

**527 DALE DRIVE APARTMENTS**  
**CDA PRHP Project No.: 26.16.0014**

(A RESIDENTIAL RENTAL FACILITY OWNED  
BY HOUSING OPPORTUNITIES COMMISSION  
OF MONTGOMERY COUNTY, MARYLAND)

FINANCIAL STATEMENTS  
AND ACCOUNTANTS' COMPILATION REPORT

JUNE 30, 2019 AND 2018

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KOZAK, POLLEKOFF & GOLDMAN, P.C.  
Certified Public Accountants

## INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

To the Commissioners  
Housing Opportunities Commission of Montgomery County, Maryland

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, 2019, 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 a 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 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, a residential rental facility owned by Housing Opportunities Commission of Montgomery County, Maryland as of June 30, 2018, were subjected to a compilation engagement by other accountants, whose report dated September 28, 2018, stated that they have not audited or reviewed the 2018 financial statements and, accordingly, do not express an opinion, a conclusion, nor provide any assurance about whether the financial statements are in accordance with principles generally accepted in the United States of America.

### Supplementary Information

The supplementary information contained in pages 13 to 15 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.

August 19, 2019  
Vienna, Virginia

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STATEMENTS OF NET ASSETS

AS OF JUNE 30,

	<b>ASSETS</b>	
	<u>2019</u>	<u>2018</u>
<b>Current Assets</b>		
Cash management agent	\$ 78,994	\$ 93,638
Accounts receivable - other	611	-
<b>Total Current Assets</b>	<u>79,605</u>	<u>93,638</u>
 <b>Noncurrent assets</b>		
Renovation escrow - restricted	6,254	6,254
Cash restricted for reserve for replacement	<u>275,065</u>	<u>250,349</u>
<b>Total Noncurrent Assets</b>	<u>281,319</u>	<u>256,603</u>
 <b>Property and Equipment, Net</b>	<u>1,928,403</u>	<u>1,996,300</u>
 <b>Total Assets</b>	<u><u>\$ 2,289,327</u></u>	<u><u>\$ 2,346,541</u></u>

See notes to financial statements

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STATEMENT OF NET ASSETS - CONTINUED

AS OF JUNE 30,

**LIABILITIES AND NET ASSETS**

	2019	2018
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,349	\$ 2,494
Interfund payable	32,350	17,107
<b>Total Current Liabilities</b>	33,699	19,601
<b>Noncurrent liabilities</b>		
Mortgage notes payable - Montgomery County DHCA	1,738,012	1,738,012
Mortgage note payable - State of Maryland DHCD	600,000	600,000
Less: Debt issuance costs	(22,043)	(23,097)
<b>Total Noncurrent Liabilities</b>	2,315,969	2,314,915
<b>Total Liabilities</b>	2,349,668	2,334,516
<b>Net assets</b>		
Investment in capital assets, net of related debt	(409,609)	(341,712)
Restricted net assets	281,319	256,603
Unrestricted net assets	67,949	97,134
<b>Total Net Assets</b>	(60,341)	12,025
<b>Total Liabilities and Net Assets</b>	\$ 2,289,327	\$ 2,346,541

See notes to financial statements

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STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30,

	2019	2018
<b>Operating revenue</b>		
Dwelling rental	\$ 103,680	\$ 103,680
Other income	733	4,818
Total operating revenue	104,413	108,498
 <b>Operating expenses</b>		
Administration	16,400	20,773
Depreciation	67,897	67,897
Interest (debt issuance costs)	1,054	1,054
Fringe benefits	5,459	5,329
Maintenance	33,005	32,061
Other	14,689	12,948
Utilities	20,280	19,048
<b>Total operating expenses</b>	158,784	159,110
<b>Changes in Net Assets</b>	\$ (54,371)	\$ (50,612)

See notes to financial statements

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STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<b>Investment in Capital Assets, Net of Related Debt</b>	<b>Restricted Net Assets</b>	<b>Unrestricted Net Assets</b>	<b>Total Net Assets</b>
<b>Balances - June 30, 2017</b>	\$ (278,110)	\$ 248,660	\$ 92,087	\$ 62,637
Distribution	-	-	-	-
Changes in net assets	<u>(63,602)</u>	<u>7,943</u>	<u>5,047</u>	<u>(50,612)</u>
<b>Balances - June 30, 2018</b>	(341,712)	256,603	97,134	12,025
Distribution	-	-	(17,995)	(17,995)
Changes in net assets	<u>(67,897)</u>	<u>24,716</u>	<u>(11,190)</u>	<u>(54,371)</u>
<b>Balances - June 30, 2019</b>	<u>\$ (409,609)</u>	<u>\$ 281,319</u>	<u>\$ 67,949</u>	<u>\$ (60,341)</u>

See notes to financial statements

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STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30,

	2019	2018
Cash Flows from Operating Activities		
Cash received from tenants	103,680	\$ 103,680
Cash received from laundry and other income	733	521
Cash paid to suppliers and employees	(90,978)	(87,821)
Net cash provided by operating activities	13,435	16,380
Cash Flows from Financing Activities		
Change in interfund receivable/payable	15,243	17,763
(Increase) in account receivable-other	(611)	-
Payments to notes payable	-	(4,297)
Distributions	(17,995)	-
Net cash (used in) provided by financing activities	(3,363)	13,466
Net increase in cash	10,072	29,846
Cash - beginning	350,241	320,395
Cash - ending	\$ 360,313	\$ 350,241
Cash		
Cash management agent	\$ 78,994	\$ 93,638
Renovation escrow	6,254	6,254
Reserve for replacement	275,065	250,349
	\$ 360,313	\$ 350,241
Changes in net assets	\$ (54,371)	(50,612)
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
(Increase)decrease in assets		
Prepaid expense	-	410
Depreciation	67,897	67,898
Interest (debt issuance costs)	1,054	1,053
Increase in liabilities		
Accounts payable and accrued liabilities	(1,145)	(2,369)
Net cash provided by operating activities	\$ 13,435	\$ 16,380

See notes to financial statements



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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***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.

***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.

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**NOTE A – 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.

Management periodically reviews the change in the fair value and the carrying value of the asset. The reviews indicate that no impairment loss were recognized in 2019 and 2018.

***Deferred Charges and Amortization***

Financing costs referred to as debt issuance costs, net of amortization are reported as a direct deduction from the face amount of the mortgage loan payable to which such costs relate. For years ended June 30, 2019 and 2018, \$1,054 of amortization expense was recorded as interest expense for both years. This amount was computed using the straight line method which is materially the equivalent to the effective yield method, over the term of the related mortgage loan. Accumulated amortization at June 30, 2019 and 2018 was \$10,572 and \$9,516, respectively.

***Rental Income***

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. MCCH 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 August 19, 2019 which is the date the financial statements were available to be issued.

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**NOTE B – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following as of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</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>(803,287)</u>	<u>(735,390)</u>
	<u>\$1,928,403</u>	<u>\$1,996,300</u>

**NOTE C – RESTRICTED CASH FOR RESERVE FOR REPLACEMENT**

The cash restricted for replacement consist of the followings as of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Balances, beginning	\$250,349	\$242,406
Deposits (\$611 per month)	6,721	7,943
Surplus cash	<u>17,995</u>	-
Balances, ending	<u>\$275,065</u>	<u>\$250,349</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. The amount deposited during the year ended June 30, 2019 was for years ended June 30, 2018 and 2017 and was \$9,209 and \$8,786, respectively.

**NOTE D – 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, 2019 and 2018. This amount was funded through the HOME Program. The second lien is in the amount of \$738,012 at June 30, 2019 and 2018. This amount was funded through the Housing Initiative Fund (HIF) Program.

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**NOTE D – MORTGAGE NOTES PAYABLE-continued**

No payment is 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 (11<sup>th</sup>) 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.

**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.

**NOTE E – RESTRICTED NET ASSETS**

Restricted net assets consist of the following as of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Renovation Escrow	\$ 6,254	\$ 6,254
Cash restricted for reserve for replacement	<u>275,065</u>	<u>250,349</u>
Total	<u>\$281,319</u>	<u>\$256,603</u>

**NOTE F – 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 2019 and 2018, an asset management fee of \$11,310 and \$10,770, respectively was paid to HOC.

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

**NOTE G – 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.

**NOTE H – CONCENTRATION OF CASH RISK**

Cash balances as of June 30, 2019 were entirely insured and collateralized with securities held by HOC's agent in HOC's name.

**NOTE I – MANAGEMENT CONTRACT**

HOC original management agreement with Residential One, LLC expired and was renewed on April 1, 2017 for two additional years with an annual flat fee of \$4,440 per year or \$370 per month. Management fees charged to operations for years ended June 30, 2019 and 2018 were \$4,462 and \$4,440, respectively.

**NOTE J - 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. In January 2019 \$17,995 was distributed to MCCH which represented amounts for 2018 and 2017.

## **Supplementary Information**

## 527 DALE DRIVE APARTMENTS

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### ASSETS AND LIABILITIES SCHEDULE AS OF JUNE 30,

	<u>2019</u>	<u>2018</u>
<b>Property &amp; Equipment</b>		
Buildings	\$ 2,690,153	\$ 2,690,153
Equipment	<u>41,537</u>	<u>41,537</u>
	2,731,690	2,731,690
Accumulated depreciation	<u>(803,287)</u>	<u>(735,390)</u>
<b>Total Property &amp; Equipment, Net</b>	<u><u>\$ 1,928,403</u></u>	<u><u>\$ 1,996,300</u></u>
 <b>Accounts Payable and Accrued Liability</b>		
Accounts payable	\$ 453	\$ -
Accrued salaries	531	923
Accrued utilities and other	<u>365</u>	<u>1,571</u>
<b>Total Accounts Payable and Accrued Liabilities</b>	<u><u>\$ 1,349</u></u>	<u><u>\$ 2,494</u></u>

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SCHEDULES OF EXPENSES  
FOR THE YEARS ENDED JUNE 30,

	2019	2018
<b>ADMINISTRATION</b>		
Accounting fees	\$ 2,692	\$ 5,670
Legal fees	67	5
Office expenses	5,152	6,201
Office salaries	4,027	4,457
Management fees	4,462	4,440
<b>Total Administration</b>	\$ 16,400	\$ 20,773
<b>FRINGE BENEFITS</b>		
Accrued leave	\$ (381)	\$ (26)
FICA	596	660
Unemployment maintenance	34	39
Workers compensation	467	595
Health insurance	2,571	2,598
Retirement benefits	1,759	1,010
Contract managed benefits	413	453
<b>Total Fringe Benefits</b>	\$ 5,459	\$ 5,329
<b>MAINTENANCE</b>		
Maintenance contracts	\$ 22,988	\$ 20,581
Janitorial payroll	8,673	8,998
Maintenance supplies	1,344	2,482
<b>Total Maintenance</b>	\$ 33,005	\$ 32,061
<b>OTHER EXPENSES</b>		
Asset management fee	\$ 11,310	\$ 10,770
Security contracts	2,079	563
Insurance	1,099	1,416
Solid waste tax	201	199
<b>Total Other Expenses</b>	\$ 14,689	\$ 12,948
<b>UTILITIES</b>		
Electricity	\$ 14,075	\$ 10,438
Gas	1,602	2,708
Trash removal	2,229	1,413
Water	2,374	4,489
<b>Total Utilities</b>	\$ 20,280	\$ 19,048



**Surplus Cash Report FY19**

Acct#	Description	Amount	Apply as	+/- Adjust	=Total
S1200-010	Rental Receipts	103,680	Cash	-	103,680
S1200-020	Interest Receipts		N/A	-	-
S1200-030	Other Operating Receipts	733	Cash	-	733
S1200-050	Administrative Expenses Paid	(7,828)	Obligation	-	(7,828)
S1200-070	Management Fees Paid	(15,402)	Obligation	-	(15,402)
S1200-090	Utilities Paid	(21,486)	Obligation	-	(21,486)
S1200-100	Salaries & Wages Paid	(13,092)	Obligation	-	(13,092)
S1200-110	Operating and Maintenance Paid	(31,870)	Obligation	-	(31,870)
S1200-120	Real Estate Taxes Paid	(201)	Obligation	-	(201)
S1200-140	Property Insurance Paid	(1,099)	Obligation	-	(1,099)
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 Monthly Deposit to Reserve for Replacements	(611)	N/A	-	(611)
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		
				<b>Grand Total:</b>	<b>12,824</b>