

**BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES
COMMISSION OF MONTGOMERY
COUNTY, MARYLAND)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2019 AND 2018

**BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)**

TABLE OF CONTENTS

| | PAGE |
|--|-------|
| INDEPENDENT AUDITORS' REPORT | 3- 4 |
| STATEMENTS OF FINANCIAL POSITION | 5-6 |
| STATEMENTS OF ACTIVITIES | 7 |
| STATEMENTS OF CHANGES IN NET ASSETS (DEFICIT) | 8 |
| STATEMENTS OF CASH FLOWS | 9 |
| NOTES TO FINANCIAL STATEMENTS | 10-15 |
| SUPPLEMENTARY INFORMATION | |
| DETAILED STATEMENTS OF FINANCIAL POSITION | 17-18 |
| DISTRIBUTION OF NET CASH FLOW | 19 |
| DETAILED STATEMENTS OF ACTIVITIES | 20-22 |
| INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> | 23-24 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS | 25 |



KOZAK, POLLEKOFF & GOLDMAN, P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Commissioners and Board of Directors
Barclay Apartments Development Corporation
Montgomery County, Maryland

Report on the Financial Statements

We have audited the accompanying statements of financial position of Barclay Apartments Development Corporation (a residential rental apartment complex owned by the Housing Opportunities Commission of Montgomery County, Maryland) as of June 30, 2019 and 2018, and the related statements of activities, changes in net assets (deficit), 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

1950 Old Gallows Road • Suite 440 • Vienna, Virginia 22182

Telephone: 703-506-9700 • Fax: 703-506-9707

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 Barclay Apartments Development Corporation as of June 30, 2019 and 2018, and the changes in its net assets (deficit) and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 17 through 22 is presented for the 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2019 on our consideration of Barclay Apartments Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Barclay Apartments Development Corporation's internal control over financial reporting and compliance.



Vienna, Virginia
November 4, 2019

BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)

STATEMENTS OF FINANCIAL POSITION

JUNE 30,

ASSETS

| | 2019 | 2018 |
|---|-------------------------|-------------------------|
| CURRENT ASSETS | | |
| Unrestricted current assets | | |
| Cash and cash equivalents | \$ 115,679 | \$ 229,439 |
| Interfund receivable | 1,226,730 | 1,138,858 |
| Accounts receivable, net and other assets | 66,858 | 28,628 |
| Total unrestricted current assets | 1,409,267 | 1,396,925 |
| Restricted assets available for current liabilities | | |
| Restricted cash and cash equivalents | 483,837 | 457,182 |
| Customer deposits - tenant security deposits | 57,977 | 57,971 |
| Total restricted assets available for current liabilities | 541,814 | 515,153 |
| Total Current Assets | 1,951,081 | 1,912,078 |
| NON-CURRENT ASSETS | | |
| Property and equipment, net of depreciation | 6,742,494 | 6,419,757 |
| Deferred charge, net of amortization | 137,478 | 145,448 |
| Total non-current assets | 6,879,972 | 6,565,205 |
| TOTAL ASSETS | \$ 8,831,053 | \$ 8,477,283 |

See notes to financial statement

BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)

STATEMENTS OF FINANCIAL POSITION - CONTINUED

JUNE 30,

LIABILITIES AND NET ASSETS

| | 2019 | 2018 |
|--|--------------|--------------|
| CURRENT LIABILITIES | | |
| Unrestricted current liabilities | | |
| Accounts payable and accrued liabilities | \$ 138,609 | \$ 72,414 |
| Accrued interest payable | 28,464 | 29,538 |
| Mortgage note payable-current | 302,732 | 289,580 |
| Total unrestricted current liabilities | 469,805 | 391,532 |
| Current liabilities payable from restricted assets | | |
| Customer deposit payable - tenant security deposits | 51,263 | 49,239 |
| Total current liabilities payable from restricted assets | 51,263 | 49,239 |
| Total Current Liabilities | 521,068 | 440,771 |
| NON-CURRENT LIABILITIES | | |
| Mortgage note payable, net of current maturities | 7,372,966 | 7,675,698 |
| Less: Debt issuance costs | (205,535) | (223,515) |
| Notes payable - HOC | 3,180,105 | 2,432,247 |
| Total non-current liabilities | 10,347,536 | 9,884,430 |
| Total liabilities | 10,868,604 | 10,325,201 |
| NET ASSETS (DEFICIT) | | |
| Investment in capital assets net of related debt | (4,113,309) | (3,977,768) |
| Restricted net assets | 490,551 | 465,914 |
| Unrestricted surplus | 1,585,207 | 1,663,936 |
| Total net assets (deficit) | (2,037,551) | (1,847,918) |
| TOTAL LIABILITIES AND NET ASSETS | \$ 8,831,053 | \$ 8,477,283 |

See notes to financial statement

BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30,

| | 2019 | 2018 |
|-----------------------------|--------------|--------------|
| Operating revenue: | | |
| Dwelling rental | \$ 1,236,418 | \$ 1,267,584 |
| Other income | 27,679 | 23,193 |
| Total operating revenue | 1,264,097 | 1,290,777 |
| Operating expenses: | | |
| Administration | 112,716 | 115,015 |
| Maintenance | 180,833 | 195,480 |
| Depreciation | 390,972 | 390,865 |
| Utilities | 100,163 | 88,697 |
| Fringe benefits | 19,959 | 19,151 |
| Interest | 373,471 | 386,253 |
| Other | 269,313 | 189,336 |
| Bad debts | 10,848 | 14,688 |
| Total operating expenses | 1,458,275 | 1,399,485 |
| Net operating loss | (194,178) | (108,708) |
| Investment income (expense) | 4,545 | 5,378 |
| Change in net deficit | \$ (189,633) | \$ (103,330) |

See notes to financial statements

BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)

STATEMENTS OF CHANGES IN NET ASSETS (DEFICIT)

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

| | Paid in Capital | Accumulated Loss | Total |
|------------------------|--------------------|-----------------------|-----------------------|
| Balance, June 30, 2017 | \$ 676,320 | \$ (2,420,908) | \$ (1,744,588) |
| Change in net deficit | - | (103,330) | (103,330) |
| Balance, June 30, 2018 | 676,320 | (2,524,238) | (1,847,918) |
| Change in net deficit | - | (189,633) | (189,633) |
| Balance, June 30, 2019 | <u>\$ 676,320</u> | <u>\$ (2,713,871)</u> | <u>\$ (2,037,551)</u> |

| | Investment in Capital Assets Net of Related Debt | Restricted Net Assets | Unrestricted Surplus | Total |
|------------------------|--|--------------------------|-------------------------|-----------------------|
| Balance, June 30, 2017 | \$ (3,962,104) | \$ 448,851 | \$ 1,768,665 | \$ (1,744,588) |
| Change in net deficit | (15,664) | 17,063 | (104,729) | (103,330) |
| Balance, June 30, 2018 | (3,977,768) | 465,914 | 1,663,936 | (1,847,918) |
| Change in net deficit | (135,541) | 24,637 | (78,729) | (189,633) |
| Balance, June 30, 2019 | <u>\$ (4,113,309)</u> | <u>\$ 490,551</u> | <u>\$ 1,585,207</u> | <u>\$ (2,037,551)</u> |

See notes to financial statements

BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

| | 2019 | 2018 |
|--|--------------|------------|
| Cash flows from operating activities: | | |
| Change in net deficit | \$ (189,633) | (103,330) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation | 390,972 | 390,864 |
| Amortization-debt issuance costs | 17,980 | 18,134 |
| Negative arbitrage | 7,970 | 7,970 |
| (Increase) decrease in accounts receivable and other current assets | (38,230) | (10,505) |
| (Decrease) increase customer deposits account - net | 2,018 | (7,008) |
| Increase (decrease) in accounts payable and accrued liabilities | 66,195 | 46,423 |
| Decrease in accrued interest payable | (1,074) | (1,026) |
| Net cash provided by operating activities | 256,198 | 341,522 |
| Cash flows from investing activities: | | |
| Net change in replacement reserve and mortgage escrow | (24,370) | (9,554) |
| Increase in predevelopment costs | (707,316) | (73,884) |
| Purchase of property | (6,393) | - |
| Net cash used in investing activities | (738,079) | (83,438) |
| Cash flows from financing activities: | | |
| Mortgage principal payments | (289,580) | (276,999) |
| Note payable - HOC | 747,858 | (24,318) |
| Net change in interfund (payable) receivable | (87,872) | 34,730 |
| Net cash provided by (used in) financing activities | 370,406 | (266,587) |
| Net (decrease) increase in cash and cash equivalents | (111,475) | (8,503) |
| Cash and cash equivalents, beginning | 348,015 | 356,518 |
| Cash and cash equivalents, ending | \$ 236,540 | \$ 348,015 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for interest | \$ 348,595 | \$ 373,757 |

See notes to financial statements

**BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

1. ORGANIZATION

Barclay Apartments Development Corporation (the Corporation) was incorporated under the laws of the State of Maryland on July 20, 2004 as a not-for-profit non-stock corporation for the purpose of acquiring and leasing 77 condominium units located in Bethesda, Maryland. The units are subject to a ground lease held by Montgomery County, Maryland. On September 1, 2007 the Corporation completed the purchase of the 77 condominium units from an affiliated entity, Barclay One Associates Limited Partnership.

On September 1, 2007, the Corporation assumed the permanent financing under the FHA's risk sharing program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting and presentation

The Corporation's financial statements are prepared on the accrual basis of accounting. Accordingly, revenue is recognized when earned, and expenses are recorded when incurred in accordance with accounting principles generally accepted in the United States of America. The Corporation is solely owned by the Housing Opportunities Commission of Montgomery County, Maryland ("HOC") and therefore, follows the financial statement format used by the Commission.

b) Rental income

Rental income is recognized as rents become due. Rental payments received in advance are deferred until earned. All leases between the Corporation and tenants of the property are operating leases.

c) Allowance for doubtful accounts

An allowance for doubtful accounts has been established by the Corporation. All tenant receivables that are ninety or more days past due are charged to this account. The allowance for doubtful accounts for the years ended June 30, 2019 and 2018 were \$19,493 and \$8,645, respectively.

d) Debt issuance costs, deferred charge and amortization

Mortgage financing and associated fees and cost of issuance of debt, referred to as debt issuance costs, net of amortization are reported as a direct deduction from the face amount of the mortgage loan payable to which such costs relate. Amortization of the debt issuance costs is reported as a component of interest expense and is computed using the effective yield method over the term of the related mortgage. Accumulated amortization relating to debt issuance costs for the years ended June 30, 2019 and 2018 was \$229,654 and \$211,674, respectively. The amount of amortization expense included as

**BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Debt issuance costs, deferred charge and amortization (continued)

interest expense was \$17,979 in June 30, 2019 and \$ 18,133 in June 30, 2018.

Deferred charge consists of negative arbitrage charged to mortgage interest expense on the straight line method over the term of the mortgage. Interest expense was charged for both years ended June 30, 2019 and 2018, in the amount of \$7,970.

e) Income taxes

No provision or benefit for income taxes has been included in these financial statements. The Corporation is not subject to tax under Internal Revenue Code Section 115.

f) Property, equipment and depreciation

Property and equipment, including major improvements, replacements and betterments are capitalized and stated at cost. The assets are depreciated using the estimated useful lives of the respective assets, ranging from 5 to 27.5 years, on a straight-line basis. Cost of maintenance and repairs are charged to expense when incurred. For income tax purposes, accelerated lives and methods are used.

g) Cash and cash equivalents

Cash and cash equivalents include demand deposits and money market funds with original maturities of 90 days or less.

h) Restricted cash and cash equivalents

Under the regulatory agreement, the Corporation is required to set aside amounts for the replacement of property and other project expenditures approved by HOC. Written approval is required from HOC for any disbursements from these funds. Monthly required deposits to the replacement reserve of \$1,900 were made in accordance with the regulatory agreement and the leasehold deed of trust notes. The mortgage escrow deposit account is maintained to pay mortgage insurance as required by the regulatory agreement. At June 30, 2019 and 2018, the replacement reserve was \$279,623 and \$256,823 and the mortgage escrow was \$83,353 and \$81,783, respectively.

i) Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in The United States of America requires management to make estimates and assumptions

**BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Use of estimates (continued)

that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

j) Advertising costs

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

k) Subsequent events

Subsequent events have been evaluated through November 4, 2019, which is the date the financial statements were available to be issued.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

| | 2019 | 2018 |
|--|--------------------|--------------------|
| Building | \$10,327,035 | \$10,327,035 |
| Fixed building equipment | 6,393 | - |
| Site improvements | 230,040 | 230,040 |
| Miscellaneous fixed assets | 261,310 | 261,310 |
| Predevelopment costs: | 803,036 | 95,720 |
| Total at cost | 11,627,814 | 10,914,105 |
| Less: accumulated depreciation | (4,885,320) | (4,494,348) |
| Total property and equipment, net | \$6,742,494 | \$6,419,757 |

4. MORTGAGE PAYABLE

The mortgage note for \$10,557,738 was assumed from Barclay One Associates Limited Partnership as a result of the purchase of the condominium units from that entity. The mortgage is collateralized by a leasehold deed of trust on all 77 units, a security agreement and assignment of rents. The note bears interest at a fixed rate of 4.45% per annum with monthly principal and interest payments of \$53,181.

**BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

4. MORTGAGE PAYABLE (CONTINUED)

The Regulatory Agreement jointly covers both Barclay One Associates Limited Partnership's and the Corporation's (both own all the units in the apartment complex). The mortgage note held by each entity provides that default by either entity on their respective mortgage note is deemed a default of both notes.

The Corporation's mortgage note matures on September 1, 2036. The liability under the deed of trust note is limited to the underlying value of the real estate.

There are two Interfund relationships; the first is between the Housing Opportunities Commission, of Montgomery County, Maryland and Barclay Apartments Development Corporation and the second is between Barclay Apartments Development Corporation and Barclay One Associates Limited Partnership.

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

| | |
|-----------|--------------------|
| 2020 | 302,732 |
| 2021 | 316,482 |
| 2022 | 330,856 |
| 2023 | 345,883 |
| 2024 | 361,593 |
| 2025-2029 | 2,069,748 |
| 2030-2034 | 2,584,457 |
| 2035-2037 | 1,363,947 |
| | <u>\$7,675,698</u> |

5. NOTE PAYABLE

Note Payable to the Housing Opportunities Commission of Montgomery County (\$2,738,606)

The Corporation assumed upon the purchase of the 77 condominium units the Amended and Restated Promissory Note in the original amount of \$2,738,606. This note is without interest and is non-recourse. It is secured by a second leasehold deed of trust, security agreement and assignment of rents on 77 condominium rental units. At the close of each fiscal year payments shall be made out of the net cash flow as defined in the agreement. The note payable balance as of June 30, 2019 and 2018 was \$3,180,105 and \$2,432,247. The note increased in 2019 due to advances for predevelopment costs for possible increase density due to new height allowances approved by Montgomery County Council upzoning for the Bethesda Downtown. On March 31, 2019 a payment of \$56,093 was made as determined in the 2018 audited financial statements.

**BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)**

NOTES TO FINANCIAL STATEMENTS

6. RELATED PARTY TRANSACTIONS

A Development Corporation fee was charged by the Housing Opportunities Commission of Montgomery County, Maryland for the years ended June 30, 2019 and 2018 in the amount of \$109,000 and \$18,763 respectively.

The Housing Opportunities Commission Corporation of Montgomery County, Maryland charged an Asset Management fee for the years ended June 30, 2019 and 2018, was in the amount of \$85,930 and \$81,830, respectively.

7. MANAGEMENT FEES AND CONTRACT

The Corporation has a management agreement with Edgewood Management Corporation in which it receives a management fee in the amount of \$36 per residential unit per month and additional \$4 per unit for frontline accounting activities and bookkeeping fees. The agreement was extended through November 30, 2017. Effective January 1, 2018 CAPREIT Residential Management LLC was awarded the management contract for a period of two (2) years with two (2) one (1) year renewal options. Their compensation monthly is three (3) percent of the monthly Adjusted Gross Receipts as defined in Article VIII of the management agreement. CAPREIT can also earned a six (6) percent construction fee based on the cost of construction and an five (5) percent performance incentive fee. For the years ended June 30, 2019 and 2018, management fees charged to operations were \$36,429 and \$36,741, respectively.

8. GROUND LEASE

The lessor of the ground lease is Montgomery County, Maryland. On September 1, 2007 Barclay One Associates Limited Partnership, the leasee, partially assigned the ground lease to Barclay Apartments Development Corporation as part of the condominium transaction. The County approved the partial assignment on October 24, 2007. The ground lease provides for a rent of \$1.00 per year payable annually beginning September 30, 1999 (the commencement date) by the complex which includes Barclay Apartments Development Corporation and Barclay One Associates Limited Partnership and also provides that the premises be used for rental housing. The ground rent is pro-rated between the properties 49% or forty-nine cents to Barclay Apartments Development Corporation and 51% or fifty-one cents, to Barclay One Associates Limited Partnership based on the properties' respective share of the mortgage. The ground lease terminates on December 31, 2082.

9. CONCENTRATION OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

Barclay Apartment Development Corporation is included with the Housing Opportunity Commission of Montgomery County, Maryland as part of the public funds, and are fully collateralized with securities by the Federal Reserve System.

**BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

10. REAL PROPERTY TAXES

The Corporation has entered into a Payment in Lieu of Taxes (P.I.L.O.T.) agreement with Montgomery County, Maryland to replace the special area and real property taxes, with a single payment of an agreed amount. There are conditions to this agreement; the Corporation must be wholly-owned by the Housing Opportunities Commission of Montgomery, Maryland, provide reports to the Chief, Division of Treasury for Montgomery County, Maryland, and both the Corporation and Housing Opportunities Commission of Montgomery County, Maryland must comply with Division II of the Housing and Community Development Article of the Annotated Code of Maryland. This agreement took effect October 24, 2007 and will expire on December 31, 2020, unless sooner terminated pursuant to certain conditions of the PILOT agreement.

SUPPLEMENTARY INFORMATION

BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)

DETAILED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30,

| | 2019 | 2018 |
|--|-------------|-------------|
| Interfund receivable (payable) | | |
| Intercompany receivable - Advances to Barclay One Assoc. L.P. | 83,451 | 96,636 |
| Due to 105-000 AP bank account | (59,389) | (38,654) |
| Due to 105-000 MA bank account | 1,202,668 | 1,080,876 |
| Interfund receivable (payable) | 1,226,730 | 1,138,858 |
| Accounts receivable and other assets | | |
| Maryland state receivable | 14 | 14 |
| Accounts receivable - government | 4,994 | 86 |
| Other receivables | 4,775 | 1,087 |
| Allowance from doubtful accounts | (19,493) | (8,645) |
| Tenant receivables | 72,406 | 21,606 |
| Ex -resident workorders receivables | 938 | - |
| Prepaid expenses | - | 409 |
| Prepaid insurance | - | 10,727 |
| Prepaid mortgage insurance | 3,224 | 3,344 |
| Accounts receivable and other assets | 66,858 | 28,628 |
| Restricted assets available for current liabilities | | |
| Replacement reserve | 279,623 | 256,823 |
| Renovation escrow | 120,861 | 118,576 |
| Mortgage escrow fund | 83,353 | 81,783 |
| Restricted assets available for current liabilities | 483,837 | 457,182 |
| Property & equipment | | |
| Buildings | 10,327,035 | 10,327,035 |
| Fixed building equipment | 6,393 | - |
| Site improvements | 230,040 | 230,040 |
| Miscellaneous fixed assets | 261,310 | 261,310 |
| Predevelopment Costs | 803,036 | 95,720 |
| Accumulated depreciation - buildings, site improvements, miscellaneous fixed asset | (4,885,320) | (4,494,348) |
| Property & equipment , net of depreciation | 6,742,494 | 6,419,757 |

BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)

DETAILED STATEMENTS OF FINANCIAL POSITION-CONTINUED
FOR YEAR ENDED JUNE 30,

| | 2019 | 2018 |
|--|-----------|-----------|
| Accounts payable and accrued liabilities | | |
| Accounts payable - others | \$ 26,069 | \$ 10,418 |
| Accounts payable - vendors | 214 | - |
| Accrued salaries | 929 | 766 |
| Clearing residents refund | 4,634 | 4,634 |
| Residential rent prepaid | 23,672 | 4,092 |
| Accrued utilities | 7,515 | 4,532 |
| Accrued other | 75,576 | 47,972 |
| Accounts payable and accrued liabilities | 138,609 | 72,414 |
| Tenant security deposits payable | | |
| Security deposit payable | 46,495 | 44,243 |
| Security deposit interest payable | 4,768 | 4,996 |
| Current liabilities payable from restricted assets | 51,263 | 49,239 |

BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)

SUPPLEMENTARY INFORMATION - CONTINUED

DISTRIBUTION OF NET CASH FLOW

FOR THE YEAR ENDED JUNE 30, 2019

| | |
|--|---------------------------|
| Net cash provided by operating activities | \$ 256,198 |
| Add: | |
| Replacement reserve releases | - |
| Less: | |
| Deposits into replacement reseve | (22,800) |
| Mortgage Principal Payments | <u>(289,580)</u> |
| Net cash flow available for HOC note payment | <u><u>\$ (56,182)</u></u> |

BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)

DETAILED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

| | 2019 | 2018 |
|----------------------------------|--------------|--------------|
| REVENUES | | |
| DWELLING RENTAL | | |
| Rent: current residents | \$ 1,259,897 | \$ 1,262,388 |
| Rent: subsidies | 43,783 | 42,883 |
| Concessions | (15,921) | (7,907) |
| Vacancy loss | (62,258) | (59,453) |
| Other rent fees | 605 | 1,905 |
| Late fees/NSF | 2,064 | 2,919 |
| Laundry income | 7,044 | 6,771 |
| Ex-residents work-orders | 1,204 | - |
| Non dwelling rent | - | 18,078 |
| Total dwelling rental | 1,236,418 | 1,267,584 |
| Total parking & other income | 27,679 | 23,193 |
| TOTAL OPERATING REVENUE | 1,264,097 | 1,290,777 |
| OPERATING EXPENSES | | |
| ADMINISTRATION | | |
| Office salaries | 46,538 | 46,235 |
| Auditing fees | 7,810 | 7,610 |
| Contract management fee | 36,429 | 36,741 |
| Miscellaneous operating expenses | 1,693 | 3,904 |
| Postage | 357 | 175 |
| Other office supplies | 1,293 | 1,840 |
| Printing/reproduction | 599 | 1,274 |
| Food & beverages | - | 218 |
| Local mileage and travel | 7 | 22 |
| Non-local mileage and travel | 260 | 336 |
| Legal services- general | 127 | 903 |
| Cable charges | - | 547 |
| Advertising | 3,280 | 5,121 |
| Public relation services | 1,423 | 56 |
| Credit check services | 827 | 302 |
| Computer software | 1,587 | 1,775 |
| Computer equipment | - | 23 |
| Internet access charges | 407 | 266 |
| Local phone bill | 7,390 | 6,808 |
| Rental license fee | 3,344 | - |
| Bank fees | - | 204 |
| Resident service fees | (655) | 655 |
| Total administration | 112,716 | 115,015 |

**BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)**

DETAILED STATEMENTS OF ACTIVITIES - CONTINUED
FOR THE YEARS ENDED JUNE 30,

| | 2019 | 2018 |
|---|---------|---------|
| MAINTENANCE | | |
| Contract maintenance/janitor salary | 38,154 | 38,729 |
| Temp agency - maintenance | 1,435 | - |
| Kitchen & bath supplies | 276 | 160 |
| Electrical supplies | 724 | 760 |
| Appliance supplies | 644 | 663 |
| Plumbing supplies | 1,348 | 2,536 |
| Employee uniforms | 647 | 1,421 |
| Cleaning and janitorial supplies | 632 | 507 |
| Grounds and landscaping supplies | - | 249 |
| Health and safety materials | 1,951 | - |
| Locks, keys | 303 | 51 |
| Windows and glass | 325 | 675 |
| Roofing materials | 783 | 381 |
| Hardware supplies | 538 | 1,505 |
| HVAC supplies | 679 | 398 |
| Paint and wallcoverings | 4,112 | 69 |
| Miscellaneous supplies | 120 | 106 |
| Electrical contracts | 350 | 204 |
| Plumbing contracts | 934 | 1,904 |
| Cleaning and janitorial contracts | 27,278 | 34,798 |
| Grounds and landscaping contracts | 5,151 | 5,283 |
| HVAC equipment | 761 | - |
| Flooring and carpeting | 2,412 | 300 |
| Appliance equipment | 177 | 280 |
| Tools | 28 | - |
| Maintenance equipment | 861 | - |
| HVAC contracts | 1,510 | 2,847 |
| Flooring and carpeting contracts | - | 819 |
| Paint/wallcoverings int. contracts | 14,321 | 21,759 |
| Elevator contracts | 18,918 | 19,974 |
| Exterminating contracts | 3,832 | 1,594 |
| Snow removal contracts | 1,994 | 2,996 |
| Miscellaneous contracts | (2,016) | 1,808 |
| Kitchen and bath supplies - capital | 3,186 | 1,621 |
| Plumbing supplies - capital | 1,082 | - |
| Grounds/landscaping supp - capital | - | 3,741 |
| Appliance contracts | - | 1,109 |
| Flooring and carpeting - capital | 1,286 | 38,701 |
| Flooring and carpeting contract - capital | 11,952 | - |
| HVAC equipment - capital | 11,312 | 1,361 |
| Appliance equipment - capital | 1,197 | 4,148 |
| Tools - capital | 20 | - |
| Paint/wallcoverings - capital | - | 910 |
| Miscellaneous equipment - capital | - | 328 |
| Miscellaneous equipment | - | 108 |
| Plumbing equipment - capital | 21,616 | 677 |
| Total maintenance | 180,833 | 195,480 |

BARCLAY APARTMENTS DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)

DETAILED STATEMENTS OF ACTIVITIES - CONTINUED
FOR THE YEARS ENDED JUNE 30,

| | 2019 | 2018 |
|--|---------|---------|
| UTILITIES | | |
| Water bill | 51,887 | 39,222 |
| Electric bill | 27,793 | 27,380 |
| Natural gas | 10,299 | 12,335 |
| Heating oil | - | 142 |
| Trash collection | 6,813 | 5,987 |
| Trash collection - bulk | 3,371 | 3,631 |
| Total Utilities | 100,163 | 88,697 |
| FRINGE BENEFITS | | |
| Contract managed benefits | 19,253 | 18,693 |
| Contract meal allowance | 12 | - |
| Contract other training | 694 | 458 |
| Total fringe benefits | 19,959 | 19,151 |
| INTEREST EXPENSES | | |
| Interest payments - general | 347,522 | 360,150 |
| Amortization of debt issuance costs | 17,979 | 18,133 |
| Negative arbitrage | 7,970 | 7,970 |
| Total interest expenses | 373,471 | 386,253 |
| OTHER EXPENSES | | |
| Security contracts | 4,631 | 10,546 |
| Security system | 1,166 | - |
| Fire & hazard insurance | 11,753 | 20,345 |
| Liability insurance | 852 | 1,278 |
| Real estate taxes | 12,138 | 11,254 |
| Ground rent | - | 2 |
| Other taxes | 1,919 | 1,985 |
| Solid waste tax | 1,551 | 1,534 |
| Water quality protection charge (RFSA) | 1,569 | 1,569 |
| Asset management fee | 85,930 | 81,830 |
| Development corp fee | 109,000 | 18,763 |
| Mortgage insurance | 38,804 | 40,230 |
| Total other expenses | 269,313 | 189,336 |

**INDEPENDENT AUDITORS REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Commissioners and Board of Directors
Barclay Apartments Development Corporation
Montgomery County, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Barclay Apartments Development Corporation, which comprise the statement of financial position as of June 30, 2019, and related statements of activities, changes in net assets (deficit), and cash flows for the year then ended, and the related notes to the financial statements, and have issued our reports thereon dated November 4, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Barclay Apartments Development Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Barclay Apartments Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Barclay Apartments Development Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. Given these limitations during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Barclay Apartments Development Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not

express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Handwritten signature in black ink, appearing to read "Kozak, F. & Allman, P.C." with a stylized flourish at the end.

Vienna, Virginia
November 4, 2019

**BARCLAY APARTMENTS DEVELOPMENT CORPORATION
HUD PROJECT NO.: 000-98044**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
ON INTERNAL CONTROL AND COMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2019**

Finding

Questioned Cost

None

N/A