

Oaks at Four Corners Development Corporation

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

June 30, 2022 and 2021

Oaks at Four Corners Development Corporation

Index

	<u>Page</u>
Independent Auditor's Report	2
Financial Statements	
Balance Sheets	5
Statements of Operations	7
Statements of Changes in Net Assets	8
Statements of Cash Flows	9
Notes to Financial Statements	10
Supplementary Information	
Selected Line Item Detail	17
Calculation of Net Cash Flow	19

Independent Auditor's Report

To Management
Oaks at Four Corners Development Corporation

Report on the Financial Statements

Opinion

We have audited the financial statements of Oaks at Four Corners Development Corporation, which comprise the balance sheet as of June 30, 2022, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Oaks at Four Corners Development Corporation as of June 30, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Oaks at Four Corners Development Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of Oaks at Four Corners Development Corporation for the year ended June 30, 2021, were audited by another auditor, who expressed an unmodified opinion on those statements on October 7, 2021.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Oaks at Four Corners Development Corporation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Oaks at Four Corners Development Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Oaks at Four Corners Development Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The selected line item detail and distribution of net cash flow are presented for purposes 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 stated in all material respects in relation to the financial statements as a whole.

CohnReznick LLP

Baltimore, Maryland
April 3, 2023

Oaks at Four Corners Development Corporation

Balance Sheets
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>Assets</u>		
Current assets		
Cash	\$ 184,302	\$ 321,091
Accounts receivable and other assets, net of allowance	20,469	17,365
Total current assets	<u>204,771</u>	<u>338,456</u>
Restricted deposits and funded reserves		
Customer deposits	132,066	127,174
Restricted cash	567,557	474,196
Total restricted deposits and funded reserves	<u>699,623</u>	<u>601,370</u>
Noncurrent assets		
Rental property, net of accumulated depreciation	<u>2,345,579</u>	<u>2,538,645</u>
Total noncurrent assets	<u>2,345,579</u>	<u>2,538,645</u>
Total assets	<u>\$ 3,249,973</u>	<u>\$ 3,478,471</u>

Oaks at Four Corners Development Corporation

**Balance Sheets
June 30, 2022 and 2021**

	2022	2021
Current liabilities		
Accounts payable and accrued liabilities	\$ 122,155	\$ 65,593
Interfund payable	6,060	8,155
Accrued interest payable	5,452	6,512
Mortgage payable - current	216,305	203,132
Loan payable to Montgomery County, Maryland - current	84,702	219,139
Total current liabilities	434,674	502,531
Current liabilities payable from restricted cash and cash equivalents		
Customer deposit payable	128,675	126,373
Noncurrent liabilities		
Mortgage payable, net of unamortized debt issuance costs of \$9,039 and \$11,621, respectively, and net of current maturities	795,640	1,009,366
Loan payable to Montgomery County, Maryland	1,276,873	1,361,575
Total noncurrent liabilities	2,072,513	2,370,941
Total liabilities	2,635,862	2,999,845
Total net assets	614,111	478,626
Total liabilities and net assets	\$ 3,249,973	\$ 3,478,471

See Notes to Financial Statements.

Oaks at Four Corners Development Corporation

Statements of Operations
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenue		
Dwelling rental	\$ 1,423,204	\$ 1,415,579
Other income	<u>7,046</u>	<u>7,174</u>
Total operating revenue	<u>1,430,250</u>	<u>1,422,753</u>
Operating expenses		
Administration	243,659	256,240
Maintenance	394,663	369,701
Bad debt	5,659	6,958
Depreciation and amortization	193,066	195,976
Utilities	107,854	97,635
Fringe benefits	85,377	91,737
Interest expense	72,842	85,279
Other	<u>190,555</u>	<u>186,453</u>
Total operating expenses	<u>1,293,675</u>	<u>1,289,979</u>
Operating income	<u>136,575</u>	<u>132,774</u>
Nonoperating revenues		
Investment income	<u>(1,090)</u>	<u>(1,551)</u>
Net income	<u>\$ 135,485</u>	<u>\$ 131,223</u>

See Notes to Financial Statements.

Oaks at Four Corners Development Corporation

**Statements of Changes in Net Assets
Years Ended June 30, 2022 and 2021**

Balance, July 1, 2020	\$ 347,403
Net income	<u>131,223</u>
Balance, June 30, 2021	478,626
Net income	<u>135,485</u>
Balance, June 30, 2022	<u><u>\$ 614,111</u></u>

See Notes to Financial Statements.

Oaks at Four Corners Development Corporation

**Statements of Cash Flows
Years Ended June 30, 2022 and 2021**

	2022	2021
Cash flows from operating activities		
Net income	\$ 135,485	\$ 131,223
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	193,066	195,976
Amortization of debt issuance costs	2,582	2,583
Bad debt expense	5,659	6,958
(Increase) decrease in assets		
Accounts receivable and other assets	(8,763)	(7,798)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	56,562	(20,205)
Accrued interest payable	(1,060)	(997)
Interfund payable	(2,095)	5,797
Customer deposits payable	2,302	3,551
Net cash provided by operating activities	383,738	317,088
Cash flows from financing activities		
Payments on mortgage payable	(203,135)	(190,761)
Payments on loan payable	(219,139)	-
Net cash used in financing activities	(422,274)	(190,761)
Net (decrease) increase in cash and restricted cash	(38,536)	126,327
Cash and restricted cash, beginning	922,461	796,134
Cash and restricted cash, end	\$ 883,925	\$ 922,461
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 71,320	\$ 83,693

See Notes to Financial Statements.

Oaks at Four Corners Development Corporation

Notes to Financial Statements June 30, 2022 and 2021

Note 1 - Organization

Oaks at Four Corners Development Corporation (the "Corporation") was formed as a nonstock corporation under the laws of the state of Maryland on August 21, 1996. The Corporation is a component unit of The Housing Opportunities Commission of Montgomery County, Maryland (the "Commission"). The Corporation was formed for the purpose of operating a housing property consisting of 120 moderately priced units, located in Silver Spring, Maryland (the "Project").

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.

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 ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounts receivable and bad debts

Tenant receivables are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of tenant accounts receivable. It is reasonably possible that management's estimate of the allowance will change. As of June 30, 2022 and 2021, the allowance was \$0 and \$215, respectively.

Rental property

Rental property is carried at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives by use of the straight-line method for financial reporting purposes. For income tax purposes, accelerated lives and methods are used.

	Method	Estimated useful lives
Buildings and improvements	Straight-line	40 years
Land improvements	Straight-line	15 years
Furniture and equipment	Straight-line	5 years

Oaks at Four Corners Development Corporation

Notes to Financial Statements June 30, 2022 and 2021

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, 2022 and 2021.

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 GAAP 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, 2022, returns for the tax years 2019 through 2021 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.

Advertising costs

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

Cash and cash equivalents

Short-term liquid investments with original maturities of less than three months are considered to be cash equivalents.

Note 3 - Restricted deposits and funded reserves

Replacement reserve

In accordance with the operating agreement, the Corporation is required to maintain a replacement reserve with the Commission as trustee. 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. Beginning 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 the Commission. However, the Commission

Oaks at Four Corners Development Corporation

Notes to Financial Statements June 30, 2022 and 2021

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 ended June 30, 2022 and 2021, were \$14,333 for each year. The balance in the reserve for years ended June 30, 2022 and 2021, was \$555,606 and \$462,502, respectively.

Mortgage escrow

In accordance with the terms of the mortgage note the Corporation is required to make monthly escrow deposits for the payment of mortgage insurance premiums. As of June 30, 2022 and 2021, the escrow was \$11,951 and \$11,694, respectively.

Note 4 - Statements of cash flows

The following table provides a reconciliation of cash and restricted cash reported within the balance sheets that sum to the total of the same such amounts in the statements of cash flows:

	<u>2022</u>	<u>2021</u>
Cash	\$ 184,302	\$ 321,091
Customer deposits - funded security deposits	132,066	127,174
Replacement reserve	555,606	462,502
Mortgage escrow	<u>11,951</u>	<u>11,694</u>
 Total cash and restricted cash shown in the statements of cash flows	 <u>\$ 883,925</u>	 <u>\$ 922,461</u>

Amounts included in restricted cash are comprised of security deposits held in trust for the future benefit of tenants upon moving out of the property, a replacement reserve and for maintenance, improvements and repairs, and a mortgage escrow for monthly deposits for the mortgage insurance, as required by the operating agreement.

Note 5 - Rental property

Property held by the Corporation at June 30, 2022 and 2021 consists of the following:

	<u>2022</u>	<u>2021</u>
Buildings and improvements	\$ 6,950,447	\$ 6,950,447
Land improvements	176,646	176,646
Furniture and equipment	174,890	174,890
Accumulated depreciation	<u>(4,956,404)</u>	<u>(4,763,338)</u>
	 <u>\$ 2,345,579</u>	 <u>\$ 2,538,645</u>

Oaks at Four Corners Development Corporation

Notes to Financial Statements June 30, 2022 and 2021

Note 6 - Mortgage payable

The Corporation is obligated to repay a mortgage to the Commission. On September 3, 1996, the Corporation assumed the HUD regulatory agreement from the Commission in conjunction with execution of a mortgage loan from the Commission 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. Beginning October 1, 1996, principal and interest payments of \$22,871 are due monthly until maturity on September 1, 2026. The loan provides for interest at a rate of 6.30% per annum. As of June 30, 2022 and 2021, the mortgage payable was \$1,020,984 and \$1,224,119, respectively, and accrued interest was \$5,452 and \$6,512, respectively.

As discussed in Note 2, debt issuance costs, net of accumulated amortization, totaled \$9,039 and \$11,621 as of June 30, 2022 and 2021, respectively, and are related to the mortgage payable. Debt issuance costs on the above mortgage are being amortized using an imputed rate of 6.41%. For the years ended June 30, 2022 and 2021, amortization expense related to debt issuance costs was \$2,582 and \$2,583, respectively, and is included in interest expense in the statements of operations.

Aggregate maturities of the mortgage payable for the five years following June 30, 2022 and thereafter are as follows:

2023	\$	216,305
2024		230,333
2025		245,270
2026		261,176
2027		67,900
		<hr/>
	\$	<u>1,020,984</u>

Note 7 - Note payable to Montgomery County, Maryland

The Corporation assumed the obligations of a note payable to Montgomery County, Maryland in the amount of \$2,349,725, which bears no interest. An annual payment of principal is due on July 1 and is paid from the Net Cash Flow from the property, as defined. The note matures on the termination of the ground lease on December 31, 2035. As of June 30, 2022 and 2021, the outstanding principal balance was \$1,361,575 and \$1,580,714, respectively.

Note 8 - Related party transactions

Interfund payable

The Corporation was advanced funds from affiliates which do not bear interest and are due on demand. As of June 30, 2022 and 2021, \$6,060 and \$8,155, respectively, is owed to affiliates.

Ground lease

The Corporation assumed a ground lease from the Commission 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.

Oaks at Four Corners Development Corporation

Notes to Financial Statements June 30, 2022 and 2021

Asset management fee

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. For the years ended June 30, 2022 and 2021, asset management fees of \$128,390, respectively, were incurred and paid, and are included in other expenses on the statements of operations.

Note 9 - Property management fee

The Corporation has an agreement with Edgewood Management Company, an unrelated party, to provide property management services, effective August 1, 2019 through July 31, 2022, the agreement provides for a fee of \$40 per occupied unit. Management fees charged to operations under this agreement for the years ended June 30, 2022 and 2021 were \$55,840 and \$56,280, respectively.

Note 10 - Payment in lieu of taxes ("PILOT")

The Corporation entered into an agreement with Montgomery County, Maryland for a PILOT. Under the agreement, the Corporation received a 100% reduction of the county and special area real property taxes.

Note 11 - Net assets

The Commission, the Corporation's principal investor, is required to report on a fund basis. The Corporation, therefore has reported net assets on a fund basis to conform to the Commission's presentation. This presentation does not conform with GAAP, but is not materially different. Below is a summary of the Corporation's net assets as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Investment in capital assets, net	\$ (27,941)	\$ (266,188)
Restricted net assets	699,623	601,370
Unrestricted net assets	<u>(57,571)</u>	<u>143,444</u>
	<u>\$ 614,111</u>	<u>\$ 478,626</u>

Note 12 - Housing assistance payment contract

Effective July 1, 2015, the Corporation has entered into a Rent Supplement Agreement with the Commission to provide a rental supplement for income eligible families. The agreement will continue until terminated by mutual consent of the parties. Tenant assistance payments for the years ended June 30, 2022 and 2021 were \$186,237 and \$138,702, respectively.

Note 13 - 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.

Oaks at Four Corners Development Corporation

Notes to Financial Statements June 30, 2022 and 2021

Note 14 - Subsequent events

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Corporation through April 3, 2023 (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

Oaks at Four Corners Development Corporation

**Selected Line Item Detail
Years Ended June 30, 2022 and 2021**

	2022	2021
Administration		
Marketing and lease-up	\$ 49,762	\$ 52,726
Contract administration salary	89,756	101,546
Contract bonus/commission	525	-
Contract management fee	55,840	56,280
Miscellaneous operating expenses	1,216	938
Postage	432	421
Printing/reproduction	2,841	3,708
Office supplies	2,355	1,932
Auditing services	14,325	7,524
Legal services	-	3,678
Credit check services	1,569	1,172
Telephone	9,664	10,959
Software	8,692	8,916
Rental license fees	5,734	5,644
Bank fees	570	320
Local mileage and travel	378	476
	\$ 243,659	\$ 256,240
Total administration expenses		
 Maintenance		
Contract maintenance salary	\$ 153,610	\$ 138,468
Supplies and materials	39,213	46,533
Contracts	100,599	119,150
Windows and glass	19,549	13,715
Doors	6,903	1,060
Flooring and carpeting	24,993	18,870
Paint and wall coverings	6,582	412
Equipment	43,214	31,493
	\$ 394,663	\$ 369,701
Total maintenance expenses		
 Utilities		
Water	\$ 49,111	\$ 43,987
Electric	46,505	42,523
Trash collection	12,238	11,125
	\$ 107,854	\$ 97,635
Total utility expenses		

Oaks at Four Corners Development Corporation

Selected Line Item Detail
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Fringe benefits		
Contract managed benefits	\$ 68,772	\$ 75,723
Contract housing allowance	15,131	14,876
Contract other training	1,474	1,138
	<u> </u>	<u> </u>
Total fringe benefits	<u>\$ 85,377</u>	<u>\$ 91,737</u>
Other		
Mortgage insurance	\$ 5,570	\$ 6,557
Other taxes	2,641	6,119
Property insurance	32,248	29,875
Ground rent	300	-
Security contracts	17,045	11,452
Building insurance	3,520	3,780
Asset management fee	128,390	128,390
Environmental insurance	841	280
	<u> </u>	<u> </u>
Total other expenses	<u>\$ 190,555</u>	<u>\$ 186,453</u>

See Independent Auditor's Report.

Oaks at Four Corners Development Corporation

Calculation of Net Cash Flow
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Net cash provided by operations	\$ 383,738	\$ 317,088
Add: Replacement reserve releases	79,153	266,866
Less: Deposits to replacement reserve	(172,257)	(171,996)
Net deposits to security deposits	(4,892)	(2,058)
Mortgage principal payments	<u>(203,135)</u>	<u>(190,761)</u>
	<u>\$ 82,607</u>	<u>\$ 219,139</u>

Note 1: The calculation of net cash flow is as defined and per the terms of the Montgomery County loan agreement.

See Independent Auditor's Report.



Independent Member of Nexia International

cohnreznick.com