

PADDINGTON SQUARE DEVELOPMENT CORPORATION

**HUD Project No.: 000-11245
Financial Statements and Supplemental Information
with Report of Independent Auditors
June 30, 2021 and 2020**

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Report of Independent Auditors

To the Management of
Paddington Square Development Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of Paddington Square Development Corporation, which comprise the statement of net position as of June 30, 2021 and 2020, and the related statements of revenues, expenses, and change in net position, changes in net position, 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 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 Paddington Square Development Corporation, as of June 30, 2021, and the change in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary and Other Information

Management has omitted the management's discussion and analysis report that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by the missing information.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, which includes HUD-required financial data templates, is presented for purposes of additional analysis as required by the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements.

The accompanying supplementary 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. Such 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The schedule of the computation of mid-year surplus cash as of December 31, 2020, schedule of the status of prior audit findings, questioned costs, and recommendations, mortgagor's (owner's) certification, and the managing agent's certification have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2021 on our consideration of Paddington Square Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 the effectiveness of Paddington Square Development Corporation's 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 Paddington Square Development Corporation's internal control over financial reporting and compliance.

Novogradac & Company LLP

Dover, Ohio
September 28, 2021
Lead Auditor: Dirk Wallace

Employer's Identification Number: 94-3108253

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
STATEMENTS OF NET POSITION
June 30, 2021 and 2020

ASSETS AND DEFERRED OUTFLOW

	2021	2020
Current Assets		
Cash and Cash equivalents	\$ 522,401	\$ 819,938
Accounts Receivable, Prepaids, and Other Assets, net of Allowance for Doubtful Accounts	117,823	122,755
Total Current Assets	640,224	942,693
Restricted Assets		
Customer Deposits - Funded Security Deposits	98,050	98,024
Restricted Cash and Cash Equivalents	866,202	839,071
Total Restricted Assets	964,252	937,095
Fixed and Non-Current Assets		
Property and Equipment, net of Accumulated Depreciation	18,543,845	19,158,002
Total Fixed and Non-Current Assets	18,543,845	19,158,002
Total Assets	20,148,321	21,037,790
Deferred Outflow of Resources	456,158	302,150
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 20,604,479	\$ 21,339,940

LIABILITIES, DEFERRED INFLOW AND NET POSITION

Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 85,501	\$ 116,690
Prepaid Rent	11,253	5,385
Accrued Interest	395,192	344,331
Accrued Pension and OPEB Liabilities	271,371	137,322
Mortgage Notes Payable - Current	379,583	366,181
Due to Related Party	1,289,660	1,469,653
Total Current Liabilities	2,432,560	2,439,562
Current Liabilities Payable - from Restricted Assets		
Customer Deposits Payable - Tenant Security Deposits	89,222	90,223
Non-Current Liabilities		
Mortgages Payable, Net of Unamortized Financing Costs of \$277,555 and \$274,796, Respectively	17,948,254	19,253,633
Note Payable - Montgomery County	5,196,232	5,196,232
Total Non-Current Liabilities	23,144,486	24,449,865
Total Liabilities	25,666,268	26,979,650
Deferred Inflow of Resources	478,253	419,660
Net Position		
Net Investment in Capital Assets	(5,257,779)	(5,932,840)
Restricted	866,202	839,071
Unrestricted	(1,148,465)	(965,601)
Total Net Position	(5,540,042)	(6,059,370)
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	\$ 20,604,479	\$ 21,339,940

See accompanying notes to the financial statements

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
For the years ended June 30, 2021 and 2020

	2021	2020
Operating Revenue		
Dwelling Rental	\$ 2,865,658	\$ 2,987,726
Other Revenue	49,905	7,749
Investment Income	740	1,053
Total Operating Revenues	2,916,303	2,996,528
Operating Expenses		
Administration	358,566	343,772
Maintenance	565,220	591,083
Depreciation	621,277	618,134
Utilities	277,374	235,669
Fringe Benefits	174,887	205,654
Interest Expense	737,177	745,815
Bad Debt Expense	95,844	15,777
Other Expenses	489,668	663,642
Total Operating Expenses	3,320,013	3,419,546
Change in net position	\$ (403,710)	\$ (423,018)

See accompanying notes to the financial statements

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245

STATEMENTS OF CHANGES IN NET POSITION

For the years ended June 30, 2021 and 2020

BALANCE, JULY 1, 2019	\$ (5,636,352)
Change in net position	<u>(423,018)</u>
BALANCE, JUNE 30, 2020	(6,059,370)
Capital contributions	923,038
Change in net position	<u>(403,710)</u>
BALANCE, JUNE 30, 2021	<u><u>\$ (5,540,042)</u></u>

See accompanying notes to the financial statements

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Position	\$ (403,710)	\$ (423,018)
Adjustments to Reconcile Change in Net Position to Net Cash Provided by Operating Activities:		
Interest Expense - Debt Issuance Costs	9,342	9,342
Depreciation	621,277	618,134
Bad Debt Expense	95,844	15,777
Change in:		
Accounts Receivable, Prepaids, and Other Assets	(90,912)	(63,550)
Accounts Payable and Accrued Liabilities	(31,189)	41,211
Prepaid Rent	5,868	(1,900)
Accrued Interest	50,861	46,570
Accrued Pension & OPEB Liabilities	134,049	(82,076)
Due to Related Party	(179,993)	33,291
Customer Deposits Payable	(1,001)	(1,049)
Deferred Inflows/Outflows	(95,415)	144,757
Total Adjustments	518,731	760,507
Net Cash Provided by Operating Activities	115,021	337,489
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(7,120)	(70,800)
Payments for Financing Costs	(12,101)	-
Net Cash Used in Investing Activities	(19,221)	(70,800)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on Mortgage Payable	(366,180)	(353,252)
Net Cash Used in Financing Activities	(366,180)	(353,252)
Net change in cash, cash equivalents and restricted cash	(270,380)	(86,563)
Cash, cash equivalents and restricted cash at beginning of year	1,757,033	1,843,596
Cash, cash equivalents and restricted cash at end of year	\$ 1,486,653	\$ 1,757,033
Cash and cash equivalents	\$ 522,401	\$ 819,938
Customer deposits - funded security deposits	98,050	98,024
Restricted cash	866,202	839,071
Total cash, cash equivalents and restricted cash	\$ 1,486,653	\$ 1,757,033
Supplemental Disclosure of Cash Flow Information:		
Cash Paid for Interest	\$ 676,974	\$ 689,903
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Increase in Equity Contributions due to Decrease in Mortgages Payable	\$ 923,038	\$ -

See accompanying notes to the financial statements

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021 and 2020

1. Organization

Paddington Square Development Corporation (the "Corporation") is a corporation formed under the laws of the state of Maryland on February 6, 2004. The Corporation was formed for the purpose of acquiring, owning, operating, and maintaining a housing project consisting of 165 apartment units for persons of eligible income located in Silver Spring, Maryland known as Paddington Square (the "Project").

Housing projects undertaken, financed, or assisted by the Corporation and the Project's related expenditures must be approved by the Housing Opportunities Commission of Montgomery County, Maryland ("HOC"), a component unit of Montgomery County, Maryland. The Corporation is legally separate from HOC, but the Corporation's financial statements are included in the Opportunity Housing Fund of HOC as a blended component unit. The Corporation's directors must be commissioners of HOC and, therefore, HOC can significantly influence the programs, projects, activities of, and the level of service performed by the Corporation.

2. Summary of significant accounting policies and nature of operations

Basis of accounting

The Corporation's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). All transactions are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, and losses from assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

HOC adopted GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions ("GASB 75"). GASB 75 established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures associated with post employment benefits other than pensions ("OPEB") of State and Local Governments. For defined benefit OPEB, GASB 75 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. In addition, GASB 75 details the recognition and disclosure requirements for employers with liabilities to a defined benefit OPEB plan and for employers whose employees are provided with defined contribution OPEB.

Reporting entity

In accordance with GASB 61, The Financial Reporting Entity Omnibus - An Amendment of GASB Statements No. 14 and No. 34, HOC's basic financial statements include those of the Corporation and any component units. Component units are legally separate organizations whose majority of officials are appointed by the primary government or the organization is fiscally dependent on the primary government and there is a potential for those organizations either to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Reporting entity (continued)

An organization has a financial benefit or burden relationship with the primary government if any one of the following conditions exist:

1. The primary government (HOC) is legally entitled to or can otherwise access the organization's resources
2. The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
3. The primary government is obligated in some manner for the debt of the organization.

Based upon the application of these criteria, this report includes all programs and activities operated by the Corporation. There were no additional entities required to be included in the reporting entity under these criteria in the current fiscal year. However, the Corporation is owned by HOC and as such is included in their financial statements.

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 property in Silver Spring, Maryland. Future operations could be affected by changes in the economic or other conditions in that geographical area or by changes in federal low-income housing subsidies or the demand for such housing. In addition, the Corporation operates in a heavily regulated environment. The operations of the Corporation are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

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, annual mortgage insurance premiums, property taxes, and property insurance payments.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Concentration of credit risk

The Corporation maintains its cash 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 Corporation is included with HOC as part of the public funds, and was entirely insured or collateralized with securities held by HOC's agent in HOC's name.

Accounts receivable

Accounts receivable is stated at the amount management expects to collect from outstanding balances. 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. Balances that remain outstanding after management has used reasonable collection efforts are generally written off through a charge to the valuation allowance and a credit to trade accounts receivable. As of June 30, 2021 and 2020, the allowance for doubtful accounts was \$306,012 and \$206,984, respectively.

Fixed assets and depreciation

All fixed assets are recorded at cost. Depreciation on the main building structures and major improvements is computed using the straight-line method over 40 years. Equipment and other fixed assets are depreciated over a 10 year period using the straight-line method. Depreciation expense for the years ended June 30, 2021 and 2020 was \$621,277 and \$618,134, respectively.

Deferred charges and amortization

Under ASC-835, Interest, as issued by the Financial Accounting Standards Board (FASB), the deferred charges are recorded as a reduction of the related debt balance and the amortization of the charges is included in interest expense. Permanent loan fees totaling \$326,954 are amortized using the straight-line method over the term of the loans. Amortization included in interest expense for these loan and mortgage financing fees for both of the years ended June 30, 2021 and 2020 is \$9,342. Accumulated amortization for the years ended June 30, 2021 and 2020 is \$61,499 and \$52,157, respectively.

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 revenue includes fees for late payments, cleaning, damages, laundry facilities and other charges and is recorded when earned. Advance receipts of revenue are deferred and classified as liabilities until earned.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Income taxes

The Corporation, as part of a unit of local government, is incorporated as a not-for-profit entity in the State of Maryland and is therefore exempt from real estate, sales and income taxes. Although the Corporation's articles of incorporation outline its charitable purposes, it has not been designated as a tax-exempt entity by the IRS. As such, the Corporation is deemed a C Corporation for federal filing purposes. The Corporation has accounted for federal income taxes under the asset and liability method, which requires recognition of deferred tax assets and liabilities from the expected future tax consequences of events that have been included in its financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the book and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in the tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Deferred tax assets arise from the utilization of net operating losses. In evaluating the ability to recover its deferred tax assets, management considered all positive and negative evidence, including future taxable income and tax planning strategies. Management believes that it is more-likely-than-not that the benefit from the deferred tax assets will not be realized. Accordingly, management has provided a full valuation allowance on its deferred tax assets as of June 30, 2021 and 2020.

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. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. 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.

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 recognized for each of the years ended June 30, 2021 and 2020.

Advertising

Advertising costs are expensed as incurred. For the years ended June 30, 2021 and 2020, the Corporation incurred \$26,955 and \$24,817, respectively, in advertising costs.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021 and 2020

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

Net position

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:

	2021	2020
Net investment in capital assets	\$ (5,257,778)	\$ (5,932,840)
Restricted	866,202	839,071
Unrestricted	(1,148,466)	(965,601)
Total net position	<u>\$ (5,540,042)</u>	<u>\$ (6,059,370)</u>

Subsequent events

Subsequent events have been evaluated through September 28, 2021, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Restricted cash

Replacement reserve

In accordance with the Regulatory Agreement with HOC, disbursements from the replacement reserve for the purpose of maintenance, improvements, or renovations of the Project cannot be made without prior consent of HOC. The replacement reserve is pooled with other properties that are controlled by HOC and deposited with Montgomery County, Maryland (the "County"). As of June 30, 2021 and 2020, the balance of the replacement reserve was \$35,620 and \$93,863, respectively.

As part of the refinancing plan settlement with Love Funding approved on December 18, 2014, the Corporation established an additional replacement reserve escrow account, with an initial deposit of \$249,150, and monthly deposits of \$4,813. As of June 30, 2021 and 2020, the balance of the additional replacement reserve was \$623,108 and \$564,644, 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, 2021 and 2020, the balance of the renovation escrow was \$105,243.

Mortgage escrow

The Corporation is required to fund an escrow account to pay for mortgage insurance premiums, property taxes, and property insurance. As of June 30, 2021 and 2020, the balance of the mortgage escrow was \$102,231 and \$75,321, respectively.

Tenant security deposits

Tenant security deposits are placed into an interest-bearing account and are generally held until termination of the leases, at which time some or all of the deposits may be returned to the lessees.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021 and 2020

3. Restricted cash (continued)

Tenant security deposits (continued)

As of June 30, 2021 and 2020, the balance of the tenant security deposits was \$98,050 and \$98,024, respectively.

4. Property and equipment

Fixed assets consist of the following as of June 30:

	Balances at June 30, 2020	Additions	Balances at June 30, 2021
Land	\$ 2,720,000	\$ -	\$ 2,720,000
Buildings and improvements	24,793,669	-	24,793,669
Equipment and other fixed assets	99,941	7,120	107,061
Subtotal	27,613,610	7,120	27,620,730
Less: Accumulated depreciation	(8,455,608)	(621,277)	(9,076,885)
Fixed assets, net	<u>\$ 19,158,002</u>	<u>\$ (614,157)</u>	<u>\$ 18,543,845</u>

5. Mortgage payable – (\$20,741,700)

On January 8, 2014, HOC approved a refinancing plan to engage Love Funding as the Multifamily Accelerated Processing (“MAP”) Lender, and to obtain a FHA 223(f) Government National Mortgage Association (“GNMA” or “Ginnie Mae”) backed mortgage for the Project. This execution garnered approximately \$21 million in loan proceeds and retired \$20 million in outstanding debt. The final application was submitted to HUD in June 2014 and approved on December 18, 2014. The mortgage accrued interest at a rate of 3.6% with accrued interest payable monthly. The outstanding balance at June 30, 2021 and 2020 was \$18,605,392 and \$18,971,572, respectively, and accrued interest was \$55,816 and \$56,915, respectively.

Mortgage payable as of June 30, 2021 and 2020 consists of the following:

	2021	2020
Principal balance	\$ 18,605,392	\$ 18,971,572
Less: unamortized financing costs	(277,555)	(274,796)
Mortgage payable, net of unamortized financing costs	<u>\$ 18,327,837</u>	<u>\$ 18,696,776</u>

Debt issuance costs are being amortized to interest expense over the term of the loan. For the years ended June 30, 2021 and 2020, the effective interest rate was 3.56% and 3.65%, respectively. Amortization expense for debt issuance costs for both of the years ended June 30, 2021 and 2020 was \$9,342.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021 and 2020

5. Mortgage payable – (\$20,741,700) (continued)

Future aggregate minimum principal payment requirements over each of the next five years and thereafter are as follows:

Year ending June 30,	Principal	Interest	Total
2022	\$ 379,583	\$ 663,572	\$ 1,043,155
2023	393,476	649,679	1,043,155
2024	407,877	635,278	1,043,155
2025	422,806	620,349	1,043,155
2026	438,280	604,875	1,043,155
2027 through 2031	2,444,086	2,771,689	5,215,775
2032 through 2036	2,925,314	2,290,461	5,215,775
2037 through 2041	3,501,293	1,714,482	5,215,775
2042 through 2046	4,190,680	1,025,095	5,215,775
2047 through 2050	3,501,997	235,977	3,737,974
	<u>\$ 18,605,392</u>	<u>\$ 11,211,457</u>	<u>\$ 29,816,849</u>

6. Loan payable to Montgomery County, MD – (\$9,144,902)

On February 4, 2004, HOC acquired Paddington Square and in September 2009, HOC refinanced the original acquisition loan with a new loan facility of \$9,144,902, which was advanced to the Corporation from the County to finance improvements on the Project. The note provided a 35-year term maturing on July 1, 2039 with no interest to be charged until March 1, 2014 at which time 1% per annum was to be charged for the remainder of the term. The loan was to be paid back from available cash flow commencing on July 1, 2015 and amortizing over the remaining 24 years of the term. This note was partially repaid as a part of the refinancing agreement of December 18, 2014. The remainder of the loan outstanding as a result of the refinancing is \$5,196,232 and is included in noncurrent loans payable as of June 30, 2021 and 2020. As of June 30, 2021 and 2020, accrued interest was \$339,376 and \$287,416, respectively.

7. Related party transactions

Loan payable to HOC – (\$2,310,140)

The Corporation also borrowed \$2,310,140 from the Opportunity Housing Revenue Fund. This loan does not have defined repayment terms. Based on the refinancing agreement, payments of \$1,387,102 were made, reducing the loan to \$923,038. During 2020, the remaining balance of the loan was reclassified to capital contributions. As of June 30, 2021 and 2020 the outstanding balance of the loan was \$0 and \$923,038, respectively, which is included in noncurrent mortgage payable on the accompanying statements of net position.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021 and 2020

7. Related party transactions (continued)

Due to related party

The Corporation made advances to affiliates of the Corporation. The advances 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 statuses of individual accounts. As of June 30, 2021 and 2020, \$1,289,660 and \$1,469,653, respectively, were due to the Corporation.

Asset management fee

Pursuant to the Asset Management Fee Agreement (the "Agreement"), the Corporation agreed to pay an annual asset management fee to HOC 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 continued until March 1, 2005 and renews automatically without notice. For each of the years ended June 30, 2021 and 2020, asset management fees of \$104,470 were incurred and paid.

Development corporation fee

During the course of operations, the Corporation paid fees to HOC for services related to the operation of the Corporation. For the years ended June 30, 2021 and 2020, development corporation fees of \$241,945 and \$426,443, respectively, were incurred and paid.

8. Pension plan

HOC participates in the State of Maryland, Montgomery County Employees' Retirement System, which is a cost-sharing multiple employer defined benefit pension plan administered by Montgomery County. It is HOC's policy to allocate pension liabilities, deferred inflows of resources and deferred outflows of resources to projects based on actual time spent by HOC personnel in the various projects and programs of HOC.

The Corporation's share of HOC's net pension liability, deferred inflows of resources, deferred outflows of resources and pension expense has been allocated as follows:

As of and for the year ended June 30, 2021:

Net pension liability	\$	193,745
Deferred inflow of resources		368,267
Deferred outflow of resources		419,222
Pension expense		51,811

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021 and 2020

8. Pension plan (continued)

As of and for the year ended June 30, 2020:

Net pension liability	\$	60,542
Deferred inflow of resources		265,389
Deferred outflow of resources		234,952
Pension expense		66,899

For additional information about the Montgomery County Employees' Retirement System, please refer to Montgomery County's Annual Financial Reports, which can be found at <https://www.montgomerycountymd.gov/mcerp/>.

9. OPEB plan

HOC also participates in the State of Maryland, Montgomery County Retiree Health Benefit Plan, which is a cost-sharing multiple-employer defined benefit OPEB plan administered by Montgomery County. It covers employees of local government employers that have adopted a resolution to participate in the plan. It is HOC's policy to allocate OPEB liabilities, deferred inflows of resources and deferred outflows of resources to projects based on actual time spent by HOC personnel in the various projects and programs of HOC.

The Corporation's share of HOC's net OPEB liability, deferred inflows of resources, deferred outflows of resources and OPEB expense has been allocated as follows:

As of and for the year ended June 30, 2021:

Net OPEB liability	\$	77,626
Deferred inflow of resources		109,986
Deferred outflow of resources		36,936
OPEB expense (income)		(13,177)

As of and for the year ended June 30, 2020:

Net OPEB liability	\$	76,780
Deferred inflow of resources		154,271
Deferred outflow of resources		67,198
OPEB expense		(4,219)

For additional information about the Montgomery County Retiree Health Benefit Plan, please refer to Montgomery County's Annual Financial Reports, which can be found at <https://www.montgomerycountymd.gov/mcerp/>.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021 and 2020

10. Property management fee

Pursuant to the agreement for property management services dated February 1, 2013, Residential One, LLC, an unrelated third party, earned a monthly property management fee equal to \$38 per unit for performing central accounting, recertification, marketing, office support and overhead expenses of front-line personnel who do not work at the Project, and corporate administration. For the years ended June 30, 2021 and 2020, property management fees of \$87,852 and \$73,075, respectively, were incurred and paid.

11. Contingency-COVID 19

The severity of the impact of COVID-19 on the Corporation's operations will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Corporation's tenants, all of which are uncertain and cannot be predicted. The Corporation's future results could be adversely impacted by delays in rent collections. Management is unable to predict with absolute certainty the impact of COVID-19 on its financial condition, results of operations or cash flows.

SUPPLEMENTARY INFORMATION

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245

BALANCE SHEET - HUD BASIS

June 30, 2021

ASSETS

CURRENT ASSETS

1120 Cash - operations	\$	522,401
1130 Tenant accounts receivable		367,059
1131 Allowance for doubtful accounts		(306,012)
1130 Net tenant accounts receivable		61,047
1135 Accounts receivable - HUD		367
1145 Accounts receivable - entity		7,694
1200 Prepaid expenses		48,715
1100T Total current assets		<u>640,224</u>

DEPOSITS HELD IN TRUST

1191 Tenant deposits held in trust		98,050
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RESTRICTED DEPOSITS AND FUNDED RESERVES

1310 Escrow deposits		207,474
1320 Replacement reserve		658,728
1300T Total restricted deposits and funded reserves		<u>866,202</u>

FIXED ASSETS

1410 Land		2,720,000
1420 Buildings		24,793,669
1470 Maintenance equipment		13,880
1490 Miscellaneous fixed assets		
Personal property		93,181
1400T Total fixed assets		<u>27,620,730</u>
1495 Accumulated depreciation		9,076,885
1400N Net fixed assets		<u>18,543,845</u>

OTHER ASSETS

1590 Miscellaneous other assets		456,158
1500T Total other assets		<u>456,158</u>

1000T TOTAL ASSETS	\$	<u>20,604,479</u>
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See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION
 HUD PROJECT NO. 000-11245
 BALANCE SHEET - HUD BASIS (CONTINUED)
 June 30, 2021

LIABILITIES AND EQUITY

CURRENT LIABILITIES

2110 Accounts payable - operations	\$	47,765
2120 Accrued wages payable		37,736
2131 Accrued interest payable - mortgage payable		395,192
2160 Notes payable - short-term		1,289,660
2170 Mortgage payable - HOC (short-term)		379,583
2190 Miscellaneous current liabilities		271,371
2210 Prepaid revenue		11,253
2122T Total current liabilities		2,432,560

DEPOSIT LIABILITIES

2191 Tenant deposits held in trust - contra	89,222
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LONG-TERM LIABILITIES

2310 Notes payable - long-term	5,196,232
2320 Mortgage payable - first mortgage	18,225,809
2340 Debt issuance costs	(277,555)
2390 Miscellaneous long-term liabilities	478,253
2300T Total long-term liabilities	23,622,739

2000T Total liabilities	26,144,521
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3160 Total equity	(5,540,042)
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2033T TOTAL LIABILITIES AND EQUITY	\$ 20,604,479
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See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245

STATEMENT OF PROFIT AND LOSS - HUD BASIS

For the year ended June 30, 2021

Rental revenue		
5120	Rent revenue - gross potential	\$ 2,465,208
5121	Tenant assistant payments	482,697
5100T	Total rental revenue	<u>2,947,905</u>
Vacancies		
5220	Apartments	105,871
5250	Rental Concessions	12,844
5200T	Total vacancies	<u>118,715</u>
5152N	Net rental revenue (rent revenue less vacancies)	<u>2,829,190</u>
Financial revenue		
5410	Financial revenue - project operations	26
5440	Revenue from investments - replacement reserve	714
5400T	Total financial revenue	<u>740</u>
Other revenue		
5910	Laundry and vending	28,547
5920	Tenant charges	7,921
5990	Miscellaneous (specify)	
	Rental license	49,905
5900T	Total other revenue	<u>86,373</u>
5000T	Total revenue	<u>2,916,303</u>
Administrative expenses		
6204	Management consultants	241,945
6210	Advertising and marketing	26,955
6250	Other renting expense	4,377
6310	Office salaries	139,329
6311	Office expenses	14,913
6320	Management fee	87,852
6330	Manager or superintendent salaries	151,417
6340	Legal expenses - project	6,686
6350	Auditing expenses	10,090
6370	Bad debts	95,844
6390	Miscellaneous administrative expenses	20,366
6263T	Total administrative expenses	<u>799,774</u>
Utility expenses		
6450	Electricity	32,727
6451	Water	163,888
6452	Gas	40,731
6400T	Total utility expenses	<u>237,346</u>

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION
 HUD PROJECT NO. 000-11245
 STATEMENT OF PROFIT AND LOSS - HUD BASIS (CONTINUED)
 For the year ended June 30, 2021

Operating and maintenance expenses		
6510	Payroll	\$ 227,286
6515	Supplies	20,419
6520	Contracts	212,393
6525	Garbage and trash removal	40,028
6530	Security payroll/contract	1,465
6590	Miscellaneous operating and maintenance expenses (specify)	
	Capital supplies	84,293
	Capital contracts	39,829
6500T	Total operating and maintenance expenses	<u>625,713</u>
Taxes and insurance		
6720	Property and liability insurance (hazard)	42,264
6722	Workmen's compensation	8,925
6723	Health insurance and other employee benefits	146,962
6790	Miscellaneous taxes, licenses, permits, and insurance (specify)	
	Insurance reserve	5,210
	Vehicle insurance	1,190
	Solid waste tax	2,697
	Water quality protect charge (RFSA)	5,950
6700T	Total taxes and insurance	<u>213,198</u>
Financial expenses		
6820	Interest on mortgage payable	737,177
6850	Mortgage insurance premium	84,477
6890	Miscellaneous financial expenses (specify)	
	Security deposit interest expense	1,051
6800T	Total financial expenses	<u>822,705</u>
Operating results		
6000T	Total costs of operation before depreciation	<u>2,698,736</u>
5060T	Profit (loss) before depreciation	217,567
6600	Depreciation expenses	621,277
5060N	Operating profit or (loss)	<u>(403,710)</u>
3250	Net income or (loss)	<u>\$ (403,710)</u>

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PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
STATEMENT OF PROFIT AND LOSS - HUD BASIS (CONTINUED)
For the year ended June 30, 2021

Part II

S1000-010	Total first mortgage principal payments required during the audit period (12 monthly payments). This applies to all direct loans, HUD-held and HUD-insured first mortgages.	<u>\$ 366,181</u>
S1000-020	The total of all monthly reserve for replacement deposits (usually 12 months) required during the audit period even if deposits have been temporarily waived or suspended.	<u>\$ 57,750</u>
S1000-030	Replacement Reserves, or Residual receipts and Releases which are included as expense items on this Profit and Loss statement.	<u>\$ 58,243</u>
S1000-040	Program that are included as expense items on this Profit and Loss Statement.	<u>\$ -</u>

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PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
STATEMENT OF EQUITY - HUD BASIS
For the year ended June 30, 2021

S1100-010	Beginning of period balance	\$ (6,059,370)
3250	Net income (loss)	(403,710)
S1200-430	Contributions	923,038
3160	End of period balance	<u>\$ (5,540,042)</u>

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245

STATEMENT OF CASH FLOWS - HUD BASIS

For the year ended June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

S1200-010	Rental income received	\$ 2,836,306
S1200-020	Interest receipts	740
S1200-030	Other operating receipts	86,373
S1200-040	Total receipts	<u>2,923,419</u>

CASH PAID FOR:

S1200-050	Administrative expenses	(637,603)
S1200-070	Management fee expense	(87,852)
S1200-090	Utility expenses	(237,346)
S1200-100	Salaries and wages expense	(512,787)
S1200-110	Operating and maintenance expenses	(359,793)
S1200-140	Property insurance expense	(39,546)
S1200-150	Miscellaneous taxes and insurance expense	(170,934)
S1200-160	Tenant security deposits	(2,078)
S1200-180	Interest on mortgage payable	(676,974)
S1200-210	Mortgage insurance premium	(83,511)
S1200-230	Total disbursements	<u>(2,808,424)</u>

S1200-240	Net cash provided by operating activities	114,995
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CASH FLOWS FROM INVESTING ACTIVITIES

S1200-245	Net deposits to the mortgage escrow account	(26,910)
S1200-250	Net withdrawals from the reserve for replacement account	(221)
S1200-330	Net purchase of fixed assets	(7,120)
S1200-340	Other investing activities	
	Payments for financing costs	<u>(12,101)</u>
S1200-350	Net cash used in investing activities	(46,352)

CASH FLOWS FROM FINANCING ACTIVITIES

S1200-360	Principal payments - mortgage payable	(366,180)
S1200-370	Principal payments - notes payable - HUD	(923,038)
S1200-430	Contributions	923,038
S1200-460	Net cash used in financing activities	<u>(366,180)</u>

S1200-470	NET DECREASE IN CASH & EQUIVALENTS	(297,537)
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S1200-480	BEGINNING CASH AND CASH EQUIVALENTS	<u>819,938</u>
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S1200T	ENDING CASH AND CASH EQUIVALENTS	<u><u>\$ 522,401</u></u>
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PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
STATEMENT OF CASH FLOWS - HUD BASIS (CONTINUED)
For the year ended June 30, 2021

RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
3250	NET INCOME (LOSS)	\$ (403,710)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
6600	Depreciation expense	621,277
S1200-486	Amortization of debt issuance costs	9,342
Changes in asset and liability accounts		
Decrease (increase) in assets		
S1200-490	Increase in tenant accounts receivable	(10,224)
S1200-500	Decrease in accounts receivable - HUD	11,472
S1200-520	Decrease in prepaid expenses	3,684
S1200-530	Increase in cash restricted for tenant security deposits	(26)
		4,906
Increase (decrease) in liabilities		
S1200-540	Increase in accounts payable - operations and accrued liabilities	(36,434)
S1200-560	Decrease in accrued liabilities	(148,763)
S1200-570	Increase in accrued interest payable	50,861
S1200-580	Decrease in tenant security deposits held in trust	(1,001)
S1200-590	Decrease in prepaid rent	5,868
S1200-600	Other adjustments to reconcile net income (loss) to net cash provided by operating activities	
	Change in deferred inflow pension and OPEB	58,593
	Change in net pension and OPEB liabilities	134,049
	Change in related party liabilities	(179,993)
		(116,820)
S1200-610	NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 114,995

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245

COMPUTATION OF SURPLUS CASH - HUD BASIS

June 30, 2021

S1300-010	Cash (Accounts 1110, 1120, 1191, 1192)	\$ 620,451
1135	Accounts receivable - HUD	<u>367</u>
S1300-040	Total cash	620,818
S1300-050	Accrued mortgage (or bond) interest payable	339,376
S1300-075	Accounts payable (due within 30 days)	47,765
S1300-100	Accrued expenses (not escrowed)	37,736
2210	Prepaid revenue	11,253
2191	Tenant deposits held in trust	89,222
S1300-110	Other current obligations:	
S1300-120	First mortgage principal due in the following month	
S1300-130	\$ 31,113	
S1300-120	First mortgage interest due in the following month	
S1300-130	\$ 55,816	
S1300-120	Mortgage insurance premium due in the following month	
S1300-130	\$ 7,097	
S1300-120	Replacement reserve deposit due in the following month	
S1300-130	\$ 4,813	
S1300-120	Escrow deposits due in the following month	
S1300-130	\$ 3,344	
S1300-120	Interfund payable - HOC	
S1300-130	\$ 1,289,660	<u>1,391,843</u>
S1300-140	Less total current obligations	<u>1,917,195</u>
S1300-150	Surplus cash (deficiency)	<u><u>\$ (1,296,377)</u></u>

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PADDINGTON SQUARE DEVELOPMENT CORPORATION
 HUD PROJECT NO. 000-11245
 COMPUTATION OF SURPLUS CASH - HUD BASIS (UNAUDITED)
 December 31, 2020

S1300-010	Cash (Accounts 1110, 1120, 1191, 1192)	\$ 1,258,724
1135	Accounts receivable - HUD	<u>19,358</u>
S1300-040	Total cash	1,278,082
S1300-050	Accrued mortgage (or bond) interest payable	266,030
S1300-075	Accounts payable (due within 30 days)	41,919
S1300-100	Accrued expenses (not escrowed)	46,709
2210	Prepaid revenue	6,993
2191	Tenant deposits held in trust	89,727
S1300-110	Other current obligations:	
S1300-120	First mortgage principal due in the following month	
S1300-130	\$ 29,480	
S1300-120	First mortgage interest due in the following month	
S1300-130	\$ 57,449	
S1300-120	Mortgage insurance premium due in the following month	
S1300-130	\$ 7,230	
S1300-120	Replacement reserve deposit due in the following month	
S1300-130	\$ 4,813	
S1300-120	Escrow deposits due in the following month	
S1300-130	\$ 2,174	
S1300-120	Interfund payable - HOC	
S1300-130	\$ 1,554,933	<u>1,656,079</u>
S1300-140	Less total current obligations	<u>2,107,457</u>
S1300-150	Surplus cash (deficiency)	<u>\$ (829,375)</u>
S1300-200	Amount available for distribution during next fiscal period	<u>\$ (829,375)</u>

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PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
SCHEDULE OF CHANGES IN FIXED ASSET ACCOUNTS
For the year ended June 30, 2021

	Beginning Balance	Additions	Deductions	Ending Balance
Land	\$ 2,720,000	\$ -	\$ -	\$ 2,720,000
Buildings	24,793,669	-	-	24,793,669
Maintennace Equipment	13,880	-	-	13,880
Miscellaneous fixed assets	86,061	7,120	-	93,181
TOTAL	<u>\$ 27,613,610</u>	<u>\$ 7,120</u>	<u>\$ -</u>	<u>\$ 27,620,730</u>
Accumulated depreciation	<u>\$ 8,455,608</u>	<u>\$ 621,277</u>	<u>\$ -</u>	<u>\$ 9,076,885</u>
Net book value	<u>\$ 19,158,002</u>			<u>\$ 18,543,845</u>

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PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
SCHEDULE OF ADDITIONAL SUPPLEMENTAL DATA
For the year ended June 30, 2021

In accordance with the U.S Department of Housing and Urban Development (“HUD”) Consolidated Audit Guide for Audits of HUD Programs Handbook 2000.04 REV-2 dated December 2001, the following supplemental data is furnished:

SCHEDULE OF CHANGES IN REPLACEMENT RESERVE

BALANCE, JULY 1, 2020	\$	658,507
Monthly deposits		57,750
Other deposits		-
Interest income		714
Approved withdrawals		(58,243)
BALANCE, JUNE 30, 2021	\$	<u>658,728</u>

OTHER SUPPORTING DATA

MISCELLANEOUS OTHER ASSETS (1590)		
Deferred outflow pension	\$	419,222
Deferred outflow OPEB		36,936
	\$	<u>456,158</u>

MISCELLANEOUS CURRENT LIABILITIES (2190)		
Net pension liability	\$	193,745
Net OPEB liability		77,626
Total	\$	<u>271,371</u>

MISCELLANEOUS LONG-TERM LIABILITIES (2390)		
Deferred inflow - pension	\$	368,267
Deferred inflow - OPEB		109,986
Total	\$	<u>478,253</u>

MISCELLANEOUS ADMINISTRATIVE EXPENSES (6390)		
Miscellaneous operating expenses	\$	3,494
Local mileage and travel		82
Gasoline		618
Vehicle repairs and maintenance		1,573
Training program		1,079
Credit check services		795
Rental license fees		7,755
Resident services fees		721
Decorations		202
Covid-19 - coronavirus expense		4,047
Total	\$	<u>20,366</u>



REPORT OF INDEPENDENT AUDITORS 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 management of
Paddington Square Development Corporation:

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 Paddington Square Development Corporation, which comprise the statement of net position as of June 30, 2021, and the related statements of revenues, expenses, and change in net position, changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated September 28, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Paddington Square Development Corporation's internal control over financial reporting (internal control) as a basis for designing 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 Paddington Square Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Paddington Square 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 a 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 was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Paddington Square Development Corporation's financial statements are free from 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 financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Novogradec & Company LLP

Dover, Ohio
September 28, 2021

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR ITS MAJOR HUD PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE CONSOLIDATED AUDIT GUIDE FOR AUDITS OF HUD PROGRAMS

To the management of
Paddington Square Development Corporation:

Report on Compliance for its Major HUD Program

We have audited Paddington Square Development Corporation’s compliance with the compliance requirements described in the Consolidated Audit Guide for Audits of HUD Programs (the “Guide”) that could have a direct and material effect on Paddington Square Development Corporation’s major U.S. Department of Housing and Urban Development (“HUD”) program for the year ended June 30, 2021. Paddington Square Development Corporation’s major HUD program and the related direct and material compliance requirements are as follows:

Name of Major HUD Program	Direct and Material Compliance Requirements
Section 223(f) HUD-Insured Mortgage	mortgage status, replacement reserve, distributions to owners, equity skimming, cash receipts, cash disbursements, tenant security deposits, management functions, unauthorized change of ownership/ acquisition of liabilities, and unauthorized loans of project funds

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its HUD programs.

Auditors’ Responsibility

Our responsibility is to express an opinion on compliance for Paddington Square Development Corporation’s major HUD program based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major HUD program occurred. An audit includes examining, on a test basis, evidence about Paddington Square Development Corporation’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major HUD program. However, our audit does not provide a legal determination of Paddington Square Development Corporation's compliance.

Opinion on Its Major HUD Program

In our opinion, Paddington Square Development Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major HUD programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of Paddington Square Development Corporation is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Paddington Square Development Corporation's internal control over compliance with the requirements that could have a direct and material effect on its major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major HUD program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Paddington Square Development Corporation's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

Novogradac & Company LLP

Dover, Ohio
September 28, 2021

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND RECOMMENDATIONS
June 30, 2021

Findings – Financial Statements Audit

Our audit disclosed no findings that are required to be reported herein under the HUD Consolidated Audit Guide.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS, QUESTIONED COSTS, AND
RECOMMENDATIONS (UNAUDITED)
June 30, 2021

Findings – Financial Statements Audit for the year ended June 30, 2020

Audit report, dated October 30, 2020 for the year ended June 30, 2020, issued by Novogradac & Company, LLP.

There were no financial statement audit findings for the year ended June 30, 2020.

Findings from Other Audits or Studies

There were no reports issued by HUD OIG or other Federal agencies or contract administrators during the period covered by this audit.

Findings from Deficiencies Listed in Letters or Reports Issued by HUD Management

There were no letters or reports issued by HUD during the period covered by this audit.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO.000-11245
MORTGAGOR'S (OWNER'S) CERTIFICATION
June 30, 2021

We hereby certify that we have examined the accompanying financial statements and supplemental data of Paddington Square Development Corporation and, to the best of our knowledge and belief, the same is complete and accurate.

Paddington Square Development Corporation

Cornelia Kent

Signature

09 / 28 / 2021

Date

Name of Signatory

Cornelia Kent

Title of Certifying Official

Chief Financial Officer

Auditee Telephone Number

(240) 627-9745

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
MANAGING AGENT'S CERTIFICATION
June 30, 2021

We hereby certify that we have examined the accompanying financial statements and supplemental data of Paddington Square Development Corporation and, to the best of our knowledge and belief, the same is complete and accurate.

RESIDENTIAL ONE, LLC

Signature 

Date 9/28/21

Name of Signatory

LOUIS SIGALAS

Managing Agent Tax Identification Number

47-4263376

Name of Property Manager

SHELLY COLLINS