

**Pooks Hill Development Corporation**

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

**June 30, 2019 and 2018**

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# Pooks Hill Development Corporation

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## Independent Auditor's Report

To 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 sheet as of June 30, 2019, and the related statements of operations, changes in net assets and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2019, 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.

*Prior Period Financial Statements*

The financial statements of Pooks Hill Development Corporation as of June 30, 2018, were audited by other auditors whose report dated October 18, 2018, expressed an unmodified opinion on those financial statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 2019 accompanying supplementary information on pages 16 to 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 2019 financial statements as a whole. The 2018 accompanying supplementary information on pages 16 to 17 was subjected to auditing procedures applied in the 2018 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2018 financial statements as a whole.

*CohnReznick LLP*

Baltimore, Maryland  
November 18, 2019

**Pooks Hill Development Corporation**

**Balance Sheets  
June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 458,210	\$ 446,366
Interfund receivable	31,576	32,000
Accounts receivable and other assets	<u>53,707</u>	<u>80,303</u>
Total current assets	<u>543,493</u>	<u>558,669</u>
Restricted cash and cash equivalents		
Customer deposits - funded security deposits	65,182	64,472
Restricted cash and cash equivalents	<u>1,037,902</u>	<u>927,838</u>
Total restricted cash and cash equivalents	<u>1,103,084</u>	<u>992,310</u>
Non-current assets		
Property and equipment, net of accumulated depreciation	<u>15,580,420</u>	<u>16,108,313</u>
Total non-current assets	<u>15,580,420</u>	<u>16,108,313</u>
Total assets	<u><u>\$ 17,226,997</u></u>	<u><u>\$ 17,659,292</u></u>

**Pooks Hill Development Corporation**

**Balance Sheets**  
**June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Current liabilities		
Accounts payable and accrued liabilities	\$ 108,971	\$ 108,230
Mortgage payable - current	449,927	435,667
Accrued interest payable	<u>42,015</u>	<u>43,186</u>
Total current liabilities	<u>600,913</u>	<u>587,083</u>
Current liabilities payable from restricted cash and cash equivalents		
Customer deposits payable - tenant security deposits	<u>61,189</u>	<u>58,436</u>
Non-current liabilities		
Mortgage payable, net of unamortized debt issuance costs of \$43,236 and \$45,070 and net of current maturities	<u>15,140,368</u>	<u>15,588,461</u>
Total non-current liabilities	<u>15,140,368</u>	<u>15,588,461</u>
Total liabilities	<u>15,802,470</u>	<u>16,233,980</u>
Total net assets	<u>1,424,527</u>	<u>1,425,312</u>
Total liabilities and net assets	<u><u>\$ 17,226,997</u></u>	<u><u>\$ 17,659,292</u></u>

See Notes to Financial Statements.

**Pooks Hill Development Corporation**

**Statements of Operations**  
**Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Operating revenue		
Dwelling rental	\$ 2,858,286	\$ 2,780,073
Commercial rental	30,203	32,133
Other income	16,505	24,927
	<u>2,904,994</u>	<u>2,837,133</u>
Total operating revenue		
Operating expenses		
Administration	316,540	291,978
Maintenance	395,212	480,186
Bad debt	39,988	6,528
Depreciation	527,893	532,752
Utilities	153,703	175,506
Fringe benefits	61,568	67,400
Interest expense	512,492	526,337
Other	900,079	818,852
	<u>2,907,475</u>	<u>2,899,539</u>
Total operating expenses		
Operating loss	(2,481)	(62,406)
Nonoperating revenues		
Investment income	1,696	729
	<u>1,696</u>	<u>729</u>
Net loss	<u>\$ (785)</u>	<u>\$ (61,677)</u>

See Notes to Financial Statements.

**Pooks Hill Development Corporation**

**Statements of Changes in Net Assets  
Years Ended June 30, 2019 and 2018**

Balance, July 1, 2017	\$ 1,486,989
Net loss	<u>(61,677)</u>
Balance, June 30, 2018	1,425,312
Net loss	<u>(785)</u>
Balance, June 30, 2019	<u><u>\$ 1,424,527</u></u>

See Notes to Financial Statements.



**Pooks Hill Development Corporation**

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

	2019	2018
Cash flows from operating activities		
Net loss	\$ (785)	\$ (61,677)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation	527,893	532,752
Amortization of debt issuance costs	1,834	1,834
(Increase) decrease in assets		
Accounts receivable and other assets	26,596	(22,688)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	741	10,143
Accrued interest payable	(1,171)	(1,134)
Customer deposits payable, net	2,043	1,138
Net cash provided by operating activities	557,151	460,368
Cash flows from investing activities		
Decrease (increase) in interfund receivable	424	(7,638)
(Increase) decrease in restricted cash and cash equivalents	(110,064)	(133,191)
Net cash used in investing activities	(109,640)	(140,829)
Cash flows from financing activities		
Payments on mortgage payable	(435,667)	(421,859)
Net cash used in financing activities	(435,667)	(421,859)
Net increase (decrease) in cash and cash equivalents	11,844	(102,320)
Cash and cash equivalents, beginning	446,366	548,686
Cash and cash equivalents, ending	\$ 458,210	\$ 446,366
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 511,829	\$ 527,471

See Notes to Financial Statements.

## Pooks Hill Development Corporation

### Notes to Financial Statements June 30, 2019 and 2018

#### Note 1 - Organization

Pooks Hill Development Corporation (the "Corporation") was formed as a non-stock 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 charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America ("GAAP") require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

##### 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	Straight-line	40 years
Furniture and equipment	Straight-line	20 years
Site improvements	Straight-line	15 years
Building 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, 2019 and 2018.

## **Pooks Hill Development Corporation**

### **Notes to Financial Statements June 30, 2019 and 2018**

#### **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.

#### **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, 2019, returns for the tax years 2016 through 2018 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, 2019 and 2018, there were no cash equivalents.

#### **Reclassifications**

Reclassifications have been made to the prior year balances to conform to the current year presentation.

### **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, 2019 and 2018, the balance in the reserve was \$708,293 and \$600,501, respectively.

## Pooks Hill Development Corporation

### Notes to Financial Statements June 30, 2019 and 2018

#### Renovation reserve

The Corporation has an additional renovation reserve to be used to fund capital improvements or major repairs. As of June 30, 2019 and 2018, 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, 2019 and 2018, the escrow was \$44,546 and \$42,274, respectively.

#### Note 4 - Rental property

Property held by the Corporation at June 30, 2019 and 2018 consists of the following:

	2019	2018
Land	\$ 3,726,400	\$ 3,726,400
Buildings and improvements	19,405,185	19,405,185
Site improvements	403,203	403,203
Furniture and equipment	337,162	337,162
Accumulated depreciation	(8,291,530)	(7,763,637)
	<u>\$ 15,580,420</u>	<u>\$ 16,108,313</u>

#### Note 5 - 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 in 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, 2019 and 2018, the outstanding principal and accrued interest payable was \$15,633,531 and \$16,069,198, and \$42,015 and \$43,186, respectively.

As discussed in Note 2, debt issuance costs, net of accumulated amortization, totaled \$43,236 and \$45,070 as of June 30, 2019 and 2018, 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 the years ended June 30, 2019 and 2018, amortization expense related to debt issuance costs was \$1,834 and \$1,834, respectively, and is included in interest expense in the statements of operations.

## Pooks Hill Development Corporation

### Notes to Financial Statements June 30, 2019 and 2018

Aggregate maturities of the mortgage payable for the five years following June 30, 2019 and every five years thereafter are as follows:

2020	\$	449,927
2021		464,654
2022		479,862
2023		495,568
2024		511,789
2025-2029		2,821,453
2030-2034		3,314,431
2035-2039		3,893,543
2040-2043		3,202,304
		<hr/>
	\$	15,633,531
		<hr/>

#### Note 6 - 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, 2019 and 2018, development corporation fees of \$530,000 and \$448,603, respectively, were incurred and paid and are included in other expenses on the statements of operations.

##### 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, 2019 and 2018, \$31,576 and \$32,000, 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 expired December 31, 2010 and renews automatically without notice. For the years ended June 30, 2019 and 2018, asset management fees of \$213,680, and \$203,510, 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, 2019 and 2018, loan management fees of \$45,500, respectively, were incurred and paid and are included in other expenses on the statements of operations.

##### Shared expenses

The Corporation shares certain operating costs with affiliated projects within its geographical region. As of June 30, 2019 and 2018, the Organization has no amounts due to or from related parties for shared costs with affiliated projects.

## Pooks Hill Development Corporation

### Notes to Financial Statements June 30, 2019 and 2018

#### Note 7 - 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. Management fees charged to operations under this agreement for the years ended June 30, 2019 and 2018 were \$101,604 and \$99,655, respectively. As of June 30, 2019 and 2018, \$8,495 and \$8,327 remained payable and are included in accounts payable and other accrued liabilities on the balance sheets.

#### Note 8 - Payment in lieu of taxes ("PILOT")

The Corporation entered into an agreement with Montgomery County, Maryland for a payment in lieu of taxes ("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, 2019 and 2018, the Corporation did not incur or pay property taxes to Montgomery County, Maryland under this agreement.

#### Note 9 - Net assets

The Commission, the Corporation's principal owner, is required to report on a fund basis. The Corporation, therefore has reported net assets on a fund balance 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, 2019 and 2018:

	2019	2018
Investment in capital assets, net of related debt	\$ (53,111)	\$ 39,115
Restricted net assets	1,041,895	933,874
Unrestricted net assets	435,743	452,323
	<u>\$ 1,424,527</u>	<u>\$ 1,425,312</u>

**Pooks Hill Development Corporation**

**Notes to Financial Statements  
June 30, 2019 and 2018**

**Note 10 - Rental income under operating lease**

The Project has a commercial lease that commenced on August 1, 2017 with the Cellico 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 for each of the next five years and thereafter as of June 30, 2019:

2020	\$	33,760
2021		34,604
2022		<u>29,435</u>
	\$	<u>97,799</u>

**Note 11 - 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 12 - 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 18, 2019 (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, 2019 and 2018**

	2019	2018
<b>Administration</b>		
Marketing and lease-up	\$ 28,707	\$ 25,491
Contract administration salary	128,162	119,240
Professional association dues	610	-
Contract management fee	101,604	99,655
Miscellaneous operating expenses	2,160	1,825
Postage	495	522
Printing/reproduction	2,083	110
Office supplies	4,664	1,289
Auditing services	12,750	12,270
Legal services	2,448	946
Food and beverages	-	3,232
Telephone	10,932	11,548
Software	11,728	13,375
Rental license fees	8,413	-
Bank fees	379	394
Resident gifts	-	1,104
Security deposit interest	1,405	977
	<b>\$ 316,540</b>	<b>\$ 291,978</b>
<b>Total administration expenses</b>		
	<b>\$ 316,540</b>	<b>\$ 291,978</b>
<b>Maintenance</b>		
Contract maintenance salary	\$ 99,711	\$ 109,130
Electrical supplies	7,768	9,474
Appliance supplies	2,122	4,091
Plumbing supplies	2,533	3,975
Employee uniforms	4,533	4,038
Cleaning and janitorial supplies	1,216	1,360
Grounds and landscaping supplies	126	786
Windows and glass	810	200
Doors	114	216
Hardware supplies	4,375	5,277
HVAC supplies	15,088	16,307
Flooring and carpeting	35,263	25,223
Miscellaneous supplies	-	49
Miscellaneous equipment	3,800	1,361
Appliance equipment	1,059	5,026
Plumbing contracts	7,158	10,301
Cleaning and janitorial contracts	69,509	70,399
Grounds and landscaping contracts	16,747	19,004
HVAC contracts	-	1,250
Paint and wall coverings contracts	42,427	45,161

**Pooks Hill Development Corporation**

**Selected Line Item Detail  
Years Ended June 30, 2019 and 2018**

	2019	2018
Elevator contracts	17,283	19,053
Exterminating contracts	5,682	4,804
Asphalt/concrete contracts	3,540	37,828
Snow removal contracts	3,795	5,118
Swimming pool contracts	20,586	18,416
Miscellaneous contracts	12,132	27,295
Electrical contracts	713	3,212
Plumbing contracts capital	17,122	31,832
Total maintenance expenses	\$ 395,212	\$ 480,186
Utilities		
Water	\$ 48,897	\$ 44,181
Electric	62,141	75,868
Natural gas	20,981	30,040
Trash collection	21,684	25,417
Total utility expenses	\$ 153,703	\$ 175,506
Fringe benefits		
Contract managed benefits	\$ 60,147	\$ 66,132
Contract other training	1,421	1,268
Total fringe benefits	\$ 61,568	\$ 67,400
Other		
Mortgage insurance	\$ 79,163	\$ 81,310
Other taxes	4,780	5,706
Property insurance	23,327	23,741
Security contracts	3,629	10,482
Asset management fee	213,680	203,510
Development corporation fee	530,000	448,603
Loan management fee	45,500	45,500
Total other expenses	\$ 900,079	\$ 818,852

See Independent Auditor's Report.



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