

# **Diamond Square Limited Partnership**

## **Financial Statements**

**For the Years Ended  
June 30, 2020 and 2019**

# Diamond Square Limited Partnership

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For the Years Ended June 30, 2020 and 2019

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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 sheets as of June 30, 2020 and 2019, and the related statements of operations, changes in partners' capital (deficit), and cash flows for the years 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 audits. We conducted our audits 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 sheets of Diamond Square Limited Partnership as of June 30, 2020 and 2019, 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.

## Other Matters

### Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 15 - 30 is presented for purposes of additional analysis, and is not a required part of the financial statements.

The accompanying supplementary information shown on pages 15 - 30 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information shown on pages 15 - 30 is fairly stated in all material respects in relation to the 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 22, 2020, 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.

## Emphasis of Matter

As discussed in Note 2 of the financial statements, during the year ended June 30, 2020, Diamond Square Limited Partnership adopted Financial Accounting Standards Board Update (ASU) No. 2016-18 – *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to this matter.

## *Hertzbach & Company, P.A.*

Owings Mills, Maryland  
September 22, 2020

Name of Audit Firm:	Hertzbach & Company, P.A.
Address:	Red Brook Corporate Center 800 Red Brook Boulevard, Suite 300 Owings Mills, Maryland 21117
Federal I.D.#:	52-1158459 Jeffrey M. Kleeman, CPA (Lead Auditor) (410) 363-3200

# Diamond Square Limited Partnership

Balance Sheets

As of June 30, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 206,539	\$ 56,473
Accounts receivable, net and other assets	32,060	77,089
Interfund receivable	-	379
Total unrestricted current assets	<u>238,599</u>	<u>133,941</u>
<b>Restricted cash and cash equivalents for current liabilities</b>		
Restricted cash and cash equivalents	2,671,411	2,340,613
Tenants' security deposits	<u>53,973</u>	<u>43,431</u>
Total restricted cash and cash equivalents for current liabilities	<u>2,725,384</u>	<u>2,384,044</u>
<b>Property and equipment</b>		
Property and equipment, net of accumulated depreciation	<u>3,249,312</u>	<u>3,451,199</u>
<b>Deferred charges</b>		
Negative arbitrage	<u>14,022</u>	<u>14,022</u>
Total assets	<u>\$ 6,227,317</u>	<u>\$ 5,983,206</u>

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

# Diamond Square Limited Partnership

Balance Sheets (Continued)  
As of June 30, 2020 and 2019

	2020	2019
<b>Liabilities and Partners' Capital</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 59,676	\$ 33,188
Accrued interest payable	4,248	4,478
Interfund payable	1,852	-
Mortgage payable - current	62,341	59,514
PPP loan payable	20,331	-
Total current liabilities	<u>148,448</u>	<u>97,180</u>
<b>Current liabilities payable from restricted assets</b>		
Tenants' security deposits	<u>53,973</u>	<u>42,343</u>
Total current liabilities payable from restricted assets	<u>53,973</u>	<u>42,343</u>
<b>Long-term liabilities</b>		
First mortgage, net of current maturities and unamortized financing fees of \$34,061 - 2020 and \$36,698 - 2019	999,777	1,059,482
Other mortgages and notes payable	4,746,344	4,746,344
Deferred revenue	-	620
Total long-term liabilities	<u>5,746,121</u>	<u>5,806,446</u>
Total liabilities	<u>5,948,542</u>	<u>5,945,969</u>
<b>Partners' capital</b>		
Partners' capital	<u>278,775</u>	<u>37,237</u>
Total liabilities and partners' capital	<u>\$ 6,227,317</u>	<u>\$ 5,983,206</u>

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

# Diamond Square Limited Partnership

## Statements of Operations

For the Years Ended June 30, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
<b>Operating revenues</b>		
Dwelling rental income	\$ 1,342,389	\$ 1,289,955
Other income	620	3,821
Total operating revenues	<u>1,343,009</u>	<u>1,293,776</u>
<b>Operating expenses</b>		
Administrative	203,137	244,635
Operating and maintenance	245,156	263,623
Depreciation	201,887	199,799
Utilities	173,637	167,406
Fringe benefits	30,327	70,353
Interest expense	54,888	57,598
Other	221,068	74,986
Bad debt expense	4,442	4,043
Total operating expenses	<u>1,134,542</u>	<u>1,082,443</u>
Operating income	<u>208,467</u>	<u>211,333</u>
<b>Nonoperating revenue</b>		
Interest revenue	<u>33,071</u>	<u>40,195</u>
Total nonoperating revenue	<u>33,071</u>	<u>40,195</u>
Net income	<u>\$ 241,538</u>	<u>\$ 251,528</u>

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

# Diamond Square Limited Partnership

Statements of Changes in Partners' Capital (Deficit)  
For the Years Ended June 30, 2020 and 2019

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Balance - July 1, 2018	\$ (214,291)
Net income - June 30, 2019	<u>251,528</u>
Balance - June 30, 2019	37,237
Net income - June 30, 2020	<u>241,538</u>
Balance - June 30, 2020	<u><u>\$ 278,775</u></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, 2020 and 2019

	2020	2019
<b>Cash flows from operating activities</b>		
Cash received for:		
Rental income	\$ 1,333,543	\$ 1,292,677
Interest income	33,071	40,195
Total cash receipts	<u>1,366,614</u>	<u>1,332,872</u>
Cash paid for services and to employees for:		
Administrative expenses	(47,012)	(82,195)
Management fees	(80,330)	(81,673)
Utilities	(143,986)	(156,864)
Salaries and wages	(158,870)	(210,754)
Operating and maintenance	(186,038)	(204,972)
Property insurance	(31,783)	(9,620)
Miscellaneous taxes and insurance	(9,705)	(9,234)
Tenant security deposits	11,630	1,036
Interest on first mortgage	(52,481)	(55,181)
Fringe benefits	(30,327)	(70,353)
Other expenses	(101,528)	(33,622)
Mortgage insurance premium	<u>(5,594)</u>	<u>(5,885)</u>
Total cash disbursements	<u>(836,024)</u>	<u>(919,317)</u>
Net cash provided by operating activities	<u>530,590</u>	<u>413,555</u>
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	<u>-</u>	<u>(39,728)</u>
Net cash used in investing activities	<u>-</u>	<u>(39,728)</u>
<b>Cash flows from financing activities</b>		
Mortgage principal payments	(59,515)	(56,815)
Proceeds from PPP loan payable	<u>20,331</u>	<u>-</u>
Net cash used in financing activities	<u>(39,184)</u>	<u>(56,815)</u>
<b>Net increase in cash and restricted cash and cash equivalents</b>	491,406	317,012
Cash and restricted cash and cash equivalents, beginning of year	<u>2,440,517</u>	<u>2,123,505</u>
Cash and restricted cash and cash equivalents, end of year	<u>\$ 2,931,923</u>	<u>\$ 2,440,517</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, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
<b>Reconciliation of net income to net cash provided by operating activities</b>		
Net income	\$ 241,538	\$ 251,528
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	201,887	199,799
Amortization of financing fees	2,637	2,637
(Increase) decrease in operating assets:		
Accounts receivable, net and other assets	45,029	(20,735)
Interfund receivable	379	(369)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	26,488	(19,501)
Accrued interest payable	(230)	(220)
Interfund payable	1,852	-
Tenants' security deposits	11,630	1,036
Deferred revenue	(620)	(620)
Net cash provided by operating activities	<u>\$ 530,590</u>	<u>\$ 413,555</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	\$ 206,539	\$ 56,473
Restricted cash and cash equivalents	2,671,411	2,340,613
Tenants' security deposits	<u>53,973</u>	<u>43,431</u>
Total cash and restricted cash and cash equivalents, end of year	<u>\$ 2,931,923</u>	<u>\$ 2,440,517</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, 2020 and 2019

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## 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 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, 2020 and 2019 were \$2,523 and \$0, 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, 2020 and 2019.

*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, 2020 and 2019

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## 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 7 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.

## 2) Accounting Pronouncements Adopted

The Partnership adopted ASU No. 2016-18 – *Statement of Cash Flows (Topic 230): Restricted Cash*, which reduced diversity in practice in the classification and presentation of changes in restricted cash on the statement of cash flows by including restricted cash with cash when reconciling the beginning of year and end of year total amounts shown on the statement of cash flows. The Partnership adopted the provisions under this ASU on July 1, 2019 on a retrospective basis which resulted in an increase in beginning of year and end of year cash. Restricted cash was \$2,725,384 and \$2,384,044 as of June 30, 2020 and 2019, respectively, and therefore resulted in an increase in cash and restricted cash of \$2,725,384 and \$2,384,044 as presented on the statements of cash flows as of June 30, 2020 and 2019, respectively.

*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, 2020 and 2019

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### 3) Cash - Tenant Security Deposits

The amounts of \$53,973 and \$43,431 as of June 30, 2020 and 2019, 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.

### 4) 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.

### 5) Property and Equipment

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

	2020	2019
Land	\$ 1,612,000	\$ 1,612,000
Land improvements	4,990	4,990
Buildings	7,132,521	7,132,521
Equipment	234,407	234,407
Total property and equipment	8,983,918	8,983,918
Less: accumulated depreciation	5,734,606	5,532,719
Property and equipment, net	<u>\$ 3,249,312</u>	<u>\$ 3,451,199</u>

### 6) 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, 2020 and 2019

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## 7) 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, 2020 and 2019 are \$1,096,179 and \$4,248, respectively, for 2020 and \$1,155,694 and \$4,478, respectively, for 2019. Unamortized financing fees for the years ended June 30, 2020 and 2019 were \$34,061 and \$36,698, respectively. For the years ended June 30, 2020 and 2019, interest incurred on the mortgage was \$54,888 and \$57,598, respectively, including amortized financing fees of \$2,637 for each of the years.

Maturities of the mortgage payable are as follows:

2021	\$	62,341
2022		65,303
2023		68,405
2024		71,655
2025		75,059
2026-2030		432,288
2031-2033		<u>321,128</u>
Total	\$	<u>1,096,179</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, 2020 and 2019 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 and 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, 2020 and 2019 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, 2020 and 2019

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## 7) 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 is non-interest bearing and due on demand. Upon the SBA's forgiveness of the PPP loan, Residential One will forgive the loan to the Partnership. As of June 30, 2020 and 2019, the principal balance was \$20,331 and \$0, respectively.

## 8) Related Party Transactions

### *Asset Management Fee*

The Partnership was charged an asset management fee of \$24,530 and \$23,820, respectively, for the years ended June 30, 2020 and 2019, 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, 2020 and 2019 was \$1,852 and \$0, respectively. The balance of the interfund receivable as of June 30, 2020 and 2019 was \$0 and \$379, respectively.

## 9) 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.

## 10) Property Management Fee

The Partnership was obligated under the terms of a Property Management Agreement with Avison-Young – Washington D.C. LLC for the management of the rental property. Under the terms of the agreement, the Partnership was required to pay monthly management fees equal to \$37.50 per unit per month from December 23, 2017 through December 22, 2018, increasing to \$38.88 per unit per month from December 23, 2018 through December 22, 2019. The agreement was terminated effective June 30, 2019. During the year ended June 30, 2019, management fees of \$57,853 were incurred.

Effective July 1, 2019, the Partnership is obligated under the terms of a Property Management Agreement with Residential One LLC 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 LLC an annual fee. Payment of the annual fee is in HOC's sole discretion and there is no guarantee that Residential One LLC 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 year ended June 30, 2020, management fees of \$55,800 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, 2020 and 2019

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## **11) Business Risk Factor**

The Partnership could potentially be affected by natural disasters, public health crisis, such as pandemics and epidemics, or other events outside of their control, which could cause their business and operating results to suffer.

## **12) 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, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
<b>Accounts receivable, net and other assets</b>		
Insurance claims receivable	\$ -	\$ 48,917
Other receivables	9,183	7,219
Prepaid mortgage insurance	466	490
Prepaid insurance	8,907	-
Other prepaid expense	-	18,971
Rents receivable	15,883	1,492
Other resident fees receivable	144	-
Allowance for doubtful accounts	<u>(2,523)</u>	<u>-</u>
Total accounts receivable, net and other assets	<u>\$ 32,060</u>	<u>\$ 77,089</u>
<b>Accounts payable and accrued expenses</b>		
Accounts payable	\$ 17,330	\$ 27,209
Accrued salaries	5,101	-
Accrued utility payments	29,017	5,359
Resident prepaid rents	6,525	620
Subsidy prepaid rents	<u>1,703</u>	<u>-</u>
Total accounts payable and accrued expenses	<u>\$ 59,676</u>	<u>\$ 33,188</u>

*See independent auditor's report.*

# Diamond Square Limited Partnership

Detailed Statements of Operations  
For the Years Ended June 30, 2020 and 2019

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	2020	2019
<b>Dwelling rental income</b>		
Rent	\$ 1,331,150	\$ 1,295,447
Vacancies and concessions	2	(18,341)
Tenant charges	2,048	3,847
Laundry income	9,193	9,002
Total dwelling rental income	<u>\$ 1,342,389</u>	<u>\$ 1,289,955</u>
<b>Other income</b>		
User fees	\$ 620	\$ 878
Miscellaneous income	-	2,943
Total other income	<u>\$ 620</u>	<u>\$ 3,821</u>
<b>Administrative expenses</b>		
Advertising and marketing	\$ 2,818	\$ -
Contract management fees	55,800	57,853
Miscellaneous	7,345	4,886
Salaries	99,155	125,296
Office supplies and expense	24,926	29,589
Professional fees	13,093	27,011
Total administrative expenses	<u>\$ 203,137</u>	<u>\$ 244,635</u>
<b>Operating and maintenance expenses</b>		
Contracts	\$ 90,311	\$ 95,146
Exterminating	3,176	6,943
Grounds maintenance	4,494	6,390
HVAC repairs and maintenance	3,410	505
Janitorial	36,096	32,391
Salaries	64,816	71,738
Snow removal	1,600	7,893
Supplies and repairs	41,253	42,617
Total operating and maintenance expenses	<u>\$ 245,156</u>	<u>\$ 263,623</u>

*See independent auditor's report.*

# Diamond Square Limited Partnership

Detailed Statements of Operations (Continued)  
For the Years Ended June 30, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
<b>Utilities expense</b>		
Electricity	\$ 90,353	\$ 81,911
Gas	26,307	21,103
Trash removal	14,526	15,583
Water	42,451	48,809
	<u>\$ 173,637</u>	<u>\$ 167,406</u>
<b>Fringe benefits</b>		
Contract managed benefits	\$ 19,611	\$ 67,592
Health insurance	7,239	-
Other fringe benefits	-	2,761
Workers compensation	3,477	-
	<u>\$ 30,327</u>	<u>\$ 70,353</u>
<b>Other expenses</b>		
Asset management fees	\$ 24,530	\$ 23,820
Insurance	23,551	9,620
Mortgage insurance	5,618	5,909
Security contracts	157,664	26,403
Taxes	9,705	9,234
	<u>\$ 221,068</u>	<u>\$ 74,986</u>

*See independent auditor's report.*

# Diamond Square Limited Partnership

Supporting Data Required by CDA – Balance Sheet Data  
As of June 30, 2020

---

## Assets

### Current assets

1120	Cash - operations	\$	206,539	
1130	Tenant accounts receivable		16,027	
1131	Allowance for doubtful accounts		(2,523)	
1140	Accounts and notes receivable		9,183	
1200	Prepaid expenses		<u>9,373</u>	
1100T	Total current assets	\$		238,599

### Deposits held in trust - funded

1191	Tenant security deposits		<u>53,973</u>	
1191T	Total deposits held in trust - funded			53,973

### Restricted deposits and funded reserves

1310	Escrow deposits		22,593	
1320	Reserve for replacements		1,927,349	
1330	Other reserves		<u>721,469</u>	
1300T	Total restricted deposits and funded reserves			2,671,411

### Property and equipment

1410	Land		1,612,000	
1410	Land improvements		4,990	
1420	Buildings		7,132,521	
1440	Building equipment		<u>234,407</u>	
1400T	Total property and equipment		8,983,918	
1495	Less: accumulated depreciation		<u>(5,734,606)</u>	
1400N	Net property and equipment			3,249,312

### Other assets

1520	Intangible assets		<u>14,022</u>	
1500T	Total other assets			<u>14,022</u>
1000T	Total assets	\$		<u><u>6,227,317</u></u>

See independent auditor's report.

# Diamond Square Limited Partnership

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

As of June 30, 2020

---

## Liabilities and Partners' Capital

### Current liabilities

2110	Accounts payable	\$	48,199	
2120	Accrued wages payable		5,101	
2131	Accrued interest payable		4,248	
2170	Mortgage payable- current		62,341	
2174	PPP loan payable		20,331	
2210	Prepaid revenue		<u>8,228</u>	
2122T	Total current liabilities			\$ 148,448

### Deposit liabilities

2191	Tenant security deposits held in trust (contra)		<u>53,973</u>	
	Total deposit liabilities			53,973

### Long-term liabilities

2320	First mortgage, net of current maturities and unamortized financing fees of \$34,061		999,777	
2322	Other mortgages and notes payable		<u>4,746,344</u>	
2300T	Total long-term liabilities			<u>5,746,121</u>
2000T	Total liabilities			<u>5,948,542</u>

### Partners' capital

3130	Partners' capital			<u>278,775</u>
2033T	Total liabilities and partners' capital			<u>\$ 6,227,317</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, 2020

---

## Rental revenue

5120	Rent revenue - gross potential	\$ 1,301,241
5121	Tenant assistance payments	<u>29,909</u>
5100T	Total rent revenue	<u>1,331,150</u>

## Vacancies

5250	Rental concessions	<u>2</u>
5200T	Total vacancies	<u>2</u>
5152N	Net rental revenue	<u>1,331,148</u>

## Financial revenue

5490	Revenue from investments - security deposit interest (\$776); interest revenue from reserve \$33,847	<u>33,071</u>
5400T	Total financial revenue	<u>33,071</u>

## Other revenue

5910	Laundry revenue	9,193
5920	Tenant charges	2,048
5990	Miscellaneous revenue - user fees \$620	<u>620</u>
5900T	Total other revenue	<u>11,861</u>
5000T	Total revenue	<u>1,376,080</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, 2020

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## Administrative expenses

6210	Advertising and marketing	\$	2,818
6310	Office salaries		99,155
6311	Office expense		24,926
6320	Management fee		55,800
6340	Legal expense - project		739
6350	Audit expense		12,247
6370	Bad debts		4,442
6390	Miscellaneous administrative expenses - furniture rental \$5,353; consulting \$107; miscellaneous \$1,992		<u>7,452</u>
6263T	Total administrative expenses		<u>207,579</u>

## Utility expenses

6450	Electricity		90,353
6451	Water		42,451
6452	Gas		<u>26,307</u>
6400T	Total utility expenses		<u>159,111</u>

## Operating and maintenance expenses

6510	Payroll		64,816
6515	Supplies		44,838
6520	Contracts		130,492
6525	Garbage and trash removal		14,526
6530	Security contracts		157,664
6546	Heating/cooling repairs and maintenance		3,410
6548	Snow removal		<u>1,600</u>
6500T	Total operating and maintenance expenses		<u>417,346</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, 2020

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## Taxes and insurance

6720	Property and liability insurance (hazard)	\$	23,551
6723	Health insurance and other employee benefits		30,327
6790	Miscellaneous taxes, licenses, permits, and insurance - solid waste tax \$4,531; water protection charges \$4,874; other tax \$300		<u>9,705</u>
6700T	Total taxes and insurance		<u>63,583</u>

## Financial expenses

6820	Interest on first mortgage payable		54,888
6850	Mortgage insurance		<u>5,618</u>
6800T	Total financial expenses		<u>60,506</u>
6000T	Total expenses before depreciation and amortization		<u>908,125</u>
5060T	Profit before depreciation		467,955
6600	Depreciation		<u>201,887</u>
5060N	Operating income		<u>266,068</u>

## Entity expenses

7190	Asset management fees		<u>24,530</u>
3250	Net income	\$	<u>241,538</u>

S1000-010	Total mortgage principal payments required during the year -	\$	59,515
S1000-020	Total of 12 monthly deposits during the year into the replacement reserve account, as required by the regulatory agreement -	\$	112,020
S1000-030	Replacement reserves or residual receipts releases which are included as expense items on this profit and loss statement -	\$	31,632
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, 2020

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S1100-010	Partners' capital - July 1, 2019	\$	37,237
3247	Net income		<u>241,538</u>
3131	Partners' capital - June 30, 2020	\$	<u><u>278,775</u></u>

*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, 2020

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<b>Cash flows from operating activities:</b>		
Cash received for:		
S1200-010	Rental income	\$ 1,333,543
S1200-020	Interest income	<u>33,071</u>
S1200-040	Total cash receipts	<u>1,366,614</u>
Cash paid for services and to employees for:		
S1200-050	Administrative expenses	(47,012)
S1200-070	Management fees	(80,330)
S1200-090	Utilities	(143,986)
S1200-100	Salaries and wages	(158,870)
S1200-110	Operating and maintenance	(186,038)
S1200-140	Property insurance	(31,783)
S1200-150	Miscellaneous taxes and insurance	(40,032)
S1200-160	Tenant security deposits	1,088
S1200-170	Other operating expenses	(101,528)
S1200-180	Interest on first mortgage	(52,481)
S1200-210	Mortgage insurance premium	<u>(5,594)</u>
S1200-230	Total cash disbursements	<u>(846,566)</u>
S1200-240	Net cash provided by operating activities	<u>520,048</u>
<b>Cash flows from investing activities:</b>		
S1200-245	Decrease in mortgage escrows	20
S1200-250	Increase in reserve for replacements	(255,827)
S1200-255	Increase in other escrows	<u>(74,991)</u>
S1200-350	Net cash used in investing activities	<u>(330,798)</u>
<b>Cash flows from financing activities:</b>		
S1200-360	Mortgage principal payments - first mortgage	(59,515)
S1200-450	Proceeds from PPP loan payable	<u>20,331</u>
S1200-460	Net cash used in financing activities	<u>(39,184)</u>
S1200-470	<b>Net increase in cash</b>	150,066
S1200-480	Cash - beginning of year	<u>56,473</u>
S1200T	Cash - end of year	<u>\$ 206,539</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, 2020

---

<b>Reconciliation of net income to net cash provided by operating activities:</b>		
3250	Net income	\$ 241,538
	Adjustments to reconcile net income to net cash provided by operating activities:	
6600	Depreciation	201,887
S1200-486	Amortization of financing fees	2,637
	(Increase) decrease in operating assets	
S1200-490	Tenant accounts receivable	(12,012)
S1200-500	Other receivables	46,953
S1200-520	Prepaid expenses	10,088
S1200-530	Tenant security deposits	(10,542)
	Increase (decrease) in operating liabilities	
S1200-540	Accounts payable	(9,879)
S1200-560	Accrued utilities	23,658
S1200-560	Accrued wages	5,101
S1200-570	Accrued interest	(230)
S1200-580	Tenant security deposits liability held in trust	11,630
S1200-590	Prepaid rent	7,608
S1200-600	Deferred revenue	(620)
S1200-600	Due to affiliate	2,231
S1200-610	Net cash provided by operating activities	<u>\$ 520,048</u>

*See independent auditor's report.*

# Diamond Square Limited Partnership

Supporting Data Required by CDA - Schedule of Surplus Cash  
As of June 30, 2020

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## Cash

S1300-010	Cash	\$ 260,512
S1300-040	Total cash	<u>260,512</u>

## Current obligations

S1300-050	Accrued mortgage interest	4,248
S1300-075	Accounts payable - 30 days	48,199
S1400-100	Loans and notes payable	5,085
S1400-120	Accrued expenses	5,101
S1400-150	Other current obligations- estimated insurance \$23,551; estimated taxes \$9,405; operating reserve \$1,660; replacement reserve \$9,365; mip \$466	44,447
2191	Tenant security deposits held in trust (contra)	53,973
2210	Prepaid rents	<u>8,228</u>
	Total current obligations	<u>169,281</u>
	Surplus cash (deficiency)	<u>\$ 91,231</u>

*See independent auditor's report.*

# Diamond Square Limited Partnership

Supporting Data Required by CDA  
For the Year Ended June 30, 2020

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Changes in fixed assets:

		Assets			
		Balance			Balance
		07/01/19	Additions	Deductions	06/30/20
1410	Land	\$ 1,612,000	\$ -	\$ -	\$ 1,612,000
1410	Land improvements	4,990	-	-	4,990
1420	Buildings	7,132,521	-	-	7,132,521
1440	Building equipment	234,407	-	-	234,407
		<u>\$ 8,983,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,983,918</u>

*See independent auditor's report.*

# Diamond Square Limited Partnership

Supporting Data Required by CDA (Continued)  
For the Year Ended June 30, 2020

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Accumulated Depreciation					
	Balance	Net		Balance	Net
	07/01/19	Provisions	Deductions	06/30/20	Book Value
					06/30/20
1495	\$ -	\$ -	\$ -	\$ -	\$ 1,612,000
1495	28	332	-	360	4,630
1495	5,338,651	192,743	-	5,531,394	1,601,127
1495	194,040	8,812	-	202,852	31,555
	<u>\$ 5,532,719</u>	<u>\$ 201,887</u>	<u>\$ -</u>	<u>\$ 5,734,606</u>	<u>\$ 3,249,312</u>

*See independent auditor's report.*

# Diamond Square Limited Partnership

Supporting Data Required by CDA  
For the Year Ended June 30, 2020

---

**Schedule of Letters of Credit** – None

**Schedule of Mortgages Payable** – See Page 12 – Note 7

**Schedule of Notes Payable** – Page 12 – Note 7

**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	\$ 24,530

Identity of interest amounts deferred: \$1,852

**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, 2019	\$ 1,671,522
Monthly deposits	112,020
Interest	22,188
Other deposits	153,251
Authorized releases	<u>(31,632)</u>
Balance - June 30, 2020	<u>\$ 1,927,349</u>

*See independent auditor's report.*

# Diamond Square Limited Partnership

Supporting Data Required by CDA  
For the Year Ended June 30, 2020

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## Mortgage Escrow Deposits:

Restricted cash is held by US Bank, as follows:

Balance - July 1, 2019	\$	22,613
Monthly deposits		5,574
Expensed withdrawals		<u>(5,594)</u>
Balance - June 30, 2020	\$	<u>22,593</u>

## Other Reserves:

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

Balance - July 1, 2019	\$	646,478
Deposits		63,665
Interest		<u>11,326</u>
Balance - June 30, 2020	\$	<u>721,469</u>

**Residual Receipts** - None

**Changes in Fixed Asset Accounts** – See Pages 26 – 27

**Computation for Surplus Cash, Distributions and Residual Receipts** – See Page 25

**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, 2020, and the related statements of operations, changes in partners' capital (deficit), and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated September 22, 2020.

**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.

Diamond Square Limited Partnership  
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*  
Page Two

**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.

*Hertzbach & Company, P.A.*

Owings Mills, Maryland  
September 22, 2020

# **Diamond Square Limited Partnership**

Schedule of Findings, Questioned Costs and Recommendations  
June 30, 2020

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

# **Diamond Square Limited Partnership**

Schedule of the Status of Prior Audit Findings, Questioned Costs and Recommendations  
June 30, 2020

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1) Prior Audit Period: July 1, 2018 – June 30, 2019

Audit Report, dated September 27, 2019, for the period ended June 30, 2019, issued by Hertzbach & Company, P.A.

There are no open findings from the prior audit period.

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

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

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

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, 2020

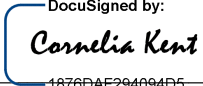
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Diamond Square Limited Partnership  
CDA Project Number 26.16.0003

## 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:   
1876DAF294094D5...  
Title: Chief Financial Officer  
Date: 9/30/2020

Diamond Square Limited Partnership

Employer Identification Number: 01-0787816

# Diamond Square Limited Partnership

Statement of Management Agent's Certification  
June 30, 2020

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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: \_\_\_\_\_

*[Handwritten Signature]*  
*CFO*  
*9/29/20*

Residential One, LLC

Management Agent Employer Identification Number: 47-4263376