

PADDINGTON SQUARE DEVELOPMENT CORPORATION

**HUD Project No.: 000-11245
Financial Statements and Supplemental Information
with Report of Independent Auditors
June 30, 2020 and 2019**

Table of Contents

| | <u>Page</u> |
|---|-------------|
| Report of Independent Auditors | 1 |
| Financial Statements: | |
| Statements of Net Position | 4 |
| Statements of Revenues, Expenses, and Change in Net Position | 5 |
| Statements of Changes in Net Position | 6 |
| Statements of Cash Flows | 7 |
| Notes to the Financial Statements | 8 |
| Supplementary Information: | |
| Balance Sheet – HUD Basis | 18 |
| Statement of Profit and Loss – HUD Basis | 20 |
| Statement of Equity – HUD Basis | 23 |
| Statement of Cash Flows – HUD Basis | 24 |
| Computation of Surplus Cash – June 30, 2020 | 26 |
| Computation of Surplus Cash – December 31, 2019 | 27 |
| Schedule of Changes in Fixed Asset Accounts | 28 |
| Supporting Data Required by HUD | 29 |
| Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 30 |
| Report of Independent Auditors on Compliance for each Major HUD Program and Report on Internal Control over Compliance Required by the <i>Consolidated Audit Guide for Audits of HUD Programs</i> | 32 |
| Schedule of Findings, Questioned Costs, and Recommendations | 35 |
| Schedule of the Status of Prior Audit Findings, Questioned Costs, and Recommendations (Unaudited) | 36 |
| Mortgagor's (Owner's) Certification | 37 |
| Managing Agent's Certification | 38 |

Report of Independent Auditors

To the Management of
Paddington Square Development Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of Paddington Square Development Corporation, which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses, and change in net position, changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paddington Square Development Corporation, as of June 30, 2020, and the change in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Paddington Square Development Corporation as of June 30, 2019, were audited by other auditors whose report dated September 25, 2019, expressed an unmodified opinion on those statements.

Changes in Accounting Principles

As discussed in Note 2 to the financial statements, Paddington Square Development Corporation adopted changes in accounting principles related to revenue recognition, presentation and disclosure of the statement of cash flows, and real estate sales. Our opinion is not modified with respect to those matters.

Other Matters

Supplementary and Other Information

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

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

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The schedule of the computation of mid-year surplus cash as of December 31, 2019, schedule of the status of prior audit findings, questioned costs, and recommendations, mortgagor's (owner's) certification, and the managing agent's certification have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2020 on our consideration of Paddington Square Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Paddington Square Development Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Paddington Square Development Corporation's internal control over financial reporting and compliance.

Novogradac & Company LLP

Dover, Ohio
October 30, 2020
Lead Auditor: Dirk Wallace

Employer's Identification Number: 94-3108253

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
STATEMENTS OF NET POSITION
June 30, 2020 and 2019

ASSETS AND DEFERRED OUTFLOW

| | 2020 | 2019 |
|--|---------------|---------------|
| Current Assets | | |
| Cash and Cash equivalents | \$ 819,938 | \$ 805,613 |
| Accounts Receivable, Prepaids, and Other Assets, net of Allowance for Doubtful Accounts | 122,755 | 74,982 |
| Total Current Assets | 942,693 | 880,595 |
| Restricted Assets | | |
| Customer Deposits - Funded Security Deposits | 98,024 | 97,617 |
| Restricted Cash and Cash Equivalents | 839,071 | 940,366 |
| Total Restricted Assets | 937,095 | 1,037,983 |
| Fixed and Non-Current Assets | | |
| Property and Equipment, net of Accumulated Depreciation | 19,158,002 | 19,705,336 |
| Total Fixed and Non-Current Assets | 19,158,002 | 19,705,336 |
| Total Assets | 21,037,790 | 21,623,914 |
| Deferred Outflow of Resources | 302,150 | 126,111 |
| TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES | \$ 21,339,940 | \$ 21,750,025 |

LIABILITIES, DEFERRED INFLOW AND NET POSITION

| | | |
|---|---------------|---------------|
| Current Liabilities | | |
| Accounts Payable and Accrued Liabilities | \$ 116,690 | \$ 75,479 |
| Prepaid Rent | 5,385 | 7,285 |
| Accrued Interest | 344,331 | 297,761 |
| Accrued Pension and OPEB Liabilities | 137,322 | 219,398 |
| Mortgage Notes Payable - Current | 366,181 | 353,252 |
| Due to Related Party | 1,469,653 | 1,436,362 |
| Total Current Liabilities | 2,439,562 | 2,389,537 |
| Current Liabilities Payable - from Restricted Assets | | |
| Customer Deposits Payable - Tenant Security Deposits | 90,223 | 91,272 |
| Non-Current Liabilities | | |
| Mortgages Payable, Net of Unamortized Financing Costs of \$274,796 and \$284,138, Respectively | 19,253,633 | 19,610,472 |
| Note Payable - Montgomery County | 5,196,232 | 5,196,232 |
| Total Non-Current Liabilities | 24,449,865 | 24,806,704 |
| Total Liabilities | 26,979,650 | 27,287,513 |
| Deferred Inflow of Resources | 419,660 | 98,864 |
| Net Position | | |
| Net Investment in Capital Assets | (5,932,840) | (5,738,758) |
| Restricted | 839,071 | 940,366 |
| Unrestricted | (965,601) | (837,960) |
| Total Net Position | (6,059,370) | (5,636,352) |
| TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION | \$ 21,339,940 | \$ 21,750,025 |

See accompanying notes to the financial statements

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
For the years ended June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|------------------------------|-------------------------|-------------------------|
| Operating Revenue | | |
| Dwelling Rental | \$ 2,987,726 | \$ 2,925,258 |
| Other Revenue | 7,749 | 8,371 |
| Investment Income | <u>1,053</u> | <u>1,301</u> |
| Total Operating Revenues | <u>2,996,528</u> | <u>2,934,930</u> |
| Operating Expenses | | |
| Administration | 343,772 | 352,635 |
| Maintenance | 591,083 | 550,154 |
| Depreciation | 618,134 | 614,329 |
| Utilities | 235,669 | 204,447 |
| Fringe Benefits | 205,654 | 152,344 |
| Interest Expense | 745,815 | 762,646 |
| Bad Debt Expense | 15,777 | 35,740 |
| Other Expenses | <u>663,642</u> | <u>616,085</u> |
| Total Operating Expenses | <u>3,419,546</u> | <u>3,288,380</u> |
| Change in net position | <u>\$ (423,018)</u> | <u>\$ (353,450)</u> |

See accompanying notes to the financial statements

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245

STATEMENTS OF CHANGES IN NET POSITION

For the years ended June 30, 2020 and 2019

| | |
|------------------------|------------------------------|
| BALANCE, JULY 1, 2018 | \$ (5,282,902) |
| Change in net position | <u>(353,450)</u> |
| BALANCE, JUNE 30, 2019 | (5,636,352) |
| Change in net position | <u>(423,018)</u> |
| BALANCE, JUNE 30, 2020 | <u><u>\$ (6,059,370)</u></u> |

See accompanying notes to the financial statements

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Net Position | \$ (423,018) | \$ (353,450) |
| Adjustments to Reconcile Change in Net Position to Net Cash Provided by Operating Activities: | | |
| Interest Expense - Debt Issuance Costs | 9,342 | 9,341 |
| Depreciation | 618,134 | 614,329 |
| Bad Debt Expense | 15,777 | 35,740 |
| Change in: | | |
| Accounts Receivable, Prepaids, and Other Assets | (63,550) | (16,912) |
| Accounts Payable and Accrued Liabilities | 41,211 | (11,544) |
| Prepaid Rent | (1,900) | (1,896) |
| Accrued Interest | 46,570 | 50,929 |
| Accrued Pension & OPEB Liabilities | (82,076) | (19,088) |
| Due to Related Party | 33,291 | 29,244 |
| Customer Deposits Payable | (1,049) | (6,574) |
| Deferred Inflows/Outflows | 144,757 | 24,366 |
| Total Adjustments | <u>760,507</u> | <u>707,935</u> |
| Net Cash Provided by Operating Activities | <u>337,489</u> | <u>354,485</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Property and Equipment | <u>(70,800)</u> | <u>(14,283)</u> |
| Net Cash Used in Investing Activities | <u>(70,800)</u> | <u>(14,283)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Payments on Mortgage Payable | <u>(353,252)</u> | <u>(340,780)</u> |
| Net Cash Used in Financing Activities | <u>(353,252)</u> | <u>(340,780)</u> |
| Net change in cash, cash equivalents and restricted cash | (86,563) | (578) |
| Cash, cash equivalents and restricted cash at beginning of year | <u>1,843,596</u> | <u>1,844,174</u> |
| Cash, cash equivalents and restricted cash at end of year | <u>\$ 1,757,033</u> | <u>\$ 1,843,596</u> |
| Cash and cash equivalents | \$ 819,938 | \$ 805,613 |
| Customer deposits - funded security deposits | 98,024 | 97,617 |
| Restricted cash | 839,071 | 940,366 |
| Total cash, cash equivalents and restricted cash | <u>\$ 1,757,033</u> | <u>\$ 1,843,596</u> |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash Paid for Interest | <u>\$ 689,903</u> | <u>\$ 702,375</u> |

See accompanying notes to the financial statements

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

1. Organization

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

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

2. Summary of significant accounting policies and nature of operations

Basis of accounting

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

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

Reporting entity

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

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

2. Summary of significant accounting policies and nature of operations

Reporting entity (continued)

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

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

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

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Economic concentrations

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

Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions for refunds of tenant security deposits, repairs or improvements to the buildings which extend their useful lives, annual mortgage insurance premiums, property taxes, and property insurance payments.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

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

Concentration of credit risk

The Corporation maintains its cash in several accounts in various banks. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each bank. Additionally, the Corporation is included with HOC as part of the public funds, and was entirely insured or collateralized with securities held by HOC's agent in HOC's name.

Accounts receivable

Accounts receivable is stated at the amount management expects to collect from outstanding balances. Management closely monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are generally written off through a charge to the valuation allowance and a credit to trade accounts receivable. As of June 30, 2020 and 2019, the allowance for doubtful accounts was \$206,984 and \$186,642, respectively.

Fixed assets and depreciation

All fixed assets are recorded at cost. Depreciation on the main building structures and major improvements is computed using the straight-line method over 40 years. Equipment and other fixed assets are depreciated over a 10 year period using the straight-line method. Depreciation expense for the years ended June 30, 2020 and 2019 was \$618,134 and \$614,329, respectively.

Deferred charges and amortization

Under ASC-835, Interest, as issued by the Financial Accounting Standards Board (FASB), the deferred charges are recorded as a reduction of the related debt balance and the amortization of the charges is included in interest expense. Permanent loan fees totaling \$326,953 are amortized using the straight-line method over the term of the loans. Amortization included in interest expense for these loan and mortgage financing fees for the years ended June 30, 2020 and 2019 is \$9,342 and \$9,341, respectively, and accumulated amortization is \$52,157 and \$42,815, respectively

Revenue recognition

Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other revenue includes fees for late payments, cleaning, damages, laundry facilities and other charges and is recorded when earned. Advance receipts of revenue are deferred and classified as liabilities until earned.

Income taxes

The Corporation, as part of a unit of local government, is incorporated as a not-for-profit entity in the State of Maryland and is therefore exempt from real estate, sales and income taxes. Although the Corporation's articles of incorporation outline its charitable purposes, it has not been designated as a tax-exempt entity by the IRS. As such, the Corporation is deemed a C Corporation for federal filing purposes.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

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

Income taxes (continued)

The Corporation has accounted for federal income taxes under the asset and liability method, which requires recognition of deferred tax assets and liabilities from the expected future tax consequences of events that have been included in its financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the book and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in the tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Deferred tax assets arise from the utilization of net operating losses. In evaluating the ability to recover its deferred tax assets, management considered all positive and negative evidence, including future taxable income and tax planning strategies. Management believes that it is more-likely-than-not that the benefit from the deferred tax assets will not be realized. Accordingly, management has provided a full valuation allowance on its deferred tax assets as of June 30, 2020 and 2019.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Corporation to report information regarding its exposure to various tax positions taken by the Corporation. The Corporation has determined whether any tax positions have met the recognition threshold and has measured the Corporation's exposure to those tax positions. Management believes that the Corporation has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Corporation are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Impairment of long-lived assets

The Corporation reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flows analysis, or other valuation technique. There were no impairment losses recognized for each of the years ended June 30, 2020 and 2019.

Advertising

Advertising costs are expensed as incurred. For the years ended June 30, 2020 and 2019, the Corporation incurred \$18,233 and \$22,546, respectively, in advertising costs.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

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

Net position

HOC, the Corporation's principal investor, is required to report on a fund basis and replace the owner's equity section with the following as of June 30:

| | 2020 | 2019 |
|----------------------------------|----------------|----------------|
| Net investment in capital assets | \$ (5,932,840) | \$ (5,738,758) |
| Restricted | 839,071 | 940,366 |
| Unrestricted | (965,601) | (837,960) |
| Total net position | \$ (6,059,370) | \$ (5,636,352) |

Changes in accounting principles

As of June 30, 2020, the Corporation adopted a new accounting standard that affects the accounting for revenue. The Corporation's revenue is mainly derived from leases, which is not impacted by this standard. Adopting this standard did not have a significant impact on the financial statements.

The new revenue standard also introduced new guidance for accounting for other income, including the accounting for sales of real estate. Adopting this standard did not have a significant impact on the financial statements.

As of June 30, 2020, the Corporation adopted new accounting standards that affect the statement of cash flows. These new standards address how certain cash receipts and payments are presented and classified in the statement of cash flows, including that debt prepayments and other debt extinguishment related payments are required to be classified as financing activities, when previously these payments were classified as an operating activity.

The new standards also require the statement of cash flows to explain the change in cash, cash equivalents and restricted cash. Previously, changes in restricted cash were presented in the statement of cash flows as operating, investing or financing activities depending upon the intended purpose of the restricted funds. The effect of the revisions to the statement of cash flows for the year ended June 30, 2020 is as follows:

| | <u>As previously reported</u> | <u>Adjustments</u> | <u>As Revised</u> |
|--|-------------------------------|--------------------|-------------------|
| Net cash flows from investing activities | \$102,795 | (\$117,078) | (\$14,283) |

Subsequent events

Subsequent events have been evaluated through October 30, 2020, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

3. Restricted cash

Replacement reserve

In accordance with the Regulatory Agreement with HOC, disbursements from the replacement reserve for the purpose of maintenance, improvements, or renovations of the Project cannot be made without prior consent of HOC. The replacement reserve is pooled with other properties that are controlled by HOC and deposited with Montgomery County, Maryland (the "County"). As of June 30, 2020 and 2019, the balance of the replacement reserve was \$93,863 and \$271,425, respectively.

As part of the refinancing plan settlement with Love Funding approved on December 18, 2014, the Corporation established an additional replacement reserve escrow account, with an initial deposit of \$249,150, and monthly deposits of \$4,813. As of June 30, 2020 and 2019, the balance of the additional replacement reserve was \$564,644 and \$506,247, respectively.

Renovation escrow

The Corporation is required to fund a renovation escrow account with deposits to be made for capital improvements or major repairs. As of both June 30, 2020 and 2019, the balance of the renovation escrow was \$105,243.

Mortgage escrow

The Corporation is required to fund an escrow account to pay for mortgage insurance premiums, property taxes, and property insurance. As of June 30, 2020 and 2019, the balance of the mortgage escrow was \$75,321 and \$57,451, respectively.

Tenant security deposits

Tenant security deposits are placed into an interest-bearing account and are generally held until termination of the leases, at which time some or all of the deposits may be returned to the lessees. As of June 30, 2020 and 2019, the balance of the tenant security deposits was \$98,024 and \$97,617, respectively.

4. Property and equipment

Fixed assets consist of the following as of June 30:

| | Balances at June 30, 2019 | Additions | Dispositions | Balances at June 30, 2020 |
|----------------------------------|------------------------------|---------------------|--------------|------------------------------|
| Land | \$ 2,720,000 | \$ - | \$ - | \$ 2,720,000 |
| Buildings and improvements | 24,778,769 | 14,900 | - | 24,793,669 |
| Equipment and other fixed assets | 44,041 | 55,900 | - | 99,941 |
| Subtotal | 27,542,810 | 70,800 | - | 27,613,610 |
| Less: Accumulated depreciation | (7,837,474) | (618,134) | - | (8,455,608) |
| Fixed assets, net | <u>\$ 19,705,336</u> | <u>\$ (547,334)</u> | <u>\$ -</u> | <u>\$ 19,158,002</u> |

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

5. Mortgage payable – (\$20,741,700)

On January 8, 2014, HOC approved a refinancing plan to engage Love Funding as the Multifamily Accelerated Processing (“MAP”) Lender, and to obtain a FHA 223(f) Government National Mortgage Association (“GNMA” or “Ginnie Mae”) backed mortgage for the Project. This execution garnered approximately \$21 million in loan proceeds and retired \$20 million in outstanding debt. The final application was submitted to HUD in June 2014 and approved on December 18, 2014. The mortgage accrues interest at a rate of 3.6% with accrued interest payable monthly. The outstanding balance at June 30, 2020 and 2019 was \$18,971,572 and \$19,324,824, respectively.

Mortgage payable as of June 30, 2020 and 2019 consists of the following:

| | 2020 | 2019 |
|--|----------------------|----------------------|
| Principal balance | \$ 18,971,572 | \$ 19,324,824 |
| Less: unamortized financing costs | (274,796) | (284,138) |
| Mortgage payable, net of unamortized financing costs | <u>\$ 18,696,776</u> | <u>\$ 19,040,686</u> |

Debt issuance costs are being amortized to interest expense over the term of the loan. For both 2020 and 2019, the effective interest rate was 3.65%. Amortization expense for debt issuance costs for the years ended June 30, 2020 and 2019 was \$9,342 and \$9,341, respectively.

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

| Year ending June 30, | Principal | Interest | Total |
|----------------------|----------------------|----------------------|----------------------|
| 2021 | \$ 366,181 | \$ 676,974 | \$ 1,043,155 |
| 2022 | 379,583 | 663,572 | 1,043,155 |
| 2023 | 393,476 | 649,679 | 1,043,155 |
| 2024 | 407,877 | 635,278 | 1,043,155 |
| 2025 | 422,806 | 620,349 | 1,043,155 |
| 2026 through 2030 | 2,357,791 | 2,857,984 | 5,215,775 |
| 2031 through 2035 | 2,822,028 | 2,393,747 | 5,215,775 |
| 2036 through 2040 | 3,377,671 | 1,838,104 | 5,215,775 |
| 2041 through 2045 | 4,042,717 | 1,173,058 | 5,215,775 |
| 2046 through 2050 | 4,401,442 | 379,684 | 4,781,126 |
| | <u>\$ 18,971,572</u> | <u>\$ 11,888,429</u> | <u>\$ 30,860,001</u> |

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

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

On February 4, 2004, HOC acquired Paddington Square and in September 2009, HOC refinanced the original acquisition loan with a new loan facility of \$9,144,902, which was advanced to the Corporation from the County to finance improvements on the Project. The note provided a 35-year term maturing on July 1, 2039 with no interest to be charged until March 1, 2014 at which time 1% per annum was to be charged for the remainder of the term. The loan was to be paid back from available cash flow commencing on July 1, 2015 and amortizing over the remaining 24 years of the term. This note was partially repaid as a part of the refinancing agreement of December 18, 2014. The remainder of the loan outstanding as a result of the refinancing is \$5,196,232 and is included in noncurrent loans payable as of June 30, 2020 and 2019. As of June 30, 2020 and 2019, accrued interest was \$287,416 and \$235,456, respectively.

7. Related party transactions

Loan payable to HOC – (\$2,310,140)

The Corporation also borrowed \$2,310,140 from the Opportunity Housing Revenue Fund. This loan does not have defined repayment terms. Based on the refinancing agreement, payments of \$1,387,102 were made, reducing the loan to \$923,038, which is included in noncurrent mortgage payable as of June 30, 2020 and 2019.

Due to related party

The Corporation made advances to affiliates of the Corporation. The advances do not bear interest and are due on demand. Management closely monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current statuses of individual accounts. As of June 30, 2020 and 2019, \$1,469,653 and \$1,436,362, respectively, were due to the Corporation.

Asset management fee

Pursuant to the Asset Management Fee Agreement (the “Agreement”), the Corporation agreed to pay an annual asset management fee to HOC equal to the proportionate share of the asset management agent’s indirect overhead expense attributable to the Project for the preceding year as determined annually as part of the asset management agent’s annual budget. The Agreement continued until March 1, 2005 and renews automatically without notice. For each of the years ended June 30, 2020 and 2019, asset management fees of \$104,470 were incurred and paid.

Development corporation fee

During the course of operations, the Corporation paid fees to HOC for services related to the operation of the Corporation. For the years ended June 30, 2020 and 2019, development corporation fees of \$426,443 and \$392,252, respectively, were incurred and paid.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

8. Pension plan

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

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

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

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

As of and for the year ended June 30, 2019:

| | | |
|-------------------------------|----|--------|
| Net pension liability | \$ | 70,833 |
| Deferred inflow of resources | | 34,311 |
| Deferred outflow of resources | | 81,064 |
| Pension expense | | 2,973 |

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

9. OPEB plan

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

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

9. OPEB plan (continued)

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

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

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

As of and for the year ended June 30, 2019:

| | | |
|-------------------------------|----|---------|
| Net OPEB liability | \$ | 148,565 |
| Deferred inflow of resources | | 64,553 |
| Deferred outflow of resources | | 45,047 |
| OPEB expense | | 2,301 |

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

10. Property management fee

Pursuant to the agreement for property management services dated February 1, 2013, Residential One, LLC, an unrelated third party, earned a monthly property management fee equal to \$38 per unit for performing central accounting, recertification, marketing, office support and overhead expenses of front-line personnel who do not work at the Project, and corporate administration. For the years ended June 30, 2020 and 2019, property management fees of \$73,075 and \$73,260, respectively, were incurred and paid.

11. COVID-19

The spread of a novel strain of coronavirus (COVID-19) in the first quarter of 2020 has caused significant volatility in U.S. markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. economy. The extent of the impact of COVID-19 on the Corporation's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on customers, employees and vendors, all of which are uncertain and cannot be determined at this time.

SUPPLEMENTARY INFORMATION

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245

BALANCE SHEET - HUD BASIS

June 30, 2020

ASSETS

CURRENT ASSETS

| | | |
|--------------------------------------|----|----------------|
| 1120 Cash - operations | \$ | 819,938 |
| 1130 Tenant accounts receivable | | 257,807 |
| 1131 Allowance for doubtful accounts | | (206,984) |
| 1130 Net tenant accounts receivable | | 50,823 |
| 1135 Accounts receivable - HUD | | 11,839 |
| 1145 Accounts receivable - entity | | 7,694 |
| 1200 Prepaid expenses | | 52,399 |
| 1100T Total current assets | | <u>942,693</u> |

DEPOSITS HELD IN TRUST

| | | |
|------------------------------------|--|--------|
| 1191 Tenant deposits held in trust | | 98,024 |
|------------------------------------|--|--------|

RESTRICTED DEPOSITS AND FUNDED RESERVES

| | | |
|---|--|----------------|
| 1310 Escrow deposits | | 180,564 |
| 1320 Replacement reserve | | 658,507 |
| 1300T Total restricted deposits and funded reserves | | <u>839,071</u> |

FIXED ASSETS

| | | |
|---------------------------------|--|-------------------|
| 1410 Land | | 2,720,000 |
| 1420 Buildings | | 24,793,669 |
| 1470 Maintenance equipment | | 13,880 |
| 1490 Miscellaneous fixed assets | | |
| Personal property | | 86,061 |
| 1400T Total fixed assets | | <u>27,613,610</u> |
| 1495 Accumulated depreciation | | 8,455,608 |
| 1400N Net fixed assets | | <u>19,158,002</u> |

OTHER ASSETS

| | | |
|---------------------------------|--|----------------|
| 1590 Miscellaneous Other Assets | | 302,150 |
| 1500T Total other assets | | <u>302,150</u> |

| | | |
|--------------------|----|-------------------|
| 1000T TOTAL ASSETS | \$ | <u>21,339,940</u> |
|--------------------|----|-------------------|

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245

BALANCE SHEET - HUD BASIS (CONTINUED)

June 30, 2020

LIABILITIES AND EQUITY

CURRENT LIABILITIES

| | | | |
|-------|---|----|------------------|
| 2110 | Accounts payable - operations | \$ | 48,315 |
| 2120 | Accrued wages payable | | 32,491 |
| 2131 | Accrued interest payable - mortgage payable | | 344,331 |
| 2160 | Notes payable - short-term | | 1,469,653 |
| 2170 | Mortgage payable - HOC (short-term) | | 366,181 |
| 2180 | Utility allowances | | 35,884 |
| 2190 | Miscellaneous current liabilities | | 137,322 |
| 2210 | Prepaid revenue | | 5,385 |
| 2122T | Total current liabilities | | <u>2,439,562</u> |

DEPOSIT LIABILITIES

| | | | |
|------|--|--|--------|
| 2191 | Tenant deposits held in trust - contra | | 90,223 |
|------|--|--|--------|

LONG-TERM LIABILITIES

| | | | |
|-------|-------------------------------------|--|-------------------|
| 2310 | Notes payable - long-term | | 6,119,270 |
| 2320 | Mortgage payable - first mortgage | | 18,605,391 |
| 2340 | Debt issuance costs | | 274,796 |
| 2390 | Miscellaneous long-term liabilities | | 419,660 |
| 2300T | Total long-term liabilities | | <u>24,869,525</u> |

| | | | |
|-------|-------------------|--|------------|
| 2000T | Total liabilities | | 27,399,310 |
|-------|-------------------|--|------------|

| | | | |
|------|--------------|--|--------------------|
| 3130 | Total equity | | <u>(6,059,370)</u> |
|------|--------------|--|--------------------|

| | | | |
|-------|------------------------------|----|--------------------------|
| 2033T | TOTAL LIABILITIES AND EQUITY | \$ | <u><u>21,339,940</u></u> |
|-------|------------------------------|----|--------------------------|

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION
 HUD PROJECT NO. 000-11245
 STATEMENT OF PROFIT AND LOSS - HUD BASIS
 For the year ended June 30, 2020

| | | |
|-------------------------|--|------------------|
| Rental revenue | | |
| 5120 | Rent revenue - gross potential | \$ 2,489,985 |
| 5121 | Tenant assistant payments | 476,653 |
| 5100T | Total rental revenue | <u>2,966,638</u> |
| Vacancies | | |
| 5220 | Apartments | 27,542 |
| 5250 | Rental Concessions | 1,377 |
| 5200T | Total vacancies | <u>28,919</u> |
| 5152N | Net rental revenue (rent revenue less vacancies) | <u>2,937,719</u> |
| Financial revenue | | |
| 5410 | Financial revenue - project operations | 407 |
| 5440 | Revenue from investments - replacement reserve | 646 |
| 5400T | Total financial revenue | <u>1,053</u> |
| Other revenue | | |
| 5910 | Laundry and vending | 32,675 |
| 5920 | Tenant charges | 17,332 |
| 5990 | Miscellaneous (specify) | |
| | Rental license | 7,749 |
| 5900T | Total other revenue | <u>57,756</u> |
| 5000T | Total revenue | <u>2,996,528</u> |
| Administrative expenses | | |
| 6204 | Management consultants | 426,443 |
| 6210 | Advertising and marketing | 24,817 |
| 6250 | Other renting expense | 4,004 |
| 6310 | Office salaries | 139,327 |
| 6311 | Office expenses | 22,988 |
| 6320 | Management fee | 73,075 |
| 6330 | Manager or superintendent salaries | 144,082 |
| 6340 | Legal expenses - project | 5,744 |
| 6350 | Auditing expenses | 13,866 |
| 6370 | Bad debts | 15,777 |
| 6390 | Miscellaneous administrative expenses | 20,339 |
| 6263T | Total administrative expenses | <u>890,462</u> |
| Utility expenses | | |
| 6450 | Electricity | 27,739 |
| 6451 | Water | 148,060 |
| 6452 | Gas | 26,694 |
| 6400T | Total utility expenses | <u>202,493</u> |

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION
 HUD PROJECT NO. 000-11245
 STATEMENT OF PROFIT AND LOSS - HUD BASIS (CONTINUED)
 For the year ended June 30, 2020

| | | |
|------------------------------------|---|---------------------|
| Operating and maintenance expenses | | |
| 6510 | Payroll | \$ 230,731 |
| 6515 | Supplies | 23,855 |
| 6520 | Contracts | 243,485 |
| 6525 | Garbage and trash removal | 33,176 |
| 6530 | Security payroll/contract | 1,771 |
| 6546 | Heating/cooling repairs and maintenance | 312 |
| 6590 | Miscellaneous operating and maintenance expenses (specify) | |
| | Capital supplies | 81,346 |
| | Capital contracts | 30,433 |
| 6500T | Total operating and maintenance expenses | <u>645,109</u> |
| Taxes and insurance | | |
| 6720 | Property and liability insurance (hazard) | 33,111 |
| 6722 | Workmen's compensation | 5,877 |
| 6723 | Health insurance and other employee benefits | 180,698 |
| 6790 | Miscellaneous taxes, licenses, permits, and insurance (specify) | |
| | Vehicle insurance | 1,670 |
| | Solid waste tax | 2,666 |
| | Water quality protect charge (RFSA) | 5,764 |
| 6700T | Total taxes and insurance | <u>229,786</u> |
| Financial expenses | | |
| 6820 | Interest on mortgage payable | 745,815 |
| 6850 | Mortgage insurance premium | 86,098 |
| 6890 | Miscellaneous financial expenses (specify) | |
| | Security deposit interest expense | 1,649 |
| 6800T | Total financial expenses | <u>833,562</u> |
| Operating results | | |
| 6000T | Total costs of operation before depreciation | <u>2,801,412</u> |
| 5060T | Profit (loss) before depreciation | 195,116 |
| 6600 | Depreciation expenses | <u>618,134</u> |
| 5060N | Operating profit or (loss) | <u>(423,018)</u> |
| 3250 | Net income or (loss) | <u>\$ (423,018)</u> |

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
STATEMENT OF PROFIT AND LOSS - HUD BASIS (CONTINUED)
For the year ended June 30, 2020

Part II

| | | |
|-----------|---|-------------------|
| S1000-010 | Total first mortgage principal payments required during the audit period (12 monthly payments). This applies to all direct loans, HUD-held and HUD-insured first mortgages. | <u>\$ 353,252</u> |
| S1000-020 | The total of all monthly reserve for replacement deposits (usually 12 months) required during the audit period even if deposits have been temporarily waived or suspended. | <u>\$ 57,751</u> |
| S1000-030 | Replacement Reserves, or Residual receipts and Releases which are included as expense items on this Profit and Loss statement. | <u>\$ -</u> |
| S1000-040 | Program that are included as expense items on this Profit and Loss Statement. | <u>\$ -</u> |

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
STATEMENT OF EQUITY - HUD BASIS
For the year ended June 30, 2020

| | | |
|-----------|-----------------------------|------------------------------|
| S1100-010 | Beginning of period balance | \$ (5,636,352) |
| 3250 | Net income (loss) | (423,018) |
| 3130 | End of period balance | <u><u>\$ (6,059,370)</u></u> |

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245

STATEMENT OF CASH FLOWS - HUD BASIS

For the year ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

| | | |
|-----------|--------------------------|---------------|
| S1200-010 | Rental income received | \$ 2,885,085 |
| S1200-020 | Interest receipts | 1,053 |
| S1200-030 | Other operating receipts | <u>57,756</u> |
| S1200-040 | Total receipts | 2,943,894 |

CASH PAID FOR:

| | | |
|-----------|---|--------------------|
| S1200-050 | Administrative expenses | (488,534) |
| S1200-070 | Management fee expense | (73,075) |
| S1200-090 | Utility expenses | (182,671) |
| S1200-100 | Salaries and wages expense | (351,277) |
| S1200-110 | Operating and maintenance expenses | (400,514) |
| S1200-140 | Property insurance expense | (31,421) |
| S1200-150 | Miscellaneous taxes and insurance expense | (196,675) |
| S1200-160 | Tenant security deposits | (3,105) |
| S1200-170 | Other operating expenses | (104,470) |
| S1200-180 | Interest on mortgage payable | (689,903) |
| S1200-210 | Mortgage insurance premium | <u>(85,167)</u> |
| S1200-230 | Total disbursements | <u>(2,606,812)</u> |
| S1200-240 | Net cash provided by operating activities | 337,082 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | | |
|-----------|--|-----------------|
| S1200-245 | Net deposits to the mortgage escrow account | (17,870) |
| S1200-250 | Net withdrawals from the reserve for replacement account | 119,165 |
| S1200-330 | Net purchase of fixed assets | <u>(70,800)</u> |
| S1200-350 | Net cash provided by investing activities | 30,495 |

CASH FLOWS FROM FINANCING ACTIVITIES

| | | |
|-----------|---------------------------------------|--------------------------|
| S1200-360 | Principal payments - mortgage payable | <u>(353,252)</u> |
| S1200-460 | Net cash used in financing activities | <u>(353,252)</u> |
| S1200-470 | NET INCREASE IN CASH & EQUIVALENTS | 14,325 |
| S1200-480 | BEGINNING CASH AND CASH EQUIVALENTS | <u>805,613</u> |
| S1200T | ENDING CASH AND CASH EQUIVALENTS | <u><u>\$ 819,938</u></u> |

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
STATEMENT OF CASH FLOWS - HUD BASIS (CONTINUED)
For the year ended June 30, 2020

| | | |
|---|---|--------------|
| RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| 3250 | NET INCOME (LOSS) | \$ (423,018) |
| | | |
| ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| 6600 | Depreciation expense | 618,134 |
| S1200-486 | Amortization of debt issuance costs | 9,342 |
| | | |
| Changes in asset and liability accounts | | |
| | | |
| Decrease (increase) in assets | | |
| S1200-490 | Increase in tenant accounts receivable | (60,573) |
| S1200-500 | Decrease in accounts receivable - HUD | 9,839 |
| S1200-520 | Decrease in prepaid expenses | 2,961 |
| S1200-530 | Increase in cash restricted for tenant security deposits | (407) |
| | | (48,180) |
| | | |
| Increase (decrease) in liabilities | | |
| S1200-540 | Increase in accounts payable - operations and accrued liabilities | 11,814 |
| S1200-560 | Decrease in accrued liabilities | (146,642) |
| S1200-570 | Increase in accrued interest payable | 46,570 |
| S1200-580 | Decrease in tenant security deposits held in trust | (1,049) |
| S1200-590 | Decrease in prepaid rent | (1,900) |
| S1200-600 | Other adjustments to reconcile net income (loss) to net cash provided by operating activities | |
| | Change in deferred inflow pension and OPEB | 320,796 |
| | Change in net pension and OPEB liabilities | (82,076) |
| | Change in related party liabilities | 33,291 |
| | | 180,804 |
| | | |
| S1200-610 | NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 337,082 |

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245

COMPUTATION OF SURPLUS CASH - HUD BASIS

June 30, 2020

| | | |
|-----------|--|------------------------------|
| S1300-010 | Cash (Accounts 1110, 1120, 1191, 1192) | \$ 917,962 |
| 1135 | Accounts receivable - HUD | <u>11,839</u> |
| S1300-040 | Total cash | 929,801 |
| S1300-050 | Accrued mortgage (or bond) interest payable | 287,416 |
| S1300-075 | Accounts payable (due within 30 days) | 48,315 |
| S1300-100 | Accrued expenses (not escrowed) | 68,375 |
| 2210 | Prepaid revenue | 5,385 |
| 2191 | Tenant deposits held in trust | 90,223 |
| S1300-110 | Other current obligations: | |
| S1300-120 | First mortgage principal due in the following month | |
| S1300-130 | \$ 30,015 | |
| S1300-120 | First mortgage interest due in the following month | |
| S1300-130 | \$ 56,915 | |
| S1300-120 | Mortgage insurance premium due in the following month | |
| S1300-130 | \$ 7,230 | |
| S1300-120 | Replacement reserve deposit due in the following month | |
| S1300-130 | \$ 4,813 | |
| S1300-120 | Escrow deposits due in the following month | |
| S1300-130 | \$ 2,174 | |
| S1300-120 | Interfund payable - HOC | |
| S1300-130 | \$ 1,469,653 | <u>1,570,800</u> |
| S1300-140 | Less total current obligations | <u>2,070,514</u> |
| S1300-150 | Surplus cash (deficiency) | <u><u>\$ (1,140,713)</u></u> |

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION
 HUD PROJECT NO. 000-11245
 COMPUTATION OF SURPLUS CASH - HUD BASIS (UNAUDITED)
 December 31, 2019

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

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
SCHEDULE OF CHANGES IN FIXED ASSET ACCOUNTS
For the year ended June 30, 2020

| | Beginning Balance | Additions | Deductions | Ending Balance |
|----------------------------|----------------------|------------------|-------------|----------------------|
| Land | \$ 2,720,000 | \$ - | \$ - | \$ 2,720,000 |
| Buildings | 24,778,769 | 14,900 | - | 24,793,669 |
| Maintennace Equipment | 13,880 | - | - | 13,880 |
| Miscellaneous fixed assets | 30,161 | 55,900 | - | 86,061 |
| TOTAL | \$ 27,542,810 | \$ 70,800 | \$ - | \$ 27,613,610 |
| Accumulated depreciation | \$ 7,837,474 | \$ 618,134 | \$ - | \$ 8,455,608 |
| Net book value | <u>\$ 19,705,336</u> | | | <u>\$ 19,158,002</u> |

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION
 HUD PROJECT NO. 000-11245
 SCHEDULE OF ADDITIONAL SUPPLEMENTAL DATA
 For the year ended June 30, 2020

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

SCHEDULE OF CHANGES IN REPLACEMENT RESERVE

| | |
|------------------------|------------|
| BALANCE, JULY 1, 2019 | \$ 777,672 |
| Monthly deposits | 57,751 |
| Other deposits | - |
| Interest income | 646 |
| Approved withdrawals | (177,562) |
| BALANCE, JUNE 31, 2020 | \$ 658,507 |

OTHER SUPPORTING DATA

| | |
|-----------------------------------|------------|
| MISCELLANEOUS OTHER ASSETS (1590) | |
| Deferred outflow pension | \$ 234,952 |
| Deferred outflow OPEB | 67,198 |
| | \$ 302,150 |

| | |
|--|------------|
| MISCELLANEOUS CURRENT LIABILITIES (2190) | |
| Net pension liability | \$ 60,542 |
| Net OPEB liability | 76,780 |
| Total | \$ 137,322 |

| | |
|--|------------|
| MISCELLANEOUS LONG-TERM LIABILITIES (2390) | |
| Deferred inflow - pension | \$ 265,389 |
| Deferred inflow - OPEB | 154,271 |
| Total | \$ 419,660 |

| | |
|--|-----------|
| MISCELLANEOUS ADMINISTRATIVE EXPENSES (6390) | |
| Miscellaneous operating expenses | \$ 3,956 |
| Food and beverages | 169 |
| Professional association dues | 164 |
| Gasoline | 1,398 |
| Vehicle repairs and maintenance | 577 |
| Training program | 1,134 |
| Credit check services | 643 |
| Public relations consulting | 17 |
| ADA accommodations | 490 |
| Rental license fees | 7,755 |
| Other licenses, fees and permits | 1,438 |
| Resident services fees | 1,848 |
| Decorations | 223 |
| Covid-19 - coronavirus expense | 359 |
| Arbitrage expense | 168 |
| Total | \$ 20,339 |

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

To the management of
Paddington Square Development Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Paddington Square Development Corporation, which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses, and change in net position, changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated October 30, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Paddington Square Development Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could

have a direct and material effect on the 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Novogradac & Company LLP

Dover, Ohio
October 30, 2020

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

To the management of
Paddington Square Development Corporation:

Report on Compliance for its Major HUD Program

We have audited Paddington Square Development Corporation's compliance with the compliance requirements described in the Consolidated Audit Guide for Audits of HUD Programs (the "Guide") that could have a direct and material effect on Paddington Square Development Corporation's major U.S. Department of Housing and Urban Development ("HUD") program for the year ended June 30, 2020. Paddington Square Development Corporation's major HUD program and the related direct and material compliance requirements are as follows:

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Its Major HUD Program

In our opinion, Paddington Square Development Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major HUD programs for the year ended June 30, 2020.

Other Matters

We noted certain matters that we are required to report to the management of Paddington Square Development Corporation in a separate written communication. These matters are described in our management letter dated October 30, 2020.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Novogradac & Company LLP

Dover, Ohio
October 30, 2020

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND RECOMMENDATIONS
June 30, 2020

Findings – Financial Statements Audit

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

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245
SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS, QUESTIONED COSTS, AND
RECOMMENDATIONS (UNAUDITED)
June 30, 2020

Findings – Financial Statements Audit for the year ended June 30, 2019

Audit report, dated September 25, 2019 for the year ended June 30, 2019, issued by Rubino & Company.

There were no financial statement audit findings for the year ended June 30, 2019.

Findings from Other Audits or Studies

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

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

On January 9, 2020, HUD performed a physical inspection in which the property received a passing score of 94b. This does not constitute an instance of noncompliance.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO.000-11245
MORTGAGOR'S (OWNER'S) CERTIFICATION
June 30, 2020

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

Paddington Square Development Corporation

DocuSigned by:
Cornelia Kent
1878DAF294C94D5...

10/30/2020

Signature

Date

Name of Signatory

Cornelia Kent

Title of Certifying Official

Chief Financial Officer

Auditee Telephone Number

(240) 627-9400

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245

MANAGING AGENT'S CERTIFICATION

June 30, 2020

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

EQUITY MANAGEMENT II, LLC

Signature 

10/30/2020

Date

Name of Signatory

Louis Sigalas

Managing Agent Tax Identification Number

47-4263376

Name of Property Manager

Shelly Collins
