

527 Dale Drive Apartments

Financial Statements

**For the Years Ended
June 30, 2022 and 2021**

527 Dale Drive Apartments

Table of Contents

For the Years Ended June 30, 2022 and 2021

Independent Accountant's Compilation Report	1
Financial Statements	
Statements of Financial Position	2-3
Statements of Activities	4
Statements of Changes in Net Deficit	5
Statements of Cash Flows	6-7
Notes to Financial Statements	8-12
Supplementary Information	
Detail of Selected Statement of Financial Position Accounts	13
Detailed Statements of Activities	14-15
Schedule of Surplus Cash	16



Independent Accountant's Compilation Report

To the Board of Commissioners
527 Dale Drive Apartments
10400 Detrick Avenue
Kensington, MD 20895

Management is responsible for the accompanying financial statements of 527 Dale Drive Apartments, a residential facility owned by the Housing Opportunities Commission of Montgomery County, Maryland (HOC), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, changes in net deficit and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements, nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any assurance on these financial statements.

The supplementary information contained on pages 13 - 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management. The supplementary information was subject to our compilation engagement. We have not audited or reviewed the supplementary information and do not express an opinion, a conclusion, nor provide any assurance on such information.

SCH Attest Services, P.C.

Sparks, Maryland
September 28, 2022

527 Dale Drive Apartments

Statements of Financial Position

As of June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Unrestricted current assets		
Cash	\$ 45,027	\$ 91,845
Total unrestricted current assets	<u>45,027</u>	<u>91,845</u>
Restricted cash		
Insurance reserve	-	160
Renovation escrow	6,254	6,254
Reserve for replacements	<u>303,397</u>	<u>296,752</u>
Total restricted cash	<u>309,651</u>	<u>303,166</u>
Property and equipment		
Property and equipment, net of accumulated depreciation	<u>1,725,756</u>	<u>1,792,993</u>
Total assets	<u>\$ 2,080,434</u>	<u>\$ 2,188,004</u>

See independent accountant's compilation report and notes to financial statements.

527 Dale Drive Apartments

Statements of Financial Position (Continued)

As of June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Liabilities and Net Deficit		
Current liabilities		
Accounts payable and accrued expenses	\$ 12,348	\$ 8,018
Interfund payable	<u>35,735</u>	<u>68,259</u>
Total current liabilities	<u>48,083</u>	<u>76,277</u>
Long-term liabilities		
Mortgages payable - Montgomery County	1,738,012	1,738,012
Mortgage payable - Maryland DHCD - net of unamortized financing fees of \$18,882 - 2022 and \$19,936 - 2021	<u>581,118</u>	<u>580,064</u>
Total long-term liabilities	<u>2,319,130</u>	<u>2,318,076</u>
Total liabilities	<u>2,367,213</u>	<u>2,394,353</u>
Net Deficit		
Investment in capital assets, net of related debt	(612,255)	(545,019)
Restricted net assets	309,651	303,166
Unrestricted net assets	<u>15,825</u>	<u>35,504</u>
Total net deficit	<u>(286,779)</u>	<u>(206,349)</u>
Total liabilities and net deficit	<u>\$ 2,080,434</u>	<u>\$ 2,188,004</u>

See independent accountant's compilation report and notes to financial statements.

527 Dale Drive Apartments

Statements of Activities

For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenues		
Dwelling rental income	\$ 103,975	\$ 104,025
Other income	<u>470</u>	<u>1,980</u>
Total operating revenues	<u>104,445</u>	<u>106,005</u>
Operating expenses		
Administrative	15,812	15,592
Operating and maintenance	41,736	35,707
Depreciation	67,237	67,513
Utilities	39,602	37,140
Fringe benefits	3,279	4,777
Interest expense	1,054	1,053
Other	<u>16,155</u>	<u>15,915</u>
Total operating expenses	<u>184,875</u>	<u>177,697</u>
Operating loss	<u>(80,430)</u>	<u>(71,692)</u>
Total change in net deficit	<u>\$ (80,430)</u>	<u>\$ (71,692)</u>

See independent accountant's compilation report and notes to financial statements.

527 Dale Drive Apartments

Statements of Changes in Net Deficit
For the Years Ended June 30, 2022 and 2021

Balance, July 1, 2020	\$ (134,657)
Change in net deficit, June 30, 2021	<u>(71,692)</u>
Balance, June 30, 2021	(206,349)
Change in net deficit, June 30, 2022	<u>(80,430)</u>
Balance, June 30, 2022	<u>\$ (286,779)</u>

See independent accountant's compilation report and notes to financial statements.

527 Dale Drive Apartments

Statements of Cash Flows

For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Cash received for:		
Rental income	\$ 103,975	\$ 104,025
Miscellaneous income	470	1,980
Total cash receipts	<u>104,445</u>	<u>106,005</u>
Cash paid for services and to employees for:		
Administrative expenses	(8,926)	(6,449)
Management fees	(14,828)	(14,780)
Utilities	(33,147)	(32,913)
Salaries and wages	(14,647)	(14,858)
Operating and maintenance	(31,972)	(28,866)
Property insurance	(2,895)	(2,440)
Miscellaneous taxes and insurance	(235)	-
Fringe benefits	(3,279)	(4,777)
Other expenses	<u>(2,325)</u>	<u>(2,775)</u>
Total cash disbursements	<u>(112,254)</u>	<u>(107,858)</u>
Net cash and restricted cash used in operating activities	<u>(7,809)</u>	<u>(1,853)</u>
Cash flows from financing activities		
Net change in interfund payable	<u>(32,524)</u>	<u>16,066</u>
Net cash and restricted cash provided by (used in) financing activities	<u>(32,524)</u>	<u>16,066</u>
Net increase (decrease) in cash and restricted cash	(40,333)	14,213
Cash and restricted cash, beginning of year	<u>395,011</u>	<u>380,798</u>
Cash and restricted cash, end of year	<u><u>\$ 354,678</u></u>	<u><u>\$ 395,011</u></u>

See independent accountant's compilation report and notes to financial statements.

527 Dale Drive Apartments

Statements of Cash Flows (Continued)
For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Reconciliation of change in net deficit to net cash and restricted cash used in operating activities		
Change in net deficit	\$ (80,430)	\$ (71,692)
Adjustments to reconcile change in net deficit to net cash and restricted cash used in operating activities:		
Depreciation	67,237	67,513
Amortization of financing fees	1,054	1,053
Increase in operating liabilities:		
Accounts payable and accrued expenses	<u>4,330</u>	<u>1,273</u>
Net cash and restricted cash used in operating activities	<u>\$ (7,809)</u>	<u>\$ (1,853)</u>

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

Cash	\$ 45,027	\$ 91,845
Insurance reserve	-	160
Renovation escrow	6,254	6,254
Reserve for replacements	<u>303,397</u>	<u>296,752</u>
Total cash and restricted cash, end of year	<u>\$ 354,678</u>	<u>\$ 395,011</u>

See independent accountant's compilation report and notes to financial statements.

527 Dale Drive Apartments

Notes to Financial Statements

For the Years Ended June 30, 2022 and 2021

1) Nature of Business and Summary of Significant Accounting Policies

Organization

527 Dale Drive Apartments (the Property) is a 10 unit residential rental operation owned by the Housing Opportunities Commission of Montgomery County, Maryland (HOC). The project is a component unit of HOC. The property was purchased on May 8, 2006 and renovations were completed in March 2008. Eight (8) units are rented to chronically homeless adults of Montgomery County. The tenant related operations of the project are the responsibility of the Montgomery County Coalition for the Homeless (MCCH). HOC, the landlord, is responsible for all building related issues. An executed memorandum of understanding dated April 3, 2008 outlines the parties' roles and responsibilities.

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 when purchased to be cash equivalents. There were no cash equivalents as of June 30, 2022 and 2021.

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 Property'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 allowance as of June 30, 2022 and 2021 was \$0.

Property and Equipment

Buildings and equipment are recorded at cost. The cost of repairs and maintenance is charged to operations as incurred. Major renewals, betterments and additions are capitalized. Buildings and equipment 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, 2022 and 2021.

See independent accountant's compilation report.

527 Dale Drive Apartments

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2022 and 2021

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

Net Assets

HOC is required to report on a fund basis and categorize net assets as the following:

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

Restricted net assets represent the sum of total restricted cash.

Unrestricted net assets represent 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 statement of financial position 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 Maryland DHCD 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 Maryland DHCD mortgage payable. See Note 5 for more information.

Income Taxes

The Property is a component unit of The Housing Opportunities Commission of Montgomery County, Maryland (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 Property and tenants of the Property are operating leases. MCCCH pays \$1,080 per month per each supportive housing unit as described in the memorandum of understanding.

Advertising

The Property's policy is to expense advertising costs when incurred which totaled \$208 and \$153, respectively, for the years ended June 30, 2022 and 2021.

Reclassifications

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

See independent accountant's compilation report.

527 Dale Drive Apartments

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2022 and 2021

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.

3) Restricted Cash

Pursuant the regulatory agreement with the Maryland Department of Housing and Community Development (DHCD), the Property is required to maintain a reserve for replacements and make monthly deposits of \$611 into the reserve. The memorandum of understanding between HOC and MCCH requires surplus cash at the end of each year to be distributed 50% to MCCH and 50% to be deposited into the reserve for replacements. Details of the reserve for replacement account during the years ended June 30 were as follows:

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 296,752	\$ 289,420
Required monthly deposits	7,332	7,332
Authorized releases	(1,298)	-
Additional monthly deposit	<u>611</u>	<u>-</u>
Balance, end of year	<u>\$ 303,397</u>	<u>\$ 296,752</u>

4) Property and Equipment

The property and equipment detail as of June 30 was as follows:

	<u>2022</u>	<u>2021</u>
Building and renovations	\$ 2,690,153	\$ 2,690,153
Equipment	<u>41,537</u>	<u>41,537</u>
Total property and equipment	2,731,690	2,731,690
Less: accumulated depreciation	<u>1,005,934</u>	<u>938,697</u>
Property and equipment, net	<u>\$ 1,725,756</u>	<u>\$ 1,792,993</u>

See independent accountant's compilation report.

527 Dale Drive Apartments

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2022 and 2021

5) Long-Term Debt

Mortgages Payable – Montgomery County

On May 8, 2006, HOC entered into a mortgage note payable to Montgomery County, Maryland in the original amount of \$1,000,000. The mortgage was funded through the HOME Program and is non-interest bearing. There were no financing fees incurred related to this mortgage. The mortgage is secured by a first deed of trust, security agreement, and assignment of rents on the Property. No payments were due until the eleventh (11th) anniversary of the note, May 8, 2017 at which point annual payments of the lesser of fifty percent (50%) of Net Cash Flow, as defined in the note, or the amount which when applied to reduction of principal shall amortize the entire principal debt over a twenty (20) year term, are due. The mortgage matures on July 1, 2036. The outstanding principal balance as of June 30, 2022 and 2021 is \$1,000,000.

On May 8, 2006, HOC entered into a mortgage note payable to Montgomery County, Maryland in the original amount of \$1,580,000. The mortgage was funded through the Housing Initiative Fund (HIF) Program and is non-interest bearing. There were no financing fees incurred related to this mortgage. The mortgage was originally secured by a second deed of trust, security agreement, and assignment of rents on the Property. On June 30, 2009, the mortgage note was amended, reducing the principal balance to \$738,012 and subordinating the deed of trust to the loan documents securing the DHCD PRHP loan. No payments were due until June 30, 2017, at which point annual payments of the lesser of fifty percent (50%) of Net Cash Flow, as defined in the note, or the amount which when applied to reduction of principal shall amortize the entire principal debt over the loan's remaining term, are due. The mortgage matures on July 1, 2036. The outstanding principal balance as of June 30, 2022 and 2021 is \$738,011.

The Property intends to apply its 50% of Surplus Cash to the mortgages after DHCD approves the release of Surplus Cash.

Mortgage Payable – Maryland DHCD

The Property is obligated to repay a mortgage payable to DHCD in the original amount of \$600,000. The mortgage was funded through the Partnership and Rental Housing Program (PRHP). Financing fees related to the mortgage were \$32,615 and are being amortized to interest expense on a straight-line basis, the results of which are not materially different from that of the effective interest method over the term of the loan. The mortgage was originally secured by a third deed of trust on the Property. On June 30, 2009, the Montgomery County HIF mortgage note was amended, subordinating its deed of trust to the DHCD PRHP loan documents. The mortgage is non-interest bearing and becomes due and payable on the occurrence of sale or refinancing of the property, the project no longer being used by low-income individuals or in an event of default, as defined in the deed of trust. The outstanding principal balance as of June 30, 2022 and 2021 is \$600,000. Unamortized financing fees as of June 30, 2022 and 2021 were \$18,882 and \$19,936, respectively. Interest expense incurred during the years ended June 30, 2022 and 2021 was \$1,054 and \$1,053, respectively, including amortization of financing fees of \$1,054 and \$1,053, respectively. Estimated financing fees being amortized to interest expense for each of the next five years are \$1,054.

See independent accountant's compilation report.

527 Dale Drive Apartments

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2022 and 2021

6) Related Party Transactions

Asset Management Fee

The Property was charged an asset management fee by HOC during the years ended June 30, 2022 and 2021 of \$10,700 for both years.

Interfund 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 have not been paid or collected as of year-end, interfund receivables and payables are recorded. The balance of the interfund payable as of June 30, 2022 and 2021 was \$35,735 and \$68,259, respectively.

7) Real Estate Taxes

The Property has entered into a Payment In Lieu Of Taxes (PILOT) agreement whereby Montgomery County real estate tax and special area taxes are abated.

8) Property Management Fee

HOC has a management agreement with Residential One, LLC through March 31, 2023, at a rate of \$43 per unit per month. In the event the Property scores below 80 on a REAC inspection during the term of the agreement, or if operating or capital expenses exceed budget by more than ten percent (10%) due to costs incurred to prepare for a REAC inspection, the fee shall be reduced by two percent (2%). During the years ended June 30, 2022 and 2021, management fees of \$4,128 and \$4,080, respectively, were incurred.

9) MCCH Expense

As discussed in Note 3, a memorandum of understanding between HOC and MCCH requires 50% of surplus cash, as defined, to be paid to MCCH. During 2022 and 2021, there was no distribution to MCCH.

10) Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through the independent accountant's report date, the date the financial statements were available to be issued. There were no material events that required recognition or disclosure in the financial statements.

See independent accountant's compilation report.

527 Dale Drive Apartments

Detail of Selected Statements of Financial Position Accounts
As of June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Accounts payable and accrued expenses		
Accounts payable	\$ 2,447	\$ 2,275
Accrued annual leave	380	1,114
Accrued other liabilities	1,095	884
Accrued salaries	282	238
Accrued utility payments	<u>8,144</u>	<u>3,507</u>
Total accounts payable and accrued expenses	<u>\$ 12,348</u>	<u>\$ 8,018</u>

See independent accountant's compilation report.

527 Dale Drive Apartments

Detailed Statements of Activities
For the Years Ended June 30, 2022 and 2021

	2022	2021
Dwelling rental income		
Rent	\$ 103,680	\$ 103,680
Tenant charges	295	345
Total dwelling rental income	<u>\$ 103,975</u>	<u>\$ 104,025</u>
Other income		
Miscellaneous	\$ -	\$ 1,510
Rental license	470	470
Total other income	<u>\$ 470</u>	<u>\$ 1,980</u>
Administrative expenses		
Advertising and marketing	\$ 208	\$ 153
Contract management fees	4,128	4,080
Licenses and fees	470	470
Miscellaneous	123	98
Office supplies and expense	758	986
Professional fees	4,007	3,628
Salaries	4,220	3,978
Telephone	1,377	1,770
Vehicle	521	429
Total administrative expenses	<u>\$ 15,812</u>	<u>\$ 15,592</u>
Operating and maintenance expenses		
Contracts	\$ 11,816	\$ 4,568
Exterminating	1,862	1,136
Grounds maintenance	4,510	3,840
HVAC repairs and maintenance	819	595
Janitorial	6,303	7,604
Salaries	8,979	10,933
Snow removal	5,080	5,280
Supplies and repairs	2,367	1,751
Total operating and maintenance expenses	<u>\$ 41,736</u>	<u>\$ 35,707</u>

See independent accountant's compilation report.

527 Dale Drive Apartments

Detailed Statements of Activities (Continued)
For the Years Ended June 30, 2022 and 2021

	2022	2021
Utilities expense		
Electricity	\$ 28,398	\$ 11,719
Gas	2,756	1,670
Trash removal	1,818	4,013
Water	6,630	19,738
Total utilities expense	<u>\$ 39,602</u>	<u>\$ 37,140</u>
Fringe benefits		
Accrued leave	\$ (735)	\$ 34
Contract managed benefits	665	1,036
Deferred contribution plan	421	538
FICA	504	681
Health insurance	1,935	2,253
Other post employment benefits	80	-
Unemployment	93	35
Workers' compensation	316	200
Total fringe benefits	<u>\$ 3,279</u>	<u>\$ 4,777</u>
Other expenses		
Asset management fees	\$ 10,700	\$ 10,700
Insurance	2,895	2,440
Security contracts	2,325	2,775
Taxes	235	-
Total other expenses	<u>\$ 16,155</u>	<u>\$ 15,915</u>

See independent accountant's compilation report.

527 Dale Drive Apartments

Schedule of Surplus Cash
For the Year Ended June 30, 2022

Acct#	Description	Amount	Apply as	+/- Adjust	Total
S1200-010	Rental Receipts	103,975	Cash	-	103,975
S1200-020	Interest Receipts	-	N/A	-	-
S1200-030	Other Operating Receipts	470	Cash	-	470
S1200-050	Administrative Expenses Paid	(8,926)	Obligation	-	(8,926)
S1200-070	Management Fees Paid	(14,828)	Obligation	-	(14,828)
S1200-090	Utilities Paid	(33,147)	Obligation	-	(33,147)
S1200-100	Salaries & Wages Paid	(14,647)	Obligation	-	(14,647)
S1200-110	Operating and Maintenance Paid	(31,972)	Obligation	-	(31,972)
S1200-120	Real Estate Taxes Paid	-	Obligation	-	-
S1200-140	Property Insurance Paid	(2,895)	Obligation	-	(2,895)
S1200-150	Miscellaneous Taxes & Insurance Paid	(235)	N/A	-	(235)
S1200-160	Net Tenant Security Deposits Received (Paid)	-	N/A	-	-
X1200-170	Other Operating Expenses Paid	(5,604)	Obligation	-	(5,604)
S1200-180	Interest Paid on First Mortgage	-	N/A	-	-
X1200-190	Interest Paid on Other Mortgages	-	N/A	-	-
S1200-220	Miscellaneous Financial Expenses Paid	-	Obligation	-	-
X1200-200	Entity/Construction Expenses Paid	-	N/A	-	-
S1200-245	Net Deposits to Mortgage Escrows	-	N/A	-	-
S1200-250	Net Deposits to Reserve for Replacements	(6,645)	N/A	-	(6,645)
S1200-255	Net Deposits to Other Reserves	-	N/A	-	-
S1200-260	Net Deposits to the Residual Receipts Account	-	N/A	-	-
S1200-330	Net Purchase of Fixed Assets	-	N/A	-	-
S1200-335	Other Investing Activities	-	N/A	-	-
S1200-360	Mortgage Principal Payments - First Mortgage	-	N/A	-	-
S1200-361	Mortgage Principal Payments - Second Mortgage	-	N/A	-	-
S100-362	Mortgage Principal Payments - Third Mortgage	-	N/A	-	-
X1200-363	Mortgage Principal Payments - Other Mortgages	-	N/A	-	-
S1200-380	Payment of Development Fee	-	N/A	-	-
X1200-390	Net Change in Due from Partners	-	N/A	-	-
S1200-420	Distributions	-	N/A	-	-
S1200-450	Other Financing Activities	-	Obligation	-	-
			Grand Total:		(14,454)

See independent accountant's compilation report.