

POOKS HILL DEVELOPMENT CORPORATION
FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION
For the years ended June 30, 2018 and 2017
with
Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

To the Management of
Pooks Hill Development Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of Pooks Hill Development Corporation (the "Corporation"), a Maryland corporation, which comprise the balance sheets as of June 30, 2018 and 2017, 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.

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.

Auditors' 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 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 auditors' 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, 2018 and 2017, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information 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.

Navogredac & Company LLP

Dover, Ohio

October 18, 2018

POOKS HILL DEVELOPMENT CORPORATION
BALANCE SHEETS
June 30, 2018 and 2017

ASSETS		2018	2017
Current Assets			
Cash and Cash Equivalents	\$	446,366	\$ 548,686
Accounts Receivable and Other Assets		125,373	104,519
Interfund Receivable		32,000	24,362
Total Current Assets		603,739	677,567
Restricted Assets			
Restricted Cash and Cash Equivalents		927,838	794,647
Customer Deposits - Funded Security Deposits		64,472	67,093
Total Restricted Cash and Cash Equivalents for Current Liabilities		992,310	861,740
Non-Current Assets			
Property and Equipment, Net of Accumulated Depreciation		16,108,313	16,641,065
Total Non-Current Assets		16,108,313	16,641,065
TOTAL ASSETS	\$	17,704,362	\$ 18,180,372
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Liabilities	\$	108,230	\$ 98,087
Mortgage Notes Payable - Current		435,667	421,859
Accrued Interest Payable		43,186	44,320
Total Current Liabilities		587,083	564,266
Current Liabilities Payable from Restricted Assets			
Customer Deposits Payable		58,436	59,919
Total Current Liabilities Payable from Restricted Assets		58,436	59,919
Non-Current Liabilities			
Mortgage Notes Payable		15,633,531	16,069,198
Total Non-Current Liabilities		15,633,531	16,069,198
TOTAL LIABILITIES		16,279,050	16,693,383
NET ASSETS			
Investment in Capital Assets, Net		39,115	150,008
Restricted Net Assets		933,874	801,821
Unrestricted Surplus		452,323	535,160
TOTAL NET ASSETS		1,425,312	1,486,989
TOTAL LIABILITIES AND NET ASSETS	\$	17,704,362	\$ 18,180,372

See Accompanying Notes to Financial Statements.

POOKS HILL DEVELOPMENT CORPORATION
STATEMENTS OF OPERATIONS
For the years ended June 30, 2018 and 2017

	2018	2017
OPERATING REVENUES:		
Dwelling Revenue	\$ 2,780,073	\$ 2,713,681
Other Income	57,060	76,479
Total Operating Revenues	2,837,133	2,790,160
OPERATING EXPENSES:		
Administration	291,978	368,561
Bad Debt Expense	6,528	6,147
Depreciation	532,752	555,836
Fringe Benefits	67,400	69,544
Interest	526,337	539,743
Maintenance	480,186	386,020
Other	818,852	737,727
Utilities	175,506	161,706
Total Operating Expenses	2,899,539	2,825,284
Operating Loss	(62,406)	(35,124)
NONOPERATING REVENUES:		
Investment Income	729	164
Net Loss	\$ (61,677)	\$ (34,960)

See Accompanying Notes to Financial Statements.

POOKS HILL DEVELOPMENT CORPORATION
STATEMENTS OF CHANGES IN NET ASSETS
For the years ended June 30, 2018 and 2017

BALANCE, JULY 1, 2016	\$ 1,521,949
Net Loss	<u>(34,960)</u>
BALANCE, JUNE 30, 2017	1,486,989
Net Loss	<u>(61,677)</u>
BALANCE, JUNE 30, 2018	<u><u>\$ 1,425,312</u></u>

See Accompanying Notes to Financial Statements.

POOKS HILL DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2018 and 2017

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2018</u>	<u>2017</u>
Net Loss	\$ (61,677)	\$ (34,960)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Depreciation	532,752	555,836
(Increase) Decrease in Accounts Receivable and Other Assets	(20,854)	7,493
Decrease in Customer Deposits - Funded Security Deposits	2,621	5,444
Increase (Decrease) in Accounts Payable and Accrued Liabilities	10,143	(117,080)
Decrease in Accrued Interest Payable	(1,134)	(1,098)
Decrease in Customer Deposits Payable	(1,483)	(2,256)
Total Adjustments	<u>522,045</u>	<u>448,339</u>
Net Cash Provided by Operating Activities	<u>460,368</u>	<u>413,379</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) in Interfund Receivable	(7,638)	(31,183)
(Increase) Decrease in Restricted Cash and Cash Equivalents	(133,191)	540,160
Purchase of Property and Equipment	-	(34,045)
Net Cash (Used in) Provided by Investing Activities	<u>(140,829)</u>	<u>474,932</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Mortgage Notes Payable	(421,859)	(408,489)
Net Cash Used in Financing Activities	<u>(421,859)</u>	<u>(408,489)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(102,320)	479,822
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>\$ 548,686</u>	<u>\$ 68,864</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 446,366</u>	<u>\$ 548,686</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid During The Year for Interest	<u>\$ 527,471</u>	<u>\$ 540,841</u>

See Accompanying Notes to Financial Statements.

POOKS HILL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

1. Organization

Pooks Hill Apartment Tower, a component unit of the Housing Opportunities Commission of Montgomery County, MD (“HOC”) was formed under the laws of the state of Maryland. It was formed for the purpose of acquiring a 190-unit apartment complex to provide rental housing, some of which is for low- and moderate-income families (the “Project”).

On October 4, 2012, Pooks Hill Apartment Tower filed articles of incorporation with the state of Maryland. It was reorganized as Pooks Hill Development Corporation (the “Corporation”), a nonprofit, non-stock corporation.

2. Summary of significant accounting policies and nature of operations

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.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Economic concentrations

The Corporation operates one apartment complex in Bethesda, Maryland. Future operations could be affected by changes in the economic or other conditions in that geographical area or the demand for such housing.

Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions for refunds of tenant security deposits, repairs or improvements to the buildings which extend their useful lives, and annual mortgage insurance premium payments.

Concentration of credit risk

The Corporation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts. The Corporation believes it is not exposed to any significant credit risk on cash and cash equivalents.

Depreciation

Fixed assets are recorded at cost. Buildings are depreciated over their estimated useful lives of 40 years using the straight-line method. Building renovations and miscellaneous equipment are depreciated over their estimated useful lives of 15, 10, and 5 years using the straight-line method.

POOKS HILL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

2. Summary of significant accounting policies and nature of operations (continued)

Depreciation (continued)

Site improvements are depreciated over their estimated useful lives of 15 years using the straight-line method. Depreciation expense for the years ended June 30, 2018 and 2017 was \$532,752 and \$555,836, respectively.

Impairment of long-lived assets

The Corporation reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flows analysis, or other valuation technique. There were no impairment losses for the years ended June 30, 2018 and 2017.

Income taxes

The Corporation is a component unit of HOC and is therefore exempt from income taxation. Accordingly, the accompanying 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. The Corporation 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, 2018, returns for the tax years 2015 through 2017 generally remain subject to examination by federal and state tax authorities. Any interest or penalties assessed to the Corporation are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Revenue recognition

Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other income includes fees for late payments, cleaning, damages, laundry facilities and other charges and is recorded when earned. Rental revenue received before the payment is due is recorded as a prepaid rent liability.

Allowance for doubtful accounts

The allowance for doubtful accounts is maintained at a level which, in management's judgement, is adequate to absorb valuation losses on tenant and other receivables. The amount of the allowance is based on management's evaluation of the collectability of the Corporation's receivables. As of June 30, 2018 and 2017, there was no allowance for doubtful accounts.

POOKS HILL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

2. Summary of significant accounting policies and nature of operations (continued)

Net assets

HOC, the Corporation's principal investor, is required to report on a fund basis and replace the owner's equity section with the following as of June 30:

	2018	2017
Investment in capital assets, net	\$ 39,115	\$ 150,008
Restricted net assets	933,874	801,821
Unrestricted surplus	452,323	535,160
Total net assets	\$ 1,425,312	\$ 1,486,989

Subsequent events

Subsequent events have been evaluated through October 18, 2018, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Restricted cash

Tenant security deposits

Tenant security deposits are placed into an interest-bearing account and are generally held until termination of the lease, at which time some or all deposits may be returned to the lessee. As of June 30, 2018 and 2017, the balance was \$64,472 and \$67,093, respectively.

Renovation escrow

The Corporation is required to fund a renovation escrow account with deposits to be made for capital improvements or major repairs. As of both June 30, 2018 and 2017, the balance was \$285,063.

Mortgage escrow

The Corporation is required to fund a mortgage escrow account with deposits to be made for the payment of mortgage insurance. As of June 30, 2018 and 2017, the balance was \$42,274 and \$40,581, respectively.

Reserve for replacement – held by HOC

In accordance with the Regulatory Agreement with HOC, disbursements from the reserve for replacement for the purpose of maintenance, improvements, or renovations of the Project cannot be made without prior consent of HOC. The reserve for replacement is pooled with other properties that are controlled by HOC and deposited with Montgomery County, Maryland. As of June 30, 2018 and 2017, the Corporation's balance was \$600,501 and \$469,003, respectively.

POOKS HILL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

4. Property and equipment

Property and equipment consisted of the following as of June 30:

	2018	2017
Land	\$ 3,726,400	\$ 3,726,400
Buildings	15,748,596	15,748,596
Building renovations	3,656,589	3,656,589
Miscellaneous equipment	337,162	337,162
Site improvements	403,203	403,203
Accumulated depreciation	(7,763,637)	(7,230,885)
Property and equipment, net	\$ 16,108,313	\$ 16,641,065

5. Related party transactions

Mortgage notes payable

The Corporation obtained financing from HOC through the issuance of multi-family housing development bonds for the rehabilitation of the Project. The mortgage is secured by a deed of trust and assignment of rents. The mortgage originally bore interest at 6.5% and was payable in monthly installments. The mortgage was originally scheduled to mature in March 2038. On December 18, 2012, the mortgage was refinanced with the issuance of Multi-Family Housing Development Bonds Series 2012D ("2012 D Bonds"). The refinanced mortgage bears interest at 3.225% and matures on January 1, 2043. Principal and interest of \$78,958 are due monthly. As of June 30, 2018 and 2017, the mortgage payable was \$16,069,198 and \$16,491,057, respectively, and accrued interest was \$43,186 and \$44,320, respectively. Future aggregate minimum principal payment requirements over each of the next five years and thereafter are as follows:

Year ending June 30,		
	2019	\$ 435,667
	2020	449,927
	2021	464,654
	2022	479,862
	2023	495,568
	2024 through 2028	2,732,031
	2029 through 2033	3,209,384
	2034 through 2038	3,770,143
	2039 through 2043	4,031,962
	Total	\$ 16,069,198

Interfund receivable

During the years ended June 30, 2018 and 2017, the Corporation made advances to, and received repayments from, affiliates. The advances do not bear interest and are due on demand. As of June 30, 2018 and 2017, \$32,000 and \$24,362, respectively, is due to the Corporation.

POOKS HILL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

5. Related party transactions (continued)

Related party transactions

During the course of operations, the Corporation paid fees to HOC for services related to the operation of the Corporation. Significant related party transactions with HOC consist of the following for the years ended June 30:

	2018	2017
Asset management fees	\$ 203,510	\$ 142,270
Loan management fees	45,500	45,500
Development corporation fee	448,603	436,000
Total	\$ 697,613	\$ 623,770

6. Real estate taxes

HOC, on behalf of the Corporation, entered into a payment in lieu of taxes agreement (the "PILOT Agreement") on February 23, 1995 with Montgomery County, whereby the Montgomery County portion of the Project's real estate tax is abated. The abatement will remain in effect unless terminated pursuant to Paragraph 5 of the PILOT Agreement.

SUPPLEMENTAL INFORMATION

POOKS HILL DEVELOPMENT CORPORATION
SUPPLEMENTAL INFORMATION
For the years ended June 30, 2018 and 2017

Administration	2018	2017
Security Deposit Interest Expense	\$ 977	\$ 810
Contract Administration Salary	119,240	152,639
Auditing Services	12,270	11,970
Contract Management Fee	99,655	98,139
Miscellaneous Operating Expenses	1,825	5,645
Postage Expense	522	7,793
Printing and Reproduction	110	198
Other Office Supplies	1,289	1,379
Food and Beverages	3,232	3,382
Legal Services	946	2,848
Advertising	25,491	27,862
Local Phone Bill	11,548	14,959
Computer Software	13,375	23,535
Rental License Fees	-	16,252
Bank Fees	394	385
Resident Gifts	1,104	765
Total Administration	\$ 291,978	\$ 368,561
Fringe Benefits		
Contract Managed Benefits	\$ 66,132	\$ 68,161
Contract Other Training	1,268	1,383
Total Fringe Benefits	\$ 67,400	\$ 69,544

See Independent Auditors' Report.

POOKS HILL DEVELOPMENT CORPORATION
SUPPLEMENTAL INFORMATION (CONTINUED)
For the years ended June 30, 2018 and 2017

Maintenance	2018	2017
Contract Maintenance and Janitorial Salary	\$ 109,130	\$ 128,951
Kitchen and Bath Supplies	-	4,197
Electrical Supplies	9,474	6,734
Appliance Supplies	4,091	1,589
Plumbing Supplies	3,975	2,990
Employee Uniforms	4,038	1,723
Cleaning and Janitorial Supplies	1,360	559
Grounds and Landscaping Supplies	786	657
Windows and Glass	200	477
Doors	216	2,116
Hardware Supplies	5,277	3,654
HVAC Supplies	11,439	2,039
Flooring and Carpeting	19,861	15,825
Miscellaneous Supplies	49	-
Miscellaneous Equipment	1,361	62
Electrical Contracts	3,212	2,104
Plumbing Contracts	10,301	10,143
Cleaning and Janitorial Contracts	70,399	52,514
Grounds and Landscaping Contracts	19,004	23,669
HVAC Contracts	1,250	1,935
Flooring and Carpeting Contracts	5,362	3,998
Paint and Wallcoverings Contracts	45,161	43,502
Elevator Contracts	19,053	24,014
Exterminating Contracts	4,804	5,482
Snow Removal Contracts	5,118	1,962
Swimming Pool Contracts	18,416	14,640
Asphalt and Concrete Contracts	37,828	-
Plumbing Equipment	31,832	22,070
HVAC Equipment	4,868	922
Appliance Equipment	5,026	1,572
Miscellaneous Contracts	27,295	5,920
Total Maintenance	\$ 480,186	\$ 386,020
Other		
Fire and Hazard Insurance	\$ 19,520	\$ 16,660
Liability Insurance	4,221	3,254
Solid Waste Tax	5,706	3,105
Asset Management Fees	203,510	142,270
Loan Management Fees	45,500	45,500
Water Quality Protection Charge	-	959
Security Contracts	10,482	6,590
Development Corporation Fee	448,603	436,000
Mortgage Insurance	81,310	83,389
Total Other	\$ 818,852	\$ 737,727

See Independent Auditors' Report.

POOKS HILL DEVELOPMENT CORPORATION
SUPPLEMENTAL INFORMATION (CONTINUED)
For the years ended June 30, 2018 and 2017

Utilities	<u>2018</u>	<u>2017</u>
Water	\$ 44,181	\$ 39,995
Electric	75,868	64,974
Natural Gas	30,040	27,407
Trash Collection	25,417	29,330
Total Utilities	<u>\$ 175,506</u>	<u>\$ 161,706</u>

See Independent Auditors' Report.