

527 DALE DRIVE APARTMENTS

CDA PRHP Project No.: 26.16.0014

(A Residential Rental Facility Owned by the Housing Opportunities Commission of
Montgomery County, Maryland)

FINANCIAL STATEMENTS

AND

ACCOUNTANTS' COMPILATION REPORT

Years Ended June 30, 2018 and 2017

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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

To the Board of Commissioners
Housing Opportunities Commission of Montgomery County

Management is responsible for the accompanying financial statements of 527 Dale Drive Apartments (Property), a residential rental facility owned by Housing Opportunities Commission of Montgomery County, Maryland (HOC), which comprise the statements of net assets as of June 30, 2018, and the related statements of activities, changes in net assets, and cash flows for the year then ended and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed the compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the 2018 financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

The financial statements of 527 Dale Drive Apartments as of June 30, 2017, were subjected to a compilation engagement by other accountants, whose report dated September 1, 2017, stated that they have not audited or reviewed the 2017 financial statements and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

The supplementary information contained in pages 12 to 14 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. This information is the representation of management. The information was subject to our compilation engagement; however, we have not audited or reviewed the supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any assurance on such supplementary information.



September __, 2018
Bethesda, Maryland

527 DALE DRIVE APARTMENTS
STATEMENTS OF NET ASSETS
June 30, 2018 and 2017

ASSETS		
	<u>2018</u>	<u>2017</u>
Current assets		
Cash management agent	\$ 93,638	\$ 71,735
Prepaid expense	-	410
Interfund receivable	-	656
Total current assets	<u>93,638</u>	<u>72,801</u>
Noncurrent assets		
Renovation escrow - restricted	6,254	6,254
Cash restricted for reserve for replacement	<u>250,349</u>	<u>242,406</u>
Total noncurrent assets	256,603	248,660
Property and equipment, net	<u>1,996,300</u>	<u>2,064,197</u>
Total assets	<u>\$ 2,346,541</u>	<u>\$ 2,385,658</u>

LIABILITIES, DEFERRED INFLOW AND NET ASSETS

	<u>2018</u>	<u>2017</u>
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,494	\$ 4,863
Interfund payable	<u>17,107</u>	<u>-</u>
Total current liabilities	<u>19,601</u>	<u>4,863</u>
Noncurrent liabilities		
Mortgage notes payable - Montgomery County DHCA	1,738,012	1,742,309
Mortgage note payable - State of Maryland DHCD	600,000	600,000
Less: Debt issuance costs	<u>(23,097)</u>	<u>(24,151)</u>
Total non-current liabilities	<u>2,314,915</u>	<u>2,318,158</u>
Total liabilities	<u>2,334,516</u>	<u>2,323,021</u>
Net assets		
Net investment in capital assets	(341,712)	(278,110)
Restricted net assets	256,603	248,660
Unrestricted net assets	<u>97,134</u>	<u>92,087</u>
Total net assets	<u>12,025</u>	<u>62,637</u>
Total liabilities and net assets	<u>\$ 2,346,541</u>	<u>\$ 2,385,658</u>

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

527 DALE DRIVE APARTMENTS
STATEMENTS OF ACTIVITIES
Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenue		
Dwelling rental	\$ 103,680	\$ 103,680
Other income	<u>4,818</u>	<u>450</u>
Total operating revenues	<u>108,498</u>	<u>104,130</u>
Operating expenses		
Administrative	20,773	17,639
Depreciation	67,897	67,897
Interest expense (debt issuance costs)	1,054	1,054
Fringe benefits	5,329	4,583
Maintenance	32,061	34,225
Utilities	19,048	20,097
Other	<u>12,948</u>	<u>10,447</u>
Total operating expenses	<u>159,110</u>	<u>155,942</u>
Change in net assets	<u>\$ (50,612)</u>	<u>\$ (51,812)</u>

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

**527 DALE DRIVE APARTMENTS
STATEMENTS OF CHANGES IN NET
ASSETS**

Years ended June 30, 2018 and 2017

	Investment in Capital Assets, Net of Related Debt	Restricted Net Assets	Unrestricted Net Assets	Total Net Assets
Balance, June 30, 2016	(210,213)	217,551	120,101	127,439
Distribution	-	-	(12,990)	(12,990)
Change in net assets	(67,897)	31,109	(15,024)	(51,812)
Balance, June 30, 2017	(278,110)	248,660	92,087	62,637
Distribution	-	-	-	-
Change in net assets	(63,602)	7,943	5,047	(50,612)
Balance, June 30, 2018	<u>(341,712)</u>	<u>256,603</u>	<u>97,134</u>	<u>12,025</u>

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

527 DALE DRIVE APARTMENTS
STATEMENT OF CASH FLOWS
Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Cash received from tenants	\$ 103,680	\$ 103,680
Cash received from laundry and other income	521	450
Cash paid to suppliers and employees	<u>(87,821)</u>	<u>(85,947)</u>
Net cash provided by operating activities	<u>16,380</u>	<u>18,183</u>
Cash flows from financing activities		
Change in interfund receivable/payable	17,763	(3,566)
Change in distribution payable	-	(11,398)
Decrease (increase) in insurance receivable	-	15,537
Payments to notes payable	(4,297)	-
Distributions	<u>-</u>	<u>(12,990)</u>
Net cash used in financing activities	<u>13,466</u>	<u>(12,417)</u>
Net increase in cash	29,846	5,766
Cash beginning	<u>320,395</u>	<u>314,628</u>
Cash ending	<u>\$ 350,241</u>	<u>\$ 320,395</u>
Cash		
Cash management agent	\$ 93,638	\$ 71,735
Renovation escrow	6,254	6,254
Reserve for replacement	<u>250,349</u>	<u>242,406</u>
	<u>\$ 350,241</u>	<u>\$ 320,395</u>
Changes in net assets	\$ (50,612)	\$ (51,812)
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Prepaid expense	410	(410)
Depreciation	67,897	67,897
Interest (debt issuance costs)	1,054	1,054
Accounts payable and accrued liabilities	<u>(2,369)</u>	<u>1,454</u>
Net cash provided by operating activities	<u>\$ 16,380</u>	<u>\$ 18,183</u>

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

527 DALE DRIVE APARTMENTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

1. Organization

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

2. Summary of Significant Accounting Policies

Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Restricted Cash Escrow and Reserve

The Property maintains a renovation escrow and reserve for replacements which are restricted by the regulatory agreement.

Accounts Receivable

Accounts receivable are stated at outstanding balances. The property considers accounts receivable to be fully collectible. If collection becomes doubtful, an allowance for doubtful accounts will be established, or the accounts will be charged to income when that determination is made by management. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off accounts are recorded when received.

527 DALE DRIVE APARTMENTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost and are depreciated on the straight-line method over the estimated average useful lives of the assets as follows: building and building renovations, forty years; and equipment, five years.

Maintenance and minor repairs which do not significantly improve or extend the lives of the respective assets are charged against operations when incurred. Additions, improvements, and major repairs are capitalized.

Rental Income

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. MCCCH pays \$1,080 per month per each supportive housing unit as described in the memorandum of understanding.

Income Taxes

The Property is a component unit of The Housing Opportunities Commission of Montgomery County, Maryland (HOC), a component unit of Montgomery County Maryland and is therefore exempt from income taxation. No provision for income taxes has been included in these financial statements and there is no other tax positions which must be considered for disclosure.

Subsequent Events

Subsequent events have been evaluated through September ____, 2018 which is the date the financial statements were available to be issued.

3. Property and Equipment

Property and equipment consist of the following as of June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Building and renovations	\$ 2,690,153	\$ 2,690,153
Equipment	<u>41,537</u>	<u>41,537</u>
	2,731,690	2,731,690
Accumulated depreciation	<u>(735,390)</u>	<u>(667,493)</u>
Total fixed assets, net of accumulated depreciation	<u>\$ 1,996,300</u>	<u>\$ 2,064,197</u>

527 DALE DRIVE APARTMENTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

4. Restricted Cash

The cash restricted for replacement consist of the followings as of June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Balances, beginning	\$ 242,406	\$ 211,297
Deposits (\$611 per month)	7,943	6,721
Surplus cash	-	24,388
Balances, ending	<u>\$ 250,349</u>	<u>\$ 242,406</u>

The Department of Housing and Community Development regulatory agreement requires monthly deposits of \$611 into reserve for replacement. The memorandum of understanding between HOC and MCCH requires surplus cash at the end of each year to be distributed 50% to MCCH and 50% to be deposited into reserve for replacements. There was no deposit during the year ended June 30, 2018.

5. Mortgage Notes Payable

Montgomery County – Home & HIF Loans

The mortgage notes payable are collateralized by a first and second deed of trust on the rental property. The notes payable bear no interest. The first lien is in the amount of \$1,000,000 at June 30, 2018 and 2017. This amount was funded through the HOME Program. The second lien is in the amount of \$738,012 at June 30, 2018 and 2017. This amount was funded through the Housing Initiative Fund (HIF) Program.

No payment was due on the HIF loan through June 30, 2017. Annually commencing on July 1, 2018 and on the anniversary date each year thereafter (the "Payment Date") until such time as the note is paid in full, Promisor shall pay to Beneficiary the lesser of the net cash flow as defined or the amount which when applied first to principal shall be amortized over the loan's then remaining term. If the net cash flow is insufficient to pay the amortization no payment is made and the amount of such insufficiency shall accrue and be due at the end of the term.

On the eleventh (11th) anniversary, May 8, 2017, of the execution of the HOME Loan and on each anniversary date thereafter, Promisor shall pay to Beneficiary the lesser of fifty percent (50%) of net cash flow, as defined or the amount, which when applied to reduction of principal, shall amortize the entire debt over a twenty (20) year term. Both mortgage notes are due in full on July 1, 2036. The Property intends to apply its 50% portion of surplus cash to this mortgage after the Department of Housing and Community Development approves the release of surplus cash.

527 DALE DRIVE APARTMENTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

5. Mortgage Notes Payable (continued)

State of Maryland – DHCD \$600,000

The mortgage note payable is collateralized by a third deed of trust on the rental property. The note payable bears no interest. The note becomes due and payable on the occurrence of sale or refinancing of the property, the project is no longer used by low-income individuals or in an event of default, as defined in the deed of trust.

6. Restricted Net Assets

Restricted net assets consist of the following as of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Renovation escrow	\$ 6,254	\$ 6,254
Cash restricted for reserve for replacement	<u>250,349</u>	<u>242,406</u>
Total	<u>\$ 256,603</u>	<u>\$ 248,660</u>

7. Related Party Transactions

During the course of operations, HOC pays expenses related to the operation of the property. In addition, the HOC and the property will advance funds to each other as deemed appropriate by management. In 2018 and 2017, an asset management fee of \$10,770 and \$7,530, respectively was paid to HOC.

8. Real Estate Taxes

The property has entered into a Payment in Lieu of Taxes (PILOT) agreement whereby the Montgomery County portion of the real estate tax is abated.

9. Concentration of Cash Risk

Cash balances as of June 30, 2018 were entirely insured and collateralized with securities held by HOC's agent in HOC's name

10. Management Contract

HOC negotiated a new management agreement with Residential One (formerly Equity Management LLC) effective February 1, 2013. The contract is for three years with an annual flat fee of \$4,560 per year or \$380 per month. Management fees charged to operations under this contract for the years ended June 30, 2018 and 2017 were \$4,440 and \$4,530, respectively. Effective April 1, 2017 the contract was renewed for two additional years with an annual flat fee of \$4,440 per year or \$370 per month.

527 DALE DRIVE APARTMENTS
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2018 and 2017

11. Distributions

As discussed in Note C, a memorandum of understanding between HOC and MCCH requires 50% of surplus cash, as defined, to be distributed to MCCH

SUPPLEMENTAL INFORMATION

527 DALE DRIVE APARTMENTS
SCHEDULE OF ASSETS AND LIABILITIES
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Property and equipment		
Building	\$ 2,690,153	\$ 2,690,153
Equipment	<u>41,537</u>	<u>41,537</u>
	2,731,690	2,731,690
Accumulated depreciation	<u>(735,390)</u>	<u>(667,493)</u>
Total property and equipment, net	<u>\$ 1,996,300</u>	<u>\$ 2,064,197</u>
Accounts payable and accrued liabilities		
Accounts payable	\$ -	\$ 3,084
Accrued salaries	923	1,404
Accrued utilities and other	<u>1,571</u>	<u>375</u>
Total accounts payable and accrued liabilities	<u>\$ 2,494</u>	<u>\$ 4,863</u>

527 DALE DRIVE APARTMENTS
SCHEDULE OF EXPENSES
Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Administration		
Accounting and legal fees	\$ 5,675	\$ 4,150
Office expenses	6,201	6,413
Office salaries	4,457	2,546
Management fees	<u>4,440</u>	<u>4,530</u>
Total administration	<u>\$ 20,773</u>	<u>\$ 17,639</u>
Fringe benefits		
Accrued leave	\$ (26)	\$ 133
FICA	660	589
Unemployment maintenance	39	54
Workers compensation	595	235
Health insurance	2,598	2,118
Retirement benefits	1,010	1,343
Contract managed benefits	<u>453</u>	<u>111</u>
Total fringe benefits	<u>\$ 5,329</u>	<u>\$ 4,583</u>
Maintenance		
Maintenance contracts	\$ 20,581	\$ 24,961
Janitorial payroll	8,998	8,199
Maintenance supplies	<u>2,482</u>	<u>1,065</u>
Total maintenance	<u>\$ 32,061</u>	<u>\$ 34,225</u>
Utilities		
Electricity	\$ 10,438	\$ 12,898
Gas	2,708	1,943
Trash removal	1,413	2,389
Water	<u>4,489</u>	<u>2,867</u>
Total utilities	<u>\$ 19,048</u>	<u>\$ 20,097</u>
Other expenses		
Asset management fee	\$ 10,770	\$ 7,530
Security contracts	563	1,335
Insurance	1,416	1,283
Solid waste tax	<u>199</u>	<u>299</u>
Total other expenses	<u>\$ 12,948</u>	<u>\$ 10,447</u>

Surplus Cash Report FY18

Acct#	Description	Amount	Apply as	+/- Adjust	=Total
S1200-010	Rental Receipts	103,680	Cash	-	103,680.00
S1200-020	Interest Receipts		N/A	-	-
S1200-030	Other Operating Receipts	4,818	Cash	-	4,818.00
S1200-050	Administrative Expenses Paid	(11,433)	Obligation	-	(11,433.00)
S1200-070	Management Fees Paid	(15,210)	Obligation	-	(15,210.00)
S1200-090	Utilities Paid	(18,297)	Obligation	-	(18,297.00)
S1200-100	Salaries & Wages Paid	(19,264)	Obligation	-	(19,264.00)
S1200-110	Operating and Maintenance Paid	(23,649)	Obligation	-	(23,649.00)
S1200-120	Real Estate Taxes Paid	(199)	Obligation	-	(199.00)
S1200-140	Property Insurance Paid	(1,416)	Obligation	-	(1,416.00)
S1200-150	Miscellaneous Taxes & Insurance Paid		N/A	-	-
S1200-160	Net Tenant Security Deposits Received (Paid)	-	N/A	-	-
X1200-170	Other Operating Expenses Paid		Obligation	-	-
S1200-180	Interest Paid on First Mortgage	-	N/A	-	-
X1200-190	Interest Paid on Other Mortgages	-	N/A	-	-
S1200-220	Miscellaneous Financial Expenses Paid	-	Obligation		-
X1200-200	Entity/Construction Expenses Paid	-	N/A	-	-
S1200-245	Net Deposits to Mortgage Escrows	-	N/A	-	-
S1200-250	Net Deposits to Reserve for Replacements	(611)	N/A	-	(611.00)
S1200-230					
S1200-255	Net Deposits to Other Reserves		N/A	-	-
S1200-260	Net Deposits to the Residual Receipts Account	-	N/A	-	-
S1200-330	Net Purchase of Fixed Assets	-	N/A	-	-
S1200-335	Other Investing Activities	-	N/A	-	-
S1200-360	Mortgage Principal Payments - First Mortgage	-	N/A	-	-
S1200-361	Mortgage Principal Payments - Second Mortgage	-	N/A	-	-
S100-362	Mortgage Principal Payments - Third Mortgage	-	N/A	-	-
X1200-363	Mortgage Principal Payments - Other Mortgages	-	N/A	-	-
S1200-380	Payment of Development Fee	-	N/A	-	-
X1200-390	Net Change in Due from Partners	-	N/A	-	-
S1200-420	Distributions				-
S1200-450	Other Financing Activities		Obligation		
				Grand Total:	18,419.00