

64 Moderately Priced Dwelling Units

Financial Statements

**For The Years Ended
June 30, 2021 And 2020**

64 Moderately Priced Dwelling Units

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For the Years Ended June 30, 2021 and 2020

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Independent Auditor's Report

To the Board of Commissioners
64 Moderately Priced Dwelling Units
10400 Detrick Avenue
Kensington, MD 20895

Report on the Financial Statements

We have audited the accompanying financial statements of 64 Moderately Priced Dwelling Units, which comprise the balance sheet as of June 30, 2021, and the related statements of operations, changes in net deficit, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 64 Moderately Priced Dwelling Units as of June 30, 2021, 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.

Prior Period Financial Statements

The financial statements of 64 Moderately Priced Dwelling Units as of June 30, 2020 were audited by other auditors whose report dated October 1, 2020, expressed an unmodified opinion on those statements.

SC+H attest services, P.C.

Sparks, Maryland
February 27, 2022

64 Moderately Priced Dwelling Units

Balance Sheets

As of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Unrestricted current assets		
Accounts receivable, net and other assets	\$ 135,625	\$ 89,373
Total unrestricted current assets	<u>135,625</u>	<u>89,373</u>
Restricted cash and cash equivalents for current liabilities		
Restricted cash and cash equivalents	111,270	101,861
Tenants' security deposits	<u>24,889</u>	<u>24,883</u>
Total restricted cash and cash equivalents for current liabilities	<u>136,159</u>	<u>126,744</u>
Property and equipment		
Construction in progress	-	37,729
Property and equipment, net of accumulated depreciation	<u>949,143</u>	<u>969,698</u>
Total property and equipment	<u>949,143</u>	<u>1,007,427</u>
Total assets	<u>\$ 1,220,927</u>	<u>\$ 1,223,544</u>

See independent auditor's report and notes to financial statements.

64 Moderately Priced Dwelling Units

Balance Sheets (Continued)
As of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Liabilities and Net Deficit		
Current liabilities		
Accounts payable and accrued expenses	\$ 34,437	\$ 24,769
Accrued interest payable	-	4,971
Notes payable - HOC	895,819	-
Interfund payable	1,399,201	1,331,203
Mortgage payable, current maturities	-	166,231
Total current liabilities	<u>2,329,457</u>	<u>1,527,174</u>
Current liabilities payable from restricted assets		
Tenants' security deposits	<u>14,840</u>	<u>16,218</u>
Total current liabilities payable from restricted assets	<u>14,840</u>	<u>16,218</u>
Long-term liabilities		
Mortgage payable, net of current maturities and unamortized financing fees of \$0 - 2021 and \$22,350 - 2020	-	822,555
Total long-term liabilities	<u>-</u>	<u>822,555</u>
Total liabilities	<u>2,344,297</u>	<u>2,365,947</u>
Contingency (Note 9)		
Net deficit		
Investment in capital assets, net of related debt	53,324	(3,709)
Restricted net assets	121,319	110,526
Unrestricted net deficit	<u>(1,298,013)</u>	<u>(1,249,220)</u>
Total net deficit	<u>(1,123,370)</u>	<u>(1,142,403)</u>
Total liabilities and net deficit	<u>\$ 1,220,927</u>	<u>\$ 1,223,544</u>

See independent auditor's report and notes to financial statements.

64 Moderately Priced Dwelling Units

Statements of Operations
For the Years Ended June 30, 2021 and 2020

	2021	2020
Operating revenues		
Dwelling rental income	\$ 782,386	\$ 814,699
Other income	36,739	83,461
Total operating revenues	<u>819,125</u>	<u>898,160</u>
Operating expenses		
Administrative	206,407	191,927
Operating and maintenance	256,386	233,796
Depreciation	80,612	87,910
Utilities	14,747	9,858
Fringe benefits	49,009	51,911
Interest expense	70,416	67,943
Other	31,274	29,264
Bad debt expense	55,553	31,076
Total operating expenses	<u>764,404</u>	<u>703,685</u>
Operating income	<u>54,721</u>	<u>194,475</u>
Nonoperating revenue (expense)		
Interest revenue (expense)	(118)	1,191
Total nonoperating revenue (expense)	<u>(118)</u>	<u>1,191</u>
Net income	<u>\$ 54,603</u>	<u>\$ 195,666</u>

See independent auditor's report and notes to financial statements.

64 Moderately Priced Dwelling Units

Statements of Changes in Net Deficit
For the Years Ended June 30, 2021 and 2020

Balance - July 1, 2019	\$ (1,280,002)
Distributions	(58,067)
Net income - June 30, 2020	<u>195,666</u>
Balance - June 30, 2020	(1,142,403)
Distributions	(35,570)
Net income - June 30, 2021	<u>54,603</u>
Balance - June 30, 2021	<u>\$ (1,123,370)</u>

See independent auditor's report and notes to financial statements.

64 Moderately Priced Dwelling Units

Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Net income	\$ 54,603	\$ 195,666
Adjustments to reconcile net income to restricted cash and cash equivalents provided by operating activities:		
Depreciation	80,612	87,910
Amortization of financing fees	22,350	4,003
Bad debt expense	55,553	31,076
Increase in operating assets:		
Accounts receivable, net and other assets	(101,805)	(60,793)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	9,668	12,998
Accrued interest payable	(4,971)	(771)
Interfund payable	67,998	(41,048)
Tenants' security deposits	(1,378)	(1,362)
Restricted cash and cash equivalents provided by operating activities	182,630	227,679
Cash flows from investing activities		
Construction costs paid	(15,553)	(37,730)
Acquisition of property and equipment	(6,775)	-
Restricted cash and cash equivalents used in investing activities	(22,328)	(37,730)
Cash flows from financing activities		
Mortgage principal payments	(1,011,136)	(156,728)
Proceeds from notes payable - HOC	895,819	-
Distributions	(35,570)	(58,067)
Restricted cash and cash equivalents used in financing activities	(150,887)	(214,795)
Net increase (decrease) in restricted cash and cash equivalents	9,415	(24,846)
Restricted cash and cash equivalents, beginning of year	126,744	151,590
Restricted cash and cash equivalents, end of year	\$ 136,159	\$ 126,744
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 53,037	\$ 64,711

See independent auditor's report and notes to financial statements.

64 Moderately Priced Dwelling Units

Statements of Cash Flows (Continued)
For the Years Ended June 30, 2021 and 2020

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

	<u>2021</u>	<u>2020</u>
Restricted cash and cash equivalents	\$ 111,270	\$ 101,861
Tenants' security deposits	<u>24,889</u>	<u>24,883</u>
Total restricted cash and cash equivalents, end of year	<u>\$ 136,159</u>	<u>\$ 126,744</u>

See independent auditor's report and notes to financial statements.

64 Moderately Priced Dwelling Units

Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

1) Nature of Business and Summary of Significant Accounting Policies

Nature of Business

64 Moderately Priced Dwelling Units (the Property) is a property owned by the Housing Opportunities Commission of Montgomery County, Maryland ("HOC"), for the purpose of acquiring 64 units to provide rental housing for low and moderate-income families and is not a separate legal entity.

Method of Accounting

The Property's financial statements are prepared on the accrual method of accounting which recognizes income when it is earned and expenses when they are incurred.

Cash and Cash Equivalents

The Property considers all highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents. The mortgage escrow deposits and replacement reserve are invested in money market funds considered to be cash equivalents with balances of \$111,270 and \$101,681, respectively, as of June 30, 2021 and 2020.

Rents Receivable and Bad Debts

Accounts receivable are reported at their outstanding balances, reduced by an allowance for doubtful accounts.

Management periodically evaluates the need for an allowance for doubtful accounts by considering the Partnership's past receivables loss experience, known and inherent risks in the accounts receivable population, adverse situations that may affect a debtor's ability to pay, and current economic conditions.

The allowance for doubtful accounts is increased by charges to bad debt expense and decreased by charge offs of the accounts receivable balances. Accounts receivable are considered past due after the tenth of the month in which they were due. Accounts receivable are considered uncollectible if they are outstanding over 90 days. The allowances as of June 30, 2021 and 2020 were \$77,902 and \$42,417, respectively.

Property and Equipment

Land, buildings and improvements are recorded at cost. Buildings and improvements are depreciated over their estimated useful lives of 5 to 40 years using the straight-line method.

Impairment of Long-Lived Assets

The Property reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. There were no asset impairments during the years ended June 30, 2021 and 2020.

Net Assets

HOC, the Property's owner, is required to report on a fund basis that categorize net assets as the following:

Investment in capital assets represents the total of property and equipment, net less mortgage payable.

Restricted net assets represents the sum of total restricted cash and cash equivalents and tenant security deposits less the tenant security deposit liability.

See independent auditor's report.

64 Moderately Priced Dwelling Units

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2021 and 2020

1) Nature of Business and Summary of Significant Accounting Policies (Continued)

Net Assets (Continued)

Unrestricted net assets represents the balance remaining after investment in capital assets and restricted net assets.

Interest

The Property has adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 835, *Interest*, which states that debt issuance costs related to a note shall be reported on the balance sheet as a direct deduction from the face amount of that note, and any amortization of debt issuance costs shall be reported as interest expense. Accordingly, the Property is reporting loan fees related to its mortgage payable as a direct deduction from the principal balance of the mortgage, and is reporting amortization of the loan fees as interest expense on the mortgage payable. See Note 5 for more information.

Income Taxes

The Property is a component unit of HOC, a component unit of Montgomery County, Maryland and is therefore exempt from income taxation. No provision for income taxes has been included in these financial statements and there are no other tax positions which must be considered for disclosure.

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.

Rental Revenue

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

Advertising

The Property's policy is to expense advertising costs when incurred. There were no advertising expenses incurred for the years ended June 30, 2021 and 2020.

Reclassifications

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

2) Concentration of Risk

The Property maintains its cash balances in several accounts in various banks. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each bank. Additionally, the Property is included with the Housing Opportunities Commission of Montgomery County, Maryland (the "Commission") as part of the agency funds and was entirely insured or collateralized with securities held by the Commission's agent in the Commission's name.

See independent auditor's report.

64 Moderately Priced Dwelling Units

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2021 and 2020

3) Restricted Cash and Cash Equivalents

Restricted funds are comprised of the following at June 30:

	<u>2021</u>	<u>2020</u>
Mortgage escrow deposits	\$ 8,357	\$ 12,159
Replacement reserve	<u>102,913</u>	<u>89,702</u>
	<u>\$ 111,270</u>	<u>\$ 101,861</u>

Mortgage Escrow Deposits

Pursuant to the terms of the mortgage note, the Property was required to make monthly deposits with the mortgagee for payment of mortgage insurance premium so that a sufficient amount was on deposit with the mortgagee when the actual payment of such expenses was due. The balance as of June 30, 2021 and 2020 is \$8,357 and \$12,159, respectively. Subsequent to June 30, 2021, the remaining balance was refunded to the property.

Replacement Reserve

Pursuant to the terms of the mortgage note, the Property was required to make monthly deposits of \$2,295 with the mortgagee for the purpose of effecting replacements of structural elements and mechanical equipment, only after receiving written consent of the Community Development Administration. The balance as of June 30, 2021 and 2020 is \$102,913 and \$89,702, respectively. Subsequent to June 30, 2021, the remaining balance was refunded to the property.

4) Property and Equipment

Property and equipment detail for the years ended June 30 was as follows:

	<u>2021</u>	<u>2020</u>
Land	\$ 849,256	\$ 849,256
Buildings	3,651,293	3,591,236
Office furniture and equipment	94,117	94,117
Vehicle	<u>12,499</u>	<u>12,499</u>
Total property and equipment	4,607,165	4,547,108
Less: accumulated depreciation	<u>3,658,022</u>	<u>3,577,410</u>
Property and equipment, net	<u>\$ 949,143</u>	<u>\$ 969,698</u>

See independent auditor's report.

64 Moderately Priced Dwelling Units

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2021 and 2020

5) Long-Term Debt

Mortgage Payable

On March 1, 1996, the Property obtained a loan from HOC in the original amount of \$3,098,424. The mortgage was secured by a deed of trust, security and assignment of rent agreements, and substantially all assets. Financing fees related to the mortgage were \$218,065 and were being amortized to interest expense on a straight-line basis, the results of which are not materially different than that of the effective interest method, over the term of the loan. The loan provided for interest at a nominal rate of 5.90% per annum and an effective rate of 6.26% per annum. Principal and interest payments of \$18,453 were due monthly with the final balance of principal and accrued interest due October 1, 2025. The mortgage was repaid in full on March 29, 2021 with the proceeds from the advance from affiliate. The outstanding principal and accrued interest balances as of June 30, 2020 were \$1,011,136 and \$4,971, respectively. Unamortized financing fees as of June 30, 2020 were \$22,350. For the years ended June 30, 2021 and 2020, interest incurred on the mortgage was \$68,143 and \$67,943, respectively, including amortized financing fees of \$22,350 and \$4,003, respectively.

6) Related Party Transactions

Interfund Receivable and Payable

The Property has numerous transactions with HOC to finance operations and provide services. To the extent that funds to finance certain transactions of the Property has not been paid or collected as of year-end, interfund payables and receivables are recorded. The balance of the interfund payable as of June 30, 2021 and 2020 was \$1,399,201 and \$1,331,203 respectively.

Notes Payable - HOC

On March 29, 2021 HOC advanced \$895,819 to the Property to repay the mortgage payable in full. The note incurs interest at the one month LIBOR rate plus 0.09% per annum. The note is unsecured and requires monthly payments of interest only, with the principal balance due upon demand. The balance of the note as of June 30, 2021 is \$895,819. For the year ended June 30, 2021, interest incurred and paid on the advance was \$2,273.

Property Management Fee

The Property is required to pay a management fee to HOC as determined by HOC. Each year, the amount is approved by HOC based on the agency cost allocation model determined during the budgetary process. For the years ended June 30, 2021 and 2020, management fees of \$136,200 and \$121,100, respectively, were incurred.

7) Tenant Assistance Payments

Dwelling rental revenue includes income from tenant-based Section 8 rental assistance payments. For the years ended June 30, 2021 and 2020, \$123,509 and \$135,931, respectively, of such assistance payments were included in dwelling rental revenue.

8) Real Estate Taxes

The Property pays a negotiated sum calculated by Montgomery County in lieu of taxes. The amount charged to operations for the years ended June 30, 2021 and 2020 was \$14,263 and \$13,649, respectively.

See independent auditor's report.

64 Moderately Priced Dwelling Units

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2021 and 2020

9) Business Risk Factor

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. The World Health Organization has declared COVID-19 to constitute a Public Health Emergency of International Concern. In March 2020, COVID-19 began to spread throughout the United States. Efforts to contain COVID-19, including restrictions mandated by U.S. Federal and various state and local governments has caused numerous businesses to close or modify their operations in an effort to prevent COVID-19 from spreading more rapidly. Because of the size and duration of this pandemic, the direct and indirect consequences of COVID-19 are not yet known and may not emerge for some time. The future impact of the pandemic is highly uncertain and cannot be predicted, but it could have a material adverse impact on the future results of operations and financial position of the Property.

10) Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through the independent auditor's report date, the date the financial statements were available to be issued. Except for the refund of the escrow and reserve discussed in Note 3 there were no events that required recognition or disclosure in the financial statements.

See independent auditor's report.



Independent Auditor's Report on Supplementary Information

We have audited the financial statements of 64 Moderately Priced Dwelling Units as of and for the year ended June 30, 2021 and our report thereon dated February 27, 2022 expressed an unmodified opinion on those financial statements, which appears on pages one and two. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules are presented for the purpose 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 2021 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 2021 information is fairly presented in all material respects in relation to the financial statements as a whole. The financial statements of 64 Moderately Priced Dwelling Units as of June 30, 2020, were audited by other auditors whose report dated October 1, 2020, expressed an unmodified opinion on those statements. The 2020 supplemental schedules were subjected to the auditing procedures applied in the 2020 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2020 financial statements as a whole.

SC&H attest services, P.C.

Sparks, Maryland
February 27, 2022

64 Moderately Priced Dwelling Units

Detail of Selected Balance Sheet Accounts
As of June 30, 2021 and 2020

	2021	2020
Accounts receivable, net and other assets		
Accounts receivable - subsidy	\$ 63,683	\$ 68,404
Allowance for doubtful accounts	(77,902)	(42,417)
Other receivables	7,242	-
Prepaid mortgage insurance	-	1,412
Rents receivable	142,602	61,974
	<u>\$ 135,625</u>	<u>\$ 89,373</u>
Accounts payable and accrued expenses		
Accounts payable	\$ 11,256	\$ 927
Accrued annual leave	10,649	8,530
Accrued salaries	2,478	1,267
Accrued utility payments	363	318
Clearing resident refunds	2,230	2,230
Other accrued liabilities	1,123	7,513
Resident prepaid rents	6,338	3,984
	<u>\$ 34,437</u>	<u>\$ 24,769</u>

See independent auditor's report on supplementary information.

64 Moderately Priced Dwelling Units

Detailed Statements of Operations
For the Years Ended June 30, 2021 and 2020

	2021	2020
Dwelling rental income		
Rent	\$ 910,969	\$ 912,244
Vacancies and concessions	(131,264)	(103,685)
Tenant charges	2,681	6,140
Total dwelling rental income	<u>\$ 782,386</u>	<u>\$ 814,699</u>
Other income		
Grants	\$ 27,533	\$ 76,165
Miscellaneous	1,910	-
Rental license	7,296	7,296
Total other income	<u>\$ 36,739</u>	<u>\$ 83,461</u>
Administrative expenses		
Contract management fees	\$ -	\$ 1,460
Licenses and fees	7,296	7,296
Management fee	136,200	121,100
Miscellaneous	1,272	1,282
Office supplies and expense	740	1,529
Professional fees	10,525	14,214
Salaries	42,477	38,009
Telephone	159	4
Vehicle	7,738	7,033
Total administrative expenses	<u>\$ 206,407</u>	<u>\$ 191,927</u>

See independent auditor's report on supplementary information.

64 Moderately Priced Dwelling Units

Detailed Statements of Operations (Continued)
For the Years Ended June 30, 2021 and 2020

	2021	2020
Operating and maintenance expenses		
Contracts	\$ 29,498	\$ 34,849
Exterminating	2,985	2,860
Grounds maintenance	10,616	5,550
Housing association fees	67,868	67,559
HVAC repairs and maintenance	20,958	14,299
Janitorial	4,356	7,401
Salaries	85,579	79,107
Snow removal	910	-
Supplies and repairs	33,616	22,171
	<u>\$ 256,386</u>	<u>\$ 233,796</u>
Total operating and maintenance expenses		
Utilities expense		
Electricity	\$ 9,238	\$ 5,878
Trash removal	-	133
Water	5,509	3,847
	<u>\$ 14,747</u>	<u>\$ 9,858</u>
Total utilities expense		
Fringe benefits		
Accrued leave	\$ 2,120	\$ 2,787
Contract managed benefits	-	853
Deferred contribution plan	6,656	6,079
FICA	8,103	8,535
Health insurance	27,519	26,362
Other post employment benefits	-	3,398
Unemployment	459	567
Workers' compensation	4,152	3,330
	<u>\$ 49,009</u>	<u>\$ 51,911</u>
Total fringe benefits		
Other expenses		
Insurance	\$ 13,173	\$ 9,780
Mortgage insurance	3,838	5,835
Taxes	14,263	13,649
	<u>\$ 31,274</u>	<u>\$ 29,264</u>
Total other expenses		

See independent auditor's report on supplementary information.