

# **Scattered Site One Development Corporation**

## **Financial Statements**

**For the Years Ended  
June 30, 2018 and 2017**

# Scattered Site One Development Corporation

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For the Years Ended June 30, 2018 and 2017

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## Independent Auditor's Report

To the Board of Commissioners  
Scattered Site One Development Corporation  
10400 Detrick Avenue  
Kensington, MD 20895

### Report on the Financial Statements

We have audited the accompanying financial statements of Scattered Site One Development Corporation, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, changes in net assets, 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.

### Auditor's 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. Those standards 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 purposes 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 Scattered Site One Development Corporation as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Hertzbach & Company, P.A.***

Owings Mills, Maryland  
January 2, 2019

# Scattered Site One Development Corporation

Statements of Financial Position  
As of June 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
<b>Current assets</b>		
Interfund receivable	\$ 6,473,189	\$ 6,851,282
Accounts receivable, net and other assets	<u>105,078</u>	<u>150,045</u>
Total unrestricted current assets	<u>6,578,267</u>	<u>7,001,327</u>
<b>Restricted cash and cash equivalents for current liabilities</b>		
Restricted cash and cash equivalents	3,582,224	3,449,368
Tenants' security deposits	<u>77,273</u>	<u>76,942</u>
Total restricted cash and cash equivalents for current liabilities	<u>3,659,497</u>	<u>3,526,310</u>
<b>Property and equipment</b>		
Property and equipment, net	<u>10,298,431</u>	<u>10,582,544</u>
Total assets	<u><u>\$ 20,536,195</u></u>	<u><u>\$ 21,110,181</u></u>

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

# Scattered Site One Development Corporation

Statements of Financial Position  
As of June 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 437,890	\$ 420,534
Accrued interest payable	26,824	27,475
Mortgage payable - current	<u>205,697</u>	<u>197,743</u>
Total current liabilities	<u>670,411</u>	<u>645,752</u>
<b>Current liabilities payable from restricted assets</b>		
Tenants' security deposits	<u>61,047</u>	<u>67,240</u>
Total current liabilities payable from restricted assets	<u>61,047</u>	<u>67,240</u>
<b>Long-term liabilities</b>		
Mortgage payable, net of current maturities	<u>7,943,412</u>	<u>8,149,108</u>
Total long-term liabilities	<u>7,943,412</u>	<u>8,149,108</u>
Total liabilities	<u>8,674,870</u>	<u>8,862,100</u>
<b>Net assets</b>		
Investment in capital assets, net of related debt	2,149,322	2,235,693
Restricted net assets	3,598,450	3,459,070
Unrestricted net assets	<u>6,113,553</u>	<u>6,553,318</u>
Total net assets	<u>11,861,325</u>	<u>12,248,081</u>
Total liabilities and net assets	<u>\$ 20,536,195</u>	<u>\$ 21,110,181</u>

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

# Scattered Site One Development Corporation

Statements of Activities

For the Years Ended June 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>Operating revenues</b>		
Dwelling rental income	\$ 2,380,950	\$ 2,458,043
Other income	29,896	17,728
Total operating revenues	<u>2,410,846</u>	<u>2,475,771</u>
<b>Operating expenses</b>		
Administrative	619,235	526,268
Operating and maintenance	875,779	878,517
Depreciation	287,763	287,765
Utilities	26,171	14,585
Fringe benefits	398,218	121,483
Interest expense	327,081	334,860
Other	249,049	490,514
Bad debt expense	31,970	35,937
Total operating expenses	<u>2,815,266</u>	<u>2,689,929</u>
Operating loss	<u>(404,420)</u>	<u>(214,158)</u>
<b>Nonoperating revenues</b>		
Investment income	<u>17,664</u>	<u>9,700</u>
Total nonoperating revenues	<u>17,664</u>	<u>9,700</u>
Change in net assets	<u>\$ (386,756)</u>	<u>\$ (204,458)</u>

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

# Scattered Site One Development Corporation

Statements of Changes in Net Assets  
For the Years Ended June 30, 2018 and 2017

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Balance, July 1, 2016	\$ 12,452,539
Change in net assets - June 30, 2017	<u>(204,458)</u>
Balance, June 30, 2017	12,248,081
Change in net assets - June 30, 2018	<u>(386,756)</u>
Balance, June 30, 2018	<u>\$ 11,861,325</u>

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



# Scattered Site One Development Corporation

## Statements of Cash Flows

For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (386,756)	\$ (204,458)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	287,763	287,765
(Increase) decrease in operating assets:		
Accounts receivable, net and other assets	44,967	(67,066)
Interfund receivable	378,093	316,145
Tenants' security deposits	(331)	(63)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	17,356	(12,513)
Accrued interest payable	(651)	(626)
Tenants' security deposits	<u>(6,193)</u>	<u>(3,796)</u>
Net cash provided by operating activities	<u>334,248</u>	<u>315,388</u>
<b>Cash flows from investing activities</b>		
Deposits into reserve for replacements	(114,000)	(114,000)
Net deposits into mortgage and renovation escrows	(18,856)	(11,291)
Acquisition of property and equipment	<u>(3,650)</u>	<u>-</u>
Net cash used in investing activities	<u>(136,506)</u>	<u>(125,291)</u>
<b>Cash flows from financing activities</b>		
Mortgage principal payments	<u>(197,742)</u>	<u>(190,097)</u>
Net cash used in financing activities	<u>(197,742)</u>	<u>(190,097)</u>
<b>Net increase in cash</b>	-	-
Cash, beginning of year	-	-
Cash, end of year	<u>\$ -</u>	<u>\$ -</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for interest	<u>\$ 326,146</u>	<u>\$ 335,486</u>

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

# Scattered Site One Development Corporation

Notes to Financial Statements  
For the Years Ended June 30, 2018 and 2017

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## 1) Nature of Business and Summary of Significant Accounting Policies

### *Nature of Business*

Scattered Site One Development Corporation (the Corporation) is a nonprofit corporation formed in the State of Maryland on October 11, 2011 to acquire, own and operate 190 apartment units to be operated as a housing project for rental to persons of eligible income under the Annotated Code of Maryland (the Project). The units are located in Montgomery County, Maryland.

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.

### *Basis of Presentation*

The Corporation conforms with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-For-Profit Entities* and is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

### *Method of Accounting*

The Corporation'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 Corporation considers all highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents. There were no cash equivalents as of June 30, 2018 and 2017.

### *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 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.

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, 2018 and 2017 was \$17,468 and \$28,262, respectively.

### *Property and Equipment*

Land, buildings 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.

*See independent auditor's report.*

# Scattered Site One Development Corporation

Notes to Financial Statements (Continued)  
For the Years Ended June 30, 2018 and 2017

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

### *Impairment of Long-Lived Assets*

The Corporation 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, 2018 and 2017.

### *Interfund Receivable*

The Corporation has numerous transactions with HOC to finance operations and provide services. To the extent that funds to finance certain transactions of the Corporation has not been paid or collected as of year-end, interfund payables and receivables are recorded. In addition, the Corporation is allocated costs from the HOC defined benefit pension plan and other post-employment benefit plan (OPEB) which includes retiree health insurance. The Corporation is allocated a net liability composed of a share of the related plan assets, liabilities, deferred outflows, and deferred inflows. 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. The components of the OPEB liability allocated to the Corporation and included in interfund receivable are \$1,942 of deferred outflows, \$40,856 of deferred inflows, and \$240,492 of net OPEB liability as of June 30, 2018. The balance of the interfund receivable as of June 30, 2018 and 2017, is \$6,473,189 and \$6,851,282, respectively.

### *Net Assets*

HOC, the Corporation's principal investor, 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 mortgage payable.

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

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

### *Income Taxes*

The Corporation is exempt from income taxes under Section 115 of the Internal Revenue Code, which excludes from gross income amounts earned by state and local governments.

### *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 rentals become due from residential tenants. Rental payments received in advance are deferred until earned. All leases between the Corporation and tenants of the properties are operating leases.

*See independent auditor's report.*

# Scattered Site One Development Corporation

Notes to Financial Statements (Continued)  
For the Years Ended June 30, 2018 and 2017

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

### *Advertising*

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

## 2) Concentration of Risk

The Corporation maintains its cash balances in several accounts at various financial institutions. At times, these balances may exceed the federal insured limits; however, the Corporation has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at June 30, 2018 and 2017.

## 3) Restricted Cash and Cash Equivalents

Restricted funds are comprised of the following at June 30:

	2018	2017
Mortgage escrow deposits	\$ 39,142	\$ 38,706
Reserve for replacements	661,038	547,038
Renovation escrow	2,882,044	2,863,624
	<u>\$ 3,582,224</u>	<u>\$ 3,449,368</u>

Details of the reserve for replacement account during the years ended June 30 were as follows:

	2018	2017
Balance beginning of year	\$ 547,038	\$ 433,038
Monthly deposits (\$9,500 x 12)	114,000	114,000
Reserve releases	-	-
Balance end of year	<u>\$ 661,038</u>	<u>\$ 547,038</u>

*See independent auditor's report.*

# Scattered Site One Development Corporation

Notes to Financial Statements (Continued)  
For the Years Ended June 30, 2018 and 2017

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## 4) Property and Equipment

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

	2018	2017
Land	\$ 4,290,068	\$ 4,290,068
Buildings and improvements	7,745,586	7,741,936
Total property and equipment	12,035,654	12,032,004
Less: accumulated depreciation	1,737,223	1,449,460
Property and equipment, net	<u>\$ 10,298,431</u>	<u>\$ 10,582,544</u>

## 5) Long-term Debt

### *Mortgage Payable*

The Corporation is obligated to repay a mortgage to HOC. The mortgage loan is provided from HOC's Multifamily Housing Development Bonds 2012 Series A in the original amount of \$9,200,000. There were no financing fees incurred related to this mortgage. The note is secured by a deed of trust on the properties. Beginning on September 1, 2012, the Corporation is required to make monthly principal and interest payments in the amount of \$43,657. The note bears interest at 3.95% per annum and matures on August 1, 2042. The outstanding principal and accrued interest balances as of June 30, 2018 and 2017 are \$8,149,109 and \$26,824, respectively, for 2018 and \$8,346,851 and \$27,475, respectively, for 2017. For the years ended June 30, 2018 and 2017, interest expense of \$327,081 and \$334,860, respectively, was incurred.

Maturities of the mortgage payable are as follows:

2019	\$ 205,697
2020	213,971
2021	222,577
2022	231,530
2023	240,843
2024-2028	1,357,557
2029-2033	1,653,447
2034-2038	2,013,828
2039-2043	2,009,659
Total	<u>\$ 8,149,109</u>

The liability of the Corporation under the mortgages is limited to the underlying value of the real estate collateral and an assignment of rents, plus other amounts deposited with the lender.

*See independent auditor's report.*

# Scattered Site One Development Corporation

Notes to Financial Statements (Continued)  
For the Years Ended June 30, 2018 and 2017

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## 6) Real Estate Taxes

The Corporation has an agreement with Montgomery County, Maryland, to make a payment in lieu of taxes (PILOT). During the year ended June 30, 2013, the Corporation applied for and received an exemption from the state property tax under a similar PILOT agreement.

## 7) Related Party Transactions

### *Due to Affiliate*

HOC has advanced funds to the Corporation in connection with the initial acquisition of the properties. These funds are noninterest bearing and repayment terms are uncertain. As of June 30, 2018 and 2017, \$371,680 and \$364,683, respectively, remain payable and are included in accounts payable and accrued expenses on the accompanying statements of financial position.

### *Property Management Fee*

The Corporation is required to pay a management fee to HOC as determined by HOC. Each year, the amount is approved by HOC based on the agency cost allocation model determined during the budgetary process. For the years ended June 30, 2018 and 2017, management fees of \$327,500 and \$249,670, respectively, were incurred.

### *Development Corporation Fee*

The Corporation pays an annual fee to HOC in the amount as approved by the HOC Commissioners. The fee is assessed at the end of the fiscal year based on the performance of the property during the fiscal year. For the years ended June 30, 2018 and 2017, development corporation fees of \$146,671 and \$386,678, respectively, were incurred.

## 8) Commitments and Contingencies

### *Rental Regulatory Agreement*

The Corporation is obligated under the terms of a rental regulatory agreement with HOC to provide housing to low to moderate income residents. Under the terms of the agreement, at least 76 of the units of the Project are dedicated for occupancy by tenants whose income is less than 60% of the median income for the Washington Metropolitan Statistical Area (WMSA). The term of the agreement is for the term of the Deed of Trust on the loan, 30 years.

## 9) Subsequent Events

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

*See independent auditor's report.*



## Independent Auditor's Report on Supplementary Information

We have audited the financial statements of Scattered Site One Development Corporation as of and for the years ended June 30, 2018 and 2017, and our report thereon dated January 2, 2019, expressed an unmodified opinion on those financial statements, which appears on pages one and two. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 presented in all material respects in relation to the financial statements as a whole.

*Hertzbach & Company, P.A.*

Owings Mills, Maryland  
January 2, 2019

# Scattered Site One Development Corporation

Detail of Selected Statements of Financial Position Accounts

As of June 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>Accounts receivable, net and other assets</b>		
Accounts receivable - subsidy	\$ 70,301	\$ 71,166
Allowance for doubtful accounts	(17,468)	(28,262)
Insurance claim receivable	1,824	1,824
Other resident fees receivable	5,713	7,132
Prepaid other expense	37,869	39,436
Prepaid mortgage insurance	6,839	7,002
Rents receivable	-	51,747
	<u>                    </u>	<u>                    </u>
Total accounts receivable, net and other assets	<u>\$ 105,078</u>	<u>\$ 150,045</u>
<b>Accounts payable and accrued expenses</b>		
Accrued annual leave	\$ 16,973	\$ 17,445
Accounts payable	19,421	12,860
Accrued salaries	2,598	12,561
Accrued utility payments	1,480	35
Clearing resident refunds	(1,320)	(225)
Due to affiliate	371,680	364,683
Resident prepaid rents	27,058	13,175
	<u>                    </u>	<u>                    </u>
Total accounts payable and accrued expenses	<u>\$ 437,890</u>	<u>\$ 420,534</u>

*See independent auditor's report on supplementary information.*



# Scattered Site One Development Corporation

Detailed Statements of Activities  
For the Years Ended June 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>Dwelling rental income</b>		
Rent	\$ 2,571,284	\$ 2,572,131
Vacancies and concessions	(211,818)	(136,536)
Tenant charges	21,484	22,448
Total dwelling rental income	<u>\$ 2,380,950</u>	<u>\$ 2,458,043</u>
<b>Other income</b>		
Miscellaneous	\$ 12,185	\$ -
Rental license	17,711	17,728
Total other income	<u>\$ 29,896</u>	<u>\$ 17,728</u>
<b>Administrative expenses</b>		
ACA compliance and surcharge	\$ 60	\$ 289
Advertising and marketing	188	15
Computer software	39	-
Criminal record check services	64	-
Furniture and miscellaneous equipment rental	1,486	-
Loan management fees	23,000	23,000
Management fees	327,500	249,670
Miscellaneous	1,845	1,809
Salaries	193,108	190,503
Office supplies and expense	9,659	8,921
Other licenses, fees, and permits	300	1,189
Professional fees	17,914	14,176
Rent	19,025	14,103
Rental license fees	17,711	17,728
Telephone	627	1,184
Vehicle repairs and maintenance	6,709	3,681
Total administrative expenses	<u>\$ 619,235</u>	<u>\$ 526,268</u>

*See independent auditor's report on supplementary information.*

# Scattered Site One Development Corporation

Detailed Statements of Activities  
For the Years Ended June 30, 2018 and 2017

	2018	2017
<b>Operating and maintenance expenses</b>		
Contracts	\$ 205,151	\$ 224,343
Exterminating	4,463	3,374
Grounds maintenance	11,807	12,812
Housing association fees	319,602	321,525
HVAC repairs and maintenance	21,461	27,787
Janitorial	17,947	10,553
Salaries	181,811	176,337
Snow removal	875	458
Supplies and repairs	112,662	101,328
Total operating and maintenance expenses	<u>\$ 875,779</u>	<u>\$ 878,517</u>
<b>Utilities expense</b>		
Gas and electric	\$ 13,417	\$ 9,494
Trash removal	870	2,110
Water	11,884	2,981
Utilities expense	<u>\$ 26,171</u>	<u>\$ 14,585</u>
<b>Fringe expenses</b>		
Accrued leave	\$ (471)	\$ 565
Deferred contribution plan	14,383	13,684
FICA	17,645	17,091
Health insurance	50,269	50,437
Other post employment benefits	309,019	35,167
Unemployment	848	1,074
Workers' compensation	6,525	3,465
Total fringe expenses	<u>\$ 398,218</u>	<u>\$ 121,483</u>
<b>Other expenses</b>		
Development corporation fee	\$ 146,671	\$ 386,678
Insurance	64,654	62,410
Security contracts	243	131
Taxes	37,190	33,746
Water quality protect charge (RFSA)	291	7,549
Total other expenses	<u>\$ 249,049</u>	<u>\$ 490,514</u>

See independent auditor's report on supplementary information.