

64 Moderately Priced Dwelling Units

Financial Statements

**For The Years Ended
June 30, 2023 and 2022**

64 Moderately Priced Dwelling Units

Table of Contents

For the Years Ended June 30, 2023 and 2022

Independent Auditor's Report	1-2
Financial Statements	
Balance Sheets	3-4
Statements of Operations	5
Statements of Changes in Net Deficit	6
Statements of Cash Flows	7-8
Notes to Financial Statements	9-12
Supplementary Information	
Independent Auditor's Report on Supplementary Information	13
Detail of Selected Balance Sheet Accounts	14
Detailed Statements of Operations	15-16



Independent Auditor's Report

To the Board of Commissioners
64 Moderately Priced Dwelling Units
10400 Detrick Avenue
Kensington, MD 20895

Opinion

We have audited the accompanying financial statements of 64 Moderately Priced Dwelling Units which comprise the balance sheets as of June 30, 2023 and 2022, and the related statements of operations, changes in net deficit, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 64 Moderately Priced Dwelling Units as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 64 Moderately Priced Dwelling Units and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about 64 Moderately Priced Dwelling Units' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than

for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 64 Moderately Priced Dwelling Units' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about 64 Moderately Priced Dwelling Units' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

SC+H attest services, P.C.

Sparks, Maryland
March 6, 2024

64 Moderately Priced Dwelling Units

Balance Sheets

As of June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Unrestricted current assets		
Accounts receivable, net and other assets	\$ 197,074	\$ 149,089
Total unrestricted current assets	<u>197,074</u>	<u>149,089</u>
Restricted cash and cash equivalents for current liabilities		
Restricted cash and cash equivalents	57,375	141,139
Tenants' security deposits	<u>25,383</u>	<u>24,901</u>
Total restricted cash and cash equivalents for current liabilities	<u>82,758</u>	<u>166,040</u>
Property and equipment		
Construction in progress	-	4,100
Property and equipment, net of accumulated depreciation	<u>938,854</u>	<u>905,083</u>
Total property and equipment	<u>938,854</u>	<u>909,183</u>
Total assets	<u>\$ 1,218,686</u>	<u>\$ 1,224,312</u>

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

64 Moderately Priced Dwelling Units

Balance Sheets (Continued)
As of June 30, 2023 and 2022

	2023	2022
Liabilities and Net Deficit		
Current liabilities		
Accounts payable and accrued expenses	\$ 20,271	\$ 22,521
Interfund payable	1,607,810	1,524,909
Total current liabilities	1,628,081	1,547,430
Current liabilities payable from restricted assets		
Tenants' security deposits	15,429	14,804
Total current liabilities payable from restricted assets	15,429	14,804
Long-term liabilities		
Notes payable - HOC	895,819	895,819
Total long-term liabilities	895,819	895,819
Total liabilities	2,539,329	2,458,053
Net deficit		
Investment in capital assets, net of related debt	43,035	13,364
Restricted net assets	67,329	151,236
Unrestricted net deficit	(1,431,007)	(1,398,341)
Total net deficit	(1,320,643)	(1,233,741)
Total liabilities and net deficit	\$ 1,218,686	\$ 1,224,312

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

64 Moderately Priced Dwelling Units

Statements of Operations
For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating revenues		
Dwelling rental income	\$ 747,185	\$ 781,696
Other income	<u>17,431</u>	<u>11,396</u>
Total operating revenues	<u>764,616</u>	<u>793,092</u>
Operating expenses		
Administrative	209,577	187,673
Operating and maintenance	302,501	336,935
Depreciation	4,230	44,060
Utilities	19,474	13,514
Fringe benefits	45,215	45,440
Interest expense	40,332	8,630
Other	38,635	27,526
Bad debt expense	<u>118,348</u>	<u>64,261</u>
Total operating expenses	<u>778,312</u>	<u>728,039</u>
Operating income (loss)	<u>(13,696)</u>	<u>65,053</u>
Nonoperating revenue (expense)		
Interest revenue (expense)	<u>395</u>	<u>(251)</u>
Total nonoperating revenue (expense)	<u>395</u>	<u>(251)</u>
Net income (loss)	<u>\$ (13,301)</u>	<u>\$ 64,802</u>

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

64 Moderately Priced Dwelling Units

Statements of Changes in Net Deficit
For the Years Ended June 30, 2023 and 2022

Balance, July 1, 2021	\$ (1,123,370)
Distributions	(175,173)
Net income, June 30, 2022	<u>64,802</u>
Balance, June 30, 2022	(1,233,741)
Distributions	(73,601)
Net loss, June 30, 2023	<u>(13,301)</u>
Balance, June 30, 2023	<u><u>\$ (1,320,643)</u></u>

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

64 Moderately Priced Dwelling Units

Statements of Cash Flows

For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Net income (loss)	\$ (13,301)	\$ 64,802
Adjustments to reconcile net income (loss) to restricted cash and cash equivalents provided by operating activities:		
Depreciation	4,230	44,060
Bad debt expense	118,348	64,261
Increase in operating assets:		
Accounts receivable, net and other assets	(166,333)	(77,725)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(2,250)	(11,916)
Interfund payable	82,901	125,708
Tenants' security deposits	625	(36)
Restricted cash and cash equivalents provided by operating activities	<u>24,220</u>	<u>209,154</u>
Cash flows from investing activities		
Construction costs paid	-	(4,100)
Acquisition of property and equipment	<u>(33,901)</u>	<u>-</u>
Restricted cash and cash equivalents used in investing activities	<u>(33,901)</u>	<u>(4,100)</u>
Cash flows from financing activities		
Distributions	<u>(73,601)</u>	<u>(175,173)</u>
Restricted cash and cash equivalents used in financing activities	<u>(73,601)</u>	<u>(175,173)</u>
Net increase (decrease) in restricted cash and cash equivalents	(83,282)	29,881
Restricted cash and cash equivalents, beginning of year	<u>166,040</u>	<u>136,159</u>
Restricted cash and cash equivalents, end of year	<u>\$ 82,758</u>	<u>\$ 166,040</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 40,332</u>	<u>\$ 8,630</u>

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

64 Moderately Priced Dwelling Units

Statements of Cash Flows (Continued)
For the Years Ended June 30, 2023 and 2022

	2023	2022
Supplemental disclosure of noncash investing activities		
Decrease in construction in progress	\$ (4,100)	\$ -
Acquisition of property and equipment	4,100	-
	<u>\$ -</u>	<u>\$ -</u>

The following table provides a reconciliation of restricted cash and cash equivalents reported within the balance sheets that sum to the total of the same such amounts presented in restricted cash and cash equivalents, end of year, above:

Restricted cash and cash equivalents	\$ 57,375	\$ 141,139
Tenants' security deposits	25,383	24,901
Total restricted cash and cash equivalents, end of year	<u>\$ 82,758</u>	<u>\$ 166,040</u>

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

64 Moderately Priced Dwelling Units

Notes to Financial Statements
For the Years Ended June 30, 2023 and 2022

1) Nature of Business and Summary of Significant Accounting Policies

Nature of Business

64 Moderately Priced Dwelling Units (the Property) is a property owned by the Housing Opportunities Commission of Montgomery County, Maryland (HOC), for the purpose of acquiring 64 units to provide rental housing for low and moderate-income families and is not a separate legal entity.

Method of Accounting

The Property's financial statements are prepared on the accrual method of accounting which recognizes income when it is earned and expenses when they are incurred.

Cash and Cash Equivalents

The Property considers all highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents.

Rents Receivable and Bad Debts

Accounts receivable are reported at their outstanding balances, reduced by an allowance for doubtful accounts.

Management periodically evaluates the need for an allowance for doubtful accounts by considering the Property'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 allowances as of June 30, 2023 and 2022 were \$218,628 and \$101,079, respectively.

Property and Equipment

Land, buildings and improvements are recorded at cost. Buildings and improvements are depreciated over their estimated useful lives of 5 to 40 years using the straight-line method.

Impairment of Long-Lived Assets

The Property reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. There were no asset impairments during the years ended June 30, 2023 and 2022.

Net Assets

HOC, the Property's owner, is required to report on a fund basis that categorize net assets as the following:

Investment in capital assets represents the total of property and equipment, net less mortgage payable.

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

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

See independent auditor's report.

64 Moderately Priced Dwelling Units

Notes to Financial Statements
For the Years Ended June 30, 2023 and 2022

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

Income Taxes

The Property is a component unit of 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 are no other tax positions which must be considered for disclosure.

Estimates

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

Rental Revenue

Rental income is recognized as rents become due from residential tenants. Rental payments received in advance are deferred until earned. All leases between the Property and tenants of the property are operating leases.

Advertising

The Property's policy is to expense advertising costs when incurred. There were no advertising expenses incurred for the years ended June 30, 2023 and 2022.

Recently Issued Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-04, Reference Rate Reform (Topic 848), which aims to address accounting consequences that could result from the global markets' anticipated transition away from the use of the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. The amendments in this update provide optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for those hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. In December 2022, the FASB issued ASU 2022-06, Reference Rate Reform (Topic 848), which defers the sunset date of ASU 2020-04, Reference Rate Reform (Topic 848) from December 31, 2022 to December 31, 2024, after which entities will no longer be permitted to apply the relief in ASU 2020-04, Reference Rate Reform (Topic 848). The Property is currently evaluating the timing of its adoption and the impact of adopting ASU 2020-04 and ASU 2022-06 on its financial statements.

2) Concentration of Risk

The Property maintains its cash balances 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 Property is included with the Housing Opportunities Commission of Montgomery County, Maryland (the Commission) as part of the agency funds and was entirely insured or collateralized with securities held by the Commission's agent in the Commission's name.

See independent auditor's report.

64 Moderately Priced Dwelling Units

Notes to Financial Statements
For the Years Ended June 30, 2023 and 2022

3) Restricted Cash and Cash Equivalents

Restricted funds are comprised of the following at June 30:

	<u>2023</u>	<u>2022</u>
Replacement reserve	\$ 57,375	\$ 141,139
	<u>\$ 57,375</u>	<u>\$ 141,139</u>

Replacement Reserve

Pursuant to the terms of a prior mortgage note, the Property was required to make monthly deposits of \$2,295 with the mortgagee for the purpose of effecting replacements of structural elements and mechanical equipment, only after receiving written consent of the Community Development Administration. The funds are no longer restricted by the lender following the mortgage prepayment on March 29, 2021, but HOC is continuing to make monthly deposits of \$2,295 and is maintaining the reserve for the purpose of effecting replacements of structural elements and mechanical equipment. The balance as of June 30, 2023 and 2022 is \$57,375 and \$141,139, respectively.

4) Property and Equipment

Property and equipment detail as of June 30 was as follows:

	<u>2023</u>	<u>2022</u>
Land	\$ 849,256	\$ 849,256
Buildings	3,608,411	3,598,011
Site improvements	53,282	53,282
Office furniture and equipment	121,718	94,117
Vehicle	<u>12,499</u>	<u>12,499</u>
Total property and equipment	4,645,166	4,607,165
Less: accumulated depreciation	<u>3,706,312</u>	<u>3,702,082</u>
Property and equipment, net	<u>\$ 938,854</u>	<u>\$ 905,083</u>

5) Related Party Transactions

Interfund Receivable and Payable

The Property has numerous transactions with HOC to finance operations and provide services. To the extent that funds to finance certain transactions of the Property has not been paid or collected as of year-end, interfund payables and receivables are recorded. The balance of the interfund payable as of June 30, 2023 and 2022 was \$1,607,810 and \$1,524,909 respectively.

See independent auditor's report.

64 Moderately Priced Dwelling Units

Notes to Financial Statements
For the Years Ended June 30, 2023 and 2022

5) Related Party Transactions (Continued)

Notes Payable - HOC

On March 29, 2021 HOC advanced \$895,819 to the Property to repay the mortgage payable in full. The note incurs interest at the one month LIBOR rate plus 0.09% per annum. The note is unsecured and requires monthly payments of interest only, with the principal balance due upon demand. The balance of the note as of June 30, 2023 and 2022 is \$895,819. For the years ended June 30, 2023 and 2022, interest incurred and paid on the advance was \$40,332 and \$8,630, respectively. Management does not anticipate repayment within the next year.

Property Management Fee

The Property is required to pay a management fee to HOC as determined by HOC. Each year, the amount is approved by HOC based on the agency cost allocation model determined during the budgetary process. For the years ended June 30, 2023 and 2022, management fees of \$147,940 and \$136,200, respectively, were incurred.

6) Tenant Assistance Payments

Dwelling rental revenue includes income from tenant-based Section 8 rental assistance payments. For the years ended June 30, 2023 and 2022, \$109,109 and \$109,856, respectively, of such assistance payments were included in dwelling rental revenue.

7) Real Estate Taxes

The Property pays a negotiated sum calculated by Montgomery County in lieu of taxes. The amount charged to operations for the years ended June 30, 2023 and 2022 was \$18,445 and \$15,666, respectively.

8) Subsequent Events

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

See independent auditor's report.



Independent Auditor's Report on Supplementary Information

We have audited the financial statements of 64 Moderately Priced Dwelling Units as of and for the years ended June 30, 2023 and 2022, and our report thereon dated March 6, 2024, expressed an unmodified opinion on those financial statements, which appears on pages one and two. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the financial statements as a whole.

SCH Attest Services, P.C.

Sparks, Maryland
March 6, 2024

64 Moderately Priced Dwelling Units

Detail of Selected Balance Sheet Accounts
As of June 30, 2023 and 2022

	2023	2022
Accounts receivable, net and other assets		
Accounts receivable - subsidy	\$ 95,934	\$ 68,031
Allowance for doubtful accounts	(218,628)	(101,079)
Other receivables	114,635	2,426
Other resident fees receivable	3,597	624
Rents receivable	201,536	179,087
	<u>\$ 197,074</u>	<u>\$ 149,089</u>
Total accounts receivable, net and other assets		
Accounts payable and accrued expenses		
Accounts payable	\$ 3,030	\$ 866
Accrued annual leave	9,090	9,869
Accrued salaries	2,551	2,322
Accrued utility payments	-	281
Clearing resident refunds	2,230	2,230
Other accrued liabilities	-	206
Resident prepaid rents	3,370	6,747
	<u>\$ 20,271</u>	<u>\$ 22,521</u>
Total accounts payable and accrued expenses		

See independent auditor's report on supplementary information.

64 Moderately Priced Dwelling Units

Detailed Statements of Operations
For the Years Ended June 30, 2023 and 2022

	2023	2022
Dwelling rental income		
Rent	\$ 925,129	\$ 935,299
Vacancies and concessions	(182,542)	(154,717)
Tenant charges	4,598	1,114
Total dwelling rental income	<u>\$ 747,185</u>	<u>\$ 781,696</u>
Other income		
Grants	\$ 10,135	\$ 4,100
Rental license	7,296	7,296
Total other income	<u>\$ 17,431</u>	<u>\$ 11,396</u>
Administrative expenses		
Licenses and fees	\$ 7,296	\$ 7,296
Management fee	147,940	136,200
Miscellaneous	1,713	933
Office supplies and expense	2,588	1,688
Professional fees	9,791	8,740
Salaries	29,645	24,837
Vehicle	10,604	7,979
Total administrative expenses	<u>\$ 209,577</u>	<u>\$ 187,673</u>

See independent auditor's report on supplementary information.

64 Moderately Priced Dwelling Units

Detailed Statements of Operations (Continued)
For the Years Ended June 30, 2023 and 2022

	2023	2022
Operating and maintenance expenses		
Contracts	\$ 67,263	\$ 79,891
Exterminating	2,530	3,313
Grounds maintenance	11,630	13,633
Housing association fees	72,523	71,519
HVAC repairs and maintenance	10,617	11,231
Janitorial	19,620	16,413
Salaries	88,054	82,027
Snow removal	-	55
Supplies and repairs	30,264	58,853
Total operating and maintenance expenses	<u>\$ 302,501</u>	<u>\$ 336,935</u>
Utilities expense		
Electricity	\$ 13,594	\$ 9,205
Trash removal	59	22
Water	5,821	4,287
Total utilities expense	<u>\$ 19,474</u>	<u>\$ 13,514</u>
Fringe benefits		
Accrued leave	\$ (779)	\$ (780)
Deferred contribution plan	6,326	6,109
FICA	8,340	7,448
Health insurance	26,096	27,392
Other post employment benefits	870	1,030
Unemployment	593	1,352
Workers' compensation	3,769	2,889
Total fringe benefits	<u>\$ 45,215</u>	<u>\$ 45,440</u>
Other expenses		
Insurance	\$ 20,190	\$ 11,860
Taxes	18,445	15,666
Total other expenses	<u>\$ 38,635</u>	<u>\$ 27,526</u>

See independent auditor's report on supplementary information.