



**MAGRUDER'S DISCOVERY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING
OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2021 AND 2020

MAGRUDER'S DISCOVERY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)

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INDEPENDENT AUDITOR'S REPORT

January 18, 2022

To the Commissioners
Magruder's Discovery Development Corporation
Kensington, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the Magruder's Discovery Development Corporation, a nonprofit corporation and a component unit of the Housing Opportunities Commission of Montgomery County, Kensington, Maryland, which comprise the balance sheet as of June 30, 2021, and the related statements of operations, changes in net deficit 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. 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 judgment, 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

To the Commissioners
Magruder's Discovery Development Corporation

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 financial position of the Magruder's Discovery Development Corporation, Kensington, Maryland, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 2021 supplementary information shown on pages 16 through 18 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 2021 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2021 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2021 financial statements or to the 2021 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2021 financial statements as a whole.

Other Matter

The financial statements of the Magruder's Discovery Development Corporation for the year ended June 30, 2020, were audited by another auditor who expressed an unmodified opinion on those statements on October 13, 2020. In addition, the 2020 supplementary information shown on pages 16 through 18 was subjected to the auditing procedures applied in the audit of the 2020 financial statements by that auditor, 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.


BARBACANE, THORNTON & COMPANY LLP

MAGRUDER'S DISCOVERY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
BALANCE SHEETS
JUNE 30, 2021 AND 2020

| ASSETS | <u>2021</u> | <u>2020</u> |
|---|----------------------------|----------------------------|
| Current assets | | |
| Accounts receivable, net | \$ 50,832 | \$ 10,607 |
| Interfund receivable | 37,925 | 88,404 |
| Total unrestricted current assets | <u>88,757</u> | <u>99,011</u> |
| Restricted cash and cash equivalents | | |
| Restricted cash and cash equivalents | 504,845 | 517,731 |
| Tenants' security deposits | 71,776 | 71,756 |
| Total restricted cash and cash equivalents | <u>576,621</u> | <u>589,487</u> |
| Property and equipment | | |
| Property and equipment, net of accumulated depreciation | <u>4,896,272</u> | <u>5,169,119</u> |
| Deferred charges, net | | |
| Negative arbitrage | <u>129,732</u> | <u>136,224</u> |
| TOTAL ASSETS | <u><u>\$ 5,691,382</u></u> | <u><u>\$ 5,993,841</u></u> |
| <u>LIABILITIES AND NET DEFICIT</u> | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 104,638 | \$ 108,041 |
| Accrued interest payable | 52,577 | 53,835 |
| Mortgage payable, current maturities | 251,413 | 235,867 |
| Total current liabilities | <u>408,628</u> | <u>397,743</u> |
| Current liabilities payable from restricted assets | | |
| Tenants' security deposits | 71,731 | 69,232 |
| Total current liabilities payable from restricted assets | <u>71,731</u> | <u>69,232</u> |
| Long-term liabilities | | |
| Mortgage payable, net of current maturities and unamortized financing fees of \$269,017 and \$176,521, respectively | 9,337,677 | 9,681,586 |
| Total long-term Liabilities | <u>9,337,677</u> | <u>9,681,586</u> |
| TOTAL LIABILITIES | <u>9,818,036</u> | <u>10,148,561</u> |
| Net deficit | | |
| Without donor restrictions | (4,126,654) | (4,154,720) |
| Total net deficit | <u>(4,126,654)</u> | <u>(4,154,720)</u> |
| TOTAL LIABILITIES AND NET DEFICIT | <u><u>\$ 5,691,382</u></u> | <u><u>\$ 5,993,841</u></u> |

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

MAGRUDER'S DISCOVERY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

| | 2021 | 2020 |
|------------------------------|--------------------|---------------------|
| Operating revenues | | |
| Dwelling rental | \$ 2,423,418 | \$ 2,281,402 |
| Other income | 180,322 | 147,663 |
| Total operating revenues | 2,603,740 | 2,429,065 |
| Operating expenses | | |
| Administration | 191,690 | 194,474 |
| Operating and maintenance | 272,608 | 263,222 |
| Depreciation | 295,847 | 294,814 |
| Utilities | 142,046 | 131,075 |
| Fringe benefits | 118,721 | 114,255 |
| Interest expense | 658,126 | 667,478 |
| Other | 1,002,883 | 894,648 |
| Total operating expenses | 2,681,921 | 2,559,966 |
| Operating loss | (78,181) | (130,901) |
| Nonoperating revenues | | |
| Interest income | 35 | 1,308 |
| Total nonoperating revenues | 35 | 1,308 |
| NET LOSS | \$ (78,146) | \$ (129,593) |

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

MAGRUDER'S DISCOVERY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
STATEMENTS OF CHANGES IN NET DEFICIT
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

| | |
|---------------------------------|------------------------------|
| Net Deficit - June 30, 2019 | \$ (4,025,127) |
| Less: Net Loss | <u>(129,593)</u> |
| Net Deficit - June 30, 2020 | (4,154,720) |
| Financing fees allocated by HOC | 106,212 |
| Less: Net Loss | <u>(78,146)</u> |
| Net Deficit - June 30, 2021 | <u><u>\$ (4,126,654)</u></u> |

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

MAGRUDER'S DISCOVERY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

| | 2021 | 2020 |
|--|-------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (78,146) | \$ (129,593) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation | 295,847 | 294,814 |
| Amortization of financing fees | 13,716 | 8,406 |
| Amortization of negative arbitrage | 6,492 | 6,492 |
| Decrease (increase) in operating assets: | | |
| Accounts receivable, net | (40,225) | 101,563 |
| Interfund receivable | 50,479 | 24,640 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | (3,403) | 19,372 |
| Accrued interest payable | (1,258) | (1,180) |
| Tenants' security deposits | 2,499 | (1,722) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 246,001 | 322,792 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of property and equipment | (23,000) | (28,811) |
| NET CASH USED BY INVESTING ACTIVITIES | (23,000) | (28,811) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Mortgage principal payments | (235,867) | (221,281) |
| NET CASH USED BY FINANCING ACTIVITIES | (235,867) | (221,281) |
| NET (DECREASE) INCREASE IN CASH AND RESTRICTED CASH AND CASH EQUIVALENTS | (12,866) | 72,700 |
| CASH AND RESTRICTED CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 589,487 | 516,787 |
| CASH AND RESTRICTED CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 576,621 | \$ 589,487 |
| SUPPLEMENTAL DISCLOSURES | | |
| Cash paid during the year for interest | \$ 639,176 | \$ 653,760 |
| Cash paid during the year for taxes | \$ - | \$ - |
| NONCASH FINANCING ACTIVITY | | |
| Financing fees allocated by HOC | \$ 106,212 | \$ - |

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

MAGRUDER'S DISCOVERY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Magruder's Discovery Development Corporation ("the Corporation") is a nonprofit, nonstock corporation formed in the State of Maryland on August 19, 2008 to acquire, own, and operate 134 apartment units to be operated as a housing project for rental to persons of eligible income under the Annotated Code of Maryland ("the Project"). The Corporation provides residential housing to low-income families and receives federal rent subsidies under a Section 8 Housing Assistance Payments Contract with the U.S. Department of Housing and Urban Development ("HUD"). The units are located in Bethesda, Maryland. Operations began on June 17, 2010.

Housing projects undertaken, financed, or assisted by the Corporation and the projects' related expenditures must be approved by the Housing Opportunities Commission of Montgomery County, Maryland, ("the HOC," a component unit of Montgomery County, Maryland). The Corporation is legally separate from the HOC, but the Corporation's financial statements are included in the Opportunity Housing Fund of the HOC as a blended component unit. The Corporation's directors must be commissioners of the HOC and, therefore, the HOC can significantly influence the programs, projects, activities of, and the level of service performed by the Corporation.

Basis of Accounting

The Corporation'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 Corporation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Rents Receivables 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 Corporation'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.

MAGRUDER'S DISCOVERY DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 allowance for doubtful accounts as of June 30, 2021 and 2020 were \$39,462 and \$72,283, respectively.

Property and Equipment

Property and equipment is carried at cost. Depreciation of the property and equipment is calculated on the straight-line method based on the estimated useful lives of the property and equipment, which is 10 to 40 years.

Depreciation expense for the years ended June 30, 2021 and 2020 amounted to \$295,847 and \$294,814, respectively.

The Corporation's policy is to capitalize property and equipment expenditures of \$5,000 or more.

Expenditures for maintenance and repairs necessary to maintain the real estate in efficient operating condition are charged to operations. Expenditures which increase the useful lives of the assets are capitalized.

Impairment of Long-lived Assets

The Corporation 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.

Financing Fees and Amortization

Financing fees, net of amortization, are reported as a direct deduction from the face amount of the mortgage payable. Amortization of financing fees is reported as a component of interest expense and is computed using the straight-line method which approximates the effective yield method over the term of the related mortgage note payable. Accumulated amortization relating to financing fees for the years ended June 30, 2021 and 2020 was \$89,368 and \$75,652, respectively. The amount of amortization expense included as interest expense was \$13,716 and \$8,406 for the years ended June 30, 2021 and 2020, respectively.

MAGRUDER'S DISCOVERY DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income Taxes

The Corporation is exempt from income taxes under Section 115 of the Internal Revenue Code.

In accordance with the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Section 740 regarding accounting for uncertainty in income taxes, the Corporation is required to recognize the financial statement effects of a tax position if it is more likely than not that the position will not be sustained upon examination. The Corporation has no uncertain tax positions that qualify for recognition in the financial statements.

Rental Revenue

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

Functional Expenses

The costs of providing the program and other activities have been reported on a functional basis in the statement of operations. Administration, fringe benefits, and other expenses are mostly for supporting services activities.

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.

NOTE 2 CONCENTRATION OF RISK

The Corporation 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 Corporation is included with the HOC as part of the HOC's funds, and was entirely insured or collateralized with securities held by the HOC's agent in the HOC's name.

MAGRUDER'S DISCOVERY DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS

NOTE 3 RESTRICTED CASH AND CASH EQUIVALENTS

Restricted funds are comprised of the following at June 30:

| | <u>2021</u> | <u>2020</u> |
|--------------------------|-------------------|-------------------|
| Mortgage escrow deposits | \$ 65,616 | \$ 65,643 |
| Reserve for replacements | 389,061 | 401,934 |
| Renovation escrow | <u>50,168</u> | <u>50,154</u> |
| | <u>\$ 504,845</u> | <u>\$ 517,731</u> |

Pursuant to the regulatory agreement with HUD, the Corporation is required to maintain a replacement reserve escrow account with the HOC as trustee. The replacement reserve is set aside for future maintenance of the property. Details of the reserve for replacement account during the years ended June 30 were as follows:

| | <u>2021</u> | <u>2020</u> |
|----------------------------|-------------------|-------------------|
| Balance, beginning of year | \$ 401,934 | \$ 381,212 |
| Monthly deposits | 41,832 | 40,812 |
| Reserve releases | <u>(54,705)</u> | <u>(20,090)</u> |
| | <u>\$ 389,061</u> | <u>\$ 401,934</u> |

In July 2011, the Corporation began contributing monthly payments of \$2,792 to the replacement reserve. Annually the monthly payment is scheduled to increase by 2.5 percent, and may be modified as needed by the HOC. Monthly deposits for the years ended June 30, 2021 and 2020 were \$3,486 and \$3,401, respectively.

NOTE 4 PROPERTY AND EQUIPMENT

As of June 30, 2021 and 2020, property and equipment consisted of the following:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------------|---------------------|---------------------|
| Land | \$ 691,363 | \$ 691,363 |
| Buildings and building improvements | 11,219,827 | 11,196,827 |
| Machinery and equipment | <u>1,303,954</u> | <u>1,303,954</u> |
| Total Capital Assets | 13,215,144 | 13,192,144 |
| Accumulated depreciation | <u>(8,318,872)</u> | <u>(8,023,025)</u> |
| Property and equipment, net | <u>\$ 4,896,272</u> | <u>\$ 5,169,119</u> |

MAGRUDER'S DISCOVERY DEVELOPMENT CORPORATION
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OF MONTGOMERY COUNTY, MARYLAND)

NOTES TO FINANCIAL STATEMENTS

NOTE 5 NEGATIVE ARBITRAGE

The HOC issued bonds to provide the financing for the Corporation's rehabilitation. Because the HOC earned less in interest revenue from the Corporation'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, 2011, the Corporation paid \$194,637 to the HOC as charge for the incurred negative arbitrage, representing the difference between the interest the HOC earns on its loan to the Corporation and the interest the HOC pays to the bondholders over the life of the loan. The Corporation is amortizing the amount over the 30-year term of the loan. For the years ended June 30, 2021 and 2020, \$6,492 of the negative arbitrage was amortized and charged to interest expense. The balance of the negative arbitrage is included in the accompanying balance sheets under deferred charges.

NOTE 6 MORTGAGE PAYABLE

The Corporation is obligated to repay a mortgage to the HOC. On June 14, 2010, the Corporation assumed the HUD regulatory agreement from the HOC in conjunction with execution of a mortgage loan from the HOC for \$11,780,518. The note is secured by a promissory note, deed of trust, security, and assignment of rent agreements, and substantially all assets.

The mortgage provides for interest at a nominal rate of 6.40 percent per annum and an effective interest rate of 6.51 percent per annum, to accrue until maturity, with the final balance of principal and accrued interest due on June 1, 2041. Starting on July 1, 2011, the Corporation began monthly principal and interest payments of \$73,688. On July 1, 2014, the Corporation executed an Amended and Restated Deed of Trust Note with the HOC, which reduced the total available principal balance from \$11,780,518 to \$11,657,791. As of July 1, 2014, the note amendment revised the monthly principal and interest payments to \$72,920, which will continue through maturity, June 1, 2041.

The outstanding principal balance as of June 30, 2021 and 2020 was \$9,858,107 and \$10,093,974. Interest expense incurred during the years ended June 30, 2021 and 2020 was \$658,126 and \$667,478, respectively. Included in interest expense was amortization of financing fees of \$13,716 and \$8,406 for the years ended June 30, 2021 and 2020, respectively, and amortization of negative arbitrage of \$6,492 for each year.

Aggregate annual maturities of the mortgage payable for the next five years and thereafter are as follows:

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OF MONTGOMERY COUNTY, MARYLAND)

NOTES TO FINANCIAL STATEMENTS

NOTE 6 MORTGAGE PAYABLE (cont'd)

| Year Ending June 30, | Principal |
|----------------------|--------------|
| 2022 | \$ 251,413 |
| 2023 | 267,984 |
| 2024 | 285,647 |
| 2025 | 304,474 |
| 2026 | 324,543 |
| 2027 - 2031 | 1,973,207 |
| 2032 - 2036 | 2,715,049 |
| 2037 - 2041 | 3,735,790 |
| TOTAL | \$ 9,858,107 |

Estimated financing fees being amortized to interest expense for each of the next five years are \$13,716.

The liability of the Corporation under the mortgages is limited to the underlying value of the real estate collateral and an assignment of rents, plus other amounts deposited with the lender.

NOTE 7 REAL ESTATE TAXES

The Corporation has an agreement with Montgomery County, Maryland, to make a payment in lieu of taxes ("PILOT"). During the year ended June 30, 2010, the Corporation applied for and received an exemption from the state property tax under a similar PILOT agreement.

NOTE 8 PROPERTY MANAGEMENT FEE

Effective August 1, 2019, the Project is managed by Edgewood Management Corporation pursuant to an Amended and Restated Property Assistance Agreement. The fee is calculated at a flat rate of \$28 per occupied unit per month. In addition, the HOC reserves the right to pay Edgewood Management Corporation an annual fee. Payment of the fee is in the HOC's sole discretion, and there is no guarantee that Edgewood Management Corporation will receive the annual fee in any given year. The annual fee will be based on target occupancy levels and rent actually received. The agreement is set to expire on December 31, 2021. For the years ended June 30, 2021 and 2020, management fees of \$44,688 and \$40,348, respectively, were incurred.

MAGRUDER'S DISCOVERY DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS

NOTE 9 RELATED PARTY TRANSACTIONS

Interfund Receivable

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

In addition, the Corporation is allocated costs from the HOC defined benefit pension plan and other post-employment benefits plan ("OPEB") which includes retiree health insurance. The Corporation is allocated a net pension and OPEB liability and related deferred outflows and inflows of resources based on HOC management's calculation of costs related to employees of the HOC that perform activities related to the Corporation.

Pension and OPEB activity allocated to the Corporation and included in interfund receivable are \$331,003 of deferred outflows of resources, \$335,540 of deferred inflows of resources, and \$314,581 of net pension and OPEB liabilities as of June 30, 2021.

Pension and OPEB activity allocated to the Corporation and included in interfund receivable are \$222,044 of deferred outflows, \$294,087 of deferred inflows, and \$219,744 of net pension and OPEB liabilities as of June 30, 2020.

The balance of the interfund receivable as of June 30, 2021 and 2020 is \$37,925 and \$88,404, respectively.

Asset Management Fee

The Corporation was charged an asset management fee of \$90,050 for both years ended June 30, 2021 and 2020 by the HOC.

Development Corporation Fee

The Corporation pays an annual fee to the HOC in the amount as approved by the HOC Commissioners. The fee is assessed at the end of the fiscal year based on the performance of the property during the fiscal year. For the years ended June 30, 2021 and 2020, development corporation fees of \$816,298 and \$721,858, respectively, were incurred.

NOTE 10 HOUSING ASSISTANCE PAYMENT CONTRACT

Effective June 17, 2010, the Corporation assumed from HOC the Assignment, Assumption and Amendment Agreement of the Section 8 Housing Assistance Payment Contract. The agreement was renewed on December 1, 2020 and is renewable annually. Tenant

MAGRUDER'S DISCOVERY DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS

NOTE 10 HOUSING ASSISTANCE PAYMENT CONTRACT (cont'd)

assistance payments for the years ended June 30, 2021 and 2020 were \$1,764,008 and \$1,603,832, respectively.

NOTE 11 NET ASSETS

The HOC follows the reporting requirements of the Governmental Accounting Standards Board ("GASB") and reclassifies the net assets of the Corporation as follows:

| | 2021 | 2020 |
|----------------------------------|----------------|----------------|
| Net investment in capital assets | \$ (4,961,835) | \$ (4,494,855) |
| Restricted net position | 504,890 | 520,255 |
| Unrestricted net position | 330,291 | 249,880 |
| | \$ (4,126,654) | \$ (4,154,720) |

NOTE 12 LIQUIDITY AND AVAILABILITY OF RESOURCES

The Corporation's financial assets consist of restricted cash and cash equivalents, accounts receivable, net, and interfund receivable.

The following reflects the Corporation's financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general use because of contractual restrictions within one year of the balance sheet date.

| | 2021 | 2020 |
|--|------------|------------|
| Financial assets, at year-end | \$ 665,378 | \$ 688,498 |
| Less those unavailable for general expenditures within one year due to: | | |
| Contractual restrictions | 576,621 | 589,487 |
| Financial assets available to meet cash needs for general expenditures within one year | \$ 88,757 | \$ 99,011 |

The Corporation has a goal to maintain financial assets on hand to meet, at a minimum, 90 days of normal operating expenses. The Corporation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

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NOTES TO FINANCIAL STATEMENTS

NOTE 13 UNCERTAINTIES

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively impact the Corporation's income in fiscal year 2022. Other financial impacts could occur though such potential impacts are unknown at this time.

NOTE 14 SUBSEQUENT EVENTS

The Organization has evaluated all subsequent events through January 18, 2022, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

MAGRUDER'S DISCOVERY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
DETAIL OF SELECTED BALANCE SHEET ACCOUNTS
JUNE 30, 2021 AND 2020

| | <u>2021</u> | <u>2020</u> |
|--|-----------------------------|-----------------------------|
| <u>ACCOUNTS RECEIVABLE, NET</u> | | |
| Accounts receivable - subsidy | \$ 74,060 | \$ 73,470 |
| Allowance for doubtful accounts | (39,462) | (72,283) |
| Ex-resident workorders receivable | 24 | 24 |
| Other resident fees receivable | 97 | 42 |
| Rents receivable | 16,123 | 9,364 |
| Technology fee receivable | (10) | (10) |
| | <u> </u> | <u> </u> |
| Total Accounts Receivable and Other Assets, Net | <u>\$ 50,832</u> | <u>\$ 10,607</u> |
| <u>ACCOUNTS PAYABLE AND ACCRUED EXPENSES</u> | | |
| Accrued annual leave | \$ 17,603 | \$ 15,015 |
| Accounts payable | 30,624 | 29,124 |
| Accrued salaries | 2,817 | 1,545 |
| Accrued utility payments | 10,647 | 12,047 |
| Clearing resident refunds | 5,026 | 5,026 |
| Resident prepaid rents | 18,950 | 26,312 |
| Subsidy prepaid rents | 18,971 | 18,972 |
| | <u> </u> | <u> </u> |
| Total Accounts Payable and Accrued Expenses | <u>\$ 104,638</u> | <u>\$ 108,041</u> |

MAGRUDER'S DISCOVERY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
DETAILED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

| | <u>2021</u> | <u>2020</u> |
|--|------------------|------------------|
| <u>OPERATING REVENUE</u> | | |
| DWELLING RENTAL INCOME: | | |
| Rent | \$ 2,423,233 | \$ 2,310,264 |
| Vacancy loss | (14,476) | (46,318) |
| Tenant charges | - | 2,280 |
| Laundry income | 14,661 | 15,176 |
| Total Dwelling Rental | <u>2,423,418</u> | <u>2,281,402</u> |
| OTHER INCOME: | | |
| Miscellaneous | 141,202 | 141,365 |
| Bad debt recovery | 32,822 | - |
| Rental license | 6,298 | 6,298 |
| Total Other Income | <u>180,322</u> | <u>147,663</u> |
| TOTAL OPERATING REVENUE | <u>2,603,740</u> | <u>2,429,065</u> |
| <u>OPERATING EXPENSES</u> | | |
| ADMINISTRATIVE EXPENSES: | | |
| Advertising and marketing | - | 55 |
| Contract management fees | 44,688 | 40,348 |
| Licenses and fees | 6,298 | 6,298 |
| Miscellaneous | 4,329 | 4,609 |
| Office supplies and expense | 8,870 | 9,461 |
| Professional fees | 11,604 | 12,705 |
| Rent | 1,063 | 1,166 |
| Salaries | 108,756 | 111,900 |
| Telephone | 2,526 | 4,491 |
| Vehicle | 3,556 | 3,441 |
| Total Administrative Expenses | <u>191,690</u> | <u>194,474</u> |
| OPERATING AND MAINTENANCE EXPENSES: | | |
| Contracts | 30,163 | 7,941 |
| Exterminating | 5,185 | 12,104 |
| Grounds maintenance | 12,463 | 29,399 |
| HVAC repairs and maintenance | 5,765 | 9,457 |
| Janitorial | 1,937 | 3,768 |
| Salaries | 147,197 | 120,889 |
| Snow removal | 11,714 | 570 |
| Supplies and repairs | 58,184 | 79,094 |
| Total Operating and Maintenance Expenses | <u>272,608</u> | <u>263,222</u> |

MAGRUDER'S DISCOVERY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
DETAILED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

| | | |
|-------------------------------------|--------------------|---------------------|
| UTILITIES EXPENSES: | | |
| Electricity | 36,436 | 40,886 |
| Trash removal | 20,182 | 18,578 |
| Water | 85,428 | 71,611 |
| Total Utilities Expenses | <u>142,046</u> | <u>131,075</u> |
| FRINGE BENEFITS: | | |
| Accrued leave | 2,587 | 2,090 |
| Contract managed benefits | 22,415 | 11,681 |
| Deferred contribution plan | 10,514 | 9,388 |
| FICA | 13,321 | 11,151 |
| Health insurance | 37,370 | 33,440 |
| Other postemployment benefits | 27,333 | 42,271 |
| Unemployment | 642 | 544 |
| Workers' compensation | 4,539 | 3,690 |
| Total Fringe Benefits | <u>118,721</u> | <u>114,255</u> |
| OTHER EXPENSES: | | |
| Asset management fee | 90,050 | 90,050 |
| Development corporation fee | 816,298 | 721,858 |
| Insurance | 39,750 | 24,776 |
| Mortgage insurance | 49,837 | 50,983 |
| Security contracts | - | 207 |
| Taxes | 2,178 | 2,152 |
| Water quality protect charge (RFSA) | 4,770 | 4,622 |
| Total Other Expenses | <u>1,002,883</u> | <u>894,648</u> |
| Interest expense | 658,126 | 667,478 |
| Depreciation | <u>295,847</u> | <u>294,814</u> |
| TOTAL OPERATING EXPENSES | <u>2,681,921</u> | <u>2,559,966</u> |
| NONOPERATING REVENUES | | |
| Interest income | <u>35</u> | <u>1,308</u> |
| NET LOSS | <u>\$ (78,146)</u> | <u>\$ (129,593)</u> |