

Scattered Site One Development Corporation

Financial Statements

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

Scattered Site One Development Corporation

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For the Years Ended June 30, 2019 and 2018

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Independent Auditor's Report

To the Board of Commissioners
Scattered Site One Development Corporation
10400 Detrick Avenue
Kensington, MD 20895

Report on the Financial Statements

We have audited the accompanying financial statements of Scattered Site One Development Corporation, which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of operations, changes in net assets, 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. Those standards require that we plan and perform the audits 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 purposes 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 Scattered Site One Development Corporation as of June 30, 2019 and 2018, 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.

Hertzbach & Company, P.A.

Owings Mills, Maryland
October 24, 2019

Scattered Site One Development Corporation

Balance Sheets

As of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Interfund receivable	\$ 6,438,712	\$ 6,473,189
Accounts receivable, net and other assets	<u>132,282</u>	<u>105,078</u>
Total unrestricted current assets	<u>6,570,994</u>	<u>6,578,267</u>
Restricted cash and cash equivalents for current liabilities		
Restricted cash and cash equivalents	3,475,414	3,582,224
Tenants' security deposits	<u>88,105</u>	<u>77,273</u>
Total restricted cash and cash equivalents for current liabilities	<u>3,563,519</u>	<u>3,659,497</u>
Property and equipment		
Property and equipment, net	<u>10,010,669</u>	<u>10,298,431</u>
Total assets	<u><u>\$ 20,145,182</u></u>	<u><u>\$ 20,536,195</u></u>

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

Scattered Site One Development Corporation

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

	<u>2019</u>	<u>2018</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 416,438	\$ 437,890
Accrued interest payable	26,147	26,824
Mortgage payable - current	<u>213,971</u>	<u>205,697</u>
Total current liabilities	<u>656,556</u>	<u>670,411</u>
Current liabilities payable from restricted assets		
Tenants' security deposits	<u>57,697</u>	<u>61,047</u>
Total current liabilities payable from restricted assets	<u>57,697</u>	<u>61,047</u>
Long-term liabilities		
Mortgage payable, net of current maturities	<u>7,729,441</u>	<u>7,943,412</u>
Total long-term liabilities	<u>7,729,441</u>	<u>7,943,412</u>
Total liabilities	<u>8,443,694</u>	<u>8,674,870</u>
Net assets		
Investment in capital assets, net of related debt	2,067,257	2,149,322
Restricted net assets	3,505,822	3,598,450
Unrestricted net assets	<u>6,128,409</u>	<u>6,113,553</u>
Total net assets	<u>11,701,488</u>	<u>11,861,325</u>
Total liabilities and net assets	<u>\$ 20,145,182</u>	<u>\$ 20,536,195</u>

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

Scattered Site One Development Corporation

Statements of Operations

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues		
Dwelling rental income	\$ 2,458,028	\$ 2,380,950
Other income	<u>17,711</u>	<u>29,896</u>
Total operating revenues	<u>2,475,739</u>	<u>2,410,846</u>
Operating expenses		
Administrative	633,542	619,235
Operating and maintenance	914,433	875,779
Depreciation	287,763	287,763
Utilities	23,224	26,171
Fringe benefits	110,545	398,218
Interest expense	319,082	327,081
Other	344,203	249,049
Bad debt expense	<u>23,870</u>	<u>31,970</u>
Total operating expenses	<u>2,656,662</u>	<u>2,815,266</u>
Operating loss	<u>(180,923)</u>	<u>(404,420)</u>
Nonoperating revenues		
Investment income	<u>21,086</u>	<u>17,664</u>
Total nonoperating revenues	<u>21,086</u>	<u>17,664</u>
Net loss	<u>\$ (159,837)</u>	<u>\$ (386,756)</u>

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

Scattered Site One Development Corporation

Statements of Changes in Net Assets
For the Years Ended June 30, 2019 and 2018

Balance, July 1, 2017	\$ 12,248,081
Net loss - June 30, 2018	<u>(386,756)</u>
Balance, June 30, 2018	11,861,325
Net loss - June 30, 2019	<u>(159,837)</u>
Balance, June 30, 2019	<u>\$ 11,701,488</u>

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

Scattered Site One Development Corporation

Statements of Cash Flows

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Net loss	\$ (159,837)	\$ (386,756)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	287,763	287,763
(Increase) decrease in operating assets:		
Accounts receivable, net and other assets	(27,204)	44,967
Interfund receivable	34,477	378,093
Tenants' security deposits	(10,832)	(331)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(21,453)	17,356
Accrued interest payable	(677)	(651)
Tenants' security deposits	(3,350)	(6,193)
Net cash provided by operating activities	<u>98,887</u>	<u>334,248</u>
Cash flows from investing activities		
Withdrawals from reserve for replacements	243,138	-
Deposits into reserve for replacements	(114,000)	(114,000)
Net deposits into mortgage and renovation escrows	(22,328)	(18,856)
Acquisition of property and equipment	-	(3,650)
Net cash provided by (used in) investing activities	<u>106,810</u>	<u>(136,506)</u>
Cash flows from financing activities		
Mortgage principal payments	(205,697)	(197,742)
Net cash used in financing activities	<u>(205,697)</u>	<u>(197,742)</u>
Net increase in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	<u>\$ -</u>	<u>\$ -</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 318,192</u>	<u>\$ 326,146</u>

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

Scattered Site One Development Corporation

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

Scattered Site One Development Corporation (the Corporation) is a nonprofit corporation formed in the State of Maryland on October 11, 2011 to acquire, own and operate 190 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 units are located in Montgomery County, Maryland.

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

Method 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 a maturity of three months or less at the date of acquisition to be cash equivalents. There were no cash equivalents as of June 30, 2019 and 2018.

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 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.

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 \$16,678 and \$17,468, respectively.

Property and Equipment

Land, buildings and improvements are recorded at cost. Building and improvements are depreciated over their estimated useful lives of 10 to 40 years using the straight-line method.

Property and equipment includes property held for and under development, operating properties, and fixed assets used in operations that cost \$5,000 or more and have an estimated useful life of at least two years.

See independent auditor's report.

Scattered Site One Development Corporation

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)

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, 2019 and 2018.

Interfund Receivable

The Corporation has numerous transactions with 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 benefit plan (OPEB) which includes retiree health insurance. The Corporation is allocated a net liability composed of a share of the related plan assets, liabilities, deferred outflows, and deferred inflows. Pension and OPEB expense are based on HOC management's calculation of costs related to employees of HOC that perform activities related to the Corporation. The components of the pension and OPEB liability allocated to the Corporation and included in interfund receivable are \$169,628 of deferred outflows, \$128,611 of deferred inflows, and \$362,016 of net pension and OPEB liability as of June 30, 2019. The balance of the interfund receivable as of June 30, 2019 and 2018, is \$6,438,712 and \$6,473,189, respectively.

Net Assets

HOC, the Corporation's principal investor, is required to report on a fund basis and categorize net assets as the following:

Investment in capital assets represents the total of property and equipment, net less mortgage payable.

Restricted net assets represents the sum of total restricted cash and cash equivalents and tenant security deposits less the tenant security deposit liability.

Unrestricted net assets represents the balance remaining after investment in capital assets and restricted net assets.

Income Taxes

The Corporation is exempt from income taxes under Section 115 of the Internal Revenue Code, which excludes from gross income amounts earned by state and local governments.

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 rentals 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.

See independent auditor's report.

Scattered Site One Development Corporation

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)

Advertising

The Corporation's policy is to expense advertising costs when incurred.

2) Concentration of Risk

The Corporation maintains its cash balances in several accounts at various financial institutions. At times, these balances may exceed the federal insured limits; however, the Corporation has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at June 30, 2019 and 2018.

3) Restricted Cash and Cash Equivalents

Restricted funds are comprised of the following at June 30:

	<u>2019</u>	<u>2018</u>
Mortgage escrow deposits	\$ 39,840	\$ 39,142
Reserve for replacements	531,900	661,038
Renovation escrow	<u>2,903,674</u>	<u>2,882,044</u>
	<u>\$ 3,475,414</u>	<u>\$ 3,582,224</u>

Details of the reserve for replacement account during the years ended June 30 were as follows:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 661,038	\$ 547,038
Monthly deposits (\$9,500 x 12)	114,000	114,000
Reserve releases	<u>(243,138)</u>	<u>-</u>
Balance, end of year	<u>\$ 531,900</u>	<u>\$ 661,038</u>

See independent auditor's report.

Scattered Site One Development Corporation

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

4) Property and Equipment

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

	<u>2019</u>	<u>2018</u>
Land	\$ 4,290,068	\$ 4,290,068
Buildings and improvements	<u>7,745,586</u>	<u>7,745,586</u>
Total property and equipment	12,035,654	12,035,654
Less: accumulated depreciation	<u>2,024,985</u>	<u>1,737,223</u>
Property and equipment, net	<u><u>\$ 10,010,669</u></u>	<u><u>\$ 10,298,431</u></u>

5) Long-term Debt

Mortgage Payable

The Corporation is obligated to repay a mortgage to HOC. The mortgage loan is provided from HOC's Multifamily Housing Development Bonds 2012 Series A in the original amount of \$9,200,000. There were no financing fees incurred related to this mortgage. The note is secured by a deed of trust on the properties. Beginning on September 1, 2012, the Corporation is required to make monthly principal and interest payments in the amount of \$43,657. The note bears interest at 3.95% per annum and matures on August 1, 2042. The outstanding principal and accrued interest balances as of June 30, 2019 and 2018 are \$7,943,412 and \$26,147, respectively, for 2019 and \$8,149,109 and \$26,824, respectively, for 2018. For the years ended June 30, 2019 and 2018, interest expense of \$319,082 and \$327,081, respectively, was incurred, which includes negative arbitrage of \$1,567 for each year.

Maturities of the mortgage payable are as follows:

2020	\$ 213,971
2021	222,577
2022	231,530
2023	240,843
2024	250,530
2025-2029	1,412,162
2030-2034	1,719,954
2035-2039	2,094,830
2040-2043	<u>1,557,015</u>
Total	<u><u>\$ 7,943,412</u></u>

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.

See independent auditor's report.

Scattered Site One Development Corporation

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

6) 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, 2013, the Corporation applied for and received an exemption from the state property tax under a similar PILOT agreement.

7) Related Party Transactions

Due to Affiliate

HOC has advanced funds to the Corporation in connection with the initial acquisition of the properties. These funds are noninterest bearing and repayment terms are uncertain. As of June 30, 2019 and 2018, \$384,308 and \$371,680, respectively, remain payable and are included in accounts payable and accrued expenses on the accompanying balance sheets.

Property Management Fee

The Corporation is required to pay a management fee to HOC as determined by HOC. Each year, the amount is approved by HOC based on the agency cost allocation model determined during the budgetary process. For the years ended June 30, 2019 and 2018, management fees of \$343,879 and \$327,500, respectively, were incurred.

Development Corporation Fee

The Corporation pays an annual fee to 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, 2019 and 2018, development corporation fees of \$244,064 and \$146,671, respectively, were incurred.

8) Commitments and Contingencies

Rental Regulatory Agreement

The Corporation is obligated under the terms of a rental regulatory agreement with HOC to provide housing to low to moderate income residents. Under the terms of the agreement, at least 76 of the units of the Project are dedicated for occupancy by tenants whose income is less than 60% of the median income for the Washington Metropolitan Statistical Area (WMSA). The term of the agreement is for the term of the Deed of Trust on the loan, 30 years.

9) Subsequent Events

Management has evaluated events and transactions subsequent to the balance sheet date 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.



Independent Auditor's Report on Supplementary Information

We have audited the financial statements of Scattered Site One Development Corporation as of and for the years ended June 30, 2019 and 2018, and our report thereon dated October 24, 2019, expressed an unmodified opinion on those financial statements, which appears on pages one and two. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the financial statements as a whole.

Hertzbach & Company, P.A.

Owings Mills, Maryland
October 24, 2019

Scattered Site One Development Corporation

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		
Accounts receivable - subsidy	\$ 99,468	\$ 70,301
Allowance for doubtful accounts	(16,678)	(17,468)
Insurance claim receivable	1,824	1,824
Other resident fees receivable	4,696	5,713
Prepaid other expense	36,302	37,869
Prepaid mortgage insurance	<u>6,670</u>	<u>6,839</u>
Total accounts receivable, net and other assets	<u>\$ 132,282</u>	<u>\$ 105,078</u>
Accounts payable and accrued expenses		
Accrued annual leave	\$ 18,867	\$ 16,973
Accounts payable	3,215	19,421
Accrued salaries	1,751	2,598
Accrued utility payments	695	1,480
Clearing resident refunds	(1,320)	(1,320)
Due to affiliate	384,308	371,680
Resident prepaid rents	<u>8,922</u>	<u>27,058</u>
Total accounts payable and accrued expenses	<u>\$ 416,438</u>	<u>\$ 437,890</u>

See independent auditor's report on supplementary information.

Scattered Site One Development Corporation

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

	<u>2019</u>	<u>2018</u>
Dwelling rental income		
Rent	\$ 2,728,048	\$ 2,571,284
Vacancies and concessions	(286,914)	(211,818)
Tenant charges	16,894	21,484
Total dwelling rental income	<u>\$ 2,458,028</u>	<u>\$ 2,380,950</u>
Other income		
Miscellaneous	\$ -	\$ 12,185
Rental license	17,711	17,711
Total other income	<u>\$ 17,711</u>	<u>\$ 29,896</u>
Administrative expenses		
ACA compliance and surcharge	\$ 52	\$ 60
Advertising and marketing	(137)	188
Computer software	-	39
Criminal record check services	32	64
Furniture and miscellaneous equipment rental	1,094	1,486
Loan management fees	23,000	23,000
Management fees	343,879	327,500
Miscellaneous	3,862	1,845
Salaries	192,960	193,108
Office supplies and expense	7,659	9,659
Other licenses, fees, and permits	-	300
Professional fees	21,466	17,914
Rent	12,995	19,025
Rental license fees	17,711	17,711
Telephone	1,244	627
Vehicle repairs and maintenance	7,725	6,709
Total administrative expenses	<u>\$ 633,542</u>	<u>\$ 619,235</u>

See independent auditor's report on supplementary information.

Scattered Site One Development Corporation

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

	2019	2018
Operating and maintenance expenses		
Contracts	\$ 211,235	\$ 205,151
Exterminating	12,026	4,463
Grounds maintenance	13,926	11,807
Housing association fees	328,439	319,602
HVAC repairs and maintenance	33,165	21,461
Janitorial	10,933	17,947
Salaries	199,572	181,811
Snow removal	1,365	875
Supplies and repairs	103,772	112,662
Total operating and maintenance expenses	<u>\$ 914,433</u>	<u>\$ 875,779</u>
Utilities expense		
Gas and electric	\$ 12,659	\$ 13,417
Trash removal	1,850	870
Water	8,715	11,884
Utilities expense	<u>\$ 23,224</u>	<u>\$ 26,171</u>
Fringe expenses		
Accrued leave	\$ 1,894	\$ (471)
Deferred contribution plan	13,790	14,383
FICA	17,410	17,645
Health insurance	50,857	50,269
Other post employment benefits	19,217	309,019
Unemployment	706	848
Workers' compensation	6,671	6,525
Total fringe expenses	<u>\$ 110,545</u>	<u>\$ 398,218</u>
Other expenses		
Development corporation fee	\$ 244,064	\$ 146,671
Insurance	64,997	64,654
Security contracts	-	243
Taxes	34,827	37,190
Water quality protect charge (RFSA)	315	291
Total other expenses	<u>\$ 344,203</u>	<u>\$ 249,049</u>

See independent auditor's report on supplementary information.