for each of the five ensuing years ending through June 30, 2025 and thereafter are as follows:

<u>HOC Funding</u>	<u>Amount</u>
2021	\$ 623,809
2022	645,594
2023	668,138
2024	691,472
2025	715,620
Thereafter	<u>47,905,804</u>
Total	\$ 51,250,437
Less: Current portion	<u>623,809</u>
Noncurrent portion	<u>\$ 50,626,628</u>

See notes to financial statements

Alexander House Development Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 10 – PROPERTY MANAGEMENT FEES

Effective July 01, 2019, the Corporation entered into an agreement for property management services with Edgewood Management Corporation. According to the property management agreement, the property manager shall be entitled to a property management fee of \$43 per month per unit occupied by the Corporation. In addition to the management fee, HOC reserves the right to pay the property manager an annual fee based on target occupancy levels and rent actually received. During the year ended June 30, 2020, the Corporation incurred property management fees in the amount of \$82,732. During the year ended June 30, 2020, property management fees paid was in the amount of \$85,464. As of June 30, 2020, property management fees accrued was in the amount of \$6,407 and is included in Accounts Payable.

NOTE 11 - RELATED PARTY TRANSACTIONS

Reimbursements

HOC provides support and performs back office operations on behalf of the Corporation and is subsequently reimbursed by the Corporation. During the year ended June 30, 2020, HOC provided \$2,185,800 as support for back office operations to the Corporation. During the year ended June 30, 2020, the Corporation repaid \$2,618,960 to HOC. As of June 30, 2020, the Corporation owes HOC in the amount of \$544,599 and is included in Accounts Payable – Related Parties.

Development Corporation Fee

HOC is entitled to development corporation fees as a part of the approved annual budget. During the year ended June 30, 2020, development corporation fee incurred was in the amount of \$265,000. During the year ended June 30, 2020, no development corporation fees was paid. As of June 30, 2020, development corporation fees payable was in the amount of \$265,000 and is included in Accounts Payable – Related Parties.

Asset Management Fees

According to the Asset Management Agreement, HOC is entitled to an asset management fees payable from cash flows as defined in the agreement. During the year ended June 30, 2020, asset management fees incurred and paid was in the amount of \$195,920. As of June 30, 2020, there was no asset management fees outstanding.

Alexander House Development Corporation
(A Maryland Corporation)

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 12 – RESTATEMENT OF FINANCIAL RESULTS

The Corporation has determined that the methodology used to allocate interest incurred on mortgage loan during the renovation period of the Project was inappropriate, resulting in further inaccuracies in the determination of capitalization of fixed assets, construction-in-progress and depreciation and interest expense associated to the Project.

The Corporation has determined that a correction was required, and as such, has restated its beginning retained earnings as of July 01, 2019. These changes resulted in the disclosure of the Corporation's beginning retained earnings balance as follows:

Retained earnings, July 01, 2019		\$ 10,298,879
<u>Prior period adjustment:</u>		
Correction of interest expense	2,013,722	
Correction of depreciation expense	<u>913,881</u>	<u>(2,927,603)</u>
Retained Earnings, July 01, 2019 (Adjusted)		<u>\$ 7,371,276</u>

NOTE 13 – CAPITAL CONTRIBUTION

The Corporation was formed as a non-stock corporation under the laws of the State of Maryland. The contributed capital to establish the Corporation was all paid in by the Housing Opportunities Commission of Montgomery County, Maryland (HOC). As of June 30, 2020, HOC has contributed capital of \$834,077 to the Corporation. During the year ended June 30, 2020, the Corporation made distributions to HOC in the amount of \$10,389,796.

See notes to financial statements

Alexander House Development Corporation
(A Maryland Corporation)

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 14 - RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

ASU No. 2016-03: "Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs" (ASU 2016-03)

In April 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-03, "Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs" (ASU 2016-03), which resulted in the reclassification of debt issuance costs from "Other Assets" to inclusion as a reduction of the reportable "Long-Term Debt" balance on the balance sheets. The Corporation has elected to adopt ASU 2016-03 with full retrospective application as required by the guidance. This standard did not have any material impact on the balance sheets and had no impact on the cash flows provided by or used in operations for any period presented.

ASU No. 2016-18 : "Statement of Cash Flows (Topic 230): Restricted Cash a consensus of the FASB Emerging Issues Task Force" (ASU 2016-18)

In November 2016, the Financial Accounting Standard Board (FASB) issued Accounting Standard Update (ASU) No. 2016-18 "Statement of Cash Flows (Topic 230): Restricted Cash a consensus of the FASB Emerging Issues Task Force" (ASU 2016-18), which resulted in the presentation of cash and cash equivalent shall be reported as sum of the total amount of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalent. at the end of the corresponding period shown in the statement of cash flows. The Corporation has elected to adopt ASU 2016-18 with full retrospective application as required by the guidance. This standard has resulted in presenting cash and cash equivalent on the face of the balance sheet, equal sum of all cash, cash equivalent, restricted cash and restricted cash equivalents. Furthermore, the standard updates the presentation of Statement of Cash flows, which results in showing Net Increase or Decrease in cash, cash equivalent, and restricted cash, and Cash, cash equivalents, and restricted cash at the beginning of year and Cash, cash equivalents, and restricted cash at the end of year.

ASU No. 2014-09 : "Revenue from contracts with customers" (ASC 606)

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 "Revenue from contract with customers" (ASC 606) and all related amendments. ASC 606 supersedes most existing revenue recognition guidance. ASC 606 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. It also requires enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This ASU is effective for fiscal years beginning December 15, 2019. The Corporation has elected to adopt ASC 606 and all related amendments using the modified retrospective transition method.

See notes to financial statements

Alexander House Development Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 15 – ADOPTION OF NEW ACCOUNTING PRINCIPLE

Cash, cash equivalents and restricted cash

In prior years, cash, tenant security deposits and restricted cash were presented as separate line items in the Balance Sheet. As of January 1, 2019, the Corporation retrospectively adopted the newly required accounting standard that requires the Corporation to present cash, tenant security deposit and restricted cash as a sum and report as cash and cash equivalent. The standard requires, the descriptive nature of the restrictions on restricted cash should be presented in the notes to financial statements (Note 5 and Note 7).

As of June 30, 2020, the amounts summed in cash and cash equivalents are as follows:

	<u>2020</u>
Cash	\$ 581,105
Replacement reserve (Note 7)	111,917
Renovation escrow (Note 7)	219,871
Replacement reserve - restricted (Note 7)	431,986
Mortgage escrow fund (Note 7)	522,031
Tenant security deposit (Note 5)	53,561
	<u>\$ 1,920,471</u>

Debt Issuance Cost

As of January 1, 2016, the Corporation retrospectively adopted the newly required accounting standard that requires the Corporation to present debt issuance costs as a reduction of the principal balance of the related debt and amortize these costs as additional interest expense using the effective interest rate method that results in a constant effective yield over the life of the related loan. The effect of using the straight-line method is not materially different from the results that would have been obtained using the effective interest rate method.

In prior years the Corporation paid debt issuance cost in the amount of \$1,426,537. During the year ended June 30, 2020, the Corporation paid debt issuance cost in the amount of \$2,010,438. During the year ended June 30, 2020, the amortization of debt issuance cost is in the amount of \$505,655 and is included in Interest Expense.

	<u>2020</u>
Debt issuance cost as of July 01, 2019	\$ 1,426,537
Paid during the year ended June 30, 2020	<u>2,010,438</u>
Subtotal	3,436,975
Less: Accumulated amortization	<u>(1,447,872)</u>
Debt issuance cost as of June 30, 2020	<u>\$ 1,989,103</u>

See notes to financial statements

Alexander House Development Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 15 – ADOPTION OF NEW ACCOUNTING PRINCIPLE - CONTINUED

Debt Issuance Cost - continued

The amortization of debt issuance cost included in interest expense for year ended June 30, 2020, is as follows:

	<u>2020</u>
Interest expense	\$ 1,897,348
Amortization on debt issuance cost	<u>504,655</u>
Total interest expense	<u><u>\$ 2,402,003</u></u>

NOTE 16 – CONTINGENCY

COVID-19

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since then spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. declared a state of emergency. It is anticipated that these impacts will continue for some time. There has been no immediate impact to the Corporation's operations. Future potential impacts may include disruptions or restrictions on the employees' ability to work or the tenant's ability to pay the required monthly rent. Operating functions that may be changed include intake, recertifications and maintenance. Changes to the operating environment may increase operating costs. Additional impacts may include the ability of tenants to continue making rental payments as a result of job loss or other pandemic related issues. The future effects of this pandemic issues are unknown.

NOTE 17 - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Corporation's sole asset is a 189-unit apartment project. The Corporation's operations are concentrated in the multifamily real estate market. In addition, the Corporation operates in a heavily regulated environment. The operations of the Corporation are subject to the administrative directives, rules and regulations of federal agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

NOTE 18 – REAL ESTATE TAXES

HOC negotiated with the State of Maryland an exemption from real estate taxes for the Corporation. Therefore, no provision for real estate taxes has been made.

See notes to financial statements

Alexander House Development Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 19 - SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements were 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 December 17, 2020 (the date the financial statements were 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.

See notes to financial statements

SUPPLEMENTARY INFORMATION

Alexander House Development Corporation
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DETAILED STATEMENT OF ACTIVITIES

Year ended June 30, 2020

	2020
DWELLING RENTAL INCOME	
Rent: Current Residents	\$ 3,943,645
Rent: Subsidies	134,938
Rent: HAP Over / Short	317
Concessions	(334,522)
Vacancy Loss	(494,647)
Parking Income	117,769
Other Rent Fees	18,474
Late Fees/NSF	8,473
Sect 8 Admin Fees	6,830
Total Dwelling rental income	3,401,277
MANAGEMENT FEES & OTHER INCOME	
User fees	1,555
Transfer btw funds - rental license	8,601
Miscellaneous income	9,188
Total management fees and other income	19,344
Total operating revenues	3,420,621
ADMINISTRATIVE EXPENSES	
Contract Admin Salary	170,383
Contract Office Salaries	239
Auditing Services	16,009
Property Management Fee	82,732
Misc Operating Expenses	5,437
Postage	167
Printing/Reproduction	294
Other Office Supplies	2,632
Food & Beverages	1,103
Professional Assoc Dues	329
Local Mileage and Travel	33
Legal Services-General	4,154
Other Operating Professional Services	1,500
Advertising	49,136
Credit Check Services	5,294
Office Equipment Rent	2,498
Furniture and Misc Equipment Rental	2,335
Local Phone Bill	9,793
Computer Software	1,037
Cable Charges	700
Rental License Fees	8,601
Monitoring Fee	10,466
Bank Fees	1,940
Security deposit interest expense	1,204
Misc Program Supplies	1,323
Miscellaneous Expenses	1,275
Total Administrative expenses	\$ 380,614

Alexander House Development Corporation
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DETAILED STATEMENT OF ACTIVITIES

Year ended June 30, 2020

	2020
MAINTENANCE EXPENSES	
Cntrect Maint/Jan Salary	\$ 106,418
Electrical Supplies	1,338
Appliance Supplies	2,629
Plumbing Supplies	3,530
Employee Uniforms	1,836
Cleaning and Janitorial Supplies	474
Health and Safety Materials	211
Locks, Keys	191
Windows and Glass	1,441
Doors	546
Hardware Supplies	159
HVAC Supplies	2,445
Paint and Wallcoverings	1,726
Miscellaneous Supplies	279
Tools	370
Electrical Contracts	3,375
Appliance Contracts	1,800
Plumbing Contracts	14,505
Cleaning and Janitorial Contracts	99,328
Grounds and Landscaping Contracts	4,585
HVAC Contracts	16,899
Flooring and Carpeting Contracts	4,445
Paint/Wallcoverings Int. Contracts	45,020
Elevator Contracts	27,930
Exterminating Contracts	7,482
Miscellaneous Contracts	19,368
Doors-Capital	12,889
Flooring and Carpeting	3,284
Plumbing Equipment	600
Appliance Equipment	192
Windows/Glass Contracts	1,399
Flooring/Carpet Contracts	1,464
Miscellaneous Contracts	8,399
Total Maintenance expenses	\$ 396,557

Alexander House Development Corporation
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DETAILED STATEMENT OF ACTIVITIES

Year ended June 30, 2020

	<u>2020</u>
UTILITIES	
Water bill	\$ 69,000
Electric bill	104,368
Natural gas	25,212
Trash collection	18,145
Trash collection - bulk	2,910
Total utilities expense	<u>219,635</u>
FRINGE BENEFITS	
Contract managed benefits	47,244
Contract other training	1,362
Total fringe benefits	<u>48,606</u>
OTHER EXPENSES	
Security contracts	112,677
Liability insurance	8,408
Fire & hazard insurance	25,237
Solid waste tax	8,900
Water quality protect charges	662
Asset management fee expense	195,920
Development corporation fee	265,000
Total other expenses	<u>616,804</u>
INTEREST EXPENSE	
Interest expense	1,897,348
Amortization on deferred costs	504,655
Total interest expense	<u>\$ 2,402,003</u>