

Diamond Square Limited Partnership

Financial Statements

**For the years ended
June 30, 2019 and 2020**

DRAFT

Diamond Square Limited Partnership

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For the Years Ended June 30, 2021 and 2020

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Independent Auditor's Report

To the Partners
Diamond Square Limited Partnership
10400 Detrick Avenue
Kensington, MD 20895

Report on the Financial Statements

We have audited the accompanying financial statements of Diamond Square Limited Partnership, which comprise the balance sheet as of June 30, 2021, and the related statements of operations, changes in partners' capital, 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.

Auditor's 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 auditor's judgement, 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 balance sheet of Diamond Square Limited Partnership as of June 30, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 2021 supplementary information on pages 15 - 30 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, such information is fairly stated in all material respects in relation to the financial statements as a whole. The 2020 supplementary information on pages 15-17 was subjected to the auditing procedures applied in the 2020 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2020 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2021, on our consideration of Diamond Square Limited Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 Diamond Square Limited Partnership's internal control over financial reporting and compliance.

Prior Year Financial Statements

The financial statements of Diamond Square Limited Partnership as of June 30, 2020 were audited by other auditors whose report dated September 22, 2020 expressed an unmodified opinion on those statements.

SC&H attest services, P.C.

Sparks, Maryland
September 29, 2021

Name of Audit Firm: SC&H Attest Services, P.C.

Address: 910 Ridgebrook Road
Sparks, Maryland 21152

Federal I.D.#: 52-1743645
Andrea B. Hartman, CPA
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Diamond Square Limited Partnership

Balance Sheets

As of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current assets		
Cash	\$ 447,132	\$ 206,539
Accounts receivable, net and other assets	<u>35,966</u>	<u>32,060</u>
Total unrestricted current assets	<u>483,098</u>	<u>238,599</u>
Restricted cash and cash equivalents for current liabilities		
Restricted cash and cash equivalents	2,822,283	2,671,411
Tenants' security deposits	<u>65,192</u>	<u>53,973</u>
Total restricted cash and cash equivalents for current liabilities	<u>2,887,475</u>	<u>2,725,384</u>
Property and equipment		
Property and equipment, net of accumulated depreciation	<u>3,098,965</u>	<u>3,249,312</u>
Deferred charges		
Negative arbitrage	<u>14,022</u>	<u>14,022</u>
Total assets	<u>\$ 6,483,560</u>	<u>\$ 6,227,317</u>

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

Diamond Square Limited Partnership

Balance Sheets (Continued)
As of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Liabilities and Partners' Capital		
Current liabilities		
Accounts payable and accrued expenses	\$ 37,638	\$ 59,676
Accrued interest payable	4,006	4,248
Interfund payable	1,560	1,852
Mortgage payable - current maturities	65,303	62,341
PPP loan payable	-	20,331
Total current liabilities	<u>108,507</u>	<u>148,448</u>
Current liabilities payable from restricted assets		
Tenants' security deposits	<u>63,324</u>	<u>53,973</u>
Total current liabilities payable from restricted assets	<u>63,324</u>	<u>53,973</u>
Long-term liabilities		
First mortgage, net of current maturities and unamortized financing fees of \$31,424 - 2021 and \$34,061 - 2020	937,111	999,777
Other mortgages and notes payable	<u>4,746,344</u>	<u>4,746,344</u>
Total long-term liabilities	<u>5,683,455</u>	<u>5,746,121</u>
Total liabilities	<u>5,855,286</u>	<u>5,948,542</u>
Contingency (Note 10)		
Partners' capital		
Partners' capital	<u>628,274</u>	<u>278,775</u>
Total liabilities and partners' capital	<u>\$ 6,483,560</u>	<u>\$ 6,227,317</u>

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

Diamond Square Limited Partnership

Statements of Operations

For the Years Ended June 30, 2021 and 2020

	2021	2020
Operating revenues		
Dwelling rental income	\$ 1,340,496	\$ 1,342,389
Other income	-	620
Total operating revenues	<u>1,340,496</u>	<u>1,343,009</u>
Operating expenses		
Administrative	179,614	203,913
Operating and maintenance	265,413	245,156
Depreciation	206,347	201,887
Utilities	138,527	173,637
Fringe benefits	35,350	30,327
Interest expense	52,050	54,888
Other	80,890	221,068
Bad debt expense	33,788	4,442
Total operating expenses	<u>991,979</u>	<u>1,135,318</u>
Operating income	<u>348,517</u>	<u>207,691</u>
Nonoperating revenue		
Interest revenue	982	33,847
Total nonoperating revenue	<u>982</u>	<u>33,847</u>
Net income	<u>\$ 349,499</u>	<u>\$ 241,538</u>

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

Diamond Square Limited Partnership

Statements of Changes in Partners' Capital
For the Years Ended June 30, 2021 and 2020

Balance, July 1, 2019	\$ 37,237
Net income, June 30, 2020	<u>241,538</u>
Balance, June 30, 2020	278,775
Net income, June 30, 2021	<u>349,499</u>
Balance, June 30, 2021	<u>\$ 628,274</u>

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

Diamond Square Limited Partnership

Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Cash received for:		
Rental income	\$ 1,283,543	\$ 1,333,543
Interest income	982	33,071
Total cash receipts	<u>1,284,525</u>	<u>1,366,614</u>
Cash paid for services and to employees for:		
Administrative expenses	(35,552)	(47,012)
Management fees	(76,420)	(80,330)
Utilities	(139,650)	(143,986)
Salaries and wages	(175,093)	(158,870)
Operating and maintenance	(213,650)	(186,038)
Property insurance	(30,053)	(31,783)
Miscellaneous taxes and insurance	(9,801)	(9,705)
Tenant security deposits	9,351	11,630
Interest on first mortgage	(49,655)	(52,481)
Fringe benefits	(35,350)	(30,327)
Other expenses	(2,339)	(101,528)
Mortgage insurance premium	(5,288)	(5,594)
Total cash disbursements	<u>(763,500)</u>	<u>(836,024)</u>
Net cash and restricted cash and cash equivalents provided by operating activities	<u>521,025</u>	<u>530,590</u>
Cash flows from investing activities		
Acquisition of property and equipment	(56,000)	-
Net cash and restricted cash and cash equivalents used in investing activities	<u>(56,000)</u>	<u>-</u>
Cash flows from financing activities		
Mortgage principal payments	(62,341)	(59,515)
Proceeds from PPP loan payable	-	20,331
Net cash and restricted cash and cash equivalents used in financing activities	<u>(62,341)</u>	<u>(39,184)</u>
Net increase in cash and restricted cash and cash equivalents	402,684	491,406
Cash and restricted cash and cash equivalents, beginning of year	<u>2,931,923</u>	<u>2,440,517</u>
Cash and restricted cash and cash equivalents, end of year	<u>\$ 3,334,607</u>	<u>\$ 2,931,923</u>

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

Diamond Square Limited Partnership

Statements of Cash Flows (continued)
For the Years Ended June 30, 2021 and 2020

	2021	2020
Reconciliation of net income to net cash and restricted cash and cash equivalents provided by operating activities		
Net income	\$ 349,499	\$ 241,538
Adjustments to reconcile net income to net cash and restricted cash and cash equivalents provided by operating activities:		
Depreciation	206,347	201,887
Amortization of financing fees	2,637	2,637
Forgiveness of PPP loan payable	(20,331)	-
Bad debt expense	33,788	4,442
(Increase) decrease in operating assets:		
Accounts receivable, net and other assets	(37,694)	40,587
Interfund receivable	-	379
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(22,038)	26,488
Accrued interest payable	(242)	(230)
Interfund payable	(292)	1,852
Tenants' security deposits	9,351	11,630
Deferred revenue	-	(620)
Net cash and restricted cash and cash equivalents provided by operating activities	<u>\$ 521,025</u>	<u>\$ 530,590</u>

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

Cash	\$ 447,132	\$ 206,539
Restricted cash and cash equivalents	2,822,283	2,671,411
Tenants' security deposits	<u>65,192</u>	<u>53,973</u>
Total cash and restricted cash and cash equivalents, end of year	<u>\$ 3,334,607</u>	<u>\$ 2,931,923</u>

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

Diamond Square Limited Partnership

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2021 and 2020

1) Nature of Business and Summary of Significant Accounting Policies

Nature of Business

Diamond Square Limited Partnership (a Maryland limited partnership) (the Partnership) was formed under the laws of the State of Maryland on June 18, 2003, for the purpose of acquiring 124 apartment units to provide rental housing of which 40 are for low and moderate income families. The Partnership acquired the net assets of Diamond Square Apartments, a component unit of the Housing Opportunities Commission of Montgomery County, Maryland (HOC).

Method of Accounting

The Partnership'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 Partnership considers all highly liquid investments with a maturity of three months or less when purchased, consisting of investments in money market funds, 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 Partnership'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, 2021 and 2020 were \$32,203 and \$2,523, respectively.

Property and Equipment

Land, buildings and improvements are recorded at cost. The cost of repairs and maintenance is charged to operations as incurred. Major renewals, betterments and additions are capitalized. 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 Partnership 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, 2021 and 2020.

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

Diamond Square Limited Partnership

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2021 and 2020

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

Interest

The Partnership has adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 835, *Interest*, which states that debt issuance costs related to a note shall be reported on the balance sheet as a direct deduction from the face amount of that note, and any amortization of debt issuance costs shall be reported as interest expense. Accordingly, the Partnership is reporting loan fees related to its first mortgage payable as a direct deduction from the principal balance of the mortgage, and is reporting amortization of the loan fees as interest expense on the first mortgage payable. See Note 6 for more information.

Income Taxes

The Partnership files a partnership tax return and the net income or loss is reported by the partners on their respective income tax returns.

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. Rent payments received in advance are deferred until earned. All leases between the Project and tenants of the property are operating leases.

Rental Subsidies

Certain tenants of the Partnership receive rental subsidies from the County and State as a result of the Partnership making units available for low-income tenants.

Advertising

The Partnership's policy is to expense advertising costs when incurred and totaled \$4,094 and \$2,818, respectively, for the years ended June 30, 2021 and 2020.

Reclassifications

Reclassifications have been made to the prior period balances to conform to current year presentation.

2) Cash - Tenant Security Deposits

The amounts of \$65,192 and \$53,973 as of June 30, 2021 and 2020, respectively, on the accompanying balance sheets, represent funds deposited in a savings account with a balance that should be at least equal to the tenants' security deposits. Maryland Rent Escrow Law requires the Partnership to maintain a separate account for deposits paid by the tenants, and to credit the deposits annually with interest of 1.5% or the 1-year US Treasury yield curve rate a year, at six-month intervals. Tenant security deposits are held in a federally insured bank.

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

Diamond Square Limited Partnership

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2021 and 2020

3) Concentration of Risk

The Partnership 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 Partnership 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.

4) Property and Equipment

Property and equipment detail for the years ended June 30 was as follows:

	<u>2021</u>	<u>2020</u>
Land	\$ 1,612,000	\$ 1,612,000
Land improvements	4,990	4,990
Buildings	7,188,521	7,132,521
Equipment	<u>234,407</u>	<u>234,407</u>
Total property and equipment	9,039,918	8,983,918
Less: accumulated depreciation	<u>5,940,953</u>	<u>5,734,606</u>
Property and equipment, net	<u>\$ 3,098,965</u>	<u>\$ 3,249,312</u>

5) Negative Arbitrage

HOC issued bonds to provide the financing for the Partnership's rehabilitation. Because HOC earned less in interest revenue from the Partnership's loan during the construction than it paid to the HOC bondholders, negative arbitrage occurred. Negative arbitrage occurs when investments acquired with the bond proceeds earn less interest than is due to the bondholders.

During the year ended June 30, 2003, the Partnership paid \$14,022 to HOC as charge for the incurred negative arbitrage, representing the difference between the interest HOC earns on its loan to the Partnership and the interest HOC pays to the bondholders over the life of the loan. The balance of the negative arbitrage is not being amortized and is included in the accompanying balance sheets under deferred charges.

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

Diamond Square Limited Partnership

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2021 and 2020

6) Long-Term Debt

Mortgage Payable

The Partnership is obligated to repay a mortgage to HOC. On June 20, 2003, the Partnership assumed the HUD regulatory agreement from HOC in conjunction with execution of a mortgage loan from HOC for \$1,810,000. The note is secured by a promissory note, deed of trust, security and assignment of rent agreements, and substantially all assets. Financing fees related to the mortgage were \$78,823 and are being amortized to interest expense on a straight-line basis, the results of which are not materially different than that of the effective interest method, over the term of the loan. The loan provides for interest at a nominal rate of 4.65% per annum and an effective rate of 4.89% per annum, to accrue until maturity, with the final balance of principal and accrued interest due July 1, 2033. The outstanding principal and accrued interest balances as of June 30, 2021 and 2020 are \$1,033,838 and \$4,006, respectively, for 2021 and \$1,096,179 and \$4,248, respectively, for 2020. Unamortized financing fees as of June 30, 2021 and 2020 were \$31,424 and \$34,061, respectively. For the years ended June 30, 2021 and 2020, interest incurred on the mortgage was \$52,050 and \$54,888, respectively, including amortized financing fees of \$2,637 for each of the years.

Maturities of the mortgage payable are as follows:

2022	\$	65,303
2023		68,405
2024		71,655
2025		75,059
2026		78,624
2027-2031		452,823
2032-2033		221,969
Total	\$	<u>1,033,838</u>

DHCD Mortgage Payable

The Partnership is obligated under the terms of a second mortgage payable with the Maryland Department of Housing and Community Development (DHCD) in the original amount of \$2,000,000, dated June 1991, which is non-interest bearing and is due upon the sale of the property. There were no financing fees incurred related to this mortgage. As of June 30, 2021 and 2020 the principal balance was \$2,000,000.

Note Payable

On June 20, 2003, the Partnership assumed a note payable, deed of trust security agreement, and regulatory agreement with Montgomery County, Maryland. The original amount of the note is \$2,746,344, is non-interest bearing and is due upon the sale of the property. There were no financing fees incurred related to this note. As of June 30, 2021 and 2020 the principal balance was \$2,746,344.

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

Diamond Square Limited Partnership

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2021 and 2020

6) Long-Term Debt (Continued)

PPP Loan Payable

During the year ended June 30, 2020, Residential One LLC (Residential One), the management company, received a Payroll Protection Program (PPP) loan from the Small Business Administration (SBA). Residential One subsequently loaned a portion of the proceeds from their PPP loan to the Partnership to pay two months of salaries and benefits for personnel employed by the management company but working for the Partnership. There were no financing fees incurred related to this loan. The loan was non-interest bearing and due on demand. During the year ended June 30, 2021, the SBA forgave the PPP loan and Residential One forgave the loan to the Partnership. As of June 30, 2021 and 2020, the principal balance was \$0 and \$20,331, respectively.

7) Related Party Transactions

Asset Management Fee

The Partnership was charged an asset management fee of \$25,270 and \$24,530, respectively, for the years ended June 30, 2021 and 2020, by HOC.

Interfund Receivable and Payable

The Partnership has numerous transactions with HOC to finance operations and provide services. To the extent that funds to finance certain transactions of the Partnership have not been paid or collected as of year-end, interfund receivables and payables are recorded. The balance of the interfund payable as of June 30, 2021 and 2020 was \$1,560 and \$1,852, respectively.

8) Real Estate Taxes

The Partnership has entered into a Payment In Lieu Of Taxes (PILOT) agreement for the 124 units whereby Montgomery County real estate tax and special area taxes are abated.

9) Property Management Fee

Effective July 1, 2019, the Partnership is obligated under the terms of a Property Management Agreement with Residential One for the management of the rental property. Under the terms of the agreement, the Partnership is required to pay monthly management fees equal to \$37 per occupied unit as of the last day of the month. In addition, HOC reserves the right to pay Residential One an annual fee. Payment of the annual fee is in HOC's sole discretion and there is no guarantee that Residential One will receive the annual fee in any given year. The annual fee will be based on target occupancy levels and rent actually received. During the years ended June 30, 2021 and 2020, management fees of \$51,150 and \$55,800, respectively, were incurred.

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

Diamond Square Limited Partnership

Notes to Financial Statements (Continued)
For the Years Ended June 30, 2021 and 2020

10) Commitments and Contingencies

Business Risk Factor

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. The World Health Organization has declared COVID-19 to constitute a Public Health Emergency of International Concern. In March 2020, COVID-19 began to spread throughout the United States. Efforts to contain COVID-19, including restrictions mandated by U.S. Federal and various state and local governments has caused numerous businesses to close or modify their operations in an effort to prevent COVID-19 from spreading more rapidly. Because of the size and duration of this pandemic, the direct and indirect consequences of COVID-19 are not yet known and may not emerge for some time. The future impact of the pandemic is highly uncertain and cannot be predicted, but it could have a material adverse impact on the future results of operations and financial position of the Partnership.

11) 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 events that required recognition or disclosure in the financial statements.

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

Diamond Square Limited Partnership

Detail of Selected Balance Sheet Accounts

As of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Accounts receivable, net and other assets		
Other receivables	\$ 1,283	\$ 9,183
Prepaid mortgage insurance	441	466
Prepaid insurance	118	8,907
Rents receivable	65,112	15,883
Other resident fees receivable	1,215	144
Allowance for doubtful accounts	<u>(32,203)</u>	<u>(2,523)</u>
Total accounts receivable, net and other assets	<u>\$ 35,966</u>	<u>\$ 32,060</u>
Accounts payable and accrued expenses		
Accounts payable	\$ 19,936	\$ 17,330
Accrued salaries	6,224	5,101
Accrued utility payments	5,795	29,017
Resident prepaid rents	5,683	6,525
Subsidy prepaid rents	<u>-</u>	<u>1,703</u>
Total accounts payable and accrued expenses	<u>\$ 37,638</u>	<u>\$ 59,676</u>

See independent auditor's report.

Diamond Square Limited Partnership

Detailed Statements of Operations
For the Years Ended June 30, 2021 and 2020

	2021	2020
Dwelling rental income		
Rent	\$ 1,333,026	\$ 1,331,150
Vacancies and concessions	(2,081)	(2)
Tenant charges	1,346	2,048
Laundry income	8,205	9,193
Total dwelling rental income	<u>\$ 1,340,496</u>	<u>\$ 1,342,389</u>
Other income		
User fees	\$ -	\$ 620
Total other income	<u>\$ -</u>	<u>\$ 620</u>
Administrative expenses		
Advertising and marketing	\$ 4,094	\$ 2,818
Contract management fees	51,150	55,800
Miscellaneous	2,565	7,345
Salaries	91,637	99,155
Office supplies and expense	18,320	24,926
Professional fees	11,380	13,093
Security deposit interest expense	468	776
Total administrative expenses	<u>\$ 179,614</u>	<u>\$ 203,913</u>
Operating and maintenance expenses		
Contracts	\$ 59,146	\$ 90,311
Exterminating	5,096	3,176
Grounds maintenance	9,084	4,494
HVAC repairs and maintenance	20,810	3,410
Janitorial	34,621	36,096
Salaries	64,248	64,816
Snow removal	6,619	1,600
Supplies and repairs	65,789	41,253
Total operating and maintenance expenses	<u>\$ 265,413</u>	<u>\$ 245,156</u>

See independent auditor's report.

Diamond Square Limited Partnership

Detailed Statements of Operations (Continued)
For the Years Ended June 30, 2021 and 2020

	2021	2020
Utilities expense		
Electricity	\$ 79,540	\$ 90,353
Gas	-	26,307
Trash removal	14,849	14,526
Water	44,138	42,451
Total utilities expense	<u>\$ 138,527</u>	<u>\$ 173,637</u>
Fringe benefits		
Contract managed benefits	\$ 27,323	\$ 19,611
Health insurance	3,949	7,239
Workers compensation	4,078	3,477
Total fringe benefits	<u>\$ 35,350</u>	<u>\$ 30,327</u>
Other expenses		
Asset management fees	\$ 25,270	\$ 24,530
Insurance	38,167	23,551
Mortgage insurance	5,313	5,618
Security contracts	2,339	157,664
Taxes	9,801	9,705
Total other expenses	<u>\$ 80,890</u>	<u>\$ 221,068</u>

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA – Balance Sheet Data
As of June 30, 2021

		Assets	
Current assets			
1120	Cash - operations	\$ 447,132	
1130	Tenant accounts receivable	66,327	
1131	Allowance for doubtful accounts	(32,203)	
1140	Accounts and notes receivable	1,283	
1200	Prepaid expenses	<u>559</u>	
1100T	Total current assets		\$ 483,098
Deposits held in trust - funded			
1191	Tenant security deposits	<u>65,192</u>	
1191T	Total deposits held in trust - funded		65,192
Restricted deposits and funded reserves			
1310	Escrow deposits	22,611	
1320	Reserve for replacements	1,966,204	
1330	Other reserves	<u>833,468</u>	
1300T	Total restricted deposits and funded reserves		2,822,283
Property and equipment			
1410	Land	1,612,000	
1410	Land improvements	4,990	
1420	Buildings	7,188,521	
1440	Building equipment	<u>234,407</u>	
1400T	Total property and equipment	9,039,918	
1495	Less: accumulated depreciation	<u>(5,940,953)</u>	
1400N	Net property and equipment		3,098,965
Other assets			
1520	Intangible assets	<u>14,022</u>	
1500T	Total other assets		<u>14,022</u>
1000T	Total assets		<u>\$ 6,483,560</u>

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA – Balance Sheet Data (Continued)

As of June 30, 2021

Liabilities and Partners' Capital

Current liabilities

2110	Accounts payable	\$	27,291	
2120	Accrued wages payable		6,224	
2131	Accrued interest payable		4,006	
2170	Mortgage payable - current maturities		65,303	
2210	Prepaid revenue		<u>5,683</u>	
2122T	Total current liabilities			\$ 108,507

Deposit liabilities

2191	Tenant security deposits held in trust (contra)		<u>63,324</u>	
	Total deposit liabilities			63,324

Long-term liabilities

2320	First mortgage, net of current maturities and unamortized financing fees of \$31,424		937,111	
2322	Other mortgages and notes payable		<u>4,746,344</u>	
2300T	Total long-term liabilities			<u>5,683,455</u>
2000T	Total liabilities			<u>5,855,286</u>

Partners' capital

3130	Partners' capital			<u>628,274</u>
2033T	Total liabilities and partners' capital			<u>\$ 6,483,560</u>

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA - Statement of Operations Data
For the Year Ended June 30, 2021

Rental revenue

5120	Rent revenue - gross potential	\$ 1,293,530
5121	Tenant assistance payments	<u>39,496</u>
5100T	Total rent revenue	<u>1,333,026</u>

Vacancies

5250	Rental concessions	<u>2,081</u>
5200T	Total vacancies	<u>2,081</u>
5152N	Net rental revenue	<u>1,330,945</u>

Financial revenue

5490	Revenue from investments - security deposit interest \$4; interest revenue from reserve \$978	<u>982</u>
5400T	Total financial revenue	<u>982</u>

Other revenue

5910	Laundry revenue	8,205
5920	Tenant charges	<u>1,346</u>
5900T	Total other revenue	<u>9,551</u>
5000T	Total revenue	<u>1,341,478</u>

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA - Statement of Operations Data (Continued)
For the Year Ended June 30, 2021

Administrative expenses

6210	Advertising and marketing	\$	4,094
6310	Office salaries		91,637
6311	Office expense		18,320
6320	Management fee		51,150
6340	Legal expense - project		310
6350	Audit expense		11,070
6370	Bad debts		33,788
6390	Miscellaneous administrative expenses - furniture rental \$357; security deposit interest \$468; miscellaneous \$2,208		<u>3,033</u>
6263T	Total administrative expenses		<u>213,402</u>

Utility expenses

6450	Electricity		82,537
6451	Water		<u>41,141</u>
6400T	Total utility expenses		<u>123,678</u>

Operating and maintenance expenses

6510	Payroll		64,248
6515	Supplies		68,488
6520	Contracts		105,248
6525	Garbage and trash removal		14,849
6530	Security contracts		2,339
6546	Heating/cooling repairs and maintenance		20,810
6548	Snow removal		<u>6,619</u>
6500T	Total operating and maintenance expenses		<u>282,601</u>

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA - Statement of Operations Data (Continued)
For the Year Ended June 30, 2021

Taxes and insurance

6720	Property and liability insurance (hazard)	\$	38,167
6723	Health insurance and other employee benefits		35,350
6790	Miscellaneous taxes, licenses, permits, and insurance - solid waste tax \$4,627; water protection charges \$4,874; other tax \$300		9,801
6700T	Total taxes and insurance		<u>83,318</u>

Financial expenses

6820	Interest on first mortgage payable		52,050
6850	Mortgage insurance		<u>5,313</u>
6800T	Total financial expenses		<u>57,363</u>
6000T	Total expenses before depreciation and amortization		<u>760,362</u>
5060T	Profit before depreciation		581,116
6600	Depreciation		<u>206,347</u>
5060N	Operating income		<u>374,769</u>

Entity expenses

7190	Asset management fees		<u>25,270</u>
3250	Net income	\$	<u><u>349,499</u></u>
S1000-010	Total mortgage principal payments required during the year -	\$	62,341
S1000-020	Total of 12 monthly deposits during the year into the replacement reserve account, as required by the regulatory agreement -	\$	116,493
S1000-030	Replacement reserves or residual receipts releases which are included as expense items on this profit and loss statement -	\$	77,758
S1000-040	Project improvement reserve releases under the flexible subsidy program that are included as expense items on this profit and loss statement -	\$	-

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA - Statement of Changes in Partners' Capital Data
For the Year Ended June 30, 2021

S1100-010	Partners' capital, July 1, 2020	\$	278,775
3247	Net income		<u>349,499</u>
3131	Partners' capital, June 30, 2021	\$	<u>628,274</u>

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See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA - Statement of Cash Flows Data
For the Year Ended June 30, 2021

Cash flows from operating activities:		
Cash received for:		
S1200-010	Rental income	\$ 1,283,543
S1200-020	Interest income	982
S1200-040	Total cash receipts	<u>1,284,525</u>
Cash paid for services and to employees for:		
S1200-050	Administrative expenses	(35,552)
S1200-070	Management fees	(76,420)
S1200-090	Utilities	(139,650)
S1200-100	Salaries and wages	(175,093)
S1200-110	Operating and maintenance	(213,650)
S1200-140	Property insurance	(30,053)
S1200-150	Miscellaneous taxes and insurance	(45,151)
S1200-160	Tenant security deposits	(1,868)
S1200-170	Other operating expenses	(2,339)
S1200-180	Interest on first mortgage	(49,655)
S1200-210	Mortgage insurance premium	<u>(5,288)</u>
S1200-230	Total cash disbursements	<u>(774,719)</u>
S1200-240	Net cash provided by operating activities	<u>509,806</u>
Cash flows from investing activities:		
S1200-245	Increase in mortgage escrows	(18)
S1200-250	Increase in reserve for replacements	(38,855)
S1200-255	Increase in other escrows	(111,999)
S1200-330	Acquisition of property and equipment	<u>(56,000)</u>
S1200-350	Net cash used in investing activities	<u>(206,872)</u>
Cash flows from financing activities:		
S1200-360	Mortgage principal payments - first mortgage	<u>(62,341)</u>
S1200-460	Net cash used in financing activities	<u>(62,341)</u>
S1200-470	Net increase in cash	240,593
S1200-480	Cash, beginning of year	<u>206,539</u>
S1200T	Cash, end of year	<u>\$ 447,132</u>

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA - Statement of Cash Flows Data (Continued)
For the Year Ended June 30, 2021

Reconciliation of net income to net cash provided by operating activities:		
3250	Net income	\$ 349,499
	Adjustments to reconcile net income to net cash provided by operating activities:	
6600	Depreciation	206,347
S1200-486	Amortization of financing fees	2,637
	(Increase) decrease in operating assets	
S1200-490	Tenant accounts receivable	(20,620)
S1200-500	Accounts and notes receivable	7,900
S1200-520	Prepaid expenses	8,814
S1200-530	Tenant security deposits	(11,219)
	Increase (decrease) in operating liabilities	
S1200-540	Accounts payable	(17,725)
S1200-560	Accrued utilities	(23,222)
S1200-560	Accrued wages	1,123
S1200-570	Accrued interest	(242)
S1200-580	Tenant security deposits liability held in trust	9,351
S1200-590	Prepaid revenue	(2,545)
S1200-600	Due to affiliate	(292)
S1200-610	Net cash provided by operating activities	<u>\$ 509,806</u>

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA - Schedule of Surplus Cash
As of June 30, 2021

Cash

S1300-010	Cash	\$	512,324
S1300-030	Replacement reserve reimbursement in transit		<u>20,951</u>
S1300-040	Total cash		<u>533,275</u>

Current obligations

S1300-050	Accrued mortgage interest		4,006
S1300-075	Accounts payable - 30 days		27,291
S1400-100	Loans and notes payable		5,327
S1400-120	Accrued expenses		6,224
S1400-150	Other current obligations- estimated insurance \$38,167; estimated taxes \$9,501; operating reserve \$1,660; replacement reserve \$9,739; mip \$441		59,508
2191	Tenant security deposits held in trust (contra)		63,324
2210	Prepaid revenue		<u>5,683</u>
	Total current obligations		<u>171,363</u>
	Surplus cash (deficiency)	\$	<u>361,912</u>

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA
For the Year Ended June 30, 2021

Changes in fixed assets:

		Assets				
		Balance			Balance	
		07/01/20	Additions	Deductions	06/30/21	
1410	Land	\$ 1,612,000	\$ -	\$ -	\$ 1,612,000	
1410	Land improvements	4,990	-	-	4,990	
1420	Buildings	7,132,521	56,000	-	7,188,521	
1440	Building equipment	234,407	-	-	234,407	
		<u>\$ 8,983,918</u>	<u>\$ 56,000</u>	<u>\$ -</u>	<u>\$ 9,039,918</u>	

Fixed asset additions consist of:

1420 Plumbing \$ 56,000

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA (Continued)
For the Year Ended June 30, 2021

Accumulated Depreciation					
	Balance	Net		Balance	Net
	07/01/20	Provisions	Deductions	06/30/21	Book Value
					06/30/21
1495	\$ -	\$ -	\$ -	\$ -	\$ 1,612,000
1495	360	333	-	693	4,297
1495	5,531,394	197,411	-	5,728,805	1,459,716
1495	202,852	8,603	-	211,455	22,952
	<u>\$ 5,734,606</u>	<u>\$ 206,347</u>	<u>\$ -</u>	<u>\$ 5,940,953</u>	<u>\$ 3,098,965</u>

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA
For the Year Ended June 30, 2021

Schedule of Letters of Credit – None

Schedule of Mortgages Payable – See Pages 12-13 – Note 6

Schedule of Notes Payable – Pages 12-13 – Note 6

Accounts and Notes Receivable – None

Property Management Fee Rate: \$37 per occupied unit per month plus an annual fee (if applicable)

Identity of Interest Firms:

The Partnership has an asset management agreement with Housing Opportunities Commission, an affiliated organization.

The Partnership has numerous transactions with HOC to finance operations and provide services. To the extent that funds to finance certain transactions of the Partnership have not been paid or collected as of year-end, interfund receivables and payables are recorded.

Listing of Identity of Interest Companies & Activities
Doing Business with Owner/Agent:

Company Name	Type of Service	Amount Received
Housing Opportunities Commission	Asset Management Fee	\$ 25,270

Identity of interest amounts deferred: \$1,560

Partnership Employer Identification Number: 01-0787816

Reserve for Replacements:

In accordance with the provisions of the HOC regulatory agreement, restricted cash is deposited in a reserve account held by US Bank, to be used for the replacement of the property with the approval of HOC, as follows:

Balance, July 1, 2020	\$ 1,927,349
Monthly deposits	116,493
Interest	120
Authorized releases	<u>(77,758)</u>
Balance, June 30, 2021	<u>\$ 1,966,204</u>

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA
For the Year Ended June 30, 2021

Mortgage Escrow Deposits:

Restricted cash is held by US Bank, as follows:

Balance, July 1, 2020	\$	22,593
Monthly deposits		5,305
Expensed withdrawals		<u>(5,287)</u>
Balance, June 30, 2021	\$	<u>22,611</u>

Other Reserves:

Restricted cash is held by PNC Institutional Investment, as follows:

Balance, July 1, 2020	\$	721,469
Deposits		111,151
Interest		<u>848</u>
Balance, June 30, 2021	\$	<u>833,468</u>

Residual Receipts - None

Changes in Fixed Asset Accounts – See Pages 27 – 28

Computation for Surplus Cash, Distributions and Residual Receipts – See Page 26

Cash Flow Loan Payments – None

See independent auditor's report.

Independent Auditor's Report
on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Partners
Diamond Square Limited Partnership
10400 Detrick Avenue
Kensington, MD 20895

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 Diamond Square Limited Partnership, CDA Project Number 26.16.0003, which comprise the balance sheet as of June 30, 2021, and the related statements of operations, changes in partners' capital, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated September 29, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Diamond Square Limited Partnership'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 Diamond Square Limited Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of the Diamond Square Limited Partnership'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Diamond Square Limited Partnership'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 Diamond Square Limited Partnership'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 Diamond Square Limited Partnership's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Diamond Square Limited Partnership's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SC+H attest services, P.C.

Sparks, Maryland
September 29, 2021

Diamond Square Limited Partnership

Schedule of Findings, Questioned Costs and Recommendations
June 30, 2021

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

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Diamond Square Limited Partnership

Schedule of the Status of Prior Audit Findings, Questioned Costs and Recommendations
June 30, 2021

1) Prior Audit Period: July 1, 2019 – June 30, 2020

Audit Report, dated September 22, 2020, for the period ended June 30, 2020, issued by Hertzbach & Company, P.A.

There are no open findings from the prior audit period.

2) Current Audit Period: July 1, 2020 – June 30, 2021

There were no letters or reports issued by Maryland DHCD during the period covered by this audit.

3) Current Audit Period: July 1, 2020 – June 30, 2021

There were no letters or reports issued by CDA management during the period covered by this audit.

Diamond Square Limited Partnership

Statement of Project Owner's Certification
June 30, 2021

Diamond Square Limited Partnership
CDA Project Number 26.16.0003

Certification of Project Owner

We hereby certify that we have examined the accompanying financial statements and supplemental data of Diamond Square Limited Partnership and, to the best of our knowledge and belief, the same are complete and accurate.

Diamond Square Limited Partnership

Signature: _____

Title: _____

Date: _____

Diamond Square Limited Partnership

Employer Identification Number: 01-0787816

Diamond Square Limited Partnership

Statement of Management Agent's Certification
June 30, 2021

Diamond Square Limited Partnership
CDA Project Number 26.16.0003

Management Agent's Certification

We hereby certify that we have examined the accompanying financial statements and supplemental data of Diamond Square Limited Partnership and, to the best of our knowledge and belief, the same are complete and accurate.

Residential One, LLC

Signature: _____

Title: _____

Date: _____

Residential One, LLC

Management Agent Employer Identification Number: 47-4263376