

**Pooks Hill Development Corporation**

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

**June 30, 2022 and 2021**

# Pooks Hill Development Corporation

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## Independent Auditor's Report

To Management  
Pooks Hill Development Corporation

Report on the Financial Statements

### *Opinion*

We have audited the financial statements of Pooks Hill Development Corporation, which comprise the balance sheets as of June 30, 2022 and 2021, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Pooks Hill Development Corporation as of June 30, 2022 and 2021, 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.

### *Basis for Opinion*

We conducted our audits 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 Pooks Hill 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.

### *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 Pooks Hill 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 statements.

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 Pooks Hill 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 Pooks Hill 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 audits.

#### Supplementary Information

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

*CohnReznick LLP*

Baltimore, Maryland  
March 23, 2023

**Pooks Hill Development Corporation**

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

	<u>2022</u>	<u>2021</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 405,584	\$ 420,908
Intercompany receivable	29,128	18,606
Accounts receivable and other assets, net	<u>95,610</u>	<u>139,359</u>
Total current assets	<u>530,322</u>	<u>578,873</u>
Restricted cash and cash equivalents		
Customer deposits - funded security deposits	60,628	63,100
Restricted cash and cash equivalents	<u>1,456,403</u>	<u>1,285,746</u>
Total restricted cash and cash equivalents	<u>1,517,031</u>	<u>1,348,846</u>
Noncurrent assets		
Rental property, net of accumulated depreciation	<u>14,021,205</u>	<u>14,549,048</u>
Total noncurrent assets	<u>14,021,205</u>	<u>14,549,048</u>
Total assets	<u><u>\$ 16,068,558</u></u>	<u><u>\$ 16,476,767</u></u>

**Pooks Hill Development Corporation**

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

Liabilities and Net Assets

	<u>2022</u>	<u>2021</u>
Current liabilities		
Accounts payable and accrued liabilities	\$ 144,058	\$ 112,964
Mortgage payable - current	495,568	479,862
Accrued interest payable	38,268	39,557
	<u>677,894</u>	<u>632,383</u>
Total current liabilities		
Current liabilities payable from restricted cash and cash equivalents		
Customer deposits payable - tenant security deposits	<u>57,352</u>	<u>60,879</u>
Noncurrent liabilities		
Mortgage payable, net of unamortized debt issuance costs of \$37,736 and \$39,569 and net of current maturities, respectively	<u>13,705,784</u>	<u>14,199,519</u>
Total noncurrent liabilities	<u>13,705,784</u>	<u>14,199,519</u>
Total liabilities	14,441,030	14,892,781
Net assets	<u>1,627,528</u>	<u>1,583,986</u>
Total liabilities and net assets	<u>\$ 16,068,558</u>	<u>\$ 16,476,767</u>

See Notes to Financial Statements.

**Pooks Hill Development Corporation**

**Statements of Operations**  
**Years Ended June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Operating revenue		
Dwelling rental	\$ 2,831,169	\$ 2,782,174
Commercial rental	35,543	34,604
Other income	<u>10,972</u>	<u>12,868</u>
Total operating revenue	<u>2,877,684</u>	<u>2,829,646</u>
Operating expenses		
Administration	409,199	310,573
Maintenance	373,059	309,807
Bad debt	7,106	3,448
Depreciation	527,843	527,843
Utilities	171,018	137,090
Fringe benefits	64,556	63,849
Interest expense	468,178	483,428
Other	<u>813,231</u>	<u>883,463</u>
Total operating expenses	<u>2,834,190</u>	<u>2,719,501</u>
Operating income	43,494	110,145
Nonoperating revenues		
Investment income	<u>48</u>	<u>21</u>
Net income	<u>\$ 43,542</u>	<u>\$ 110,166</u>

See Notes to Financial Statements.

**Pooks Hill Development Corporation**

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

Balance, July 1, 2020	\$ 1,473,820
Net income	<u>110,166</u>
Balance, June 30, 2021	1,583,986
Net income	<u>43,542</u>
Balance, June 30, 2022	<u><u>\$ 1,627,528</u></u>

See Notes to Financial Statements.



**Pooks Hill Development Corporation**

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

	2022	2021
Cash flows from operating activities		
Net income	\$ 43,542	\$ 110,166
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	527,843	527,843
Amortization of debt issuance costs	1,833	1,834
(Increase) decrease in assets		
Accounts receivable and other assets	43,749	(80,788)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	31,094	(102,177)
Accrued interest payable	(1,289)	(1,249)
Customer deposits payable	(3,527)	(4,553)
	643,245	451,076
Net cash provided by operating activities		
Cash flows from investing activities		
Increase in interfund receivable	(10,522)	(8,330)
	(10,522)	(8,330)
Net cash used in investing activities		
Cash flows from financing activities		
Payments on mortgage payable	(479,862)	(464,654)
	(479,862)	(464,654)
Net cash used in financing activities		
Net increase (decrease) in cash, cash equivalents, and restricted cash	152,861	(21,908)
Cash, cash equivalents, and restricted cash, beginning	1,769,754	1,791,662
Cash, cash equivalents, and restricted cash, end	\$ 1,922,615	\$ 1,769,754
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 467,634	\$ 482,843

See Notes to Financial Statements.

# Pooks Hill Development Corporation

## Notes to Financial Statements June 30, 2022 and 2021

### Note 1 - Organization

Pooks Hill Development Corporation (the "Corporation") was formed as a nonstock corporation under the laws of the State of Maryland on October 4, 2012. The Corporation is a component unit of the Housing Opportunities Commission of Montgomery County, Maryland (the "Commission"). It was formed for the purpose of acquiring a 190-unit apartment complex to provide rental housing to persons of low and moderate income and is located in Bethesda, Maryland operating under the name Pooks Hill Apartment Tower (the "Project").

### Note 2 - Summary of significant accounting policies

#### Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Accounts receivable and bad debts

Tenant receivables are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of tenant accounts receivable. It is reasonably possible that management's estimate of the allowance will change. As of June 30, 2022 and 2021, the allowance was \$7,335 and \$46, respectively.

#### Rental property

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

	<u>Method</u>	<u>Estimated useful lives</u>
Buildings and improvements	Straight-line	40 years
Site improvements	Straight-line	15 years
Furniture and equipment	Straight-line	10 years

#### Impairment of long-lived assets

The Corporation reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the years ended June 30, 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.

## **Pooks Hill Development Corporation**

### **Notes to Financial Statements June 30, 2022 and 2021**

#### **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, 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.

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, 2022 and 2021, there were no cash equivalents.

### **Note 3 - Restricted cash and cash equivalents**

#### **Replacement reserve**

In accordance with the Regulatory Agreement with the Commission, disbursements from the reserve for replacement for the purpose of maintenance, improvements, or renovations of the Project cannot be made without prior consent of the Commission. The reserve for replacement is pooled with other properties that are controlled by the Commission and deposited with Montgomery County, Maryland. Monthly deposits of \$65 per unit commenced on the date of the first installment of principal and interest on the mortgage payable. This amount shall be adjusted annually by 3%. As of June 30, 2022 and 2021, the balance in the reserve was \$1,121,905 and \$952,683, respectively.

#### **Renovation reserve**

The Corporation has an additional renovation reserve to be used to fund capital improvements or major repairs. As of June 30, 2022 and 2021, 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, 2022 and 2021, the escrow was \$49,435 and \$48,000, respectively.

## Pooks Hill Development Corporation

### Notes to Financial Statements June 30, 2022 and 2021

#### Note 4 - Statements of cash flows

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 405,584	\$ 420,908
Customer deposits - funded security deposits	60,628	63,100
Replacement reserve	1,121,905	952,683
Renovation escrow	285,063	285,063
Mortgage escrow	<u>49,435</u>	<u>48,000</u>
Total cash, cash equivalents, and restricted cash shown in statements of cash flows	<u>\$ 1,922,615</u>	<u>\$ 1,769,754</u>

Amounts included in restricted cash are comprised of security deposits held in trust for the future benefit of tenants upon moving out of the property, the replacement reserve used for paying the cost of any major repair and replacement to the property, a renovation reserve used to fund capital improvements, and an escrow for mortgage insurance deposits.

#### Note 5 - Rental property

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

	<u>2022</u>	<u>2021</u>
Land	\$ 3,726,400	\$ 3,726,400
Buildings and improvements	19,405,185	19,405,185
Site improvements	426,732	426,732
Furniture and equipment	337,162	337,162
Accumulated depreciation	<u>(9,874,274)</u>	<u>(9,346,431)</u>
	<u>\$ 14,021,205</u>	<u>\$ 14,549,048</u>

#### Note 6 - Mortgage payable

The Corporation obtained financing from the Commission through the issuance of multi-family housing development bonds, in an aggregate amount not to exceed \$18,200,000. The loan converted to permanent financing on December 18, 2012, at which time monthly payments of principal and interest in the amount of \$78,958 commenced. The loan bears interest at 3.225% and matures on January 1, 2043. The Project serves as collateral for the loan. As of June 30, 2022 and 2021, the outstanding principal and accrued interest payable was \$14,239,088 and \$14,718,950, and \$38,268 and \$39,557, respectively.

## Pooks Hill Development Corporation

### Notes to Financial Statements June 30, 2022 and 2021

As discussed in Note 2, debt issuance costs, net of accumulated amortization, totaled \$37,736 and \$39,569 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 3.249%. For the years ended June 30, 2022 and 2021, amortization expense related to debt issuance costs was \$1,833 and \$1,834, 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 every five years thereafter are as follows:

2023	\$	495,568
2024		511,789
2025		528,540
2026		545,840
2027		563,706
2028-2032		3,107,667
2033-2037		3,650,653
2038-2042		4,288,512
2043		546,813
		<hr/>
	\$	14,239,088

#### Note 7 - Related party transactions

##### Development corporation fee payable

The Commission earns an annual noncumulative development corporation fee. The fee is based off of the property's annual budget and is payable from available cash flow. For the years ended June 30, 2022 and 2021, development corporation fees of \$406,353 and \$482,349, respectively, were incurred 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, 2022 and 2021, \$29,128 and \$18,606, respectively, were due to the Corporation.

##### Asset management fee

Pursuant to Section 7 of the Asset Management Fee Agreement (the "Agreement"), the Corporation agreed to pay an annual asset management fee to the Commission equal to the proportionate share of the asset management agent's indirect overhead expense attributable to the Project for the preceding year as determined annually as part of the asset management agent's annual budget. The Agreement renews automatically without notice. For the years ended June 30, 2022 and 2021, asset management fees of \$202,210 and \$202,210, respectively, were incurred and paid and are included in other expenses on the statements of operations.

## Pooks Hill Development Corporation

### Notes to Financial Statements June 30, 2022 and 2021

#### 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, 2022 and 2021, 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, 2022 and 2021, the Organization has no amounts due to or from related parties for shared costs with affiliated projects.

#### Note 8 - Property management fee

The Corporation has an agreement with Vantage Management Inc., an unrelated party, to provide property management services, effective September 1, 2013 through September 30, 2016. After that date the agreement automatically renews annually unless terminated by the parties. The agreement provides for a fee of \$44.10 per month per occupied unit. Management fees charged to operations under this agreement for the years ended June 30, 2022 and 2021 were \$95,477 and \$94,198, respectively. As of June 30, 2022 and 2021, \$8,070 and \$8,026, respectively, remained payable and are included in accounts payable and other accrued liabilities on the balance sheets.

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

The Corporation entered into an agreement with Montgomery County, Maryland for a PILOT. Under the agreement, the Corporation received a 100% reduction of the county and special area real property taxes. The agreement may be terminated by the county as of June 30 of any tax year upon 30 days' written notice to the Corporation, as defined. During the years ended June 30, 2022 and 2021, the Corporation did not incur or pay property taxes to Montgomery County, Maryland under this agreement.

#### Note 10 - Net assets

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

	<u>2022</u>	<u>2021</u>
Investment in capital assets, net	\$ (217,883)	\$ (169,902)
Restricted net assets	1,459,679	1,287,967
Unrestricted net assets	<u>385,732</u>	<u>465,921</u>
	<u>\$ 1,627,528</u>	<u>\$ 1,583,986</u>

## **Pooks Hill Development Corporation**

### **Notes to Financial Statements June 30, 2022 and 2021**

#### **Note 11 - 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.

#### **Note 12 - Concentration of credit risk**

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

#### **Note 13 - Risks and uncertainties**

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity which could result in a loss of lease revenue and other material adverse effects to the Company's financial position, results of operations, and cash flows. The Company is not able to reliably estimate the length or severity of this outbreak and therefore the related financial impact.

#### **Note 14 - Subsequent events**

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Corporation through March 23, 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**



**Pooks Hill Development Corporation**

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

	2022	2021
Administration		
Marketing and lease-up	\$ 25,998	\$ 26,551
Contract administration salary	122,648	130,508
Professional association dues	401	504
Contract management fee	95,477	94,198
Miscellaneous operating expenses	84,522	1,741
Postage	980	490
Printing/reproduction	1,926	1,888
Office supplies	2,136	1,717
Auditing services	14,373	12,295
Legal services	10,593	4,031
Food and beverages	495	290
Appraisal services	9,775	-
Telephone	10,455	11,909
Software	17,403	13,298
Rental license fees	9,627	9,609
Bank fees	329	394
Security deposit interest	1,030	1,150
Resident service fees	1,031	-
	\$ 409,199	\$ 310,573
 Total administration expenses		
Maintenance		
Contract maintenance salary	\$ 123,897	\$ 106,226
Supplies	25,280	18,065
Contracts	206,784	168,969
Employee uniforms	5,683	4,897
Doors	311	945
Windows and glass	989	-
Miscellaneous equipment	-	1,797
Appliance equipment	6,664	1,693
Flooring and carpeting	3,451	7,215
	\$ 373,059	\$ 309,807
 Total maintenance expenses		

**Pooks Hill Development Corporation**

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

	2022	2021
Utilities		
Water	\$ 77,239	\$ 50,831
Electric	39,279	47,038
Natural gas	36,823	21,516
Trash collection	17,677	17,705
Total utility expenses	\$ 171,018	\$ 137,090
Fringe benefits		
Contract managed benefits	\$ 64,169	\$ 63,537
Contract other training	387	312
Total fringe benefits	\$ 64,556	\$ 63,849
Other		
Mortgage insurance	\$ 72,292	\$ 74,657
Other taxes	4,126	3,071
Property insurance	59,059	54,554
Water quality protection charge	-	2,808
Security contracts	10,314	16,039
Asset management fee	202,210	202,210
Development corporation fee	406,353	482,349
Coronavirus expense	13,377	2,275
Loan management fee	45,500	45,500
Total other expenses	\$ 813,231	\$ 883,463

See Independent Auditor's Report.