

**PADDINGTON SQUARE
DEVELOPMENT CORPORATION**

**FINANCIAL STATEMENTS
Year Ended June 30, 2018 and 2017
AND
INDEPENDENT AUDITORS' REPORT**

TABLE OF CONTENTS

DESCRIPTION	PAGE
Independent Auditors' Report	1 - 3
Statements of Financial Position	4
Statements of Activities	5
Statement of Changes in Net Deficit	6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 17
Supplemental Information	
Detailed Schedules of Revenues and Expenses	19 - 23
Schedule of Surplus Cash	24
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25 - 26

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Paddington Square Development Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Paddington Square Development Corporation (the Corporation), which comprise the statements of financial position as of June 30, 2018 and 2017, 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.

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 audit. We conducted our audit 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 Consolidated Audit Guide for Audits of HUD Programs (the Guide) issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, as well as the Audit Guide issued by the Maryland Department of Housing and Community Development. Those standards and the Guides require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

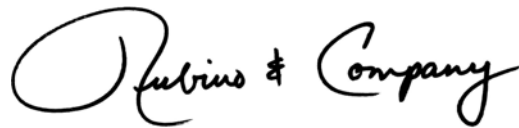
In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Paddington Square Development Corporation as of June 30, 2018 and 2017, and the changes in its net deficit and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter – Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the June 30, 2018 financial statements as a whole. The accompanying detailed schedule of revenues and expenses and schedule of surplus cash for the year ended June 30, 2018 are presented for purposes 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 information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018, on our consideration of the 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Corporation's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Rubins & Company". The signature is written in a cursive, flowing style.

September 26, 2018
Bethesda, Maryland

PADDINGTON SQUARE DEVELOPMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

ASSETS AND DEFERRED OUTFLOW

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 689,840	\$ 582,709
Accounts receivable, prepaids, and other assets, net	<u>93,810</u>	<u>101,688</u>
Total current assets	<u>783,650</u>	<u>684,397</u>
Restricted cash and equivalents	1,057,444	1,055,939
Customer deposits	<u>96,890</u>	<u>114,769</u>
Total deposits held in trust - funded	1,154,334	1,170,708
Property & equipment, net of depreciation	20,305,383	20,920,375
Deferred charges, net of accumulated amortization	<u>293,479</u>	<u>302,821</u>
Total long term assets	<u>20,598,862</u>	<u>21,223,196</u>
Total assets	<u>22,536,846</u>	<u>23,078,301</u>
Deferred outflow of resources	<u>87,342</u>	<u>-</u>
Total assets and deferred outflow of resources	<u>\$ 22,624,188</u>	<u>\$ 23,078,301</u>

LIABILITIES, DEFERRED INFLOW AND NET ASSETS

Accounts payable and accrued liabilities	\$ 87,024	81,477
Accrued interest payable	246,832	191,520
Interfund payable	1,407,118	1,298,408
Accrued pension and OPEB liabilities	238,486	103,452
Mortgage notes and loans payable - current	<u>340,780</u>	<u>328,747</u>
Total current liabilities	<u>2,320,240</u>	<u>2,003,604</u>
Customer deposit payable	<u>97,846</u>	<u>114,059</u>
Total current liabilities payable from restricted assets	<u>97,846</u>	<u>114,059</u>
Loans payable to Montgomery County - non-current	5,196,232	5,196,232
Mortgage notes and loans payable - non-current	20,247,862	20,588,642
Deferred revenue	<u>9,181</u>	<u>16,195</u>
Total non-current liabilities	<u>25,453,275</u>	<u>25,801,069</u>
Total liabilities	27,871,361	27,918,732
Deferred inflow of resources	<u>35,733</u>	<u>-</u>
Net investment in capital assets	(5,479,491)	(5,193,247)
Restricted net assets	1,057,444	1,056,648
Unrestricted net assets	<u>(860,859)</u>	<u>(703,832)</u>
Total net assets (deficiency)	<u>(5,282,906)</u>	<u>(4,840,431)</u>
Total liabilities, deferred inflow of resources and net assets	<u>\$ 22,624,188</u>	<u>\$ 23,078,301</u>

The accompanying notes are an integral part of these financial statements.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
STATEMENTS OF ACTIVITIES
Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenue		
Dwelling rental	\$ 2,919,373	\$ 2,825,164
Management fees and other income	<u>2,057</u>	<u>74,052</u>
Total operating revenues	<u>2,921,430</u>	<u>2,899,216</u>
 Operating Expenses		
Administrative	337,665	347,227
Maintenance	510,651	460,964
Depreciation and amortization	624,333	627,767
Utilities	177,124	197,148
Fringe Benefits	99,961	132,654
Interest expense	769,720	777,023
Other	656,945	777,072
Bad debt expense	<u>22,855</u>	<u>17,738</u>
Total operating expenses	<u>3,199,254</u>	<u>3,337,593</u>
Operating loss income	(277,824)	(438,377)
 Non-Operating Revenue (Expenses)		
Investment income	1,225	876
Interest expense	<u>(1,574)</u>	<u>(1,057)</u>
Total non-operating revenue (expense)	<u>(349)</u>	<u>(181)</u>
 Net Income (Loss)	 <u>\$ (278,173)</u>	 <u>\$ (438,558)</u>

The accompanying notes are an integral part of these financial statements.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
STATEMENT OF CHANGES IN NET DEFICIT
Years ended June 30, 2018 and 2017

Balance, July 1, 2016	\$ (4,401,873)
Change in net deficit	<u>(438,558)</u>
Balance, June 30, 2017	(4,840,431)
Prior period adjustment - OPEB	(164,302)
Change in net deficit	<u>(278,173)</u>
Balance, June 30, 2018	<u>\$ (5,282,906)</u>

The accompanying notes are an integral part of these financial statements.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
STATEMENT OF CASH FLOWS
Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in deficit	\$ (278,173)	\$ (438,558)
Reconciling adjustments:		
Depreciation and amortization	624,333	627,767
Bad debt expense	22,855	17,738
Deferred pension expense	(80,877)	-
Changes in operating assets and liabilities		
Accounts receivable and other assets	(14,977)	196,279
Customer deposits	1,666	256
Accounts payable and accrued expense	5,547	27,536
Accrued interest payable	55,312	51,009
Interfund payable	108,710	(5,992)
Deferred revenue	(7,014)	12,875
Net cash provided by operating activities	<u>437,382</u>	<u>488,910</u>
Cash flows from investing activities		
Deposits into reserve for replacement	(58,254)	(297,596)
Withdrawals from reserve for replacement	75,388	43,481
Net change in mortgage escrow	<u>(18,638)</u>	<u>(34,197)</u>
Net cash used by investing activities	<u>(1,504)</u>	<u>(288,312)</u>
Cash flows from financing activities		
Payments on mortgage payable	<u>(328,747)</u>	<u>(317,141)</u>
Net cash provided (used) by financing activities	<u>(328,747)</u>	<u>(317,141)</u>
Net increase (decrease) in cash and cash equivalents	107,131	(116,543)
Cash and cash equivalents, beginning of year	<u>582,709</u>	<u>699,252</u>
Cash and cash equivalents, end of year	<u>\$ 689,840</u>	<u>\$ 582,709</u>
Interest paid	<u>\$ 718,711</u>	<u>\$ 726,014</u>

The accompanying notes are an integral part of these financial statements.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

1. Organization

Paddington Square Development Corporation (the Corporation), a nonprofit corporation, was formed under the laws of the State of Maryland for the purpose of acquiring, owning, operating, and maintaining 165 apartment units to be operated as a housing project for persons of eligible income under the Annotated Code of Maryland. The units are located in Silver Spring, Maryland. The Corporation began operations on February 6, 2004.

Housing projects undertaken, financed, or assisted by the Corporation and the projects' related expenditures must be approved by the Housing Opportunities Commission of Montgomery County, Maryland, (a component unit of Montgomery County, Maryland) (HOC). 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

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in Accounting Standards Codification (ASC) 205 *Presentation of Financial Statements*. Under ASC 205, the Corporation is required to report information regarding its financial position and activities. The Corporation elects to reflect its net position utilizing three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, so as to conform to the presentation of its related party, HOC.

Method of Accounting

The Corporation prepares its financial statements on the accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses are recognized when incurred. The accounting policies conform to accounting principles generally accepted in the United States of America.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash – Operations

Cash consists of demand deposits with federally insured financial institutions to be used in the Corporation's operations. The Corporation's bank account balances may, at times, exceed federally insured limits. Management, however, does not consider this a significant concentration of credit risk.

Cash – Restricted

Paddington Square sets aside cash balances restricted for specific future needs. Pursuant to the mortgage loan agreement, loan proceeds for property capital improvements are set aside in the renovation escrow account.

Rental Property

Rental property is carried at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, using the straight-line method.

Accounts 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 Corporation'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.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

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 for doubtful accounts as of June 30, 2018 and 2017, totaled \$148,413 and \$124,536, respectively.

Property and Equipment

Land and building and improvements are recorded at cost. Building and improvements are depreciated over their estimated useful lives of 10 to 40 years using the straight-line method.

Property and equipment includes property held for and under development, operating properties, and fixed assets used in operations that cost \$5,000 or more and have an estimated useful life of at least two years.

The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Revenue Recognition

Rental income is recognized as rentals become due. Rental payments received in advanced are deferred until earned in accordance with rental agreements. All leases between the Corporation and the tenants of the property are operating leases.

Income Taxes

The Corporation is a component unit of The Housing Opportunities Commission of Montgomery County, Maryland (the "Commission") and is therefore exempt from income taxation. Accordingly, the financial statements do not include a provision for income taxes.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

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. Management has determined whether any tax positions have met the recognition threshold and has measured the Corporation's exposure to those tax positions.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, Paddington Square may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. The principal tax position of Paddington Square is its tax-exempt status as a component unit of a local government. Paddington Square's management has analyzed the tax positions taken by Paddington Square and has concluded that as of June 30, 2018 and 2017, there were no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

As of June 30, 2018, returns for the tax years 2015 through 2017 generally remain subject to examination by federal and state tax authorities. Any interest or penalties assessed to the Corporation are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Advertising

Advertising costs are expensed as incurred. Total advertising costs for the years ended June 30, 2018 and 2017, amounted to \$28,078 and \$35,770, respectively.

Risks and Uncertainties

The Corporation's operations are concentrated in the multifamily real estate market. 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, the U.S. Department of Housing and Urban Development (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 or inadequate funding to pay for the related cost, including the additional administrative burden, if any, to comply with a change.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

Management has evaluated subsequent events through September 26, 2018, which is the date the financial statements were available to be issued. The accompanying financial statements recognize the effects of subsequent events that provide evidence about conditions that existed at the statement of position date, including the estimates inherent in the process of preparing financial statements. The accompanying financial statements do not recognize the effect of subsequent events with conditions that did not exist at the statement of position date, but disclosures of such events, if any, are included in the accompanying notes.

3. Restricted Cash and Equivalents

The Corporation has established a replacement reserve escrow account to fund future nonrecurring repairs. For the years ended June 30, 2018 and 2017, total amounts disbursed from the replacement reserve escrow were \$75,388 and \$43,481, 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. See Note 7 for additional discussion of refinancing agreement.

The Corporation also established a renovation escrow with the proceeds from equity contributions from HOC. The funds have been designated for construction, renovation, and other capital purposes.

Mortgage insurance premiums are deposited monthly into the mortgage escrow account as required by the loan agreement and are disbursed annually.

Restricted cash is comprised of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Tenant security deposits	\$ 96,890	\$ 114,769
Replacement reserves	770,903	788,036
Renovation escrow	105,243	105,243
Mortgage escrow	181,298	162,660
	\$ 1,154,334	\$ 1,170,708

PADDINGTON SQUARE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

4. Property and Equipment

Property and equipment is comprised of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 2,720,000	\$ 2,720,000
Buildings and improvement	24,778,769	24,778,769
Equipment and other fixed assets	<u>29,758</u>	<u>29,758</u>
Subtotal	\$ 27,528,527	\$ 27,528,527
Less: accumulated depreciation	<u>(7,223,144)</u>	<u>(6,608,152)</u>
Total	<u>\$ 20,305,383</u>	<u>\$ 20,920,375</u>

Depreciation expense for the years ended June 30, 2018 and 2017, totaled \$614,991 and \$618,425, respectively.

5. Other Assets

Loan fees at June 30, 2018 and 2017 of \$326,953, are related to the transfer of the property and the refinancing of the mortgage. Costs are being amortized using the straight-line method over the remaining life of the underlying financing.

Amortization expense on commitment and loan fees for the years ended June 30, 2018 and 2017 amounted to \$9,342 for both years and accumulated amortization was \$33,474 and \$24,132, respectively as a result of amortization and the transfer.

6. Related Party Transactions and Commitments

The Corporation is a 165-unit garden style mixed income multifamily apartment community located in Silver Spring, Maryland that serves market and low-to-moderate income residents. A comprehensive renovation (approximately \$71,000 per unit) was completed in December 2011. As detailed below, the renovation was completed by way of multiple sources, including HOC bonds, the OHRF, and DHCA HIF funds. A permanent financing solution had been hindered due to the property's inability to reach stabilized occupancy of 93%. Once occupancy reached 85% for a period of six (6) months, HOC obtained permanent financing. See Note 7 for description and terms of refinancing agreement approved December 18, 2014.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

6. Related Party Transactions and Commitments (continued)

In November 2012, the Commission approved to redeem the outstanding bond and refinance the loan of \$5,698,800, utilizing the PNC Bank, N.A. Line of Credit, on an interim basis. The property continued to pay interest on the loan of 6.5%, a portion of which serviced the draw on the line of credit at the contractual rate of the 30-day LIBOR plus 90 basis points. The term of loan was estimated to be 24 months. Based on the refinancing agreement of December 18, 2014 (Note 7), the line of credit was paid in full and no balance was outstanding at June 30, 2018 and 2017.

On February 4, 2004, the Commission 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 property.

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 part of the refinancing agreement of December 18, 2014 (Note 7). The remainder of the loan outstanding as a result of the refinancing is \$5,196,232, which includes principal plus accrued interest, and is included in noncurrent loans payable at June 30, 2018 and 2017.

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, which is included in noncurrent notes payable at June 30, 2018 and 2017.

In addition, the Corporation is allocated costs from HOC defined benefit pension plan and other post-employment benefits plan (OPEB) which includes retiree health insurance. The Corporation is allocated a share of the related plan assets, liabilities, deferred outflows, deferred inflows, and pension and OPEB expense are based on HOC management's calculation of costs related to employees of HOC that perform activities related to the Corporation. As of June 30, 2018, and 2017, the Corporation was allocated a share of the pension plan liability of \$97,759 and \$103,452, and pension expense of \$6,846 and \$8,186, respectively, and OPEB plan liability of \$140,727 and OPEB expense of \$1,468, which are reflected as separately stated payables and fringe benefits expense, respectively, in the financial statements. There was no OPEB liability reflected in the prior year as a result of the implementation of a new accounting standard. In addition, in the current year, the related deferred outflows as a result of the plans were allocated, with deferred outflows of \$87,342 and deferred inflows of \$35,733 reflected in the financial statements.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

7. Mortgage Payable (\$20,741,700)

On January 8, 2014, the Commission 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 Paddington Square. 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 provides a 35-year term maturing on January 1st, 2050. The mortgage accrues interest at a rate of 3.6% with accrued interest payable monthly. The outstanding balance at June 30, 2018 and 2017 was \$19,665,604 and \$19,994,351, respectively.

A reconciliation of all long-term debt outstanding at June 30, 2018 is presented as follows:

<u>Loaned From</u>	<u>Beginning Balance</u>	<u>Additions to Loan</u>	<u>Principal Paid</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
DHCA Housing Initiative Fund	5,196,232	-	-	5,196,232	-	5,196,232
HOC Opportunity Housing Revenue Fund (OHRF)	923,038	-	-	923,038	-	923,038
Love Funding Corporation	<u>19,994,351</u>	<u>-</u>	<u>328,747</u>	<u>19,665,604</u>	<u>340,780</u>	<u>19,324,824</u>
Total long-term debt	<u>\$ 26,113,621</u>	<u>\$ -</u>	<u>\$ 328,747</u>	<u>\$ 25,784,874</u>	<u>\$ 340,780</u>	<u>\$ 25,444,094</u>

PADDINGTON SQUARE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

7. Mortgage Payable (\$20,741,700) (continued)

A reconciliation of all long-term debt outstanding at June 30, 2017 is presented as follows:

<u>Loaned From</u>	<u>Beginning Balance</u>	<u>Additions to Loan</u>	<u>Principal Paid</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
DHCA Housing Initiative Fund	5,196,232	-	-	5,196,232	-	5,196,232
HOC Opportunity Housing Revenue Fund (OHRF)	923,038	-	-	923,038	-	923,038
Love Funding Corporation	<u>20,311,492</u>	<u>-</u>	<u>317,141</u>	<u>19,994,351</u>	<u>328,747</u>	<u>19,665,604</u>
Total long-term debt	<u>\$ 26,430,762</u>	<u>\$ -</u>	<u>\$ 317,141</u>	<u>\$ 26,113,621</u>	<u>\$ 328,747</u>	<u>\$ 25,784,874</u>

Principal payments due on all mortgages and notes payable in each of the next five years and subsequent maturities are as follows for years ended June 30:

	<u>Love Funding Corp.</u>	<u>DHCA Housing Initiative</u>	<u>OHRF</u>
2019	340,780	\$ -	\$ -
2020	353,252	-	-
2021	366,181	-	-
2022	379,583	-	-
2023	393,476	-	-
2024-2028	2,194,234	-	-
2029-2033	2,626,267	-	-
2034-2038	3,143,366	-	-
2039-2043	3,762,278	5,196,232	-
2044-2048	4,503,051	-	-
2049-2050	<u>1,603,136</u>	<u>-</u>	<u>923,038</u>
	<u>\$ 19,665,604</u>	<u>\$ 5,196,232</u>	<u>\$ 923,038</u>

PADDINGTON SQUARE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

8. Real Estate Taxes

The Corporation entered into a Payment in Lieu of Taxes (PILOT) agreement whereby the Montgomery County, Maryland, and Special Area portion of the real estate tax bill is reduced to \$1 per year. During the year ended June 30, 2007, the Corporation applied for and received an exemption from the state property tax under a similar PILOT agreement.

9. Prior Period Adjustment

The prior period adjustment is the result of the implementation by its related party, HOC, of a new accounting standard during the year, GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. This standard revises the accounting treatment of liabilities and deferred inflows and outflows related to other post-employment benefits such as health insurance offered by governmental organizations. The Corporation is implementing so as to conform to the related party presentation. The standard requires the adjustment to the liability as of the beginning of the year, resulting in a prior period adjustment. The Corporation is allocated a portion of HOC's plan utilized by the allocation of costs of its employees. The prior period adjustment resulted in a reduction of net position of \$164,302 in 2018.

SUPPLEMENTAL INFORMATION

PADDINGTON SQUARE DEVELOPMENT CORPORATION
DETAILED SCHEDULES OF REVENUE AND EXPENSES
For the Year Ended June 30, 2018

REVENUE

Rent: Current Residents	\$ 2,456,074
Rent: Subsidies	438,863
Concessions	(955)
Vacancy Loss	(37,128)
Other Rent Fees	6,250
Miscellaneous Income	2,057
Late Fees/NSF	12,475
Laundry Income	34,404
Sales/Svcs To Residents	9,390
TOTAL DWELLING RENTAL INCOME	<u>\$ 2,921,430</u>

ADMINISTRATIVE EXPENSES

Contract Admin Salary	130,239
Auditing Services	12,585
Contract Management Fee	73,260
Misc Operating Expenses	11,387
Postage	227
Printing/Reproduction	1,569
Paper Pads Etc	662
Other Office Supplies	3,309
Food & Beverages	1,414
Local Mileage and Travel	199
Gasoline	1,295
Vehicle Repairs and Maintenance	1,391
Legal Services-General	7,853
Mag. and Newspaper Subscription	12
Training Program	368
Criminal Record Check Services	570

PADDINGTON SQUARE DEVELOPMENT CORPORATION
DETAILED SCHEDULES OF REVENUE AND EXPENSES
For the Year Ended June 30, 2018

ADMINISTRATIVE EXPENSES - continued

Advertising	28,078
Marketing/Pub. Rel. Services	9,942
Credit Check Services	626
Phone Rent	410
Office Equipment Rent	4,849
Local Phone Bill	8,835
On-Line Information Services	676
Computer Equipment	59
Computer Software	937
Internet Access Charges	2,404
Rental License Fees	7,260
Vehicle Lease/Rent	4,808
Resident Service Fees	1,049
Salaries	21,236
Decorations	156
TOTAL ADMINISTRATIVE EXPENSES	337,665

MAINTENANCE

Salary - Maintenance	108,796
Overtime/On-Call	21,634
Kitchen and Bath Supplies	348
Electrical Supplies	4,502
Appliance Supplies	596
Plumbing Supplies	3,380
Employee Uniforms	1,852
Cleaning and Janitorial Supplies	1,519
Grounds and Landscaping Supplies	1,035
Locks Keys	608
Windows and Glass	185
Hardware Supplies	200
Flooring and Carpeting	966
Paint and Wallcoverings	753

PADDINGTON SQUARE DEVELOPMENT CORPORATION
DETAILED SCHEDULES OF REVENUE AND EXPENSES
For the Year Ended June 30, 2018

MAINTENANCE - continued

HVAC Supplies	\$ 6,074
Miscellaneous Supplies	392
Plumbing Equipment	480
HVAC Equipment	168
Maintenance Equipment	660
Tools	368
Electrical Contracts	3,132
Plumbing Contracts	16,771
Cleaning and Janitorial Contracts	31,533
Grounds and Landscaping Contracts	31,025
Windows and Glass Contracts	2,132
Roofing and Gutter Contracts	2,825
HVAC Contracts	12,074
Flooring and Carpeting Contracts	6,257
Paint/Wallcoverings Int. Contracts	78,110
Exterminating Contracts	10,817
Snow Removal Contracts	11,375
Fencing Contracts	4,300
Swimming Pool Contracts	15,566
Asphalt and Concrete Contracts	9,341
Miscellaneous Contracts	14,106
Kitchen and Bath Supplies-Capital	15,454
Plumbing Supplies-Capital	436
Doors-Capital	1,056
Grounds/Landscaping Contr-Capital	945
Appliance Equipment-Capital	3,071
Miscellaneous Supplies - Capital	9,757
Plumbing Contracts-Capital	18,900
Windows/Glass Contracts-Capital	545
Fencing Contracts-Capital	3,487
Asphalt/Concrete Contracts-Capital	9,823
Flooring/Carpet Contracts-Capital	37,958
Swimming Pool Contracts-Capital	5,339
TOTAL MAINTENANCE EXPENSE	<u>510,651</u>

PADDINGTON SQUARE DEVELOPMENT CORPORATION
DETAILED SCHEDULES OF REVENUE AND EXPENSES
For the Year Ended June 30, 2018

UTILITIES

Water Bill	\$	76,408
Electric Bill		34,337
Natural Gas		45,847
Trash Collection		16,059
Trash Collection - Bulk		4,473
TOTAL UTILITIES EXPENSE		<u>177,124</u>

FRINGE BENEFITS

Accrued Leave		(2,170)
Workers Compensation		3,414
Health Insurance		7,683
Pension Expense		6,846
Contract Managed Benefits		11,637
Other Post Employment Benefits		1,468
Employee Training - Other		795
Combined Fringe Benefit		321
FICA - Maintenance		9,075
Unemployment - Maintenance		389
Workers' Comp - Maintenance		3,960
Health Insurance - Maintenance		34,871
Deferred Contrib. Plan - Maintenance		7,241
Other Post Employment Benefits-Maintenance		8,800
FICA - Tenant Services		1,591
Unemployment - Tenant Services		43
Workers' Comp - Tenant Services		330
Health Insurance - Tenant Services		1,756
Defr Contrib. Plan-Tenant Services		1,181
Other Post Employment Benefits-Tenant Services		730
TOTAL FRINGE BENEFITS		<u>99,961</u>

PADDINGTON SQUARE DEVELOPMENT CORPORATION
DETAILED SCHEDULES OF REVENUE AND EXPENSES
For the Year Ended June 30, 2018

OTHER EXPENSES

Fire & Hazard Insurance	\$ 17,248
Liability Insurance	6,127
Vehicle Insurance	1,200
Solid Waste	8,432
Asset Management Fee Expense - Non-Federal	104,970
Development Corp. Fee - Budget	429,178
Mortgage Insurance	89,790
TOTAL OTHER EXPENSES	<u>656,945</u>

PADDINGTON SQUARE DEVELOPMENT CORPORATION
SCHEDULE OF SURPLUS CASH
Year ended June 30, 2018

Cash and cash equivalents	\$ 689,840
Customer deposits	96,890
Accounts Receivable - Governments	<u>16,199</u>
Total Cash Available to Fulfill Current Obligations	<u>802,929</u>
Less:	
Interfund payable	1,407,118
Accrued mortgage interest payable	246,832
Accounts payable and accrued liabilities	87,024
Taxes, insurance and escrows	14,418
Customer deposit payable	97,846
Deferred revenue	9,181
Loans and notes payable (due within 30 days)	<u>27,933</u>
Total Current Obligations	<u>1,890,352</u>
SURPLUS CASH (DEFICIENCY)	<u><u>\$ (1,087,423)</u></u>

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Commissioners
Paddington Square Development Corporation
Montgomery County, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Paddington Square Development Corporation (the Corporation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, changes in net deficit, and cash flows for the year ended, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated September 26, 2018.

Internal Control Over Financial Reporting

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

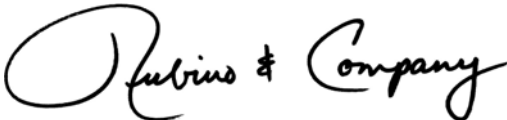
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 the 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Rubino & Company". The signature is written in a cursive, flowing style.

September 26, 2018
Bethesda, Maryland