

Diamond Square Limited Partnership

Financial Statements

**For the Years Ended
June 30, 2019 and 2018**

Diamond Square Limited Partnership

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For the Years Ended June 30, 2019 and 2018

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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, 2019 and 2018, 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 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 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, 2019 and 2018, and the changes in partners' deficit 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 14 - 28 is presented for purposes of additional analysis, and is not a required part of the financial statements. The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly 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 27, 2019, 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.

Hertzbach & Company, P.A.

Owings Mills, Maryland
September 27, 2019

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash	\$ 56,473	\$ 135,578
Accounts receivable, net and other assets	77,089	56,354
Interfund receivable	<u>379</u>	<u>10</u>
Total unrestricted current assets	133,941	191,942
Restricted cash and cash equivalents for current liabilities		
Restricted cash and cash equivalents	2,340,613	1,946,021
Tenants' security deposits	<u>43,431</u>	<u>41,906</u>
Total restricted cash and cash equivalents for current liabilities	2,384,044	1,987,927
Property and equipment		
Property and equipment, net of accumulated depreciation	3,451,199	3,611,270
Deferred charges		
Negative arbitrage	<u>14,022</u>	<u>14,022</u>
Total assets	<u>\$ 5,983,206</u>	<u>\$ 5,805,161</u>

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

Diamond Square Limited Partnership

Balance Sheets (continued)
As of June 30, 2019 and 2018

	2019	2018
Liabilities and Partners' Capital (Deficit)		
Current liabilities		
Accounts payable and accrued expenses	\$ 33,188	\$ 52,689
Accrued interest payable	4,478	4,698
Mortgage payable - current	59,514	56,815
Total current liabilities	97,180	114,202
Current liabilities payable from restricted assets		
Tenants' security deposits	42,343	41,307
Total current liabilities payable from restricted assets	42,343	41,307
Long-term liabilities		
First mortgage, net of current maturities, unamortized financing fees of \$36,698 - 2019 and \$39,335 - 2018	1,059,482	1,116,359
Other mortgages and notes payable	4,746,344	4,746,344
Deferred revenue	620	1,240
Total long-term liabilities	5,806,446	5,863,943
Total liabilities	5,945,969	6,019,452
Partners' capital (deficit)	37,237	(214,291)
Total liabilities and partners' capital (deficit)	\$ 5,983,206	\$ 5,805,161

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

Diamond Square Limited Partnership

Statements of Operations

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues		
Dwelling rental income	\$ 1,289,955	\$ 1,266,837
Other income	3,821	4,674
	<u>1,293,776</u>	<u>1,271,511</u>
Operating expenses		
Administrative	244,635	222,031
Operating and maintenance	263,623	283,181
Depreciation	199,799	206,044
Utilities	167,406	165,978
Fringe benefits	70,353	51,827
Interest expense	57,598	60,184
Other	74,986	93,126
Bad debt expense	4,043	2,493
	<u>1,082,443</u>	<u>1,084,864</u>
Total operating expenses		
	211,333	186,647
Nonoperating income		
Interest income	40,195	16,848
	<u>40,195</u>	<u>16,848</u>
Total nonoperating income		
	\$ 251,528	\$ 203,495

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, 2019 and 2018

Balance - July 1, 2017	\$ (417,786)
Net income - June 30, 2018	<u>203,495</u>
Balance - June 30, 2018	(214,291)
Net income - June 30, 2019	<u>251,528</u>
Balance - June 30, 2019	<u>\$ 37,237</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, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Cash received for:		
Rental income	\$ 1,292,677	\$ 1,262,041
Interest income	40,195	16,848
Total cash receipts	<u>1,332,872</u>	<u>1,278,889</u>
Cash paid for services and to employees for:		
Administrative expenses	(82,195)	(40,298)
Management fees	(81,673)	(79,193)
Utilities	(156,864)	(150,152)
Salaries and wages	(210,754)	(167,031)
Operating and maintenance	(204,972)	(236,893)
Property insurance	(9,620)	(12,800)
Miscellaneous taxes and insurance	(9,234)	(8,738)
Tenant security deposits	(489)	1
Interest on first mortgage	(55,181)	(57,758)
Fringe benefits	(70,353)	(51,827)
Other expenses	(33,622)	(91,188)
Miscellaneous financial	(5,885)	(6,165)
Total cash disbursements	<u>(920,842)</u>	<u>(902,042)</u>
Net cash provided by operating activities	<u>412,030</u>	<u>376,847</u>
Cash flows from investing activities		
Net withdrawals from restricted cash	(394,592)	(511,912)
Capital expenditures	(39,728)	-
Net cash used in investing activities	<u>(434,320)</u>	<u>(511,912)</u>
Cash flows from financing activities		
Mortgage principal payments - first mortgage	(56,815)	(54,239)
Net cash used in financing activities	<u>(56,815)</u>	<u>(54,239)</u>
Net decrease in cash	(79,105)	(189,304)
Cash - beginning of year	<u>135,578</u>	<u>324,882</u>
Cash - end of year	<u>\$ 56,473</u>	<u>\$ 135,578</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of net income to net cash provided by operating activities		
Net income	\$ 251,528	\$ 203,495
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	199,799	206,044
Amortization of financing fees	2,637	2,637
Increase in operating assets:		
Accounts receivable, net and other assets	(20,735)	(54,158)
Tenant security deposits	(1,525)	(3,611)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(20,490)	19,039
Accrued interest payable	(220)	(211)
Tenant security deposits	1,036	3,612
Net cash provided by operating activities	<u>\$ 412,030</u>	<u>\$ 376,847</u>

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

Diamond Square Limited Partnership

Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

1) Nature of Business and Summary of Significant Accounting Policies

Nature of Business

Diamond Square Limited Partnership (a Maryland limited partnership) (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 (H.O.C.).

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. The Partnership's accounting and reporting policies are maintained in accordance with accounting principles generally accepted in the United States of America appropriate to a nonprofit organization operating in the rental real estate industry.

Property and Equipment

Property and equipment are stated at cost. The cost of repairs and maintenance is charged to operations as incurred. Major renewals, betterments and additions are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

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 have been no asset impairments as of June 30, 2019 and 2018.

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.

Cash and Cash Equivalents

For the purpose of this statement, the Partnership considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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 mortgages payable as a direct deduction from the principal balances of the mortgages, and is reporting amortization of the loan fees as interest expense on the mortgages payable. See Note 6 for more information.

See independent auditor's report.

Diamond Square Limited Partnership

Notes to Financial Statements (continued)
For the Years Ended June 30, 2019 and 2018

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

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 Income

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.

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 allowance as of June 30, 2019 and 2018 was \$0 and \$2,493, respectively.

2) Cash - Tenant Security Deposits

The amounts of \$43,431 and \$41,906 as of June 30, 2019 and 2018, 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.

Diamond Square Limited Partnership

Notes to Financial Statements (continued)
For the Years Ended June 30, 2019 and 2018

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>2019</u>	<u>2018</u>
Land	\$ 1,612,000	\$ 1,612,000
Land improvements	4,990	-
Buildings	7,132,521	7,119,321
Equipment	<u>234,407</u>	<u>212,869</u>
Total Property and Equipment	8,983,918	8,944,190
Less: Accumulated Depreciation	<u>5,532,719</u>	<u>5,332,920</u>
Property And Equipment, Net	<u>\$ 3,451,199</u>	<u>\$ 3,611,270</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 Deferred Charges.

See independent auditor's report.

Diamond Square Limited Partnership

Notes to Financial Statements (continued)
For the Years Ended June 30, 2019 and 2018

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, 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, 2019 and 2018 are \$1,155,694 and \$4,478, respectively, for 2019 and \$1,212,509 and \$4,698, respectively, for 2018. Unamortized financing fees for the years ended June 30, 2019 and 2018 were \$36,698 and \$39,335, respectively. For the years ended June 30, 2019 and 2018, interest incurred on the mortgage was \$57,598 and \$60,184, respectively, including amortized financing fees of \$2,637 for each of the years.

Amortization over the life of the Mortgage is as follows:

2020	\$	59,514
2021		62,342
2022		65,303
2023		68,405
2024		71,655
2025-2029		412,683
2030-2034		415,792
Total	\$	<u>1,155,694</u>

DHCD Mortgage Payable

The Partnership is obligated under the terms of a second mortgage payable with The Department of Housing and Community Development (DHCD) in the original amount of \$2,000,000, dated June, 1991 and 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, 2019 and 2018 the principal balance was \$2,000,000.

Note Payable

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. As of June 30, 2019 and 2018 the principal balance was \$2,746,344.

See independent auditor's report.

Diamond Square Limited Partnership

Notes to Financial Statements (continued)
For the Years Ended June 30, 2019 and 2018

7) Property Management Fee

Effective December 23, 2016, the property entered into an Agreement for Property Management Services with Avison Young - Washington DC, LLC. The management fee was computed as \$37.50 per unit per month. The agreement was for a term of two years. The agreement was terminated effective June 30, 2019. For the years ended June 30, 2019 and 2018, management fees of \$57,853 and \$56,063, respectively, were incurred.

8) Related Party Transactions

Asset Management Fee

The Partnership was charged an asset management fee of \$23,820 and \$23,130, respectively, for the years ended June 30, 2019 and 2018, by HOC.

Interfund Receivable

During the course of operations, HOC, the property's owner, pays expenses related to the operation of the Partnership. In addition, HOC and the Partnership will advance funds to each other as deemed appropriate by management. As of June 30, 2019 and 2018, the balance of the Interfund Receivable was \$379 and \$10, respectively.

9) 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, except for the event disclosed below.

Effective July 1, 2019, the property entered into an Agreement for Property Management Services with Residential One, LLC. The management fee is computed as \$37 per unit per month. The agreement is for a term of two years with two one-year renewal options at the discretion of the Partnership.

See independent auditor's report.

Diamond Square Limited Partnership

Detail of Selected Balance Sheet Accounts
As of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Accounts receivable, net and other assets		
Insurance claims receivable	\$ 48,917	\$ 48,917
Other receivables	7,219	-
Prepaid mortgage insurance	490	514
Other prepaid expense	18,971	-
Tenant receivable	1,492	9,416
Allowance for doubtful accounts	-	(2,493)
	<u>\$ 77,089</u>	<u>\$ 56,354</u>
Accounts payable and accrued expenses		
Accounts payable	\$ 27,209	\$ 22,606
Accrued salaries	-	13,720
Accrued utility payments	5,359	13,877
Resident prepaid rents	620	2,486
	<u>\$ 33,188</u>	<u>\$ 52,689</u>

See independent auditor's report.

Diamond Square Limited Partnership

Detailed Statements of Operations
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Dwelling rental income		
Rent	\$ 1,295,447	\$ 1,262,888
Vacancies and concessions	(18,341)	(10,493)
Tenant charges	3,847	5,423
Laundry income	9,002	9,019
Total dwelling rental income	<u>\$ 1,289,955</u>	<u>\$ 1,266,837</u>
Administrative expenses		
Contract management fees	\$ 57,853	\$ 56,063
Miscellaneous	4,886	5,413
Salaries	125,296	111,381
Office supplies and expense	29,589	31,543
Professional fees	27,011	17,631
Total administrative expenses	<u>\$ 244,635</u>	<u>\$ 222,031</u>
Operating and maintenance expenses		
Contracts	\$ 142,316	\$ 136,022
Salaries	71,738	59,479
Supplies and repairs	49,569	87,680
Total operating and maintenance expenses	<u>\$ 263,623</u>	<u>\$ 283,181</u>
Utilities expense		
Electricity	\$ 81,911	\$ 96,840
Gas	21,103	16,444
Trash removal	15,583	14,851
Water	48,809	37,843
Total utilities expense	<u>\$ 167,406</u>	<u>\$ 165,978</u>
Other expenses		
Asset management fees	\$ 23,820	\$ 23,130
Insurance	9,620	12,800
Mortgage insurance	5,909	6,187
Security expense	26,403	42,271
Taxes	9,234	8,738
Total other expenses	<u>\$ 74,986</u>	<u>\$ 93,126</u>

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA – Balance Sheet Data
As of June 30, 2019

Assets

Current assets

1120	Cash - operations	\$	56,473	
1130	Tenant accounts receivable		1,492	
1140	Accounts and notes receivable		56,515	
1200	Prepaid expenses		<u>19,461</u>	
1100T	Total current assets	\$		133,941

Deposits held in trust - funded

1191	Tenant security deposits		<u>43,431</u>	
1191T	Total deposits held in trust - funded			43,431

Restricted deposits and funded reserves

1310	Escrow deposits		22,613	
1320	Reserve for replacements		1,671,522	
1330	Other reserves		<u>646,478</u>	
1300T	Total restricted deposits and funded reserves			2,340,613

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>(5,532,719)</u>	
1400N	Net property and equipment			3,451,199

Other assets

1520	Intangible assets		<u>14,022</u>	
1500T	Total other assets			<u>14,022</u>
1000T	Total assets	\$		<u><u>5,983,206</u></u>

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA – Balance Sheet Data
As of June 30, 2019

Liabilities and Partners' Capital

Current liabilities

2110	Accounts payable	\$	32,568	
2131	Accrued interest payable		4,478	
2170	Mortgage payable- current		59,514	
2210	Deferred revenue		620	
2210	Prepaid revenue		620	
			<u>620</u>	
2122T	Total current liabilities	\$		97,800

Deposit liabilities

2191	Tenant security deposits held in trust (contra)		<u>42,343</u>	
	Total deposit liabilities			42,343

Long-term liabilities

2320	First mortgage, net of current maturities and unamortized financing fees of \$36,698		1,059,482	
2322	Other mortgages and notes payable		<u>4,746,344</u>	
2300T	Total long-term liabilities			<u>5,805,826</u>
2000T	Total liabilities			<u>5,945,969</u>

Partners' capital

3130	Partners' capital		<u>37,237</u>	
3130	Partners' capital			<u>37,237</u>
2033T	Total liabilities and partners' capital	\$		<u>5,983,206</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, 2019

Rental revenue

5120	Rent revenue - gross potential	\$ 1,295,447
5100T	Total rent revenue	<u>1,295,447</u>

Vacancies

5220	Apartments	18,182
5250	Rental concessions	<u>159</u>
5200T	Total vacancies	<u>18,341</u>
5152N	Net rental revenue	<u>1,277,106</u>

Financial revenue

5490	Revenue from investments - security deposit interest (\$467); interest revenue from reserve \$40,662	<u>40,195</u>
5400T	Total financial revenue	<u>40,195</u>

Other revenue

5910	Laundry revenue	9,002
5920	Tenant charges	4,725
5990	Miscellaneous revenue - miscellaneous \$2,943	<u>2,943</u>
5900T	Total other revenue	<u>16,670</u>
5000T	Total revenue	<u>1,333,971</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, 2019

Administrative expenses

6310	Office salaries	\$	125,296
6311	Office expense		29,589
6320	Management expense		57,853
6340	Legal expense - project		15,881
6350	Audit expense		11,130
6370	Bad debts		4,043
6390	Miscellaneous administrative expenses - furniture rental \$4,411; miscellaneous \$475		<u>4,886</u>
6263T	Total administrative expenses		<u>248,678</u>

Utility expenses

6450	Electricity		81,911
6451	Water		48,809
6452	Gas		<u>21,103</u>
6400T	Total utility expenses		<u>151,823</u>

Operating and maintenance expenses

6510	Payroll		71,738
6515	Supplies		49,569
6520	Contracts		133,918
6525	Garbage and trash removal		15,583
6530	Security contracts		26,403
6546	Heating/cooling repairs & maintenance		505
6548	Snow removal contracts		<u>7,893</u>
6500T	Total operating and maintenance expenses		<u>305,609</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, 2019

Taxes and insurance

6720	Property and liability insurance (hazard)	\$	9,620
6723	Health insurance and other employee benefits		70,353
6790	Miscellaneous taxes, licenses, permits, and insurance - solid waste tax \$4,531; water protection charges \$4,403; other tax \$300		<u>9,234</u>
6700T	Total taxes and insurance		<u>89,207</u>

Financial expenses

6820	Interest on first mortgage payable		57,598
6850	Mortgage insurance		<u>5,909</u>
6800T	Total financial expenses		<u>63,507</u>
6000T	Total expenses before depreciation and amortization		<u>858,824</u>
5060T	Profit before depreciation		475,147
6600	Depreciation		<u>199,799</u>
5060N	Operating income		<u>275,348</u>
7190	Asset management fees		<u>23,820</u>
3250	Net income	\$	<u>251,528</u>

S1000-010	Total mortgage principal payments required during the year -	\$	56,815
S1000-020	Total of 12 monthly deposits during the year into the replacement reserve account, as required by the regulatory agreement -	\$	107,364
S1000-030	Replacement reserves or residual receipts releases which are included as expense items on this profit and loss statement -	\$	69,516
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 (Deficit) Data
For the Year Ended June 30, 2019

S1100-060	Partners' deficit - June 30, 2018	\$ (214,291)
3247	Net income	<u>251,528</u>
3131	Partners' capital - June 30, 2019	<u>\$ 37,237</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, 2019

Cash flows from operating activities:		
Cash received for:		
S1200-010	Rental income	\$ 1,292,677
S1200-020	Interest income	<u>40,195</u>
S1200-040	Total cash receipts	<u>1,332,872</u>
Cash paid for services and to employees for:		
S1200-050	Administrative expenses	(82,195)
S1200-070	Management fees	(81,673)
S1200-090	Utilities	(156,864)
S1200-100	Salaries and wages	(210,754)
S1200-110	Operating and maintenance	(204,972)
S1200-140	Property insurance	(9,620)
S1200-150	Miscellaneous taxes and insurance	(79,587)
S1200-160	Tenant security deposits	(489)
S1200-170	Other operating expenses	(33,622)
S1200-180	Interest on first mortgage	(55,181)
S1200-220	Miscellaneous financial	<u>(5,885)</u>
S1200-230	Total cash disbursements	<u>(920,842)</u>
S1200-240	Net cash provided by operating activities	<u>412,030</u>
Cash flows from investing activities:		
S1200-245	Increase in mortgage escrows	(5,909)
S1200-250	Increase in reserve for replacements	(356,573)
S1200-255	Increase in other escrows	(32,110)
S1200-330	Capital expenditures	<u>(39,728)</u>
S1200-350	Net cash used in investing activities	<u>(434,320)</u>
Cash flows from financing activities:		
S1200-360	Mortgage principal payments - first mortgage	<u>(56,815)</u>
S1200-460	Net cash used in financing activities	<u>(56,815)</u>
S1200-470	Net decrease in cash	(79,105)
S1200-480	Cash - beginning of year	<u>135,578</u>
S1200T	Cash - end of year	<u>\$ 56,473</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, 2019

Reconciliation of net income to net cash provided by operating activities:		
3250	Net income from operations	\$ 251,528
	Adjustments to reconcile net income to net cash provided by operating activities:	
6600	Depreciation	199,799
S1200-486	Amortization of financing fees	2,637
	(Increase) decrease in operating assets	
S1200-490	Tenant accounts receivable	5,431
S1200-500	Other receivables	(7,219)
S1200-520	Prepaid expenses	(18,947)
S1200-530	Tenant security deposits	(1,525)
	Increase (decrease) in operating liabilities	
S1200-540	Accounts payable	4,603
S1200-560	Accrued other	(3,477)
S1200-560	Accrued utilities	(5,041)
S1200-560	Accrued wages	(13,720)
S1200-570	Accrued interest	(220)
S1200-580	Tenant security deposits liability held in trust	1,036
S1200-590	Prepaid rent	(1,866)
S1200-600	Deferred revenue	(620)
S1200-600	Due to affiliate	(369)
S1200-610	Net cash provided by operating activities	<u>\$ 412,030</u>

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA - Schedule of Surplus Cash
As of June 30, 2019

Cash

S1300-010	Cash	\$	99,904
S1300-040	Total cash		<u>99,904</u>

Current obligations

S1300-050	Accrued mortgage interest		4,478
S1300-075	Accounts payable - 30 days		32,568
S1400-100	Loans and notes payable		4,855
S1400-150	Other current obligations- estimated insurance \$9,620; estimated taxes \$8,934; operating reserve \$1,660; replacement reserve \$9,005; mip \$490; delinquent 2018 surplus cash payment \$42,085		71,794
2191	Tenant security deposits held in trust (contra)		42,343
2210	Prepaid rents		<u>620</u>
	Total current obligations		<u>156,658</u>
	Surplus cash (deficiency)	\$	<u>(56,754)</u>

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA
For the Year Ended June 30, 2019

Changes in fixed assets:

		Assets			
		Balance			Balance
		07/01/18	Additions	Deductions	06/30/19
1410	Land	\$ 1,612,000	\$ -	\$ -	\$ 1,612,000
1410	Land improvements	-	4,990	-	4,990
1420	Buildings	7,119,321	13,200	-	7,132,521
1440	Building equipment	212,869	21,538	-	234,407
		<u>\$ 8,944,190</u>	<u>\$ 39,728</u>	<u>\$ -</u>	<u>\$ 8,983,918</u>
1410	Fence		\$ 4,990		
1420	Fire alarm system		13,200		
1440	HVAC improvements		15,658		
1440	Heat pump		5,880		
	Total		<u>\$ 39,728</u>		

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA
For the Year Ended June 30, 2019

Accumulated Depreciation					Net
	Balance	Net		Balance	Book Value
	07/01/18	Provisions	Deductions	06/30/19	06/30/19
1495	\$ -	\$ -	\$ -	\$ -	\$ 1,612,000
1495	-	28	-	28	4,962
1495	5,147,447	191,204	-	5,338,651	1,793,870
1495	185,473	8,567	-	194,040	40,367
	<u>\$ 5,332,920</u>	<u>\$ 199,799</u>	<u>\$ -</u>	<u>\$ 5,532,719</u>	<u>\$ 3,451,199</u>

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA
For the Year Ended June 30, 2019

Schedule of Letters of Credit – None

Schedule of Mortgages Payable – See Page 12 – Note 6

Schedule of Notes Payable – Page 12 – Note 6

Accounts and Notes Receivable – None

Property Management Fee Rate: \$4,821 Per Month

Identity of Interest Firms:

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

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	\$ 23,820

Identity of Interest amounts deferred: \$0

Partnership Employer Identification Number: 01-0787816

Reserve for Replacements:

In accordance with the provisions of the CDA 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 CDA, as follows:

Balance - July 1, 2018	\$ 1,314,949
Monthly Deposits	107,364
Interest	26,356
Other Deposits	292,369
Authorized Releases	<u>(69,516)</u>
Balance - June 30, 2019	<u>\$ 1,671,522</u>

See independent auditor's report.

Diamond Square Limited Partnership

Supporting Data Required by CDA
For the Year Ended June 30, 2019

Mortgage Escrow Deposits:

Restricted cash is held by US Bank, as follows:

Balance - July 1, 2018	\$	16,704
Net Deposits		<u>5,909</u>
Balance - June 30, 2019	\$	<u><u>22,613</u></u>

Other Reserves:

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

Balance - July 1, 2018	\$	614,368
Deposits		18,260
Interest		<u>13,850</u>
Balance - June 30, 2019	\$	<u><u>646,478</u></u>

Residual Receipts - None

Changes in Fixed Asset Accounts – See Pages 25 – 26

Computation for Surplus Cash, Distributions and Residual Receipts – See Page 24

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, 2019, 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 27, 2019.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (2019-1).

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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standard*, as described in the accompanying schedule of findings and questioned costs (2019-1).

Response to Findings

Diamond Square Limited Partnership's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Diamond Square Limited Partnership's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 27, 2019

Diamond Square Limited Partnership

Schedule of Findings, Questioned Costs and Recommendations
June 30, 2019

Schedule of Findings, Questioned Costs and Recommendations

Name of Mortgagor: Diamond Square Limited Partnership

Audit Firm: Hertzbach & Company, P.A.

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

Finding No. 2019-1

Condition:

The Partnership did not make the required project reserve deposit from June 30, 2018 surplus cash within 90 days of June 30, 2018 as required by the CDA Regulatory Agreement. In addition, the Partnership only made eleven out of the twelve monthly reserve deposits.

Criteria:

The Partnership is required to make twelve monthly project reserve deposits and deposit surplus cash within 90 days after the end of each fiscal year in accordance with the CDA Regulatory Agreement.

Cause:

The Partnership did not make the required project reserve deposits due to an accounting oversight.

Effect or Potential Effect:

The Partnership is in violation of the CDA Regulatory Agreement.

Recommendations:

Management should put procedures in place to ensure any future project reserve deposits are made in accordance with the CDA Regulatory Agreement.

Management Response:

Management implemented the procedures to ensure the project reserve fund deposits are made on monthly basis and deposit surplus cash within 90 days after the end of each fiscal year in accordance with the CDA regulatory agreement.

Diamond Square Limited Partnership

Schedule of the Status of Prior Audit Findings, Questioned Costs and Recommendations June 30, 2019

1) Prior Audit Period: July 1, 2017 – June 30, 2018

Audit Report, dated October 2, 2018, for the period ended June 30, 2018, issued by Hertzbach & Company, P.A.

There were no open findings from the prior audit period.

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

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

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

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

Diamond Square Limited Partnership

Corrective Action Plan
June 30, 2019

Corrective Action Plan

Name of Mortgagor: Diamond Square Limited Partnership

Audit Firm: Hertzbach & Company, P.A.

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

Status of Correction Actions on Current Year Findings

Finding 2019-1

Statement of Condition:

The Partnership did not make the required project reserve deposit from June 30, 2018 surplus cash within 90 days of June 30, 2018 as required by the CDA Regulatory Agreement. In addition, the partnership only made eleven out of the twelve monthly reserve deposits

Status:

As of the audit report date, the Partnership has made the required deposits to the project reserve.

Diamond Square Limited Partnership

Statement of Project Owner's Certification
June 30, 2019

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, 2019

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.

Avison Young - Washington DC LLC

Signature: _____

Title: _____

Date: _____

Avison Young – Washington DC LLC

Management Agent Employer Identification Number: 27-1282426