

**PADDINGTON SQUARE
DEVELOPMENT CORPORATION**

**FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019 AND 2018
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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As explained in Note 2 of the financial statements, in 2019 Paddington Square Development Corporation adopted Accounting Standards Update number 2015-003, which simplifies the presentation of debt issuance costs. Our opinion is not modified with respect to this matter

Other Matter – Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the June 30, 2019 financial statements as a whole. The accompanying detailed schedule of revenues and expenses and schedule of surplus cash for the year ended June 30, 2019 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 25, 2019, 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.

September 25, 2019
Bethesda, Maryland

A handwritten signature in cursive script that reads "Rubins & Company". The signature is written in black ink and is positioned to the right of the date and location text.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

ASSETS AND DEFERRED OUTFLOW

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 805,613	\$ 689,840
Accounts receivable, prepaids, and other assets, net	<u>74,982</u>	<u>93,810</u>
Total current assets	<u>880,595</u>	<u>783,650</u>
Restricted cash and equivalents	940,366	1,057,444
Customer deposits	<u>97,617</u>	<u>96,890</u>
Total deposits held in trust - funded	1,037,983	1,154,334
Property & equipment, net of depreciation	<u>19,705,336</u>	<u>20,305,383</u>
Total long term assets	<u>19,705,336</u>	<u>20,305,383</u>
Total assets	<u>21,623,914</u>	<u>22,243,367</u>
Deferred outflow of resources	<u>126,111</u>	<u>87,342</u>
Total assets and deferred outflow of resources	<u>\$ 21,750,025</u>	<u>\$ 22,330,709</u>

LIABILITIES, DEFERRED INFLOW AND NET ASSETS

Accounts payable and accrued liabilities	\$ 75,479	87,024
Accrued interest payable	297,761	246,832
Interfund payable	1,436,362	1,407,118
Accrued pension and OPEB liabilities	219,398	238,486
Mortgage notes and loans payable - current	<u>353,252</u>	<u>340,780</u>
Total current liabilities	<u>2,382,252</u>	<u>2,320,240</u>
Customer deposit payable	<u>91,272</u>	<u>97,846</u>
Total current liabilities payable from restricted assets	<u>91,272</u>	<u>97,846</u>
Loans payable to Montgomery County - non-current	5,196,232	5,196,232
Mortgage notes and loans payable - net of unamortized issuance costs	19,610,472	19,954,383
Deferred revenue	<u>7,285</u>	<u>9,181</u>
Total non-current liabilities	<u>24,813,989</u>	<u>25,159,796</u>
Total liabilities	27,287,513	27,577,882
Deferred inflow of resources	<u>98,864</u>	<u>35,733</u>
Net investment in capital assets	(5,738,758)	(5,479,491)
Restricted net assets	940,366	1,057,444
Unrestricted net assets	<u>(837,960)</u>	<u>(860,859)</u>
Total net assets (deficiency)	<u>(5,636,352)</u>	<u>(5,282,906)</u>
Total liabilities, deferred inflow of resources and net assets	<u>\$ 21,750,025</u>	<u>\$ 22,330,709</u>

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

PADDINGTON SQUARE DEVELOPMENT CORPORATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Operating Revenue		
Dwelling rental	\$ 2,925,258	\$ 2,919,373
Management fees and other income	<u>8,371</u>	<u>2,057</u>
Total operating revenues	<u>2,933,629</u>	<u>2,921,430</u>
 Operating Expenses		
Administrative	352,635	337,665
Maintenance	550,154	510,651
Depreciation	614,329	614,991
Utilities	204,447	177,124
Fringe Benefits	152,344	99,961
Interest expense	762,646	779,062
Other	615,160	656,945
Bad debt expense	<u>35,740</u>	<u>22,855</u>
Total operating expenses	<u>3,287,455</u>	<u>3,199,254</u>
Operating loss income	(353,826)	(277,824)
 Non-Operating Revenue (Expenses)		
Investment income	1,301	1,225
Interest expense	<u>(925)</u>	<u>(1,574)</u>
Total non-operating revenue (expense)	<u>376</u>	<u>(349)</u>
 Net Income (Loss)	 <u>\$ (353,450)</u>	 <u>\$ (278,173)</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, 2019 AND 2018

Balance, July 1, 2017	\$ (5,004,729)
Change in net deficit	<u>(278,173)</u>
Balance, June 30, 2018	(5,282,902)
Change in net deficit	<u>(353,450)</u>
Balance, June 30, 2019	<u>\$ (5,636,352)</u>

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

PADDINGTON SQUARE DEVELOPMENT CORPORATION
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in deficit	\$ (353,450)	\$ (278,173)
Reconciling adjustments:		
Depreciation	614,329	614,991
Bad debt expense	35,740	22,855
Deferred pension expense	-	(80,877)
Changes in operating assets and liabilities		
Accounts receivable and other assets	(16,912)	(14,977)
Deferred charges	9,341	9,342
Deferred inflows/outflows	24,366	-
Accrued pension & OPEB liabilities	(19,088)	-
Customer deposits	(7,301)	1,666
Accounts payable and accrued expense	(11,544)	5,547
Accrued interest payable	50,929	55,312
Interfund payable	29,244	108,710
Deferred revenue	(1,896)	(7,014)
Net cash provided by operating activities	<u>353,758</u>	<u>437,382</u>
Cash flows from investing activities		
Purchase of property and equipment	(14,283)	-
Deposits into reserve for replacement	(58,324)	(58,254)
Withdrawals from reserve for replacement	51,555	75,388
Net change in mortgage escrow	<u>123,847</u>	<u>(18,638)</u>
Net cash provided (used) by investing activities	<u>102,795</u>	<u>(1,504)</u>
Cash flows from financing activities		
Payments on mortgage payable	<u>(340,780)</u>	<u>(328,747)</u>
Net cash (used) by financing activities	<u>(340,780)</u>	<u>(328,747)</u>
Net increase in cash and cash equivalents	115,773	107,131
Cash and cash equivalents, beginning of year	<u>689,840</u>	<u>582,709</u>
Cash and cash equivalents, end of year	<u>\$ 805,613</u>	<u>\$ 689,840</u>
Interest paid	<u>\$ 702,375</u>	<u>\$ 718,711</u>

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

PADDINGTON SQUARE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019 AND 2018

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
YEAR ENDED JUNE 30, 2019 AND 2018

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.

Deferred Charges

Under ASC-835, Interest, as issued by the Financial Accounting Standards Board (FASB), the deferred charges are recorded as a reduction of the related debt balance and the amortization of the charges is included in interest expense.

Amortization included in interest expense for these loan and mortgage financing fees for the years ended June 30, 2019 and 2018 are \$9,342, and accumulated amortization is \$42,815 and \$33,474, respectively.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019 AND 2018

2. Summary of Significant Accounting Policies (continued)

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.

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, 2019 and 2018, totaled \$186,642 and \$148,413, 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.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019 AND 2018

2. Summary of Significant Accounting Policies (continued)

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.

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, 2019 and 2018, 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, 2019, returns for the tax years 2016 through 2018 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, 2019 and 2018, amounted to \$22,546 and \$28,078, respectively.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019 AND 2018

2. Summary of Significant Accounting Policies (continued)

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.

New Accounting Pronouncements

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions is effective for periods beginning after June 15, 2017 with earlier application encouraged. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple Employer Plans, for OPEB. GASB 75 was implemented by its related party, HOC in the prior year and recognized a prior period adjustment for the same. The corporation is allocated a portion of HOC's plan utilized by the allocation of costs of its employees as included in Note 6.

Subsequent Events

Management has evaluated subsequent events through September 25, 2019, 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.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019 AND 2018

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, 2019 and 2018, total amounts disbursed from the replacement reserve escrow were \$51,555 and \$75,388, 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Tenant security deposits	\$ 97,617	\$ 96,890
Replacement reserves	777,672	770,903
Renovation escrow	105,243	105,243
Mortgage escrow	<u>57,451</u>	<u>181,298</u>
	<u>\$ 1,037,983</u>	<u>\$ 1,154,334</u>

4. Property and Equipment

Property and equipment is comprised of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 2,720,000	\$ 2,720,000
Buildings and improvement	24,778,769	24,778,769
Equipment and other fixed assets	<u>44,041</u>	<u>29,758</u>
Subtotal	\$ 27,542,810	\$ 27,528,527
Less: accumulated depreciation	<u>(7,837,474)</u>	<u>(7,223,144)</u>
Total	<u>\$ 19,705,336</u>	<u>\$ 20,305,383</u>

Depreciation expense for the years ended June 30, 2019 and 2018, totaled \$614,329 and \$614,991, respectively.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019 AND 2018

5. Other Assets

Loan fees at June 30, 2019 and 2018 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, 2019 and 2018 amounted to \$9,342 for both years and accumulated amortization was \$42,815 and \$33,474, 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.

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, 2019 and 2018.

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).

PADDINGTON SQUARE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019 AND 2018

6. Related Party Transactions and Commitments (continued)

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, 2019 and 2018.

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, 2019 and 2018.

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, 2019, and 2018, the Corporation was allocated a share of the pension plan liability of \$70,833 and \$97,759, and pension expense of \$2,973 and \$6,846, respectively, and OPEB plan liability of \$148,565 and OPEB expense of \$2,301, which are reflected as separately stated payables and fringe benefits expense, respectively, in the financial statements. In addition, in the current year, the related deferred outflows as a result of the plans were allocated, with deferred outflows of \$126,111 and deferred inflows of \$98,864 reflected in the financial statements.

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, 2019 and 2018 was \$19,324,824 and \$19,665,604, respectively.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019 AND 2018

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

A reconciliation of all long-term debt outstanding at June 30, 2019 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>19,665,604</u>	<u>-</u>	<u>340,780</u>	<u>19,324,824</u>	<u>353,252</u>	<u>18,971,572</u>
Total long-term debt	<u>\$25,784,874</u>	<u>\$ -</u>	<u>\$340,780</u>	<u>\$25,444,094</u>	<u>\$353,252</u>	<u>\$25,090,842</u>

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
YEAR ENDED JUNE 30, 2019 AND 2018

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

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>
2020	353,252	\$ -	\$ -
2021	366,181	-	-
2022	379,583	-	-
2023	393,476	-	-
2024	407,877	-	-
2025-2029	2,274,543	-	-
2030-2034	2,722,389	-	-
2035-2039	3,258,413	-	-
2040-2044	3,899,977	5,196,232	-
2045-2049	4,667,863	-	-
2050-2051	<u>601,270</u>	-	<u>923,038</u>
	<u>\$ 19,324,824</u>	<u>\$ 5,196,232</u>	<u>\$ 923,038</u>

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. Reclassification

Certain reclassifications have been made to prior year summarized balances in order to conform to current year presentation. The reclassifications did not affect net position or changes therein.

SUPPLEMENTAL INFORMATION

PADDINGTON SQUARE DEVELOPMENT CORPORATION
DETAILED SCHEDULES OF REVENUE AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

REVENUE

Rent: Current Residents	\$	2,471,763
Rent: Subsidies		440,659
Concessions		(4,365)
Vacancy Loss		(40,275)
Other Rent Fees		6,660
Miscellaneous Income		9,371
Late Fees/NSF		12,079
Laundry Income		30,637
Sales/Svcs To Residents		7,100
TOTAL DWELLING RENTAL INCOME	\$	<u>2,933,629</u>

ADMINISTRATIVE EXPENSES

Contract Admin Salary		155,898
Auditing Services		13,374
Contract Management Fee		73,260
Misc Operating Expenses		4,073
Postage		105
Printing/Reproduction		739
Paper Pads Etc		806
Other Office Supplies		1,532
Food & Beverages		85
Local Mileage and Travel		357
Gasoline		1,226
Vehicle Repairs and Maintenance		628
Legal Services-General		3,399
Mag. and Newspaper Subscription		-
Training Program		912
Criminal Record Check Services		-

PADDINGTON SQUARE DEVELOPMENT CORPORATION
DETAILED SCHEDULES OF REVENUE AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

ADMINISTRATIVE EXPENSES - continued

Advertising	22,546
Marketing/Pub. Rel. Services	9,835
Credit Check Services	603
Phone Rent	-
Office Equipment Rent	4,421
Local Phone Bill	16,635
On-Line Information Services	-
Computer Equipment	2,139
Computer Software	781
Internet Access Charges	548
Rental License Fees	-
Vehicle Lease/Rent	4,420
Resident Service Fees	2,254
Salaries	31,892
Decorations	167
TOTAL ADMINISTRATIVE EXPENSES	352,635

MAINTENANCE

Salary - Maintenance	171,167
Overtime/On-Call	28,593
Kitchen and Bath Supplies	245
Electrical Supplies	5,588
Appliance Supplies	1,097
Plumbing Supplies	3,984
Employee Uniforms	3,295
Cleaning and Janitorial Supplies	710
Grounds and Landscaping Supplies	306
Locks Keys	3,268
Windows and Glass	2,066
Hardware Supplies	825
Flooring and Carpeting	412
Paint and Wallcoverings	2,188

PADDINGTON SQUARE DEVELOPMENT CORPORATION
DETAILED SCHEDULES OF REVENUE AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

MAINTENANCE - continued

HVAC Supplies	1,434
Miscellaneous Supplies	162
Plumbing Equipment	-
HVAC Equipment	404
Maintenance Equipment	530
Tools	1,429
Electrical Contracts	1,217
Plumbing Contracts	26,367
Cleaning and Janitorial Contracts	48,381
Grounds and Landscaping Contracts	34,700
Windows and Glass Contracts	-
Roofing and Gutter Contracts	-
HVAC Contracts	3,239
Flooring and Carpeting Contracts	-
Paint/Wallcoverings Int. Contracts	51,793
Exterminating Contracts	11,095
Health & Safety Materials	925
Snow Removal Contracts	9,480
Fencing Contracts	268
Swimming Pool Contracts	21,727
Asphalt and Concrete Contracts	3,185
Miscellaneous Contracts	-
Kitchen and Bath Supplies-Capital	9,289
Plumbing Supplies-Capital	-
Doors-Capital	4,501
Appliance Supplies-Capital	13,365
HVAC Contracts-Capital	3,250
Miscellaneous Supplies - Capital	12,056
Plumbing Contracts-Capital	15,922
Roofing Materials-Capital	3,460
Flooring and Carpeting-Capital	10,030
Grounds/Landscaping Sup.-Capital	1,800
Flooring/Carpet Contracts-Capital	36,401
Swimming Pool Contracts-Capital	-
TOTAL MAINTENANCE EXPENSE	550,154

PADDINGTON SQUARE DEVELOPMENT CORPORATION
DETAILED SCHEDULES OF REVENUE AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

UTILITIES

Water Bill	\$	119,081
Electric Bill		31,462
Natural Gas		25,583
Trash Collection		20,539
Trash Collection - Bulk		7,782
TOTAL UTILITIES EXPENSE		<u>204,447</u>

FRINGE BENEFITS

Accrued Leave		6,494
Workers Compensation		2,653
Health Insurance		13,069
Pension Expense		2,973
Contract Managed Benefits		16,586
Other Post Employment Benefits		2,301
Employee Training - Other		128
FICA - Maintenance		13,737
Unemployment - Maintenance		553
Workers' Comp - Maintenance		4,750
Health Insurance - Maintenance		59,874
Deferred Contrib. Plan - Maintenance		11,157
Other Post Employment Benefits-Maintenance		9,731
FICA - Tenant Services		2,333
Unemployment - Tenant Services		102
Workers' Comp - Tenant Services		890
Health Insurance - Tenant Services		720
Defr Contrib. Plan-Tenant Services		2,473
Other Post Employment Benefits-Tenant Services		1,820
TOTAL FRINGE BENEFITS		<u>152,344</u>

**PADDINGTON SQUARE DEVELOPMENT CORPORATION
DETAILED SCHEDULES OF REVENUE AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019**

OTHER EXPENSES

Fire & Hazard Insurance	\$ 12,790
Liability Insurance	6,370
Vehicle Insurance	1,360
Security Contracts	1,157
Security System	1,287
Solid Waste	8,431
Asset Management Fee Expense - Non-Federal	104,470
Development Corp. Fee - Budget	392,252
Mortgage Insurance	87,043
TOTAL OTHER EXPENSES	<u>615,160</u>

PADDINGTON SQUARE DEVELOPMENT CORPORATION
SCHEDULE OF SURPLUS CASH
YEAR ENDED JUNE 30, 2019

Cash and cash equivalents	\$ 805,613
Customer deposits	97,617
Accounts Receivable - Governments	<u>21,678</u>
Total Cash Available to Fulfill Current Obligations	<u>924,908</u>
Less:	
Interfund payable	1,436,362
Accrued mortgage interest payable	297,761
Accounts payable and accrued liabilities	75,485
Taxes, insurance and escrows	13,940
Customer deposit payable	91,272
Deferred revenue	7,285
Loans and notes payable (due within 30 days)	28,955
Total Current Obligations	<u>1,951,060</u>
SURPLUS CASH (DEFICIENCY)	<u><u>\$ (1,026,152)</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, 2019, 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 25, 2019.

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.

September 25, 2019
Bethesda, Maryland

A handwritten signature in cursive script that reads "Rubino & Company". The signature is written in black ink and is positioned to the right of the date and location text.